

## Akre Focus Fund Commentary First Quarter 2023

Greetings from Middleburg, where Spring is in full bloom. We hope this quarter's letter finds you well.

The Akre Focus Fund's first quarter 2023 performance for the Institutional share class was 5.91% compared with S&P 500 Total Return at 7.50%. Performance for the trailing 12-month period ending March 31, 2023, for the Institutional share class was -7.86% compared with S&P 500 Total Return at -7.73%.

The signature events of the first quarter were the sudden collapse and seizure of Silicon Valley Bank, Signature Bank, and Credit Suisse. Aftershocks may topple more banks and, in any case, the widespread deposit flight that ensued is apt to slow economic growth via reduced bank lending. Ironically, this may help the Federal Reserve's fight against inflation, but at the expense of heightened recession risk.

Per Mark Twain, history does not repeat but does often rhyme. That may be especially true in financial markets. The recent banking crisis is not a repeat of the 2008-2009 banking crisis, which was fueled by residential mortgage loans of dubious credit quality. In contrast, the securities that prompted this recent bank crisis were predominantly long-dated U.S. Treasury bonds and so of the very highest credit quality. Rather than credit risk, it was the long "duration" of those bonds—their far-distant maturities—that rendered these securities vulnerable to substantial losses as interest rates increased. It is "Banking 101" to avoid duration mismatches between assets and liabilities. But that mismatch is precisely what too many banks (not just the aforementioned) have orchestrated for themselves, all under the "scrutiny" of dedicated regulatory agencies. For a bank to meet its demise in this way is both ignominious and inexcusable, the equivalent of drowning in a puddle.

What does this all mean, directly and indirectly, for our Fund? Four things we think are worth mentioning.

Performance	Average Annual Total Returns as of 03/31/23							
	Net Assets	QTD	YTD	1 YR	3 YR	5 YR	10 YR	Since Inception 8/31/09
Retail Share Class (AKREX)		5.85	5.85	-8.11	11.15	10.73	13.20	14.14
Institutional Share Class (AKRIX)		5.91	5.91	-7.86	11.44	11.02	13.50	14.44
S&P 500 TR		7.50	7.50	-7.73	18.60	11.19	12.24	13.01

*Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Fund performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 1-877-862-9556. The Fund's annual operating expense (gross) for the Retail Class shares is 1.30% and 1.04% for the Institutional Class shares. The Fund imposes a 1.00% redemption fee on shares held less than 30 days. Performance data does not reflect the redemption fee, and if reflected, total returns would be reduced.*

*Mutual fund investing involves risk. Principal loss is possible. The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund. The Fund invests in small- and medium- capitalization companies, which involve additional risks such as limited liquidity and greater volatility than larger capitalization companies.*

First, note that the latest official sector allocation categorizes over 48% of the Fund's investments as being in "Financial" businesses as of March 31, 2023. This figure compares to just 23% in "Financials" at the end of 2022. The increased allocation to Financials in Q1 simply reflects changes in the Global Industry Classification Standard (GICS) under whose authority businesses are classified by sector (e.g., Consumer Discretionary, Industrials, Health Care, etc.). Changes to GICS that took effect in March reclassified Mastercard and Visa—two of our top five holdings—from "Information Technology" to "Financials." Such changes occur regularly. Recall that American Tower was recently reclassified by GICS from "Financials" to "Real Estate." What matters to us is the nature and quality of the underlying business; its GICS classification is of zero importance to us. Thus, we view the seeming step-up in the Fund's exposure to "Financials" as a notable but insignificant change.

Second, the Fund's exposure to what we consider true "Financials"—businesses primarily engaged in lending—is almost negligible. The Fund owns no banks. Indeed, the closest thing to a lending business owned in the Fund is CarMax (according to GICS, a "Consumer Discretionary") which generates approximately half of its earnings from auto lending. Nor does the Fund own heavily indebted businesses. The weighted-average leverage (Gross Debt/Trailing 12-month EBITDA) across the Fund's holdings as of March 31 was 2.0x and just 1.6x excluding American Tower. The balance sheet strength of the Fund's holdings is very high and dependence on bank borrowing is commensurately low. The Fund's "Financials" include names like Moody's (which rates credit risk but does not take credit risk) and private-equity powerhouses KKR and Brookfield. These businesses are intertwined with the broader banking system and face risks and opportunities associated with rising interest rates and tighter lending. However, in our view, the Fund's "Financials" are fundamentally different and superior businesses relative to traditional, lending-oriented financials.

Third, we have taken extra precautions with cash. Cash and equivalents stood at 5.3% of Fund assets as of March 31 and is comprised mostly of "equivalents" in the form of very short-term Treasury Bills not subject to potential commingling with bank deposits.

Lastly, the recent bank crisis highlights important observations about quality, duration, and risk. And while this recent bank crisis involved duration risk posed by long-term Treasury bonds, never forget that common stocks with no defined maturity date are the longest-duration securities of all. As so clearly demonstrated in this recent banking crisis, no matter how high the quality of an investment, duration alone can produce lower valuations and lower prices, and vice versa, over the nearer term. Quality, on the other hand, runs on a different track than duration—a marathon versus a sprint. Duration matters now. Quality takes time to matter. Silicon Valley Bank would have incurred zero losses on its long-dated Treasuries had they been held to maturity—i.e. if the bank had more time. The shorter duration of the bank's liabilities assured it did not.

The recent bank crisis demonstrates the profound difference between underlying investment quality and duration-driven price reductions. It also highlights the importance of not allowing the immediate effects of duration to obviate the gradual benefits of quality. Quality rewards endurance. And quality—of business model, people, and reinvestment—is the ultimate focus of our investment process.

The top-five positive contributors to performance during the quarter were Constellation Software, Moody's, Topicus.com, Visa, and Mastercard. Nothing noteworthy to call out.

The five largest detractors from performance this quarter were Costar Group, American Tower, Danaher, Lumine Group, and CarMax. Nothing noteworthy to call out here, either.

We thank you for your continued support.

John & Chris

**Top Ten Holdings as of 03/31/23**

Name	% of net assets
Mastercard, Inc.	14.5%
Moody's Corp.	12.8%
American Tower Corp.	10.0%
Constellation Software, Inc.	9.4%
Visa, Inc.	8.8%
O'Reilly Automotive, Inc.	6.1%
KKR & Co., Inc.	6.1%
Roper Technologies, Inc.	5.6%
Brookfield Corp.	4.6%
CoStar Group, Inc.	3.8%

**Sector Weightings as of 03/31/23**

Type	% of net assets
Financials	48.2%
Information Technology	21.9%
Real Estate	10.0%
Consumer Discretionary	7.3%
Industrials	3.8%
Health Care	3.5%
Cash & Equivalents	5.3%

*The composition of the sector weightings and fund holdings are subject to change and are not recommendations to buy or sell any securities. Cash and Equivalents include asset backed bonds, corporate bonds, municipal bonds, investment purchased with cash proceeds for securities lending, and other assets in excess of liabilities.*

*The S&P 500 TR is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. It is not possible to invest directly in an index.*

***The Fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The summary and statutory prospectus contains this and other important information about the investment company and it may be obtained by calling (877) 862-9556 or visiting [www.akrefund.com](http://www.akrefund.com). Read it carefully before investing.***

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