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W. P. Carey School of Business

Undergraduate Maroon & Gold Value Fund

Semi-Annual Meeting

December 5, 2008

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Today's Agenda

- Team introduction and fund objectives
- Economic outlook and market overview
- Portfolio style, criteria, and composition
- Performance vs. benchmarks
- Asset allocation: PFF vs. LQD
- Strategy for additional funds
- Lessons learned and discussion



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INITIAL ECONOMIC OVERVIEW

Daniel Mcauley & Jazmin Medina

INITIAL ECONOMIC OVERVIEW

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Central Bank Policy:

- U.S. – See no short-term change in interest rates due to economic slow-down. Unemployment and consumer spending still large issues facing economy
- Europe – We predict long-term entrenchment due to tight monetary policy and over-regulation of the market
- China – With the large concern over exports, currency exchange rate low. Growing pressure to fairly value the currency could start to hurt exports from the country.



INITIAL ECONOMIC OVERVIEW

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- Election will affect healthcare and defense spending
- Support general sectors independent of consumer discretionary income
- Dividend stocks become attractive if interest rates remain flat
- We ignored the warnings that interest rates were going down. Although there was a chance rates would come down in the U.S. we didn't believe it was likely. Accordingly, we did not believe rates would come down in the UK as well



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PORTFOLIO

Adam Michelow and Luke Millikin



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PORTFOLIO

- Diversified, large-cap value fund
 - Defensive strategy amidst tough economic climate
 - Bargain hunting opportunities
 - Information widely available, help with learning process
- Investment selection criteria
 - Market cap: 8+ billion, Price to Book: < 3, Price to earnings: < 20
- Seven stocks, three sectors excluded
 - Materials
 - Consumer Discretionary
 - Information Technology



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Benchmark Analysis

Most recent

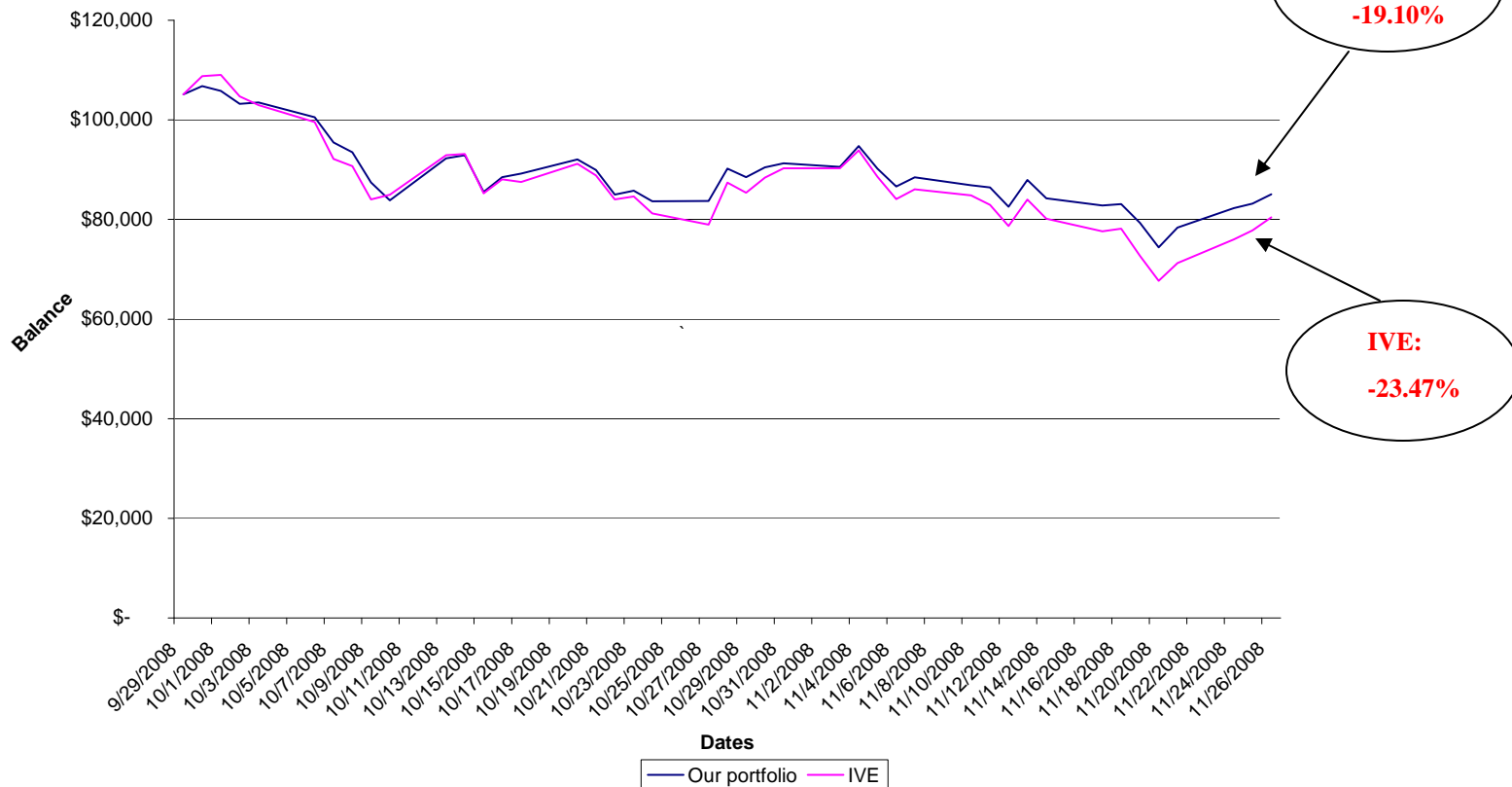
- S&P 500 large-cap value (IVE)
 - P/E: 15.31
 - P/B: 2.23
 - Beta: 0.98
- Our Fund
 - P/E : 10.02
 - P/B: 2.67
 - Beta: 0.90

