MBA SIM Fund

Board Presentation
December 4, 2009
Agenda

- Overview
  - Charter Update
  - Fund Objectives

- Economic Climate & Outlook

- Portfolio Holdings
  - Selection Process
  - Top Performers
  - Underperformers

- Portfolio Performance
  - Attribution Analysis

- Takeaways
Charter Update

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

- 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 Selection

- **Style: Midcap Growth**
  - Market Cap: $2b - $10b

- **Benchmark**
  - Russell Midcap Growth Index (IWP)
Executive Summary

Returns: Oct 5 – Nov 19

- IWP: 3.45%
- SIM Fund: -2.75%
Economic Climate & Outlook
- 4 consecutive quarters of negative real GDP growth
- Bull market
- Low inflation
  - CPI
  - PPI
- $70 Oil
Pre-Investment Economic Outlook

- 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
Decision Process

Stock Selection

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

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
Oct. 27, 2009: After the market closed, Apollo announced that the SEC’s enforcement division had launched an informal inquiry into its revenue-recognition practices.

Nov. 13, 2009: Apollo announced that in the long term, it expects revenue to grow in the low double-digits and operating income growth in the mid teens. (Reuters)

APOL shares opened 18% lower the next day.
Reasons to Hold

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

Source: Google Finance
Top Performers
Dril-Quip, Inc. (DRQ)

Reasons for Purchase

- ROA, ROE, net margin
- Vertically integrated, low cost manufacturer
- Expanding multiple facilities
- 25% of equity owned by company officers
- Q3 earnings beat estimates
- 5th plant being constructed in Singapore

Source: Google Finance
Catalyst Health Solutions, Inc. (CHSI)

Reasons for Purchase

- Strong quarterly growth in revenue
- Healthy contributions from recent acquisitions
- Expansion through acquisitions expected
- Wider operating margins
Selected for Michigan’s Public School Employees Retirement System

Q3 earnings above estimates, profit up 37%

Source: Google Finance
Underperformers
SunPower (SPWRA)

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
10/23 - Beat earnings, revenues up 56%

Lowered 2009 revenue guidance

Source: Google Finance
SunPower (SPWRA)

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
First Solar (FSLR)

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

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<thead>
<tr>
<th></th>
<th>SIM Fund</th>
<th>IWP</th>
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<tbody>
<tr>
<td>Market Cap ($B)</td>
<td>4,496.88</td>
<td>5,954.00</td>
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<tr>
<td>Dividend Yield</td>
<td>1.01</td>
<td>1.15</td>
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<td>Price/ Earnings</td>
<td>17.10</td>
<td>22.24</td>
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<td>Forward PE</td>
<td>15.15</td>
<td>19.88</td>
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<td>ROE</td>
<td>24.07</td>
<td>13.43</td>
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<td>Price/Cash Flow</td>
<td>14.66</td>
<td>12.51</td>
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<td>5 Year Beta vs S&amp;P 500</td>
<td>0.98</td>
<td>1.16</td>
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Since the April Presentation

- 5/4 Portfolio Value: $283,915
- 10/5 Portfolio Value: $325,858
- 11/19 Portfolio Value: $316,902
Performance

Oct 5 – Nov 19

10/4 Portfolio Value
$325,858

11/19 Portfolio Value
$316,902 (-2.75%)

11/19 Index Value
$337,108 (3.45%)
Asset Allocation

- Equity: 92%
- Bonds: 5%
- Cash: 3%
Equity Sector Allocation

- Technology: 21%
- Industrials: 10%
- Health Care: 13%
- Financial Services: 11%
- Energy: 13%
- Consumer Discretionary: 15%
- Consumer Staples: 12%
- Autos & Transportation: 5%

Note: Equities only
Performance

Holding Period Returns by Security

[Bar chart showing returns for various securities, with CHSI having the highest positive return and SPWRA having the lowest negative return.]
Holding Period Returns on 10/5 Buys
Performance

Holding Period Returns on 10/9 Buys

- RAH
- IWP
- CSC
- CHSI
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

-5.38%
Allocation Effect
Selection Effect

- Energy
- Consumer Discretionary
- Cash
- Health Care
- Consumer Staples
- Information Technology
- Industrials
Takeaways
Learning Points

- 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
Looking Forward

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