Basic Values

Successful performance often comes at the cost of compromise. For George Schwartz and his team, however, success goes hand in hand with peace of mind and virtue. The Ave Maria Catholic Values Fund looks to invest in stocks in which investment value and Catholic values converge.

Q: *Your fund is relatively new. What differentiates you from the other portfolios within your broader peer group?*

A: We started this fund on May 1, 2001. The moral aspect is certainly a differentiating aspect, because there is no other fund like it. It is unique. It is a $250-million fund with 11,000 shareholders in all 50 states, and it is predominantly Catholics who invest in this fund. What drives them to this fund is the investment performance, I would say, number one. Catholics like to get the investment returns, as well. This fund has done extremely well since inception, up 45% cumulatively, when for the same period the market is down 5%, so it is 5,000 basis points over the market for a period of four years, the S&P 500 being the benchmark.

We're value investors in the mid-cap and small-cap stocks. What differentiates this portfolio from the others are the moral screens. We have a Catholic Advisory Board, which is made up of prominent lay Catholics who are experts in the Catholic Church. That Board in turn has an ecclesiastical adviser who is Cardinal Maida, the Archbishop of Detroit. That Catholic Advisory Board has established four criteria that they want us to use and screen companies out of the portfolio. Those four criteria are, first: abortion - any company related to abortion should be screened out. That would include pharmaceutical companies that produce abortion-related drugs. It would also include hospital companies that perform abortion in their facilities, and insurance companies that pay for abortion. So, abortion is a big one. The second is pornography. Any company related to pornography is screened out. That would include the Hollywood-based entertainment companies and cable companies. It also includes hotel companies that show pornography on their sets in the rooms. The third category that is screened out is Planned Parenthood. Any company that contributes to Planned Parenthood, which is the biggest provider of abortions in the country, is screened out. So, if a company contributes corporate funds to Planned Parenthood, it is screened out. The fourth category is the non-marital partner benefits. Any company providing its employees, same sex or opposite sex, with non-marital partner benefits, is screened out. The thinking of the Catholic Advisory Board is that if a company treats non-married employees as though they are married, that's a slap in the face to the Catholic Church, because the Catholic Church believes that marriage is a sacrament, a sacred union, created by God, and

Ave Maria Catholic Values

Fund Facts

Symbol	AVEMX
Website	www.avemariafund.com
Address	Schwartz Investment Counsel 3707 W. Maple Rd. Bloomfield Hills, MI 48301
Tel. No.	866-283-6274 (toll free)
Inception	05/01/2001

Portfolio

Total Net Assets *	$ 250
Avg Mkt Cap ($ Weighted) *	$ 5,000
Average Price/Earnings Ratio	16x
Average Price/Book Ratio	2x
Turnover Ratio	50 %

Investment Information

New Investment	$ 1,000
Min Initial Investment	$ 1,000
Min Subsequent Investment	$ 1.00
Min Initial IRA Investment	$ 1,000

Risk (Against S&P 500 - 3 Years)

Alpha	4.04
Beta	0.93
R-Squared	0.61
Ann Std Deviation	13.3
Sharpe Ratio	1.32

Returns vs. Lipper Mid-Cap Core Index

	AVEMX	Index
1 Year (Cum.)	12.09 %	19.44 %
3 Year (Ann.)	19.99 %	21.54 %
5 Year (Ann.)	---	4.14 %

Returns vs. S&P 500

	AVEMX	Index
1 Year (Cum.)	12.09 %	12.25 %
3 Year (Ann.)	19.99 %	16.72 %
5 Year (Ann.)	---	-1.49 %

Fees and Expenses

Max Sales Charge - Front	0.00 %
Max Sales Charge - Deferred	0.00 %
Max Redemption Fee	0.00 %
Total Expense Ratio	1.50 %

Portfolio Manager

George Schwartz - Lead PM	Jul-2002
Gregory Heilman	Oct-2003

* *millions*

Data through: 09/30/05

Source: Company Documents; Lipper

Q&A
TICKER's Choice

to treat non-married employees as though they are married, that's inappropriate. So, our Catholic Advisory Board is saying we should not invest in those companies.

