Long Idea: Nuveen Concentrated Core Fund (NCAFX)

The only justification for mutual funds to have higher fees than ETFs is "active" management that leads to out-performance. The only way to outperform is to hold higher quality stocks. This week's Long Idea, Nuveen Concentrated Core Fund (NCAFX) justifies its fees through significantly better stock selection. In fact, NCAFX allocates heavily to stocks on June's Most Attractive Stocks list.

NCAFX combines a mix of high earnings quality companies, stocks with low market expectations, and charges low total annual costs to earn our Very Attractive predictive rating, and ranks in the 94th percentile of over 7000 mutual funds under coverage.

High Quality Holdings Make Outperformance More Likely

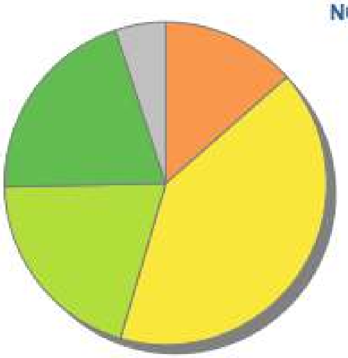
Nuveen Concentrated Core Fund investors get stock selection that is better than the benchmark, the State Street SPDR S&P 500 ETF (SPY).

Per Figure 1, Nuveen Concentrated Core Fund allocates 40% of capital to Attractive-or-better rated stocks compared to just 28% for the benchmark. Better yet, NCAFX allocates to some of our best rated stocks: 15% of assets to Ford Motor Company (F), Target Corporation (TGT), and Southwest Airlines (LUV). Each of these stocks is on June's Most Attractive Stocks list.

On the flip side, NCAFX allocates less capital to Dangerous-or-worse rated stocks (14%) than SPY (34%). In fact, NCAFX does not allocate to any stock that receives a Very Dangerous rating.

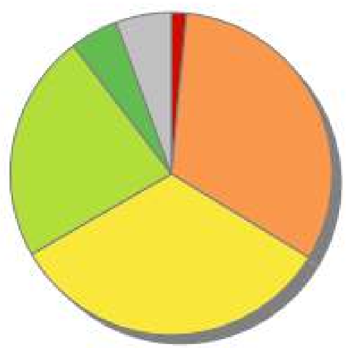
Figure 1: Nuveen Concentrated Core Fund Fund Portfolio Asset Allocation

Stock and Cash Rating Allocations vs Benchmark - State Street SPDR S&P 500 ETF Trust (SPY)



NCAFX Allocations		SPY Allocations
0%	Very Dangerous	2%
14%	Dangerous	32%
41%	Neutral	33%
20%	Attractive	23%
20%	Very Attractive	5%
5%	Unrated	6%
0%	Cash	--

Holdings as of 03/31/16.
Ratings as of 05/31/2016.



Sources: New Constructs, LLC and company filings

Overall, five of NCAFX's top 10 holdings (including Ford) make up 26% of its allocation and receive our Attractive-or-better rating

The price-to-economic book value (PEBV) ratio for the S&P 500 (as measured by SPY) is 2.7. The PEBV ratio for NCAFX is 2.4. This ratio means that the market expects the profits for the S&P 500 to increase 270% from their current levels versus 240% for NCAFX. In other words, expectations for profit growth in stocks held by NCAFX are lower than the overall market.

Our findings are the same from our discounted cash flow valuation of the funds' holdings. The growth appreciation period (GAP) is 24 years for the S&P 500 and only 15 years for NCAFX. Essentially, the market expects the stocks in the S&P 500 to earn a return on invested capital (ROIC) greater than the weighted average cost of capital (WACC) on new capex for 9 years longer than the stocks held by NCAFX.

With high quality holdings, investors in NCAFX should expect outperformance over the benchmark, and therefore justification for higher fees.

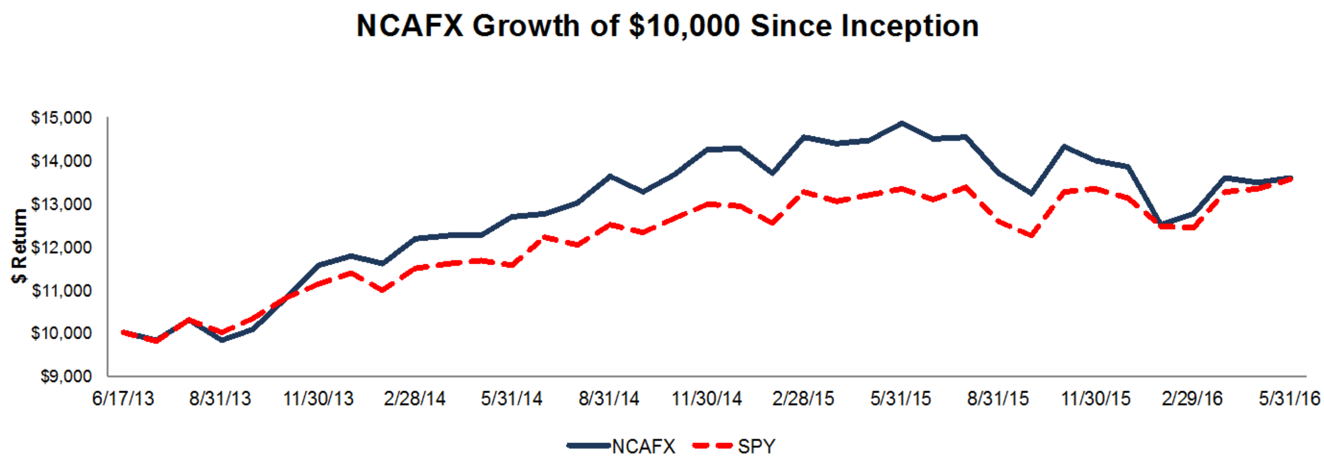
Total Annual Costs Are Below Average

With total annual costs (TAC) of 1.27%, NCAFX charges more than its ETF benchmark, which charges total annual costs of only 0.10%. However, NCAFX charges below the average of all style mutual funds, which is 1.93%, and on par with the weighted average TAC of 1.26%.

To justify its higher fees, the Nuveen Concentrated Core Fund must outperform its benchmark by 1.17% annually.

Prior to 2016, NCAFX had achieved this outperformance, as can be seen in Figure 2. The bottom line is that with better holdings, we think it NCAFX has an excellent opportunity to outperform its ETF benchmark moving forward.

Figure 2: Nuveen Concentrated Core Fund Growth of $10,000



Sources: New Constructs, LLC and company filings.

The Importance of Proper Due Diligence

If anything, the analysis above shows that investors have failed to identify NCAFX as a quality investment, as exhibited by the funds low $117 million assets under management (AUM). Without analysis into a fund's holdings, investors risk putting their money in funds that are more likely to underperform, despite having better options available such as NCAFX.

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Disclosure: David Trainer and Kyle Guske II receive no compensation to write about any specific stock, sector, style, or theme.

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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.

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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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