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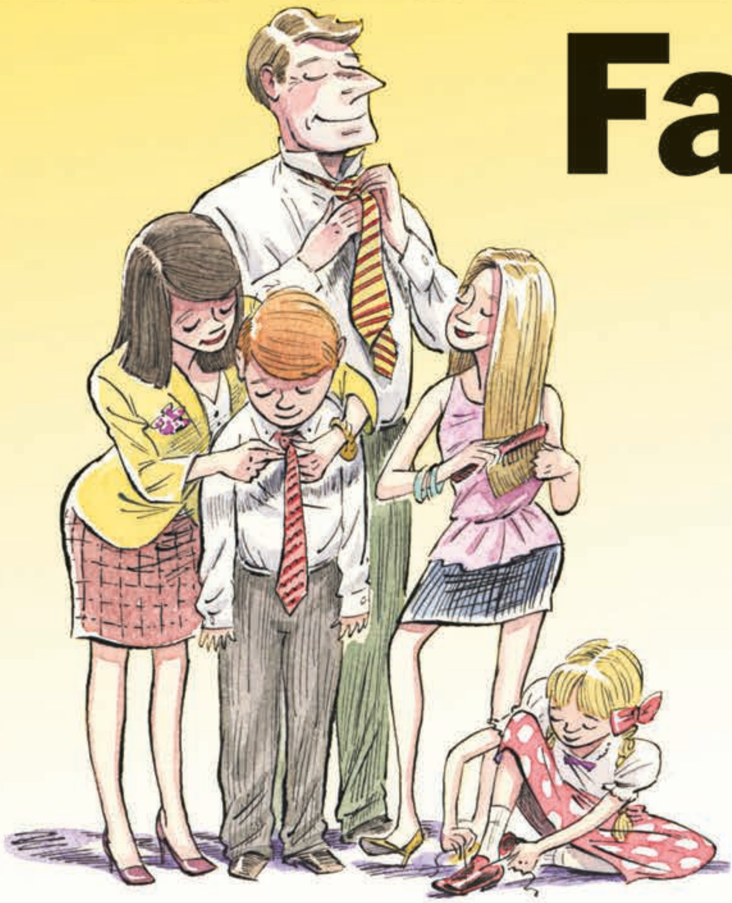
SPECIAL REPORT

Best MUTUAL FUND Families



Gary Hovland for *Barron's*

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Dressing Up 2014

By Lawrence C. Strauss

(The following has been excerpted.)

The worst year for active management led to a pretty unusual showing for 2014's Barron's/Lipper Fund Family Ranking. We'll cut to the chase: Vanguard tops the list but not for the reason you might think. The Vanguard Group, with two-thirds of its $3.1 trillion in assets under management in index funds, was surely helped by its large devotion to matching market returns in a year in which most active managers struggled to outperform. But the $1 trillion the firm has in actively managed funds truly shined. (And that $1 trillion is more than 63 of the 65 families on this list have in all of their funds, combined.)

Vanguard's largest actively managed offering, the $88 billion Vanguard Wellington (ticker: VWELX), returned 9.8%, beating 86% of its peers. Overall, 11 of the firm's 24 actively managed funds in this survey topped their benchmarks much better than the typical U.S. actively managed stock fund.

Even so, Vanguard's index funds did better, on average than its actively managed funds. The index funds and exchange-traded funds included in this survey finished in the 72nd percentile of their respective Lipper categories, while the active funds placed in the 68th. (In these rankings, the 100th percentile is the best, and the first is the worst.)

"All of the planets lined up for Vanguard in 2014, no question," says Daniel P. Wiener, who writes a monthly newsletter about the Malvern, Pa., asset manager and produces an annual review of its performance.

Three of the top six finishers in the annual fund-family ranking have a big focus on passive investments, including exchange-traded funds. Invesco (IVZ), which has nearly a fifth of its assets in its PowerShares ETFs and index mutual funds, ranked third. BlackRock (BLK), the largest asset manager in the world, came in sixth, no doubt helped by its sprawling $1 trillion iShares ETF franchise.

