

4 New Funds on Our Radar

Our latest list of up-and-coming investment strategies includes COWZ, BFRIX, and more.

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Morningstar Manager Research's latest list of overlooked or emerging fund managers and strategies includes additions from industry stalwarts BlackRock and MFS, and several international and small/mid-cap equity offerings.

In our latest report, we added nine strategies that impressed us with their unique processes and strong management teams. After further review, we also graduated eight strategies to full coverage due to either solid management or stand out processes and dropped six strategies.

Here's a look at four of the nine strategies the team added to the January 2025 Morningstar Prospects list.

BlackRock Floating Rate Income BFRIX

This strategy, a form of which dates to 1998, remains one of the largest in the bank-loan Morningstar Category. Lead manager Carly Wilson and comanagers Mitch Garfin and David Delbos, who average more than two decades at BlackRock, help it stand out. The managers tap into BlackRock's deep fixed-income resources, including a sizable and stable 20-member credit research team, a dedicated risk and quantitative analyst group, and BlackRock's Capital markets team and legal group.

The managers emphasize top-down macro analysis and bottom-up security selection. Making tactical shifts as the market changes has been the key to their success. They stay nimble as relative valuations change and selective by lending only to 30% of the bank-loan universe.

The managers seek to provide better protection than peers during market drawdowns while also participating on the upside. During Wilson's tenure as lead manager from September 2018 through December 2024, the institutional shares' 5.1% annualized gain beat 75% of peers on both absolute and risk-adjusted bases.

Pacer US Cash Cows 100 ETF COWZ

Pacer's in-house portfolio management team runs this strategy. Bruce Kavanaugh has been with Pacer since 2004 and has overseen this fund since its 2016 launch. Danke Wang joined the firm in 2012 and this roster in 2022.

The strategy replicates the Pacer US Cash Cows 100 Index, which collects the 100 US stocks with the highest free cash flow yield from the Russell 1000 Index. It determines the weight of each constituent by its trailing 12-month free cash flow yield and reshuffles the portfolio once a quarter.

Cash flow is a novel way to approach the quality factor, which has been linked to strong historical returns. Many quality-focused strategies incorporate some measure of free cash flow, but few do it as explicitly as Pacer does here. The result is a distinct portfolio that delivers distinct results, which investors should expect. The strategy does not own the market's largest stocks; it favors energy stocks and other slow-growth but fundamentally strong businesses relative to quality-focused and mid-cap value Morningstar Category peers. But it also avoids risky value traps.

Tremblant Global ETF TOGA

Tremblant became one of the first hedge funds to launch an active ETF when Tremblant Global ETF began trading on the New York Stock Exchange in May 2024. It shares the same philosophy as the Tremblant long-only hedge fund, which has generated strong returns since its 2011 inception, though Tremblant Global ETF is more diversified. With a 0.69% expense ratio, Tremblant Global ETF is much cheaper than traditional hedge funds and is competitively priced versus typical active global equity mutual funds.

The firm's CEO and CIO Brett Barakett leads this global equity offering. He boasts more than 25 years of investment experience, during which time he has run

long-short and long-only hedge funds. Barakett is part of a nine-member team that includes Head of Data Sciences Nicolas Onofrey as well as Sector Portfolio Managers Brian Rabin, Manish Patel, and Michael Cling, who average about 20 years of experience.

The team invests across the market-cap spectrum, and the end 30-50 stock portfolio is US-centric and growth-oriented, with picks clustering in the communication services and consumer cyclicals sectors.

VELA Small Cap VESAX

Former Diamond Hill Capital Management personnel run this fund, so the managers' brief tenures belie their true experience. This is manager Jenny Hubbard's first lead role, and she is off to a strong start. Two comanagers and a developing team of analysts support her.

The investment process builds on many of the principles espoused by the team's predecessor firm. A keep-it-simple fundamentals-based approach anchoring on steadier, profitable, small caps with freedom to pursue opportunities across styles makes for an appealing combination.

The fund has the right recipe to succeed in the US small-cap market and some experienced hands to guide it. It is off to a strong start, handily outpacing its average rival since its late-2020 inception through December 2024. Investors have a good opportunity to get in on the ground floor, too. The mutual fund has under \$200 million in assets, offering the managers the greatest leeway to find mispriced opportunities in the various niches of the small-cap market.

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