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DAILY COVER

INVESTING

Pick Your Poison: How This Fearless Fund Beats The Market

Elise Hoffmann, founder Chris Niemczewski and Chad Goldberg are Marshfield's three portfolio managers and have spent a combined 77 years at the firm.

Marshfield Associates holds its stocks through E. coli outbreaks, weather emergencies and other economic disruptions. And it's outperformed the S&P 500 for nearly a decade.

BY HANK TUCKER, FORBES STAFF



PHOTOS BY STEPHEN VOSS FOR FORBES

When Chipotle Mexican Grill came under fire in the fall of 2015 for making hundreds of diners sick at several locations across the U.S., customers–and investors–couldn't flee fast enough. The popular fast food chain's stock plunged 34% in the last quarter of the year, falling further with each blow: 64 cases of salmonella in Minnesota due to shoddy tomatoes, 98 cases of norovirus in Simi Valley, California, 50 cases of E. coli in Washington and Oregon, 120 Boston College students stricken with norovirus in December, all traced back to Chipotle restaurants.

"They poisoned people, and everybody stopped going there," says Chris Niemczewski, founder and managing principal of Washington, D.C.-based Marshfield Associates. "Actually I stopped going there–for about a week."

The stock fell an additional 40% in 2016 and 2017, and Niemczewski used the prolonged drought to load up on what everyone was selling. According to public filings, Marshfield started buying in the second quarter of 2016 and owned 240,000 shares by the first quarter of 2018, when shares were trading at around $300 each.

Chipotle stock soared more than fourfold over the next three years, making Marshfield several times its money before it cashed out by the end of 2020, though it missed another 26% of gains in 2021 as the stock became even more expensive.

It's a prime example of Marshfield's high-conviction approach to investing against the grain that Niemczewski has implemented since he founded the firm in 1989. Marshfield now manages $4.7 billion in assets–$470 million in its lone mutual fund, the Marshfield Concentrated Opportunity Fund (MRFOX), with the rest in separately managed accounts that follow the same strategy. The mutual fund's expense ratio is 1.02% of assets a year, while separate accounts have a 1.25% annual fee and require a $1 million minimum investment. The fund currently owns just 17 stocks and keeps a cash position on hand to be opportunistic whenever a company in its portfolio or on its shopping list falls below a "buy" price–a moving target set by discounted cash flow valuations incorporating criteria like sales growth, profit margin and excess fixed capital spending.

So far, the strategy is working. Since it launched in December 2015, the mutual fund has returned 15.8% annually, outperforming the S&P 500 by nearly four percentage points. It's never had a down year and gained 5% in 2022 while the S&P 500 fell 19%. Although the fund's research team talks to 80 to 100 companies each year to determine whether to invest, often only one or two make the cut. It holds its stocks for an average of around eight years.

"We have a broad funnel–we'll talk to anything that piques somebody's interest–but we have a really, really narrow spout at the end of the funnel, and very few ideas get through," says co-portfolio manager Elise Hoffmann, who has been at Marshfield since 1995. "We'd rather commit a crime of missing out on a company rather than buying something, a crime of omission rather than commission."

Niemczewski, 71, immigrated from England as a boy and worked in a steel mill for a year in East Hartford, Connecticut after graduating from Swarthmore, an experience that motivated him to work on the side of capital instead of labor. He went to Columbia Business School and started a small investment firm in the 1980s, before selling his stake to his partners to start Marshfield. Hoffmann, a Princeton and Yale-educated lawyer, spent seven years working for then-Congressman Ed Markey on the staff of the House subcommittee he chaired on telecommunications and finance. But she became exasperated by the pace of change on Capitol Hill–she likens it to "Groundhog Day"—and pivoted to investing.

STEPHEN VOSS FOR FORBES

Marshfield founder Chris Niemczewski values consensus — and skin in the game. Principals are required to have their personal equity portfolios entirely invested in the strategy.

The duo, who married 15 years ago, added former minor league baseball announcer Chad Goldberg, who has worked for the firm since 2008, as a third portfolio manager last year. Marshfield's research team of six operates by consensus: they meet in a conference room in their office on Dupont Circle for calls with companies they're considering investing in and hash out ideas among themselves until there's agreement. Adding heft to the collective decision: all the principals are required to have their personal equity portfolios entirely invested in the strategy.

An investment usually comes only after multiple calls with a company's leadership as well as conversations with its competitors, which sometimes winds up with the fund owning two competitors at once to fill precious slots in the portfolio. Two of Marshfield's four largest holdings today are auto parts stocks AutoZone and O'Reilly Automotive, which it started adding in the summer of 2017. While most of the market was enjoying a post-election boom, brick-and-mortar retailers were lagging behind as Amazon was ascendant. AutoZone and O'Reilly both fell around 40% from the beginning of the year through July as sales growth slowed.

