

# The Terrific 28



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Every year, I write about the Fantastic 40—although the number varies slightly each time. The idea is to focus on the most important factors and let them do the weeding for me. The goal is a short list of outstanding funds accessible to individual investors. This isn't a list for huge pension funds.

You can be awfully picky when you have 8,000 funds to choose from. The criteria have largely been the same, with some minor tweaks over the years.

Here are the tests I used this time:

- 1 | Expense ratio in the cheapest quintile.
- 2 | Manager investment of more than \$1 million in the fund.
- 3 | Morningstar Risk rating below the High level.
- 4 | Morningstar Analyst Rating of Bronze or higher.
- 5 | Parent rating of Positive.
- 6 | Returns above the fund's benchmark over the manager's tenure for a minimum of five years. In the case of allocation funds, I used category averages instead because benchmarks are often pure equity or bond and therefore not a good test.
- 7 | Must be a share class accessible to individual investors.
- 8 | No funds of funds.

You may recall that I detailed past performance of prior lists in the March issue of *FundInvestor*.

In all six lists over the years, at least two thirds or more of the funds outperformed peers. And in five out of six lists, a majority outperformed their benchmarks. Of course, there are no guarantees that this list will match the prior lists' performance.

## Why the List Is Shrinking

I've had lists top 50, yet this year only 28 made the cut. I looked at many of the past Fantastic Funds lists to see why fewer of them passed the screens. Most of the time, it was the fee test that rejected them. Fund expense ratios have come down as passive funds race to zero and active funds try to stay competitive. Making things more challenging, though, are the rise of no- or low-fee funds that are used in sales channels where fees are collected outside the mutual fund. In these cases, the fund fees are artificially low, and many have 10 basis points or lower expense ratios—only no one can actually buy them at those prices.

A second factor is that the risk test has bounced some perennial fantastic funds such as **Dodge & Cox Balanced DODBX**, **Dodge & Cox Global Stock DODWX**, **Dodge & Cox International Stock DODFX**, **Primecap Odyssey Aggressive Growth POAGX**, and **Primecap Odyssey Growth POGRX**. It's not surprising to see a fund like Primecap Odyssey Aggressive Growth rate a High for Morningstar Risk, but the others are more measured, so it is surprising to see them also rate High for risk this year, meaning they are in the 10% most volatile funds of their category.

Let's review the 28. I've grouped them by fund family. In the table, we have a "C" next to the fund name if the fund is closed to new investors.

## American Funds

Capital Group funds are always big players in this list. They have seasoned managers who invest heavily in their funds, among the lowest costs for actively managed funds sold by brokers, and the depth and skill to outperform their benchmarks. I used the A shares because they are the most widely held by

individual investors. American's No Transaction Fee share class is F1, and those are typically 5-10 basis points higher than the A shares, so fewer would make the cut if I used F1. On the other hand, the firm's institutional and clean share classes would have gotten more funds through the tests. Most individual investors can't tap those share classes, but they are an excellent choice for those who can.

American has a number of portfolio managers operating independently, running separate focused sleeves of the fund. All of them follow the prospectus religiously, but each has a slightly different strategy so that you get a blend of different styles. In addition, the firm hands over a portion of the fund to its analysts who put their best names in the fund, provided those names fit the fund's guidelines. It's a formula for long-term success rather than big single-year gains.

From the growth side of the Morningstar Style Box, **American Funds AMCAP AMCPX**, **American Funds Growth Fund of America AGTHX**, and **American Funds New Perspective ANWPX** passed the tests. The first two are U.S.-focused, and the latter is a world-stock fund. All three have at least one manager with more than 20 years at the helm and an impressive track record over that span to boot.

From the value side, there's **American Funds American Mutual AMRMX**, **American Funds Capital Income Builder CAIBX**, and **American Funds Capital World Growth & Income CWGIX**. Their scope and asset-class orientation differ, but all three focus on income, especially dividends—an area that Capital Group has handled well for a long time. They aim for solid yields but sensibly don't stretch to the point where they have too much risk or too little appreciation.

