

W. P. CAREY

SCHOOL *of* BUSINESS

ARIZONA STATE UNIVERSITY

MBA SIM Fund



Board Presentation

December 5, 2008

2008-2009 Student Managers



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W.P. Carey MBA
Finance
Class of 2009



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Finance & Real Estate
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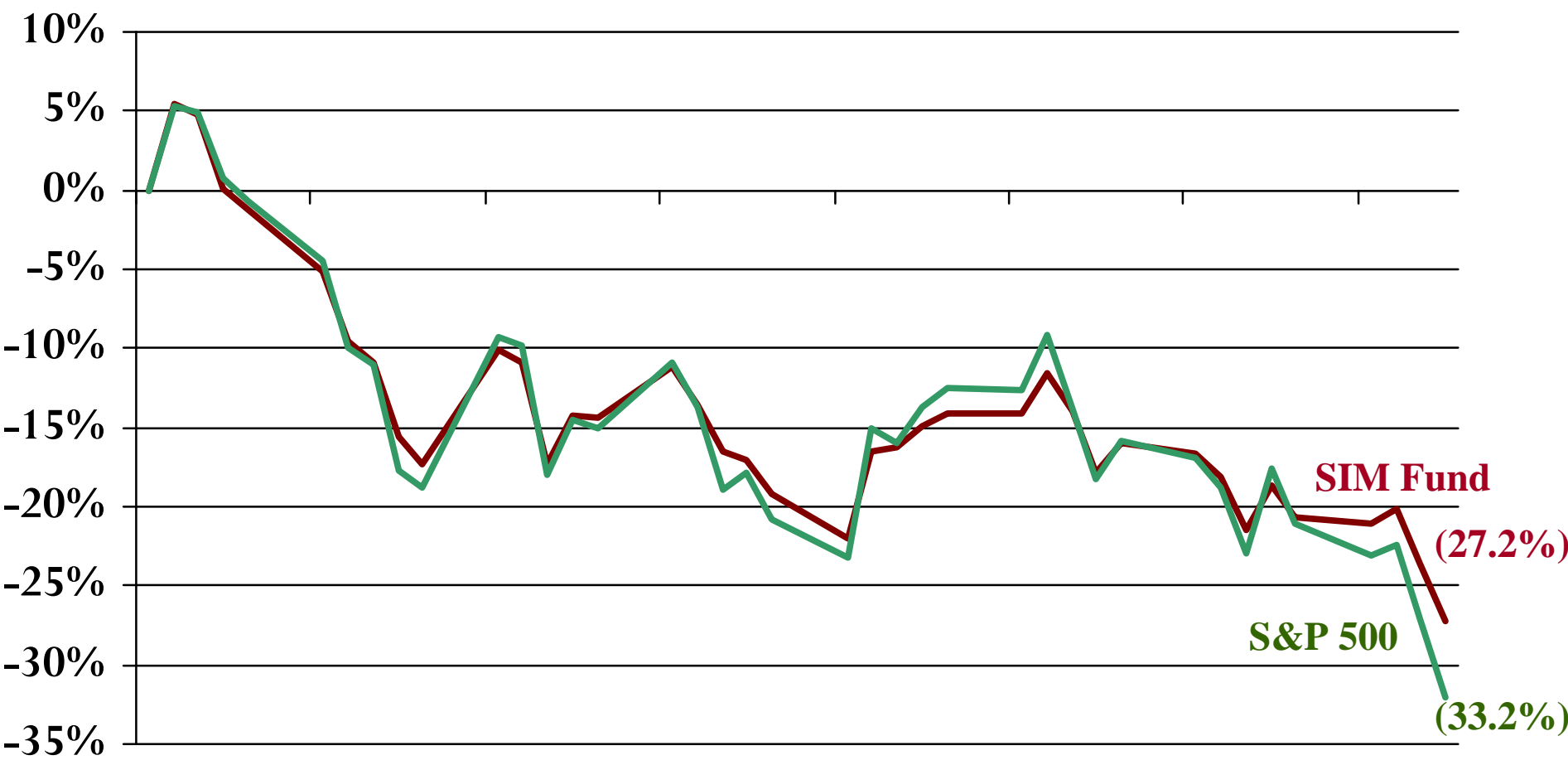


Jay Krumme
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Class of 2009

- Overview
 - Fund Objectives
 - Economic Climate
- Selections
 - Decision Criteria
 - Sample Holdings
- Performance
 - Portfolio
 - Attribution

Executive Summary

Returns, Sept 29 to Nov 20





Overview

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Fund Objectives

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

- Low/Negative growth in real GDP
- Unemployment increased almost 140bps
- Declining dollar
- Increasing commodity prices
- Inflationary pressures
- Upcoming election

May 30th – Bear Stearns bought for \$10/share by JP Morgan; Two banks fail

August – Three banks fail

Sept 21st – 22nd – Goldman and Morgan Stanley become commercial banks
Sept 29th – First bailout rejected
Three banks fail

Nov. 10th – American Express becomes a commercial bank
Nov. 12th - \$290 of the first \$350 billion of TARP allocated



July – Three banks fail
Oil peaks at \$147 per barrel

Sept. 4th – B of A to buy Merrill Lynch
Sept. 7th – U.S. Government takes over Fannie and Freddie
Sept. 15th – Lehman files Chapter 11
Sept. 16th – AIG receives \$85 billion bailout

October 3rd – Bailout plan approved, TARP created
Four banks fail

Nov. 20th – Big three auto companies not bailed out
Five banks fail

Source: Google Finance



Selections

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What We Thought

- Defensive and recession-proof plays
- Underweight certain sectors
- Large cap stocks

Specifically

- Low Beta
- Dividend Yield
- Industry Leader
- Depressed Stock
- Large Cash on Books
- Cash for Investing
- Int'l Exposure
- Value Line

