

The Educated Investor

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MPSIF Achieves GIPS Compliance

by Mayank Mohan

The Global Investment Performance Standards (GIPS®) are reporting standards designed for use by investment managers for creating performance presentations that ensure fair representation and full disclosure. The GIPS standards, advocated by the CFA Institute, supersede some of the regional standards including the AIMR Performance Presentation Standards (PPS), which are the precursor to GIPS.

Until our August 31, 2006 Annual Report, MPSIF had used a money-weighted methodology for calculating returns. This methodology assumed that withdrawals from the fund, like the 5% dividend to the University of Oklahoma and brokerage charges, were incurred at the beginning of the month. Since this was often not the case, the initial value of the portfolio was often misstated.

The CFA Institute provides guidance for the calculation of GIPS compliant portfolio returns. The guidelines state that “time weighted rates of return that adjust for external cash flows must be used.” The CFA Institute defines time-weighted rate of return as a “calculation that computes period-by-period returns on an investment and removes the effects of external cash flows, which are generally client-driven, and best reflects the firm’s ability to manage assets according to a specified strategy or objective.”

However, a true time-weighted rate of return would require that the portfolio be valued at the exact time that the external cash flow occurred. Since current limitations in technology make this task arduous for many money-management firms, the CFA Institute requires its complete adoption by 2010, before which an approximation that adjusts for daily-weighted cash flows is required.

Based on this guidance, a MPSIF team developed a model to calculate GIPS-compliant returns. The team also painstakingly fed all historical data into the model to re-calculate past returns. All further reporting of rates of return are based on this model and hence in consonance with the GIPS standards.

MPSIF Portfolio Managers Comment on Recent Market Weakness

by Aaron Trent

February 27 was certainly an exciting day for MPSIF analysts—the worst day for the Dow, S&P and NASDAQ indices since September 17, 2001. We asked each of the Fund’s Portfolio Managers to comment on how they and their analysts managed during and after the down day.

There were common themes. All three funds watched their positions more closely and in some cases reevaluated their investment thesis on individual stocks. MPG and MPS reviewed their stop losses, particularly on several Chinese holdings (ADY, NWD, STP). The Shanghai Composite Index fell almost 9% on February 27, its biggest one-day loss in ten years, touching off global weakness. MPV anticipated a rebound and took action to increase certain positions.

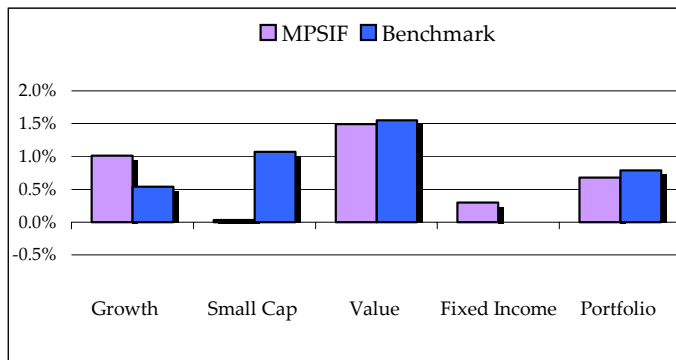
The PMs’ specific comments appear below.

Beth Boylan, MPG: In response to the correction, Kai and I reviewed our holdings and watched closely those that were already close to their stop-loss targets. We also spent a considerable amount of time reviewing our theses on our two holdings with considerable non-US exposure: LAN Airlines and Suntech Power. However, our Fund quickly rebounded from the correction, and the net effect on our portfolio was rather small. In the end, our holdings and allocations did not change.

