Southern Methodist University
Ann Rife Cox Endowment Fund

2006 Undergraduate Practicum in Portfolio Management

Annual Report

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ARC MANAGEMENT TEAM MEMBERS 2005

ANAYLYST	SECTOR ASSIGNMENT	FUTURE ENDEAVORS
Chris Aleman	Energy	JP Morgan Chase (Undecided)
Ashley Denton	Energy	University of Texas Law School
Philip Griffin	Consumer	Undecided
Ron Gunst	Healthcare	December 2006 Graduation
Ryan Hudson	Healthcare	Undecided
Christina Hussong	Information Technology	Watson Wyatt Executive Compensation
Beau Longino	Financials	Bear Stearns Investment Banking
Prem Panchal	Information Technology	Sabre Holdings Inc.
Le Qian	Financials	Undecided
William Rugg	Consumer	JP Morgan Private Bank
Chris Sanders	Information Technology	Grad School
Lauren Soulis	Consumer	Prudential Capital Group
Kent Sowell	Industrials	Entrepreneurship
Chase Spirito	Industrials	Central Intelligence Agency
Mark Wood	Financials	Undecided

LETTER TO OUR CLIENT

To the Investments Committee of the SMU Board of Trustees:

The 2006 undergraduate Portfolio Practicum class would like to thank the Investments Committee for allowing us to manage the Ann Rife Cox Endowment Fund ("ARC Fund"). We sincerely appreciate the educational opportunity and value the confidence placed in us. The ability to work hands on with such a fund has been an invaluable learning experience.

In managing the ARC Fund, we have sought to contribute towards the objectives laid out by the SMU Investments Committee for the University Endowment as a whole. As we understand, the objectives are as follows,

1. Preserve the purchasing power of The Fund while providing a predictable, stable and inflation-adjusted stream of earnings consistent with the University's spending requirements.

2. The Annual Return of the portfolio to exceed at least 9%, assuming an inflation rate of 3 %

3. Outperform a blended benchmark of 75% Russell 3000, 15% Lehman Government Credit Index, and 10% treasury bills + Consumer Price Index (CPI)

4. Rank in the top half of the Cambridge Associates universe of college and university endowment returns for rolling five year periods

To help the university meet the goals listed above, we have undertaken our management responsibilities with extensive due diligence, sharing and cultivating unique ideas and perspectives, and bringing the most professional and ethical standards to our fiduciary duties and managing the ARC Fund.

The class has conducted all of its activities according to the "The Standards of Professional Conduct" and "The Code of Ethics" as published by the Association for Investment Management and Research (AIMR). Any members of the class with conflicts of interest or outside influence relating to any securities under evaluation will abstain from participating in the investment process. All decisions made regarding the ARC Fund and its assets shall be solely to benefit the university as a whole and all future students participating in the undergraduate portfolio practicum.

Our class is committed to maintaining the tradition, prestige, and educational value associated with the ARC Fund. As our report reveals, the class has settled on a 77.5% equity exposure for 2006. While not achieving a 9% expected return based on our expectations, we feel the portfolio provides a nice risk-return balance for SMU. We have good news from last year, and would like to congratulate the class of '05 for beating their performance benchmark, although neither the benchmark nor the class achieved 9%. In spite of the fact that 9% is a hard bogey, we believe that our management in '06 should add incremental value to the University endowment going forward.

The annual report that follows represents a synopsis of our efforts this year. Detailed analysis of our trade recommendations can be found on our website, described at the end of the report.

Respectfully,

The ARC Fund Management Team

ECONOMIC OUTLOOK

Economic Outlook 2006 with Glance in the Rearview Mirror

Based on results from 2005 we anticipate improved performance in U.S. Equities and continued performance internationally. As a result of relatively poor performance from U.S. Indices, we are hoping to capitalize on good values domestically in 2006. Furthermore, our expectations abroad have stirred consideration towards allocating more weight to foreign equities in order to gain exposure in these growing markets. In addition, we anticipate the CPI to be moderately higher than in 2005 and set our risk-free rate accordingly to keep pace with inflation and interest rates.

2005 Growth,Yields and Returns (%)	
Real GDP Growth	3.6
Fed Funds Rate EOY	4.25
T-Bond Yield EOY	4.4
Market returns '05	
Wilshire 5000	6.32
S&P 500	4.89
S&P 400	12.55
Russell 2000	4.56
Russell 3000 Value	6.85
Russell 3000 Growth	5.17
MSCI EAFE	14.01
Emerging Markets	34.53
Exchange Rate Return	14.6/Euro. 15.2/Yen
Money Market	2.98
High Yield	2.74
Lehman Aggregate	2.43

2005 Themes:

Domestic Slowdown: Consumer fundamentals displayed somewhat erratic behavior due to the economic shocks of the late-summer hurricanes. In 2005, real disposable income growth was only 1.2%, approximately 2.2% less than that of the previous year. In tandem, consistent monetary restraint throughout the year created tighter credit standards, which in turn have resulted in a slowing housing market and concerns of inflated housing prices. Despite these indicators, consumer spending increased 3.6%, signifying a dramatic decline in personal savings (the worst reading since 1933), cash takeouts from mortgage refinancing, and a shift from discretionary spending towards debt service payments, as a result of rising interest rates.[1]

Style Characteristics: Performance measures for the domestic equity market in 2005 indicate that value stocks outpaced growth stocks by 1.7%. Although the value-growth spread was marginal over the year, growth has underperformed value since 1999. With respect to market capitalization, mid-sized companies outperformed both large and small by 6.4% and 8.1%, respectively. These market-cap based returns run counter to historical performance as small-cap has averaged 18 bps over mid to large-cap companies since 1979.[2]

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[1] Hoisington, Van and Hunt, Lacy, *Quarterly Review and Outlook: Fourth Quarter 2005*, Hoisington Investment Management Co.: http://www.hoisingtonmgt.com/HIM2005Q4NP.pdf
Saxton, Jim, *Economic Vital Signs: March 2006*, Joint Economic Committee: http://www.house.gov/jec/publications/109/rr109-33.pdf
[2] http://www.russell.com/us/indexes/us/returns.asp
Dallas, Winig, Hurwitz, McLaughlin & Costello, *Market Update: A Look Back and a Look Ahead*, Cambridge Associates LLC: December 31, 2005.

Political Climate: The United States' involvement in the Middle-East and its homeland security initiatives have yet to decline as current U.S. military activity is expected to continue as indicated by its minimum expected budget of $85 billion for 2006 from both Department of Defense and non-Department of Defense funding programs. Also, increased U.S. military activity may arise resulting from new developments in Iran and Korea.[3]

Funding for US Military Operations, FY 2001-FY2006	
Operation Enduring Freedom (Afghanistan)	**$76 billion**
Operation Iraqi Freedom	**$226 billion**
Operation Noble Eagle (Homeland Security)	**$29 billion**
Total	**$331 billion**
Source: CSBA based on CRS, CBO and DoD data.	

***Key Themes for 2006**:* Going forward, the extent to which the housing market slows, the volatility of energy prices, the Fed's policies under Bernanke, and the possibility of terrorist attacks and natural disasters stand as concerns that may adversely impact the economy in the coming year. Despite these concerns, the resilience of businesses and the broader economy in 2005 have laid the groundwork for our expectations that the market will continue and hopefully moderately improve this secular trend in 2006.

Domestic Drivers:

The domestic drivers for economic change in 2006 are deeply intertwined with larger macroeconomic factors. Energy prices and interest rates are the primary focus of our outlook for the U.S. economy in the coming year.

Just as Americans are beginning to adjust to high gasoline prices at the pump, there is good reason to believe that the average consumer has not yet felt all of the effects of high energy prices. Many companies have absorbed increased energy prices in their production processes. Whether it is a result of lag times in the manufacturing process or heightened price sensitivity, at some point the higher energy costs will have to be passed on to the end consumer in the form of price increases. Furthermore, there is no reason to predict a significant decline in oil prices anytime in the near future.

The Federal Reserve will likely cease rate hikes in the course of the next few FOMC meetings. This may ease some pressure on the already cooling housing market, but higher interest rates will still have a meaningful impact on price-sensitive customers such as first-time homebuyers.

When these three elements are combined: high energy prices, increasing prices for consumer goods, and higher interest rates, it is tough to formulate an overly bullish opinion on growth of consumer spending or real GDP. Gross Domestic Product takes into account consumption, government spending, investments and net exports. The consensus estimate for GDP growth in 2006 is about 3.4%. The ARC opinion is that the aforementioned triad will stifle growth to a more modest 3.0%.

[3] Kosiak, Steven, "The Cost of US Military Operations in Iraq and Afghanistan through Fiscal Year 2006 and Beyond," Center for Strategic Budgetary Assessments: January 4, 2006, http://www.csbaonline.org/4Publications/Archive/U.20060104.WarSpending/U.20060104.WarSpending.pdf

Interest Rates:

The year ended with the Fed Funds Rate at 4.25%, Intermediate Treasuries yielding 4.45%, and Long Treasuries yielding 4.63%. The continued economic expansion and contained inflation should cause the Fed Funds Rate to reach 4.75% and then pause until year-end. As for the long treasuries, the increased demand for long-term treasuries from foreigners went up 14% from 2004-2005. We believe this increase will continue in 2006, which will push up prices and lower the rates on long-term treasuries. Additionally, the recent media attention to GM and Ford has made investors more worrisome about corporate bonds, therefore investors will move towards a flight to quality which will also increase demand for treasury securities and lower long term rates. These two reasons combined with the increasing demand for long-duration assets by pension funds makes us believe that the long treasuries will end somewhere near 4.58%. Finally, we believe Intermediate Treasuries will end at 4.7%.

Inflation:

The outlook for inflation for 2006 is split with the Federal Reserve announcing that inflation will decelerate over the year and remain low and others arguing that with strong economic expansion and tightening labor markets, we will experience a rise in inflation towards the end of the year.

According to the Survey of Professional Forecasters which is conducted by the Federal Reserve of Philadelphia, it is estimated that the current one-year growth in the consumer price inflation (CPI) will be roughly 2.43 percent. This figure is down from 2005's sustained CPI growth of 3.4 percent. The Livingston Survey which is also administered by the Federal Reserve of Philadelphia predicts a 3.8 percent growth in the producer price index (PPI) for 2006 as compared to 4.9 percent growth in 2005. Through 2007, forecasters look for a deceleration of inflation with the core CPI remaining well in control. The Fed notes that a cooling housing market (7.9 percent fewer housing starts in February vs. January of '06) and small drops in the prices of certain clothing and food items will work towards lowering the prevalence of inflation within the U.S. economy.

For a more pessimistic view of inflation, look no further than publications such as the *Wall Street Journal*[4] and *BusinessWeek*[5]. Both sources suggest a slight increase for inflation in 2006 is quite natural with rising energy and food prices, low unemployment, and wages at their highest level in five years. If there is another spike in energy prices, a drop in unemployment or strong demand for goods and services, businesses will have to increase prices to compensate thus increasing inflation in the macroeconomy.

Exchange Rates:

While the U.S. Dollar appreciated against the Euro, British Pound, and Yen over the course of 2005, it is expected to fall over the course of 2006. America's ever increasing current account deficit combined with the expectation of the Federal Reserve to halt its interest rate tightening cycle leaves economists concerned that the dollar's value will not hold its own as it did in 2005. Adding to the concern are expected global interest rate changes. In the Eurozone, the European Central Bank is expected to raise interest rates throughout the year, reducing its interest rate differential with the U.S. Japan's recurring current account surpluses combined with the possibility of finally raising its interest rate from zero should also serve as a favorable environment for the yen to appreciate against the dollar. While this expected shift in currency exchange rates appears concerning for U.S. firms, stocks of those firms that export a great deal should benefit from the depreciating dollar.

