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Barron's Best Fund Families

Last year was a tough one for investors. Our ranking, based on actively managed funds, reveals how the firms that navigated it best pulled it off.

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The following has been excerpted

Investors build wealth when markets rally, but losing less when markets fall also matters for long-term returns.

In a year when U.S. equities had their worst one-year returns since 2008 and bonds notched their worst year ever, 2022 was a chance for active fund managers to prove their risk-management skills by losing less than the broader indexes.

The top-performing firms in *Barron's* annual Fund Families ranking took advantage of 2022's volatility, hewed close to their established investment processes, or dived deep into fundamental research to take the pulse of macroeconomic conditions. Our rankings look at the one-year records of how each firm's actively managed funds performed versus peers, based on data from Refinitiv Lipper.

The focus on one-year relative performance is clearly a snapshot in time, but one that offers insight into how diversified firms responded to a swift change in macroeconomic conditions and market leadership across a range of actively managed funds.

The Federal Reserve's seven interest-rate hikes to tame inflation knocked the S&P 500 index down 18% in 2022, while international equities fared even worse, losing 19.6%, and world taxable fixed-income funds dropped 12.8%, according to Lipper. Only commodity funds, a niche product, eked out a gain of 8%, much of that driven by energy stocks after the Russia-Ukraine war reminded investors that fossil fuels were still important.

Owning companies in the fossil-fuel energy sector was a key to outperformance in 2022, as the S&P 500 Energy sector jumped 59%. Many of the best-performing funds last year held **Exxon Mobil**, which returned 87%, making it the fourth-best-performing stock in the S&P 500. The oil giant posted a $56 billion profit in 2022, a company record.

Aside from individual stock performance, value finally got its chance to shine as growth stocks plunged. Mary Phillips, deputy head of portfolio management at Dimensional Fund Advisors, says last year value outperformed growth by the largest margin since 2000's dot-com bubble burst.

Dimensional snagged *Barron's* No. 1 spot in our annual survey, as the $584 billion firm rose from the fifth spot in 2021's survey. Last year's volatile conditions fit right into the Austin, Texas–based firm's wheelhouse. Dimensional is known for its roots in academic research on factor investing, particularly involving value investing, and its tendency to favor smaller companies that are highly profitable. As such, the firm sidestepped the meltdown in megacap growth names and companies with few, if any, profits.

The rest of the five top performers in this year's ranking—Victory Capital Management, Neuberger Berman, Capital Group, and J.P. Morgan Asset Management—credit their relative success to deep fundamental research and bottom-up stock-picking, gleaning information that led them to take conservative approaches with their equity or fixed-income investing heading into 2022.

Joseph Amato, chief investment officer of equities at the New York City–based Neuberger Berman, admits that 2022's macroeconomic environment was a huge challenge, but says there were opportunities.

Last year had a broad dispersion of investing strategies and of earnings. "Generally, that's a good environment for active managers. It gives you a chance to demonstrate your investment acumen. You could be wrong, also. But when everything moves in unison, it's just hard for active managers," he says, referring to the past few years, when big tech names dominated the indexes.

Because the Best Fund Families results are asset-weighted, firms' largest funds have the biggest impact on their rankings, which is how a small firm like the No. 2–ranked, $153 billion Victory Capital Management can rub shoulders with much larger firms. That's also true for Madison Investments, which made its debut on our list last year at No. 51. It rose to No. 6 on the back of strong performance from its world-equity and tax-exempt funds.

There were other changes from last year's list. In 2021, Sit Investment Associates was ranked No. 1, but weaker relative performance in its world-equity, mixed-equity, and muni bond funds pushed it down to No. 35 this year. After a weaker showing last year, Vanguard Group bounced back to the middle of the pack as funds such as the $59.9 billion **Vanguard PrimeCap**, its largest general equity fund, beat 86% of its peers.

