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How To Find Good Growth Stocks: A Mutual Fund Pro's Emotion-Free Approach

BY PAUL KATZEFF

"Avoiding behavioral risk" is more than a Wall Street slogan to Vladimir "Val" de Vassal. It is a tactic he has raised to an art form as he aims to remove subjectivity from his hunt for top-performing growth stocks for two Glenmede mutual funds of which he's lead manager. Fueled in recent quarters by leading growth stocks like **Apple** (AAPL), **Adobe Systems** (ADBE) and **Mastercard** (MA), $4 billion Large Cap Growth (GTLLX) and $2.9 billion Large Cap Core (GTLOX) both outperformed the S&P 500 in calendar 2017 as well as over the three, five and 10 years ended Dec. 31.

Only 10% of U.S. diversified stock funds with at least $100 million in assets racked up that four-way feat, which makes them winners of the 2018 IBD Best Mutual Funds Award.

De Vassal and his team — including managers Paul Sullivan and Alex Attanasiu — have become adept at avoiding behavioral risk in their investment process. Instead, they focus on more than 80 objective yardsticks to measure each growth stock's worthiness. They wear blinders to block out less-meaningful information that can be distractions from data that mark growth stocks poised to advance. Emotions are a major part of behavioral risk, de Vassal says.

De Vassal talked with IBD about his strategy from his office in Philadelphia.

Vladimir de Vassal, lead manager for two Glenmede mutual funds, invests strictly by the numbers and says Visa is more attractively valued than Mastercard. (Joseph Kaczmarek/AP/IBD)

IBD: How do your growth-oriented mutual funds differ from rival growth funds?

De Vassal: First, both funds use a similar process. The difference is the benchmark. For Core, it is the Russell 1000 Index. For Large Cap Growth, it is the Russell Growth. We control industry and sector exposures against those benchmarks.

Our strategies are a blend of quantitative discipline based on underlying fundamental insights.

Seeking Growth Stocks

IBD: How do you avoid letting emotions interfere with your hunt for growth stocks?

De Vassal: We've built a library of factors, over 80, across the two strategies. In any sector, there are about 15 to 25 factors that we use to differentiate stocks. They're a combination of such things as valuation metrics, fundamental metrics and estimate revisions from sell-side analysts. We include some technical indicators as well.

IBD: Give me examples of subjective metrics that you avoid.

De Vassal: Subjective metrics that we do not use include the popularity of a company — its brand name — and nonquantifiable intangibles such as future products and profits that are not reflected in sell-side analyst earnings or revenue estimates. ... We want to remove behavioral risks that may have adverse effects on portfolio performance.

IBD: Limiting downside risk plays a big role in your approach, right?

De Vassal: We aim to win by avoiding negative earnings surprises and at the same time tilting more toward stocks that are more likely to have positive surprises.

IBD: Basically, the difference between these two funds is that one focuses exclusively on growth stocks while Core Fund can own various types of stocks?

De Vassal: In simplest terms, yes. And that means Large Cap Growth has much heavier concentration in technology stocks, for example.

IBD: These funds are 2018 IBD Best Mutual Funds Award winners. What does it take to outperform so consistently?

De Vassal: We have a very disciplined process. And both portfolios are well diversified. Performance isn't driven by being lucky or unlucky in one or two names. And we try to avoid losers, not just identify winners. We try to improve every year. This year we added two new stock selection factors. One is supply-chain data. The other is ESG (environmental, social and governance) momentum. We've been managing for some form of ESG strategy for over 15 years. We've found ESG momentum works better in some sectors, like consumer staples, consumer discretionary and technology, than in others.

Apple's Future?

IBD: Do you see the iPhone as the key to Apple's future? Or do you see additional services like the App Store, Apple Music and Apple Pay, playing a bigger role?

De Vassal: We look at fundamental metrics like return on invested capital. We look at valuation. We look at cash flow per employee. We look at sell-side analysts' earnings estimates, revenue estimates, cash flow estimates. We ask ourselves whether new products and services are causing analysts to increase their estimates. (A sell-side analyst works for an outside firm, not the fund.)

We don't have a fundamental analyst kicking the tires on Apple. We look at what's happened in the past. Which (outside) analysts have been the most accurate, looking back nine quarters? Then we look at what they have to say.

IBD: Avoiding emotion in your decisions is a key part of your search for growth stocks. What's an example of that?

De Vassal: Growth Fund started its stake in Adobe Systems in October. The stock was attractively valued. Later that month they gave (positive) guidance and the stock shot up. We sold in November with a gain over 18%. When a stock moves, we're out because it's no longer attractive.

IBD: Mastercard earnings per share growth has accelerated for three quarters. What's your view going forward?

De Vassal: We bought it in June 2016. It's done well. It's a holding. We're comfortable with it. But it's not a position we would add to.

IBD: You've got **Visa** (V) as well. Do you like it better?

De Vassal: At this point, Visa looks a little more attractive. Mastercard outperformed over the past 12 months, so its valuation is up. Visa's is better. Visa is still a buy for us.

IBD: IPG Photonics (IPGP) is another newcomer to Growth Fund. Do you still like it?

De Vassal: We started this in August 2017. The valuation was reasonable. Cash flow yield was around 2.4%. Not that strong. But fundamentals were good. Revisions were fairly positive. Price momentum was fairly good. We think revisions are more likely to have positive surprises than negative surprises.

Doubling Up On TD Ameritrade

IBD: You more than doubled your share count in **TD Ameritrade** (AMTD) recently. Why?

De Vassal: It was September 2017 when we doubled. Its dividend yield was reasonable, and so were its profitability metrics. Analysts were raising their earnings and revenue estimates. It got good (share) price momentum. We've done well with it.