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[4] David Wessel, *WSJ*, on NPR; March 16th, 2006
[5] Jim Cooper, Sr. Economist, *BusinessWeek*

As China continues to grow rapidly, the Yuan is expected to see gradual appreciation vs. major currencies throughout 2006. While previously pegged fully to the dollar, China's currency regime was altered in July of 2005 to one of a floating peg system that allows its currency to fluctuate up to .3% per trading day with the dollar (up to 80% per year). The Yuan has increased .5% against the dollar since July, and should continue appreciating as China leans towards domestic growth rather than export growth at this stage in its development. These changes don't appear threatening to the U.S. presently, but concerns could arise if China begins to lose faith in U.S. treasuries as a result of a sliding dollar.

International Perspectives:

Europe: In general, Euroland firms have remained extremely cautious in their hiring and investment decisions, weighing heavily on consumer sentiment. They appear to be going through a deep restructuring process that is unlikely to end soon. As time passes, arguments such as the Iraq war, oil and commodity price shocks and exchange rate fluctuations are not sufficient to explain the lack of momentum in the euro zone.

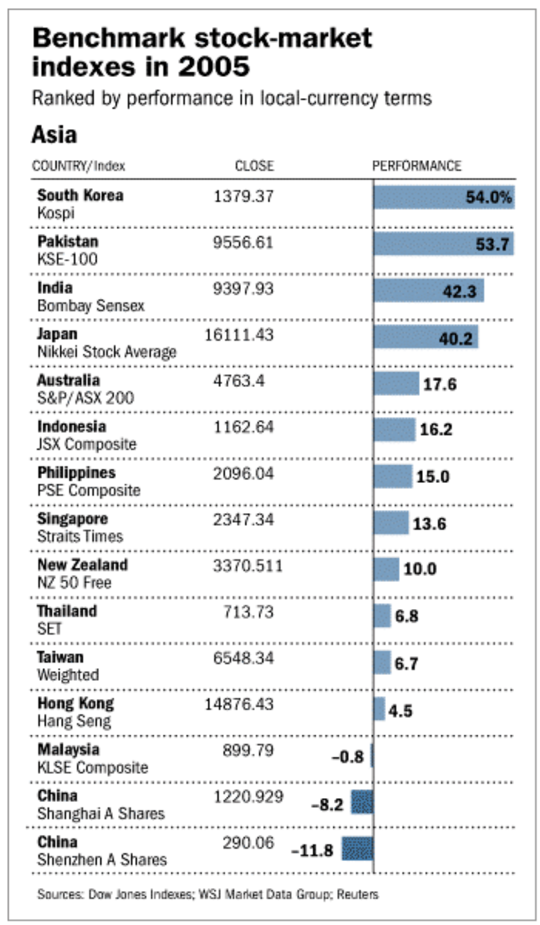
The immediate challenge for Europe therefore lies in restoring a sustained momentum for domestic demand after a series of repeated failings which can only be accomplished if countries such as Italy and Germany can increase resilience to outside shocks (such as exchange rate shifts).

Although headline inflation has eased over recent months, it remains a concern for policy officials as it has persisted above the 2% target level. In order to maintain price stability and keep inflation expectations anchored, the European Central Bank raised official interest rates by 2% to 2.25% in December. However, core inflation has so far not been impacted due to sluggish domestic demand and weak wages growth. Nevertheless, the risks are that higher energy prices will have a flow through effect to this core figure. This implies that further increases to move monetary policy to a less accommodating stance are more than likely, but at a gradual pace.

Although the growth momentum likely eased over the December quarter, conditions are in place which should enable the European region to produce a trend like growth outcome of around 2% over 2006.

Asia: The Dow Jones Asia-Pacific index rose 21.6%, lifted by the region's big winners: South Korea, India and Japan. A cluster of developed and emerging markets in Asia also posted double-digit returns, with markets in Australia, Indonesia, the Philippines and Singapore posting gains of 17.6%, 16.2%, 15.0% and 13.6%, respectively. Investors enjoyed a big rally in Japanese equities, as the Nikkei Stock Average of 225 companies surged 40.2%, while the broader Topix leapt 43.5%. (WSJ)

China: The market consensus for economic growth in China put estimates between 8.5 to 10 percent



GDP growth. The World Bank is predicting growth of 9.2 percent for 2006.[6] The practicum class believes GDP growth for 2006 in China will be on the lower side of estimates ranging between 8.5 to 8.7 percent. Chinese economic growth for 2005 and previous years has depended largely on exporting cheap products to the United States and Europe. Additionally, the domestic demand growth within China lags far behind global demand.[7] In 2005, the U.S. and Europe started to voice concern about the potential of China dumping products onto the world economy. This concern has lead U.S. and European leaders to explore the possibility using quotas against Chinese products. During 2005, the U.S. began by imposing import quotas on Chinese textiles, in which would limit growth of Chinese imports to just 7.5 percent a year.[8] The U.S. and the EU may increase their usage of quotas during 2006. In essence, the global demand among developed nations has been satisfied, and any further supply will continue to saturate the market. In addition, China is under pressure to revalue its currency to higher levels, but thus far has resisted allowing for the continuing of cheap labor to produce products, which appears will continue throughout 2006. The use of quotas against China will hamper their ability to grow globally, and the lack of domestic growth and consumption constitute the rationale for a more conservative growth estimate for China.

Japan: Investors saw increases in the consumer-price index as a sign Japan is snapping out of a decade-long bout with deflation. As companies reported brighter earnings prospects, there was enthusiasm that bank stocks could rise on the back of more lending to finance growth (WSJ). Japanese real GDP growth is expected to be 1.9% in 2006 and consumer prices to rise by 0.2%. Japanese companies will benefit from continued firm import growth in the Chinese market. The expected slowdown in the U.S. will be more troubling for Japanese firms, but provided America avoids a very sharp slowdown export prospects to the North American market should also be reasonable. The yen is estimated to average Y114:U.S.$1 in 2006 and Y105:U.S.$1 in 2007. Once the peak of the current U.S. monetary policy tightening cycle ends in mid-2006 and if the BOJ starts to drain liquidity in Japan, the yen will start to appreciate against the U.S. dollar. (Economist)

South Korea: The Kospi scampered ahead 54% as government policy changes coaxed local buyers into the market, and the influx of domestic capital drove the rally, which narrowed the so-called Korea discount, or low price-to-earnings multiple versus the rest of the region. Korea's average price-to-earnings ratio since the 1997-98 Asian financial crisis was 8.3 -- well below the multiple of 12 for the rest of Asia excluding Japan. It now trades at 10.3. (WSJ) After slowing to an estimated 3.9% in 2005, South Korean GDP growth is forecast to pick up to 4.8% in 2006. South Korean exporters will also come under some pressure from a steady rise in the value of the won against the U.S. dollar, and slowing export demand, from China in particular, will lead to a gradual moderation in the pace of economic expansion. (Economist)

India: The developing world's second economic-growth engine after China drew torrents of capital from overseas, driving the Sensex index up 42.3% in 2005. Citigroup's Mr. Rösgen urges caution.

[6] http://www.noticias.info/asp/aspComunicados.asp?nid=145108&src=0
[7] http://news.bbc.co.uk/2/hi/business/4528514.stm
[8] http://www.iht.com/articles/2005/05/15/business/textiles.php

Despite rapid growth and capital expenditures, India's market looks expensive at approximately 18 times earnings (WSJ). Demand for Indian exports should remain strong in 2006, as information technology (IT) service exports continue to rise despite slowing growth in the U.S., the EU and much of Asia. Political tensions within the ruling coalition will continue, but barring severe political disruption India's attractiveness as a foreign investment destination will continue to improve. GDP growth will reach 7.8% in fiscal year 2005/06 (April-March), before slowing modestly to 7% in 2006/07. (Economist)

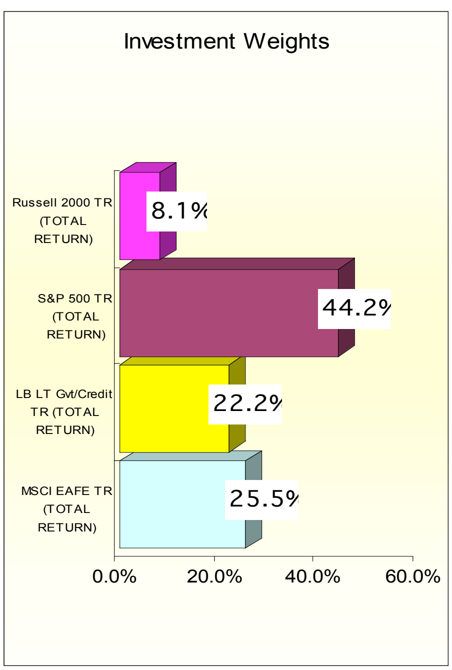
Overall Investment Outlook:

Translating the economic outlook into investment risks and expected returns is always a slippery exercise. But our readings of the economic climate suggest that equity is slightly more favored than fixed income in 2006 relative to 2005, while domestic and international equity have similar risk-return profiles in the near term.

Our asset allocation discussion puts a sharper pencil to how we have focused the portfolio across equity and fixed income in 2006.

ASSET ALLOCATION

The process of arriving at an asset allocation involves the consideration of each broad asset class, their expected risk and return characteristics, and how those characteristics influence the goals of the portfolio. Our portfolio, as inherited from the previous year, has an allocation of approximately 75% equity to 25% fixed income. This is in line with the average of other classes over the last five years. The average recommendation among analysts on Wall Street calls for 65.8% to be invested in stock, 22.6% to be invested in bonds, and holding 11.6% in cash. As a class we recommend a more aggressive asset allocation of approximately 77.5% equity with the remaining 22.5% invested in fixed income. Due to the higher risk tolerance of the investment committee than the large Wall Street firms, we are able to aim for a higher mean return with an increased standard deviation. Our tangent portfolio is essentially the same as the Wall Street average except that their portfolio, per the risk tolerance of their managers, is further to the left on the tangent line showing the lower return and deviation.



For the quantitative part of our analysis, we selected four indexes that we believe accurately represent their proxy markets and our holdings. We chose the S&P 500 for large cap stocks and the Russell 2000 for small cap stocks. The MSCI EAFE index we decided to use to represent foreign equity and the Lehman Brothers Long-term Government and Corporate bond index will represent fixed income. We believe that these four indexes will serve as the ideal benchmarks for the ARC portfolio.

