Webinar: PM Perspectives: Where to Find Growth From Here

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With Aggressive Growth and Multi Cap Growth Portfolio Manager Evan Bauman (EB), Large Cap Growth Portfolio Manager Margaret Vitrano (MV) and Portfolio Specialist Corey Hardie (CH)

CH: Thank you, Michelle, and good afternoon everyone and welcome to the latest ClearBridge PM Perspectives conference call. Again, my name is Corey Hardie. I'm a member of the portfolio specialists team at ClearBridge, and I'll be your host for today's call. The topic of the call is Where to Find Growth from Here. Joining me to share their insights on growth investing in an uncertain world are Margaret Vitrano, Co-Portfolio Manager of the Large Cap Growth Fund and separately managed accounts as well as Evan Bauman, Co-Portfolio Manager of the Aggressive Growth Fund and Multi Cap Growth separately managed account.

Margaret and Evan both have 23 years investment industry experience. Both has spent virtually all their time at ClearBridge, and both got their undergraduate degree from Duke University. In addition, Margaret and Evan are also part of the managing team on the All Cap Growth separately managed account. In partnership with Legg Mason one of our priorities here at ClearBridge is to make our strategies available to investors across a wide range of vehicles, including mutual funds, separately managed accounts, and for the last two and a half years active ETFs.

I'm sure most of you are familiar with the funds and separately managed account options that we're going to go over today, but I wanted to highlight also LRGE, the ClearBridge Large Cap Growth ESG ETF and CACG, the ClearBridge All Cap Growth ETF. Our discussion today will cover stock selection and portfolio construction approaches applicable to each of these growth strategies. Margaret and Evan are going to kick off the call today with some prepared remarks on their outlook for the market.

After their prepared remarks, we're going to move to a Q&A format, we do have a couple questions already queued up from the PMs to answer, so thank you all for those of you who submitted questions to the portal in advance for today's call. We really do appreciate that. Please keep in mind, however, that if you have not submitted questions at this point, we invite you to do so and submit them through our web-based platform, and we'll try to get through as many of those as we can over the next hour or so. With that, I'm going to pause and turn it over to Margaret to kick us off.

MV: Thank you, Corey, thank you for having me on the call today with my Blue Devil friend. So, I think maybe just a few seconds on how we're perceiving the macro and the outlook, I would say that from our perspective, it's not clear if what we're seeing right now is a soft patch or the beginning of something worse, but we do see the risks to the market rising. Today looks a lot like the mid-cycle slowdown that we saw in 2015, 2016. And the similarities are that the consumer was in relatively good shape.

Unemployment was low. GDP growth was moderating but still had it running around two percent by the end of the year, but the industrial part of the economy was slowing. And if you look at that period, what are the learnings, I would say first, you did see volatility increase. You had two ten percent plus drawdowns in the market during that period probably partially as a result of some earnings volatility that we saw. And secondly, we emerged from that period in large part because of accommodative policy by both China and the U.S.

And so, what are the learnings from that? I would say, first and foremost, we're obviously just starting earnings season here, but we're interested to see how the consumer is holding up, and what we hear from companies, and what we hear from industrial companies. We have heard from Honeywell and UPS most recently, and I would say that while the results have been good, both of those companies have highlighted that they are seeing some headwinds on the horizon just amid the uncertainty from things happening outside the U.S. right now.

And secondly, we're focused on what happens in China and what happens in the U.S. The U.S. has already started easing I think it's relevant how much further they go and the impact of that. We are seeing some early positive signs in the housing data points from lower interest rates. And in China, the Chinese government has implemented more than a hundred easing measures over the last year, year and a half, and so that's instructive as well in terms of the impact that has on GDP growth.

So, let's bring it back to the market and how we think about investing from there. First, I would say we have reduced some cyclicality in the portfolio. It does go back to the buckets of growth that I'm sure you all have heard us talk about before. And the point of the buckets is just that we want to make sure that we achieve diversity and diversification in the portfolio. We want to make sure that we have some names in the portfolio that are more momentum-oriented growth companies.

We want to make sure we have some good quality, compounding GARP-like names in the portfolio, and then we want to have some opportunistic growth in the portfolio. And so, the bucket's approach for us I think was, it was really helpful for us in 2018 and figuring out how we wanted to take risk off in the portfolio. We've gone through that same process in 2019 in terms of making sure that we manage the size of the select bucket where we see risk and making sure that the stable bucket and the cyclical bucket, which tend to be more defensive, are well populated with some good names that we have conviction in.

