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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Concentrating on High-Quality Companies in Value Investing

C.T. FITZPATRICK, CFA, Chief Executive Officer and Chief Investment Officer of Vulcan Value Partners, founded the firm in 2007 to manage his personal capital. Since inception, all four strategies have peer rankings in the top 15% of value managers in their respective categories. Before founding Vulcan Value Partners, Mr. Fitzpatrick worked as a Principal and Portfolio Manager at Southeastern Asset Management. He earned his MBA in finance from the Owen Graduate School of Management at Vanderbilt University. He also has a B.S. in corporate finance from The University of Alabama.

SECTOR — GENERAL INVESTING

TWST: Please tell us about Vulcan Value Partners. Why did you decide to start the firm?

Mr. Fitzpatrick: Our firm is five years old already, but we will have our five-year track record on March 31, so we're excited about that. We have delivered extremely good results for our clients since we started. We're very pleased with the progress, and we currently have 13 employees — six of them on the research side of our shop. I'm really pleased with the development of the firm. We have a fantastic group of people. Everybody works really hard, and we have a lot of very positive energy in our shop, and things are going very well for us.

TWST: What are the funds Vulcan offers right now?

Mr. Fitzpatrick: We have a common investment philosophy, but we apply it in different areas. We have a large-cap portfolio, a small-cap portfolio and two very concentrated portfolios. We call them Focus and Focus Plus. Those are nondiversified portfolios for institutions or maybe very high net worth individuals who already have a lot of diversification. We also manage an all-cap portfolio.

TWST: Please tell us about the firm's client base.

Mr. Fitzpatrick: We have a really outstanding client base. We work for endowments, pension plans, both public and private. We have some very intelligent family office money with us. We are really looking for clients where there is a fit between what we do and what they are looking for. The word partner is in our name, and we take partnership very seriously. It's not that what we do is good and everyone else is bad, it's just that we are not for everyone, and we realize that. But for people who are looking for long-term investments and who believe that there is a difference between price and value and can take advantage of volatility, we're very good with those kinds of folks. Those are the people we want to work for.

TWST: You mentioned you have a common investment philosophy across all of the portfolios although you apply it differently. What is that investment philosophy?

Mr. Fitzpatrick: We are value investors but we don't look for cheap stocks. What we look for are wonderful businesses that are rarely cheap, but that are worthy of our time to follow. We follow them and do a lot of work on them knowing that they're not attractively priced. So when they do become attractively priced, which is almost never, but when they do, we will be able to move very, very rapidly because we've already done the work. We don't waste our time chasing statistically cheap ideas. That's really what sets us apart from a lot of other value investors.

TWST: So you identify companies you would like to own, and then, you wait for them to hit a price target that makes them a good buy?

Mr. Fitzpatrick: Yes, that's right. Sometimes we have to wait decades, but when they do hit our price, we buy.

TWST: What is the strategy Vulcan uses to identify those companies? What do you look at?

Mr. Fitzpatrick: Well, we look at companies that have, most importantly, a sustainable competitive advantage, which involves a lot of qualitative work. We do a lot of quantitative work to identify companies that might have a sustainable competitive advantage. After you do the quantitative work, you really need to peel back the onion to look at what's driving the numbers. That's the most interesting part and the hardest part of what we do. Once we have identified a company that we believe has a sustainable competitive advantage, we follow it very closely. This is something you have to be careful about. Sometimes when a company appears to be discounted, it's really not just inexpensive, it's actually losing its competitive advantage or the competitive advantage is not sustainable.

So one of the things that we really ask ourselves in terms of price is: Are the factors driving the company's stock price down temporary, is it cyclical or is there a fundamental shift occurring in the business? I think it's where we add our value by differentiating between the two.

TWST: Are you talking about making sure you avoid what is called a value trap?

Mr. Fitzpatrick: Yes, exactly.

TWST: You look at the specific company. Do you also look at individual sectors and at the macro situation when evaluating individual stocks?

Mr. Fitzpatrick: Our work is bottom-up driven. Having said that, we do find things from a bottom-up point of view that you might call themes. We're not looking for themes. We're looking for bottom-up opportunities and often we can discern some themes, if you will, from that work. For instance, our portfolio shifted pretty significantly toward financials at the very end of last year. You could call that a theme. We didn't identify it as a theme, but we found a lot of opportunities in that area.

TWST: So it sometimes happens that several of the companies you look at and that have a competitive advantage may be in a certain sector, but it's not because you are looking at the sector?

