Finding the World's Innovative Companies

SPOTTING AN INNOVATOR

Originally incorporated under the name **Cadabra**, the company began selling books online in 1995. Within months, it was selling books in all 50 states and in 45 countries. Unlike conventional brick-and-mortar booksellers that maintained inventories of up to 200,000 titles, its inventory was several times larger and growing. Though it wouldn't turn a profit for years, the company quickly attracted the attention—and wrath—of conventional competitors.

In less than 20 years, the company expanded its offerings into a broad array of consumer and retail goods, digital content and computer services. It created a platform enabling small retailers to use its services. And it built a high-tech warehouse and distribution system to satisfy customer demand for rapid fulfillment.

The company's impact on conventional retailing has been nothing short of staggering, even delivering a knockout blow to a major bookstore chain, which failed to adapt to an increasingly digital world. The concept of "creative destruction" could not have a better modern-day example than **Amazon.com**.

SCHUMPETER'S GALE

Innovation is the force that sustains economic growth, according to economist Joseph Schumpeter. In his 1943 book *Capitalism, Socialism and Democracy*, Schumpeter developed and popularized the concept of "**creative destruction**," the process through which existing economic order is disrupted to clear the way for future growth.

"The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates," Schumpeter wrote. "This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in."

Innovation is like a persistent, gale-force wind, according to Schumpeter's view. Companies will either harness it in a positive way or ultimately be destroyed by it. Innovative companies are important benefactors for society. They provide the foundation for improving our standard of living.

While Schumpeter hailed innovation as a defining feature of capitalism, we prefer to see innovation as the advantage that entrepreneurs have over "organization men." Innovations seldom result from a grand compromise among experts. Compromises tend toward the safe and familiar, and the "experts" usually think they know best. Innovations, however, are more likely to flow from small changes made by those who are deeply immersed in an actual process. Innovations result from tens, possibly hundreds or even thousands of tiny adjustments.

The Japanese word ***kaizen*** embodies the innovator's philosophy of setting and achieving ever-higher standards—even if the current operation is not broken. In business, kaizen refers to a process of gradual and unending improvement. This process is exemplified by the transformation of Japanese industry to *flexible manufacturing* in which workers and managers can quickly adapt to changing customer needs and market conditions.

MISSION OF THE WORLD INNOVATORS FUND

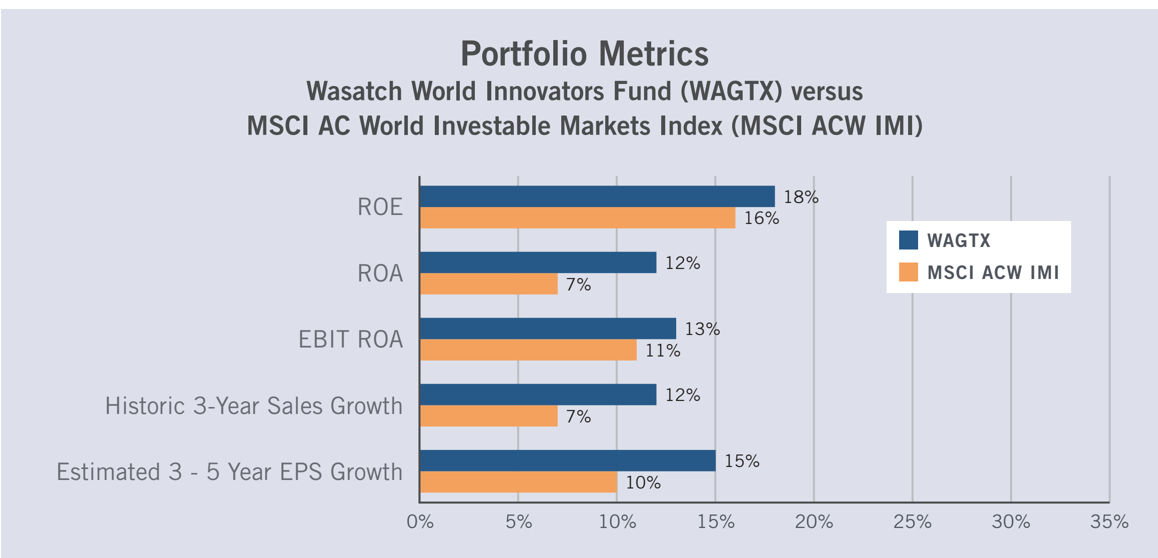
We believe many innovative companies are especially well-positioned for rapid market-share gains and earnings growth. The **Wasatch World Innovators Fund (WAGTX)** buys innovative companies in an effort to harness the attractive stock-market returns that are often generated by these companies. The Fund seeks to provide long-term capital growth by investing primarily in companies around the globe that we believe are innovators in their respective sectors or industries. The focus on dynamic, innovative companies often leads to large portfolio weightings in information technology and health care. But we also find innovative companies in other sectors, including consumer goods and services, financials and industrials.

