Beck, Mack & Oliver Partners Fund (BMPEX)

SEPTEMBER 2013

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Mutual Fund Observer

Fund name Beck, Mack & Oliver Partners Fund (BMPEX)

Objective and Strategy Beck, Mack & Oliver Partners Fund seeks long term capital appreciation consistent with the preservation of capital. It is an all-cap fund that invests primarily in common stock, but has the ability to purchase convertible securities, preferred stocks and a wide variety of fixed-income instruments. In general, it is a concentrated portfolio of foreign and domestic equities that focuses on finding well-managed businesses with durable competitive advantages in healthy industries and purchasing them when the risk / reward profile is asymmetric to the upside.

Adviser Beck, Mack & Oliver LLC, founded in 1931. The firm has remained small, with 25 professionals, just seven partners and $4.8 billion under management, and has maintained a multi-generation relationship with many of its clients. They're entirely owned by their employees and have a phased, mandatory divestiture for retiring partners: partners retire at 65 and transition 20% of their ownership stake to their younger partners each year. When they reach 70, they no longer have an economic interest in the firm. That careful, predictable transition makes financial management of the firm easier and, they believe, allows them to attract talent that might otherwise be drawn to the hedge fund world. The management team is exceptionally stable, which seems to validate their claim. In addition to the two BM&O funds, the firm maintains 670 "client relationships" with high net worth individuals and families, trusts, tax-exempt institutions and corporations.

Manager Zachary Wydra. Mr. Wydra joined Beck, Mack & Oliver in 2005. He has sole responsibility for the day-to-day management of the portfolio. Prior to joining BM&O, Mr. Wydra served as an analyst at Water Street Capital and as an associate at Graham Partners, a private equity firm. In addition to the fund, he manages the equity sleeve for one annuity and about $750 million in separate accounts. He has degrees from a bunch of first-rate private universities: Brown, Columbia and the University of Pennsylvania.

Strategy capacity and closure The strategy can accommodate about $1.5 billion in assets. The plan is to return capital once assets grow beyond the optimal size and limit investment to existing investors prior to that time. Mr. Wydra feels strongly that this is a compounding strategy, not an asset aggregation strategy and that ballooning AUM will reduce the probability of generating exceptional investment results. Between the fund and separate accounts using the strategy, assets were approaching $500 million in August 2013.

Management's Stake in the Fund Over $1 million. The fund is, he comments, "a wealth-creation vehicle for me and my family."

Opening date December 1, 2009 for the mutual fund but 1991 for the limited partnership.

Minimum investment $2500, reduced to $2000 for an IRA and $250 for an account established with an automatic investment plan.

Expense ratio 1.0%, after waivers, on assets of $145 million

Comments One of the most important, most approachable and least read essays on investing is Charles Ellis, The Loser's Game (1977). It's funny and provocative and you should read it in its entirety. Here's the two sentence capsule of Ellis's argument:

In an industry dominated by highly skilled investors all equipped with excellent technology, winners are no longer defined as "the guys who perform acts of brilliance." Winners are defined as "the guys who make the fewest stupid, unnecessary, self-defeating mistakes."

Think of it as "Dodge and Cox without the $50 billion in baggage."

There are very few funds with a greater number or variety of safeguards to protect the manager from himself than Beck, Mack & Oliver Partners. Among more than a dozen articulated safeguards:

- ✔ The advisor announced early, publicly and repeatedly that the strategy has a limited capacity (approximately $1.5 billion) and that they are willing to begin returning capital to shareholders when size becomes an impediment to exceptional investment performance.
- ✔ A single manager has sole responsibility for the portfolio, which means that the research is all done (in-house) by the most senior professionals and there is no diffusion of responsibility. The decisions are Mr. Wydra's and he knows he personally bears the consequences of those decisions.
- ✔ The manager may not buy any stock without the endorsement of the other BM&O partners. In a unique requirement, a majority of the other partners must buy the stock for their own clients in order for it to be available to the fund. ("Money, meet mouth.")
- ✔ The manager will likely never own more than 30 securities in the portfolio and the firm as a whole pursues a single equity discipline. In a year, the typical turnover will be 3-5 positions.

  Portfolio position sizes are strictly controlled by the Kelly Criterion (securities with the best risk-reward comprise a larger slice of the portfolio than others) and are regularly adjusted (as a security's price rises toward fair value, the position is reduced and finally eliminated; capital is redeployed to the most attractive existing positions or a new position).
- ✔ When the market does not provide the opportunity to buy high quality companies at a substantial discount to fair value, the fund holds cash. The portfolio's equity exposure has ranged between 70-90%, with most of the rest in cash (though the manager has the option of purchasing some fixed-income securities if they represent compelling values).

