INVESTMENT MANAGEMENT CERTIFICATE PROGRAM (IMCP)
UNIVERSITY OF WISCONSIN-MILWAUKEE
LUBAR SCHOOL OF BUSINESS

ANNUAL REPORT FY 2014

Learning by Doing
A CFA Institute University Recognized Program Where Students Manage Real Portfolios While Earning Their Degrees
See www.imcp.sba.uwm.edu
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I am pleased to present you with the students’ 2014 Annual Report for the Investment Management Certificate Program (IMCP) at the Lubar School of Business of University of Wisconsin-Milwaukee. I am so proud of these 17 students (short bios and pictures are on the last three pages). They have been wonderful to have as students, and now alumni and friends, of the IMCP.

I have often said that the IMCP rests on five pillars. The first pillar is the students. These students are hard workers, passionate about investments, smart, and are people with great character. The other pillars include a solid curriculum, resources, alumni, and a very supportive community.

The 17-month program provides students with many opportunities to learn by doing. Of course, a main experience is managing real funds (students collectively performed in line with their benchmarks last year), and they also have many other opportunities to learn by doing. For instance, they performed research on best uses of capital (see research paper in this annual report) for a local industrial firm, and per the school’s requirements, analyzed and valued that company under a number of scenarios and then presented the results of their research to management.

We have great resources. The Nicholas Applied Finance lab features state of the art software that professional managers utilize including FactSet, Bloomberg, Northfield, EVA Dimensions, Axioma, Zephyr, and other resources. We also have access to research from many supportive brokerage firms.

We could not be successful without a commitment from our alumni. They are building a name for the program, and are supportive in gifts, jobs, and in many other ways.

Finally, we also are very fortunate to have substantial support from the community and faculty. The acknowledgement page of this annual report takes up six pages! Of course, we have many faculty members to thank. We have speakers about every couple weeks. There are many firms (not listed) who hire the students in internships and in full-time roles. Furthermore, firms open their doors to students during our travels to Chicago and New York (we also went to the Berkshire Hathaway meeting). Professionals provide the students with a very real experience as they challenge them during client meetings, and they are speakers at our Defining Markets conferences.

The program is extra special because of the close bonds that are developed within the student teams. I hope the students always cherish these bonds and their experiences in the IMCP. Thank you students, faculty, alumni, and community for making these students’ educational and career dreams come true.

Sincerely and best wishes,

Kevin (aka Coach)

Dr. G. Kevin Spellman, CFA
Director, Investment Management Certificate Program
Lubar School of Business
University of Wisconsin Milwaukee
spellman@uwm.edu
608-334-2110

For more information, please see the IMCP’s extensive website (www.imcp.sba.uwm.edu).
ACKNOWLEDGEMENTS

The members of the IMCP class of 2014 would like to extend our gratitude to the many individuals who contribute time, knowledge, and information the IMCP. These people are integral to the success of the Investment Management Certificate Program.

With our sincerest thanks,

IMCP Class of 2014

Donors
David Nicholas, President, Nicholas Company
Paul Franke, William Blair (retired)
Bill Nasgovitz, President, Heartland Funds
Several alumni and one parent of a former student have also donated
Tom Hansen
Joel Hoeffler
Josh Jang
Veronica Ocampo

Investment Board and Program Advisors
Gary Elfe, Managing Director and Senior PM, R.W. Baird
Marilyn Holt-Smith, President, Holt-Smith Advisors
Jeff Geygan, President, Milwaukee Private Wealth Management
Bill Nasgovitz, President, Heartland Funds
Don Nesbitt, Chief Investment Officer-Equities, Ziegler Lotsoff Capital Management
David Nicholas, President, Nicholas Company
Noaman Sharief, VP and PM, Dana Investment Advisors

Director
Dr. G. Kevin Spellman, CFA

IMCP Current Academic Advisory Member and Members of Admission Committee
Dawn Koerten
Dr. Dick Marcus
Dr. Mike McBain
Dr. G. Kevin Spellman

Faculty Support
Dr. Khaled Amira
Dr. Iskandar Arifin
Mr. Luke Fairborn
Mr. Jacob Gelfand
Mr. Jeff Geygan
Dr. Scott Hsu
Dr. James Huang
Mr. Michael Jolin
Dr. Yong-Cheol Kim
Dr. Dick Marcus
Dr. Mike McBain
Dr. Lillian Ng
Mr. Dan Renouard
ACKNOWLEDGEMENTS

Mr. Jeffrey Rymaszewski
Dr. Valeriy Sibilkov
Dr. Steven Trick
Dr. Todd Voit

Institutional Services
Erik Clay, Financial Planner, Merrill Lynch

Technical Support
Eric Dietenberger
Keith Kunkel

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JP Morgan Chase & Co.
Morgan Stanley & Co., Inc.
Ned Davis Research
Standard & Poor’s Financial Services
Stifel, Nicolaus & Co., Inc.
UBS Securities Inc.
Yardeni Research
...and many others

Every Three to Four Week Market and Portfolio Discussion
Jeff Geygan, President, Milwaukee Private Wealth Management
Chris Petherick, Principal, Valcata Capital Partners
Mike Treptow, Director of Investment Performance Management, Northwestern Mutual

General Speaking Events and Teaching Modules for the IMCP Class of 2014

May 2014
Several managers (Make a Difference Investment Conference, Milwaukee)
Bradley Distinguished Lecture Series (John Taylor, Mary and Robert Raymond Professor of Economics, Stanford University (restoring economic growth)

April 2014
Badger Meter Annual Shareholder Meeting
Rockwell Automation (presentation of project to management)
Steve Etzel, VP of Finance - Treasurer
Wahyu (Chief) Priyadi, Manager-Investor Relations
Rondi Rohr-Dralle, VP-Corporate Development and Investor Relations
Mike Wirth, Director, Corporate Development
Brian Davidson, Principal, Start Investments (private equity)
James Lazar, Private Equity Associate, PS Capital Partners (networking)

March 2014
Dan Einhorn, Principal, Capital Midwest Funds (venture capital)

February 2014
Chris Petherick, Principal, Valcata Capital Partners (hedge funds)
Panel of Financial Planners
John Ellison, John Ellison Advisory Group Ltd
B.J. Helleson, Manager, Financial Services, Prudential Financial
Matt Miler, Board Member, Financial Planning Association of Southern Wisconsin,
ACKNOWLEDGEMENTS

Relationship & Tax Manager, McCarthy Grittinger Financial Group LLC
Michael Schmidt, Senior Portfolio Manager, Associate VP, Financial Advisor, Morgan Stanley Wealth Management

January 2014
Tom Myers, Attorney, Reinhart Boerner Van Deuren (M&A)
David Nicholas, President, Nicholas Company, Inc.
Several managers (ACG Cup investment banking competition)

November 2013
Rick Eastman, Managing Director and Senior Analyst, RW Baird (analyzing Rockwell and role of sell-side analyst)
Dave Ribbens, EVP and Head of Distribution, Heartland Advisors (building an investment firm)

October 2013
CFA Society of Milwaukee 50th Anniversary Event (Stuart Varney, serves as a business contributor and substitute host of FOX News Channel’s Your World with Neil Cavuto, as well as the host of Fox Business Network’s Varney Co.)
Women in Finance Event
Jackie Darr, Principal, Radarr Advisors
Jennifer Green, Executive Director, JP Morgan Private Bank
Marilyn Holt-Smith, Managing Director and Principal, Banyan Partners, LLC
Paul Franke, retired investment officer, William Blair (words of wisdom)
Jacob Gelfand, Director of Quantitative Strategy and Research, Mason Street Advisors, LLC (quantitative investments)
Oleg Gurin, Investment Management Quantitative Specialist, Northwestern Mutual (quantitative investments)
Rodney Hathaway, Portfolio Manager, 1492 Capital Management (investment themes)
Brian Lavin, VP and Portfolio Manager (high yield), Columbia Management (fixed income)
Chief Priyada, Investment Relations, Rockwell Automation

September 2013
Brian Andrew, Chief Investment Officer, Cleary Gull (evaluation of managers)
John Callen, Investment Officer, Catholic Financial Life (portfolio management)
Don Nesbitt, Chief Investment Officer, Ziegler Lotsoff Capital Management (quantitative investments)

July 2013
Matt D’Attilio, Senior Portfolio Manager, Reinhart Partners (private firm valuation portfolio approach)

May 2013
Warren Buffett and Charlie Munger (Berkshire Hathaway Annual Meeting)
Several managers (Make a Difference Investment Conference, Milwaukee)

April 2013
Luke Fairborn, Emory & Co. (how to pitch an idea)
Ken Conrad, Quantitative Analyst, BMO Funds, and FactSet Representative (quantitative backtesting)
Peter Burback, Owner, Cooks Corner (discussion of business)

March 2013
Allen Leverett, Executive Vice President, and Pat Keyes, CFO and Executive Vice President, Wisconsin Energy Corporation (investor presentation, discussion of capital deployment and cash flow)
Luke Fairborn, Emory & Co. (importance of independent thinking)
Jeff Geygan, President, Milwaukee Private Wealth Management (value investing)
Jason Krueger, Senior Compliance Officer, BMO Funds (financial regulation and compliance)
Nomy Sharief, Vice President and Portfolio Manager, Dana Investments (fixed income)
Peter Burback, Owner, Cooks Corner (discussion of business)

February 2013
Jason Krueger, Senior Compliance Officer, BMO Funds (financial regulation and compliance)
Several managers (CFA Global Research Challenge)
Several managers (ACG Cup competition)

January 2013
Jason Dummert, AXA Advisors, Sr. Divisional Vice President (financial planning)

IMCP Class of 2014 October 2013, February 2014, and May 2014 Client Meetings

Brian Andrew, Chief Investment Officer, Cleary Gull
Charles Batchelor, Director of Investment Research, Cleary Gull
Bob Bukowski, Founder and Managing Partner, Alpha-Investment
John Callen, Investment Officer, Catholic Financial Life
Brian Davidson, Principal, Start Investments
Gary Elfe, Managing Director and Senior Portfolio Manager, Baird Funds
Jeff Geygan, President and CEO, Milwaukee Private Wealth Management
Marilyn Holt-Smith, Managing Director and Principal, Banyan Partners, LLC
Derann Hsu, Professor of Finance, Emeritus, University of Wisconsin-Milwaukee
Michael Jolin, Equity Research Analyst, Heartland Advisors
Christi Kubiak, Director-Credit Research Public Bonds, Mason Street Advisors
Kerry Laurin, Research Analyst, Heartland Advisors
Brian Lavin, VP and Portfolio Manager, Columbia Management
Mary Linehan, Director-Equities, Mason Street Advisors
Richard Marcus, Associate Professor, Chair of Executive Committee, University of Wisconsin-Milwaukee
Michael McBain, Senior Lecturer, University of Wisconsin-Milwaukee
Will Nasgovitz, CEO and Portfolio Manager, Heartland Advisors
Don Nesbitt, Chief Investment Officer, Ziegler Lotsof Capital Management
David Nicholas, President, Nicholas Company, Inc.