IBD: Brick and mortar retailers aren't very popular these days. But you've got discounter **Ross Stores** (ROST). Why?

De Vassal: We still consider it a buy. We've been underweight in consumer discretionary. But we're getting more neutral. Part of the reason is rebalancing the portfolio in industry groups. Looking at Ross' metrics, it's got a healthy combination of valuation, fundamentals and sell-side earnings revisions.

IBD: Citrix Systems (CTXS) is in Core Fund. What's driving the speed up in its quarterly EPS growth?

De Vassal: It has good profitability metrics. And we've seen more analysts covering the stock, which could lead to increased investors interest.

A Top-Ranked REIT

IBD: What's driving the uptrend in **CBRE Group** (CBRE), which provides property management, loan servicing and origination services?

De Vassal: This is one of the best ranked REITs based on our proprietary stock-ranking screens. In terms of metrics, we look at EBITDA (earnings before interest, taxes, depreciation and amortization) and we look at the consistency of its risk-adjusted growth. Analysts are raising their estimates consistently.

IBD: You've trimmed your exposure to **Nvidia** (NVDA). Does that mean you don't like it as much anymore?

De Vassal: We cap a stock's maximum weighting at 2% of Core Fund and 3% of Growth. In contrast, benchmarks are too top heavy. They have too much exposure to the top names.

We initially pursued Nvidia in Core in May 2016. The stock had an attractive valuation and improving fundamentals and estimate revisions. Its share price gained a lot, and it bumped our 2% limit so we had to trim it. It has continued up. It's no longer cheap, and it's not a position we would add to.

IBD: What has driven the uptrend by **F5 Network**s (FFIV), which makes data center computing gear?

De Vassal: Its valuation isn't cheap, but it's reasonable. Its fundamentals have been strong. Its return on invested capital and cash flow per employee have been favorable vs. its peers. It's got increased coverage from sell-side analysts. So there's a stronger likelihood for positive earnings surprises than some of its peers have.

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All Funds' investment objectives, risks, charges and expenses must be considered carefully before investing. The Glenmede Fund's prospectus contains this and other important information about all the investment companies mentioned herein, and it may be obtained by calling 1.800.442.8299, or visiting www.glenmedeim.com. Please read the prospectus carefully before you invest or send money.
Mutual fund investing involves risks; principal loss is possible. Both Funds may invest in IPOs and the market value of IPO shares could fluctuate considerably due to factors such as the absence of a prior public market, unseasoned trading, the small number of shares available for trading, and limited information about the issuer. The values of growth stocks may be more sensitive to changes in current or expected earnings than the values of other stocks. There is no guarantee that the prices of these stocks will not move even lower. References to other mutual funds should not be considered an offer of those securities. ***Diversification does not assure a profit or protect against a loss in a declining market. Earnings growth is not representative of the Fund's future performance.***

Performance as of 3/31/2018	**1-year**	**3-years**	**5-years**	**10-years**
Quantitative U.S. Large Cap Growth Equity Portfolio (GTLLX) Expense Ratio 0.86%	19.11%	11.03%	16.26%	11.95%
Russell 1000 Growth Index	21.25%	12.90%	15.53%	11.34%
Quantitative U.S. Large Cap Core Equity Portfolio (GTLOX) Expense Ratio 0.86%	15.68%	10.32%	14.46%	10.97%
Russell 1000 Index	13.98%	10.39%	13.17%	9.61%
S&P 500 Index®	13.99%	10.78%	13.31%	9.49%

Returns over 1 year are annualized.

Performance data quoted in this article represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will change so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the funds may be lower or higher than past performance. Performance data current to the most recent month end may be obtained by calling 1.800.442.8299 or by visiting https://www.glenmede.com/performance.

As of 3/31/2018, the following securities represent the top ten holdings of Glenmede's Quantitative U.S. Large Cap Growth Equity Portfolio:

VMware, Inc.	2.65%
PayPal Holdings Inc.	2.53%
Mastercard Incorporated	2.53%
Apple Inc.	2.50%
Cognizant Technology Solutions Corp.	2.46%
Boeing Company	2.40%
Visa Inc.	2.37%
Constellation Brands, Inc.	2.35%
UnitedHealth Group Incorporated	2.30%
Marriott International, Inc.	2.30%
Total	**24.39%**

As of 3/31/2018, the following securities represent the top 10 holdings of Glenmede's Quantitative U.S. Large Cap Core Equity Portfolio:

Boeing Company	1.60%
VMware, Inc.	1.54%
PayPal Holdings Inc.	1.47%
NetApp, Inc.	1.39%
Comerica Incorporated	1.30%
Intel Corporation	1.27%
Anthem, Inc.	1.25%
NVIDIA Corporation	1.23%
Western Digital Corporation	1.21%
Cisco Systems, Inc.	1.21%
Total	**13.45%**

Due to the Fund's Holding Disclosure Policy, the above holdings are the most recent information available. Fund holdings are subject to change and are not recommendations to buy or sell any security.

The Russell 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. **The Russell 1000 Index** is an unmanaged, market-capitalization-weighted total return index comprised of the largest 1,000 companies in the Russell 3000 Index. This unmanaged index is a total return index with dividends reinvested. **The S&P 500 Index®** is a broad based unmanaged index of 500 stocks, which is widely recognized as a representative of the equity market in general. One cannot invest directly in an index.

To qualify for **IBD's Best Mutual Funds 2018 Awards**, stock mutual funds included must have beaten its benchmark for the past one, three, five and 10 years. Mutual funds considered for awards have at least $100 million in assets and have been around for at least 10 years. A group of 2,806 mutual funds for the 2018 list met the minimum criteria of having at least $100 million in assets and 10 years of operation, but only 627 funds beat their performance benchmark across all four time periods.

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