Assumptions for Quantitative Model

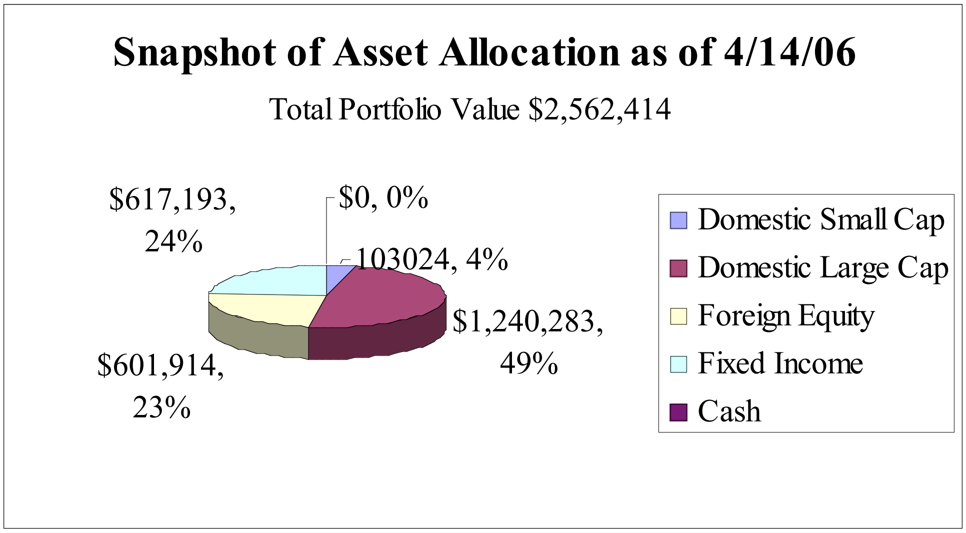
		Mean Return	Small Cap	Large Cap	Fixed	Int'l
Risk Free		4.0%				
Russell 2000 TR	Small Cap	10.0%	19.4%			
S&P 500 TR	Large Cap	9.4%	0.804	15.5%		
LB LT Gvt./Credit	Fixed	5.5%	0.148	0.289	9.7%	
MSCI EAFE TR	Int'l	9.4%	0.650	0.650	0.175	16.9%

Expected Returns: We adjusted expectations, correlations, and other inputs to arrive at an optimal asset allocation. The risk free rate was adjusted to 4.0 % to represent what we believe will be an average T-Bill return over the long term resulting in a 5.4% equity risk premium. We assumed large cap and international average returns of 9.4% and a small cap average of 10% since historically small cap stocks have outperformed large caps by 60 basis points. In addition, more money has flowed into small caps resulting in more liquidity. We set the return for fixed income of 5.5% which is consistent with the 5.47% yield-to-maturity of the Lehman Aggregate Bond Index. We adjusted equity returns downward slightly from their historical averages because we believe that inflation, looking forward, will be less than it has been in the past.

Correlations: To reach the split between equity and debt, several adjustments were made. Returns among U.S. markets and foreign markets have shown increased correlation because of globalization. To adjust for the globalization, correlations between U.S. Markets, which include S&P 500 and Russell 2000, were increased in reference to the EAFE. The initial correlation for the Russell 2000 and EAFE was .513, and the initial correlation for the S&P 500 was .571. The correlation for both the Russell 2000 and S&P 500 were increased to .650. We believe that this adjustment is representative of the stronger relationship between these markets without overstating it.

Results: The results from running a portfolio optimization with these inputs showed a tangent portfolio with the investment weights shown above. The expected average return for our tangent portfolio is 8.6% and has a standard deviation of 12.2%. Our expected return is slightly lower than the committee's minimum required return of 9%, but as a class we feel that the amount of risk that would be added in an attempt to gain the other .4% is significant and it is not worth taking.

Actual Allocation as of April 14,2006: The pie chart below shows our actual holdings as of April 14, 2006. We correspond closely with our recommendation, although we are underweight in small cap stocks with only two holdings. The chart shows a total portfolio value of $2,562,414. We also have about $12,900 in cash, pending final settlement of several trades. As of April 18, 2006, the last day before going to press, our custody bank, State Street, shows our account balance at $2,623,768 reflecting an up market over the past several days. This appreciation pushes our equity allocation to about 77% at press time.



EQUITY PROFILE

From 2005 through 2006, the class has recommended stocks that have high growth characteristics, yet are trading cheaply relative to the market. Additionally, we have calculated volatility and risk as factors in our analysis. Impressive performance in international equities was also considered in an effort to gain more diversification and exposure to these growing markets. Overall, we feel that the current portfolio reflects our goal for the fund to achieve an above average return.

Total Market Value of Equity Holdings: *$1,975,154.60*

Valuation	**ARC Fund**	**Market**	
TTM P/E of Portfolio	18.26	20.60	
2006 P/E of Portfolio	15.78	18.23	
2007 Est. P/E of Portfolio	14.40	16.87	
Market Cap (Average)	$ 58,168	$24,043	
Market Cap (Median)	$ 20,518	$11,901	
PEG 5 yr	1.14	2.92	**
Price/Book	3.66	2.76	*
Dividend Yield	1.28%	1.77%	
Growth			
5-Year EPS Growth Rate(wtd)	13.88%	6.25%	**
EPS Growth Rate 2005 - 2006	15.74%	9.30%	
ROE (05)	20.05%	13.40%	
Risk Characteristics			
Beta (weighted average)	1.02	1	
Lt Debt to Equity (BV)	0.77	0.84	*

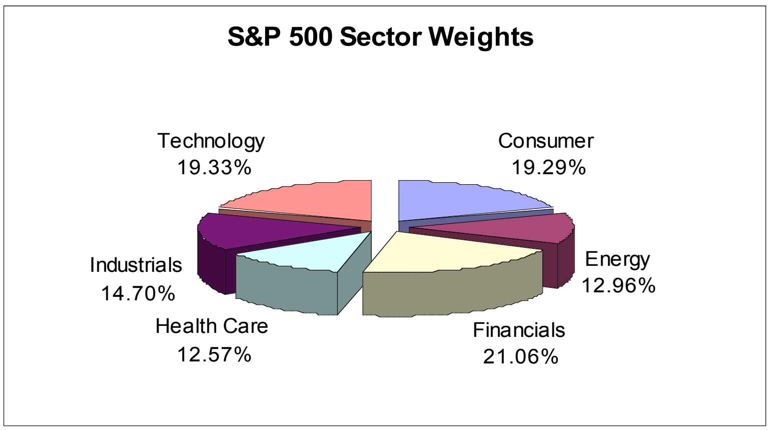
Note: All figures from S&P 500 unless noted
* - Taken from Hoovers
**-Figure reflects 2 year growth rate

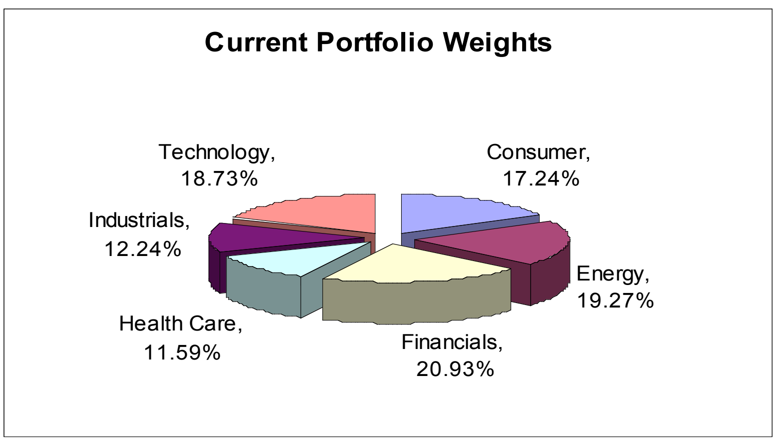
Valuation and Growth: Relative to the market, the portfolio is cheaper on a current price to earnings basis as well as a forward looking basis in 2006 and 2007. The portfolio's PEG is considerably lower than the market's. Our PEG indicates that we are paying a low price for expected earnings growth. This ratio further affirms our strategy of obtaining stocks with excellent growth potential at reasonable prices. Although our market cap is significantly larger than the market's average our holdings include small to mid cap stocks which contribute to the total return of the portfolio.

The equity profile reveals an impressive 5-year EPS growth rate and EPS growth rate for 2005-2006, which nearly doubles the current market estimates. The portfolio's higher price to book ratio indicates that we preferred to pay a premium for high earning assets and is justified by our significantly high ROE.

Risk: The portfolio has a weighted average beta roughly equivalent to the market at 1.02, and less levered on a book value basis compared to the market.. Despite assuming an average systematic risk, the class agrees this is an appropriate level of exposure considering our expectations for higher returns in 2006.

Sector Exposure: The following charts illustrate our sector exposure relative to the weights of the S&P 500. When faced with the decision of allocating excess capital the class used the S&P sector weights as a guide, however, our sector weights are more reflective of our confidence in specific companies and trends. The one conscious sector bet that we made was an overweight in energy.





LIST OF EQUITY HOLDINGS

Portfolio Holdings Summary **Characteristics of Holdings**

	Sector Weightings	Company Name	Ticker	Shares Owned	% of Equity Holdings	Stock Price	Market Cap (MV of Equity)	ROE	ROA	Projected 5 year EPS Growth	Dividend Yield	Beta	LT Debt/ MV of Equity	P/E LTM	P/E 2006	Forward PEG
Consumer	17.2%	Altria Group	MO	1200	4.0%	68.96	$144,126	29.2%	16.9%	6.4%	4.6%	0.9	0.11	13.4	13.1	2.
		Harley Davidson	HDI	1250	3.1%	51.02	$13,928	33.5%	35.7%	24.7%	1.4%	1.11	0.05	14.9	13.7	0.
		AutoZone	AZO	1200	5.6%	96.17	$7,405	89.1%	25.2%	29.2%	N/A	0.84	0.20	13.2	12.8	0.
		Wal-Mart	WMT	2000	4.5%	46.47	$193,780	21.7%	17.6%	14.0%	1.4%	0.88	0.12	17.3	15.9	1.
Energy	19.3%	Baker Hughes	BHI	1600	5.8%	75.03	$25,681	18.7%	23.0%	20.3%	0.7%	1.14	0.04	29.2	21.0	1.
		Enerplus Resources Fund	ERF	1500	3.9%	52.89	$6,188	36.8%	464.7%	13.0%	1.3%	0.82	0.04	14.9	17.1	1.
		Transocean	RIG	500	2.1%	86.03	$28,043	8.9%	12.6%	50.0%	0.0%	1.18	0.04	40.4	25.3	0.
		Florida Power & Light	FPL	1000	1.9%	39.28	$15,510	10.4%	9.8%	5.0%	3.5%	0.33	0.31	17.1	13.9	2.
		StatOil	STO	3500	5.6%	32.84	$71,920	27.6%	39.2%	6.0%	1.6%	0.88	0.06	15.0	12.7	2.
Financials	20.9%	American Intl Group	AIG	760	2.4%	63.66	$165,516	12.1%	32.6%	12.0%	0.9%	1.2	0.37	15.8	11.5	1.
		BBVA	BBV	6000	6.1%	20.95	$70,811	13.3%	1.2%	N/A	3.7%	1.79	0.16	15.4	12.9	N/
		HDFC Bank Ltd	HDB	1800	5.3%	60.9	$6,273	13.4%	2.2%	26.3%	0.5%	1.7	0.02	34.8	27.6	1.
		Bear Stearns	BSC	1000	7.1%	147.07	$21,325	16.3%	2.2%	8.0%	1.0%	1.2	0.15	14.3	13.7	1.
Health Care	8.5%	Medicis	MRX	1000	1.6%	33.03	$2,215	12.0%	21.5%	7.5%	0.4%	0.84	0.22	28.7	22.2	3.
		Abbott Laboratories	ABT	2000	4.0%	41.62	$64,062	23.4%	19.7%	10.0%	2.6%	0.86	0.07	19.0	18.5	1.
		Quest Diagnostic	DGX	1200	2.9%	50.48	$10,018	19.8%	15.1%	36.7%	0.8%	0.59	0.11	19.0	17.9	0.
Industrials & Materials	15.2%	Anglo American	AAUK	5000	5.4%	22.35	$56,546	16.7%	16.1%	24.0%	5.0%	1.1	0.10	18.9	10.8	0.
		Stericycle	SRCL	1900	6.0%	65	$2,916	15.2%	12.2%	16.1%	N/A	0.1	0.11	43.9	28.4	1.
		World Airways	WLDA	8500	3.8%	9.23	$147	50.3%	18.8%	5.0%	N/A	0.95	0.30	8.4	10.9	2.
Technology/ Telecom	18.8%	Cisco Systems	CSCO	1760	1.8%	21.26	$137,424	24.8%	22.8%	18.5%	N/A	1.45	0.00	24.4	20.2	1.
		Cymer	CYMI	1100	3.0%	55.89	$2,117	8.7%	10.2%	24.0%	N/A	1.65	0.07	44.0	27.1	1.
		Dell Computers	DELL	900	1.3%	28.61	$68,578	86.5%	19.8%	23.3%	N/A	1.01	0.01	19.6	17.4	0.
		Microsoft	MSFT	2400	3.2%	27.03	$279,220	25.5%	25.9%	12.0%	1.3%	1.29	0.00	22.3	20.5	1.
		Wipro Limited	WIT	6600	4.6%	14.4	$20,448	22.3%	20.2%	38.4%	0.9%	1.79	0.00	47.9	36.0	0.
		Research In Motion	RIMM	1300	4.9%	77.66	$14,367	19.1%	23.2%	20.8%	N/A	1.4	0.00	40.0	25.6	1.

