

INVESTING



# OUR FAVORITE BROKER-SOLD FUNDS

**A DOZEN FUNDS THAT WOULD DO ANY PORTFOLIO PROUD—ESPECIALLY IF YOU CAN GET THEM WITHOUT A SALES FEE. »**

**BY ANDREW TANZER**

**TWENTY YEARS AGO, THE DISTINCTION BETWEEN LOAD AND NO-LOAD MUTUAL FUNDS WAS**

clear-cut. Do-it-yourselfers bought no-loads directly from the sponsors. Investors working with brokers, financial planners and even insurance agents invested in load funds, typically paying a front-end sales charge of 5% to 6% for stock funds and a little less for bond funds. Or they bought share classes with higher annual fees and

stiff back-end sales charges.

In recent years, though, the distinction between load funds and no-load funds has blurred. Take the case of Thornburg Investment Management, which runs \$48 billion of assets. Thornburg's Leigh Moiola reports that 80% to 90% of the Santa Fe, N.M., firm's funds are bought without a sales commission—the inverse of the ratio 20 years ago.

Load funds without loads come in a variety of guises. They may be institutional-class shares, which investors typically buy through fee-based advisers. They could be Class A shares with their front-end loads waived. Or they could be Class R shares, which are used in 401(k) or similar retirement plans. "Load versus no-load is no longer correct terminology," says Avi Nachmany, head of research at Strategic Insight. He estimates that the share of funds from traditional load families sold without sales fees today is 60% and rising. "Everyone is moving toward offering mutual funds through financial advisers," Nachmany adds.

We don't advise that you ever pay a front-end load or an ongoing sales charge (particularly for Class B fund shares). But we recognize that many outstanding load funds are now available without a fee through advisers, brokerage wrap accounts, 401(k)s and even 529 plans, so we decided to pick our dozen favorites. In compiling this list, we used the same strict criteria that we employ to compile the Kiplinger 25, the list of our favorite no-load funds. Among other considerations, we gave extra points to fund managers who are skilled risk managers and whose funds tend to hold up well in bear markets.

●● **DOMESTIC STOCK FUNDS**

Don't let the name fool you. **THORNBURG VALUE** isn't purely a bargain-hunting fund. Managers Connor Browne and Ed Maran divide their holdings into three buckets: basic value, consistent earners and "emerging franchises," companies with fast-growing products or services with strong competitive positions. This gives the fund, which invests mostly in large companies, a blend of growth and value attributes.

Basic value companies tend to be in industries, such as banking and oil, in which competition is fierce and firms don't have much pricing flexibility. An example of such a holding is U.S. Bancorp, which remained profitable throughout one of the ugliest banking cycles in history.

Another holding, Gilead Sciences, the leader in HIV treatments, generates consistent (and rapid) earnings growth. Stocks such as this tend to hold up well in bear markets (see "Stocks That Grow in any Climate," Oct.). Emerging franchises can be small or they can be large—such as Apple, which Browne says has the potential to dominate the fast-growing smart-phone business.

The six managers at **RS PARTNERS**, a small-company fund, think very much like private-equity investors when they spend hundreds of hours breaking down a business and analyzing each of its parts. Co-manager Joe Wolf says deep knowledge of a business is one of the best tools to mitigate risk. So he and his colleagues will buy a stock when they are satisfied that it has \$3 to \$5 per share of upside potential for each dollar of downside risk.

The RS team searches for businesses showing improved returns on invested

capital. "When you purchase structurally improving businesses, time is your friend," Wolf says. Holdings include NBTY—owner of Nature's Bounty, the leading vitamin wholesaler—and ACI Worldwide, the dominant processor of debit-card transactions.

Eric Ende, of **FPA PERENNIAL**, makes stock picking sound easy. You identify superior businesses that will increase their intrinsic value every year, buy them at a discount and hold on.

For Ende and co-manager Steven Geist, a superior business has a sturdy balance sheet, achieves a high return on capital and has abundant opportunities to reinvest in the business. And most important, the businesses are shielded by high barriers to entry, which means that returns will not be eroded by competitors.

Perennial, which focuses on small and midsize companies, has found several of these businesses in health-care niches. VCA Antech is a consolidator in the highly fragmented veterinary-hospital industry, and Charles River Laboratories dominates the market for providing laboratory rodents for pharmaceutical research.

