ETF & Mutual Fund Rankings: All Cap Value Style

The All Cap Value style ranks fourth out of the twelve fund styles as detailed in our 4Q15 Style Ratings for ETFs and Mutual Funds report. Last quarter, the All Cap Value style ranked fifth. It gets our Neutral rating, which is based on an aggregation of ratings of 0 ETFs (there are no All Cap Value ETFs under coverage) and 250 mutual funds in the All Cap Value style as of October 21, 2015. See a recap of our 3Q15 Style Ratings here.

Figure 1 shows the five best and worst-rated mutual funds in the style. Not all All Cap Value style mutual funds are created the same. The number of holdings varies widely (from 23 to 1117). This variation creates drastically different investment implications and, therefore, ratings.

Investors seeking exposure to the All Cap Value style should buy one of the Attractive-or-better rated mutual funds from Figure 1.

Figure 1: Mutual Funds with the Best & Worst Ratings – Top 5

	Allocation of Mutual Fund Holdings			
Ticker	**Attractive-or-better Stocks**	**Neutral Stocks**	**Dangerous-or-worse Stocks**	**Predictive Rating**
Best Mutual Funds				
APHLX	26%	41%	13%	**Very Attractive**
APDLX	26%	41%	13%	**Very Attractive**
ARTLX	26%	41%	13%	**Very Attractive**
BAFVX	41%	35%	12%	**Very Attractive**
BIAVX	41%	35%	12%	**Very Attractive**
Worst Mutual Funds				
PMCVX	13%	28%	45%	**Very Dangerous**
PMVAX	13%	28%	45%	**Very Dangerous**
VVOAX	20%	36%	38%	**Very Dangerous**
FRAVX	16%	31%	37%	**Very Dangerous**
COPLX	10%	38%	48%	**Very Dangerous**

* Best mutual funds exclude funds with TNAs less than $100 million for inadequate liquidity.

Sources: New Constructs, LLC and company filings

Artisan Partners Value Fund (APHLX) is the top-rated All Cap Value mutual fund and Copley Fund (COPLX) is the worst-rated All Cap Value mutual fund. APHLX earns our Very Attractive rating and COPLX earns our Very Dangerous rating.

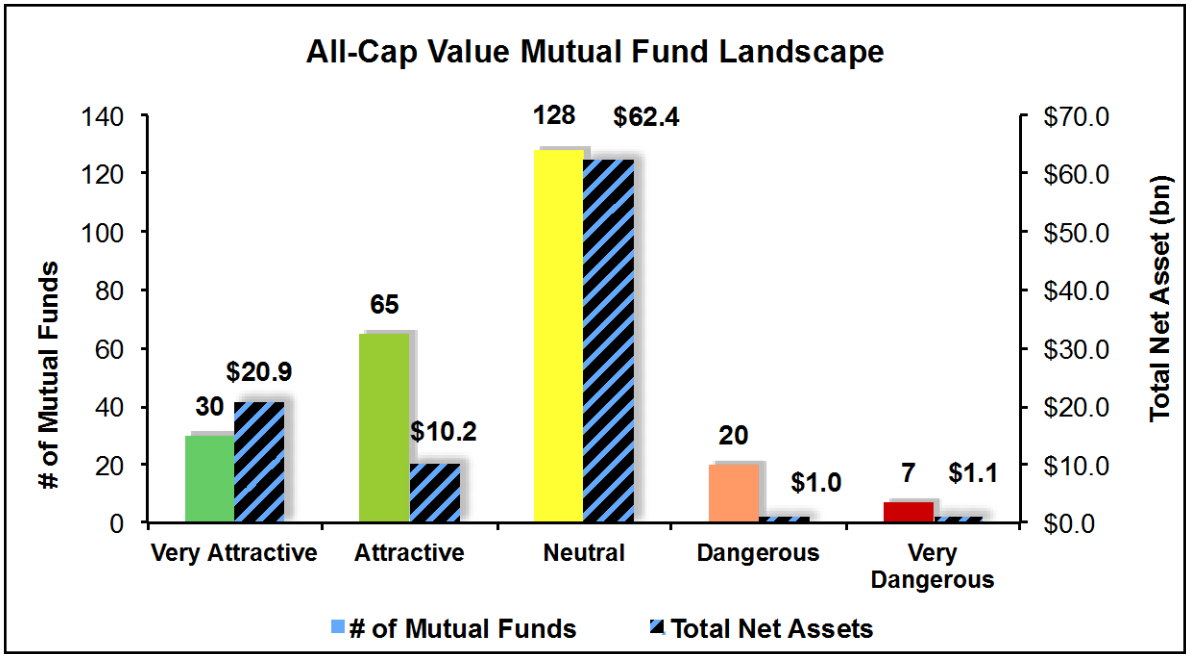
Microsoft (MSFT: $48/share) is one of our favorite stocks held by All Cap Value mutual funds and earns our Attractive rating. Microsoft was recently featured as a Stock Pick of the Week. Over the past decade, Microsoft has grown after-tax profit (NOPAT) by 7% compounded annually. The company currently earns a top quintile return on invested capital (ROIC) of 40%, which makes it one of the most profitable firms in the industry. As Microsoft has shifted its business to focus more on cloud-based solutions and its dominant Office suite of software, many investors have jumped shipped and left MSFT undervalued. At its current price of $48/share, MSFT has a price-to-economic-book-value ratio (PEBV) ratio of 1.2. This ratio implies that the market expects Microsoft to increase profits by only 20% over its remaining corporate life. If Microsoft can grow NOPAT by just 6% compounded annually for the next decade, the stock is worth $59/share today – a 23% upside.

