

**AKRE CAPITAL MANAGEMENT, LLC.**

**Moderator: John O'Bannon**  
**April 26, 2011**  
**4:00 p.m. ET**

John O'Bannon: Thank you. I'm going to read the compliance disclosure. Mutual fund investing involves risk, including the potential loss of principal. The fund is non-diversified meaning it may concentrate its assets in fewer individual holdings than diversified a fund. Therefore the fund is more exposed to stock volatility than a diversified fund.

The fund may invest in small and medium capitalization companies, which involve additional risks such as limited liquidity and greater volatility than larger capitalization companies.

At this time, I'd to go ahead and hand the call over to Chuck Akre, Senior Portfolio Manager on the Focus Fund. Chuck?

Charles Akre: Thanks John. And thank you everyone for joining our conference call today. With us on the call also are Drew Schaefer, our President and Chief Operating Officer, Tom Saberhagen and John Neff, our Senior Analysts.

Several of you have e-mailed some questions to us, which ask about some of our specific holdings. This, quite naturally, is what interests many of you. And I appreciate those questions. Please know that we will not be discussing our current strategy about any of those names as that would give an unfair advantage to not only those of you on the call, but furthermore could damage existing shareholders' interest as we make changes to our portfolio. Whether it be through purchases or sales.

I'd like to make a couple of observations before I get into the portfolio. First, the employees of Akre Capital Management and their families own shares in the fund, which today are greater than one percent of the portfolio and that dollar figure continues to grow. Two, Kiplinger Magazine this week in their annual the Kiplinger 25 issue, has again included us in that prestigious list of their favorite 25 mutual funds. We are very proud of that distinction.

Three, several other well respected print and online publications have done profiles of our fund recently, and I believe you can find links to them through our Web site.

Now to the overall portfolio and our view of the world. We continue to believe that it is time for caution. To that end we have, today, a cash balance of 18 plus percent. Plus an additional five percent in what we call reserve funds. Since our beginning in September 2009, our cash balances have systematically declined from 95 percent, which they were at 9/30/09 to the present level at 18 plus percent.

We have been cautious and diligent in putting your and our money to work. Please recall that our goal is first to preserve and then to enhance your capital. Our attribution analysis shows that our security selection has consistently performed better than the market as a whole.

Even as the aggregate portfolio performance varies from being a little ahead to a little behind the market. We are in this for the long term and consistently resist all influences to manage to short term performance measurements.

Our belief, which we've expressed on a number of occasions, is that the U.S. is in an unprecedented fiscal crisis. And as such, the crisis will lead us into a very bad economic experience unless dealt with. Our faith that our politicians will do the right is not high.

We clearly see, however, both growth and prosperity in our manufacturing sector, as well as in certain high technology businesses. Furthermore, we find important opportunities as it relates to our economy in other businesses as well.

Inflation, in our view, is clearly upon us having first showed up in food and energy. And today, we're seeing discussions about coming increases in diapers. We have lots of mixed signals. Our job continues to be to focus our attention on identifying businesses, which in our judgment have real pricing power.

When I think about this period as it relates to an experience in our market in the early 70s, the questions are very much the same. Where do we hold our assets in places where they'll be safe and retain buying power? And the answer then as it is today, in our view, is to own operating businesses which have real pricing power.

We are doing just that with the portfolio, all the while keeping dry powder to take advantage of opportunities that the market periodically gives us.

And now for the portfolio itself. We recently disclosed our top ten holdings as of March 31st. And just very quickly, American Tower, Dollar Tree and Ross Stores at March 31, were each between eight and nine percent of the portfolio. Lamar and MasterCard, again at that time, were between seven and eight percent. Markel was at five percent. The Hartford Preference shares, FactSet, OptionsXpress and O'Reilly are all above four percent and below five.

Their respective price to free cash flow ranges from the low double digits to a couple which are above twenty times. With the exception of the Hartford Preference shares, we believe that these businesses all have real pricing power. We also note that OptionsXpress is under an agreement to be acquired by Charles Schwab.

We also believe that these holdings have an above average chance of compounding our capital at an above average rate, while exhibiting a below average level of risk. Those are all the prepared comments that I have about the portfolio, and I would at this time, welcome any questions from the audience.

