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THE INTELLIGENT INVESTOR

The Intelligent Investor: Say 'Yes' to Funds That Know When To Say 'No'

By Jason Zweig

Mutual-fund managers like to say that investors pay them to make "the tough decisions." But one of the toughest decisions a fund manager can make is the one most of them never take: to turn away more money.

This past week, Vulcan Value Partners, a Birmingham, Ala.-based investment manager, announced that it is closing its largest mutual fund to new investors. Only people who already own shares in the $1.7 billion Vulcan Value Partners Fund will be able to add money to it.

Those who own it should be pleased, but there also is a lesson here for those who don't. Now more than ever, investors should favor the few fund companies that have the courage to turn customers away.

The Vulcan fund and its sibling, Vulcan Value Partners Small Cap, have both outperformed more than 90% of all similar funds since their launch at the end of 2009, according to Morningstar. Vulcan, founded in 2007, now manages a total of $11.5 billion across the two funds and other accounts — up from $5.2 billion less than a year-and-a-half ago.

There isn't much statistical evidence on whether funds closing to new investors go on to outperform. But too much money coming in too fast raises a powerful conflict of interest between the people who run a mutual fund and those who invest in it.

As the head of an investment firm with approximately $100 billion in assets told me this past week: "The guy who runs a mutual fund has an angel on his right shoulder saying, 'You shouldn't take more money, you have too much already, there's nowhere to put it to work in this market.' And he has a devil on his left shoulder saying, 'Take the money, take the money, you'll get rich.'"

He paused and said, "Which one is he going to listen to?"

At the typical 1% management fee, every added $1 billion in assets generates another $10 million in gross revenue annually for the manager. As the fixed costs of running the funds are spread over a larger base, the manager's profits grow even greater.

But if the manager takes in too much money and leaves it in cash, the fund is in danger of underperforming (unless stocks or bonds fall). If he invests all the new capital, he must either spread it across many more holdings, potentially compromising his standards, or add to those he already has, running the risk of building positions too big to get out of.

C.T. Fitzpatrick, founder and chief executive of Vulcan, believes in patiently studying cheap stocks, then buying and holding them for years. But six years of a bull market have made cheap stocks scarce, and it is hard to study stocks patiently when people are throwing money at you.

So Vulcan is shutting the fund, joining its Small Cap sibling, which closed in November 2013. All the firm's portfolios, for individuals and institutions alike, now will be closed to new investors. "We'd rather compound a smaller pool of capital at a higher, more consistent rate than a larger pool at a more volatile, lower rate," Mr. Fitzpatrick says.

That places Vulcan in a lonely minority.

According to investment-research firm Morningstar, only 184 out of 3,908 stock funds are closed to new investors. All told, they manage 9% of the $7.7 trillion in all stock funds.

And only 19 out of 1,951 bond funds have closed; they manage a measly 0.7% of the $3.3 trillion in total bond-fund assets. That is especially striking when you consider the tidal wave of money that has washed into bonds. Over the past three years, according to the Investment Company Institute, the mutual-fund trade group, investors have poured $246 billion of new money into bond funds.

Some bond managers say they intend to close. In January 2013, Jeffrey Gundlach, manager of the DoubleLine Total Return Bond Fund, which had grown from scratch to $37 billion in less than three years, said that he expected to close it to new investors in late 2013 or early 2014.

Then the Federal Reserve threatened to "taper" its debt-buying program, triggering a selloff in the bond market. The fund shrank to $31 billion, postponing the need to close to new investors, says Loren Fleckenstein, an analyst at DoubleLine.

Last December, Mr. Gundlach said that the fund will likely close to new investors in late 2015. "We are focused on our investors' best interests and will continue to monitor fund assets with an eye to [closing to new investors] when appropriate," Mr. Fleckenstein says, adding that the closure would occur while the fund's assets still are "well below $100 billion."

Whenever possible, investors who haven't already migrated to index funds and exchange-traded funds should favor companies with a track record of often closing to new investors when markets overheat, including Artisan, Bridgeway, Buffalo, Fairholme, Heartland, T. Rowe Price and Wasatch.

And if active stock pickers and bond managers are to hold their own against the onslaught of index funds and ETFs, they had better start valuing the investors they already have more highly than the ones they are trying to get.

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Disclosures:

The Vulcan Value Partners Fund seeks to achieve long-term capital appreciation by investing primarily in mid- and large-capitalization U.S. companies believed to be both undervalued and possessing a sustainable competitive advantage.

The Vulcan Value Partners Small Cap Fund seeks to achieve long-term capital appreciation by investing primarily in publicly traded small-capitalization companies believed to be both undervalued and possessing a sustainable competitive advantage.

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Risks:

- It is possible that the Fund may invest in securities offered in certain types of transactions (such as private placements) that, because of that Fund's size, may have a disproportionate impact on that Fund's performance results. The Fund would not necessarily have achieved the same performance results if its aggregate net assets had been greater.
- Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market or economic developments. Value stocks can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time.

	As of March 31, 2015			
Inception Date: December 30, 2009	Current Quarter	YTD	1 Year	Annualized Since Inception
*Vulcan Value Partners Fund	-0.41%	-0.41%	14.59%	16.18%
Russell 1000 Value Index	-0.72%	-0.72%	9.33%	14.27%
S&P 500 Index	0.95%	0.95%	12.73%	14.65%
**Vulcan Value Partners Small Cap Fund	3.20%	3.20%	7.71%	18.01%
Russell 2000 Value Index	1.98%	1.98%	4.43%	13.64%
Russell 2000 Index	4.32%	4.32%	8.21%	15.39%
**Total Expense Ratio 1.09%* ***Total Gross Expense Ratio 1.31%/Total Net Expense Ratio 1.26%*				

The performance numbers show the funds' historical performance. Past performance is not indicative of future results. Investment return and value of shares will fluctuate. Upon redemption, shares may be worth more or less than their original cost. The current performance may be higher or lower than the quoted performance. Vulcan Value Partners does not have a sales charge. Please call 1-877-421-5078, or visit our website, www.vulcanvaluepartners.com, for the most recent month-end performance results.

**Vulcan Value Partners, LLC ("Vulcan" or the "Adviser") has contractually agreed to limit the Fund's total annual fund operating expenses (exclusive of Acquired Fund Fees and Expenses, brokerage expenses, interest expense, taxes and extraordinary expenses) to 1.25% of the Fund's average daily net assets. This agreement is in effect through August 31, 2015. If the Adviser foregoes any fees and/or reimburses the Fund pursuant to this letter agreement with respect* *to a particular fiscal year, then the Adviser shall be entitled to recover from the Fund the amount foregone or reimbursed to the extent Fund's expenses in later periods fall below the annual rates set forth in the relevant agreement. The Adviser may not discontinue this waiver without the approval by the Fund's Board of Trustees. The fund imposes a 2.00% redemption fee on shares held less than 90 days. The performance shown does not include the redemption fee, which if reflected would reduce the performance quoted.*

Definitions:
Alpha - a measure of the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta.
The Russell 1000® Value Index - measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.
The Russell 2000® Value Index - measures the performance of those Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Value Index figures do not reflect any fees, expenses, or taxes.
The Russell 2500™ Value Index - measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 companies that are considered more value oriented relative to the overall market as defined by Russell's leading style methodology.
The S&P 500 Index - an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index. The S&P 500 Index figures do not reflect any fees, expenses, or taxes.

An investment cannot be made directly into an index.

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Please call 1-877-421-5078 to obtain a copy of the Prospectus, which should be read carefully before investing to learn about the investment objectives, risks, charges and expenses of the Vulcan Value Partners Funds.

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