

## **ASTON/Fairpointe Mid Cap N CHTTX**

This fund's long-term record speaks for itself.

5-08-13 | by David Kathman, CFA

Aston/Fairpointe Mid Cap's recent slump is no reason to worry.

This fund has not exactly set the mid-cap world on fire over the past three years. While its returns haven't been terrible, it trailed both the S&P MidCap 400 and the Russell Mid Cap benchmarks each year from 2010 through 2012, and it landed right near the middle of the mid-cap blend category. Despite this lengthy period of lackluster results, the fund's five- and 10-year returns still rank in the category's top decile as of May 2013, and it remains an excellent mid-cap option.

Thyra Zerhusen has managed the fund for nearly 15 years, helped for much of that time by comanagers (and former analysts) Marie Lorden and Mary Pierson. Zerhusen looks for strong niche businesses with above-average sales growth, reasonable valuations, and solid balance sheets. Like her investing hero, Warren Buffett, she wants to thoroughly understand a business before buying it, but she applies Buffett's principles to the mid-cap universe. The portfolio of 40 to 45 stocks is more concentrated than the average mid-cap fund, and it is focused on certain areas Zerhusen finds attractive, such as media.

This high-conviction, high-quality approach is the key to the fund's long-term success, but it also means that occasional slow stretches are almost inevitable, especially when a key holding or two runs into problems. In 2012, big gains by such holdings as Gannett GCl and Hospira HSP were offset by losses from Lexmark International LXK and FMC Technologies FTI, among others. But both Lexmark and FMC have rebounded nicely in early 2013, as have several stocks that the managers bought last year when they were beaten down, such as top-10 holdings DeVry DV

and Cree CREE. The fund ranks in the category's top quartile for the year to date as of May 3.

Whether or not this good performance continues in the short term, the fund's long-term track record should be considerable comfort to investors. Those with the patience to ride out the slow periods will be amply rewarded here.

**Process Pillar:** ○ Positive | David Kathman, CFA 05/08/2013

Managers Thyra Zerhusen, Marie Lorden, and Mary Pierson look for niche businesses with strong top-line growth, preferably from growing market share, and minimal debt. They own companies only with market caps between \$1 billion and \$12 billion, selling those that get too big; about 70% of the portfolio is typically in the mid-cap area of the Morningstar Style Box, with nearly all the rest in the high end of small-cap range. Zerhusen is a big fan of Warren Buffett, and like Buffett, makes a point of owning only companies whose business she understands well. She and her comanagers meet regularly with the management of the companies they own.

The managers also pay a lot of attention to valuation, somewhat offsetting their growth focus. They look at a variety of valuation metrics (price/earnings, price/sales, price/cash flow, PEG ratio) and prefer to own stocks selling at a discount to the market and their peer group. They frequently buy firms going through restructurings, and the fund has profited from having many of its holdings acquired over the years. This isn't surprising because the same features that Zerhusen likes in a stock (growth and strong balance sheets combined with reasonable valuations) also tend to attract potential acquisitors.

This fund holds a concentrated portfolio of 40 to 45 stocks, with top holdings typically taking up

## Morningstar's Take CHTTX

Morningstar Rating	****	
Morningstar Analyst Rating	₹ Silver	
Morningstar Pillars		
Process	Positive	
Performance	Positive	
People	Positive	
Parent	Positive	
Price	<ul><li>Neutral</li></ul>	

#### Role in Portfolio

Data through 12-31-12

Supporting Player. This fund provides exposure to a good mix of mid-cap stocks and could be used to temper a portfolio heavy in large caps.

Fund Performance CHTTX					
Year	Total Return (%)	+/-Category			
2012	16.45	0.30			
2011	-6.54	-2.73			
2010	23.02	0.50			

around 4% of assets. Because of the managers' long-term perspective, they often hold on to stocks for a long time, resulting in low turnover that averages around 20% a year. Some prominent holdings, such as New York Times NYT, Unisys UIS, and FMC Technologies FTI, have been in the portfolio for many years, though the top holdings also include some newer names such as DeVry DV and Hospira HSP.

