

## FUNDS & PERSONAL FINANCE

### MUTUAL FUND PROFILE

# Ave Maria Growth Fund Does Well With Portfolio Of Do-Good Stocks

## A Moral Screen For Stocks

Managers aim for leaders, buying when they are temporarily discounted

BY PAUL KATZEFF  
INVESTOR'S BUSINESS DAILY

Ave Maria Growth Fund<sup>AVEGX</sup> made itself one of the best mutual funds by successfully juggling two priorities.

On one hand, the \$747 million fund seeks stocks in companies that know how to turn a buck. It also wants to invest in companies that aim to do the right thing.

You might say that the fund looks for stocks that do well. It also looks for stocks that do good in this fund's eyes.

Combined, those two broad mandates — one secular, the other aligned with teachings of the Catholic Church — translate into a pursuit of “companies with very attractive unit economics, which generate excess free cash flow that are productively reinvested,” said lead manager Adam Gaglio.

“At the same time, we look for companies that invest in accord with our moral screens. Basically, we cannot invest in companies involved with abortions. That includes giving corporate contributions to Planned Parenthood or embryonic stem-cell research.”

Also out for this fund are companies with ties to pornography.

The fund managers also say attractive valuation helps make

stocks profitable. As a result, the managers aim for stocks they like when they are temporarily out of favor and trading at a discount to the fund managers' perception of fair market value.

Overall, that multifactor approach works well for the fund. It is a 2020 IBD Best Mutual Funds Awards winner. The fund topped the S&P 500 in calendar 2019 as well as over the three, five and 10 years ended Dec. 31 on an average-annual-return basis.

During this coronavirus-ravaged year going into Thursday, the fund lost 15.18% vs. a 13.34% setback for the S&P 500 and an 8.60% loss on average for its large-cap growth rivals tracked by Morningstar Direct.

Moody's<sup>MCO</sup>, a provider of credit ratings and research tools, is the type of holding that makes Ave Maria Growth one of the best mutual funds.

From its Feb. 19 pre-coronavirus stock market correction peak, Moody's lost about 43% of its share price in the crash. It has rallied, but is still 20% off its pre-downturn peak. The S&P 500 is 15% off its zenith.

But even if Moody's is lagging the market in the short term, Gaglio has confidence that Moody's offers a vital service in the long run.

“In good or bad times, people need the bond ratings that Moody's gives out,” Gaglio said. “That function is integrated into the fabric of the market. Especially in bad times, people rely on those ratings. The Federal Reserve relies on those ratings,

## Ave Maria Growth



Adam Gaglio

■ Load: None  
■ Expenses: 0.97%  
■ Symbol: AVEGX

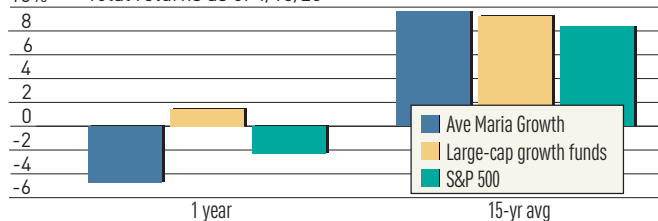
### Total returns as of 4/15/20

2019: 37.09% 3-yr. avg.: 11.12%  
YTD: -15.18% 5-yr. avg.: 8.78%  
10-yr. avg.: 11.35%

### Sector weightings as of 3/21/20

	% of stock assets	% of S&P 500
<b>Cyclical</b>	<b>45.51%</b>	
Basic materials	3.44	2.09%
Consumer cyclical	12.52	9.60
Financial services	24.50	13.79
Real estate	5.05	3.01
<b>Economically sensitive</b>	<b>44.50</b>	
Communication services	2.97	10.74
Energy	0.44	2.65
Industrials	24.04	8.71
Technology	17.05	22.18
<b>Defensive</b>	<b>9.98</b>	
Consumer defensive	1.75	8.14
Health care	8.23	15.54
Utilities	0.00	3.57

### 10% Total returns as of 4/15/20



Source: Morningstar Direct

especially from Moody's, S&P and Fitch. And in a liquidity crunch, a lot of companies need to rely on the capital market for funds. But that market wouldn't function without Moody's.”

Ansys<sup>ANSS</sup> is another holding that helps make Ave Maria Growth one of the best mutual funds. It does that by providing a product its customers deem essential, Gaglio says. That demand should not evaporate even in a recession, Gaglio adds.

The company provides what is known as multiphysics simulation software. That means the

software can assess the impact of more than one stress factor on the performance and durability of new-product prototypes, which may exist only on a drawing board — real or virtual.

“Say you create a simulation of a 5G antenna,” Gaglio said. “The software can measure wave propagation in different temperatures or wind conditions.”

That software provides Ansys with a wide competitive moat, Gaglio says. “The software has been built over decades, through direct investments in development and through acquisitions.

