

## TIP SHEET:

### Delaware Global Fund Sets Sights on Cash Flow Growth

- Fund was formed in late 2008
- Fund has about 40 stocks
- Fund’s managers focus on cash flow generation and return on invested capital

By **ANDREW R. JOHNSON**

Greg Heywood helped launch the Delaware Focus Global Growth Fund (DGGAX) in late 2008 as a vehicle to adapt the strategy of Delaware Investments’ Focus Growth Equity team to international opportunities.

“We found that we were seeing a lot of non-U.S. ideas in the course of our workflow, whether it be at conferences, whether it be at companies coming through town,” said Mr. Heywood, a portfolio manager for the fund. “We really didn’t have a home to own some of these great ideas we were seeing because we had a domestic-only portfolio.”

Today, the portfolio consists of about 40 stocks, with the largest holdings including Apple Inc. (AAPL), MasterCard Inc. (MA), BM&F Bovespa (BVMP3.BR) and Experian PLC (EXPGY, EXPN.LN). The fund invests in both U.S. and non-U.S. companies, with a focus on mid- and large-cap stocks. The average-sized position is 2.5% of the fund, though Apple recently comprised 5.1% and MasterCard 3.4%, according to a Sept. 30 update.

The fund’s managers are focused primarily on companies’ cash flow generation and return on invested capital, though they don’t adhere to set metrics when measuring a stock’s value on these characteristics, Mr. Heywood said. However, the managers look for companies that generate a return on invested capital “significantly in excess of their cost of capital,” he said. In terms of cash flow generation, they look for companies that trade at a discount to their future cash-flow generation.

“We’re trying to find companies that are creating economic value in the form of high returns and high free cash flow, and we want those cash flows to be growing over time,” Mr. Heywood said. “We’re buying a dollar of earnings at some discount to what the market believes it’s worth.”

The fund has posted a 12.43% return this year, beating its benchmark, the MSCI EAFE NR USD fund, by 2.76 percentage points as of Nov. 8, according to Morningstar, which has a five-star rating on the fund. During the last three years, the fund has posted a 12.67% return, beating its benchmark by 10.72 percentage points.

The fund looks for companies whose business models have competitive advantages and are difficult to replicate, which is one reason the managers were drawn to MasterCard.

The second-largest payments network in the world derives more than half its revenue in foreign countries and has benefited from the ongoing shift to elec-

tronic payments from cash and checks. The company does not lend or issue cards to consumers; rather, it operates the infrastructure over which card transactions are processed, connecting to banks and merchants.

“That’s an ongoing story in the U.S., it’s an ongoing story in Europe ... and it’s a very rapid growth story in emerging markets,” Mr. Heywood said. “In the short term, we think they’re less impacted by macroeconomic factors than most other businesses, and that’s because of the secular growth trends that...will happen regardless.”

Dylan Cathers, a mutual fund analyst for S&P Capital IQ, said the fund has favorable risk characteristics and noted it has a low level of turnover.

“It’s a good fund for someone looking for a longer-term holding and looking to invest globally,” Mr. Cathers said.

The fund also includes some “low revenue growers” that are growing free cash flow at “double-digit multiples,” Mr. Heywood said.

One such example is Givaudan SA (GIVN.VX, GVDNY), a Swiss maker of flavors and fragrances used by food, beverage and other consumer-products makers.

Mr. Heywood said the company is converting about 10% of its revenue to free cash flow and expects it to grow to 15% of revenue in the next few years.

(Andrew R. Johnson covers the consumer lending industry for Dow Jones Newswires.)