Bad Stock Picking Exacerbates this Fund's High Fees

Picking good stocks is hard, which is why many investors are drawn to ETFs and mutual funds.

The problem with that strategy is that it assumes fund managers pick good stocks when, for decades, we've known that 75%+ funds underperform their benchmarks every year. Every year!!

So, how can you gain some insight into whether or not a fund will outperform? Look at past price performance? No. How about analyzing each of the holdings of a fund? Yes!

That's exactly what we do for our forward-looking Fund Ratings for 7,600+ ETFs and mutual funds. After scouring our coverage universe, we found a mid-cap mutual fund that allocates too much capital to bad stocks. To make matters worse, it charges well above-average fees for its below average (compared to the benchmark and overall market) portfolio. Hartford Schroders U.S. Mid Cap Opportunities Fund (SMDVX) is this week's Danger Zone pick.

Forward-Looking Research Protects Investors

Most legacy fund research is backward-looking. It is based on past price performance. Our fund research is forward-looking and based on proven-superior fundamental analysis and ratings on each individual holding.

SMDVX earns our Very Unattractive (equivalent to Morningstar's 1 Star) rating while Morningstar gives SMDVX a 4 Star rating. Figure 1 shows how our forward-looking Fund Ratings compare to Morningstar's (MORN) ratings.

SMDIX and SMDRX, two other share classes of the mutual fund, also earn a 4 Star rating while we rate them Unattractive. HFDRX, HFDSX, HFDTX, HFDYX, HFDFX earn a 3 Star rating, and we rate all of them Unattractive. HFDCX, which we rate Unattractive, is the only share class that earns a 2 Star rating.

Figure 1: Hartford Schroders U.S. Mid Cap Opportunities Fund Ratings

Ticker	Morningstar Rating	New Constructs Rating
SMDVX	4 Star	Very Unattractive
SMDIX	4 Star	Unattractive
SMDRX	4 Star	Unattractive
HFDRX	3 Star	Unattractive
HFDSX	3 Star	Unattractive
HFDTX	3 Star	Unattractive
HFDYX	3 Star	Unattractive
HFDFX	3 Star	Unattractive
HFDCX	2 Star	Unattractive

Sources: New Constructs, LLC, company filings, mutual fund filings, and Morningstar

Hard to Trust a Methodology that Lacks Transparency

Hartford Schroders U.S. Mid Cap Opportunities Fund looks for three types of companies with distinct objectives: capital growth, lower downside volatility, and idiosyncratic growth.

The fund's prospectus goes on to note the fund's sub-adviser uses "bottom-up fundamental analysis to select securities." More specifically, the fund's sub-advisor seeks to identify securities that offer the potential upside based on:

- novel, superior, or niche products or services,
- sound operating characteristics,
- quality of management
- an entrepreneurial management team,

- opportunities provided by mergers, divestitures, or new management,
- or other factors.

However, details on how the sub-adviser calculates or quantifies any of the items above is absent. Without such information, we can only judge SMDVX's managers based on what we can measure: the quality of the stocks they hold in their fund.

Our analysis reveals SMDVX's investment process leads to holdings with lower returns on invested capital (ROIC), lower cash flows, and more expensive valuations than its benchmark and the S&P 500. See below.

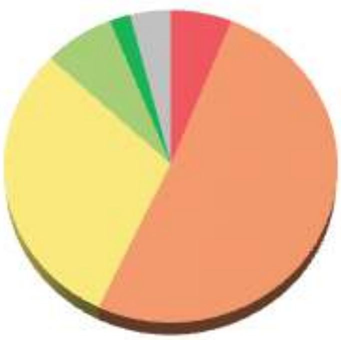
Holdings Research Reveals a Low-Quality Mid Cap Portfolio

Our holdings analysis, which leverages our Robo-Analyst technology[1], reveals that SMDVX holds lower-quality stocks than its benchmark iShares Russell Mid Cap ETF (IWR). For reference, IWR earns a Neutral rating.

Per Figure 2, SMDVX allocates 57% of its portfolio to Unattractive-or-worse rated stocks compared to 45% for IWR. On the flip side, SMDVX allocates only 9% of its assets to Attractive-or-better rated stocks compared to 14% for IWR.