Benchmark Selection

- S&P 500
 - Primary

- Russell 1000 Value
 - Secondary

Purchase Dates

**Sept 29th -
 Purchased:**
 Research in Motion
 Alcon
 Lockheed
 Chesapeake
 General Electric
 Travelers

**Oct. 9th -
 Purchased:**
 Diageo (ADR)
 Johnson &
 Johnson
 General Dynamics
 LQD Bond Fund

**Oct. 3rd -
 Purchased:**
 Wal-Mart
 PepsiCo
 General Electric
 du Pont

Nov. 3rd - Purchased:
 McDonald's



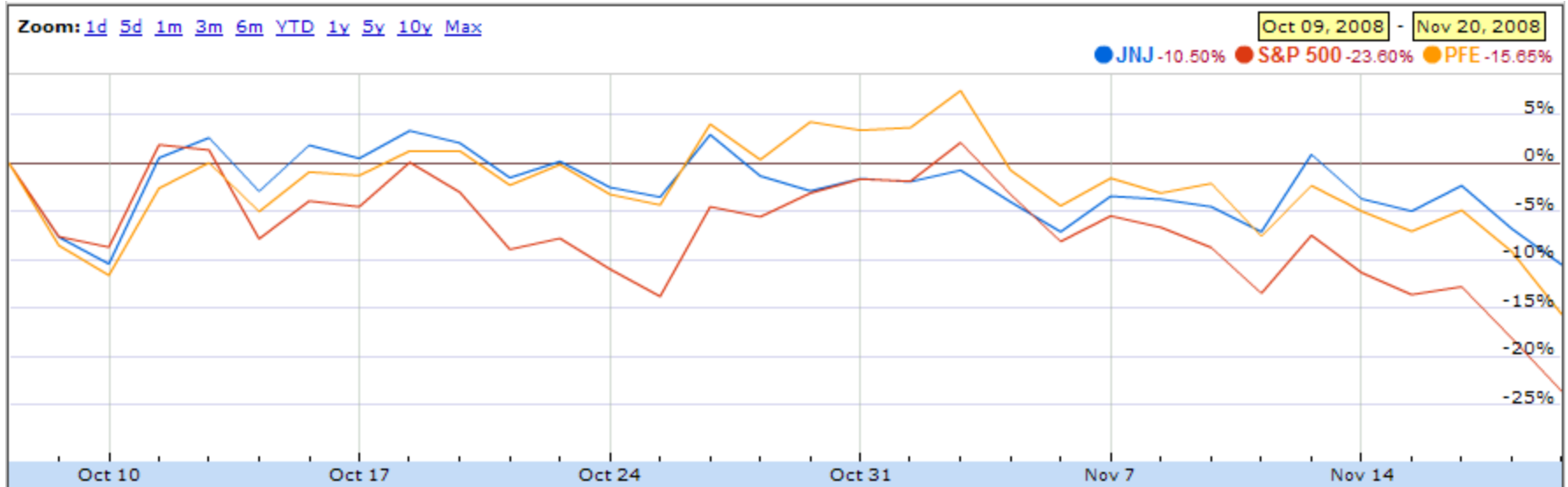
Source: Google Finance

Johnson & Johnson (JNJ)

Reasons for Purchase

- Traditionally defensive stock
- Bond rating
- Dividend yield
- Stock price

Johnson & Johnson (JNJ)



- Fundamentally still sound
- Long-term investment
- Cash on books
 - Acquisitions (HealthMedia, Mentor, Omrix Biopharma)

Source: Google Finance

Reasons for Purchase

- Defensive play in financial sector
- Non-discretionary products
- Attractive valuations
- Minimal subprime exposure

Travelers (TRV)



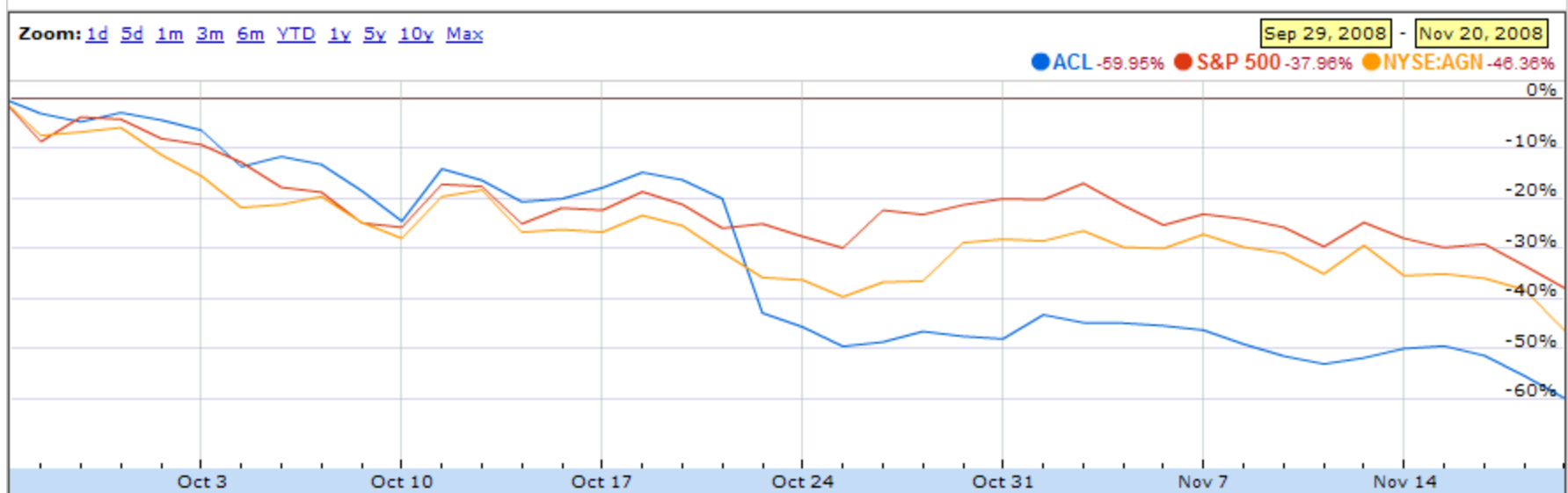
- No fundamental changes at Travelers
- Passed on applying for Federal assistance

Source: Google Finance

Reasons for Purchase

- Healthcare industry exposure
- Change of ownership to synergistic partner
 - Novartis
- Low beta

Alcon (ACL)



