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## Mining for Hidden Gems Among Funds

A look at five small stock portfolios that advisers and researchers say deserve consideration from investors

By JAVIER ESPINOZA

When mutual funds deliver strong returns or open for business in a hot sector of the stock market, a rush of investor money can quickly push fund assets into the hundreds of millions of dollars.

But that doesn't mean there aren't impressive performers among smaller, more obscure funds, too. Financial advisers and fund researchers say there are some potential gems to be found among smaller funds, including some with less than \$100 million in assets.

Some of these offerings "just don't have the marketing dollars behind them and they are not part of some of the larger fund families people are more familiar with," says Todd Rosenbluth, a mutual-fund analyst with McGraw-Hill Cos.' S&P Capital IQ in New York.

With that in mind, we asked Mr. Rosenbluth and other researchers and advisers to suggest small funds worth a closer look. Here are their picks:

### Government Street Equity

Chosen by Mr. Rosenbluth

This \$61 million fund has been managed by Thomas W. Leavell since its 1991 inception. Mr. Leavell mostly seeks established dividend-paying stocks and he takes a patient, long-term approach, holding some stocks for three or four years, Mr. Rosenbluth says. The strategy has paid off: Through Nov. 28, "its one-year, three-year, five-year and 10-year records are all better than the [average return of its] large-cap blend peers," says Mr. Rosenbluth.

In evaluating stock funds, S&P Capital IQ relies heavily on how a fund's holdings stack up in the eyes of Standard & Poor's stock analysts, who look

### Candidates for a Higher Profile

Fund returns and percentile rankings in Morningstar categories, through November\*

Fund name (ticker)	Category	One year return (perc. rank)	Three years return (perc. rank)	Five years return (perc. rank)	Expense ratio
Government Street Equity (GVEQX)	Large blend	9.4% (9)	15.8% (16)	1.3% (12)	0.88%
Pinnacle Value (PVFIX)	Small value	-1.9 (86)	7.2 (100)	3.9 (6)	1.47
Artio US Smallcap (JSCAX)	Small growth	1.4 (75)	24.4 (22)	3.5 (23)	1.50
Marathon Value (MVPFX)	Large blend	8.3 (14)	13.0 (62)	2.6 (6)	1.23
Bogle Small Cap Growth (BOGLX)	Small blend	3.4 (51)	24.3 (8)	-2.2 (85)	1.35

\* Three-year and five-year returns are annualized. Rank of 1 means a fund is in the top 1% of its peers

Source: Morningstar

at business prospects, stock valuations and risk characteristics. Mr. Rosenbluth says Government Street Equity holds "stocks that we like," including Apple Inc., Philip Morris International Inc., Caterpillar Inc. and Chevron Corp. The fund also buys exchange-traded funds in areas such as midcap stocks and emerging-markets stocks, "so it is getting exposure to other assets in a low-cost way," Mr. Rosenbluth adds.

### Pinnacle Value

Chosen by Mutual Fund Observer's David Snowball in Rock Island, Ill.

Simple returns aren't enough to spot small funds with potential, says Mr. Snowball, publisher of Mutual Fund Observer, a free, independent mutual-fund review website. Mr. Snowball says he also looks for "some degree of predictability," based on considerations such as the manager's style, how much risk the fund takes and the reasonableness of its expenses. He also favors funds where managers are investing some of their own cash.

Pinnacle Value, a \$48 million portfolio that invests in tiny stocks and has been managed

by John E. Deyscher since 2003, fits the bill.

Mr. Deyscher delivers relatively stable returns in "an incredibly volatile portion of the market," in part by routinely having 40% to 50% of his portfolio in cash, Mr. Snowball says.

With interest rates so low, Mr. Deyscher "is getting no return on the cash he holds, but he is really good at picking stocks," investing in companies he thinks are trading at a discount to underlying earnings power or asset values, says Mr. Snowball. When small value stocks are up strongly, Pinnacle Value typically doesn't rise as much, but in down periods, it does far better than peers, he says.

Mr. Deyscher has investments in the fund in excess of \$1 million, making him the largest shareholder, Mr. Snowball says.

### Artio US Smallcap

Chosen by PDS Planning Inc.'s Bob Cochran in Columbus, Ohio

Mr. Cochran likes that the Artio fund invests in a relatively short list of stocks, recently 52. With \$83 million in assets in the fund, manager Samuel A. Dedio and his colleagues "don't need to have 200 or 300 positions at

once and can focus on their best ideas," Mr. Cochran says.