Figure 2: Hartford Schroders U.S. Mid Cap Opportunities Fund Allocates to Far Worse Stocks than IWR

Stock Rating Allocations - SMDVX vs. IWR



SMDVX Allocations		IWR Allocations
6%	Very Unattractive	8%
51%	Unattractive	37%
30%	Neutral	39%
7%	Attractive	10%
2%	Very Attractive	4%
4%	Unrated	3%
0%	Cash	0%

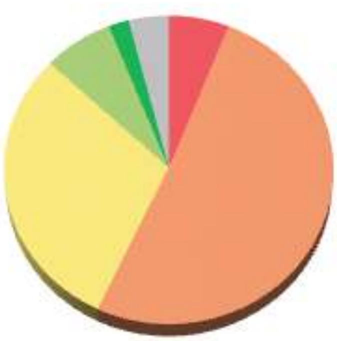
Sources: New Constructs, LLC, company, ETF, and mutual fund filings

Per Figure 3, our holdings analysis also reveals SMDVX's portfolio is lower quality than the S&P 500, as represented by State Street SPDR S&P 500 ETF (SPY), which earns an Attractive rating.

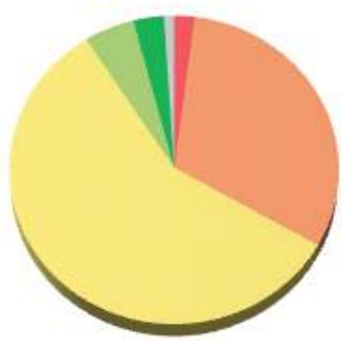
At just 33% of its portfolio, SPY allocates less to Unattractive-or-worse rated stocks compared to SMDVX.

Figure 3: Hartford Schroders U.S. Mid Cap Opportunities Fund Allocates to Worse Stocks than SPY

Stock Rating Allocations - SMDVX vs. SPY



SMDVX Allocations		SPY Allocations
6%	Very Unattractive	2%
51%	Unattractive	31%
30%	Neutral	57%
7%	Attractive	5%
2%	Very Attractive	3%
4%	Unrated	1%
0%	Cash	0%



Sources: New Constructs, LLC, company, ETF, and mutual fund filings

Given SMDVX allocates just 9% of assets to Attractive-or-better rated stocks, it appears poorly positioned to generate the outperformance required to justify higher active management fees.

[1] See Harvard Business School case study: New Constructs: Disrupting Fundamental Analysis with Robo-Analysts.

Expensive Stocks Drive Very Unattractive Risk/Reward Rating

Figure 4 shows our detailed rating for SMDVX, which includes each of the criteria we use to rate all ETFs and mutual funds under coverage. These criteria are the same for our Stock Rating Methodology, as the performance of a mutual fund equals the performance of its holdings minus fees. Figure 4 also compares SMDVX's rating with those of IWR and SPY.

Figure 4: Hartford Schroders U.S. Mid Cap Opportunities Fund Rating Details

	Portfolio Management							
	Quality of Earnings		Valuation			Asset Allocation		
Risk/Reward Rating	Economic vs Reported EPS	ROIC	2 yr Avg FCF (excl cash) Yield	Price to EBV	Market-Implied GAP	Cash %	Total Annual Costs
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1< 0	> 50	> 20%	> 4%
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4< 3.5 or < -1	20 < 50	8% < 20%	2% < 4%
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6< 2.4	10 < 20	2.5% < 8%	1% < 2%
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1< 1.6	3 < 10	1% < 2.5%	0.5% < 1%
Very Attractive	Rising EE	Top Quintile	> 10%	0< 1.1	0 < 3	< 1%	< 0.5%
Actual Values							
SMDVX	Positive EE	10%	1%	5.9	72 yrs	< 1%	3.5%
Benchmarks							
Style ETF (IWR)	Positive EE	13%	2%	3.9	59 yrs	-	0.2%
S&P 500 ETF (SPY)	Positive EE	33%	2%	3.8	72 yrs	-	0.1%
Small Cap ETF (IWM)	Positive EE	6%	0%	4.0	48 yrs	-	0.2%

Sources: New Constructs, LLC, company, ETF, and mutual fund filings

As Figure 4 shows, SMDVX is inferior to IWR in four of the five criteria that make up our Portfolio Management rating. Specifically:

- SMDVX's ROIC is 10%, which is lower than IWR's (13%) and SPY's (33%) ROIC.
- SMDVX's 2-yr average free cash flow (FCF) yield of 1% is lower than IWR's and SPY's at 2%.
- The price-to-economic book value (PEBV) ratio for SMDVX is 5.9, which is greater than the 3.9 for IWR and 3.8 for SPY.
- Our discounted cash flow (DCF) analysis reveals an average market-implied growth appreciation period (GAP) of 72 years for SMDVX's holdings compared to 59 years for IWR's and 72 years for SPY's holdings.

