THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

A Focus on Long-Term Value Growth Investing

C.T. FITZPATRICK, CFA, the 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 5% of value managers in their respective categories. Prior to founding Vulcan Value Partners, Mr. Fitzpatrick worked as a Principal and Portfolio Manager at Southeastern Asset Management. Mr. Fitzpatrick 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: Would you introduce us to the company and the two mutual funds you manage, the Vulcan Value Partners Fund and the Vulcan Value Partners Small Cap Fund?

Mr. Fitzpatrick: Vulcan Value Partners is an investment management company that we formed about three-and-a-half years ago to manage my personal capital and that of my family members. We opened to outside investors after a three-year period of managing money for ourselves. And with that, we also launched **Vulcan Value Partners Large Cap Fund** (VVPLX) and **Vulcan Value Partners Small Cap Fund** (VVPSX). Those funds are managed identically to our large-cap and small-cap separate accounts. We just have a model portfolio, and the only difference is the structure. We've been very successful since we began operations, generating solid mid-single-digit positive results at a time when the indices and our other value-based competitors — very worthy competitors — have produced negative numbers. So we're really pleased with that.

The whole mission of value investing is to lower risk and preserve capital, and we're much more concerned with preserving capital than making money. We feel like if we focus on the downside and focus on protecting ourselves and the margin of safety, then we'll be able to preserve our capital and making money will just take care of itself. We performed as advertised during a very tough time, and we've been able to take advantage of those tough times to build wonderful portfolios with very high-quality companies who are compounding their values very rapidly. At a time when a lot of people are not feeling very good about the economy or pretty much good about anything, we're actually very bullish here at Vulcan Value Partners.

TWST: On the managed account, it looks as if you have four different models there.

Mr. Fitzpatrick: Yes, our large cap and small cap, which are very straightforward, we just simply invest in larger companies or smaller companies. Our Focus and Focus Plus portfolios are a little different. They are very, very concentrated. They are not diversified. We make no bones about it, and we do not offer them as mutual funds because they are not diversified. And we don't think they would be appropriate for a mutual fund vehicle, but for someone who already has a lot of diversification and they want to really concentrate in our very best and cheapest ideas. That's why we offer Focus and Focus Plus, and it's where we overweigh our own personal capital.

TWST: Tell us a little bit more about yourself and your background.

Mr. Fitzpatrick: I'm in my mid-40s. I have been in this business virtually my entire career. Back in the 1980s, I started off on Wall Street as an Analyst in investment banking, and left that to go to graduate school. I was kind of a frustrated value investor. I thought I could practice value investing as an investment banker, and I figured out that you couldn't. And so I went back to graduate school to transition into pure money management, which is what I really wanted to do all long. I was very fortunate to get a job in 1990 with a wonderful value company called Southeastern Asset Management, who also manages the Longleaf Partners Funds.

The Longleaf Partners Funds had not been named when I joined back in 1990. I was part of a very small group of people who took a small company and turned it into a large company. We produced very good investment results over the 17 years that I was there, and I was just honored to be associated with my former partners. I was an Owner in the company and a Portfolio Manager. In early 2007, I left there to form Vulcan Value Partners. Unlike my former partners, who have become very global and very internationally focused, Vulcan is more — we're global investors, but we're U.S. based. I would say 80% of the companies that would qualify for investment at Vulcan are either domiciled in the U.S. or in Europe. We're not really looking as far afield because we don't really have a lot of interest in companies that wouldn't already be here.

Highlights

C.T. Fitzpatrick, CFA, discusses Vulcan Value Partners and its offerings. The value-minded company runs two mutual funds, for large-cap and small-cap investing, and has an experienced team that has, according to Mr. Fitzpatrick, all their money allocated to publicly traded securities invested in the company's funds and accounts. Mr. Fitzpatrick discusses the company's Focus and Focus Plus portfolios, which are very concentrated, he says, for investors who already have much diversification. Mr. Fitzpatrick shares some of Vulcan's best stories in both the large- and small-cap areas, saying Vulcan chooses high-quality companies focused on their competitive positions and building long-term value. Mr. Fitzpatrick also emphasizes Vulcan's five-year time horizon that every investment decision they make is based on.

Companies include: Vulcan Value Partners (VVPLX); Vulcan Value Partners Small Cap (VVPSX); Google (GOOG) and Investment Technology Group (ITG).

TWST: How does your current strategy differ from the way you ran funds there aside from that global-versus-U.S. focus?

