REPRINTED FROM AUGUST 13, 2018

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Seeking Sustainable Competitive Advantages in Pro-Life, Pro-Family Funds

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SECTOR — GENERAL INVESTING

TWST: Please introduce us to the Ave Maria Fund and share some brief history.

Mr. Milligan: The Ave Maria Mutual Funds were launched in May of 2001 with one fund. We now have five different funds: three domestic equity, one global equity and one bond fund. The largest is the Ave Maria Rising Dividend Fund (MUTF:AVEDX). The others are the Ave Maria Growth Fund, Ave Maria Value Fund, Ave Maria World Equity Fund and the Ave Maria Bond Fund. All Ave Maria Mutual Funds invest in companies that do not violate the core values and teachings of the Catholic Church. The Catholic Advisory Board set the moral criteria for the screens.

TWST: What are your goals and guiding strategies for the equity funds?

Mr. Milligan: Our funds are looking for companies with sustainable competitive advantages. We want companies with high returns on invested capital, strong free cash flows and low debt. And most of our funds are more concentrated compared with many other actively managed funds.

With regard to the growth fund, we typically maintain a portfolio of 30 to 40 companies. In the growth fund, the top 10 companies usually represent about 40% to 50% of the portfolio. We look for companies capable of compounding their intrinsic value for many years. Therefore, we have much lower portfolio turnover than the average fund. The growth fund's average annual portfolio turnover has remained near 25% over the past few years, and that should continue going forward.

TWST: Is that concentrated strategy in relation to your church-related or Catholic-related boundaries, or does it have more to do with your investment philosophy?

Mr. Milligan: It has to do with our investment philosophy. I can elaborate a little bit on how we are structured. We have a team of investment professionals and a separate Catholic Advisory Board — CAB — who advise us on those Church-related issues. So we are investors first, but we're following the moral guidelines established by the CAB. We are doing all of the things that any professional investor would do, but we have a list of companies from the screens set by our advisory board that are out of bounds. We call them offenders.

TWST: So the board screens your choices; do they give you a list you can work with and those you shouldn't look at?

Mr. Milligan: They meet regularly and have determined that the Ave Maria Mutual Funds are a pro-life, pro-family group of mutual funds. We subscribe to several commercially available screening services that give us the information we need to determine if companies are violating our screens. The CAB is an independent body, so we don't vote on their decisions. We just continue to do our investment activities following the CAB criteria religiously, not owning any offenders. So if I'm going to look at a new company, I'm going to check the list and see if it's something that we can invest in.

We screen out companies involved in abortion, which includes many pharmaceutical companies, any companies involved in embryonic stem cell research and companies that contribute to Planned Parenthood. That would be the pro-life aspect of it. And then, pro-family would be any companies that are involved in pornography, whether it's the production or distribution, which eliminates some media companies, for example, and hotel companies that make that product available through their pay-per-view service.

TWST: Tell us about your typical investor. Give us a profile of your investment end markets.

Mr. Milligan: It's largely a retail investor base. We have over 100,000 shareholders, who are predominantly Catholic. But there are also definitely non-Catholics, especially those that have strong pro-life beliefs and really appreciate the fact that we have a zero tolerance on that screen. We also have a growing number of shareholders who come to us through other intermediaries, whether they are do-it-yourself investors working through a discount brokerage firm or if they are working with a financial adviser who recommends our mutual funds to them. Lastly, we have a number of institutions, dioceses, churches, schools, etc., that invest in our funds.

TWST: How would you characterize Ave Maria Mutual Funds from an equity standpoint? Do you see any potentially impactful sector-related or broad cyclical trends?

Mr. Milligan: We are bottom-up-focused, especially with regard to the growth fund, because a big part of the strategy is finding those companies that can compound intrinsic value over many years. We regularly update our intrinsic value estimate for all the holdings, plus the companies that we are considering. Now, we have noticed over the past couple years that the price-to-intrinsic-value estimate ratios are higher than they have been in years. There aren't many deep discounts in today's market.

Our primary margin of safety is owning some of the best companies in the world, companies with high returns on incremental invested capital, and with the ability to continue growing their intrinsic value for many years. These companies have time working for them as opposed to against them. Even a couple of years ago, we would have said, "The market seems elevated." But what we have found, especially during this long bull market, is that it's impossible to time the market.

Our strategy is to own companies that we think have the best potential to keep growing their intrinsic value for many years. There have been many events over the past two years that could have derailed the market and haven't. It's anybody's guess which event will do so. And so we haven't tried to think about that too much in our strategy.