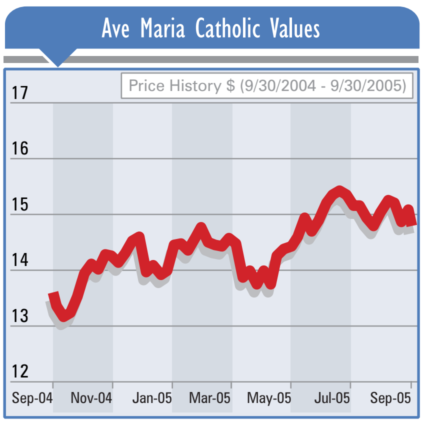
Those four screens eliminate about 400 companies of the Russell 3000, or only 13%. So, we can still pick from 2,600 other companies to construct a portfolio of 75 stocks. There are plenty of good companies to choose from. In addition to that, those 400 companies that are screened out are not all companies we would want to invest in, anyways. Most of them are not good investment candidates from an investment perspective. Only a handful of them are really good investment opportunities that are screened out. But in the other 2,600 companies, we can find plenty of good companies to invest in that don't violate these core principles of the Catholic Church.

Q: ***Does the Catholic Advisory Board also put restrictions on alcohol consumption or tobacco consumption?***

A: No. The Catholic Advisory Board has considered those, but they decided that they did not want to try to be all things to all people. They wanted to focus on a few core principles, specifically abortion - that's the big one. I know other funds that screen out alcohol, tobacco and firearms, often called socially responsible funds. That's not the Catholic Advisory Board's intention. At Schwartz Investment Counsel, Inc., we are portfolio managers, we are CFAs, we're analysts and investment professionals, not experts of the Catholic Church. Some of us, including myself, happen to be Catholic, but we're not theologians. We're just trying to find the best stocks that we can, to invest in. And we operate within the guidelines established by the Catholic Advisory Board and screen out certain companies.

Q: ***So, this is from a moral perspective. What about the investment perspective?***

A: We have a value approach to investing. We buy companies with significant free cash flow and a growing stream of free cash flow. The price in relation to that growing stream of free cash flow is extremely important, as is the price in relation to earnings. Increasing dividends are becoming important, and we started a new fund, the Ave Maria Rising Dividend Fund, which will be our fourth Catholic mutual fund. Dividends are going to be much more important in the future than they have been in the recent past, particularly with new emphasis placed on corporate governance. Companies can fake earnings, but they can't fake dividends.



Corporations are building up cash. Most corporations now are in strong financial positions, have strong balance sheets with low debt, lots of cash, lots of liquidity. They can only do so many things with that cash, and some of them are shareholder-friendly, including increasing dividends and buying back stock. I am in favor of companies buying back stock if the stock is depressed, and selling under intrinsic value. This increases the per-share intrinsic value of the company for the remaining shareholders. But the essence of paying dividends is certainly a good way to return cash to the shareholders. I am hopeful that a lot of these companies don't make wasteful acquisitions with the cash, but there's been a lot of evidence for that in the past.

Q: ***What about a company like Berkshire-Hathaway? Will it pass your screens?***

A: No, because Berkshire-Hathaway has long been a supporter of Planned Parenthood, and indeed, Buffett has indicated that his whole personal fortune is going to be given to Planned Parenthood when he dies. From a pro-life, Catholic perspective, that is horrifying - $40 billion would go to Planned Parenthood. The interest on that alone would be $1 billion a year, financing abortions for many years to come.

I have great respect for Buffett as a businessman, for his business knowledge, and his investment acumen, but I don't agree with his social views with respect to abortion.

Q: ***Do you pursue deep value, or just value, in terms of companies getting in trouble from time to time?***

A: I'd say just value. We want to buy good companies that are out of favor, because of some temporary problem. "Temporary" is the key word. If it's a cancer, we don't want it, but if it is a temporary problem that is likely to be fixed, and the stock is unusually depressed, we like that. The company has to have a long-term staying power, a good business franchise, and prospects for a sustainable increase in cash flow over the long haul.

