

MBA



W. P. CAREY
SCHOOL *of* BUSINESS

ARIZONA STATE UNIVERSITY

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

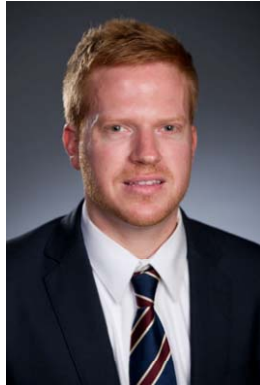
Performance

Next Steps

The Team



Jaspreet Anand



Spencer Hardy



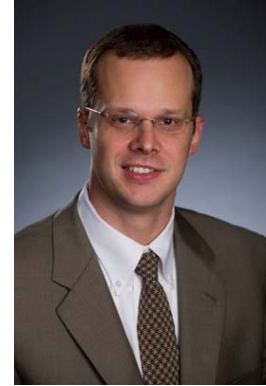
Seth Landau
Portfolio Manager



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

	Correlations				Sigma	Weight
	EFA	RUSS 2k	S&P 500	EEM		
EFA	1.00	0.86	0.94	0.92	0.069	0.00
RUSS	0.86	1.00	0.94	0.83	0.069	0.61
S&P	0.94	0.94	1.00	0.88	0.054	0.17
EEM	0.92	0.83	0.88	1.00	0.086	0.22
Sigma	0.07	0.07	0.05	0.09		
Historic Return	-0.03%	0.12%	0.12%	0.73%		
Weight	0.00	0.61	0.17	0.22		1
Total Return	0.0025			Foreign Constraint		0.22
Portfolio S.D.	0.9658					
Sharpe Ratio	0.0026					

For illustrative purposes only

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

Naive application of Sharpe optimization leads to unbalanced portfolios

Risk Tolerance

Survey

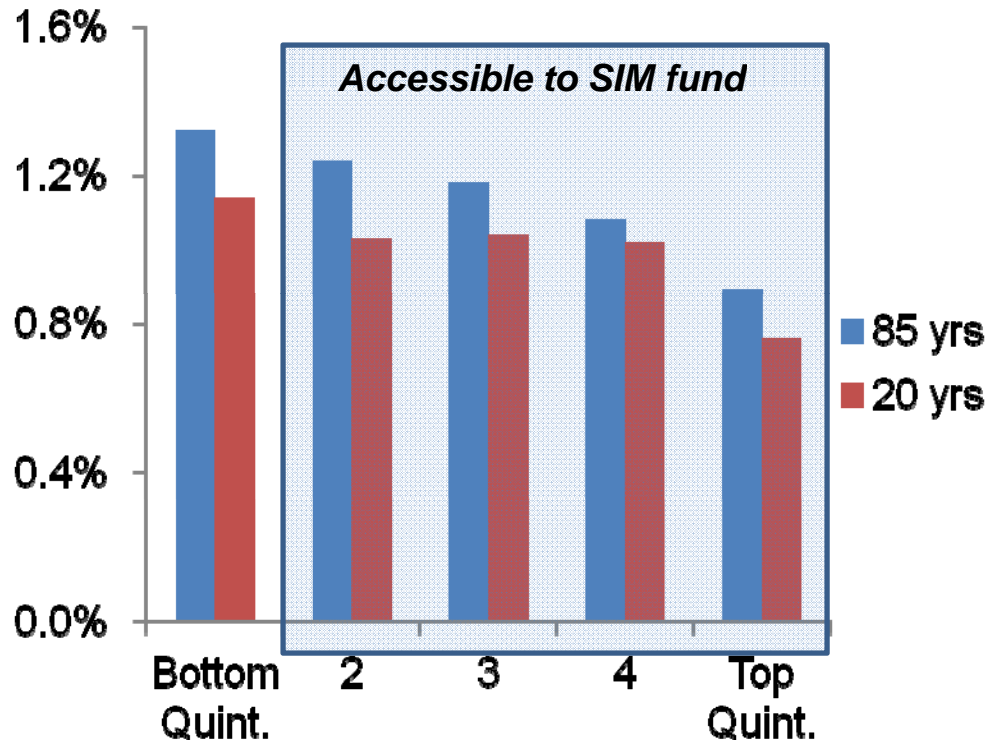
- Performance
 - Bull market
 - Bear market
 - Inflation
- Knowledgeability

High risk tolerance

- Long-term horizon
- No required payouts
- No tax concerns

Small Cap Value Rationale

Avg. Monthly Returns by Market Cap.



