THE DARDEN CAPITAL MANAGEMENT ADVISOR

November 2004

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Darden Capital Management Fund Performance Update

By Ben Monson

In its fourteen year history, Darden Capital Management (DCM) has delivered an average annual total return of 12.1%—a cumulative 14-year total return of 330%. This is an extraordinary record for a diversified long-only fund. This represents an average annual outperformance of 1.3% relative to our benchmark. DCM's returns have exceeded our benchmark in 11 of 14 years that the fund has been in existence. On a cumulative basis, DCM has outperformed the benchmark by 50% over 14 years. These results—combined with our strong risk-adjusted results—would place Darden Capital Management into the top quartile of mutual funds in the United States.

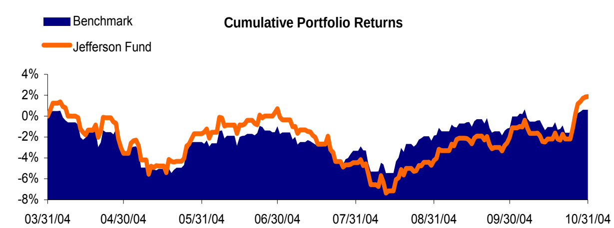
The current (15th) DCM fund management team has continued this tradition of strong performance during the first half of fiscal 2005. As of the end of October, each of Darden Capital Management's three funds has delivered strong returns in a choppy equity market.

Year to date (since April 1st), the Darden Fund, Monticello Fund, and Jefferson Fund have produced total returns of 1.9%, 3.3%, and 1.0%, respectively. Two of the three funds have outperformed their benchmarks year to date, and the funds' combined performance has solidly outperformed the combined benchmark. October was a particularly strong month for the Darden and Jefferson funds as investment theses from earlier stock picks played out. The Jefferson Fund returned 4.0% in October and the Darden Fund returned 2.3%.

The table to the right shows each fund's investment focus, benchmark, returns, and sample equity positions.

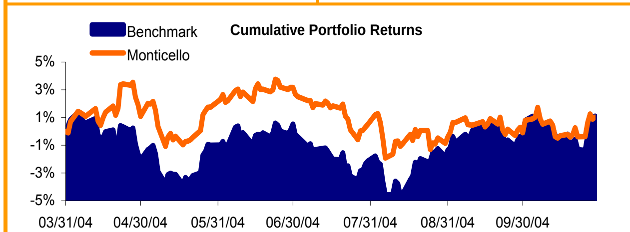
Jefferson Fund

Investment Focus:	**Illustrative Positions:**
• Value, contrarian • ~20 equity positions • Mid cap, flexible	• LaFarge (LAF) • Tanger Outlet Cent. (SKT) • International Steel (ISG)
Benchmark:	**Returns:**
• 70% equity, Russell 1000 • 10% REIT, RMS Index • 20% debt, Lehman Treas.	• 1.9% cumulative YTD vs. benchmark's 0.6% • October—4.0%



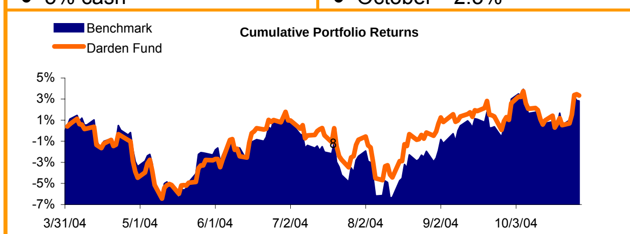
Monticello Fund

Investment Focus:	**Illustrative Positions:**
• Value and growth • ~25 equity positions • Large and mid cap	• American Standard (ASD) • Anheuser-Busch (BUD) • Citigroup (C)
Benchmark:	**Returns:**
• 80% S&P 1000 • 20% debt, Lehman Treas.	• 1.0% cumulative YTD vs. benchmark's 1.1% • October—1.1%



Darden Fund

Investment Focus:	**Illustrative Positions:**
• Small cap (<$2 bil.) • ~40 equity positions • Growth and value	• Sonic Corp. (SONC) • WD-40 Co. (WDFC) • Headwaters (HDWR)
Benchmark:	**Returns:**
• 75% equity, S&P 600 • 20% fixed income • 5% cash	• 3.3% cumulative YTD vs. benchmark's 2.8% • October—2.3%

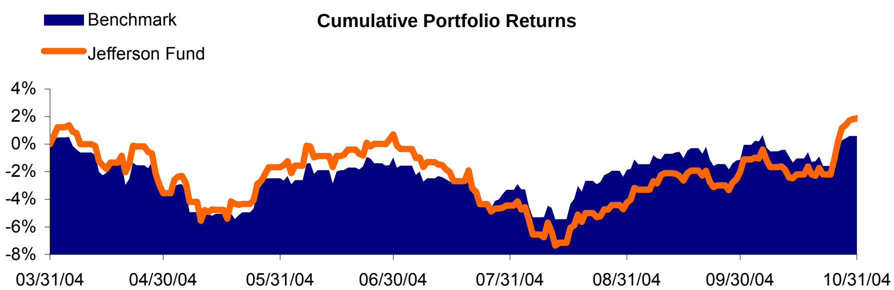


Fund Focus: The Jefferson Fund Finds Value Through Contrarian Investing

By Jon Right and Ben Monson

The Jefferson Fund seeks out-of-favor and undervalued investment opportunities. The Fund allocates approximately 70% of its portfolio to value equities, 10% to real estate investment trusts (REITs), and 20% to US Treasury securities or cash. The equity portfolio is primarily made up of stocks that are: (1) attractively valued relative to historical multiples, comparables, and the broader market, (2) turnaround stories, and (3) out of favor stocks and/or out of favor industries. The Fund employs a bottom-up, fundamental approach to securities selection, and focuses on finding value in mid-cap companies. The fund managers believe that stocks that have suffered from short-term fundamental setbacks, reduced analyst coverage, or negative market sentiment often represent strong upside potential with a lower level of risk, especially when the market has overreacted to changes in the company's short-term prospects.