CH: Great, and then Evan, did you want to go over your outlook for the market a little bit?

EB: Sure, I'll be brief because I think Margaret covered a lot of what I would have said. I think if anything, Richie and I are a little bit more constructive on the overall market. I think part of that is just that even though the S&P is basically one percent or less now away from all-time highs, I don't think you have any troubling signs of bubbles or speculation or even frothiness in terms of overall market valuations. Maybe part of that is the sectors that we're more focused on.

But I think if you look at the overall S&P, trading somewhere between 17- and 18-times earnings with rates where they are. And I think looking where the amount of macro and geopolitical fear is right now, you certainly have — you take a step back I don't think you have even the troubling signs that you had maybe one year ago in the market where the Fed was much more of a risk in terms of removing accommodation, removing liquidity, raising rates relatively aggressively at a point where, again as Margaret made references, a lot of uncertainty around the trade side of things that many investors thought would be resolved relatively quickly.

I think today it's the opposite. The Fed is, not just here in the U.S., but around the world you have a renewal of easy policy. Rates are near historical lows if not negative in a lot of places. Fear is extraordinarily high. There's a lot of noise. And I know we'll get into some of the specifics and how it impacts various sectors that we're involved in, but you have a tremendous amount of noise, fear of volatility, and I think uncertainty is probably the best way to classify that, which generally speaking if you're a long-term investor, as I think we all are around the table, is typically a pretty good time to be invested.

I would argue there's clearly some areas of the market that have grown more crowded and in some cases relatively limited sectors and subsectors becoming more expensive at a time when there are other parts of the market, which are actually at or near historically some of the lowest valuation levels that we, Richie and I, have seen over decades. We'll get into, again, the sector level stuff, but areas like media and health care actually trading in many cases single-digit multiples of free cash flow would tell us that you actually have a lot that can go right for certain areas of the market.

So, I think just kind of circling back, and we'll get into process and kind of where we're all positioned. I think overall the market, particularly we'll speak to the U.S. markets, are in decent shape. Growth, it's low-single digits broadly speaking, but I think that's reflected in a lot of multiples. Rates are low. Fear is high. And I think structurally versus a lot of the rest of the world, the U.S. companies, from a balance sheet perspective, are actually in pretty good shape. M&A activity has been sort of relatively subdued.

There's been a few bigger deals in some areas, but I think if some of the uncertainty, some of the cloudiness around the macro and the geopolitical side starts to clear, you could argue that, again, even though we're close to all-time highs, you could get a breakout on the upside in the market. I think what we'll hopefully answer today is really where we see the specific sector and business opportunities within that backdrop.

CH: Great, and so, Margaret in your intro you talked about soft patch and mid-cycle slowdown, and then Evan you mentioned uncertainty and fear being high. Title of today's call is where to find growth going forward, so for most investors, the immediate answer is tech. Margaret, how are you thinking about your tech exposure in the portfolio right now?

MV: Well, look, tech is an enormous part of the Russell 1000 Growth Index. It's more than 50 percent when you really add in names like Uber that are technically in industrials but really tech, so it's a big part of our index. We are a little bit underweight that and we want to have a little bit of defense in that. But I'll tell you as we think about how we're spending our days today, they're really good businesses in tech. And to Evan's point, a lot of these businesses can, over the next five and ten years, compound really nicely.

I would say we're underweight, but we — our wish list of names that we want to buy or that we're waiting for a clearing event or that we're hoping for some kind of short-term volatility to give us a great entry point as long-term investors, in technology and broader is growing. It's a pretty long list at this point, so a little bit underweight in tech but I would say hopeful to probably be adding back some.

CH: Evan, did you have anything to add?

EB: I'll say that given the name of these strategies, Multi Cap and Aggressive is growth, we always get the tech question. I think that goes to, back to the early eighties when this strategy was incepted. There was this assumption that you had to be heavily invested in IT if you're a growth investor. And we certainly have meaningful exposure down the cap spectrum in tech, more mid-cap and earlier stage companies in technology really outside of the big stuff.

