

Kinzel: 43 Fantastic Funds

Fund Spy | 09-18-17 | by Russel Kinzel

It's time once more for my annual screen for fantastic funds. With just a few key screens, I pare the universe of more than 8,000 mutual funds to just 43. (We had 48 last year.)

The final number changes a bit each year depending on how many funds pass all the tests. With so many funds, you can be very choosy. It's a purely quantitative screen—I don't make exceptions just because I like a fund.

Here are the screens:

Cheapest quintile of category. Morningstar studies show that funds in the cheapest quintile of their Morningstar Category are a much better bet than higher-cost funds, so this is the first test.

Manager investment of more than \$1 million in the fund. We found that funds where at least one manager has invested more than \$1 million of his or her own money are more likely to outperform than those without such alignment of interest.

Morningstar Risk rating below the High level. Our Morningstar Investor Return studies have found that highly volatile funds are harder for investors to hold, and investor returns tend to trail total returns by a greater margin in those funds.

Morningstar Analyst Rating of Bronze or higher. This fundamental, forward-looking rating factors in qualitative and quantitative measures.

Parent rating of Positive. You want a good steward with a strong investment culture when you invest for the long haul.

Returns above the fund's benchmark over the manager's tenure. Rather than looking at a standardized time period, look at the period of the manager's tenure. I start with the earliest start date of the managers

on a team and insist that the fund beat the benchmark over that time period. I used returns through July 2017. There is a minimum five-year manager tenure, too, to weed out those with less meaningful track records. (This is why no index funds make the list. But we have plenty of Gold-rated index funds. You can screen for Gold-rated index funds on this page.)

I use a category benchmark for allocation categories. Many balanced funds have one equity benchmark and one bond benchmark rather than a blend of the two. That means they have either a very high or very low bar depending on which was the primary benchmark. Our category benchmarks are blended mixes of stocks and bonds, which make them a better fit. In a few cases, I had to use category averages if the index returns didn't go back far enough.

No institutional share classes. I exclude these to help you get a list you can use. (There are three funds with "institutional" in their names but minimum investments of \$25,000 or less, which I don't consider to be institutional.)

Closed funds are not screened out. Many people still own them and want to know if they still make the grade.

Let's review the 20 Gold-rated funds among the Fantastic 43.

American Funds AMCAP (AMCPX) is a nice, steady growth fund with a smaller asset base than sibling American Funds Growth Fund of America (AGTHX). Not that it is nimble at \$53 billion, but at least it has a little more flexibility. American Funds are now available without a front load in most No Transaction Fee supermarkets.

American Funds Capital World Growth and Income (CWGIX) blends a dividend focus with a search for earnings growth. Although that leads the fund to the middle of the Morningstar Style Box, results are hardly bland. This is a dependable core fund.

American Funds EuroPacific Growth (AEPGX) is a giant foreign large-growth fund. Although it is not terribly maneuverable, the fund is cheap and consistent, which bodes well for future returns.

American Funds New Perspective (ANWPX) is supposed to invest in firms that benefit from changing global trade patterns. In someone else's hands that might sound like a gimmicky fund marketing strategy, but American makes it work with strong stock research. It boasts low costs and top-quartile returns for the trailing three-, five-, 10-, and 15-year periods. The fund's focus on blue-chip growth names has worked out quite well of late.

American Funds New World (NEWFX) provides a mild-mannered way to tap emerging markets. It invests in both developed-markets companies with big emerging-markets exposure and those that are domiciled in emerging markets. As a result, the fund trades some upside for less volatility, but that's a fair trade.

American Funds Washington Mutual (AWSHX) is a solid, yield-oriented value fund. It is quite dependable and not at all flashy.

Dodge & Cox Income (DODIX) offers a very appealing profile that few bond funds can match. It has an emphasis on corporate bonds that takes full advantage of the firm's excellent stock analysts and spares the fund from an overreliance on government debt. It also owns mortgages and Treasuries but has been a steady performer over many years. Its 0.43% expense ratio shows you can get some very good bargains in active management.

Dodge & Cox Stock (DODGX) is a standout, but I would note that its volatility has crept up compared with its large-value peers. Its risk rating is Above Average, but I still think this an excellent fund. You get low costs and a very experienced, deep team managing your money.

