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We interviewed Wall Street's 8 top-performing investors to get their secrets for success — and their best ideas for 2019

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Samantha Lee/Business Insider

- **Business Insider spoke with the eight best-performing large-cap fund managers of the year, based on a trailing one-year basis through the end of October 2018.**
- **The fund managers outlined which thematic and single-stock strategies paid off for them this year, and laid out their top trades and ideas for 2019.**

In 2018 the stock market rediscovered volatility.

After 2017 saw traditional measures of price swings locked at record lows, swift market gyrations were again the status quo.

For those observing this price action at ground level, it was a tumultuous whirlwind, marked by two separate corrections that came months apart.

But for a select group of money managers, 2018 was a year for the ages. Some of them saw turbulence coming and planned accordingly, while some employed long-term strategies that insulated them from temporary shocks.

Business Insider spoke with the eight best-performing large-cap fund managers of 2018, as ranked by Kiplinger. They shared the secrets behind their success and offered outlooks and stock picks for 2019.

Presented below are the results of our discussions with these investing heavyweights, who broke down their methodologies, what they did right, and what their attack plan is going forward.

The managers are arranged in decreasing order of trailing one-year return, through October 31.

Nancy Zevenbergen, founder and portfolio manager of the Zevenbergen Growth Fund (SAGAX)

Zevenbergen Capital Investments

Nancy Zevenbergen and a team of portfolio managers run the $113.6 million Zevenbergen Growth Fund.

She looks for firms like the one she started in 1987: those still run by founders who have long-term visions and stakes in their companies, versus rent-a-CEO setups.

That's why a company like Tesla remained attractive even after CEO Elon Musk created off-putting headlines. The electric-car maker's brand identity is tightly linked to Musk, and his continued involvement with the company is arguably a key reason for its success.

But at Zevenbergen it's not just about personalities. The most important thing that her fund considers in a company's financial statements is its revenue growth. That's because it provides a clearer picture of pricing, consumer demand, and the opportunities for capturing market share. A 15% growth rate is the fund's typical threshold.

She's also on the lookout for secular growth opportunities, which explains why her fund profited the most this year from Tilray, the Canadian cannabis producer.

1-year return: 26.54%

Biggest holdings (as of 9/30): Amazon (6.5%), Exact Sciences (5.4%), Netflix (5.4%), Shopify (4.7%), XPO Logistics (4.4%)

What worked in 2018:

"We believe that every market that eventually moves toward legal adult [cannabis] use will start in the medical realm," said Joseph Dennison, a portfolio manager on Zevenbergen's team. "We found opportunities to both add to and take profits in our positions [in Tilray]."