Mr. Fitzpatrick: I think it's really a difference in emphasis and it leads to some new nuances on how we manage the portfolios. We tend to be always fully invested here in Vulcan Value Partners, and the biggest reason for that — and that's different than my former firm, where you might hold large amounts of cash at certain times — and the reason for that is that we have a real emphasis on business quality and free cash flow. That emphasis drives us more than valuation. We are value investors. We'll never pay fair value for anything, but we would rather own a smaller stake in a very high-quality company that admittedly sells for a higher price-to-value ratio that would just be a smaller part of our portfolio, than having a larger amount of our portfolio invested in a company that is statistically cheap, but whose quality criteria would not meet our standards.

So we have a very high-quality criteria here, and markets were just not so inefficient that you can always find a fully diversified portfolio of really high-quality businesses at $0.50 on the dollar — it's just not possible. So we will hold smaller stakes, 1% and 2% positions, in really high-quality $0.80 dollars, but we would always trade those and prefer to have a 4% or 5% position in a $0.50 or $0.60 dollar. But when we can't find them, we won't compromise on quality. We'll just own a larger number of wonderful businesses that are admittedly less discounted. That means we tend to be fully invested, and that nuance results in a fairly fundamental change in the kind of portfolios we manage.

TWST: *BusinessWeek* quoted you saying this is a prime time for value investors. Why is that?

Mr. Fitzpatrick: Especially for someone like ourselves where quality is so important — it's very ironic, really high-quality companies that are in our sweet spot are much cheaper than average businesses and mediocre businesses, and it doesn't make a lot of sense for it to be this way. We're in a situation where

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despite a big rally in the market, we're able to find really fantastic businesses that normally you would have to pay, normally they are not even cheap, normally trade at or above fair value and under more normal times, you might be really happy to pay $0.80 to the dollar for them. We're buying them for as low as $0.40 on the dollar. It's crazy. It doesn't make any sense. These are companies with net cash on the balance sheet, no balance sheet risk, generating a lot of free cash flow, buying in their stock, the business prospects are very promising and they're getting stronger not weaker. When you can do that, when you can buy value at a discount and that value is compounding in tough times, and you just know that when times get good again — as they eventually will — just think how much faster the value will compound. So we're really bullish here.

TWST: You've also said that you don't pay attention to daily financial news. Why is that? Also, what is the day-to-day need in order to make you pay attention or factor it into your longer-term view?

Mr. Fitzpatrick: We do read the news and we do keep up with things that impact our companies, but we really try to separate ourselves from the noise. The market rallies or goes down because employment grew by 10,000 jobs more than the economists thought it would. I mean, stuff like that is just noise and it distracts us from our real job, and that is to understand the real fundamental drivers of long-term value growth. So we're really focused on those things, but those tend to be things that don't grab the headlines and it's just kind of — for a lot of people — more boring, but we think more important.

TWST: You are more focused on the companies than the market is that —

Mr. Fitzpatrick: Absolutely, one of the things that we see around here a lot is, and how we manage our portfolios, as long as our values are rising, we prefer for the stock to go down. We love finding a company whose value is consistently compounding and moving north and the stock price is moving south. That gives us an opportunity to buy more at a greater discount.

TWST: In a general sense, how do you choose stocks? What's your method?

Mr. Fitzpatrick: First and foremost, again, we're looking for markers of business quality. If the company has stable results, that's a good sign. If the company has a strong balance sheet, it's a good sign. If the company generates free cash flow, we demand that. We just have no interest in companies who don't generate free cash flow even if they might have a lot of other things going for them. Return on capital is a marker. We would prefer to find a company that has rising returns on capital. A lot of times you find companies who have great average returns on capital, but incrementally their marginal return on capital is not as good as the average. That's actually a sign of business decline. From a quantitative point of view, there are lots of different things you can look at that are just scratching the surface. You have to really roll up your sleeves and qualitatively try to understand how does a business really work? What are its competitive advantages? Does it have any? Maybe it doesn't. Is its competitive position getting stronger, or is it getting weaker, and how come? Are there competitive threats? How do they arise, and how real are they versus just maybe grabbing headlines? Those are the things that we spend the vast majority of our time looking at, and it requires a lot of rolling up your sleeves and just doing the hard work.

TWST: The small-cap fund has handily outperformed as compared with Morningstar's Small Blend category since its inception coming up on a year. What have been some of the keys to that outperformance?

Mr. Fitzpatrick: We just have been able to find really high-quality companies trading at discounts that just don't make any sense. Value recognition seems to be happening a little faster in our small-cap area than in our large-cap area. But when we compare the two, we have very compelling value growth in both portfolios. I think there will be a time when people quit putting so much money in bonds and put more money into stocks, and maybe the value recognition will be faster in our large-cap program. But I think it's really just the fact that there is still more value recognition in the small-cap area today. Perhaps it is because the private equity guys are beginning to stir around again and a lot of small-cap companies are kind of in their sweet spot in terms of deal size. And we did actually have a company taken away from us, at a very attractive price, and it was a private equity transaction. We are really more focused on the value growth as opposed to whether the stocks are going up or down. The main thing that we are excited about is that our values are

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moving north and the stock prices will eventually follow. There are all kinds of things that cause that to happen faster or more slowly than you would want.