Total Market Value of Equity Holdings **$2,058,327** **Stock Prices as of 4/18/2006**

EQUITY ANALYSIS – CONSUMER

Consumer Overview and Outlook

The consumer spending sector is very broad in scope and thus must be divided into discretionary (cyclical purchases) and staples (non-cyclical purchases) categories. Consumer discretionary sub-sectors include leisure and media, retail, and automobiles/auto parts while consumer staples encompasses food, beverages, and tobacco, drug retailing and household products.

In our current market environment with fears of inflation, soaring fuel costs, and low consumer confidence, the consumer staples sector appears to be a safer bet given such market conditions. Consumer discretionary stocks tend to be very sensitive to economic cycles, whereas consumer staples stocks are typically less sensitive to economic cycles and usually are usually strong performers during periods of rising energy prices and interest rates.

Currently our holdings are distributed throughout sub-sectors in both the discretionary and staples categories. Our discretionary holdings include AutoZone and Harley-Davidson. While rising energy costs appear to pose a threat to these holdings, we feel that such increases coupled with lower consumer spending levels over the next year may in fact lead to increased sales in the auto parts retail market as consumers postpone new car purchases. Harley-Davidson serves as a clear standout in motorcycle manufacturing. They must continue to defend their position as emerging players attempt to gain market share.

Holdings in our portfolio falling under the consumer staples category sub-sector include Altria Group Inc. and Wal-Mart Stores, Inc. Altria is the world's largest tobacco firm with a U.S. market share of 50% and a world market share of 17%. Despite growing health concerns, advertising restrictions, and the plethora of domestic litigation issues that continually plague the industry, Altria along with other major tobacco firms continue to prosper as expansion into developing nations provides new sources of previously unsought revenues. While Wal-Mart falls within the consumer staples sub-sector, its endless variety of retail items aligns the company under both the staples and discretionary categories. The company is properly positioned in order to facilitate profitable growth by reaping the benefits of any favorable economic shifts that might affect the consumer sector in 2006.

Overall, we feel these holdings provide a fairly even level of exposure across both the consumer discretionary and consumer staples sectors. While our current economic outlook for 2006 tends to support an importance on consumer staples, we feel our discretionary holdings are placed within sub-sectors that will not be damaged as badly as the leisure and media segment due to decreased consumer spending levels.

TRANSACTIONS

SELL: Walgreen Co. (NYSE: WAG)

Walgreen co. is a drug-retailer that sells prescription and nonprescription drugs as well as other healthcare products and general merchandise. While the nation's largest drug-retailer has enjoyed solid revenue and earnings growth figures over the last five years, we felt that Walgreen's ability to maintain such margins and market share may be especially difficult due to the competition among other major drug retailers (particularly CVS, Rite-Aid, Wal-Mart). The company has been underperforming the drug retailing segment for the last five years. Although Walgreen is the largest store by market cap, CVS is a sizable competitor with more locations and fewer employees. The company is likely to face margin compression in the future due to reduced reimbursement fee calculations as a result of the shift in the Medicaid Structure.

On a quantitative basis, we found that sales growth, in the short term, was decelerating despite a favorable economic environment in the drug-retailing sub-sector. Second, Walgreen is overvalued on a discounted cash flow analysis basis that was calculated assuming increased margin compression in the coming years. On a comparable basis, we again found Walgreen's stock price to be overvalued. The company has been trading expensive on a P/E basis relative to its peers, further suggesting our notion that the company is overvalued. While many see Walgreen's lack of long term debt as a positive, we were concerned that management would struggle to invest in projects that would improve Walgreen's competitive position if they are merely spending cash rather than servicing debt.

<u>SELL</u>: Pernod Ricard (OTC:PDRDY)

Pernod Ricard, the world's second largest spirits firm behind Diageo, provides a large variety of alcoholic beverages including Scotch whiskey, liqueurs, vodka, rum, tequila, gin, anise drinks, and wine. Chivas Regal is the company's most widely recognized global brand, but a handful of other well known brands personify the companies robust portfolio, including Jameson, Beefeater, Seagram's, Stolichnaya, Malibu, Kahlúa, Jacob's Creek, and Perrier-Jouët.

Last April, we bought shares of Allied Domecq plc, which at the time was the world's second largest distillery. However, In July of 2005, Allied Domecq was purchased by Pernod Ricard for $14 billion in an attempt to gain sizable market share on spirits leader Diageo. When the transaction was fully completed last fall, Allied shareholders received a combination of cash and Pernod Ricard shares. We decided to take as much cash and as little stock as possible because analyses had only been performed on Allied Domecq and not Pernod Ricard. We were left with a minority holding in Pernod Ricard stock and given our neutral position on the firm, decided to sell the shares in order to free up cash for other holdings.

<u>BUY</u>: Wal-Mart (NYSE: WMT)

Wal-Mart, the world's largest retailer, offers an enormous variety of food, clothing, toys, electronics, health products and beauty products. The company is North America's #3 pharmacy operator behind Walgreen and CVS. Due to its wide variety of products, Wal-Mart has exposure to both consumer staple and consumer discretionary spending, giving the company the ability to profit in any economic climate.

Wal-Mart's stock price has been excessively punished over the past year causing the stock to trade inexpensively relative to its peers. On a discounted cash flow basis, we found Wal-Mart to be undervalued by nearly 60% even after using conservative assumptions for the model. Wal-Mart's enormous market cap of over $200 billions reflects low liquidity risk. In term's of financial strength, Wal-Mart's earnings stability as well as its S&P debt rating of AA further reflects low risk.

Wal-Mart has recently become more concerned with its image and has made a large number of changes since hiring a new COO (Eduardo Castro-Wright) at the U.S. Wal-Mart division. He has drawn up plans to remodel 1,800 stores in the next year and a half. Wal-Mart is also upgrading the quality of their merchandise to compete with rivals in areas such as apparel and merchandise. Cleaning up each and every store is also a major priority as many stores in the mid-1990's experienced sales increases due to such actions. A 30% increase in the company's marketing staff serves as another effort to upgrade to quality of Wal-Mart's merchandise and image.

While the company already operates 6,000 stores, they plan to open 550 to 600 new stores in 2006. On an international front, Wal-Mart has increased its stake in SEIYU (Japan's top retailer) to 50% and is in the process of teaming up with Hong Kong-based CITIC Pacific Co. to open hundreds of stores and hire up to 150,000 employees over the next five years. They are also looking at possible expansion opportunities through acquisitions in Central and Eastern Europe as well as India.

We feel the purchase of Wal-Mart coincides with our sentiment regarding an economic climate of slowing growth and rising consumer prices. Avoiding the high-end retail sub-sector of consumer spending will help insulate the fund from the downside potential of decreased discretionary spending. Their extremely wide product mix creates opportunities for relatively stable earning regardless of broad consumer sentiment and price levels.

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EQUITY ANALYSIS – ENERGY/UTILITIES

Energy Overview and Outlook

A greater demand for oil in China and India in conjunction with political turmoil in oil-producing regions have seen oil prices soar (to more than $70 a barrel in 2005, thanks to Hurricane Katrina), causing the industry to rebound. The higher prices have reached most of the industry - producers, refiners, pipeline companies, equipment makers, oil field service providers, and gas station operators - which have all enjoyed new profits. Leading the charge are the world's largest integrated oil companies: Exxon Mobil, BP, and Royal Dutch/Shell. But aggressive independent exploration and production companies such as Apache and Devon Energy are also well-positioned to take advantage of improving prices.

Firms in the energy sector will continue to enjoy strong earnings, cash flows and liquidity afforded by this upward cycle in crude oil and natural gas prices. This upward cycle has provided firms with opportunities to clean up their balance sheets by paying down debt and fund growth through increasing capital expenditures. For exploration and production companies, cap-ex programs are being directed towards meeting the challenge of replacing reserves either through the drill bit or via mergers and acquisitions. In this competitive environment, we are looking for firms who can outpace the pack in terms of growth and productivity while resisting acquisitions of overvalued assets, and rising development and completion costs. Oilfield service companies ought to maintain pricing power over E&P companies as demand will outpace supply in the short run. We expect to see consolidation between these firms as smaller firms are acquired, in addition to fleet expansions and rig refurbishments. In contrast to E&P firms, oilfield services will employ more conservative growth strategies so as not to create an oversupply in the market.

Sub-Sectors with Exposure
Oil & Gas Exploration and Production

Description and Trends

In terms of segmentation, natural gas dominates the market with 73% of the sub-sector's value in 2004. The drilling of natural gas is likely to dominate the drilling industry even further in the future, as the fuel is increasingly popular due to its efficiency and cleanliness in comparison to oil. As technology has improved over the years, the drilling of dry holes has decreased by approximately two thirds, making the excavation of the fuel ever more efficient.

Our Holdings:

Statoil ASA (STO)

Engages in the exploration, production, transportation, refining, and marketing of petroleum and petroleum-derived products. The company operates through four segments: Exploration and Production Norway, International Exploration and Production, Natural Gas, and Manufacturing and Marketing.

BOUGHT: *Enerplus Resources Fund (ERF)*

Created in 1986, Enerplus Resources Fund is Canada's oldest and one of North America's largest conventional oil and natural gas income funds. With a diverse asset base located in western Canada, Enerplus offers investors the benefits of owning a large portfolio of income generating energy assets without the degree of exploration risk commonly associated with traditional exploration and production companies.

Enerplus is focused on resource plays that are typically large and extensive accumulations of discovered oil and natural gas. This large number of wells generates predictable results as the profile, timing, cost, production rates and reserve additions associated with their resources can be more accurately anticipated than those assets of smaller companies. This advantage is compatible with the trust model by supporting a stable cash flow over the long-term with relatively low risk. Furthermore, Enerplus's large resource base can internally sustain production for a period of time, positioning the company to be more selective in its acquisition efforts.

A number of factors contribute to the likelihood of Enerplus maintaining or exceeding its current high growth rates. In 2005, the average selling price per BOE increased 28% to $52.36 due to strengthening commodity prices. Total development capital expenditures for the year were $368.7 million. These expenditures were in addition to the acquisition of TriLoch on July 1, 2005 for $77.4 million and that of Lyco on August 30, 2005 for $501.9 million. The payout ration decreased from 79% to 64% due to retaining additional funds for further capital development opportunities. Amidst these investments, Enerplus continues to maintain a conservative balance sheet as evidenced by the net debt to trailing funds flow ratio of 0.8x. It is likely that these new resources will continue to prove profitable as the company's investments consistently have.

SOLD: *EOG Resources, Inc. (EOG)*

Mid size independent oil and gas exploration company focused mainly in the North American market. Since the first quarter of fiscal year 2005, EOG is unhedged for the remainder of the year, leaving its earnings fully exposed to changes in oil and gas prices. Large domestic production of natural gas should prove a great opportunity as imports of natural gas are not yet viable and pipelines are not expected to materialize until 2007.