Monthly Returns by BE/ME

		Book-to-market Ratio				
		Low	2	3	4	High
Capitalization	Smallest	0.38	1.18	1.21	1.38	1.52
	2	0.74	1.01	1.22	1.15	1.23
	3	0.77	1.05	1.18	1.1	1.48
	4	0.99	1.07	1.01	1.15	0.97
	Largest	0.77	0.92	0.83	0.76	0.88

Accessible to SIM fund

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

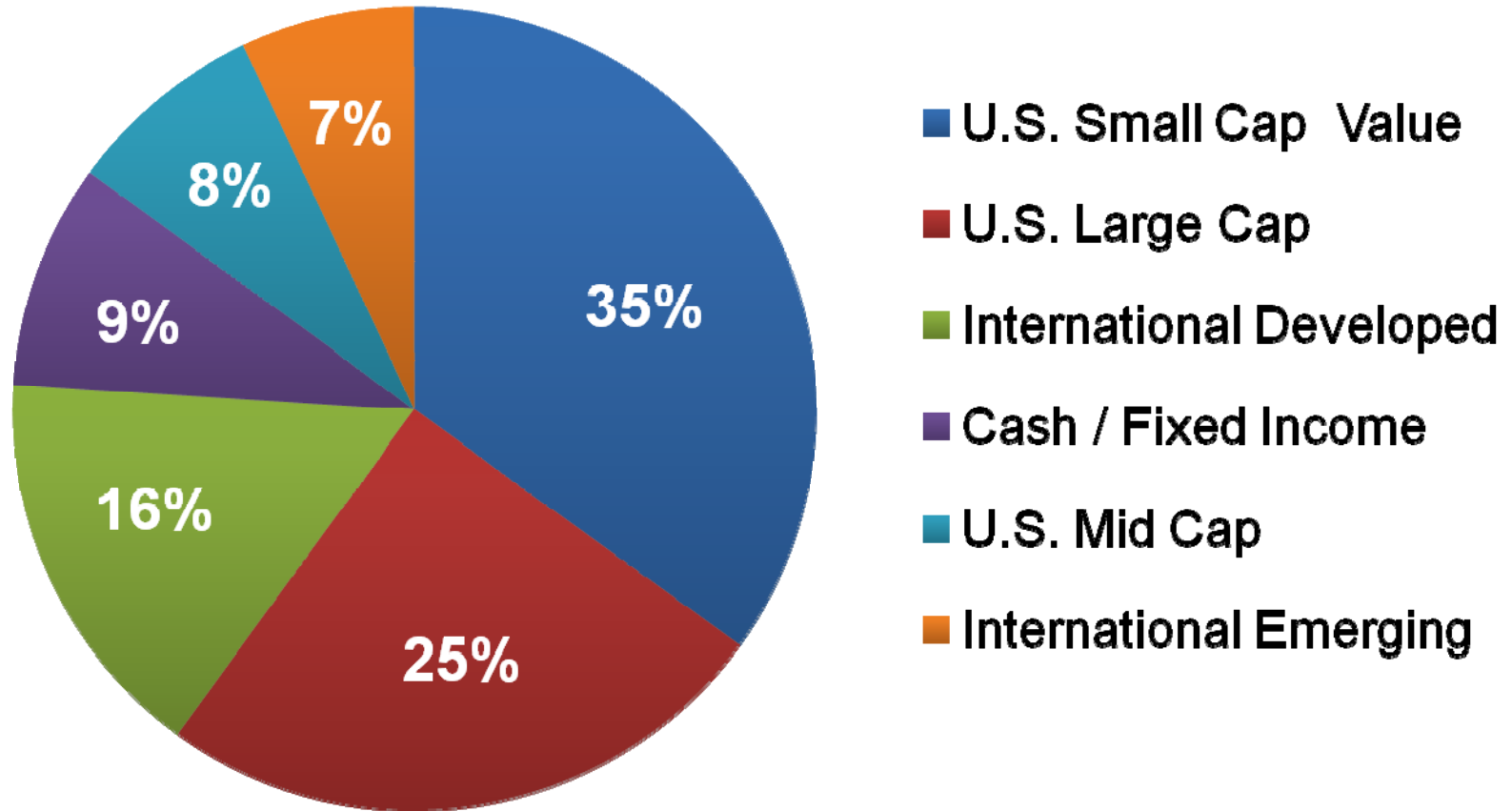
High liquidity for future investment opportunities and lower volatility for overall portfolio

