



Innovation Driving EM Performance

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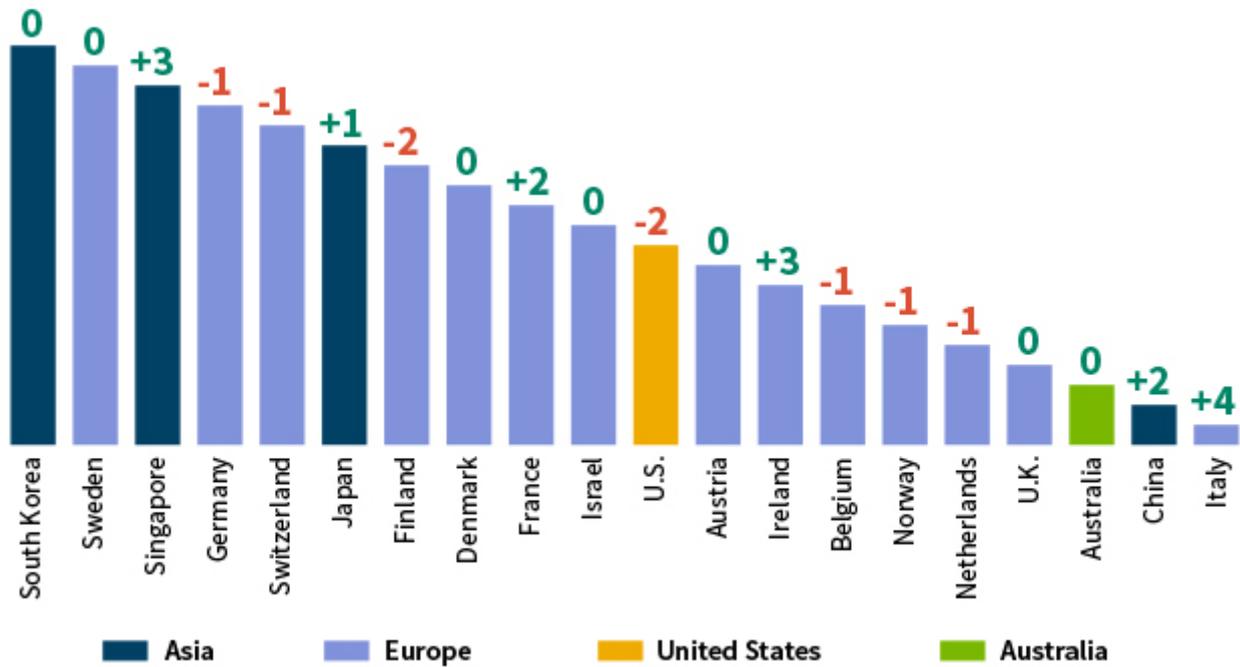
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It's important for global investors to heed the technological disruption occurring around the world. It's even more interesting to focus on the relationship between that disruption and the emerging market investment opportunity.

Disruption can be evidenced by the pace of innovation. Bloomberg recently published a multi-factor innovation model showing innovation by country. The breadth of innovation around the world is surprising, and is certainly not just a U.S. or Chinese phenomenon. Asia more broadly dominates, and Europe is well represented, as the chart below illustrates.

Top 20 Innovative Economies in 2018 (2017 - 2018 Rank Change Labeled)

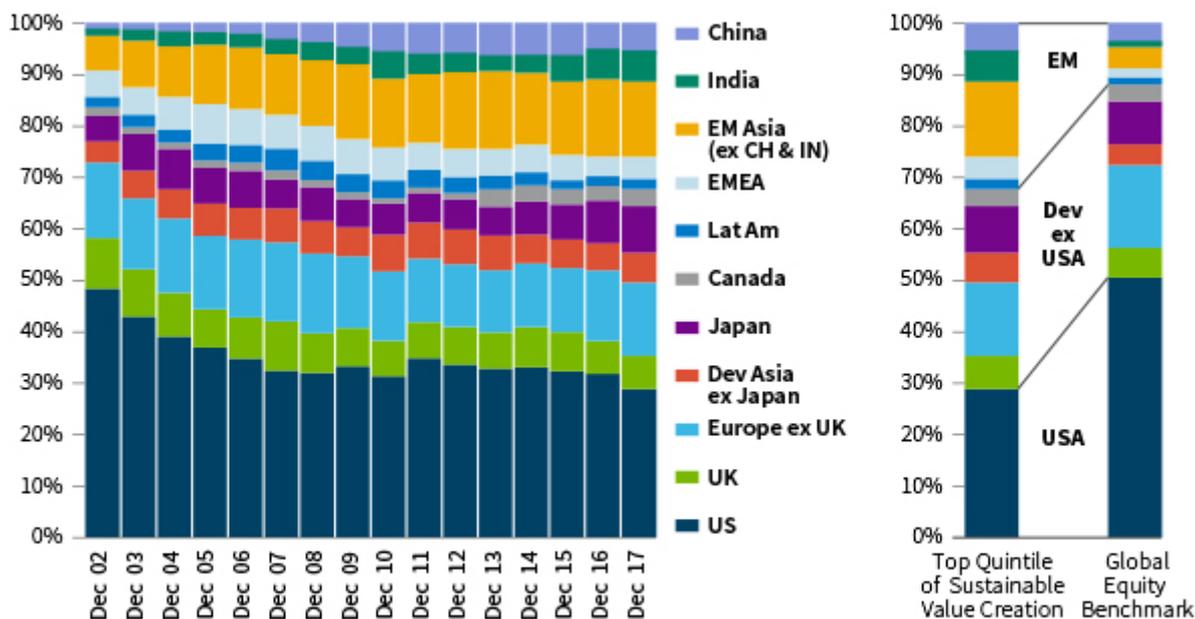


Sources: Bloomberg, International Labor Organization, International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, World Intellectual Property Organization, United Nations Educational, Scientific, and Cultural Organization.

The concept of innovation is a consideration in our proprietary quality growth model, which we use to determine the sustainability of corporate performance. In 2002 a full half of the top-quintile quality-growth companies around the world were in the United States, and only about 15% were in emerging markets.

Since then, there has been a broadening of superior corporate performance: today, the United States is home to a third of sustainable-value-creating companies, while a full third are now found in emerging markets. The chart below illustrates.

Broadening Spectrum of Quality Growth for Active Global Investors



Source: MSCI ACWI IMI, as of December 31, 2017. Top quintile of sustainable value creation is equal weighted. Sustainable value creation is an aggregate measure of corporate returns on capital. Several quantitative financial statement factors are used to measure total corporate profit/cash flow relative to total invested capital, corporate equity profit/cash flow relative to invested equity capital, as well as operating efficiency. For illustrative purposes only.

We believe this change in market leadership is an important consideration in favor of active management. As innovation changes, market leaders change, and as market leaders change, investment decisions must be rooted in corporate performance rather than benchmark positioning.

This makes active management essential. As active investors, we seek to allocate capital where the innovation leaders are, company by company, around the world.

Ken McAtamney, partner, is a portfolio manager on William Blair's Global Equity team.

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