

FINANCE

Google a Value Play? Really?

Vulcan Value Partners' new funds scout for quality companies trading at double-digit discounts

C.T. Fitzpatrick's money management firm, Vulcan Value Partners, is named after the Roman god of fire, not the logical aliens from *Star Trek*. "Partners" is meant to reassure investors that as manager of two new mutual funds—Vulcan Value Partners Fund and Vulcan Value Partners Small Cap—Fitzpatrick is partnering with shareholders, investing his own money alongside theirs (minimum investment: \$5,000, or \$500 for IRAs). The 46-year-old manager has an impressive résumé: He worked for 17 years as an analyst and co-manager at renowned value-investing shop Longleaf Partners before opening his funds to investors last December. Fitzpatrick spoke with reporter Lewis Braham from Vulcan Value Partners' office in Birmingham, Ala., where a colossal cast-iron statue of the fire god has stood watch above the city since 1936.



Q: Is your style similar to that of Longleaf Partners?

A: At Longleaf we only bought stocks of companies trading for at least a 40% discount to what we saw as the intrinsic underlying value of their businesses. We would hold cash if we couldn't find enough companies to meet that criteria. At Vulcan we tend to be fully invested and try to find companies trading for at least a 20% discount. We will not compromise on the quality of the businesses we're buying.

Q: You own Google, right?

A: Google is a good example. A lot of value managers are not enamored with tech stocks. Neither are we, but Google has an incredible franchise value. Years ago people used to say "overnight it" when they sent a package, but the day they started saying "FedEx it," a franchise was born. Well, Google's franchise is so much more powerful than FedEx's because people say "Google it" not just in the U.S. but all over the world. It generates tremendous free cash flow and has a strong balance sheet. It even grew its bottom line double digits during the recession. So in our view it's undervalued.

Q. Does having a small asset base let you invest in small caps more effectively?

A: Absolutely. For instance, a year ago we bought RCN, a fiber-optics company which had only a \$185 million market capitalization at the time and traded for \$4 a share. The company was recently acquired for \$15 a share by a private equity firm. We would never have been able to buy such a tiny stock and make

it a significant part of our portfolio if we were running billions of dollars.

Q: What other small caps do you like?

A: We like Heartland Payment Systems, a credit-card processor for small merchants. Every time someone swipes a card at a client's store, Heartland receives a small percentage of the transaction. So the company is a free-cash-flow machine. It's selling at a big discount because a year ago it was the victim of a major security breach, which sparked a class-action lawsuit. Yet the company has a strong

“[WE'RE] NOT ENAMORED WITH TECH STOCKS ... BUT GOOGLE HAS AN INCREDIBLE FRANCHISE VALUE”

balance sheet and even factoring in the potential costs of the lawsuit is trading at a substantial discount.

We also like Sonic Corp., a drive-in

restaurant chain with a classic Americana feel. The restaurants are like the diners in that old show *Happy Days*. They have real good milkshakes and a Cherry Limeade with a cult following. I'm one of the people in the cult. The waiters roll out on skates with nice little uniforms on and always smile at you. You feel good eating there. The company had same-store sales increases for several years but had negative numbers for the first time recently because of the recession. We believe that is a temporary condition. **|BW|**

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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 March 31, 2010	% of Net Assets
Google	5.95%

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.

Referenced Holdings as of March 31, 2010	% of Net Assets
Heartland Payment Systems	4.55%
Sonic Corp	6.34%
RCN	0.00%

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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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Expires July 31, 2010



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