It's hard to see competitors coming up with something comparable at an acceptable cost."

Switching costs are also high. Use of the software is widely taught to engineers throughout the U.S. An engineer has little incentive to go through the time and expense of learning to use another software.

And the software provides a valuable service. Not only is it useful in creating new technologies; it also helps product developers predict when a product will wear out. "That way it can be replaced before it fails," Gaglio said. "That's very important."

**O'Reilly Automotive**<sup>ORLY</sup> is another holding that makes Ave Maria Growth one of the best mutual funds in the long run.

The stock has regained more than half of its coronavirus stock market correction loss at its worst.

Several factors have provided the auto-parts chain with a tailwind. First, fearing an economic downturn, many car owners are paying for repairs and upkeep rather than investing in a new vehicle. Second, in a time of social distancing, people are using their own cars more and public transportation less, Gaglio says. They're even making plans to take summer trips via car rather than airplane, he adds.

Repair shops provide O'Reilly's fourth tailwind. Service garages typically rely on O'Reilly to provide countless parts quickly. That enables garages to avoid investing space and money in maintaining their own large inventory of parts.

"A lot of (investors) don't realize that O'Reilly is used as inventory management by repair shops, either independent repair shops or dealerships," Ga-

glio said. "For the repair shops, speed (of delivery, which is typically same-day) and (size of) inventory are more important than price. That makes O'Reilly hard to compete with, even for **Amazon**<sup>AMZN</sup>. So O'Reilly is not as impacted by e-commerce."

**Copart**<sup>CPRT</sup> lost 47% of its share-price value at the trough of the downturn. It's still down about 33% from its pre-crash peak. But Gaglio and co-manager Chadd Garcia like its business model for the long term.

The company runs online vehicle salvage auctions. "It enjoys a two-sided market," Gaglio said. "The more sellers on its platform, the greater the inventory for buyers. The more buyers, the better the prices. That encourages more sellers to participate. It's self-reinforcing."

The increasing use of expen-

sive computer chips in vehicles makes car owners and insurers more likely to declare damaged vehicles as not worth repairing due to steep costs.

Copart's advantage in comparison to its main rival **IAA**<sup>IAA</sup> is that Copart has a much larger number of foreign buyers. Cars that are not allowed or welcomed back into service in the U.S. without replacement of expensive computer chips are often allowed back in some foreign countries, Garcia says. "So foreigner buyers are more likely to go to Copart to find cars that they can repair and salvage," Garcia said.

Gaglio and Garcia work for Schwartz Investment Counsel, the fund's investment advisor. Gaglio joined the fund's team last July 1. Garcia came aboard Jan. 1, 2020. Former manager Rick Platte retired on Dec. 31.



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[avemariafunds.com](http://avemariafunds.com)

As of December 31, 2020	1 Yr.	3 Yrs.^	5 Yrs.^	10 Yrs.^	Since Inception^*	Prospectus Expense Ratio
Ave Maria Growth Fund	18.37%	16.80%	17.86%	13.69%	12.17%	0.94%
S&P 500® Index	18.40%	14.18%	15.22%	13.88%	10.54%	
Morningstar Large-Cap Growth Fund Category Average	35.87%	20.50%	18.30%	15.14%	na	

**Performance data quoted represents past performance, which is no guarantee of future results. Investment return and principal value are historical and may fluctuate so that redemption value may be worth more or less than the original cost. Current performance may be lower or higher than what is quoted.** Performance data reflects certain fee waivers and reimbursements. Without such waivers, performance would have been lower. Call 1-866-AVE-MARIA or visit [www.avemariafunds.com](http://www.avemariafunds.com) for the most current month-end performance.

#### IMPORTANT INFORMATION FOR INVESTORS

As of 12-31-20, the holding percentages of the stocks in the Ave Maria Growth Fund mentioned in this commentary are as follows; Moody's Corporation (2.9%), ANSYS, Inc. (4.8%), O'Reilly Automotive, Inc. (3.0%) and Copart, Inc. (6.6%). Fund holdings are subject to change and should not be considered purchase recommendations. There is no assurance that the securities mentioned remain in the Fund's portfolio or that securities sold have not been repurchased. The Fund's top ten holdings as of 12-31-20: Copart, Inc. (6.6%), Change Healthcare, Inc. (5.4%), Mastercard Incorporated (5.3%), Visa, Inc. Class A (5.3%), Texas Instruments, Inc. (5.2%), Frontdoor, Inc. (5.0%), ANSYS, Inc. (4.8%), HEICO Corporation - Class A (4.6%), Lowe's Companies, Inc. (4.5%) and Broadridge Fin. Solutions, Inc. (4.4%). The most current available data regarding portfolio holdings can be found on our website, [www.avemariafunds.com](http://www.avemariafunds.com).

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