How well are we correlated to the benchmark?



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Our portfolio vs. S&P 500 Value



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- Selected stocks
 - TSCDY: Tesco PLC ADR
 - VZ: Verizon Communications Inc
 - NOC: Northrop Grumman Corp.
 - PFE: Pfizer Inc

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Tesco PLC (TSCDY)

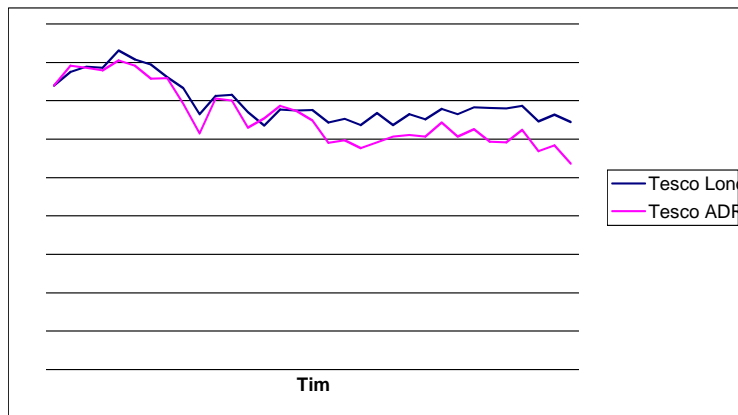
Why we chose Tesco:

- Core U.K. exposure and international growth in India, China, and Continental Europe
- Consumers can shop down in a bad economy

How did it fit into our portfolio?

- Consumer Staples: grocery stores

London shares: -13%, Pound depreciation 17%, Tesco ADR: -30%

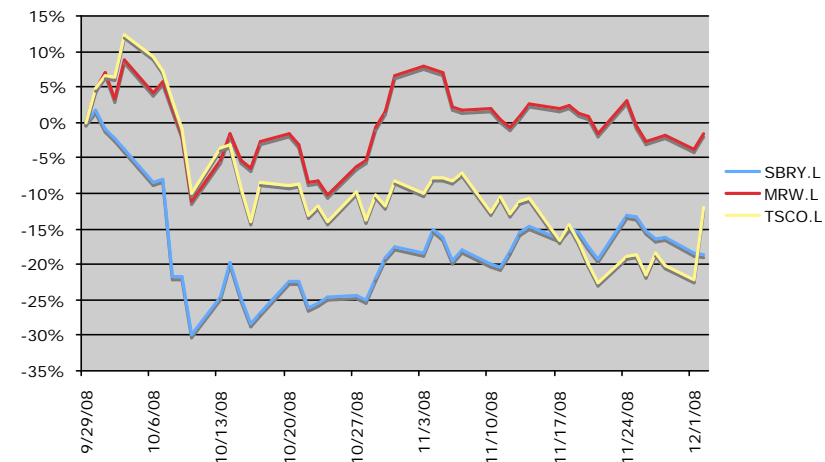


Holding period highlights:

