2008-2009 Student Managers

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Agenda

- Overview
  - Fund Objectives
  - Economic Climate
- Selections
  - Decision Criteria
  - Sample Holdings
- Performance
  - Portfolio
  - Attribution
Executive Summary

Returns, Sept 29 to Nov 20

SIM Fund

S&P 500

(27.2%)

(33.2%)
Overview

Board Presentation
December 5, 2008
Fund Objectives

- Long-term investment strategy
- Minimum 70% equity
- Low cash reserve
- No short selling
- $750MM market cap
- Limits on derivatives
Pre-Investment Economic Overview

- Low/Negative growth in real GDP
- Unemployment increased almost 140bps
- Declining dollar
- Increasing commodity prices
- Inflationary pressures
- Upcoming election
May 30th – Bear Stearns bought for $10/share by JP Morgan; Two banks fail

August – Three banks fail

July – Three banks fail
Oil peaks at $147 per barrel

Sept. 4th – B of A to buy Merrill Lynch
Sept. 7th – U.S. Government takes over Fannie and Freddie
Sept. 15th – Lehman files Chapter 11
Sept. 16th – AIG receives $85 billion bailout

Sept 21st – 22nd – Goldman and Morgan Stanley become commercial banks
Sept 29th – First bailout rejected
Three banks fail

Oct 3rd – Bailout plan approved, TARP created
Four banks fail

Nov. 10th – American Express becomes a commercial bank
Nov. 12th – $290 of the first $350 billion of TARP allocated
Nov. 20th – Big three auto companies not bailed out
Five banks fail
Decision Process

What We Thought

- Defensive and recession-proof plays
- Underweight certain sectors
- Large cap stocks
Decision Process

Specifically

- Low Beta
- Dividend Yield
- Industry Leader
- Depressed Stock

- Large Cash on Books
- Cash for Investing
- Int’l Exposure
- Value Line
Benchmark Selection

- S&P 500
  - Primary

- Russell 1000 Value
  - Secondary
Sept 29th - Purchased:
Research in Motion
Alcon
Lockheed
Chesapeake
General Electric
Travelers

Oct. 3rd - Purchased:
Wal-Mart
PepsiCo
General Electric
du Pont

Oct. 9th - Purchased:
Diageo (ADR)
Johnson & Johnson
General Dynamics
LQD Bond Fund

Nov. 3rd – Purchased:
McDonald’s

Source: Google Finance
Johnson & Johnson (JNJ)

Reasons for Purchase

- Traditionally defensive stock
- Bond rating
- Dividend yield
- Stock price
- Fundamentally still sound
- Long-term investment
- Cash on books
  - Acquisitions (HealthMedia, Mentor, Omrix Biopharma)

Source: Google Finance
Reasons for Purchase

- Defensive play in financial sector
- Non-discretionary products
- Attractive valuations
- Minimal subprime exposure
No fundamental changes at Travelers

Passed on applying for Federal assistance

Source: Google Finance
Reasons for Purchase

- Healthcare industry exposure
- Change of ownership to synergistic partner
  - Novartis
- Low beta
- 3rd quarter earnings below estimates

- Foreign currency exposure

Source: Google Finance
Hold Decision

- Strong operating margins
- Strong ROE
- International exposure
- Market share improvement potential
Chesapeake (CHK)

Reasons for Purchase

- Largest independent producer of natural gas
- Natural gas is the cleanest fossil fuel
- T. Boone Pickens push towards natural gas
- CEO owns high number of shares
  - About 5.5%
Chesapeake (CHK)

- Price of natural gas dropped
- CEO margin call
- Still largest independent producer

Source: Google Finance
Halliburton

- **Pros**
  - Increasing EBIT
  - Strong earnings per share growth

- **Cons**
  - Decreasing cash from operations

*Halliburton is down 60% for the period*
Portfolio Analysis

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Performance

Since the April Presentation

4/25 Portfolio Value

5/9
$17K ASU Foundation Distribution

9/2 Portfolio Value

9/29 Portfolio Value

$454,896

$404,604 (-7.7%)

$353,254 (-19.4%)
Performance

Sept 29 to Nov 20

9/29 Portfolio Value

11/20 Portfolio Value

$353,254

$257,072 (-27.2%)

Sep-08

Oct-08

$0

$100,000

$200,000

$300,000

$400,000
Dollar Value Returns

- Portfolio value declined from $353K to $257K
- The S&P 500 lost 33.2%
  - Russell 1000 Value lost 32.0%
- Continued investment in SPY would have resulted in a $239K value
Performance

Returns by Individual Security

- ACL
- CHK
- LMT
- RIMM
- TRV
- GE
- DD
- PEP
- WMT
- DEO
- GD
- JNJ
- MCD
- LQD
- Cash
- SPY
Performance

Returns on 9/29 Buys

ACL: -59.7%
CHK: -58.6%
LMT: -46.9%
RIMM: -39.8%
TRV: -35.4%
GE: -18.1%
SPY: -32.3%
Performance

Returns on 10/3 Buys

- DD: -45.8%
- PEP: -29.7%
- WMT: -14.8%
- DEO: -14.1%
- SPY: -31.6%
Performance

Returns on 10/9 Buys

* MCD was purchased 11/3. Returns for SPY over the same period were (22.3%)
Asset Allocation

- Liquidity: 83.10%
- Bonds: 9.50%
- Cash: 7.40%
Sector Allocation

- Industrials: 24.38%
- Health Care: 13.19%
- Financials: 9.69%
- Energy: 3.90%
- Consumer Staples: 25.37%
- IT: 6.99%
- Materials: 6.09%
- Consumer Discretionary: 10.39%
Performance Attribution

8.56%
Allocation Effect

- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Health Care
- Industrials
- IT
- Materials
- Telecommunication
- Utilities

0.09%
Selection Effect

- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Health Care
- Industrials
- IT
- Materials
- Telecommunication
- Utilities

10.62%
Looking Forward

- **New administration**
  - Government intervention
    - i.e. Lockheed forecast change

- **Continued economic weakness**
  - High unemployment
  - Low consumer confidence
Learning Points

- In hindsight, some criteria were useful, some were not
  - Useful
    - Low beta
    - Lots of cash on books
    - Consumer staple brands
  - Less Useful
    - 52 week low
    - Value Line

- Price movements can be driven by emotions
  - As a long-term investor, rely on fundamentals

- Even “defensive” companies don’t provide much protection in this bear market
Questions

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