I mean, I've always argued that what we look for in terms of owning and buying companies for decades is really not just disruption but sustainability and IP and having meaningful barriers to entry. And in technology the markets move very fast, particularly in consumer touching tech companies. I think it's really important in a lot of cases that you own companies that have strong patents or really dominant market positions.

So, we do own areas like connectivity and storage, which is a major theme in the portfolio that enables a lot of the growth of the cloud, speech recognition, information security. But it's really more of kind of the earlier stage companies where we think they have meaningful scale and meaningful barriers given the strong IP as well — we'll talk about other sectors. I think the overweight for us are more areas like health care and media vis-a-vis the traditional consumer touching IT companies, but certainly, there's some opportunities there. Areas like storage and software come to mind, front of mind, in terms of what we own.

CH: Great, and then switching gears for a second maybe away from tech to health care, health care has broadly been under pressure due to some of the political uncertainty as we head into the 2020 presidential election cycle. Evan, do you view that as sort of a red flag or more of an opportunity for you in your portfolio?

EB: I think it's both. I think there's obviously news today with Biogen, and I'll talk quickly about that and how it relates to our investment process. But I think it's really important that when we speak-and this is both Margaret and I-when we speak about how we're positioned I think we're really both very good at picking stocks, owning companies, being investors in businesses as opposed to asset allocating or saying we want X percent in health care and X percent in technology.

And I think that's again, going back to the early eighties when Richie, my partner, incepted this strategy. The first stock he ever owned was Genentech. Back in October, actually in two days we'll celebrate the thirty-sixth anniversary of the strategy, October twenty-fourth of 1983. And the reason that we invested in that company and some of the others through the years is that idea of sustainable innovation, the idea of disruption, the idea of treating unmet need through new treatments that treat the underlying cause of disease where there currently aren't any [applications] treatments on the market.

And I think that so often what happens, especially during periods like this where you have a lot of money that moves into or out of sectors either through ETFs or simply investing and then kind of sector-oriented investing is a lot of the sectors move together. So, you have good companies and bad companies, companies selling me-too drugs along with the innovators, everything moves together. Every time you get a tweet about health care cost or drug costs, the sector sells off.

And what it's led to, I think, in my view, is as a group of companies that is really under-owned and in some cases, in specific cases, innovative companies which are trading at unsustainably low valuation levels. So, coming in to today if we had spoken overnight, we'd be talking about a company in Biogen that had, forgetting about the pipeline for a second, $32 plus per share in earnings power, $5 billion of free cash flow, and a pipeline of drugs, in particular, in rare disease, and neurology that were very underappreciated or undervalued.

And this morning where there was really a reversal, of course, with aducanumab, which is they're leading their furthest along Alzheimer's drugs, I think a lot of investors were mispositioned or underinvested in the area. And that's a case where actually three pieces of positive news in the last week in the space that we're invested in. Last night right around the close, Vertex got approval of their triple combo therapy for cystic fibrosis five months earlier than the PDUFA date, which is the date that the FDA was supposed to act on.

So, they got approval of the drug early. They priced it ahead of expectations. And it was, again, I think another case where FDA is starting to separate the innovative companies that are really putting money into R&D to treat unmet need from some of the bigger pharma companies that we really don't have much exposure to in these portfolios who are going to face a lot of headwinds because of lower drug costs, the inability to raise prices on older drugs, and more and more competition both through proprietary data and especially through generics.

What that, I think, has led to is a few things. One, my view is the sector, again, broadly speaking, got very undervalued, very under-owned. The hint of good news, whether it was a Biogen, a Vertex or UnitedHealth Group, which we both own in the insurance space, which had decent earnings, last week, gave an okay guide. And the stock has rallied 30 points since the beginning of October because even in an uncertain political environment, we consider them to be a winner because of diversity and scale and the ability to bring down costs themselves through extending rebates and care to consumers.

So I think, again, everybody likes to look at the top down approach to sector weightings. I think what Richie and I and Margaret and Peter do very well is find companies that, even with the uncertain headline risk out there, are trading at meaningful discounts to the intrinsic value of the business. And I think one of the tenets of everything we do on the Multi Cap-Aggressive Growth side is say sometimes you don't need an obvious catalyst if the stock is sound financially, generating cash, and dramatically undervalued.