●● **OVERSEAS STOCK FUNDS**

**THORNBURG INTERNATIONAL VALUE** is a close cousin of Thornburg Value. The managers (Bill Fries, Wendy Trevisani and Lei Wang) divide stocks into the same three buckets of basic value, consistent earners and emerging franchises.

During gloomy 2008, Trevisani notes, the fund had half of its assets in consistent growers. Such steady Eddies as Teva Pharmaceutical Industries, the Israel-based generic-drug giant, provided some ballast. This year, emerging-growth companies

such as Baidu, a Chinese Internet play, are boosting performance.

In addition to holding 18% of its assets in emerging-markets stocks, International Value recently owned several European companies largely for their exposure to fast-growing developing countries. Trevisani says Louis Vuitton, the French luxury-fashion king, is selling more and more products in China, and Standard Chartered, a bank based in the U.K., generates 90% of its profits from emerging markets.

Over the long run, emerging markets deliver handsome returns. The problem is the rocky ride: Emerging-markets stocks tend to be nearly twice as volatile as U.S. stocks. **AMERICAN FUNDS NEW WORLD** was designed to tamp down that risk. Along with developing-markets stocks, such as China Mobile, this fund invests in emerging-markets bonds (typically 10% of the portfolio). It also holds stocks of multinational corporations (currently one-fourth of assets), including Avon Products and Switzerland-based Nestlé, that derive

substantial revenues from emerging nations. As a result, investors enjoy most of the gains from emerging markets with about one-third less volatility than the typical emerging-markets stock fund.

### ●● GO-ANYWHERE FUNDS

As soon as you look at **IVY ASSET STRATEGY**'s record—a 15% annualized return over the past five years—you know that this is an unconventional fund. Co-managers Mike Avery and Ryan Caldwell begin their investing process by establishing a worldview and then investing with great freedom in stocks, bonds and precious metals.

After 9/11, Avery shifted Ivy's focus from domestic to international, and he hasn't looked back. The fund focuses on companies that benefit from rising prosperity and a burgeoning middle class in developing countries. When Ivy does hold U.S. stocks, such as Monsanto, it does so more for their emerging-markets exposure than for their U.S. operations.

Global stock funds are a dime a dozen, but **FRANKLIN MUTUAL GLOBAL DISCOVERY** is a fund with a difference. Like all of the Mutual Series funds, which are owned by the Franklin Templeton family, Discovery buys only if its managers can get a security at a steep discount to their estimation of its true worth. "We're risk-averse people. We hate losing money for our shareholders," says Charles Lahr, who co-manages the fund with Anne Gudefin.

Sometimes Discovery takes preservation of capital to an extreme. Early this year, the fund held an extraordinary 60% of its assets in cash. That's now down to one-third of assets. But Discovery still has a relatively low weighting in U.S. stocks, which Lahr says he finds 25% to 30% more expensive than European shares. In Europe, Discovery has a healthy appetite for food and beverage stocks, such as Nestlé and France's Pernod Ricard.

You may think we're going out on a limb to recommend **IVA WORLDWIDE**, which is barely more than a year old and a member of a brand-new fund family. We're not. Worldwide is managed by two Frenchmen, Charles de Vault and Chuck de Lardemelle, who were both trained at the feet of a master: Jean-Marie Eveillard, a fund-industry legend who compiled an astonishing record over 30 years at First Eagle Global before retiring last year.

De Vault, who managed or co-managed several First Eagle funds for seven years before decamping in 2007, absorbed value-investing lessons from Eveillard. His mentor, he says, "had no speculative juices flowing in his blood, no greed as an investor, but did have the intellectual fortitude to go against the crowd."

Two keys to the approach, says de Vault, are to be as resilient as possible in down markets and to be eclectic enough to scour the world for opportunities in any asset class and location. Currently, Worldwide has 6% of its assets in gold bullion, 23% in high-yield bonds and 40% in stocks, most of them in Europe and Japan.

## Returns and Fees

# 12 FUNDS LOADED FOR SUCCESS

Data below is for Class A shares, which levy upfront sales charges. Class B and Class C shares charge higher annual fees. You'll get the best deal if you can get a load fund's institutional-class shares. That class doesn't charge commissions and comes with lower annual fees.