Adam Peck, VP and Portfolio Manager, Heartland Advisors
Chris Petherick, Principal, Valcata Capital Partners
John Reineberg, Principal, Valcata Capital Partners
Tom Scholtz, Research Analyst, Cleary Gull
Kevin Senske, Portfolio Manager, Racon Capital Partners
Bob Sharpe, VP and Portfolio Manager, Heartland Advisors
Alex Wagner, Heartland Advisors
David Weinstein, Equity Analyst, Dana Investment Advisors
Brian Yeazel, Managing Director, Fixed Income, Mason Street Advisors

Spring 2014 Project

Per the school's requirements, examination of value and uses of capital
Rockwell Automation
Steve Etzel, VP of Finance - Treasurer
Wahyu (Chief) Priyadi, Manager-Investor Relations
Rondi Rohr-Dralle, VP-Corporate Development and Investor Relations
Mike Wirth, Director, Corporate Development

Winter 2014 NYC Trip

11:11 Capital Management
Brian Pinsker, Founder, Chief Investment Officer
American Century
Raj Gandhi, VP and Portfolio Manager
Athelera
Manuel Sansigre, Associate
Bloomberg
Jonathan Schwebel, Institutional Salesperson + 1 person
Citigroup
Jon Rosenzweig, Director of Research
Eleni Sfougatakis, Citi Professional Recruiting
Christina Wood, Associate Analyst (strategy)
Cornerstone Macro
Frank Chiodi, Institutional Sales
Stephen Gregory, Portfolio Design and Stock Selection
ACKNOWLEDGEMENTS

Fernando Irausquin, Institutional Sales
Michael Kantrowitz, Portfolio Strategy
Francois Trahan, Partner and Portfolio Strategy
Daruma Capital Management
Daniel Doddo, Research Analyst
David Gerber, COO and CFO
Mariko Gordon, Founder, CEO, and CIO
Goldman Sachs
Lorin Radke, Managing Director, Fixed Income
Governance Metrics
Howard Sherman, Executive Director
Manikay Partners
Bill Richards, Advisory Board Member
Tour of the NYSE courtesy of Kenny Polcari,
Broker and Market Commentator on Bloomberg, CNBC, and additional financial networks
Round Table Services
Robert Davis, Chief Investment Officer
Steven Saunders, Analyst
UBS
David Bleustein, Head of North American Equities Research
Mike Ching, Associate Director of North American Equities Research
Tim Chiodo, Associate Analyst (US Internet)
Kelly Softka, Associate Analyst (US Equities and Derivatives Strategy)
Kristina Szempruch, HR / Campus Recruiting

Summer 2013 Chicago Trip

Contributor to IMCP Funds
Paul Franke, retired, William Blair

Economic Moats
Morningstar
Heather Brilliant, Vice President, Global Equity & Credit Research
Jeff Holmes, Institutional Product Manager, North American Equity & Credit Research
Sanibel Captiva Trust Company (The)
Pat Dorsey, Vice Chairman and Director of Research & Strategy

Growth and Value Managers
William Blair
David Hone, US Large-Cap Value Portfolio Manager
Mark Lane, Co-Director of Research and US Financial Services Analyst

Investment Strategy
Northern Trust
Dan Phillips, Investment Strategist
Value Investing
Harris Associates
Bill Nygren, Portfolio Manager

March 2014 Spring Defining Markets Outlook Conference

Dodd-Frank Act and Risk Management
Cady North, Senior Financial Analyst, Bloomberg

Managing Investment Portfolio Risk (Really!)
Dan diBartolomeo, President, Northfield Information Services

Managing Risk
Dan diBartolomeo, President, Northfield Information Services
Jacob Gelfand, Director, Quantitative Strategy and Research, Mason Street Advisors, LLC
Oleg Gurin, Investment Management Quantitative Specialist, Northwestern Mutual (moderator) Brian Andrew, Chief Investment Officer, Cleary Gull

October 2013 Fall Defining Markets Outlook Conference

Developments in the Middle East and North Africa
Arnab Das, Managing Director of Research
Roubini Global Economics
Neal Dihora, Airlines, Aerospace & Defense Equity Analyst, Morningstar
Michael Nayebi, Middle East & North Africa Analyst, Stratfor (moderator) Joseph Veranth, Chief Investment Officer and Portfolio Manager. Dana Investment Advisors
ACKNOWLEDGEMENTS

March 2013 Defining Markets 2013 Outlook Conference

Economics and Strategy
William Delwiche, Investment Strategist, RW Baird
James Paulsen, Chief Investment Strategist, Wells Capital
Daniel Phillips, Investment Strategist, Northern Trust Global Investments
(moderator) Kevin Spellman, Director, Investment Management Certificate Program, Lubar School of Business

Adding Value and Preparing a Business for Sale
John Byrnes, Executive Managing Director, Mason Wells Funds
Steve Einhorn, President, Capital Midwest Fund
Kent Velde, President, Lakeview Equity Partners, LLC
Tom Walton, Founder and Managing Director, Hanley, Hammill, Thomas LLC
(moderator) Ron Miller, Managing Director, Cleary Gull

Best Investment Ideas
Jefferson V DeAngelis, President, Mason Street Advisors, LLC; Chief Investment Officer, Northwestern Mutual’s Wealth Management Company; Chairman of the Board, Northwestern Mutual Series Fund, Inc.
Michael Holt, Director of North American Research, Morningstar, Inc.
Adam Peck, Vice President and Portfolio Manager, Heartland Advisors, Inc.
(moderator) Joseph Veranth, Chief Investment Officer and Portfolio Manager, Dana Investment Advisors

International Outlook
(Spain and Europe) Ignacio de la Torre, Professor and Director of the Master in Finance Programs, IE Business School, and Partner, Arcano Group
(Asia) Teresa Kong, Portfolio Manager, Matthews International Capital Management, LLC
(Asia) Jodi Morris, Senior Vice President, Client Services, Matthews International Capital Management, LLC

(moderator) Dan Renouard, Managing Director, Chief Operating Officer, Equities, Director of Sales and Trading, RW Baird
From The Milwaukee Growth Fund

Congratulations on completing your first semester in the IMCP! We hope you all are excited to begin managing the fund and to apply all of the knowledge you have just acquired. With one semester under your belt, we hope you feel ready to manage the fund and hope that you continue to exert the same great effort as you transition into portfolio managers. We would now like to leave you with some “words of wisdom” based on our portfolio management experience.

First – be organized. You will soon realize that you are not only managing money, but also managing a business - of sorts. It is important that you all are aware of your operational roles, in addition to being analysts and portfolio managers. By assigning roles, the operations of your fund will be infinitely smoother, allowing you to spend the majority of your time researching companies and managing the fund.

Second – be confident and stick to the fundamentals. You may buy some companies that will fall in price, long before appreciating. These are the times when you will question your thesis, despite any fundamental changes. It is important that you grow conviction by understanding the fundamentals of each company, and not waver from your position unless the fundamentals have changed (...or you discover you were wrong).

Third – be independent-thinkers. The markets are full of opinions; however, it rewards independent and objective thinking with superior returns. If you are like everyone else, you will perform like everyone else; so don’t be afraid to stick your neck out and be wrong, because it will happen.

Fourth – be careful paying up for growth. You will likely do extensive work on companies that will not warrant buys, and that is fine. If it is a great company, with a great long-term story, but the majority of its growth is priced in... be patient.

There is nothing wrong with a "bull-pen" full of great companies.

Finally – enjoy it! You are beginning what has been one of the most memorable experiences of our lives, so be sure to enjoy the ride. Before you know it, you’ll have outperformed by hundreds of basis points wondering where the time went.

Best wishes,

The Milwaukee Growth Fund – Class of 2014

Alexander Sagal
Faisal Hersi
Fischer Van Handel
Nicholas Mydlach
Paul Lukaszewicz
Praful Velagapudi

From the Panther Value Fund

Congratulations on finishing the first semester of the IMCP! You should feel proud of yourselves for finishing the initiation reports. You have already learned so much.

Never forget that you were specifically chosen for this exclusive program. Being in this program trains you to be part of one of the most competitive job environments in the world, so act like it. If you put in the time and effort, you will be greatly rewarded coming out of the program.

You are now portfolio managers. This may seem a daunting task, but the skills you have learned in the first semester have prepared you for it. To help you out, we wanted to impart some advice for the next year of managing the fund.

• Be disciplined. Value stocks may take a lot of time, months or even years, to hit your price targets. With the short time horizon you have, don't be tempted to buy growthy stocks to see gains quickly; trust in your analysis and be patient. On
 LETTERS TO THE CLASS OF 2014

The other hand, don’t get emotionally attached to stocks you pick, and have the discipline to sell if you realize your valuation is incorrect but don’t necessarily just sell at the first 5% drop.

- Don’t be afraid to argue with each other. During pitches, it is essential that you debate the stock in question to uncover what you don’t know. At the present, this will help you weed out hidden weaknesses of stocks, while improving your research for the future. But of course, be civil. Your classmates are your #1 support group moving forward and you will need to rely on each other.

- Treat managing the fund as a professional job. Set meetings and attend them. Divide the workload and do your part. Have a good work ethic, be on time and prepared. Be organized and efficient. Try to impress your fellow managers like they are your bosses. Acting this way prepares you for a job after graduation, earns the respect of your peers, and will streamline the portfolio management team.

- Lastly, don’t forget to stop and smell the flowers along the way. Celebrate a completed client meeting with your teammates and enjoy the little things.

This next year will include hard work, long hours, stress, and a lack of sleep. But know that it is definitely worth it. You will take out from this program more knowledge and experience than you think possible, and be ready to take on the world.

The Panther Value Fund – Class of 2014

Daniel Blake
Daniel DeDecker
Kent Demien
Jyoti Chetri
Maxwell Gamedinger
Cristobal Gonzalez
Matthew Sobocinski

From The Global Macro Fund

Congratulations on your acceptance to the fifth class of the IMCP! Always remember that this is an elite program and that the expectations from you will be very high. You will find that although the program is very challenging and requires many hours of work and devotion, the outcomes will be very rewarding. This will be your first step in the investment world, and we are very happy to see your class eagerly take on these challenges.