- 3rd quarter earnings below estimates
- Foreign currency exposure

Source: Google Finance

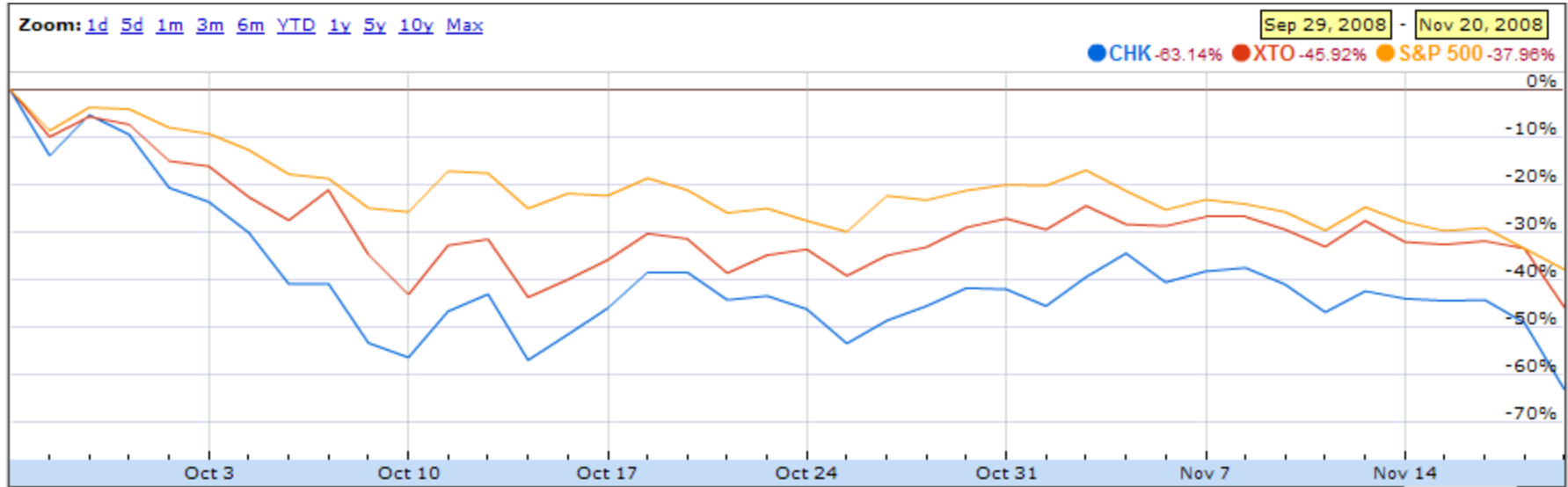
Hold Decision

- Strong operating margins
- Strong ROE
- International exposure
- Market share improvement potential

Reasons for Purchase

- Largest independent producer of natural gas
- Natural gas is the cleanest fossil fuel
- T. Boone Pickens push towards natural gas
- CEO owns high number of shares
 - About 5.5%

Chesapeake (CHK)



- Price of natural gas dropped
- CEO margin call
- Still largest independent producer

Source: Google Finance

Non-Purchase Example

- Halliburton
 - Pros
 - Increasing EBIT
 - Strong earnings per share growth
 - Cons
 - Decreasing cash from operations

- *Halliburton is down 60% for the period*

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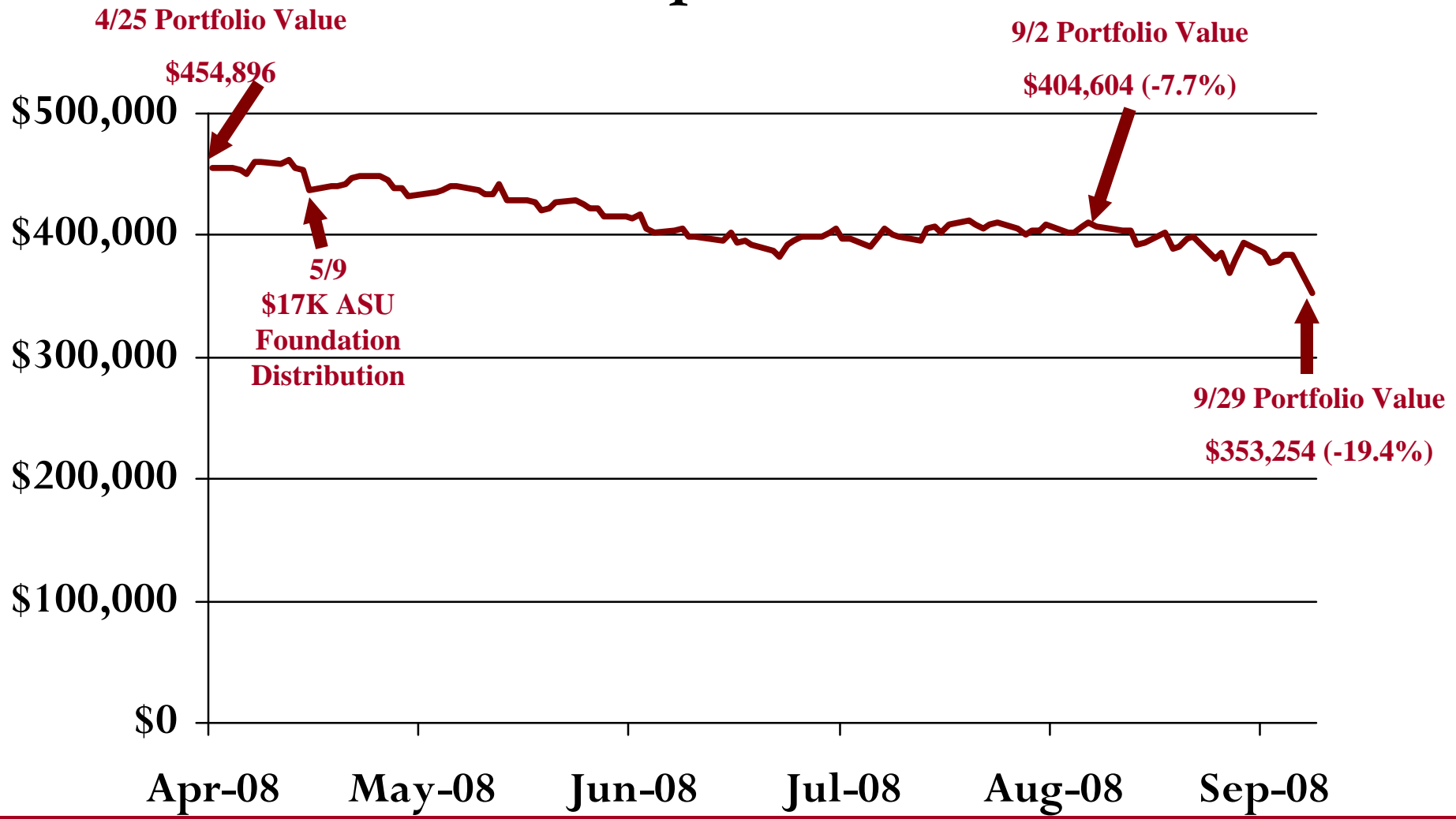
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Portfolio Analysis