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In reality, Niemczewski and Hoffmann say, sales at O'Reilly and AutoZone are fueled by miles driven and the weather more than macroeconomic factors or larger retailing trends. Drivers need more replacement parts during periods of extreme cold or extreme heat, and sales were stagnant mainly because the U.S. was experiencing a year of moderate temperatures. Amazon can suffocate a lot of stores, but taking market share in auto parts is more difficult.

"One of the lovely things about the automotive retail business is that you need your windshield wipers replaced or your battery replaced right away," Hoffmann says. "You can't even wait until tomorrow."

Sure enough, the short-term weather patterns turned, sales accelerated and both stocks are up more than fivefold since the middle of 2017. They both enjoy profit margins around 20%, much higher than the third major player in the space, Advance Auto Parts, which hasn't gained at all in the last five years. Marshfield has avoided the stock despite frequent conversations with management. "We still can't figure out what they're doing wrong, and they can't either," Niemczewski says.

They're also big believers in a pair of insurance companies, Arch Capital and Progressive. Bermuda-based Arch represents the biggest slice of Marshfield's portfolio at 9.8%, aside from its 14% in cash, and the firm has owned it since 2009, when the stock finished the year at about $8 per share. It now trades at a record high of $77 per share and shot up last fall during a brutal hurricane season. Niemczewski cites its discipline in selling more insurance policies when it can charge higher premiums and scaling business back when the environment isn't as appetizing to manage supply and demand.

"The insurance industry has a cycle that's different from the economic cycle, driven among other things by the number of big disasters we've had lately," Niemczewski says. "You basically have to pay people not to work hard in times of the cycle where you want them just to slow down, write less business and let other people write the bad business. When that changes, your life gets good."

"You can make a lot of money in a really simple stock, so why not, right? You don't have to make it hard for yourself."

Chris Niemczewski, Marshfield's founder

Marshfield's portfolio is filled out with other well-known companies like Domino's Pizza, Mastercard, Visa and Goldman Sachs. Yum Brands, the parent company of KFC, Pizza Hut and Taco Bell, was its longest-tenured investment for 22 years, from when it was trading at mid-single digit levels after going public in 1997 until it exceeded $100 per share in 2019. Niemczewski held on and added to the stake through several E. coli and salmonella scares of its own. Restaurant stocks tend to rebound eventually after such health scares, he says. He points to the example of Jack in the Box (a stock he didn't buy): after its infamous 1993 E. coli outbreak from undercooked burger patties killed four children and made hundreds of customers sick, its shares dropped as low as $2 in 1995. But the stock hit more than $120 two years ago.

"If you can survive killing children, you can survive making people sick," Niemczewski says of his subsequent investments in Yum Brands, Chipotle and Domino's. (Domino's hasn't had a high-profile food poisoning incident yet but made pizza so lackluster before a recipe reinvention in 2009 that "you might have thought you were being poisoned," he jokes.)

Niemczewski and Hoffmann see food as a poster industry for resilient stocks, something they look for throughout their portfolio. They typically shy away from the tech sector, commodities and utilities and keep a conservative portfolio with low volatility. Niemczewski says there's nothing he hasn't tried at least once, but cites Warren Buffett's quote that you don't get awarded extra points for degree of difficulty in investing.

"You can make a lot of money in a really simple stock, so why not, right?" he says. "You don't have to make it hard for yourself."

The thoughts and opinions expressed in the article are solely those of the author as of 5/22/2023. The discussion of individual companies should not be considered a recommendation of such companies by the Fund's investment adviser. The discussion is designed to provide a reader with an understanding of how the Fund's investment adviser manages the Fund's portfolio.

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The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund, and may be obtained by calling 855-691-5288. Please read carefully before investing.

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Fund Performance

Marshfield Concentrated Opportunity Fund	1 Year*	3 Year*	5 Year*	Since Inception (12/28/2015)*
As of 12/31/24	17.13%	13.14%	14.47%	16.28%

**Annualized*

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns 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. Current performance may be lower or higher than the performance data quoted. Call 1-855-691-5288 for current month-end data.

MRFOX Top 10 Holdings
As of 12/31/2024

26.50%	Cash & Cash Equivalents
9.21%	Ross Stores
9.15%	Autozone
6.32%	O'Reilly Automotive
5.82%	Cummins
4.95%	Mastercard
4.58%	Visa
4.376%	Domino's Pizza
4.28%	Arch Capital Group
4.20%	TJX Companies

The current and future portfolio holdings are subject to risk

The Adviser has contractually agreed, until January 1, 2026, to reduce Management Fees and reimburse Other Expenses to the extent necessary to limit Total Annual Fund Operating Expenses to an amount not exceeding 0.99% of the Fund's average daily net assets.

Net Expense Ratio 1.02%.
Gross Expense Ratio 1.12%.