TWST: Do you have a sense of why that value recognition, as you say, is happening slower on the bigger stocks?

Mr. Fitzpatrick: I do. I think it's the flows. For a very long period of time now, I am not sure what the historical precedence is, but for the last several years, there have been large outflows from equities into bonds. And then if you kind of drill down deeper to where it is coming out of, it's coming more from active managers and more from domestic stock funds. There are negative flows everywhere, but the marginal

1-Year Daily Chart of Google

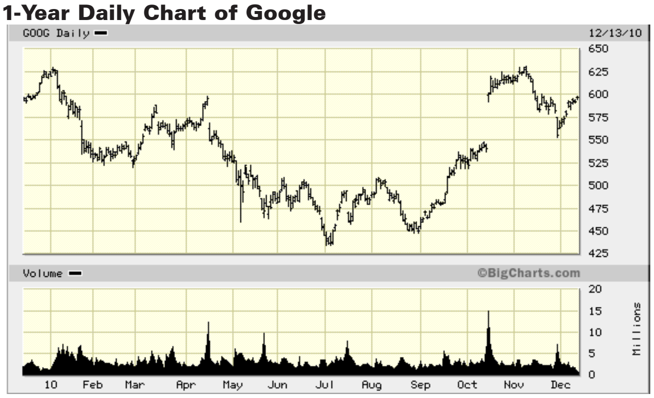

Chart provided by www.BigCharts.com

TWST: Would you explain some of your best ideas or stories at the moment in the mid- to large-cap space?

Mr. Fitzpatrick: One of the names that we talked about in our recent client letter was **Google** (GOOG). **Google** is a great example, I think, of how the market tends to be focused on more short-term noise as opposed to the long-term drivers of the business. **Google** got a lot of negative press because of what went on in China, and it came from all sides. They were criticized for being there. They were criticized for taking an ethical stand for threatening to leave China, and then people were worried that they are not going to be in the world's fastest-growing economy — that's bad, too. Just kind of nothing but negative news while at the same time, they were consistently growing and improving their business. If you look at the Android operating system, that thing just barely even existed two years ago. Who had an Android phone three years ago? And now they are going to outsell the iPhone.

We look at progress at things like YouTube. They have just made tremendous progress and are getting very close to monetizing a very valuable non-earning asset, meanwhile constantly strengthening their competitive position, whether it's in mobile search or whether it's in the traditional desktop, and we think strengthening their brand. The whole thing about China, they just told the whole world that to protect the integrity of our results and your privacy, we are willing to walk away from the largest market on earth. So even if they are ultimately thrown out of China, they've got the rest of the world, and they just have strengthened their brand tremendously.

"Everyone in Vulcan Value Partners, everyone who works here, is required to invest all of their money allocated to publicly traded securities through Vulcan. You can't work here and invest outside the things that we own. So our interests are aligned with our clients."

sellers, the people who are setting prices, are active managers. An index is just a dumb animal. It just buys and sells according to market cap. But the marginal buyer or seller is an active manager or an individual, and those folks are seeing cash outflows. There is constant selling pressure and there's no rational buying pressure. And the LBO guys, private equity guys, what they are doing, it tends to be the smaller things. They haven't kind of come out of their bunkers and started doing the large deals, and so there is just no catalyst for value to be recognized. Meanwhile, the values keep compounding very rapidly. So those curves are really in different places. Prices move in one way, whereas values are moving another, particularly for the high-quality companies.

And meanwhile, when they are reporting quarterly results, they are always growing, but they might not grow quite as rapidly as the Wall Street estimates had suggested; but they don't issue any guidance. They refuse to answer questions about guidance. All they talk about is competitive position, and we just think that's fantastic.

They are a company that behaves the way that we like, i.e., focused on their competitive position and building long-term value while completely ignoring short-term earnings estimates. And so their stock earlier this year was really discounted, because even though they grew rapidly during the quarter, generated a lot of free cash flow and their value grew, they came in a few pennies shy of the Wall Street estimate. The stock sold off, and that was combined with all of the negative PR from China. We looked at all that and said there is a bunch of noise here. The value is higher. Everything they are doing is strengthening their competitive position, but sentiment is very negative. We were a buyer, and the stock did really well and we are very pleased with it.

TWST: How about a smaller name or two?