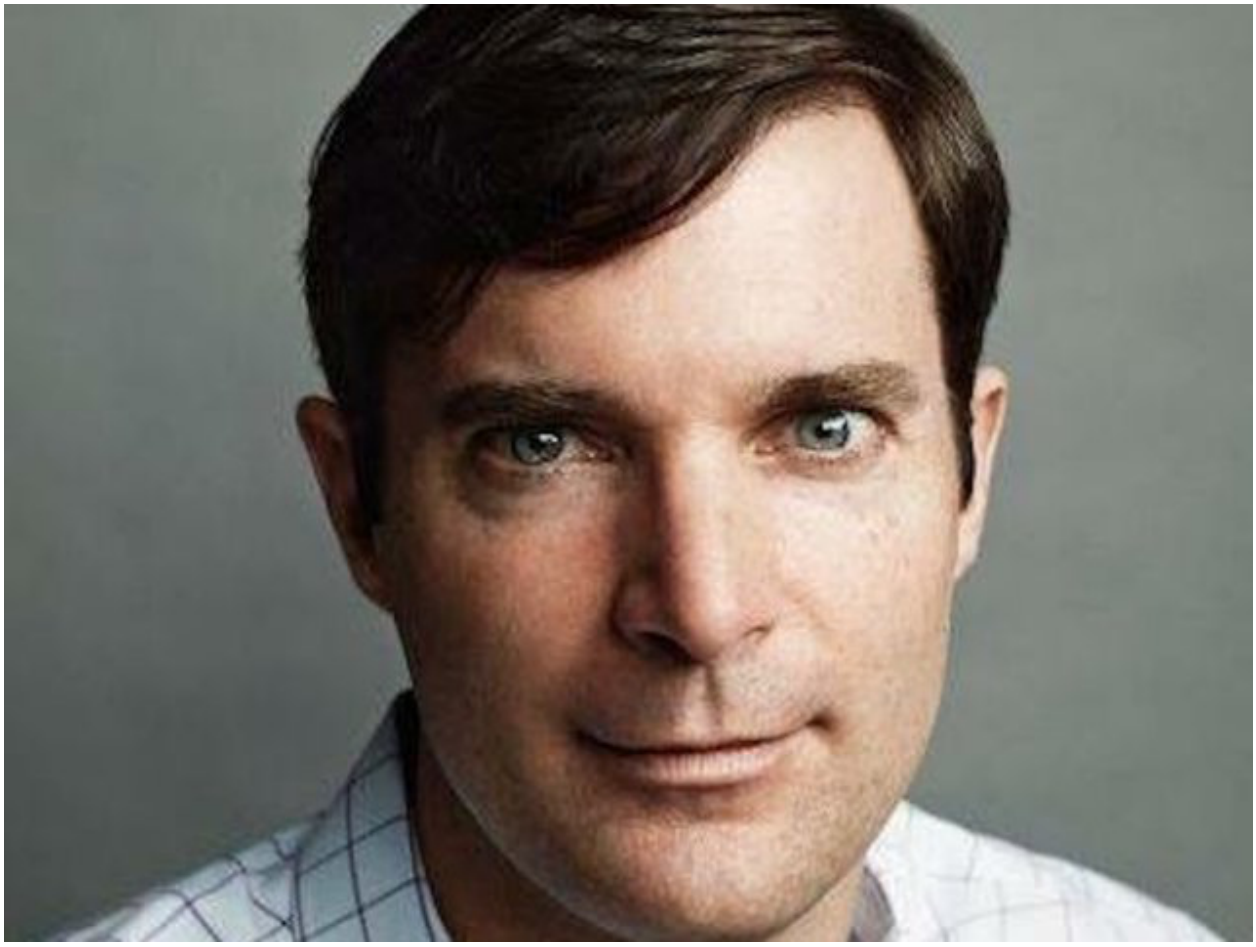
"[Okta] is run by two Salesforce.com alums, so they know how to sell to the enterprise [customer]," Anthony Zackery, a portfolio manager, said.

He added: "They only have 3% to 5% market share of probably a $40 billion to 50 billion overall market worldwide, and they've been growing very healthily on the topline."

What's ahead in 2019:

"We see a continued separation of companies that have clear, understandable secular drivers and who are making the investments necessary to continue driving their growth versus those who have benefited solely from strong economies, financial engineering, and tax reform," Dennison said.

Dennis Lynch, lead manager of Morgan Stanley's Multi Cap Growth Fund (CPOAX) and Institutional Growth Portfolio (MSEGX)



Morgan Stanley Investment Management

Any follower of fund-manager rankings from the past few years should be familiar with Dennis Lynch.

As head of growth investing at Morgan Stanley Investment Management — where he serves as lead manager of six funds and directly oversees $27 billion — Lynch has been one of the list's foremost stalwarts. And what's really remarkable is that he has two funds in Kiplinger's trailing-one-year top 10.

At the center of Lynch's investment strategy is a long-term approach that involves identifying "platform businesses" that have enormous growth potential over a handful of years. That led him to buy his first shares in Amazon more than 13 years ago, an investment that's paid off majorly.

Ultimately, Lynch doesn't trouble himself with daily market fluctuations and tries to steer clear of stocks closely linked to macroeconomic uncertainty.

As for how his funds withstood the turbulence in February and October, Lynch attributes that to his desire to achieve diversification around different end markets and end-market demand.

1-year return: 24.13% (CPOAX), 17.09% (MSEGX)

Biggest holdings (as of 9/30):

CPOAX— Amazon (9.2%), Veeva Systems (5.9%), Illumina (5.6%), Coupa Software (5.2%), Union Pacific (5.1%)

MSEGX— Amazon (9.7%), Veeva Systems (6.5%), Illumina (6%), Salesforce.com (5.4%), Union Pacific (5.3%)

What worked in 2018:

"Generally speaking, companies that pursue software-as-a-service [SaaS] have generally been performing very well. The fundamental results for these companies, and their outlooks, have been strong.