Mr. Cochran says he also likes that Mr. Dedio's approach includes "looking at macro trends as part of the decision-making process." In 2008, for instance, Mr. Dedio and his team focused on the fact that hedge funds were betting against companies with heavy debt burdens, putting additional pressure on their stock prices.

While the Artio managers were "not able to avoid the downside during the selloff, they remained diversified and then increased their holdings in positions that had debt just prior to the market rebound in 2009," says Mr. Cochran.

Before starting this fund in 2006, Mr. Dedio was a managing director and portfolio manager at Deutsche Asset Management. "We feel very confident about management because Mr. Dedio's background on small caps matches this fund's mandate," Mr. Cochran says.

### Marathon Value

Chosen by Milestones Financial Planning LLC's Johanna Turner in Mayfield, Ky.

Since 2000, this \$42 million fund has been managed by Marc

(over please)

S. Heilweil, who, despite being in his 60s, has signaled his intention to stay at least 10 more years, says Ms. Turner.

Mr. Heilweil's strategy is to get as much for shareholders with as little risk as possible. "If there was a book written about high returns and low risk, this fund would be in it," Ms. Turner says. The manager's ability to consistently keep to a "very dull" strategy that works for him and his shareholders is the key to this fund's success, she says.

Mr. Heilweil is good at spotting stocks he believes are under-

valued and has stakes in companies including Colgate-Palmolive Co., Procter & Gamble Co. and GlaxoSmithKline PLC, says Ms. Turner.

She adds that the fund typically holds stocks for two to three years.

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#### **Bogle Small Cap Growth**

Chosen by Morningstar Inc's  
Russel Kinnel in Chicago

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The manager of this \$96 million fund, John C. Bogle Jr., runs a quantitative strategy, using computers to identify predictable financial patterns

through data. Mr. Bogle, the son of Vanguard Group founder John Bogle, has used the strategy at the fund for more than a decade, racking up a solid record since the fund's inception in September 1999, says Mr. Kinnel, director of mutual-fund research at Morningstar.

In 2002, when the fund had \$150 million in assets, Mr. Bogle closed the fund to new investors. He reopened it seven years later at a lower asset base. "He says his strategy is very sensitive to a small asset base," Mr. Kinnel says. "He won't have assets that

grow so big that mutilate that advantage."

Mr. Bogle also has more than \$1 million of his own cash invested in the fund, according to Morningstar.

The risk of this fund is that its quantitative strategy "can struggle when markets sharply reverse," says Morningstar's Greg Carlson. Indeed, the fund returned negative 48% in 2008.

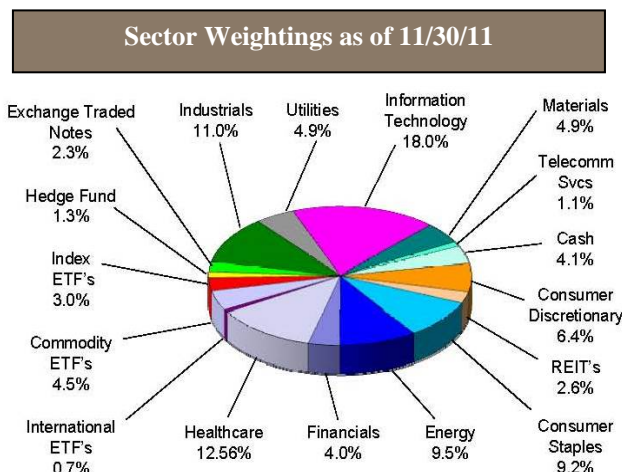
*Mr. Espinoza is a London-based reporter for The Wall Street Journal Europe.*

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## The Government Street Equity Fund (GVEQX)

Top Ten Holdings as of 11/30/11	
Security Description	% of Net Assets
US Bank Commercial Paper	4.62%
Apple Inc	4.54%
Philip Morris Intl Inc	3.47%
Vanguard Index Fds Mid Cap Vipers	3.02%
ConocoPhillips	2.84%
IBM Corp	2.45%
JPMorgan Chase & Co Alerian MLP ETN	2.34%
Colonial PPTYS Tr (REIT)	2.26%
Duke Energy Corp New	2.24%
United Technologies	2.06%



### Portfolio Performance

As Of	1 Year	3 Years	5 Years	10 Years	Expense Ratio
November 30, 2011	9.35%	15.76%	1.28%	2.98%	0.95%
September 30, 2011	2.84%	2.14%	0.10%	2.89%	0.95%

*The performance information quoted above represents past performance and past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance data, current to the most recent month end, may be obtained by calling (866) 738-1125*

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