

THE ADVISOR



THIS ISSUE

2.1

THE EVOLUTION OF DCM

Yiorgos Allayannis, Faculty Advisor, reflects on the changes at DCM over time.

2.3

MEET THE MANAGER

Jonathan Chou presents a Q&A with T. Rowe Price Portfolio Manager, Larry Puglia ('90).

2.4

CALENDAR OF EVENTS

2.5

STOCK IDEAS

Highlights from first-year stock pitches

2.9

FUND NEWS

Brief summaries of the funds.

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Yiorgos Allayannis, Faculty Advisor

The Evolution of DCM

As the Faculty Adviser for the DCM funds and club from 2000 to 2005, I saw the diligence with which students devised investment strategies, picked stocks, and structured portfolios to match their investment objectives and ultimately consistently beat their benchmarks. After two years in the Investment Banking Division at Citigroup, I have returned to Darden and DCM to advise a new generation of DCM students and to oversee an unprecedented growth in interest and commitment to investment-related activities. Many things have changed since my initial appointment in 2000. What has remained as strong as ever is the fundamental value and learning that is at the core of the DCM fund management philosophy: pick the best and brightest managers, those with the greatest enthusiasm for investing, set rules, then allow for autonomy, diligence, performance, and monitoring. Here are some of the milestones in the evolution of DCM – things that make me proud to be part of such a stellar organization.

1. Returns have been exemplary: Over the last five years, DCM has returned 15.9% per year, or 6.1% per year better than the S&P 500. So far through October 16th, this year has been another example of superior returns, with funds returning in total 10.3% since April 1 when the new managers took over, versus 8.0% and 3.6% for the S&P 500 and the S&P 600 respectively during the same period.
2. Funds under management are currently in excess of \$6.5 million, structured around 4 diverse funds, up from \$0.25 million when the program started in 1990. DCM is now the third largest in size among comparable funds that exist in other business schools, but by far, its funds are managed with the highest degree of autonomy. In many ways, DCM resembles the real world, where analysts are responsible for their picks within the guidelines and chosen investment strategy and must defend them on regular intervals, not only within each fund, but also in front of our Trustees during the bi-annual presentations (on all accounts, a highlight of a DCM manager's tenure).
3. DCM has received extraordinary support by Trustees and alumni – the funds benefitted significantly from large cash infusions over the years. Larger sizes allow for more funds to be created (hence, more students to take advantage of the program), a larger choice of investment opportunities, and a higher degree of potential diversification.
4. The funds have expanded their strategies to include small cap, mid-cap, and long/short strategies, in addition to the mostly large-cap and long-only orientations of the earlier DCM funds. The funds can also invest in foreign stocks and buy options. This expanded menu of choices allows for a closer resemblance to the investment realities currently seen in the marketplace.
5. At the same time, risk management has been elevated to support such structures. A formal position, the CIO, has been established in conjunction with a set of rules that govern the portfolio choices (which are also evolving to better serve the objectives).
6. Research has also been elevated to new heights; a director of research position has been formally established with a broad range of responsibilities, including presiding over a competitive stock-pitch competition, providing guidelines and advice on how to conduct high quality research, and serving as the editor of the club's foremost communication outlay, the *DCM Advisor*, which is distributed to alums around the world.

7. The talent pool has been strengthened considerably in recent years, which is in part due to the significant effort to promote the unique qualities of DCM to prospective students, alums, and the Trustees. It is no hyperbole to say that DCM presents one of the most distinguishing features of any MBA experience. The Darden culture, its team structure, and the hands-on orientation of our program nurtures DCM managers' ability to evaluate a business in its entirety and not purely from one functional perspective, such as finance or marketing, which adds to the potency and effectiveness of producing highly trained investment professionals.
8. The increased strength of the talent pool has made one key aspect of my job, that of picking managers, a challenge, but what a nice problem to have! This year the popularity of DCM reached new highs: there were 78 first-years in the first DCM meeting (up from 55 last year) and although many may end up not applying for the 18 DCM fund management positions, this will still make it one of the most competitive selection processes to date. Over the years, I have formalized the selection process to include a stock-pitch, an interview, a write-up, and most importantly, feedback from the outgoing DCM managers. First year students are essentially apprenticing during their first year, so if they get selected, they should be able to hit the ground running. In this way, the current managers have become vested in grooming the next generation of managers and "passing the torch". It is truly remarkable that the inevitable annual change in the management of the funds has only made DCM stronger over time.

