

# MBA



W. P. CAREY  
SCHOOL of BUSINESS

ARIZONA STATE UNIVERSITY

## WPCMBA Diversified Global Small Cap Value Fund

April 20, 2012  
Semi-Annual Board Update

# Agenda

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Introduction

Fund Objective & Strategy

Portfolio Composition

Portfolio Rebalance & Turnover

Performance & Attribution

Discussion & Comparison of Original Planned Investment

What We Learned

Succession & Next Steps

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# The Team

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***Jaspreet Anand***



***Spencer Hardy***



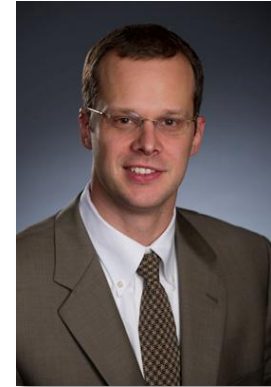
***Seth Landau***  
Portfolio Manager



***Adam Love***



***Maggie MacCool***



***Piers Sharman***

# Fund Objectives

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- 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

# 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

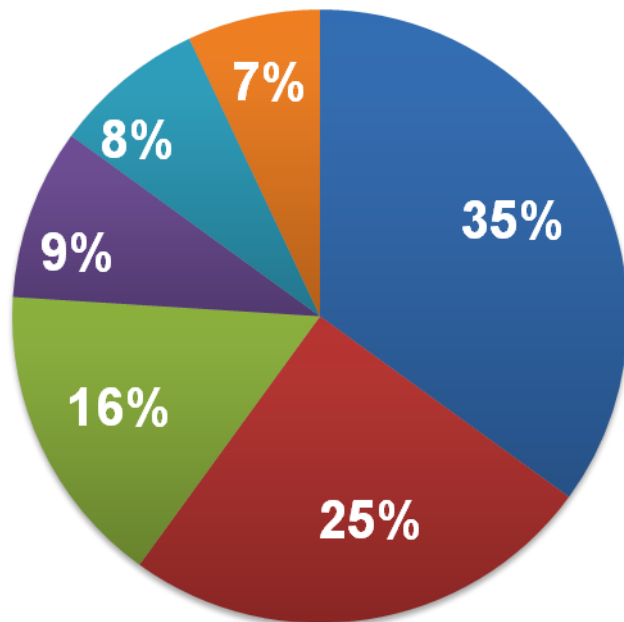
## Satellite Portfolio

Small Cap Value

Heavily skewed to generate above-market returns

# Portfolio Asset Allocation

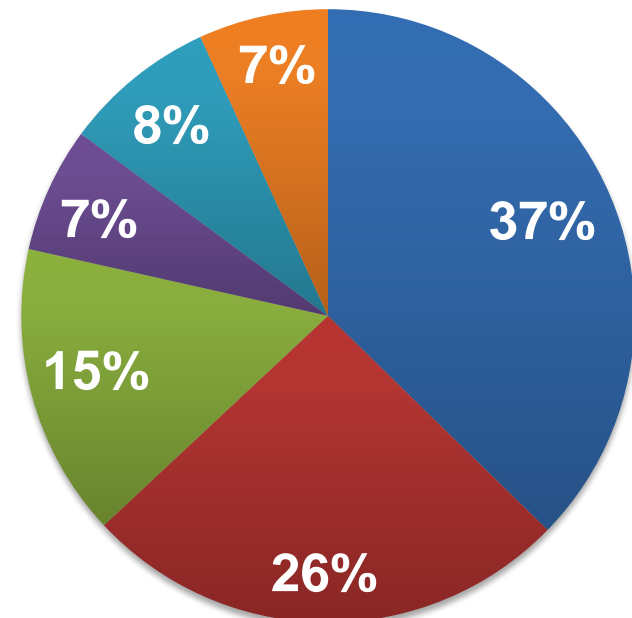
