VLF*Alert*

Value Line *funds*

3rd Quarter 2015 | Volume IV, Issue III

#00145778

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Dear Fellow Shareholder,

Thank you for choosing Value Line Funds as a part of your diversified investment portfolio. For over half a century, Value Line Funds has championed sound investment principles and helped thousands of investors accomplish their financial goals.

We hope you enjoy this edition of the **VLF*Alert***, which features an excerpt from our recently published white paper, "Concentrated Funds: Benefits of a Focused Approach."

We thank you for your continued support of Value Line Funds.

Mitchell Appel

Concentrated Funds: Benefits of a Focused Approach

A concentrated equity portfolio is distinct from other mutual funds in that it is generally focused on a portfolio manager's "best ideas." The following outlines the significant differences that result from holding fewer stock positions.

Limited Number of Holdings by Design

In a concentrated fund, portfolio managers intentionally limit the number of holdings. Focused funds generally hold less than 50 stocks, resulting in each holding carrying more weight compared to funds that hold many more positions, i.e. 100 to 200. For example, in an equally weighted portfolio, composition may be as follows:

- A concentrated fund with 50 stocks allocates 2% to each position.
- A fund with 200 stocks allocates 0.5% to each position.

More often, in funds that hold a larger number of holdings, managers maintain a higher weighting in stocks they believe have the most potential and then add smaller positions. These positions are minute for any number of reasons, i.e., they may be less desirable, have less growth potential or may be an emerging opportunity. Nevertheless, rather than contributing to alpha, these small stock positions can act as a distraction to a manager and dilute performance.

Concentrated yet Diversified

In "rounding out" the portfolio, it has been assumed that only a fund with a larger number of holdings can be fully diversified and, therefore, less volatile. Yet research shows that concentrated funds offer approximately the same level of portfolio risk as funds with twice the number of holdings. In other words, diversification can also be obtained with a much smaller number of stocks. Finance textbook *Investment Analysis & Portfolio Management* highlighted the classic 1968 findings of John Evans and Stephen Archer along with Thomas Tole's 1982 research which demonstrated that "90 percent of the maximum benefit of diversification [was] derived from portfolios of 12 to 18 stocks." Further, as the number of holdings increased to approximately 20, a gradual reduction in portfolio risk occurs.[1]

History of Outperformance

With risk being relatively the same as broad-based funds, several research studies have found that a noticeable benefit of concentrated funds is outperformance. Included among these studies are researchers Randolph Cohen, Christopher Polk, and Bernhard Silli used "four tilt measures" to identify best positions and found that concentrated U.S. positions outperformed the market by a range of 1% to 2.5% per quarter from January 1984 through December 2007. These "best ideas" have also outperformed other stocks in the portfolio that held smaller weightings.[2]

Researchers from Emory University, Klaas P. Baks, Jeffrey A. Busse, and T. Clifton Green, agree that there is a positive relationship between performance and a manager's conviction in their best ideas. As stated in their paper, "Fund Managers Who Take Big Bets: Skilled or Overconfident?" they found "focused managers outperform precisely because their big bets outperform the top holdings of more diversified funds."[3] Analyzing actively

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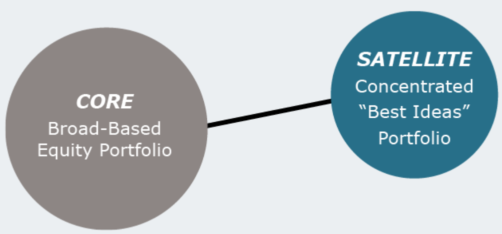
managed U.S. domestic equity funds, they focused on a stock's position in the portfolio as a measure of the fund manager's level of optimism relative to other securities. Based largely on the portfolio holdings and managers' willingness to "take big bets in a relatively small number of stocks," they determined that concentrated managers outperformed their non-concentrated counterparts by about 4% annually.

Potentially Lower Turnover

With a deep understanding of the company, portfolio managers can take a longer term view to allow the firm the time to implement and achieve its goals. More patience is gained and the manager tends to be less likely to sell shares during periods of short-term disappointments. This strategy tends to result in lower portfolio turnover and potentially lower capital gains distributions for investors.

CORE-SATELLITE APPROACH TO EQUITY PORTFOLIO CONSTRUCTION



Complementary to Core Holdings

Within a concentrated portfolio, stocks may not be closely followed by Wall Street research. As a result, a "best ideas" portfolio is likely to have a lower correlation to a broad-based equity portfolio or an index fund that tracks the overall market. In a core-satellite approach to portfolio construction, this lower correlation makes a concentrated fund an ideal candidate as a satellite position, as it can be viewed as complementary to core equity portfolios.

VALUE LINE FUNDS' CONCENTRATED PORTFOLIOS

In 2014, the **Value Line Larger Companies Focused Fund (VALLX),** formerly known as the Value Line Larger Companies Fund, transitioned to fewer holdings representing a streamlined approach to accomplish the Fund's objective of capital growth. By owning fewer securities, more capital can be allocated to the "best ideas" in the large-cap growth universe. Investing in a more concentrated portfolio of approximately 30 to 50 stocks enables the manager to focus on a select number of high quality growth companies that appear to have the most attractive growth prospects commensurate with risk. The result is a diversified, high conviction portfolio with the potential to deliver attractive returns over time relative to the S&P 500 Index, the Fund's benchmark.

Likewise, the **Value Line Mid Cap Focused Fund (VLIFX),** formerly known as the Value Line Fund reduced the number of holdings. The investment objective of providing long-term growth of capital in primarily mid-cap stocks has not changed. With fewer holdings, portfolio diversification is maintained and there is little-to-no dilution from stocks with less potential growth.

Value Line Funds Include:	
Equity Funds	
Premier Growth Fund (VALSX)	**Value Line Mid Cap Focused Fund** (VLIFX)
Larger Companies Focused Fund (VALLX)	**Small Cap Opportunities Fund** (VLEOX)
Introducing Our Newest Fund: **Worthington Value Line Equity Advantage Fund** (WVLEX)	
Hybrid Funds	
Asset Allocation Fund (VLAAX)	**Income and Growth Fund** (VALIX)
Fixed Income Funds	
Tax Exempt Fund (VLHYX)	**Core Bond Fund** (VAGIX)

For more information, call 800.243.2729 or visit www.vlfunds.com.

1. Reilly, Frank K. and Brown, Keith C. Investment Analysis & Portfolio Management, 10th Edition.2010.
2. Cohen, Randolph B. and Polk, Christopher and Silli, Bernhard. "Best Ideas," March 15, 2010. Available at SSRN: http://ssrn.com/abstract=1364827.
3. Baks, Klaas P. and Busse, Jeffery A. and Green, T. Clifton. "Fund Managers Who Take Big Bets: Skilled or Overconfident," March 2006.

The Value Line Larger Companies Focused Fund was formerly named the Value Line Larger Companies Fund. The Value Line Mid Cap Focused Fund was formerly named the Value Line Fund.

Past performance is no guarantee of future results. You should carefully consider investment objectives, risks, charges and expenses of Value Line Mutual Funds before investing. This and other information can be found in the fund's prospectus, which can be obtained from your investment representative or by calling 800.243.2729. Please read it carefully before you invest or send money.