We are at the beginning of yet another important cycle in DCM. We are in a position of strength and strive to raise the stakes by making Darden and DCM the preeminent program that students come to obtain a world class education in asset management, where recruiters come to find the best talent in that field, and where new and innovative research ideas are created by faculty and students. I am confident that with your continuous support, we will be successful.

For questions or comments, please contact Yiorgos Allayannis at AllayannisY@Darden.Virginia.Edu

THE ADVISOR

The Advisor is a publication of the Darden Capital Management Club at the University of Virginia's Darden School of Business. Darden Capital Management operates four student-run investment funds for the Darden School Foundation with approximately \$6.5 million in assets under management.

To learn more about Darden Capital Management and the Darden School of Business, please visit: <http://student.darden.virginia.edu/dcm> and <http://www.darden.virginia.edu>

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LARRY PUGLIA CLASS OF 1990

Firm: T. Rowe Price

Role: Portfolio Manager, Blue Chip Growth

AUM: \$22.7BN (\$11.8BN in Blue Chip Growth)

Previous Employers: Peat Marwick Mitchell, Salomon Brothers

Favorite Investing Books: The Money Masters (Train), One Up on Wall Street (Lynch)

Jonathan Chou

Meet the Manager

One of our goals this year is to more actively engage our strong alumni base in the field of investment management. To achieve that end, we are initiating a “Meet the Manager” interview to highlight one of our alums in the industry, which is presented in a Q&A format.

Q: What do you value most from your Darden experience?

A: Two things come to mind. The first is the rigor of the work and the intellectual curiosity that it fosters. Having that intellectual curiosity is very important in a number of professions and certainly in money management. The second is the friendships and level of teamwork. Darden is the proper size where you can really know everyone in your section, if not the entire class. The School also fosters an environment that allows you to get to know people in and out of class.

Q: How did you end up in the asset management business?

A: I went back to school to pursue either a career in corporate finance or asset management. The markets were tough in 1990 and there were few money management jobs at the time. I thought that a summer at Salomon would provide great training for a future career in money management. In the end, I enjoyed the summer at Salomon but felt that money management was my top choice. With respect to T. Rowe Price, the firm had a wonderful combination of being research driven and run by top flight professionals. The firm had enough critical mass to be an important participant in the money management business, but it was small enough that it had the ability to grow.

Q: When and how did you start off your career in asset management?

A: Interestingly enough, I started on July 16, 1990, which was the first time the Dow traded over 3,000. The market corrected severely in my first six months. I started out as an Analyst covering banks but ultimately covered most financial stocks and also the pharmaceuticals industry. I transitioned to a Portfolio Manager role in 1993, with the inception of the Blue Chip Growth Fund. I have a 14-year track record with the fund.

Q: What was the transition like from an Analyst to a Portfolio Manager?

A: Because there are so many more analysts now at T. Rowe, our coverage is more global and extensive. As a result, the nuances of being a PM have changed but the key tasks remain the same. First, a PM has to have a keen sense for what is suitable for the portfolio they manage. With a centralized research model, our analysts recommend a variety of ideas, but I have to recognize which investments are appropriate for Blue Chip Growth. Second, a PM also needs to constantly evaluate owned or potential investment candidates to decide if there is attractive risk/reward. Third, although a PM may not always have the time to be as detail-oriented as an analyst, the PM needs to know enough to still arrive at a good conclusion. They also must be able to articulate their strategy and rationale to existing or potential clients. Finally, being a PM requires an understanding that the team will make mistakes. In other words, being a PM requires patience, humility and empathy.

Q: Are their common characteristics/traits that differentiate good investors from bad investors?

A: Independent thinking is the most important. Being a good investor also requires intellectual curiosity, thorough-

ness, an ability to weigh alternatives, and a willingness to admit error and change course. An investor must be able to assess people, particularly management teams, and also determine how much businesses are worth. Tenacity including a willingness to stick to conclusions as long as the facts continue to support them is essential. However, a good investor must be willing to admit mistakes and sell flawed investments as minimizing the impact of losing stocks is key.

Q: What advice do you have for Darden students interested in a career in investment management?

A: Start off by investing on a personal basis to get a sense for whether or not you like investing and if you can deal with the volatility. Personal investing really drove my decision to pursue money management. You also have to know if you enjoy the competitive aspect of being right and keeping score on returns. Then, get involved in classes (e.g., capital markets, options, investments) to see if you also enjoy the discipline and the process. I also recommend establishing contacts at money management firms early to demonstrate an interest in the business. Further, it's important to recognize the importance of the CFA program as great preparation and also evidence of commitment to the business. Finally, do your homework on the companies that you interview with, and have several investment ideas prepared.