Lead manager Thyra Zerhusen is not afraid to let the portfolio get concentrated in sectors and industries where she sees a lot of opportunities. For several years she has been a big fan of media stocks, a sector she covered in her early days as an analyst; she recognizes the changes roiling the sector but thinks that the market is underestimating the advantages that firms like New York Times NYT and Gannett GCl still possess. She is also a fan of niche health-care and technology names. As of March 31, 2013, those two sectors together made up 43% of the portfolio, well



above the 23% average for the mid-cap blend category and the S&P MidCap 400 Index.

**Performance Pillar:** ◆ Positive | David Kathman, CFA 05/02/2013

This fund has a very strong long-term track record, with five- and 10-year returns that rank in or near the top decile of the mid-cap blend category as of mid-May 2012. However, the same characteristics that are behind these great returns, including a portfolio that tends to be contrarian and concentrated in certain industries, have also caused the fund to underperform badly over short periods. In the 10 years from 2003 through 2012, it ranked in the category's top decile twice and the top quartile five times, but it also landed in the bottom decile once (in 2005) and significantly trailed twice more.

These rough periods have usually resulted when several top holdings fall at roughly the same time, but the fund has always bounced back strongly from these stumbles. Its terrible 2005 performance resulted from a lack of energy and utility stocks plus losses by such key holdings as Unisys UIS and New York Times NYT, but the fund came roaring back to post some of the category's best returns in each of the next two years. After losing 43% and trailing three fourths of its peers in 2008, the fund posted a 66% gain in 2009 that was among the category's best. In 2012 the fund endured its third-straight calendar year of mediocre relative returns, but Zerhusen sees the portfolio as unusually cheap as of May 2013.

# **People Pillar:** ❖ Positive | David Kathman, CFA 05/08/2013

Thyra Zerhusen has managed this fund since July 1999, but she has done so while working for three different firms. When she took over the fund it was subadvised by Talon Asset Management, but in 2003 she moved to Optimum Investment Advisors, which the board named as the new subadvisor so that Zerhusen could stay on as manager. On May 1, 2011, Zerhusen left Optimum to co-found Fairpointe Capital, and the board once again changed subadvisors to provide for

seamless manager continuity. Before taking over this fund, Zerhusen worked as an analyst at Harris Trust & Savings Bank and Sears Investment Management, and managed private accounts at The Burridge Group for six years.

Marie Lorden and Mary Pierson were named comanagers of the fund in March 2009 and were among the co-founders of Fairpointe in 2011. Zerhusen hired them as analysts shortly after joining Optimum in 2003 and had previously worked with both of them in her previous jobs. The three of them run the fund without any dedicated analysts, though they do sometimes get ideas from outside analysts at independent boutiques.

Zerhusen has more than \$1 million of her own money invested in the fund, strongly aligning her financial interests with those of shareholders. Lorden and Pierson each have \$100,000 to \$500,000 invested.

**Parent Pillar:** ◆ Positive | David Kathman, CFA 04/19/2013

Since their founding in 1993, the Aston funds have changed hands several times, but the firm has maintained a solid stewardship profile.

Most recently, the firm sold itself in 2010 to Affiliated Managers Group, a holding company that owns several other fine mutual fund companies. Throughout all this, founders Stuart Bilton and Kenneth Anderson have remained in charge and have supported a culture that's fairly friendly to shareholders. All Aston funds are subadvised, and the core group of subadvisors are fine investors with long track records. Over the past six years Aston has launched numerous new funds, and when some of these did not work out, the firm liquidated them rather than holding on to the assets.

The managers of Aston's largest funds have substantial amounts of their own money invested in the funds, thus aligning their interests with shareholders'. The board has generally done a good job of looking out for the interests of fund

shareholders, though it has not kept fees as low as they could be. The board has often closed funds to keep them from getting too big, but it may have given up some economies of scale in doing so.

