WPCMBA Diversified Global Small Cap Value Fund

December 2, 2011
Semi-Annual Board Update
Agenda

- Introduction
- Fund Objective
- Asset Allocation Selection
- Core Portfolio Composition
- Satellite Portfolio Composition
- Performance
- Next Steps
The Team

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Seth Landau
Portfolio Manager

Adam Love
Maggie MacCool
Piers Sharman
Fund Objectives

- Manage approximately $500,000 for the ASU MBA program
- Learn about fundamental analysis, portfolio management, and fund administration
- Track portfolio daily and continue to look for attractive investment opportunities
- Obtain above-market returns
Restrictions

The following charter restrictions affected our investment decisions:

• Foreign equities may only comprise up to 25% of portfolio market value
• Individual companies must have a market cap of at least $1 billion
• Bond investments must have a rating of at least AA
• Commodity transactions are not permissible
Asset Allocation Methodology

Subject to the following

• Charter restrictions
• Market conditions
  – International opportunities
  – Historically low fixed income
• Small Cap Value tilt
Application of Sharpe Ratio

<table>
<thead>
<tr>
<th></th>
<th>EFA</th>
<th>RUSS 2k</th>
<th>S&amp;P 500</th>
<th>EEM</th>
<th>Sigma</th>
<th>Weight</th>
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<tr>
<td>EFA</td>
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<td>0.86</td>
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<td>0.92</td>
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<td>RUSS</td>
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<td>0.05</td>
<td>0.09</td>
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<td>Historic Return</td>
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<td>0.12%</td>
<td>0.12%</td>
<td>0.73%</td>
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<tr>
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<td>0.61</td>
<td>0.17</td>
<td>0.22</td>
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</tbody>
</table>

- Danger of whipsaw effect
- Adjustment of returns and correlations require considerable investment nous

For illustrative purposes only

Naïve application of Sharpe optimization leads to unbalanced portfolios
Risk Tolerance

Survey
- Performance
  - Bull market
  - Bear market
  - Inflation
- Knowledgeability

High risk tolerance
- Long-term horizon
- No required payouts
- No tax concerns
Small Cap Value Rationale

Historical returns in Small Cap Value justify its overweighting.
Differences from Traditional Investing

- Small fund size
- Student ("free") research
- Low broker fees
- No required payouts
- Long-term horizon
- Tax concerns
Fund Strategy

Core Portfolio

- Domestic & International Emerging
  Broad, index-based ETFs
- International Developed
  Adjusted weighting of countries’ market capitalizations
- Fixed Income
  High liquidity for future investment opportunities and lower volatility for overall portfolio

Satellite Portfolio

- Small Cap Value
  Heavily skewed to generate above-market returns
Portfolio Asset Allocation

- U.S. Small Cap Value: 35%
- U.S. Large Cap: 25%
- International Developed: 16%
- International Emerging: 9%
- Cash / Fixed Income: 8%
- U.S. Mid Cap: 7%
**Fixed Income**

**Entire Portfolio**

- **91.0%** Non-fixed Income
- **9.0%** Fixed Income Only

**Fixed Income Only**

- **7.5%** LAG
- **1.5%** Cash

**SPDR Barclays Capital Aggregate Bond (LAG)**

- Intermediate term bond fund
- High credit quality
- Medium interest rate sensitivity
- 75% of holdings are rated AAA
Ex-U.S. Developed Markets

Country Screening Factors

- Public Debt
- “PIIGS” exposure through foreign claims in banks
- Gini coefficient
- GDP
- Financial industry exposure

Fund Screening Factors

- Performance (YTD, 3 year, and 5 year)
- Expense ratio
- Tracking error
- AUM
Ex-U.S. Developed Weighting

Entire Portfolio:
- 83%
- 17%

Ex-U.S. Only:
- 4%
- 3%
- 2% each for United Kingdom, France, Hong Kong, Switzerland
- 1% for Germany
- 2% for Japan
- 17% for Korea, Rep.
- 1% for Australia

Source: ASU W.P. Carey School of Business
## Ex-U.S. Developed Markets Cont.

