

SmartMoney

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The 15 Best Funds To Complete Your Comeback

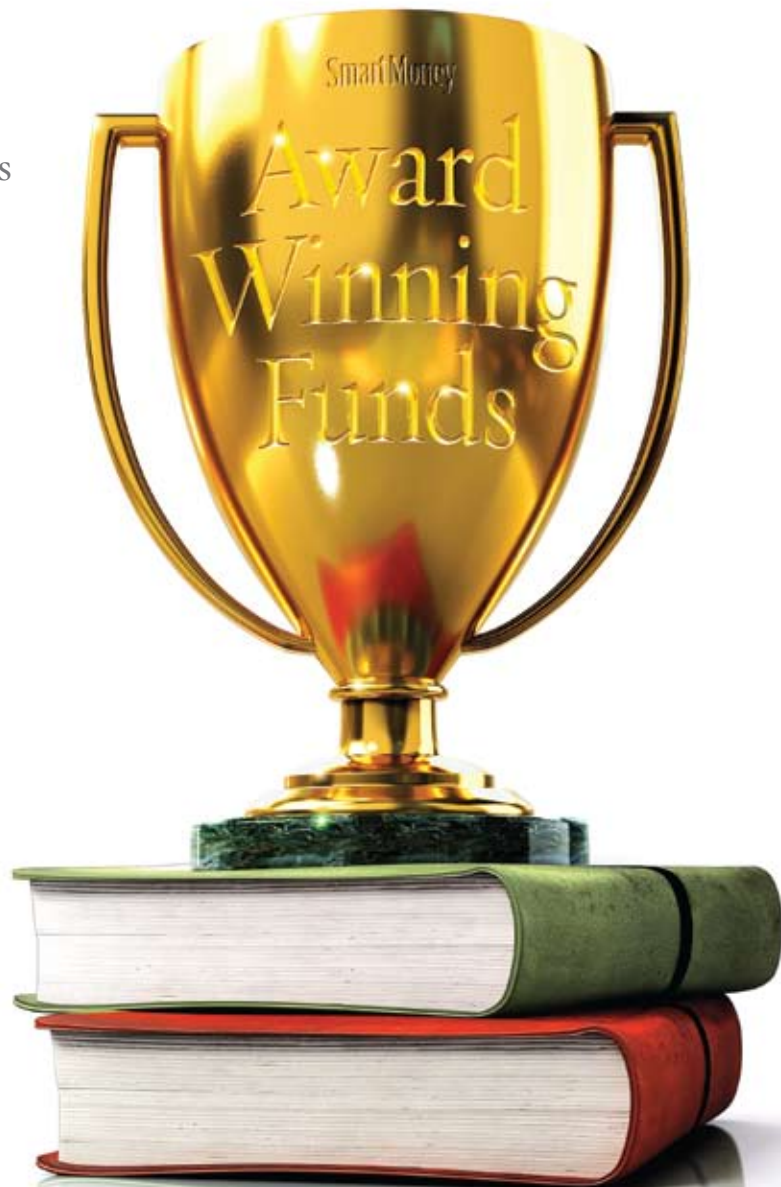


It may have been the roughest five years in mutual fund history, but some managers still delivered double-digit returns.

FIVE YEARS HAS LONG BEEN AN INDUSTRY standard for measuring mutual fund investments, and the most recent five, of course, have not been pretty. The worst year was clearly 2008, when more than nine out of 10 funds lost money, and in most cases quite a bit. The more distressing statistic: In the past five years the average annual return for all mutual funds was barely 2 percent, even less than the rate of inflation. But numbers like these don't quite ring a bell for investors who have stuck with a \$1.4 billion fund run by a father-and-son team in the foothills of Austin, Texas. Named after the family, the Yacktman fund tries to be contrarian, buying out-of-favor stocks on the cheap. And it's paid off, returning an eye-popping 40 percent over the past five years, a \$4,000 return on a \$10,000 investment. A \$10,000 investment made a decade ago would be worth more than \$30,000 now. "I'm not saying it to brag, but I feel good about what we've done," says the father, Don Yacktman.

For better or for worse, millions of Americans have staked their financial future on mutual funds, socking away their savings in everything from 401(k) plans to Roth IRAs. Now, five years into one of the industry's toughest periods, they are coming away with a valuable lesson: Instead of picking just any fund, investors need some criteria for finding the strongest and savviest fund managers. Over the past few years, fund managers have had to figure out how to take advantage of or simply dodge some of Wall Street's wildest swings. "When you talk to managers and see how they made changes quarter to quarter, year over year, you can see which ones played the game really well," says Dave Hintz, head of U.S. equities for Russell Investments, a firm that analyzes mutual fund performance.

Market watchers say that if the past few years have taught us anything, it's that many managers can't handle extreme market environments. And very few funds returned much more than investors would have earned by simply holding a broad stock market index. In a recent study, business professors Eugene Fama and Kenneth French found that from 1984 to 2006, even most funds that notched gains didn't earn enough to justify their fees. So, many experts say that when a mutual fund provides world-beating returns over time, investors should take notice. "You become worth your salt when markets go down," says Michael D. Cohn, chief investment officer of the Global Arena Investment Management, a financial-planning firm.



Each year, SMARTMONEY compiles a list of the best of the best in the \$11 trillion fund industry. We've highlighted as few as five and as many as 100. This year we used a fund's five-year track record as the primary hurdle. That time frame shows how managers have dealt with all the financial gyrations since 2005. We also wanted funds that most can afford to buy (no \$1 million minimum investments) and that aren't too expensive to own (no big load or management fees). Using data from Morningstar, we identified 15 of the best mutual funds. Most hold at least some U.S. stocks, but many own more-exotic assets such as bonds that fund schools in Texas. Whatever they buy, the managers of these funds have done well for investors in trying times.

