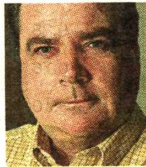


Fund of Information

Bill Gross, Meet Bill Miller

by Tom Sullivan



BILL GROSS, WHO RUNS THE LARGEST MUTUAL FUND IN THE world, the \$240 billion **Pimco Total Return Fund**, is making a breathtaking contrarian bet against U.S. government bonds.

Since the ubiquitous Gross began shorting Treasuries in March, the yield on the key 10-year note has narrowed by about 0.50 percentage point from its high. He's undeterred. According to Pimco's Website, Gross added to his short position in April, as the fund's holdings of U.S. government-related debt weighted by value fell to negative 4%, from negative 3%. On a Duration Weighted Exposure basis, a measure of rate sensitivity, the fund's Treasury short is 23%. And he has an all-time high of 37% of the fund's (ticker: PTPPX) assets in cash. Pimco's parent is Allianz (AZSEY).

Imagine Gross walks into a bar and runs into Bill Miller, another celebrity investor whose highflying **Legg Mason Value Trust** (LMVTV) crashed and burned after an unprecedented run-up in returns. They sit down for a drink.

Miller: I read about your aggressive move on Treasuries. Interesting call.

Gross: You mean risky? It shows conviction. And my fund has outperformed the benchmark index, the Barclays Capital US Aggregate Bond Index, over the past decade. I was also Morningstar's "Fixed-Income Manager of the Decade" for the period ended December 2009, and I'm a featured panelist on *Barron's* Roundtable.

Miller: I'm the only fund manager to beat the returns of the S&P 500 index for 15 consecutive years, and I was named Morningstar's "Fund Manager of the Decade" ended December 1999, the same year *Barron's* selected me as a member of its All-Century Investment Team.

Gross: What went wrong for you again?

Miller: My contrarian value-investing strategy didn't work well in a market that favored oil and other commodity stocks in 2006 and 2007, and I was too loaded with financials in 2008. My previous gains were wiped out, though my fund has since rebounded. Still, many of my investors have never forgiven me.

Gross: I've got more than a third of my fund's assets in cash and haven't heard a peep about the fund's management fees. And I'm a freakin' billionaire.

It's good to be Gross, the King of All Bond Media.

Small-cap funds continue to do well, though some in the market believe large-cap is the place to be for the medium term.

Adirondack Small-Cap (ADKSX) recently won an award from Lipper for Best Small Cap Value Fund for 2010, covering the three years from 2008 through 2010. Co-managers Greg Roeder and Matt Reiner look for value in companies and industries with "investor fatigue," meaning people have given up on their stories. This year, through Wednesday, the fund was up 6.76%, says Morningstar. Its five-year annualized return is 8.22%. Founded in 2005, it has \$65.3 million in assets, no load and a somewhat high expense ratio of 1.54%.

Among their favorites: **FirstMerit** (FMER), an Akron, Ohio, financial-services firm. "It sailed through the period of 2008-2009 and never lost money because of their strong credit culture," says Roeder. A second is **CTS** (CTS). Reiner says, "It's much more diversified than it was five years ago, and their pipeline is unbelievable." The auto-parts supplier makes the gas pedal for Toyota that was blamed for unintended accelerations. CTS said it made the parts to Toyota's specifications, and Toyota defended CTS, saying they're working on a new pedal together.

So there you have a couple of potential nuggets from this small but growing single-family fund, located in the hinterlands outside Albany, N.Y. ■