The Fund underperformed its benchmark during the first half of FY2005 (April through September 2004). As a value-oriented and long-term investment fund, many of the Fund's positions remained out of favor in the early part of the fiscal year, especially during the "soft patch" in the market in July and August. The Fund returned 4.0% in October, reversing this trend and leading to modest year-to-date outperformance. Several of the Fund's investment theses played out in October, leading to the strong performance.



The following are examples of the Fund's portfolio stocks that illustrate its investment style.

Value Stocks: LaFarge is the largest producer of gypsum and cement in North America, and the third largest producer of aggregates. This is a classic value stock—it is a strong cash flow company in a growing (primarily commercial construction supply) industry combined with an inexpensive valuation. This stock traded at a substantial discount to its historical average, comparables, and the market. This investment has yielded a return to the Fund in excess of 17% YTD.

Turnarounds: International Steel Group (ISG) is an excellent example of a turnaround company in the Jefferson Fund portfolio. ISG is essentially a roll up of the steel production assets of bankrupt integrated steel companies, with reduced labor, environmental, and contingent liabilities and a considerably lower cost structure relative to other integrated steel companies. ISG is in the process of being acquired by a competitor and our total return from the stock is in the 30% range.

Out of Favor Stocks: Nokia (NOK) is a stock that was oversold as a result of negative market sentiment driven by temporarily soft fundamentals. The Fund purchased NOK shares after the market sold it off in May, and again over the summer, in response to market share losses and negative guidance revisions. The price fell over 40% at the trough in the market. Notwithstanding the market share challenges, Nokia was still the most recognizable name in mobile phones and its price-to-earnings ratio was trading at a 50% discount to the telecommunications equipment sector and a whopping 75% discount to rival Motorola (MOT). In addition, the company had no debt and $9 billion in cash on its balance sheet to spend on a revitalization program. Following the second investment, Nokia has gained 27% and is now the largest equity position in the portfolio.

Fixed Income Strategy: The Jefferson Fund managers acted to reduce the fixed income portfolio's interest rate sensitivity in September. The managers developed an outlook for a modest steepening of the yield curve and purchased what's known as a "barbell" fixed income strategy between 2-year and 10-year treasury notes to arrive at a portfolio target duration around 4.15 years. In this way, the Fund retains a portfolio duration lower than its benchmark, but is hedged against yield curve flattening by purchasing $50,000 worth of 10-year notes.

Round Table Discussion with Chuck Prince

By Steven Majocha ('05)

During my internship over the summer as a sell-side analyst at Citigroup, I had the opportunity to participate in a round table discussion with Citigroup CEO Chuck Prince. Two of the three Darden Capital Management funds—the Monticello Fund and the Jefferson Fund—currently hold Citigroup stock, which we believe is relatively undervalued. The DCM editorial board felt that a candid discussion with Citigroup senior management concerning the future direction of the firm and its current regulatory issues would be of interest to current and potential investors.

While a variety of topics were discussed throughout the meeting, Mr. Prince identified three challenges that Citigroup must face that will shape the future direction of the company. Those challenges are continued growth, corporate governance, and human resource issues.

Continued Growth: How can a company as large as Citigroup continue to grow? According to Prince, organic growth will replace the company's recent history of growth through acquisition. One of the main reasons for the company's change in strategy in regard to acquisition is a result of the sheer size of the organization. It is generally believed by management that the company is too big to be meaningfully impacted by future acquisitions. Therefore, management has continued to improve its capital allocation process to fund internal projects that offer the highest rates of return to maximize future organic growth.

Corporate Governance: Compliance risk continues to be a major focus at Citigroup. Mr. Prince recognizes that Citigroup's prominence often leads to scrutiny by regulators and investors alike. He acknowledges that Citigroup's must operate in a more cautious and responsible way than its smaller counterparts. In order to steer clear from future mishaps, Mr. Prince believes that designing and internalizing best practices for managing compliance risk will be important to avoid controversial headlines in the future. Citigroup's most recent troubles in Japan are a prime example of the compliance risk the company faces.

Human Resources: People issues are possibly the most important challenges facing Citigroup today. In the words of Mr. Prince, "Creating a culture and environment for people to grow, for people who are starting their careers, for people in the middle, and for people who are ending their careers is the most consequential thing that will determine whether Citigroup continues to grow and achieve the fullness of its potential." To achieve this goal, Mr. Prince believes creating small companies within a large one, where people feel that they make a difference and are not a cog in a wheel will help Citigroup attract the best talent.