Operator: Thank you. At this time to ask an audio question, simply press star then the number one on your telephone keypad. Once again, to ask an audio question press star one. At this time, we have no audio questions.

Charles Akre: All right, (Janette), we actually received several from the audience by e-mail prior to the call, and I'll just go over them now before we wrap up.

The first question we received was about our holding in Markel, and the question was, do we think that some pricing power will return to the industry? And are we comfortable with Tom Gayner's venture into non-public company investing such as his investment in GoodHaven Capital. Well, first of all, each day that we go on what I call bad pricing, and by the way, that's been going on since 2005 or 2006, is in my mind getting a day closer to when we're going to have better pricing.

And in that regard, catastrophic events that we've seen worldwide in the last several months, will draw on the capital reserves, the surpluses of the insurance industry and in my mind, help accelerate the process towards firming pricing.

The second part about Tom Gayner is that I believe Tom Gayner will absolutely shine with his investments in non-public companies. Last, I'd just like to turn it over to John Neff for a moment. I know he has an additional comment about Markel, particularly as it related to the industry-wide premiums to surplus and so on.

Jeff Neff: Well the estimates as it relates to pricing, the problem is that there are, as Chuck alluded to, there's too much capital in the industry relative to the amount of risks being insured. The latest projections from A.M. Best, which is sort of the statistical provider to the industry suggests that there's about \$550 billion in surplus capital in the U.S. insurance industry compared to about \$400 billion in premiums written in 2010.

And what that says is right there indicates the imbalance between the amount of capital and the amount of premium that's required. So those capital levels, as Chuck alluded to, are going to have to get drawn down, whether it's due to

natural disasters, catastrophes, as well as adverse development, which is something that we believe is coming quite quickly.

Charles Akre: Thank you, John. Another question we received was about our holding in Lamar and the question is “What do you like so much about Lamar?”

My thoughts are first of all that Lamar is a great moat business. And by that I mean, the physical aspects of billboards makes each one of them a unique asset not easily replicated by competition. And so as a generalization, we like businesses that have big moats. And Lamar in our view has a big moat.

Secondly, ad spending in the United States is getting better and it's getting better at an accelerating pace and Lamar is a direct beneficiary of that benefit. Thirdly, we think the business is just inexpensive. And so those are our comments about Lamar.

Next question we have is about MasterCard and the question is, “MasterCard obviously well qualifies the three-legged approach that the Akre Fund has applied to its businesses. My question is the risk of current and future regulations on its earnings power and then specifically, although still uncertain what the Fed's final ruling on the Durbin Amendment will be, if it is passed in its current form, what impact would it have on MasterCard's earnings power?” And the second question is, “How do you think about MasterCard's future earnings power possibility and the impact of similar regulations limiting credit interchange?”

And thirdly, “Why MasterCard over Visa or the closed-loop networks such as American Express and Discover?”

I'll make a couple of comments and then I'll ask John Neff also to comment on this. First of all, MasterCard and Visa, and to some degree American Express and Discover, are also very wide moat businesses. If I take a look at the 2010 experience in MasterCard alone, I note that their net income margin is north of 33 percent. It's staggering. And so quite obviously, if adverse developments occur as a result of an implementation of the Durbin Amendment there is an enormous amount of room in that operating picture for MasterCard and Visa and others to still to be outstanding businesses.

And the valuations in today's market and particularly at our cost basis have, we think, given us adequate room to be able to take on adverse developments. So you know as it relates to MasterCard versus Visa, I happen to believe that the opportunity in MasterCard is greater than it is at Visa. MasterCard has today I believe 12 percent of its domestic portfolio in debit card and John will speak to that in a second. And while I believe Visa – one might easily construe that Visa is a better business, today MasterCard in my judgment has a bigger opportunity.

Secondly, why MasterCard and Visa over the American Express/Discover model? At the present time I happen to prefer what I call the non-risk takers. And by that I mean, American Express and Discover do incur credit risk as lenders and MasterCard and Visa don't technically. And let me just turn it over to John and see what additional comments he has on this.

Jeff Neff:

Yes, just specifically one of the things that we try to do in assessing the risk from the Durbin Amendment was to look at a worst case scenario which in our view means taking all of the revenue and essentially all the free cash generated by MasterCard's U.S. debit business off the table in terms of our projection and then looking at what we're paying for the stock.

