

# FBR Focus FBRVX

**Morningstar's Take** | 09-08-09 | by Ryan Leggio

## FBR Focus is still a better-than-average choice for value investors even though its longtime manager has left.

Starting Aug. 24, a new trio of managers will steer this fund. David Rainey, Brian Macauley, and Ira Rothberg will be the new comanagers. The three have worked on the fund together for five years under the direction of one of the most accomplished managers over the past decade, Chuck Akre, who resigned as manager to start his own Akre Focus Fund AKREX. Rainey, the most tenured analyst on the team, had worked with Akre for the past 11 years on the fund. Macauley joined the duo in 2003, and Rothberg was added in 2004.

In a recent conversation, Akre said he considers all of his former analysts "seasoned veterans," and after a recent meeting with the team we concur. The new management team has been integral in the fund's past success and has considerable experience. The team tells us that the only industry in which they may need a little more expertise is in the property-casualty insurance company space (where longtime holding Markel MKL resides) but are also quick to point out that Rainey has been following the industry for more than seven years.

We think shareholders here should stay put for several reasons. Besides the reassurance of the experience of the remaining team, they also say they will follow their former boss' successful investment philosophy and strategy. This means the fund will continue to employ a focused, bottom-up value process with very low turnover. Therefore, Akre's handprints will remain on the fund for years to come; the strategy is to hold on to great companies even when they trade near their intrinsic value.

The main drawback continues to be the above-average 1.42% expense ratio. The new, unproven team makes these high fees much harder to justify than when Akre was in charge. We continue to recommend this fund, just with a little less enthusiasm than before.

*Ryan Leggio, Esq., is a fund analyst with Morningstar.*

### Morningstar Rating

★★★★★

### Kudos

- Impressive long-term record.
- Low turnover has limited volatility.

### Risks

- This fund does well when its chosen sectors are in favor, but it has also been left behind temporarily when other areas such as technology soar.
- At times this fund may be flush with cash, which may drag down returns in strong markets until its manager fully invests it.
- High fees are hard to justify now that a new management team is in charge.

### Strategy

Management seeks companies of all sizes with sustainable returns on equity of 20% and higher. Company executives must manage their businesses with the shareholder in mind by reinvesting capital and avoiding dilutive options packages. The team keeps an eye on valuation, but it will pay up for companies with higher-quality earnings and healthier balance sheets. They usually hold about 40 stocks, makes big bets on just a few sectors, and have allowed cash to build at times to about one third of assets.

### Management

Charles T. Akre, who managed this fund since its year-end 1996 inception, departed in August 2009 to start his own fund. His three former analysts (David Rainey, Brian Macauley, and Ira Rothberg) will be the new comanagers on the fund.

### Inside Scoop

This concentrated fund has posted relatively huge returns in recent years thanks to big sector and stock bets and a large cash stake. Returns have been understandably lumpy, but the fund's longer-term record is strong. The fund reopened to new investors Jan. 2, 2007.

### Role in Portfolio

Supporting Player. Because this fund primarily invests in small- and mid-cap stocks, we don't recommend it as a core domestic-stock holding.

### FBR Focus FBRVX

Year	Total Return (%)	+/-Category
YTD	24.67	0.81
2009	—	—
2008	-33.85	9.92
2007	2.30	-12.79
2006	28.49	19.49

Data through 08-31-09



**For More Information**

888.200.4710  
www.fbrfunds.com

**Average Annualized Total Returns**

as of 6/30/09

	1 Year	3 Year	5 Year	10 Year
FBR Focus Fund <i>Investor Class</i> (FBRVX)	-6.46%	-3.70%	3.90%	9.66%
Russell Midcap <sup>®</sup> Growth Index	-30.33%	-7.93%	-0.44%	0.02%
Russell 2000 <sup>®</sup> Index	-25.01%	-9.89%	-1.71%	2.38%
Morningstar Mid-Cap Growth Category rank	1%	11%	4%	1%
# of funds in Mid-Cap Growth Category	888	794	658	331

Total annual operating expenses were 1.42%.

Past performance is no guarantee of future results. The performance data quoted represents past performance and the current performance may be lower or higher than the performance data quoted. The investment return and principal will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. The performance data does not reflect the deduction of redemption fees and if reflected, the redemption fee would reduce the performance quoted. To obtain performance data current to the most recent month-end please call 888.200.4710 or visit [www.fbrfunds.com](http://www.fbrfunds.com).

*Investors should consider the investment objectives, risks, charges and expenses carefully before investing. This and other important information can be found in the Fund's prospectus. To obtain a free prospectus, please call 888.200.4710 or visit [www.fbrfunds.com](http://www.fbrfunds.com). Please read the prospectus carefully before investing.*

*Investing in small- and mid-cap companies involve greater risk than investing in larger, more established companies.*

Morningstar Mid-Cap Growth category consists of those portfolios that target U.S. firms that are projected to grow faster than other mid-cap stocks, therefore commanding relatively higher prices. The U.S. mid-cap range for market capitalization typically falls between \$1 billion-\$8 billion and represents 20% of the total capitalization of the U.S. equity market. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Indices are unmanaged and have no management fees or operating costs that reduce reported returns. The volatility and other risk characteristics for the Fund will differ from the volatility and risk characteristics of the indices.

Russell Midcap<sup>®</sup> Growth index is an unmanaged index composed of the 800 smallest companies in the Russell 1000<sup>®</sup> Index, as ranked by total market capitalization.

Russell 2000<sup>®</sup> Index is an unmanaged total return index of the smallest 2000 companies in the Russell 3000<sup>®</sup> Index, as ranked by total market capitalization.

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