Mr. Fitzpatrick: Well, that's right. I mean, we're following these companies regardless. I think if you look at the market in terms of a bigger picture, the financials were under a lot of pressure last year. A lot of the companies that we follow in that area came our way. We are careful about the quality of the financials we are in — we are not in any commercial banks. The financials we are involved with have very strong balance sheets, produce a lot of free cash flow and they are guilty only by association.

Highlights

C.T. Fitzpatrick of Vulcan Value Partners discusses the firm's investment strategy, which focuses on high-quality companies with a sustainable competitive advantage, not only a lower price. In its stock selection process, he says the firm looks at the factors driving a company's stock price to determine whether they are cyclical or if it is a fundamental shift in the business. Mr. Fitzpatrick also offers some of his favorites names.
Companies include: The Bank of NewYork Mellon Corporation (BK) and Intercontinental Hotels Group plc (IHG).

TWST: How do you define diversification?

Mr. Fitzpatrick: Well, if you have the diversification curve, which is quite steep, you gain most of the benefit from diversification around 12 names. Once you reach 20 names, there is very little benefit for each incremental name added. You don't gain a whole lot more diversification following 50 names compared to 20. We would rather have a stake in 20 wonderful businesses than stakes in 50 lower-quality businesses.

TWST: Do you diversify across industry types?

Mr. Fitzpatrick: We do look at industries and how much we have in every single industry. We also look within the industries and the types of companies within that industry. Looking at the financial industry, for example, we own custodians and we own insurance companies. Well, those are completely different businesses even though they are both financials. We not only look at diversification by industry, but we also look at diversification within the industry itself.

TWST: And what's the firm's turnover rate?

Mr. Fitzpatrick: We are five-year investors, that is our time horizon. When we own a name, its weight in the portfolio may fluctuate depending on its price-to-value ratio. So a position could go from a 3% to a 6% position a number of times. Even though we have created turnover, the underlying name has not changed. Given that, our turnover has averaged around 50% over the last several years. The extreme volatility that we've had recently has created opportunities to do a lot of rebalancing. We add to positions in the more discounted names, and we cut back the weight when they rally. That has created higher turnover than I would expect longer term.

TWST: Is it accurate to say that in your world, volatility is not necessarily bad?

Mr. Fitzpatrick: Volatility is a very good thing for us, especially if you have a company whose value is not only stable, but continues to compound steadily year after year. When times are bad, they still grow. When times are good, they grow faster than the average company. On average, they grow at a low double-digit rate all the time.

"There is a tradeoff between diversification and price to value. We would rather be more concentrated in extremely high-quality companies trading at deeper discounts. Having said that, you can't always find them."

If you have stock price swings like you had in the third quarter of last year, and the companies that you follow have values that are stable, it creates an enormous opportunity. We have been able to take advantage of that time and time again since we started the company.

TWST: How large is your average portfolio?

Mr. Fitzpatrick: That's a very interesting question. There is a tradeoff between diversification and price to value. We would rather be more concentrated in extremely high-quality companies trading at deeper discounts. Having said that, you can't always find them.

If you go back to 2007, there were very few companies that qualified for investment that met our criteria in terms of quality and were meaningfully cheap. We had a larger number of names back in 2007, approaching 40 names. If you go to 2008, we had 18 names in our large-cap program. Our concentration doubled as we were able to find wonderful high-quality businesses. As the discounts became steeper and steeper, we kept buying more and more and were selling things that were not as discounted to fund it. So our concentration levels increased as price to value levels improved.

TWST: Would you give us some names you like right now and explain what makes them interesting stories?

Mr. Fitzpatrick: Yes, sure. Back on the financial theme, one of the companies that we purchased fairly recently that we are excited about is **Bank of New York Mellon** (BK). **Bank of New York Mellon** is a custody bank. They don't look anything like a traditional commercial bank. They've gotten a lot of bad press because of the New York attorney general and some misunderstandings about how their business model works. This has created a lot of bad press for them, but that's created an opportunity for us. We have a very conservative, meaning large, liability for their potential exposure to those issues. We strike that liability from the asset value of the company and we think it is extremely discounted, net of that liability. So even if you quantify a worst-case scenario — again, we think that the headlines were bad, but the actual truth behind the headlines is not so bad, i.e., we think that there is a lot more smoke there and not so much fire — but even quantify the worst case, we think it's extremely discounted. It is one of the cheapest things we own.