For questions or comments, please contact Jonathan Chou at ChouJ08@darden.virginia.edu

CALENDAR OF EVENTS – DCM WILL BE BUSY IN NOVEMBER!

11/1-2 (All day): Fidelity Investments MBA Stock Pitch Competition – Kapil Agrawal, Yuwen Chen, and Paul Diamantopoulos

DCM is sending a team to participate at Cornell's annual stock pitch competition. This is a prominent event that will include judges from Fidelity, Wellington, State Street, Roaring Brook, and others.

11/8-9 (All day): Evergreen Investments Alpha Challenge – John Imbriglia, Neil Kansari, Jeff Sutton

DCM is sending a team to participate at UNC's annual stock pitch competition. This is a prominent event that will include judges from Evergreen, Fidelity, T. Rowe Price, Chilton, Tudor, and others.

11/9 (4:00 PM - 5:00 PM): Finance Conference – Investment Management Panel (UVIMCO, Legg Mason Capital, Rivanna Capital)*

The Finance Conference will include, for the first time, an investment management panel with participants from prominent asset managers in a variety of buy-side functions across the capital markets.

11/10 (9:00 PM - 12:30PM): DCM 3rd Annual Stock Pitch Competition (UVIMCO, Legg Mason Capital, Rivanna Capital)*

First-year Darden students will pitch stock ideas to a panel of professional investment managers and will compete for \$400 in prize money.

11/28-29 (All day): 3rd Annual Value Investing Congress – Jonathan Chou, Rob Forker, Neil Kansari, Mike Mussio, Jeff Sutton

Darden is a supporting organization for this event. Past events have included participants from Legg Mason, Third Avenue, Gotham Capital, T2 Partners, Greenlight, Glenview, and many others (please see Ad below).

*Please join us at the Finance Conference (11/9) and Stock Pitch Competition (11/10), which will both be held at Darden. **We'd also like to extend a special THANK YOU to UVIMCO, Legg Mason, and Rivanna for visiting us in Charlottesville for these two events!**

3RD ANNUAL NEW YORK VALUE INVESTING CONGRESS

November 28-29, 2007 • Time Warner Center • New York

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- Leon Cooperman, *Omega Advisors*
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- Mohnish Pabrai, *Pabrai Funds*
- Larry Robbins, *Glenview Capital Mgmt*
- Rich Pzena, *Pzena Investment Mgmt*
- Ken Shubin Stein, *Spencer Capital Mgmt*
- Glenn Tongue, *T2 Partners*
- David Einhorn, *Greenlight Capital*
- Scott Bommer, *SAB Capital Advisors*
- Atticus Lowe, *West Coast Asset Mgmt*
- Lance Helfert, *West Coast Asset Mgmt*
- Lisa Rapuano, *Lane Five Capital Mgmt*
- Murray Stahl, *Horizon Asset Mgmt*
- Whitney Tilson, *Value Investor Insight*



Special Offer for DCM Advisor Readers:

Visit www.ValueInvestingCongress.com to **save \$500** off the Value Investing Congress when you register by **November 9th**. Be sure to use offer code **NY7UV4**.

Note: Darden is a supporting organization for the 3rd Annual Value Investing Congress this November in NYC!

Richard Bodzy

Fiat

October 17, 2007

Investment thesis

Fiat is the greatest organic growth story in the automobile marketplace today.

When CEO Sergio Marchionne joined Fiat in 2004, the company was losing an estimated \$5 million US dollars per day. In 2005 it turned its first profit in five years. Now Fiat is expecting to triple Net Income in the next three years behind significant top-line revenue growth and shared platform cost savings.

Catalysts

- Continued outperformance of C-segment and Bravo vehicles
- Fiat 500 launch = over halfway to yearly sales target within two months
- Success in targeted emerging markets where capacity is expanding = Brazil factory is now open 24 hrs to meet demand. One in four vehicles sold in Brazil is a Fiat. There is a pattern of success in Eastern Europe as well.
- Engine providing agreement with Daimler and other partnerships = Daimler is the number one player in the heavy commercial vehicle segment (11.9% of the global total). Daimler recently agreed to pay Fiat to produce 80,000 engines a year due to Fiat's engineering expertise.
- Expecting earnings guidance to be raised this autumn for the remainder of '07 and possibly '08. Earnings expectations are \$1.40 for the year. After two quarters, Fiat has earned \$.74. Guidance has not been raised by management even though Fiat is beyond halfway to its yearly earnings target and the earnings for Fiat are typically back-loaded.

