HORAN CAPITAL MANAGEMENT
INTELLIGENT INVESTING FOR THE 21ST CENTURY

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Core Equity Investment Philosophy

INVESTMENT STYLE:	MID- AND LARGE-CAP COMPANIES
	DOMESTIC EQUITY PORTFOLIO
BENCHMARK:	RUSSELL 1000 GROWTH
DATE OF INCEPTION:	FIRM FOUNDED IN 1995; DOMESTIC EQUITY COMPOSITE PERFORMANCE RESULTS SINCE 1998

INVESTMENT OBJECTIVE

The portfolio seeks long-term capital appreciation through investment in quality growth companies at a discount to their estimated value. We rely on a research-intensive process based on identifying individual securities that meet our qualitative and quantitative criteria and holding those securities until their value is realized in the market.

OUR INVESTMENT PROCESS

Valuation and careful stock selection are the core of our process. We focus on businesses that are likely to provide respectable future growth yet can be purchased at a sizable discount to our estimate of fair value. In addition to solid growth prospects, our target companies generally possess broad competitive advantages, shareholder-friendly management teams, and sound financial resources.

Each potential investment is subject to rigorous financial statement and forward-looking strategic analysis with the goal of developing an estimate of per share value that is both independent and realistic.

We seek to control risk via our Preservation of Capital approach. Our view of risk seeks to differentiate the forest from the trees. Instead of focusing on short-run stock price volatility, we seek to mitigate risk in portfolios by owning businesses that have excellent fundamental characteristics, durable strengths, and favorable growth prospects. These features, when combined with our price-conscious discipline, help us control the risk that matters most to an investor: loss of capital in the long run.

We prefer to take an alternative, opportunistic view of market volatility. Market gyrations are welcome because they offer the opportunity to find cheap entry points for quality stocks. Also, because our investment approach is independent and research-driven, we are willing to withstand volatility—and also use it to our advantage by rebalancing positions when appropriate. We are also willing to go against the grain of the market: stocks hitting new lows could represent opportunities to us. Often, markets over-react to short-term problems which can lead to well-run businesses becoming attractively priced. We will buy companies when they are out-of-favor if we believe that they are financially healthy and still offer reasonably favorable prospects in the future.

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We utilize a bottom up approach to determine if individual securities are over or undervalued. If stocks are generally overvalued in the marketplace and risk is at a high point, we will use cash as an investment vehicle until opportunities that meet our criteria arise.

Long-term investors focus on long-term results. History teaches us that markets are efficient (ultimately), and that investors will value companies on their merits in the long run. This is the essence of long-term investing. Quarterly pressures may cause mutual fund managers to focus on quarterly outcomes; however, the close of a quarter is not our concern. Our focus is on pinpointing intrinsic worth for our investments, and maintaining patience quarter-after-quarter until price levels are realized.

Portfolio concentration is critical to success. A tightly focused portfolio of between twenty and thirty well-chosen stocks allows each winner to more greatly impact investment results. Studies have shown that investment returns are better among portfolio managers who hold fewer individual securities compared to a larger diversified portfolio.[1] We believe diversification is a recipe for mediocrity, since diversified portfolios tend to more closely mirror the returns of an index and at a higher investment cost.

Reacting quickly to new investment ideas offers an edge. In the age of ubiquitous dissemination of financial information, news about a company is widely available. Boutique portfolio managers gain competitive advantage by digesting the impact of news on a stock quickly and intelligently. While other firms' investment ideas can be slowed by organizational approvals and bureaucracy, we are able to react to developments quickly, leading to an advantage if the stock gains popularity on Wall Street.

Tax-efficiency is important. Controlling the timing and frequency of transactions can help to reduce taxes and improve our clients' after-tax performance. Maintaining moderate turnover is one aspect of our tax-efficiency. We also attempt to optimize net after-tax returns by offsetting gains and losses when appropriate.

PORTFOLIO DISCIPLINE

Buy discipline: Cash-flow analysis is the determinant of what to pay for each company in the portfolio. Only when these businesses become available at significant discounts to their estimated value do we then become interested as buyers.

Sell discipline: We sell in one of three instances:
- Stock has appreciated higher than our assessment of per share business value.
- Its discount to value has become significantly narrower than alternatives.
- We believe fundamental value has deteriorated such that the current price is above intrinsic value.

1 *"…investment ability is more evident among managers who hold portfolios concentrated in a few industries." On the Industry Concentration of Actively Managed Equity Mutual Funds. (Study of actively managed US mutual funds, 1984-99) By Kacperzyk, Sialm, Zheng, Michigan Business School.*