Q: ***How would you define your research process?***

A: It is fundamentals. We have our own staff of people - five CFAs on board, plus two other analysts. We talk to managements of the companies and visit them in some cases. We rely on Wall Street for information rather than opinion. We're patient, we're contrarians, we are long-term oriented, and we are not particularly interested in this quarter's earnings or next quarter's earnings. We're more interested in earnings a year out or three years out, and we are interested in the management's philosophy and their strategy and how are they going to execute the business plan; and their integrity, which is always kind of hard to judge, but we're doing the best we can; we also look at how shareholder-friendly they are. Are they working in the shareholders' best interest, or are they interested in lining their own pockets, giving themselves stock options? Excessive stock options is something that is very much part of our research process. If a company has more than 10% dilution from stock options, we don't want to own it. With the new rule coming into effect on expensing stock options, we are going to probably have less of that in the future, less of the excessive stock options. It has been a horrible scheme over the last three or four years, when these companies were issuing tons of stock options and buying back stock at inflated prices to offset the dilutive effect of those stock options, which is not in the shareholder's interest at all.

Cisco is the big offender there. It issued millions and millions of stock options. Microsoft has been doing less. I believe they are doing restrictive stock grants now, instead of options.

Q: *Do you create some sort of a buy list?*

A: Yes, we do. We create a buy list of stocks we think are undervalued, and it is updated weekly. We have a watch list of stocks that have not been put onto our buy list yet, but we are watching them carefully; where we like the fundamentals, but the stocks may be a little too high to purchase. We revise those on a weekly basis, and if they move within our buy range, they move to the buy list.

> "We can find plenty of good companies to invest in, that don't violate these core principles of the Catholic Church."

about George Schwartz

George P. Schwartz is a Chartered Financial Analyst and a Chartered Investment Counselor. For thirty-eight years he has been an investment counselor, analyst, and portfolio manager. Mr. Schwartz graduated from Catholic Central High School and University of Detroit, where he majored in Finance.

From 1967 to 1974, he was an Investment Research Analyst with two New York Stock Exchange member firms in Detroit. From 1974 to 1980, he was Senior Investment Officer and Chairman of the Investment Committee of National Bank & Trust Company of Ann Arbor.

He is president, CEO and CIO (Chief Investment Officer) of Schwartz Investment Counsel, Inc., a registered investment adviser headquartered in Bloomfield Hills, Michigan, which he founded in 1980.

Mr. Schwartz is also president of the Ave Maria Mutual Funds, a family of no-load Catholic Mutual Funds.

Q: *Do you have any specifics in your buy and sell discipline?*

A: We are in the mid-cap to small-cap range, so we are not required to be necessarily buying the most liquid stocks. We are able to find our best bargains sometimes in stocks that aren't so actively traded. So, we have to be very patient, and we accumulate a stock sometimes over a couple-of-year period. We put an appraisal on each company's stock, and if we can buy it at 60% of that appraisal, then it is a bargain. Sometimes we are buying it at 70% of its appraisal value, and sometimes we can buy it at 50%.

But more importantly, we don't want a stagnant value. If a stock is worth $20 and selling for $10, we want to own it for ten; but five years down the road, we don't want it to be still worth only $20, we want it to be worth $40. Sometimes deep-value investors get into the value trap, buying a deeply depressed stock worth $20 for $10, and five years later it is still worth $20, but the stock is still at $10 or maybe $11 or $12. The value has to be increasing. The intrinsic value has to be going up. And if the price goes to the point when it is at about 90% of its value, that's when we usually sell it, because then it is not a bargain.

We are also not afraid to be overweight in certain sectors compared to the S&P. We were double overweight for the last couple of years in energy and it served us well, from little companies to Exxon-Mobil and a lot of in-betweens like Anadarko Petroleum. But we have very few healthcare companies and no drug stocks, so we are way underweight in that area, and we are way underweight in technology and computers. I would say high tech has the potential for high wreck. We like basic values, basic industries, and easy-to-understand industries. ■

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