Akre Focus Fund Conference Call
November 16, 2011
4:00 p.m. ET

John O'Bannon: 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 a diversified fund. Therefore the fund is more exposed to individual 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.

I'm done with the compliance disclosure. At this point, I'd like to turn it over to Chuck Akre, CEO and Managing member of Akre Capital Management and Portfolio Manager of the Akre Focus Fund. Chuck.

Chuck Akre: Thank you John and thank all of you for joining us today us today in this call. Before the call, I was looking over my comments from the call we did in April. There are not a lot of things that are different, but I have a couple things that I'd like to share with you. First of all, I'd like to share the year-to-date results through yesterday November 15 – the Retail class of shares through yesterday was ahead 8.83% versus 1.82% for the S&P and -2.08% for the Russell 2500.

At September 30, the end of our third quarter the Retail class of funds was down 1.73% versus an S&P that was -8.68 %. The Russell 2500 was -14.9%. So, we're having a decent year. Our cash levels when we spoke to you at the end of April were 18% plus a little cushion that I referred to. Through last night our cash levels again are a little bit higher than that. They're 19 and a half, almost 20%.

Average Annual Total Return as of September 30, 2011

	3Q 2011	1 YR	Since Inception 08/31/2009
AKREX Retail	-1.73%	8.27%	8.76%
AKRIX Institutional	-1.56%	8.52%	9.02%
S&P 500 Index	-8.68%	1.14%	7.20%
Russell 2500	-14.87%	-2.22%	9.12%

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling (877) 862-9556. The Fund imposes a 1.00% redemption fee on shares held less than 30 days. The Fund's annual operating expense (gross) for the Retail Class shares is 1.45% and 1.20% for the Institutional Class shares.

In the interim, they've gone down into sort of the mid-single digits and more recently, this high cash level reflects the result of the capital additions, but does not reflect our diminishing any of our investments in the portfolio. So it reflects positive in flows into the fund. Several weeks ago the firm that is Akre Capital Management had an investor meeting in Washington, DC, and I emphasized several points relating to what I call positive investment outcomes.

I want to share a couple of those with you - ingredients which we think are critical in helping to tilt the scale in favor of having a positive investment outcome. The first thing we talked about was an investor's temperament and we thought it crucial that investor have the right frame of mind for being able to withstand, if that's the right word, the ups and downs that we get by owning common stocks. Second thing, and the thing we spend a lot of time on in our letters to you as well as in conference calls is what we call the value of the disciplined, rigorous, process for identifying businesses which are likely to become outstanding long term investments based on our experience.

We spoke about the current environment and shared our conclusion which is simply that we believe we're likely to continue to have lots of volatility in the stock market as well as the bond market. And so that reinforces the points made above. One about temperament and two, it reinforces the critical aspect of having this rigorous disciplined process so that an investor has confidence in the things that they own. Have confidence in holdings - it applies to you, it applies to your clients, it applies to individuals. It certainly applies to us as well.

And then we also spoke about historical outcomes – that is investment results. Today we simply say that these results have been better than average and we firmly believe that it's a direct result of our temperament and our process. Another comment about the environment was that as a result of our experience in 2008 and 2009, we said we wanted to better integrate our world view into our security selection. And accordingly for the last couple of years, which is the history of this fund, we've had a view that has caused us to remain cautious.

Periodically, we've had inquiries from you about our cash levels and we've spoken about them already. At the end of April they were in the high teens and today they're also in the high teens. And they – as I said though they have been in the mid single digits in between. We believe number one that our caution as well as our security selection and discipline and discipline around price in particular has been responsible for our current level of results and we can't really emphasize that enough.

It is not, however, a judgment that's predicted. We don't know how our portfolio will perform in any single quarter or in any single year for that matter. But we do firmly believe that over a period of several years, our investment object is – our investment outcomes as well as objectives are more likely than not to be above average in our mind. And I recommend that you visit our website if you want to see the history of those investment returns.

We also firmly believe that our portfolio companies have the capacity to grow grow in real economic value per share 24 hours a day. And that's a really important notion because it's our way of saying to you, we do not know how the market will judge individual businesses on a daily or weekly or monthly basis, but what is of utmost important to us, is the knowledge that businesses which we've been very careful in selecting and been very careful at determining what prices we're willing to pay are more likely to growing in real economic value per share every day.

And I – so I really have nothing else to say about the portfolio. Are there any questions from the audience?

Operator: At this time I would like to remind everyone in order to ask a question, please press start then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Your first shareholder call question.

Caller: Hi, good afternoon and thanks for having the call and taking my call.

Chuck Akre: Thanks.

Caller: Say, in your letter in the annual report, you have – there's a sentence that says we work very hard to identifying that quote unquote something special in making judgments about its ability to deliver above average returns. Now, you've got a holding in the portfolio which I guess has done very well, Dollar Tree and I don't know much about it but Dollar Tree's one of two or three of these dollar stores – there's Dollar General and there's Family Dollar. And I've been into these different stores in strip malls around and I'm just curious – what do you see that's special about Dollar Tree compared to the other dollar stores?