**Initial Allocation  
October 2011**



■ U.S. Small Cap Value  
■ Cash / Fixed Income

■ U.S. Large Cap  
■ U.S. Mid Cap

**Current Allocation  
April 2012**



■ International Developed  
■ International Emerging

# Core Portfolio Holdings

Asset Class	Fund
Cash / Fixed Income	SPDR Barclays Capital Aggregate Bond – <b>LAG</b>
U.S. Large Cap	SPDR S&P 500 – <b>SPY</b>
U.S. Mid Cap	SPDR Midcap 400 – <b>MDY</b>
International Emerging	iShares MSCI Emerging Markets – <b>EEM</b>
International Developed	iShares MSCI Country Indices <ul style="list-style-type: none"><li>• <b>EWG</b> – Germany</li><li>• <b>EWH</b> – Hong Kong</li><li>• <b>EWJ</b> – Japan</li><li>• <b>EWL</b> – Switzerland</li><li>• <b>EWY</b> – Korea</li><li>• <b>EWQ</b> – France</li><li>• <b>EWU</b> – U.K.</li><li>• <b>EWA</b> – Australia</li></ul>

# Small Cap Value Holdings

## Basic Materials



## Consumer Discretionary



## Consumer Basic



## Financials



## Healthcare



## Technology



## Energy/Utilities

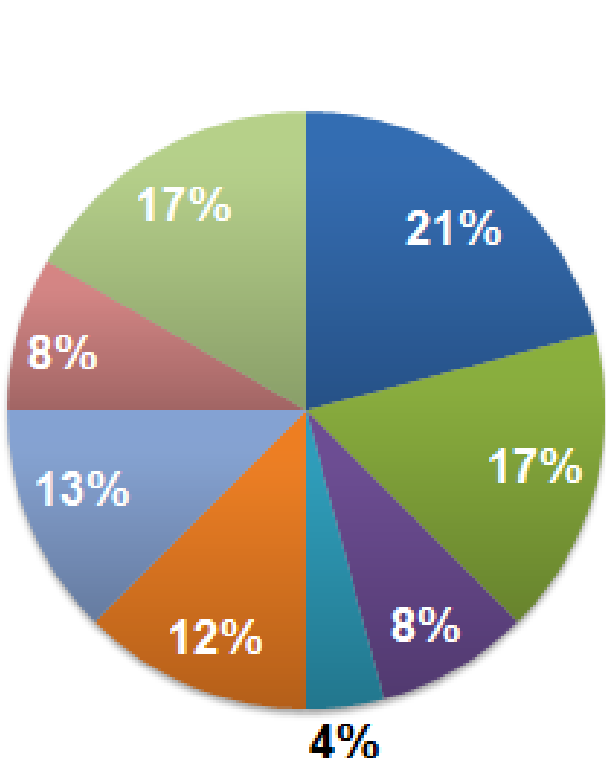
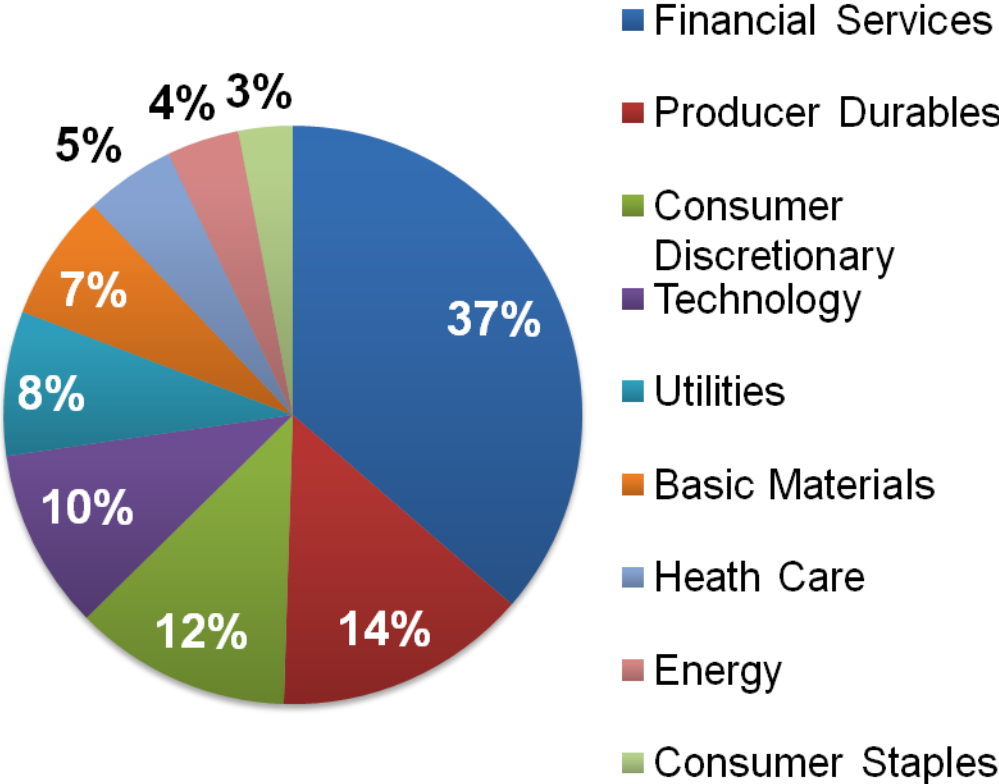