Fidelity Total Bond (FTBFX) is also a great value at 0.45%. The fund is a bit more aggressive than Dodge & Cox Income, as Ford O'Neil has the freedom to mix core high-quality areas with emerging markets and high yield. However, he avoids making interest-rate bets, so you won't confuse it with the PIMCO Total Returns (PTTRX) of the world.

Harbor Capital Appreciation (HACAX) is an appealing, consistent large-growth fund. Longtime manager Sig Segalas may well retire in the next few years, but we have gotten to know comanager Kathleen McCarragher and the rest of the team at Jennison. The team has 11

analysts and three more portfolio managers with an average tenure of 25 years. We have faith in the new team.

Primecap Odyssey Growth (POGRX) is one of the best actively managed large-cap funds you can find. As you may know, I'm a huge fan of Primecap. This is one of only two funds from its lineup still open to new investors.

T. Rowe Price Capital Appreciation (PRWCX) manager David Giroux has done an extraordinary job. The fund has equitylike returns with significantly less risk. Giroux's stock-selection and allocation acumen have proved to be winners. The \$28 billion fund is closed to new investors so that Giroux's stock-selection abilities are still able to deliver results for shareholders.

T. Rowe Price Mid-Cap Growth (RPMGX) manager Brian Berghuis has managed an amazing feat. He is running a gigantic \$28 billion in this fund yet keeps producing excellent results. The fund is closed to new investors.

Vanguard Capital Opportunity (VHCOX), Vanguard Primecap (VPMCX), and Vanguard Primecap Core (VPCCX) remain outstanding growth funds with low costs. All three are closed to new investors but are definitely worth holding if you've got them. The Primecap team is a very experienced group that takes a contrarian approach to growth investing.

Vanguard Dividend Growth (VDIGX) shows how compelling a dividend-growth strategy can be. This closed fund is run by Donald Kilbride who builds a relatively focused portfolio of cash-rich companies likely to raise dividends. That's kind of an indirect strategy for buying high-quality companies, and the results have been strong.

Vanguard Health Care (VGHGX) is another Wellington-run fund. By sector fund standards, this one has a deeper team, less volatility, and lower costs than you typically get. If you own growth funds already, you may have all the healthcare exposure you need. But for those who want to dial up their healthcare exposure, this fund merits a close look.

Vanguard Wellesley Income (VWINX) and Vanguard Wellington (VWELX) are two versions of the same value-equity and investment-grade corporate-bond strategy. The former is mostly bonds, and the latter is mostly stocks. With very low fees, these make for excellent long-term holdings. Wellington didn't make the cut last year, but it is back this year.

New to the List

All told, eight funds that didn't make the cut last year are on this year's list. Let's take a look at them in reverse alpha order.

Vanguard Explorer (VEXPX) has finally taken steps in the right direction. Vanguard has pared the manager list while adding better-quality managers. Now if it can just hold still and stop with the changes, the fund should be fine. Admittedly, this is more decent than Fantastic.

T. Rowe Price New Horizons (PRNHX) has impressed under Henry Ellenbogen. He took the helm in 2010 and added private investments to the fund's tool kit. That's added a little spice to this closed fund's returns.

Fidelity Mortgage Securities (FMSFX) is back on our coverage list, and its Silver rating qualifies it for the Fantastic 43. The fund is mostly government-backed mortgages but has a portion in nongovernment mortgages. That provides a modest boost to yield and returns. With very low costs and a strong management team, this fund has plenty of appeal.

Fidelity Asset Manager 20% (FASIX) is a conservative-allocation fund with great bond funds at its core.

Baird Core Plus Bond (BCOIX) and Baird Short-Term Bond (BSBIX) have \$25,000 minimums, so they just make it under the wire. Otherwise, though, these are strong funds. They are well-run conservative bond funds that are a welcome contrast with some of the giant bond funds that are loaded with derivatives or higher-risk debt. The funds are a bargain with 0.30% expense ratios.

American Funds Smallcap World (SMCWX) is a better fit in our world small/mid-stock category as it got lost when we had just one world-stock category. The new peer group illustrates that this fund is a cheap, steady performer that rarely swings to the top or bottom of the group.

