

STEP BY STEP

Northern Mid Cap Growth Fund manager David Kalis uses a multistep process to pick stocks

David Kalis knew that change was in order.

After taking over as manager of the Northern Mid Cap Growth Fund in November 2006, he sensed that the economic environment was shifting. So he moved the Fund's holdings into high-quality companies and those with less exposure to a decelerating growth environment.

Good call

For the one-year period ended December 31, 2007, the Northern Mid Cap Growth Fund outperformed its benchmark, the Russell Midcap Growth Index. Yet despite his fast start, Kalis isn't ready to rest on his laurels.

"Consistency is very important," says Kalis, who's been managing mid-cap money for 15 years. "We don't want to be in the top decile one year and the bottom the next."

Risk control

The Fund seeks to add value through adroit stock picking, not by placing large bets on industry groups.

Kalis uses a multistep process to pick stocks for the Fund's portfolio.

He starts by screening the mid-cap universe on key metrics, like capital deployment, valuation, earnings quality and momentum. But since raw numbers don't tell the whole story, Kalis then focuses on the fundamentals of the highest-rated companies. Among other factors, he requires above-average earnings growth, as well as evidence that management is investing its cash flow wisely.

Kalis also filters out stocks whose fortunes might be fleeting or are closely tied to the overall economy.

"We consider the quality of the business model to make sure their growth is sustainable," he says. "Controlling risk is a very big part of what we do."

Finally, Kalis looks at the entire portfolio to make sure he's not placing unintended bets or straying from the Fund's benchmark.



Solid performance

Since mid-cap stocks are more volatile than their larger cousins, the sector is appropriate for long-term investors. Still, medium-sized stocks have had the best risk-adjusted return during the last decade, according to Russell Investments.

Kalis thinks conditions should favor growth stocks for the foreseeable future.

"When a business cycle reaches its later innings, growth typically trumps value," he says. But regardless of the economic context, the Fund is committed to owning strong businesses.

Says Kalis, "Quality never goes out of style."

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