Tributary Balanced (FOBAX)

A Mutual Fund Observer "Star in the Shadows"

By David Snowball, Publisher

Mutual Fund Observer

The empirical record is pretty clear. Almost no fund offers a consistently better risk-return profile. That commitment to consistency is central to Mr. Jordan's style: "We are more focused on delivering consistent returns than keeping up with momentum driven markets and securities."

Fund name Tributary Balanced (FOBAX)

Objective and Strategy Tributary Balanced Fund seeks capital appreciation and current income. They allocate assets among the three major asset groups: common stocks, bonds and cash equivalents. Based on their assessment of market conditions, they will invest 25% to 75% of the portfolio in stocks and convertible securities, and at least 25% in bonds. The portfolio is typically 70-75 stocks from small- to mega-cap and turnover is well under half of the category average. They currently hold about 60 bonds.

Adviser Tributary Capital Management. At base, Tributary is a subsidiary of First National Bank of Omaha and the Tributary Funds were originally branded as the bank's funds. Tributary advises six mutual funds, as well as serving high net worth individuals and institutions. As of June 30, 2013, they had about $1.3 billion under management.

Manager David C. Jordan, since July 2013. Mr. Jordan is the Managing Partner of Growth Equities for Tributary and has been managing portfolios since 1982. He managed this fund from 05/2001 to 07/2010. He has managed four-star Growth Opportunities (FOGRX) since 1998 and two-star Large Cap Growth (FOLCX) since 2011. Before joining Tributary, he managed investments at the predecessors to Bank One Investment Advisors, Key Trust of the Northwest, and Wells Fargo Denver.

Management's stake in the fund Mr. Jordan's investments are primarily in equities (he reports having "more than half of my financial assets invested in the Tributary Growth Opportunities Fund which I manage"), but he recently invested over $100,000 in the Balanced fund.

Strategy capacity and closure The advisor has "not formally discussed strategy capacities for the Balanced Fund, believing that we will not have to seriously consider capacity constraints until the fund is much larger than it is today."

Opening date August 6, 1996

Minimum investment $1000, reduced to $100 for accounts opened with an automatic investing plan.

Expense ratio 1.22%, after a minor waiver, on $75 million in assets (as of 07/2013). Morningstar describes the expenses as "high," which is misleading. Morningstar continues benchmarking FOBAX against "true" institutional functions with minimums north of $100,000.

Comments The long-time manager of Tributary Balanced has returned. In what appears to be a modest cost-saving move, Mr. Jordan returned to the helm of this fund after a three year absence.

If his last stint with the fund, from 2001–2010, is any indication, that's a really promising development. Over the three years of his absence, Tributary was a very solid fund. The fund's three-year returns of 13.1% (through 6/30/2013) place it in the top tier of all moderate allocation funds. Over the period, it captured more of the upside and a lot less of the downside than did its average peer. Our original profile concluded with the observation, "Almost no fund offers a consistently better risk-return profile." That judgment is intact.

One of the few funds better than Tributary Balanced 2010–2013 might have been Tributary Balanced 2001-2010. The fund posted better returns than the most highly-regarded, multi-billion dollar balanced funds. If you compare the returns on an investment in FOBAX and its top-tier peers during the period of Mr. Jordan's last tenure here (7/30/2001 – 5/10/2010), the results are striking.

- ✓ Tributary versus Vanguard Balanced Index (VBINX)? Tributary's better.
- ✓ Tributary versus Vanguard STAR (VGSTX)? Tributary.
- ✓ Tributary versus Vanguard Wellington (VWELX)? Tributary.
- ✓ Tributary versus Dodge and Cox Balanced (DODBX)? Tributary.
- ✓ Tributary versus Mairs & Power Balanced (MAPOX)? Tributary.
- ✓ Tributary versus T. Rowe Price Capital Appreciation (PRWCX)? Price, by a mile. Ehh. Nobody's perfect and Tributary did lose substantially less than Cap App during the 10/2007 – 03/2009 market collapse.

Libby Nelson of Tributary Capital Management reports that "During that time period, David outperformed the benchmark in 7 out of 9 of the calendar years and the five and ten-year performance was in the 10th percentile of its Morningstar Peer Group." In 2008, the fund finished in the top 14% of its peer group with a loss of 22.5% while its average peer dropped 28%. During the 18-month span of the market collapse, Tributary lost 34.7% in value while the average moderate allocation fund dropped 37.3%.

To what could we attribute Tributary's success? Mr. Jordan's answer is, "we think a great deal about our investors. We know that they're seeking a lower volatility fund and that they're concerned with downside protection. We build the portfolio from there."

Mr. Jordan provided stock picks for the fund's portfolio even when he was not one of the portfolio managers. He's very disciplined about valuations and prefers to pursue less volatile, lower beta, lower-priced growth stocks. In addition, he invests a greater portion of the portfolio in less-efficient slices of the market (smaller large caps and mid-caps) which results in a median market cap that's $8 billion lower than his peers.

Responding to the growing weakness in the bond market, he's been rotating assets into stocks (now about 70% of the portfolio) and shortening the duration of the bond portfolio (from 4.5 years down to 3.8 years). He reports, "Our outlook is for returns from bonds in the period ahead to be both volatile, and negative, so we will move further toward an emphasis on stocks, which also may be volatile, but we believe will be positive over the next twelve months."

Bottom Line The empirical record is pretty clear. Almost no fund offers a consistently better risk-return profile. That commitment to consistency is central to Mr. Jordan's style: "We are more focused on delivering consistent returns than keeping up with momentum driven markets and securities." Tributary has clearly earned a spot on the "due diligence" list for any investor interested in a hybrid fund.

Investments: Are Not FDIC Insured • May Go Down in Value • Are Not a Deposit

Past performance is no guarantee of future results.

There is no guarantee this fund will achieve its goals or product positive returns.

Before investing, please read the Fund's prospectus and shareholder reports to learn about its investment strategy and potential risks. Mutual Fund investing involves risk including loss of principal. An investor should also consider the Fund's investment objective, charges, expenses and risk carefully before investing. This and other information about the Fund is contained in the fund's prospectus, which can be obtained by calling ***1-800-662-4203*** *or visiting* ***www.tributaryfunds.com****. Please read the prospectus carefully before investing. Distributed by Northern Lights Distributors, LLC, member FINRA. Northern Lights and the Fund's Advisor, Tributary Capital Management, are not affiliated.*

Stocks are more volatile and carry more risk and return potential than other forms of investments. Bonds offer a relatively stable level of income, although bond prices will fluctuate, providing the potential for principal gain or loss. Cash equivalents offer low risk and low return potential. This Fund generally would be considered to have more risk and return potential than the Tributary Income Fund and less risk and return potential than the Tributary Large Cap Growth Fund.

2210-NLD-9/10/2013