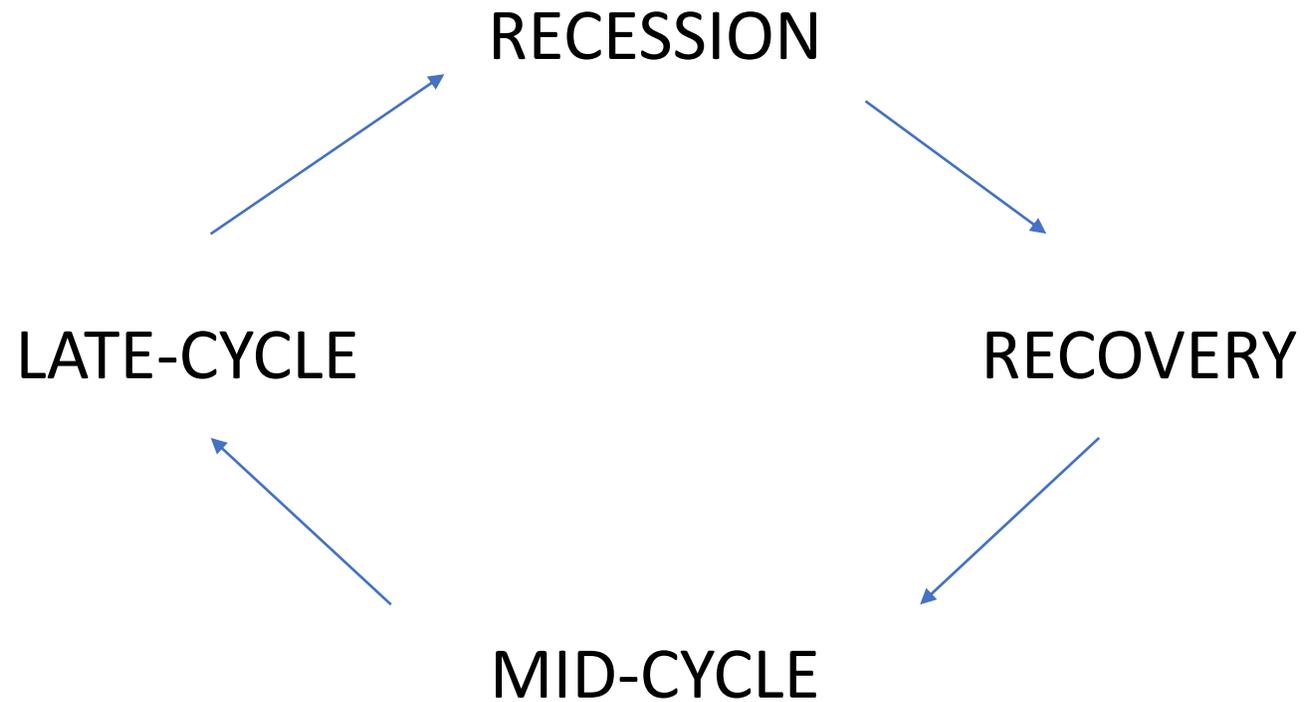


Barron's “Best Mutual Funds”

October 10, 2022 Article

Jim Dann OLLI Investment Forum Presentation on November 2, 2022

Tracking the Business Cycle



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Stocks that
Do Best at
Three Stages
of the Cycle

LATE CYCLE:

Energy, Technology, Basic Materials

Large Companies Outperform

RECESSION:

Consumer Staples, Utilities, Energy

Large Companies Outperform

RECOVERY:

Consumer Cyclical, Technology, Industrials

Small Companies Outperform

A decorative graphic in the bottom right corner consisting of four yellow, thick, curved dashes arranged in an upward-curving arc.

Recession Stocks vs. Recovery Stocks *at/Near Fair Value vs. Bargains*

Benchmark: YTD Total Return S&P 500 = -17.1%

Consumer Staples (VDC) – P&G, Coke, Pepsi = -3.74% (5 yr. 7.06%)

Energy (VDE) – Exxon, Chevron, Conoco = 65.78% (5 yr. 5.59%)

Utilities (VPU) – Next Era, Southern, Duke = -3.88% (5 yr. 7.27%)

Consumer Cyclical (VCR) – Amazon, Tesla, HD = -28.53% (5 yr. 11.81%)

Technology (VGT) – Apple, Microsoft, NVIDIA = -26.64% (5 yr. 16.29%)

Industrials (VIS) – Union Pac., Raytheon, UPS = -11.04% (5 yr. 4.88%)

Market Efficiency -- or Inefficiency?