The Fund is managed by Josh Stewart and Sam Stewart. Josh became the Lead Portfolio Manager for the Fund in 2016, having co-managed the Fund with Sam since 2012. Josh, who worked at Wasatch in the 1990s, rejoined the firm in 2006 as an analyst on the international research team focused primarily on the health-care and information-technology sectors. Sam, the Founder and Chairman of Wasatch Advisors, President of Wasatch Funds and Lead Portfolio Manager for the Wasatch Strategic Income Fund, has been a Portfolio Manager for the World Innovators Fund since 2008.

BETTER, FASTER, CHEAPER

One of the hallmarks of innovative companies is that they tend to gain market share because they're constantly seeking ways to manage their businesses more efficiently. "Better, faster, cheaper" is their mantra. True to the kaizen philosophy, innovative companies examine their processes from top to bottom. Inventories, production, marketing and administration are just some of the areas in which innovation may improve a company's top-line and bottom-line results. For example, innovative human-resources management can enhance productivity and lower payroll expenses. Reduced production costs can drive earnings higher, or may be used to cut prices and gain market share. Smoother, more-efficient internal operations can produce a more-pleasurable customer experience, increase sales and result in better customer retention.

In a competitive environment, innovation is a necessity rather than a luxury. Successful innovators create a virtuous circle as they take market share, grow cash flows, and use that cash to reinvest in their businesses. Entrenched legacy competitors may find themselves suddenly ceding ground to innovators in the race for competitive advantage.



Sources: FactSet, Russell and Wasatch Advisors, as of March 31, 2016. Past performance is not indicative of future results. Portfolio metrics are subject to change.

WHY INNOVATIVE COMPANIES DO WELL IN THE STOCK MARKET

Innovative companies are disruptive. They change the way things are done, the way products are sold, the way we live our lives. They change perceptions. If consumers come to prefer the new, the innovator will acquire market share at the expense of the old. We believe there are five main reasons why innovative companies perform well and reward their shareholders over time.

First, market-share gains imply revenue growth. The more enthusiastically customers react, the greater the revenues will be. Second, revenue growth often leads to margin growth due to economies of scale. Third, disproportionately high earnings-per-share (EPS) growth is generally the result of rising revenues and margins. Fourth, in the long run, we believe EPS growth drives stock prices. Fifth, price-to-earnings (P/E) ratios often expand as the market becomes aware of corporate innovations.

EXAMPLES OF INNOVATIVE COMPANIES

Innovation takes many forms. Ask most people to name an innovative company and they'll likely mention one with a new high-tech computer—or Internet-based device or service. With its iPod, iPhone and iPad, **Apple*** is a frequently cited example. And that's fascinating because Apple didn't invent the first MP3 music player, cell phone or tablet computer.

What Apple did do, however, is arguably create the *best* MP3 music player, cell phone and tablet computer. The company's products redefined these categories and raised the bar for competitors. Apple took significant market share as its products' sleek styling, advanced features and highly refined user interfaces generated overwhelming consumer demand.

We consider Apple to be an innovator of the first order. That said, we think innovation is about much more than creating new products. We believe innovative companies can be found in every area of the economy, not just high-technology. In addition to products, companies can innovate through design, distribution, operations and branding.