Being part of this program will prepare you for one of the toughest and most rigorous industries known to man. Be ready to make decisions in an uncertain environment where returns are not guaranteed and success often morphs into greed. Get to know your IMCP colleagues, and remember that this will be a once in a lifetime experience. Cherish the moments and build an everlasting bond with your first professional network.

The Global Macro Fund has taught us the complexity of managing two separate portfolios with multiple goals: to outperform our blended benchmark while reducing the IMCP portfolio risk by investing in assets with low correlations to U.S. equities. Given the bull market and historically low yields, we understood that our fixed income positions would yield lower returns. However, by developing macro themes and a thesis through our research, we seized opportunities within developed and emerging equity markets to capture higher upside. Although our portfolio was more volatile than our benchmark, we uncovered abundant opportunities by actively managing a fixed income portfolio through our understanding of macro events and proper risk management.

With such a short time horizon, you might not see your theses unfold during your management of the fund. However, understand the positions you own and why you added them to the portfolio. Regardless of how these positions perform during your time managing the fund, the challenges presented by the Global Macro Fund
will deepen your knowledge in international equities, fixed income, foreign policy, currency fluctuations, and the economic cycle.

Remember, passion is the key to success in this industry and in life. We would like to finish by quoting Robert Shiller, who won the Nobel Memorial Prize in Economic Sciences last year, “Finance drew me in because it’s so fundamental to human activity. It follows precise mathematical relations but there’s an element of imprecision that reflects human nature.” There is a behavioral component in the financial industry that is underestimated by many. During our time managing the portfolio, we have learned that human emotion is strong enough to move the markets. In order to be successful in the industry, we need to look beyond the theories and fundamentals, and truly understand human psychology and the way people behave, sometimes rationally and sometimes irrationally. Ultimately, by understanding the theories, the fundamentals, and discounting them by the behavioral component, we will have better answers, better results, and ultimately will have a better understanding on life.

The Global Macro Team – Class of 2014

Kent Demien
Drew Konop
Donnie Crego
Kevin Kiefer
Magdalena Rocha
OBJECTIVE

The Milwaukee Growth Fund’s investment objective is to outperform the Russell 3000 Growth Index. From an educational standpoint, students seek to refine their research and analytical abilities through active portfolio management. Specifically, the fund is managed with a GARP (growth at a reasonable price) philosophy while incorporating a momentum approach.

PHILOSOPHY

We invest in high quality companies with exceptional growth potential uncovered through a thorough evaluation of fundamental and momentum metrics.

INVESTMENT PROCESS & SECURITY SELECTION

We have three primary criteria that we use for our process and security selection: momentum, fundamental and business analysis, and valuation.

For momentum, we seek high growth in forward sales and earnings estimates. We also look for positive earnings revisions which tend to lead to price momentum and solid future trends.

For fundamental and business analysis, we seek to identify companies with solid financials and strong business models.

As GARP managers, we pay special attention to what we pay for growth. Valuation is a gauge of market expectations, and having a value bias in our selection process ensures that we do not overpay for growth. We consider historic and industry relative multiples, with respect to forward looking fundamentals.

In order for a security to be added to the portfolio, an analyst pitches the stock to the entire team. A majority of analysts must agree to add the name before a name is added. To vote, each analyst must be present at the stock pitch as we do not allow proxy voting.

Regarding our sell discipline, stocks that fall more than 7% are subject to formal reviews by the entire team. A review is also warranted if the underlying thesis changes and/or fundamentals of the company change. Majority vote also determines sales.

CHARACTERISTICS

The following table shows the characteristics of the fund and the Russell 3000 Growth Index as of April 30, 2014:

<table>
<thead>
<tr>
<th>Portfolio Characteristics</th>
<th>Fund</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Equity</td>
<td>13.7%</td>
<td>24.0%</td>
</tr>
<tr>
<td>Price/Earnings (TTM)</td>
<td>27.6x</td>
<td>20.8x</td>
</tr>
<tr>
<td>Price/Earnings (NTM)</td>
<td>19.2x</td>
<td>18.3x</td>
</tr>
<tr>
<td>Price/Book</td>
<td>3.2x</td>
<td>4.6x</td>
</tr>
<tr>
<td>Price/Sales</td>
<td>1.4x</td>
<td>2.0x</td>
</tr>
<tr>
<td>Price/Cash Flow</td>
<td>7.9x</td>
<td>13.0x</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>1.04%</td>
<td>1.46%</td>
</tr>
<tr>
<td>Average Market Cap</td>
<td>49,827</td>
<td>94,251</td>
</tr>
<tr>
<td>Hist 3 Yr EPS Growth</td>
<td>20.5%</td>
<td>15.1%</td>
</tr>
<tr>
<td>Est 3-5 Yr EPS Growth</td>
<td>18.6%</td>
<td>14.5%</td>
</tr>
<tr>
<td>LT Debt/Capital</td>
<td>34.8%</td>
<td>36.7%</td>
</tr>
<tr>
<td>Net Margin</td>
<td>9.9%</td>
<td>13.9%</td>
</tr>
</tbody>
</table>

Important for a growth fund, our portfolio has higher historical and predicted growth rates in sales and earnings than the benchmark. This warrants the above average Price/Earnings multiple our fund carries.

However, the Milwaukee Growth Fund’s holdings are, on average, less profitable than the average of the benchmark. The fund’s operating margin, net margin, ROA, and ROE are lower than the benchmark.

As a highly concentrated fund, negative earnings in a few holdings can weigh the portfolio down tremendously. Adding to this point, we see that certain multiples are lower, on average, than the benchmark. The fact that some of the companies we hold are unprofitable justifies these lower multiples. However, we believe that substantial upside to growth and the stock will occur as these firms turn around.
RISK CONTROLS

The Milwaukee Growth Fund invests in a portfolio of 20-40 holdings. All market caps are considered with an individual position maximum weight capped at 10% of the portfolio. Sector exposures are managed relative to the Russell 3000 Growth Index®. The maximum sector weight limit is capped at 40% of portfolio and each sector must be within +/- 10% relative to the Russell 3000 Growth Index®.

STRATEGY

The Milwaukee Growth Fund’s investment objective is to outperform the Russell 3000 Growth index while pursuing long-term capital appreciation by primarily investing in equity securities of companies positioned for growth. From an educational standpoint, students seek to refine their research and analytical abilities through active portfolio management.

STRATEGIC DECISIONS

The Growth Fund’s strategy is built on the philosophy that high quality companies with above average industry growth along with truly attractive value will outperform their respective peers over the long run. The fund is invested in industries and companies based on a thematic approach as well as a screening process.

We utilize an integrated investment process that combines fundamental bottom-up analysis with a thematic and macro overlay. Macro overlay seeks to identify sectors where positive change is occurring. Thematic overlay seeks to identify growth industries that may be overlooked.

Implementing a bottom-up approach, the growth fund does not have significant sector relative weightings. Sector weightings were initially allocated to closely mimic the Russell 3000 Growth Index®. The table below shows our current sector bets relative to the benchmark as of April 30, 2014.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Fund</th>
<th>Benchmark</th>
<th>Relative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer</td>
<td>15.27</td>
<td>18.53</td>
<td>-3.26</td>
</tr>
<tr>
<td>Consumer staples</td>
<td>12.58</td>
<td>11.56</td>
<td>1.05</td>
</tr>
<tr>
<td>Energy</td>
<td>5.78</td>
<td>4.80</td>
<td>0.99</td>
</tr>
<tr>
<td>Financials</td>
<td>5.73</td>
<td>5.63</td>
<td>0.09</td>
</tr>
<tr>
<td>Healthcare</td>
<td>13.74</td>
<td>12.97</td>
<td>0.78</td>
</tr>
<tr>
<td>Industrials</td>
<td>13.98</td>
<td>12.67</td>
<td>1.31</td>
</tr>
<tr>
<td>Information</td>
<td>24.93</td>
<td>26.30</td>
<td>-1.37</td>
</tr>
<tr>
<td>Materials</td>
<td>3.91</td>
<td>4.58</td>
<td>-0.67</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>2.17</td>
<td>2.15</td>
<td>0.02</td>
</tr>
<tr>
<td>Utilities</td>
<td>-</td>
<td>0.13</td>
<td>-0.13</td>
</tr>
<tr>
<td>Cash</td>
<td>1.90</td>
<td>-</td>
<td>1.90</td>
</tr>
<tr>
<td>Unassigned</td>
<td>-</td>
<td>0.67</td>
<td>-0.67</td>
</tr>
</tbody>
</table>

PORTFOLIO EVOLUTION

We made our first active trades on October 16th 2013, focusing on the consumer discretionary sector. However, prior to October 16th we sold out of some key positions. We sold Coach (COH) given the firms struggle to connect with its core customer and underperforming sales growth relative to its peers as more consumers favored Michael Kors and Kate Spade designs. We sold Church and Dwight Co. (CHD) because we believed the stock was fairly valued relative to its growth prospect. To replace these positions, we added to iShares S&P Global Consumer Staples ETF and iShares S&P Global Consumer Discretionary ETFs to maintain exposure to consumer oriented sectors.

To continue gaining exposure to both the average and high end consumer, we purchased Cabela’s (CAB), Tiffany & Co. (TIF), Reed’s (REED) and J.C. Penney (JCP). We view JCP as a strong turnaround play over the next 1-3 years, as top-line revenue growth continues to inflect/accelerate, and gross margins expand to pre-RJ levels, driving to EBITDA positive by 2015 (ahead of consensus). On the high end, we believe TIF can double its store base in key global markets, particularly in Asia/China where the company has a low revenue base relative to other luxury brands, and still has room to grow in the U.S. LKQ was sold on March 1st 2014 following a 15% price drop attributed to concerns over the firm’s inventory accounting practices.

To gain exposure to global automotive industry growth, we purchased Harman (HAR). HAR is the best pure play in the infotainment space. Currently, less than 20% of all
vehicles have an infotainment systems compared to 85% penetration in the luxury car segment. Further, the launch of a new platform shifts the product mix towards higher margin products.

To benefit from the North American oil and gas boom, the team targeted domestic exploration and production companies in the Eagle Ford and Niobrara formations. Carrizo Oil & Gas was selected as one of the most efficient drillers in the space, with favorable leases in two of North America’s richest oil fields. An initial position was added, with an additional purchase once reserves were proven.

In the health care sector, we made the move from Computer Programs & Systems Inc. (CPSI) to HCA Holdings (HCA) and Team Health Holdings (TMH). CPSI’s growth was slowing as competition started to become fierce in the small hospital market. We purchased HCA and TMH to capitalize on health care reform. TMH is tied to solid core trends and expected to benefit from Medicaid parity and Medicare reimbursement growth. HCA displayed strong fundamentals in the hospital space and should benefit from increased clarity from reform.

