

## Akre Focus Fund Commentary First Quarter 2024

Greetings from Middleburg where Spring has certainly sprung. We hope this finds you well.

We have recently read some interesting research on the record concentration in the “Magnificent 7” stocks of the S&P 500 index and the implications for the stock market and active management. We offer special thanks to GMO’s Ben Inker and John Pease for their recent piece on this subject. Our synthesized view consists of three key observations:

1. The performance of the S&P 500 has been increasingly distorted over the past decade due to the record concentration in the Magnificent 7 stocks that have materially outperformed the other 493 stocks in the index in nine of the past ten calendar years.
2. This unprecedented level of concentration has made it especially difficult for active managers to keep up with the S&P 500 over the past decade due to their natural bias to underweight the largest stocks in the index. Indeed, according to Morningstar, only 9.8% of US Large Cap managers beat the index over this period. Happily, the Akre Focus Fund is among this minority.
3. Because of the extraordinary level of concentration, a better gauge of active manager performance may be the equal-weighted S&P 500 index. Before protesting that this argument amounts to “moving the goal post,” note that the equal-weighted S&P 500 has performed better than the standard market-cap weighted index since 1990.

The equal-weighted S&P 500 index’s annualized total return over the trailing 1-year, 3-year, 5-year, 10-year, and the Fund’s since-inception periods ended March 31, 2024 were: 19.42% (versus 29.88% for the standard index), 8.13%, 12.31%, 10.90%, and 13.44%, respectively. Without owning any of the Magnificent 7 since 2014, the Fund has outperformed the equal-weighted benchmark across each of these trailing time periods.

Performance	Average Annual Total Returns as of 3/31/24							
	Net Assets	QTD	YTD	1 YR	3 YR	5 YR	10 YR	Since Inception 8/31/09
Retail (AKREX)		8.11%	8.11%	31.13%	8.54%	12.60%	13.67%	15.23%
Institutional (AKRIX)		8.15%	8.15%	31.47%	8.82%	12.90%	13.97%	15.54%
S&P 500 TR		10.56%	10.56%	29.88%	11.49%	15.05%	12.96%	14.09%

*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 1.31% 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. In addition to large- capitalization companies, the Fund invests in small- and medium- capitalization companies, which involve additional risks such as limited liquidity and greater volatility than larger capitalization companies.*

To us, this difference in returns raises a more interesting question than what is an appropriate benchmark for active managers. We wonder whether the shift to “cheap beta” in the form of index-replicating ETFs and mutual funds has started to go too far; whether the stock market is now “broken” as some contend.

Ironically, the efficiency of passive index investing depends on active investors and the value-driven judgement they exercise. Passive investing is an exercise in pure price momentum: stocks that rise in price automatically get purchased by the index and become more heavily weighted; stocks that go down in price automatically get sold and become weighted less. Judgements about value, the difference between the share price and the intrinsic worth of the business, do not enter the equation at all for passive investors. For price to have a relationship to value requires the judgment and corrective actions of critical, active investors.

This lack of judgment intrinsic to passive investing flies in the face of one of our favorite Warren Buffett maxims: the stock market exists to serve investors, not to instruct them. Passive investors are entirely instructed by the market because buying and selling is a correlated, automated response to price changes only. Active investors, theoretically at least, can be served by the stock market by exercising judgment about when stock prices and values deviate. Given the tidal shift from active to passive investing, it follows that today’s investors are being instructed rather than served by the stock market to an unprecedented extent.

Not that passive investors are complaining! Indeed, the argument for passive investing has only grown louder over the past decade thanks to the distortions created by the increasingly narrow leadership of the S&P 500. But the past decade is an anomaly. Over extended periods, the stocks of the very largest companies tend to underperform the average S&P 500 stock. The reason: the biggest companies are so big that new sources of needle-moving growth and innovation become increasingly challenging to come by. This same dynamic also explains why the equal-weighted S&P 500 index has done better over longer periods than the market-cap weighted version.

Today’s preeminent “this time is different” narrative is that the Magnificent 7 will continue to outperform indefinitely. After all, these businesses are mostly comprised of dominant technology-based franchises at the center of our daily lives and the forefront of the A.I. revolution. Further, most of them enjoy enormous competitive advantages, are very profitable, and have strong balance sheets. A far cry from the cautionary lessons of the late-90s internet bubble.

No argument here!

The problem is that financial excess is often built on kernels of truth: exotic tulips were rare in the Netherlands; the South Sea Company’s exclusive rights to international trade would prove lucrative; the Internet would, in fact, change the world; housing prices nationally only went up. However strong a foundation, financial markets can build valuations up past the point of structural soundness. And in today’s heavily “instructed” market environment, where momentum begets momentum regardless of value, this risk is not lessened.

Will the Magnificent 7 defy market history and drive index performance over the next decade just as they did the preceding? Time will tell. In the meantime, we will stick to our knitting: concentrating capital in what we believe to be exceptional businesses, managed by great people, with extensive reinvestment opportunity and acumen. All the while making judgments about value. We have not lived by the Magnificent 7 and we ought not die by them. For us, that’s one less thing to worry about.

The Akre Focus Fund’s first quarter 2024 performance for the Institutional share class was 8.15% compared with S&P 500 Total Return at 10.56%. Performance for the trailing 12-month period ending March 31, 2024 for the Institutional share class was 31.47% compared with S&P 500 Total Return at 29.88%.

The top positive contributors to performance during the quarter were KKR, Mastercard, Constellation Software, O'Reilly Automotive and Topicus. Nothing notable to call out.

The largest detractors from performance this quarter were American Tower, SBA Communications, and Brookfield Asset Management.

We wish you a wonderful spring and thank you for your continued support.

Sincerely,  
 John

**Top Ten Holdings as of 3/31/24**

Name	% of net assets
Mastercard, Inc.	14.0%
Constellation Software, Inc.	12.3%
Moody's Corp.	12.0%
KKR & Co., Inc.	10.5%
American Tower Corp.	7.9%
Visa, Inc.	6.9%
Roper Technologies, Inc.	6.3%
O'Reilly Automotive, Inc.	6.3%
Brookfield Corp.	5.5%
CoStar Group, Inc.	5.0%

**Sector Weightings as of 3/31/24**

Type	% of net assets
Financials	48.8%
Information Technology	23.4%
Real Estate	13.2%
Consumer Discretionary	7.7%
Health Care	3.3%
Cash & Equivalents	2.7%
Industrials	0.9%

*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.*

*Magnificent Seven stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.*

*The Akre Focus Fund is distributed by Quasar Distributors, LLC.*