Highlights

Brian D. Milligan discusses Ave Maria Mutual Funds. These funds invest in companies that do not violate the core values of the Catholic Church. Mr. Milligan is a bottom-up investor who likes companies with a sustainable competitive advantage. Within the Ave Maria Growth Fund, he wants companies that can compound their intrinsic value over time. When evaluating a potential investment, Mr. Milligan looks at four categories of competitive advantage: intangible assets, customer switching costs, network effect and sustainable cost advantage. He also does a lot of reading, which he describes as the foundation of the process.

Companies discussed: Mastercard (NYSE:MA); Visa (NYSE:V); Moody's Corporation (NYSE:MCO); Copart (NASDAQ:CPRT); Omnicom Group (NYSE:OMC); Accenture Plc (NYSE:ACN); Cognizant Technology Solutions Corp. (NASDAQ:CTSH); Colfax Corp. (NYSE:CFX); Danaher Corporation (NYSE:DHR); Rockwell Automation (NYSE:ROK); Emerson Electric Co. (NYSE:EMR) and ABB Ltd. (ADR) (NYSE:ABB).

time thinking about how the competitive advantage can strengthen or weaken over this time period.

TWST: Beyond what your board dictates, where does your process start for equity selection?

Mr. Milligan: Reading is the foundation of the process. My goal is to read more than 100 pages per day. We don't try to compete with computers and quantitative strategies. The qualitative aspects of a business and industry are how we gain an advantage. So again, reading is the foundation of the process.

We start by reading years of shareholder letters, looking for signs that it's not written by the PR department but reflecting how management truly thinks and acts. If we like what we're hearing, we'll go on and read the latest 10-K to get a little bit deeper understanding of the company and its financials. And if we still like what we see, we'll read through the earnings and the investor day transcripts over at least the past five years. And we're looking for some ideas of how the management thinks about the business and how they allocate capital.

If we continue to like what we see, we'll then read some of the competitors' filings and some of their transcripts. We'll also read various additional sources that will help inform us about the industry and business. And then, after we've done all that reading, we will come up with an intrinsic value estimate.

But since time is scarce, we don't focus on precision here, believing it's better to be approximately right than precisely wrong in this area. We are more focused on the question, does this company have a competitive advantage that is durable over the next five to 10 years? While we seek to pay the lowest price possible, we are most focused on

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TWST: What is your evaluation process like for buying a company? What are some of the key indicators you look at?

Mr. Milligan: We have come up with four categories of how a company derives their competitive advantage. So number one, intangible assets, which could be brands, patents, regulatory licenses. Number two would be customer switching costs, which could exist either through explicit monetary costs or perhaps nonmonetary costs such as training time. And then, the third — that's very common now — is network effect, which is when the value of a product or service increases as the number of users increases. And then, the last one would be a sustainable cost advantage, either from cheaper processes, better locations or unique resources. We're not acting on the short-term news. We're really focused on the five- to 10-year time horizon, spending our arriving at an accurate assessment of the company's competitive advantage. Some examples of companies in the growth fund include **Mastercard** (NYSE:MA), **Visa** (NYSE:V), **Moody's** (NYSE:MCO) and **Copart** (NASDAQ:CPRT).

TWST: Could you give us a closer look at what attracted you to some of your best performers in each of your equity-related funds?

Mr. Milligan: Mastercard and **Visa** derive their competitive advantage primarily from a strong network effect. We've seen that as more merchants accept **Visa** and **Mastercard**, more issuers are going to issue it, and so customers are going to want that card. It's a two-sided network effect that just continues to strengthen. And what we really identified there is the growth of e-commerce.

And so with **Visa**, for example, for every dollar that's spent in the physical world, about $0.15 goes over **Visa's** network. But when transactions move to the e-commerce world, about $0.43 of every dollar goes over **Visa's** network. We think we're still in the early stages of e-commerce growth. So we feel with the strong and positive free cash flow that they have versus some of these other companies that are also benefiting from e-commerce growth and technology changes that are happening — and we've found **Visa** and **Mastercard** to be excellent ways to invest in that and benefit from that.

