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Talking With Mark Oelschlager
Portfolio Manager, Red Oak Technology Select

Like Father, Like Son

by Sarah Max

Growing up, Mark Oelschlager remembers that his dad, Oak Associates founder Jim Oelschlager, never missed an opportunity to teach him about the value of a dollar. When he was in middle school, his father bought him a tractor so he could make money mowing lawns. "Dad paid for the cost of capital, and I got to keep the revenue," says Oelschlager, 43. When he was off studying economics at Trinity College in Connecticut, his care packages from home included stock-market analysis and company reports.

And yet the senior Oelschlager had no intention of grooming his son to follow in his footsteps, let alone take over the $931 million Akron, Ohio-based asset-management firm he started in 1985. "In fact I was told on the contrary, that I wouldn't work at Oak," says Oelschlager. After getting his M.B.A. at Ohio State University and completing a one-year fellowship, he spent four years as an analyst at the State Teachers Retirement System of Ohio.

"I wanted him to find his own path," says Jim, 69, who is a long-time proponent of managing concentrated mutual-fund portfolios. His firm's flagship White Oak Select Growth Fund (ticker: WOGSX) as of May 10 had averaged 7.5% annual returns since its 1992 inception, topping the 7% gains of its large-growth peers. The firm now manages seven no-load mutual funds, all of which tend to invest in just 25 to 40 companies.

But in 2000 Jim had a change of heart about hiring family. "Everyone talked about what a great place this was to work, and it occurred to me that Mark shouldn't be precluded from working here," says Jim, who offered his son a job as an analyst with the caveat that he'd have to work harder than everyone else. "I told him it can be dangerous stuff working for your father, particularly if the son doesn't work out and the father has to fire him."

A dozen years later, the elder Oelschlager still isn't playing favorites. When he passes on, "ownership will be divided among all employees," says Jim, who was diagnosed with multiple sclerosis in 1973. Likewise, he says, it isn't a foregone conclusion that his son will become "chief banana."

Oak Associates founder Jim Oelschlager avoided the Nifty Fifty; son Mark is wary of Zynga and Groupon.

Stephen Webster for *Barron's*

Still, there's little risk that father will have to fire son. Mark Oelschlager now oversees three funds, including the $81 million Red Oak Technology Select (ROGSX), which is up 6% annually since he took it over in April 2006, versus about 4% for its technology-sector peers. Last year the fund was No. 1 in its category, finishing the year up 2.8% when the rest of the group was down 7.6%.

Oelschlager adheres to the same principles as the rest of the firm. With just 35 holdings, the portfolio aims to exploit the firm's best ideas and has a turnover of just 24%. Despite limited trading, its expense ratio is 1.35%. The focus is long-term. "You're never going to hear us talking about why we like a particular stock for the next three months," he says. "And you're not going to see us going to 30% cash." Like his father—who avoided the Nifty Fifty in the 1970s when the stocks seemed particularly nifty—Oelschlager tends to eschew anything that's overly popular.

(over please)

Oak Associates Funds

Red Oak Technology Select

1-888-462-5386

	Total Returns*		
	1-Yr	3-Yr	5-Yr
ROGSX	0.30%	22.78%	5.36%
S&P 500	2.32	15.89	0.30
Morningstar Tech	-5.26	19.06	3.92

*All returns are as of 5/11/12; three and five year returns are annualized.
Sources: Morningstar; Company reports

For that reason, don't expect to see the likes of social-gaming company Zynga (ZNGA) or Web discounter Groupon (GRPN) in the portfolio anytime soon. Rather than try to discern winners and losers in the "frothy" social-media space, he's playing that trend with established companies like Cisco (CSCO) and Symantec (SYMC), which should benefit from more and more data moving over the Internet.