Market expectations for stocks held by SMDVX imply profits will grow substantially more than the stock's held by IWR and SPY (measured by PEBV ratio), despite IWR's and SPY's holdings being much more profitable (as measured by ROIC).

This rigorous holdings analysis reveals that SMDVX provides exposure to less profitable mid cap companies, while taking much more valuation risk than the benchmark and S&P 500.

High Fees Make Owning SMDVX Worse

At 3.54%, SMDVX's total annual costs (TAC) are higher than 95% of Mid Cap Blend mutual funds under coverage. For comparison, the simple average TAC of all the Mid Cap Blend mutual funds under coverage is 1.56% and the asset-weighted average is 1.11%. IWR charges just 0.21% and SPY has total annual costs of just 0.10%. Why pay higher fees for inferior stock selection?

Our TAC metric accounts for more than just the expense ratio. We consider the impact of front-end loads, back-end loads, redemption fees, and transaction costs – the latter of which adds 0.10% to SMDVX's TAC.

Figure 5 shows our breakdown of SMDVX's total annual costs, which we provide for all ~6,300+ mutual funds and ~1,300+ ETFs under coverage.

Figure 5: Hartford Schroders U.S. Mid Cap Opportunities Fund's Total Annual Costs Breakdown

Total Annual Costs Breakdown		
All Cost Types	SMDVX	IWR
Front-End Load	2.09%	--
Expense Ratio	1.34%	0.21%
Back-End Load	0.00%	--
Redemption Fee	0.00%	--
Transaction Costs	0.10%	--
Total Annual Costs	**3.54%**	**0.21%**

*All values represented are Annualized Values.

Sources: New Constructs, LLC, company, ETF, and mutual fund filings

To justify charging higher fees, SMDVX must outperform its benchmark by 332 basis points annually over three years.

However, SMDVX's load-adjusted 3-year quarter-end average annual total return has underperformed IWR by 590 basis points and SPY by 1,553 basis points. SMDVX has also underperformed over the 1-year, 5-year, and 10-year periods.

Given that 57% of assets are allocated to stocks with Unattractive-or-worse ratings, and 87% are allocated to stocks with Neutral-or-worse ratings, SMDVX is likely to continue underperforming.

Get an Edge from Holdings-Based Fund Analysis Based on Superior Stock Research

We offer clients in-depth reports for all ~7,600+ ETFs and mutual funds under coverage. Click below for a free copy of our SMDVX standard mutual fund report.

Free copy of our SMDVX report

Smart fund (or ETF) investing means analyzing each of the holdings of a fund. Failure to do so is a failure to perform proper due diligence. Simply buying an ETF or mutual fund based on past performance does not necessarily lead to outperformance. Only thorough holdings-based research can help determine if a fund's methodology leads managers to pick high-quality or low-quality stocks.

Our Robo-Analyst technology analyzes the holdings of all 349 ETFs and mutual funds in the Mid Cap Blend style and 7,600+ ETFs and mutual funds under coverage to avoid "the danger within".

Easily Make Any Fund, Even SMDVX, Better

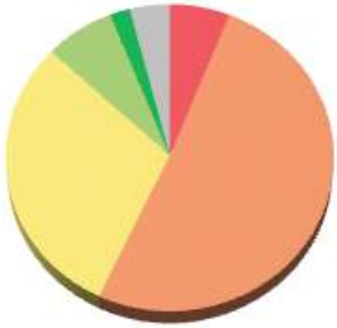
As we show in The Paradigm Shift to DIY ETFs, new technologies enable investors to create their own fund without any fees while also enabling better, more sophisticated weighting methodologies. For example, if we reallocate the fund's capital to the companies with the best Core Earnings, our customized fund allocates:

- 17% of assets to Attractive-or-better rated stocks (compared to 9% for SMDVX)
- 37% of assets to Unattractive-or-worse rated stocks (compared to 57% for SMDVX)

Compare the quality of stock allocation in as-is SMDVX vs. our customed version of SMDVX in Figure 6.

Figure 6: Hartford Schroders U.S. Mid Cap Opportunities Fund Allocation Could Be Improved

Stock Rating Allocations - SMDVX vs. Custom



SMDVX Allocations		Custom Allocation
6%	Very Unattractive	7%
51%	Unattractive	30%
30%	Neutral	46%
7%	Attractive	8%
2%	Very Attractive	9%
4%	Unrated	0%
0%	Cash	0%

Sources: New Constructs, LLC, company, and mutual fund filings

Note that our DIY ETF tool allows clients to pick and weight portfolio holdings based on multiple proprietary metrics, such as Core Earnings, Economic Earnings, Free Cash Flow, Net Operating Profit After Tax and more.