For context, MasterCard last year had a free cash flow margin of 35 percent, but in our forecast trying to come up with a worst case scenario, we assumed it was a 100 percent margin. And last year, the U.S. debit business represented 14 percent of MasterCard's total revenue. That percentage will decline over time given the growth outside the United States for MasterCard.

But when we looked at that and rolled that across our projections assuming 14 percent of revenue and declining incrementally at a 100 percent margin going away over the next five years, we came up with a number that resulted in the low 20s percentile percentage points in terms of the decrease in our cash flow estimate.

At the current price really at yesterday's closing price, even with those free cash flow off the table, you're only paying about 21 times this year's free cash flow for MasterCard. And ...

Charles Akre: Should the worst ...

Jeff Neff: ... should the very, very worst come to pass we were very comfortable with the multiple even under that scenario when we obviously own it at a multiple much lower than that based on what we think might actually happen.

As it relates to the possibility of future regulations extending not just from debit interchange but to credit interchange, we believe that the reaction to Durbin and the uproar that that has caused in terms of unintended consequences will probably put the chill on that possibility over the foreseeable future.

And even if that were to take place, we would point to the MasterCard's experience in Australia where both debit and credit interchange was capped at 50 basis points and MasterCard has enjoyed tremendous growth in Australia and no adverse effect on their economics.

And then third, just to echo Chuck's point about MasterCard over Visa and versus the closed-loop competitors like American Express and Discover, we felt at our cost basis we were paying comparable multiples of free cash flow for a business whose multiple could expand from the current level versus in the case of American Express or Discover's business whose valuation multiple is going to be anchored by that direct lending.

Charles Akre: Great, thanks John. Another question we had was about WMS, that question was, there aren't many of your stocks that have gone down since the beginning of 2011 and one that has is WMS. Year-to-date, WMS is down 28 percent. I think due to near term weakness in unit replacements. What do you think of its long-term earnings power? Do you think any of the near term worries are valid for the long term? Why not use the current weakness in the market price to grow the fund's position?

Well I said at the outset that we wouldn't comment on our current strategy as it related to any of our holdings, but I'm going to ask Tom Saberhagen to give his comments about WMS.

Tom Saberhagen: I'll just speak to this sort of the way that this kinds of things that we would debate and have debated here internally when we're thinking about the position in WMS. And so first thing to step back from the forecast and the forecasts that were in place last year and the revised forecasts that everybody on the Street and everybody that follows the stock has been forced to make at this point.

If you step back for a second, WMS is still a very strong return on invested capital business. Probably in the mid-20s this year and it's still a business where there's always going to be potential for market share growth and for pricing power for any participant who is able to develop a high performing game.

So in this business, it's all about coming out with the game that's going to generate better results than the other game that are sitting next to you on the floor. So track record of management has been very good in building market share and developing high performing games over time, their five year results have had their earnings per share have grown at a 30 percent (Compound Annual Growth Rate) and book values grown at a 16 percent (CAGR).

So it's been very robust and it's not a leveraged business. So trouble is they are selling capital equipment and they are selling to customers who have a lot of leverage and a lot of good places where the customers can put a dollar of extra cash – any extra dollar of extra cash they can get their hands on – they can use to pay down debt or save to be able to refinance debt at a lower rate or perhaps avoid some kind of restructuring.

So cash is very tight in this industry and by all reports the environment is the toughest that it's ever been in terms of competition between the game machine makers to sell to these customers. And so there's no obvious indication that the budgets' are just about to open up any time soon. So what we try to do when we think about the position here is try to weigh all of those factors. The difficulty of forecasting the tough customer environment with the fact that it's a good business. The fundamentals are still in place and people are quite pessimistic. The pendulum has quickly swung from being too optimistic to perhaps, pretty pessimistic about it.

So we look at all that and we look at the valuation of the shares and we try to come up with what's the appropriate side for this holding here.