Because ultimately, you're going to get monetized, sometimes it's by the market, sometimes it's AbbVie coming along and making a bid for Allergan the way that they did earlier this year, but if you buy good businesses, eventually, I think, you get paid. You might have to be patient. I could tell you the last few months post the aducanumab initial interim look in March has been frustrating, and you had to have a lot of patience, but I think, ultimately, you do get paid if you know what you own.

MV: And that's a way that both of the strategies are very consistent. Both have recognized that health care is dirt-cheap. I heard from someone the other day, gosh, you just can't even own anything in this sector ahead of the election. Well, that's too broad of a swath. We always say — similarly to what Evan was just saying — we always say look, I appreciate what people are saying about drug pricing.

But if you are able to create a drug that addresses an unmet medical need, you will generate a return. You can't always predict when that return is going to happen, and when that drug is going to get approval, but I think what happened with [Biogen] this morning is a case in point of that. So, I think that there are still investable opportunities in health care. You just have to be patient.

CH: Yeah, so, you mentioned health care is dirt cheap, but taking a step back the market, more broadly, is trading near all-time highs. Are there other pockets of opportunity that you think are target rich for investment or are you finding specific areas, Margaret, that you think are interesting?

MV: Yeah, media, Evan referenced it before, but I think media is still really interesting. Disney is a name that's in the portfolio. And that's one where it's clear that people are changing the way that they consume content. But it's also clear that people are still consuming content. And Disney is pivoting its business to have an over the top offering that I think will help ensure that they remain relevant for the next decade.

And at the current valuations, you're really not paying a lot for them to be successful in the over the top offering. So, to us, I think over the next couple of years I think that's going to be hopefully a very good investment for us as they pivot. They still have a terrific track record of generating content and generating content very profitably.

EB: Yeah, I'll just echo that because I think it's true for a lot of media companies. There are going to be certain companies that do lose in an environment that's changing so rapidly. I mean, you went from a monopoly in cable with some sort of, on the margin competition from DBS satellite and the phone companies to where the way that you consume media has become really a commodity. And I think, to Margaret's point, the value proposition has shifted from distribution to content and from distribution to high speed data. I think we're all about consuming more and more data that extends into other parts of the portfolio like technology.

But the value prop today is really in owning the content, owning the IP if you will with companies like Discovery and AMC, which this as an example and you guys have heard us speak about it before. But AMC Networks has grown their earnings from about $5.50 a share to over $9 a share in the last four or five years. And the stock price is down.

So again in this environment, not that different from health care, it's been more about the fear trade about the uncertainty and the changing landscape compressing multiples and compressing what shareholders are willing to pay for these businesses, but what I think it doesn't change is the value that good properties have, maybe in some cases the other companies where you have John Malone who has spoken about consolidating the programmers.

He's talked about rolling up and ultimately potentially selling some of the programmers to the distributors, both the social media companies who are looking for content, companies like Apple and Netflix, which are spending billions on content, and I think what we've always tried to do is own good cheap IP that ultimately can get monetized, and my sense is not unlike the health care space, you're going to see more and more deals.

You'll see companies go private because the free cash flow yields are so significant right now. There are some companies in the portfolio, don't know who it's going to be, but that have the potential to ultimately be LBO'd. If you're buying momentum expensive stocks you need to market to keep going up in those stocks to keep going up. If you're buying good cheap cash flowers well that's true of media and it's true in other areas then ultimately there's just a lot of things that can go right, and I think that's what we've tried to do.

CH: And you mentioned just now that some of these companies are so strong and you could potentially go private, but on the other side of the coin we have actually seen a lot of weakness and downright failures on the IPO side of market like companies trying to come public. Do you think that there's a read across to the direction of the market or to help of the market?

EB: Not really because it hasn't been a bubble in IPOs, the way you had in 1999, 2000, 2001, where you know 10 companies a day were coming public and they were coming at absurd valuations. I think they're more one off, so I think there are opportunities in that, but my sense is some of these companies were being carried at valuations too high on the private side and so you really mark them to market you don't know that. I think in some cases you were just valuing the company inefficiently based on how their most recent financing was done and now we're finding out what the public markets think they're worth, but I think Margaret you could touch upon that.