In managing the World Innovators Fund, we look for companies that are engaged in and benefiting from the process of creative destruction, no matter what form it takes. While Apple is known for its products, Amazon.com's most-significant innovation has been in distribution, where it has permanently changed the way many products are marketed, bought, sold and delivered. Amazon constantly reinvests to improve its distribution system and develop new products such as the Kindle, Echo and Fire TV.

Amazon.com's willingness to reinvest in its business dates back to its early years. When this reinvestment for growth allowed **Amazon** to proclaim itself the "world's largest bookstore" in 1997, Barnes & Noble cried foul and filed suit, complaining that Amazon was nothing more than a book broker, not a *bookstore*. The suit was settled out of court and Amazon maintained its claim. More importantly, it seems that the larger point was lost on Barnes & Noble: It made no difference what you called it; Amazon had forever changed the bookselling business. For that matter, it wouldn't be long before it became clear that Amazon had forever changed sales and distribution for many businesses.

Amazon's example influenced Abcam's business model. While maintaining little inventory of its own, U.K.-based **Abcam** has created a sophisticated online market that matches buyers and sellers of antibodies, proteins and other materials for medical researchers. This market is supported by an offline distribution system, which even enables same-day delivery by bicycle messengers in some locations.

As Abcam demonstrates, not all innovators are as obvious as Apple and Amazon.com. Although much of financial services and banking is viewed as a commodity—e.g., Where can I find the lowest-cost checking account?—there are some companies engaged in meaningful innovation. While the payment systems in developed countries are considered mature, that's hardly the case in emerging-market countries, where much of the population has little or no access to banking services. In these regions, both **MasterCard** and **Visa** are developing electronic-payment systems that will create significant opportunities for commercial use. Though often written off as stodgy behemoths, we think these companies have tremendous potential because most of the transactions in the world are still done with cash. We think MasterCard and Visa will experience significant growth for years to come resulting from movement away from cash and toward electronic transactions.

Two British companies, **Bioventix** and **Gamma Communications**, also deserve attention because they illustrate the benefits of having an active global manager. These two micro-cap companies were discovered in different ways. We were planning a trip to visit businesses in the U.K., and as usual we were scouring our destination for companies with the best quality metrics. For our first round of research, we use a basic computerized scoring

**While Apple is not currently held by the Wasatch World Innovators Fund, it had previously been a longtime position in the Fund.*

screen that just looks at the companies by the numbers and gives the companies quality scores over time. Surprisingly, this tiny firm—Bioventix with only 30 million British pounds in market cap—made the cut.

Bioventix really caught our eye because, although the name sounded very much like a biotech and the company description mentioned antibodies, the financials were night-and-day different. The vast majority of small-cap biotechs don't have steady sales or profits, and about the only financial metrics one can look at are the cash-burn rate and how much cash is left on the balance sheet before the company has a serious problem. Bioventix, on the other hand, had grown sales and profits smoothly for many years. And while total sales of 3.5 million British pounds in 2014 seemed inconsequential, more than half of that revenue made it to the bottom line. Furthermore, Bioventix pays a dividend and the yield was over 5% at the time we discovered the company. (Most biotechs don't pay dividends.)

On the same research trip, one of our brokers suggested we take a look at a recent initial public offering (IPO) in London called Gamma Communications. The company is similar to Skype, selling IP-based communication services—but to organizations rather than to individuals. Although we'd never heard of Gamma, we'd spent time researching similar U.S. companies, namely Vonage, 8x8 and RingCentral. While we'd always liked the businesses—smarter communications at much lower prices than the telco dinosaurs offered—the valuations never gave us enough margin of safety to be seriously considered as investments for the Fund. But Gamma was far and away the market leader in the U.K., and had a P/E in the teens. Since the company was newly listed, it wasn't well-known or understood by most investors.

