2008-2009 Student Managers

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Agenda

- Overview
  - Fund Objectives
  - Economic Outlook
- Portfolio Holdings
  - Additions and Removals
  - Selected Stocks
- Performance
  - Portfolio
  - Attribution
Executive Summary

Returns

Sept 29 to April 17

SIM Fund: -20.9%
S&P 500: -21.4%

SIM Fund: -27.2%
S&P 500: -32.3%
Overview

Board Presentation
May 1, 2009
Fund Objectives

- Long-term investment strategy
- Minimum 70% equity
- Low cash reserve
- No short selling
- $750MM market cap
- Limits on derivatives
Selection Criteria

- Screening criteria for stocks
  - Low beta relative to industry
  - High dividend yield
  - Industry leaders
  - International exposure
  - High balance sheet cash relative to debt
  - Strong capital expenditure
## Fund Characteristics

<table>
<thead>
<tr>
<th></th>
<th>SIM Fund</th>
<th>S&amp;P 500</th>
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</thead>
<tbody>
<tr>
<td>Market Cap ($B)</td>
<td>55.83</td>
<td>64.48</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>4.89</td>
<td>3.15</td>
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<tr>
<td>Price/Earnings</td>
<td>12.14</td>
<td>14.25</td>
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<tr>
<td>Forward PE</td>
<td>11.82</td>
<td>14.59</td>
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<tr>
<td>ROE</td>
<td>26.32</td>
<td>19.16</td>
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<tr>
<td>Price/Cash Flow</td>
<td>7.91</td>
<td>8.29</td>
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<tr>
<td>5 Year Beta vs S&amp;P 500</td>
<td>0.72</td>
<td>0.96</td>
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</tbody>
</table>
Economic Outlook

- Based on finance capstone project

- Economic model inferred from historic economic indicators

- Model Drivers

  - Inflation
  - Real Wages
  - Monetary Policy
  - PCE
  - GDP
Economic Outlook

- Model Predictions
  - GDP Recovery in Q3 2009
  - End of Bear Market early Q2 2009
Economic Indicators

- Was our forecast right?
  - Current market shows some signs of stabilization
  - PCE ticks up in January and February
  - Dow rebounds from low of 6,547 on March 9
**Dec. 23rd** – Oil hits low price per barrel of $30.28

**Feb 17th** – Economic Recovery and Stimulus Act

**March 9th** – Dow and S&P hit lows of 6,547.05 and 676.53, respectively

**April 2nd** – Mark-to-Market rules eased by FASB

**Jan 20th** – Senator Obama inaugurated as President

**Feb. 25th** – Bank stress tests announced

**March 18th** – Fed announces quantitative easing

**April 17th** – Bank of America, Citigroup, and JPMorgan earnings week

**Source:** Google Finance
Additions and Removals

December 17, 2008
Buy – CHK $16.35 PEP $54.18, GE $18.02, WMT $55.58
Sell – RIMM $39.51

March 4, 2009
Buy – MO $15.01

Source: Google Finance
McDonald’s (MCD)

Reasons for Hold

- Low beta stock
  - Additionally, low beta during last recession
- International Exposure
- Defensive play given discount food
- Strong dividend yield
McDonald’s (MCD)

- Has held up well vs. S&P

Source: Google Finance
Chesapeake (CHK)

Reasons for Addition

- Initially there was a debt payment concern
- We performed a cash flow analysis based on the following assumptions
  - $35 per barrel of oil
  - $2.50 per MMBtu of natural gas
  - $15 billion in long-term debt
Under this worse case scenario the cash from operations to debt ratio is over 2*.
Based on this analysis we determined that CHK’s stock price was unnecessarily low.
We purchased 300 more shares at $16.35.
CHK is currently trading at $20.80.

*See appendix for detailed ratio analysis.
Chesapeake (CHK)

Sept 29 to April 17

- Chesapeake has been highly volatile with the price of energy
- Natural Gas is currently at $3.297 / MMBtu

Source: Google Finance
Chesapeake (CHK)

Nov 20 to April 17

Source: Google Finance
General Electric (GE)

Reasons for Addition

- Diversified industrial giant
- Global exposure
- Growing operating income and ROE
- Concerns with financial unit, but assurances that capital was “adequate” (AAA credit rating)
- Beta 0.65
- Dividend yield near 5%, (later, near 10%)
- Trading at a 10-year low of $25 at first purchase
**General Electric (GE)**

- **Oct 1st** – $3B Buffet infusion, $12B equity offering
- **Dec 16th** – Immelt reiterates 31¢ dividend
- **Jan 23rd** – Earnings released, 37¢ EPS. Committed to $1.24 dividend, AAA rating
- **Feb 6th** – Immelt promises “continued attractive dividends”

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**Dec 2nd** – Moodys affirms Aaa rating

**Dec 17th** – S&P affirms AAA rating, negative outlook

**Jan 27th** – Moodys puts on ratings review

Source: Google Finance
General Electric (GE)

Feb 27th – Dividend cut from 31¢ to 10¢

Mar 12th – S&P cuts from AAA to AA+ (stable outlook)