- Day after our purchase, stock increased because of strong 1H08 results
- December 2nd: beat estimates for 3Q08 due to increased sales of lower price-range goods

Comparison relative to competition:

- Between Wm. Morrison Supermarkets Plc and J Sainsbury Plc



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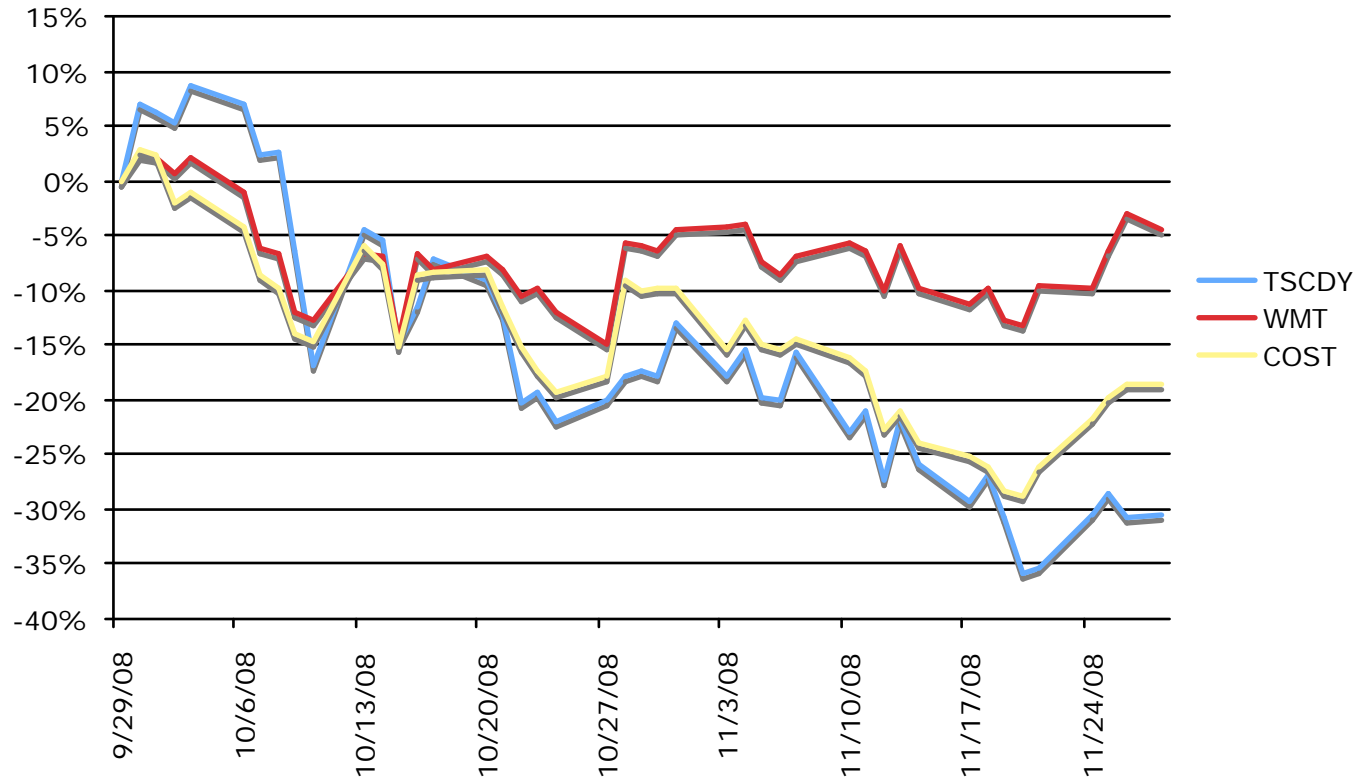
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Tesco PLC (TSCDY)



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Verizon (VZ)

Why we chose Verizon:

