Akre Focus Fund Commentary
Fourth Quarter 2024

Greetings and Happy New Year from Middleburg.

The Akre Focus Fund's fourth quarter 2024 performance for the Institutional share class was -0.41% compared with S&P 500 Total Return at 2.41%. Performance for the trailing 12-month period ending December 31, 2024 for the Institutional share class was 18.27% compared with 25.02% for the S&P 500 Total Return.

The past year was a good year for stocks, just not as good as the headlines would have us believe. Consider the disparity between the 25.02% performance of the market capitalization-weighted S&P 500 Index, and the 13.01% performance by the *equal-weighted* S&P 500. The disparity of returns continues to be driven by the outperformance of the largest market-capitalization companies, a technology-oriented group renowned as the "Magnificent 7". According to an article from Inc. Magazine, the aggregate weighting of the Magnificent 7 in the S&P 500 has increased from 20% at the beginning of 2023 to around 33% today—growth, which has significantly distorted the index return.

According to Goldman Sachs, the S&P 493 returned 13.76% in 2023 and 15.92% in 2024, which amounted to a cumulative total return of 31.87% over the past 2 two calendar years. In absolute terms and under normal market conditions, this would be considered strong performance. However, the Mag 7 collectively returned 76.27% in 2023 and 48.41% in 2024, which amounted to a 161.60% cumulative return over the past two calendar years and accounted for *over half* of the S&P 500's cumulative 57.59% total return over this period.

Against this nitrous-boosted market backdrop, our Fund's cumulative return over 2023 (up 28.75%) and 2024 (up 18.27%) is 52.27%. This is less than the "market's" 57.59% but well ahead of the S&P 493's 31.87% and the equal-weighted S&P 500's cumulative two-year return of 28.61%. While we are never satisfied, we are unabashedly pleased with this performance, achieved without owning any of the seven names fueling the headline index advance. As previously noted, we have not lived by the Magnificent 7 and ought not die by them should their leadership eventually falter.

The table below shows the returns for the Fund over various trailing time periods and since inception as of December 31, 2024.

Performance	Average Annual Total Returns % as of 12/31/24							
Net Assets	QTD	YTD	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception 8/31/09
Retail (AKREX)	-0.49	17.97	17.97	5.29	11.78	13.64	15.32	15.08
Institutional (AKRIX)	-0.41	18.27	18.27	5.57	12.08	13.95	15.62	15.39
S&P 500 TR	2.41	25.02	25.02	8.94	14.53	13.10	13.88	14.27

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 1.33% and 1.06% 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.

Year-End Thoughts on Our Favorite Subject: Compounding

"Compounding" is a word often used among investors to describe what they hope to achieve for their capital. Compounding is invoked so frequently that one would think it was the standard aim and practice among investors. Aim? Perhaps. Practice? We are less sure. The uncertainty stems from our long-held view that compounding capital is a distinct discipline with distinguishing characteristics rarely found in practice.

Compounding's basic ingredients are well known. *Time*, of course, is the most important. We appreciate the Buffett/Munger analogy of a snowball rolling down a hill; the key to compounding being a very long hill! *Rate of return* is another key ingredient for compounding but is still fundamentally attached to time. A snowball rolling faster (analogous to a higher rate of return) down a short hill will not compound in size nearly as much as a snowball rolling more slowly down a long hill.

The importance of time to compounding is widely known, but routinely undermined in practice. One reason is that investors are often more tantalized by rapid growth than by durability. Rapid growth rates are easily observable and easily extrapolated and thus tend to be overweighted in importance; whereas, the length of the proverbial "hill" is harder to discern. We believe *endurance* (that of investors and investments) and setting proper *expectations* are critical to a compounding investment practice. Environmental factors are also making it increasingly difficult for investors to harness the power of time and so compound. We lump these environmental factors under the term *abstraction*. Abstraction, endurance, and expectations all mix and mingle somewhat, but are all crucial to identifying and sticking to the compounding path.