Charles Akre: Thanks Tom. A comment that I would make here is that you all see that we have a very modest allocation of assets to the slot machine gaming industry we have a very small allocation to our long term favorite that's been Penn National Gaming in the side of the business where they operate the gaming venues. And the reason our exposure is so small in that space, is that because of what we call the constrained consumer, you've heard us use that expression previously, visits to casinos continue to stay well behind levels of several years ago. And play per visit continues to be well behind those high levels achieved in 2006 and 2007.

And it is our view that that is likely to continue. Furthermore, many of the players as Tom mentioned in this (base) are highly leveraged. Countering that, WMS has a debt-free balance sheet and is able to withstand you know the vagaries of reinvestment cycles in the domestic market for replacement machines.

But one of the offsets of that whole experience in the gaming industry is that as more and more states and localities are strapped for cash, more and more states and localities are opening up their venues to new gaming facilities. And so WMS, while it may not be – along with Bally and IGT, experiencing any kind of a robust replacement cycle, both in the U.S. and outside the U.S., they have exposure to new gaming positions and whatnot.

So that's one of the reasons why we have the WMS position.

I want to make one other comment about our process and style. And you heard from Tom and from John talk about several of the names in the portfolio. In MasterCard, for example, it was a position in the portfolio that's relatively new to us, and this whole process of exchange of value or electronic payment, is fascinating and it's growing worldwide and we all experience it.

We're writing fewer checks. We're using cash less often. And very frequently we use Visa plastic or a mobile device to have an exchange of value as it

relates to a transaction. So in our process here, we've gone through not only the ordinary filings of Visa and MasterCard but others in this space. In addition to that, we've had numerous meetings with attorneys who've been successful in winning suits against Visa and MasterCard. We've had meetings with consultants in the electronic payment space. We've had meetings – multiple meetings with people who are consultants in the electronic payment community.

We've had meetings with all kinds of people to continue to run down every angle that we're able to imagine as it relates to what are the issues in this space. The ones with the greatest attention right now are Durbin and Dodd-Frank. We've met with lobbyists on Capitol Hill. This is a routine of how we go about our due diligence in sourcing our ideas and embellishing the work we do as it relates to having businesses in our portfolio.

And I thought it would be a good idea to share some of that experience with you in this call today, have you listen to other members of the team to see the capability that we have and put you in a position to reach out and ask questions of us between conference calls and so on

Operator: Your first audio question comes from the line of (Kevin Eppiny).

(Kevin Eppiny): Thanks for doing the call and congratulations on your recognition from Kiplinger's and others. It's well deserved. I wanted to clarify a comment that you made earlier as it related to ownership among employees and family. And I see that the fund is a shade less than 300 million. And I think that you said the ownership level was above one percent, and I didn't know if that was just a broad category? Or was that an indication that it's just slightly above one percent.

Charles Akre: It's just slightly above one percent. It's a little over three million.

(Kevin Eppiny): OK, and I'd also like to ask a question as it relates to process. And I've listened and read you talk about the desire to uncover compounding machines. And I think you've all distinguished yourself in that regard, but I'm just curious if the emphasis, if it is or it's maybe not placed on the management business. And is it more of the business and less of the management or is it of

that it's a strong combination of the two. And what sort of due diligence do you all do in terms of uncovering the talents of management.

Charles Akre: Thanks for those questions and the compliment. You know that we have talked about the three-legged stool as it relates to trying to make good judgments about the prospects for an individual business. The first leg of course is this issue of the business model and trying to uncover what it is that's causing the good economic result. What's the nature of that moat.

The second leg of the stool is what we call the people model and we're very interested in is that the people are quite obviously what we just say, killers at operating their business. They're well above average. But more importantly that the managers have a history of having acted in the best interest of all shareholders, including the public shareholders whom they likely don't know. And what we're trying to understand is, whether what happens at the company level also happens at the per share level.

And it is my view that more value can be quickly added or lost by the managers in reinvestment decisions than at any other place. And of course, reinvestment is the third leg of this stool. So we believe that each of these three legs is enormously important and that quite likely that the middle leg, the people leg is quite likely the most important. It may be—the ability for a manager to add or subtract value by their decisions, including their reinvestment decisions, you know – the most important—we have lots of experience with that.

And so what we do is we read what managers have to say. We listen to what they have to say in conference calls or in response to our questions. We talk to those managers where we have an important position or where we think we're going to have an important position.

