

## FUNDS & PERSONAL FINANCE

### MUTUAL FUND PROFILE

# Top Fund Avoids Fads, Sticks To Leading Stocks Like Apple, Amazon

## Hartford Core Equity

Seeks large caps whose returns on assets improve

BY PAUL KATZEFF  
INVESTOR'S BUSINESS DAILY

Are you leery of mutual funds that chase here-today-gone-tomorrow fads that can't seem to sustain outperformance? Of course you are. If you prefer one of the best mutual funds, which sticks to a long-term game plan and rides durable leaders like **Apple**<sup>AAPL</sup>, check out \$8.8 billion Hartford Core Equity<sup>HGIYX</sup>.\*

Core Equity holds popular megacap technology giants like Apple and **Amazon**<sup>AMZN</sup>. It also holds lower-profile leaders like **Thermo Fisher Scientific**<sup>TMO</sup> and **Nike**<sup>NKE</sup>.

"The names that we pick are reflective of the very long-term philosophy that we ascribe to," said lead manager Mammen Chally. Chally runs the fund with David Siegle and Douglas McLane. All are with subadvisor Wellington Management.

The fund boasts that it looks for large-cap stocks that are expected to evolve in the right direction over the next three to five years. In contrast, many of its rivals focus on what can happen in the next six to 12 months, the managers say.

Also, the fund's managers seek large caps that share certain traits. One is improving quality. "That means improving returns on assets," Chally said. Another

target trait is stocks of companies that innovate and broaden their markets over time. "We believe that companies that innovate, whether with a product or service, tend to compound their value over time," he said.

One way the managers try to control risk is by limiting exposure to any one stock. "We cap our position sizes at 5% when we can," Chally said.

The fund's lower volatility vs. its peer group is a characteristic that makes it one of the best mutual funds. Over the three years ended Aug. 31, the fund rose more than its peer group relative to the Russell 1000 index in rising markets. And the fund lost less than its peer group in downturns.

Apple stock helps make Hartford Core Equity one of the best mutual funds. Apple was the fund's top holding as of June 30 with a weighting just shy of 5%.

In the recent technology-sector pullback, Apple stock fell 14% off its Sept. 1 close, going into Wednesday. Still, share price was recently up 58% so far this year.

Services have grown to play a key role in Apple revenues and earnings. The company cross-sells to its installed base of customers for its hardware and software. Its services had a 2019 gross profit margin of around 64%, Chally says. Its products business had a gross margin of 32%.

And Chally believes Apple can sell more services. "Services are underpenetrated in the customer base — primarily iPhone

## Hartford Core Equity Y



Mammen Chally

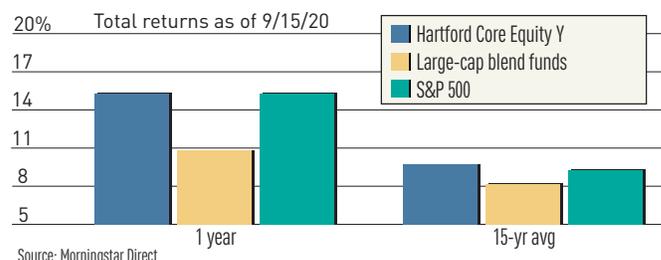
■ Load: None  
■ Expenses: 0.46%  
■ Symbol: HGIYX

### Total returns as of 9/15/20

2019: 33.84% 3-yr. avg.: 14.80%  
YTD: 6.13% 5-yr. avg.: 13.36%  
10-yr. avg.: 15.13%

### Sector weightings as of 7/31/20

	% of stock assets	% of S&P 500
<b>Cyclical</b>	<b>27.77%</b>	
Basic materials	2.17	2.18%
Consumer cyclical	11.06	11.20
Financial services	12.39	12.82
Real estate	2.15	2.61
<b>Economically sensitive</b>	<b>42.41</b>	
Communication services	8.58	11.10
Energy	0.99	2.32
Industrials	8.37	8.32
Technology	24.47	25.22
<b>Defensive</b>	<b>29.81</b>	
Consumer defensive	10.53	7.33
Health care	15.56	14.07
Utilities	3.72	2.83



users — and they can continue to increase that penetration," he said. "For example, as data that needs to be stored becomes larger — think video clips instead of pictures with improving camera resolutions — people will need larger iCloud storage, which costs more."

Apple's revenue services grew 15% year over year in the June quarter. But that growth rate has slowed, Chally says. "While the majority of revenue is still products, the more that services grow and the larger it becomes,

it will become a more important driver of profitability," he added.

One key risk facing Apple is a heavier regulatory burden, Chally says. He points to the lawsuit brought by video game publisher Epic Games against Apple and Google-owner **Alphabet**<sup>GOOGL</sup>. When Epic found a way to keep the 30% commission that players of its hugely popular Fortnite game had paid to Apple and Google, those companies kicked Fortnite off their platforms. Epic sued. "From a big-picture perspective, regulatory intervention

is a risk,” Chally said. “Otherwise, Apple is getting stronger.”

### Amazon Advertising

Amazon stock is the fund’s No. 2 holding. E-commerce and gaming are key drivers, Chally says. He added, “Amazon Web Services is going to be a huge driver in the long term. AWS annual revenue is approaching \$50 billion in a market with \$3.5 trillion of technology spending.”

He also likes the outlook for Amazon’s advertising. Advertisers are willing to pay to be positioned at the top of search results. Likewise, they are willing to pay to be positioned at the point of sale, he says.

Chally is bullish about Nike in the long run, despite its latest quarterly earnings report. The company reported a 51-cent-per-share loss and a 38% sales decline year over year in its fiscal fourth quarter in June.

