

## Our 2003 Fund Managers of the Year

### Fund Spy

by Russel Kinnel

Winners from Vanguard, Thornburg, and Fidelity

With all of the awful news in the mutual fund industry of late, it's perhaps more important than ever that we give credit to those who didn't lose sight of their bond with shareholders and who produced great long-term results for them.

We've long recognized the importance of putting shareholders first in our annual Manager of the Year awards, but it certainly takes on greater meaning at a time when the fund industry is up to its neck in scandal. Sure, we look for strong single-year performance, but we also look for strong long-term records and managers who have made real money for investors. So, while we call it Manager of the Year, the award encompasses a lot more than that; it's just kind of hard to fit all those criteria in a title.

Here, then, are our three winners for 2003.

#### **International-Stock Manager of the Year: Bill Fries Thornburg International Value TGVAX**

Fries joins a growing list of managers who have successfully transported their investment process to overseas markets. Mutual Series has done it. Longleaf has done it. Tweedy, Browne has done it. And now Fries.

Fries runs a concentrated portfolio that features dividend-paying blue chips and higher-risk plays on stocks with attractive growth prospects. Fries invests in a wide range of market capitalizations and markets. The fund currently has a hefty 25% weighting in emerging markets. Combined with the portfolio's concentration into about 50 names, that emerging markets angle makes this fund one of the boldest international-stock funds around.

Remarkably, this fund performed well in every market environment it has faced since it was launched in 1998. In every single calendar year, it has landed in its category's top decile. That's no small feat considering that those years encompass huge swings between growth and value, the dollar versus other key currencies, and large caps versus small. In 2003, the fund's emerging markets stake was a boon, as were good stock picks such as Vodafone VOD and Novartis NVS.

We also like Thornburg's openness with shareholders. After a stock has been purchased, Thornburg puts the company name up on its Web site along with a short summary of the firm's business.

#### **Domestic-Stock Managers of the Year: Howard Schow, Theo Kolokotronis, and Joel Fried Vanguard Primecap VPMCX and Vanguard Capital Opportunity VHCX**

We chose these managers over a number of strong candidates because they represent everything you'd look for in a manager. They apply a rigorous fundamental approach that takes them on a slightly different path from other managers. Using a contrarian growth strategy, they have a knack for making a killing in out-of-favor growth stocks. Most importantly, they've made a lot of money for a lot of people over a long period of time. Schow is nearing his 20th anniversary at Primecap, Kolokotronis has been a comanager since 1985, and Fried since 1994. (Mitchell Milias and Alfred Mordecai were named comanagers in December 2002.)

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### Fund spy (cont'd)

Primecap has been a big fund for a long time, yet it has earned outstanding returns. Its 15-year return—an annualized 15.1%—is about 3 percentage points above the S&P 500's yearly return for the past decade and a half. Since the trio took over Vanguard Capital Opportunity in 1998, the fund is up 20.5% annualized versus 3.6% for the S&P 500.

The returns wouldn't have been nearly as impressive if management had bowed to prevailing trends at various points in time. Fortunately, the managers stayed with the same approach year in and year out. The funds weathered the bursting bubble much better than their peers did in 2000 because management didn't lose sight of fundamentals. Sept. 11, 2001, presented a different sort of challenge as management held a number of airline and hotel stocks at the time of the World Trade Center attacks. Rather than panicking and dumping everything, however, they culled only the weakest holdings and held on to the others, which earned nice returns when they rebounded.

Willingness to own biotech, telecom equipment, and tech stocks in 2003, three years into a brutal bear market, proved quite profitable. Early in the year, I noted that very few managers at Janus and Fidelity were willing to hold a sizable amount in tech, but the team running this fund was willing to stick its neck out. After all, that's how active managers beat their benchmarks.

They've been runners-up in the past, but it's high time the Primecap crew takes home the prize.

### Fixed-Income Managers of the Year: Fidelity's Municipal Bond Team Fidelity Spartan Municipal Income FHIGX

I never expected to write this: Fidelity's muni funds are the best part of Fidelity. They used to be an afterthought at a company run by and for stock-pickers. But Fidelity wised up and brought in some folks who have engineered one heck of a turnaround. Dwight Churchill, Charles Morrison, and Christine Thompson placed the emphasis on doing great issue selection through quantitative research and old-fashioned human analysis. George Fischer, who now works on Fidelity's taxable bond side, was also instrumental in setting Fidelity's muni group on the right course.

Now the funds avoid big bets and simply try to add value through a bunch of small bets on issues and sectors. So, you get low costs, great research, and very dependable funds. The muni group now ranks as probably the best around because many institutional heavyweights like PIMCO and Western Asset are mainly focused on taxable bonds. Only a few firms have the scale with retail investors to build as strong a muni group as Fidelity has.

The proof is in the results. (There are 16 Fidelity Spartan muni funds, and all but one landed in its category's top quartile in 2003.) Even more impressive: All 15 of those with five-year records are in their category's top decile for the trailing five years. By means of comparison, 11 of PIMCO's 18 taxable bond funds for institutional investors finished 2003 in their category's top quartile, and 10 of 16 are in the top decile for the trailing five years.

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