Though EOG has been recording a positive growth in revenues since 2002, the company's performance has been somewhat weaker than its peer group. The company's revenue growth for fiscal 2004 was about 30% in 2004 in comparison to two of its major competitors Chesapeake and XTO, which recorded revenue growth of 64% and 58% respectively, over the same period. The comparatively weak performance of the company has been attributed to its comparatively lower multi-year project inventory (inventory of well locations to be developed over the long term).

EOG faces intense competition for reserves, leases, licenses from domestic and foreign companies. The company's lack of merger with any large corporation and a stronger focus on organic growth puts the company in a disadvantageous position against competitors like Exxon Mobil and Chevron Texaco, who have greater financial and operational capabilities. Competitors such as XTO Energy, Chesapeake Energy, Exxon Mobile and BP have established themselves as superior acquirers of production assets and are very good at developing new properties in comparison to EOG. The comparatively stronger financial and operating record of its peer groups to EOG has subjected the company to intense competition.

Oil & Gas Equipment and Services

Description and Trends

Manufacturers of oil rigs and drilling equipment form the most lucrative area of the global oil and gas equipment & services sector, accounting for 30.5% of the sub-sector's value in 2004. The growth of the sub-sector, like most of the energy industry, is directly related to demand and price. In terms of regional segmentation, the Middle East represented 30.1% of the overall sector's value in 2004. In order to contain its dependency on the Middle East for energy supply, the U.S. government has been opening previously protected areas of Alaska.

Our Holdings

Baker Hughes (BHI)

Houston based company, specializes in the provision of technology, equipment, and services to the oil and petroleum industries. Services include drilling and formation evaluation, completion services, production management, and enterprise solutions. Accounted for 6.0% share in sector in 2004.

New York headquartered global oilfield services company that provides technology, project management and information solutions in the industry. Accounted for 11.3% of sub-sector in 2004.

BOUGHT: *Transocean (RIG)*

The largest offshore drilling company in the world, Transocean operates throughout the world's major offshore drilling regions, including the U.S., Gulf of Mexico, the North Sea, the Middle East, and off the coasts of West Africa, the United Kingdom, Norway, Brazil, and Canada. It contracts drilling rigs, related equipment, and work crews primarily on a dayrate basis to drill oil and gas wells with a focus on deepwater and harsh environment drilling projects and services. The drilling fleet includes 31 high-specification floating rigs (including 13 deepwater drillships), 30 other floaters, and 54 bottom-supported jackup rigs. Their advancements in deep water and open ocean technology combined with unsurpassed experience in these areas, make them the market leader and regular first choice for oil companies as they venture further from land and ever deeper in the quest to find new fields in previously inaccessible areas of the worlds oceans.

The investment in RIG reflects our views of continued global energy demand, thus higher, sustained oil prices for at least the next year and possibly the next two to three years. Higher oil prices over the past few years have led to the engorgement of the balance sheets for oil producing firms, lots of cash to pay down debt as well as invest in more costly projects to replace diminishing reserves. Deepwater drilling (depths exceeding 3500 ft) is Transocean's specialty and is one of those projects that big oil companies like Chevron, BP, Exxon Mobil are investing in because there are proven reserves in many deep water areas that were not cost effective in previous years at lower oil prices. The high demand for drilling services combined with an tight supply of rigs capable drilling at these depths have caused day rates in contracts for the rigs to skyrocket as well as continue for longer durations. As a hedge against further increases in day rates, companies are locking in multi-year agreement to ensure the availability of rigs. This can be can be verified from the recent contracts with Chevron which includes the exercise of options for rig utilization and awarding new contracts which total $1.7 billion in revenue. In addition, BP signed a 3-year contract extension worth $569 million, simultaneously setting a record day rate of $520,000. The longer duration contracts reinforce our views of sustained higher oil prices. On a comparable basis, Transocean has the lowest short term PEG ratio at .18 against the industry average of .20. While the PEG ratio for 3-5 years out is higher than the average, we are considering this a short term investment.

Electric Utilities

Description and Trends

The issue of deregulation continues to dominate the utilities sub sector. Former top energy marketer Enron's fall from fame to shame has led to more debate over whether electricity deregulation will lead to lower prices for consumers or higher profits for the utilities. Deregulation could be a major force behind growth in the utility industry as competing power suppliers gain access to new markets.

Holdings

Florida Power and Light (FPL)

FPL Group, Inc., through its principal subsidiary, Florida Power & Light Company, engages in the generation, transmission, distribution, and sale of electric energy principally in the state of Florida. The company produces electricity utilizing natural gas, wind, and nuclear resources. It also owns, develops, constructs, manages, and operates domestic electric-generating facilities in wholesale energy markets. FPL Group also provides fiber-optic and cable services to telecommunications companies and other customers throughout Florida. The company primarily serves residential, commercial, and industrial sectors. As of February 28, 2005, it served approximately 4.2 million customer accounts in Florida.

For many years, FPL's industry-leading energy management and conservation programs have helped defer the building of new power plants. Over the past two decades, more than 1.7 million customers have participated in these programs, reducing electricity demand by more than 4,300 megawatts, or the equivalent of 10 medium-sized power plants.

Continued and long-term growth in FPL's service area will require not only extensive investments in new generation, but in the utility's power delivery system as well. Citing new plants and gaining approvals for additional transmission routes, particularly in well-established and highly populated areas, will present challenges.

EQUITY ACTIVITY – FINANCIALS

By nature, the Fund's financial holdings make money through the use or provision of money. Divided into the three asset classes of investment banking, money center / consumer banking, and insurance, the Fund represents a well-balanced presentation of different avenues one might engage in. The economy's condition as a whole significantly influences the performance of all firms within this sector, although the rise and fall of interest rates often carry the most weight.

Companies classified as investment banks typically focus on such institutional activities as advising companies on mergers and acquisitions, aiding the raising of capital in the debt and equity markets, as well as the placement of that capital in the overall picture of capital structure. Some investment banks also engage in privatization. Many have in-house broker/dealer groups and make/maintain markets for securities. Bear Stearns, Goldman Sachs, Morgan Stanley, Citigroup, JPMorganChase, Merrill Lynch (the "Big Six") stand as the Wall Street-anchored groups most commonly associated with this industry, although the growth in business specialization has allowed offshoots of the major players to thrive in their specific market niches.

Money center / consumer banking focuses its services on the needs of individuals and businesses, such as checking accounts, saving accounts, mortgages, loans, and short-term investments. One can find such institutions on both the domestic and international arena, each bringing with it key differences in clientele, specialization, and risk.

Insurance companies operate by providing a promise of protection against certain contingencies to both individuals and institutions in exchange for a periodic premium. Some forms of insurance are legislatively mandated, while others are left to individual or institutional discretion. As there are such contingencies seem limitless in today's world, so seemingly-limitless types of insurance operations exist. Typically, though, one divides insurance groups into life, health, home, business, automobile, or disaster.

Holdings Analysis

Investment Banks

- **Bear, Stearns, & Co. (BSC)**

  Bear Stearns stands as the smallest of the aforementioned "Big Six" Wall Street investment banks, and as such, benefits from a pronounced acumen in the areas of efficiency and adaptability. Bear Stearns has seen a an approximately 40% growth over the past year, including posting a record third quarter of 2005.

Midlevel / Consumer Banks (international)

- **Banco Bilbao Vizcaya Argentaria (BBVA)**

  Based in Bilbao, Spain, Banco Bilbao defines a midlevel/consumer bank, offering a wide range of services from private to corporate banking to mutual fund and pension management. The smaller of Spain's two larger banks, it has recently focused on expansionary overseas operations.

Insurance

- **American International Group, Inc. (AIG)**

AIG displayed a remarkable ability to weather the fallout from Hurricanes Katrina & Rita that struck the Louisiana and Mississippi coasts in late summer of 2005. The Company also escaped from possible criminal charges related to a lawsuit alleging deceptive accounting practices. We believe that with governmental and meteorological issues in the past, AIG may benefit from an increased premium atmosphere that typically reward insurance companies following natural catastrophes.

Company	# of Shares	Unit Cost	Current Price	% of Sector
BBVA	6000	$16.28	$20.42	29.37%
Bear Stearns	1000	$67.14	$142.95	34.27%
AIG	760	$64.94	$64.15	11.69%
HDB	1800	$54.15	$57.18	24.67%

As of 4/10/06

Transactions:

Money Center/ Consumer Banks (Domestic)

Sold: Wells Fargo Bank (WFC) WFC is a diversified financial services company, which operating in three segments; community banking, wholesale banking, and Wells Fargo Financial. One key concept to Wells Fargo strategy is the practice of cross selling products, for instance if a costumer takes out a residential mortgage from Wells Fargo, then agents will attempt to cross sell other complement products such as checking accounts, saving accounts, and credit cards.

- Wells Fargo's Core strategy of cross selling has worked well but our sell recommendation for Wells Fargo is based on the following:

- Margins on Loans will be squeezed by Federal Reserve tightening.

    - In 2006, the Federal Reserve continues to raise short term rates, with the federal funds rate now at 4.75%. Over the past several years, with interest rates being at historic lows has lead to tremendous margins on loans. These increases will start to squeeze the margins on mortgages and other loans as well as squeeze the potential client base.

- Future growth uncertain in the near term.

    - The low interest rates lead to amazing mortgage growth within Wells Fargo, and subsequently further growth in other areas. In addition, any consumers considering to refinance or to buy a house have probably seized the opportunity thus leaving the client base even smaller.

- U.S. consumer banking appears to be saturated.

- o Finally, the consumer banking industry within the United States appears to be saturated with many firms without an effective way to differentiate among themselves. Wells Fargo has given the fund considerable return over the past two years, and potential for growth in the next several years is uncertain because of many macro economic factors with particular emphasis on interest rates.

Money Center / Consumer Banks (International)

Bought: HDFC Bank (HDB) HDB is a private sector bank in India that provides financial services to corporations, and middle and upper-income individuals. The three primary divisions of HDFC are wholesale banking, retail banking, and treasury operations. The Wholesale Banking division provides loans, deposit products, documentary credits, guarantees, bullion trading, and foreign exchange and derivative products. The Retail Banking division provides various deposit products, as well as loans, bill payment services, gold and silver credit cards, debit cards, third party distribution, investment advisory services, card and automated teller machine (ATM). The Treasury Operations division offers foreign exchange and derivative products for its clients. In addition, the bank provides telephone, Internet, and mobile telephone banking services.

Buying Points

- HDFC bank has unique positioning within the Indian banking industry.
    - o It is one of a few private banks in India, where most banks have been nationalized by the Indian government. In essence, HDFC operates to benefit its shareholders; the nationalized banks operate to benefit the Indian government potentially by offering cheap credit for below grade projects.
- HDFC prime clientele will continue to grow over the next twenty years.
    - o India's middle class is predicted to double over the next ten years, which will provide an ever increasing clientele base for HDFC to seize.
- The Mortgage market is prime for growth.
    - o As of now, mortgage payments make up a small proportion of an individuals income, HDFC is hoping to alter this cultural barrier and seize a developing market.
- HDFC had developed innovate strategies against its competitors with respect to technology.
    - o HDFC plans to become India's world class bank through its superior technology.