Top holding Accenture (ACN), which the fund has owned since June 2006, is another example of the kind of company Oelschlager favors. The global consultancy is the go-to source for technology and outsourcing solutions for the world's largest companies. It has a diverse client base, both by industry and geography, and doesn't require a lot of capital "because their people are their capital," he says. But the real attraction for him is its return on equity, which is consistently about 50%. "That's what it all comes down to—free cash flow," he says. Moreover, Accenture has steadily increased its dividend, recently 2.3%, since 2005, even during the recession. And yet, the stock remains cheap. "Compare Accenture's 9% free-cash-flow yield with the 2% yield on a 10-year bond; the gap is staggering," notes the portfolio manager.

As a rule, Oelschlager looks for free-cash-flow yield that's in the high single digits, but he'll make an exception if he thinks a company is investing prudently. That's true of long-time holding Amazon.com (AMZN), which he says is "plowing money back into its business" with investments in fulfillment centers and its cloud Web-hosting services. Last year its operating margins dipped to their lowest levels since 2001, and in the first quarter of this year those margins were a puny 1.46%. At recent levels, Amazon trades at 86 times forward earnings. Yet, Oelschlager says he's willing to look past disappointing numbers in the short term if a company is well positioned for the long term. "They're building a platform that is almost impossible to replicate," he says.

The same could be said for another large holding, Intel (INTC), which the fund has owned since the middle of 2010. As the dominant player in the microprocessor market, it's in an ideal competitive situation, says Oelschlager. Chief competitor Advanced Micro Devices (AMD) is "significant enough to keep the antitrust authorities away," but not strong enough to be a significant threat. That competitive advantage translates to excellent returns on capital, he says, yet the stock trades at less than 12 times trailing earnings. Intel isn't alone. "Right now you're seeing a lot of older technology companies trading at depressed valuations," says Oelschlager. "And yet they're still growing."

That's good news for a growth manager who likes to play it safe. "Typically the father is the more cautious one, but in our case it's the opposite," he says. "I'm the conservative one, and he's the maverick."

"I'm inclined to let a position run longer and be a larger part of the portfolio," says Jim, though he appreciates his son's more conservative approach and, occasionally, gives in to his "badgering." ■

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ROGSX was ranked #1 out of 209 funds in the Morningstar Technology Sector category for its 2011 performance; the category includes funds that invest in technology related companies.

Average Annualized Total Returns as of March 31, 2012	1 year	3 year	5 year	10 year
Red Oak Technology Select Fund (ROGSX)	13.66%	32.65%	8.32%	1.98%
White Oak Select Growth Fund (WOGSX)	5.56%	25.17%	6.02%	1.89%
S&P 500 Index	8.54%	23.42%	2.01%	4.12%

Gross expense ratios for ROGSX and WOGSX are 1.32% and 1.14% respectively.

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an Investor's shares, when redeemed, may not be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call 1-888-462-5386.

To determine if this fund is an appropriate investment for you, carefully consider the fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the fund's prospectus, which may be obtained by calling 1-888-462-5386 or visiting www.oakfunds.com. Please read it carefully before investing.

Mutual fund investing involves risk, including the possible loss of principal. Funds that emphasize investments in technology generally will experience greater price volatility. There are additional risks associated with investing in a single-sector fund versus a more broadly diversified portfolio, including greater sensitivity to economic, political, or regulatory developments impacting the sector.

As of 3/31/12 ROGSX held 5.2% ACN, 4.6% KLAC, 4.5% CHKP, 4.2% IBM, 4.1% NOC, 3.9% IACI, 3.9% CA, 3.9% SYMC, 3.5% ADS, 3.4% XLNX. Holdings subject to change.

S&P 500 Index – An index of 500 widely held stocks weighted by market value. It is not possible to invest directly in an index.

The managers' commentary represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon as research or investment advice.

WOGSX's peer group, The Morningstar Large Growth Category, includes funds that invest in big companies that are projected to grow faster than other large-cap stocks.

Free cash flow is the cash from operations minus capital expenditures.

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