



SEEKING QUALITY GROWTH COMPANIES

Citywire recently visited with Bradley Klappmeyer, portfolio manager of the Ivy Large Cap Growth Fund (IYGIX).



BRADLEY KLAPMEYER, CFA
PORTFOLIO MANAGER
IVY INVESTMENT MANAGEMENT COMPANY

HOW DO YOU DEFINE COMPETITIVE ADVANTAGE IN THE COMPANIES YOU SEEK?

There are a number of things to consider in terms of competitive advantage within the large-cap growth universe. In general, we focus on a company's structural drivers for growth and profit potential over the long term.

Brand equity and consumer loyalty are also important, as are proprietary technologies such as patents and subsidies. We want established companies that have high barriers to entry or a defensible leadership position through patents or technology. At the same time, switching costs, economies of scale and network effects are critical, especially when it comes to scaling the business model.

So, while improving profitability and high return on capital are important, it's a company's competitive advantage that gives it longevity. From an initial universe of around 1,500 stocks, roughly 200 will have the characteristics that we seek. We then select around 40 to 60 names to become part of the portfolio.

HOW DO YOU MANAGE RISK IF YOU EXPECT COMPANY GROWTH RATES TO DECREASE IN THE FUTURE?

We seek to manage risk in a number of ways. For the companies we own, we want to stay away from riskier ones and focus on those with sustainable competitive advantages with the potential for longevity over the cycle.

This means a stringent focus on quality. The goal is to construct a portfolio of companies with durable growth potential, less volatility and highly visible earnings that aren't strongly correlated to business cycles. For instance, in early 2018, we anticipated a period of higher volatility and slowing growth. It was our view that the fairy-tale year of 2017 was unlikely to be repeated.

As a consequence, we reduced the fund's overweight positions to

cyclical information technology and financials and increased exposure to consumer discretionary and health care. The fund's quality bias has also paid off so far this year, as it has experienced stronger performance as of late August. We think political risks, volatility and uncertainty are likely to persist, and so we continue to be hyper-focused on higher quality names.

CAN YOU EXPLAIN THE FUND'S INVESTMENT PROCESS?

We want to hold a concentrated portfolio of 40 to 60 of the best growth companies in the space, while trying to make high-conviction decisions versus the Russell 1000 Growth index (the fund's benchmark). When it comes to company analysis, we're bottom-up stock pickers by nature. We're looking for companies with improving profitability and sustainable competitive advantage.

When it comes to portfolio construction, we're happy to hold a relatively concentrated group, provided it's sufficiently diversified. We have limitations on position size and sector weights, but remain concentrated, with the largest 15 positions comprising 50% of the fund. We're also highly cognizant of factor exposure and make sure tracking error is driven from stock-selection risk. We want a good mix of names with accelerating growth, controlled growth and cyclical/slower growth. We tend to avoid unproven growth and asset accumulators.

IS THE FUND'S PORTFOLIO RECESSION PROOF? WHAT'S YOUR VIEW OF AN UPCOMING RECESSION?

If there is an earnings recession or a major bear market, then the fund could be affected. But by focusing on quality, we hope to fare better over time and to have the potential to outperform through a down cycle. We have participated in most of the upside, with 2019 being a prime example. We try to run with the bulls, but we're always cognizant of the risks.

In terms of a potential recession, we don't foresee one on the horizon just yet. We acknowledge there's some been slowing. While we think earnings could turn sluggish into the back half of 2019, a slowdown is more likely than an acceleration, and this should keep market valuations fairly constrained.

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Before investing, investors should consider carefully the investment objectives, risks, charges and expenses of a mutual fund. This and other important information is contained in the prospectus and summary prospectus, which may be obtained at ivyinvestments.com or by calling the Ivy Distributors, Inc. sales desk at 800-532-2780. Please encourage your clients to read it carefully before investing.

Ivy Distributors, Inc. IVAD-LCG-BK/43556 (09/19)

Fund Performance — Average Annual Total Returns (%)

As Of 09/30/2019	Ticker	Inception	1-Year	3-Year	5-Year	10-Year	Gross/Net Expense
Class I	IYGIX	06/30/2000	7.89	18.34	13.81	14.24	0.81/0.69
Russell 1000 Growth Index	—	—	3.71	16.89	13.39	14.94	—
Morningstar Large Growth Category Average	—	—	1.87	14.62	11.04	13.13	—

Data quoted is past performance and current performance may be lower or higher. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Please visit ivyinvestments.com for the Fund's most recent month-end performance. Total returns include share price changes and reinvestment of dividends and capital gains, if any. Class I shares are sold without any front-end sales load or contingent deferred sales charges. The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It is not possible to invest directly in an index. The Morningstar Large Cap Growth Category Average measures the performance of large-cap stocks that are expected to grow at a faster pace than the rest of the market as measured by forward earnings, historical earnings, book value, cash flow and sales. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap.

Top 10 Equity Holdings (As Of 09/30/2019)

	% Of Net Assets
Microsoft Corp.	8.7
Apple Inc.	5.1
Alphabet, Inc.	4.9
Visa, Inc.	4.7
Amazon.com, Inc.	4.6
Verisk Analytics, Inc.	3.2
Zoetis, Inc.	3.1
Facebook, Inc.	3.1
Booking Holdings, Inc.	2.8
NIKE, Inc.	2.8

Holdings and allocations are subject to change.

Portfolio Management

Ivy Investment Management Co.

BRADLEY M. KLAPMEYER

Portfolio Manager

20 years in the industry | 3 years with the Fund

Past performance is no guarantee of future results. This information is not meant as investment advice or to predict or project the future performance of any investment product. The opinions are current through September 2019, are subject to change at any time based on market and other current conditions, and no forecasts can be guaranteed. This information is being provided as a general source of information and is not intended as a recommendation to purchase, sell, or hold any specific security or to engage in any investment strategy. Investment decisions should always be made based on an investor's specific objectives, financial needs, risk tolerance and time horizon.

Risk factors: The value of the Fund's shares will change, and you could lose money on your investment. Investing in companies involved primarily in a single asset class (large cap) may be more risky and volatile than an investment with great diversification. An investment in the Fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Not all funds or fund classes may be offered at all broker/dealers. These and other risks are more fully described in the Fund's prospectus.

Class I shares are only available to certain types of investors.

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Through July 31, 2020, IICO, IDI and/or WISC have contractually agreed to reimburse sufficient management fees, 12b-1 fees and/or shareholder servicing fees to cap the total annual ordinary fund operating expenses (which would exclude interest, taxes, brokerage commissions, acquired fund fees and expenses and extraordinary expenses, if any) as follows: Class I shares at 0.69%. Prior to that date, the expense limitation may not be terminated without the consent of the Board.

Before investing, investors should consider carefully the investment objectives, risks, charges and expenses of a mutual fund. This and other important information is contained in the prospectus and summary prospectus, which may be obtained at ivyinvestments.com or from a financial advisor. Read it carefully before investing.

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