EQUITY ANALYSIS – HEALTH CARE

The healthcare industry involves establishments that provide medical equipment and supplies, perform research, development and distribution of drugs, facilities for observation and treatment, and management of medical waste. Because of the emphasis of research and development in this industry, it is constantly thriving with what seems like an unlimited potential for growth. Healthcare expenditures account for 16% of U.S. GDP, a higher percentage than any other country in the world, and it is projected to increase at an average rate of 7% annually until 2013 (http://www.plunkettresearch.com/health/health_trends.htm#1). The amount of risk in the healthcare sector is very large due to stiff competition and very intense regulation by the FDA.

The Pharmaceuticals sub-sector in particular is under increasing scrutiny from the public due to numerous lawsuits regarding death and illness that are allegedly caused by new drugs, calling for even more government legislation and regulation. It has the most risk of any sub-sector in the healthcare industry. Most of the expenditures in the healthcare industry are involved in research and development of drugs.

Pharmaceutical sales are expected to continue falling throughout the sector in 2006 because of increasing competition from generic drugs. Generics are very inexpensive to produce and purchase. Increasing healthcare costs in the U.S. have prompted many healthcare providers to require patients to use generic pharmaceuticals up to three times before their doctors prescribe more expensive, branded drugs. This will hurt the companies with less specialized products the most. Several remedies can be applied to ailments such as depression or pain since they are very broad classifications. Pfizer, for example, is in trouble since it has very few specialized drugs that more than a couple of years left of patent protection. Pfizer's CEO Henry McKinnell said "Our strategy is to survive this period, and survival is the right word." Pfizer has begun to offer some of its products, such as Lipitor, at lower costs to keep its sales volume high.

Companies that are known for pharmaceuticals are expected to increase mergers and acquisitions and development of medical supplies to offset the decreases in drug sales this year. The supplies and facilities sub-sectors are expected to do very well in the coming years as several companies attempt to break into these markets or expand their existing operations by developing new products such as diagnostic testing systems and introducing them to the market.

As a whole, the Healthcare sector has been one of the most stable in the past. There is an ever-growing demand for new products in this market that will only increase in the near term. The aging American population and resulting increase in demand for healthcare products and services promise to keep this sector strong into the foreseeable future.

Transactions

Buy: Abbott Laboratories (NYSE: ABT)

Abbott Laboratories engages in the discovery, development, manufacture, and sale of health care products worldwide. Its four segments are Pharmaceutical Products, Diagnostic Products, Ross Products, and International. Pharmaceutical Products segment offers adult and pediatric pharmaceuticals, which are sold on the prescription or recommendation of physicians. Diagnostic Products segment sells diagnostic systems and tests for blood banks, hospitals, commercial laboratories, physicians' offices, alternate-care testing sites, plasma protein therapeutic companies, and consumers. Ross Products segment includes pediatric and adult nutritionals. Abbott's products are sold in more than 130 countries throughout the world. Worldwide sales for 2005 were a record $22.3 billion, up 13.5 percent from $19.7 billion in 2004. In addition Pharmaceutical sales increased nearly 10%, helped by HUMIRA, whose worldwide sales were $1.4 billion for the full year, exceeding Abbott's prior forecast.

Abbott Labs has an extensive pipeline that is very well-diversified. Included in the pipeline are antibiotics for infectious diseases, treatments for epilepsy, bipolar disorder, migraine headaches, and metabolic diseases such as obesity. They also have a variety of specialty pharmaceuticals like Oxandrin which helps patients to regain weight that was lost involuntarily through surgery, trauma, or chronic infections. The company has several drugs that are currently being tested for approval like Simdax for heart failure and a patch for monitoring glucose levels in diabetic patients called FreeStyle Navigator. Additionally, already approved drugs are being tested for new uses. Abbott has also agreed to buy Guidant's vascular device business for about $4 billion. This will result from the purchase of Guidant by Boston Scientific. Guidant's vascular operations unit reported more than $1 billion in sales for 2004 and is expected to push Abbott into the top tier of medical device makers. Devices are easier and much less costly to develop and get approved than drugs. Breaking into this market is a great way for Abbott to further diversify its product line and to counteract any losses in pharmaceutical sales to generics. The market for drug-coated stents is already worth $6 billion and is growing very rapidly.

We believed it was a good buying opportunity considering Abbot's pipeline and business diversification. According to our DCF model, the firm's stock is valued at $51.50, about 18.5% undervalued from the current price of $43.46. Furthermore, Abbott appears to be trading cheap to its comparable aggregate. Its P/E (ttm) is roughly equal to the aggregate; however, the forward P/E in 06 and 07 is lower at 17.1x and 15.5x versus 17.3x and 16.2x. They are also cheaper based on a PEG ratio of 1.4 near term and 1.7 longer term compared to the aggregates' 2.4 and 2.0 PEG ratio. This comparable company analysis shows that Abbott is trading cheaper to its peers and reinforces our view that Abbott is undervalued in the marketplace. We purchased 2000 shares of Abbott Laboratories at $42.05.

Sell: Medtronic Inc. (NYSE: MDT)

Initially sighting a hold on Medtronic's due to a favorable outlook in the cardiac rhythm management area and increased guidance by management above street estimates, we have decided to sell our holdings due to recent events in the sub-sector. In the most recent quarter Medtronic's reported revenues that came in lower than the company's estimates, due to lower ICD sales. These results are also similar to the quarterly results reported by St. Jude, whose revenues came in below street estimates due to a slowing growth in their ICD sales. We feel this is a major concern and believe this trend will continue in the near term. Additionally in Medtronic's recent quarterly results, their vascular business and diabetes sales only grew at a rate of 6% which was below street estimates. We feel Medtronic is well positioned to outperform the market in the long term; however, we feel that in the short term the stock's performance will be weak based on slowing industry ICD sales. These views were reaffirmed when updating the DCF model for slowing revenue growth. Performing a discounted cash flow analysis on Medtronic showed that the stock was undervalued by about 3.1%. The average price across the models gave an intrinsic value of $52.52 for the stock versus its current price of $50.95. Medtronic's P/E (33.1) and Forward P/E (22.9) are relatively expensive compared to the comparable aggregate's P/E (22.2) and Forward P/E (18.4). Based on these reasons we sold our 2000 shares of Medtronic's at a price of $49.96.

EQUITY ANALYSIS – INDUSTRIALS/MATERIALS

The Industrials & Materials (I&M) Sectors can be broadly defined to encompass those companies whose core business operations involve either, the extraction and manipulation of raw materials, or the manufacture, construction, supply, and service of equipment, machines, buildings, and infrastructure. The current holdings of the ARC Fund in this sector are Anglo American Plc, a diversified international metal and mining company, Stericycle, a growing medical waste management company and World Air Holdings, a growth freight, cargo and passenger airline contractor.

Name	Ticker	Market Cap	5 Yr. Growth Estimate	TTM Return on Equity
Anglo American Plc	AAUK	62.98 Billion	21.8%	13.8%
Stericycle	SRCL	2.92 Billion	16.0%	13.2%
World Air Holdings	WLDA	227 Million	n/a	62.1%

Industrials firms were classified according to the nature of the business of the firms' clients, the stage of production in which the firms operate and the goods and/or services they provide. Although the products offered by businesses in the Materials Sector are widely diverse, their business models and revenue drivers are similar and often these companies are integrated horizontally; accordingly, we considered these firms to be sufficiently alike to be classified into the same sub-sector. Major players, descriptions and characteristics of each sub-sector are provided below:

- **Aerospace/Defense: (Boeing, Lockheed Martin and Raytheon)**
  - Companies who develop and manufacture aircrafts, ships, armored vehicles, missiles, and related information and technology systems.
  - Key factors to consider in the success of these firms include federal budgets for military spending and political stability (government clients), and the health of the commercial airline industries, as determined by expectations for capital expenditures, prospects for growth, and fuel costs.
  - In general, these firms operate with heavy investments in capital equipment and research, which leads to relatively low gross profit margins, and high leverage ratios. Furthermore, companies in aerospace and defense have long business cycles, and little financial flexibility.

- **Contracting/Construction: (Bechtel, Fluor and Jacobs Engineering)**
  - Companies in this sub-sector are engaged in the engineering, design, logistics, maintenance, and project management of infrastructure, buildings, energy, and a variety of manufacturing facilities.
  - These firms are positioned to succeed in areas of growth and development, as well as areas in need of repair and renovation.
  - Customers include government entities as well as civil and commercial project developers such as real estate, chemical process plants and energy services.

    - Gross profit margins are very similar to those of aerospace and defense; however, most of these companies do not display the same tendency towards high leverage.

- **Manufacturing: (Honeywell, General Electric and United Technology)**
    - This broad category encompasses those firms that manufacture and or distribute goods for industrial use, including construction equipment, heavy machinery, paper, packaging, textiles and cable: many of which are large conglomerates with diverse subsidiaries.
    - The health of the economy strongly parallels the manufacturing sub-sector in that when companies increase their capital spending on expanding or upgrading production facilities it typically reflects growth in the economy and the sub-sector.

- **Materials: (Alcoa, BHP Billiton, International Paper and US Steel)**
    - Materials companies are engaged in the extraction and processing of natural resources such as steel, aluminum, copper, gold, non-ferrous minerals, wood and chemicals.
    - Factors that contribute to their success include managerial and operational efficiency, technological advancements, geographic and asset-class strategies, and commodity markets.
    - Common characteristics are long business cycles, continuous investments in land and capital assets due to resource depletion and equipment replacements and additions, as well as regulatory, environmental and labor union issues that often result in litigation.
    - While these firms are typically mature, value investments, positive shifts in international demand and economic development are providing for growth opportunities within this space.
    - The presence of economies of scale lends to advantages in global consolidation.
    - Investment strategies vary according to the commodity price exposure of these firms as well as product and/or geographic diversification.

- **Transportation Services: (AMR Corp, Teekay Shipping and UPS)**
    - Companies in this space provide for, arrange, manage and provide logistical and infrastructure support for the transportation of passengers and freight via land, sea and air.
    - New technologies have increased efficiencies and increased sub-sector growth by allowing electronic tracking of cargo and time-specific delivery.
    - Globalization, economic productivity and competitive positioning are revenue drivers in this industry. Fuel costs have recently created short-term profitability issues as many firms have faced difficulty in passing these costs through to customers.

Sector Outlook: Significant macroeconomic events that have and will continue to affect the sector are: the increasing industrialization and integration of international economies, the rise in demand for energy, and political stability domestically and abroad. While investment opportunities continue to exist within the sector, the firms with diversified operations (products and geographically), strong bargaining power with clients and suppliers, and financial flexibility are expected to continue to outperform competitors.

I&M Transactions Summary:

Sells: Through a fundamental analysis of the Industrials & Materials sectors holdings, we concluded that our sell discipline justified removing our position in two stocks. Alcoa and Top Tankers have not performed as hoped – mainly due to the susceptibility of AA to fluctuations in commodity pricing, and the inability of the crude oil shipping industry to pass on higher fuel costs to their clients in the near term.

Alcoa Inc. (AA): Alcoa is the world's leading producer of primary aluminum, fabricated aluminum, and alumina, and is active in all major aspects of the industry: technology, mining, refining, smelting, fabricating, and recycling. Alcoa's products are used worldwide in aircraft, automobiles, commercial transportation, packaging, consumer products, building and construction, and industrial applications (2005 10-K). Formerly known as the Aluminum Company of America, Alcoa is a vertically integrated global aluminum producer, categorized as a member of the materials sub-sector. The stock was sold in November 2006 for the following reasons:

- The world's largest aluminum mining and manufacturing company is arguably one of the most mature stocks in the United States and little market inefficiencies are expected to exist due to its inclusion in the DJIA 30.

- Comparables and discounted cash flow valuations at consensus earnings and growth estimates provided no indication that AA will break from its flat performance.

