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FINANCE | STOCKS

The Best Stock-Fund Managers for the Past Year—and How They Did It

The secret weapon for many: They owned shares of chip maker Nvidia

By Suzanne McGee

To land atop the list of outperforming stock mutual-fund managers in the 12 months that wrapped up at the end of September, you had to be a big fan of growth stocks.

In fact, a manager's chance of beating peers was given a massive boost if he or she gravitated to large-cap stocks. And the single biggest factor in success seems to boil down to a crucial decision: whether to make chip maker Nvidia one of the top holdings.

That's the case for the growth investing team at Loomis Sayles, responsible for overseeing three of the five top-performing stock funds in the most recent Wall Street Journal rankings. Those three funds had stakes in Nvidia that ranged from 6.88% in fourth-ranked Victory Growth to 7.88% in both this quarter's top-performing fund, Loomis Sayles Growth, and third-ranked Nationwide Loomis All Cap Growth.

Loomis Sayles Growth won by beating its nearest rivals by more than 6 percentage points, wrapping up the 12 months with a gain of 41%. Rounding out the top five were second place Fidelity Blue Chip Growth K6 and fifth-ranked Virtus Silvant Large-Cap Growth.

While these funds have beaten their peers in the most recent 12-month period, that doesn't mean they are suitable for all investors. Some may have above-average fees or portfolios that are too concentrated for some. Occasionally, funds that feature in this ranking aren't open to or easily accessible by individual investors. Moreover, chasing performance isn't a sound strategy.

Indeed, Aziz Hamzaogullari, the chief investment officer and founder of growth-equity strategies for Loomis Sayles, says a key part of his approach is the attention paid to valuation. In the case of Nvidia, his team bought the stock in 2019 after it was buffeted by a 40% selloff.

"We took advantage of that price dip," he says. "We want to buy high-quality businesses that can generate growth over a long time frame and that are difficult to disrupt even if challengers possess time and capital. And we want to be buyers when they trade at a significant discount."

That means that the fund is well-positioned to outperform in periods when growth returns to favor, Hamzaogullari says. And despite a generally hawkish interest-rate outlook from Federal Reserve policy makers that has stoked volatility, that's the climate in which he and other growth-stock investors still are celebrating.

Not all stock-fund managers are participating in the party. According to Morningstar Direct, the 1,236 funds that met the criteria for inclusion in this quarterly survey lagged behind the S&P 500 and generated an average return of only 16.2%. (To be considered for the Winners' Circle, a mutual fund must be actively managed, have a track record of at least three years and a minimum of $50 million in assets. Excluded are leveraged funds, sector funds and most quantitative funds that rely on proprietary models.)


Alex Umansky, manager of the No. 7-ranked Baron Durable Advantage Fund.
PHOTO: BARON CAPITAL

While the inclusion of Nvidia separated the top-performing funds from the pack, the differentiator among the large-cap growth funds in the top 10 was how many other growth stocks they bought during the market selloff of 2022 and what other growth stocks they owned and the weight in each portfolio.

In Hamzaogullari's case, bargain hunting among former highfliers paid off. While the Loomis Sayles funds typically have minimal changes in holdings—Hamzaogullari says an entire calendar year can pass without managers initiating a new position—2022 was unusual in that he added three beaten-down growth stock darlings to portfolios: Shopify, Netflix, and Tesla.

The first two of those were companies whose shares he had watched soar during the pandemic year of 2020 only to plunge back to earth last year. Over the past 12 months, Netflix has climbed 60% and Shopify rebounded 94%. (Only Tesla has failed to rally.) While Hamzaogullari had been watching Netflix's business grow and diversify in interesting ways for about a decade, his valuation discipline meant that it wasn't until last year that he was prepared to own it.

That same emphasis on valuation did prompt him to add what he readily admits some may find an unusual growth stock to Loomis Sayles portfolios in early 2020: Boeing. In the midst of the pandemic, air travel receded, but that created a rare chance to snap up shares cheaply in one of only two major commercial aircraft makers. "That kind of disruption doesn't change the long-term outlook" for a company with that kind of commanding market presence, he contends—and Boeing, with its 53% gain in the 12 months ended Sept. 30, helped propel the Loomis Sayles funds to the top of the pack in the challenge.

Keeping Hamzaogullari and his Loomis Sayles colleagues company atop this quarter's Winners' Circle list was Sonu Kalra, manager of Fidelity Blue Chip Growth K6. That fund also had an outsize position in Nvidia (10%, according to Morningstar Direct) and owned many of the same stocks that dominated Hamzaogullari's list of outperformers, such as Netflix and Facebook parent Meta Platforms.

These top managers have one more thing in common: their cautious approach to growth investing.