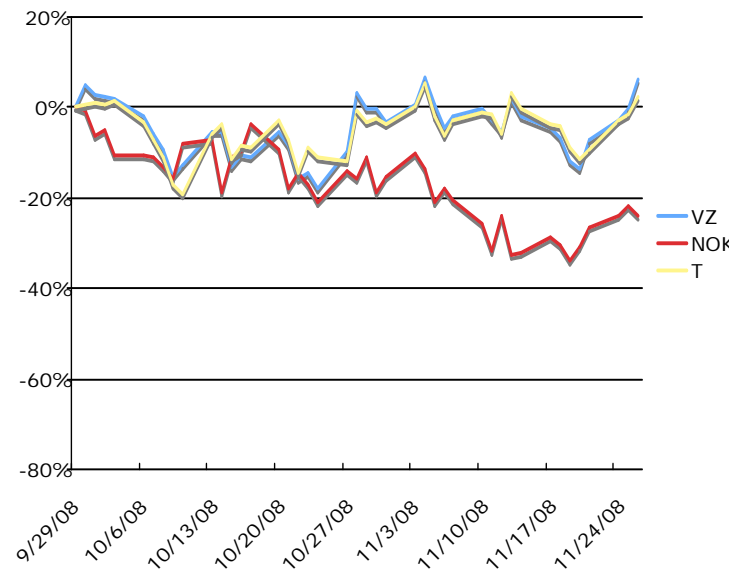
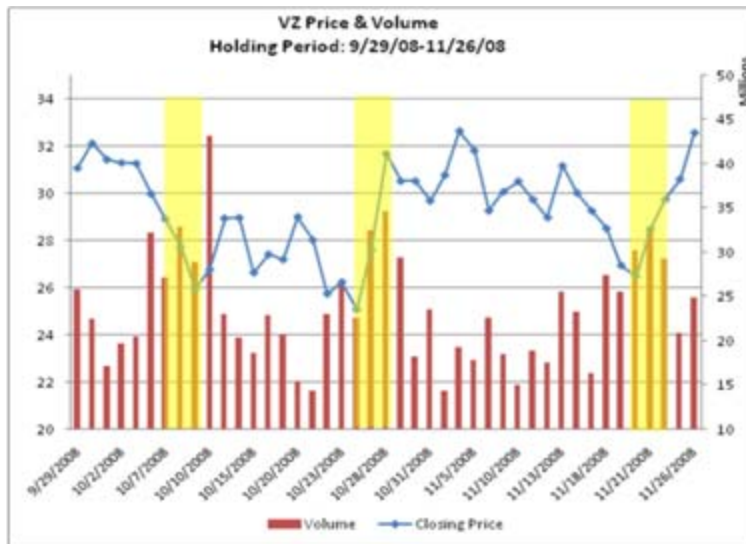
- Business Model: Network Quality & Customer Service
 - Strong Performance on Wireless
 - Scale, Alltel Acquisition
 - High ROE in comparison to peers (12.45%)
 - High dividend yield
- How did it fit into our portfolio?
- Telecom: Inelasticity demand for services

Holding period highlights:

- Stock increased due to strong 3rd Qtr. Results
- Stock decreased due to further divestment required for acquiring Alltel

Comparison relative to competition:

- Why not AT&T or Vodafone?
- Slow growth in Europe
- "The Future is Mobile"



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Northrop Grumman (NOC)

Why we chose Northrop Grumman:

- Substantial contracts from base budget
- Income exclusively from defense contracts
- Largest ship builder for US Navy
- Low debt-to-equity (19.5%)

How did it fit in the portfolio?

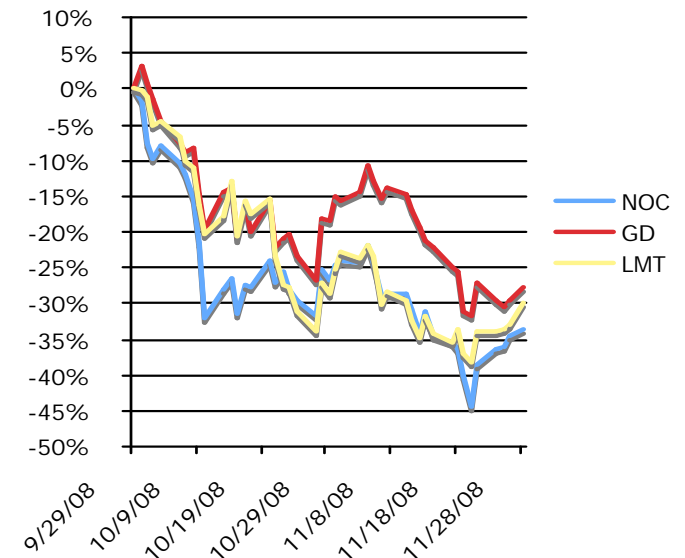
- “Defensive” play in weakening economy
- funding derived from government contracts