- Significant revaluation catalysts are not expected because bauxite and alumina, the minerals from which aluminum is derived, are among the most abundant naturally occurring metals on the earth.

- 86% of Alcoa's revenue flows from the U.S. and the E.U. where labor and energy costs and environmental litigation issues are unfavorable with respect to the world market.

- AA's high correlation to aluminum commodity prices and relative lack of geographic diversification indicates to us better investment opportunities in the Materials Sector.

Top Tankers (TOPT): Top Tankers transports refined petroleum products and crude oil for oil companies and oil traders. Eighteen of the Company's 27 tankers are on time charter contracts with an average term of over three years with all but one of the time charters including profit sharing agreements. Founded in 2000 by its young CEO Evangelos Pistiolis, Top Tankers experienced exponential growth after purchasing eight Handymax and two Suezmax tankers with proceeds from the company's 2004 IPO (Hoover's).

The decision to sell Top Tankers was primarily driven by our assessment that the driving force supporting its purchase would not successfully materialize based on competitive forces and available public company information. The stock was sold in March 2006 based on the following analysis:

- Top Tankers was puchased last year with a short-term investment horizon based on assumptions of share price undervaluation and expectations of near-term gains from a temporary imbalance in supply and demand for the tankers in the firm's fleet.

- Although TOPT is well positioned competitively, its price deterioration over 2005 proved that the firm's average 3 year supply contracts created no opportunities to gain from short-term supply conditions.

- On days when the market is up, TOPT tends to underperform the S&P 500 by 14%. Moreover, on days when the market is down, the shares generally decrease by 60% more than the S&P 500.

- Over the past 90 days, the company's stock has been more volatile than peers in the freight industry, and quarter consensus earnings per share and price target estimates have decreased by 25.5% and 33.3%, respectively. (Thompson Financial)

- In early March 2006, TOPT's price experienced moderate gains due to the sale and immediate leasing back of the company's entire fleet. This activity increased trading volume and the stock price peaked at $18.32. We felt that it was time to sell TOPT and realize the gains made in March before the price began to fall again, which it did later that month.

Buys: The screening process for stock selection in the Industrials & Materials Sectors began with a top-down view of the ARC Portfolio's sub-sector exposures. Through incorporating the Fund's overall economic outlook, we narrowed our screening universe down to the Contracting/Construction and Materials sub-sectors. The decision to look at these sub-sectors is analogous to ARC's positive outlook towards oil and gas exploration, production and service companies: they are positively correlated with increases in international demand and movements in commodity prices. Next, after screening a number of competitors in these sectors, according to price multiples, company developments as well as qualitative competitive and strategic analysis, we narrowed our choice to a promising metals and mining company.

Anglo American Plc (AAUK): Anglo American plc, with its subsidiaries, joint ventures and associates, is engaged in the mining and natural resource sub sectors. Anglo American owns a range of assets covering gold, platinum, diamonds, coal, ferrous and base metals, industrial minerals and paper and packaging. In addition to a diversity of product segments, AAUK is also diversified geographically with operations in the Americas (37% of '05 earnings), South Africa (36%), Europe (10%), and other exploration projects in the rest of the world (17%). Some leading factors that led to our purchase decision are as follows:

- The product base and geographical diversification of the firm allow for investors to benefit from positive developments across many economic and commodities markets. This, as well as the limited exposure to any single commodity as contributed to little earnings volatility and stable dividends that we expect to continue going forward.

- AAUK's management is capable and understands the firm's strengths, weaknesses, and opportunities. By redirecting capital and focusing on more lucrative markets, AA will be able to sustain growth and steady profits in the future.

EQUITY ANALYSIS – TECHNOLOGY

Technology Sector

The technology sector encompasses or affects virtually every single industry in the world today. With each passing year, the world as a whole becomes more dependent upon the offerings of technology industry leaders such as Dell, Microsoft, Wipro, and Cisco Systems. Just as the world will continue to benefit from new technologies, so, too, will the Ann Rife Cox Endowment Fund ("ARC"). In fact, ARC's largest single holding is Wipro, a global provider of comprehensive IT solutions and services based in Bangalore, India.

For 2006, our outlook for the technology sector is positive. With global economic growth expected to pick up for the year due to the continued buoyancy of emerging markets, we anticipate the demand for microchips and software to expand as companies engage in more capital and IT investments. Also, we look for the offshoring of operations and staff to low-cost centers only to gain more momentum as executives become more comfortable with the strategy. We believe the best performing areas will be semiconductors and web services, and the worst will be telecommunications, due to rising competition.

Following suit with our predictions for 2006, we have aligned ARC's technology holdings to benefit substantially. Companies that we currently hold are Cisco Systems, the world leader in the manufacture and sale of network and communications products, Cymer, a leading maker of excimer lasers that are used to print semiconductors, Research in Motion, a leading designer and manufacturer of worldwide wireless solutions, Dell, a personal computer manufacturer and services provider, Microsoft, a software company whose Windows operating system powers more than 90% of world PCs, and Wipro, which was mentioned above.

While it is the large blue chip public companies that will most likely be on the target list of ARC, the world is also getting a shakeup from new smaller technology entrants and startups that threaten the way that other industries have operated to date. Examples of this include telecom companies and their concern over the offerings of such companies as Skype which delivers free worldwide phone calls over the internet or RedHat which is on the cutting edge of open-source software development. We must look at the macroeconomic impact new technologies will have on the current technology holdings of ARC.

We must also look at the big picture impact of technology and how ARC can benefit from technologies that enable nations to leap first world countries. Third world nations are now able to leap from having no technology to having better technology than is available in established nations due to the offerings of wireless and satellite technology companies.

For the reasons mentioned above, attempting to break down the technology industry into one "segment" in 2006 is not possible however we can look at where we anticipate long term sustainable growth. Technology surrounding easier access to communications and companies that service the blue chip technology companies listed above, such as component suppliers will likely be benefactors in the foreseeable future.

ARC has segmented the technology sector into the following sub sectors:

- Telecommunications Equipment
- Computers & Peripherals
- IT Consulting & Services
- Semiconductor Equipment and products
- Software

Current Holdings

Name	# of Shares	Current Price	Our stake
Cisco	800	20.99	$16,792
Cymer	1100	47.21	51,931
Dell	900	29.72	26,748
Microsoft	2400	27.29	65,496
RIM	1300	78.11	101,543
Wipro	6600	14.50	95,700

As of 4/11/2006

Analysis of Hold:

Dell Computers (NASDAQ: DELL)

Recently, Dell's stock has not been a bright performer. Since our hold recommendation on November 11th, 2005, the stock has appreciated by only 32 cents ($29.40 vs. $29.72). The company has missed three of Wall Street's last five earnings forecasts. Dell has struggled with its own internal forecasting of consumer demand. Last year, they focused too much on high-end PCs and the year before they had too many low-end PCs. Also, the PCs they have traditionally produced have been cheap and unattractive. These problems have played an important role in the market's valuation of the company as evidence by its lackluster performance.

In order to counter these issues, Dell has begun a campaign to upgrade its image and product lines to ensure higher profit margins and more loyal consumers. Also, with the release of Windows Vista in January of 2007, we predict an increase in sales due to consumers upgrading their PCs to Vista-compatible computers. This is due to Vista's minimum memory requirement of 512 DDR2 and the incompatibility of screens today with the HD technology that will be used with Vista. In order to capitalize, Dell has been releasing more visually attractive computers that take advantage of Intel's new Core Duo processor (e.g. Latitude D620 and D820). These moves still play within Dell's traditional low-cost, efficient business model and will help the PC maker gain more market share (currently 18%).

On a DCF basis, we feel Dell is undervalued by around 5%. Our model estimates that Dell's intrinsic value over the long-term is right at $31 per share; this is using a beta of 1.6 which was derived from Bloomberg on a 10 year, monthly basis. This is a rather conservative estimate considering most of the sites we ran across listed Dell's beta at around 1.1. Using a beta of 1.1, the intrinsic value of Dell is $47.56 which would claim the stock is undervalued by around 60%.

Analysis of Sell:

Symantec (NASDAQ: SYMC)

Symantec provides a variety of content and network security software for both consumers and businesses, used for functions such as virus protection, intrusion detection, and remote management.[9] Successful acquisitions are what security software giant Symantec has typically done when it wishes to aggressively grow its operations. Acquisition-made growth has proven to be profitable for Symantec in the past because the types of acquisitions Symantec makes actually improve its ability to provide a software security solution to consumers and businesses around the globe. It became our belief that some of the recent Symantec acquisitions may have hurt the company as they've had to take their focus away from marketing their product in a way that generates value for shareholders. We sold Symantec as we thought there were better opportunities that the ARC fund should take advantage of.

Microsoft Corporation recently made its Windows OneCare Live "computer-health" service available for free in a test designed to see how well it works for potentially millions of consumers. What worried us about this as it relates to Symantec is the fact that this move by Microsoft could potentially hurt Symantec's consumer operations which account for 51% of Symantec's sales. The full effect of Microsoft entering into the security software arena has not been felt by Symantec.

While it's clear to us that Symantec is somewhat undervalued at the current stock price of $16.28, we still believe that there are better investments that the ARC fund should partake of. Symantec has the lowest PEG of any of its counterparts at 1.06 but most of this is acquisition made growth and therefore is somewhat misleading. Symantec's ROA and ROE are the lowest in its class at 4% and 2.59% respectively. The quality of Symantec's financial statements is also of concern as Symantec has used creative accounting in past financial statement filings.

Analysis of Buy:

Research In Motion (NASDAQ: RIMM)

Research In Motion (RIM) is a designer, manufacturer and marketer of wireless solutions for the mobile communication market worldwide. RIM provides platforms and solutions for access to e-mail, phone, short message service (SMS), personal organizer, Internet and intranet-based corporate data applications. It also licenses its technology to handset and software vendors to allow these companies to offer wireless data services using the BlackBerry Enterprise Server (BES) and BlackBerry Internet Service. The company also allows designated third party developers and manufacturers to improve their products and services with wireless connectivity. The company offers its products to carrier partners, resellers, and end users.

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[9] Symantec website

We feel the portfolio will strongly benefit from the inclusion of RIM over the next 24 months for two key reasons. Firstly we will gain international exposure in the technology sector, as RIM operates primarily out of four Canadian offices and has established themselves in markets around the world. Secondly, RIM is the leader in the advanced wireless solutions market and has been recognized as a proven and unmatched wireless platform.

Research In Motion's stock price has been penalized over the five year battle beginning November 2001 with NTP Incorporated, a Virginia-based holding company. As the patent based case has been settled (March 3, 2006), we now feel that RIM is a solid buy. Even with the threat of shutting down the e-mail service of popular BlackBerry devices, RIM has still managed to stay on top in terms of both sales and revenue. RIM's closest competitor Palm (NASDAQ: PALM) was still unable to capitalize on the situation as sales from the quarter ended in late November shows that Palm sold 602,000 Treos whereas RIM sold 645,000 new subscriber accounts. During the litigation, new competitors began to enter the market but we feel that with RIM's new technology offerings that they will continue to excel in this market. We recognize that with the recent settlement RIM's future appears to remain unclear. Our bet is that the market will clarify their outlook on RIM and the stock will climb to its true market value.

Despite RIM's hold backs, their key device the BlackBerry is still widely recognized as a full-blown, proven and unmatched wireless platform. There have been few, if any, customer defections because of the lawsuit and BlackBerry remains a popular and practical device. Even with this said, RIM is focusing on a phenomenon developing where so many more professionals are purchasing their own PDA's and smart phone for personal and business use, where competitive offerings with cameras and cell-phone-like shapes could prove more appealing. RIM is focusing on "prosumer" features including instant messaging, voice over IP, and new E-commerce options. They intend to keep its current customer base by offering technologies IT and telecom managers won't find from a consumer-oriented vendor.

