



The Oak Value Fund portfolio managers recently responded to a series of questions that were submitted by the subscribers to GuruFocus.com. In an effort to provide this information to all Fund shareholders, we made the decision to re-publish the questions and our responses in this document. As always, we appreciate the confidence the Oak Value Fund shareholders have placed in our team and we welcome the opportunity to provide this additional information.

#1. Among other value investors whom do you admire/respect? Please name 3-5 funds in mutual fund industry and 3-5 names in hedge fund, if you will.

Oak Value: Mr. Buffett indicated in his “Superinvestors of Graham-and-Doddsville” talk in 1984 that a common characteristic of at least one subset of successful long term investors is their focus on “businesses” in the context of “value and price.” Though we will stop short of directly answering the stated question with a listing of people or firms, suffice it to say that such a list would include investors who have over time, pursued investing in common stocks as owning pieces of businesses and that their decision-making process is grounded firmly in an understanding of the relationship between “value” and “price.” Indeed our respect for such investors is biased – that’s how we think about investing.

In reviewing such investors, it should be reasonable to expect that each will prioritize these components in different ways. It is this variation that some may find most interesting. From our standpoint, we use the following priorities.

- ◆ Business - First, we focus on the business. This prioritization is central to our pursuit of investment opportunities. Just as Buffett and Munger have suggested that investors understand their circle of competence and be willing to have a “too hard to call” *pile*, we maintain that it is imperative that investors maintain a “don’t care” *pile*. In this *pile*, we place businesses that we are not interested in owning, regardless of price. In our opinion, the process of attempting to understand and price an inferior business is neither a productive use of our time nor has it proven to be a profitable pursuit on behalf of the Oak Value Fund shareholders. We focus our efforts on ***advantaged businesses – businesses that possess sustainable competitive and economic advantages.***
- ◆ Value – In our process, we do not spend time attempting to determine the “value” of a business unless it has first met our “business” hurdles. Implicit in our belief that the “value” of a business is equal to the present value of the future cash flows the company can generate is the requirement that we only

attempt to determine value when we believe that there are forces at work in the business model, the industry or the management that tighten the range of future economics the company is likely to produce. Our methodology for determining “value” is one primarily of discounted cash flow analysis with the overlay of multiple scenario considerations. If the value of a business is dependent on the future and the future is by definition uncertain, we believe it important to reflect that uncertainty in our process, while focusing on companies that should have less of such.

- ◆ Price – This variable is one over which we have no control. It is purely a by-product of Mr. Market’s mood.

In establishing these priorities, we recognize that we have essentially inverted the sieve through which many value investors screen investment ideas. While the notion of “screening” based on PE, PB or some other metric may serve the purpose of getting a check in the consultants’ checklist, our experience suggests that starting the process with a focus on what appears to be “cheap” has the potential to produce a bias toward businesses that are “for sale” as opposed to those that should be “bought.”

#2. Why do you have Berkshire as your largest holding? Is that because you cannot find better investments than Berkshire? What is your estimate of intrinsic value of Berkshire?

Oak Value: We own Berkshire Hathaway because we believe it is an advantaged business whose shares continue to trade in the public market at a meaningful discount to our assessment of the company’s intrinsic value. In our opinion, the business model of Berkshire Hathaway is particularly attractive and perpetually misunderstood. The characteristics of this business model are defined by the company’s ability to source capital at low or negative cost through its insurance operations and its ability to invest that capital at positive, ideally high rates of return in either the public or private market. At its core, the model is limited by the size of the capital pool and the amount of time over which that capital remains in the company. Though Berkshire remains the Oak Value Fund’s largest holding, the margin of its weighting over other holdings is less than in recent years. As an advantaged financial company, it is complemented in the Oak Value Fund by a focused collection of very high quality businesses.

#3. If you had learned any lessons in the crash of 2008-2009, what are they? What will you do differently in the future? This is a question I have been always asking myself these days.

Oak Value: This is indeed an excellent question and one that all investors should address. From our standpoint, we would suggest that we learned many of these lessons in prior years. Coming into the most recent downturn, our focus was on

quality businesses that were very profitable and generated above average returns on equity and capital without the necessity of significant financial leverage. We have a long history of investing in financials and learned many important lessons about dependence upon the capital markets to execute a company's day-to-day operations from the credit crisis in 1998 and then again during the summer of 2002. From a portfolio standpoint, the broadening of our research universe several years ago allowed us to produce a relatively focused portfolio while maintaining a prudent respect for diversification. As we look back over the past couple of years, our ability to outperform in the declining periods and then capture above average returns during the most recent recovery also reinforces our preference for the notion of competition for capital at the portfolio level. While our search is for advantaged businesses that we could own in the Oak Value Fund for a very long time, we are not required to own them forever. We will sell a good business at less than its full valuation in order to buy a better business at a more attractive valuation. These lessons from our history have served the Oak Value Fund's shareholders well during this period.

#4. Do you still see a lot of bargains with the recent rebound?

Oak Value: In short the answer is yes. When we disclose the Oak Value Fund activity for the June quarter in a few weeks, we will be in a position to provide more specificity around this question. In our assessment, the recovery that has taken place in the market since early March has been heavily weighted in lower quality businesses. Though many of the Oak Value Fund's holdings have made significant recoveries, we have continued to find opportunities in some of the world's great businesses at very attractive valuations.

#5. How do you measure downside risk? How do you manage downside risk?