Abstraction

Benjamin Graham wrote, "Investing is most intelligent when it is most businesslike." To us, that means never losing sight of the fact that owning a stock is to own a stake in an operating business with all its attendant complexity, including the nature and durability of any competitive advantage, the quality of the people and culture, and the reinvestment opportunity and acumen. Our "three-legged stool" approach centers on these dynamics: Business, People, Reinvestment. It is the encapsulation of our investment process and is expressly and intentionally "most businesslike" in its focus. This process demands that distinctions be made between a business and the movements of its share price, or said differently, to being served, rather than instructed, by the stock market. For investors, understanding the businesses they own protects against

emotional reactions to share price movements. Hasty decisions tend to rob investors of time, the most critical element of compounding.

Unfortunately, financial innovation continues to bury that fundamental connection between investor and business beneath increasing layers of abstraction. Since the turn of the century, equity investing has increasingly become less about owning specific businesses and more about managing generic "exposures". Investment professionals are often more concerned with exposures (or lack thereof) relative to a benchmark rather than with the individual businesses owned. Financial innovation has aided and abetted this seismic shift. Investors of all stripes can now, with a single security, own virtually every publicly traded company on earth and any subset thereof. Want exposure to the hottest theme/sector/country/crypto? Buy this sector ETF. Want that exposure leveraged 2x or 5x? There are products for that, too. Have at it! You can always change course as soon as you have a bad day, typically without even a trading fee to serve as a speed bump.

The insidious effect of this mounting abstraction is the shrinking of investment holding periods. In the 1950s, according to an April 2022 study by Reuters, the average holding period for NYSE-listed stocks was 8 years. According to our own analysis using Bloomberg, the average holding period for NYSE-listed stocks fell to 18 months in 1997 and eight months in 2023.

The average holding period for individual stocks has become short, but the "abstractions" are *far* worse offenders. Representing the abstractions are passive exchange-traded funds (ETFs). Passive ETFs, via a single security, offer generic *exposure* to whole industries, sectors, and market indices. According to our analysis, the average holding period for ETFs (both passive and active) traded on the NYSE ARCA exchange was one *month* in 1997 and two *months* in 2023. The average holding period for "SPY", the largest ETF replicating the S&P 500 index, was 16 *days* in 1997 and 17 *days* in 2023.

Clearly, renting generic exposures doesn't encourage the same steadfastness as owning specific businesses.

Abstraction to the generic makes it easier to disconnect from the subject at hand. On the other hand, specificity demands thought, awareness, connection, and thus friction. This concept was expressed brilliantly by none other than Homer Simpson during a family dinner in response to objections raised by his daughter, a budding vegetarian: "Lisa, get a hold of yourself. This is *lamb*, not *a* lamb." In a similar vein: this is *stock*, not *a* stock.

Innovations like passive ETFs and the fee compression that accompanies them would seem like positives for investors. But the focus on fees ignores much larger costs. When the investment process shifts from owning great businesses to managing abstract exposures, investors—unconnected to what they own—find it easier than ever to change course, reduce their holding period, and so cheat themselves of time. Compounding simply cannot occur over 8 months, 2 months, or 17 days. Tellingly, while the average holding period for stocks has reduced over time, the average holding period for the abstractions has always been much lower. This is by design, if not intent. Abstraction is the enemy of holding period and therefore compounding.

So is human behavior.

Endurance

Whatever the rate at which an investment compounds, its investors categorically compound at something less. This stems from the very human tendency to buy after the price has risen substantially and/or sell after the price has dropped substantially, or (more insidiously) "underperformed." Morningstar publishes an annual report titled "Mind the Gap" that quantifies the extent that investors underperform their mutual fund and ETF investments over rolling 10-year periods. The latest report for the 10-year period ended December 31, 2023, shows that mutual funds and ETFs overall returned 7.3% annualized net of fees but that investors earned 6.3%--a full 15% less than their investments. Poorly timed buying and selling cost investors 15% of the annual return they would have earned had they simply bought and held, and that before the impact of taxes. To make matters worse, that 15% haircut was just the annual average. Compounding only increases the cost of this behavior when stretched over decades.

