

Robert:

Hi, my name's Robert McConnaughey.

Colin:

And I'm Colin Lundgren.

Colin:

The 2012 Perspectives is a nice opportunity for us to take a step back and think about the key investment ideas and themes that will be impacting the market in 2012, just like 2011.

Robert:

This is our annual opportunity to really dig a little bit deeper. This isn't just the elevator pitch sound bite, high level stuff, it gets down to the next level and that's really where the inefficiencies in the market are.

Colin:

2011 was a tough year. There were lots of surprises and challenges. From social unrest in the Mideast, the Japanese earthquake, the debt-ceiling debacle and the super committee flop to the ongoing situation in Europe.

Robert:

And we don't see those structural challenges dissipating as we go into 2012. The headline is really focused on the debt load that faces the entire developed world. You know, how we work that down is going to present a headwind that probably leads to sub par growth for years to come. So we try to emphasize that in our structural framework that one should not expect, over the weekend, some central bank or a new acronym out of Europe to solve all these problems. We're facing these structural challenges. That does not mean that that doesn't present opportunities.

Colin:

It's easy to get caught up in emotion in the swings in market sentiment. The 2012 Perspectives is our chance to take a step back and re-focus with a long-term view.

Robert:

In 2011 the highest performers were the higher current yielders, what we see in 2012 is some of those stocks are now trading at a little bit higher premiums is the opportunity in dividend growers, companies that are generating very high free cash flow, have low payout ratios and an opportunity to really drive that dividend higher going forward. This leads us into some new sectors that are not traditional dividend payers, probably the most notable is technology, never a historical bastion of dividends but

now generating significant free cash flow. We see a major opportunity for dividend growth out of the technology companies.

Colin:

One of the key investment themes is investing in a better balance sheet. We think government balance sheets look troubled while corporate balance sheets are in relatively good shape. From the fixed income side we think both high-grade and high-yield bonds are attractive. Jennifer Ponce de Leon writes a very interesting article making a compelling case for investing in high yield, despite a slow-growth scenario, yields are relatively attractive and default rates are very low. In fact, we'd extend the better balance sheet theme from the U.S. to emerging markets.

Robert:

And given the barrage of bad news that we've seen there's an awful lot of fear in the marketplace and in that environment of risk-off emerging market equities are the worst performing asset class in 2011 despite, perhaps, having the best growth profile and the strongest balance sheets.

So again, we think as we look there, there's real structural opportunities.

Some of the essays in here point to those structural opportunities emphasizing improved governance in those countries and particularly the demographic opportunity, that tailwind that will drive emerging market growth at a premium for a longer period of time.

Colin:

Given those opportunities we still want to be respectful of the changing market conditions. So we get back to the corporate bond example that I used earlier and as much as that's an attractive investment opportunity we're very mindful of liquidity, for example, drying up within the corporate bond area. So Tom Murphy and team have written a very interesting article about corporate bonds and how we're trying to manage liquidity.

Robert:

In reading the book as a whole, the thing that was exciting to me, was sometimes the interplay between the essays and really, in investing, often times it's connecting the dots in the mosaic that represents opportunity and two that jumped out at me, where the interplay was exciting were Tom West's piece on margin progression and Tom Galvin's piece on scarce growth and where to find it.

So Tom West's piece on margin progression uh we've seen an explosion in profit margins over recent years as companies have done a great job tightening their belts so any incremental revenue has just largely dropped to the bottom line yet Tom emphasizes that that's going to be a tougher challenge going forward, there's just not as much room to run. And that plays back into this theme of low, slow growth for a longer period of time.

So given that backdrop, what Tom Galven emphasizes as to how do you find scarce growth, we think there's a real opportunity for those scarce growers to continue to garner a larger premium again, just based on scarcity value. When there's not a lot of growth to be had, those companies that can continue to be wallet-share gainers can continue to stand out and provide great returns from here.

Colin:

The 2012 Perspectives book lays out this mosaic. We think it does a really good job of providing a structural framework, identifying key investment themes in addition to specific ideas that you can use in your portfolios.

Robert:

Colin and I get to work with these investors everyday and hear their best thinking and I think it was still exciting for us to see it all pulled together into one book. We enjoyed reading it and hope you take the time to do the same. Thank you for your attention today.

Colin:

Thank you.

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