# Industry Breakdown - Small Cap Value Stocks

**Russell 2000 Value**


**Small Cap Value Satellite Portfolio**



# Why Rebalance?

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- Not making predictions on specific values, rather selecting qualitatively
- Returns change the portfolio allocation
- Restoring portfolio to original mix while exiting securities that have fulfilled their potential or no longer fit our investment thesis



Total Portfolio  
Annualized  
Turnover:  
40.13%

# Rebalancing – Positions Sold

The portfolio was rebalanced in order to make use of gains on the following securities




Company	Shares Sold	Shares Remaining	Proceeds From Sale	Gain
Anixter International, Inc. (AXE)	11	124	\$719.18	10.3%
Centene Corp. (CNC)	34	191	\$1,530.34	25.9%
FNB Corp (FNB)	60	716	\$701.40	13.5%
Pier 1 Imports (PIR)	139	526	\$2,161.45	25.2%
PolyOne Corp. (POL)	102	586	\$1,469.82	26.2%
United Bankshares, Inc. (UBSI)	25	174	\$692.25	14.5%
World Fuel Services Corp. (INT)	15	184	\$683.25	13.8%
Veeco (VECO)	284	0	\$6,282.08	-17.12%
Cash America (CSH)	143	0	\$6,284.85	-20.39%
iShares Russell 2000 Value Index (IWN)	183	0	\$12,835.62	8.34%
New Jersey Resources (NJR)	167	0	\$7,611.19	-4.07%

# Rebalancing – Positions Bought





The portfolio was rebalanced in order to regain equal footing on the following securities

Company	Shares Bought	Shares Held	Cost of Purchase	Prior Gain/Loss
Parexel (PRXL)	51	409	\$1,231.65	1.1%
Apollo Investment Corp. (AINV)	182	1117	\$1,530.34	-5.8%
iShares MSCI Emerging Markets Index (EEM)	38	905	\$1,599.04	-7.4%
iShares MSCI Japan Index (EWJ)	169	2219	\$1,613.95	-10.8%
iShares MSCI France Index (EWQ)	64	531	\$1,333.76	-0.1%
Bill Barrett Corporation (BBG)	298	298	\$8,144.34	N/A
Columbia Sportswear Co. (COLM)	182	182	\$8,446.62	N/A
Littelfuse Inc. (LFUS)	166	166	\$8,535.72	N/A
Stillwater Mining Co. (SWC)	637	637	\$8,465.73	N/A

