

The Thrilling 34

Only 34 funds passed all my tests.

12-30-2019 | by Russel Kinnel

Every year I write about the Thrilling 34--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 category's 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 better than average/neutral.
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 also used category averages because benchmarks are often pure equity or bond and therefore not a good test.
7. Must be a share class accessible to individual investors with a minimum investment no greater than \$50,000.
8. No funds of funds.

The only real change to the above list is that I used prospectus adjusted operating expense ratio. I didn't make the switch just because it's a catchy name. It's the measure we use for our analyst ratings, too. It includes rolled up fund-of-funds fees but does not include transactional costs such as leverage or shorting. This avoids an apples-to-oranges comparison.

A more subtle change is that we have moved to the enhanced analyst ratings methodology, which rates funds on a share class level and has resulted in some rating changes. In particular, the ratings adaptation has led to downgrades in low-return categories such as short-term bond and munis, because our methodology is particularly unforgiving of middling fees in low-return categories.

However, because I already set the bar at cheapest quintile, it isn't likely to knock many of this list's candidates out of the box.

You may recall that I detailed past performance of prior lists earlier in the year here. 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.

In the case of funds where multiple share classes qualified, I chose the one with the lowest minimum. For example, Vanguard's Admiral shares and Investor shares qualified for the nine funds that made the list, but because the investor share class also qualified, I used the investor share class.

I often get questions about this list that imply I should have chosen fund B over fund A. To be clear, it's a series of screens. I'm not picking the funds and there is no set number of funds. Over the years it has bounced from the 20s to the 40s.

My last note is that I included funds closed to new investors because their shareholders want to know if they still pass the test.

Here then are the Thrilling 34 in reverse alpha order.

Vanguard

Vanguard got nine funds on the list, the most of any firm. As Vanguardians like to say, it's not active versus passive, it's low cost versus high cost. The list of nine features active funds with fees as low as 21 basis points. When a fund is that cheap, it's a lot easier to deliver good performance and beat the benchmark.

Vanguard Wellington (VWELX) leads the way at just 0.25% for a classic balanced fund run by a strong team at Wellington. It's so easy to own that I recommend it just about as much as any other fund. And, no, it isn't closed--you just have to invest directly with Vanguard to get in.

Vanguard Wellesley Income (VWINX) is closely related to Wellington. It just has more bonds and more income, though less return potential.

Speaking of funds I recommend the heck out of, Vanguard Primecap (VPMCX) and Vanguard Primecap Core (VPCCX) are two of the best growth funds I know of. They are both closed, but their slightly pricier cousins Primecap Odyssey Stock (POSKX) and Primecap Odyssey Growth (POGRX) are both open to new investors. Senior analyst Alec Lucas just recorded a video discussing Primecap that you can watch here.

Vanguard GNMA (VFIJX) delivers straightforward GNMA exposure for 0.21% if you invest \$3,000 and 0.11% if you invest \$50,000.

Vanguard Explorer (VEXPX) delivers very boring small growth exposure for 0.46% and a \$3,000 investment.

Vanguard Equity-Income (VEIPX) is a standout in the equity-income world with excellent management and a solid yield.

Vanguard Dividend Growth (VDIGX) has a great but simple strategy. It aims to find companies that are likely to raise their dividends over time. That's very basic, but companies that are likely to raise their dividends have to have healthy balance sheets and good growth prospects, too, and that makes for a fund with good defensive characteristics in recessions.

T. Rowe Price

I'm a big fan of T. Rowe Price, but many of its funds are just outside the cheapest quintile and so only three qualify. Still, they are among the best.

T. Rowe Price New Asia (PRASX) is a new entrant to the list because manager Anh Lu passed the five-year tenure mark a few months ago. We like Lu and the team of analysts supporting this fund. Its growth-oriented strategy looks like many other T. Rowe funds' emphasis on earnings growth and barriers to entry.

T. Rowe Price Mid-Cap Value (TRMCX) is a disciplined value fund that has delivered great results over David Wallach's 19 years. However, disciplined value has been a tough place to be as the fund's weak three-year results indicate. But I see plenty of reasons to hold on at this closed fund.

T. Rowe Price Mid-Cap Growth (RPMGX) has been in clover in this growth rally. Brian Burghuis has found winners upon winners at this closed fund.

Seafarer Overseas Growth and Income (SIGIX) has a \$25,000 minimum for this share class, so don't let the institutional tag throw you. Andrew Foster has done a fine job here and at previous funds he ran for Matthews. The fund did have a setback in the recent departure of comanager InBok Song.

Harbor Capital Appreciation (HACAX) is likewise an accessible institutional-labeled fund. Here the Jennison team makes the most from large growth rallies like the one we've just experienced.

Fidelity

Fidelity got four funds on the list this time. Like T. Rowe, many of its active funds fall just short on fees.

Fidelity Total Bond (FTBFX) is a great bond fund that mixes aggression and caution. Ford O'Neil has the flexibility to position this fund more or less aggressively on credit risk. But it also boasts the strong issue selection we've come to expect from Fidelity's bond funds.