Mr. Wydra puts it plainly: "My job is to manage risk." The fund's exceedingly deliberate, careful portfolio construction reflects the firm's long heritage. As with other 'old money' advisors like Tweedy, Browne and Dodge & Cox, Beck, Mack & Oliver's core business is managing the wealth of those who have already accumulated a fortune. Those investors wouldn't tolerate a manager whose reliance on hunches or oversized bets on narrow fields, place their wealth at risk. They want to grow their wealth over time, are generally intelligent about the need to take prudent risk but unwilling to reach for returns at the price of unmanaged risk.

"My job is to manage risk."

ZACHARY WYDRA

That discipline has served the firm's, and the fund's, investors quite well. Their investment discipline seeks out areas of risk/reward asymmetries: places where the prospect of permanent loss of capital is minimal and substantial growth of capital is plausible. They've demonstrably and consistently found those asymmetries: from inception through the end of June 2013, the fund captured 101% of the market's upside but endured less than 91% of its downside. To the uninitiated, that might not seem like a huge advantage. To others, it's the emblem of a wealth-compounding machine: if you consistently lose a bit less in bad times and keep a little ahead in good, you will in the long term far outpace your rivals. From inception through the end of June, 2013, the strategy outpaced the S&P 500 by about 60 basis points annually (9.46% to 8.88%). Since its reorganization as a fund, the advantage has been 190 basis points (15.18% to 13.28%). It's outperformed the market in a majority of rolling three-month periods and in a majority of three-month periods when the market declined.

So what about 2013? Through late August, the fund posted respectable absolute returns (about 10% YTD) but wretched relative ones (it trailed 94% of its peers). Why so? Three factors contributed. In a truly defensive move, the manager avoided the "defensive" sectors that were getting madly bid up by anxious investors. In a contrarian move, he was buying energy stocks, many of which were priced as if their industry was dying. And about 20% of the fund's portfolio was in cash. Should you care? Only if your investment time horizon is measured in months rather than years.

Bottom Line Successful investing does not require either a magic wand or a magic formula. No fund or strategy will win in each year or every market. The best we can do is to get all of the little things right: don't overpay for stocks and don't over-diversify, limit the size of the fund and limit turnover, keep expenses low and keep the management team stable, avoid "hot" investments and avoid unforced errors, remember it isn't a game and it isn't a sprint. Beck, Mack & Oliver gets an exceptional number of the little things very right. It has served its shareholders very well and deserves close examination.

Fund website ***www.beckmack.com***

Important disclosure information must accompany the September 2013 Mutual Fund Observer profile.

Average Annual Returns for the period ended 6-30-2013	1 Year	3 Year	5 Year	10 Year	Since Inception (4-19-91)
Beck, Mack & Oliver Partners Fund (Investor Shares)	21.39%	20.93%	5.11%	8.33%	9.46%
S&P 500 Index	20.60%	18.45%	7.01%	7.30%	8.88%

Past performance is no guarantee of future results. Current performance of the Beck, Mack & Oliver Partners Fund may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. For the most recent month end performance, please call 1-800-943-6786. As stated in the current prospectus, the Fund's annual operating expense ratio (gross) is 1.80%. However, the Fund's adviser has agreed to contractually waive a portion of its fees and/or reimburse expenses such that total operating expenses do not exceed 1.00% which is in effect until July 31, 2014; otherwise, if reflected, the return would have been lower. Shares redeemed or exchanged within 60 days of purchase will be charged a 2.00% fee. Returns greater than 1 year are annualized.

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by calling 1-800-943-6876. Please read the prospectus carefully before you invest.

In November 2009, a limited partnership managed by the Adviser reorganized into the Fund. This limited partnership maintained an investment objective and investment policies that were, in all material respects, substantially similar to those of the Fund. The Fund has adopted the performance history of the limited partnership. The Fund's performance for periods prior to December 1, 2009 is that of the limited partnership and reflects the expenses of the limited partnership, which were lower than the Fund's current net expenses, except for 2008 where the expenses of the limited partnership were higher. The performance prior to December 1, 2009 is based on calculations that are different than the standardized method of calculations accepted by the SEC. If the limited partnership's performance had been readjusted to reflect the estimated expenses of the Fund for its first fiscal year, the performance would have been lower. The limited partnership was not registered under the Investment Company Act of 1940 ("1940 Act") and was not subject to certain investment limitations, diversification requirements, and other restrictions imposed by the 1940 Act and the Internal Revenue Code of 1986, which, if applicable, may have adversely affected its performance.

Investments are subject to risk, including the possible loss of principal. Investing overseas involves special risks, including the volatility of currency exchange rates and, in some cases, limited geographic focus, political and economic instability, and relatively illiquid markets. To the extent the BMO Partners Fund invests in small and mid-cap companies, it should be noted that they carry greater risk than is customarily associated with larger companies. Additionally the Fund is subject to equity and convertible securities risk, management risk, debt securities risk, non-investment grade security risk, liquidity risk and non-diversification risk.

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