

MUTUAL FUNDS

Oppenheimer Funds Standout Wins with Diversified Portfolio

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INVESTOR'S BUSINESS DAILY

The \$1.3 billion¹ **Oppenheimer Discovery Mid Cap Growth Fund (OEGAX)** is outperforming many peers industrywide this year. It's also a standout among nonsector U.S. equity stablemates in the Oppenheimer funds group. And it's doing that with a strategically diversified portfolio.

Rather than relying heavily on a familiar cast of technology names, the Fund's top 10 includes real estate data provider **CoStar Group (CSGP)**, car auctioneer **Copart (CPRT)** and veterinary equipment provider **Idexx Laboratories (IDXX)**, as of June 30, according to data from IBD sister company William O'Neil. Top new buys include security software provider **Palo Alto Networks (PANW)** and payments processor **WEX (WEX)**.

A strategically diversified portfolio is a key tool for this member of the Oppenheimer funds family – which is officially known OppenheimerFunds. “We focus on identifying the leading growth companies in our market cap range, and identifying those that we have the highest conviction in (regarding) their growth prospects in the short term as well as long run,” said lead manager Ron Zibelli.² His co-manager is Justin Livengood.³

“We have a keen eye for controlling risk. And to put the tremendous power of compound growth to work for our shareholders, we invest across a range of economic sectors,” Zibelli added.

The approach has worked. The Fund's 10.93% year-to-date gain going into Thursday topped the S&P 500's 8.07% and the 10.39% average of its midcap growth peers tracked by Morningstar Inc.

That makes Discovery Mid Cap Growth third best among U.S. diversified Oppenheimer funds this year. It is second best over the past year in that group of Oppenheimer funds.

Zibelli says stock picking is as crucial

as having a strategically diversified portfolio. The Fund keeps each of its sector's weightings within 500 basis points of weighting in its benchmark, the Russell Midcap Growth Index. About 67% of the entire portfolio is in technology, health care and consumer discretionary stocks, Zibelli says.

But he added, “Where we add value is in the individual securities we've selected. Each of our top 10 stocks has earned its position through successful

growth which has been rewarded in the stock market.”

Oppenheimer Funds: Benefits of a Diversified Portfolio

Take CoStar, for example. “They've established themselves as the dominant provider of real estate data services,” Zibelli said. “They've built a tremendous database of commercial properties across the U.S. and internationally, continuously updated.”

Oppenheimer Discovery Mid Cap Growth A



Ron Zibelli **Justin Livengood**

- Max. front load: 5.75%
- Expenses: 1.13%
- Symbol: OEGAX

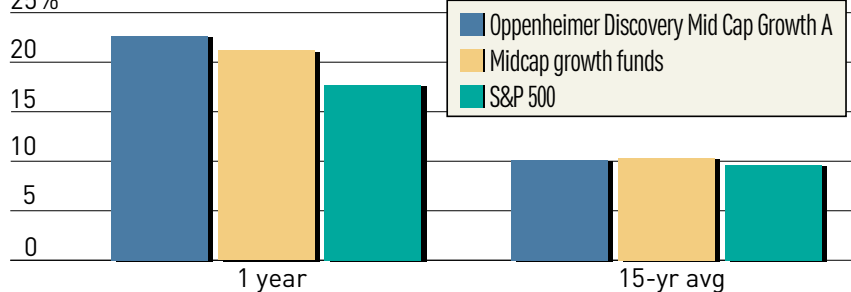
Total returns as of 8/8/18

2017: 27.98%	3-yr. avg.: 11.42%
YTD: 10.93%	5-yr. avg.: 12.66%
	10-yr. avg.: 9.84%

Sector weightings as of 6/30/18

	% of stock assets	% of S&P 500
Cyclical	34.02%	
Basic materials	2.36	2.42%
Consumer cyclical	18.22	11.77
Financial services	10.85	16.37
Real estate	2.59	2.28
Economically sensitive	46.05	
Communication services	0.55	3.25
Energy	2.25	6.23
Industrials	19.64	10.49
Technology	23.61	22.59
Defensive	19.92	
Consumer defensive	4.43	7.31
Health care	15.49	14.39
Utilities	0.00	2.90

25% Total returns as of 8/8/18



Source: Morningstar Inc.

The beauty of their database is that they can sell the same information over and over to multiple end markets, Zibelli says.

"They've also made an aggressive move into residential rental information," he added. The company owns Apartments.com.

"They've completed a period of investment," Zibelli added. "Now they're enjoying growth in their profit margins. They have a goal of 40% EBITDA margins by the end of the year. They're closing in on that. That's better than a year ago."

One reason that Zibelli likes **Copart** is that industry consolidation has left the company with few rivals. "It's a company that operates in an oligopoly structure," he said. "And we love oligarchs. They're the leading auctioneer of vehicles."

Copart auctions vehicles online that have been totaled in a crash. Their inventory has expanded because modern cars are so complex that it's more economical for insurers to sell them than to repair them.

"Copart is expanding from a national to an international service," Zibelli said. "They are the middle man in an expanding market."

Idexx: Veterinary Pure Play

Idexx is a leader in providing testing equipment to veterinarians. Demand has grown as economic growth has enabled more people to own pets and care for them better.

"They've also benefited from innovation, where they continue to introduce new and sophisticated tests for veterinary clinics," Zibelli said.

He added, "It's a classic razor-razor blades business model, where they provide a benchtop testing device, then sell consumables for that tester."

