

Former Longleaf Manager Launches Fund

by Jack Willoughby

TWELVE YEARS AGO WHEN MA-SON HAWKINS, head of vaunted value investor Longleaf Partners, posed for a Barron's photograph, Clement T. Fitzpatrick stood in the background. At 46 years old, C.T., as he's known, now is out front with his Vulcan Value Partners Small Cap Fund (ticker: VVPSX). The onetime co-manager at Longleaf, Fitzpatrick reminds us that this is prime time for value hunters. "Values are going up and stock prices are going down," he says. "Value managers only feel good when the public feels bad. We have a

> "Value managers only feel good when the public feels bad," says the veteran investor.

much longer time horizon."

After 17 years at Longleaf and its manager, Southeastern Asset Management, Fitzpatrick resigned in 2007 to relocate in Birmingham, Ala. He wanted to keep his family in the South. For Fitzpatrick, Longleaf had become too big: "I found I was on the road most of the time. We had a little less than \$3 billion when I got there. When I left we had \$41 billion."

Vulcan Value runs just \$12 million, a small part of Fitzpatrick's mostly self-funded money-management operation, which has been primarily aimed at building a track record until recently. Fitzpatrick, a native of Alabama, received his masters of business administration from the Owen School at Vanderbilt University. He joined Mason Hawkins right after.

Fitzpatrick pays scant attention to the daily financial news tracked by wire services and blogs. At best, they function like "helpful background noise" to test Vulcan Value's strategies.

Open since February of this year, Vulcan Value has enjoyed promising returns. Morningstar lists the fund as up 3.03% this year through June 30, 9.68 percentage points better than the Standard & Poor's 500 over the same span. Longer term, the fund sports a composite three-year return of 0.58%, outpacing the S&P, which is down 9.9%.

To show investors that Vulcan Value shares their pain, employees invest their liquid savings either in the funds or in separate accounts. Fitzpatrick can't imagine doing it any other way. "How can anyone pay money managers to make investments on their behalf and then have them make their investments in other products?" he says.

He establishes a list of 100 companies whose shares he would like to own. They must be well-managed, with a good return on capital and solid growth. He waits for the market values to get out of whack and for stock prices to enter his price range. Then Fitzpatrick strikes.

What marks the value investor is his long-term view. "Perspective dictates the way we respond to information," says Fitzpatrick. "We have the confidence to see the value propositions play out time and again, so we know they work. For a time we have to be willing to look foolish."

One large Vulcan Value holding is Discovery Communications (DISCA), which provides stable earnings and a strong portfolio of popular cable-TV shows whose international contracts are coming up for renewal at higher rates. "Back in 2008 the cash flow from the international side of the business more than doubled," he says.

He also likes Jos. A. Bank (JOSB), because of its success competing with department stores in densely populated cities.

Heartland Payment Systems (HPY), an information processor brought low by a serious data breach, is another favorite. Fitzpatrick examined its liabilities and decided the company could weather the storm. And it has.

"It all depends on one's time horizon," he says. "Investors who look six months into the future don't behave the same as those who look five years into the future. They come to radically different conclusions."

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The fund seeks to achieve long-term capital appreciation by investing primarily in small-capitalization U.S. companies believed to be both undervalued and possessing a sustainable competitive advantage.

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The S&P 500 Index is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index. The S&P 500 Index figures do not reflect any fees, expenses, or taxes. Investors cannot invest directly an index.

Inception Date: December 30, 2009		Current Quarter	Year to Date	Since Inception
Vulcan Value Partners Cap Fund	Small	-8.4%	3.0%	1.9%
*Total Expense Ratio: 1.50%				

The performance numbers shows the fund's historical performance. Past performance is not indicative of future results. Investment return and value of shares will fluctuate. Upon redemption, shares may be worth more or less than their original cost. The current performance may be higher or lower than the quoted performance. Vulcan Value Partners does not have a sales charge. Please call 1-877-421-5078, or visit our website, <u>www.vulcanvaluepartners.com</u>, for the most recent month-end performance results.

The holdings referenced in the article, Discovery Communications, Jos. A. Bank, Heartland Payment Systems, had the following percentage of total net assets as of June 30, 2010, respectively: 4.41%, 6.00% and 4.46%.

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