1-Year Daily Chart of Mastercard

Chart provided by www.BigCharts.com

1-Year Daily Chart of Copart

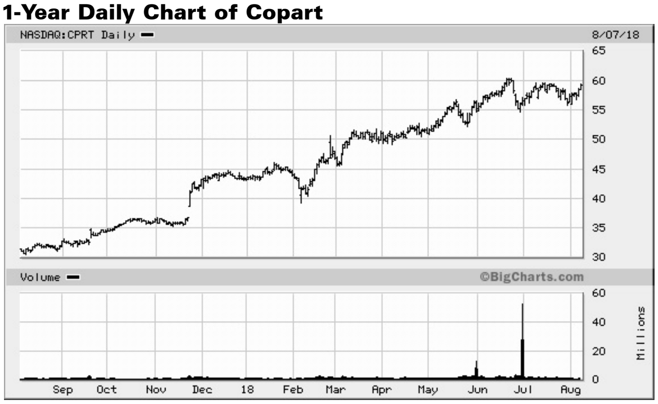

Chart provided by www.BigCharts.com

Another one that's more under the radar would be **Copart**. **Copart** disposes of salvaged automotive vehicles through its online salvage auction platform. Their primary customer is the insurance company. When a car is salvaged, it is the insurance company who is responsible for selling that vehicle. The insurance company gives a check to the policyholder, and **Copart** or **IAA** is responsible for selling the salvaged vehicle through their auction platform. **Copart** and **IAA** control more than 80% of the industry. So it's a nice duopoly with rational competitive behavior. And there are very high entry barriers because not many municipalities want to add more salvaged vehicle yards to their towns.

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So over the past 30 years, **Copart** has built the best network of yards across the country. What we've seen recently is that as the technology in the vehicles has increased, more vehicles are becoming salvaged because they're becoming too costly to repair. So the insurance companies are increasingly choosing salvage over repair. Vehicles today have so many more sensors and technology in them that they're becoming more expensive, so salvage frequency is increasing. Plus, accident frequency is increasing because of distracted driving from smartphones. The increased accident and salvage frequency is leading to very strong unit growth for the industry, and profit growth is accelerating because there is a lot of operating leverage in the business model.

There is a lot of remaining growth going forward. In the U.S., on an annual basis, there are about 16 million to 17 million new vehicles added to the population, with about 13 million exiting the population, with estimates of about 4 million of the 13 million going through the salvage process. Accelerating salvage growth may continue for many years.

TWST: Tell us about your sell discipline. What has disappointed over the recent past, and what have you most recently sold?

Mr. Milligan: We're focused on owning companies with sustainable competitive advantages. So when we typically sell, it's less often price-driven and more often a reassessment of the company's competitive advantage. In early 2018, we had a couple of noteworthy sales.

One would be **Omnicom Group** (NYSE:OMC). It was still below our intrinsic value estimate, but the moat seemed to be eroding. We're all generalists here, and so what we saw was some of the other companies we owned, **Accenture** (NYSE:ACN) and **Cognizant** (NASDAQ:CTSH), which are technology consultants, were gaining influence and market share with their digital advertising services. We saw that the moat with the traditional advertising agencies was eroding. The more research we did, the more it supported our conclusion. So regardless of the price, we just felt that it wasn't an appropriate stock for our portfolios.

And the second sell would be **Colfax Corporation** (NYSE:CFX). It's one of the companies started by the Rales brothers, who also founded **Danaher** (NYSE:DHR), which has been a fantastic company to own for many years. But we concluded that the current businesses within **Colfax** had too much exposure to emerging markets and too much exposure to cyclical commodity-driven industries.

And both of those are examples of the fundamentals breaking down. We did have a few companies that we would sell on price or we would trim on price, but the vast majority of the time, it's going to be the fundamentals breaking down.

TWST: Do you see any current macro or geopolitical negatives as a buying opportunity?

Mr. Milligan: Yes, more times than not, macro negatives give us a buying opportunity. We're looking over at least a five-year time horizon where a lot of times the market prices are reflecting a 12-month horizon, usually even shorter. Trade tariffs are the big news item right now. The relationship between China and the U.S. is extremely important when viewed over a five- to 10-year time horizon. There's too much focus on the short-term impact of the tariffs themselves and not enough on how open China will become to multinational companies.

Visa and **Mastercard** are an example. They've had an application to operate domestically that's been outstanding for a few years without much response from the Chinese government. It's both promising and risky to operate in China. It's promising because of all the growth and the potential as that country develops. It's risky because there's a lot of uncertainty about how well multinational companies can protect their intellectual property. To operate in China, multinational companies are typically required to partner with Chinese domestic companies. We're not quite sure how open China will eventually become for multinational companies.

1-Year Daily Chart of Rockwell Automation

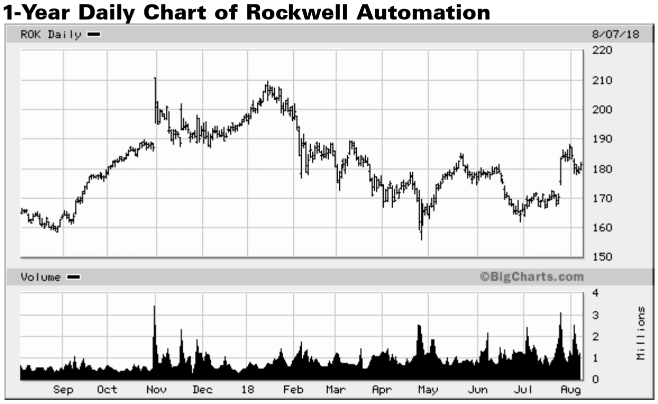

Chart provided by www.BigCharts.com

So the tariffs themselves, I think, that's going to blow over. I hope it's a successful negotiating tactic to address a bigger issue. Tariffs aren't a good thing, but one that will probably blow over. What's more important than tariffs is to what extent China opens their markets to our companies, and we open our markets to their companies. This is and will be so important for global growth.