"In addition, because SaaS is a pretty destructive source for software companies that sell to businesses of all sizes, you're seeing some M&A, because some of those companies have strategic value. There's no question that one driver for us has been companies that pursue that type of strategy.

"Generally speaking, some areas within healthcare IT that sell into end markets driven by healthcare spending have performed pretty well.

"Beyond that, you've also had some outperformance in companies that use the internet to try and create solutions and services for consumers and businesses. They're using the internet as a disruptive platform, or a way to disrupt existing business models."

What's ahead in 2019:

"Generally, we still favor the same themes. Overall, we still like companies that benefit from those same trends.

"I can't say we see some new big trend we're super focused on. It's more an extension of these existing ideas and our belief that many existing holdings can be even bigger companies in the future.

"We're watching a lot of the political back-and-forth. We try to be very careful about not having strong opinions about interest-rate movements or the economy, because we don't want every one of our positions to reflect one overall view that we think is fairly unpredictable."

Chris Smith, founding portfolio manager of the Artisan Thematic Fund (ARTTX)

Artisan Partners

Chris Smith oversees $223 million as the founding portfolio manager of the Artisan Thematic Fund.

Smith works to identify industries undergoing multiyear inflection points, then makes investments based on those trends. Themes from the past year included data monetization, cash-flow inflection, and video games, among others.

He achieves diversification by digging in on each of these identified themes and making portfolio selections that offer earnings power on a two- to five-year basis. He doesn't own every company involved in a theme, just the very best, based on his models.

Smith also looks for stocks that carry high return on invested capital. He says that a company's ROIC has historically been the biggest driver of its multiple.

Lastly, it's important to mention that the Artisan Thematic Fund occasionally uses options to express investment ideas, a practice not regularly employed by fund managers. Smith says that those derivative contracts are used for both directional bets and downside protection. He says hedges in the portfolio kept his fund from getting hurt as badly during market downturns this year.

1-year return: 34.31%

Biggest holdings (as of 9/30): Equinix (6.2%), IHS Markit (4.9%), CME Group (4.8%), SBA Communications (4.4%), Intercontinental Exchange (4.3%)

What worked in 2018:

"Our names are very diversified in terms of our performance this year. Harris Corp. was one of our top five biggest winners on the defense theme. We had a video-game theme that we expressed through Nintendo. We've since exited that position, but it was one of our top five winners.

"There's our cash-flow-inflection theme, for which Lamb Weston was our largest winner of the year. That was another unique idea.

"In software, we owned Salesforce, which we've exited, but it was one of our big winners of the year.

"Primary themes this year were: software, cash-flow inflection, data monetization, video games, and defense." One name from each of those groups were our top five winners.

What's ahead in 2019:

"Our overall view is that economic growth peaked this year and has started to slow, and that slowing is more pronounced globally. That should continue through next year. At some point, by probably the end of next year, we might enter a recession, but that's difficult to call.

"What that's leading us to do is build a portfolio built on higher-quality, stable businesses that work better for the later cycle. And we're focusing on themes that are less economically sensitive than may have been in the portfolio historically.

"One area we like are the tower companies in the US. We like SBA Communications (SBAC), American Tower (AMT), Crown Castle (CCI). They're very high-recurring, long-term revenue-stream companies, and they own all the wireless towers in the US.

"Life-science companies — which are exposed to accelerating secular tailwinds in biopharma and precision medicine — are not as economically sensitive either. They include companies like Thermo Fisher (TMO) and PerkinElmer (PKI) that we think are accelerating on the innovation scale over the next few years, and should be reasonably resilient in an economic slowdown."

Kyle Weaver, lead manager of the Fidelity Advisor Growth Opportunities Fund (FAGAX)

Fidelity

Kyle Weaver oversees $5 billion as lead manager of the Fidelity Advisor Growth Opportunities Fund. Although he's a growth investor, he employs what he describes as a "deep value" approach.

That means Weaver is looking for companies trading at inexpensive valuations right now — perhaps at two to three times earnings — that possess massive upside over a 5- to 10-year period.

In terms of stock selection Weaver invests largely in business models, rather than companies particularly exposed to macro factors.