Oak Value: Ultimately, we view risk as the potential for permanent loss of capital. From a process and portfolio standpoint, we focus our efforts on better businesses, with less leverage, less dependency on the capital markets and less potential for evolution in their business models. Our valuation process is sensitive to the potential for short term challenges but is stringent in terms of long term results. In a focused portfolio, we manage exposures at the business level while recognizing correlations at the industry and sector level. Our responsibility is not to completely eliminate risk, but rather to identify understand and price risk and then to take advantage of that mispricing.

#6. Warren Buffett said that over the next decade stocks will substantially outperform cash, do you agree? If you agree, what kind of annualized return do you think the market is positioned?

Oak Value: While we do not tend to make such predictions, we would concur that the odds would appear to favor such an outcome.

#7. Where do you generate your ideas? What are the criteria in your idea generation?

Oak Value: Our ideas are internally generated from an invest-able universe that is established through a company-by-company review of several thousand businesses. The focus of this review is to identify those businesses that have the ability to produce advantaged economics. Generally this review is based upon a longer term analysis of profit margins, returns on equity and invested capital, dependency on the capital markets, and the source of the advantages with regard to these metrics whether they are from brands, franchises, niches, or the ability to be the low cost provider in an attractive segment of a value chain.

#8. You mentioned that you like quality business, how do you measure the business quality?

Oak Value: We view quality in the context of the magnitude and sustainability of a company's ability to produce above average or advantaged economic results. In our opinion, business quality is a function of a company's ability to produce predictable growing excess cash flow, and the extent to which the company can do so. Our search is for businesses that produce attractive profit margins and returns on capital without the necessity for excess financial leverage. In our opinion, a company's ability to control its future is, to a large extent, determined by its position relative to customers, suppliers, competitors and substitute products. We believe higher quality businesses are more likely to be represented by those that have a "moat" around themselves relative to these forces.

#9. Do you talk to the management of the companies? If yes, what do you look for from them? If not, why?

Oak Value: We do often talk to the management of the companies in which we invest as a component of our analysis. With the passage of Regulation F-D, we have found a somewhat reduced dependency on this particular component of our process in recent years. We do continue to find that a 360 degree view of our analysis is extremely important. Many times, it is the conversation with a company's customers, suppliers or competitors that provides the needed incremental insight in order to facilitate our decision-making.

#10. How do you estimate the intrinsic value of companies? DCF or something else?

Oak Value: Our valuation process is DCF based and employs the consideration of multiple economic and terminal multiple scenarios.

#11. I noticed that you have Cisco and Microsoft in your holdings. Usually value investors do not like techs. What do you like about Cisco and Microsoft? How much do you think they are worth?

Oak Value: Both of these companies are leaders in their businesses, have great franchises, produce very high profit margins and returns on capital, have clean balance sheets and generate a significant amount of cash flow for the benefit of their shareholders. Their shares have recently traded at significant discounts to their intrinsic value. When an investor is given the opportunity to buy great businesses that produce advantaged economics with a platform for global growth, we have found that a focus on the “industry” label can be short-sighted. We choose to look at technology companies just like any other business – their cash is just as green as the cash generated by any other company and in the long run, it is cash that determines value.

#12. How do you think about the risk of inflation and devaluation of the U.S. dollar? What do you do to your portfolio to protect from these risks?

Oak Value: While we are not economists, we believe the odds of inflation in the future are increased with the massive liquidity that has been injected into the U.S. economy and financial system over the past year. Most of the companies owned in the Oak Value Fund portfolio generate a significant portion of their revenues from outside the U.S. While we have not taken the position of “betting against” the U.S. dollar, we do believe it is prudent to position one’s investments in a manner to recognize the potential risk of our domestic currency being worth less to those outside our country than is the case today.

IMPORTANT INFORMATION

We are making this article available to you for your information and education. All portfolio holdings are subject to change at any time. Any discussion of specific securities is intended to help readers understand the Oak Value Fund's investment management style, and should not be regarded as a recommendation of any security. Any performance data discussed represents past performance, which is no guarantee of future performance or results in this article. Information concerning the performance of the Oak Value Fund (the "Fund"), and the Fund's portfolio holdings over the last year are available upon request.

Displays detailing a summary of holdings are based on the Fund's holdings on June 30, 2009. "Top Ten Holdings" do not include money market investments.

Oak Value Fund Portfolio Top Ten Holdings as of 06/30/09	
Security Description	% of Market Value
Berkshire Hathaway, Inc. (CL - A)	7.46%
Avon Products, Inc.	5.49%
Oracle Corp.	5.17%
Praxair, Inc.	4.93%
Coach Inc.	4.91%
Diageo plc ADR	4.34%
Apollo Group, Inc. (CL - A)	4.29%
Moody's Corp.	4.22%
Cadbury plc ADR	4.05%
Tiffany & Co.	4.03%

Statements referring to future actions or events, such as the future financial performance or ongoing business strategies of the companies in which Oak Value Capital Management, Inc. (the "Adviser") invests on behalf of the Fund, are based on current expectations and projections about future events provided by various sources, including company management. These statements are not guarantees of future performance, and actual events may differ materially from those discussed herein. Any references to securities purchased or

held are only as of the date of this article. Although the Fund focuses on long-term investments, holdings are subject to change. Nothing in this material should be construed as an offer or solicitation to purchase shares of the Fund, which are offered only by prospectus.

Performance of the Fund for the period ending 06/30/09 is available at www.oakvaluefund.com/perf.htm

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing. The Fund's prospectus contains this and other important information. You may obtain a copy of the Fund's prospectus at www.oakvaluefund.com or by calling 1-800-622-2474. Please read the prospectus carefully before you invest or send money. Distributed by Ultimus Fund Distributors, LLC.