### Baird

Talk about a change of pace. Now we're on to a relatively small Milwaukee boutique that keeps costs low and avoids big risks. Most of the firm's assets reside with the fixed-income team, which runs rather conservative funds that typically hold up nicely when credit or interest-rate risk get zapped. With super low expenses of 0.30%, **Baird Aggregate Bond BAGIX** and **Baird Core Plus Bond BCOIX** were recently raised to

Gold ratings. Bronze-rated **Baird MidCap BMDIX** is a cheaply priced growth fund that's worth a look, too.

### Dodge & Cox

**Dodge & Cox Income DODIX** and **Dodge & Cox Stock DODGX** are long-standing and very welcome members of the Terrific 28. Dodge has just about everything you look for in a fund company. Great people come to the firm to make a career of their time at Dodge. The firm offers funds that are cheap from their first day, and the firm requires that its ownership be kept in the hands of active employees so that there's stability and sufficient incentives for talented investors to stay. Dodge & Cox Income is a well-run bond fund with a focus on corporate bonds and mortgages, and Dodge & Cox Stock is a classic value fund.

### Fidelity

It's an eclectic trio of funds that made the list from Fidelity. **Fidelity Diversified International FDIVX** is a rather quiet but effective fund under Bill Bower. It has a little too much in value to look good against growth funds in this environment but ought to look better when the pendulum swings back to value. **Fidelity Low-Priced Stock FLPSX** is the same great, unwieldy, shockingly good fund that it's always been under Joel Tillinghast. Although it is officially a mid-cap fund, it has a wide-ranging portfolio that covers most of the value and blend parts of the style box.

**Fidelity Select Health Care FSPHX** was given an elevated Silver rating after we visited in 2017 and were impressed by the deep and smart team supporting the fund (and Fidelity's other equity funds that invest in healthcare.) The fund has put up strong results since Eddie Yoon took over in 2008.

### Harbor

**Harbor Capital Appreciation HACAX** is Harbor's sole entry. The fund is run by a deep team at Jennison that is adept at picking stocks in the tech and healthcare spheres.

### LSV

**LSV Value Equity LVEAX** is an excellent quantitative fund run with the help of a number of finance Ph.D.s

The Terrific 28	Ticker	Morningstar Analyst Rating	Morningstar Category	Manager Tenure (Longest), Yr.	Cumulative PM Return %	Benchmark Return Cumulative %	Prospectus Net Expense Ratio, %
American Funds AMCAP	AMCPX	★ Gold	Large Growth	22.9	780	558	0.68
American Funds American Mutual	AMRMX	★ Gold	Large Value	13.3	183	154	0.57
American Funds Capital Income Bldr	CAIBX	★ Silver	World Allocation	27.3	780	482	0.58
American Funds Capital World Gr&Inc	CWGIX	★ Gold	World Large Stock	26.1	1,210	573	0.76
American Funds Growth Fund of Amer	AGTHX	★ Bronze	Large Growth	25.4	1,300	913	0.62
American Funds New Perspective	ANWPX	★ Gold	World Large Stock	18.3	312	157	0.75
Baird Aggregate Bond	BAGIX	★ Gold	Intermediate-Term Bond	18.6	155	135	0.30
Baird Core Plus Bond	BCOIX	★ Gold	Intermediate-Term Bond	18.6	178	135	0.30
Baird MidCap	BMDIX	★ Bronze	Mid-Cap Growth	18.3	299	259	0.84
Dodge & Cox Income	DODIX	★ Gold	Intermediate-Term Bond	30.3	597	504	0.43
Dodge & Cox Stock	DODGX	★ Gold	Large Value	27.3	1,799	1,206	0.52
Fidelity Diversified International	FDIVX	★ Bronze	Foreign Large Growth	18.0	206	168	0.81
Fidelity Low-Priced Stock	FLPSX	★ Silver	Mid-Cap Value	29.3	3,725	2,165	0.62
Fidelity Select Health Care	FSPHX	★ Silver	Health	10.5	344	255	0.73
Harbor Capital Appreciation	HACAX	★ Silver	Large Growth	28.9	2,315	1,505	0.66
LSV Value Equity	LSVEX	★ Silver	Large Value	20.1	383	270	0.64
Seafarer Overseas Gr and Income	SFGIX	★ Silver	Diversified Emerging Mkts	7.2	48	24	0.97
T. Rowe Price Mid-Cap Growth	RPMGX	★ Gold	Mid-Cap Growth	26.8	3,067	1,289	0.76
T. Rowe Price Mid-Cap Value	TRMCX	★ Gold	Mid-Cap Value	18.3	478	415	0.79
Vanguard Dividend Growth	VDIGX	★ Gold	Large Blend	13.2	239	201	0.26
Vanguard Energy	VGENX	★ Silver	Equity Energy	6.9	19	18	0.38
Vanguard Equity-Income	VEIPX	★ Silver	Large Value	15.3	271	218	0.27
Vanguard Explorer	VEXPX	★ Bronze	Small Growth	25.2	963	515	0.46
Vanguard PRIMECAP	VPMAX	★ Gold	Large Growth	33.8	6,954	3,139	0.31
Vanguard PRIMECAP Core	VPCCX	★ Gold	Large Blend	14.3	330	238	0.46
Vanguard Selected Value	VASVX	★ Silver	Mid-Cap Value	20.1	563	529	0.36
Vanguard Wellesley Income	VWINX	★ Gold	Allocation—30% to 50% Equity	12.3	119	85	0.23
Vanguard Wellington	VWELX	★ Gold	Allocation—50% to 70% Equity	16.3	293	231	0.25

