Pensions&Investments

# In reversal of fortune, growth stock strategies pop up as big winners for year

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Published: November 11, 2013

Lisa Foley says Zevenbergen's Z/Tech strategy, which took first for the year, follows a "very specific strategy focused on growth."

Growth stocks emerged as the big winner among domestic equity strategies, accounting for five of the top 10 strategies in the year ended Sept. 30, according to Morningstar Inc.'s separate account/collective investment trust database.

The median return for all equity strategies for the 12 months was 24.8%, topping the Russell 3000 index for the same period at 21.6%.

The median return for all equity strategies for the quarter ended Sept. 30 was 7.9%. The median return for growth strategies in the quarter was 9.98%, well above the 5.92% return for domestic value and 7.05% for domestic blend during the same period.

Andy Kwon, Chicago-based data analyst at Morningstar, in an interview said he found growth stocks' significant outperformance of the other two categories during the quarter "unusual," as it's a reversal of the past several quarterly results.

"During the past several quarters, the value stocks have shown a higher median than growth and domestic blend," said Mr. Kwon.

Domestic small-cap equity strategies wound up being the most successful; seven of the top 10 in the latest ranking for the year were small-cap or even microcap.

Topping the list of domestic equity separate accounts for the 12-month period was a technology strategy managed by Seattle-based Zevenbergen Capital Investments LLC. The Z/Tech portfolio had a gross return of 79.31% for the year. The portfolio also made the top 10 for the five years, ranking seventh with a compound annualized gross return of 23.9%.

(All figures are gross returns, and returns of more than one year are annualized.)

Lisa Foley, managing director and investment officer at Zevenbergen, said in a telephone interview that the firm follows "a very specific strategy focused on growth — not just technology."

The approach invests a considerable amount in consumer discretionary, as well as in finance. Ms. Foley noted the firm is more interested in adding value over a long period of time rather than blindly buying into the market.

Still, technology stocks are a great source of long-term growth, from Zevenbergen's viewpoint.

“The money that is available to companies right now for creating new ideas is unparalleled in our history,” Ms. Foley said. “This is a great market to be invested in; it's very transparent and has got great earnings and revenue.”

The firm also made the top 10 for the year with its growth equity strategy, which came in at number six, with 51.4%.

## Microcap portfolio

Lord, Abbett & Co. LLC, Jersey City, N.J., was second on the list with its microcap growth portfolio, delivering a gross return of 58.83% for the year ended Sept. 30. The diversified strategy has approximately 90 stocks in the portfolio, with an emphasis on technology, mass consumerism and modern medicine sectors, according to F. Thomas O'Halloran, partner and director of growth equities at Lord Abbett.

“It's a bottom-up, fundamental, research-driven strategy,” added Mr. O'Halloran.

Arthur Weise, a partner and portfolio manager at Lord Abbett who co-manages the portfolio with Mr. O'Halloran, noted it has done well investing in solar power, particularly with the San Jose, Calif.-based **SunPower Corp**.

O'Shaughnessy Asset Management, LLC, Stamford, Conn., saw its microcap equity strategy return 56.89% for the year. According to Jim O'Shaughnessy, chairman, CEO and chief investment officer, the portfolio holds about 120 names, narrowed via a series of composites from an investible universe of about 3,500 stocks.

The portfolio currently is most heavily weighted in the consumer discretion sector, followed by industrials and then information technology.

Top performing stocks include **Alliance Fiber Optic Products Inc., Addus HomeCare Corp., American Pacific Corp., Information Services Group Inc., Gray Television Inc., Nexstar Broadcasting Group Inc.** and **Nutraceutical International Corp**.

St. Louis-based Towle & Co. experienced a 55.2% return with its deep value strategy. Christopher Towle, president of the firm, attributed the strategy's success to being “contrarian, price-conscious and valuations sensitive.” He added “consumer discretionary group (stocks) have done very well,” and the firm has been “putting capital back to energy-related stocks and coal companies.”