Both Bioventix and Gamma blew away our expectations when we met their leaders in person. It turns out that Bioventix sells antibodies to diagnostic companies and charges a royalty fee each time a test using one of its antibodies takes place. This creates nice, steady income streams for the company. Moreover, the number of income streams builds over time, as one to two tests using Bioventix antibodies tend to be launched each year. And, to date, none of the old tests has ever been replaced and shuttered. Our favorite part of our meeting with CEO Peter Harrison was when we asked him about his growth and hiring plans. As a large shareholder himself, he said he was happy with the 11 people in the company's lab and

Wasatch World Innovators Fund
Top 10 Holdings
As of March 31, 2016

Holding	Sector	Country	% of Net Assets
Majestic Wine plc	Consumer Staples	United Kingdom	3.9%
Photo-Me International plc	Consumer Discretionary	United Kingdom	3.9%
DiaSorin S.p.A.	Health Care	Italy	3.4%
Take-Two Interactive Software, Inc.	Information Technology	United States	3.3%
Mekonomen AB	Consumer Discretionary	Sweden	3.2%
Gamma Communications plc	Telecommunication Services	United Kingdom	2.8%
Advanced Medical Solutions Group plc	Health Care	United Kingdom	2.8%
Avon Rubber plc	Industrials	United Kingdom	2.7%
Fenix Outdoor International AG	Consumer Discretionary	Sweden	2.4%
Abcam plc	Health Care	United Kingdom	2.1%
		Total	**30.5%**

Portfolio holdings are subject to change at any time. References to specific securities should not be construed as recommendations by the Fund or its Advisor. Current and future holdings are subject to risk.

didn't want to do anything that would risk disrupting the chemistry at Bioventix. It was this last bit of conservatism that convinced us that, despite the market cap being smaller than anything else in the Fund, Bioventix would be an ideal investment.

Gamma Communications is run by Bob Falconer, who has the perfect pedigree to disrupt the huge, stodgy telecom/datacom industry. He was a vice president at Global Crossing during the dot-com bubble, which was a terrible experience as he describes it. However, he now knows the competition inside and out. He spent a large part of the last decade piecing together underpriced assets that were being shed by telcos at fire-sale prices—all while maintaining a key differentiator, Gamma's "Policy of One."

Big telco competitors like BT Group and Vodafone Group are actually "Frankenstein" companies built via acquisition. The companies constantly suffer from slow speed to market and service challenges because their people, equipment and software have never been integrated under one umbrella. Gamma, on the other hand, developed all its software in-house. And while there have been acquisitions to obtain infrastructure (fiber, servers, switches, etc.), the services that run on top of the network are all internally developed. Gamma is extremely agile compared to its competitors and looks like it will be gobbling up market share with no end in sight for decades.

Innovation can also be found in the way products are manufactured. A classic example is the introduction of the Model T in 1908. Henry Ford didn't invent the automobile, but he did create the moving assembly line. As he refined the process, the car's price dropped from $825 to $575 four years later. Assembly time was slashed from more than 12 hours to less than six. By 1914, Ford had a 48% market share. Henry Ford had achieved his goal to produce a car at a price that his own workers could afford. The moving assembly line had transformed a product for the wealthy into a mass-market vehicle within the reach of many ordinary Americans.

PROCESS OF FINDING INNOVATIVE COMPANIES

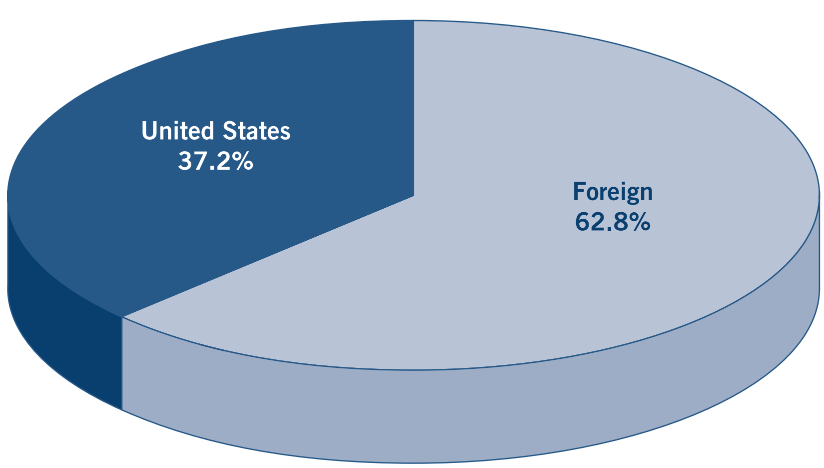
Determining which companies are innovative is more of an art than a science. For the Wasatch World Innovators Fund, we often start our search with a bottom-up process of fundamental analysis similar to that used for other Wasatch funds. We typically screen financial databases for companies that we think are high-quality and have the potential to grow earnings for long periods of time.