I think that's also yielded some opportunity if you really have done the work and I think one of the strengths of ClearBridge is we get access to a lot of privates, lot of private companies, and we have the opportunity to take a look at a lot of these names when they mark to market in the public markets, and again we're not trying to paint the IPO market with a broad brush rather than to say when you get this type of selling because of a "you know disappointing IPO", it happened with Facebook six to seven years ago. It happened recently with Uber, I think it allows good long-term investors opportunities.

MV: Yeah, we bought Facebook. After that did you do that on purpose, you give me the opportunity to say that. We bought Facebook on that sell off because we were willing to look out several years and say gosh you know we appreciate the short-term headwinds or the lack of credibility that the market is seeming to give them right now, but longer term this company is a really good business model, has moved around its business, and they can generate a lot of cash flow, and you know I would say that you know we see a similar situation with Uber right now and that we think it's a good business. I appreciate the comments that I've heard from people about management credibility or the profitability, but we see a pathway to improving profitability with this company. Since the IPO, the company has shown that they're improving their profitability in the right part of the business. In our view, we think that business is making money now, it's hard to see from the outside because they're investing in other things, but it's simply a better mouse trap than the old business of calling a taxi, because of the platform, and we think that there are going to be advantages and good returns generated from that over the next coming years.

CH: Yeah, so you mentioned Uber is investing pretty aggressively into the capex is obviously high, so the profitability is a little depressed, but more broadly stepping away from Uber and kind of thinking about the market, companies are pretty flush with cash, the capex has been constrained because of all the uncertainty around trades and tariffs. In your view for a more developed company what is a good use of cash right now, would you rather see people kind of bide their time or would you rather see them investing in this uncertainty?

MV: Well look I mean I'm going to answer that two ways, I absolutely agree with your comment that it's important for the health of our economy, the businesses is to continue to invest because these are the multiplier effect for GDP growth. If we do our job right in finding good businesses with good management teams and good business models, we want them to invest because the returns I'm going to get from that are better than them just sitting on low return in cash. So in theory you know we always want them to invest back into their businesses. You have to have a broad definition of what that means. Disney buying Fox — is that investing or M&A? Well they are actually adding to the content and investing, so their OTT venture works that's investing.

So it can actually come about in different ways, but we want our companies to continue to invest in their businesses so that they do compound over the next 5 to 10 years and we can continue to hold them.

CH: Great, so having taken a step back for a second because growth has really been the place to be over the last several years, but for an investor entering the market today what would you say would be a bull case for an investment in growth in today's environment?

EB: Yeah the best way I can answer it is you look at the characteristics of the portfolio — the Multi Cap portfolio at the end of the third quarter, and you have companies that are actually growing faster than the index trading at dramatic discounts on a price to book, price to sales, and price to cash flow basis. So my feeling is in some of this we can talk about dynamics around passive in money flows, part of this is the fact that you've had so much money that has crowded into some of the biggest companies in the world. The kind of the $800 billion and up companies, there's four or five of them, and they're fantastic companies, this is not the days of the, you know, the tech bubble by any means.

These are companies that are you know disruptive in dynamic and creating earnings, but beneath believes that there are a lot of industries and sectors that are trading at or near historically low price levels that are still growing and yeah I think there's you know that the reality is if you're going to buy a passive strategy or just the style box then you know you could argue there's some developing crowding there, but again beneath the surface there's some real opportunity for you know areas like energy, areas like you know non-FAANG tech, again where you can look at you know companies that we own like Cree or FireEye or some of the disruptors in the EV space or the security space that you know we think have good opportunities to grow or get monetized by others.

So you know I think what we've always done well now as a shop is think differently, think more long-term oriented, do a lot of work, but also think about being somewhat contrarian in terms of when we take action. Margaret and I were looking at a company yesterday and saying yeah it's starting to get interesting because it's down a lot and that's when a lot of the consensus starts to get negative and the broker dealers start to cut their ratings from buy to hold.

And that's when you know myself and Richie, and Margaret and Peters started to get interested with one having a longer term view also taking a really research heavy view and being patient waiting for our price, and you know FireEye, which is the name that we bought recently across the portfolios is a name which traded at $50 to $60 dollars a share a few years ago, and we took an initial position in the intrusion detection company in the kind of the mid to low teens.