In info-tech, we inherited a secular play in cell phone growth and held positions in Apple (AAPL), Google (GOOG), SanDisk (SNDK), and QUALCOMM (QCOM). We sold flash storage maker SNDK in favor of an additional chipset maker, TriQuint (TQNT) that we felt would better benefit from the transition to LTE networks. TQNT also stood to benefit from AAPL’s contract with China Mobile as China Mobile switched to LTE service. We made AAPL a top holding before the release of 4Q13 earnings, in anticipation of a sales ramp in China. We initiated positions in EBAY Inc. (EBAY), Perficient Inc. (PRFT), VMware Inc. (VMW), and Pandora Inc. (P). P is a key beneficiary of the secular shift in total listening hours from terrestrial radio to digital radio, P controls 80% of the total digital listening hours.

PERFORMANCE REVIEW

From October 13, 2013 through April 30, 2014, our period of active management, the portfolio gained 10.6%

The performance was evaluated against the return on the Russell 3000 Growth Index. The benchmark posted a gain of 11.2%. This results in an underperformance of 62 bps.

Relative performance during our active management tenure was impacted by two headline events that detracted a significant amount of performance (175bp total). First, OSIS received notice from the TSA that a new part used in their security products was not on the approved list, placing their contract in jeopardy. The Growth Team held a meeting triggered by a 7% downside move, however by the time the position was liquidated, the stock traded down nearly 35%. OSIS alone was responsible for -118bp of contribution.

Second, LKQ was the focus of a forensic accounting short report that has yet to be proven. LKQ detracted 57bp of performance.

PERFORMANCE ATTRIBUTION

As bottom up managers, stock picking should drive the majority of our active returns. Returns can be generated from sector allocation, the interaction effect, and stock selection. Sector allocation measures returns generated from over/under weighting sectors, while the stock selection captures the return attributed from selecting individual stocks within a sector.

For the full year of our management (May 2013 through April 2014), we outperformed the Russell 3000 Growth Index by 390bp. The largest portion of performance was stock selection, adding 240 bps, while sector allocation and interaction added 95 and 54 bps respectively. As a bottom up management team, the fact that stock selection was the largest contributor, and over half of our performance, demonstrates success and discipline in both our philosophy and process.
Our top ten holdings reflect both our philosophy and our process. All names on the list (and all holdings in general) have been reviewed weekly to determine if they still match our investment style. We ask ourselves and our teammates at each meeting whether or not we would buy a holding again today. After recovering from two headline events mentioned earlier, the Growth Fund has made significant strides in performance in 1Q14. Many of these top ten holdings have done the heavy lifting.

The top ten list also holds to our process of purchasing an initial stake of 1-3% and adding to winners. Several of these holdings were purchased as “seed positions” and later added. For example, CRZO, TIF, GNRC and PRFT were all purchased at 1-2% with additional stakes added as the theses proved correct. Our top position, AAPL, was raised to the portfolio maximum 5% and has been allowed to grow. A 3% allocation was given to CRZO, which has been allowed to grow to a top idea position.

RISK

The Milwaukee Growth Fund has seen incredible upside/downside capture since its inception; the upside capture of the fund was 1.31 with a downside capture of only 1.01 (the top right circle is where the fund ended). Over all the time periods analyzed, the Milwaukee Growth Fund had upside capture that was larger than the downside capture.

The Milwaukee Growth Fund’s Sharpe ratio has been favorable since its inception. Three of the four periods that this ratio was analyzed, the fund had a higher Sharpe ratio than its benchmark.

The Milwaukee Growth Fund has a high correlation with its benchmark. Since its inception, the fund has had an R-squared of 0.92 to its benchmark. Although this may be relatively low compared to other managers, we can note that much of our returns can be traced to the broader market.
OBJECTIVE

We strive to outperform our benchmark, the Russell 3000 Value Index, while managing exposure to risk through adhering to our investment philosophy.

PHILOSOPHY

The fund invests in undervalued companies with solid underlying businesses. The fund managers believe that short-run market inefficiencies exist and are exploitable by the well-disciplined value investor. These inefficiencies should be corrected as undervalued stocks outperform in their industries. Furthermore, by focusing on the business behind the security, we maximize downside protection while unlocking the value behind the security.

PROCESS

Beginning with a universe of all publicly traded US stocks, we quantitatively screen stocks seeking undervalued opportunities. Stocks that meet our quantitative metrics become subject to further qualitative analysis. Rather than solely focusing on macroeconomic factors, such as the wellbeing of the economy or the direction of interest rates, we aim to perform research to find companies that meet specific criteria that help us identify relatively undervalued companies with sound fundamentals and catalysts for reversion. We manage an all cap fund to enhance our opportunity to outperform.

PRIMARY SCREENS

Since we are a core value fund, we quantitatively screen for stocks with P/E, P/B, and P/CF that are at, or ideally, below the companies' historical average, using both absolute values and those relative to peers.

Historically, over the long term, low multiple stocks have outperformed high multiple stocks. We recognize that some multiples are more or less relevant to different industries and at different times. For instance, P/E may be less relevant for a cyclical company during an economic trough than P/S (P/E would be high while P/S would be low); thus, we do not require that every multiple for a stock be below the industry average.

SECONDARY SCREENS

We realize that low multiple stocks may reflect poor fundamentals. To avoid value traps, we also focus on measures of quality.

In addition to examining multiples, we look for companies with low debt relative to peers and positive cash flow dynamics. Long-term growth rates, dividend yield, and ROE are used to further narrow potential candidates.

DECISION MAKING

The final set of stocks is fundamentally analyzed using original research supplemented with third party sources. We determine why the stock is undervalued, identify and quantify drivers, and determine catalysts that will bring the stock back into favor.

This company research along with sector position considerations is presented to the fund’s seven member team. Stocks need a majority vote for addition into the portfolio. A majority vote is also needed to remove a position.

While the team ultimately determines which names are purchased and sold, each analyst is responsible for maintenance research on holdings. This maintenance typically includes daily monitoring of price movements, analysis of new information, and review of quarterly reports and conference calls. Each member is also assigned specific industries to cover for the fund.
CHARACTERISTICS

The table below shows the characteristics of the fund and the Russell 3000 Value Index as of April 30, 2014.

Since our process and screening led us to companies with historically low multiples, it should come as no surprise that the Value Fund’s weighted average P/E, P/CF, P/B, and P/S ratios are in line or below the benchmark average. As seen within the metrics of our holdings, we tend to favor fundamentally strong companies.

The Panther Value Fund exhibits higher ROA and ROE than its benchmark, however, it suffers from a slightly lower margins and dividend yield.

Another note worth mentioning is the large divergence in market cap between the portfolio and the Russell 3000 Value Index. While this exposes the fund to potential macro-economic volatility, we abide by our philosophy, focusing on the bottom-up approach to security selection.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Value Fund</th>
<th>Russell 3000V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price/Earnings</td>
<td>14.9</td>
<td>16.0</td>
</tr>
<tr>
<td>Price/Cash Flow</td>
<td>8.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Price/Book</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Price/Sales</td>
<td>0.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Hist 3Yr Sales Growth</td>
<td>6.8</td>
<td>5.3</td>
</tr>
<tr>
<td>Est 3-5 Yr EPS Growth</td>
<td>13.0%</td>
<td>9.6%</td>
</tr>
<tr>
<td>ROA</td>
<td>6.2</td>
<td>5.5</td>
</tr>
<tr>
<td>ROE</td>
<td>16.4</td>
<td>12.5</td>
</tr>
<tr>
<td>Operating Margin (%)</td>
<td>15.4</td>
<td>16.9</td>
</tr>
<tr>
<td>Net Margin (%)</td>
<td>9.8</td>
<td>12.6</td>
</tr>
<tr>
<td>LT Debt/Capital (%)</td>
<td>32.3%</td>
<td>32.9%</td>
</tr>
<tr>
<td>Dividend Yield (%)</td>
<td>2.01%</td>
<td>2.13%</td>
</tr>
<tr>
<td>Market Cap (B)</td>
<td>$35.8</td>
<td>$106.4</td>
</tr>
</tbody>
</table>

RISK CONTROLS

In addition to the controls outlined previously in the discussion of the overall fund, the Value Fund adopted the following guidelines and rules:

- Size:
  - Portfolio of 20-40 holdings
  - All market caps considered
- Position limits:
  - Initial position weight up to 5% of portfolio
  - Maximum weight of 10% of portfolio
  - Sector exposure:
    - Sector exposure managed to Russell 3000 Value®
    - +/- 10% sector limit relative to Russell 3000 Value® or 35% of the portfolio
    - Exposure to all 10 GICS sectors

In addition to regular meetings, a meeting can be triggered by changes in fundamentals, significant economic events, and +/- 10% non-systematic move in a stock’s price.

STRATEGY

Our approach is to find undervalued companies within their industries that are financially healthy and well positioned for price appreciation. When researching companies, we look for specific catalysts that can change a stock’s story. We believe these companies will revert to mean valuations and appreciate in price.

SECTOR ALLOCATION

In implementing a bottom-up approach, the value fund does not have significant sector bets. Sector weightings were initially allocated to closely mimic the Russell 3000 Value Index. We closely followed our benchmark weightings in hopes of adding alpha through our stock selection.

During the year, the fund outperformed in consumer discretionary, telecommunication, and utility sectors. The fund lagged in consumer staples, energy, financials, health care, industrials, materials and IT. The table below shows our current holdings relative to the benchmark.
PORTFOLIO EVOLUTION

The Value Fund has a long-term horizon, as reversion to fair value normally takes many months if not years. This is one reason why we kept several legacy names through the management term. On the other hand, portfolio management is a dynamic process and changes are often necessary.

During the summer of 2013, shortly after taking over the fund, Smithfield Foods was acquired by a Chinese meat producer, increasing the stock price significantly. Around the same time, Cooper Tire & Rubber Co.’s stock price benefited from merger activity, allowing us to capture the gains and free up cash. We reinvested the capital into various ETFs, as we couldn’t buy individual companies until the first client meeting. Towards the end of our management period, we held close to 20% ETFs.

While we owned ETFs, the fund actively sold and purchased names as opportunities arose. After the first client meeting in October, to transition the fund to its new approach, we bought BRCM, CDI, CHRW, CSCO, CVX, DHI, IPI, KRFT, MUSA, RGA, and TXT, and sold COH, HCP, JPM, SST, and CATM. By the mid-year client meeting in February, the portfolio was well positioned so trading was lighter over the last half of the holding period. Since February, we purchased AEL, CSV, EBF, IRDM, and KSS, and sold BTU, KALU, MED, TXT, and WU.