# Major Position Liquidations

Company	Ticker	Date	Reason
	VECO	December 19 <sup>th</sup>	<ul style="list-style-type: none"> <li>• Share price had declined over 17%</li> <li>• Mass insiders sell out</li> </ul>
	CSH	January 31 <sup>st</sup>	<ul style="list-style-type: none"> <li>• Share price had declined over 20%</li> <li>• No indication of management turn-around</li> <li>• Change in market outlook</li> </ul>
iShares Russell 2000 Value Index Fund	IWN	January 31 <sup>st</sup>	<ul style="list-style-type: none"> <li>• Temporary investment after selling VECO, to retain the small value bent of portfolio while selecting individual stock</li> </ul>
	NJR	March 9 <sup>th</sup>	<ul style="list-style-type: none"> <li>• Little price movement</li> <li>• Earnings met analyst expectations indicating that the security is priced efficiently</li> </ul>

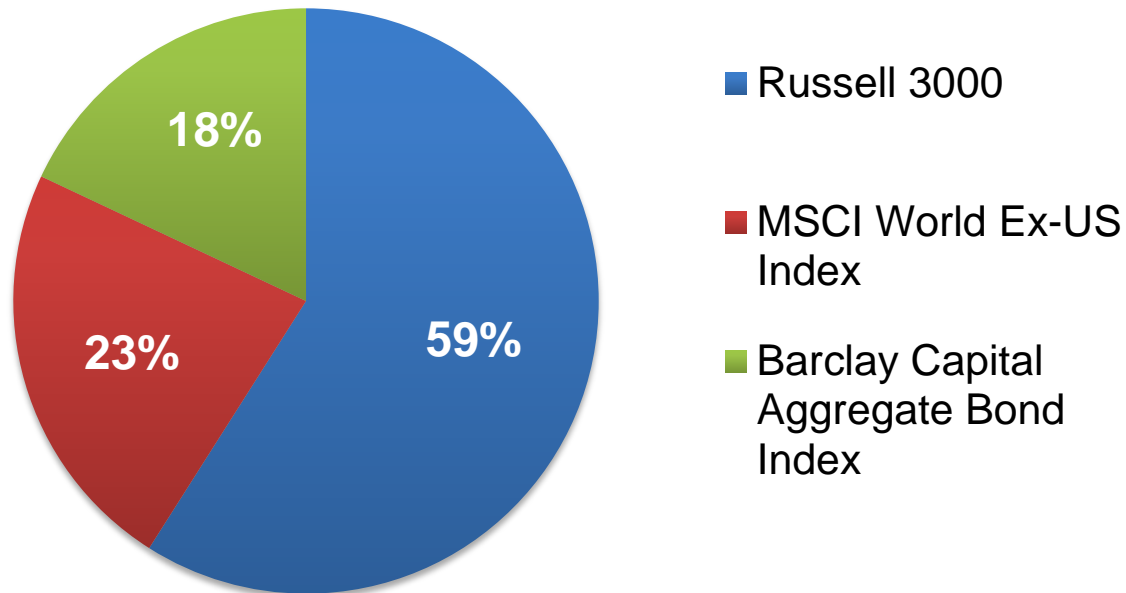
# Major Position Investments

Company	Ticker	Date	Reason
 <b>Bill Barrett Corporation</b>	BBG	Jan 31 <sup>st</sup>	<ul style="list-style-type: none"> <li>• Increased proved oil reserves by 135%</li> <li>• Low cost structure and an improving infrastructure situation provides buffer</li> <li>• Expect strong oil prices and production growth</li> </ul>
 <b>Columbia Sportswear Company®</b>	COLM	Jan 31 <sup>st</sup>	<ul style="list-style-type: none"> <li>• Low debt burden compared to industry average</li> <li>• Strong international expansion, 30% YOY sales increase in Latin America and Asia Pacific</li> <li>• We believe stock price is undervalued and Columbia will recover faster than expected</li> </ul>
 <b>Littelfuse</b>	LFUS	Jan 31 <sup>st</sup>	<ul style="list-style-type: none"> <li>• Market leading position in power regulation for small devices (tablets etc.), which are proliferating</li> <li>• Dominant position in automotive power regulation (in 8/10 cars sold), benefitting from economic recovery</li> </ul>
	SWC	Mar 9 <sup>th</sup>	<ul style="list-style-type: none"> <li>• Tsunami in Japan lowered the demand and prices of platinum</li> <li>• SWC is the largest and only extractor of platinum and palladium ores in U.S.</li> <li>• Potential palladium shortage by year end</li> </ul>