1-year return: 18.38%

Biggest holdings (as of 9/30): Apple (5.5%), Amazon (5.3%), Microsoft (5.2%), PAX Labs (5.2%), Alphabet (4.8%)

What worked in 2018:

"Over the past years, many of the secular trends that I'm positioned for have continued, and that's benefited a number of the business models in the fund.

"Advertising continues to shift from traditional media to the internet, which has helped companies like The Trade Desk.

"Shopping dollars have continued to flow from traditional brick-and-mortar to e-commerce, and there are other ways to play that than just Amazon.

"Wayfair has emerged as the dominant e-commerce player in home furnishings. Wireless data has been a multiyear theme, and it continues to grow exponentially with devices and applications and time spent with new technologies, including 5G next year."

What's ahead in 2019:

"Battery technology is a big trend. The cost of storing energy has been coming down for years, but it's accelerated with all the investment that's gone into battery technology for electric vehicles.

"Big tobacco will be disrupted by better, cleaner, cheaper alternatives. The big-tobacco stocks have been good growth stories and dividend payers for many years, but there are some new entrants now, and that genie is out of the bottle.

"The movement of software to the cloud, software-as-a-service, continues to be a very strong trend. Some of the companies that are speculative growth stories are now the clear category killers and have become mega-cap stocks with operating leverage and real cash flow.

"Chinese internet giants, and the dynamics of that market, where arguably their bigger franchises are more dominant than Google and Facebook, makes that an interesting place to look for opportunities."

Gerald Sparrow, lead manager of the Sparrow Growth Fund (SGFFX)

St. Louis Business Journal

Gerald Sparrow is the sole portfolio manager of the $20 million Sparrow Growth Fund.

Although he is personally responsible for stock selections, he consults weekly with a mastermind group that consists of a technology fund manager and an eye surgeon, who has his finger on the pulse of the healthcare industry.

Sparrow's process involves using conditional probability to create a one-year expected value for up to 10,000 stocks initially. His model includes metrics in each company's income statements and balance sheets to filter that massive universe of companies down to the 1% that have the most attractive growth prospects.

1-year return: 18.38%

Biggest holdings (as of 9/30): Amazon (3.6%), Netflix (3.2%), Tabula Rasa HealthCare (2.9%), PayPal (2.3%), Square (1.9%)

What worked in 2018:

"One of the red flags we avoid is growth by acquisitions. If a company doubles its size but it's because they combined with another business, that would be a red flag for us. We prefer unit volume."

What's ahead in 2019:

"My outlook is positive for next year, but there's no big ideas. We let our conditional probability lead us to where we invest. We don't really make forecasts for the market.

"If growth rates are similar, we would probably select the lower P/E [technology] stock. But we let the driver mostly be growth rates."

Joe Hudepohl, principal portfolio manager of the Eaton Vance-Atlanta Capital Focused Growth Fund (EAALX)

Atlanta Capital

Market volatility has been kind to Joe Hudepohl, a managing director and principal portfolio manager of growth equity at Atlanta Capital, an independent subsidiary of investment giant Eaton Vance.

That's because the Eaton Vance-Atlanta Capital Focused Growth Fund that he runs is built to thrive when the going gets tough. Specifically, Hudepohl and his colleagues are looking for businesses with strong 5- to 10-year growth prospects that also feature formidable competitive moats. Based on their methodology, quality rises above all else.

"That high-quality focus tends to do well in choppy and down markets," Hudepohl told Business Insider. "Our whole belief throughout a full cycle involves participating in up markets — although we're not necessarily going to be the high-flying fund — and also outperforms during tough periods like we've seen recently."

Also worth noting is the lack of FANG exposure in Hudepohl's portfolio (Alphabet is the only stock represented). He says the folks at Atlanta Capital are wary of the valuations held by the other FANG stocks, as well as their inconsistent profitability.

1-year return: 17.46% (EAALX)

Biggest holdings (as of 9/30): Visa (8.2%), Alphabet (7.6%), Thermo Fisher Scientific (6.4%), Microsoft (5.8%), Danaher (5.4%)

What worked in 2018:

"Visa and Mastercard have been two of our best performers. They're riding that secular tailwind in the movement from cash to credit payment. When you think about developing countries like India and Brazil, there's a huge opportunity for Visa and Mastercard as payments grow.