This Year's List

To be included in the ranking, firms must offer at least three actively managed mutual funds or active exchange-traded funds in Lipper's general U.S. stock category, plus one in world equity and one mixed-asset—such as a balanced or allocation fund. They also need to offer at least two taxable bond funds and one national tax-exempt bond fund. All funds on our list must have a track record of at least one year. The ranking also includes "smart beta" ETFs, which are run passively but built on active investment strategies. The list reflects each firm's active-management ability.

All told, just 49 asset managers out of the 854 in Lipper's database met our criteria for 2022. There are some changes from last year's ranking. Natixis Investment Managers and Cavanal Hill Investment Management dropped from the list, as they no longer have enough funds in all of the categories to qualify. Natixis had a tax-exempt bond fund that closed in April, and Cavanal Hill closed its mixed-asset fund in February.

Many other large fund managers are consistently absent because they don't check all of the boxes in the categories we consider. Notable names in that category include Janus Henderson and Dodge & Cox.

No. 1: Dimensional Fund Advisors

Dimensional's data-driven approach and its dynamic and systematic process allowed it to take advantage of 2022's volatility and steer clear of value traps. The firm uses factor investing to highlight the sources of higher expected return, and it keeps close tabs on equity premiums through daily price information.

Dimensional's managers watch for buying opportunities when growth stocks fall into value territory, and they also rely on factors such as momentum to determine if it's time to buy. That helps them to not "catch a falling knife," Mary Phillips says.

Momentum studies warned managers that **Meta Platforms'** drop into value territory in 2022 was so fast that it had more room to fall. Dimensional stayed on the sidelines, even as value indexes added the stock in midsummer. As the studies also warned, Meta fell further, ultimately dropping about 64% last year. Toward year end, the selling momentum slowed, and Dimensional has been "popping in and out" of the stock, following daily price guidance, she says.

Dimensional's equity funds are highly diversified, often holding 2,700 names, as is the case for the firm's largest fund, the $28.5 billion **DFA US Equity Core 2**, so that no one company has an outsize influence. Phillips says the No. 2 in the fund's name means it has a heavier value tilt than other core funds, in this case from 6% to 12%. In all, Dimensional has 142 U.S.-based funds.

Dimensional managers' systematic process gave them a unique opportunity to take advantage of volatility. The process flagged managers to sell the unprofitable small-cap retailer **Bed Bath & Beyond**. As the managers were starting to sell, the stock jumped in a meme-stock rally, allowing them to take advantage of eager buyers amid the price spike. Since then, the retailer's stock has fallen sharply. Sometimes in markets, portfolio managers can get a little lucky, although Phillips sees it a little differently.

"Luck favors the prepared," she says.

No. 2: Victory Capital Management

Unlike other fund managers in *Barron's* top five, Victory Capital Management is a multi-boutique asset manager. Its investment teams operate autonomously and independently from one another when constructing portfolios and making investment decisions.

That structure allows managers to focus solely on managing money and client outcomes, says Mannik Dhillon, President, Victory Capital Solutions at the San Antonio–based firm, which manages $41.3 billion in 60 active mutual funds and ETFs.

"Clients can buy multiple products and funds and not get the same way of investing. So, it's a kind of almost built-in diversification," Dhillon says, noting that managers can speak with one another and share notes, but there's no obligation to do so.

It seems to be working, as Victory has bounced around the top 15 in the survey for the past several years. What helped power the firm to the No. 2 spot of *Barron's* overall survey was its convertible-bond fund, the $409 million **Victory Incore Investment Grade Convertibles**.

Our latest ranking marks the second straight year that Victory landed in the mixed-asset category's top spot, and it did it this time by beating 91% of its peers, largely thanks to that bond fund, which was also mentioned as a financial-advisor favorite in *Barron's* 2023 bond-fund outlook. The secret sauce for its two years of outperformance relative to peers is owning investment-grade convertible issues. Otherwise, the convertible-bond market is "pretty junk-laden," says Richard Consul, fixed-income strategist at Incore Capital Management.