American Funds Income Fund of America (AMECX) blends an aggressive approach to income with sound fundamental issue selection in stocks and bonds. The fund requires equities that yield at least 3% and adds in some high-yield bonds to boot. Despite that aggressiveness, the fund has generally held up better than peers in tough years like 2008 and 2015.

The Fantastic 43							
	Ticker	Morningstar Category	Mstar Analyst Rating	Exp Ratio (%)	Start Month	Fund Ret (%)	Index Ret (%)
American Funds AMCAP	AMCPX	Large Growth	Gold	0.68	1996/06	9.70	8.38
American Funds Amer Balanced	ABALX	Alloc—50%—70% Eq	Silver	0.59	1997/02	8.17	6.10
American Funds Capital Inc Bldr	CAIBX	World Allocation	Silver	0.60	1992/02	8.90	7.06
American Fnds Cap Wrld Gr&Inc	CWGIX	World Large Stock	Gold	0.79	1993/04	10.70	7.33
American Funds EuroPacific Gr	AEPGX	Foreign Lrg Growth	Gold	0.85	1992/01	8.80	5.85
American Funds Global Balanced	GBLAX	World Allocation	Silver	0.85	2011/03	6.58	5.97
American Funds Gr Fund of Am	AGTHX	Large Growth	Bronze	0.66	1993/12	10.93	9.47
American Funds Inc Fund of Am	AMECX	Alloc—70%—85% Eq	Silver	0.56	1992/02	8.91	7.25
American Funds Inv Co of Amer	AIVSX	Large Blend	Silver	0.59	1992/04	9.74	9.61
American Funds New Prspctve	ANWFX	World Large Stock	Gold	0.77	2001/01	7.65	5.08
American Funds New World	NEWFX	Div Emerg Mkts	Gold	1.07	1999/07	8.08	4.58
American Funds Smallcap Wrld	SMCWX	World Sm/Mid Stock	Bronze	1.10	1992/01	9.33	8.84
American Funds Wash Mutual	AWSHX	Large Value	Gold	0.58	1997/08	7.41	6.85
Baird Core Plus Bond	BCOIX	Interm-Term Bond	Silver	0.30	2000/10	6.03	5.28
Baird Short-Term Bond	BSBIX	Short-Term Bond	Silver	0.30	2004/09	2.84	2.44
Diamond Hill Long-Short*	DIAMX	Long-Short Equity	Bronze	1.39	2000/07	6.72	5.41
Dodge & Cox Income	DODIX	Interm-Term Bond	Gold	0.43	1989/02	6.81	6.34
Dodge & Cox Stock	DODGX	Large Value	Gold	0.52	1992/02	11.60	9.51
Fidelity Asset Manager 20%	FASIX	Alloc—15%—30% Eq	Bronze	0.52	2009/07	5.73	4.96
Fidelity Balanced	FBALX	Alloc—50%—70% Eq	Bronze	0.55	2008/10	9.45	7.51
Fidelity Contrafund	FCNTX	Large Growth	Silver	0.68	1990/10	13.39	10.38
Fidelity Mortgage Securities	FMSFX	Interm-Term Bond	Silver	0.45	2008/05	4.22	3.80
Fidelity New Millennium	FMILX	Large Growth	Bronze	0.57	2006/08	9.71	8.48
Fidelity Puritan	FPURX	Alloc—50%—70% Eq	Silver	0.55	2003/09	7.80	7.33
Fidelity Total Bond	FTFBX	Interm-Term Bond	Gold	0.45	2005/01	4.75	4.21
Harbor Capital Appreciation	HACAX	Large Growth	Gold	0.64	1990/06	10.79	9.27
LKCM Small Cap Equity	LKSCX	Small Growth	Bronze	0.95	1994/08	10.43	9.45
Primecap Odyssey Growth	POGRX	Large Growth	Gold	0.65	2004/12	10.72	8.29
T. Rowe Price Blue Chip Growth	TRBCX	Large Growth	Silver	0.72	1993/07	10.75	9.46
T. Rowe Price Cap Appreciation*	PRWCX	Alloc—50%—70% Eq	Gold	0.70	2006/07	9.08	6.33
T. Rowe Price Mid-Cap Growth*	RPMGX	Mid-Cap Growth	Gold	0.77	1992/07	13.75	10.06
T. Rowe Price New Horizons*	PRNHX	Small Growth	Silver	0.79	2010/04	17.48	13.05
Vanguard Capital Opportunity*	VHCOX	Large Growth	Gold	0.45	1998/03	13.37	7.64
Vanguard Dividend Growth*	VDIGX	Large Blend	Gold	0.30	2006/03	9.15	8.26
Vanguard Equity-Income	VEIPX	Large Value	Silver	0.26	2004/01	8.85	7.93
Vanguard Explorer	VEXPX	Small Growth	Bronze	0.45	1994/03	9.52	8.82
Vanguard Health Care	VGHGX	Health	Gold	0.37	2008/06	13.45	10.21
Vanguard Primecap Core*	VPCCX	Large Growth	Gold	0.46	2005/01	10.37	8.35
Vanguard Primecap*	VPMCX	Large Growth	Gold	0.39	1985/07	13.23	10.84
Vanguard Selected Value	VASVX	Mid-Cap Value	Silver	0.35	1999/04	10.55	10.08
Vanguard Wellesley Income	VWINX	Alloc—30%—50% Eq	Gold	0.22	2007/02	6.83	5.17
Vanguard Wellington	VWELX	Alloc—50%—70% Eq	Gold	0.25	2003/01	8.86	7.80
Vanguard Windsor	VWNDX	Large Value	Bronze	0.30	2008/07	9.72	8.76

