Hartford Schroders US Small Cap Opps I SCUIX

Still has some attractive features.

Morningstar's Take SCUIX

Morningstar Rating	★★★★
Morningstar Analyst Rating	Bronze

Morningstar Pillars

Process	Above Average
Performance	—
People	Average
Parent	Above Average
Price	—

Role In Portfolio
Supporting Player

Fund Performance

Year	Total Return (%)	+/- Category
YTD	14.90	-2.79
2020	7.99	-3.00
2019	32.03	8.27
2018	-10.82	1.90
2017	14.73	2.45

Data through 9-30-21

2-04-21 | by Tony Thomas

With a relatively new lead manager but an established and sensible process, the share classes of Hartford Schroders US Small Cap Opportunities earn a Morningstar Analyst Rating of Bronze or Neutral, depending on fees.

Manager Bob Kaynor has only run this strategy since March 31, 2019, when he took over from the veteran Jenny Jones. But he had been part of this team since 2013, serving as its director of research and aiding Jones in making process adjustments, picking stocks, and constructing the portfolio. He was also a "gatekeeper" with Jones, which meant he would vet ideas from half of the analyst team during the initial stages of research. Kaynor has 26 years of fundamental research and investment experience, with a substantial portion of his career spent investing in smaller-cap stocks. A strong and experienced team supports Kaynor and has helped smooth his transition into the lead role. It includes Joanna Wald, Kaynor's successor as director of research, along with five sector analysts and a quantitative analyst.

Generally, Kaynor has stayed true to the process, which targets lower risk and better downside resilience relative to its benchmark. Many portfolio biases have remained in place, such as near-zero exposure to biotechnology and an underweighting in REITs. The minor changes he has made include cutting five to 10 small holdings in the tail of portfolio and bringing cash exposure down to 3%-5% from 7%-8%, although these haven't resulted in higher risk.

Although Kaynor's execution has been broadly consistent with Jones', the strategy has posted middling numbers in his short tenure. It underperformed in 2020's first-quarter sell-off and lagged for the rest of the year. Many of the market's best-performing companies during that time were unprofitable and risky, but those aren't usually suitable for this strategy, and it doesn't tend to thrive in momentum-driven markets. Given these mitigating factors and its solid longer-term record, this strategy is still a decent option.

Process Pillar Above Average | Tony Thomas 02/04/2021

This established process earns an Above Average Process rating.

The universe of stocks is around 2,500 names whose market caps are $200 million to $6 billion at purchase. Half are eliminated on concerns over management or inadequate liquidity, or if the firm is operating in an unattractive industry with low barriers to entry or pricing pressures. Kaynor prefers companies with competitive advantages, sustainable cash flows, and good sales and earnings growth. The typical outcome is a beta below 1 (suggesting lower risk relative to the broader market) and a relatively defensive portfolio.

Kaynor divides the portfolio into three buckets of stocks. Between 50% and 70% is usually invested in companies where the market has underappreciated the potential for secular growth in revenues and margins (mispriced growth). Between 20% and 50% of the portfolio is in stocks with consistent earnings but moderate growth prospects (steady-Eddies). Up to 20% may be invested in short-term turnaround plays where a management or product issue has temporarily hurt the share price but there is a clear catalyst for the company to return to its previous growth profile. This diversification across different types of stocks should help limit risk relative to peers. Kaynor has cut cash roughly in half to about 4% from around 8% under previous manager Jenny Jones.

The strategy typically holds around 100-130 stocks and is diversified across buckets and sectors. In December 2020, the mispriced growth bucket was 62% of the portfolio, compared with 32% for the steady-Eddie bucket. Turnaround situations stood at 6% and have rarely gone above 10%. The top 10 positions held a modest 15% of assets and were from a diverse set of sectors. The largest position was a nearly 2% stake in ASGN Inc ASGN, a staffing-services company.

Sector deviations from the benchmark aren't usually marked, yet the portfolio bears little resemblance to the Russell 2000 Index, as shown by the December portfolio's high 94% active share. The most pronounced deviations tend to be underweightings in healthcare and REITs. In healthcare, the lack of biotech exposure (which is 11% of the Russell 2000) is the result of the team's preference for companies with mature business rather than those with negative earnings. REITs often have highly leveraged business models that the team also shuns.

Throughout 2020, manager Bob Kaynor sold names where he saw liquidity risk, such as gaming-machine supplier PlayAGS AGS. He continued to hold certain stocks which he believed would return to solid revenue growth when economies reopen and had sufficient cash to survive until then, such as casino operator Red Rock Resorts RRR and Performance Food Group PFGC.

