**Funds That Lose Less Can Be Winners Over Time**

These four large-stock mutual funds are near the top of the charts in long-term performance

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This year’s jarring stock-market decline has weighed on actively managed mutual funds that invest in large U.S. companies. But some funds have cushioned investors’ portfolios by falling far less than their peers.

That includes funds that have lost less than half as much as the S&P 500, which was down 5.9% through Thursday, despite some gains this week.

Funds that fall less than a benchmark in down markets often rise less spectacularly when stock prices go up—but the protection they offer in downturns can still put investors ahead over time.

“Losing less makes for a great fund in the long run,” says Gretchen Rupp, a fund analyst at investment researcher [Morningstar](http://quotes.wsj.com/MORN) Inc.

Here are four large funds that have lost less than their average large-stock peers so far this year and that have strong long-term records:

[**American Century Equity Income Fund**](http://quotes.wsj.com/mutualfund/TWEIX)**.** This $8.7 billion fund is flat this year through Thursday, while the average peer in Morningstar’s large-value category shed 5.9%. The fund also eked out a 0.6% return last year, even as the average large-value fund fell 4.1%. It ranks in the top 2% of the large-value group for the past 15 years.

Phillip Davidson, the fund’s portfolio manager, says the strong relative performance is a result of the research team’s focus on market leaders with strong balance sheets, higher returns on capital and attractive yields.

But much of the fund’s success in these turbulent markets is due to what it hasn’t owned, says Mr. Davidson. It has avoided “the big global-growth type of stocks” that recently suffered amid concerns about economic weakness in emerging markets, and it invested only selectively in master limited partnerships in the energy sector, he says.

With the recent weakness, Mr. Davidson and his team have invested in industrial conglomerates [3M](http://quotes.wsj.com/MMM) Co. and [Eaton](http://quotes.wsj.com/ETN) Corp. and added to oil-field-services company[Schlumberger](http://quotes.wsj.com/SLB) Ltd.

**Vanguard Dividend Growth Fund** (Down 2.8% vs. large-blend category down 6.5%). This $25.6 billion fund also focuses on high-quality companies with the prospect to grow their dividends. Fund manager Donald Kilbride has shown a knack for putting together a compact portfolio, generally of 45 to 55 stocks, says Alec Lucas, a Morningstar analyst who holds the fund in his own portfolio.

The fund’s expense ratio of 0.32% is just 0.22 percentage point more than that of the super-low-cost [Vanguard Dividend Appreciation](http://quotes.wsj.com/etf/VIG) exchange-traded fund, a “pretty modest hurdle” for Mr. Kilbride to overcome as a stock picker, Mr. Lucas says. Indeed, the mutual fund has beaten the ETF over the past one, three and five years.

Vanguard Dividend Growth’s strategy tends to hold up well in a “risk off” environment such as this year’s, but it won’t keep up in strong bull markets, says Daniel Newhall, a principal in Vanguard Group’s portfolio-review department. Still, the fund gained 5.5% a year on average over the past 15 years, while the average large-blend fund gained 4.3% and the average large-value fund gained 4.9%, Morningstar says. (The fund was characterized as large-value in some earlier years.)

**Jensen Quality Growth Fund** (Down 1.6%, vs. large-growth category down 9.5%). This $4.6 billion fund focuses on companies with market capitalizations of more than $1 billion which have generated at least a 15% return on equity each year for a minimum of 10 consecutive years. As of Dec. 31, the fund held just 25 stocks, according to Morningstar.

The strategy produces a portfolio of companies with sustainable competitive advantages, deep free cash flow and a long-term orientation, says co-portfolio manager Eric Schoenstein.

The fund has “delivered strong returns over the long term, especially on a risk-adjusted basis,” says Greg Carlson, a senior manager and research analyst at Morningstar. It is in the top 6% of large-growth funds over the past 15 years.

**Mairs & Power Growth Fund** (Down 0.5% vs. down 6.5% for large-blend group). The recent outperformance of this $3.8 billion fund is largely due to its focus on valuation and companies with durable competitive advantages, says lead manager Mark Henneman, who is president and chief investment officer of Mairs & Power Inc. “In times like these, the market recognizes that the companies we invest in are built for the long term and can excel in any market environment,” he says.

The St. Paul-based fund company focuses on companies based in the Midwest. That has led to a heavy weighting in the industrial sector, which has outperformed the broader market this year, says Laura Lallos, a senior analyst at Morningstar. Among the fund’s holdings are Minneapolis-based [Graco](http://quotes.wsj.com/GGG) Inc., a manufacturer of equipment for handling fluid and viscous materials, which has gained nearly 6% so far this year. The fund’s managers are adding value with their stock selection in other sectors as well, says Ms. Lallos. The fund is in the top 2% of its Morningstar category over the past 15 years.