China probably recognizes that they should be careful. They obviously want their homegrown companies to succeed, but they also want to attract foreign investment capital. It's obviously very important for the two largest economies in the world to play fair and get along. We're thinking a lot about how the relationship develops over the long run.

TWST: Are you aware of any unappreciated opportunities in the market? Have you recently bought any kind of beaten-up companies where you see opportunity?

Mr. Milligan: Yes, there's one that's a top holding that we own and that we've been adding to, and that's **Rockwell Automation** (NYSE:ROK). It's trading at just under $170 per share. **Rockwell** is a pure-play industrial automation company that seems to have a best-in-class product and service offering. And during the past year or two, you've seen two strategic buyers try to acquire **Rockwell Automation**, which to us confirms that they are in fact a very good company. **Emerson** (NYSE:EMR) made four bids, the latest being $225 per share, which **Rockwell** rejected. During this time, **ABB** (NYSE:ABB) was also trying to acquire **Rockwell**. So we feel like there's quite a bit of upside.

We trust the **Rockwell** management team knows what they're doing, and they obviously believe they're worth more than $225. And so with the stock now at less than $170, we feel like it's a great stock to own. There's probably a bit of selling pressure given what's going on with trade tariffs and some uncertainty because some of their growth is in cyclical markets. Plus, they are an I.P.-heavy company. But industrial automation is certainly a growing market both in developed and developing markets. We really like the opportunity right now in **Rockwell**.

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TWST: How important are the management teams to your investment theses? And how do you evaluate and assess a particular management team?

Mr. Milligan: It's extremely important. When we read company transcripts, we're looking to how the CEO and the CFO and the other management members are answering questions. We want to know how they think about strategy and capital allocation. And when we read these over many years, we get to see if they're doing what they planned or if their strategy is constantly changing. And then, we also look and make sure that they're incentivized in a proper way. We like when management teams are incentivized by return on invested capital. We think that's one of the most important metrics to gauge success. We also prefer companies that promote from within. Companies that do this typically have good culture, which is important to long-term success.

TWST: Is there anything else you'd like investors to know about the Ave Maria funds or any other advice you have for prospective investors?

Mr. Milligan: With regard to evaluating performance, it's beneficial to look at rolling five-year periods. When investors are aligned with the managers in this way, it allows managers to take advantage of opportunities that may hurt short-term performance yet greatly benefit long-term performance. We've had such a strong and loyal shareholder base that's provided us with the opportunity to think and act long term. We're grateful to serve shareholders of the Ave Maria Mutual Funds.

TWST: Thank you. (VSB)

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IMPORTANT INFORMATION FOR INVESTORS

As of 3-31-19, the holding percentages of the stocks in the Ave Maria Growth Fund mentioned in this commentary are as follows; Mastercard Incorporated (4.8%), Visa, Inc. – Class A (4.4%), Moody's Corporation (2.9%), Copart, Inc. (5.4%), Accenture PLC (3.6%), Cognizant Technology Solutions Corp. (2.1%) and Rockwell Automation, Inc. (3.5%). The following stocks are no longer held; Omnicom Group, Colfax Corp., Danaher Corporation, Emerson Electric and ABB Ltd. 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 3-31-19: Copart, Inc. (5.4%), SBA Communications Corp. (4.8%), Mastercard International (4.8%), Visa, Inc. Class A (4.4%), HEICO Corporation - Class A (4.2%), Brookfield Asset Management, Inc. (4.1%), ANSYS, Inc. (4.0%), The Charles Schwab Corp. (3.9%), Ecolab, Inc. (3.8%) and Graco, Inc. (3.7%). The most current available data regarding portfolio holdings can be found on our website, www.avemariafunds.com.

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Request a prospectus, which includes investment objectives, risks, fees, expenses and other information that you should read and consider carefully before investing. The prospectus can be obtained by calling 1-866-283-6274 or it can be viewed at www.avemariafunds.com. Distributed by Ultimus Fund Distributors, LLC.

02-09-071519/8397201-UFD-4/3/2019