Shares of Citigroup have traded down over the past six months due to compliance issues in Japan and the effect of rising interest rates on its underlying business. At its current valuation, Citigroup represents a potentially attractive investment. Please see Charles Hill's Citigroup pitch on page 7.

November 2004 Investment Ideas

Quiksilver, Inc. (ZQK—$25.87)
Stephen Eckert, '06
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Target Price: $31.00
Market Capitalization: 1.5 Bil.

Description: Quiksilver, Inc. is a specialty apparel company focused on the design, production, and distribution of clothing for individuals who enjoy the extreme sports lifestyle of "surf, skate, and snow". The products range from t-shirts, board-shorts, and wet-suits to skate shoes and snowboard gear. The products are sold primarily at surf shops, specialty stores, and Boardriders Club stores.

Positive Considerations: Trends strongly suggest that extreme sports are quickly growing in popularity, driving demand for this type of clothing. Quiksilver offers the widest range of quality apparel within this space.

Revenue has grown from $446 million in 1999 to $975 million in 2003. The age group loyal to the brand has expanded through endorsements from extreme athletes Kelly Slater and Tony Hawk. Seventeen retail new stores—"Boardriders Clubs"—including a new Times Square NYC store. The acquisition of DC Shoes expands the company's footwear offerings and is a logical brand extension for Quiksilver. The company has also expanded with a new women's line, Roxy, and Europe is a key growth market for Quiksilver.

Risks: Competition within the industry is fierce and cutting edge vision is required to stay ahead of popular trends. There are also risks inherent to further expansion into international operations.

Valuation: Our buy recommendation is based upon realistic bottom line growth potential of 20% in 2005. Our $31 price target is based on a P/E multiple of 20x on estimated 2004 EPS of $1.55.

United Natural Foods, Inc. (UNFI—$26.79)
David Khtikian, '05
KhtikianD05@darden.virginia.edu

Target Price: $34.00
Market Capitalization: $1.1 Bil.

Description: United Natural Foods, Inc. (UNFI) is a national distributor of natural and organic foods and related products in the United States. The company carries more than 35,000 natural and organic products, consisting of national brand, regional brand, private-label, and master distribution products such as grocery and general merchandise. UNFI serves more than 18,000 customers, including independently owned natural products retailers, supernatural chains (including Whole Foods and Wild Oats) and conventional supermarkets.

Positive Considerations: In an attractive industry (organic food industry growing at an annual rate of 8% v. 2% for conventional food), UNFI presents an excellent long term investment based on future earnings growth, continued operational efficiency improvement, sound management, and loyal customer relationships.

Risks: Risks include the potential decline in the natural food trend due to reduced health consciousness and UNFI's reliance on Whole Foods Market (WFMI) for sales.

UNFI's stock has ridden the Whole Foods (WFMI) and Wild Oats' (OATS) wave in performance. We believe it will continue to benefit from the battle for market share and location between these two competitors as both sides' primary distributor.

Valuation: Our buy recommendation is based on the positive fundamentals and positive valuation of the company. We believe that UNFI shares' intrinsic value is $34 based on a DCF model.

SUNGARD®

SunGard Data Systems. (SDS—$25.95)
James J. Fessel, CFA, '06
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Target Price: $36.00
Market Capitalization: $7.7 Bil.

Description: SunGard provides software and processing systems that serves more than 20,000 clients in more than 50 countries. The firm operates through three main divisions – Investment Support Systems (ISS), and Higher Education & Public Sector Systems (HEPSS) and Availability Services (AS).

Positive Considerations: Sungard has built a consistent track record of double-digit earnings growth, reinforced by tremendous barriers to entry in its core software and data processing business, high switching costs, deep client penetration, and over 90% recurring revenue. The recent positive momentum in organic revenue growth looks to be the beginning of a long cycle of improving demand, particularly from major clients in the financial services industry. Increased trade volumes, greater demand for regulatory and compliance systems, and a consolidation of vendors all play well into SunGard's hands. Near-term catalysts include the announced spin-off of its Availability Services unit in a tax free distribution to shareholders expected in early 2005.

Risks: Failure to successfully integrate acquisitions, a downturn in the stock market or decline in overall equity trading volumes, or a sharp decline in technology spending in the financial services industry could hurt sales and profits.

Valuation: Our 12-month target price of $36 represents a multiple of 23x our 2005 EPS estimate of $1.59 (PEG of 1.2x), close to the low end of the company's historical trading range of 20x-32x 12-month forward earnings, and consistent with the average premium of 20%-40% over the market multiple. We would expect SunGard to trade up to this multiple level as internal growth improves in the ISS segment and investors gain visibility on the earnings numbers for next year.

Hospira

Hospira, Inc. (HSP—$29.72)
Ed Weklar, '06
WeklarE06@darden.virginia.edu

Target Price: $36.00
Market Capitalization: $4.7 Billion

Description: Hospira, Inc. is a specialty pharmaceutical and medication delivery company that is focused on developing, manufacturing and marketing products that improve the safety and efficacy of patient care in the acute care setting. The company operated as a division of Abbott Laboratories until it was spun-off in April 2004. Hospira had LTM revenue and EBITDA of $2.6 billion and $518.5 million, respectively.

