



SEPTEMBER 15, 2017



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When Less Produces More

The global economic recovery has been steadily firming year to date, and equity markets have responded in kind. What began with monetary stimulus in the United States and led to positive economic growth, has broadened globally. Expectations for growth have been revised upward with approximately 3.5% global world output growth anticipated for 2017 and 3.6% for 2018.

Political uncertainty, financial tensions, protectionist concerns and widening income inequality in the United States have not derailed economic growth in the United States or abroad. That being said, persistently low interest rates are a clear reminder of the economic challenges that exist both in the United States and elsewhere.

Debt, demographics and income inequality are noteworthy distinguishing characteristics of this recovery that are changing its course. Economic growth will, in our opinion, remain lean. **Lean** to us means using less to produce more, as well as offering more net value, while at the same time maintaining corporate profit margins.

While Amazon would seem the behemoth of both using less resources (e.g. brick and mortar) and offering an enhanced value proposition, the net value-add to long-term stable, inclusive economic growth of the U.S. economy and the actual long-term profitability of that model remains an outstanding question.

In scouring the universe of stocks, we have found companies that have improved prospects for corporate long-term growth and profitability, while at the same time support stable, inclusive economic growth.

United Healthcare, for example, is driving progress in cost-effective best practices within the healthcare industry. The Company has a division called Optum. Its corporate goal is to “make health care simpler and work better, most significantly on a human level.” Through data and analytics that the company has been collecting, Optum is able to provide information to the ultimate end user (people) to better assess quality, outcomes, cost, risk and performance of health care options. By curating clinical and claims data, “best practices” decisions should over time enable those using these tools to improve overall outcomes with reduced waste.

Adidas is another interesting study in the renaissance of a fallen global powerhouse. After Nike successfully gained market share in Europe in 2014, Adidas took a hard look at all facets of its business. By shedding the money losing businesses and increasing efforts in smaller-sized segments such as tennis, as well as upgrading the quality and performance of the product offering, Adidas has managed to garner increasing market share in the United States. The Company has accomplished this with prices often noticeably below the competition. Adidas has created a value proposition for consumers, improved their profit margins with room to expand and accomplished this by offering more for less to the consumer.

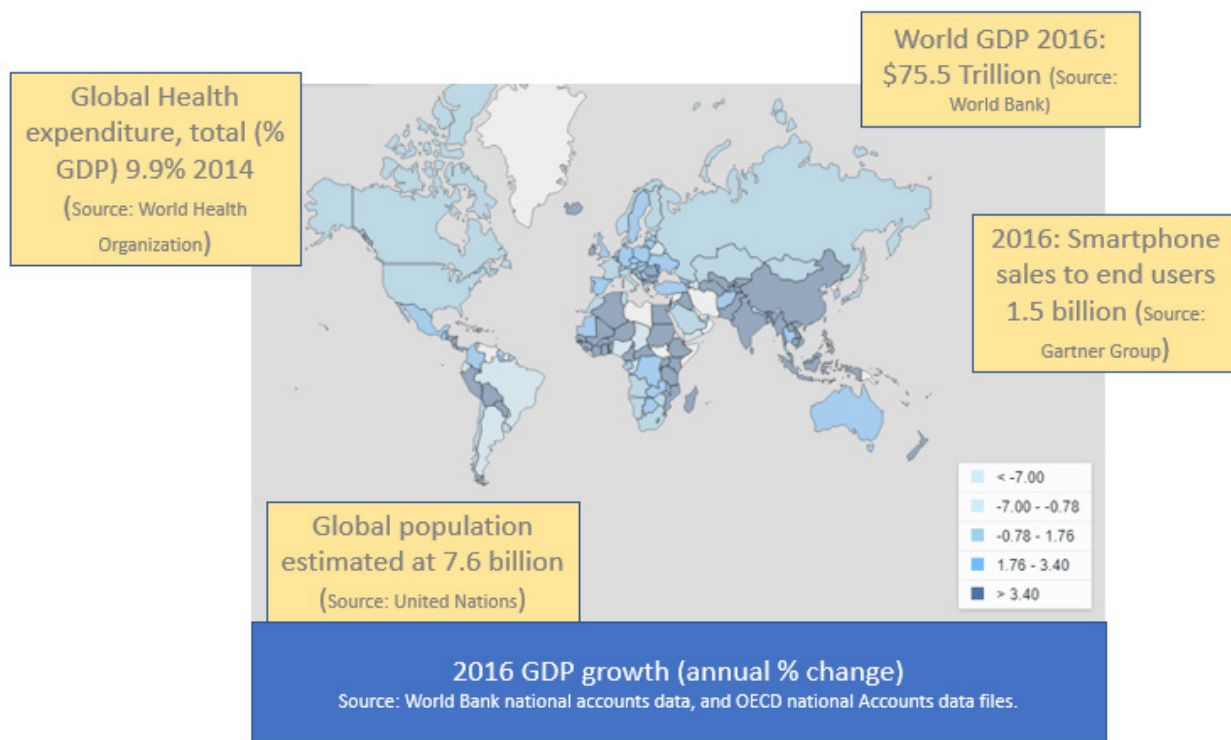
Turning finally to Apple Inc., the ecosystem that the Company has created and continues to evolve, supports productivity - both individual and business - by streamlining multiple device



connectivity and improving functionality. To dial back to Steve Jobs, it is instructive to remember that the company offered one year of one-on-one individual training with device purchases at a very affordable price. This investment proved transformative by improving the user experience and building brand loyalty. More recently on September 12, 2017, the Company introduced its latest watch and smartphone offering. The watch includes such new capabilities as the ability to detect an elevated heart rate when the wearer is not active.

In addition, Apple and Stanford Medicine are collaborating in an innovative research study using data from the Apple Watch to identify irregular heart rhythms. The results of this study could create the opportunity for enhanced well-being at a reduced cost is noteworthy.

In a debt-constrained, demographically challenged world, inclusive economic growth is preferable for stable, long-term growth. In our estimation, insightful creativity characterized by achieving more with less is a key lever.



A Bird's Eye View of the World