- Investopedia: “Market efficiency refers to the degree to which market prices reflect all available, relevant information. If the market is efficient, then all information is already incorporated into the prices ... Whether or not the US Stock market is efficient, and to what degree, is a heated topic of debate.”
- If you believe markets are efficient, then index funds are a good bet.
- Hypothesis: Markets are not monolithic, but built of various components. Large caps, small caps. US companies, foreign companies. Everyday companies and companies you never heard of. Some of these components are more “efficient” than others. A major factor – the number of analysts that cover the company. The fewer, the more likely that an experienced stock picker can find a bargain.

Translating Efficiency into the Barron's Article

Barron's: "Active managers in US large cap growth and US large blend had the toughest time beating their peers, with only 6.3% and 11.8%, respectively, pulling off this feat over ten years."

Hypothesis: It's harder for an active manager to beat an efficient market. What would that manager know that so many others wouldn't? Large caps are the most efficient component of the market because they get the most attention from analysts and reporters.

Better Categories for Mutual Funds ...

- Thought: rely more on active managers where the market is less efficient, where they can aggressively act to gain information missed by the routine of analysts.
- What areas are those?
- Examples:
 - Smaller caps.
 - Foreign markets.
 - US Corporate and Municipal bonds.
 - Niche areas.

Barron's Criteria:

“Consistently strong results, beating benchmarks”

“Fees no higher than average”

“Looked at results over 15 years” so as to take note of performance over varying market conditions

“Sought performance track records in top quintile”

Focus on upside/downside capture ratios to show adaptability to both bull and bear markets

Analysis limited to

LARGE GROWTH
FUNDS

LARGE BLEND
FUNDS

SMALL CAP VALUE
FUNDS

INTERNATIONAL
EQUITY FUNDS

INTERMEDIATE
CORE AND CORE-
PLUS BOND FUNDS

Barron's "Best Mutual Funds" Picks

- Large Cap Growth: JP Morgan Large Cap Growth (OLGAX)
Fidelity Growth Discovery (FDSVX)
- Large Blend: T Rowe Price Dividend Growth (PRDGX)
Hartford Dividend and Growth (IHGIX)
- Small Value: Bridgeway Small-Cap Value (BRSVX)
Thrivent Small Cap (AASMIX)

Barron's "Best Mutual Funds" Picks (Cont.)

- Foreign Large Blend:

 - MFS Institutional International Equity (MIEIX)

 - BNY Mellon Worldwide Growth (DPWRX)

- Intermediate Core-Plus Bond:

 - Dodge and Cox Income (DODIX)

 - Carillon Reams Core Bond (SCCIX)

Large Cap Growth Funds (1) :

- **JP Morgan Large Cap Growth (OLGAX)**

15-year annualized return 10.8%, in top 5% of peers (S&P 7.9%)

5.75% Load (waived at Fidelity and likely others); 0.94% Exp.Rat.

Morningstar 5 star Bronze

Experienced team, tracks momentum.

Capture ratios: 110 upside/95 downside (both favorable)

Year to date: -23.01%

Top holdings: Apple, Microsoft, Alphabet

Large Cap Growth Funds (2)

- **Fidelity Growth Discovery (FDSVX)**

15-year annualized return 9.4%, in top 18% of peers

No load. 0.77% Expense ratio.

Morningstar 5 star Bronze

Experienced team, focuses on earnings growth

Capture ratio: 108 upside/94 downside

Year to date: -22.92%

Top holdings: Microsoft, Alphabet, United Health

Large Cap Blend Funds (1):

- **T. Rowe Price Dividend Growth (PRDGX)**

15-year annualized return 8.4%, top 7% of peers (S&P 7.9%)

No Load. Expense ratio 0.62%.

Morningstar 5 star Silver

Veteran manager seeks dividend growers with competitive advantages

Capture ratios: 89 upside/89 downside

Year to date: -11.67%

Top holdings: Microsoft, Apple, United Health

Large Cap Blend Funds (2):

- **Hartford Dividend & Growth (IHGIX)**

10-year annualized return 10.5%, top 10% of peers

5.5% load (waived at Fidelity and likely others); 0.97% Exp.Rat.