**Price Pillar:** ○ Neutral | David Kathman, CFA 05/08/2013

Slightly more than half of this fund's assets (as of May 2013) are in the N shares, which are available to retail investors (minimum investment \$2,500). Their total expense ratio of 1.11% is right around the median for no-load mid-cap funds. The rest of the fund's assets are in the I shares, which cost 0.86% but have a minimum initial investment of \$1 million. That price includes a 0.71% management fee and is lower than about two thirds of institutional shares of mid-cap funds. The I shares differ from the N shares only in not including a 0.25% 12b-1 fee.

	ANNUALIZED TOTAL RETURNS				
Performance and Disclosure as of 6/30/13	1 Year	5 Year	10 Year	Since Inception	Inception Date
ASTON/Fairpointe Mid Cap Fund - N Class	33.78%	9.76%	11.63%	12.76%	9/19/94
ASTON/Fairpointe Mid Cap Fund - I Class	34.07%	10.03%		9.97%	7/06/04
S&P MidCap 400 Index	25.18%	8.91%	10.74%	12.13%	9/19/94
Morningstar Mid-Cap Blend Category	25.06%	6.67%	8.94%	9.87%	9/19/94

The performance data quoted represents past performance. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, upon redemption, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance data current to the most recent month-end, please visit our website at <a href="https://www.astonfunds.com">www.astonfunds.com</a>. The Class N gross and net expense ratio is 1.11%. The Fund's Class I gross and net expense ratio is 0.86%.

## Morningstar® Rankings Based on Total Return as of 6/30/13

Class N	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Percentile Rank	6	23	10	5
# of Funds	405	341	310	194

The highest or most favorable Morningstar percentile rank is 1 and the lowest percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. Various rating agencies categorize funds differently. Past performance is no guarantee of future results.

The N Class **Morningstar Rating** based on risk-adjusted returns for 6/30/13 was 4 stars for Overall, 3 stars for the 3-yr period, 3 stars for the 5-yr period, and 4 stars for the 10-yr period against 341, 310, and 194 US-domiciled Mid-Cap Blend funds respectively.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating is derived from a weighted-average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. © Morningstar, Inc.

The **S&P MidCap 400 Index** is unmanaged and consists of 400 domestic stocks chosen for market size, liquidity and industry group representation. Indices are for the reinvestment of capital gains and income dividends. Individuals cannot invest in an index.

On June 30, 2013, the holdings percentage in the portfolio was as follows: Gannett 2.04%, Hospira 4.09%, Lexmark 2.18%, FMC Technologies 2.27%, DeVry 3.55%, Cree 1.55%, New York Times 3.20%, and Unisys 2.12%. The Fund is actively managed. Holdings and weightings are subject to change daily.

Aston Funds has no editorial control over the content, subject matter, and timing of the original article and are independent of Morningstar and its publisher.

Note: Mid-cap stocks are considered riskier than large-cap stocks due to greater potential volatility and less liquidity.

Parameters set by the Subadviser are not a fundamental policy of the Fund and are subject to change at any time.

The **Morningstar Analyst Rating** is not a credit or risk rating. It is a subjective evaluation performed by the mutual fund analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent and price. Morningstar's analysts use this five pillar evaluation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider numeric and qualitative factors, but the ultimate view on the individual pillars and how they come together is driven by the analyst's overall assessment and overseen by an Analyst Ratings Committee. The approach serves not as a formula but as a robust analytical framework ensuring consistency across Morningstar's global coverage. A fund may receive a Gold rating and still have negative, flat or poor performance.

The Analyst Rating scale ranges from Gold to Negative, with Gold being the highest rating and Negative being the lowest rating. A fund with a "Gold" rating distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. A fund with a 'Silver' rating has notable advantages across several, but perhaps not all, of the five pillars-strengths that give the analysts a high level of conviction. A "Bronze" rated fund has advantages that outweigh the disadvantages across the five pillars, with sufficient level of analyst conviction to warrant a positive rating. A fund with a "Neutral" rating isn't seriously flawed across the five pillars, nor does it distinguish itself very positively. A "Negative" rated fund is flawed in at least one, if not more pillars and is considered an inferior offering to its peers. Analyst Ratings are reevaluated every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <a href="http://www.morningstar.com/Cover/Funds.aspx">http://www.morningstar.com/Cover/Funds.aspx</a>.

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