



# MBA SIM Fund



**Board Presentation**  
**December 4, 2009**

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# 2009-2010 Student Managers



*Spencer Rands*  
*W.P. Carey MBA*  
*Finance & Real Estate*  
*Class of 2010*



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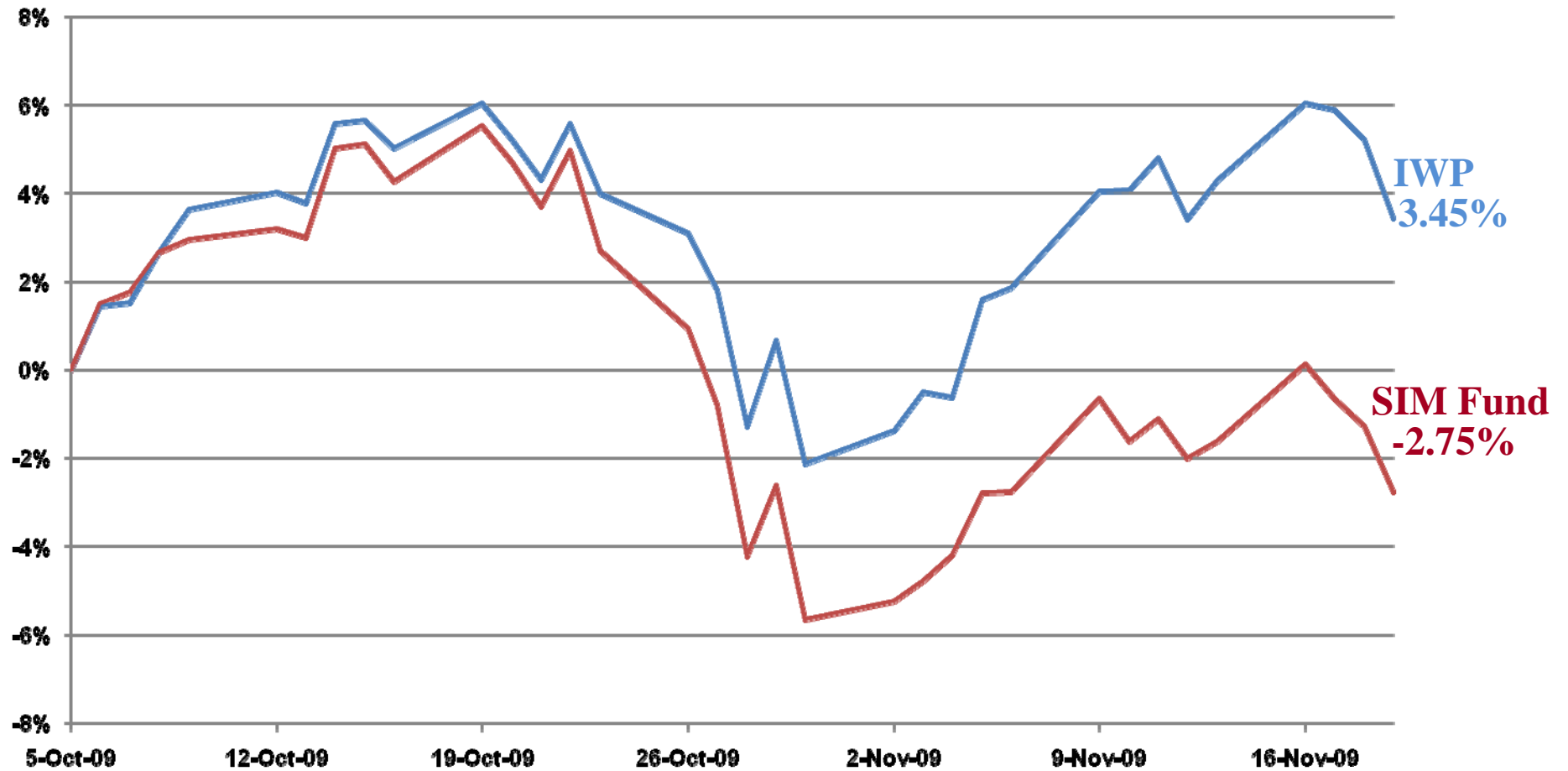
# Overview

- First update since 1997
- Clarified responsibilities & procedures
- Updated asset guidelines
  - Requirements, foreign securities, ETFs
- Fund to be fully managed at all times

- Long-term investment strategy
- Minimum 75% equities
- Maximum 20% fixed income
- Maximum 10% cash
- \$500MM minimum market cap
- No short selling
- Limits on derivatives

- Style: Midcap Growth
  - Market Cap: \$2b - \$10b
- Benchmark
  - Russell Midcap Growth Index (IWP)

## Returns: Oct 5 – Nov 19







# Economic Climate & Outlook

- 4 consecutive quarters of negative real GDP growth
- Bull market
- Low inflation
  - CPI
  - PPI
- \$70 Oil

- Unemployment slow to improve from 9.8%
- GDP growth between 2-4%
- Continued rise in capacity utilization
- No major shocks until 2011 (CMBS)



# Selection Process

## Stock Selection

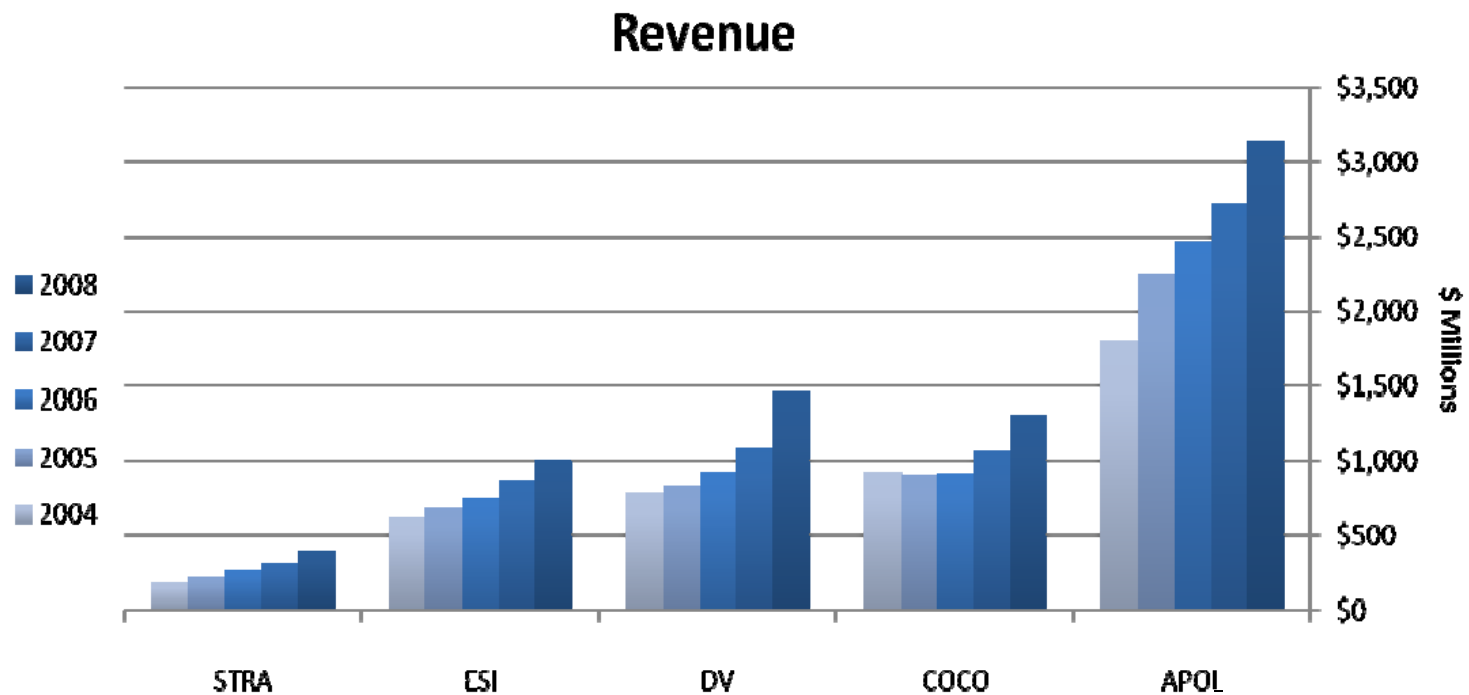
- Balance of value and capital growth potential
- Identify industries poised to outperform market
- Strong fundamentals
- Best in industry