One of our legacy holdings, Peabody Energy, underperformed for us and last year’s managers as well. We held because we expected improving pricing conditions, but gains never materialized and the stock price was stagnant. We eventually sold it for a substantial loss after reconsidering the financial trends of the company.

Two legacy REITs, HCP Inc. and Digital Realty Trust, were hurt by the Fed announcement to taper quantitative easing. Additionally, both companies dealt with sudden management switches, including the CEO in both cases. Furthermore, DLR’s earnings suffered from two unexpected accounting adjustments. However, in 2014 the company started making a comeback. These two companies were the bottom two contributors.

One of our top performers was Cardtronics. It provides ATM services which was benefiting from ATM deployment with new and existing customers, increased transaction volumes, and other new services. Eventually, it reached fair valuation and was sold in December 2013. This proved to be great timing, as the sale happened near its peak price to date.

Through 2013, legacy name Quality Systems Inc. was performing exceptionally well with the government mandate to require electronic health records. However, performance reversed when a lawsuit over financial reporting arose and was followed by loss of market share and missed earnings. In the end, QSII was one of our bottom performers.

We were generally unable to find substantial value in the financial sector especially the banking industry. Purchases of Aflac and American Equity Investment Life Holding Co. were just made during the latest quarter, which forced us to invest mostly in ETFs in this sector. With this being said, one of our top performers was Assurant in the insurance sector. It benefited from increased business due to the Affordable Care Act and competes in a niche with few competitors which leads to higher margins.

PERFORMANCE REVIEW

From October 10, 2013 through April 30, 2014, our period of managing the fund, the portfolio’s total return was 20.07%.

The performance was evaluated against the return on the Russell 3000 Value Index. The benchmark posted a gain of 22.18%, thus, we underperformed the benchmark by 211 basis points.

As mentioned above, Assurant, Cardtronics, and Smithfield added significantly to performance. T-Mobile
was also a top performer. The bottom included HCP, Digital Reality Trust, and Peabody.

PERFORMANCE ATTRIBUTION

Relative performance can be attributed to several factors. These include allocation effect, selection effect, and interaction effect. The allocation effect is the portion of excess return that is attributed to the fund’s sector allocation decisions. The selection effect is the portion of excess return attributed to selecting outperforming securities within sectors. Finally, the interaction effect is the residual excess return between the allocation/selection combination and total return. More specifically, this effect is derived from the fund’s over/under-weight (allocation) to sectors in which the manager picked stocks well (selection). These effects merge to form the total effect.

During our performance period, the allocation effect was -1.28, selection effect was -1.56, and the interaction effect was 0.73. In sum, these effects add up to a combined negative total effect of 2.11% on the fund.

ALLOCATION EFFECT

The Value Fund’s allocation effect was a contributor to the underperformance. The overweight to cash, resulted in a 142 basis point loss to the portfolio. The excess cash resulted from selling and trimming stocks due to value realizations or troubled businesses, and allocating it to cash rather than ETF’s.

SELECTIVE EFFECT

While we had quite a few large winners with regards to stock selection, such as Assurant and Cardtronics, the net effect of the overall selection resulted in a loss of 156 bp relative to our benchmark. Our stock selections in the industrials and telecommunications outperformed, while our selection in energy and health care sectors were the largest sources of underperformance.

RISK

The Value Fund has about the same relative and absolute risk as our benchmark with a standard deviation of 11.38 versus the benchmark at 11.66. The beta of our portfolio is currently less than the benchmark at 0.95, which is about where it was at inception.

The tracking error is reasonably high due to the portfolio’s concentration in 27 names. Our tracking error is slightly less than it was at inception (at 3.56% now versus 3.82% then).

The Value Fund also has a higher downside capture (98.07%) versus upside capture (94.71%), meaning that we were more exposed to market losses than market gains. Even though we are exposed to higher downside risk, we believe we have chosen core value names that exhibit strong fundamentals which will allow the fund to capture larger returns over the long run.
GLOBAL MACRO FUND: ALT FUND

The Global Macro Fund was created to provide diversification from the growth and value fund and mitigate risk that can arise from an aggregate portfolio of US Securities. In addition to this, the Global Macro Fund’s performance is measured on an absolute basis and a composite benchmark is also utilized as a reference.

- 50% Russell Global ex US Equity
- 16.66% JPMorgan Emerging Markets Bond
- 16.66% Barclays US Aggregate Bond
- 16.67% Barclays Aggregate Euro Bond

PHILOSOPHY AND PROCESS

Our investment philosophy can be summarized as follows. We invest in reasonably priced global fixed income and international growth stocks uncovered through macroeconomic and fundamental security research.

Our process has three steps. We build an efficient frontier for the total fund to determine initial allocations to global equity ex-US and global fixed income allocations. We then analyze economic, political, and financial factors by weighing 32 factors in a quantitative risk model to determine fixed income credit, yield, and duration positions as well as country and sector positions. Finally, we screen for securities with GARP characteristics within the attractive developed and emerging markets identified.

FUND HOLDINGS AND ASSET ALLOCATION

Our current holdings and overall asset allocation are shown below. As of April 28, 2014, the fund was overweight international equities and underweight fixed income.

- Fixed Income 37%
- International Equities 62%
- Cash 1%

FIXED INCOME

PURPOSE

As of April 30, 2014, about 37% of the Global Macro Fund is invested in fixed income. This is a very important allocation not only for the Global Macro Fund but also for the total fund as well. The fixed income portion remains an important tool for managing risk through diversification.

STRATEGY

As the Global Macro Fund utilizes a thematic approach to asset allocation, we wanted to position the portfolio to not only reduce risk but also to gain exposure to trends and changes in the United States fiscal and monetary policies. We also looked to capture themes worldwide that pertained to credit markets and provided above average yield. During the fall semester, we bought European investment grade bonds as part of our bullish theme on Europe. This trade has worked out well for us.

The low interest rate environment in the US, initiated and held by the Fed’s monetary policy, has been the catalyst leading investors to call the bull run in the fixed income bubble. Although we recognize that yields have diminished to well below average as prices increased, we
do not foresee sharp increases in interest rates for some time as the Fed possesses adequate capacity and desire to hold rates until unemployment reaches their target.

We positioned the fund out of short and long term treasuries and focused on corporates, both domestic and international, and high yield. Careful and diligent security selection allowed us to construct a fixed income portfolio with a substantially higher yield while maintaining a lower duration. We did take credit risks, but low duration was a key focus for us as even small increases in rates can decimate fixed income returns. Our average duration was just over 5, while our benchmark’s duration was around 6. However, our average yield-to-maturity was just over 2% while our bench was around 3%.

INTERNATIONAL EQUITY

PURPOSE

The international equity portion of the fund follows the theme of providing increased diversification and also provides historically higher returns, especially due to the allocation in emerging markets. US equity as a percentage of the global equity market share has significantly decreased over the last decade and money management with assets exposed to developing and developed markets outside the US has become the norm. This part of the fund aims to capitalize on this trend and seeks opportunities outside the traditional American stock market.

STRATEGY

In search of growth outside of the United States, we looked for potential returns in the emerging market equities asset class, which historically boasted robust returns. The fund made country bets based on macroeconomic developments of the nation as well as prevailing global economic headwinds. This was done through the use of country ETFs which mirrored the country’s index returns as well as capturing dividend yields.

In contrast to prior management of this fund, the Global Macro Fund also allocated money to developed nations outside the US compared to historical exclusiveness to the emerging markets. Positions such as Switzerland and the United Kingdom have generated strong performance over our holding period. Stable economic health coupled with undervaluation since their rebound from the financial crisis has made their returns rival those of the US market.

RISK CONTROLS

The Global Macro Fund invests in 15-20 names, with the international side investing in developed and emerging markets. The fixed income side invests in various fixed income instruments of developed and emerging nations.

Special situations are limited to 15% of the fund. Following are the asset classes acceptable in Special Situations:

1. Commodities (through ETFs)
2. Currencies (through ETFs) for hedging
3. Options (no naked) on ETFs

The fund can short up to 10% of the international equity weight through ETFs only.

PERFORMANCE AND RISK REVIEW

Since the transition period (4/30/13), the Global Macro Fund underperformed our benchmark by 50 bp. However, we lost about 220 basis points from May 1,
GLOBAL MACRO FUND: ALT FUND

2013 to May 31, 2013. During this time period, our portfolio maintained a long duration bet when yields were rising. As a result, we underperformed our benchmark that summer by 306 basis points. Since October when we began to actively manage the portfolio, we have recovered about 260 basis points. Since our first client meeting on October 3, 2013, the blended benchmark returned 3.43%, and we achieved to return 6.03%.

On a risk adjusted basis, it important to note that since the client meeting, the Global Macro Fund achieved a Sharpe ratio of 1.17 vs. benchmark’s 1.08.

The largest contributors to the fund were our positions in International Developed Equity (+2.12%), Emerging Markets Equity (+1.30%), International Corporate Bond (+.75%), Switzerland (+.55%), and International Utility Equity (+.41%). The largest detractors were our positions in Novatek (-0.16%), Mortgage Real Estate (-0.15%), Japan (-0.09%), Emerging Markets Corporate Bond (-0.03%), and Philippines (-0.01%).

The fund provided good diversification for the overall portfolio. Its correlation to the Panther Value Fund and Milwaukee Growth Fund was about 0.70, or much less than the growth and value funds' correlation with each other (0.90).

