

Yacktman Funds Back on Top

Has this pair of funds had their ups and downs over the past decade! Looking back to 1999-2000, the end of the internet stock bubble when price/earnings ratios reached skyscraper levels, the two Yacktman funds – Yacktman (YACKX) and Yacktman Focused (YAFFX) – were left in the dust. In 1999, for example, when the NASDAQ soared 86%, the Yacktman Fund declined 17%. Investors took their cash elsewhere, and assets under management dropped sharply. Yacktman Asset Management's board of directors attempted to unseat Donald Yacktman following the dreadful performance, but he held on.

Yacktman was just holding true to his disciplined investment strategy. And it's worth noting that most value funds lagged woefully during that period. Beyond that, in the bear market years following the bubble's burst, the Yacktman funds were back on top.

The performance scenario repeated itself in recent years. From 2004 through 2006, the funds lagged their peers, languishing near the bottom of Morningstar's large value category. But, the tide has turned again; the funds' portfolios of high-quality, steady growth companies has outpaced the market as the indexes slumped. In 2008 and thus far in 2009, the two funds are near the top of their category, and have handily outpaced the overall market.

Investing philosophy

Donald Yacktman and son Stephen are dedicated value investors who hold for the long haul, and often buy the unloved. In a recent conference call, Donald Yacktman reminded investors of the firm's philosophy. "Our investment logo is a triangle, representing the three initial criteria in selecting investments. They are: a low purchase price, a good business, and a shareholder-oriented management." A good business should have high market share, high cash return, low capital requirements, and/or unique franchise characteristics. Management should reinvest in business but still have excess cash, make synergistic acquisitions, and buy back stock. And finally, they look for stocks that sell for less than the whole company's value.

They note that a stock's price can swing by 50% between the high and low for a year – they will wait for the buying opportunity. Both funds can invest across all market capitalizations, but Don Yacktman says if all else is equal, they prefer larger to smaller companies. (Both funds have about 70% of assets in large-cap firms.) Meanwhile, if the team does not find attractive investments, it will let the cash position build – going into 2008, it had close to 30% in cash.

We have been addressing the funds together, and indeed, they tend to behave similarly in performance. But there are differences. Looking at the Yacktman Fund, it certainly is

concentrated. But Yacktman Focused is even more so. As a result, it can swing in performance to a greater degree than Yacktman. In addition, Yacktman Focused has a wider investing parameter, including options.

	Yacktman Fund	Yacktman Focused
Net Assets (\$ Mil.)	353	109
# of Stock Holdings	31	26
% Assets in Top Ten	59.9	63.7
% 2008 Total Return	-26.1	-23.5
% Year-to-Date-Return (5/18)	21.0	24.7

Recent activity

In 2008, the funds declined significantly less than the S&P 500 (which declined by 37.0%). The managers attributed that to a high cash position going into the year and the funds' "overweight positions in dominant, well-capitalized global franchises." They were also able to "find many bargains amidst the chaos," adding stocks in the media, retail, energy, health care, technology, and financial sectors. In the first quarter conference call, the managers noted that they have reduced the funds' consumer products holdings to buy others, especially media (Viacom, News Corp., and Dish Networks).

Yacktman Focused has the edge in performance over its sibling this year as some of the pair's top performers have a heftier weighting. AmeriCredit (an auto finance company) is up 34% this year, while eBay is ahead by 21%. Other big winners: Lancaster Colony (up 30%) and Liberty Media (ahead 75%).

Yacktman Fund: Top Five Sectors and Holdings (% Total Net Assets)

Consumer Goods	24.8	Coca-Cola	9.6
Media	21.5	Viacom	9.6
Consumer Services	14.4	Microsoft	8.1
Financial services	12.3	AmeriCredit	6.2
Software	9.4	eBay	5.3

As of March 31, 2009

Yacktman Focused: Top Five Sectors and Holdings

Media	22.3	Viacom	9.7
Consumer Goods	20.2	AmeriCredit	9.1
Consumer Services	15.8	Coca-Cola	8.0
Financial Services	15.6	Microsoft	7.5
Software	9.4	eBay	7.0

Yacktman Funds

6300 Bridgepoint Pky, Bldg One, Ste 320, Austin TX 78730
(800) 525-8258 • Min. Investment \$2,500/\$500 IRA

MONEYLETTER® (ISSN:1526-5110) is published twice each month for \$180 per year (24 issues) by PRI Financial Publishing Inc., 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020. First Class Postage paid at Holliston, MA and at additional mailing offices. POSTMASTER: send address changes to MONEYLETTER, 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020. Chief Investment Officer/Chief Economist: Walter Frank. Contributing Editor: Cynthia Andrade. Publisher: Brian W. Kelly. Address all subscription and editorial inquiries to PRI Financial Publishing Inc., 479 Washington St., P.O. Box 6020, Holliston, MA 01746-6020, (800) 890-9670. Paid advertising which appears in or accompanies this publication does not constitute an endorsement of products or services offered. Employees and staff of MONEYLETTER may from time to time maintain positions in recommended securities. PRI Financial Publishing Inc. is affiliated with PRI Financial Advisors Inc., a registered investment advisor. Walter Frank also serves as an independent economic consultant to PRI Financial Advisors. MONEYLETTER is not produced as a solicitation for PRI Financial Advisors. Views presented are the opinion of the Chief Investment Officer/Chief Economist and contributing editors, and should not be treated as fact. MONEYLETTER does not purport to provide legal, tax or individual investment advice. While carefully screened, the accuracy of the statistical data in MONEYLETTER cannot be guaranteed. Readers should carefully review investment prospectuses before investing. MONEYLETTER provides a weekly Hotline: call (410) 528-1804. Back copies \$5 each. Reproduction in whole or in part by any means is strictly forbidden without written permission. © Copyright 2009 PRI Financial Publishing Inc.