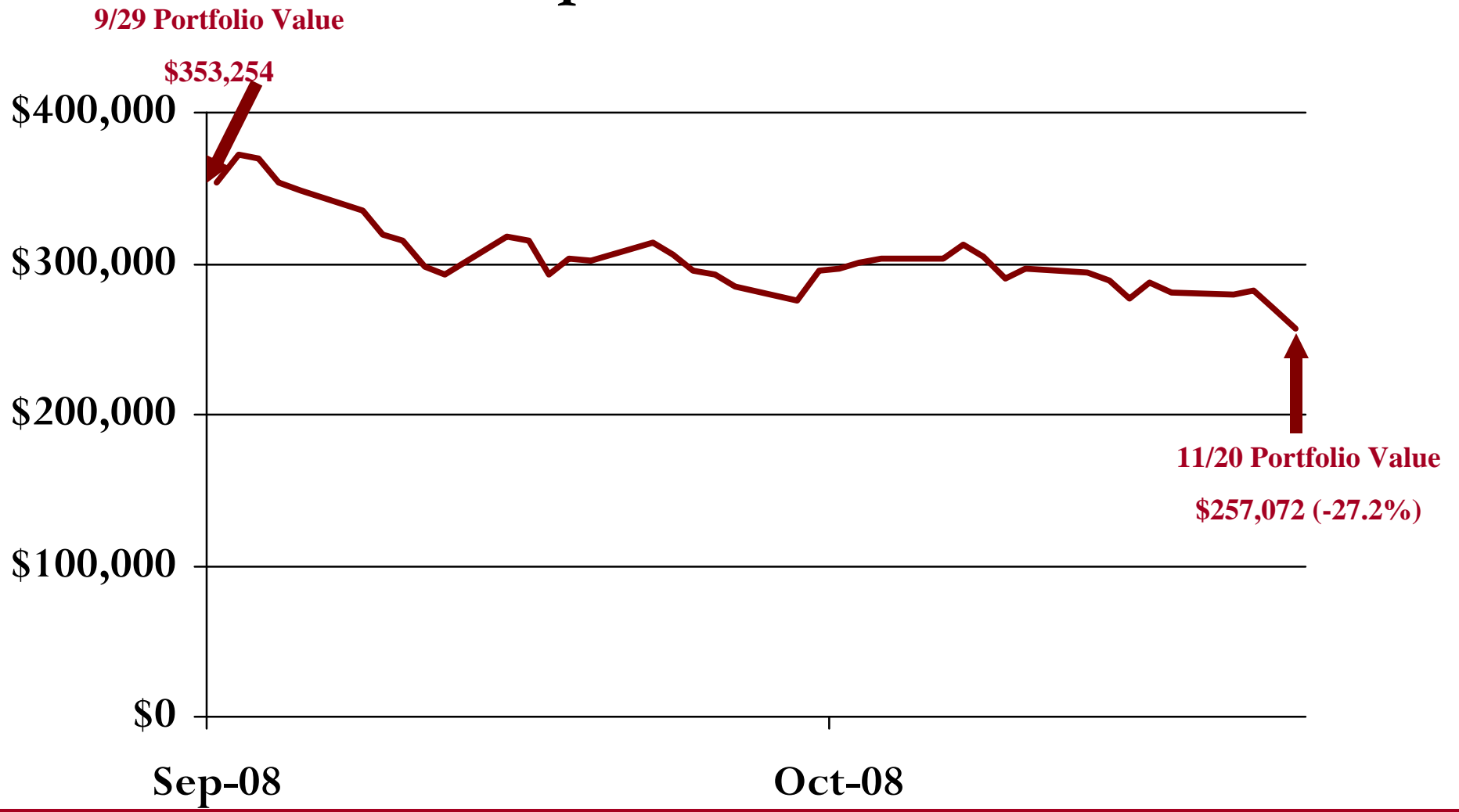
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Since the April Presentation



