

## Positive Fundamental Changes

*As growth rates for economies around the world continue to outpace the U.S. economy, Henrik Strabo and his team of analysts follow a disciplined process to uncover small cap companies that are undergoing positive fundamental changes that they believe will lead to long-term earnings growth.*

### How did the fund evolve? What is the investment philosophy?

There are billions of people around the world that are working every day to achieve the same standard of living as countries like the United States. The Rainier International Discovery Fund was founded on the premise that there are enormous opportunities for patient investors to capitalize on this unprecedented growth that we are seeing around the world.

From a philosophical standpoint, we believe that earnings growth drives share price. Since the fund's inception in March of 2012, our goal has therefore been to own world-class companies that are in the sweet-spot of their growth cycle. Our decisions are based on fundamental analysis, which emphasizes bottom-up stock selection. As a result, we do not hold biases towards any specific region, country or sector because we believe that excellent growth opportunities exist across countries and industries that are frequently overlooked.

### What is your investment strategy?

We invest in companies below \$5 billion in market cap located outside of the United States. Currently, the average market cap in our portfolio is approximately \$3 billion. The reason for that is because we believe that companies in this range have the ability to compound their growth faster. Within this universe, our goal is to identify well-managed, innovative companies that are undergoing positive fundamental changes that will lead to consistent long-term earnings growth. Typically, these catalysts have allowed companies in our portfolio to take market share from their competitors by establishing a dominant competitive position either regionally or globally.

### What are the benefits of international investing and why small cap?

From a broad economic standpoint, international investing is attractive because the vast majority of investment opportunities are now outside the United States. When we look at individual economies around the world, many are growing more rapidly than the U.S. Overlay this phenomenon with smaller companies and those opportunities increase even further. However, despite the market's vast size, international small cap stocks typically receive less professional research coverage compared to domestic equities and the asset class can be difficult to access through passive products. We believe these inefficiencies provide tremendous opportunities for investors such as ourselves who specialize in international small cap stocks.



**Henrik Strabo** is Rainier Investment Management's Head of International Investments. In this position, Henrik is responsible for building and managing Rainier's international small cap capabilities.

Prior to joining Rainier in 2011, Henrik was Managing Director of Global Emerging Markets for Rogge Capital. His more than 20 years of previous experience also includes International Chief Investment Officer positions at American Century Investments and Clay Finlay.

While at American Century, Henrik's responsibilities included portfolio management duties for their Discovery Fund and International Growth Fund.

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Historically, international small cap stocks have produced superior risk-adjusted returns compared domestic small cap equities and international large cap equities. Additionally, when compared to domestic small caps, international small cap stocks currently trade at more attractive valuations based on price-to-earnings multiples despite exhibiting stronger growth characteristics. They also act as effective portfolio diversifiers. For example, within emerging markets, smaller companies tend to be more domestically-oriented. This is a very important point because individuals who invest in emerging market funds often unknowingly over-allocate to very mature businesses. Companies like Samsung and Hyundai derive a large portion of their revenue from developed countries but, because they are located in South Korea, they are held in many emerging market allocations.

### **What analytical steps involve your research process in terms of idea generation?**

Our investment ideas are generated from a number of different sources. For example, we have internal screens that we monitor on a daily basis. We also frequently attend industry conferences in order to gain a better understanding of the current key drivers and risks that companies are seeing. Ultimately, the cornerstone of our research process is identifying companies exhibiting positive fundamental changes. Specifically, we seek to understand the company's operations in depth and thus we spend a fair amount of time speaking with company management, suppliers, customers and competitors.

Prior to any meeting with management, we carefully review the company's financial statements, keeping a focus on top-line organic growth. We try to gain an understanding what is driving that top-line growth, the risks associated with it, and leadership's ability to manage top-line growth down to the underlying earnings. During the actual meetings, our goal is to determine if management's assumptions behind their numbers are realistic as well as judge their ability to execute their vision both today and in the future. We want to make sure they have the resources to grow the business over the long-term and have a clear view of the scope of the opportunity. We ultimately invest in companies that are leaders at what they do, are undergoing positive fundamental change, and have demonstrated an ability to keep moving up the value chain.

### **How do you deal with disparate accounting practices globally?**

The accounting differences and practices are not that dissimilar across the board and the information, apart from a couple of countries, tends to be very good. We look at companies in the context of both cross-border and also against their local market. While there are some differences in accounting practices, they are not to the point where you need to frequently recalibrate from one country to another.