Data as of March 2019. ★ = closed to new investors

who work to steadily improve the models running the fund.

### Seafarer

**Seafarer Overseas Growth and Income** SFGIX has proved to be a real standout in Andrew Foster's seven years at the helm. The Silver-rated fund is closed to new investors.

### T. Rowe Price

Darn, how is T. Rowe down to just two funds on this list? Henry Ellenbogen's departure from **T. Rowe Price New Horizons** PRNMX knocked that fund out of the box, and **T. Rowe Price Capital Appreciation's** PRWCX expense ratio is just a hair above the cutoff. Two closed mid-cap funds are all that's left. **T. Rowe Price Mid-Cap Value** TRMCX and **T. Rowe Price**

**Mid-Cap Growth** RPMGX are excellent funds with great managers.

### Vanguard

Vanguard had nine funds that made it through my gauntlet. When you pair low costs and great sub-advisors like Primecap and Wellington, you have a great shot at success. All the Gold-rated Vanguard funds in the Terrific 28 are run by Primecap or Wellington. The Gold-rated funds on this list are particularly compelling. **Vanguard Wellesley Income** VWINX and **Vanguard Wellington** VWELX are great Wellington-run allocation funds. Albeit closed to new investors, **Vanguard Dividend Growth** VDIX, **Vanguard Primecap** VPMAX, and **Vanguard Primecap Core** VPCCX are outstanding. ■■■

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**Disclosures as of March 31, 2019**

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 Aggregate Bond Fund as of March 31, 2019 are 4.59% for the one-year, 3.13% for the five-year, 5.18% for the ten-year periods and 5.23% since its September 29, 2000 inception date. The average annual total returns for the Bloomberg Barclays U.S. Aggregate Bond Index as of March 31, 2019 are 4.48% for the one-year, 2.74% for the five-year and 3.77% for the ten-year periods and 4.75% since the fund's inception.

The average annual total returns for the Institutional Class of the Baird Core Plus Bond Fund as of March 31, 2019 are 4.63% for the one-year, 3.35% for the five-year, 5.78% for the ten-year periods and 5.71% since its September 29, 2000, inception date. The average annual total returns for the Barclays US Universal Bond Index as of March 31, 2019 are 4.53% for the one-year, 3.00% for the five-year and 4.36% for the ten-year periods and 5.01% since the fund's inception.

Both funds have a minimum initial investment of \$25,000 and a 0.30% expense ratio. Both funds are categorized as Intermediate-Term Bond by Morningstar. This category contains 901, 769 and 564 funds over three, five and ten year time periods, respectively.