So I think you need to be patient. I think you need to think differently. My sense is simply owning a growth index at this point in terms of passive is running late in the game and you know we've always looked at ourselves, I mean our active share is 96%. So I think for a differentiated strategy right now, sure you're getting redeemed because you haven't kept up with the index, but on the other side of things I think this is a period not that dissimilar to 1999, 2000, 2001, which was a true bubble, you broke the bubbles and the Nasdaq dropped 80%, and if you thought differently the way these two strategies do you actually made money during that period on an absolute basis and like I said I don't think the market or the Nasdaq has that level of risk. You don't have the same type of bubble, but I do think that you know the type of different thinking that we're describing here today becomes more important the next few years vis-à-vis last few years.

MV: I think it's really important to just — sometimes easier said than done, but try to keep that long-term hat on because it's really easy to get distracted by the short-term noise and the market certainly has a lot of it right now whether it's the tweet of the day or what's coming out of Washington or what you think holiday sales are going to be about, if what you just focus on is just a good business, is this a good business model are the returns that I see three and five years out going to be better than what I'm seeing right now and better than people the stock market is factoring in right now that's kind of the way we find value, and that's why when Evan said there is a name that we're looking at that people seem to hate right now that's perfect, because we're willing to — it's okay, if the company doesn't turn next quarter. We want to be owning it for the next three and five years when we can generate some really nice returns.

CH: So you mentioned earlier in the call reducing cyclicality in your portfolio Margaret, and obviously being less dependent on macro-factors and help drive growth through turbulent periods in the market, are there some really high-quality self-help stories that you want to highlight from your portfolio?

MV: Sure I would say Advance Auto Parts is one that we have in the portfolio that I think has a nice blend of stable not necessarily exciting top line growth, but a lot of self-help. I mean their operating margins are more than a thousand basis points below their peers. They're not going to close that gap fully, but if they just get a couple hundred basis points it's a nice teens kind of earnings growth that can compound nicely for the portfolio. So that's one where it's really within their control to manage their stores better, to manage their inventory better, to manage distribution better, to cut costs where they can, and then you can have a really well performing stock if they're able to succeed with that.

CH: Great. So I just want to take a second and pause, and just remind folks that if you are dialed in and have a question that you'd like us to answer please submit it through the web-based portal, so we can try and get to that in the next couple of minutes here. Kind of changing the topic a little bit to something that's kind of for me takes through all of your work every day which is ESG investing. Can you please take a second and maybe talk through how you think about ESG investing in the context of bottom up fundamental investments?

EB: Yeah I mean I'll just start, I think it's something we talk a lot more about today, but it's something that's always been done, and it's always been integrated into the thinking at ClearBridge. I mean when you talk about owning companies for decades and looking for best in class and engaging with managements and boards, which is essentially what we spend our time doing that is a practice we've all employed since the 80s and early 90s since we've been here, so that's really important.

I think you know looking specifically at certain companies that we own you know the ultimate — I guess the ultimate ESG play at this point for us is Cree, which is ironically based in Durham (North Carolina) and that's a little shout out to our Dukeness, but is a company which is really always been sort of the most energy efficient technology company that we've owned going back to the 15 years that we've owned it, involved in LEDs and LED lighting energy, efficient light bulbs, and today the big push for Cree from EV from electric vehicles and solar inverters, and using silicon carbide, which is much more energy efficient, substrate, and usage verses silicon to create converters and power inverters, and even the charging stations that are now becoming pervasive in EVs globally.

I mean Volkswagen has spoken about a $5 billion kind of end market just in the next few years from electric vehicles for the types of chips that Cree is working on and they've also been a leader in terms of water recycling and really running energy efficient plants. So I think that is very important to us you know I talked about engagement. We as teams vote all of our own proxies. We're very much focused on companies that again have proper governance that have diversity on their board. Discovery is an example of a company where we voted importantly that they had more diversity on their board of directors and we're really involved in making sure that not just you know at the executive level, but the boards understand that we're going to be big long-term shareholders, but a big part of our involvement is making sure that the companies are becoming more sustainable.

SanDisk, before they were merged into Western Digital, was another one that I think we worked very heavily with in terms of engaging and working on sustainability reporting and you know carbon disclosure, carbon emissions disclosure, and I think we vote our shares with what we think is best for the business. So it was just a few examples, but I think it really is more than an exclusionary type of policy. I think it's much more integrated into all the research that we're doing, and our analysts are doing, and I think that ultimately shows up in the investments.