"I try to find stocks where the market is mispricing the fundamental rate of growth as well as its durability," Kalra says. In the case of artificial intelligence and its impact on Nvidia, that is a long-term trend he has been happy to back since 2017, even when some of his peers backed away. "I think ChatGPT and AI will trigger the fourth big wave in technology investing, in the same way that the internet, the smartphone and the move to the cloud were transformative."

Still, he views his role as not just picking stocks but managing risk. That means being aware of the reasons that growth stocks have churned out healthy returns this year—running from bargain hunting among the stock wreckage of 2022 to Silicon Valley beginning to reap the benefits of cost cutting—as well as the storm clouds on the horizon. "It's hard to say that this turbocharged environment will continue," Kalra says. "It depends on whether companies can generate sustained earnings growth."

Winners' Circle

Best 12-month total return through Oct. 1, 2023, actively managed U.S.-stock funds

1. **Loomis Sayles Growth (LSGRX) 41.0%**
2. **Fidelity Blue Chip Growth K6 (FBCGX) 34.6%**
3. **Nationwide Loomis All Cap Growth (NWZMX) 34.6%**
4. **Victory Growth (USAAX) 34.2%**
5. **Virtus Silvant Large-Cap Growth (STCIX) 34.0%**
6. **Value Line Larger Companies (VALLX) 33.8%**
7. **Baron Durable Advantage (BDAIX) 33.7%**
8. **Hennessy Cornerstone Mid Cap 30 (HFMDX) 33.1%**
9. **Janus Henderson VIT Research (JAGRX) 32.3%**
10. **Fidelity Growth Company K6 (FGKFX) 32.3%**

The Wall Street Journal, from Morningstar Direct data

Another outperforming manager in this quarter's list takes an even more wary view of what may lie ahead for growth stocks. Alex Umansky, manager of the seventh-ranked Baron Durable Advantage Fund runs what he describes as a "lower growth" fund among the array of high-growth funds that make up Baron Capital Investment's product lineup that he launched in 2017. Designed to outperform when more-aggressive growth strategies flagged, the fund posted a 33.7% gain in the just-ended 12 months.

The kinds of companies Umansky wants to add to his $100 million fund tend to be more-mature businesses, with a history of generating profits, with little or no debt and thus the ability to use downturns or recessions to their advantage. "Companies like that take market share and emerge from a crisis stronger than they were before," he says. "We want to own businesses that will fare well and return capital to their investors. We don't want to rent stocks, trading in and out."

Umansky, too, is a devotee of valuation: Many companies that might meet his growth and stability criteria still fail to qualify for inclusion in his portfolio because they trade at what he views as unrealistically high levels. So, while the fund does own Nvidia, Umansky was a latecomer, not buying until it traded near last year's lows. "For five years it was a highflier and we couldn't touch it," he says. "And once it had gained 200%, we sold some of it."

That wasn't the only stock that might formerly have been a core holding of Baron's high growth funds that Umansky found himself snapping up last year. "After Meta, Amazon and others collapsed last year, we bought them for the first time," he recalls. "We were convinced that these would be among the leaders in a recovery."

In a still-uncertain investment climate, that kind of cautious but dogged pursuit of growth seems to characterize all of this quarter's winners. "We only want to own companies that won't cause any permanent loss of capital," Umansky says. "We want brands that have wide competitive moats, that generate free cash flow. Those are the growth companies that should do well in whatever kind of environment we find ourselves confronting."

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Baron Durable Advantage Fund's annualized returns for the Institutional Shares as of 9/30/2023: 1-year, 33.65%; 5-year, 13.18%; Since Inception (12/29/2017), 12.79%. The gross annual expense ratio for the Institutional Shares as of September 30, 2022 was 1.10%, but the net expense ratio was 0.70% (net of reimbursements from the adviser).

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Fund expenses pursuant to a contract expiring on August 29, 2034, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit baronfunds.com or call 1-800-99-BARON.

Risks: The Fund invests primarily in equity securities, which are subject to price fluctuations in the stock market. In addition, because the Fund invests primarily in large-cap company securities, it may underperform other funds during periods when the Fund's securities are out of favor.

Baron Durable Advantage Fund

Top 10 Holdings as of September 30, 2023

Holding Name	% of Net Assets
Microsoft Corporation	9.2
Meta Platforms, Inc.	7.2
Amazon.com, Inc.	7.1
Arch Capital Group Ltd.	4.8
Alphabet Inc.	4.8
UnitedHealth Group Incorporated	4.3
NVIDIA Corporation	4.2
Visa Inc.	4.0
S&P Global Inc.	3.9
Intuit Inc.	3.5
Total	**53.0**

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

Free cash flow (FCF) represents the cash that a company generates after accounting for cash outflows to support operations and maintain its capital assets.

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