Positive Considerations: This newly-independent company can focus on new growth & profit initiatives. There is room for significant margin improvement, as EBITDA margins are 30-40% below those of competitors. The company should also benefit from favorable demographics as the U.S. population ages. Hospira has a strong market position as 90% of the company's products are #1 or #2 in its markets. Hospira's stock is undervalued compared to comparable companies, trading at 10.2x LTM EBITDA vs. public comparables at 12.6x and a discount to two recent industry transaction multiples of 15.0x. After the IPO in April, Hospira insiders acquired approximately $4 million worth of shares.

Risks: The company may encounter difficulties developing infrastructure. Analysts forecast limited revenue and earnings growth as Abbott Labs continues to pull business from Hospira and revenue from certain products declines due to competition from generics. Additionally, the stock is up nearly 25% from its all-time low (but only 7% from its IPO). Hospira is up against strong competitors, such as Baxter International, Cardinal Health, and Teva Pharmaceutical.

Valuation: Hospira's stock is undervalued compared to comparable companies, trading at 10.2x LTM EBITDA vs. public comparables at 12.6x and recent acquisitions of two competitors at 15.0x.

Citigroup (C—$46.82)
Charles Hill, CFA, '05
HillC05@darden.virginia.edu

Target Price: $55.00
Market Capitalization: $243 Bil.

Description: Citigroup Inc. is a financial services holding company that conducts its activities through the Global Consumer (54%), Global Corporate and Investment Bank (33%), Private Client Services (5%), Global Investment Management and Proprietary Investment Activities segments (9%).

Positive Considerations:

Diversification
Citigroup is a leader in almost all of its businesses. Due to the diversified nature of the business, the company was successful in maintaining its EPS growth through the last economic downturn.

Valuation
In addition, Citigroup continues to trade at a historically cheap valuation despite estimates of above-peer projected revenue growth.

Risks:

- Severe downturn in global economic conditions
- Spike in credit losses
- Issues with the SEC (regulatory risk)
- Enron/WorldCom related issues (legal risk)
- Major geopolitical event

Valuation: Compared to JPM, MER, MWD, and GS, Citigroup trades at a lower forward P/E multiple despite significantly higher Operating Margins and higher Returns on Equity, Capital and Assets.

Should Citigroup's P/E multiple expand to a level in line with comparable financial institutions, a $55 valuation would be justified.

JPMorgan Chase & Co. (JPM—$39.33)
Ryan Walsh, '05
WalshR05@darden.virginia.edu

Target Price: $45.00
Market Capitalization: $140 Bil.

Description: JPMorgan Chase is the 2nd largest financial services firm in the U.S. Following the July 2004 merger with Midwest banking giant Bank One, JPM controls about $1.1 trillion of assets. JPM operates six business lines: Investment Banking (40%), Retail Financial Services/Commercial Banking (33%), Card Services (15%), Treasury & Securities Services (7%), Asset & Wealth Management (5%).

Positive Considerations: The Bank One acquisition extends JPM geographic reach primarily in the Midwest and South, strengthening leading positions in retail and consumer finance businesses such as credit cards, mortgage lending and auto lending. Volatile revenues generated by JPM's top ranking wholesale businesses such as credit & interest derivatives plus syndicated loans will be streamlined with larger retail & consumer businesses. The arrival of Jamie Dimon as future CEO will likely result in cost rationalizations and recoveries in struggling businesses. Merger-related cost savings have already been revised upward by 50% to $3.0 billion through aggressive synergy identification.

Risks: Poor execution of Bank One merger integration. JPM's acquisition track record is not sterling considering troubles with Chase. JPM's Value-at-Risk is among the highest compared to other firm's trading revenue. Quickly rising interest rates could adversely affect consumer finance volumes.

Valuation: The $45 target price is based upon a return to JPM's five-year median book value per share of $2.00, a slight forward P/E multiple expansion from 11x to 13x and the expectation of mild interest rate increases. JPM also offers a 3.5% dividend yield for additional total return.

Sunrise Senior Living (SRZ—$38.00)

Jimmy Yu, '06
YuJ06@darden.virginia.edu

Target Price: $41.00
Market Capitalization: $7.8 Bil.

Description: Sunrise Senior Living is the nation's largest provider of senior living services. They offer a full range of personalized senior living services, including independent living, assisted living, care for individuals with chronic illnesses (Alzheimer's), home health care, hospice care, and nursing and rehabilitative care. The company employs more than 35,000 people, operates 376 communities (in the United States, UK, and Canada), and has a combined resident capacity of approximately 44,000. Sunrise also has 28 communities under construction in these countries and Germany.

Positive Considerations: Over the next twenty years, the number of people over age 60 in the US will increase by over 30 million. As one of the leaders in the healthcare specialty services industry, Sunrise seems poised to benefit from the aging population, driving growth.

Sunrise's strategic objectives are on track. In the past two years, the company has been successful in shifting its business model from property owner and operator to a management services company. This has allowed Sunrise to focus on its strength in providing service, while using property proceeds for expansion and to improve the balance sheet.

In 2003, the company completed the acquisition of Marriott's wholly-owned subsidiary Marriott Senior Living Services. This allowed Sunrise to assume management of 129 operating properties and increased resident capacity by 23,000.

Risks: A short term risk with Sunrise is stock valuation. Valuation—P/E is relatively low, but stock has appreciated 27% in the past year. Increased regulation could also pose a problem.

