



1933 - 2006

# LOUIS RUKEYSER'S MUTUAL FUNDS

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GROWTH

## Slow and Steady Wins the Race

By Hannah Hsu

Short-term investing is difficult in volatile markets. Look to this fund to pick up high-quality companies that will remain strong through different economic cycles.

**C**roft Value Fund (CLVFX) has proved it can weather the storm. During the past five years, the fund's total return increased 25 percent, while the S&P 500 gained just 9 percent. Over the past 10 years, total return rose 49 percent, while the benchmark dipped slightly.

During the 2008 economic downturn, Croft Value faltered in step with the broader market. But co-managers Kent Croft, his younger brother Russell and their father Gordon stood by their investment strategy and emerged from the recession stronger than ever. They even took advantage of market volatility to pick up quality companies at a discount.

One of these picks is now a top-10 holding: General Cable (NYSE: BGC), a manufacturer and distributor of copper, aluminum, fiber-optic wire and cable products. In March 2009 General Cable shares traded at a deep discount, and Croft Value increased its position. The stock has since doubled.

Croft Value's investment strategy is simple but rigorous. Management conducts extensive research to generate hundreds of investment ideas from internal and external sources. The managers consistently monitor about 200 stocks to build a portfolio of 60 to 80 names via a bottom-up approach. The fund seeks steady-Eddie names with unique ideas and growth potential that trade at a discount. The managers also adopt a contrarian perspective on stocks that have fallen out of favor.

One example of this approach is Foster Wheeler (NSDQ: FWLT), an international engineering and construction firm.

Management added Foster Wheeler to the portfolio in 2005, shortly after the firm had emerged from bankruptcy. At the time, investors didn't like the stock's short-term potential, but Croft Value's management knew the company would right itself and find favor in the market.

Croft Value picks up stocks at low valuations, generally at 50 to 80 cents on the dollar. The long-term investment focus results in low turnover, keeping the fund tax-efficient for its shareholders. Over the past five years Croft Value has sported an average turnover rate slightly over 11 percent, while its peers have seen turnover rates that approach 100 percent.

Management believes that any long-term portfolio needs exposure to the energy sector, particularly energy assets of strategic importance to the US.

"Given that most of the energy assets around the world are either state-owned or in countries that may not be favorable to the US, for the long run it's important to focus on energy companies that help the US gain energy independence," Kent Croft said.

The price of oil has performed well in past months, but natural gas prices have lagged – making natural gas a contrarian play with promising long-term potential. Exploration and production companies are discovering promising new shale gas plays and the next generation of power plants will likely be gas-fired. Companies are also finding creative ways to use natural gas whether it's for gas-powered cars or clean-burning power plants.

Timber is another sector with long-term growth potential. Timber is a unique asset because it revolves around the natural life

### CROFT VALUE FUND

Baltimore, Maryland  
www.croftfunds.com

800-551-0990  
CLVFX

**Sales fee:** none      **Assets:** \$340.0 million  
**Early Withdraw:** 2% if < 30 days  
**No. of holdings:** 92  
**Turnover rate:** 10.8%      **Expense Ratio:** 1.34%  
**Assets in the Top 10 Holdings:** 22.5%  
**Min. initial investment:** \$2,000  
**Largest Quarterly Loss:** -25.4%; 4th Qtr. 2008  
**Largest Quarterly Gain:** 21.66%; 2nd Qtr. 2009  
**Top Five Positions:** Petrobank Energy & Resources (PBG), Ace (ACE), Weyerhaeuser (WY), Phillip Morris Int'l (PM), FMC Corp (FMC)

\*Past three years. **Source:** Morningstar, Croft Value Fund

cycle of a tree. When there isn't as much lumber being cut, timber companies will stop felling trees. But when they stop production, their asset grows more valuable. This means that once cutting resumes, the value of timber has appreciated. And while lumber cutting is down at present, production is expected to rebound.

Investments in timber have provided long-term profit gains for investors. Although returns have lost their luster over the last five to six years, it's created a buying opportunity. Croft Value holds Weyerhaeuser (NYSE: WY), which owns 6 to 8 million acres of prime timberland in the US and recently converted to a real estate investment trust.

Management added Weyerhaeuser to the portfolio in order to take advantage of the firm's underappreciated value and an upcoming dividend.

"The timber assets alone are worth more than the price of the stock," Kent said. "And although the firm is not currently paying a high dividend we expect large dividend growth next month."

Over the past 10 years stocks have underperformed Treasuries by the greatest margin since 1900. But history shows that the 10 years following such a period have been kind to stocks; equities have returned an average of 13.5 percent per year. Should history repeat itself, Croft Value is well-positioned to reap the benefits.

What's more, the managers eat their own cooking. Both management and the advisory company, Croft Leominster, are heavily invested in Croft Value, yet another vote of confidence for this family-run fund. ▲