<table>
<thead>
<tr>
<th>Correlation Since Client Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Growth</td>
</tr>
<tr>
<td>Value</td>
</tr>
<tr>
<td>Alt</td>
</tr>
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# MILWAUKEE GROWTH FUND HOLDINGS
## AS OF APRIL 30, 2014

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company Name</th>
<th>Main Business</th>
<th>Port. Weight</th>
<th>Bench Weight</th>
<th>Rel. Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumer Discretionary</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TIF</td>
<td>Tiffany &amp; Co.</td>
<td>Specialty Stores</td>
<td>15.27</td>
<td>19.53</td>
<td>-3.20</td>
</tr>
<tr>
<td>CAB</td>
<td>Callahan’s Incorporated</td>
<td>Catalogue/Specialty Distribution</td>
<td>2.22</td>
<td>0.53</td>
<td>4.14</td>
</tr>
<tr>
<td>JCP</td>
<td>J.C. Penney Company, Inc.</td>
<td>Department Stores</td>
<td>2.93</td>
<td>--</td>
<td>0.22</td>
</tr>
<tr>
<td>HAR</td>
<td>Hormann International Industries, Incorporated</td>
<td>Automotive Aftermarket Parts</td>
<td>1.60</td>
<td>--</td>
<td>0.30</td>
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<tr>
<td>XLI</td>
<td>iShares Global Consumer Discretionary ETF</td>
<td>Multiple</td>
<td>2.61</td>
<td>--</td>
<td>0.61</td>
</tr>
<tr>
<td><strong>Consumer Staples</strong></td>
<td></td>
<td></td>
<td>12.58</td>
<td>11.56</td>
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<td>KFI</td>
<td>iShares Global Consumer Staples ETF</td>
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<td>REED</td>
<td>Reed’s, Inc.</td>
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<td><strong>Energy</strong></td>
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<td>5.79</td>
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<td>CEVO</td>
<td>Corisfix Oil &amp; Gas, Inc.</td>
<td>Exploration &amp; Production</td>
<td>4.79</td>
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<td>XLE</td>
<td>Energy Select Sector SPDR Fund</td>
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<td><strong>Financials</strong></td>
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<td></td>
<td>5.73</td>
<td>5.63</td>
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<td>GEL</td>
<td>Greenhill &amp; Co., Inc.</td>
<td>Investment Banking &amp; Advisory</td>
<td>1.91</td>
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<td>P PARA</td>
<td>Portfolio Recovery Associates, Inc.</td>
<td>Bad Debt Recovery</td>
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<td>Financial Select Sector SPDR Fund</td>
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<td>Physician Practice Management</td>
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<td>0.03</td>
<td>2.78</td>
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<tr>
<td>CDV</td>
<td>Covisint, Inc.</td>
<td>Medical Specialties</td>
<td>3.76</td>
<td>3.76</td>
<td>3.76</td>
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<tr>
<td>CYH</td>
<td>Community Health Systems, Inc.</td>
<td>Hospitals</td>
<td>3.33</td>
<td>0.01</td>
<td>3.22</td>
</tr>
<tr>
<td>HCA</td>
<td>HCA Holdings, Inc.</td>
<td>Hospitals</td>
<td>2.08</td>
<td>0.01</td>
<td>2.07</td>
</tr>
<tr>
<td>A&amp;CO</td>
<td>Advisory Board Company</td>
<td>Advisory</td>
<td>1.66</td>
<td>0.02</td>
<td>1.64</td>
</tr>
<tr>
<td>VHT</td>
<td>Vanguard Health Care Index Fund ETF</td>
<td>Multiple</td>
<td>1.77</td>
<td>--</td>
<td>1.77</td>
</tr>
<tr>
<td><strong>Industrials</strong></td>
<td></td>
<td></td>
<td>12.33</td>
<td>12.67</td>
<td>-0.34</td>
</tr>
<tr>
<td>GNRG</td>
<td>Generac Holdings Inc</td>
<td>Power Generation Equipment</td>
<td>3.33</td>
<td>0.03</td>
<td>3.30</td>
</tr>
<tr>
<td>USE</td>
<td>Vanguard Industrials Index ETF</td>
<td>Multiple</td>
<td>9.19</td>
<td>--</td>
<td>9.19</td>
</tr>
<tr>
<td><strong>Information Technology</strong></td>
<td></td>
<td></td>
<td>24.70</td>
<td>26.30</td>
<td>-1.60</td>
</tr>
<tr>
<td>AAPL</td>
<td>Apple Inc.</td>
<td>Computer and Smartphone Producer</td>
<td>6.41</td>
<td>3.65</td>
<td>1.76</td>
</tr>
<tr>
<td>CTSH</td>
<td>Cognizant Technology Solutions Corp.</td>
<td>Outsourcing Technologies</td>
<td>4.45</td>
<td>0.28</td>
<td>4.17</td>
</tr>
<tr>
<td>GOOG</td>
<td>Google Inc. Class C</td>
<td>Internet Services &amp; Commerce Technologies</td>
<td>1.22</td>
<td>1.36</td>
<td>-0.14</td>
</tr>
<tr>
<td>GOOGOL</td>
<td>Google Inc. Class A</td>
<td>Internet Services &amp; Commerce Technologies</td>
<td>1.23</td>
<td>1.38</td>
<td>-0.15</td>
</tr>
<tr>
<td>EBay</td>
<td>eBay Inc.</td>
<td>Payment processing</td>
<td>2.08</td>
<td>0.64</td>
<td>2.24</td>
</tr>
<tr>
<td>QCOM</td>
<td>QUALCOMM, Inc.</td>
<td>Smartphone Hardware</td>
<td>1.93</td>
<td>1.29</td>
<td>0.64</td>
</tr>
<tr>
<td>P</td>
<td>Fandango Media, Inc.</td>
<td>Internet Software/Services</td>
<td>1.04</td>
<td>0.01</td>
<td>1.04</td>
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<tr>
<td>PFPT</td>
<td>Patterson Inc.</td>
<td>IT Consulting</td>
<td>3.13</td>
<td>--</td>
<td>3.13</td>
</tr>
<tr>
<td>VMW</td>
<td>VMware, Inc. Class A</td>
<td>Cloud Computing</td>
<td>1.75</td>
<td>1.07</td>
<td>1.68</td>
</tr>
<tr>
<td>XLK</td>
<td>Technology Select Sector SPDR Fund</td>
<td>Multiple</td>
<td>1.86</td>
<td>--</td>
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</tr>
<tr>
<td><strong>Materials</strong></td>
<td></td>
<td></td>
<td>3.91</td>
<td>4.58</td>
<td>-0.67</td>
</tr>
<tr>
<td>ECL</td>
<td>Ecolab Inc.</td>
<td>Commercial Chemicals Producer</td>
<td>3.91</td>
<td>0.26</td>
<td>3.65</td>
</tr>
<tr>
<td><strong>Telecommunication Services</strong></td>
<td></td>
<td></td>
<td>5.17</td>
<td>5.13</td>
<td>0.02</td>
</tr>
<tr>
<td>TMUS</td>
<td>T-Mobile US, Inc.</td>
<td>Wireless Provider</td>
<td>2.17</td>
<td>--</td>
<td>2.17</td>
</tr>
<tr>
<td><strong>Utilities</strong></td>
<td></td>
<td></td>
<td>--</td>
<td>0.13</td>
<td>-0.13</td>
</tr>
<tr>
<td><strong>Cash</strong></td>
<td></td>
<td></td>
<td>1.90</td>
<td>--</td>
<td>1.90</td>
</tr>
</tbody>
</table>
## PORTFOLIO HOLDINGS

### PANTHER FUND HOLDINGS

**AS OF APRIL 30, 2014**

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Security Name</th>
<th>Weight (%)</th>
<th>Market Cap (M)</th>
<th>Dividend Yield (%)</th>
<th>P/E</th>
<th>P/CF</th>
<th>P/B</th>
<th>P/S</th>
</tr>
</thead>
<tbody>
<tr>
<td>DHI</td>
<td>D.R. Horton, Inc.</td>
<td>3.3</td>
<td>7,242.3</td>
<td>0.67%</td>
<td>14.3</td>
<td>11.6</td>
<td>1.7</td>
<td>1.3</td>
</tr>
<tr>
<td>F</td>
<td>Ford Motor Company</td>
<td>2.8</td>
<td>64,519.3</td>
<td>2.63%</td>
<td>10.2</td>
<td>N/A</td>
<td>2.4</td>
<td>0.4</td>
</tr>
<tr>
<td>KSS</td>
<td>Kohl's Corporation</td>
<td>1.7</td>
<td>11,560.7</td>
<td>2.63%</td>
<td>13.7</td>
<td>6.5</td>
<td>1.9</td>
<td>0.6</td>
</tr>
<tr>
<td>MUSA</td>
<td>Murphy USA, Inc.</td>
<td>1.9</td>
<td>1,987.1</td>
<td>0.00%</td>
<td>11.8</td>
<td>7.2</td>
<td>3.0</td>
<td>0.1</td>
</tr>
<tr>
<td>KRFT</td>
<td>Kraft Foods Group, Inc.</td>
<td>2.9</td>
<td>33,857.7</td>
<td>3.65%</td>
<td>12.4</td>
<td>17.4</td>
<td>6.4</td>
<td>1.9</td>
</tr>
<tr>
<td>CVX</td>
<td>Chevron Corporation</td>
<td>4.8</td>
<td>238,946.2</td>
<td>3.19%</td>
<td>12.2</td>
<td>6.7</td>
<td>1.6</td>
<td>1.1</td>
</tr>
<tr>
<td>NOV</td>
<td>National Oilwell Varco, Inc.</td>
<td>4.6</td>
<td>33,677.8</td>
<td>1.32%</td>
<td>13.9</td>
<td>11.6</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>AEL</td>
<td>American Equity Investment Life Holding C</td>
<td>2.8</td>
<td>1,644.9</td>
<td>0.77%</td>
<td>7.8</td>
<td>2.4</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>AIZ</td>
<td>Assurant, Inc.</td>
<td>5.9</td>
<td>4,841.9</td>
<td>1.48%</td>
<td>10.1</td>
<td>9.6</td>
<td>1.0</td>
<td>0.6</td>
</tr>
<tr>
<td>DLR</td>
<td>Digital Realty Trust, Inc.</td>
<td>2.5</td>
<td>6,859.5</td>
<td>5.94%</td>
<td>26.4</td>
<td>9.7</td>
<td>2.4</td>
<td>4.6</td>
</tr>
<tr>
<td>DFS</td>
<td>Discover Financial Services</td>
<td>4.1</td>
<td>26,182.6</td>
<td>1.43%</td>
<td>11.3</td>
<td>6.7</td>
<td>2.5</td>
<td>2.9</td>
</tr>
<tr>
<td>RGA</td>
<td>Reinsurance Group of America, Incorporated</td>
<td>3.7</td>
<td>5,332.4</td>
<td>1.49%</td>
<td>14.8</td>
<td>N/A</td>
<td>0.9</td>
<td>0.5</td>
</tr>
<tr>
<td>LLY</td>
<td>Eli Lilly and Company</td>
<td>3.1</td>
<td>66,177.6</td>
<td>3.32%</td>
<td>16.6</td>
<td>10.5</td>
<td>3.6</td>
<td>2.8</td>
</tr>
<tr>
<td>QSII</td>
<td>Quality Systems, Inc.</td>
<td>2.1</td>
<td>889.3</td>
<td>4.74%</td>
<td>134.3</td>
<td>10.3</td>
<td>3.0</td>
<td>1.9</td>
</tr>
<tr>
<td>UNH</td>
<td>UnitedHealth Group Incorporated</td>
<td>4.6</td>
<td>73,839.4</td>
<td>1.49%</td>
<td>13.8</td>
<td>10.5</td>
<td>2.3</td>
<td>0.6</td>
</tr>
<tr>
<td>CHRW</td>
<td>C.H. Robinson Worldwide, Inc.</td>
<td>2.7</td>
<td>8,747.5</td>
<td>2.38%</td>
<td>22.3</td>
<td>17.7</td>
<td>8.9</td>
<td>0.7</td>
</tr>
<tr>
<td>CDI</td>
<td>CDI Corp.</td>
<td>1.7</td>
<td>299.3</td>
<td>3.39%</td>
<td>24.7</td>
<td>11.0</td>
<td>1.1</td>
<td>0.3</td>
</tr>
<tr>
<td>EBF</td>
<td>Ennis, Inc.</td>
<td>1.7</td>
<td>389.6</td>
<td>3.51%</td>
<td>29.9</td>
<td>9.6</td>
<td>1.0</td>
<td>0.7</td>
</tr>
<tr>
<td>TXT</td>
<td>Textron Inc.</td>
<td>2.9</td>
<td>11,406.5</td>
<td>0.20%</td>
<td>24.9</td>
<td>11.3</td>
<td>2.6</td>
<td>1.0</td>
</tr>
<tr>
<td>BRCM</td>
<td>Broadcom Corporation Class A</td>
<td>3.3</td>
<td>18,014.1</td>
<td>1.46%</td>
<td>44.6</td>
<td>N/A</td>
<td>2.1</td>
<td>2.2</td>
</tr>
<tr>
<td>CSCO</td>
<td>Cisco Systems, Inc.</td>
<td>4.4</td>
<td>119,964.0</td>
<td>3.03%</td>
<td>15.6</td>
<td>9.3</td>
<td>2.1</td>
<td>2.6</td>
</tr>
<tr>
<td>IPI</td>
<td>Intrepid Potash, Inc.</td>
<td>3.0</td>
<td>1,230.8</td>
<td>0.00%</td>
<td>171.0</td>
<td>9.7</td>
<td>1.3</td>
<td>3.7</td>
</tr>
<tr>
<td>KALU</td>
<td>Kaiser Aluminum Corporation</td>
<td>1.0</td>
<td>1,269.4</td>
<td>1.85%</td>
<td>15.3</td>
<td>9.3</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>IRDM</td>
<td>Iridium Communications Inc.</td>
<td>1.6</td>
<td>512.5</td>
<td>0.00%</td>
<td>9.0</td>
<td>3.2</td>
<td>0.5</td>
<td>1.5</td>
</tr>
<tr>
<td>EXC</td>
<td>Exelon Corporation</td>
<td>1.4</td>
<td>30,090.8</td>
<td>3.54%</td>
<td>16.6</td>
<td>5.0</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>NFG</td>
<td>National Fuel Gas Company</td>
<td>3.4</td>
<td>6,184.3</td>
<td>2.04%</td>
<td>22.0</td>
<td>7.9</td>
<td>2.7</td>
<td>3.4</td>
</tr>
<tr>
<td>CSV</td>
<td>Carriage Services Inc.</td>
<td>1.8</td>
<td>360.5</td>
<td>0.62%</td>
<td>18.1</td>
<td>7.9</td>
<td>1.9</td>
<td>1.7</td>
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<tr>
<td>XLF</td>
<td>Financial Select Sector SPDR Fund</td>
<td>9.5</td>
<td>18,390.4</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>XLV</td>
<td>Health Care Select Sector SPDR Fund</td>
<td>1.9</td>
<td>9,620.0</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>8.8</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
# Portfolio Holdings