That was Nike’s first quarterly loss since the start of 2018.

Nike’s business was hurt by its stores being shut and by taking in fewer orders for shoes and clothes.

“The quarter was definitely disappointing,” Chally said. “They did build inventory. But what’s amazing is that they will clean up that buildup within six months. And they’re growing faster in higher-margin areas, like China and other parts of Asia, than in other areas. They want to bring that model to the U.S.”

To do that, they are consolidating distribution. And they are limiting distribution in areas where their product prices get discounted, he says.

Another good sign: digital sales grew more than 100% in the last quarter. “They want to move from wholesaling to more direct-to-consumer sales,” Chally said. “Then they can keep distribution margins for themselves.”

Early this year, Nike named John Donahoe its president and CEO. Chally expects Donahoe

to focus on technological innovations that will enable Nike to speed up its product design process and overall supply chain. “Nike’s goal is something like manufacturing (products) on demand and providing them in one day,” Chally said.

Thermo Fisher is another holding that makes Core Equity one of the best mutual funds. The company creates a wide array of products for biological and medical research. Its products include test kits, culture media, reagents, instruments, consumables and software. “Essentially, its products are enabling a lot of scientific advances we see in pharmaceuticals and biotechnology,” Chally said.

Thermo Fisher’s diagnostics division plays a key role in advances in so-called precision medicine. That’s an area of health care in which treatment is tailored to a small number of patients with similar needs.

The company is also growing fast in the Asia-Pacific market.

That region accounts for \$5 billion of Thermo’s revenues, Chally says. Thermo had \$26.25 billion in 2019 revenues. “It is a well-run company that has a long runway ahead of it,” Chally said.

One potential risk is heightened pressure for controls on drug pricing after the November elections. Caps on drug prices could reduce incentives for innovation in pharmaceuticals and research spending, Chally says.

What makes this one of the best mutual funds? The fund is a 2020 IBD Best Mutual Funds Award winner, having topped the S&P 500 in calendar 2019 as well as over the three, five and 10 years ended Dec. 31 on an average-annual-return basis.

Year to date, the fund’s return is 6.13% vs. the S&P 500’s 6.73% and the 3.39% average for the fund’s large-cap blend rivals tracked by Morningstar Direct.

The fund’s A (HAIAX), C (HGICX) and I share (HGIIX) classes allow initial investments as small as \$2,000.

Historical Performance (Class Y) (%)	1 Year	3 Year	5 Year	10 Year	Since Inception
<b>Average Annual Total Returns</b> (as of 9/30/20)					
Hartford Core Equity Fund Y	14.80	14.32	13.77	14.81	7.75
S&P 500 Index	15.15	12.28	14.15	13.74	---
Russell 1000 Index	16.01	12.38	14.09	13.76	---
Morningstar Large Blend Category Average	10.70	9.55	11.77	11.96	---

**Expenses<sup>1</sup>** (Class Y) Net: 0.46% Gross: 0.49%

**Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For more current performance information to the most recent month ended, please visit [hartfordfunds.com](http://hartfordfunds.com).**

Fund Inception: 4/30/98. Share Class Inception: 4/30/98. Performance prior to the inception of a class reflects performance and operating expenses of another class, excluding sale charges if applicable. Performance of other share classes will vary. The Fund's benchmark is the S&P 500 Index.

<sup>1</sup>Expenses as shown in the Fund's most recent prospectus. Gross expenses do not reflect contractual fee waivers or expense reimbursement arrangements. Net expenses reflect such arrangements only with respect to Class Y. These arrangements remain in effect until 2/28/21 unless the Fund's Board of Directors approves an earlier termination.

## Top Ten Holdings (as of 9/30/20)

Apple, Inc.	5.38%	Procter & Gamble Co.	2.54%
Amazon.com, Inc.	4.72%	UnitedHealth Group, Inc.	2.09%
Microsoft Corp.	4.00%	NextEra Energy, Inc.	2.05%
Alphabet, Inc.	3.45%	JP Morgan Chase & Co.	1.95%
Facebook, Inc.	2.64%	Mastercard, Inc.	1.94%
		<b>% of Portfolio</b>	<b>30.76%</b>

There is no guarantee that the Fund will continue to hold any security listed in the Top Ten Holdings or referenced within this report. Holdings are subject to change. Percentages may be rounded. For the Fund's most recent publicly available list of holdings, please visit [hartfordfunds.com](http://hartfordfunds.com).

\*The Hartford Core Equity Fund Y was named a 2020 IBD Best Mutual Funds Award winner in their fifth annual awards program. The award winners were drawn from a universe of 3,374 mutual funds in operation for at least 10 years. The universe was divided into 13 categories for evaluation. The award was based on a fund outperforming the S&P 500 Index over the last one-, three-, five-, and 10-year periods ending 12/31/19. The Hartford Core Equity Fund was one of four award winners fund in the US Diversified Stock Blend category out of 425 funds.

S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks. Russell 1000 Index measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. Indices are unmanaged and not available for direct investment

**Important Risks:** Investing involves risk, including the possible loss of principal. Security prices fluctuate in value depending on general market and economic conditions and the prospects of individual companies.

The views and opinions expressed herein are those of Mammen Chally as of 9/18/20 and are subject to change based on market, economic and other conditions. The views expressed may not reflect the opinions of all portfolio managers at Wellington Management or Hartford Funds. Fund information referenced within the article is as of 7/31/20 unless otherwise noted.

**Investors should carefully consider a fund's investment objectives, risks, charges and expenses. This and other important information is contained in the [fund's prospectus](#) and summary prospectus, which can be obtained by visiting [hartfordfunds.com](http://hartfordfunds.com). Please read it carefully before investing.**

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