Investment Considerations

- Fiat sells more than half of its vehicles in the combined markets of Italy and Brazil. Brazil's market is currently growing at almost 8%. Italy has the highest automobile market growth rate of any Western European nation at 6% thus far in 2007. This is due to a tax credit given

Investment Snapshot

Company Profile: Fiat SpA

(F_MI : FIATY)

Business:

Fiat engages in three distinct business areas:

Fiat Motors, Iveco (heavy duty trucks), and CNH (agricultural equipment).

Company Profile:	Fiat SpA
Ticker:	F_MI, FIATY
Exchanges:	Milan, NYSE
2006 Sales:	65,631,000,000
Major Industry:	Automotive
Country:	ITALY

Share Information

Price (10/18/07)	22.67 Euros
Mkt Cap (in US\$ millions)	39,824

PRICE TARGET	28.17 Euros
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Assumptions: 15.6x '08 earnings, 13x '09 earnings, 6.1 EV/EBITDA, 11.9% EBITDA margin, 6.1% pretax margin

Valuation

	<u>Fiat</u>	<u>Peers</u>
2008 EV / EBITDA	4.8x	5.6x
2008 P/E	10.7x	12.1x
ROIC	9.2%	7.6%

when citizens trade in their current vehicles for vehicles that give off lower emissions. Fiat has the lowest emissions in the global car industry.

- Q2 revealed the following yoy volume comps by country: Spain +26.8%, France and Great Britain +7.8, Italy +3.0%, Brazil +35.6%, Poland +37.1%
- 23 new product launches are already scheduled within the pipeline
- The single biggest driver of automobile stocks is the relative product age of one company vs. its peers. Product life cycle advantages exist for Fiat over the next five quarters. Consumers want newly released vehicles, and Fiat can offer more brand new models than their peers.
- Fiat produces the vast majority of their cars in Poland and the advantages of producing and assembling cars in Poland rather than Italy are striking in terms of labor costs. According to Italy's national statistics institute Istat, the average gross monthly wage in Italy in 2006 was €2,870. Poland's GUS statistics agency says the average monthly private-sector wage in 2006 was 2,644 zlotys (\$960), or €705.
- Fiat will be least affected by "environmental legislative inconveniences" of any manufacturer worldwide given their low CO2 emissions and impressive mpg stats.

• Shared platforms will provide consistent deliverables to consumers as well as significant cost saving advantages for Fiat in the coming years. Fiat will reduce their number of platforms to 16 by next year, to 11 in 2010 and to six by 2012.

• Fiat introduced a new logo in 2007. CEO Sergio Marchionne says they are selling more than cars. They are selling a lifestyle. Hats, sweaters, racing gear, tennis shoes (269 Euros), backpacks and accessories have all been introduced. There is currently a waiting list for many items.

• Fiat has been authorized to spend up to 1.4 billion on share buybacks across its three share classes by the end of calendar year 2007.

• Operating margin expansion = -1.1% in 2003, 0% in 2004, 2.1% in 2005, 3.8% in 2006 and 5.4% in 2007e

• EBITDA margin expansion = 3.72% in 2003, 4.69% in 2004, 7.29% in 2005, 9.49% in 2006, 10.71% in 2007e

For questions, comments, or to view the full report, please contact Richard Bodzy at bodzyr08@darden.virginia.edu

Jeff L. Sutton, CFA

Xantrex Technology, Inc.

September 19, 2007

Investment thesis

XTX provides exposure to the rapidly growing alternative energy sector, particularly solar and wind energy. The company's power inverters are required to convert the DC electricity produced by a solar cell or a wind turbine into AC power that can be tied back into the power grid or used for distributed generation purposes. Regardless of the type of installation, every single distributed power generation facility requires a power inverter and/or a grid tie-in similar to the ones that XTX produces. We believe an investment in XTX allows us to participate in the growth of the alternative energy sector as a whole without exposing us to the risk of placing a single bet on a specific energy technology. We believe the market is too focused on the actual providers of alternative energy products (for example - solar cell manufacturers such as FirstSolar, Evergreen Solar, SunPower, etc.). We believe the market is overlooking the suppliers such as XTX and its peers who will all benefit from the increased focus on alternative energy. As XTX continues to perform well, growing its Renewable Power sales at rates in excess of 20% to 30%, we believe the market will recognize the company's growth as a long-term trend tied to alternative energy, and will unlock its hidden value.