That Vanguard did so well in the one-year ranking isn't surprising, considering that only 20% of U.S. actively managed stock funds beat their benchmarks in 2014, versus 45% the year before, according to Morningstar. With equity valuations stretched, it was difficult for many fund managers to match their bogeys, much less exceed them. Although certain sectors had good returns, including technology, utilities, and health care, the returns in other parts of the market notably consumer discretionary, materials, and industrials were more muted. And energy's dismal decline eroded many gains in the second half of the year.

Good performance in the U.S. equity category was very important. Our rankings are asset-weighted, which means a firm's largest funds contribute the most to its overall standing. Domestic stocks account for 40% of assets in the one-year survey by far the biggest weighting. Vanguard finished third in that category; BlackRock and Invesco came in sixth and 11th, respectively. All were helped by large, broad-market funds, including the $380 billion Vanguard Total Stock Market Index. (VITSX) and its $52 billion ETF counterpart (VTI); BlackRock's iShares MSCI EAFE ETF (EFA), that firm's third-largest retail fund with $53.5 billion in assets, and Invesco's largest fund, the $37 billion PowerShares QQQ (QQQ), which tracks the Nasdaq 100 Index. S&P 500 index funds weren't included in the ranking.

The other categories are world equity, with a weighting of 15.9%; mixed funds, such as target-date, balanced, and other asset-allocation funds, 19.2%; taxable bonds, 21.5%; and tax-exempt bonds, 3.4%.

Rounding out the top six are three firms that are far from household names in the U.S. fund world.

BMO Global Asset Management, which is part of Bank of Montreal (BMO), came in second. Its U.S. retail mutual funds, which oversee $14 billion in assets, were helped by finishing second in world equities and fifth in taxable bonds.

SEI Group, part of the financial-services company SEI Investments (SEIC), based in Oaks, Pa., ranked fourth. It was 13th in the all-important U.S. equity category thanks in part to the SEI Large Cap Disciplined Equity fund (SCPAX), which outpaced 73% of its Lipper peers by returning 13.2% last year. SEI also came in seventh in the taxable-bond category. The firm has $117 billion in 50 mutual funds, but its legacy business is providing back-office services, such as record-keeping, to private banks and other institutions.

Coming in fifth was Principal Funds, part of Principal Financial Group (PFG), an insurer and asset manager based in Des Moines, Iowa. It has a big focus on the retirement market, including target-date retirement funds. Principal turned in a strong showing across the board, placing in the top third or better in all five categories.

Neither SEI nor BMO had distinguished themselves in the recent one-year rankings. BMO finished 61st in 2013 three spots from the bottom and 34th in 2012. Last year, Barron's pointed out some of the BMO funds' shortcomings, noting that several of its bigger stock funds badly trailed their peers. One of those funds, $304 million BMO Large Cap Growth (MLCIX), had a much better year this time around. With a total return of 14.5% in 2014, the portfolio placed in the top 10% of its category, helped by a larger-than-average helping of technology and health-care companies, and few energy stocks.

"Our focus is on finding sound, high-quality securities, and we have done that for over a decade," says Barry McInerney, the co-CEO of BMO Global Asset Management, who oversees the firm's U.S. fund business. "That came through stronger in 2014." BMO didn't have the requisite funds to qualify for the five- or 10-year rankings.

SEI, fourth in the rankings, finished a disappointing 46th in 2013 and 44th in 2012, but its five-year ranking has been improving. It was 31st among 56 firms this time, versus 41st in 2013 and 49th in 2012. The latest showing didn't move the needle much for SEI's 10-year return, which was 44th, four spots from the bottom.

"Most people were positioned for some growth," says Kevin Barr, who heads SEI's investment-management business. "But what actually performed in 2014 was more-defensive sectors," such as health care and utilities, he adds.

