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Reaping what they sow

Which mutual fund managers bank on their own portfolio?

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Sure, mutual fund managers want your money. But would they risk their own?

You can find out, thanks to a new disclosure rule that went into effect in 2005, following a series of scandals in the fund industry. Mutual fund companies now are required to report to the Securities and Exchange Commission how much money fund managers have invested in their own funds.

The information is included in mutual funds' Statements of Additional Information (SAI), which is filed on SEC form 485BPOS.

Financial advisors say it's a good sign if a manager has skin in the game; after all, who's in a better position to assess the strength of the fund than its manager?

The best managers "eat their own cooking," said Greg Evans, an investment advisor with the Millstone Evans Group of Raymond James & Associates Inc. in Boulder. "Does it guarantee success? No. But if I've got 90 percent of my net worth in the funds I'm managing, I think I'm going to pay a little more attention to it ... than if I don't have a dime in it, and my friends don't have a dime in it."

Russel Kinnel, director of mutual fund research for Morningstar Inc. in Chicago, recently conducted an informal study of some of the biggest U.S. domestic-stock mutual funds to see which fund families had the best track record of manager ownership. The study excluded institutional funds, sector funds, target-date funds and funds whose managers had been in place for less than a year.

The winner? Denver-based Janus.

According to the Morningstar study, which looked at nine Janus funds, the average Janus manager investment in his or her own fund was $933,000.

"That's an encouraging sign from a fund company trying to win back the investors it burned in the bear market," Kinnel wrote in an article in the newsletter Morningstar FundInvestor.

Seventy percent of Janus portfolio managers had at least $1 million invested in the funds they run as of April 31, said Blair Johnson, a Janus spokesman.

"Janus portfolio managers have a long tradition of eating their own cooking," Johnson said. "They do that because they believe in their ability to perform well and want to show that they're investing shoulder to shoulder with the people whose money they're managing."

Further down the Morningstar list were industry heavyweights such as American Funds, which ranked in fourth place with an average manager investment of $597,000; T. Rowe Price, in fifth place at $471,000; Fidelity, sixth with $444,000; and Vanguard, seventh with $393,000.

Other fund families didn't place very high. Bridgeway, for instance, was near the bottom with an average manager investment of $69,000, followed by Morgan Stanley with $66,000. And 21 of the 36 Morgan Stanley funds in the survey had no manager investment in them at all.

In last place was TIAA-CREF, whose managers had invested a mere $10,000 on average in their own funds. TIAA-CREF, a financial services company that provides teacher retirement plans, is based in New York City but has a large office in Denver.

The Denver Business Journal decided to take a page from Morningstar's book and look at the investment commitment of some of Denver's largest mutual fund families, to see how they stacked up against Janus.

But there are some caveats. First, it's hard to get an exact picture of manager ownership because the SEC only requires managers to state their commitments within a handful of broad ranges: $0; $1 to $10,000; $10,001 to $50,000; $50,001 to $100,000; $100,001 to $500,000; $500,001 to $1 million; and more than $1 million.

Copying Morningstar's formula, we chose the midpoint of each range — for example, if a manager had invested in the $100,001- to - $500,000 range, we counted the investment as $250,000. That could be a

What experts said:

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'We believe that when a portfolio manager is investing in their own fund, that's a good sign.'

Joseph Janiczek
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'I would want to put my money or my clients' money in investments where those that are doing the actual investing have their own money in. Whether it's in their fund or they're investing in the same stocks somewhere else, there's value in that, because they're putting their money where their mouth is.'

Peter Tedstrom
partner, Brown & Tedstrom Inc., Denver

generous estimate because, as Kinnel points out, "managers have an incentive to own just enough shares to clear the lower thresholds of the SEC ranges." We also counted amounts above $1 million as $1.1 million.

Unlike Morningstar, we didn't control for short-term manager tenure or type of fund.

The winner? Marsico Capital Management, the Denver-based fund run by former Janus star growth-stock manager Tom Marsico. Marsico had more than $1 million apiece in his Marisco Focus Fund and Growth Fund. Younger fund managers Corydon Gilchrist and James Gendelman each had invested between $100,001 and $500,000 in their funds, the 21st Century Fund and the International Opportunities Fund, respectively.

Janus came in second in our survey, with a lower average investment than in the Morningstar survey — but again, we didn't control for the same conditions as Morningstar did, and ended up considering 27 funds in our survey. Of the 27 funds, every one had some level of manager investment.

Third was Cambiar Investors LLC, whose five managers have each invested in multiple funds within their management territories. Brian Barish, the company's president, had more than $1 million in Cambiar's International Equity Fund and hefty investments in the Opportunity and Conquistador funds.

One new fund that stood out was Quixote Capital Management's QCM Absolute Return Fund, managed by Jerry Paul and Troy Johnson. Before the fund was launched last December, Paul committed an investment of $500,001 to $1 million, and Johnson promised to invest between $50,001 and $100,000.

In fact, they've put up more than that, Paul said. He and his immediate family members have more than $1 million in the fund, and Johnson's stake is currently around $100,000.

"Even my mother-in-law's money is in the QCM Absolute Return Fund," Paul said. "Now, you know that's serious."

Joking aside, he added, "I just think it's good for people to know that your money's where your mouth is.... I think it's a reasonable question to ask, 'well, are you investing in it?' We want to be able to say yes.'"

Where's the money?

Denver-area fund company	Average manager investment	# of funds with zero manager investment	# of funds with a manager investment of $1 million +	# of funds	# of managers
Marsico Capital Management	$900,000	0	2	4	3
Janus Capital	$675,925	0	14	27	27
Cambiar Investors	$559,000	0	1	3	5
Quixote Capital Management	$412,500	0	0	1	2
Founders Asset Management	$102,777	7	0	16	9
ICON Advisers	$25,000	0	0	4	4

Sources: Latest available Statements of Additional Information (Form 485BPOS) filed with the Securities and Exchange Commission and found either on the fund company's Web site or the SEC Web site. Holdings may have changed since the latest filing. Averages were calculated by using the midpoint of each range specified in SEC filings; amounts over $1 million were rounded up to $1.1 million.

Local money managers say that manager ownership is a strong selling point for a fund.

"We believe that when a portfolio manager is investing in their own fund, that's a good sign," said Joseph Janiczek, founder and chairman of Janiczek & Co. in Denver. "It doesn't mean that if it's a very specific type of fund, in a narrow area, that the manager or organization should have all their money in it, because that wouldn't be prudent. But definitely from a standpoint of utilizing what they recommend, it's very appropriate."

'Even my mother-in-law's money is in the QCM Absolute Return Fund. Now, you know that's serious.'

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Peter Tedstrom, a certified financial planner and partner in Brown & Tedstrom Inc. of Denver, agreed. "I would want to put my money or my clients' money in investments where those that are doing the actual investing have their own money in," he said. "Whether it's in their fund or they're investing in the same stocks somewhere else, there's value in that, because they're putting their money where their mouth is."

"Unequivocally I'd be more likely to invest if I knew the fund manager had something at stake, had his own money in the game," said Fred Taylor, a principal at Northstar Investment Advisors LLC in Denver.

"I think it's a good selling point. If you look at some of the most successful funds around, like Dodge & Cox, American family of funds — those definitely invest in their own funds. Also, the most successful hedge funds are the ones in which the fund managers have the largest stake in. Take Warren Buffett — all his money is tied up in Berkshire Hathaway stock, and obviously that has done extraordinarily well."

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