Investment Considerations

- **Strong Growth from Alternative Energy Exposure** - Solar and Wind installations have grown in excess of 30% globally since 2005. Similarly, XTX grew its sales from Renewable Power from \$35.8M in 2005 to \$67.1M in 2006, and the company is on target to exceed \$80M in sales from Renewable Power in 2007.
- **Lighthouse Customers** - XTX has acquired some of the major players in the alternative energy industry as key customers. For example, XTX supplies 80% of the power inverters to Clipper Windpower, the industry leading manufacturer of

Investment Snapshot

Xantrex Technology, Inc.
(Toronto Stock Exchange: XTX)

Business:

Xantrex Technology, Inc. manufactures products that convert raw electrical power from an energy source, such as the central utility grid, solar cells, wind turbines, backup generators, or batteries, into the high-quality power required by most electronic and electrical equipment. Xantrex operates in 4 segments: Renewable Power, Portable Power, Mobile Power, and Programmable Power.

Share Information:
(@9/19/2007)

(in millions, except per share)

Price	\$10.03
Market Cap	\$289
Debt	\$60
Enterprise Value	\$349
Shares outstanding:	28.8

<u>Valuation</u>	<u>XTX</u>	<u>Peers</u>
2008 P/E	17.9x	23.5x
2008 EV / EBITDA	10.3x	10.6x
Price / Book	1.8x	2.4x

wind turbines and operator of wind farms in the United Kingdom. Other major customers include GE Energy, BP Solar, SunEdison, SunPower, and Solon.

- **Key Contract with Duracell** - XTX recently signed an agreement with Duracell batteries to manufacture Portable Power products under the Duracell brand name. This agreement will begin to produce revenue in the second half of 2007 and more significantly in 2008.

- **Chinese Joint Venture** - XTX entered a JV with Shanghai Power Transmission & Distribution to manufacture Renewable Power products in China. The Chinese government plans to have 10% of the country's energy come from renewable sources by 2010 and 15% by 2020. The JV is expected to begin producing revenue in 2009.

- **Acquisition of Elgar Corporation** - In the first half of 2007, XTX completed the acquisition of Elgar, a leading company in the Programmable Power segment. Elgar has higher margins on its Programmable Power products, and should improve the company's overall profitability.

- **Exchange Rate Risk** - XTX is traded on the Toronto Stock Exchange, and its price is quoted in Canadian Dollars. By holding a Canadian Dollar denominated asset, we are exposed to exchange rate fluctuations. Since January 2007, the US Dollar

has depreciated by approximately 15% against the Canadian Dollar.

Valuation

- On a relative value basis, XTX trades at lower multiples compared to its peers.
- Based on a discounted cash flow analysis, XTX is priced at 65% of its intrinsic value.
- DCF Assumptions: Renewable Power growth rate declines from 20% to 10% over the next five years; growth rates for Portable, Mobile, and Programmable Power remain flat at 5%; cost structure remains constant at 2006 levels; terminal growth rate of 3%; discount rate of 10%; no value is given to the Chinese Joint Venture or to the Duracell Contract.
- Adjusting the DCF model for various upside and downside scenarios generates a range of intrinsic values between \$10 and \$23 per share, with the most likely scenario around \$16 per share. We believe the current stock price of \$10 provides adequate downside protection and the potential for a significant return.

For questions, comments, or to view the full report, please contact Jeff Sutton at SuttonJ08@darden.virginia.edu

Eric Logue

Rio Tinto plc

October 14, 2007

Investment thesis

RTP is a large cap diversified metals and mining company. RTP has been successful in assembling a large portfolio of long lasting, first class reserves that have allowed the firm to generate superior returns above both industry averages and direct competitors. RTP is the direct beneficiary of increased global commodity demand, especially from China and India. We originally took a look at RTP in May of our first year, feeling that it was a well run company that gave the fund exposure to the boom in commodities and Asian growth. Unfortunately, RTP quickly moved towards our target price before we could take a position. However, the dramatic market selloff of late summer provided us with an opportunity to take another look at RTP. With the ADR hovering in the \$250-\$275 range, the valuation implied that RTP would have little to no top line growth over the next five years. Mike, Tad, Dev, and I felt that this was a classic market overreaction and that the woes of the American homeowner would not derail Asian demand.