## Example: APOLLO GROUP

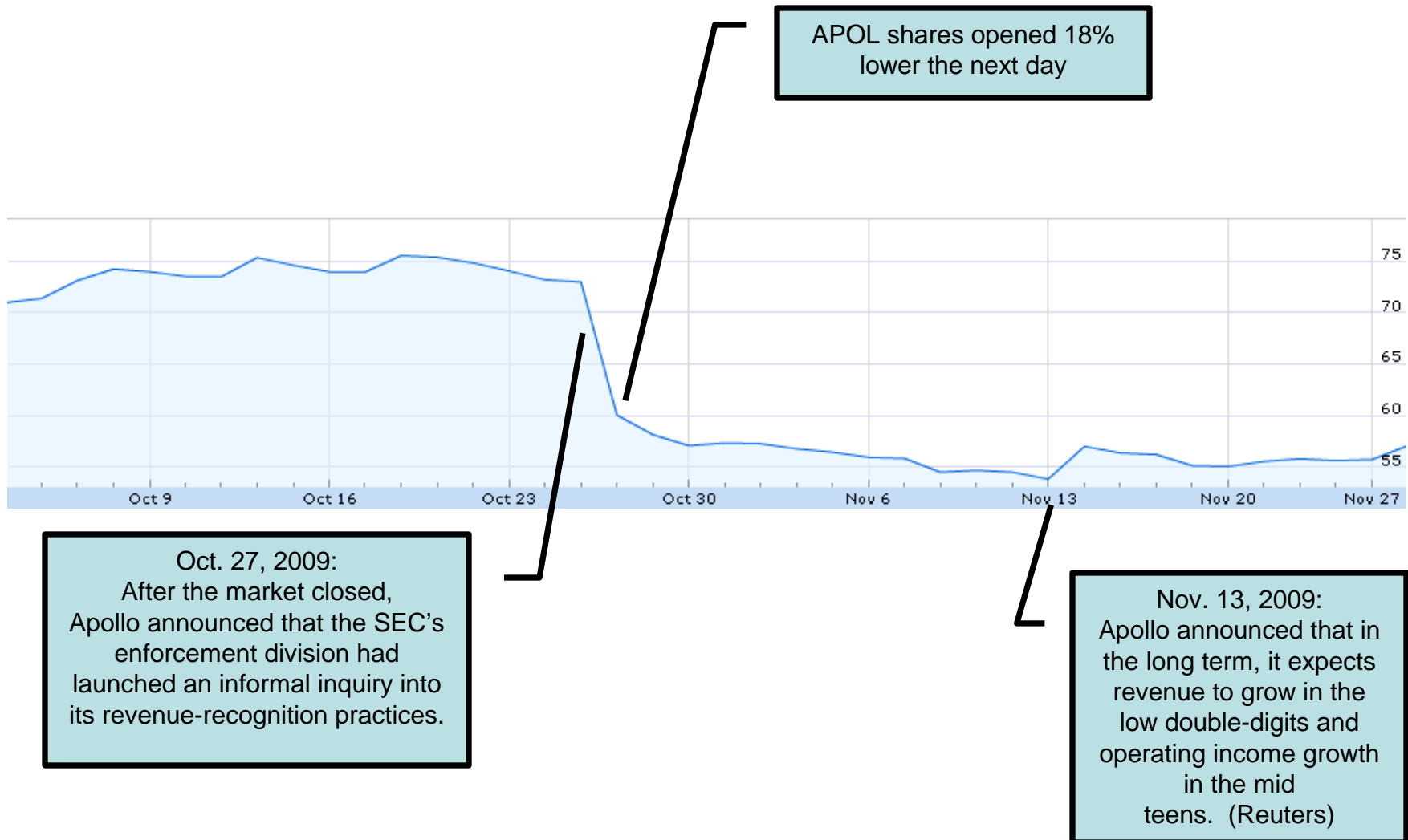
- Attractive industry
- Strong revenue growth
- Improving margins
- Underpriced relative to its peers
- Underpriced relative to its historical P/E
- Strong, consistent ROE
- International growth

## Example: APOLLO GROUP

- Strong Revenue Growth

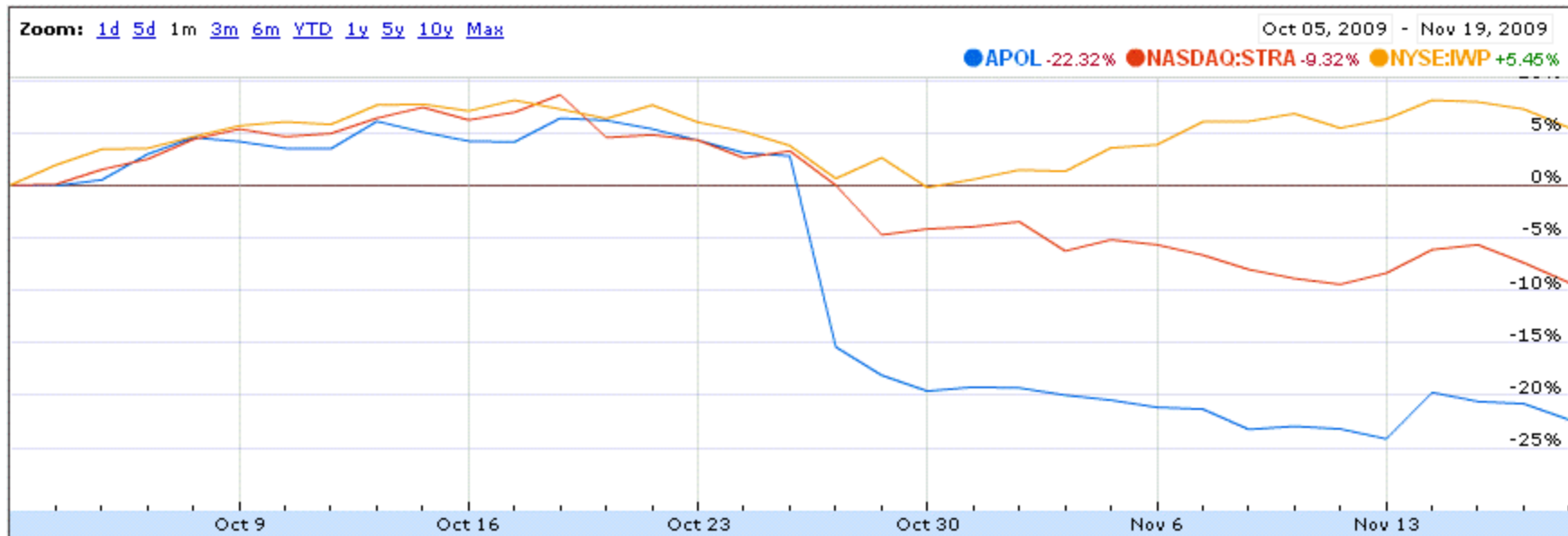


# Apollo (APOL)





# Apollo (APOL)



## Reasons to Hold

- Market overreaction
  - Probability of falsifying revenues appears low
- Long-term investment
  - Fundamentals still strong

Source: Google Finance



# Top Performers

## Reasons for Purchase

- ROA, ROE, net margin
- Vertically integrated, low cost manufacturer
- Expanding multiple facilities
- 25% of equity owned by company officers

# Dril-Quip, Inc. (DRQ)



- Q3 earnings beat estimates
- 5<sup>th</sup> plant being constructed in Singapore

Source: Google Finance

## Reasons for Purchase

- Strong quarterly growth in revenue
- Healthy contributions from recent acquisitions
- Expansion through acquisitions expected
- Wider operating margins

## Catalyst Health Solutions, Inc. (CHSI)



- Selected for Michigan's Public School Employees Retirement System
- Q3 earnings above estimates, profit up 37%