Chuck Akre: Well that – it's a great question. Thank you for asking it. You know we have in the portfolio in addition to Dollar Tree, a couple of other names of what we call off price retailers – Ross Stores and TJ Maxx. And we spoke in our letter, we speak in conference calls and we speak in person to shareholders about our interests in trying to identify moats that help create these high returns and cash capital and people say to us – well what kind of moat does Dollar Tree have for crying out loud?

This is in effect sort of what you're asking. The best I can say is that we think the moat is among the weakest of the businesses we own, i.e., it really relates to the merchandising and logistics and management skills of the company. I mean the logistics of managing a business like that are staggering and so we go see the management, we go see the stores, we've been to distribution warehouses for Family Dollar and we see what's going on with Dollar General previously.

At this firm we owned the company on the west coast called 99 Cents Only. So we're familiar with this space and when we look at the historical record of financial results of Dollar Tree along with these others, we see that the returns are not spotty. They're consistent for a very long period of time and remain way above average even in today's market. And so it is in addition to going and kicking the tires and talking to the management and everything else, it is ultimately by inference that we come to the conclusion that the special sauce there is the special merchandising skill and management of this widespread retail organization.

Caller: There – it's about another holding in the portfolio. You talk about and I believe you mentioned it in the call compounding machine, you know they're growing the value every minute. And you have a share holding in Lamar Advertising and they make these billboards and I've seen these digital billboards, I'm driving down the road. But when I just look at the value line, you know page on them they seem to have a very low return on capital. And so my impression just from looking at the financial statements is that it's compounding at a very low rate. And I'm curious to know what am I missing there?

Check Akre: I don't think you're missing anything. Probably the first question is –is are you looking for a job? I'm teasing. No but that's a good and astute reading of the portfolio. Let me share with you a discussion that we have around the office, which is, what's the nature of the moat as it relates to Lamar Advertising? As you know it's – an oligopoly that includes CBS Outdoors and Clear Channel Outdoors. Of the largest of the billboard operators in the United States and, in Lamar's case for example, and I just don't' know off my head whether it's true for the others, but in Lamar's case something like 40 percent of the boards are what I call existing non-conforming uses.

Maybe it's 50 percent. It's a pretty big number. And that means that if they were to disappear they couldn't be replaced. And so that in of itself creates some kind of an economic moat. That's number one. Number two, in the 2008 and 2009 period, domestically we had about a 20 percent drop in advertising spending and we'd never experienced that in this country since the Great Depression. So we've been through a period of time of a very slow ramp up of advertising spending. And number three, Lamar in particular has roughly 80 percent of its boards that are associated what we call the 'locals' advertising market as opposed to the national market.

The national market has rebounded in spend much more rapidly than the local market, so all of those things are affecting Lamar. In addition to that, in our recent letter we talked about the question that's out there about whether or not mobile devices, handheld devices are having an internet to the newspaper type of affect on billboards. That is – is something happening with handheld devices that could cause billboards to become economically obsolete?

We said we don't know the answer to that, but the prodigious cash flow that Lamar generates is something that we couldn't ignore and so we have hung on to it. Lamar as you know, in the '08, '09 market traded all the way down to five and a fraction. On the recovery it traded up just north of 40 and then back down in the mid teens and now in the low 20's again. And so we have the same concerns that you raise about Lamar.

We are – and we continue to think about this issue of what kind of moat does it have and how valuable is it? We are also missing in the present form the kind of growth that we usually are very interested in and in Lamar's case, they have a pretty heavy debt load on their balance sheet. As a result of this –a good result of this is they have lots of free cash flow. So we continue to keep our eye on it. It continues to be something that's high on the list of things we talk about frequently. That's the best I can do.

Caller 2: Hey Chuck.

Caller 2: My question is about portfolio construction. We understand the process, pretty well. We understand the three legged stool and so forth and I guess what I struggled to understand is when you've got, two percent positions and 10 and 12 percent positions, what accounts for the way that – what part of your process determines what's a number one, number two, number three position versus 13, 14, 15th position. Which leg of the stool goes into that decision?

Chuck Akre: When we start in a position we never start with a big position. We always sort of walk our way in – just virtually everything. That's number one. Number two, if I were to look at our most important positions today, they are exactly the same as they were at September 30 and I don't have it in front of me. My guess is that they'd probably very similar to what they were when we had a call at the end of April.
As funds come into the portfolio and you all have probably done the arithmetic in your head and figured that in the last month we had a net gain in value of about $100 million and as I say that was not all performance. Periodically, we'll add to positions that we think are particularly attractive valuation wise at the moment. Then we have some of these other positions that are tiny. And for example, the smallest one in the portfolio is something called White River Capital.