Among the funds that helped bolster

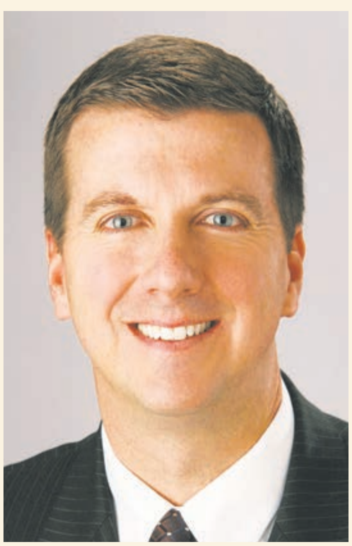
The Best Fund Families of 2014

Rank	Family	Total Assets (bil)*	Weighted Score	FUND RANKING U.S. Equity	World Equity	Mixed Equity	Taxable Bond	Tax-Exempt Bond
1.	Vanguard Group	$2343.40	73.48	3	27	4	4	24
2.	BMO Global Asset Mgmt	7.54	67.23	31	2	25	5	13
3.	Invesco	216.76	67.17	11	16	11	11	14
4.	SEI Group	80.73	63.56	13	19	31	7	42
5.	Principal Funds	141.16	63.29	12	21	20	21	11
6.	BlackRock	752.30	62.93	6	22	36	9	43
7.	Goldman Sachs Asset Mgmt	101.32	62.72	1	28	62	19	12
8.	American Century Invst Mgmt	112.26	62.25	8	48	8	25	48
9.	UBS Global Asset Management	12.42	61.26	25	7	12	39	34
10.	Legg Mason	113.42	60.78	38	41	23	2	19
11.	Lord Abbett	113.03	60.76	36	25	41	1	9
12.	JPMorgan	286.93	60.40	2	44	26	44	54
13.	Pimco	392.32	60.34	4	13	46	29	47
14.	Delaware Management	40.76	59.67	10	60	19	16	18
15.	Victory Capital Management	16.40	59.40	7	5	5	65	59
16.	T. Rowe Price Associates	525.43	58.88	40	8	15	33	29
17.	Nuveen Fund Advisors	46.06	58.26	21	50	16	24	10
18.	Fidelity Mgmt & Research	1256.52	57.71	29	33	24	22	32
19.	Guggenheim Investments	36.53	57.69	18	59	1	48	8
20.	Prudential Investments	49.71	57.49	26	38	27	15	36
21.	Calvert Investments	9.82	57.34	15	52	9	30	61
22.	Northern Trust Investments	39.68	56.92	17	46	17	34	40
23.	Thrivent Financial for Lutherans	16.83	56.60	34	18	38	12	52
24.	PNC Funds	2.90	56.40	9	43	30	51	28
25.	Brown Advisory Funds	5.08	56.25	61	10	3	6	62
26.	GE Asset Management	18.30	55.53	5	64	14	26	53
27.	American Funds	1205.48	53.69	49	17	10	40	51
28.	TIAA-CREF	99.92	53.54	14	58	43	14	23
29.	Columbia Management	153.55	53.36	43	26	28	32	31
30.	Hartford Funds	64.69	53.33	28	29	29	56	16
31.	Pioneer Investment Mgmt	33.96	53.31	22	32	61	10	21
32.	State Farm Investment Mgmt	16.35	53.27	35	57	32	8	44
33.	Putnam Investment Mgmt	68.60	52.81	16	61	2	59	46