Valuation: Sunrise has a low relative P/E of 14x versus its direct competitors and industry average. The company's P/B, which is ~1.5, is also below its direct competitors and industry average.

Respironics, Inc (RESP—$50.00)

Henry Sanchez, '06
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Target Price: $60.00
Market Capitalization: $1.8 Bil.

Description: Respironics is the leading respiratory product company serving the $3.1B US home and hospital market for respiratory equipment. The company is #1 in the $1B obstructive sleep apnea (OSA) market, which is growing at about 20% annually. Sleep products, 55% of FY2004 revenue, include CPAP devices and masks, and sleep diagnostic equipment. Respironics is leveraging its leading noninvasive ventilation position (home and hospital) to expand into the invasive ventilation market.

Positive Considerations: RESP's execution is driving share gains in all key respiratory markets. While it is gaining share in the 20+%-growth domestic sleep market, successful growth in hospital ventilation and international sales should diversify risk. Consistent, diverse 17%+ EPS growth, strong management, and solid cash flow support a premium multiple.

Acquisitions and international sales (+38% in 2004) in countries such as Japan should continue to provide growth opportunities for the company into the long term. Product features and product breath (supported by a R&D budget of $45 million for 2005) present substantial barriers to competitors and RESP has a solid pipeline.

Risks: New treatments for sleep apnea. Currency risks. Reduced insurance coverage for sleep apnea.

Valuation: Our 12-month target price is $60, based on a P/E multiple of 23x estimated CY2005 EPS. The company currently trades at a discount of 21% and 28% compared to peers on a P/E and PEG ratio basis, respectively. Consistency in operating results, P&L leverage opportunities, and market leadership justify a higher valuation.

Petroleo Brasileiro SA (PBR—$35.44)

Rodrigo Leme, '06
lemer06@darden.virginia.edu

Target Price: $52.00
Market Capitalization: $39 Bil.

Description: Petroleo Brasileiro S.A. is Brazil's national oil company and is engaged in the exploration, exploitation, and production of oil from reservoir wells, shale and other rocks, as well as in the refining, processing, trade and transport of oil and oil derivatives, natural gas and other fluid hydrocarbons, and other energy-related activities. The company is state-owed (58% of voting shares).

Positive Considerations: Petrobras is among the biggest companies in the integrated Oil & Gas integrated. It has some of the biggest proven reserves (11.6 billion boe), the longest reserve life (17 years) and has been building incremental production and finding new reserves consistently over time. At the current time and at the current valuation, PBR is the best investment opportunity in this space, especially on a risk-adjusted basis to oil prices. In addition, PBR trades at a sizeable discount to peers. Also PBR has one of the lowest cost structures in the industry.

Risks: Oil/energy commodity prices. Brazil country risk. Foreign currency exchange rate risk.

Valuation: Currently, PBR shares are trading at a P/E multiple of 7.2x. This is much lower than the industry average of 13.5x. Also, the retail prices of petroleum-based products in Brazil have lagged world prices, which could benefit PetroBras over the longer term given its cost structure. PBR shares have a current dividend yield of 6.5%, well in excess of industry averages.

Sonic Corp. (SONC—$26.97)

Jake Rothman, '05
RothmanJ05@darden.virginia.edu

Target Price: $31.00
Market Capitalization: $1.6 Bil.

Description: Sonic operates and franchises the largest chain of drive-in restaurants in the United States. As of May 31, 2004, the Sonic system was comprised of 2,826 restaurants, (508 Company-owned and 2,318 franchised. Sonic restaurants feature Sonic signature items such as hamburgers, extra-long chili-cheese coneys, hand-battered onion rings, tater tots, specialty soft drinks including cherry limeades and slushes, and frozen desserts. They derive their revenues primarily from company-owned restaurant sales and royalty fees from franchisees.

Positive Considerations: Sonic targets 16-18% EPS growth, and plans to achieve this growth through a multi-pronged strategy of expanding the number of stores opened, primarily through franchised stores, increasing same store sales, repurchasing shares and repurchasing franchises. EPS growth continues to average around 17%, and Sonic has plenty of room for geographic expansion. Excellent same store sales growth is attributed to adding breakfast to the menu and to an initiative to spread best practices through all company owned stores. The company uses free cash flow for share repurchases and for opportunistically repurchasing franchises.

Risks: Rising commodity prices, imitation by competitors and changing consumer tastes.

Valuation: While Sonic is already priced at about a 30% premium to the QSR industry, exceptional margins and growth justify at least that much of a premium. The company appears to be able to maintain growth for the foreseeable future such that the multiple should be maintained while the EPS continues to grow at about 17%. My twelve month target price is based on a forward P/E of 22x on 2006 EPS of $1.40.

Headwaters Incorporated (HDWR—$31.72)
Carlton A. Getz, '06
GetzC06@darden.virginia.edu

Target Price: $39.50 - $40.50
Market Capitalization: $1.2 Bil.

Description: Headwaters Incorporated is a leading developer of services for coal-based energy sources, including chemical reagents to convert coal into synthetic fuels, emissions reduction technology, and disposal of coal combustion by-products commonly referred to as fly-ash. The company markets fly-ash as a replacement for portland cement in concrete and masonry products in addition to using it in construction products manufactured by the company's own subsidiaries.

