

Westport R WPFRX

Morningstar's Take | 11-05-09 | by Michael Breen

Westport continues to impress.

This has quietly become one of the best mid-cap blend funds. Its returns land in its category's top quintile in every trailing period of three years or more, and its three-month rolling returns show it has lost less than the S&P MidCap 400 Index and its typical rival in nearly every down period, while hanging tough or outperforming in most rallies. The fund is among a tiny subset of the category that held up better than most in 2008's downturn but that also outperformed so far in 2009's rally.

Manager Ed Nicklin is a long-term investor who likes firms compounding capital at high rates. He likes bargains but favors strong profitability over cheapness. The portfolio's return on equity and net margin are 40% above the category average; its P/E is in line with it. The fund's single-digit turnover rate implies a 10-year holding period, but Nicklin isn't a buy-and-forget manager. He has consistently added value trading around existing names. Take top holding Precision Castparts PCP, a maker of metal parts. Nicklin steadily built his position from 2000 through 2005, even as the stock ran up. He harvested big gains in 2006 and 2007, cutting his stake nearly in half. When the stock cratered in late 2008 he bought more, redoubling his stake. The stock has since gained more than 60%, but Nicklin was still buying it recently, saying acquisitions enhance the firm's strategic edge.

Nicklin is finding other bargains. In mid-2009 he bought Charles River Laboratories CRL, a provider of animal-research models to the drug industry. He says that concerns about the rate of biotech and pharma-research spending cratered the shares, but the firm dominates its space, and long-term demand for its specialty testing is strong. He also bought Lender Processing LPS, a mortgage-services firm that Nicklin says has a strong default-processing business. He also expects it to benefit from outsourcing trends at the big banks.

Strong stock-picking built this fund's envious record, and Nicklin hasn't lost a step.

Michael Breen is a fund analyst with Morningstar.

Morningstar Rating

★★★★★

Kudos

- Experienced manager.
- Strong performance in market rallies and downturns.
- Moderate risk profile.
- Distinctive portfolio.

Risks

- With a fairly concentrated portfolio, individual blowups can put a dent into returns.
- Could be cheaper.

Strategy

Manager Ed Nicklin uses an approach that's similar to one that he used quite effectively at his former charge. He looks for stocks of all sizes that are trading at low multiples relative to their long-term growth prospects. Nicklin is willing to make big sector bets and isn't afraid to buy stocks in nontraditional value sectors such as technology. Thus, the portfolio typically has a mix of value and growth stocks. Nicklin also has a long time horizon and keeps turnover to a minimum.

Management

Seasoned. Ed Nicklin has been running money at Westport since 1997. He comanages Westport Select Cap WPSRX with Andy Knuth. Nicklin built a great record at Evergreen Growth & Income (now Evergreen Fundamental Large Cap) before joining Westport.

Role in Portfolio

Supporting Player. Although the fund is quite versatile, its focus on small- and mid-cap names means that it's best used as a supporting player for a diversified portfolio.

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Year	Total Return (%)	+/-Category
2009	32.17	-5.22
2008	-30.28	8.90
2007	13.71	8.86
2006	13.27	-0.76

Data through 12-31-09

This information should not be considered as a recommendation to purchase or sell a particular security and the holdings mentioned may change at any time and may not represent current or future investments.

The views expressed herein are those of the portfolio manager at the time of the interview and may not be reflective of current opinions or future actions. These views are not necessarily those of the fund company and should not be construed as such.

Performance data quoted represents past performance; past performance is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days, at www.westportfunds.com.

As of June 30, 2010

	<u>Westport Fund – Class R shares</u>	<u>Russell Midcap® Index**</u>
Year to Date	-4.23%	-2.06%
One Year	17.31%	25.13%
Five Years	3.48%*	1.22%
Ten Years	5.69%*	4.24%
Since Inception (12/31/97)	9.05%*	6.01%

FUND EXPENSE RATIO: TOTAL EXPENSES: 1.31%***

There are special risks associated with small and mid- capitalization issues such as market illiquidity and greater market volatility than larger capitalization issues.

* Performance for the Westport Fund reflects certain waivers and expense reimbursements. Without such reimbursements, performance would be lower.

** The Russell Midcap® Index is an unmanaged index comprising the 800 smallest companies in the Russell 1000 Index. You should note that The Westport Funds are professionally managed mutual funds while the indices are unmanaged, do not incur expenses and are not available for investment. The Class R shares of the Westport Fund received a five-star Overall Morningstar Rating™ based on Risk Adjusted Return as of June 30, 2010 when rated against 364 U.S.-domiciled Mid-Cap Blend funds. The Morningstar Rating is for the R share class only; other classes may have different performance characteristics.

*** As set forth in the Funds' prospectus dated May 1, 2010, the actual Total Annual Operating Expenses for Class R Shares of the Westport Fund for the fiscal year ended December 31, 2009 were 1.31%. "Total Annual Fund Operating Expenses" include shareholder servicing fees. During the fiscal year ended December 31, 2009, the Class R shares of the Westport Fund paid shareholder servicing fees equal to 0.12%. Total Annual Operating Expenses in fiscal 2010 may be more or less than the amount paid in fiscal 2009. Westport Advisers, LLC has also contractually agreed to waive a portion of its advisory fees and/or assume certain expenses so that "Total Annual Fund Operating Expenses" do not exceed 1.50% for any class. See the Funds' prospectus for additional information regarding the Funds' expenses.

The Overall Morningstar Rating™ for a fund is derived from the weighted-average of the performance figures associated with its three-, five-, and ten-year (if applicable) Morningstar Rating metrics.

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 variations 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 the funds in a broad asset class 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. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.)

The Class R shares of the Westport Fund received the following star ratings among U.S.-domiciled Mid-Cap Blend funds for the following time periods: five stars (among 364 funds) for the three-year, five stars (among 307 funds) for the five-year and four stars (among 161 funds) for the ten-year time periods.

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Portfolio composition is subject to change at any time and should not be considered a recommendation to purchase or sell a particular security. On June 30, 2010 the following securities comprised these respective percentages of the Westport Fund: Precision Castparts Corp. (4.3%), Charles River Laboratories International, Inc. (1.7%), and Lender Processing Services, Inc. (3.0%).

Investors should consider the investment objectives, risk, and charges and expenses of The Westport Funds carefully before investing; this and other information about the Funds is in the prospectus, which can be obtained by calling 1-888-593-7878 or at our website www.westportfunds.com. Read the prospectus carefully before you invest.

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