Additionally, it owns names with bigger market caps and is more value-oriented than its peers, he says, two other attributes that have worked in its favor for the past two years. In 2022, Consul added the convertible bonds of energy companies **Pioneer Natural Resources** and **EQT**, based on attractive stock valuations and improving credit quality, which boosted performance. Price appreciation from health insurer **Elevance Health** also gave the fund a lift.

Another powerhouse for Victory's overall ranking was the $16.7 billion Victory **Sycamore Established Value fund**, which beat 83% of its peers, losing only 2.5% in 2022. However, it is closed to new investors.

No. 3: Neuberger Berman

The firm's focus on fundamental, bottom-up, long-term investing means it doesn't get too caught up in trends, whether it's the excessive risk-taking of 2021 or the bearishness of 2022, according to Joseph Amato. Still, last year's macroeconomic environment was "as challenging and confusing as I've seen in a long, long time," he says.

With expectations of tighter monetary policy and headwinds for economic growth, the $437 billion firm entered 2022 defensively and moved to an underweight in equities for the first time in a long time, he adds.

In all, Neuberger manages $43.1 billion across 37 active funds, and its biggest stock fund, the $13.2 billion **Neuberger Large Cap Value**, powered the firm to the No. 1 spot in the U.S. equity category. Eli Salzmann, the fund's senior portfolio manager, says two moves drove performance in 2022: overweighting energy by 1½ times the Russell 1000 Value index at the beginning of the year, and its zero technology weighting.

The fund looks for companies in industries with capital and capacity constraints, and he found that in the energy sector, having bought Exxon in 2020 and **Chevron** in 2021, among others. He had only owned the sector briefly twice in the past 12 years, but now he sees it benefiting from greater

U.S. Equity

■ **Best**

Rank	Fund Family	Score
1	Neuberger Berman	27.00
2	Victory Capital Mgmt	26.72
3	J.P. Morgan Asset Mgmt	26.27
4	SEI Investments	24.90
5	Putnam Investments	24.52

Source: Refinitiv Lipper

Mixed Equity

■ **Best**

Rank	Fund Family	Score
1	Victory Capital Mgmt	19.62
2	Neuberger Berman	18.94
3	Hartford Funds	18.49
4	Amundi US	18.47
5	Dimensional Fund Advisors	18.46

Source: Refinitiv Lipper

capital investment in the coming years. He has since cut the position to a slight overweight, although he remains bullish.

Salzmann beat 94% of his peers in 2022, and he attributes that relative outperformance to many other value funds having drifted over the years to growth. “One of the things that really helped us is that we stuck to our discipline,” he says.

Looking ahead, he is extremely excited about the metals and mining sector, which he argues has a better setup than energy. “The barrier to entry and the capital deprivation that it experienced make this a very long runway,” he says.

No. 4: Capital Group

A solid showing in several of the $2.2 trillion Capital Group’s biggest funds helped the firm move from the middle of the pack in 2021 to fourth place in this year’s survey, with its fixed-income offerings driving the leap.

The Los Angeles–based firm ranked fifth in the taxable-bond category on the strength of its largest taxable bond fund, the $71.1 billion **American Funds Bond Fund of America**, which topped 86% of its peers in *Barron’s* survey. Bond selection also support the relative performance of its balanced fund, the $200 billion **American Funds American Balanced**, which beat 87% of its peers in a year when the 60/40 stock/bond portfolio took a shellacking.

Pramod Atluri, principal investment officer at Bond Fund of America, says that a few factors had him believe in 2021 that inflation would be higher than the consensus view: consumers being in good shape coming out of the Covid-induced recession, dovish monetary policy, and high valuations for risky assets. It wasn’t a stretch to expect inflation to rise. Going into 2022, Atluri underweighted risky assets such as agency mortgage-backed securities; reduced duration, which measures how sensitive a bond is to interest rates; and put 13.5% of the portfolio in short-maturity Treasury inflation-protected securities, all of which underpinned performance.

Capital Group has $2.16 trillion in its 48 active U.S. mutual funds and ETFs, and manages some of the largest mutual funds by asset in the industry. Bond Fund of America is one of the largest active fixed-income funds, and Lipper classifies the American Balanced fund as the largest mixed-asset fund by assets in that industry category. Both of those funds are found in many 401(k) plans.