We bought White River when we opened the fund two years ago and you've seen it in the annual report. We own 93,000 some odd shares and we would have owned 200,000 or 500,000 of those shares. Our cost is $11. The stock yesterday closed at $21.65. In addition we've had a $4 distribution from it already and it was statistically dirt cheap when we bought it. And we couldn't buy anymore, so it's just there, at a half of percent position, for example. You go on up the list and you find other things that are three percent or four percent or one percent. We have a one percent position in Penn Gaming. Penn Gaming is a business that we've been associated with for probably close to 15 years as have our shareholders and individual clients and partners in our partnerships and so on, have had their money double and triple and quadruple and quintuple and everything else. We have many accounts that have costs basis that's pennies on the dollar. And it's been a great business, but for a number of years, going back to late '07 we recognized that visits to the casinos were down and play per visits were down and then you recall in my comments that I was talking about, our world view about the constrained consumer and we've expressed it frequently.

So we have visits down, play per visit down, more competition going on and the primary audience is being – is under some financial constraint. And so we have a little position in Penn just to keep our eye on it because it's my view that Peter Carlino the CEO and chairman, is the best compounder of capital in the space and we want to make sure we're always watching what's going on but it's just a toe hold. Then there are other positions in the portfolio that we put in there and get started at a very small level and we may be using strict price limits to try to add to it. There are bunch of them in the portfolio that exist like that today.

When Mr. Market gets depressed and starts selling things off, every now and again we're able to buy some shares. So we have businesses like that in there. And then of the largest businesses - American Tower, Dollar Tree, Master Card and Ross Stores - periodically we add to them when we have more cash than we want to have on hand and we think they are particularly attractive and we've gone through an update in our work.
So that's how it comes about. We want to have our most important dollars focused on the places that we, as a generalization, think we have the greatest opportunity and the lowest amount of risk. So that good economic result in those businesses is going to flow through in the portfolio. And we would say to you, in this market that's been very choppy, when we last talked to you on the phone, it was – we were down almost two percent and the market [as measured by the S&P 500] was almost down nine percent. Now we're up, nine percent roughly and the market's just up less than two.

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So we haven't done anything different. We put the focus where we think the greatest opportunities, price and value are at a given time and historically we use terms like core holdings and work bench. So we haven't done anything different. We put the focus where we think the greatest opportunities, price and value are at a given time and historically we use terms like core holdings and work bench.

We don't use it quite as much these days because we don't want to get people bogged down on that notion, but clearly we have businesses in the portfolio that are new to us and we're seeing how the managers behave. We're seeing how the businesses react in different environments and they just kind of get built up that way.

Caller 2: OK, Can I follow up to that? Can I make a generalization about your top four holdings? Would you say they are your four deepest moats – or your four highest expected return or just some combination of the above?

Chuck Akre: I can't tell you, I mean American Tower and Master Card have great moats. For example, Dollar Tree and Ross Stores have great pricing power and we're still working hard to try to define the nature of that moat that gives them the opportunity to earn such high returns on their investment and have such strong balance sheets. As I said in the earlier question, best we can come up with at the present time is that it's a combination of great merchandising skill, and great management skill.

In three years or something like that, we may look back and say you know it was X all along and we just didn't understand that. So, those businesses, I mean American Tower and Master Card in the portfolio may very well have the best business models of anything in the portfolio. They're just terrific, but we think all the time about these indelible business models. I used the example in our investor meeting about the Washington Post which had been one of the great business models in Washington, DC from the time that Eugene Meyer bought it out of bankruptcy in the depression until about five years ago when it fell off a cliff because the Internet disintermediated it's core economic engine which was advertising sales.

Up until that point in time, it was a fabulous business with a big wide moat. So we're always on the lookout for things that can affect these businesses, but having said that, those two names probably have the best business models and pricing power of anything in the portfolio and everything like that. And the other two, have this great unique merchandising and management skill that allows them to earn extraordinarily high returns on the owner's capital. So those are our four horsemen right now and stay tuned.

Operator: Again if you would like to ask a question please press star and the number one on your telephone keypad. There are no further questions at this time. Do you have any closing remarks?

Check Akre: Thank you and thank everybody for joining us on this call. We're obviously pleased with the year as it's proceeding and pleased with the recognition that we're getting in print media which continues to grow. All of the folks here at the firm are involved as shareholders in the fund and we add to it regularly. So we're delighted to have you all as partners along with us. Thanks for listening to us today. That's it.

Operator: This concludes today's Akre Focus Fund Conference call.

END

Disclosure:

Earnings growth for a fund holding does not guarantee a corresponding increase in the market value of the holdings or the fund.

Definitions:

The Russell 2500 Index is a market cap weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of United States-based listed equities. You cannot invest directly in an index.

Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income.

Free cash flow is revenue less operating expenses including interest expenses and maintenance capital spending. It is the discretionary cash that a company has after all expenses and is available for purposes such as dividend payments, investing back into the business or share repurchases.

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