Macquarie Infrastructure Corporation (MIC: $80/share) is one of our least favorite stocks held by All Cap Value mutual funds and earns our Very Dangerous rating. MIC is also on October's Most Dangerous Stocks list. Since 2010, Macquarie's NOPAT has declined by 13% compounded annually. The company's ROIC has fallen from 4% to a bottom quintile 1% over this same timeframe. Declining fundamentals and a rising stock price have left

MIC overvalued. To justify its current price of $80/share, Macquarie must grow NOPAT by 23% compounded annually for the next 14 years. This expectation seems rather optimistic given the past five years of profit declines.

Figure 2 shows the rating landscape of all All Cap Value mutual funds.

Figure 2: Separating the Best Mutual Funds From the Worst Funds



Sources: New Constructs, LLC and company filings

Disclosure: David Trainer and Blaine Skaggs receive no compensation to write about any specific stock, style, style or theme.

New Constructs® – Profile

How New Constructs Creates Value for Clients

We find it. You benefit. Cutting-edge technology enables us to scale our forensics accounting expertise across 3000+ stocks. We shine a light in the dark corners of SEC filings so our clients can make safer, more informed decisions.

Our stock rating methodology instantly informs you of the quality of the business and the fairness of the stock's valuation. We do the diligence on earnings quality and valuation so you don't have to.

In-depth risk/reward analysis underpins our ratings. Our rating methodology grades every stock, ETF, and mutual fund according to what we believe are the 5 most important criteria for assessing the quality of an equity. Each grade reflects the balance of potential risk and reward of buying that equity. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Dangerous and Dangerous correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

QUESTION: Why shouldn't fund research be as good as stock research? Why should fund investors rely on backward-looking price trends?

ANSWER: They should not.

Don't judge a fund by its cover. Take a look inside at its holdings and understand the quality of earnings and valuation of the stocks it holds. We enable you to choose the best fund based on its stock-picking merits so you do not have to rely solely on backward-looking technical metrics.

The drivers of our forward-looking fund ratings are Portfolio Management (i.e. the aggregated ratings of its holdings) and Total Annual Costs. The Total Annual Costs Rating (details here) captures the all-in cost of being in a fund over a 3-year holding period, the average period for all fund investors.

Our Philosophy About Research

Accounting data is not designed for equity investors, but for debt investors. Accounting data must be translated into economic earnings to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. Economic earnings are what matter because they are:

1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

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