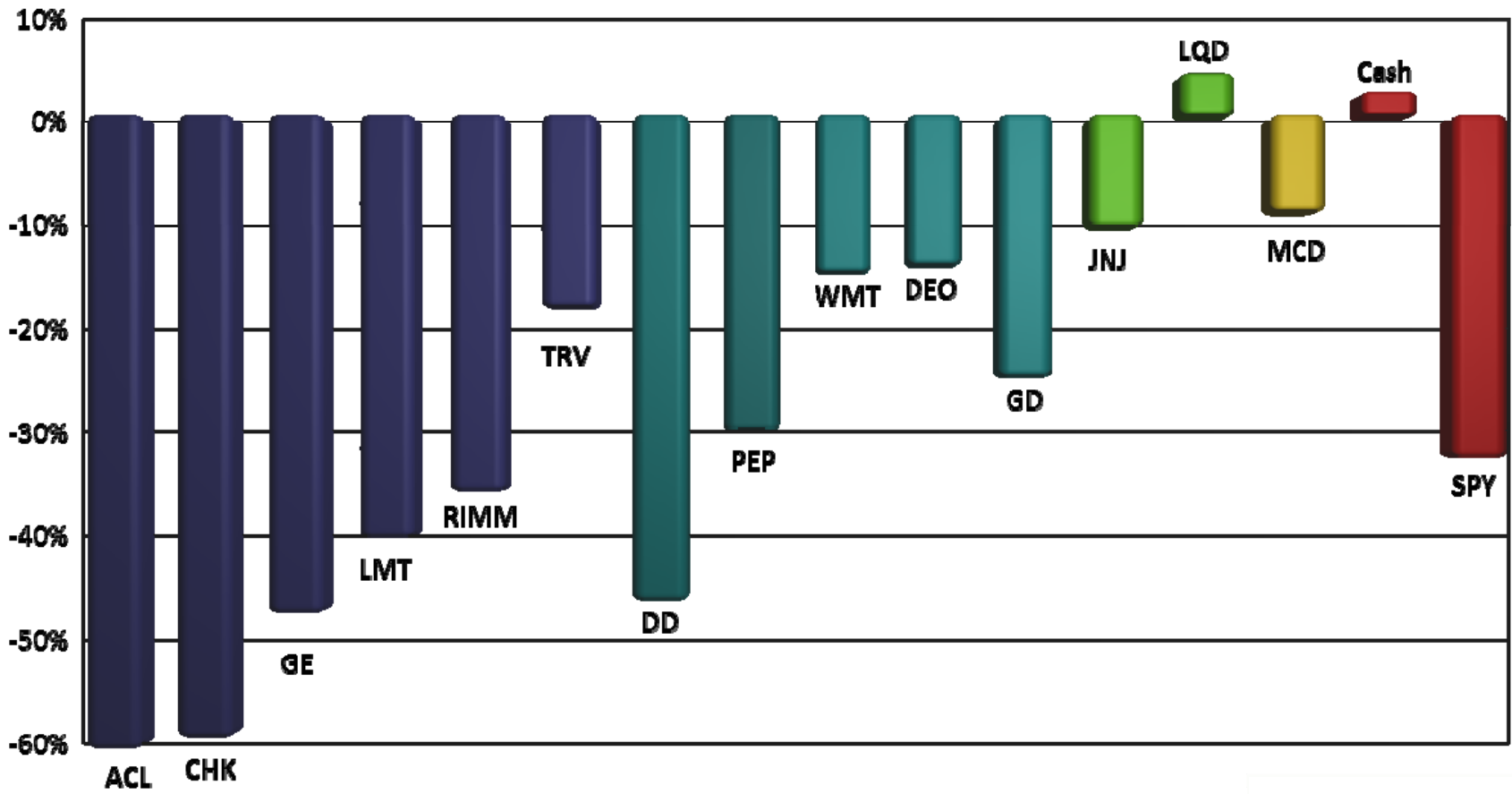
Sept 29 to Nov 20



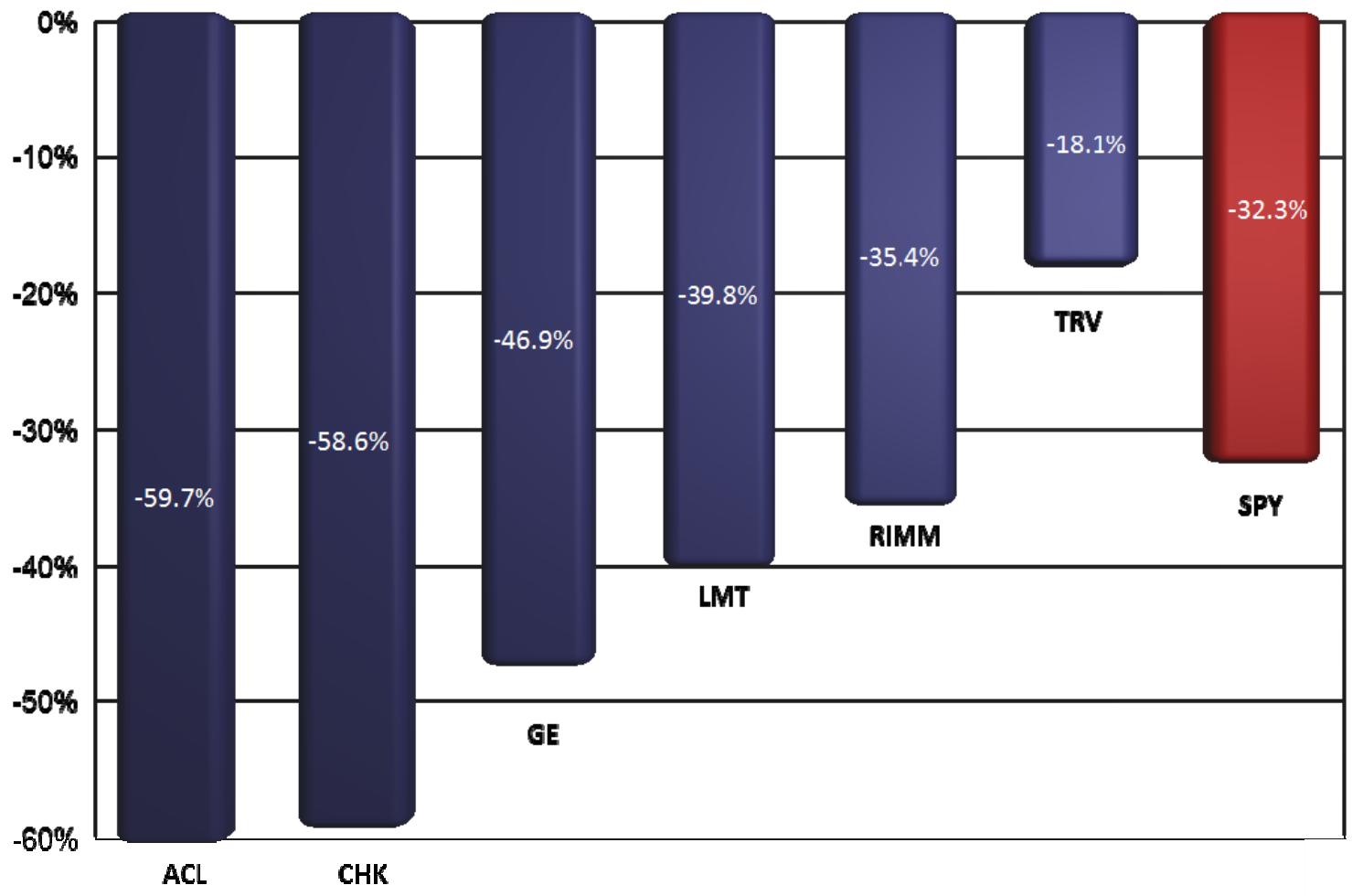
Dollar Value Returns

- Portfolio value declined from \$353K to \$257K
- The S&P 500 lost 33.2%
 - Russell 1000 Value lost 32.0%
- Continued investment in SPY would have resulted in a \$239K value