**Global Macro Fund: Alt Fund Holdings**  
As of April 30, 2014

<table>
<thead>
<tr>
<th>Holdings</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>1%</td>
</tr>
<tr>
<td>Ex-US Utility</td>
<td>4%</td>
</tr>
<tr>
<td>Canada</td>
<td>3%</td>
</tr>
<tr>
<td>Japan</td>
<td>2%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>4%</td>
</tr>
<tr>
<td>UK</td>
<td>3%</td>
</tr>
<tr>
<td>Heineken</td>
<td>1%</td>
</tr>
<tr>
<td>EAFE</td>
<td>24%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>22%</td>
</tr>
<tr>
<td>Novatek</td>
<td>1%</td>
</tr>
<tr>
<td>Investment Grade Corporate Bond</td>
<td>1%</td>
</tr>
<tr>
<td>3-7 Year Treasury</td>
<td>3%</td>
</tr>
<tr>
<td>International Corporate Bond</td>
<td>14%</td>
</tr>
<tr>
<td>Global Bond Fund</td>
<td>14%</td>
</tr>
<tr>
<td>20+ Year Treasury</td>
<td>4%</td>
</tr>
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</table>
BEST USES OF CASH

Introduction

There are many possible uses of cash available to the management of industrial companies. Management can invest in capital expenditures, acquire other companies in whole or in part, buy company shares in the open market, issue increased or special dividends, pay down debt or build up cash and marketable securities. In this paper, back tested returns to shareholders are shown for each of these different uses of cash. We are hopeful that my results can be used by managers of industrial companies as a guide to help them make intelligent and informed decisions with their cash.

The best use of cash by managers of industrial companies depends on the economic environment. Building cash and marketable securities can generate excess returns especially just prior to a recession. Paying down debt nearly always provides excess returns over the universe of industrial companies to shareholders except during recessions and at cyclical peaks. Increasing dividends and issuing special dividends is nearly always a good use of cash with the exception of during economic expansions.

Industrial companies that aggressively expand operations by ramping up capital expenditures tend to have worse returns relative to other industrial companies. However, in periods of economic growth such as the early 90’s and 2000’s, industrial companies that expanded were rewarded with greater returns in the following periods. Moderate growth by acquisitions can generate excess returns especially after recessions and early in economic expansions. Moderate share repurchase programs can also yield excess returns to shareholders if the shares can be purchased when the company’s share price is at a discount to its intrinsic value.

Data

Data was taken from the Factset Fundamentals global database from 12/29/1989 to 12/31/2013 for all variables. This period includes several economic and market cycles. Back testing was completed by FactSet Alpha Testing software. Only equity securities of industrial companies with market capitalizations greater than $1 billion were included. Both international and domestic industrial companies were used for the study.

Company returns were rebalanced quarterly into five fractiles based on the use of cash variable being measured. Equal-weighted future returns for each fractile and the universe were computed for three, six, twelve, twenty four and thirty six month periods.

We used the Bayesian interpretation of statistics in this study. Given the historical data, the averages provided for each use of cash are only predictive of the future if the future is similar to the past.

Dividend Increases

Industrial companies that return excess cash to shareholders in the form of special or increasing dividends tend to outperform their peers. In nearly all periods, growing dividends yield extra returns to shareholders. However, high growth in dividends tends

<table>
<thead>
<tr>
<th>Fractile</th>
<th>12-month Returns</th>
<th>Standard Deviation</th>
<th>Sharpe Ratio</th>
<th>Beta</th>
<th>Information Ratio</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universe</td>
<td>6.70</td>
<td>23.55</td>
<td>0.15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fractile 1 Highest Dividend Increases</td>
<td>8.26</td>
<td>26.08</td>
<td>0.19</td>
<td>1.08</td>
<td>0.29</td>
<td>1.33</td>
</tr>
<tr>
<td>Fractile 2</td>
<td>9.64</td>
<td>21.38</td>
<td>0.30</td>
<td>0.88</td>
<td>0.36</td>
<td>3.60</td>
</tr>
<tr>
<td>Fractile 3</td>
<td>8.24</td>
<td>21.42</td>
<td>0.24</td>
<td>0.85</td>
<td>0.14</td>
<td>2.80</td>
</tr>
<tr>
<td>Fractile 4</td>
<td>5.13</td>
<td>23.24</td>
<td>0.08</td>
<td>0.94</td>
<td>-0.27</td>
<td>-1.11</td>
</tr>
<tr>
<td>Fractile 5 Lowest Dividend Increases</td>
<td>5.11</td>
<td>26.77</td>
<td>0.07</td>
<td>1.10</td>
<td>-0.16</td>
<td>-1.81</td>
</tr>
</tbody>
</table>

Period: 12/29/1989 to 12/31/2013, 12-month returns. Universe: Equal weighted equity securities with $1 billion in market capitalization rebalancing every 3 months. Graph is from 9/30/1994 to 12/31/2013 due to some missing data in Fractile 3.
when dividends are out of favor relative to growth strategies such as the late '90s and mid 2000's.

In the long-run, paying out ever increasing dividends results in increased return to shareholders. However, in the short run, during economic expansions, increasing dividends can have a negative impact on returns. Fractile 2 had greater returns than the top quintile with less volatility over the period studied. However, since the third quarter of 1994, the returns of Fractile 1 and 2 are virtually identical.

Turnover for Fractile 1 was 50.42%. Fractile 1 turnover is lower than the average turnover for Fractiles 2 through 5 of 57.61%. Lower turnover leads to less transaction costs indicating that Fractile 1 outperforms even when transaction costs are taken into consideration.

Figure 2 shows that for investors with time horizons longer than two years, companies with high dividend increases showed significant outperformance in returns over time. The table divides each period by up and down markets and examines the performance of the top fractile of dividend increasing companies during up and down markets. The top fractile of dividend increasing industrial companies outperforms the universe in both up and down markets.

Figure 3 shows the top two fractiles of industrial companies that increase dividend returns over the universe for different periods. The top two fractiles of industrial companies that increase their dividends average an excess return over the universe in all future periods. This indicates that paying ever increasing dividends, on average, is a winning strategy for industrial companies that want to generate excess returns for shareholders. Furthermore, investors in industrial companies that have limited investment timeframes can look to companies that aggressively increase their dividends as being a good bet over many different holding periods.

The graphs show the returns of Fractile 1 less the returns of the universe over 24 and 36 month holding periods. The table shows the efficacy of increasing dividends during both up and down markets.
BEST USES OF CASH

Decreases in Debt

My analysis shows that industrial companies that aggressively pay down their debt outperform. With the exception of very early in economic expansions and during the depths of the Great Recession, paying down debt is a winning strategy in the long-term for industrial companies and a good use of excess cash. Companies with lower debt can use cash flow to fund new projects.

Figure 5 shows that the industrial companies that most aggressively reduce debt have on average had positive returns against the universe of industrial companies. In periods of up markets, the top quintile of companies that decrease their debt beat in about 64% of markets while high debt reducers in down markets outperform 71% of the time.

Turnover for Fractile 1 was 52.87%. Fractile 1 turnover is lower than the average turnover for Fractiles 2 through 5 of 58.94%. Lower turnover leads to less transaction costs indicating that Fractile 1 outperforms even when transaction costs are taken into consideration.

Figure 6 shows that on average the top and second quintiles of industrial companies that decrease their debt enjoy outsized future returns over the universe of industrial companies in all periods.
BEST USES OF CASH

Increases in Cash

Another option for industrial managers contemplating what to do with the excess cash on the balance sheet of their companies is simply to leave it there and build it up further. Industrial company managers who made efforts to increase cash just prior to the Great Recession earned great returns for their shareholders as investors fled to the safety of companies with strong balance sheets.