# Custom Benchmark

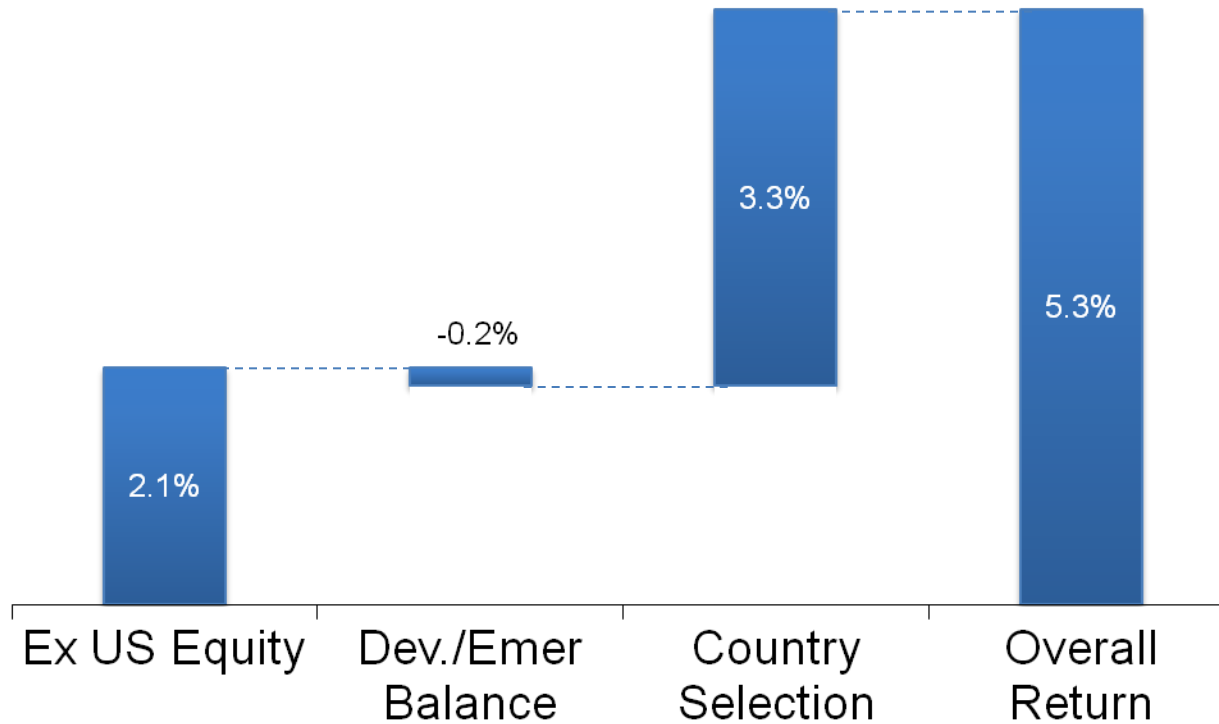
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Emulate the possible investment world  
subject to our charter restraints