### **How do you build your portfolio?**

We typically hold between 80 and 100 stocks in the portfolio. Approximately 80% of our portfolio construction process is driven by bottom-up stock selection, with the largest portfolio weights in our highest conviction ideas. The remainder is spent overlaying checks and balances from the macroeconomic standpoint, particularly within emerging markets and Europe in terms of the individual economies and the political environment. As we have seen recently, the political situation of a region can have a dramatic impact on equity markets.

With regard to our benchmark, we review the index as a part of our risk management process but it does not factor into how we construct the portfolio. As a result, our portfolio will often look significantly different from the index. Still, we diversify the portfolio from both a sector and country perspective.

### **Do you establish any price targets? What is your sell discipline?**

We do not set specific price targets. We have a good idea of what the businesses in our portfolio are worth but we also know that these valuations are moving targets because the underlying businesses tend to get better over time.

We typically will sell a security for one of three of reasons. First, if the original investment case that got us involved in the stock starts to deteriorate. Our belief is that if the long-term fundamentals are starting to look more negative than we initially expected then we need to reevaluate our position. Second, we will sell if we see a better investment opportunity among existing positions or a more attractive alternative in our research pipeline. Third, stocks that are hurting us from a performance standpoint are constantly reexamined to determine if they should be removed from the portfolio. Since our portfolio is weighted based on our highest conviction ideas, we expect many of the larger positions to stay in the portfolio for a very long time.

### **What is your definition of growth?**


One of our core principals at Rainier is that growth should always be examined in the context of price. Valuation is critically important when looking at stocks. So when we define growth, we do not have a set formula such as a certain price-to-growth ratio because every company is different, particularly in the small cap area. Instead, we look at each company in terms of, "what are we willing to pay for this business?" We are willing to pay more for a company where we have a high level of confidence that the earnings growth is sustainable and somewhat open-ended.

### **How do you react to unexpected situations?**

This is an area where experience really matters because these are judgment calls that we have to make. For example, if a great company starts to stumble we will debate if this is

a short-term correction or if we think there is a high probability this could be the beginning of a longer-term deterioration. Companies need to constantly fight to be in our portfolio and if there is a better alternative, we will make changes accordingly.

### How do you define risk? How do you measure it and contain it?

We manage portfolio risk by implementing a consistent investment process that leads us to invest in great companies, diversify the portfolio and adhere to a strict sell discipline. As we mentioned before, we are extremely critical of each position in our portfolio. Every week our team reviews the entire portfolio stock-by-stock to determine if each investment thesis is still intact or determine if better alternatives are available. Additionally, we monitor the portfolio on a daily basis for risk events such as political, currency and commodity risk. 

## Rainier International Discovery Fund

Symbol	A Shares-RISAX I Shares-RAIIX
Website	<a href="http://www.rainierfunds.com">www.rainierfunds.com</a>
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Source: Company Documents

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*The fund's investment objectives, risk, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contain this and other important information about the investment company, and may be obtained by calling 800-280-6111 or by visiting [www.rainierfunds.com](http://www.rainierfunds.com). Please read carefully before investing.*

**Mutual fund investing involves risk. Principal loss is possible. The Rainier International Discovery Fund will invest in foreign securities and emerging market countries which involves greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. Investments in REIT securities involve risks such as declines in the value of real estate and increased susceptibility to adverse economic regulatory expenses. The Fund invests in small and mid cap companies, which involve additional risks such as limited liquidity and greater volatility. The Fund will invest in derivatives which may be more volatile than investments directly in the underlying securities, involve additional costs and may involve a small initial investment relative to the risk assumed.**

**Diversification does not assure a profit or protect against loss in a declining market.**

The Price to Earnings Growth (P/E) Ratio reflects the multiple of earnings at which a stock sells.

As of Dec. 31, 2012 the top ten holdings for the Rainier International Discovery Fund were Aberdeen Asset Management PLC (2.9%), Wirecard AG (2.7%), Babcock International Group PLC (2.6%), Eurofins Scientific SE (2.4%), Gemalto N.V. (2.3%), Elektra AB (2.2%), Coloplast A/S (2.2%), Techtronic Industries Co. (2.2%), Ashtead Group PLC (2.1%), and Char. Hansen Holding A/S (1.8%). Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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Updated top ten holdings as of September 30, 2013 the for the Rainier International Discovery Fund were Wirecard AG (3.2%), Babcock International Group PLC (3.0%), Eurofins Scientific SE (2.8%), Kakaku.com Inc. (2.6%), Start Today Co. Ltd. (2.3%), Dollarama Inc. (2.2%), Banca Generali S.p.A. (2.2%), United Internet AG (2.2%), Pigeon Corp. (2.2%), and Kanamoto Co. Ltd. (2.0%). Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Current and future holdings are subject to risk.