Rounding out the top five, Wellington Management Co. LLP, Boston, saw a 53% return for its all-cap opportunities portfolio.

Granahan Investment Management Inc., Waltham, Mass., came in at seventh at 51% with its small-cap focused growth strategy. Andrew Beja, portfolio manager, said they seek “companies capable of sustaining growth at a pace of 15% or better for many years.” The portfolio has about 40 positions in business services, Internet companies and consumer companies. Top performers include **CoStar Group Inc., Monotype Imaging Holdings Inc.** and **Tesla Motors Inc.**

Rounding off the list of top 10 managers are New York-based Mazama Capital Management Inc., which makes the list twice, at No. 8 with its small-cap growth strategy, returning 50.4%, and No. 10 with its emerging small-cap growth portfolio, 47.2%; and Horizon Kinetics LLC, New York, landing the No. 9 spot with its small-cap institutional strategy at 49.8%.

Since there was a dramatic shift in not only this quarter's top performers, but also in the winning strategies, Mr. Kwon said it was difficult to determine in which way the market would go in the future.

“It's easier to determine what will happen when there's a trend forming, but this time something new is happening,” he noted.

In the five-year ranking, no one approach dominated. Four of the 10 strategies were energy and four were small-cap growth. The top five managers with the greatest gross returns over the five-year period were Atlanta-based Invesco Ltd.'s master limited partnership strategy with 30.34%; Tortoise Capital Advisors LLC's midstream MLP separate accounts strategy at 26.6%; Westwood Management Corp.'s MLP infrastructure renewal strategy at 25.68%; Granahan's small-cap focused growth strategy at 25.61%; and Allianz Global Investors U.S. LLC's ultra microcap strategy with 24.88%.

The five-year median return was 11.55%, above the Russell 3000 index for the same period at 10.58%.

In the collective investment trust universes, five of the top 10 performers for the year ended Sept. 30 were blend managers.

The top manager was Wellington with its CIF II small-cap opportunities fund, with a one-year annualized gross return of 40.99%.

The Boston Co. Asset Management LLC's small-cap opportunity value equity fund returned 40.7%, while Frontegra Asset Management's small-cap core fund returned 38.2%.

Wellington's CIF II midcap growth S1 strategy returned 36.85%. Meanwhile, Hillsdale Investment Management Inc.'s filled out the top five with its U.S. Performance Equity Fund at 35.39%.

“We employ a multistrategy approach,” said Harry Marmer, executive vice president, institutional investment services at Hillsdale, Toronto. “This results in a core investment style, which we think will be more consistent over time than either a "value' or "growth' style.”

Pyramis Global Advisors' small cap core pool returned 35.4%, while the Boston Co.'s midcap opportunity value equity cap fund returned 35.2%.

Two of Brandywine Global Investment Management LLC's strategies, the diversified small-cap and dynamic large-cap value, made the list, returning 34.41% and 34.37%, respectively.

## Collective trusts

Topping off the list of collective investment trusts for the year ended Sept. 30 was Wilmington Trust Fiduciary Services Co. with its midcap fundamental value strategy, returning 34.15%.

Second was Boston Co.'s small-cap opportunity value equity fund with 40.7%, followed by Frontegra Asset Management's small-cap core fund with 38.2%. The median return for collective investment trusts for the year was 23.6%.

For the five-year period in the collective investment trust universe, Boston Co.'s small-cap opportunity value equity fund was first with 21.01%. Following were Pyramis' small/mid-cap core pool, with 19.4%; and Wilmington Trust's small company growth fund, with 19.12%. The median return for collective investment trusts for the five years ended Sept. 30 was 11.31%.

All of the data for *Pensions & Investments'* quarterly Top Performing Managers report are provided from Morningstar's global separate account/collective investment trust database. For information on the database, please contact separateaccounts@morningstar.com or call 312-384-4087. n

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