Satellite Portfolio

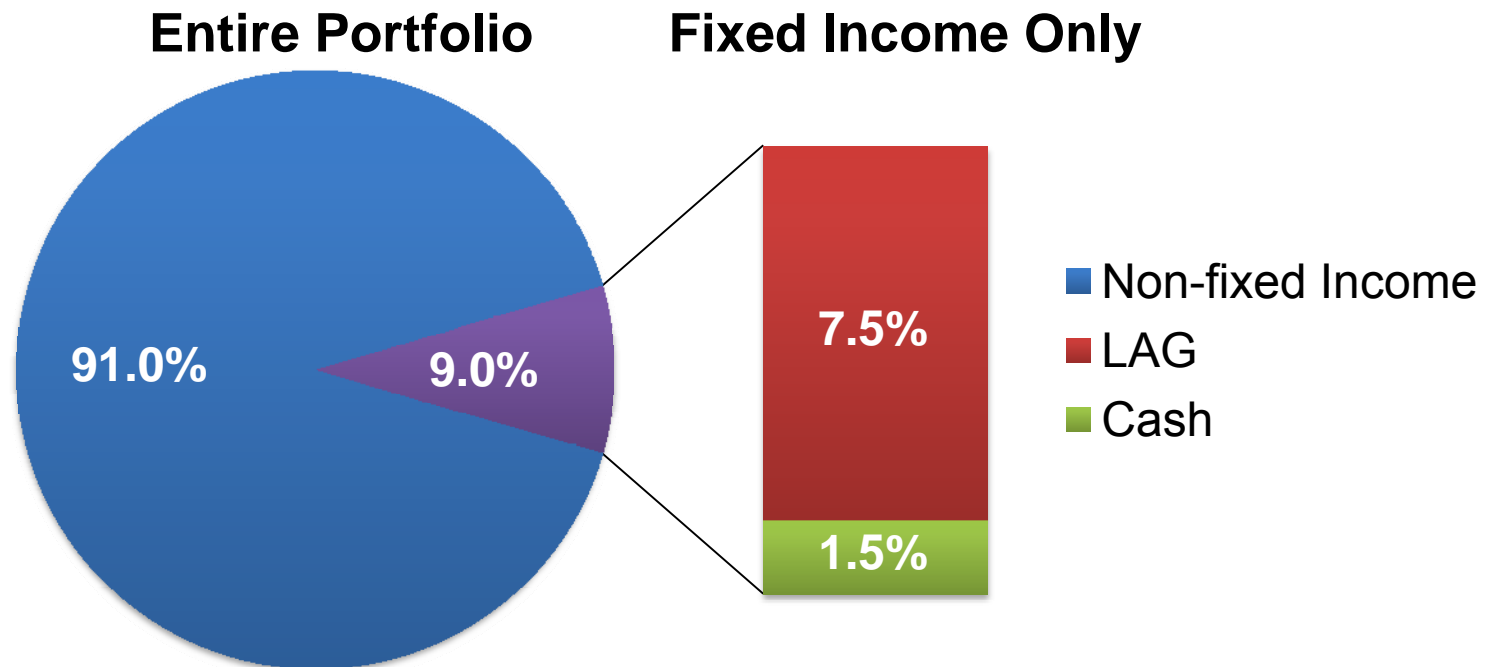
Small Cap Value

Heavily skewed to generate above-market returns

Portfolio Asset Allocation



Fixed Income



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