To handle funds so large, Capital Group uses a multimanager approach on its funds, and lets its analysts invest alongside the managers. The approach doesn’t overburden one person, and “our incentives, and the investors’ incentives, are well aligned on the long term,” says Alan Berro, an equity portfolio manager who sits on Capital Group’s portfolio solutions committee.

No. 5: J.P. Morgan Asset Management

J.P. Morgan Asset Management catapulted from No. 35 in 2021’s survey to No. 5 this year on the back of strong relative performance in its well-established value-oriented mutual funds, but it was also underpinned by its expanding lineup of active ETFs.

Its strong relative performance came in part from its biggest equity fund, the $49.2 billion **JPMorgan Equity Income**, run by Clare Hart, which had both Exxon Mobil and **ConocoPhillips** as its top two holdings. That fund is closed to new investors, though the firm is focusing on building its active ETF lineup as a way to capitalize on its deep bench of fundamental research as investor assets flow to ETFs.

Two of J.P. Morgan’s biggest 2022 stars were active ETFs, and they scooped up retail investor dollars. The New York City–based firm now manages two of the largest active ETFs by assets: the $20 billion **JPMorgan Equity Premium Income** and the $24 billion **JPMorgan Ultra-Short Income.** In a year when the equity markets saw net outflows, J.P. Morgan saw $20 billion in inflows. The $2.45 trillion firm now manages $458 billion in U.S. funds, bringing its total active lineup to 121 funds.

Equity Premium Income launched in 2020 and beat 87% of its peers, with a 3.5% loss in 2022. The strategy is twofold, says manager Hamilton Reiner, who has managed a similar strategy since 2018 in the

The Best Fund Families of 2022

Last year saw losses in both bond and stock markets, with wider price swings and greater dispersion among investing styles and market sectors. Greater volatility can provide active managers with more opportunity. This is the sixth year we’ve ranked the fund families purely on their actively managed funds.

2022 Rank	2021 Rank	Fund Family	Total Assets (mil)*	Weighted Score	U.S. Equity	World Equity	Mixed Equity	Taxable Bond	Tax-Exempt Bond
1	5	Dimensional Fund Advisors	$433,452	69.94	7	5	5	24	5
2	8	Victory Capital Management	41,273	69.59	2	13	1	22	40
3	6	Neuberger Berman	43,079	66.45	1	28	2	30	31
4	21	Capital Group/American Funds	2,164,775	66.16	10	24	7	5	9
5	35	J.P. Morgan Asset Management	458,028	65.13	3	32	23	3	19
6	51	Madison Investments	2,076	64.88	31	4	9	11	1
7	9	MainStay Funds	56,591	64.75	28	9	11	2	28
8	33	Federated Hermes	68,815	64.62	6	8	10	27	17
9	27	Putnam Investment Management	69,530	61.80	5	19	35	4	16
10	38	Hartford Funds	104,936	59.71	24	10	3	36	41
11	42	Allspring Global Investments	69,093	58.84	14	7	24	26	10
12	46	Morgan Stanley Investment Management	136,515	58.54	26	39	12	7	12
13	20	Goldman Sachs Asset Management	114,292	58.44	34	2	8	37	24
14	17	MFS Investment Management	349,725	57.35	29	3	14	34	35
15	3	Amundi US	38,848	57.34	21	30	4	38	30
16	24	American Century Investments	135,665	56.94	11	14	19	32	27
17	41	First Trust Advisors	48,321	55.79	32	17	22	10	18
18	34	Franklin Templeton Investments	375,634	54.83	22	25	6	47	32
19	18	BNY Mellon Investment Management	46,258	54.05	30	16	28	15	22
20	23	Invesco	244,115	54.03	9	42	17	29	23
21	43	Vanguard Group	1,644,535	53.86	15	23	18	42	11
22	39	SEI Investments	78,092	53.56	4	34	21	44	36
23	4	Pimco	350,174	53.35	47	1	25	23	14
24	49	Brinker Capital	13,105	52.67	41	6	33	14	6
25	31	Principal Asset Management	152,442	52.65	12	33	39	8	42

*Total assets reflect the funds included in this survey

Source: Refinitiv Lipper

The table has been redacted to include the top ten Best Fund Families of 2022.

