How Three Strong-Performing Funds Select Stocks

Small- and large-cap growth stocks and shares in Chinese companies yield solid results.

By TIM GRAY

Many stock-picking styles have sizzled lately, with growth and value and domestic and international investing all toting up gains. Three of the better-performing mutual funds of recent months found their winners among small- and large-cap growth stocks and Chinese shares.

Hood River Small-Cap Growth Fund

The managers of the Hood River Small-Cap Growth Fund — Robert C. Marvin, Brian P. Smoluch and David G. Swank — say they prefer to sleuth among small caps because they are monitored less widely than giants like Apple and Amazon.

“Our typical company might have only six analysts following it, compared to maybe 50 for Apple,” Mr. Smoluch said. The Hood River managers say there is a “research gap” that they can fill, thanks to their 20 years of work with small caps.

The three met in the 1990s while working at what was then Columbia Management in Portland, Ore. In the early 2000s, Mr. Smoluch and Mr. Marvin created a predecessor to their fund at Roxbury Capital Management. A few years later, they recruited Mr. Swank, and, in 2013, the three started Hood River Capital Management, also in Portland.

As stock pickers, they’re generalists, surveying all parts of the market. They will scoop up several companies in a field if they see growing companies benefiting from a broader trend. They have done that in fiber optics, with holdings like Oclaro, Fabrinet and Finisar, all recent double-digit gainers.

“For a while, there was a huge overcapacity of components for fiber networks,” Mr. Smoluch said. “But you’ve had a major industry consolidation combined with accelerating demand,” as networks upgrade to meet the bandwidth needs of smartphones, cloud computing and video streaming.

In researching a promising company, they talk with its competitors, customers and suppliers. They estimate they make about 1,000 calls a year. Talks with pharmaceutical and biotech executives led them to a holding in PRA Health Sciences.

“It’s a contract research organization that manages clinical trials,” Mr. Swank said. “Based on our conversations, we believe it’s gaining market share, and the entire industry is being helped along by the high level of biotech financing that happened in 2015.” The institutional shares of the Hood River fund, with an expense ratio of 1.09 percent, returned 15.01 percent in the third quarter, compared with 3.85 percent for the Standard & Poor’s 500-stock index.

Ahead of the Market

How one of the better performers of the 3rd quarter of 2016 fared against the market — and against their peer group of funds.

Hood River Small-Cap Growth

+20%

+15

+10

+5

+100%

+50%

+25%

+15%

+10%

+7.8%

Small-cap growth

1 0 1 5 2 0 2 5 3 0 3 5 4 0 4 5 5 0 5 5

THIRD-QUARTER RETURNS

Hood River Small-Cap Growth

+15.0%

Time

Source: Morningstar
**Investors should carefully consider the Hood River Small Cap Growth Fund’s investment objective, risks, charges, and expenses before investing. For a prospectus, which contains this and other important information about the Fund, please call 800-497-2960 or go to www.hoodrivercapital.com. Please read the prospectus carefully before investing or sending money.**

Investments involve risk, principal loss is possible.

The Fund invests in small-cap securities which present a greater risk of loss than large-cap securities, and in growth companies which can be more sensitive to the company’s earnings and more volatile than the stock market in general. The Fund may also invest in foreign securities which are subject to risks including currency fluctuations, economic and political change and differing accounting standards. The Fund may invest in derivatives and IPOs, which are highly volatile. Additional risk information may be found in the prospectus.

The Hood River Small Cap Growth Fund is distributed by Quasar Distributors, LLC. Hood River Capital is the adviser to the Fund.

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Top Ten holdings as of 9/30/16: PRA Health Sciences 3.87%, Nuvasive 3.54%, Advanced Micro Devices 3.18%, Oclaro 2.89%, Lumentum Holdings 2.82%, Integra Lifesciences Holding 2.61%, Mastec 2.57%, Charles River Laboratories 2.26%, Finisar 2.13%, Cirrus Logic 2.03%.

Hood River Small-Cap Growth Fund (HRSMX) institutional share class performance as of 9/30/16: 1 year 15.93%, 5 years 19.63%, 10 years 8.80%. S&P 500 Index performance as of 9/30/16: 1 year 15.43%, 5 years 16.37%, 10 years 7.24%. Morningstar Small Cap Growth Category performance as of 9/30/16: 1 year 10.44%, 5 years 14.43%, 10 years 7.57%. Investors cannot invest directly in an index. Each Morningstar Category Average is representative of Fund’s with similar investment objectives. Fund performance for 1 year, 5 years and 10 years is annualized.

**Performance quoted represents past performance and there is no guarantee of future results. The investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than the original cost. Current performance may be higher or lower than the performance data quoted above. Please call 800-497-2960 to obtain current and the most recent month-end performance data.**

Gross Expense Ratio: 1.49%; Net Expense Ratio 1.09%. The advisor has contractually agreed to waive fees and/or reimburse expenses to limit the Total Annual Fund Operating Expense of Institutional Shares to 1.09% through December 31, 2020 otherwise performance would have been lower.

The S&P 500 Index is defined as an unmanaged, capitalization weighted index of common stocks of 500 major U.S. corporations. Index returns include dividends and/or interest income and, unlike composite returns, do not reflect fees or expenses. In addition, unlike the fund, which periodically maintains a significant cash position, the S&P 500 Index is fully invested. Price/earnings is the ratio for valuing a company that measures its current share price relative to its per-share earnings.