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Money&Business

INVESTING WITH

# John W. and John C. Thompson

## Thompson Plumb Growth Fund

By CAROLE GOULD

IN 1993, John C. Thompson, a newly minted M.B.A. from the University of Chicago, returned home to Madison, Wis., to help his father build the family money management business. He did almost everything from answering telephones to keeping the books.

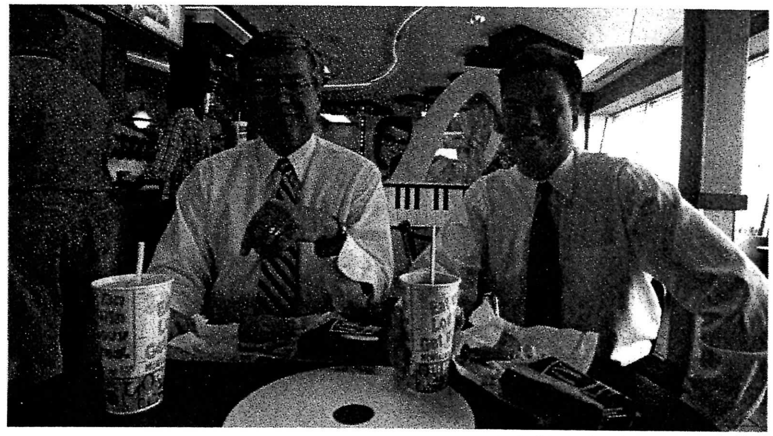
"I was willing to do whatever it took to help the firm," said Mr. Thompson, now 32, "even when it meant driving four hours to River Falls, Wis., to talk to truck drivers about their 401(k) plan."

A year later, he became co-manager of the family's new $4 million mutual fund and helped his father, John W. Thompson, now 58, build it into the $165 million **Thompson Plumb Growth** fund.

"We're looking for good growth companies selling at lower prices, anticipating some improvement in the business fundamentals that would allow the price-earnings multiple to expand and earnings to increase," the older Mr. Thompson said.

The fund returned 21.8 percent a year, on average, for the three years ended Thursday, taking secondplace among 774 large blend funds, according to Morningstar Inc. The category returned 4.1 percent, on average, versus 4.5 percent for the Standard & Poor's 500. For the 12 months through Thursday, the fund returned 29.9 percent, versus declines of 24 percent for both the category and the S.& P.

The fund's adviser, **Thompson Plumb & Associates**, also runs the $75 million **Balanced** and $25 million **Bond** funds, plus $1 billion for institutions and individuals. The "Plumb" in the name is Thomas G. Plumb, a co-founder of the firm and manager of the Balanced fund.



Andy Manis for The New York Times

John W. and John C. Thompson at a McDonald's in Madison, Wis. McDonald's is one of their fund's holdings..

The Thompsons use no computer screens to select the 65 or 70 stocks in the Growth fund from United States companies with market capitalizations above $1 billion. Instead, they review financial news services, read Wall Street research and attend conferences, looking for established, growing companies.

Specifically, they want companies with minimum returns on equity of 15 percent to 20 percent a year, on average, over 5 or 10 years and gross profit margins of at least 50 percent. "High margins indicate a lower level of competition in the field that the company operates in," the father said, adding that profitability could result from strong brand names, lower costs or technological advantages.

The managers often focus on companies with established consumer brands. Those stocks account for about 40 percent of the fund's assets, double the weighting that the S.& P. 500 gives such companies.

"Multiples are low, but we're still seeing good improvements in the growth rates of many consumer brand companies," the son said. "Many of them are multinational, and they would get a big boost to earnings should the dollar weaken."

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**hompson Plumb Growth**

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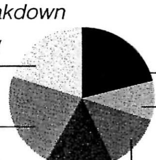
|---|---|
| *Category* | Large blend |
| *Net assets* | $165 million |
| *Inception* | February 1992 |
| *Managers* | John W. Thompson since inception and John C. Thompson since January 1994 |
| *Minimum purchase* | $1,000 ($250 I.R.A.) |
| *Portfolio turnover* | 65% |
| *3-year annualized return through Thursday* | 21.8% |
| *Category average* | 4.1% |

*Sector breakdown*




*Fees*

| | |
|---|---|
| *Front-end load* | None |
| *Deferred load* | None |
| *12b-1 fee* | None |
| *Expense ratio* | 1.25% |

*Sources: Morningstar Inc.; company reports*

*Continued from other side*

To value a company, they establish historical ranges for the price-to-earnings ratio based on the 5-to 10-year history of the company and its peers. They buy shares at the low end of the range and sell when they approach or exceed the high end.

Many of their stocks are acquisition targets — about 10 of the portfolio companies were acquired in the last 18 months. "We want to see a lot of earnings in the stocks that we buy," the father said. "Our stock selection criteria are the same as a company would use to buy a competitor or to make fold-in acquisitions."

The fund owns shares of the **Acxiom** Corporation, a Little Rock, Ark., provider of data to direct marketers. Acxiom says it tracks 100,000 data sources covering every birth, death and real estate transaction in the country. The younger Mr. Thompson said the company has made an accounting change affecting when Acxiom recognizes revenue.

"It will create a big lull in their revenues over the next 12 to 18 months," he said, "but it will help them in the long run." The company could be an acquisition target, he said, because of its desirable technology and relatively low price. The fund bought shares at $15.50 in October 1999; they are now at $12.74.

The fund's biggest position, at 4 percent of assets, is **Coca-Cola**, originally bought in August 1999 for $61. On Friday, it closed at $48.67.

"It's the most recognized brand name in the world," he said. "They're going to benefit from expanded worldwide wealth. Soft drinks are still considered luxuries in China and the developing countries."

He said he believes that earnings have stagnated partly because of continuing economic difficulties in Asia and the strength of the United States dollar, but he expects improvement when the dollar eventually weakens.

The fund also likes **Merck**, the drug company. "It's got a triple-A balance sheet," the elder Mr. Thompson said. "You can't get much better than that."

Merck's earnings have grown at an annual average of 15 percent for 20 years, he added. Its shares have declined as patents have expired for drugs like Vasotec, used to treat hypertension, and Pepcid, for ulcers. That does not faze him, he said, because of new products, like Vioxx, an arthritis drug. "Merck and Coke will show earnings growth in a weakening economy, when the S.& P. companies have negative earnings."

They first bought Merck shares at a split-adjusted $16.40 in November 1993; they now trade at $65.10 □



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The Thompson Plumb Growth Fund returned 32.15%, 15.76%, 22.46% and 16.44% for the one-year, three-year, five-year and since inception periods ended 6/30/2001, respectively. For complete information, management fees, and expenses, call for a prospectus. Read it carefully before you invest.

Past performance is no guarantee of future results. Yield, return and principal value will vary and shares may be worth more or less when redeemed. Thompson, Plumb & Associates, Inc., advisor to the Growth Fund, has at times voluntarily limited expenses of the Fund as referenced in the prospectus, resulting in higher returns to shareholders.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating(tm) metric each month by subtracting the return on a 90-day U.S. Treasury Bill from the fund's load-adjusted return for the same period, and then adjusting this excess return for risk. The top 10% of funds in each 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. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Ratings metrics. Each fund is rated exclusively against U.S.-domiciled domestic equity funds. Past performance is no guarantee of future results.