



SmartMoney

Published February 27, 2009

ON THE STREET by Reshma Kapadia

This Fund Flies Under the Radar

WITH MANY OF THE NATION'S largest firms clamoring for federal assistance just to get by, some savvy investors have started looking at smaller companies which, not coincidentally, also tend to lead out of a recession.

But the **Appleseed fund** (*APPLX*¹), which has only \$11 million in assets, is going even smaller than small caps, and doing pretty well as a result.

Granted, all performance is relative these days: Appleseed, which ranked as Morningstar's top midcap value fund in 2008, likes to buy companies at a sharp discount. Last year it actually lost 18.1%. Typically, that's not anything to brag about, but the fund still bested its peers by 19 percentage points. It's also doing pretty well so far this year, down 4% but outperforming peers by 4.5 percentage points. Its strategy? Think small.

One of the fund's biggest holdings is microcap **John B. Sanfilippo & Sons** (*JBSS*²), a \$64 million nut manufacturer that is trading at half what it would fetch in liquidation and is benefiting from thrifty consumers switching to private labels. In the past year, the fund has "backed up the truck" on smaller companies because of the opportunity created by investors bailing out of all things small, says co-manager Joshua Strauss. The \$72 million tow truck producer **Miller Industries** (*MLR*³) is another favorite since people holding onto their automobiles longer may result in those cars being towed more frequently when the clunkers break down. (It anchors the fund with a 5% position in gold.)

That's not to say Strauss and his team don't love the giants as well. **Pfizer** (*PFE*⁴) and **Nokia** (*NOK*⁵) are among its top holdings. Even after its recent dividend cut, Strauss still likes Nokia for its dominant global brand and much better profitability than rivals. And lately, the fund has picked up mortgage REITs like **Annaly Capital Management** (*NLY*⁶). That may sound pretty risky, but Strauss is confident in the government's backing of Fannie and Freddie Mac's mortgage bonds. Plus, the REIT pays a 14% dividend yield. "But the first whiff the Fed is raising rates" and the fund will sell its shares, Strauss adds.

While the fund itself is small and just two years old, it is advised by Chicago-based investment firm Pekin, Singer Strauss, which has \$500 million in assets and has been running managed accounts since the 1990s. It's also one of the few value-oriented socially responsible funds available. Like other socially responsible funds, Appleseed stays clear of companies getting substantial revenue from alcohol, tobacco, weapon systems, pornography and gambling, and looks for those with good environmental, human rights and community investment records. With only 23 holdings, and a large chunk of its assets concentrated in its top 10, the fund can be risky if one of its picks doesn't pan out.

But Appleseed's managers take a bigger risk than any other investor: Their own money accounts for 17% of the fund's assets. "It makes you think very, very hard about the price that you pay," Strauss says.