Positive Considerations: Nearly 51% of U.S. energy is generated with coal and the E.P.A. estimates coal use will grow by 36% over the next decade despite rising environmental concerns. As a key provider of environmental and disposal services, the company's services should experience stable and growing demand over the long-term. In addition, the company holds a 45% share of the high-quality fly-ash market and is the only company with a national distribution network. Penetration of fly-ash as a replacement for portland cement is estimated at only 16% - 17% of potential use – an increase to 33% of total potential would increase revenues by some 30% at gross margins of 28%.

Risks: The critical risk to which the company is exposed is governmental amendment or elimination of Section 29 of the tax code which provides for tax benefits for companies using Headwater's chemical reagents. The provision is currently scheduled to expire in December 2007. The reagent business represents a significant portion of the company's revenues.

Valuation: Despite the regulatory risks, the market has discounted the shares significantly relative to its potential growth rate. DCM could buy HDWR shares at a P/E of 17 on trailing 12-month earnings per share as compared to expected five-year growth in the range of 20% - 25%.

Atlantic Tele-Networks (ANK—$29.50)
Carlton A. Getz, '06
GetzC06@darden.virginia.edu

Target Price: $32.50 – 33.50
Market Capitalization: $150 Mil.

Description: Atlantic Tele-Networks is a provider of telecommunications services in the Caribbean and South America. The company holds an 80% interest in GT&T, the monopoly telecommunications provider in Guyana, a 44% interest in Bermuda Digital Communications Limited, the dominant Bermuda wireless carrier, and interests in the largest internet service provider and wireless television network in the U.S. Virgin Islands.

Positive Considerations: GT&T is the monopoly telecommunications carrier in Guyana, a country with landline penetration only one-third that of the average Caribbean country. Wireless growth in Guyana is also significant, with 34% growth in the wireless customer base in 2003. Bermuda Digital Telecommunications holds more than half the Bermuda wireless market. Where the company does not hold a monopoly, the relatively small size of the markets the company serves do not attract significant outside competition.

Despite operating in an unusual environment, the company has managed to maintain relatively stable returns and pays out 50% of earnings annually as dividends.

Risks: The company faces significant regulatory and exchange rate risks inherent to operating in a foreign country. The company has a number of disputes with the Guyana public utilities commission which have been outstanding for a number of years, including service quality, return on investment, and rates.

Valuation: This company's shares represent a value-oriented investment. With an annual dividend yield of 3.7%, and earnings growth of approximately 11% annually, the shares, at a P/E of 11, appear attractive for long-term investors.

Pacific Sunwear of CA, Inc. (PSUN—$23.44)
Raymond Chung, '06
ChungR06@darden.virginia.edu

Target Price: $31.50
Market Capitalization: $1.7 Bil.

Description: Pacific Sunwear of California, Inc. is a specialty retailer targeted at teens and young adults. PSUN operates primarily mall-based retail chains under the names Pacific Sunwear (board-sport-wear), Pacific Sunwear Outlet and d.e.m.o (hip-hop-wear).

Positive Considerations: PSUN is undervalued relative to its growth potential. The surfer and skate theme is not a trend, but an under-penetrated niche market, and the hip-hop genre is an underserved market. With no true competitors, PSUN's growth is still early stage. Traditionally "he"-focused, PSUN is increasing its "she" business, which offer higher average purchases, and is expanding its higher margin accessory and footwear offerings. It plans to open 1,400 stores, to be funded with operating cash flow, by 2007. Recently, former COO of Abercrombie & Fitch was hired to be the new CEO. We anticipate that he will help boost margins at PSUN from 14% toward ANF's industry-leading operating margins of 19%.

PSUN represents a great value in retailing. Its valuation is below its peers despite its higher level of growth, averaging 20% revenue and EPS growth in last five years. Its expected future growth rate of 20% is also among the highest in the industry.

Risks: The biggest risk to PSUN is a significant slowdown in growth. It is leveraging its financial strength from its mature "he" board-sport-wear segment to grow its young "she", d.e.m.o. and non-apparel segments and open new stores. Failure to achieve growth in new segments and manage store builds could impede same-store and total revenue growth. Other risks include the inability to meet fashion needs and a decline consumer spending

Valuation: PSUN is trading at a discount to its historical forward P/E average, expected growth rate, and DCF value. PSUN's 2006E P/E is 14.7x vs. historical average of 17.6x. In addition, the PEG is 0.74, and DCF value is $30.80

Nextel Communications Inc. (NXTL — $26.49)
Bill Frisbie, '06
FrisbieW06@darden.virginia.edu

Target Price: $33.00
Market Capitalization: $29 Bil.

Description: Nextel is the 5th largest wireless communication provider in the U.S. Combined with its joint venture Nextel Partners, Nextel services 297 of the top 300 U.S. markets.

Positive Considerations: The wireless services industry has posted three consecutive strong quarters of growth. Nextel's revenue per subscriber continues to be the best in the industry, while the company continues to keep churn rates below 2%. These two factors, combined with Nextel's new "Boost" initiative for younger subscribers and a strategic alliance with joint venture Nextel Partners places NXTL in a great position to outperform its competitors.

Nextel's operating income has increased 99% for the first three quarters of '04 over the same time period in '03. The operating margin for the nine-months ending 9/30 was 70%. The company continues to improve its balance sheet by reducing long-term debt by approximately $1 billion over the last 12 months.