Investment Considerations

- RTP provides exposure to the strong global demand for commodities, specifically iron ore and copper in China and India
- RTP is the second largest Uranium producer and is set to benefit from renewed interest in nuclear power.
- RTP has both the infrastructure and properties in place to produce and deliver on global demand, giving it an advantage over competitors who are lagging demand.
- RTP trades at a discount to its two main competitors, BHP and RIO, due to its high diversification across commodities. While this hinders the company during booms, it is inherently less risky over business cycles.
- RTP has a competitive advantage in sustainable business practices, increasingly a concern in the mining sector. The firm enjoys strong community and government relations, maintains an environmental

Investment Snapshot

Rio Tinto plc
(NYSE: RTP)

Business:

Rio Tinto searches for and extracts a wide variety of minerals around the world, with the heaviest concentrations in North America and Australia. Major products include aluminum, copper, diamonds, energy products, gold, industrial minerals, and iron ore. Rio Tinto takes a common-sense, long-term approach to mining. Its strategy is to focus on large-scale, long-life, and cost-competitive mining operations and to invest throughout their lives so that they maintain their competitive positions. The company pays attention to the quality of projects, not to particular geographical areas or commodities.

Share Information

(@10/14/2007)

(in millions, except per share)

Price	\$372.40
Market Cap	11959
Shares outstanding:	321.13

policy, and has been the only firm in the industry to begin to study the issue of water scarcity, which is perhaps the greatest challenge facing miners over the next century.

- Industry consolidation will benefit RTP as fewer players will create pricing and production discipline that will lead to less volatile earnings over business cycles.
- RTP is exceptionally well run with a history of acquisition discipline, strong free cash flow generation, and commitment to shareholder value.

Valuation

- DCF analysis yielded a valuation range from \$300 to \$390 dollars. Using conservative single-digit top line growth over the next five years and keeping other inputs within historical ranges yielded a value of \$357.
- The downside scenario in the DCF for RTP was particularly attractive. Assuming only between 0-1% revenue growth for the next five years and a 10% margin contraction, the value fell around \$230.
- Using a historical valuation range of 9-11.5X forward PE and a range of EPS from \$25, the downside of our earnings model, to \$29, our best case earnings, we came to a valuation range of \$225 to \$354.

- Given the convergence of the two valuation models we felt RTP had roughly twice as much upside as downside. Additionally, we had conviction that global growth would not drastically contract, and RTP was more likely to move upward as the market came to the same conclusion.

Exit

- Our thesis materialized quicker than we thought it would, although not entirely for the reasons we expected. Within a week RTP popped from our \$270 entry point to \$310 on rumors that BHP and RIO, RTP's two largest competitors, were going to buy RTP and split the assets. RTP then jumped to \$350 when the Federal Reserve rate cut fueled inflation in commodity prices. Mike, Tad, Dev, and I decided to exit the position with RTP at the top our valuation range and a quick 30% return.

For questions, comments, or to view the full report, please contact Eric at LogueD08@darden.virginia.edu

Maureen Singer

Veolia Environnement

September 24, 2007

Investment thesis

Despite their size, VE is a growth story given the industries they operate in and supportive global mega-trends. As the global business community and investors continue to place greater emphasis on sustainability and clean development, VE is poised to meet the needs of their customer base, and grow their market share. They are a proven leader in water and waste management services, including traditional utility services as well as design and implementation of solutions to improve the quality of drinking water and the safe disposal and/or reuse of waste materials. In addition, VE is looking to grow their businesses in transportation and energy efficient technology. We believe that the growth in this stock will be realized through the top-line as VE continues to win projects and expand their market share globally.

Investment Considerations

- Veolia is poised for continued and strengthening growth in large part due to macroeconomic trends and demographic developments that support the need for enhanced water and waste management systems. One of the most relevant trends for VE is increasing urbanization. 2006 was the first year that there were more city/town dwellers than urban dwellers, and this is a trend that is expected to continue putting additional strain on water and waste management systems as well as transportation infrastructure. In addition, many industrial and commercial businesses are putting greater emphasis on “green” initiatives resulting in additional demand for an array of VE’s services
- Regulatory bodies around the world are increasingly focused on implementing policies that promote sustainable development and preservation. As a direct result of certain initiatives including the implementation of the Clean Development Mechanism (a component of the Kyoto Protocol), VE has been contracted to provide services. In addition, the broadening of the European Union and the liberalization of key industries, including transportation, across Europe and Asia are

Investment Snapshot

Veolia Environnement
(NYSE: VE)

Business:

Veolia Environnement operates in four segments: water, waste management, energy efficiency, and transportation. The water business is growing on the basis of strong growth in Asia, an increase in engineering and construction projects as well as wastewater recycling projects, and urbanization trends.