Performance Pillar | Tony Thomas 02/04/2021
Manager Bob Kaynor's brief track record is middling so far. From his March 2019 start as lead manager through January 2021, the 14.4% annualized gain for the institutional shares topped the 12.8% small-blend Morningstar Category average but lagged the Russell 2000 Index's 19.2% rise. The strategy hasn't yet shown the durability in sell-offs that helped it to a solid record under previous manager Jenny Jones, but 2020's sharp market decline was atypical. Fueled by the pandemic's onset, the fund's painful 40.5% decline from Feb. 19 through March 18 was barely better than the typical peer’s 41.2% and the index's 41.0%. In fact, the fund fell 102% as far as the index in down months during Kaynor's tenure.

The somewhat surprising underperformance during 2020's first quarter came as the fund's steady-Eddie bucket only modestly outperformed the index and did not offset weakness in its mispriced growth and turnaround names. The economic shutdown hit a few steady-Eddies hard, including food distributor Performance Food Group. For the full calendar year, the fund trailed the benchmark by nearly 12 percentage points on weak stock selection in consumer cyclicals, including airport retailer Hudson (which Kaynor sold and has since merged away), and an underweighting in healthcare stocks (especially biotech, which makes up 11% of the Russell 2000).

People Pillar Average | Tony Thomas 02/04/2021
This is a solid and experienced team, but manager Bob Kaynor's limited experience in managing this mandate on his own results in an Average People rating.

Kaynor has run this strategy as its sole manager only since March 31, 2019, when he took over from veteran manager Jenny Jones. He was hired in 2013 as the eventual successor to Jones, starting as a senior analyst but rising to director of research in January 2014. Over time, he became actively involved in process enhancements, stock selection, and portfolio construction alongside Jones.

Kaynor is an experienced investor with 26 years of fundamental research and investment experience. He has spent much of his career investing in small and mid-cap stocks, albeit on the hedge fund side. Prior to Schroders, he managed the long-short equity strategies at Ballast Capital, Ramius, and Barbary Coast Capital Management. A stable and experienced team has supported Kaynor through the handoff from Jones. It includes director of research Joanna Wald, five sector analysts, and a quantitative analyst. Changes to the team are rare. In May 2019, Wald was promoted from the analyst team to her current role, and Jack Shufelt became the team's quant analyst. Wald is also the team's liaison with Schroders' central environmental, social, and governance team.

Parent Pillar Above Average | Elizabeth Foos 12/21/2020
Hartford Funds has evolved over the past decade by hiring strong subadvisors, honing its product lineup, and improving some fee structures. These efforts support an Above Average Parent Pillar rating.

The firm maintains a long-standing relationship with well-respected subadvisor Wellington Management Company. Wellington has long run the firm's equity funds--over half of its $116 billion in fund assets--and took the reins of Hartford Fund's fixed-income platform beginning in 2012. In 2016, Hartford Funds began offering strategic-beta exchange-traded funds with its acquisition of Lattice Strategies and partnered with U.K.-based Schroders to expand its investment platform further. The Schroders alliance added another strong subadvisor to Hartford's lineup, with expertise in non-U.S. strategies.

Hartford Funds mostly leaves day-to-day investment decisions to its well-equipped subadvisors and instead steers product development, risk oversight, and distribution for its strategies. In 2013, the firm reorganized and grew its product-management and distribution effort. Since then, leadership has added resources to its distribution and oversight teams, merged and liquidated subpar offerings, introduced new strategies, evolved its strategic partnerships with MIT AgeLab and AARP, and lowered some fees. That said, fees are still not always best in class but have improved.

Price Pillar | Tony Thomas 02/04/2021
It’s critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category’s second-costliest quintile. That’s poor, but based on our assessment of the fund’s People, Process and Parent pillars in the context of these fees, we still think this share class will be able to overcome its high fees and deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Bronze.

HARTFORDFUNDS

Our benchmark is the investor.®

Historical Performance (%)	1 Year	3 Year	5 Year	10 Year	Since Inception
Average Annual Total Returns (as of 9/30/21)					
Hartford Schroders US Small Cap Opportunities Fund I	44.79	10.77	12.51	13.97	12.47
Hartford Schroders US Small Cap Opportunities Fund Y	44.82	10.79	12.54	13.98	12.48
Russell 2000 Index	47.68	10.54	13.45	14.63	—
Morningstar Small Blend Category Average	51.11	9.47	11.96	13.70	—

Expenses (%)[1] (Class I) Net: 1.14 Gross: 1.15 (Class Y) Net: 1.09 Gross: 1.16

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.