Investors need endurance to compound in accordance with their investments. Endurance is also required of the investments themselves. The goal of our investment process is to identify businesses capable of compounding capital at above-average rates for very long periods of time. Accordingly, we are more "hill-focused" than "speed-focused", though, to be clear, we want to own businesses growing at attractive rates. Few businesses meet our criteria and valuations are rarely opportune. This is what informs our concentration (high) and our portfolio turnover (low). But when the stars align and we finally buy, it is our "businesslike" investment approach that enables us to hold on and benefit from the compounding taking place at the per-share level of the business. Whether it's enduring as an investor or identifying enduring investments, both sides of the endurance "coin" are served by knowing the businesses owned rather than formulating an opinion based on breathless hype and recent share price movements.

Expectations

We wrote in last year's annual letter about the stock market's 100-year compound annual total return of approximately 10% and the fallacy of believing that return was every investor's birthright. That "market return" accrued only to those who held on for those hundred years through recessions, depressions, world wars, high interest rates, pandemics, Fed tightening cycles, etc. As illustrated above, the tendency to buy and sell at inopportune times means that investors have earned some fraction of the "market return". This gets to the importance of setting proper expectations.

We wish it was otherwise, but compounding capital at an attractive rate cannot always be smooth sailing. Real boats rock. It is as unrealistic to think that one can dance between every raindrop as it is self-defeating from a compounding standpoint. Simply expecting recessions, interest rate fluctuations, geopolitical tensions, high and low valuations, outperformance and underperformance over the course of a long holding period can be very empowering. For example, we expect the exceptional businesses we own to have high valuations much of the time. We also expect that the businesses we own or want to own will periodically have low valuations due to market conditions and/or particular concerns that arise. The first expectation keeps us compounding in exceptional businesses already purchased well. The second expectation helps us stay patient with shareholder cash and explains why we will often go years between adding to existing positions or establishing new ones. We believe such rational expectations are crucial to compounding.

We endeavor to compound capital over decades at an above-average rate of return while incurring a below-average level of risk. Our investment process is designed to be "most businesslike", avoid abstraction, and promote the endurance and expectations that we believe support this goal. From Visa at the larger end of the size spectrum to CCC Intelligent Solutions at the smaller end, our Fund owns many exceptional businesses rolling down very long hills at attractive rates of speed.

The top five contributors to performance during the quarter were KKR, Visa, Mastercard, Brookfield Corporation, and O'Reilly Automotive.

The top five detractors from performance this quarter were American Tower, Constellation Software, Danaher, Topicus.com, and Roper Technologies.

Over the past three years we have observed, with some surprise, our portfolio's sensitivity, both positive and negative, to the interest rate narrative. Returns have periodically been sharply positive when the market expects the Federal Reserve to more aggressively cut interest rates, and sharply negative when "higher for longer" concerns predominate. Our surprise stems from the view that we own few especially interest-rate sensitive names, including American Tower (real estate, leveraged), Moody's (rated debt issuance volumes impacted by interest rate and spread levels), Carmax (higher interest rates negatively impact vehicle affordability), and perhaps CoStar Group (whose business is a real estate derivative). Where interest rate sensitivity intersects with lower growth or business quality, we are taking steps to reduce our exposure.

Cash and equivalents stood at 1.4% of the Fund as of December 31st.

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

Sincerely,

John

Top Ten Holdings as of 12/31/24	
Name	% of net assets
Mastercard, Inc.	12.5
Constellation Software, Inc.	12.2
KKR & Co., Inc.	11.0
Moody's Corp.	10.2
Visa, Inc.	8.3
Brookfield Corp.	8.0
American Tower Corp.	7.1
O'Reilly Automotive, Inc.	6.3
Roper Technologies, Inc.	6.0
CoStar Group, Inc.	4.8

Sector Weightings as of 12/31/24	
Type	% of net assets
Financials	50.1
Information Technology	23.4
Real Estate	11.9
Consumer Discretionary	10.0
Health Care	3.2
Cash & Equivalents	1.4

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. Read it carefully before investing.

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