By Daren Fonda, Reshma Kapadia
and Russell Pearlman

REAL ESTATE FUNDS

Real estate funds had to navigate a huge boom followed by an epic bust. Some handled the ride better than others.


INVESTORS IN THE NEW YORK-BASED Cohen & Steers Realty Shares fund get a product run by two guys who actually played a role in helping the sector recover. In January of last year, the prices of real estate investment trusts were plummeting, and Martin Cohen and his partner, Bob Steers, realized many were starved for cash. “Unless we could help the industry access capital, it could go away,” says Steers.

So the duo spent months meeting with executives of Real Estate Investment Trusts—and Wall Street bankers—to get the real estate firms to raise more cash with debt or stock offerings. Cohen and Steers were willing to invest too, putting their own money on the line along with hundreds of millions of dollars from Realty Shares and the other funds that their firm runs. “The move was never in our playbook,” Steers admits. Some REITs agreed to do it. On Mar. 9, which happened to be Bob Steers’s 56th birthday, REIT prices bottomed, and over the next several months, the prices of several of the REITs the fund owned more than doubled. Cohen & Steers Realty Shares returned 32 percent in 2009, making it one of the year’s best real estate funds. The \$2.1 billion fund has performed better than the majority of its rivals over the past five and 10 years as well.

While fund managers doing more than just managing money could trigger red flags, Cohen and Steers’s real estate expertise made it no big deal, says Morningstar analyst John Coumarianos. Cohen and Steers and their 30-analyst, New York-based team try to form a big-picture view of real estate, then look for REITs positioned to benefit. The fund’s managers traditionally look at measures such as a REIT’s price relative to the value of the properties it owns or the amount of cash the REIT generates. But lately, they have paid much more attention to balance sheets, assigning a letter grade to each REIT based on, among



several factors, how manageable its debt level is.

To be sure, there are risks involved in Cohen & Steers Realty’s focusing on the U.S. market while the domestic economy continues to struggle. REITs holding office buildings and other commercial real estate could be in for a tough slog, since commercial properties have more than \$1 trillion in debt maturing over the next three years. But healthier commercial REITs, such as shopping-mall owner Simon Property Group and industrial REIT ProLogis, could use their fresh capital to acquire down-trodden rivals, Steers says. “I don’t think that is yet built into the stock prices,” he adds. 

WINNER

COHEN & STEERS REALTY SHARES (CSRSX)

MANAGERS: MARTIN COHEN AND
ROBERT STEERS

ASSETS: \$2.1 BILLION

EXPENSES PER \$10,000: \$100

MINIMUM INVESTMENT: \$10,000

5-YEAR AVG. ANNUAL RETURN: 3.1%

10-YEAR AVG. ANNUAL RETURN: 11.1%

QUICK TAKE: Looks for big-picture trends and emphasizes certain property types.

RUNNERS-UP

CGM REALTY (CGMRX)

MANAGER: KENNETH HEEBNER

ASSETS: \$1.3 BILLION

EXPENSES PER \$10,000: \$86

MINIMUM INVESTMENT: \$2,500

5-YEAR AVG. ANNUAL RETURN: 11.1%

10-YEAR AVG. ANNUAL RETURN: 19.2%

QUICK TAKE: Heebner is a rapid trader who runs a condensed portfolio of real estate stocks and sometimes veers outside the sector to find good values.

NEUBERGER BERMAN REAL ESTATE TRUST (NBRFX)

MANAGERS: STEVE SHIGEKAWA AND
BRIAN JONES

ASSETS: \$84.6 MILLION

EXPENSES PER \$10,000: \$99

MINIMUM INVESTMENT: \$1,000

5-YEAR AVG. ANNUAL RETURN: 4.1%

10-YEAR AVG. ANNUAL RETURN: NA

QUICK TAKE: The fund is finding values in shopping mall and hospital REITs.

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Average annual total return performance information (periods ended December 31, 2009) for Cohen & Steers Realty Shares, Inc. is as follows:

One year	Three years	Five years	Ten Years
32.50%	-11.11%	2.05%	11.28%

Average annual total return performance information (periods ended January 31, 2010) for Cohen & Steers Realty Shares, Inc. is as follows:

One year	Three years	Five years	Ten Years
51.17%	-15.30%	2.80%	10.79%

Sales Charge: None
Redemption Fee ⁽¹⁾: 2%
Expense Ratio ⁽²⁾: 1%

(1) If redeemed or exchanged within 60 days of purchase. See prospectus for additional information.

(2) Annual expense ratio as reported in the prospectus dated May 1, 2009. The Fund's expense ratio as reported in the annual report was 1.06% for the fiscal year ending December 31, 2009. The Fund's expense ratio will change over time based on the Fund's asset level and other factors and as a result may be either higher or lower than these figures.

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment and the principal value of an investment will fluctuate and shares, if redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Total returns of the fund current to the most recent month-end can be obtained by visiting our website at coheandsteers.com. Returns are historical and include changes in share price and reinvestment of all distributions.

Please consider the investment objectives, risks, charges and expenses of the fund carefully before investing. A prospectus containing this and other information may be obtained by calling 1.800.330.7348 or visiting cohenandsteers.com. Please read the prospectus carefully before investing.

There are special risks associated with investing in real estate securities. These risks are similar to those of investing directly in real estate and your investment in Cohen & Steers Realty Shares will be closely linked to the performance of the real estate markets. Property values may fall for example due to increasing vacancies or declining rents that occur during difficult real estate market periods. Many real estate companies finance their activities by borrowing or issuing fixed income securities and this leverage could increase investment risk, especially in periods of rising interest rates. Performance during certain periods reflects strong industry and/or individual security performance that may not be repeated.

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