Fund	Symbol	Total return*			Max. sales charge	Exp. ratio
		1 yr.	5 yrs.	10 yrs.		
American Funds New World	NEWFX	33.9%	13.7%	10.2%	5.75%	0.95%
Eaton Vance Worldwide Health Sci	ETHSX	9.9	4.2	8.7	5.75	1.52
FPA New Income	FPNIX	3.8	4.0	5.6	3.50	0.61
FPA Perennial	FPPFX	20.3	3.2	9.3	5.25	1.02
Franklin Mutual Global Discovery	TEDIX	14.3	8.9	9.4	5.75	1.30
IVA Worldwide	IVWAX	28.1	—	—	5.00	1.40
Ivy Asset Strategy	WASAX	18.5	14.8	—	5.75	1.03
RS Global Natural Resources	RSNRX	32.9	10.5	15.3	4.75	1.49
RS Partners	RSPFX	20.0	2.8	13.6	4.75	1.49
Templeton Global Bond	TPINX	22.4	10.7	10.4	4.25	0.92
Thornburg International Value	TGVAX	22.2	9.4	9.3	4.50	1.28
Thornburg Value	TVAFX	30.0	4.7	3.6	4.50	1.27
S&P 500-STOCK INDEX		11.1%	1.0%	-0.5%		
MSCI EAFE INDEX		21.8%	6.2%	2.8%		
MERRILL LYNCH US BROAD MKT INDEX‡		10.9%	5.1%	6.4%		

Through October 8. \*Annualized for five and ten years. —Fund not in existence for the period. †Tracks high-grade U.S. bonds. SOURCE: © 2009 Morningstar Inc.

## ●● SINGLE-INDUSTRY FUNDS

Who says that sector funds are inherently volatile and streaky? **EATON VANCE WORLDWIDE HEALTH SCIENCES**, piloted by the redoubtable Sam Isaly since August 1989, has exhibited less volatility than Standard & Poor's 500-stock index. Performance? During Isaly's first 20 years, this fund returned an annualized 14%, an average of six percentage points better than the S&P 500.

Isaly runs a fairly concentrated fund that holds 35 to 40 stocks. To reduce risk, he spreads his investments around the world and tends to take larger positions in big, steady growers, such as Johnson & Johnson. He takes smaller positions in high-growth, high-risk minnows, such as Allos Therapeutics, which in September won regulatory approval for a new lymphoma drug.

**RS GLOBAL NATURAL RESOURCES** is run along the same principles as RS Partners, with one important exception. In commodities, producers can't set prices. So the managers (Andy Pilara, MacKenzie Davis and Ken Settles) look for companies with "advantaged assets," by which they mean low-cost projects in commodities that are marked by a wide gap between low- and high-cost ventures.

This requires analyzing businesses project by project, which may call for climbing into the potash mines of Saskatchewan or descending into Australian coal mines. If companies get the projects right, says Davis, they can create value even when commodity prices are low and can generate handsome returns across market cycles.

## ●● BOND FUNDS

We don't intend to jinx Michael Hasenstab, but it's hard to find fault with his stewardship of **TEMPLETON GLOBAL BOND**. Since Hasenstab assumed the reins in early 2001, the fund has ranked in the top half of the global-bond category each year (including so far in 2009). Over that period, Templeton has outpaced its peers by an average of five percentage points a year.

The fund's name is a bit of a misnomer because such a high proportion of its returns (40% to 50% recently) have come from currency investing. In determining his strategy, Hasenstab, who holds a doctorate in economics and is aided by a team of 40 Templeton professionals around the globe, juggles three variables—the financial health of nations, interest rates and currency trends—with aplomb.

For example, in Europe he's invested in the currencies and bonds of both Sweden and Poland, while in euroland he holds bonds but has made a large bet against the currency by selling the euro short. In fact, Hasenstab is bearish on all three major international currencies—the dollar, euro and yen. He likes Asian currencies apart from the yen, however. So he holds bonds denominated in the local currencies of South Korea and Indonesia, and he's taken long positions in the currencies of China and India (both countries offer foreigners limited access to bonds).

Value-investing principles, such as preserving capital and buying securities with a margin of safety, are embedded in the DNA of **FPA NEW INCOME** and other FPA funds run by Bob Rodriguez (see "Racing Toward Disaster," Nov.). FPA pretty much focuses on absolute return—return of capital first, and only then on return *on* capital.