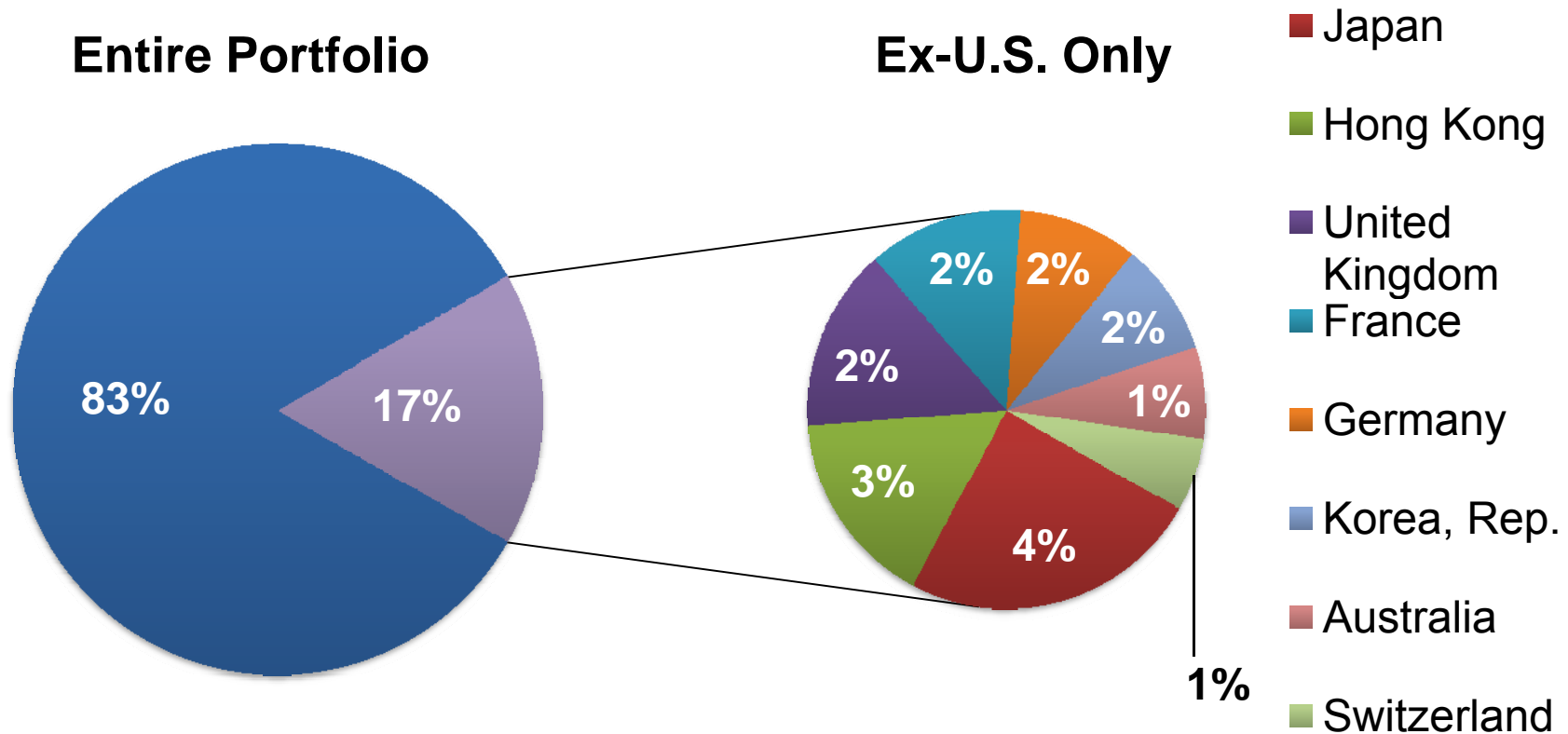
Country Screening Factors

- 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

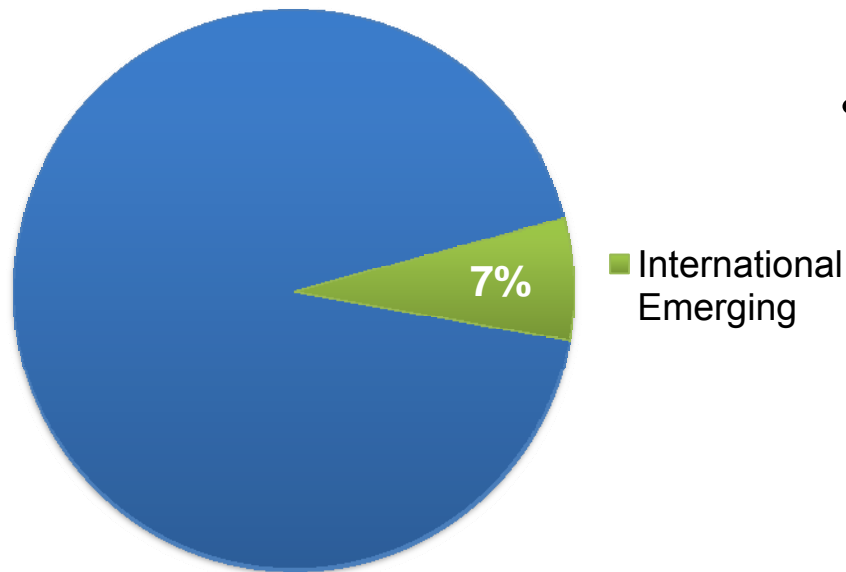


Ex-U.S. Developed Markets Cont.