1-Year Daily Chart of The Bank of New York Mellon Corporation

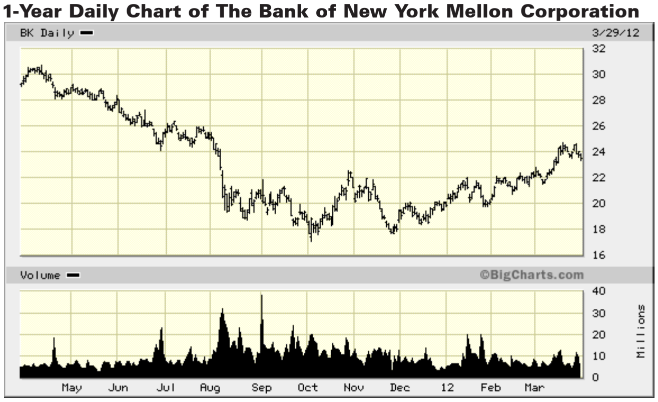

Chart provided by www.BigCharts.com

TWST: Bad press on good companies creates opportunities for Vulcan, then?

Mr. Fitzpatrick: Absolutely. You have to ask yourself, what's going on here? Is it something that is temporary and fixable or is it a fundamental change in the business? They are one of the few truly global custodians in the world, roughly 40% of their revenues are derived from outside the U.S. Revenues outside the U.S. are growing faster than the revenues inside the U.S. and the revenues inside the U.S. are growing very nicely. The company generates a lot of free cash flow. It's truly a wonderful business and fundamentally nothing has changed. They are one of the leading global custodians and they are going to remain so.

TWST: Would you give us one more example?

Mr. Fitzpatrick: OK, we found a lot of opportunities in the U.K. recently. One of the companies that we bought fairly recently, and we were quite excited about is **Intercontinental Hotels Group** (IHG). That's a company that we have followed forever, and management has really done a great job improving that company. If you go back a long time ago, they had an asset-heavy hotel ownership model. They have a number of hotel brands around the world, again a very global company, and they range from high-end Intercontinental Hotels to Holiday Inn Express. They have spent a lot of time fixing their Holiday Inn brand, and it is, at this point, fixed.

They have sold virtually all of their property and they've used that money very intelligently to buy back stock when it is cheap. They now have a franchising and hotel management model, where they own the brands and manage the hotels, but they have very little capital tied up in real estate. Their returns have improved dramatically. The business that they're in today is much better than the business that they were in 10 years ago. The company is also much, much cheaper today than it was 10 years ago. So we had an opportunity to buy it in the fourth quarter of last year, and we were thrilled to be able to be shareholders in that company.

TWST: What is it you believe Vulcan does particularly well?

Mr. Fitzpatrick: I think that we do a good job of truly having a long-term investment time horizon. We really don't care what's going to happen next quarter or even next year. We are willing to look foolish in the short run so we can look smart in the long run. We understand the difference between price and value and we're very disciplined — not only in the prices we pay, but in the kind of companies we will buy. That requires patient capital. If we can align ourselves with and partner with clients who have patient capital and have a similar outlook about the way the world works, then we think we can do a very good job for them.

TWST: Is there anything you'd like to add?

Mr. Fitzpatrick: Yes, just one thing I want to add. Everyone in our company is required to invest 100% of assets allocated to publicly traded equities exclusively through Vulcan. You can't work at Vulcan and invest somewhere else. We think that's really important in terms of aligning our interests with our client partners, and we think that it makes our ethics policy very easy.

TWST: Thank you. (LMR)

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Vulcan Value Partners Fund:

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

Referenced Holdings as of 03/31/2012:	Bank of New York Mellon Corp	5.10%
	Intercontinental Hotels Group	4.84%

Vulcan Value Partners Small Cap Fund:

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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	As of March 31, 2012			
Inception Date: December 30, 2009	Current Quarter	Year to Date	1 Year	Since Inception
Vulcan Value Partners Fund	***14.88%***	***14.88%***	***15.58%***	***12.92%***
Vulcan Value Partners Small Cap Fund	***13.61%***	***13.61%***	***5.89%***	***13.61%***

***Total Expense Ratio: 1.50%**

The performance numbers shows the funds' 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, www.vulcanvaluepartners.com, for the most recent month-end performance results.

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Please call 1-877-421-5078, or visit our website, www.vulcanvaluepartners.com , to obtain a copy of the Prospectus, which should be read carefully before investing to learn about the investment objectives, risks, charges and expenses of the Vulcan Value Partners Fund and the Vulcan Value Partners Small Cap Fund.

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