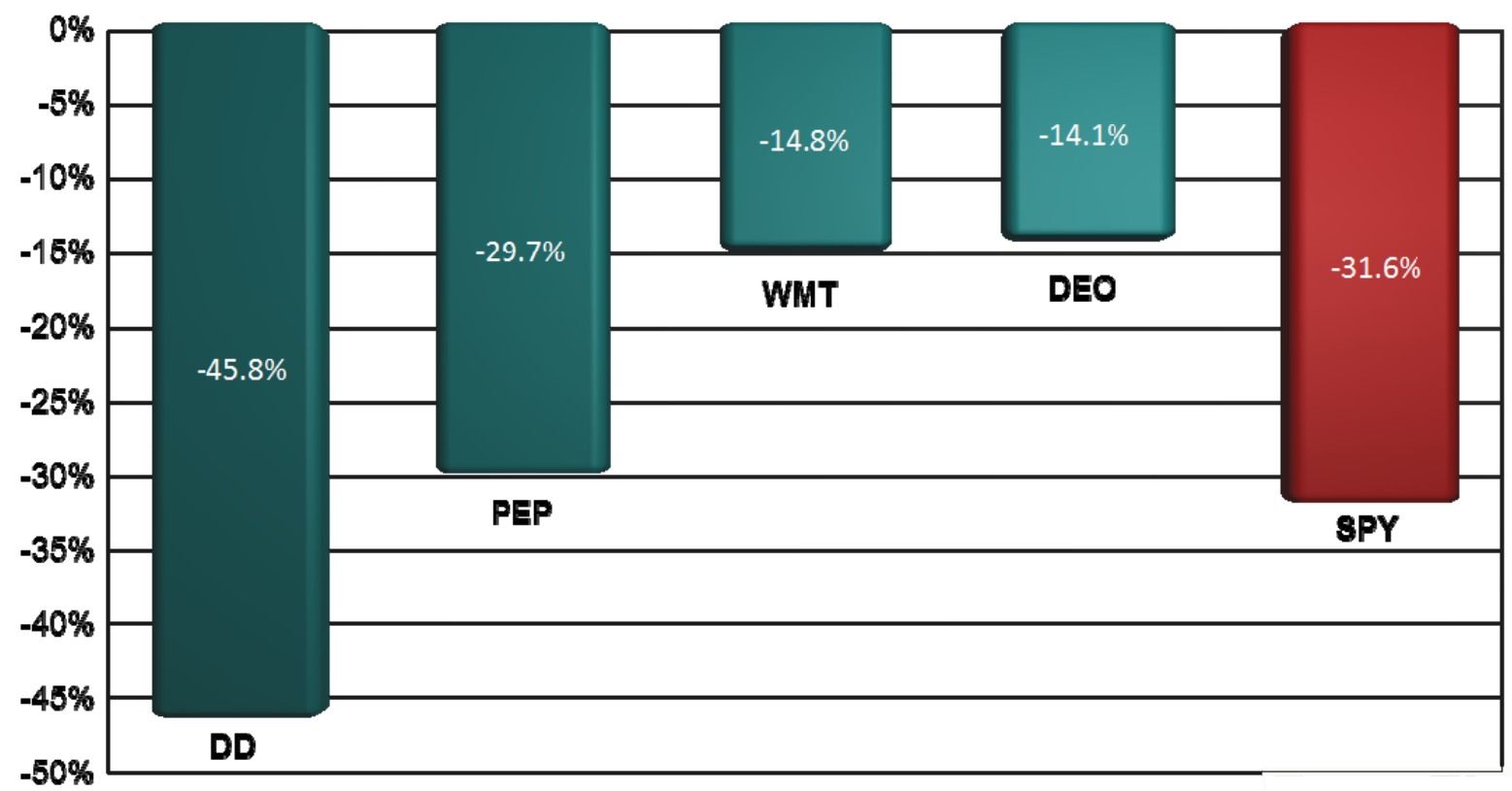
Returns by Individual Security



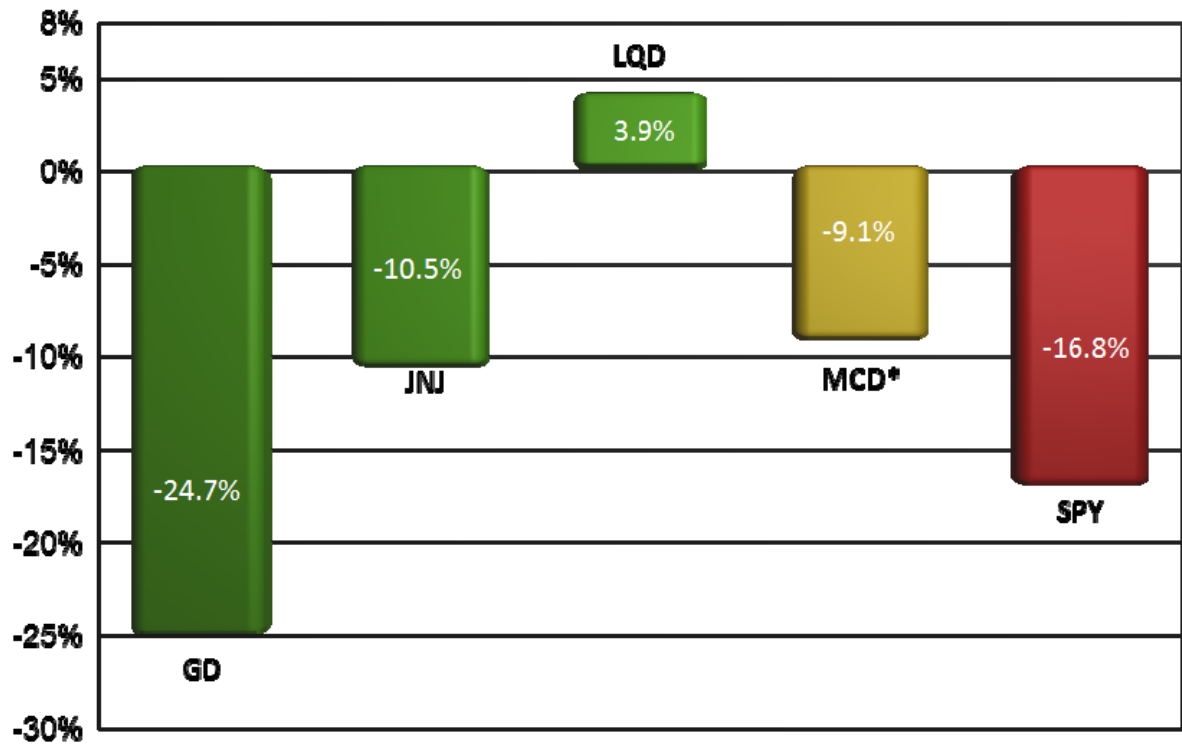
Returns on 9/29 Buys



Returns on 10/3 Buys