Countries	% of Total Market Cap*	Adjustment	Unnormalized Weights	Normalized Final Weights
<i>Japan</i>	19.5%	0.0%	19.5%	24.3%
<i>Hong Kong SAR, China</i>	12.9%	0.0%	12.9%	16.1%
<i>United Kingdom</i>	14.8%	-3.0%	11.8%	14.7%
<i>France</i>	9.2%	1.0%	10.2%	12.7%
<i>Germany</i>	6.8%	1.0%	7.8%	9.7%
<i>Korea, Rep.</i>	5.2%	2.0%	7.2%	9.0%
<i>Australia</i>	6.9%	-1.0%	5.9%	7.4%
<i>Switzerland</i>	5.8%	-1.0%	4.8%	6.1%
<i>Canada</i>	10.3%	-10.3%	0.0%	0.0%
<i>Spain</i>	5.6%	-5.6%	0.0%	0.0%
<i>Netherlands</i>	3.1%	-3.1%	0.0%	0.0%

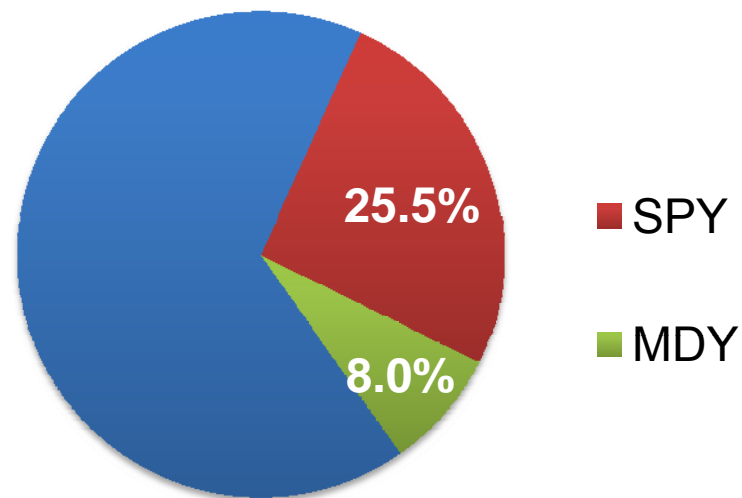
*Note: Ex-US developed countries only

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



Consumer Discretionary



Consumer Basic



Energy/Utilities



Financials



Healthcare

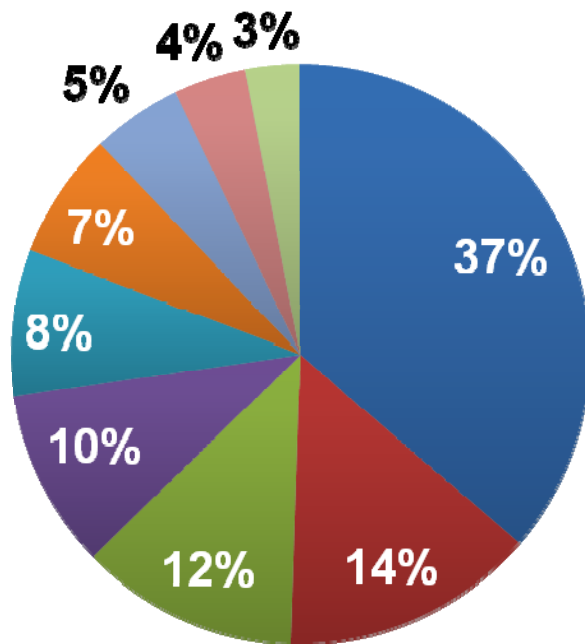


