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TIP SHEET: For Virtus, Strong Run's A Nice Birthday Present

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NEW YORK (Dow Jones)--Investors aiming to mitigate losses in an uneven market and earn consistent returns have flocked to Howard Present's portfolio, which has seen strong net flows this year as the fund celebrates its first birthday.

His Virtus Premium AlphaSector Fund (VAPAX), with about $1.94 billion of assets, invests either entirely in exchange-traded funds in nine sectors, a combination of sector ETFs and short-term Treasurys, or entirely in short-term Treasurys.

The fund was launched on July 1, 2010, with the goal of replicating the returns of the Standard & Poor's 500 index. It is an active fund that is updated on a weekly basis and aims to produce long-term returns. Present said the fund is able to achieve its performance goal by "avoiding those really big bear-market troughs, which is unbelievably critical to our long-term goals."

Of the sectors in which the fund invests, Present said consumer staples, utilities and health care have shown the most stability in recent months. Financials--which are highly volatile and incorporate a lot of near- and intermediate-term weakness--is "clearly the weakest of the sectors," he said.

Energy is considered a wild card, as commodity pricing and product-supply swings as well as currency volatility have resulted in an interesting mix of fundamentals, Present said.

Present said he expects the broader U.S. economy to sputter along in the near term, with 5% to 10% positive returns expected in the second half of 2011, ending the year with returns ranging from 7% to 12%. He said the Virtus fund's historical expectations would be "in line with the market and hopefully outperform by several-hundred basis points."

For the first half of 2011, the fund has generated a yield of 5.97%, 0.05 percentage point worse than the S&P 500 index's year-to-date return, according to Morningstar Inc. In the past month, the fund's return was minus 1.45% versus the S&P 500 index's minus 1.66% return, Morningstar said.

According to Lipper Inc. researcher Tom Roseen, the equally weighted portfolio has a key advantage in seeking returns, as money can be moved rather quickly to evade a down market. Roseen said that, while the fund might underperform when the S&P 500 is on a momentum run, the index is a great bet in a market like today's, due to the fund's exposure to smaller stocks in the index. Through the first six months of the year, the fund's performance ranks in the top half of all large-capitalization core funds tracked by Lipper.

Still, Roseen said the fund's expense ratio of 1.91% is a bit high, perhaps due to the need to rebalance the portfolio. The average large-cap core fund's ratio is about 1.24%.

Present admitted that the fees were "a bit higher than the peer group" for the funds managed by Virtus, but he said the fund has had a favorable reaction from the market, raising $1.2 billion in net flows this year through May. According to mutual-fund research company Strategic Insight, this makes it the single best-selling member over that period among peers that are generally free to assign up to 100% of their assets across various asset classes.

Ultimately, Present said the funds are attractive as they deliver "real value for investors over a long period of time, as well as over some very difficult markets."

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