JPMorgan Equity Premium Income mutual fund. The ETF owns a diverse collection of high-quality stocks with predictable earnings and reasonable valuations, and it boosts income by selling out-of-the-money S&P 500 options.

Being underweight technology helped returns, as did owning Exxon and insurer **Progressive**. Selling options generated an 11% yield, without using any leverage. It also reduced volatility to the broader S&P 500 by two-thirds, an underestimated benefit, Reiner says. Don't expect an 11% yield each year, as 2022's heightened volatility enhanced the yield, he says, adding that the long-term average should be closer to 7% to 9%.

Looking ahead to 2023, many fund managers agree it will be another volatile year, and many remain cautious, including George Gatch, CEO of J.P. Morgan Asset Management. Tech was rallying early in 2023, but Gatch says valuations, on a historical basis, still aren't cheap. Along with some other managers, he thinks the most significant opportunities for 2023 are in bonds, now that interest rates are higher. That bodes well for strategies like the 60/40 stock/bond portfolio.

"We do think a 60/40 portfolio is quite attractive today, particularly if it's well diversified on the equity exposure," he says, which includes U.S., international, and emerging markets exposure. "Bonds will provide more stability and insulation against volatility than in 2022," Gatch says.

How We Rank the Fund Families

All mutual and exchange-traded funds are required to report their returns after fees are deducted—to regulators as well as in advertising and marketing material—to better reflect what investors have actually experienced. But our aim is to measure manager skill, independent of expenses beyond annual management fees. That's why we calculate returns before any 12b-1 marketing fees are deducted. Similarly, fund loads, or sales charges, aren't included in our calculation of returns.

Each fund's performance is measured against all of the other funds in its Refinitiv Lipper category, with a percentile ranking of 100 being the highest and one the lowest. This result is then weighted by asset size, relative to the fund family's other assets in its general classification. If a family's biggest funds do well, that boosts its overall ranking; poor performance in its biggest funds hurts a firm's ranking.

To be included in the ranking, a firm must have at least three funds in the general equity category, one world equity, one mixed equity (such as a balanced or target-date fund), two taxable bond funds, and one national tax-exempt bond fund.

Single-sector and country equity funds are factored into the rankings as general equity. We exclude all passive index funds, including pure index, enhanced index, and index-based, but include actively managed ETFs and so-called smart-beta ETFs, which are passively managed but created from active strategies.

Finally, the score is multiplied by the weighting of its general classification, as determined by the entire Lipper universe of funds. The category weightings for the one-year results in 2022 were general equity, 36.1%; mixed asset, 22%; world equity, 16%; taxable bond, 21.5%; and tax-exempt bond, 4.5%. (Weightings don't always add up to 100% because of rounding.)

The category weightings for the five-year results were general equity, 36.1%; mixed asset, 22.7%; world equity, 16%; taxable bond, 21%; and tax-exempt bond, 4.3%. For the 10-year list, they were general equity, 36.6%; mixed asset, 23%; world equity, 15.9%; taxable bond, 20.1%; and tax-exempt bond, 4.4%.

The scoring: Say a fund in the general U.S. equity category has $500 million in assets, accounting for half of the firm's assets in that category, and its performance lands it in the 75th percentile for the category. The first calculation would be 75 times 0.5, which comes to 37.5. That score is then multiplied by 36.1%, general equity's overall weighting in Lipper's universe. So, it would be 37.5 times 0.361, which equals 13.5. Similar calculations are done for each fund in our study. Then the numbers are added for each category and overall. The shop with the highest total score wins. The same process is repeated to determine the five- and 10-year rankings.

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