Source: Google Finance



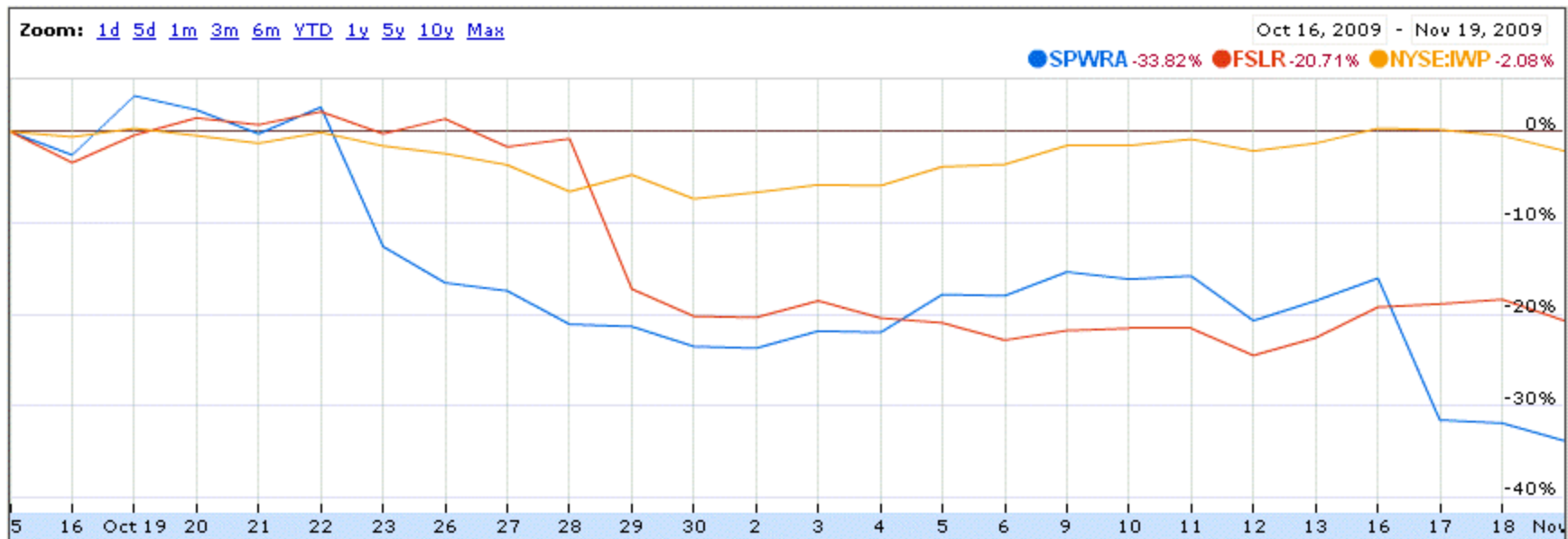
# Underperformers

## Reasons for Purchase

- Alternative energy exposure
- Copenhagen Summit likely to increase demand
- Favorable U.S. political/regulatory environment
- Vertically integrated
- Not dependent on German feed-in tariffs
- 70% institutional ownership
- Strong technology base



# SunPower (SPWRA)



- 10/23 - Beat earnings, revenues up 56%
- Lowered 2009 revenue guidance

Source: Google Finance

## Hold Decision

- 10/27 - Introduces T20 Tracker
- 11/5 - Upgraded to Buy from Hold, \$31 target, at Deutsche Bank
- Fundamentals still strong

## Sell Decision

- 11/16 – Announced accounting irregularities
- Unwilling to accept risk of uncertainty
- Possibility of systemic errors

## Reasons for Purchase

- Low P/E, relative to industry
- Continued sector exposure
- Industry leader in revenue and costs
- Diversifying outside of Germany & Spain
- Vertically integrating