Technology

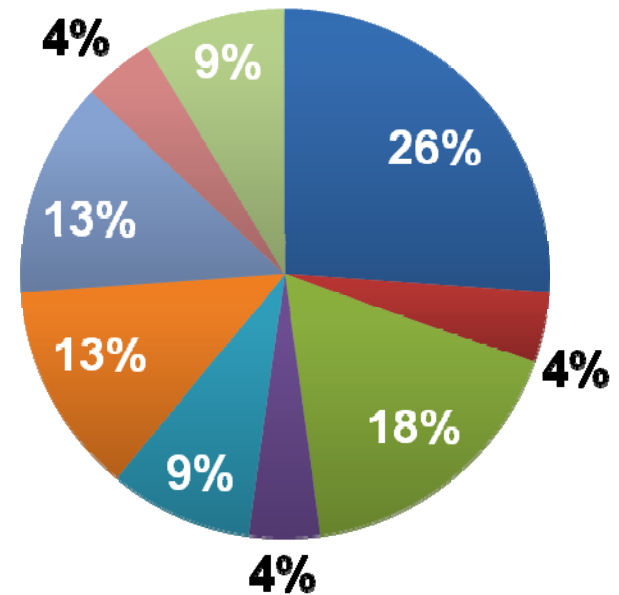


Industry Breakdown - Small Cap Value Stocks

Russell 2k Value

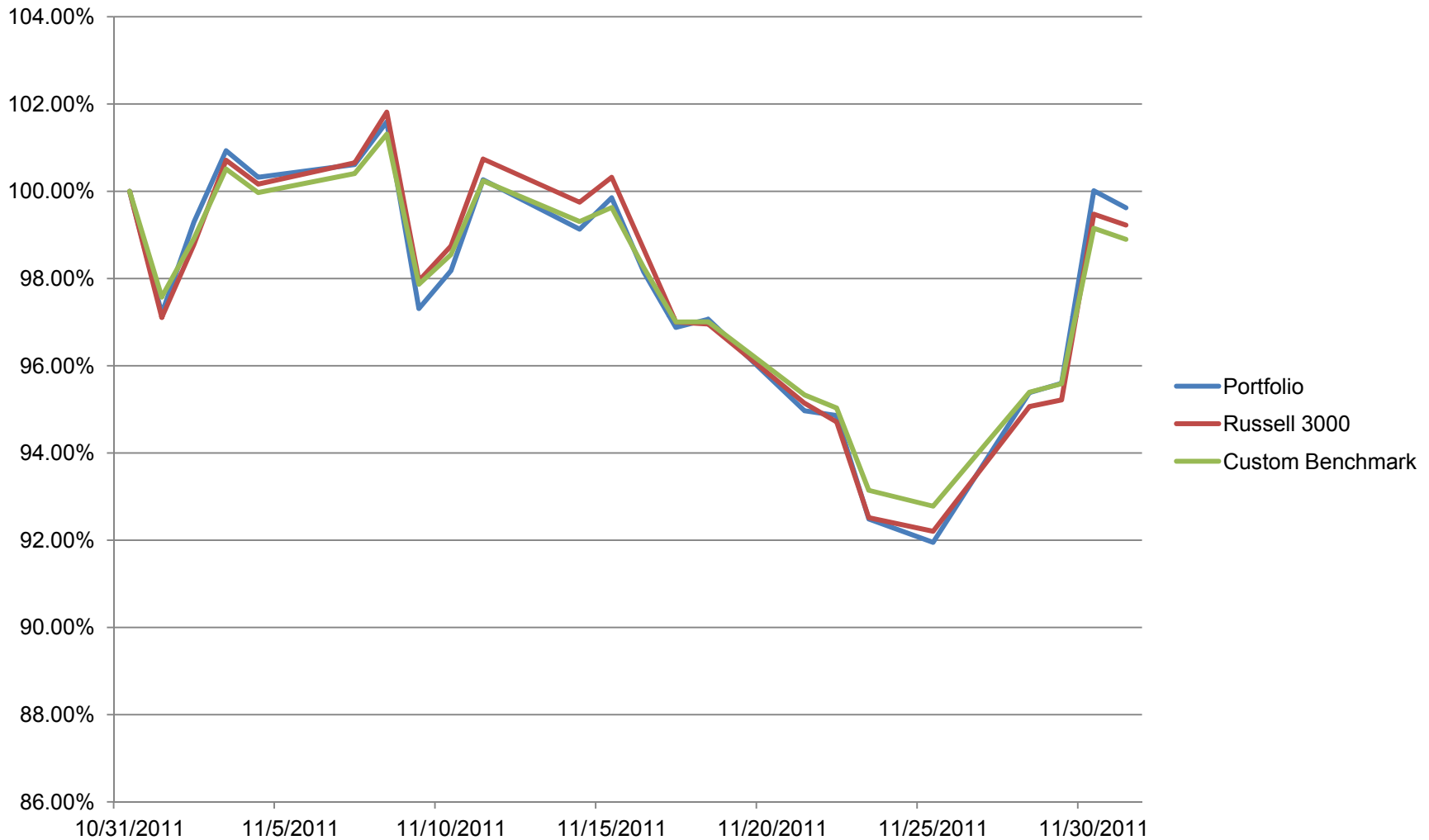


Small Cap Value Satellite Portfolio



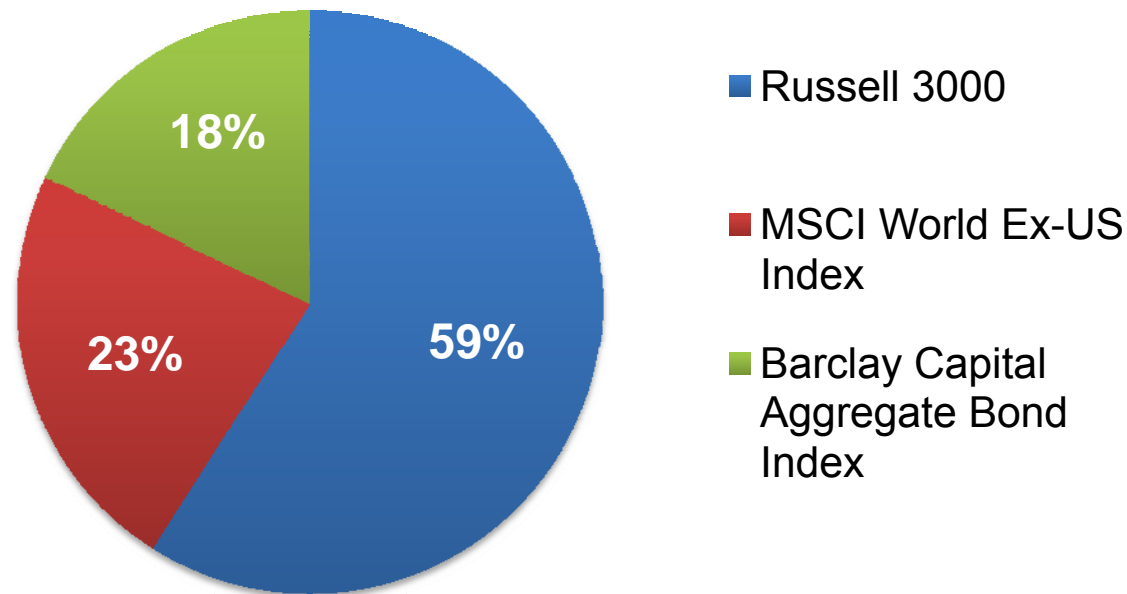
- Financial Services
- Producer Durables
- Consumer Discretionary
- Technology
- Utilities
- Basic Materials
- Health Care
- Energy
- Consumer Staples