FPA New income, which Rodriguez co-manages with Tom Atteberry, takes these principles to an extreme. Since Rodriguez started running the fund in 1984, New Income has produced positive returns for 26 consecutive years. Atteberry, who came on board five years ago, will run the fund on his own when Rodriguez begins a year-long sabbatical in January.

Because Rodriguez and Atteberry are scared of their own shadows when it comes to investing, it's no surprise that they fret about the U.S. economy. They have positioned New Income extremely conservatively, with its effective duration (a measure of interest-rate sensitivity) a mere 1.1 years. ■

# Load Clones of the Kip 25

**IN COMPILING THIS LIST OF OUR** favorite funds, we deliberately excluded load versions of funds that appear in the Kiplinger 25, the list of our favorite no-load funds. Obviously, we approve of these load funds, too.

Will Danoff's no-load **FIDELITY CONTRAFUND (FCNTX)** has a near-copy in **FIDELITY ADVISOR NEW INSIGHTS A (FNIAX)**. One of the best large-company growth managers of his generation, Danoff recently held large positions in tech stocks, such as Google and Apple, and consumer companies, including McDonald's.

**SELECTED AMERICAN S (SLASX)**, a longtime member of the Kiplinger 25, is a near-clone of **DAVIS NEW YORK VENTURE A (NYVTX)**. Chris Davis and Ken Feinberg manage both funds, which focus on large, growing companies that sell at attractive prices. Recently, the funds' largest stock holdings were Berkshire Hathaway, Occidental Petroleum and Wells Fargo.

**MARSICO GLOBAL (MGLBX)**, a no-load fund, is a mirror image of **COLUMBIA MARSICO GLOBAL A (COGAX)**. These funds are a compilation of the best ideas from Marsico's domestic and international funds. Two of the largest positions are in JPMorgan Chase and Vestas Wind Systems of Denmark, the world's leading maker of wind turbines.

Pimco funds are tricky because they come in load and no-load versions. For example, **PIMCO COMMODITYREALRETURN STRATEGY D (PCRD)**, which tracks an index of 19 commodities, is a no-load share class of the same fund's Class A shares (**PCRAX**). **HARBOR BOND (HABDX)**, a Kip 25 member, is a close replica of Bill Gross's **PIMCO TOTAL RETURN A (PTTAX)**, a bond fund with an outstanding long-term record.

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The following are mentioned in the article, portfolio weighting of RS Partners Fund listed in parentheses as of 9/30/09: NBTY, Inc. (3.97%) and ACI Worldwide, Inc. (3.30%).

Investing in small- and mid-size companies can involve risks such as having less publicly available information, higher volatility, and less liquidity than in the case of larger companies. Funds that concentrate investments in a certain sector may be subject to greater risk than funds that invest more broadly, as companies in that sector may share common characteristics and may react similarly to market developments or other factors affecting their values. Investments in companies in natural resources industries may involve risks including changes in commodities prices, changes in demand for various natural resources, changes in energy prices, and international political and economic developments. Foreign securities are subject to political, regulatory, economic, and exchange-rate risks not present in domestic investments. The value of a debt security is affected by changes in interest rates and is subject to any credit risk of the issuer or guarantor of the security.

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RS Partners Fund (RSPFX) Performance <sup>†</sup> (Average Annual Total Returns as of 9/30/09)						
	Third Quarter 2009	1-Year	3-Year	5-Year	10-Year	Since Inception (7/12/95)
RS Partners Fund, Class A						
without sales charge	16.82%	-3.09%	-4.44%	2.66%	13.08%	11.18%
with maximum sales charge	11.29%	-7.68%	-5.98%	1.67%	12.53%	10.80%
Russell 2000 <sup>®</sup> Value Index <sup>1</sup>	22.70%	-12.61%	-6.65%	1.78%	8.05%	9.01%

Performance returns for periods of less than one year are not annualized.