Fidelity Select Health Care's (FSPHX) Morningstar Analyst Rating was recently upgraded to Gold. We're fans of the deep team supporting this fund and it's nice to get it at a reasonable fee.

Fidelity Low-Priced Stock (FLPSX) is the same brilliant fund it's always been under Joel Tillinghast.

Fidelity Diversified International (FDIVX) has been a nice steady performer since Bill Bower took over in 2001. He looks for quality growth names and that has made the fund into a mild-mannered winner.

Dodge & Cox

Dodge & Cox is another firm that was made for this list. (American and Vanguard are the others.) Dodge has long-tenured managers, low fees, and nearly all of its managers invest more than \$1 million of their own money in their funds. So, on a fundamental basis you have funds that are quite consistent year over year, even if their returns can be buffeted when value hits a rough patch.

Dodge & Cox Stock (DODGX), Dodge & Cox Income (DODIX), and Dodge & Cox Global Stock (DODWX) are well-known standouts with teams of great managers.

Dodge & Cox Global Bond (DODLX) is the new kid on the block. Its rating was recently upgraded to Silver as we've become more comfortable that it could successfully apply its approach from the Income fund to global bonds and currencies. Launched five and a

half years ago, the fund has produced excellent results but still has less than \$1 billion in assets.

Baird

Baird's institutional funds carry a \$25,000 minimum, thus making my hurdle. The Milwaukee-based team has grown on us, leading us to upgrade the trio of bond funds to Gold. Baird Aggregate Bond (BAGIX), Baird Short-Term Bond (BSBIX), and Baird Core Plus Bond (BCOIX) lean toward the cautious side of their peer groups yet still produce solid returns. The Core Plus fund is obviously the most aggressive of the three but it still has good risk-awareness to keep it from going too far out on a limb.

Baird MidCap (BMDIX), the lone equity entrant from Baird, is a solid pick, too. However, as the Bronze rating indicates, we don't have it at the same level as the firm's bond funds.

American Funds

Capital Group's long-term focus dovetails nicely with the long-term focus of this screening exercise. Managers and analysts tend to make a career of their time at the firm. You can see that in the sober way the funds are managed, the long tenures, and the sizable investment managers make in their own funds. Costs are reasonable, too. (You can get American funds for no-load in most NTF supermarkets.)

American Funds New Perspective (ANWPX) illustrates how widely the firm's analyst and manager staff reaches. They've long had offices around the globe and brought excellent fundamental research to markets near and far. Not many firms have the depth to run a great world-stock fund, but they do.

American Funds Income Fund of America (AMECX) highlights another strength: dividend investing. The firm has a variety of dividend-oriented funds that produce solid income without sacrificing returns or taking bad risks. That focus does mean the fund has faced recent headwinds due to its tilt toward value and overweighting in foreign equities. But at some point, the market will rotate in its favor.

Bronze-rated American Funds Growth Fund of America (AGTHX) is quite diversified due to its large asset base. It spreads assets out among more managers than it typically does and that means a rather diffuse portfolio. So, this is not a thrilling growth fund but one with good fundamentals nonetheless.

American Funds Global Balanced (GBLAX) is a relative newcomer launched eight years ago. The fund targets a 60/40 stock to bond allocation. Many of its peers make top-down calls, but this one focuses on issue selection, which makes sense for American.

American Funds Capital World Growth & Income (CWGIX) takes Capital's dividend skills on the global stage and the result is a fine core holding.

American Funds American Balanced (ABALX) is a massive \$157 billion fund with six equity managers and one balanced manager making allocation decisions. The main attraction remains stock selection and defensive characteristics combined with low fees.

American Funds AMCAP (AMCPX) seeks out capital appreciation and it has done a fine job of it. That mandate is broader than large growth and that's held it back somewhat in this growth-driven rally. But there's no reason it should depress returns for the next 10 years. Over longest-tenured manager Claudia Huntington's 23 years, returns have been excellent.

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Name	Ticker	Closed to New Inv	Morningstar Analyst Rating	Morningstar Category	Mgr Tenure (Longest)	Cumulative Tenure Return	Benchmark or Category Avg Return	Prospectus Adj. Op. Expense Ratio	Min. Investment
American Funds AMCAP	AMCPX	No	Gold	Large Growth	23.58	872	672	0.66	250
American Funds American Balanced A	ABALX	No	Silver	Allocation--50% to 70% Equity	20.92	516	267	0.57	250
American Funds Capital Income Bldr A	CAIBX	No	Silver	World Allocation	27.92	898	535	0.58	250
American Funds Capital World Gr&Inc A	CWGIX	No	Gold	World Large Stock	13.83	148	127	0.76	250
American Funds Global Balanced A	GBLAX	No	Silver	World Allocation	8.83	73	43	0.84	250
American Funds Growth Fund of Amer A	AGTHX	No	Bronze	Large Growth	26.08	1,447	1,053	0.65	250
American Funds Income Fund of Amer A	AMECX	No	Silver	Allocation--70% to 85% Equity	27.92	942	604	0.58	250
American Funds New Perspective A	AN-WPX	No	Gold	World Large Stock	19.00	343	181	0.76	250
Baird Aggregate Bond Inst	BAGIX	No	Gold	Intermediate Core Bond	19.25	172	149	0.30	25,000
Baird Core Plus Bond Inst	BCOIX	No	Gold	Intermediate Core-Plus Bond	19.25	196	162	0.30	25,000