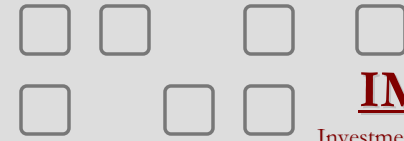
Holding period event highlights:

- 2009 defense budget signed into law (7.5% increase from 2008 budget)

Comparison relative to competition:

- Why not General Dynamics?
- 26% of operating profits from private jet business, which we felt as a risk with our economic outlook





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Pfizer (PFE)

Why we chose Pfizer:

- Low Beta of 0.6
- High Operating Margins of 31%
- Strong Cash Flow High EBITDA of \$20bn
- No Debt – excess cash on hand for M&A

How did it fit in the portfolio?

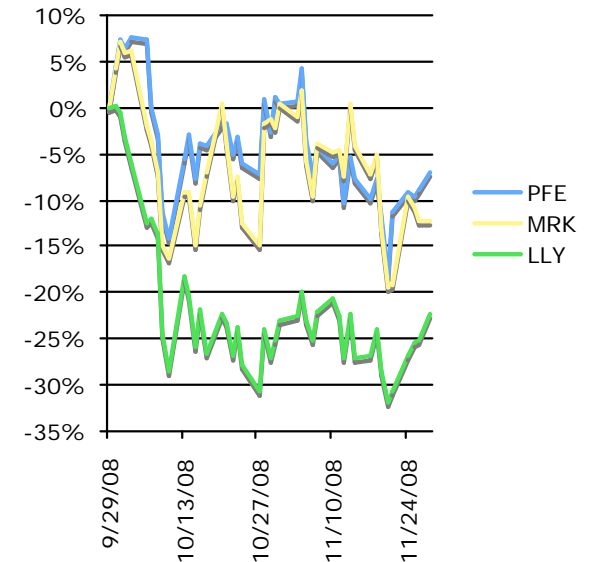
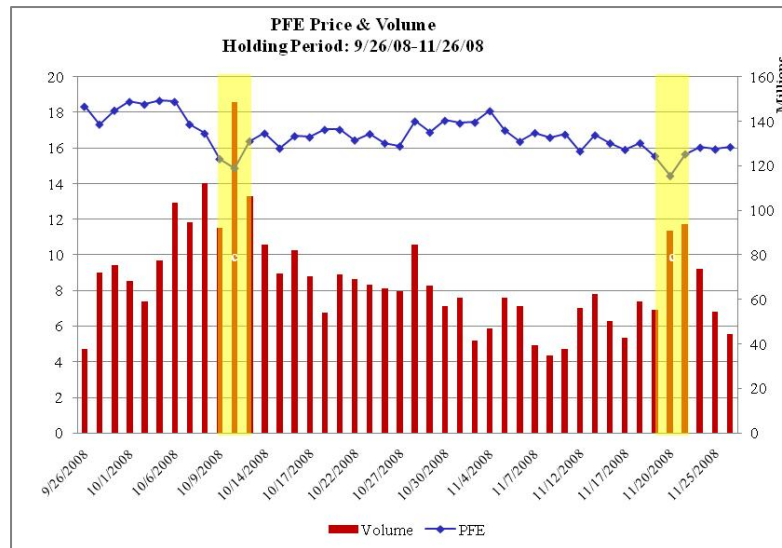
- Healthcare: Saw opportunity with baby boomer population

Holding period highlights:

- 2nd best performing stock
- Changes to cost structure; Left heart research and shifted focus to cancer and obesity

Comparison relative to competition:

- Why not Merck or Sanofi?
- Believed it was a safer bet with PFE, strategic opportunity with Lipitor patent expiring