Increasing cash outside of periods just prior to recessions has a more moderate impact on returns over the long-term. Cash sitting on the balance sheets of industrial companies is currently earning paltry returns for shareholders. The returns are almost certainly less than the cost of capital of the companies. Therefore, companies that are aggressively building cash are currently destroying shareholder value.

Turnover for Fractile 1 was 59.27%. Fractile 1 turnover is lower than the average turnover for Fractiles 2 through 5 of 62.58%. Lower turnover leads to less transaction costs indicating that Fractile 1 outperforms even when transaction costs are taken into consideration.

Figure 9 shows that the returns over the universe of industrial companies for the top tier of companies that increase cash are positive for two years. The second tier of cash builders' hit rate against the universe is below 50% in all periods which indicates that there are better uses of cash that the second tier cash building companies should be exploring. The benefit of building cash is maximized on average at about one year and erodes thereafter. Building cash for periods of three years actually destroys shareholder value.

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Quarterly Periods</th>
<th>Percent of Respective Periods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up Markets</td>
<td>58</td>
<td>60.4%</td>
</tr>
<tr>
<td>Down Markets</td>
<td>38</td>
<td>39.6%</td>
</tr>
<tr>
<td>Fractile 1 Outperforms</td>
<td>49</td>
<td>51.0%</td>
</tr>
<tr>
<td>Fractile 1 Underperforms</td>
<td>47</td>
<td>49.0%</td>
</tr>
<tr>
<td>Up Market &amp; 1 Outperforms</td>
<td>28</td>
<td>48.3%</td>
</tr>
<tr>
<td>Down Market &amp; 1 Outperforms</td>
<td>30</td>
<td>55.3%</td>
</tr>
<tr>
<td>Up Market &amp; 1 Underperforms</td>
<td>21</td>
<td>51.7%</td>
</tr>
<tr>
<td>Down Market &amp; 1 Underperforms</td>
<td>17</td>
<td>44.7%</td>
</tr>
</tbody>
</table>

The graphs show the returns of Fractile 1 less the returns of the universe over 24 and 36 month holding periods. The table shows the efficacy of increasing cash during both up and down markets.
In the early 2000’s, early 1990’s and long economic expansions such as the early 1990’s and late 2000’s are ideal times for industrial companies to make investments in PP&E. However, on average, investments in PP&E over the long term do not return excess returns to shareholders.

The news for capital expenditure is not all bad. Early in long economic expansions such as the early 1990’s and early 2000’s are ideal times for industrial companies to make investments in PP&E. However, on average, investments in PP&E over the long term do not return excess returns to shareholders.

Increases in Property, Plant and Equipment

Heretofore, all the methods to deal with excess cash have yielded positive returns with respect to the industrial universe over the period of the study. This streak comes to an end with a look at capital expenditures. On average, managers of industrial companies do not generate long-term returns for shareholders by increasing investment in PP&E.

Please note that the implication here is not that all capital expenditures are value destroying. If management is reasonably certain that the project has a positive net present value over the firm’s weighted average cost of capital, it may make good sense to move forward with the project. But on average across all industrial companies, such projects destroy shareholder value.

The news for capital expenditures is not all bad. Early in long economic expansions such as the early 1990’s and early 2000’s are ideal times for industrial companies to make investments in PP&E. However, on average, investments in PP&E over the long term do not return excess returns to shareholders.
BEST USES OF CASH

In Figure 12, you can see that the companies that make the largest increases in PP&E lag the universe of industrial companies on average.

**Figure 12: Top PP&E Increasing Companies Fail to Earn Excess Returns over the Universe**

Share Repurchases

Contrary to what many shareholders might expect, share buyback programs have historically not been good uses of cash. My analysis shows that industrial management teams that aggressively buy back shares tend to not be good market timers. Periods when management finds excess cash on the balance sheet tend to be periods when company stock price is at a relative high. Although investors clamor for something to be done with all of that cash and indicate that they prefer buyback programs, the data indicates that their interests would be better served...
BEST USES OF CASH

with a special dividend or debt retirement.

The sweet spot for share repurchase programs is the companies that are in the mid-tier. Management teams with responsible share repurchase programs return the greatest value to shareholders.

The periods where aggressive share repurchase programs work tend to be periods early in economic expansions such as the early 1990’s and early 2000’s. However, on average, it is best to not engage in aggressive share repurchases.

Figure 15: Top Treasury Stock Increasing Companies Fail to Earn Excess Returns over the Universe

Acquisitions

Like share repurchase programs, the management teams in the mid-tier of acquirers perform best. The companies with a low increase in Goodwill may actually be writing off their Goodwill from prior purchases via impairments. The companies with a high increase in Goodwill may be suffering from the winner’s curse in that the price paid for the acquisition is never overcome by the returns from the acquired company.

Acquiring all or part of another company is generally not the best use of cash in the long-term. The times when...
aggressive acquisitions are successful are when the stock market is early in an economic expansion relative to the following years. Some examples of this are the early 90's, the early 2000's and the period coming out of the Great Recession. However, my analysis shows that the most aggressive acquiring firms have a less than 50% shot of earning excess returns for shareholders in the following 3 to 36 month periods.

It is interesting to note that industrial companies that are in the second tier of acquirers do seem to provide excess returns over the universe of industrial companies. Those companies that were willing to make smaller purchases of companies at low valuations provided some positive returns to shareholders.

Figure 19 is a plot of the top quintile of all of the uses of cash studied to give the reader an idea of the returns over time for each use of cash relative to one another. Increasing dividends and decreasing debt are the best use of cash though building cash just prior to the Great Recession also yielded excellent returns to shareholders.

Improving the Model

I’d like to now turn your attention to investors that are looking to add industrial companies to their portfolios. We have determined that industrial companies generate excess returns over the universe of industrial companies by reducing debt, increasing cash and increasing dividends. However, it is still important for investors to look for compelling valuations before making investment decisions.

The valuation metrics that were selected for further

<table>
<thead>
<tr>
<th>Figure 20: Industrial Companies With Low P/B, High Debt Reduction That Increase Cash and Dividends are Best</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decreasing Debt</strong></td>
</tr>
<tr>
<td>Fractile 1</td>
</tr>
<tr>
<td>------------</td>
</tr>
<tr>
<td>13.40</td>
</tr>
<tr>
<td>9.04</td>
</tr>
<tr>
<td>8.82</td>
</tr>
<tr>
<td>6.55</td>
</tr>
<tr>
<td>5.81</td>
</tr>
<tr>
<td><strong>Increasing Cash</strong></td>
</tr>
<tr>
<td>Fractile 1</td>
</tr>
<tr>
<td>7.66</td>
</tr>
<tr>
<td>6.88</td>
</tr>
<tr>
<td>4.87</td>
</tr>
<tr>
<td>3.09</td>
</tr>
<tr>
<td><strong>Increasing Dividends</strong></td>
</tr>
<tr>
<td>Fractile 1</td>
</tr>
<tr>
<td>12.76</td>
</tr>
<tr>
<td>9.89</td>
</tr>
<tr>
<td>7.79</td>
</tr>
<tr>
<td>7.70</td>
</tr>
<tr>
<td>3.81</td>
</tr>
</tbody>
</table>

Returns are for 12-month holding periods from 12/29/1989 to 12/31/2013

Figure 18: Top Goodwill Increasing Companies Earn Excess Returns over the Universe

Figure 19: Top Quintile Use of Cash
examination against the increase in cash, decrease in debt and increase in dividend variables were P/B, P/E and EV/EBITDA. As before, the data was divided into five fractiles. Figures 20, 21 and 22 show each variable paired with a valuation metric with Fractile 1 being the best fractile for each factor and Fracile 5 being the worst.

Northwest in the tables are best. It is evident that pairing increasing cash, increasing dividends and decreasing debt with companies with low valuation multiples yields greater returns for investors of industrial companies.

<table>
<thead>
<tr>
<th>Increasing Cash</th>
<th>Fractile 1</th>
<th>Fractile 2</th>
<th>Fractile 3</th>
<th>Fractile 4</th>
<th>Fractile 5</th>
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</thead>
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<tr>
<td>Fractile 1</td>
<td>13.85</td>
<td>11.36</td>
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<td>13.01</td>
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<td>10.49</td>
<td>13.58</td>
<td>11.04</td>
<td>12.50</td>
<td></td>
</tr>
<tr>
<td>Fractile 3</td>
<td>6.23</td>
<td>8.00</td>
<td>5.24</td>
<td>4.53</td>
<td>3.96</td>
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<tr>
<td>Fractile 4</td>
<td>2.75</td>
<td>3.86</td>
<td>3.08</td>
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<td>2.04</td>
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<tr>
<td>Fractile 5</td>
<td>-1.61</td>
<td>-0.68</td>
<td>-0.13</td>
<td>-1.67</td>
<td>-0.59</td>
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</table>

<table>
<thead>
<tr>
<th>Increasing Dividends</th>
<th>Fractile 1</th>
<th>Fractile 2</th>
<th>Fractile 3</th>
<th>Fractile 4</th>
<th>Fractile 5</th>
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<tbody>
<tr>
<td>Fractile 1</td>
<td>13.63</td>
<td>15.83</td>
<td>10.76</td>
<td>9.02</td>
<td>6.70</td>
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<td>12.17</td>
<td>12.29</td>
<td>10.87</td>
<td>5.71</td>
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<table>
<thead>
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</tr>
<tr>
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<td>8.62</td>
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<td>3.89</td>
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<td>Fractile 5</td>
<td>1.24</td>
<td>1.59</td>
<td>-0.64</td>
<td>2.06</td>
<td>-1.38</td>
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<table>
<thead>
<tr>
<th>Decreasing Dividends</th>
<th>Fractile 1</th>
<th>Fractile 2</th>
<th>Fractile 3</th>
<th>Fractile 4</th>
<th>Fractile 5</th>
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</thead>
<tbody>
<tr>
<td>Fractile 1</td>
<td>13.21</td>
<td>12.68</td>
<td>11.75</td>
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<td>9.53</td>
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<td>5.52</td>
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<td>9.72</td>
<td>5.40</td>
<td>5.06</td>
<td>7.03</td>
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<td>7.74</td>
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</tr>
<tr>
<td>Fractile 5</td>
<td>4.02</td>
<td>6.39</td>
<td>-0.22</td>
<td>-1.38</td>
<td>-0.98</td>
</tr>
</tbody>
</table>

Returns are for 12-month holding periods from 12/29/1989 to 12/31/2013.
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