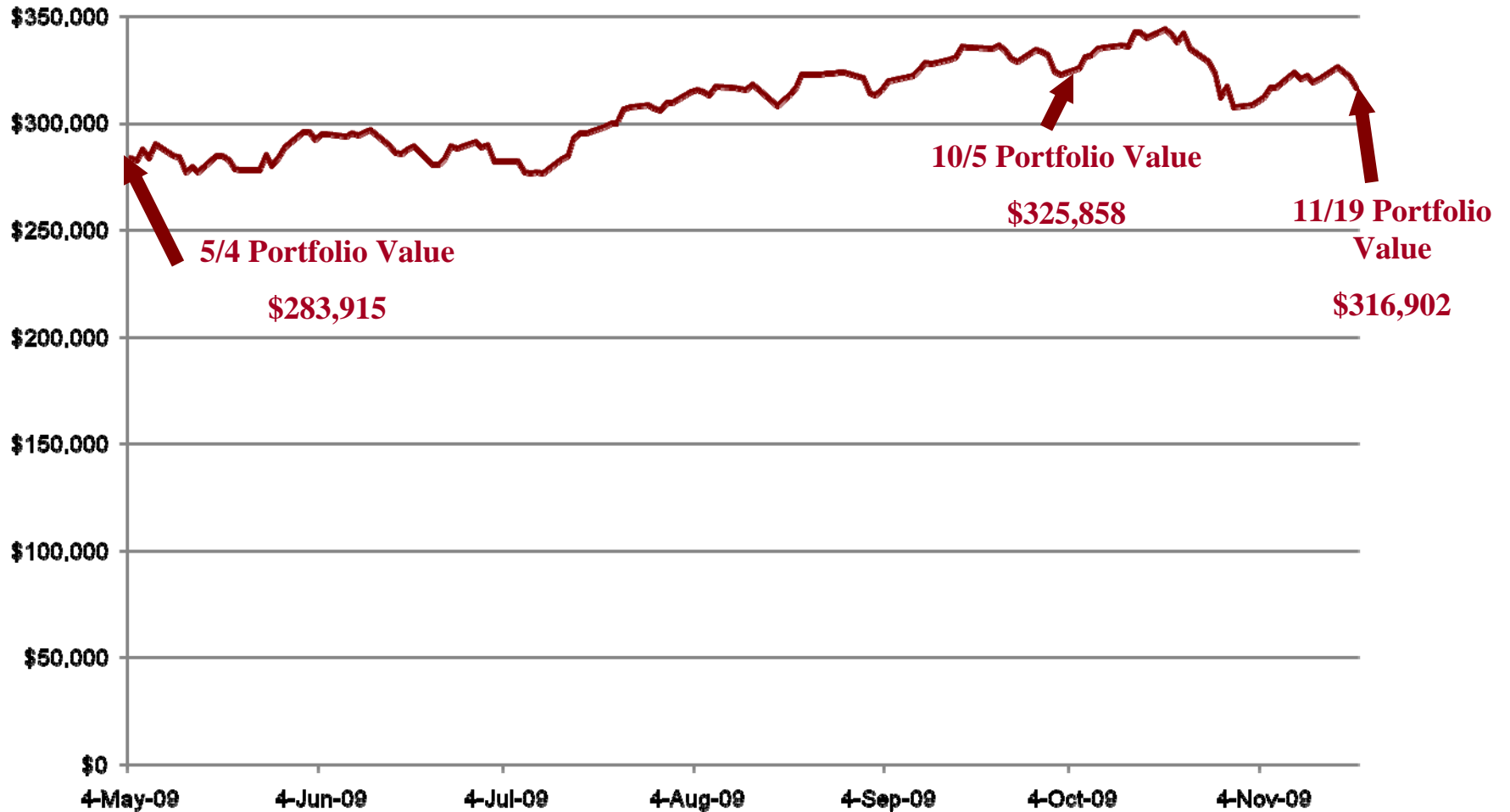


# Portfolio Analysis

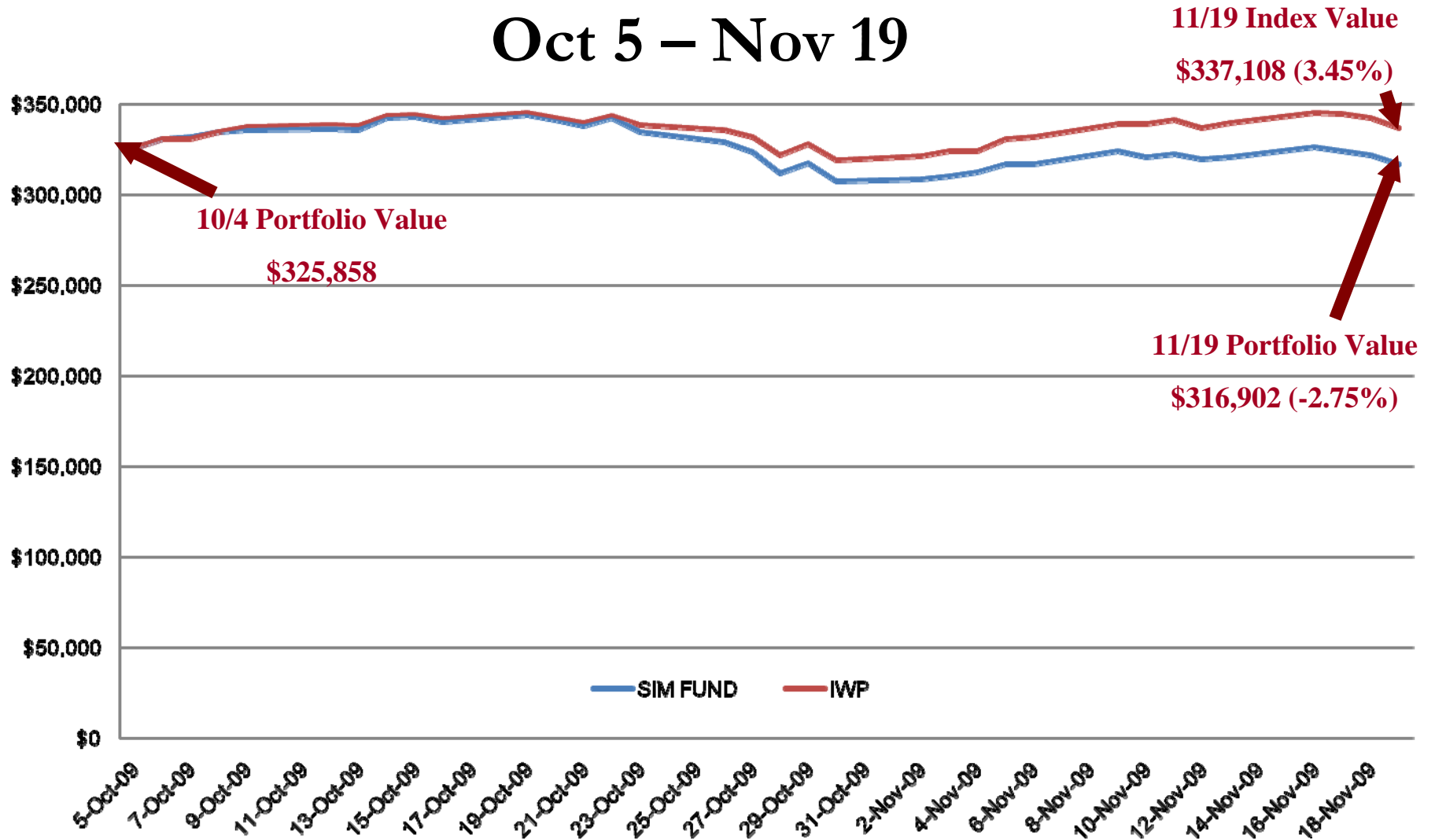
# Fund Characteristics

	SIM Fund	IWP
Market Cap (\$B)	4,496.88	5,954.00
Dividend Yield	1.01	1.15
Price/ Earnings	17.10	22.24
Forward PE	15.15	19.88
ROE	24.07	13.43
Price/Cash Flow	14.66	12.51
5 Year Beta vs S&P 500	0.98	1.16

