MarketWatch
September 23, 2023

This husband-and-wife fund management team reveal how they beat the stock market

Marshfield Concentrated Opportunity Fund operates differently enough from the pack to stand out

By Michael Brush

Elise Hoffmann and Chris Niemczewski. MAX HIRSHFELD

The Marshfield Concentrated Opportunity Fund MRFOX offers a different twist on mutual-fund management: a husband-and-wife team.

Managers Elise Hoffmann and Chris Niemczewski say they talk stocks after hours, at dinner. Investing is about "creating a narrative and road testing it," Hoffmann says. "Having the leisure to do that over time with someone who is equally curious and immersed is a positive."

This dynamic may help explain the fund's outperformance. The fund beats competing large-cap growth funds by seven percentage points annualized over the past three years, according to investment researcher Morningstar Direct. It beats competitors by four percentage points over five years.

This record makes the duo a good source of market ideas and investing lessons. Here are highlights from a recent interview:

1. Don't try to forecast the economy: This may seem odd when investors are so focused on inflation and recession. But it makes sense. "We are adamantly opposed to spinning out a likely scenario and constructing a portfolio to fit that, because you can easily be wrong," Hoffmann says. What to do instead? She adds: "We look for companies that are likely to perform well over an economic cycle and continue to provide the value that people come to them for."

Morningstar reports the fund recently had 44% of its portfolio in consumer cyclicals. This looks like a bet on the economy, but about 70% of this total is in two car-parts companies, Autozone AZO, -1.05% and O'Reilly Automotive ORLY, -0.14%, and two discount retailers, TJX TJX, -1.19% and Ross Stores ROST, -3.08%.
00:4204:03

Auto parts vendors move to their own cycle, which has little to do with economic growth. Discount retailers are counter-cyclical because consumers are more likely to shop at them when economies weaken. TJX and Ross Stores are also less likely to be disrupted by online sales since people like to shop for bargains in person.

Here is another example. Insurance has its own pricing cycles disconnected from the economy. Pricing power is guided by scarcity of insurance capacity. This is driven by large disasters, Niemczewski says. “It can be hurricanes or asbestos or 9/11. Every time you have a huge storm it chews up capacity.” Arch Capital Group ACGL, +1.27%) recently was the fund’s largest position, at about 10 of the portfolio. The fund also was keeping just over 3% of assets in Progressive PGR, +1.44%, according to the fund’s most recent report.

2. Invest in climate change: Climate change seems to be happening, and it affects businesses in ways that catch the attention of investors. The fund managers consider AutoZone and O’Reilly in auto parts a play on climate change. “Older cars break down more often when the weather is bad,” Niemczewski says. Climate change also helps insurance companies by taking capacity off the market and boosting demand. This supports premiums.

3: Be different: Marshfield Concentrated Opportunity Fund has concentrated positions that deviate widely from their benchmarks. The top six positions are each 5% holdings or more. The top two are near 10%. For context, a lot of mutual funds cap position size at 2%-3%. The fund managers also are not afraid to hold cash when few investment opportunities arise.

This fund only holds 17 stocks, which is unusually low. The fund managers also invest in companies that do things differently. One reason the fund holds Strategic Education STRA, -0.50% is the education company depends less on government-backed student loans, in favor of partnerships with businesses that foot part of the bill.

Or consider the homebuilder NVR NVR, -0.03%. It’s more profitable and holds up better in downturns because it is not weighed down by the expense of land holdings. It buys options on land instead. “NVR has demonstrated success in up markets and down markets,” Hoffmann says.

“The main thing we have learned over the years is that we have to be as different as we can stand to be, in ways that make sense to us,” Niemczewski says.

4. Pay attention to company culture: Culture can be tough to figure out from the outside. But you have to look for the subtle clues.

For instance, look for cultures that emphasize frugality. For example, the fund managers took a liking to Fastenal FAST, +0.91% when they visited the company in part because the offices were basic. “It was not a glamor palace,” Hoffmann says. Fastenal is consistently much more profitable than competitors. Humble offices were a clue because it showed caution on expenses.

Also, look for signs that companies value employees. Consider Expeditors International of Washington EXPD, -0.50%. Unlike a lot of shippers, Expeditors owns no transportation assets. Instead, it buys cargo space from airlines, ocean liners, and truckers and uses it to piece together shipping routes.

These logistics require special care. “They want people who can unravel problems. While systems and technology matter, packages need their advocates,” Hoffmann says. So Expeditors puts a lot of value on motivated employees, and compensation is linked to branch-level performance. “This attracts people who believe in their own ambition and hard work, and it pushes out people who don’t,” Hoffmann says.

The fund managers also look for corporate cultures that give managers the freedom to take short-term pain to boost long-term gain. “In insurance, it is all about discipline and willingness to walk away from bad business,” Niemczewski says. For example, Arch Capital has been willing to let revenue decline a lot when pricing is weak, rather than sign unfavorable policies. “Everyone knows that is what you should do, and most companies don’t do it,” Niemczewski says.

5. Embrace fear and chaos: Be willing to buy stocks when you are terrified. “The times I made my best buys, I felt sick,” Niemczewski says. He cites purchases made in late March 2020 when the markets sold off on COVID fears. The better the buying decision, the worse it feels.

The thoughts and opinions expressed in the article are solely those of the author as of 9/18/2023. The discussion of individual companies should not be considered a recommendation of such companies by the Fund's investment adviser. The discussion is designed to provide a reader with an understanding of how the Fund's investment adviser manages the Fund's portfolio.

Mutual Fund investing involves risk, Principal loss is possible. The success of the Fund's investment strategy depends largely upon the Adviser's skill in selecting securities for purchase and sale by the Fund and there is no assurance that the Fund will achieve its investment objective.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund, and may be obtained by calling 855-691-5288. Please read carefully before investing.

The Fund is distributed by Ultimus Fund Distributors, LLC. (Member FINRA) Ultimus Fund Distributors, LLC and Marshfield Associates are separate and unaffiliated.

Fund Performance

Marshfield Concentrated Opportunity Fund	1 Year*	3 Year*	5 Year*	Since Inception (12/28/2015)*
As of 10/31/23	11.09%	13.96%	15.14%	15.06%
As of 9/30/23	24.66%	12.65%	13.80%	15.26%

**Annualized*

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns 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. Current performance may be lower or higher than the performance data quoted. Call 1-855-691-5288 for current month-end data.

MRFOX Top 10 Holdings
As of 10/31/2023

10.7%	Arch Capital Group
9.1%	Autozone
8.9%	Ross Stores
8.2%	Cash
6.3%	O'Reilly Automotive
6.0%	TJX Companies
5.0%	Goldman Sachs
4.6%	Cummins
4.5%	Mastercard
4.4%	Visa

The current and future portfolio holdings are subject to risk

The Adviser has contractually agreed, until January 1, 2024, to reduce Management Fees and reimburse Other Expenses to the extent necessary to limit Total Annual Fund Operating Expenses to an amount not exceeding 0.99% of the Fund's average daily net assets.

Net Expense Ratio 1.02%.
Gross Expense Ratio 1.17%.

Control # 17626095-UFD-11172023