The recent buyout of AT&T wireless by Cingular further substantiates the fact that the wireless communications industry is undergoing a consolidation phase. To that effect, Nextel is regarded as a potential takeover target.

Risks: The volatile nature of telecom stocks is an inherent risk to Nextel's stock price. In addition, new technology can adversely affect market share and profits. Third generation cellular technology (WCDMA), voice over internet protocol (VoIP), and local number portability are areas of concern.

Valuation: With a relatively low PEG ratio of 1.10, NXTL appears undervalued compared to its competitors. My target price was achieved by using a conservative 28% estimated increase in EPS for 2005 applied to the trailing-twelve-month P/E ratio of 10.5.

Nutraceutical International (NUTR—$15.87)
Jared N. Whatcott, '05
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Target Price: $24.00
Market Capitalization: $186 Mil.

Description: Nutraceutical International Corporation (NUTR) is one of the largest manufacturers and marketers of branded nutritional supplements and other natural products sold primarily to domestic health food stores and international distributors. The company was formed with a core business strategy of acquiring, integrating and operating, from beginning to end, all of the operations of businesses in the natural products industry.

Positive Considerations: By focusing on the "healthy foods channel," NUTR has gained customer loyalty and reduced exposure to margin pressure from large retailers. Acquisitions have been small and have integrated well into their product lines. With science increasingly supporting supplements, and growing "baby boomer" demand driving sales, NUTR should easily be able to continue its historical earnings growth of 25% CAGR and five-year ROE average of 15.5%.

Other indicators of Nutraceutical's continued success include its improving net margins (5.4% to 11.2% in the last five years) and reduction of debt (D/E of 0.13 is now about half of industry average). Finally, with executives owning 15% and Bain Capital accounting for 43% of outstanding shares (along with two board seats), interests of owners and management are well-aligned.

Risks: There is always risk of increasing government regulation with regard to health products, and activities associated with Sarbanes-Oxley compliance may drive up SG&A costs.

Valuation: The stock is currently trading at 10.8x estimated earnings for 2005, while the industry (and NUTR, historically) trades closer to 15x. The EBITDA multiple of 7.4x is one-third of its peers. As NUTR continues to grow EPS faster than its competitors, look for multiples to come closer, and even exceed, peer multiples.

Rofin-Sinar Technologies, Inc. (RSTI—$29.38)
Jared N. Whatcott, '05
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Target Price: $40.00
Market Capitalization: $438 Mil.

Description: Rofin-Sinar Technologies Inc. (RSTI) designs, develops, engineers, manufactures and markets laser-based products, primarily used for cutting, welding, and marking a range of materials. Besides offering laser systems for some specialized niche applications, RSTI also works directly with its customers to develop and customize optimal solutions for their manufacturing requirements. The company provides its laser sources and laser-based system solutions to three principal target markets: the machine tool, automotive, and semiconductor and electronics industries.

Positive Considerations: By focusing on high-end laser products, RSTI has developed strong relationships across a number of industries, from auto manufacturing to electronics to healthcare. Their innovative products and their acquisitions in the highly fragmented laser industry have allowed RSTI to maintain strong margins.

With order strength increasing over the last quarter, a rising book-to-bill ratio of 1.13, and the increase in the use of laser technology to cut manufacturing costs in many industries, RSTI is well poised for any increases in spending by U.S. manufacturing or Asian technology sectors.

Risks: Spending cuts by manufacturing companies, and risks associated with acquisitions.

Valuation: With a forward P/E of 16, compared to a peer group average of 29, RSTI has unjustifiably suffered from concerns over its acquisition strategy and growth prospects. Considering its PEG of 0.80 relative to competitors' 1.82, and an EBITDA multiple that is half the peer group average of 22x, RSTI should easily trade at a forward P/E of at least 16x and an EBITDA multiple of 22x when its strategies have been vindicated with stronger than anticipated earnings growth.

EDMC
Education Management Corporation

Educational Management Co. (EDMC—$28.95)
Ben Monson, '05
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Target Price: $35.50
Market Capitalization: $2.1 Bil.

Description: Education Management Corporation is among the largest providers of private postsecondary education, with 67 campus locations and more than 57,000 students. EDMC's educational institutions offer degrees in the areas of design, media arts, fashion, culinary arts, health sciences, business, legal, and technology. EDMC is the most diversified company in the space.

Positive Considerations: The $290 billion post-secondary education market in the U.S. is expected to grow 20% over the next 10 years. Given constraints at state schools and non-profit private schools, for-profit schools/companies will likely capture the lion's share of this growth. While top line growth in this industry will be driven by demand, increasing online operations improve margins. The result is that we expect annual revenue growth of ~15% and EPS growth of ~20% over the mid-term at EDMC.

At the current time and at the current valuation, EDMC is the best investment opportunity in this space, especially on a risk-adjusted basis. In addition, EDMC has a relatively small online component, which will be a major growth driver going forward.

Risks: The most important risk is regulatory risk. The education space is highly regulated, and the government is a primary payer. There have been scandals recently at two of EDMC's competitors that have driven down valuations across the industry. While we believe that EDMC is an ethical company, lawsuits or government investigations could negatively affect EDMC stock.

