

# Hidden Fund Gems 2008, Part I

**Fund Spy** | 05-20-08 | by Andrew Gogerty

Few investors can go wrong with funds from industry stalwarts such as Dodge & Cox, Vanguard, and American Funds, but Morningstar analysts also look to uncover and highlight worthy funds from smaller shops that have gone unnoticed by investors.

And so, as we have done in past years, we've compiled a list of relatively undiscovered funds that deserve more attention from investors. Our list highlights funds with long-tenured managers with a proven track record of success (though not often readily apparent) that have shown an allegiance to their investment style regardless of market conditions yet still maintain the flexibility of a small asset base (compared with their category peers or on an absolute basis).

## **WHG LargeCap Value (WHGLX)**

This fund's short track record (it was launched in mid-2006) masks the long-term success of veteran manager Susan Byrne. She is backed by an experienced team of analysts and has employed a consistent, proven strategy for more than 20 years. But don't take our word for it; just look at the numbers. Her new large-value offering isn't really new at all—it's a replica of GAMCO Westwood Equity (WESWX), which she has managed since its 1987 inception, and where she has posted one of the category's best long-term records. Byrne's value-orientated contrarian style mixes her long-term sector trend analysis and bottom-up fundamental stock research. Spot-on calls such as rotating out of embattled brokerages Lehman Brothers, Bear Stearns, and Morgan Stanley in early 2007 and into underappreciated software companies have helped it sidestep the market swoon. This fund's 2.6% gain for the trailing one year ending May 16, 2008, is among the category's top 5%. And, while the fund boasts just \$33 million in assets, Byrne's company, Westwood Holdings Group, launched this offering with just a 1.0% expense ratio, giving it a healthy leg up on the GAMCO offering's 1.47% levy and making it the superior long-term choice. In fact, we think so highly of this fund's potential that we designated it a Fund Analyst Pick in the large-value category in early 2008.

## **Marsico Global (MGLBX)**

This world-stock offering is the baby of our list, as it doesn't blow out its first birthday candle until July 2008. And while it doesn't offer a comparable history like the previous Westwood offering, its pedigree is equally impressive. Marsico's newest offering has the greatest flexibility of any of the firm's offerings, allowing lead manager Cory Gilchrist to load the portfolio with his best large-cap ideas—regardless of their place on the globe. The fund also benefits from firm founder Tom Marsico and James Gendelman's ideas as well; they are comanagers. But make no mistake; this fund is true-blue Marsico, and like the firm's other offerings, management maintains a concentrated portfolio that reflects the firm's views about the broad economy as well as industry- and stock-level trends.

The fund hasn't had a great start to 2008, as a few of its top holdings Google (GOOG) and Las Vegas Sands (LVS) have weighed heavily on returns this year. We're not that surprised, though, as the fund's (and firm's) bold style won't hit a home run in every market environment. And over longer periods, the firm has shown good success at home and abroad with siblings Focus (MFOCX) and International Opportunities (MIOFX), respectively. Finally, the fund's low costs (a 0.75% expense ratio makes it one of the cheapest no-load, world stock offerings available) further its appeal.

## **JPMorgan U.S. Real Estate (SUSIX)**

True, this fund's \$630 million asset base isn't exactly hiding in the corner, but among the movers and shakers in the real estate category this fund has certainly been left on the porch. That's an unfortunate fact for investors, as they are missing out on an impressive resume that includes one of the category's best long-term records, a deep and seasoned management team, and low costs. Subadvisor Security Capital (a wholly owned unit of J.P. Morgan Chase) has steered this offering since 1997 and boasts a team of more than 20 industry analysts that break apart firms from multiple angles and analyze their operations as cash-generating businesses—not simply as a

collection of hard assets—and value them by discounting future cash flows.

This sizeable and experienced staff also shows conviction in their research—the portfolio holds just 20 or so stocks, about half the category norm. In fact, the fund's true charm is often what's not in the portfolio. While mall magnate Simon Property Group (SPG) tops its holdings list (and many peers'), managers Ken Statz and Kevin Bedell have stayed away from rival General Growth Properties (GGP) because the latter's balance sheet quality and debt levels don't meet Simon's or management's high bar for entry. Quality didn't matter much in recent years as REITs were on a steep upward plane, but Statz and Bedell stuck with their high-quality focus, just as they have since 1997, and fundholders are benefiting so far in 2008 as the fund's 13.3% return through May 16 is once again among the category's best. This fund continues to be, in our opinion, one of the best options for domestic-focused real estate exposure, and as such remains a Fund Analyst Pick. Do-it-yourself investors can also purchase the fund through certain fund supermarkets such as Schwab and sidestep the fund's front-end load.

### **Baird Aggregate Bond (BAGIX)**

Mary Ellen Stanek and her team bring a value-conscious yet opportunistic approach to the table at this intermediate-term bond offering, and investors fortunate enough to seek out this fund haven't been disappointed. In early 2007, for example, the team anticipated trouble in mortgage-related and financials issues and began paring back their exposure. That move paid off in spades, as the fund's returns were mostly shielded when subprime mortgage problems roiled those areas of the market. But the fund didn't rest on this success, and rather looked to buy older, more seasoned commercial mortgage-backed securities that they think were unduly punished during the sell-off along with longer-maturity financials bonds from firms such as Citigroup because of their attractive yield. Overall the fund has delivered stable, consistent returns, and its low costs mean Stanek has less of a headwind to continuing that success.

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**Information through 04/30/08**

The average annual total returns for the Institutional Class of the Baird Aggregate Bond Fund as of April 30 are 3.39% for the one-year and 4.43% for the five-year periods and 6.36% since its September 29, 2000, inception date. The expense ratio is 0.30%. The average annual total returns for the Institutional Class of the Baird Aggregate Bond Fund as of March 31 are 4.18% for the one-year and 4.78% for the five-year periods and 6.47% since its September 29, 2000, inception date. The Institutional Class of the Baird Aggregate Bond Fund has an initial investment minimum of \$25,000. The fund's top ten holdings as of April 30 are:

<b>Issuer</b>	<b>Coupon</b>	<b>Maturity</b>
UNITED STATES TREAS BDS	6.250	08/2023
FEDERAL NATL MTG ASSN	6.000	05/2011
FNMA POOL	5.500	04/2036
FNMA POOL	5.500	02/2035
GMAC	4.079	05/2036
AM EX MT	2.756	02/2013
FNMA	5.000	08/2034
CWALT	5.250	5/2021
DLJ COM MTG	7.340	10/2032
FNMA POOL	6.00	05/2026

**Performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns 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 this performance data.**

**Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information is found in the prospectus. For a prospectus or for performance current to the most recent month-end, contact Baird Funds directly at 800-444-9102 or contact your Baird Financial Advisor. Please read the prospectus carefully before investing.**

The fund maintains securities with longer maturities in order to provide a greater potential for return. This may also increase the fund's interest rate risk. Generally, the value of bond funds rises when prevailing interest rates fall and falls when interest rates rise. The Fund may also invest in mortgage- and asset-backed securities which include interest rate and prepayment risks more pronounced than those of other fixed income securities.

If used after June 30, this reprint must be accompanied with performance data current through the most recent quarter. For Morningstar ratings data current through the most recent month-end, please visit [www.bairdfunds.com](http://www.bairdfunds.com).

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