Rank	Family	Total Assets (bil)*	Weighted Score	FUND RANKING U.S. Equity	World Equity	Mixed Equity	Taxable Bond	Tax-Exempt Bond
34.	AllianceBernstein	55.70	52.71	37	39	51	3	49
35.	USAA Asset Management	52.73	52.63	20	36	57	13	17
36.	Natixis Global Asset Mgmt	163.92	52.33	30	51	13	52	37
37.	State Street Bank & Trust	85.33	51.95	23	30	35	57	41
38.	Eaton Vance Management	69.28	51.86	50	42	21	23	6
39.	SIT Investment Associates	2.50	50.83	24	49	7	64	3
40.	John Hancock Group	168.00	49.65	47	23	42	28	30
41.	MFS Investment Management	183.11	49.48	58	12	39	17	26
42.	Federated Investors	56.36	49.39	27	34	48	42	35
43.	Ivy Investment Management	57.98	48.68	33	6	65	43	50
44.	Deutsche Asset & Wealth Mgmt	35.47	48.43	42	45	37	45	22
45.	Oppenheimer Funds	193.94	47.89	32	56	44	38	5
46.	RidgeWorth Funds	19.33	47.77	45	62	22	37	20
47.	Wilmington Funds	3.20	47.33	44	15	58	36	38
48.	Affiliated Managers Group	88.36	47.20	53	11	34	58	7
49.	Schroder Invst Mgmt N. Amer.	3.27	47.16	19	53	63	41	1
50.	Waddell & Reed Invst Mgmt	24.16	46.67	48	4	56	53	56
51.	First Investors Mgmt	8.52	46.40	59	9	33	55	45
52.	Transamerica Asset Mgmt	39.26	46.11	55	35	40	27	2
53.	BNY Mellon/Dreyfus	67.90	45.89	57	40	18	46	33
54.	Russell Investment Group	43.48	44.68	39	31	60	47	39
55.	Nationwide Fund Advisors	19.82	44.62	41	24	55	49	57
56.	Neuberger Berman Mgmt	36.64	43.95	60	14	53	31	15
57.	Frost Investment Advisors	2.95	43.71	46	65	6	54	63
58.	MainStay Funds	72.61	43.51	51	20	59	50	4
59.	Franklin Templeton	399.90	39.63	52	54	54	35	25
60.	Dimensional Fund Advisors	241.38	39.46	54	47	64	18	55
61.	FolioMetrix	0.21	37.01	64	3	45	62	64
62.	Wells Fargo Funds Mgmt	114.11	36.87	62	55	52	20	27
63.	AssetMark	3.31	34.46	56	37	49	60	58
64.	Virtus Investment Partners	32.49	32.42	65	1	50	61	60
65.	Manning & Napier Advisors	19.64	21.97	63	63	47	63	65

*Total assets reflect funds included in the survey.

Source: Lipper



Barry McInerney

BMO Global Asset Mgmt
Total AUM: $14 billion
2014 ranking: 2
U.S. retail funds: 45

BMO Asset Management, part of the Bank of Montreal, is hardly a household name in the U.S. In fact, you're probably reading the name as B-M-O, but those in the know refer to the company as "Beemo."

BMO has $60 billion under management in the U.S., with a fairly standard retail-fund lineup of 45 funds with total assets of just $14 billion smaller than many individual funds run by Vanguard or Fidelity.

The firm is determined to increase its U.S. business; it acquired Marshall & Ilsley, a Wisconsin bank, in 2011. With that purchase came 20 U.S.-listed mutual funds. Although the asset manager had a small presence here before then, that deal "gave us a platform in the U.S.," says Barry McInerney, 51, the co-CEO of BMO Global Asset Management, who oversees the firm's U.S. fund business. It relies on intermediaries to sell its funds its sales channels include registered investment advisors, wire houses, and 401(k) plans.

BMO, which runs $272 billion globally, has been using its reach to have some of its managers outside of North America run portfolios for investors domiciled here, such as the $409 million BMO Pyrford International Stock fund (MISNX). With a total return last year of 0.6%, it bested more than 90% of its Lipper peers, though the three-year-old fund's performance wasn't nearly as good in 2012 and 2013.