## Since the April Presentation

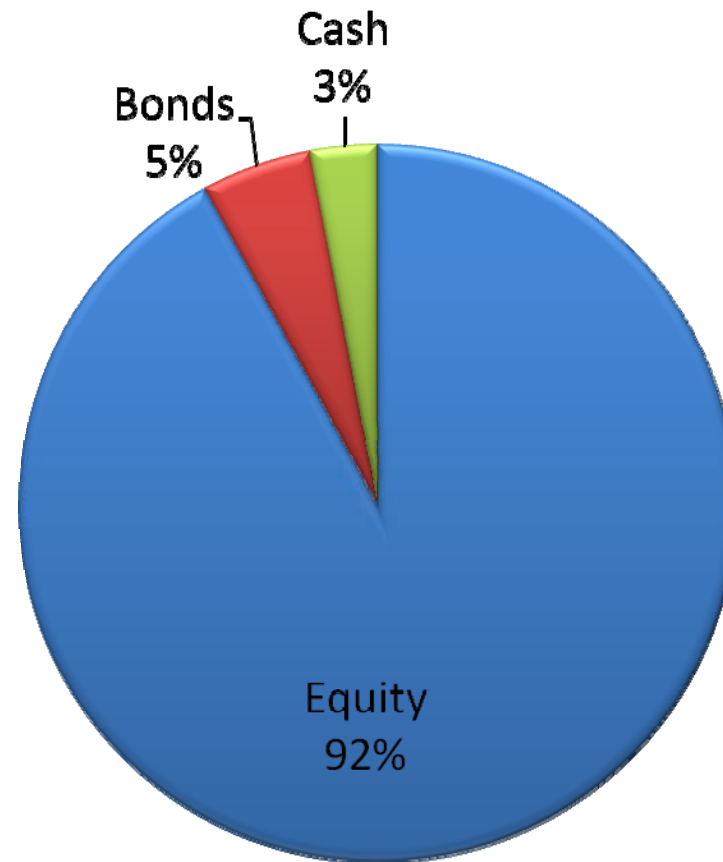


## Oct 5 – Nov 19

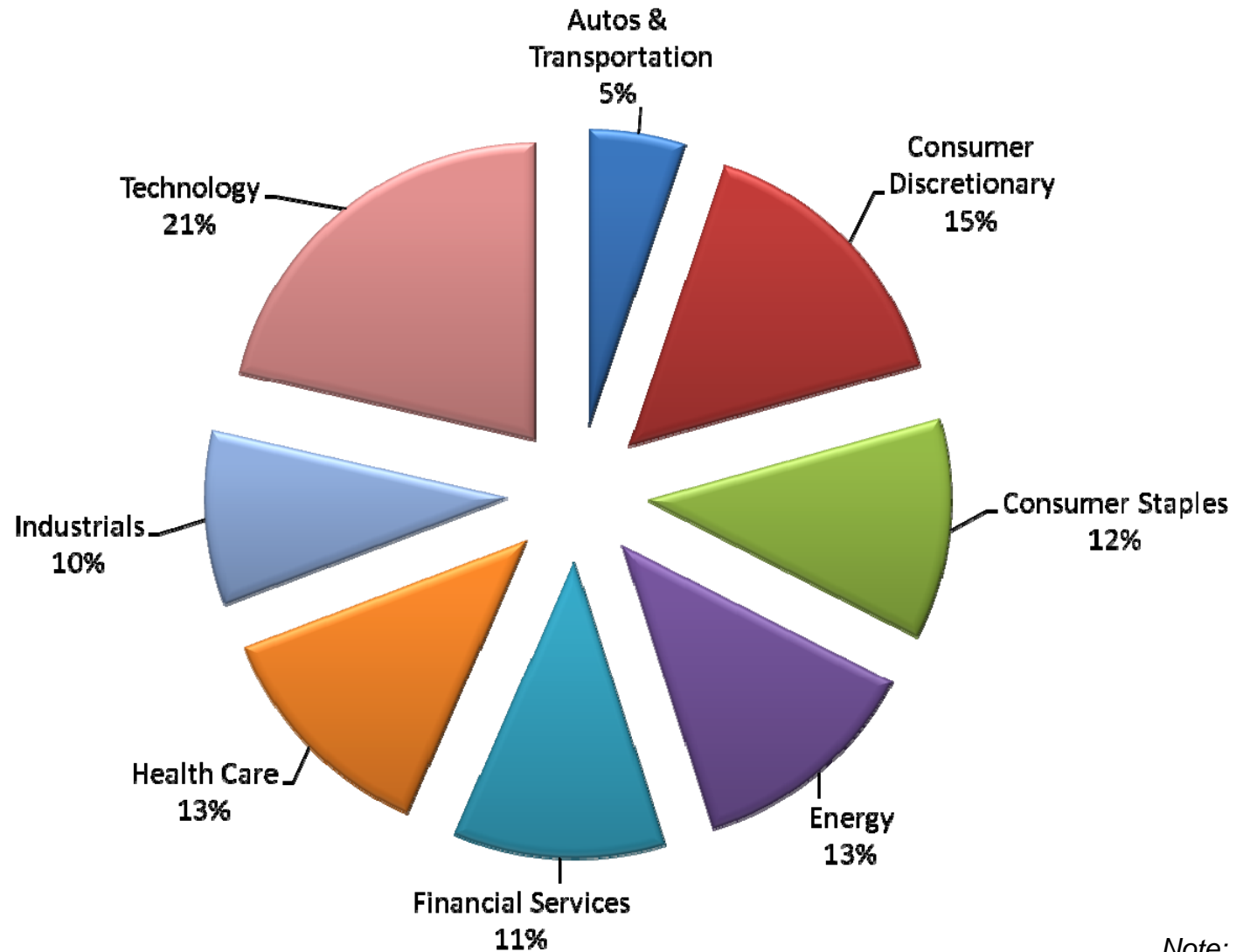




# Asset Allocation

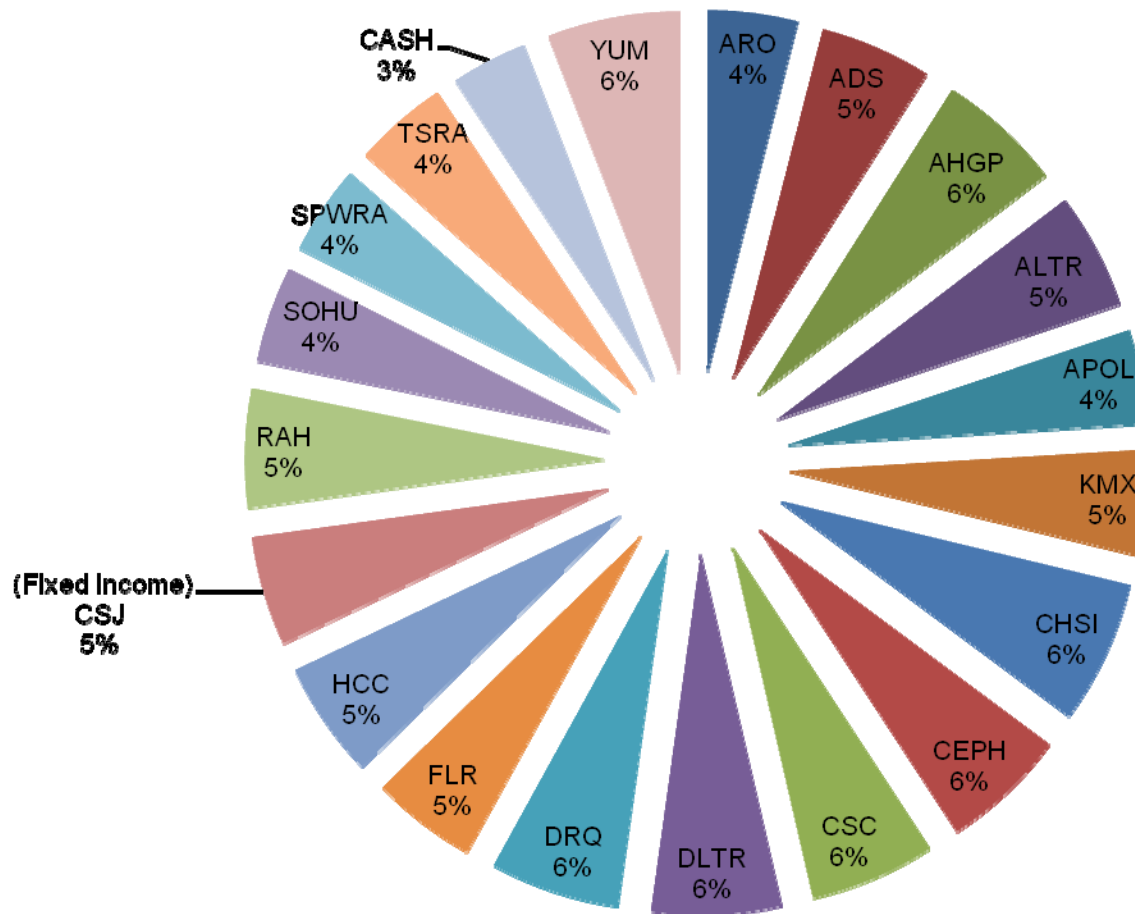


# Equity Sector Allocation

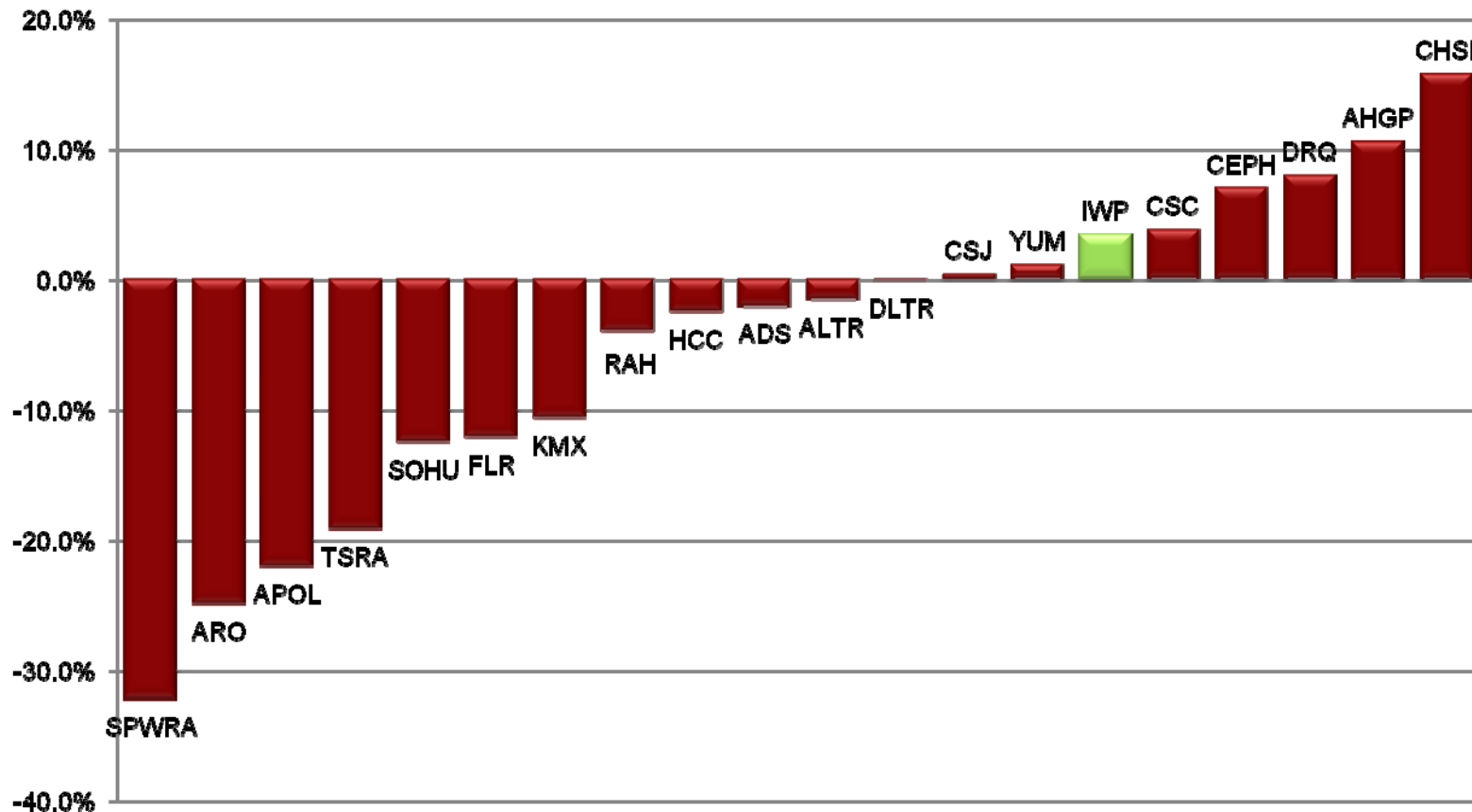


