



# Top Rated Mutual Fund & ETF Lists: Screening Criteria

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The Osaic Research Investment Committee takes pride in our fundamentally driven, extensive, and proven due diligence process. Over a 15+ year track record, Osaic Investment Research has demonstrated the ability to consistently identify strong management teams and outperforming funds for our model portfolios. To that end, the Osaic Research team has taken both quantitative and qualitative aspects of our highly regarded fund selection due diligence process and revamped the way in which we rank our Top-Rated Mutual Funds and ETFs.

Funds will be considered for the Top-Rated Mutual Funds list based on the below screening criteria in Morningstar.

### Chart 1:

Rel	Field Name	Operator	Value
	Morningstar Category	=	Large Blend
And	Domicile	=	United States
And	Oldest Share Class	=	Yes
And	Manager Tenure (Longest)	>=	3
And	Fund Size In USD	>=	200,000,000
And	Information Ratio 5 Yr (Mo-End)	>	CAT AVG
And	Batting Average 5 Yr (Mo-End)	>	CAT AVG
And	Sortino Ratio 5 Yr (Mo-End)	>	CAT AVG
And	Sharpe Ratio 5 Yr (Mo-End)	>	CAT AVG
And	Upside Capture Ratio 5 Yr (Mo-End)	>	CAT AVG
And	Downside Capture Ratio 5 Yr (Mo-End)	<	CAT AVG

These criteria take a completely objective look at each asset class and each fund relative to its peer group on a narrowed-down list of both absolute performance metrics (i.e., batting average) and risk-adjusted performance metrics. While achieving superior performance across all these measures may appear daunting, our investment committee feels that simply beating the category average is a reasonable request of a mutual fund or ETF intended to protect and grow our clients' money. Funds that beat the category average across all these metrics will screen out, thus assembling a short list of best-in-class mutual funds or ETFs that we feel confident will continue to outperform relative to their peers.

The new methodology may be best illustrated through an example. Therefore, we will use the Large Cap Blend Category for mutual funds.

There are over 1200 mutual funds within the Large Cap Blend Morningstar Category. When we run the screen in Chart 1, this category is narrowed to 26 mutual funds.

From here the funds are grouped into tiers based on their Morningstar Star Ratings:

*The star rating is a quantitative measure that ranks funds each month based on their trailing three-, five-, and 10-year risk-adjusted returns versus their Morningstar Category peers. Ultimately, the star rating appears to point investors toward cheaper funds that are easier to own and likelier to outperform in the future, qualities that correspond with investor success.*

*More information regarding the effectiveness of integrating Morningstar Star ratings into our due diligence process can be found at the following link:*

<https://www.morningstar.com/funds/morningstar-rating-funds-good-starting-point-investors>

**Chart 2:**

Name	Base Currency	Ticker	Morningstar Category	Morningstar Rating Overall
Fidelity® Large Cap Core Enhanced Index	US Dollar	FLCEX	US Fund Large Blend	5
GMO Quality IV	US Dollar	GQEFX	US Fund Large Blend	5
Impax Large Cap Fund Institutional	US Dollar	PXLIX	US Fund Large Blend	5
Jensen Quality Growth J	US Dollar	JENSX	US Fund Large Blend	5
JPMorgan Equity Focus I	US Dollar	JPFSX	US Fund Large Blend	5
JPMorgan US Equity L	US Dollar	JMUEX	US Fund Large Blend	5
JPMorgan US Large Cap Core Plus I	US Dollar	JLPSX	US Fund Large Blend	5
Parnassus Core Equity Investor	US Dollar	PRBLX	US Fund Large Blend	5
SEI Dynamic Asset Allocation A (SIIT)	US Dollar	SDLAX	US Fund Large Blend	5
Touchstone Large Cap Focused A	US Dollar	SENCX	US Fund Large Blend	5
Boston Trust Equity	US Dollar	BTEFX	US Fund Large Blend	4
CIBC Atlas Disciplined Equity Instl	US Dollar	AWEIX	US Fund Large Blend	4
DFA US Hi Relatv Profitability Instl	US Dollar	DURPX	US Fund Large Blend	4
Fidelity® U.S. Sustainability Index	US Dollar	FITLX	US Fund Large Blend	4
Franklin Rising Dividends A	US Dollar	FRDPX	US Fund Large Blend	4
Payson Total Return	US Dollar	PBFDX	US Fund Large Blend	4
Pioneer A	US Dollar	PIODX	US Fund Large Blend	4
Principal Capital Appreciation A	US Dollar	CMNWX	US Fund Large Blend	4
Putnam Research A	US Dollar	PNRAX	US Fund Large Blend	4
SEI Dynamic Asset Allocation Y (SIMT)	US Dollar	SDYYX	US Fund Large Blend	4
State Street Instl US Equity Inv	US Dollar	SUSIX	US Fund Large Blend	4
State Street US Core Equity Fund	US Dollar	SSAQX	US Fund Large Blend	4
Voya Growth and Income Port I	US Dollar	IIVGX	US Fund Large Blend	4
Goldman Sachs Rising Dividend Gr A	US Dollar	GSRAX	US Fund Large Blend	3
MFS Core Equity A	US Dollar	MFGAX	US Fund Large Blend	3
Nationwide Institutional Service	US Dollar	MUIFX	US Fund Large Blend	3

