American Century Investments®

Focused International Growth SMA

Quarterly Commentary

Market Review

Non-U.S. markets, supported by central banks, gained after experiencing significant monthly volatility. In April, stocks reacted positively to earnings reports that exceeded lowered, pessimistic expectations. In May, escalated trade rhetoric and concerns over slowing growth led to a sharp sell-off. In June, markets rebounded as multiples rerated on the hopes of increased central bank stimulus.

Global growth is weakening. Earnings growth is becoming scarce and more narrowly focused and is at risk of decelerating further. In this environment, stock selection is key. Companies exhibiting sustainable growth driven by idiosyncratic or secular growth drivers are outperforming those dependent on cyclical growth.

Key Contributors

Localiza Rent a Car. The stock rallied after the company reported better-than-expected results driven by strong revenue growth and rental margins. Strong results in car and fleet rental offset weak margins in used car sales. We believe these trends will continue as the market remains fragmented, offering opportunity for consolidation.

London Stock Exchange Group. The stock rose on better-than-expected results due to an upside surprise in its clearing business driven by demand for clearing of new security classes. The company also benefited from the increased use of quantitative investment approaches and demand for market data through its Russell division.

Koninklijke DSM. Ahead-of-expectations earnings before interest, tax, depreciation and amortization propelled the stock. A broad portfolio of products in its nutrition division has positioned DSM as a leading solutions provider in the fast-growing ingredients industry. New product innovations continue to drive revenue growth, with six large projects expected to be launched in 2019 and 2020.

InterXion Holding. The data center operator's stock advanced after the company reported better-than-expected results driven by increased cloud computing demand in Europe. We believe there remains a long runway for growth in data center demand as Europe lags the U.S. in utilizing cloud-based services.

Key Detractors

Canada Goose Holdings. Although the company reported solid results, the stock of Canada Goose reacted negatively due to concerns over a large increase in inventory. We believe market analysts misunderstood the reasons for the increase in inventory, and we used the weakness to add to our position.

B&M European Value Retail. Although reported sales exceeded expectations in the weak U.K. retail environment, margins were below expectations, and the stock fell. Performance in Germany also disappointed. Despite the challenges, we believe a runway for growth remains due to the low penetration of discount retail in the U.K.

Goal and Strategy

Invests in companies outside the U.S. demonstrating early and sustainable accelerating growth.

Portfolio Management Team

	Start Date	
Name	Industry	Company
Rajesh Gandhi, CFA	1993	2002
Jim Zhao, CFA	1999	2009

Top 10 Equity Holdings (%)

AIA Group Ltd	4.50
CSL Ltd	3.78
Diageo PLC	3.53
London Stock Exchange Group PLC	3.27
Lonza Group AG	3.14
Novartis AG	3.13
Koninklijke DSM NV	3.09
AstraZeneca PLC	2.99
Alibaba Group Holding Ltd	2.96
Tencent Holdings Ltd	2.72
Total Percent in Top 10 Holdings	**33.11**

As of 6/30/2019

The holdings listed should not be considered recommendations to purchase or sell a particular security. Equity holdings are grouped to include common shares, depository receipts, rights and warrants issued by the same company. Portfolio holdings subject to change.

A Note About Risk

The value and/or returns of a portfolio will fluctuate with market and economic conditions. Different investment styles tend to shift in and out of favor depending upon market and economic conditions, as well as investor sentiment. A portfolio may outperform or underperform other portfolios that employ a different investment style, and the stocks selected by the portfolio manager may not increase in value as predicted. Because this portfolio may, at times, concentrate its investments in a specific area, during such times it may be subject to greater risks and market fluctuations than when the portfolio represents a broader range of securities. Non-U.S. investing involves special risk considerations, including economic and political conditions, inflation rates and currency fluctuations. There is no guarantee that the investment objectives will be met. Dividends and yields represent past performance and there is no guarantee that they will continue to be paid. The information is not intended as a personalized recommendation or fiduciary advice and should not be relied upon for investment, accounting, legal or tax advice.

Lundin Petroleum. The stock weakened in response to volatility in oil prices, which tends to drive short-term performance. Lundin also announced two dry holes, but these were small. The Johan Sverdrup oil field, Lundin's main production growth driver, should come online later this year, driving an acceleration in revenue and earnings growth.

Alibaba Group Holding. The company's strong reported earnings, which were driven by improved customer management and commission revenue growth, exceeded expectations. Nevertheless, the increased negative rhetoric around China trade and tariffs weighed on the stock.

Notable Trades

SAP. We initiated a position in the software company as we expect that SAP's profitability and return on capital profile will inflect up in the next several years. We believe that a new activist shareholder will pressure the management to execute on the margin improvement plan and deploy capital in a more shareholder-friendly manner.

Alcon. We initiated a position in the eye care company, which was spun off by Novartis early in the quarter. We anticipate that its rate of earnings growth will continue to accelerate following significant investment in new product launches in both the vision care and surgical lines of business.

Positioning for the Future

Focus on secular growth and idiosyncratic drivers. We remain focused on our disciplined, bottom-up fundamental process of seeking to identify opportunities with accelerating, sustainable growth. In a tougher environment for earnings growth, we are looking for names that we have conviction will exhibit accelerating, sustainable growth through secular drivers or company-specific drivers rather than growth through exposure to global economic growth.

Information technology holdings supported by secular and structural drivers. We are invested in companies benefiting from secular trends, such as the transition to digital and increasing technology spending to reach customers. Holdings include European data center company InterXion Holding, 3D software platform firm Dassault Systemes and telecommunications equipment provider LM Ericsson, which is benefiting from the rollout of 5G.

Company-specific drivers support health care positioning. Life sciences contract manufacturer Lonza Group is benefiting from new drug pipelines in biotechnology and increased demand for outsourced services. Blood plasma company CSL continues to post strong results. AstraZeneca is experiencing renewed revenue growth due to new product cycles.

Consumer staples positioning supported by product strength. While the portfolio remains underweight relative to the benchmark in consumer staples, the names we own continue to benefit from strong product cycles and demand from emerging markets consumers for prestige brands. Holdings include cosmetics company Shiseido, global wine company Treasury Wine Estates and spirits company Diageo.

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