*Note: Equities only*

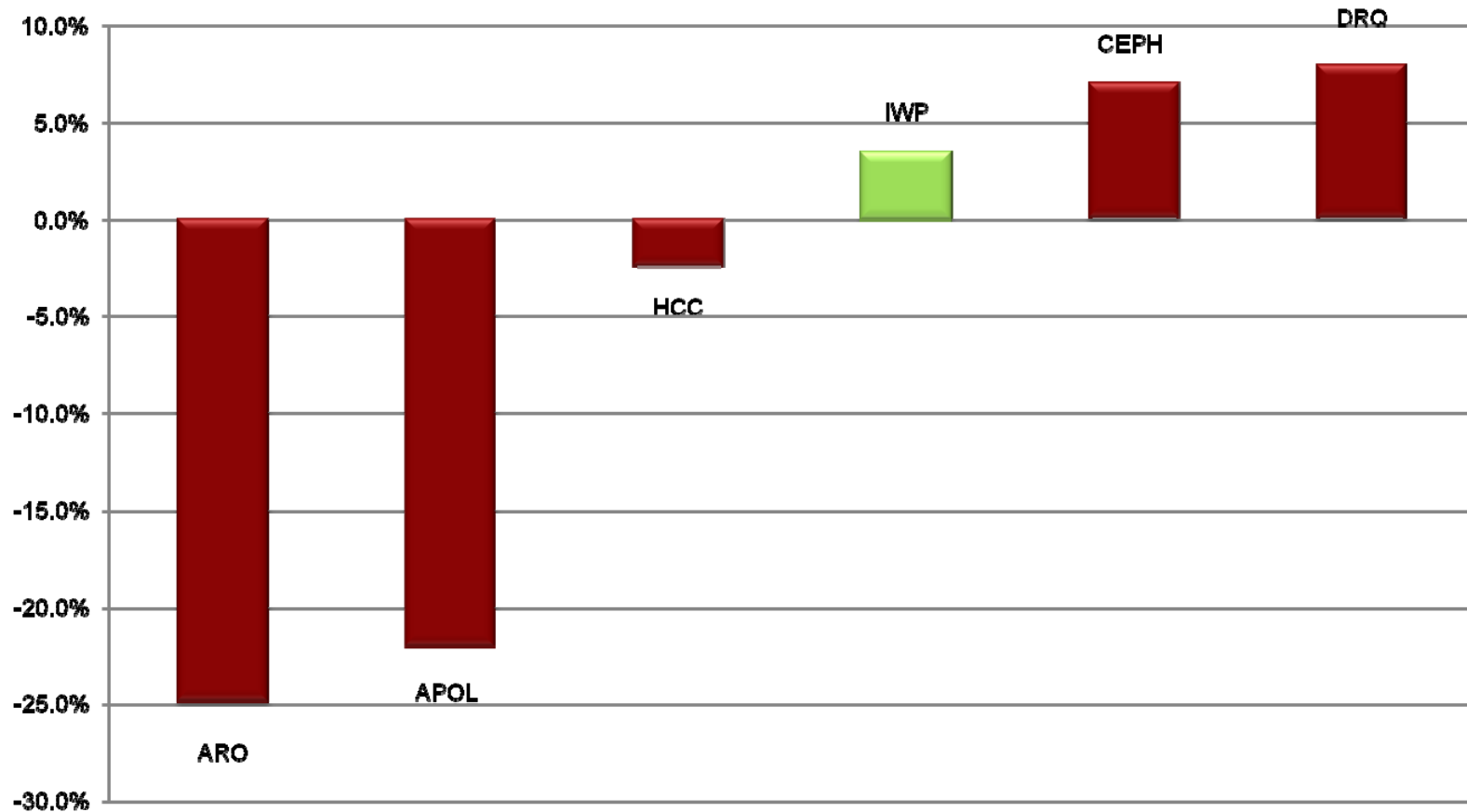
# Total Allocation



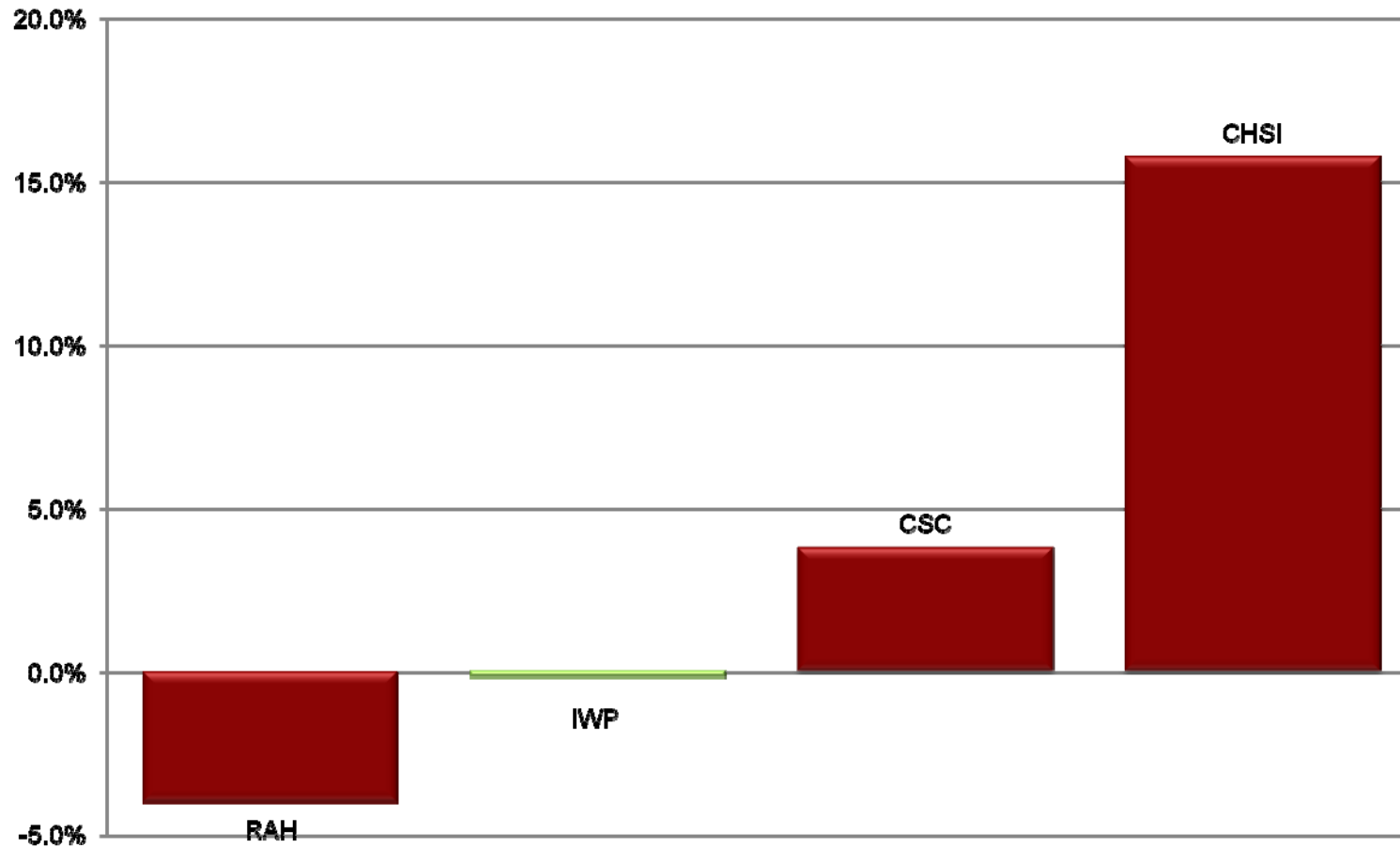
## Holding Period Returns by Security



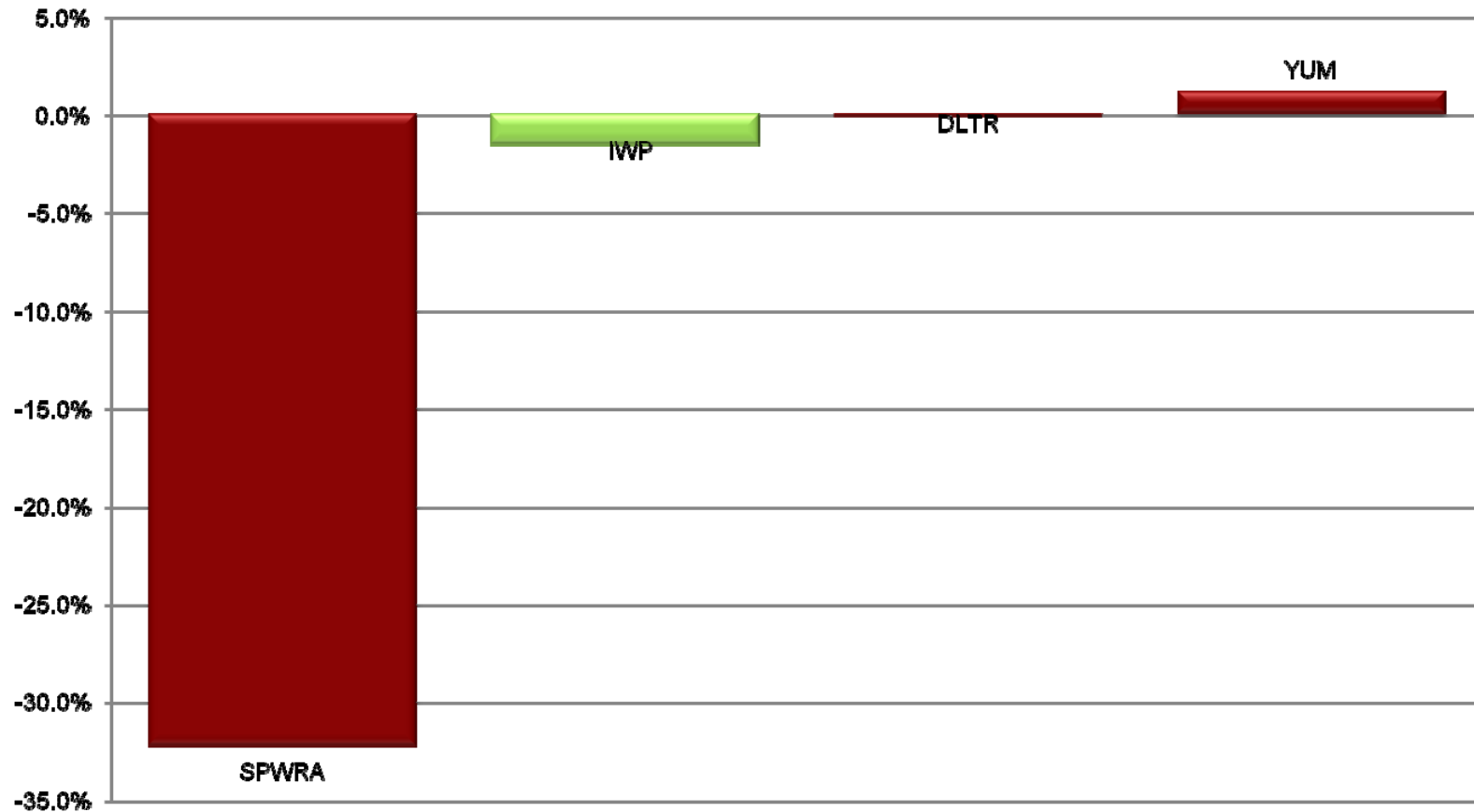