MV: Yeah, I would echo a lot of what Evan said, you know Ecolab, is the one that comes to mind to me as a great example of an investment that works on ESG on the fundamental basis. I mean on an ESG basis you know they make cleaning solutions for a broad range of end markets. So things like helping McDonald's wash the floors and the bathroom but not have to rinse them with a certain solution, so that lowers water usage things like that. So certainly there are some positive attributes on the environment from using their products. Fundamentally, it's a great business to own and our analysts evaluate companies thinking about ESG and the fundamentals of the business when they think about a business.

I would say Evan is absolutely right that we try to engage with companies regularly both on the fundamentals and on ESG concerns or criticisms, or dialogue to show them what we think is best in class on an ESG basis, and you know how we think compensation should be benchmarked and how we see their peers talking about water usage or diversity, or whatever the issue may be. And so I think that dialogue has helped them understand our view point on you know what we think is important and what we think they could do better over time. So our hope is that with all these companies that are in the portfolio that dialogue can make it more of a journey then you're in and you're out kind of answer that the companies can all continue to improve.

CH: Great, so we're getting close to the top of the hour, so I think this will be our final question. We did receive this through the portal, so thank you for that, and it asks if you each could quantify what exactly you mean by long term. So this kind of gets you more broad question, which knowing your portfolios I think is an interesting one, at the outset we kind of highlighted all the similarities that you two shared, but obviously you think about growth investing a little bit differently. So if could touch how you constitute long term and maybe some differentials between the two portfolios and styles.

EB: So I'll start, I think you know Richie and I, we think very long term, I mean the two companies I cited in health care land with news in the last 24 hours Vertex on Biogen, we've owned each of those since 1991. So you're talking 28 years if my math is correct and I think that is not that unusual for the companies that we own, we're always looking for new names, but you look at the real success stories. Comcast, we've owned since 1986, Ralph was running the business, Ralph Roberts. UnitedHealth Group, we've owned since 1992 when you look at the annual revenue of the business was less than a billion dollars. Today it's almost $250 billion.

So true success of the Multi Cap and Aggressive Growth strategies have come from finding these companies when they're either in the very early days of their life cycle, it is some of the names that we referenced our owning them and compounding earnings and cash flows for very long periods of time. Now obviously not every name has the level of success as some of those others, but I think just kind of circling back to the process I think one of the real hallmarks of the strategy is that this is a really high active share, truly differentiated, non-correlated strategy to the index, and the time horizons when we buy something really are forever. I mean we don't even buy something with a price target. We don't buy it and say that we will sell it in 12 months.

As long as the company is executing and the valuation is not excessive, and the thesis remains intact, the business might transition like Cree did from LEDs to power chips that involves silicon carbide and RF chips that go into base stations, but ultimately we do a constant analysis to make sure we're comfortable with the business, and we do try more we think the public equity is really inefficiently priced or mispriced. So our time horizon is extraordinarily long. You know Margaret and Peter’s is long relative to others, but not necessarily as long as Richie and I.

MV: I think the average turnover in Large Cap growth strategies tend to be you know more than 50%. Ours is more like 20%. So that would imply a five-year holding period. Whenever we look at new ideas, we think three years out, that's not to say we only hold things three years, but that's what we feel like our crystal ball we can have some clarity and confidence in a three-year outlook. There are names in the portfolio like a Disney that we've held for 20. So there are names that we've held much longer, but we tend to think three to five years out when we think about the long term.

CH: Great so with that we're getting close to the top of the hour here. So I did want to be mindful of everyone's time. I did want to say thank you very much to everyone who took the time to dial in today. As a quick housekeeping item, I did want to mention that there will be a replay dial in for the call, and if you’re registered for today's call you're going to automatically receive that via an email, so that information will come out to you as soon as it's available. Please feel free to share that with any of your colleagues that maybe didn't have the time to dial into today’s call. In addition, if there any lingering questions that were not answered on today's call, please feel free to reach out to your Legg Mason wholesaler or the ClearBridge specialist team, and we will be happy to get you whatever you need.

So on behalf of Evan, Margaret, and myself, I just want to say thank you very much for the partnership. I thank you for dialing into today's call and have a great day.

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