Portfolio Performance vs. Benchmarks

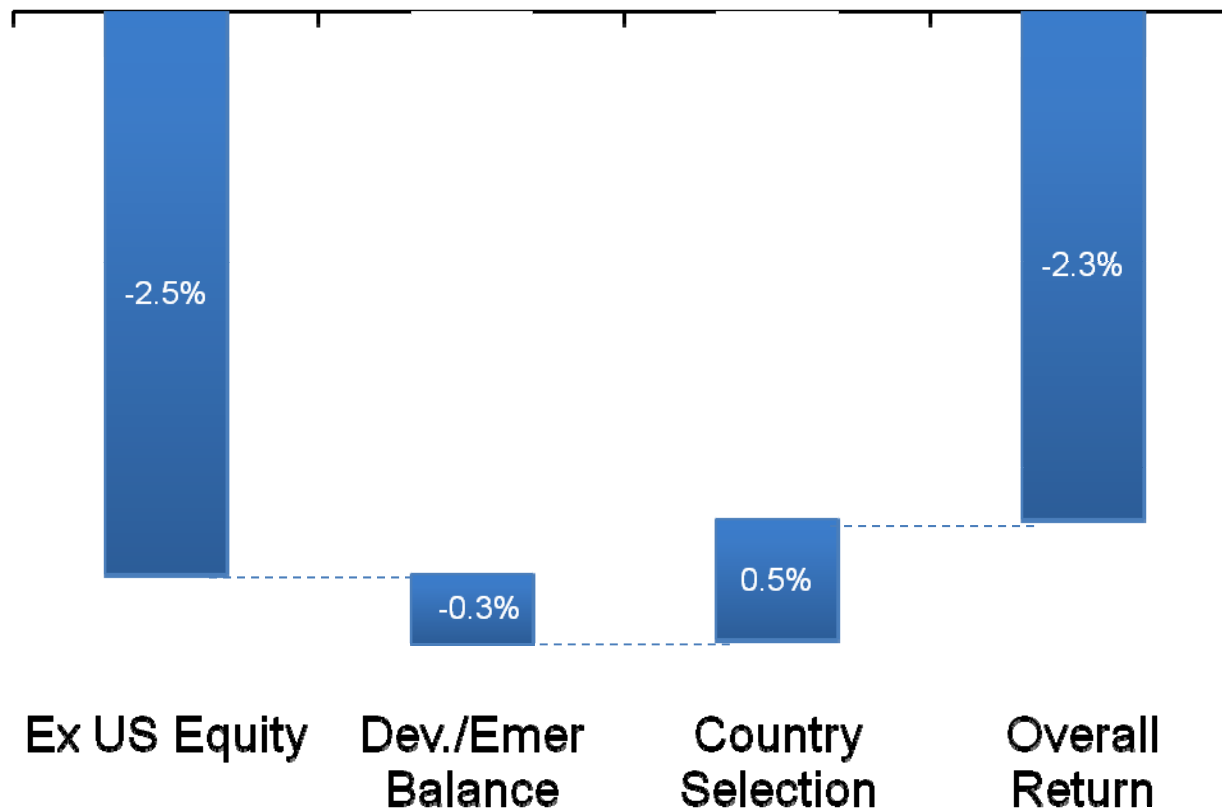


Custom Benchmark

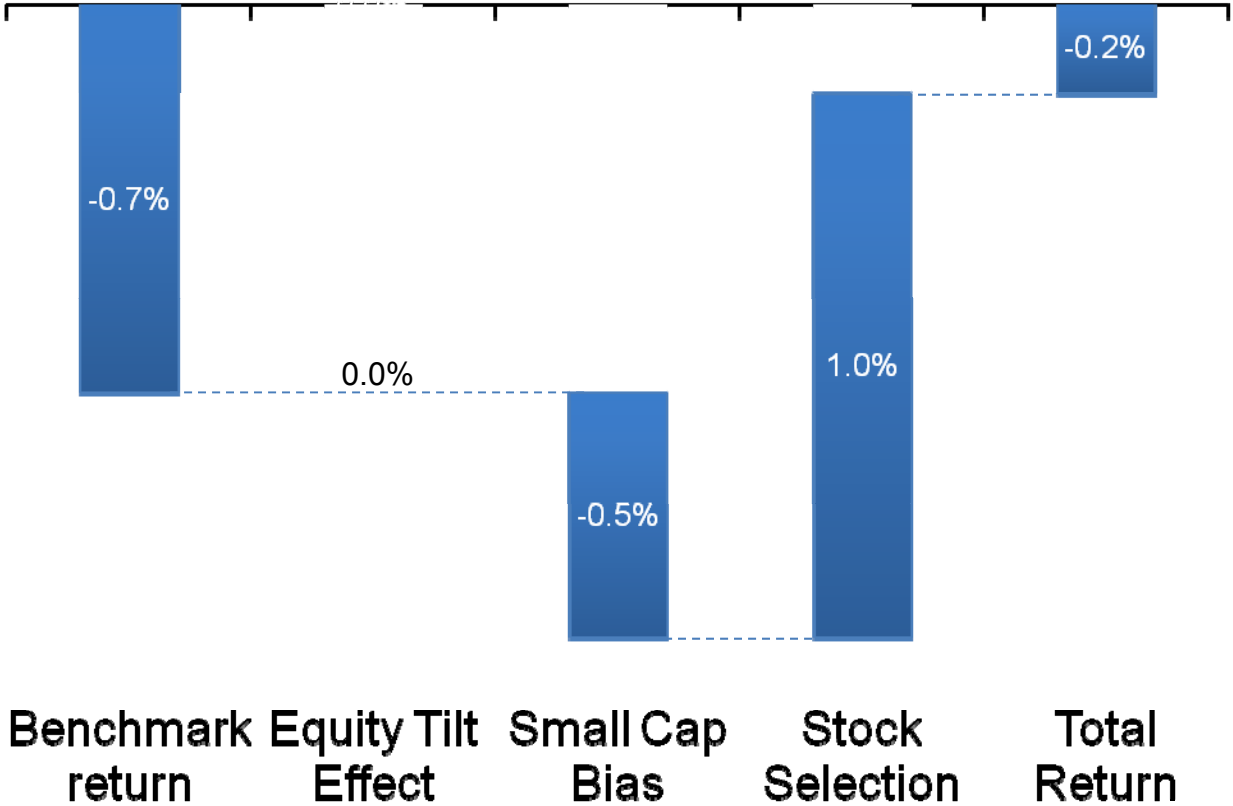
Emulate the possible investment world
subject to our charter restraints



Performance Attribution – Foreign ETFs



Performance Attribution – U.S.



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