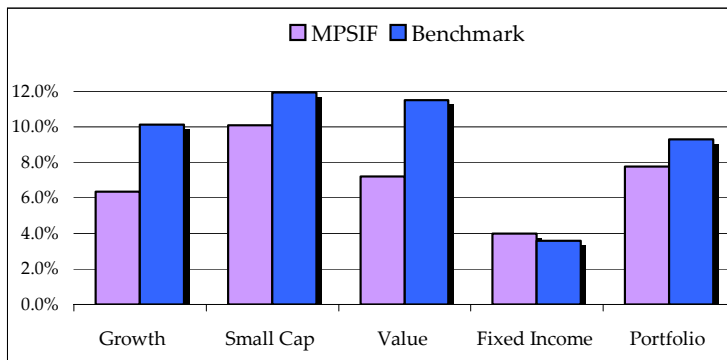
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Fund Performance vs. Benchmark

...in March



...Year to Date



Best Returns of March

Fund	Ticker	Company	Price	Returns
MPS	ARLP	Alliance Resource Partners	\$37.92	24.4%
<i>Comment: benefited from rising prices of energy commodities</i>				
MPS	ASFI	Asta Funding, Inc.	\$43.18	14.6%
<i>Comment: purchased \$7B portfolio of A/R for 4.3% FV</i>				
MPS	WNG	Washington Group Int'l, Inc.	\$66.42	13.3%
<i>Comment: moved stock to NYSE, and announced partnership with GE</i>				
MPV	JOSB	Jos. A. Bank Clothiers	\$35.35	13.1%
<i>Comment: favorable comps; raised 2007 outlook boosted stock</i>				
MPV	BID	Sotheby's	\$41.02	13.0%
<i>Comment: excellent 4Q06 results and raised debt rating by S&P</i>				

Worst Returns of March

Fund	Ticker	Company	Price	Returns
MPS	GMKT	Gmarket Inc.	\$16.00	(16.7%)
<i>Comment: earnings announcement and guidance did not meet expectations</i>				
MPS	CNTY	Century Casinos, Inc.	\$8.50	(16.5%)
<i>Comment: lack of acquisition in the pipeline after dropping a bid for competitor</i>				
MPV	ZQK	Quiksilver, Inc.	\$11.69	(16.0%)
<i>Comment: warm winter weather meant missed earnings and lowered forecasts</i>				
MPS	NWD	New Dragon Asia Corp.	\$1.40	(14.1%)
<i>Comment: disappointing earnings release b/c of higher than expected SG&A</i>				
MPV	STX	Seagate Technology	\$23.30	(13.4%)
<i>Comment: fears of flash memory encroachment led to an industry-wide sell-off</i>				

Purchases

Fund	Ticker	Company	Price	#Shares	Value
MPG	LCAV	LCA Vision Inc.	42.99	465	\$19,990
MPG	PNRA	Panera Bread Company	58.95	340	\$20,043
MPG	SBUX	Starbucks Corporation	30.70	652	\$20,016
MPG	THI	Tim Hortons, Inc.	29.86	670	\$20,005
MPG	VAR	Varian Medical Systems	47.09	425	\$20,013
MPS	ASTE	Astec Industries, Inc.	39.31	509	\$20,011
MPS	FMXI	Foamex International Inc.	5.26	1,900	\$9,994
MPS	GMKT	Gmarket Inc.	19.20	520	\$9,984
MPS	MINI	Mobile Mini, Inc.	25.58	780	\$19,952
MPS	SIRO	Sirona Dental Systems, Inc.	35.77	555	\$19,855
MPV	NITE	Knight Capital Group	15.57	1,079	\$16,800
MPV	PEP	PepsiCo	62.85	271	\$17,032