# Performance Attribution – Foreign ETFs

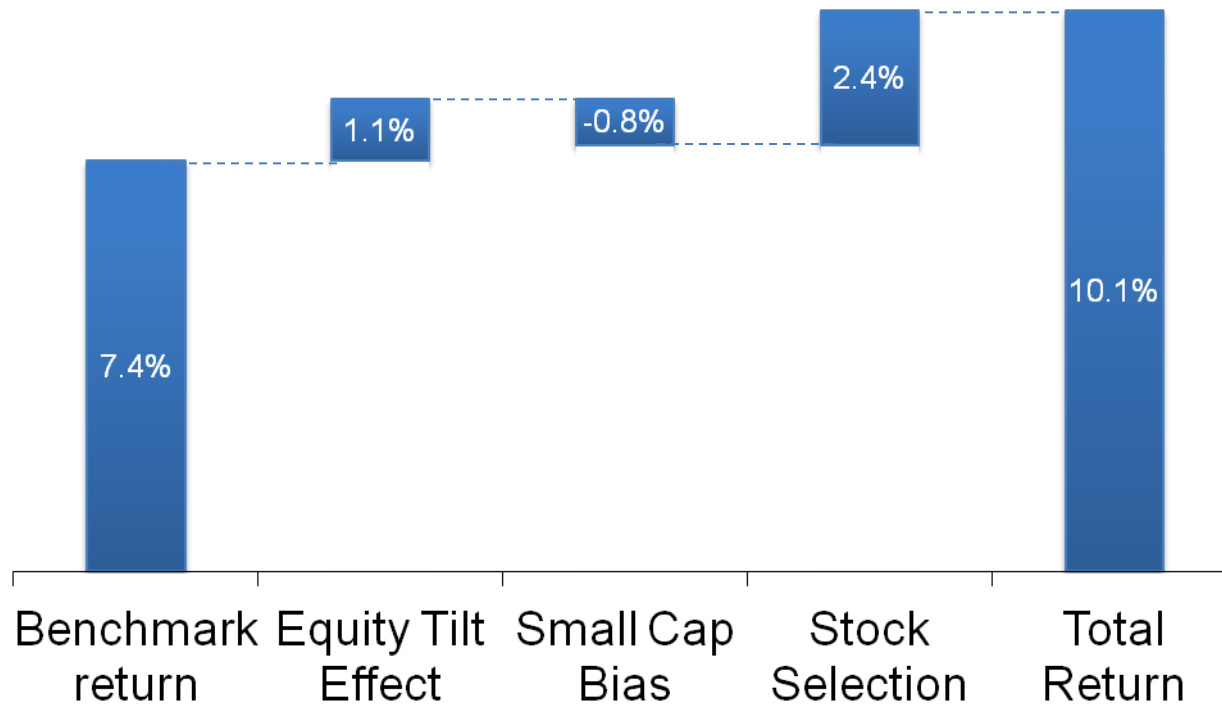
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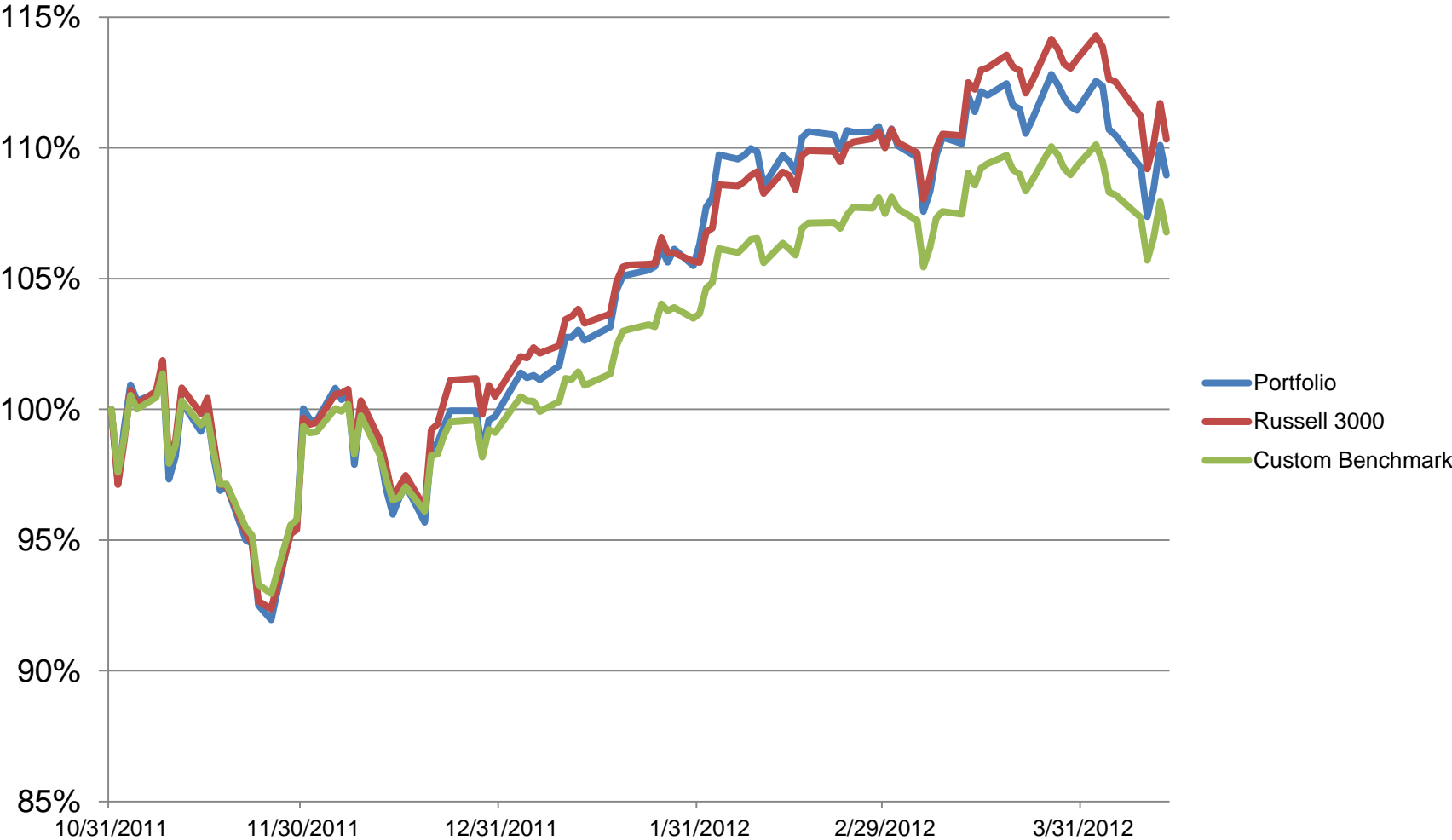