The waste management business is looking to drive growth through recovery and recycling services. The transportation business is driven primarily by liberalization of road and rail markets across the EU and Asia.

providing additional organic growth opportunities for Veolia, which has been demonstrated through ongoing contract awards throughout these regions.

- Veolia operates in 67 countries and thus benefits from geographic diversification. On a regional basis, in 2006, 47% of Veolia’s revenue is sourced in France, 33% in Europe (excl. France), 10% from North America, 6% from Asia-Pacific region, and 4% “rest-of-world” which is primarily comprised of the Middle East. The breadth of Veolia’s services also provides significant diversification, given the differences in business drivers for each functional area. From a functional basis, in 2006, water cycle management comprised 35% of revenue, waste management comprised 26% of revenue, energy services 22% and transportation 17%.

Investment Concerns

- Given VE’s global footprint, and significant growth targeted in both North America and Asia, currency exposure will be increasingly relevant as VE expands beyond Europe. However, the majority of environmental service contracts bear minimal transaction risk as revenues and expenses are denominated in local currency.
- In 2006, Veolia issued additional equity, available to employees through company mutual funds. As Veolia continues to

Share Information
(@9/24/07)

(in millions)

Price	84.29
Market Cap	\$4,073
Shares outstanding:	467.47

Valuation*

	<u>VE</u>	<u>Peers</u>
Current EV/ EBITDA	14.8x	14.66x

* Source: Bloomberg

grow its business, they may need to look to additional equity funding, given their significant leverage. VE’s debt/equity ratio is 4.039.

Valuation

- Given the segmented nature of Veolia’s business, we valued the company using both a discounted cash flow analysis as well as a sum-of-the-parts valuation.
- Based on a sum-of-the parts valuation, VE trades at a 2008EV/EBITDA multiple of 11.8x, while peer companies valued in this manner trade at 19.66x.
- Based on our base case DCF valuation, we arrived at a target price of \$100. The downside case greatly reduces top-line revenue growth below management and analyst estimates, arriving at a downside case of \$81.

For questions, comments, or to view the full report, please contact Maureen Singer at SingM08@arden.virginia.edu

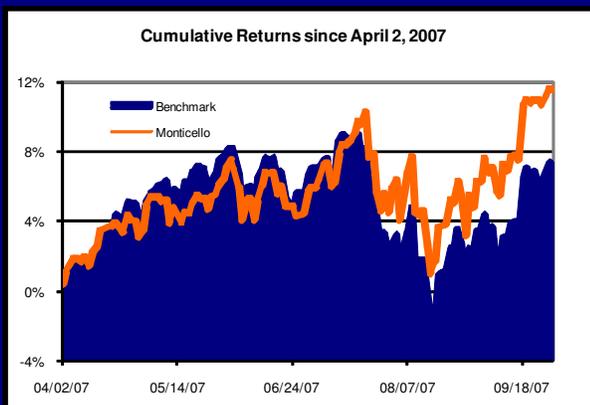
FUND NEWS & SUMMARIES

Monticello Fund

Managers

Sr. Portfolio Manager Ed Duggan
 Portfolio Manager Danny Mooney
 Portfolio Manager Edward Shim
 Portfolio Manager Maureen Singer

Performance vs. Benchmark



Investment Strategy

The Monticello Fund uses fundamental analysis to identify and invest in companies that are well positioned for growth but inexpensively valued.

Fund Holdings

- | | |
|----------------------------|----------------------------------|
| AIG Corporation | Allied Waste |
| American Tower | Berkshire Hathaway "B" |
| CBS Corporation | Del Monte |
| Devon Energy | Electronic Arts |
| Exterran Partners | Genentech |
| Herbalife | IBM |
| iShares Russell 1000 Index | Kellogg |
| Lam Research Corporation | Newmont Mining |
| Norfolk Southern | Nvidia |
| Pepsico | Prologis Trust |
| Target | Tempur-Pedic International, Inc. |