## Holding Period Returns on 10/5 Buys



## Holding Period Returns on 10/9 Buys



## Holding Period Returns on 10/16 Buys



## Holding Period Returns on 10/26 Buys



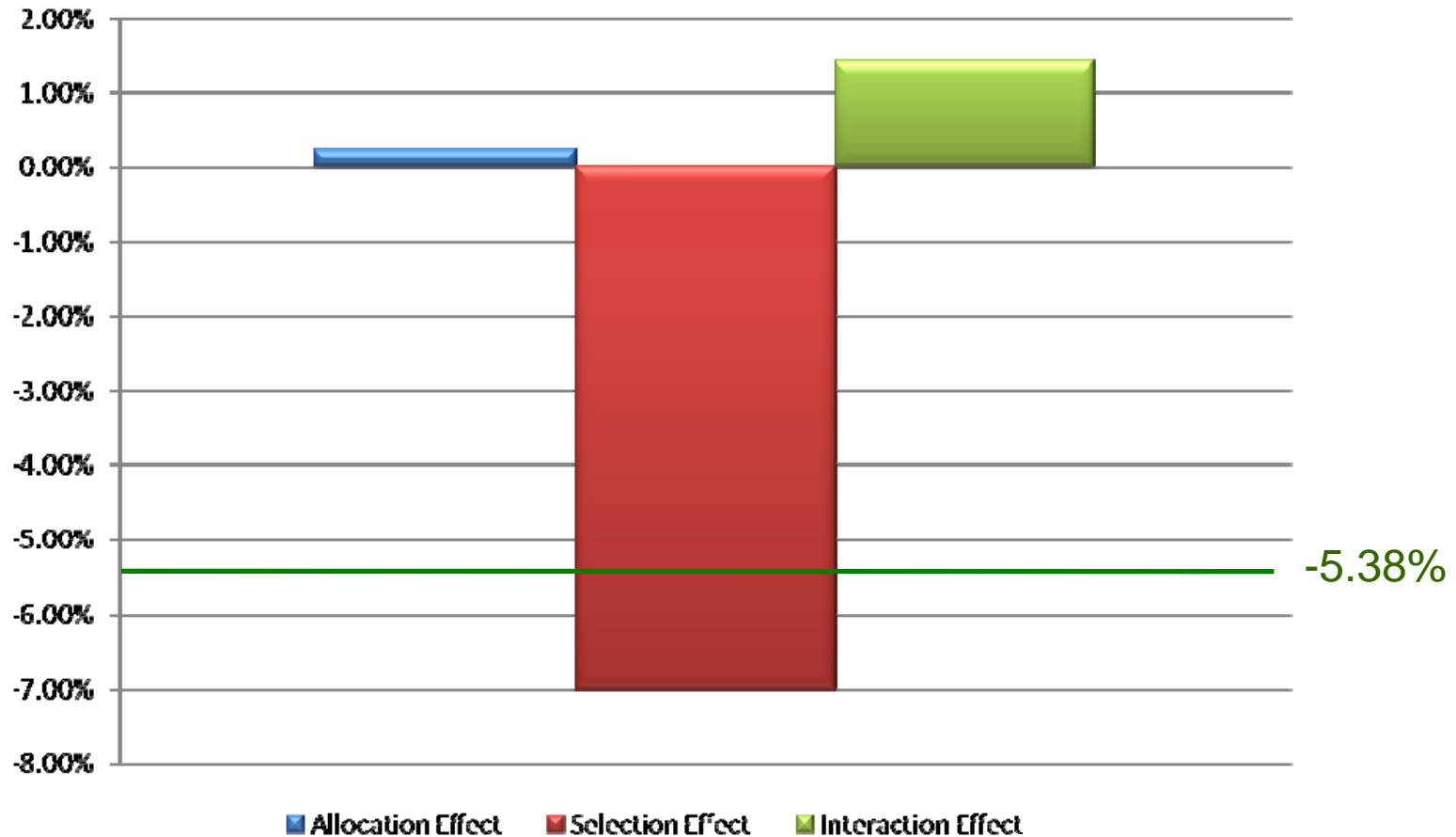
\*CSJ was purchased 11/4. Return for IWP over the same period was 4.1%