In these screens, we usually look for:

- Market-share gains and revenue growth
- Margin growth due to economies of scale
- Rising return-on-assets (ROA) trends, which may indicate attractive operating leverage
- High ROA levels versus peers
- Improving cash flows
- Positive inflections in income-statement and balance-sheet metrics

While such screens will often reveal interesting companies, finding true innovators requires more effort. We also employ deep due diligence because screens alone

Wasatch World Innovators Fund Country Weights



Source: Wasatch Funds, as of March 31, 2016.

Foreign Country	% of Net Assets
United Kingdom	29.0%
Sweden	7.3%
Japan	7.1%
Italy	5.1%
Switzerland	2.7%
Belgium	2.2%
Israel	1.6%
Austria	1.5%
Brazil	1.4%
Taiwan	1.0%
China	0.9%
Denmark	0.6%
France	0.5%
Germany	0.5%
Greece	0.5%
Norway	0.5%
Canada	0.2%
South Africa	0.2%

will not detect company management teams that embrace the kaizen philosophy of setting and achieving ever-higher standards.

The reason we focus on market share is that when a company is able to rapidly take share away from competitors—preferably in good times and bad, as Amazon.com did with bookstores—it's a strong indicator that the company is doing something innovative. The key, though, is to ensure that the company and the market potential match up well. At the time, Amazon was a small company and the market for books was large enough to give Amazon ample room to grow. If the market had been small, it wouldn't have mattered how much share Amazon took; it would not have provided enough room for growth.

We also try to identify innovators by looking for companies with large research and development (R&D) budgets. This can be tricky, however, because innovation is different from invention. The hallmark of invention is discovering something new. Inventions often result in the issuing of patents as a means of certifying that the discovery is indeed original.

In contrast, innovation often has more to do with the unique application of existing ideas. Take Apple, for example, which many regard as the poster child for innovation. Although the company's R&D budget is large on an absolute basis, the budget is small as a percentage of gross profit compared to that of a tech company such as Intel. Apple's R&D expenses amount to approximately 5% of gross profit, while Intel's amount to roughly 30% of gross profit.

Before investing, we also build earnings models to analyze a company's key growth drivers. Models enable us to create projections of a company's potential earnings growth and what we believe to be a fair price for the stock. We look closely at a company's valuation—e.g., price to earnings (P/E), enterprise value to EBITDA, price to book value, etc.—to assess the potential return and the risk/reward trade-off of each stock.

One metric we've paid special attention to over the years is the P/E to growth rate, also known as the PEG ratio. For example, if a company's P/E ratio were 20 and its annualized earnings growth rate were 25%, the PEG ratio would be 0.8 (20 divided by 25). While there's no magic number that constitutes an attractive PEG ratio, we find it to be a useful metric to compare companies in similar industries and to remind us to always look at a company's valuation relative to its growth rate.

Ultimately, there's no substitute for doing the deep due diligence that is a hallmark of the Wasatch investment process. This includes ongoing investigative calls and frequent travel for on-site, face-to-face meetings. We study each company, its management, competitors, customers and its industry. We also consult with the other Wasatch portfolio managers and analysts to leverage the knowledge and perspective of our investment team. Perhaps the most-important aspect of our research process boils down to, "What do we know that others don't?"

iRobot, best known for its Roomba line of vacuum-cleaning robots, is an example of an innovative company that we believe many investors have underappreciated. The company has expanded its home-cleaning products to include floor-washing, surface-cleaning and pool-cleaning robots. It also has lines of industrial and police/military robots, all of which result in sufficient cash flow to give us confidence in the company's ability to sustain profitability and invest in the robotic products of the future. What makes iRobot an attractive investment, in our view, is the potential for significant growth as the company adds new applications and as consumer acceptance increases from a relatively small base.