Valuation: The current regulatory scandal and the market's reaction has created a temporary window of opportunity. DCM could buy EDMC's growth prospects at a value price—19x 2005 P/E vs. a historical average FTM P/E of 26x.

TANGER
OUTLET CENTER

Tanger Factory Outlet Centers (SKT—$44.11)
Ben Monson, '05
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Target Price: $49.00
Market Capitalization: $605 Mil.

Description: Tanger Factory Outlet Centers is a REIT focused exclusively on developing, acquiring, owning, and managing factory outlet shopping centers. The company owns interests in 36 centers, with total square feet of 8.9 million, with 96% occupancy. The company also manages centers for fees.

Positive Considerations: The outlet mall business has displayed strong fundamentals over the past few years driven by strong retail consumer spending. This property-type should outperform the REIT index in terms of growth and also provides solid downside protection.

Tanger has dominant market share in this market across the eastern and southern United States. Tanger is among the best operators in the retail real estate space, and management has excelled both at operating properties and making prudent acquisitions and divestitures. Tanger's centers are well diversified by tenant, but geographically concentrated on the east coast of the US. The company's centers contain over 2,000 stores representing over 400 store brands. The company has a healthy balance sheet and all relevant ratios are well in line with norms.

Risks: Geographic concentration, interest rates, real estate values.

Valuation: This buy recommendation is essentially a valuation call. Tanger has a strong fundamental outlook and SKT stock is cheap relative to its peers. My estimate of NAV per share is $44, in line with the current share price, which compares to an average premium of 19% among retail REITs. SKT shares are also trading at a discount to peers on a FFO multiple basis. My target price of $49 is based on (1) a 10%-12% premium to NAV per share and (2) FFO multiples of 12.7x and 12.0x in 2005 and 2006.

Activision Inc. (ATVI—$14.30)
Ed Weklar, '06
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Target Price: $19.00
Market Capitalization: $2.0 Bil.

Description: Activision Inc. is a video game publisher in the action/adventure, action sports, racing, role-playing, simulation, and strategy game categories. The company produces games for various platforms including PC, console (e.g., Sony PlayStation 2, Microsoft X-Box) and hand held devices (e.g., Nintendo Game Boy). The company also has a major distribution business in Europe that provides services such as wholesaling, logistics, packaging and sales services to Activision's publishing business as well as to third-party customers. For the twelve month period ending September 30, 2004, the company had revenue and EBITDA of $1.2 billion and $306.2 million, respectively.

Positive Considerations: Activision has posted strong performance year-to-date, as revenue and EBITDA grew by 89% and 401%, respectively, for the nine-month period ended September 30, 2004. The company has a diverse revenue stream, supplying games for PCs and different manufacturers' gaming systems as well as from its European distribution business, and a strong financial position, with $606M in cash and no debt. Recent discounting of current video game consoles has driven increased sales of games, and discounting may continue. Finally, Activision has a strong pipeline of upcoming new product releases.

Risks: Activision generates significant revenue from "hit" games which creates revenue concentration issues. Also, the next generation of game consoles (e.g., PlayStation 3, Xbox Next and Nintendo Revolution) is coming in late-2005 to early-2006 which could slow growth as it did prior to PS2's introduction, as consumers may slow their purchases of games. Finally, an SEC investigation of the industry's accounting policies remains a risk.

Valuation: Activision's stock is undervalued, trading at 4.5x trailing-twelve-month EBITDA vs. publicly traded entertainment software comparables, which trade at an average of 9.9x.

beyond words

Matav Group (MTA—$20.92)
Baily Dent, '06
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Target Price: $23.00
Market Capitalization: $4.3 Bil.

Description: Matav is the principal provider of telecom services in Hungary, leading the market in all service areas, including: telephony, data transmission, and value-added services. Through its 100% stake in Westel (rebranded as T-mobile), Matav is also the largest mobile operator in the country, with 47% market share. The company is majority owned (59.5%) by Deutsche Telecom.

Positive Considerations: Matav's dividend yield has risen from 2.1% in 2002 to 6.6% in 2003, and the company is committed to increasing the dividend while maintaining a net debt ratio between 30% and 40%. Analysts predict the dividend yield will increase to 12%-16% by 2006. Net cash flow from operations has exceeded $1bn in each of the past three years, and free cash flow is predicted to rise by 10% by 2006 to $793m.

The currently low broadband penetration, at 2% of Hungary's population, is projected to grow substantially to 9% over the next decade. Using this estimate, Matav's DSL revenues would increase from 4% of total to 12% by 2010.

Risks: Regulatory pressure is the biggest current risk to Matav's business as number portability and a reduction of interconnection fees will increase competitive pressure in the Hungarian market. Also, due to mobile substitution, further fixed line erosion is a risk to future revenue growth. Through marketing and incentive offers, Matav was able to halt the decline of fixed lines felt since 2001. Growth in broadband and wireless revenue should also offset future fixed line erosion.

Valuation: This buy call is largely based on Matav's expected dividend yield of between 12% - 16%. Based on a dividend discount model, fair value is close to $30. Matav trades in line with comparable CEEMEA integrated telcos on an EV/EBITDA and P/E basis (Matav 2005 EV/EBITDA: 4.2x vs. 3.8x average and Matav 2005 P/E: 11.9x vs. 12.8x industry average).