Name	Ticker	Closed to New Inv	Morningstar Analyst Rating	Morningstar Category	Mgr Tenure (Longest)	Cumulative Tenure Return	Benchmark or Category Avg Return	Prospectus Adj. Op. Expense Ratio	Min. Investment
Baird Mid-Cap Inst	BMDIX	No	Bronze	Mid-Cap Growth	19.00	350	298	0.81	25,000
Baird Short-Term Bond Inst	BSBIX	No	Gold	Short-Term Bond	15.33	53	44	0.30	25,000
Dodge & Cox Global Bond	DODLX	No	Silver	World Bond	5.58	19	8	0.45	2,500
Dodge & Cox Global Stock	DOD-WX	No	Gold	World Large Stock	11.58	96	95	0.62	2,500
Dodge & Cox Income	DODIX	No	Gold	Intermediate Core-Plus Bond	30.92	638	500	0.42	2,500
Dodge & Cox Stock	DODGX	No	Gold	Large Value	27.92	1,972	1,262	0.52	2,500
Fidelity Diversified International	FDIVX	No	Bronze	Foreign Large Growth	18.67	246	158	0.81	0
Fidelity Low-Priced Stock	FLPSX	No	Silver	Mid-Cap Value	30.00	4,189	2,361	0.52	0
Fidelity Select Health Care	FSPHX	No	Gold	Health	11.17	476	331	0.71	0
Fidelity Total Bond Fund	FTBFX	No	Gold	Intermediate Core-Plus Bond	15.00	99	93	0.45	0
Harbor Capital Appreciation Instl	HACAX	No	Silver	Large Growth	29.58	2,589	1,731	0.66	50,000
Seafarer Overseas Gr and Income Instl	SIGIX	No	Silver	Diversified Emerging Mkts	7.83	59	28	0.89	25,000

Name	Ticker	Closed to New Inv	Morningstar Analyst Rating	Morningstar Category	Mgr Tenure (Longest)	Cumulative Tenure Return	Benchmark or Category Avg Return	Prospectus Adj. Op. Expense Ratio	Min. Investment
T. Rowe Price Mid-Cap Growth	RPMGX	Yes	Gold	Mid-Cap Growth	27.50	3,407	1,438	0.75	2,500
T. Rowe Price Mid-Cap Value	TRMCX	Yes	Gold	Mid-Cap Value	19.00	513	459	0.78	2,500
T. Rowe Price New Asia	PRASX	No	Bronze	Pacific/Asia ex-Japan Stk	5.50	48	38	0.93	2,500
Vanguard Dividend Growth Inv	VDIGX	No	Gold	Large Blend	13.83	286	238	0.22	3,000
Vanguard Energy Inv	VGENX	No	Silver	Equity Energy	7.58	13	9	0.37	3,000
Vanguard Equity-Income Inv	VEIPX	No	Silver	Large Value	16.00	310	251	0.27	3,000
Vanguard Explorer Inv	VEXPX	No	Bronze	Small Growth	25.83	1,076	576	0.46	3,000
Vanguard GNMA Adm	VFIJX	No	Silver	Intermediate Government	9.50	32	28	0.11	50,000
Vanguard PRIMECAP Core Inv	VPCCX	Yes	Gold	Large Blend	15.00	380	290	0.46	3,000
Vanguard PRIMECAP Inv	VPMCX	Yes	Gold	Large Growth	34.50	9,130	4,320	0.38	3,000
Vanguard Wellesley Income Inv	VWINX	No	Gold	Allocation--30% to 50% Equity	12.92	137	72	0.23	3,000
Vanguard Wellington Inv	VWELX	Yes	Gold	Allocation--50% to 70% Equity	17.00	335	197	0.25	3,000

Glossary

Morningstar Analyst Rating™ for Funds

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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."

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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 December 31, 2019

Fund name	Inception date	Average annual total returns (%)				Expense ratio (%)
		One year	Five years	10 years	Lifetime	
AMCAP Fund® (AMCPX)	05/01/67	19.07	9.39	12.27	11.44	0.66
American Balanced Fund® (ABALX)	07/26/75	12.34	6.88	9.49	10.47	0.57
Capital Income Builder® (CAIBX)	07/30/87	10.62	4.05	6.44	8.83	0.61
Capital World Growth and Income Fund® (CWGIX)	03/26/93	18.11	6.61	7.81	10.21	0.76
American Funds Global Balanced Fund SM (GBLAX)	02/01/11	10.53	3.97	–	5.65	0.84
The Growth Fund of America® (AGTHX)	12/01/73	20.75	11.07	12.27	13.44	0.65
The Income Fund of America® (AMECX)	12/01/73	12.08	5.61	8.34	10.72	0.58
New Perspective Fund® (ANWPX)	03/13/73	22.60	9.81	10.15	12.12	0.76

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

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 March 31, 2020, 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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