And we make judgments about how they're likely to behave. We make the judgments based on past experiences, why we may have shared or may not have shared. We make judgments based on the nuances that we individually perceive or interpret on how they respond to questions.

We make judgments sometimes based on what other people tell us about management. But it's a critical issue and there are few times when we have had an important position that we haven't spent some real time, multiple time, with management directly, principally the CEO and the CFO.

Charles Akre: Is that helpful?

(Kevin Eppiny): It is. In light of that and the importance of the management piece, if I were to say that a fellow, Dave Sokol, was going to start a new venture, and it was going to be somewhat fashioned after Berkshire Hathaway. And at some point it became a public company, in light of developments, would you feel like he was a shareholder-oriented manager?

Charles Akre: Well number one, I've met David on a couple of occasions and actually when he was here in Middleburg for reasons that many of you know. And by observation, I think he's been a very skilled manager. I've also been quite clear in discussions with those that I've chatted with about it. I think that his behavior as it related to Lubrizol didn't come up to the kind of standards that I like to see in a manager. And I can't account for that. But that's just my own personal observation.

(Kevin Eppiny): And I know you're kind of a loyal Warren Buffett follower. Was there anything about that episode that bothered you as it related to his behavior?

Charles Akre: Well I think it's perfectly clear to me, and I make the presumption that it was clear to those involved that the investment bankers, including those at Citigroup, were speaking to David Sokol as an agent on behalf of Berkshire Hathaway. And as such, making the trades in advance of Berkshire's purchase, it's just not an acceptable behavior. So that raises one other issue and that is the issue of how difficult will it be to replace Warren Buffett by putting in a team of people who can have the same kind of fairy dust that Warren has had. And the answer is extremely difficult. You know, you have some people who have been on the team for years who've chosen to retire like Lou Simpson. You had other people who in the last year – we've had a couple of instances of people who've left the team for one reason or another including

Rick Santulli and David Sokol. You know it's a very difficult issue and you know all those people have been talented people.

And on the surface of it Berkshire is worse off for not being able to stay on and do what they do well. I mean in the case of Santulli, I think Sokol did a fabulous job of turning NetJets around at least as I read it. But Santulli is the guy who built the business in the first place and did a good job at the outset.

Lou Simpson did a fabulous job with the Geico portfolio. And there have been others. You know so, this whole issue of identifying great people to supplement your operation or to serve as a replacement in an operation is a very difficult issue, particularly when you're dealing among the best in the world.

(Kevin Eppiny): Chuck, while I have the opportunity, one last question. Is Tom Gayner among the very best investors that are out there today?

Charles Akre: Well that's certainly a loaded question. Tom is a good friend and he is well and properly regarded as being an investor who's had an above average experience with his portfolio for a long time.

(Kevin Eppiny): Thanks for your time, Chuck.

Charles Akre: You're quite welcome. Thank you.

Operator: Once again to ask an audio question press star one. Your next audio question comes from the line of (Timothy Garr).

(Timothy Garr): Chuck, in your opening statement you stated that you weren't very confident in the political environment of the country right now. In regards to the portfolio, which direction would like to see change in the political environment right now?

Charles Akre: Well you know I sent an e-mail around to some friends today, calling for I don't know the 38th amendment to the Constitution or something like that which says that the members of Congress could only enact things that applied

to everybody including themselves. And they couldn't have things that they get to do that aren't also made available to the public.

It's a matter of human nature that members of Congress will behave in a way which advances the cause of their reelection. And that's human nature. And so for working against that would be making important cuts in our budgets which in my view is very necessary. And you know that the data is that everybody in this country understands and believes and endorses the notion that we need to make cuts in our budget.

And that is until we get to the things that affect them directly. And so it seems to me that the only logical thing to do in my mind, my personal view is that we need to completely revamp the tax code and get rid of all incentives in the tax code. Come up with new rates. The Simpson-Bowles recommendations the president's – what did he call that commission – the President's Commission on Taxes, made the suggestion that we have three tax rates, I don't know something like 8, 14 and 24 or something like that.