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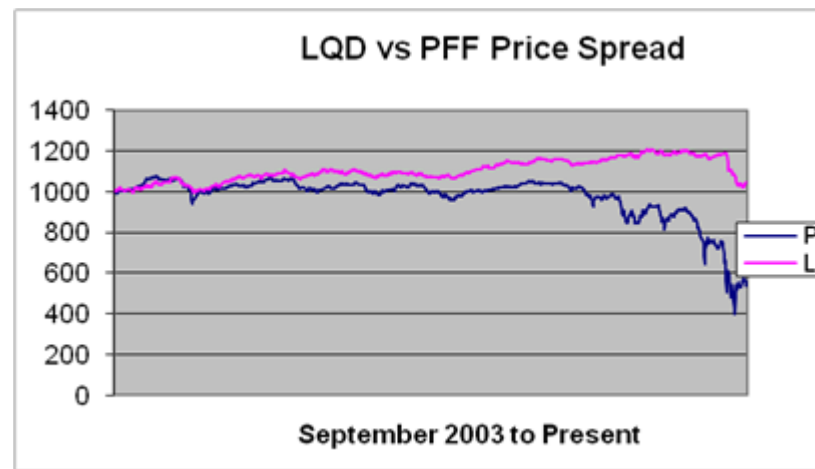
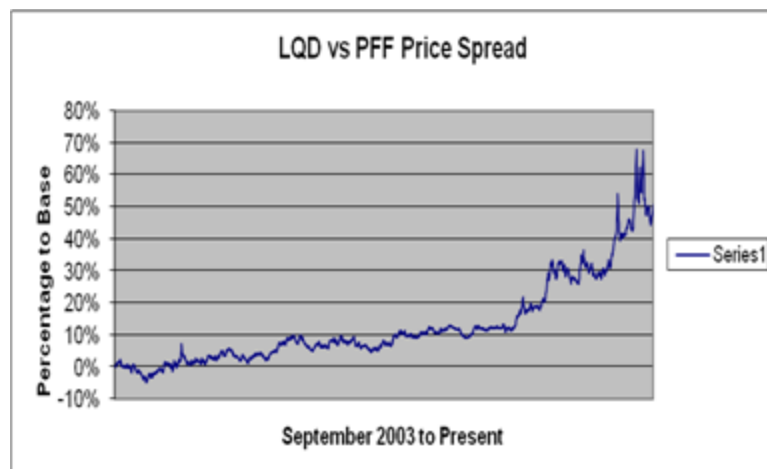
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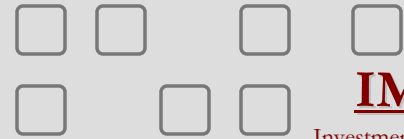
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LQD is an investment grade corporate bond index; PFF is a preferred shares index

- Contacted iShares to obtain historical spreadsheet price data
- The yield spread between the two was at an all time high
- We determined this was due to the high concentration of financial firms that issue preferred equity
- We believed that the risk of was overestimated by the market and that a unusually high yield could be obtained





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ADDITIONAL FUNDS STRATEGY

Don Bowen

ADDITIONAL FUNDS STRATEGY

- Initial weighting
- Rebalancing funds to take advantage of new opportunities
- Use of new funds
 - Market impact
 - Rebalance
 - Diversify and add
 - Cash position
- Timing

	Initial	Final
EXC	10%	14%
NOC	13%	11%
PFE	13%	15%
TSCDY	13%	11%
RIG	13%	8%
USB	12%	12%
VZ	11%	15%
SPY	7%	0%
Cash	7%	15%

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LESSONS LEARNED AND DISCUSSION

Luke Millikin and Daniel Mcauley

LESSONS LEARNED AND DISCUSSION

- Foreign exchange risk in ADR's, impact of recession on commodities and energy stocks
- Fixed income analysis

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LESSONS LEARNED AND DISCUSSION

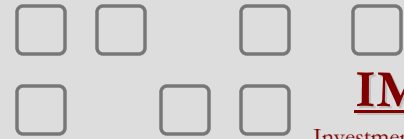
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- Barra analysis of our holdings from 9/30/08
- Showed our breakdown by sector, industry, market cap, and rating
- Our beta was 0.7
- Attribution analysis confirmed what we had set out to accomplish
 - The heavier allocation of financials affected our return significantly as did our weighting of the energy play RIG in our portfolio
 - A notable selection effect was found from our consumer staples pick, Tesco
- An analysis of sector weighting adjustments told us that less weighting in energy and financials and higher weightings in utilities and healthcare would optimize our return to risk
- Having the report explained to us gave us good insight into what kind of information an asset manager deals with
- We also talked about some of the challenges that managers face when dealing with clients that don't understand exactly what the role of an asset manager is

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Thank you!