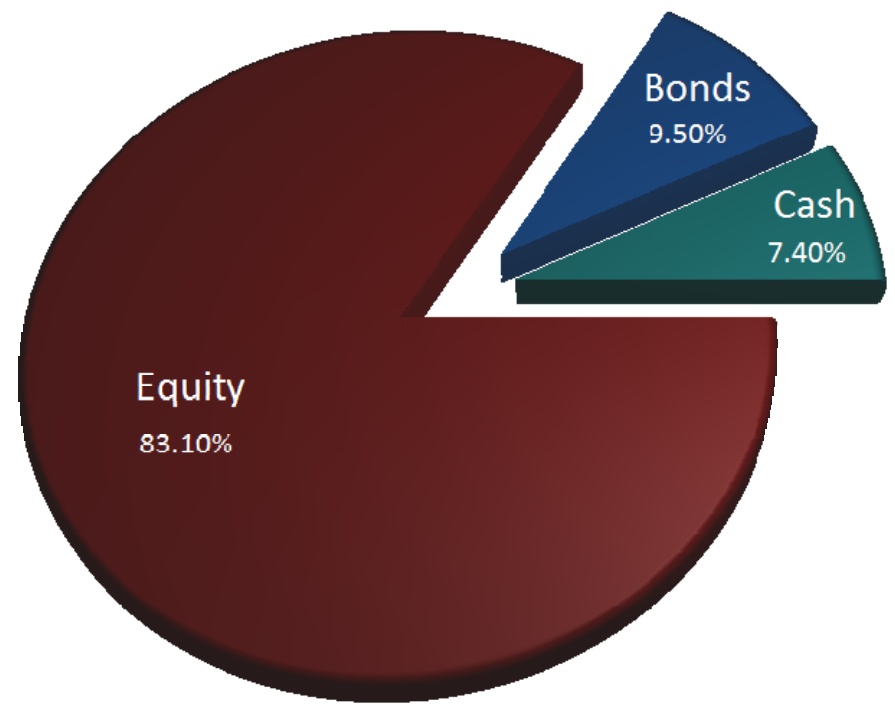


Returns on 10/9 Buys

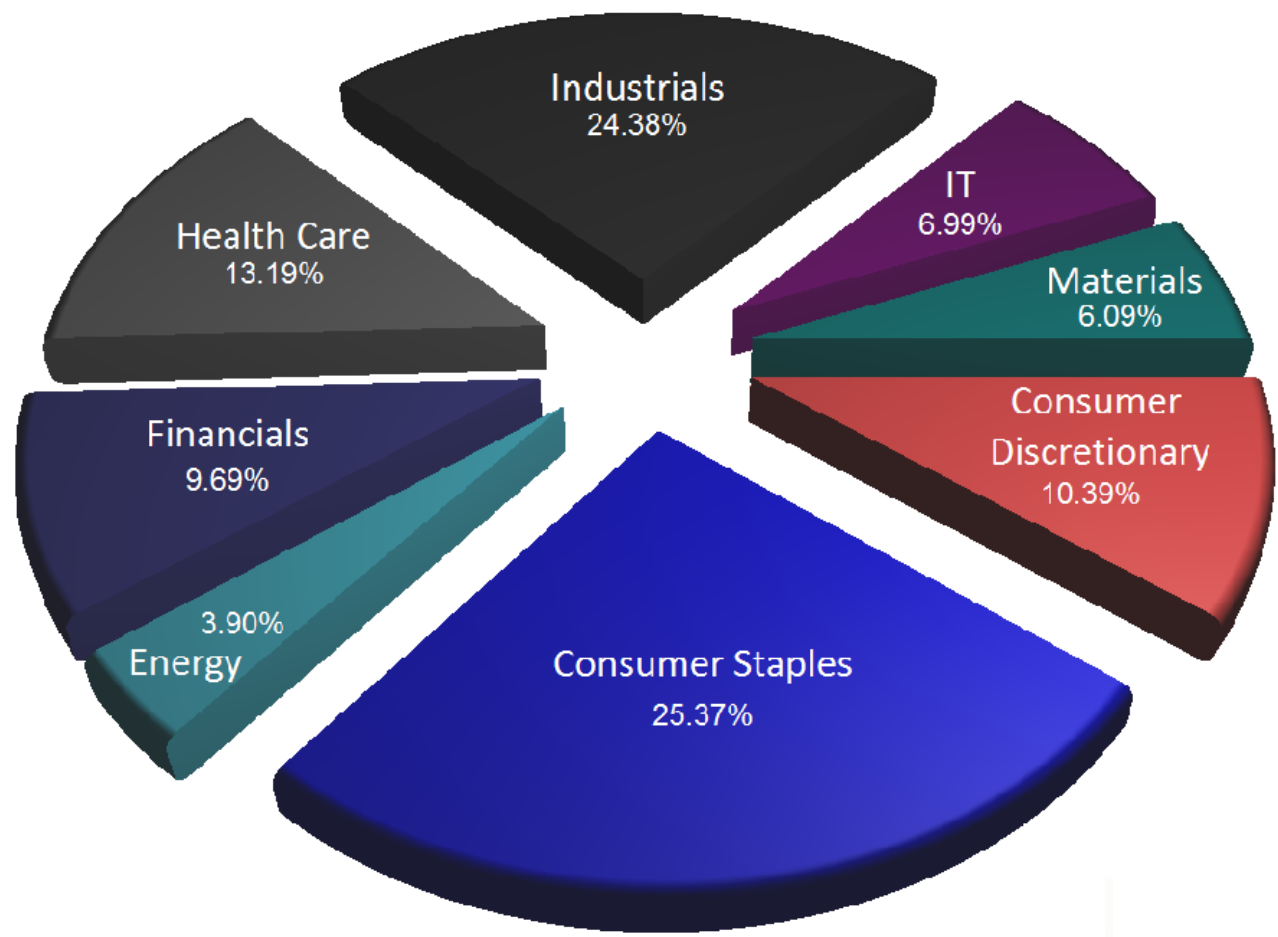


*MCD was purchased 11/3. Returns for SPY over the same period were (22.3%)