Zibelli's comparison is to the shaving industry, which sells razors for relatively low prices to lock customers into buying an ongoing stream of razor blades, which only fit certain makes of razors.

"Also, Idexx is one of the few pure plays on the veterinary segment," said Zibelli. "And you don't have to worry about reimbursement (disputes with insurers) or FDA (regulations) or other challenges faced by health care stocks."

Diversified Portfolio: Cybersecurity

Cybersecurity leader Palo Alto posted EPS gains of 35%, 37% and 62% the past three quarters.

Industrywide, customers increasingly want their cybersecurity products and services to be integrated, and customers want to use fewer vendors, Zibelli says. Palo Alto caters to that desire. "Their platform uses a firewall, then they supplement that with other security functions," Zibelli said.

"We believe in owning leaders, which tend to garner the lion's share of returns from a given industry," Zibelli added. "And in the last several years Palo Alto

has emerged as a leader in its field. Part of our thesis is that there is an upgrade cycle for them just starting on equipment sold a few years ago. That cycle will be an extra tailwind for Palo Alto going forward."

WEX is a payments-processing management company. Its EPS growth has accelerated for three quarters, having grown 14%, 16%, 47% and 66% in the past four frames.

"WEX is a pure play on the business-to-business payments market," Zibelli said. "That's an area we favor. It's another information services company like CoStar, but in a different market segment."

WEX provides payment services for truck fleets. "They manage the credit card payments that truck drivers use on behalf of fleet owners when they have to fill their diesel tanks," Zibelli said. "WEX manages the whole payments network and the flow of information."

WEX recently announced that it reached an agreement with a unit of Shell Oil Company to issue and operate Shell's fleet cards in the U.S. and Canada.

WEX has been moving into businesses related to fleet management, Zibelli says. "It's a segment we really favor," he said. "As they move into faster growing, higher margin businesses, it lets their valuation increase."



OppenheimerFunds®

The Right Way
to Invest

1. As of 9/30/18, Oppenheimer Discovery Mid Cap Growth Fund had \$1.4 billion in assets under management.
2. Ronald Zibelli, CFA, is the Lead Portfolio Manager of Oppenheimer Discovery Mid Cap Growth Fund.
3. Justin Livengood, CFA, is the Co-Portfolio Manager of Oppenheimer Discovery Mid Cap Growth Fund.

Oppenheimer Discovery Mid Cap Growth Fund (Class A Shares w/o sales charge) Average Annual Total Return as of 9/30/18 (%).

	1-Year	3-Year	5-Year	10-Year	15-Year
Without Sales Charge	22.87%	16.02%	12.51%	11.88%	9.51%
With Sales Charge	15.81	13.75	11.18	11.22	9.08

Annual Expense Ratio: A shares: Gross: 1.13%

The performance data quoted represents past performance, which does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance and expense ratio may be lower or higher than the data quoted. For performance data current to the most recent month-end, visit oppenheimerfunds.com or call 1 800 CALL OPP (225 5677). Fund returns include changes in net asset value with dividends and capital gains reinvested. Class A shares include the 5.75% maximum sales charge where indicated. Returns do not consider capital gains or income taxes on an individual's investment.

Oppenheimer Discovery Mid Cap Growth Fund Top 10 Equity Holdings (as of 9/30/18)

Company	% Weight
WellCare Health Plans, Inc.	2.33
Total System Services, Inc.	2.18
Waste Connections, Inc.	2.03
Global Payments, Inc.	1.97
CoStar Group, Inc.	1.94
TransUnion	1.91
IDEX Corp.	1.71
IDEXX Laboratories, Inc.	1.68
SVB Financial Group	1.64
Align Technology, Inc.	1.63

As of 9/30/18, Oppenheimer Discovery Mid Cap Growth Fund had 1.94% of assets invested in CoStar Group, 1.42% of its assets invested in Copart, Inc., 1.68% of its assets invested in IDEXX Laboratories, Inc., 1.14% of its assets invested in Palo Alto Networks Inc., and 1.11% of its assets invested in WEX. The Fund's investment strategies and focus can change over time. The mention of specific companies does not constitute a recommendation on behalf of the Fund or by OppenheimerFunds, Inc.

The index returns are made up of the returns of (i) the Russell 2500 Growth Index from November 1, 2000 through June 30, 2013, and (ii) the Russell Midcap Growth Index from July 1, 2013 to present. Index performance includes total returns from when first available. The Russell Midcap Growth Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2500 Growth Index measures the performance of the small- to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values. The indices are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of the Fund.

The S&P 500 Index is a capitalization-weighted index of 500 stocks intended to be a representative sample of leading companies in leading industries within the U.S. economy. Index includes reinvestment of dividends but does not include fees, expenses, or taxes. The index is unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of the Fund.

Special Risks: Foreign investments may be volatile and involve additional expenses and special risks, including currency fluctuations, foreign taxes, regulatory and geopolitical risks. Emerging and developing market investments may be especially volatile. Investments in securities of growth companies may be volatile. Mid-sized company stock is typically more volatile than that of larger company stock. It may take a substantial period of time to realize a gain on an investment in a mid-sized company, if any gain is realized at all. Investing significantly in a particular region, industry, sector or issuer may increase volatility and risk. **Past performance does not guarantee future results.**

These views represent the opinions of the Portfolio Manager and are not intended as investment advice or to predict or depict the performance of any investment. These views are subject to change based on subsequent developments.

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