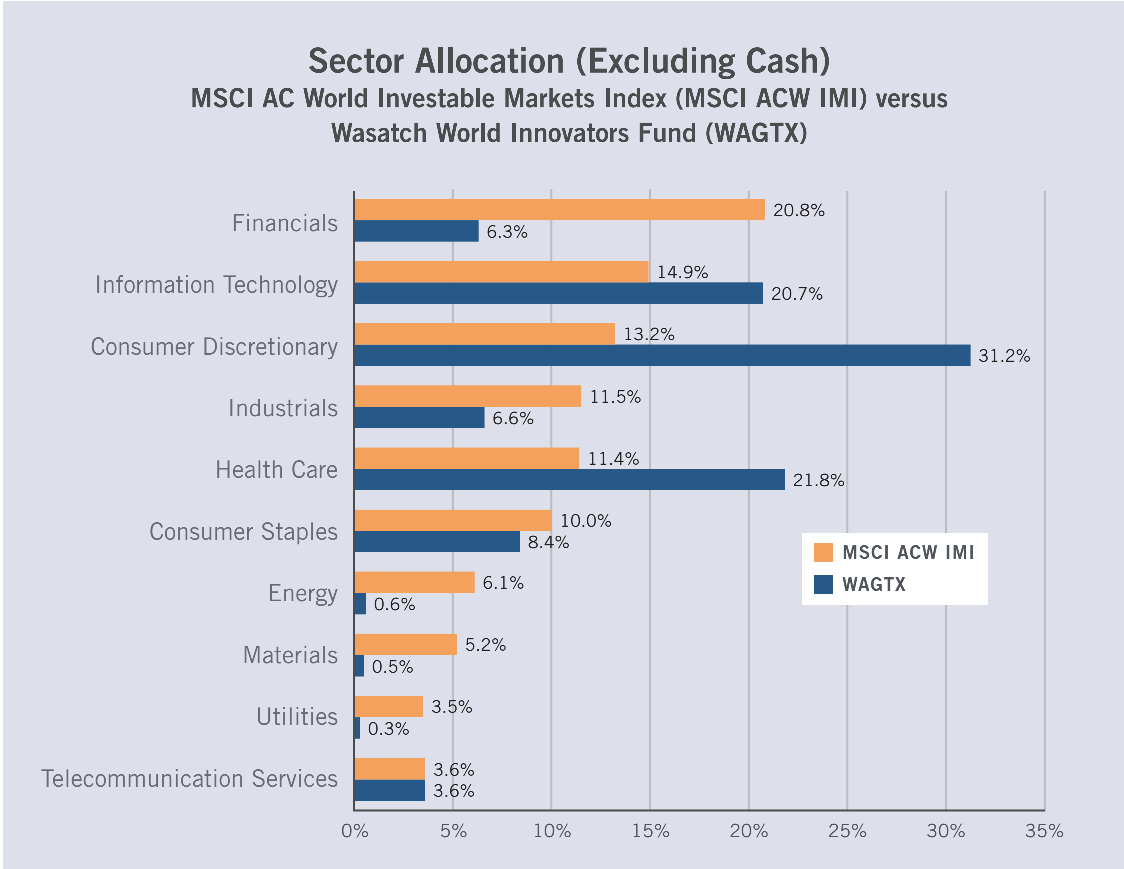
HOW WE CONSTRUCT THE PORTFOLIO

In building the Fund's portfolio, we attempt to balance many factors, including company size, sector, industry, geography, risk and correlations with the price movements of other securities. We believe that diversification of these factors will lead to attractive returns over time with less volatility. For example, we've often found that stocks in the financials sector have low or negative correlations with stocks in the information-technology sector. If we're able to select stocks in both sectors that perform well over time, the correlation characteristics of these stocks should enhance the Fund's risk-adjusted performance.

Traditionally, we've looked at each company's likelihood of success and its potential payoff. Usually there's a give-and-take between the two. So we try to find those companies with a higher-than-average likelihood of success and an average payoff, or those companies with an average likelihood of success and an above-average payoff.

