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FUND OF INFORMATION

The Best Value Mutual Funds

Investors have lots of options, including smart-beta ETFs, plain-vanilla ETFs, and actively managed mutual funds.

By CRYSTAL KIM

Warm weather and daylight saving aren't the only signs of a changing season. The long frost on value stocks appears to be melting away, too. Since August 2008 through late summer, growth stocks outperformed value. Since then, however, performance has reversed, as stocks with lower valuations gained nearly 3% while their richer counterparts gained 1%.

As noted by our exchange-traded-fund Roundtable participants, investors tend to buy and sell at exactly the wrong time—and last year's $46 billion exodus from value mutual funds proves the point: Investors sold their value funds at what looks to be the bottom.

Investors more interested in buying value have a myriad of options—perhaps too many. Though technically index funds, strategic beta funds are often considered a form of active management. The decisions that go into creating a new index, designed to beat the benchmark, is certainly active. Take two value ETFs: The $19 billion, 326-stock Vanguard Value (ticker: VTV) essentially ranks the large-stock universe by price/earnings ratio, and owns the bottom half. Its average forward P/E is 15. The $697 million, 114-stock Guggenheim S&P 500 Pure Value (RPV) takes a more complex approach to get at deeper-value stocks. It owns the cheapest third of the Standard & Poor's 500 index based on price/book, sales/price, and earnings/price ratios. Its average P/E is 12. Despite what may seem like minor differences, these two funds have very different performance histories; the Vanguard fund was down less than 1% last year, while the Guggenheim fund fell more than 8%. Yet over the past 10 years, the Vanguard fund returned 6% and the Guggenheim fund, 7%.

BUT TRUE ACTIVE MANAGEMENT is still a different approach—for better or for worse. If an index fund is a home-workout DVD, strategic beta is a Fitbit—personalized technology, but without true personality. An actively managed mutual fund, however, is a personal trainer, each with his or her own style and area of expertise. Sometimes that means sticking to a deep-value strategy that remains out of favor for long periods of time (think Martin Whitman's Third Avenue Value (TVFVX), which has barely returned 1% per year over a decade), and at other times, it means managers become less value-oriented. "Value investors started to drift, because the only way to get good performance was to buy some of the FANG stocks," says Jim Cullen, manager of the Cullen High Dividend Equity (CHDEX). "Of course, you can call anything 'value,' but true value is starting to work again." His fund, which owns just 36 stocks, was flat last year, and has returned 6% annually over 10 years.

Diamond Hill Large Cap (DHLAX) owns 50 stocks, which have an average forward P/E of 14. The fund lost just 1% last year and gained 7% over the past 10 years, beating 83% of its peers. Fund manager Chuck Bath has a consistent process that leads to dramatic sector over- and underweightings, but has landed the fund in the top quintile of its large-value peers since he took over in 2002.

Active management also means that managers can go a bit further afield. The $1.7 billion Neuberger Berman Equity Income (NBHAX) focuses on income—not the value factor. Manager Sandy Pomeroy invests in real estate investment trusts and convertible bonds, as well as dividend-paying stocks. It lost almost 4% last year, "but if value comes back, this fund should perform exceptionally well," she says.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 877.485.8586, or by visiting www.cullenfunds.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. The Funds invest in foreign securities, which involve political, economic, and currency risks, greater volatility, and differences in accounting methods. The Funds invest in medium and small capitalization companies, which involve additional risks such as limited liquidity and greater volatility than large capitalization companies. References to other mutual funds should not be interpreted as an offer of these securities.

The S&P 500 is an index of 500 stocks chosen, among other factors, for market size, liquidity and industry grouping. An individual cannot invest directly in an index. P/E, or price-to-earnings, refers to the price of a stock divided by its estimated forward 12-month earnings per share. FANG is an acronym for Facebook, Amazon, Netflix and Google. Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. An ETF, or exchange traded fund, is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund.

The Cullen Funds are distributed by ALPS Distributors, Inc. The Gross Expense Ratio of CHDEX is 1.32%. The Fund imposes a 2% redemption fee on shares held less than seven days. Performance data does not reflect the redemption fee. If reflected, total returns would be reduced.

Average Annual Total Returns as of December 31, 2015:

	Q4 2015	YTD	1 Year	3 Year	5 Year	10 Year
CHDEX	9.00	0.06	0.06	11.27	10.82	6.56
S&P 500 Index	7.04	1.38	1.38	15.13	12.57	7.31

Past performance does not guarantee future results. The investment return and principle value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance data quoted. You can obtain performance data current to the most recent month end by calling 1.877.485.8586 or by visiting our website: www.cullenfunds.com.

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