Liquidations

Fund	Ticker	Company	Price	Value	%Change
MPG	ABX	Barrick Gold Corp.	29.09	\$9,396	(6.1%)
MPG	LCAV	LCA Vision Inc.	41.01	\$23,376	14.5%
MPG	SONC	Sonic Corp.	21.69	\$18,870	(6.2%)
MPG	WFMI	Whole Foods Market Inc.	47.14	\$9,664	(3.8%)
MPG	ZQK	Quiksilver Inc.	11.03	\$7,897	(26.5%)
MPS	CNTY	Century Casinos, Inc.	8.50	\$16,575	(16.9%)
MPS	GMKT	Gmarket Inc.	16.00	\$8,320	(16.7%)
MPS	SEB	Seaboard Corporation	2,218.93	\$33,259	71.0%
MPS	USNA	USANA Health Sciences, Inc.	53.53	\$25,481	26.9%
MPS	WLDA	World Air Holdings, Inc.	10.46	\$23,012	21.6%
MPV	BID	Sotheby's	41.02	\$21,740	36.5%
MPV	MCD	McDonald's	42.46	\$17,323	22.3%
MPV	ZQK	Quiksilver	11.69	\$10,860	(14.3%)

(Continued from Page 1)

Mike Walter, MPV: The Value Fund discussed this at length. Ultimately, we felt that none of our investment theses had changed at all, so we did not feel that we should sell anything. In fact, we saw this as an opportunity; because prior to the "correction," we felt that several positions were already very undervalued. Thus, after the correction, these holdings were even more attractive. We asked every analyst to review the stock or stocks they were covering and determine if anything could be considered "high potential" due to its current undervaluation. Analysts responded with eight stocks that were high potential. Because we had a large cash position, we decided to buy an extra \$5,000 in each of those eight stocks. It is too early to say whether this will be successful, but we think it was a smart approach. As we look to add new stocks to the portfolio, we will eventually reduce these larger positions to something closer to our standard position size.

Helena Leung, MPS: We quickly reviewed our stop losses to see if there were any stocks in danger of being stopped out. Unfortunately, just as we decided to lift the stop loss on one of our positions (KNOT), the stock hit its stop loss. The analyst quickly reevaluated the situation and re-pitched the stock to the class the next day. We also closely monitored two Chinese stocks (ADY and NWD) in our portfolio that are listed in the U.S., both of which did not have stop losses.

PM Spotlight – Fixed Income Fund

by Jeff Agne

Michelle Hahn and Suresh Ramayanam are leading the Fixed Income Fund as Co-PMs this term. We asked them to discuss what they're learning, and about their goals as PMs:

SR: In the past we tried to mimic our benchmark by selecting bond funds or ETFs in such a way that our sector weightings were in line with those of the benchmark. But now, we try to base our decisions based more on the current macro economic conditions and our forecast for the next year. Also, our regular economic updates help in deciding our sector allocations. Right now we invest in a wide range of instruments ranging from treasuries to asset backed securities to foreign bonds. As new ETFs come into the market, it gives us more opportunities to explore different, and some times more exotic, fixed income instruments.

With the recent troubles in the sub prime loan market, we expected our huge position in Mortgages Backed Securities (MBS) fund to have a big drag on our performance. But to our delight, we found it to have performed extremely well as the fund reallocated, right on time; by reducing its exposure to sub prime loans and investing more in the investment grade Agency Backed Securities.

One difference this semester is that we met more often than we did in the past. We have a great team of enthusiastic analysts who were always coming up with new ideas. We explored investment opportunities in new instruments (e.g. being long on a fund that was short on the long end of the yield curve). We expect more fixed income ETFs to come into the market this year, and that obviously opens up new possibilities.

I believe that the Fed will cut the rates in the second half of the year and that will result in a steepening of the yield curve. With the economy slowing down a little bit and the lowering of the interest rates, I expect the dollar to continue to weaken this year. In tune with this, we are using the bullet strategy in investing in treasuries and we also are overweight on foreign bonds, especially Euro bonds.

MH: As a PM in the Fixed Income Fund, I have felt a great deal of responsibility about how to manage the fund and how to get people involved. We have a small number of members, but we are very dedicated. We meet as often as every other week to discuss the current strategy and options for investment.