<table>
<thead>
<tr>
<th>Countries</th>
<th>% of Total Market Cap*</th>
<th>Adjustment</th>
<th>Unnormalized Weights</th>
<th>Normalized Final Weights</th>
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<tr>
<td>Japan</td>
<td>19.5%</td>
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<td>19.5%</td>
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<td>Hong Kong SAR, China</td>
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<td>France</td>
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<td>Germany</td>
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<td>1.0%</td>
<td>7.8%</td>
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<td>Korea, Rep.</td>
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<tr>
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<td>0.0%</td>
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<td>Netherlands</td>
<td>3.1%</td>
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<td>0.0%</td>
<td>0.0%</td>
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</table>

*Note: Ex-US developed countries only*
Emerging Markets

- Completely passive strategy
  - Less access to information in emerging markets
- iShares MSCI Emerging Markets Index Fund - EEM
  - Lowest tracking error within selection set
  - Large number of companies in fund compared to others (approximately 800)
  - Large emerging market fund, $35 billion AUM
Domestic ETFs

- Used a passive strategy with indexed ETFs
- Large bet that Mid Cap will outperform Large Cap
  - S&P 500 index market capitalization is $11.05 trillion
  - S&P 400 Mid Cap index market capitalization is $1.06 trillion
Small Cap Value Selection Process

1) Russell 2000 Value Index – 1,344 companies
2) Market Cap Filter – $1.1 billion min.
3) Average 90 Day Trading Volume – 100,000 min.
4) P/E Ratio Maximum – 25:1
5) Price to Book Max – 5.0
6) Share Price Minimum – $5
7) Other considerations to narrow list to 80 securities
   – Insider holdings
   – Insider trades
   – PEG Ratio
Security Selection – Final Cut

• Reviewed technical data
• Reviewed existing analyst reports
• Reviewed annual and quarterly reports of target firms and competitors to find:
  – Information not currently priced into stocks
  – Companies with sound financial management
  – Competitive advantages
  – Powerful management teams
  – Strong potential for returns
  – Solid business strategies
Small Cap Value Holdings

**Basic Materials**
- PolyOne
- Chemtura
- Thompson Creek

**Consumer Discretionary**
- Pier 1 Imports
- Penske
- Finish Line
- Buckeye Technologies

**Consumer Basic**
- The Hain Celestial Group
- Treehouse

**Energy/Utilities**
- World Fuel Services
- The Electric Company
- New Jersey Resources

**Financials**
- Webster Financial Corporation
- United Bankshares

**Healthcare**
- Centene Corporation
- Parexel

**Technology**
- ANIXTER
- Veeco
Industry Breakdown - Small Cap Value Stocks

Russell 2k Value

- Financial Services: 37%
- Consumer Discretionary: 10%
- Technology: 12%
- Healthcare: 14%
- Basic Materials: 8%
- Utilities: 7%
- Energy: 5%
- Producer Durables: 4%
- Consumer Staples: 3%
- Other: 4%

Small Cap Value Satellite Portfolio

- Financial Services: 26%
- Consumer Discretionary: 18%
- Basic Materials: 13%
- Healthcare: 13%
- Technology: 9%
- Utilities: 9%
- Energy: 9%
- Producer Durables: 4%
- Consumer Staples: 4%
- Other: 4%
Portfolio Performance vs. Benchmarks
Custom Benchmark

Emulate the possible investment world subject to our charter restraints

- **Russell 3000**: 59%
- **MSCI World Ex-US Index**: 23%
- **Barclay Capital Aggregate Bond Index**: 18%
Performance Attribution – Foreign ETFs

Ex US Equity: -2.5%
Dev./Emer Balance: -0.3%
Country Selection: 0.5%
Overall Return: -2.3%
Performance Attribution – U.S.

Benchmark return: -0.7%
Equity Tilt Effect: 0.0%
Small Cap Bias: -0.5%
Stock Selection: 1.0%
Total Return: -0.2%
Moving Forward

- Monitor portfolio daily
- Rebalance quarterly
- Continue to look for attractive investment opportunities
- Move out of positions when we believe stocks become efficiently priced
- Further develop our portfolio management skills
- Reevaluate certain charter restrictions