RS Partners Fund: Sector Allocation <sup>2</sup> (As of 9/30/09)	
Financial Services	39.1%
Consumer Discretionary	15.2%
Technology	8.6%
Energy	7.8%
Health Care	6.6%
Materials and Processing	6.1%
Consumer Staples	4.0%
Utilities	1.6%
Producer Durables	1.0%
Cash	10.1%

RS Partners Fund: Top Ten Holdings <sup>3</sup> (As of 9/30/09)	
NBTY, Inc.	3.97%
ACI Worldwide, Inc.	3.30%
Scientific Games Corp.	3.20%
KKR Private Equity Investors, LP	3.10%
Comverse Technology, Inc.	2.91%
Career Education Corp.	2.88%
Denbury Resources, Inc.	2.86%
Euronet Worldwide, Inc.	2.75%
Jack Henry & Associates, Inc.	2.72%
Magellan Health Services, Inc.	2.70%

RS Global Natural Resources Fund (RSNRX) Performance <sup>†</sup> (Average Annual Total Returns as of 9/30/09)						
	Third Quarter 2009	1-Year	3-Year	5-Year	10-Year	Since Inception (11/15/95)
RS Global Natural Resources Fund, Class A						
without sales charge	17.32%	-2.49%	1.31%	10.34%	14.33%	10.54%
with maximum sales charge	11.73%	-7.13%	-0.33%	9.27%	13.78%	10.16%
S&P North American Natural Resources Sector Index <sup>TM 4</sup>	17.34%	-8.43%	2.97%	10.77%	8.62%	N/A
S&P 500 <sup>®</sup> Index <sup>5</sup>	15.61%	-6.91%	-5.43%	1.02%	-0.15%	6.10%

Performance returns for periods of less than one year are not annualized.

RS GNR Fund: Sector Allocation <sup>2</sup> (As of 9/30/09)	
Energy	48.7%
Materials and Processing	35.5%
Utilities	5.8%
Producer Durables	3.0%
Financial Services	2.0%
Cash	5.0%

RS GNR Fund: Top Ten Holdings <sup>3</sup> (As of 9/30/09)	
Occidental Petroleum Corp.	5.27%
Talisman Energy Inc.	5.06%
Denbury Resources, Inc.	4.53%
Southwestern Energy, Co.	4.50%
XTO Energy, Inc.	4.31%
Goldcorp, Inc.	4.25%
BHP Billiton Ltd.	4.09%
Companhia Vale del Rio Doce	3.87%
Martin Marietta Materials, Inc.	3.68%
Calpine, Corp.	3.47%

† Performance quoted represents past performance and does not guarantee future results. Investment return and principal value will fluctuate, so shares, when redeemed, may be worth more or less than their original cost. The Partners Fund and RS Global Natural Resources Fund total gross annual operating expense ratio as of the most current prospectus is 1.53% and 1.50%, respectively, for the Class A shares. Class A performance quoted "with maximum sales charge" reflects the current maximum sales charge of 4.75%. Please read the prospectus carefully for more information on sales charges as they do not apply in all cases and if applied are reduced for larger purchases. Certain share classes are subject to lower maximum sales charges whether paid at the time of purchase or deferred. Any sales charges are in addition to the Fund's fees and expenses as detailed in the Fund's most current prospectus. Fees and expenses are factored into the net asset value of your shares and any performance numbers we release. Total return figures reflect an expense limitation in effect during the periods shown; without such limitation, the performance shown would have been lower. Performance results assume the reinvestment of dividends and capital gains. The return figures shown do not reflect the deduction of taxes that a shareholder may pay on Fund distributions or the redemption of Fund shares. Current and month-end performance information, which may be lower or higher than that cited, is available by contacting RS Investments at 800-766-3863 and is frequently updated on our Web site: [www.RSinvestments.com](http://www.RSinvestments.com).

**1** The Russell 2000® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index with lower price-to-book ratios and lower forecasted growth values. (The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which consists of the 3,000 largest U.S. companies based on total market capitalization.) Index results assume the reinvestment of dividends paid on the stocks constituting the index. You may not invest in the index, and, unlike the Fund, the index does not incur fees and expenses.

**2** The Fund's holdings are allocated to each sector based on their Russell classification. If a holding is not classified by Russell, it is assigned a Russell designation by RS Investments. Cash includes short-term investments and net other assets and liabilities.

**3** Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.

**4** The S&P North American Natural Resources Sector Index™ is a modified cap-weighted index designed as a benchmark for U.S.-traded securities in the natural resources sector. The index includes companies involved in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations. Index results assume the reinvestment of dividends paid on the stocks constituting the index. Unlike the Fund, the index does not incur fees or expenses.

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