By being part of the Fixed Income Fund, we have learned to be keen about the Fed policy and the more macro level economic indicators, and we have attempted to link them to our investment strategy. Our recent investment in ETFs in US Treasuries is a good example. Under the current policy for the Fixed Income Fund, we are not able to purchase individual bonds, so we rely on passive investing via ETFs and mutual funds. Over the last several semesters, however, we have considered changing this policy, which may give members a greater incentive to actively participate in the Fixed Income Fund.

March's MPSIF "Pitch of the Month" – Astec Industries (ASTE)

This installment of MPSIF's "Pitch of the Month" features the recent pitch of Astec Industries by Zach Shannon on March 7 for the MPSIF Small Cap Fund. The purpose of the "Pitch of the Month" is to credit MPSIF analysts who have generated ideas over the past month that have already resulted in significant capital gains for their particular fund. Below, Mr. Shannon summarizes his investment thesis for this security, the key questions brought up during his pitch presentations, and the key developments that have occurred since his pitch.

Stock Pitched: Astec Industries

Ticker: ASTE

Analyst: Zach Shannon

Fund: Small Cap

Sector: Capital Goods

Date of Pitch: March 7, 2007

Original Target Price: \$45.00

Purchase Price: \$39.39

Current Price (4/10/07): \$42.07

% Appreciation since purchase: 6.8%

Company Background: Astec Industries is a leading manufacturer of road building equipment in the United States and internationally. Within its four segments, the company manufactures and markets mobile and stationary asphalt plants, heat transfer processing equipment, pavers, crushers, augers, trenchers and directional drills. The company's customers include paving contractors, asphalt producers, utility companies, pipeline companies, open mine and quarry operators and various government agencies. The company was incorporated in 1972 and is based in Chattanooga, Tennessee.

Summary of Analyst's Investment Thesis:

1. Astec reported strong growth in 2006, with revenues increasing 15.3%, driven mainly by international growth and growth in the company's construction business, which both offer diversification opportunities. The company also finished 2006 with a backlog of \$243 million, up 90% from the prior year and an all-time high.
2. Despite its small size, Astec is a major player in the asphalt equipment industry. The company holds 70% of the asphalt plant market (ahead of Gencor and Terex). Its paving business is second behind Caterpillar Paving Products, and its milling business is second behind Wirtgen. Astec is also the leading provider of large trenchers and is third in market share with its line of small trenchers.
3. Operationally, the company is in a very strong position. The company has zero debt and \$44.9 million in cash on hand. Average annualized operating cash flow of approximately \$25 million appears sufficient to cover the company's maintenance capital expenditures (which we estimate at approximately \$15 million) plus offer growth opportunities. Gross profit margin has increased for four consecutive years, most recently rising 210 basis points to 23.7% during 2006. Operating margin and net margin followed suit, rising 210 basis points and 100 basis points, respectively. We believe the company will continue to grow because of 1) strong industry positioning, 2) strong funding environment (Federal spending on road construction and maintenance is likely to remain high through at least 2009 due to the 2005 signing of updated highway legislation), 3) record backlog, 4) international expansion, and 5) growth opportunities provided by the Underground Group.
4. The company appears undervalued on discounted cash flow basis and on a two-stage discounted FCFE basis. Comparables are also favorable, with recent consolidation transactions in the industry occurring at a significant premium to Astec's multiples.

Discussion points considered during pitch:

1. The sensitivity of the industry to changes in the real estate market (both commercial and residential).
2. Underperformance last summer, when a portion of the company's contracts failed to close in Q2 (and were deferred to Q3).
3. The company appears to be a smaller player in the industry. What is stopping competitors like Caterpillar, Volvo and Ingersoll-Rand from taking share?
4. Where are the company's international growth opportunities? Does it have a presence in China?

Developments since purchase: Since the Small Cap Fund purchased Astec in early March, shares have traded as high as \$42.20. In its 10K filing (release March 14), the company stated that it is now the largest manufacturer of asphalt plants in the United States.



Professor Levich addresses the gathered crowd at MPSIF's spring student/alumni mixer. Over forty current members and alumni gathered together for an evening of cocktails, networking and socializing.

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