Mar 23rd – Moodys cuts from Aaa to Aa2 (stable outlook)

Source: Google Finance
Research in Motion (RIMM)

Reasons for Sell

- Stock price fell additional 8% as market rallied from November low
- Earnings warning in early December with reduced ongoing forecast
- Increased competition
- Fit with Fund?
- Add to cash position for future investments
Sold on Dec 17\textsuperscript{th} (38.55\% loss overall)
  - Dec 18\textsuperscript{th} - Q4 guidance above estimates
  - Feb 11\textsuperscript{th} - Guidance incorrect

Source: Google Finance
Altria (MO)

Reasons for Purchase

- Dividends (Safe ones!) – 7.8%
- Recession resistant, low beta (.31)
- Brand Portfolio (#1 in major segments)
- Near monopoly (50.4% of cigarette market)
- Diversification (28.5% of SABMiller)
- Up 16.21% overall
  - March 5\textsuperscript{th} - Cigarette price change announcement
  - Recently beat estimates, no change to stock

Source: Google Finance
Portfolio Analysis

Board Presentation
May 1, 2009
Asset Allocation

- LQD, 13.8%
- WMT, 7.2%
- TRV, 7.6%
- PEP, 7.5%
- MO, 8.5%
- ACL, 3.3%
- CHK, 6.2%
- DD, 5.1%
- DEO, 5.1%
- GD, 5.0%
- GE, 6.7%
- JNJ, 5.7%
- LMT, 5.5%
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Sector Allocation

- Consumer Discretionary: 10%
- Consumer Staples: 31%
- Energy: 6%
- Financials: 10%
- Health Care: 13%
- Industrials: 24%
- Materials: 6%

Note: Equities only
Performance

Portfolio Value

Sept 29 to April 17

9/29 Portfolio Value
$353,254

11/20 Portfolio Value
$257,072 (-27.2%)

3/9 Portfolio Value
$234,075 (-33.7%)

4/17 Portfolio Value
$279,579 (-20.9%)

Sep-08 Oct-08 Nov-08 Dec-08 Jan-09 Feb-09 Mar-09
Performance

Returns

Sept 29 to April 17

SIM Fund  (20.9%)
S&P 500    (21.4%)

SIM Fund  (27.2%)
S&P 500    (32.3%)
Performance

Holding Period Returns by Security
Performance Attribution

Note: Equities only
Allocation Effect

Note: Equities only
Selection Effect

Materials: -0.02
Information Technology: -1.27
Industrials: -1.86
Health Care: -0.46
Financials: 2.5
Energy: 0.21
Consumer Staples: -0.85
Consumer Discretionary: 0.46

9.36%
Note: Equities only
Takeaways

Board Presentation
May 1, 2009
Learning Points

- Corporate statements are useful, but there is no substitute for doing your own in-depth research
- Interpret CEO statements in light of their role
- Fund strategy must be driven by an understanding of economic fundamentals
- Be aware of current events, but keep a long-term view – returns are noisy
Thank you to

- Keith Wirtz, Justin Dammel, and Fifth Third
- Chuck Michaels
- Board of Directors
- Herb Kaufman
Questions

Board Presentation
May 1, 2009
2009-2010 Student Managers

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Appendix

Board Presentation
May 1, 2009
Appendix

Chesapeake Ratio Analysis

Assumptions

<table>
<thead>
<tr>
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<th>2007*</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>Percent of Product Sold from 2007</td>
<td></td>
<td></td>
<td>90%</td>
<td></td>
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<tr>
<td>Price per barrel of oil</td>
<td>$35.00</td>
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<tr>
<td>Price per million cubic feet of natural gas</td>
<td>$2.50</td>
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<tr>
<td>Price growth</td>
<td>0%</td>
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<tr>
<td>DDA drop</td>
<td>80%</td>
<td></td>
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<tr>
<td>Interest Rate</td>
<td>6%</td>
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Income Statement

Source: Chesapeake 2007 10-K
Chesapeake Ratio Analysis

Cash Flow

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<th>2007*</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>EBI</td>
<td>$1,433</td>
<td>$397</td>
<td>$337</td>
<td>$283</td>
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<tr>
<td>DDA</td>
<td>$1,971</td>
<td>$1,577</td>
<td>$1,577</td>
<td>$1,577</td>
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<tr>
<td>Deferred Taxes</td>
<td>$835</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Derivatives</td>
<td>$415</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Cash from Operations</td>
<td>$4,654</td>
<td>$1,974$1,914</td>
<td>$1,860</td>
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</tbody>
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Ratio Calculation

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<th>2007*</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>Long-Term Debt</td>
<td>$10,000</td>
<td>$15,000</td>
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<tr>
<td>Interest</td>
<td>$406</td>
<td>$900</td>
<td>$900</td>
<td>$900</td>
</tr>
<tr>
<td>Coverage Ratio</td>
<td>11.46</td>
<td>2.19</td>
<td>2.13</td>
<td>2.07</td>
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</table>

Source: Chesapeake 2007 10-K