Valuation is a key component of payoff. When high-likelihood companies have lower valuations, their potential payoffs will be greater than normal, which tends to favor large-cap companies. As the relative valuations of large caps rise, the reverse will generally be true, favoring smaller companies that—due to their size—have the potential to grow more quickly (if we properly recognize the truly innovative companies).

Currently, we're finding more attractive investment opportunities among large- and mid-cap stocks than we normally find. For example, we think some big and medium-size technology companies are relatively inexpensive.



Sources: Wasatch Funds and FactSet, as of March 31, 2016. Current and future holdings are subject to risk and may change at any time.

CROSS-TEAM COLLABORATION

A key element of our approach is cross-team collaboration. In our search for high-quality, innovative growth companies, the World Innovators Fund has the entire Wasatch research team behind it. With so much investment research going on across the firm, it's not unusual for an analyst to come across an interesting company that doesn't fit the specific style of his or her portfolio. Our *Multiple Eyes®* approach makes it easy for that analyst to pass such an investment idea on to colleagues for appropriate consideration.

ABOUT THE PORTFOLIO MANAGERS

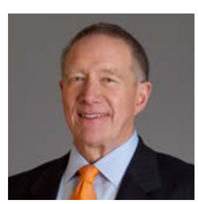
Josh Stewart
Lead Portfolio
Manager

Josh Stewart became the Lead Portfolio Manager for the Wasatch World Innovators Fund in 2016, having been a Portfolio Manager on the Fund since 2012. He joined Wasatch Advisors in 2006 as a Senior Equities Analyst on the international research team.

Starting in 2003, Mr. Stewart was a sell-side equity research analyst focused on health-care services with Sidoti & Company in New York. From 2002 to 2003, he was an English language professor at Xiamen University and Dadi Schools in Xiamen, China.

Mr. Stewart graduated cum laude from the University of Utah with a Bachelor of Arts in French Literature and a Minor in Mathematics. He also studied French at L'Institut de Touraine in Tours, France, and Spanish at El Centro Bilingue in Cuernavaca, Mexico.

Josh has extensive experience living and traveling abroad. He speaks fluent French, passable Spanish and very basic Mandarin Chinese.



Sam Stewart, CFA
Founder and
Chairman of
Wasatch Advisors
Portfolio Manager

Sam Stewart founded Wasatch Advisors in 1975. He serves as Chairman of the Board of Wasatch Advisors. He has been the Lead Portfolio Manager for the Wasatch Strategic Income Fund since its inception in 2006, and a Portfolio Manager for the Wasatch World Innovators Fund since 2008.

Prior to founding Wasatch Advisors, Dr. Stewart was chief financial analyst with the U.S. Securities and Exchange Commission in the Division of Investment Management Regulation. He was also a professor of

Finance at Columbia University's Graduate School of Business and at the University of Utah.

Dr. Stewart received a Master of Business Administration in 1969 and a Doctorate in Finance in 1970 from Stanford University, where he held the Alfred P. Sloan, Jr. Fellowship. Earlier, he attended Northwestern University as an Austin Scholar and graduated with a Bachelor of Science in Business Administration in 1966. He is also a CFA charterholder.

Dr. Stewart is a member and past president of the Salt Lake City Society of Financial Analysts. He has served as a corporate forecasting project director for the Financial Analysts Federation and has written scores of papers for professional and academic journals.

Sam is a Utah native who loves to travel the globe or to get dirty working on his family ranch in central Utah. He stays fit by running and playing basketball, and he is an avid Utah Jazz basketball fan.

ABOUT WASATCH ADVISORS®

Wasatch Advisors is the investment manager to Wasatch Funds,® a family of no-load mutual funds, as well as to separately managed institutional and individual portfolios. Wasatch Advisors pursues a disciplined approach to investing, focused on bottom-up, fundamental analysis to develop a deep understanding of the investment potential of individual companies. In making investment decisions, the portfolio managers employ a uniquely collaborative process to leverage the knowledge and skill of the entire Wasatch Advisors research team.