Fund Inception: 8/6/93. Share Class Inception: I - 8/6/93; Y - 10/24/16. Performance prior to 10/24/16 reflects the performance of the predecessor fund. Performance shown prior to the inception of a class reflects performance and operating expenses of another class(es) (excluding sales charges, as applicable). Had fees and expenses of a class been reflected for the periods prior to the inception of that class, performance would be different. SI) performance is from 8/6/93. Performance and expenses for other share classes will vary. Additional information is in the prospectus

[1]Expenses as shown in the Fund's most recent prospectus. Gross expenses do not reflect contractual expense reimbursement arrangements. Net expenses reflect such arrangements in instances when they reduce gross expenses. These arrangements remain in effect until 2/28/22 unless the Fund's Board of Directors approves an earlier termination.

Morningstar Rating™ (Class I)

For the Small Blend Category based on Risk-Adjusted Returns as of 9/30/21

	Overall	3 Year	5 Year	10 Year
Star Rating	★★★★	★★★★	★★★★	★★★★
# of Funds in Category	603	603	525	360

Top Ten Holdings (%) (as of 9/30/21)

ICU Medical, Inc.	1.92
Syneos Health, Inc.	1.74
ASGN, Inc.	1.73
Semtech Corp.	1.67
Terminix Global Holdings, Inc.	1.65
Envista Holdings Corp.	1.56
Asbury Automotive Group, Inc.	1.52
WNS Holdings Ltd.	1.52
Valvoline, Inc.	1.48
LiveRamp Holdings, Inc.	1.47
% of Portfolio	**16.26**

Sector Exposure (%) (as of 9/30/21)

Industrials	16.65
Consumer Discretionary	16.14
Financials	15.80
Health Care	12.71
Technology	10.52
Basic Materials	7.05
Telecommunications	5.14
Cash	4.62
Real Estate	3.52
Consumer Staples	3.39
Utilities	2.72
Energy	1.73

Upside Capture/Downside Capture Ratios (4/1/19 - 9/30/21)

	Upside Capture	Downside Capture
Hartford Schroders US Small Cap Opportunities Fund Y	95.19	95.71
Russell 2000 Index	100.00	100.00

Upside Capture and Downside Capture ratio calculations represent the tenure of Robert Kaynor as portfolio manager. Capture ratios are used to evaluate how well a fund performed relative to its benchmark during periods when that benchmark has risen or dropped. Ratios are calculated by dividing the fund's returns by the returns of the benchmark during the up and down markets, then multiplying that factor by 100.

The views and opinions expressed within this report are those of Morningstar and are subject to change based on market, economic, and other conditions. All fund holdings and information referenced herein is as of 2/4/21 unless otherwise noted. 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. Sector exposure is based on the Russell Global Sectors classification (RGS) system and may not total to 100% due to rounding.

Indices are unmanaged and not available for direct investment. Russell 2000 Index measures the performance of the small-cap segment of the US equity universe. Active share is the percentage of a portfolio that differs from a benchmark index. High active share indicates a high degree of active management.

HARTFORDFUNDS

Our benchmark is the investor.®

The Morningstar Rating™ for funds, or "star rating", is calculated for funds and separate accounts with at least a 3-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. Star rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance (without adjusting for any sales load, if applicable), placing more emphasis on downward variations and rewarding consistent performance. 5 stars are assigned to the top 10%, 4 stars to the next 22.5%, 3 stars to the next 35%, 2 stars to the next 22.5%, and 1 star to the bottom 10%. Overall Morningstar Rating is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics.

Morningstar awarded the Class I share of the Fund a Bronze rating on 2/4/21. The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the US, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the US Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research and weights will vary. Other share classes may have different ratings.

The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months.

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause the Manager Research Group's expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

For more detailed information about Morningstar's Rating for Funds and Analyst Rating, including their methodology, please go to global.morningstar.com/managerdisclosures.

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. • Small-cap securities can have greater risks, including liquidity risk, and volatility than large-cap securities. • Integration of environmental, social, and/or governance (ESG) factors into the investment process may not work as intended. • To the extent the Fund's focuses on one or more sectors, the Fund may be subject to increased volatility and risk of loss if adverse developments occur. • Diversification does not ensure a profit or protect against a loss.

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. Please read it carefully before investing.

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