# Performance Attribution – U.S.

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# Portfolio Performance vs. Benchmarks



# Restrictions

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The following charter restrictions affected our investment decisions:

- Individual companies must have a market cap of at least \$1 billion
- Bond investments must have a rating of at least AA

# We Wanted To Do

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- Invest 35% of the portfolio over 23 Small Cap stocks ranging from \$600 million - \$2 billion market capitalization
  - Nine of our stock picks were under \$1 billion and therefore prohibited by charter
- Invest 7.5% of our portfolio in one Fixed Income ETF with average credit rating of A
  - The credit quality of our preferred investment was below charter standards

# The Results of Desired Portfolio

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- From October 31<sup>st</sup> – April 9<sup>th</sup> :
  - Avg. return of 9 disallowed stocks: 11.95%
  - Avg. return of 9 replacement stocks : 12.64%
  - Realized return for all SC stocks purchased: 10.53%
  - We could not invest in LQD. Actual return: 5.55%
  - We instead invested in LAG. Actual return: 1.35%
- Our implemented portfolio underperformed our ideal portfolio by 7.4 basis points

# What We Learned

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- Only future outlook should be considered with losses being viewed as a sunk cost
- There is a profound difference between portfolio theory and its actual implementation (transaction costs, charter restrictions, market changes)
- How to strike a successful balance between a quantitative and qualitative approach
- Impressive returns can be attained by choosing undervalued and low beta companies
- Utility stock mispricing appears to be minimal, even in those utilities with unregulated business units

# 2012 – 2013 SIM Fund Team

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*Paul Balskus*



*Jashan Bathla*



*Martin Brcka*



*John Good*



*Kris Kaminski*



*Chris Pettit*  
Portfolio Manager



*Colin Porter*



*Joe Zanck*

# Succession Planning

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- Eight accepted candidates
- Education:
  - Training on Bloomberg terminal
  - Introduction to basic portfolios
  - Videos and readings
  - Sitting in on meetings



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**THANK YOU!**

**QUESTIONS?**