Wasatch Advisors is an employee-owned investment advisor founded in 1975 and headquartered in Salt Lake City, Utah. The firm had $15.9 billion in assets under management as of March 31, 2016. Wasatch Advisors, Inc. is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

RISKS AND DISCLOSURES

Investing in concentrated funds will be more volatile and loss of principal could be greater than investing in more diversified funds. Investing in foreign securities, especially in emerging markets, entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus.

An investor should consider investment objectives, risks, charges, and expenses carefully before investing. To obtain a prospectus, containing this and other information, visit www.WasatchFunds.com or call 800.551.1700. Please read it carefully before investing.

Information in this document regarding market or economic trends or the factors influencing historical or future performance reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose. ***Past performance is no guarantee of future results, and there is no guarantee that the market forecasts discussed will be realized.***

The investment objective of the Wasatch World Innovators Fund is long-term growth of capital.

As of March 31, 2016, the Wasatch World Innovators Fund held the following percentages of its net assets in the following companies that were mentioned in this document: 2.2% in Abcam plc, 1.6% in Amazon.com, Inc., 1.4% in Bioventix plc, 2.9% in Gamma Communications plc, 2.0% in iRobot Corp., 0.2% in MasterCard, Inc., and 0.5% in Visa, Inc. As of March 31, 2016, the Wasatch World Innovators Fund was not invested in Apple, Inc., Barnes & Noble, Inc., Ford Motor Co., Intel Corp. or Netflix, Inc.

Portfolio holdings are subject to change at any time. References to specific securities should not be construed as recommendations by the Funds or their Advisor. Current and future holdings are subject to risk.

ALPS Distributors, Inc. is not affiliated with Wasatch Advisors.

Wasatch Contacts

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Institutional Investors: 801.983.4119 • Retirement Plan Solutions: 801.415.5524

DEFINITIONS

Correlation, *in the financial world, is a statistical measure of how asset classes, securities, markets, or countries move in relation to each other.*

Dividend yield *is a company's annual dividend payments divided by its market capitalization, or the dividend per share divided by the price per share. For example, a company whose stock sells for $30 per share that pays an annual dividend of $3 per share has a dividend yield of 10%.*

Earnings growth *is a measure of growth in a company's net income over a specific period, often one year.*

Earnings-per-share *or EPS is the portion of a company's profit allocated to each outstanding share of common stock. EPS growth rates help investors identify companies that are increasing or decreasing in profitability.*

EBIT *(earnings before interest and taxes) is a measure of a firm's profit that includes all expenses except interest and income tax expenses. It is the difference between operating revenues and operating expenses. EBIT is also called "operating earnings," "operating profit," or "operating income."* **EBIT ROA** *is the ratio of EBIT to the total capital invested in operating assets.*

Enterprise value *(EV) is a measure of a company's value calculated as market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents. The* **EV (enterprise value)-to-EBITDA (earnings before interest, taxes, depreciation and amortization) ratio** *is enterprise value, as defined above, divided by annual EBITDA.*

*Benjamin Graham and David Dodd coined the term "***margin of safety***," which is the difference between the intrinsic value of a stock and its market price.*

Multiple Eyes *is a Wasatch term used to describe the firm's collaborative culture and research process.*

Operating leverage *is the percentage of fixed costs in a company's cost structure. Generally, the higher the operating leverage the more the company's income is affected by fluctuation in sales volume.*

The **price-to-book ratio** *is used to compare a company's book value to its current market price.*

The **price-to-earnings** *or* **P/E ratio** *is the price of a stock divided by its earnings per share.*

The **price-to-sales ratio** *is a stock's capitalization divided by the company's sales over the trailing 12 months. The value is the same whether the calculation is done for the whole company or on a per-share basis.*

Return on assets *(ROA) measures a company's profitability by showing how many dollars of earnings a company derives from each dollar of assets it controls.*

Return on equity *(ROE) measures a company's efficiency at generating profits from shareholders' equity.*

Valuation *is the process of determining the current worth of an asset or company.*

The **MSCI All Country World Investable Market Index** *is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of large, mid, and small cap companies across developed and emerging markets throughout the world. You cannot invest directly in this or any index.*