"Then the business itself offers consistent growth and stability of earnings. They're in that 10 to 15% revenue growth area very consistently. They're high-return and high-margin businesses.

"One we added 2-3 years ago that's come to life is Zoetis, which does medicine and vaccines for both livestock and pets. We think that's a huge growth area, and offers great stability of earnings in any environment. Whether GDP is slowing or not, you need vaccines and medicines for livestock.

"One we had earlier this year was American Tower. It's probably one of the most consistent businesses out there, because of the long-term growth in the demand for cell service. The only way to do that is to continue hanging more equipment on the existing cell infrastructure."

What's ahead in 2019:

"We do feel the types of businesses we own — high-quality — is the place to be at this point in the market cycle. We're not actively going out and changing our portfolio.

"I don't know if an ultimate downturn is going to come, or if we've already seen the peak, but if you look back and say we're closing in on the longest economic cycle in history, the market is due for a correction at some point. And usually quality does better later in the cycle and into downturns.

"Protecting against a drawdown is really what allows you to compound over time, and through the cycle."

David Fording, portfolio manager of the William Blair Growth Fund (WBGSX)

Fox Business / William Blair

David Fording oversees $267 million as portfolio manager of the William Blair Growth Fund.

He's part of the firm's larger institutional money-management team, which collectively oversees $62.6 billion in assets. Although the other managers don't trade this portfolio, he consults with them on stock selections daily.

The broader US growth team follows an investment philosophy that susses out companies with durable business franchises, meaning those with the potential to compound their earnings growth over long periods.

He also looks for companies that have subscription-based models, since their revenues are less volatile.

1-year return: 17.29%

Biggest holdings (as of 9/30): Microsoft (7.5%), Alphabet (6.8%), Amazon (6.7%), MasterCard (4.2%), UnitedHealth (4%)

What worked in 2018:

"Satya Nadella has proved to be the right guy. It took new, fresh leadership, and someone to kind of kick the organization in the pants, challenge some of the staid culture at Microsoft.

"One that's done well but still has room to run is a company called Ulta Beauty."

What's ahead in 2019:

"After this massive fiscal stimulus that we just saw over the course of the last 12 months, I think it's almost inevitable that earnings growth slows into 2019.

"The market in Q3 overall showed some margin expansion. But the truth is with labor costs rising and certain input costs rising related to energy and freight, many sectors of the economy and many individual companies are not showing operating leverage. Tech is one area that really stands out as having showed really strong operating leverage."

Scott O'Gorman, lead manager of the Dunham Focused Large Cap Growth Fund (DAFGX)

The Ithaka Group

Scott O'Gorman is a portfolio manager at The Ithaka Group, which sub-advises the $82.5 million Dunham Focused Large Cap Growth Fund.

He and two other managers run a concentrated growth portfolio that currently owns 30 stocks. The list is tightly curated for a reason: O'Gorman believes it's better to load up on a small number of high-conviction picks than to buy a wide variety of new stocks.

O'Gorman recognizes that this approach can make for more volatile returns, but says that price swings can be additive if they're in a positive direction. He's confident that enough of his stock selections can be successful enough to put him in the top quartile of money managers.

The fund takes a bottom-up approach to stock selection and looks for key things, such as secular drivers propelling the business, strong business models, competitive advantage, and large and growing total addressable markets.

1-year return: 16.98%

Biggest holdings (as of 9/30): Amazon (7.1%), Visa (6.6%), Salesforce.com (6.6%), Adobe (6%), MasterCard (5.9%)

What worked in 2018:

"Taking out weight, just looking at percentage gains: Veeva Systems, which is a smaller, younger company, Illumina, Ulta Beauty, Amazon, and Adobe.

"We like platforms, marketplaces, and networks, just because the incremental margin on those businesses are super high. For Facebook to add another user, the cost is basically zero.

"For Visa and MasterCard, which are two of our larger holdings, we look at the secular driver of the conversion of cash and check to debit and credit. That's been going on for decades, and it will continue to go on for decades."

What's ahead in 2019:

"The best thing you can do is put yourself in a position to win. And Bill Belichick does that very well every year. He puts the best team on the field and puts himself in a position to make the playoffs every year."