Check Out Indices Based on New Constructs Research

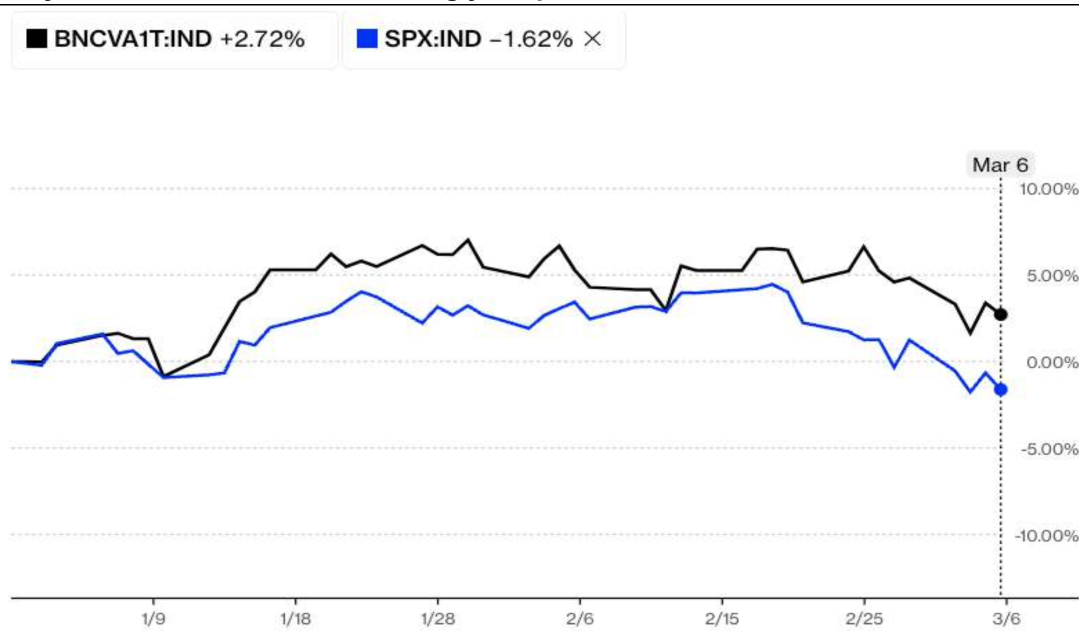
While we're talking about creating your own fund, we should highlight the indices we've developed with Bloomberg's Index Licensing Group. Both are outperforming the S&P 500 this year. See Figures 7 and 8.

We have multiple indices in production now. You can get more details on them here.

1. Bloomberg New Constructs 500 Index (ticker: B500NCT:IND)
2. Bloomberg New Constructs Ratings VA-1 Index (ticker: BNCVA1T:IND).

Figure 7 compares the performance of the Very Attractive Stocks Index, managed by Bloomberg, to the S&P 500. Since January 1, 2025, the Bloomberg New Constructs Ratings VA-1Index (ticker: BNCVAT1T:IND) is up 2.7% while the S&P 500 is down 1.6%.

Figure 7: Very Attractive-Rated Stocks Strongly Outperform the S&P 500 Year to Date



Sources: Bloomberg
Note: Past performance is no guarantee of future results.

Figure 8 compares the performance of the Bloomberg New Constructs 500 Total Return Index, managed by Bloomberg, to the S&P 500. Since January 1, 2025, the Bloomberg New Constructs 500 Total Return Index (ticker: BNCVAT1T:IND) is down 0.9% while the S&P 500 is down 1.6%.

Figure 8: Bloomberg New Constructs 500 Index Strongly Outperforms the S&P 500 Year to Date

Sources: Bloomberg
Note: Past performance is no guarantee of future results.

Better Options for Mid Cap Blend Funds

Below we present Mid Cap Blend ETFs or mutual funds that feature an Attractive rating, >$100 million in assets under management, and below average TAC:

1. Alpha Architect U.S. Quantitative Value ETF (QVAL) – 0.32% TAC and Very Attractive rating
2. State Street SPDR Russell 1000 Volatility Focus ETF (ONEV) – 0.22% TAC and Very Attractive rating
3. Invesco Bloomberg Analyst Rating Improvers ETF (UPGD) – 0.44 TAC and Very Attractive rating
4. Gotham 1000 Value ETF (GVLU) – 0.55% TAC and Very Attractive rating
5. Jensen Quality Mid Cap Fund (JNVSX) – 0.96% TAC and Very Attractive rating

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

Questions on this report or others? Join our online community and connect with us directly.

It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Harvard Business School. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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