Source: Morningstar Direct. Returns are annualized through July 2017.
* denotes that a fund is closed to new investors.

Disclosures as of September 30, 2017

Analyst Rating is the summary expression of Morningstar's forward-looking analysis of a fund. Morningstar analysts assign the ratings on a five-tier scale with three positive ratings of Gold, Silver, and Bronze, a Neutral rating, and a Negative rating. The Analyst Rating is based on the analyst's conviction in the fund's ability to outperform its peer group and/or relevant benchmark on a risk-adjusted basis over the long term. If a fund receives a positive rating of Gold, Silver, or Bronze, it means Morningstar analysts think highly of the fund and expect it to outperform over a full market cycle of at least five years. The Analyst Rating is not a market call, and it is not meant to replace investors' due-diligence process. It cannot assess whether a fund is the right fit for a particular portfolio and risk tolerance. Morningstar evaluates funds based on five key pillars - Process, Performance, People, Parent, and Price. Analysts assign a rating of Positive, Neutral, or Negative to each pillar. Analyst Rating Scale - Gold: Best-of-breed fund that distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. Silver: Fund with advantages that outweigh the disadvantages across the five pillars and with sufficient level of analyst conviction to warrant a positive rating. Bronze: Fund with notable advantages across several, but perhaps not all, of the five pillars.

The average annual total returns for the Institutional Class of the Baird Short-Term Bond Fund as of September 30, 2017 are 1.26% for the one-year, 1.64% for the five-year and 2.60% for the ten-year periods and 2.82% since its August 31, 2004 inception date. The average annual total returns for the Bloomberg Barclays 1-3 U.S. Government/Credit Bond Index as of September 30, 2017 are 0.66% for the one-year, 0.91% for the five-year and 2.09% for the ten-year periods and 2.41% since the fund's inception.

The average annual total returns for the Institutional Class of the Baird Core Plus Bond Fund as of September 30, 2017 are 1.60% for the one-year, 2.98% for the five-year and 5.45% for the ten-year periods and 6.00% since its September 29, 2000, inception date. The average annual total returns for the Barclays US Universal Bond Index as of September 30, 2017 are 0.96% for the one-year, 2.53% for the five-year and 4.56% for the ten-year periods and 5.26% since the fund's inception.

Performance data quoted represents past performance. Past performance does not guarantee future results. 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 their original cost. The fund's current performance may be lower or higher than the performance data quoted. For performance current to the most recent month-end, please visit bairdfunds.com.

Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and summary prospectus, containing this and other information, visit bairdfunds.com. Read it carefully before investing.