Mr. Fitzpatrick: A recent company that we bought — that's a company called **Investment Technology Group** (ITG). It's interesting; they are kind of in the teeth of the outflows that we're talking about. They are one of the largest operators of dark pools. These are off-exchange trading platforms. Who uses them? The people who are their core customers are long-only active equity managers, and they tend to be larger equity managers. And it's all about providing liquidity. So if you have larger customers, you are able to do larger blocks of trades. It creates a barrier to entry. It makes it very hard for a new entrant to come in and offer some competing product, because what you are really offering is size and liquidity and of course, anonymity. So given that they are one of the absolute largest to do this, they have created a barrier to entry, but their core customer base is the people who are having pressures because they are losing assets. There is a lot of operating leverage in the business. Costs are relatively fixed, and revenues are cyclical and they tend to grow over time; but right now, they are cyclically depressed, and eventually when trading volumes come back, they are going to earn an awful lot more money than they are earning today. Today, they are earning about $1 a share, and they have about $8 a share of net cash on their balance sheet. You are paying about six times depressed earnings for a leader in the off-exchange business. We are very excited about that.

1-Year Daily Chart of Investment Technology Group

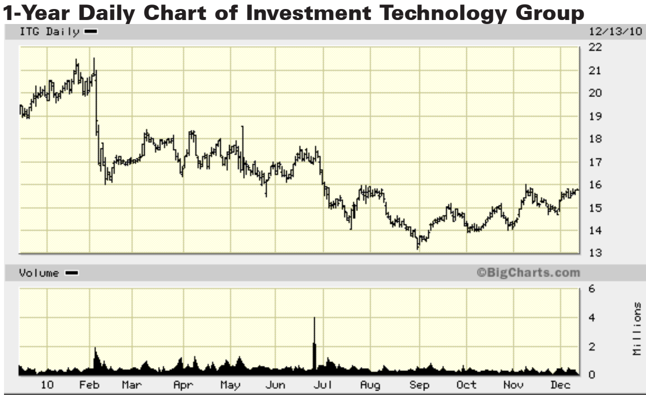

Chart provided by www.BigCharts.com

TWST: What are two or three of the best reasons a long-term investor should take a look at your company and your funds?

Mr. Fitzpatrick: Everyone in Vulcan Value Partners, everyone who works here, is required to invest all of their money allocated to publicly traded securities through Vulcan. You can't work here and invest outside the things that we own. So our interests are aligned with our clients. I think that's very important. We are not always right, but our hearts and our minds and our pocketbooks are aligned with our clients. The other thing is that we truly have a five-year time horizon here. Every investment decision we make is based on holding it for five years. And not many people in our business have that time horizon. That doesn't mean that we will actually hold it that long. If something arrives at fair value, we will sell it, but we go in with the expectation that we will be willing to hold it for five years. Virtually everyone is behaving differently and is focused on the next six months, or next quarter, or maybe the next year, and we are not. We can look at the exact same set of facts as everyone else and come to a very different conclusion because of our time horizon, and that is a wonderful competitive advantage to have. So we make decisions here that result in superior long-term returns with less risk, because we have that time horizon. For folks who have a similar time horizon, we think that we can add a lot of value for them. I think those two things come to mind.

I guess the last thing I want to say is that this is our money at risk. We are deadly serious about what we are doing. This is all very real to us. And we have got a lot of experience here, a very deep pool of analytical talent who all have a wealth of experience, and when you put all that together, I think that we can add value for long-term investors. We can't add value for short-term investors or traders. We really don't want to work for people like that, not because they are bad and we are good, but because we couldn't help them. But for long-term investors, we think that we can add value.

TWST: Anything else you want to cover?

Mr. Fitzpatrick: No

TWST: Thank you. (MJW)

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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 12/31/2010: Google 5.84%

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.

Referenced Holdings as of 12/31/2010: ITG 4.35%

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The Funds may invest in the securities of companies with small or medium market capitalizations. Small or medium-sized companies may have more limited product lines, markets, and financial resources than larger companies. In addition, their securities may trade less frequently and in more limited volume than those of larger companies. Small- or mid-cap stocks may be more volatile than those of larger companies and, where trading volume is thin, the ability to dispose of such securities may be more limited. Because the Vulcan Value Partners Small Cap Fund normally invests at least 80% of its equity assets in securities of smaller companies, these risks may be increased.

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 in this index.

	As of December 31, 2010		
Inception Date: December 30, 2009	Current Quarter	Year to Date	Since Inception
Vulcan Value Partners Fund	8.59%	10.89%	9.97%
Vulcan Value Partners Small Cap Fund	12.07%	28.96%	27.45%
* 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.

The recent growth rate in the stock market has helped to produce short-term returns for some asset classes that are not typical and may not continue in the future. Because of ongoing market volatility, fund performance may be subject to substantial short-term changes.

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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