ColumbiaManagement®

Key Investment Themes for 2012: Scarce Growth

Hello, my name is Tom Galvin and I am a senior portfolio manager of the Columbia Select Large Cap Growth Fund. Today I would like to talk about investing in scarce growth, which is one of our key investment themes for 2012.

What it is scarce growth and why is it a key investment theme?

When we talk about scarce growth we are referring to finding companies that we believe have the ability to continue to grow within the backdrop of an economy facing headwinds such as tighter lending standards and rising commodity costs. After the economic downturn, companies cut costs to the bone and now they must find new ways to improve their earnings.

A good example of this happened in 2010. During the first three quarters, companies beat their earnings estimates by about 10%, but in the fourth quarter of 2010, that number went down to 4%. In other words, upside to profit margins has become much more limited as volume growth is sluggish and costs move higher.

But, we still believe that in this type of environment there are investment opportunities. Companies that are innovative with high levels of research and development can drive new product cycles and they have the financial wherewithal to invest in sales and distribution which should give them a great advantage. While we might not find 200 or 300 examples of this, we think we can find a couple dozen.

Moving forward in 2012, we believe finding these companies that can continue to improve earnings, or “finding scarce growth,” will be key to being successful in this market.

Where are you looking for these scarce growth opportunities?

In this low-growth environment many people forget that the U.S. economy is $14 trillion dollars in size. We want to understand for whom the cash register rings the most.

Typically, demographics and the need to improve productivity are key drivers to that spending, so we are looking for companies that are gaining market share in industries that are gaining wallet share of GDP. In other words, who is making the things that people want to buy and the firms that are providing solutions and strategies to lower costs.

More specifically, we look for companies that are investing in research and development, are innovative in product development, and are able to invest in sales and distribution.

A couple of specific areas we have focused on are the technology and health care sectors. We feel that we are in a period in which companies will spend on technology in order to increase productivity. As for health care, we feel the reason is pretty obvious. The first baby boomer turned 65 in 2011 and as people grow older their health care costs tend to go up.

These are a couple of examples, and as we move forward in 2012 we will continue to look for scarce growth in this low-growth world.

For more insight, be sure to visit our website, columbiamanagement.com. Thanks for listening.

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