Morningstar 5 star Neutral

Experienced manager seeks dividend payers and special situations

Capture ratios: 90 upside, 90 downside

Year to date: -9.54%

Top holdings: Microsoft, Alphabet, United Health

Small Cap Value Funds (1):

- **Bridgeway Small Cap Value (BRSVX)**

15 year annualized return 6.5%, top 27% of peers

No load. 0.92% Expense ratio.

Morningstar 5 star Bronze

Three managers start with factors for size, value, and quality, and add “sentiment,” i.e. momentum

Capture ratios: 112 upside, 79 downside

Year to date: -5.50%

Top holdings: ArcBest, Group 1 Auto, Cross Country Health

Note: small fund, with only \$445 million in assets.

Small Cap Value Funds (2):

- **Thrivent Small Cap Stock (AASM)**

5-year annualized return 8.1%, top 2% of peers

4.50% load (waived at Fidelity and likely others); 1.07% Exp. Ratio

Morningstar 5 star Silver

9-year Manager seeks improving fundamentals and quality management

Capture ratios: 100 upside, 91 downside

Year to date: -9.90%

Top holdings: TTM Technologies, Crane Co., Heartland Financial

International Equity (1):

- **MFS International Equity (MIEIX)**

- 10-year annualized return of 5.5%, top 5% of peers

- No load. 0.69% expense ratio.

- Morningstar 5 Star Gold

- Managers seek companies that can generate and sustain growth

- Capture ratios: 104 upside, 95 downside

- Year-to-date: -22.15%

- Top companies: Nestle, Roche, Schneider Electric

- Note: little exposure to Chinese stocks

International Equity (2):

- **BNY Mellon Worldwide Growth (DPWRX)**

15 year annualized total return 6.9%, top 6% of peers

No load. Expense ratio of 0.88%

Morningstar 5 star Bronze

Managers seek dominant companies in advantaged industries with low debt

Capture ratios: 113 upside, 99 downside

Year to date: -20.02%

Top companies: Microsoft, Apple, Chevron, L'Oreal, LVMH Moet Hennessey

Notes: Global fund (68% in U.S. Stocks). Small fund -- \$783 million.

Intermediate Core and Core Plus Bond Funds (1):

- **Dodge and Cox Income Fund (DODIX)**

15 year annualized total return 3.6%, beating 84% of peers.

No load. Expense ratio 0.41%. SEC Yield 4.23%, TTM Yield 2.5%

Morningstar 5 Star Gold

Relies on fundamental research. Looks for strong free cash flow, stable to improving credits, and prepayment risks.

Capture Ratios: 121 upside, 95 downside

Year to date: -13.83%

Top holdings: Fannie Maes, Treasury Notes and Bonds

Notes: Duration 5.50. Average Credit Rating A+.

Intermediate Core and Core Plus Bond Funds (2):

- **Carillon Reams Core Bond Fund (SCCIX)**

15 year annualized return 3.8%, top 3% of category. TTM yield 2.04%

Class I: No load. Expense ratio 0.40%. \$10,000 minimum investment.

Class A: 3.75% load. Expense ratio 0.80%. \$1,000 minimum investment.

Morningstar 5 star Bronze.

Managers target duration and relative interest rates to determine if market is overpriced or underpriced.

Capture ratios: 120 upside, 90 downside.

Year to date: -16.03%.

Top holdings: Treasury Notes, Fannie Maes, Treasury Bonds

Notes: Duration 6.70. Average credit rating AA-. Small fund (\$382 million in assets).

TAKEAWAYS

- ✓ In investing, especially in looking for value, be conscious of where you are in the business cycle.
- ✓ Mutual funds do best relative to index funds with regard to small caps, internationals, and bonds – the less traveled corners of the market.
- ✓ Capture ratios – or how relatively well a fund does in upside markets and downside markets – show how well managers adjust to changing market conditions.
- ✓ Consistency is important. Don't look at just short term results, which can be misleading.
- ✓ Good managers focus on different criteria in making their selections. There's no one silver bullet approach they all use.

Thank You for
Your Attention

And now, being an attorney, I will attempt
to deflect your questions.