The average annual total returns for the Institutional Class of the Baird MidCap Fund as of March 31, 2019 are 11.65% for the one-year, 9.13% for the five-year and 16.87% for the ten-year periods and 7.73% since its December 29, 2000, inception date. The average annual total returns for the Russell Midcap Growth Index as of March 31, 2019 are 11.51% for the one-year, 10.89% for the five-year and 17.60% for the ten-year periods and 7.26% since the fund's inception.

The fund has a minimum initial investment of \$25,000 and a 0.84% expense ratio. The fund is categorized as Mid-Cap Growth by Morningstar. This category contains 555, 495 and 352 funds over three, five and ten year time periods, respectively.

**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](http://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](http://bairdfunds.com). Read it carefully before investing.**

# Glossary

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## Morningstar FundInvestor

In this analysis, Morningstar evaluates funds based on a set of screens established by Russel Kinnel, Director of Manager Research and editor. As listed on p. 1 of the article, the screens applied are as follows: (1) Expenses must be in the cheapest quintile of the category; (2) manager investment in the fund must be more than \$1,000,000; (3) the Morningstar Risk rating must be below the High level; (4) the fund must be a "medalist"—i.e., it must be rated Bronze, Silver or Gold; (5) Parent Rating must be positive; (6) the fund must have outperformed its prospectus benchmark over the tenure of the longest tenured manager. A minimum of five years is required; (7) category benchmarks or averages used for allocation categories; (8) no institutional share classes; (9) no fund of funds.

The test was run using returns through July 2018.

Using these ten screens, the tool filtered 28 out of more than 8,000 mutual funds.

## Morningstar Manager Return

A fund's annualized return from the start date (the first day of the month shown) of the longest tenured manager.

## Morningstar Parent Rating

An assessment of the parent organization. Key (operational) areas of evaluating a parent organization include: recruitment and retention of talent, organizational structure, capacity management, organizational and business strategy, alignment of interests with fund investors and regulatory compliance.

## Morningstar Risk

An assessment of the variations in a fund's monthly returns, with an emphasis on downward variation. It is calculated as the difference between Morningstar Return (adjusted for loads and excess over the risk-free rate) and Morningstar Risk-Adjusted Return (adjusted for loads, excess over the risk-free rate and risk). Morningstar Risk is similar to (and correlated with) standard deviation; the key difference is that standard deviation gives the same weight to upside and downside variation. Morningstar Risk is measured for up to three periods (three, five and 10 years).

For each period, all funds in a category are ranked by Morningstar Risk. The top 10% are given a risk score of 5, or "High"; the next 22.5% are scored 4, or "Above Average"; the next 35% are scored 3, or "Average"; the next 22.5% are scored 2, or "Below Average"; the bottom 10% are scored 1, or "Low."

**Figures shown are past results for Class A shares and are not predictive of results in future periods. Current and future results may be lower or higher than those shown. Share prices and returns will vary, so investors may lose money. Investing for short periods makes losses more likely. Fund results are for Class A shares and reflect deduction of the 5.75% maximum sales charge. For current information and month-end results, visit [capitalgroup.com](#).**

## Results as of September 30, 2019

Fund	Inception date	Total returns (%)				Expense ratio (%)
		1 Year	5 Years	10 Years	Lifetime	
AMCAP Fund®	5/1/67	-8.31	7.83	11.78	11.28	0.66
The Growth Fund of America®	12/1/73	-7.87	9.32	11.71	13.25	0.62
New Perspective Fund®	3/13/73	-3.35	8.09	9.67	11.96	0.75
American Mutual Fund®	2/21/50	-0.14	7.95	10.97	11.47	0.57
Capital World Growth and Income Fund®	3/26/93	-4.53	4.72	7.28	9.94	0.76
Capital Income Builder®	7/30/87	-0.97	3.22	6.26	8.73	0.58

Investment results assume all distributions are reinvested and reflect applicable fees and expenses. Returns greater than one year were annualized. Expense ratios are as of each fund's prospectus available at the time of publication. When applicable, investment results reflect fee waivers and/or expense reimbursements, without which results would have been lower. Please see [capitalgroup.com](#) for more information.

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If used after December 31, 2019 this article must be accompanied by a current American Funds quarterly statistical update.

**Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.**

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