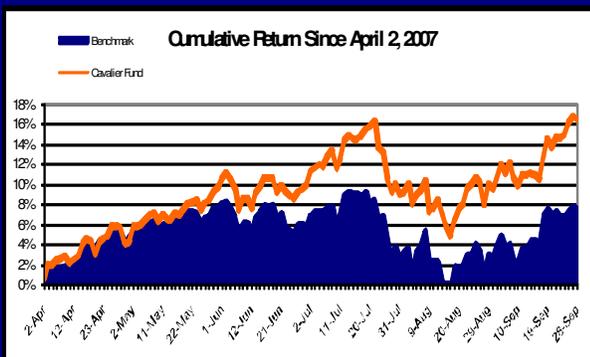
*Through 9/30/2007

Cavalier Fund

Managers

Sr. Portfolio Manager Richard Bodzy
 Portfolio Manager Robert Birdsey
 Portfolio Manager Chris Delaney
 Portfolio Manager Greg McCullough

Performance vs. Benchmark



Investment Strategy

The Cavalier Fund is a long / short equity hedge fund that focuses primarily on domestic equities including small, mid- and large capitalization companies.

Fund Holdings

- | | |
|------------------------|------------------------------|
| Microsoft | Monsanto |
| Umicore | American International Group |
| ConocoPhillips | Corning |
| Wellcare Health Plans | Ebay |
| Kinetic Concepts | Yum Brands |
| Waste Management | Enesco |
| News Corp | Checkfree |
| Fiat SPA | VCA Antech |
| Varian Medical Systems | Pinnacle Entertainment |
| iShare S&P 500 index | |

*Through 9/30/2007

Darden Fund

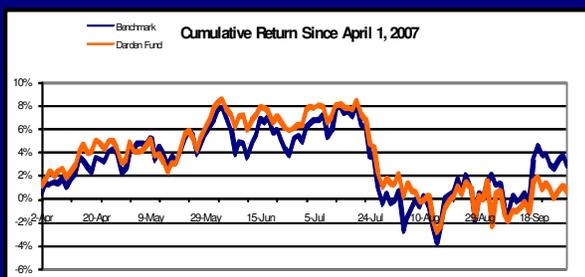
Managers

Sr. Portfolio Manager Jeff Sutton
 Portfolio Manager George Gao
 Portfolio Manager Matthew Jackson
 Portfolio Manager Neil Kansari

Investment Strategy

The Darden Fund is a small-cap fund that seeks to maximize returns through disciplined fundamental research and analysis. The benchmark for the fund is the S&P 600.

Performance vs. Benchmark



Fund Holdings

Aldila, Inc.
 Clean Harbors, Inc.
 Corrections Corp. of America
 Delphi Financial Group Inc. (Class A)
 Emcor Group, Inc.
 Equity One
 FTI Consulting
 Gardner Denver
 Great Atlantic & Pacific Tea Co.
 iShare S&P Small Cap 600 Index
 Texas Capital Bancshares
 Thor Industries
 THQ
 Taleo
 TravelCenters of America, Inc.
 Walter Industries, Inc.
 Xantrex Technology

*Through 9/30/2007

Jefferson Fund

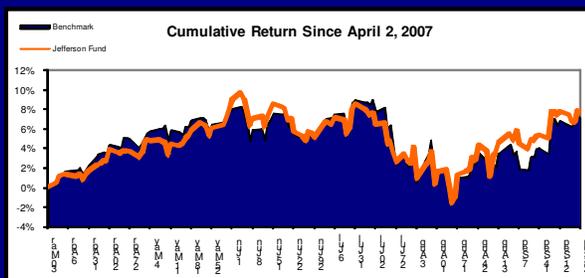
Managers

Sr. Portfolio Manager Michael Mussio
 Portfolio Manager Divyaksh Kapur
 Portfolio Manager Tad Lehmann
 Portfolio Manager Eric Logue

Investment Strategy

The Jefferson Fund seeks to generate excess returns through a value-based strategy with a concentration on companies with market capitalizations between \$200 million and \$5 billion.

Performance vs. Benchmark



Fund Holdings

Anheuser Busch
 Bank of America
 Berkshire Hathaway Class B
 Chesapeake Energy
 Chiquita Brands
 FPIC Insurance
 General Dynamics
 Hanesbrands
 Ishare Russell 1000 Index
 JP Morgan Chase
 Nokia Corp ADR
 Pengrowth Energy Trust
 Petsmart
 Rio Tinto Plc
 TEVA
 Toro
 Travelcenters of America
 United Fire & Casualty
 Unitedhealth Group
 Verizon Communications

*Through 9/30/2007