And that that would actually raise revenue versus the current experience. I'm not optimistic that we'll be able to simplify the tax code, because of the power of lobbyists and accountants on Congress. Furthermore, I'm not hopeful that members of Congress will vote to make the very difficult cuts that I think are necessary to right our economy. Of course, the alternative to doing that, then apart from default, is to have a significant deflation in our currency and so that the federal government would be able to pay back its debts which is currently valued at a much lower level than the level which they borrowed.

That's just sort of my own general notion and I believe that this level of indebtedness, let alone states and local, the level of indebtedness at the federal government level will continue to play havoc with our economy.

And you know we can't reasonably grow our way out, which would be the most desirable outcome when we have unemployment rates that are near nine percent. And so it's tough going and we're all in this together and what we try to do in our portfolio is to try to select businesses that one; have a cash reserve

to help keep us solid in certain economic and uncertain economic environments. And two, to identify businesses which have real pricing power.

And so when you look at our top ten holdings at March 31, the largest holding, not by very much, but the largest holding is American Tower. American Tower has 40 percent of their towers outside the United States. The use of wireless communications continues to grow worldwide and I believe will continue to do so, even in a difficult economic environment.

And so that's why we have a large allocation to American Tower. The next two large holdings in the portfolio are Dollar Tree and Ross Stores. Two retailers who specialty is to deliver high value to their customers at a lower price point. And we believe that we are in an economy and will continue to be in an economy in which consumers both want and need to make every dollar go farther.

Number four in the portfolio was Lamar; we talked about that already. Number five in the portfolio is MasterCard and we talked about the worldwide growth in electronic payments and the exchange of value. Market is sixth, and it's very inexpensive and we think good things are in front of us and we just don't know what the timing of that is. But with a management that's been way above class for years.

Number seven is that Hartford Preference and that's actually what I referred to as our reserve. Short-term treasuries; forward treasuries today were bid at one and a half basis points. So the Hartford Preference shares ...we bought them to yield a little over seven percent. They have a mandatory conversion in April of 2013.

Our conversion price is going to be, at our judgment, at a substantial discount to the then tangible book value and so we think that there's a possibility that we may earn more than seven percent on that money between here and there.

Eight, nine and ten are FactSet, a business which operates an electronic information – subscription information service that operates under the umbrella of Bloomberg and Thomson and continues to grow. OptionsXpress,

which I mentioned is actually in the process of being acquired by Charles Schwab.

And then lastly, O'Reilly, a regional and nearly national retailer of parts for automobiles, that will you know continue to have significant demand in my judgment as the economy and the consumer struggle.

So our portfolio continues to be built around names that we think will have terrific opportunities even in an economic environment which is not robust. Does that answer the question?

(Timothy Garr): So basically you're just accepting the fact that you're not going to have confidence in the political direction of our country. And you're just accepting the fact that that storm is just hanging there no matter what, and we're going to structure the portfolio accordingly.

Charles Akre: Yes, I mean I think that's true and I will do what other citizens will do and I will make sure that I vote. And I will make sure that I speak up and so on. And I can't know what's going to turn the tide. I hope it gets turned.

(Timothy Garr): Any new old faces on the – in the political arena that you've perked up listening to?

Charles Akre: Well I mean that's sort of outside the purview of this call but I'll just say there are obviously – there are individuals and groups of people out there that are getting a lot of attention. And the fact that they're getting a lot of attention in raising issues is important for our society.

(Timothy Garr): OK. Thanks.

Charles Akre: You're welcome.

Operator: At this time, you have no further audio questions.

Charles Akre: Well thank you, (Janette), and thank you everyone for being on the call. And since there are no further questions, I'll just say again, we thank you for your support. We're in this for the long-term. Our capital is committed in growing and we appreciate your interest in our fund. Thanks.

**END**

**Definitions:**

**Basis point:** A unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

**Price to free cash flow:** A valuation metric that compares a company's market price to its level of annual free cash flow.

**Tangible book value:** A method of valuing a company on a per-share basis by measuring its equity after removing any intangible assets.

**Disclosure:**

**About Kiplinger's top 25 funds**

Kiplinger's selects its top 25 fund choices based on a manager's consistent results, well thought out investment process, low expense ratios and no sales charges, funds that are not exceeding reasonable capacity limits for their asset class, and pure stock or bond funds, rather than balanced or asset allocation funds.