Finally, from this short list, Osaic Research Analysts perform qualitative due diligence and determine whether a mutual fund warrants addition to the Top-Rated Funds Lists. This qualitative analysis includes an examination of the 3 P's: People, Process, and Performance, which is conducted through manager visits, conference calls, and a more granular analysis of a fund's risk and return metrics.

Some categories within Morningstar are smaller and more niche than others, so much so that the screen outlined in Chart 1 can be so restrictive that it prevents any funds from screening out, complicating the job of selecting the best mutual fund and ETF options for each asset class. We will adjust the screen for these niche categories to only include one absolute return performance metric and one risk-adjusted performance metric outlined below in Chart 3.

We will also use this same screen as a starting point for the Top-Rated ETF list, as the ETF universe is materially smaller than the mutual fund universe. These categories will then apply the same quantitative and qualitative processes mentioned above in the Large Cap Blend example, narrowing down the asset class to a shortlist of top-tier ETFs.

**Chart 3:**

Rel	Field Name	Operator	Value
	Morningstar Category	=	Large Blend
And	Domicile	=	United States
And	Oldest Share Class	=	Yes
And	Manager Tenure (Longest)	>=	3
And	Fund Size In USD	>=	200,000,000
And	Information Ratio 5 Yr (Mo-End)	>	CAT AVG
And	Batting Average 5 Yr (Mo-End)	>	CAT AVG

Lastly, what causes a fund or ETF to be placed “on watch” or removed from the Top-Rated lists?

A fund or ETF is put “on watch” if it does not screen out for the current quarter being reviewed.

Once a fund or ETF is determined to be “on watch,” the Osaic Research team will do a review of the fund’s process and performance and, if necessary, may set up a call with the manager to identify any material changes which could limit the fund’s ability to provide favorable performance or risk attributes on a go-forward basis.

A fund or ETF will be replaced if it does not screen out for two consecutive quarters. Not screening out for two successive quarters would signal that the fund or ETF is trending in the wrong direction relative to its history and category peers.

Once it is determined that a fund should be replaced, the screening process will inherently identify quality replacement options through initial quantitative assessments, and further qualitative due diligence will distinguish the most deserving fund for addition to the Top-Rated Lists.

## *Economic Definitions:*

**Batting Average:** Batting Average is a measure of a manager's ability to consistently beat the market. It is calculated by dividing the number of months in which the manager beat or matched the fund's primary benchmark index by the total number of months in the period. For example, a manager who meets or outperforms the market every month in a given period would have a batting average of 100. A manager who beats the market half of the time would have a batting average of 50.

**Information Ratio:** A ratio of portfolio returns in excess of the returns of a benchmark (usually an index) to the volatility of those returns. Similar to Sharpe Ratio. The information ratio (IR) measures a portfolio manager's ability to generate excess returns relative to a benchmark, but also attempts to identify the consistency of the portfolio manager. This ratio will identify if a manager has beaten the benchmark by a lot in a few months or a little every month. The higher the IR, the more consistent a manager is.

**Sharpe Ratio:** The Sharpe Ratio is a risk-adjusted measure developed by Nobel Laureate William Sharpe. It is calculated by using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe Ratio, the better the portfolio's historical risk-adjusted performance. It can be used to compare two portfolios directly on how much excess return each portfolio achieved for a certain level of risk.

**Sortino Ratio:** The Sortino ratio takes an asset or portfolio's return and subtracts the risk-free rate, and then divides that amount by the asset's downside deviation.

**Upside Capture Ratio:** Upside capture ratio measures a strategy's performance in up markets relative to an index. A value over 100 indicates that an investment has outperformed the benchmark during periods of positive returns for the benchmark.

**Downside Capture Ratio:** Downside capture ratio measures a strategy's performance in down markets relative to the index. A value of less than 100 indicates that an investment has lost less than its benchmark during periods of negative returns for the benchmark.

## *Disclosures*

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