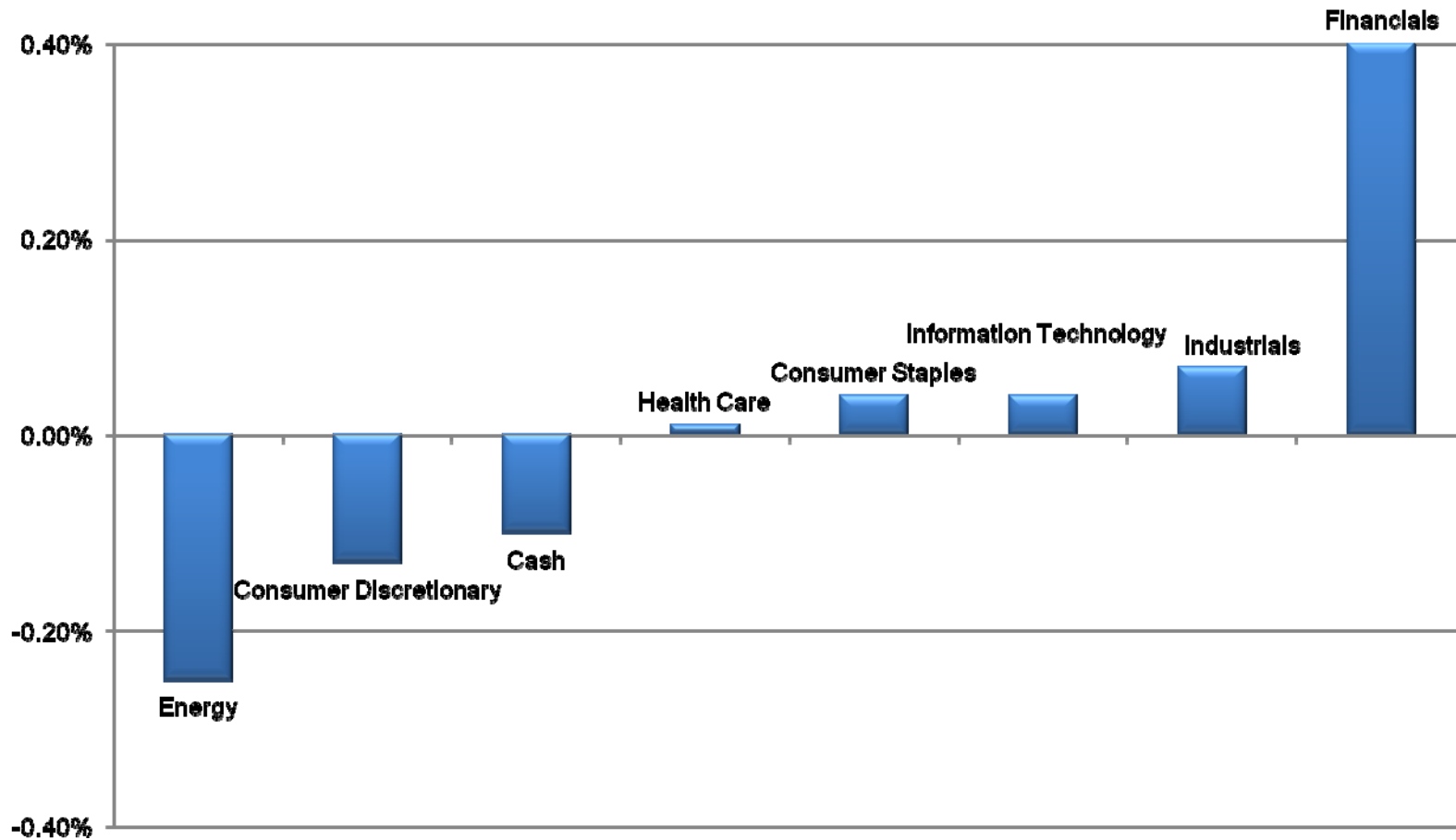


# Performance Attribution

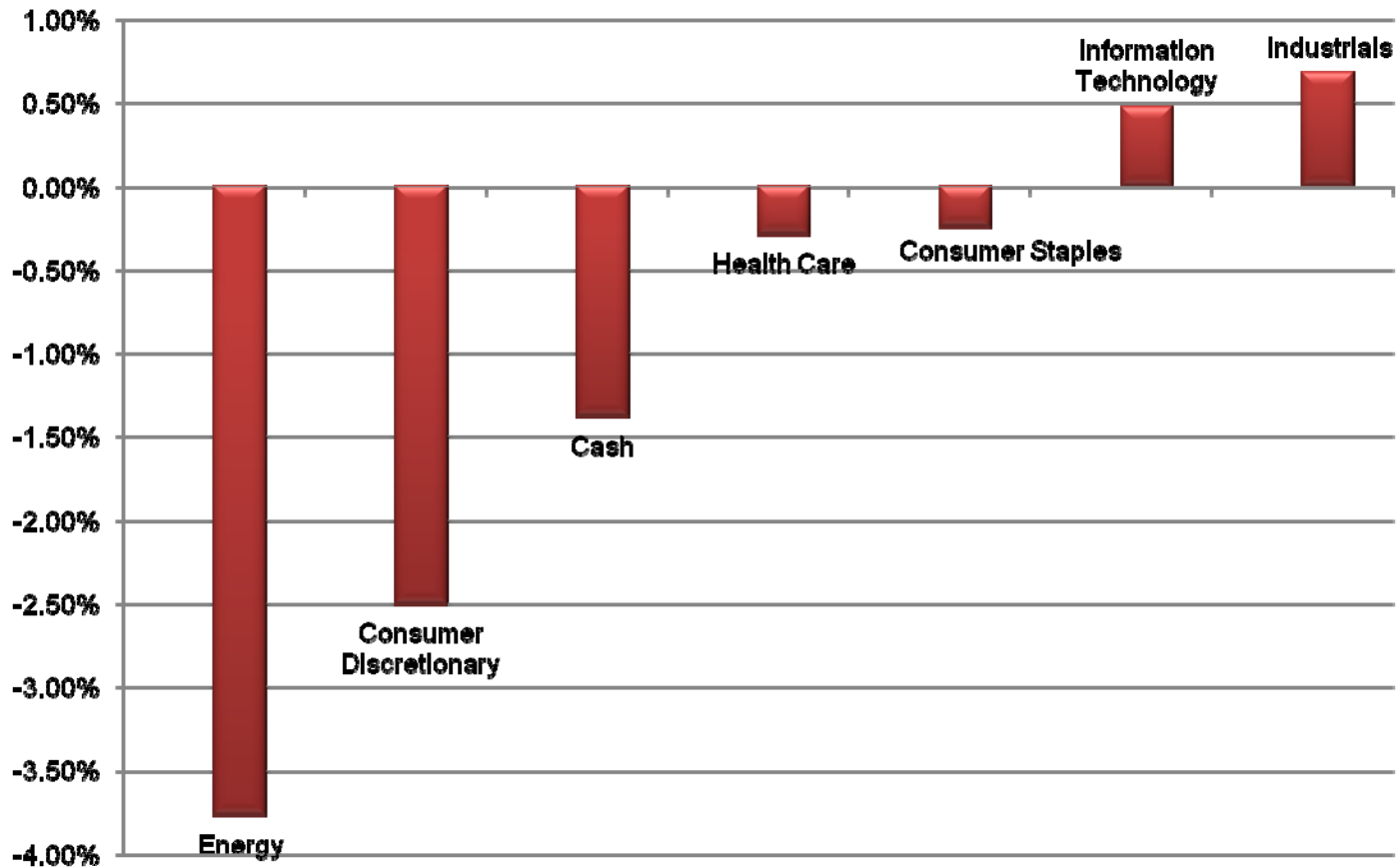
# Performance Attribution



# Allocation Effect



# Selection Effect



# Takeaways

- Unexpected events can overshadow any amount of research/analysis
- Buying just before earnings increases risk; even seemingly good results can disappoint
- Importance of diversification & maintaining long-term focus

- Continuing recovery
- Unemployment to remain high
- Increasing consumer confidence
- Stabilization of housing prices