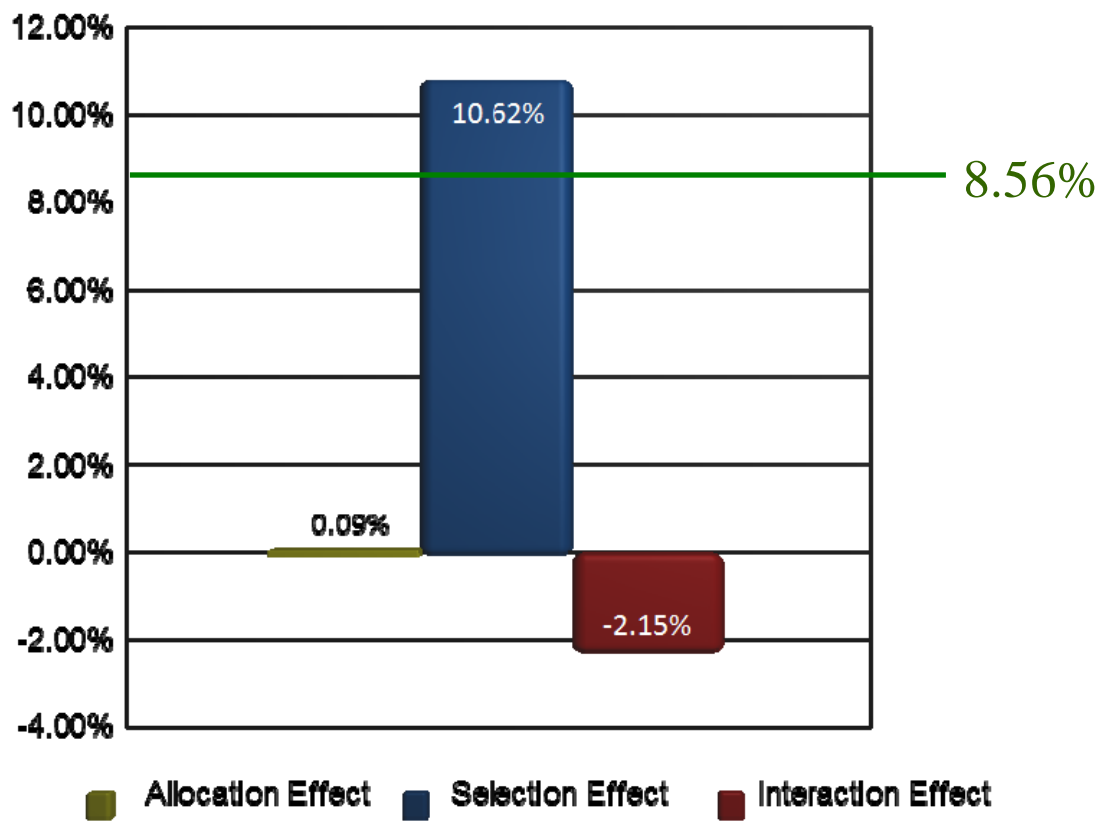
Asset Allocation



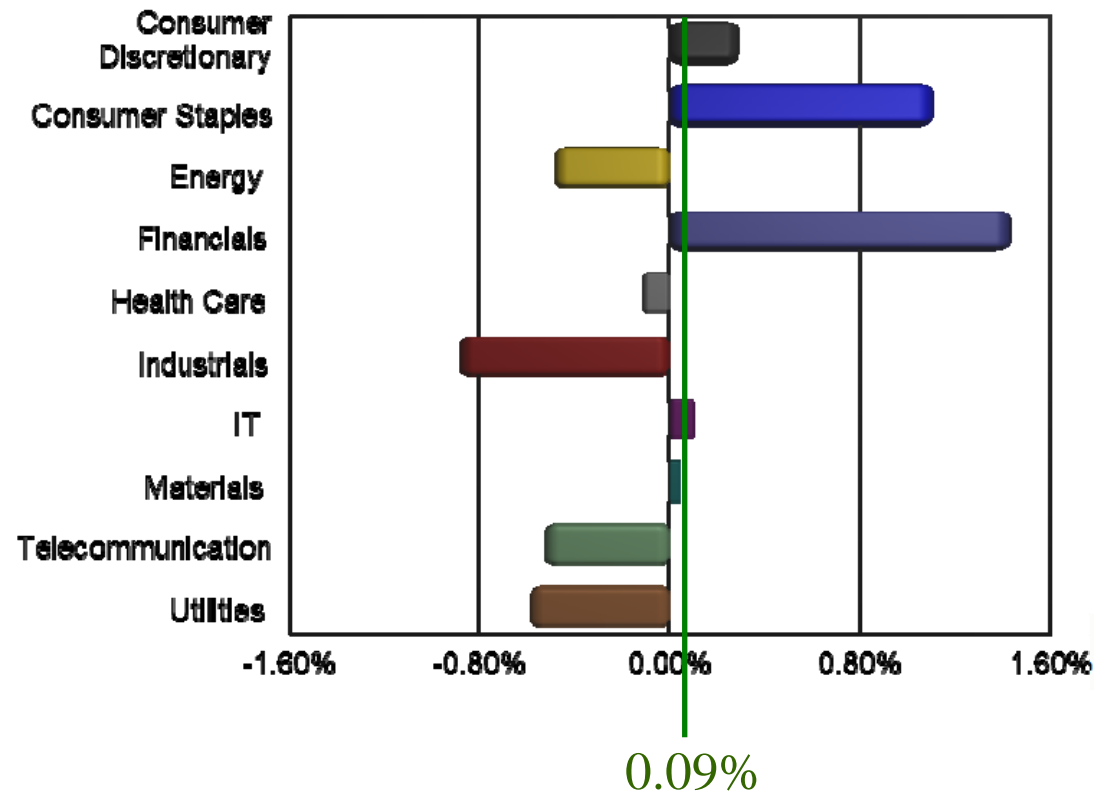
Sector Allocation



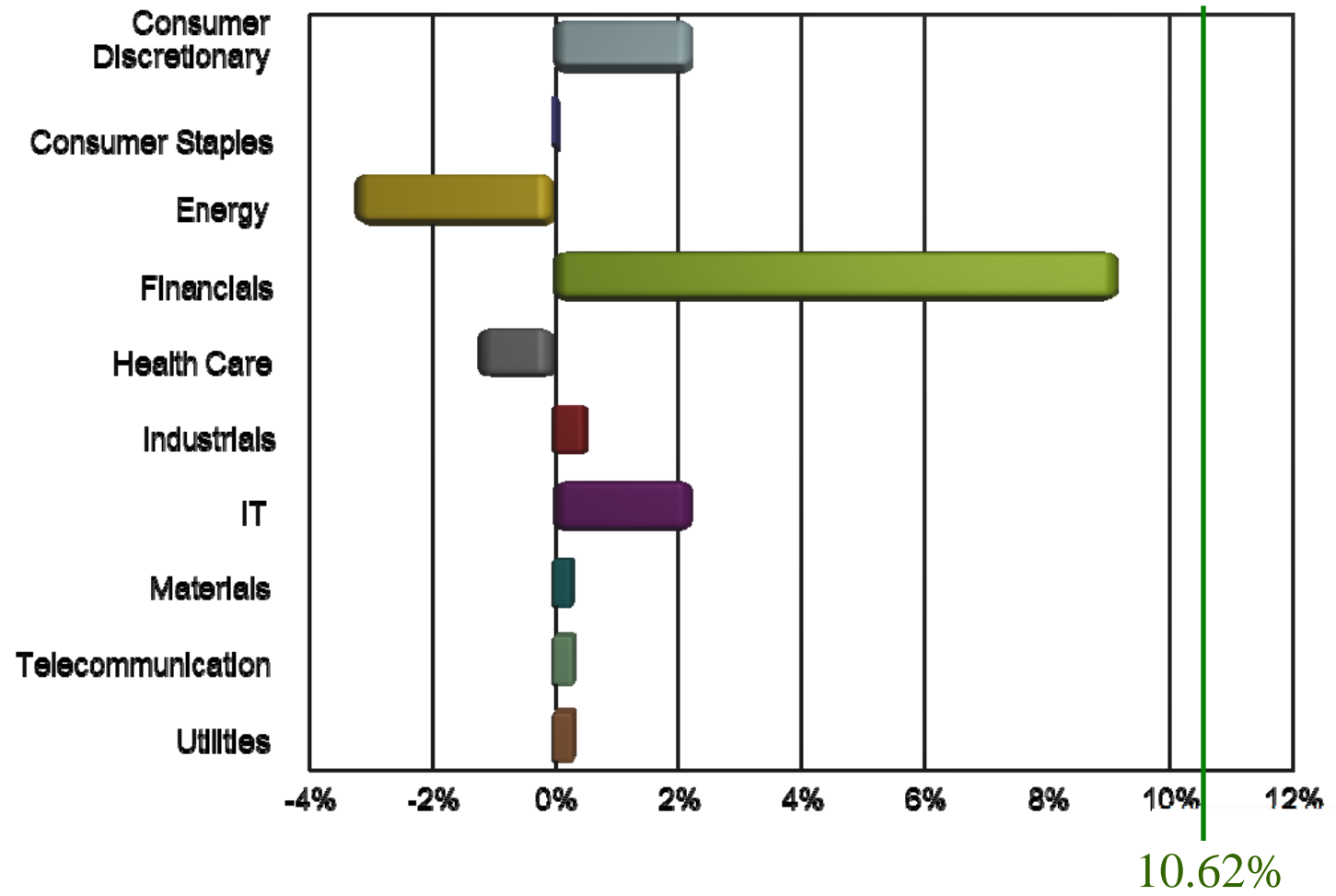
Performance Attribution



Allocation Effect



Selection Effect



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Spring 2009

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- New administration
 - Government intervention
 - i.e. Lockheed forecast change

- Continued economic weakness
 - High unemployment
 - Low consumer confidence

- In hindsight, some criteria were useful, some were not
 - Useful
 - Low beta
 - Lots of cash on books
 - Consumer staple brands
 - Less Useful
 - 52 week low
 - Value Line
- Price movements can be driven by emotions
 - As a long-term investor, rely on fundamentals
- Even “defensive” companies don’t provide much protection in this bear market



Questions

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