McInerney, who is based in Chicago and has worked for the company since 2009, says the next wave of growth will be among alternative funds and exchange-traded funds. Alternatives, he says, provide returns "that aren't based on market conditions." Late last year, BMO launched its first U.S. retail fund in that space, BMO Alternative Strategies (BMATX), a long-short fund that can also go into (or bet against) currencies and interest rates, as well as stocks and bonds.

BMO ETFs make up 25% of the Canadian market, but McInerney wouldn't divulge what plans BMO has, if any, on cracking the ultracompetitive U.S. ETF market.

the shop's performance was SEI Tax-Managed Volatility (TMMAX), which outstripped 97% of its Lipper peers last year, with a total return of 16.2%. Its holdings included Johnson & Johnson (JNJ), which returned 17.3%, and the New York area utility Consolidated Edison (ED), 24.8%.

Unlike BMO and SEI, which have bounced around in the rankings, Principal has played a steadier hand. Though it did come in 43rd in the previous one-year table, it placed 11th the year before that, and its five-year showing has been improving steadily: ninth in 2014, 27th in 2013, and 34th in 2012. Its 10-year ranking was a solid No. 20 a top-half finish. "Our focus tends to be as much on three- and five-year returns, as it is on one-year returns," says Nora Everett, the president and CEO of Principal Funds.

The $9.6 billion Principal MidCap (PEMGX), which finished in the top quartile of its peer group with a total return of 12.6%, helped Principal's ranking. ■

How We Rank the Fund Families

To qualify for the Barron's/Lipper fund survey, a group must have at least three funds in Lipper's general U.S.-stock category, as well as one in world equity, which combines global and international funds. (Last year was the first time we included the performance of emerging-market funds in the world-equity category, although fund companies aren't required to offer such a fund.) We also require at least one mixed-asset (or balanced) fund, which holds both stocks and bonds. Shops also must have at least two taxable-bond funds and one tax-exempt offering.

Each fund's returns are adjusted for 12b-1 fees, which are used for marketing and distribution expenses. Funds typically factor these into returns, to better reflect what investors would see after these annual fees have been deducted. But our aim is to measure the manager's skill, uncomplicated by expenses. Fund loads, or sales charges, aren't included in the calculation of returns, either.

Each fund's performance is measured against those of all funds in its Lipper category (such as small-value). That leads to a percentile ranking, with 100 the highest and one the lowest, which is then weighted by asset size, relative to the fund family's other assets in its general classification. If a family's biggest funds do well, that boosts its overall ranking; poor performance in the biggest funds hurts a firm's ranking. Finally, the score is multiplied by the weighting of its general classification, as determined by the entire Lipper universe of funds. The category weightings for the one-year results: general equity, 40%; world equity, 15.9%; mixed asset, 19.2%; taxable bond, 21.5%; and tax-exempt bond, 3.4%. The category weightings for the five-year results: general equity, 41%; world equity, 15.5%; mixed asset, 19.2%; taxable bonds, 20.7%, and tax-exempt bonds, 3.6%. The category weightings for the 10-year results: general equity, 45.2%; world equity, 13.6%; mixed asset, 17.6%; taxable bonds, 19.5%; and tax-exempt bonds, 4.1%.

The scoring: Say a fund in the general U.S. equity category has $500 million in assets, accounting for half of it parent's assets in that category. Its ranking is the 75th percentile. The first calculation would be 75 times 0.50, which comes to 37.5. That score is then multiplied by 40%, general equity's overall weighting in Lipper's universe. So it would be 37.5 times 0.4, which equals 15. Similar calculations are done for each fund in our study. Then, all the numbers are added up. The shop with the highest total score wins, both for every category and overall. The same process is repeated for the five- and 10-year rankings, based on their weightings.

BMO Global Asset Management
A part of BMO Financial Group

Contact us

For more information about BMO Funds:

1-844-BMO-FUND (266-3863)

bmofunds.com