RIM is currently trading at $78.11 and we believe that RIM is worth $111.63 when you factor in the settlement of the lawsuit. RIM is therefore undervalued by 30% on a DCF basis. While competition may be heating up for RIM, they have still managed to gain international market share as they continue to launch the BlackBerry with new carrier partners around the world. In addition, RIM continues to draw in customers by offering the whole package: devices, a wireless push E-mail service and support for business applications. For these reasons, in unison with their extraordinary lineup of new handsets, software and services, ensures us that RIM is a good buy.

ARC PORTFOLIO TRANSACTIONS

	Company Name	Ticker	Quantity	Per Unit Amount	Gross Amount	Net Amount	Trade Date
Sales							
Health Care	Medtronic, Inc.	MDT	2000	49.96	99,920	99,817	4/13/2006
ETF (Index)	iShares Russell 2000	IWM	800	74.59	59,960	59,918	4/10/2006
Consumer	Pernod Ricard S.A.	PDRDY	346	47.40	16,400	16,383	4/13/2006
Technology	Symantec Corporation	SYMC	2200	17.04	37,488	37,377	4/4/2006
Industrials	Top Tankers Inc.	TOPT	5000	17.30	86,500	86,247	3/27/2006
Industrials	Alcoa Inc.	AA	1700	26.69	45,373	45,281	11/22/2005
Energy	EOG Resources Inc.	EOG	1300	64.79	84,227	84,158	11/15/2005
Financials	Wells Fargo & Company	WFC	900	62.28	56,052	56,005	11/15/2005
Consumer	Walgreen Co.	WAG	1000	46.41	46,406	46,354	11/8/2005
Purchases							
	Company Name	**Ticker**	**Quantity**	**Per Unit Amount**	**Gross Amount**	**Net Amount**	**Trade Date**
Industrials	Anglo American PLC	AAUK	5000	20.45	102,241	102,491	4/4/2006
Technology	Research in Motion	RIMM	700	85.15	59,605	59,640	4/4/2006
Technology	Research in Motion	RIMM	600	76.00	45,600	45,630	4/18/2006
Health Care	Abbott Laboratories	ABT	1000	41.33	41,330	41,380	4/18/2006
Health Care	Abbott Laboratories	ABT	1000	42.72	42,720	42,770	3/30/2006
Consumer	Wal-Mart Stores, Inc.	WMT	2000	47.73	95,460	95,560	3/30/2006
Energy	Transocean Inc.	RIG	500	82.10	41,050	41,075	3/30/2006
Financials	HDFC Bank Inc.	HDB	1800	54.10	97,380	97,470	3/28/2006
Energy	Enerplus Resources Fund	ERF	500	52.47	26,235	26,260	4/18/2006
Energy	Enerplus Resources Fund	ERF	1000	49.65	49,695	49,745	3/28/2006

Total Net Sales	$531,540.64
Total Net Purchases	$602,021.00

FIXED INCOME

Last year, our portfolio team made relatively conservative fixed income plays based on how they expected the bond market to perform. The 2006 class inherited a 2005 fixed income portfolio with 4.04 year duration. This year, the duration of our portfolio is 2.83, well below the Lehman Aggregate. This shorter duration does not reflect any changes to our fixed income exposure; it just reflects the shorter maturities of our bonds as one year has passed. The previous class had altered their existing portfolio to achieve a higher duration and yield to adjust for moderate upward interest rate expectations. Since then, they have remained very low and stable. Including our 34.5% allocation in the Lehman Aggregate, our sector exposure is diversified, but at the same time, relatively concentrated. Compared to the past years, we are currently overweight in treasuries and significantly underweight in mortgage and agency bonds. The industrial and utility sectors are slightly underweight, whereas we have moderate positions in Finance and Foreign bonds. The equal allocation in our fixed income portfolio to finance and foreign bonds is derived from our 2003 acquisition of IADB. IABD is a globally-owned bank, therefore, for our purposes, we classify this investment as 50% financials and 50% foreign.

Currently, 22.5% of our portfolio is allocated to fixed income, representing $607,500 invested in the fund. We reduced our allocation from 25% the preceding year, based on our bet that the economy shows continued growth through the equity portion of the portfolio, and using our high credit quality and low fixed income allocation as a hedge. Considering the current bond market and our economic forecast for 2006, we believe our current fixed income exposure is justified. Our current fixed income portfolio reflects underexposure in agencies and mortgages, relative short duration, and high credit quality. The implications of the flat yield curve show narrowing yield spreads. Therefore, we don't see any impetus to lengthen our duration and incur extra interest rate risk if the term structure of interest rates are so narrow. Additionally, we feel our underexposure in mortgages and agencies are justified based on our bearish view of the real estate market. With mortgage rates at historical lows, we don't see much mortgage refinancing activity in the near term, which is something that has fueled consumer confidence and consumer spending in the past. Agency bonds issued by Fannie and Freddie Mac are complementary and consistent with the over-heating of the real estate market, therefore we place them in a similar category as mortgages. The only motivation for supporting higher mortgage or agency exposure would be in an effort to get closer to the Lehman aggregate or if more refinancing activity persists more than we expect, which would lessen duration. Lastly, narrow credit quality spreads justify our overweight coverage in AAA debt and treasuries. Similarly to short duration, we see no reason to exposure ourselves to higher credit risk when returns are so trivial.

Current Holdings	Duration	Yield	Weight	Weighted Duration	Weighted Yield	Face Value	Market Value
U.S. Treasury STRIP	2.042	4.86	52.70%	1.08	2.56	$313,156	$316,457
GNMA pool	3.45	5.95	2.70%	0.09	0.16	$32,904	$32,833
IADB	0.85	5.09	10.10%	0.09	0.51	$70,200	$60,843
Lehman Aggregate (Cash)	4.57	5.47	34.50%	1.58	1.89	$214,704	$207,060
TOTAL			**100.00%**	**2.83**	**5.12**	**$630,964**	**$617,193**
Lehman				4.57	5.47		
*All data collected from Bloomberg							

Holdings:

United States Treasury STRIP

When a Treasury fixed-principal note or bond or a Treasury inflation-protected security (TIPS) is stripped, each interest payment and the principal payment become a separate zero-coupon security. Each component has its own identification number and can be held or traded separately. STRIPS are also called zero-coupon securities because the only time an investor receives a payment during the life of a STRIP is when it matures. This holding provides our portfolio with treasury exposure.

Ginnie Mae Pool

Mortgage-backed securities (MBS) are pools of mortgages used as collateral for the issuance of securities in the secondary market. MBS are commonly referred to as "pass-through" certificates because the principal and interest of the underlying loans is "passed through" to investors. The interest rate of the security is lower than the interest rate of the underlying loan to allow for payment of servicing and guaranty fees. We held this security because we wanted to maintain a little exposure in agencies and it is implicitly default-free.

Inter-American Development Bank (IADB)

IADB, which is the oldest and largest regional, multilateral development institution, attempts to accelerate economic and social development in Latin America and the Caribbean. This bond boasts a high credit rating (AAA) and functions to give out portfolio international exposure.

Fixed Income Portfolio vs. the Lehman Aggregate

Exposures		4/3/2006	
Fixed Income Value		$617,193	
Sector Exposure	Lehman Aggregate 4/03/06	Cox Portfolio Including Lehman Index Fund	Cox Bonds 4/03/06
TREASURY	25.2%	61.4%	52.7%
AGENCY	12.1%	4.2%	
MORTGAGE	34.9%	14.8%	2.7%
ABS/CMBS	5.3%	1.8%	
INDUSTRIAL	9.0%	3.1%	
FINANCE	8.0%	7.8%	5.1%
UTILITY	1.8%	0.6%	
Foreign	3.7%	6.4%	5.1%
Cash	0.0%		
Total Fixed Income	100.0%	100.0%	65.5%
Maturity			
CASH	0.0%		
0 TO 3 YEARS	21.0%	70.0%	62.8%
3 TO 5 YEARS	21.7%	10.2%	2.7%
5 TO 10 YEARS	44.8%	15.4%	
Greater than 10	12.5%	4.3%	
Portfolio Duration	4.57	2.83	
Total Fixed Income	100.0%	100.0%	65.5%
Credit			
AAA	78.62%	92.6%	65.5%
AA	4.75%	1.6%	
A	8.84%	3.0%	
BAA1	7.79%	2.7%	
Sub-Grade	0.0%	0.0%	
CASH	0.0%	0.0%	
Portfolio Yield	5.47%	5.12	
Total Fixed Income	100.00%	100.0%	65.5%

Lehman Aggregate Ishares 34.5%

PERFORMANCE SUMMARY

When evaluating the performance of the Anne Rife Cox Portfolio, the University has designated an 85/15 Russell 3000/ Lehman Brothers' Aggregate Index as the appropriate basis for comparison. The portfolio class, however, has decided that an 85/15 S&P 500/Lehman Brothers' Aggregate is also a meaningful benchmark for measuring the portfolio's performance. This benchmark admittedly portrays a more favorable view of the portfolio's performance, but the S&P 500 is also qualitatively an appropriate touchstone. While the Russell 3000 is a broad representation of domestic equities (it represents 98% of the U.S. equities, www.russell.com) we feel that the S&P 500 more accurately reflects the higher average market capitalization of the ARC Portfolio holdings. Furthermore, the small number of holdings in the portfolio lends itself to a more concentrated benchmark.

While we cannot take credit for the performance of our predecessors in the Portfolio Practicum, we do get to tally the scorecard. The Anne Rife Cox Portfolio has outperformed both the Russell 3000/Lehman Brothers' Aggregate Index and the S&P 500/Lehman Brothers' Aggregate Index for the trailing one and two year periods (Exhibit I). The two-year geometric average return for the ARC Portfolio is especially noteworthy at 10.54% (net of transaction fees) compared to returns of 8.19% and 7.21% for the aforementioned blended benchmarks, respectively. The three-year performance is less impressive with an average return of 12.34%. This time period includes the Class of 2002's conservative asset allocation of 55% equity for the year 2003. While 12.34% is by no means "bad," it is lackluster on a relative basis due to an exceptional performance by equities that year. If in their shoes, this class would find it difficult to have arrived at a significantly more optimistic outlook for the markets given the impending invasion in Iraq.

The returns shown in exhibits I and II are taken from data compiled for each calendar year through December 2005. We also want to mention that the return in Quarter 1 of 2006 was 7.9% with the trailing 52 weeks at 18%. This compares quite favorably with the S&P 500 which had a return of about 5% in the first quarter and a 13% return for the trailing 52 weeks.

Performance of ARC Portfolio over Various Time Periods				
	ARC Portfolio	85/15 Russell 3000/LB Agg	85/15 S&P 500/LB Agg	T-Bills
1 yr	6.68	5.62	4.57	3.01
2 yr	10.54	8.19	7.21	2.12
3 yr	12.34	14.06	12.78	1.77
5 yr	2.11	2.40	1.51	2.22

Exhibit I

To further examine the portfolio's performance, we ran two regression analyses. The analyses were run to determine if the portfolio has produced any level of alpha generated return, that being return awarded to the investor beyond the beta-risk adjusted market return. In other words, it helps us determine if our portfolio is earning the proper return for its level of risk. In our first analyses we contrasted the excess returns of the ARC Portfolio with the excess returns of the S&P 500 benchmark. In our second analyses, we ran the regression on the ARC Portfolio's excess returns with the Russell 3000 benchmark. The results of the two regressions are shown in Exhibit II.

ARC Portfolio vs.:	Alpha	Beta
85% S&P 500/LB Benchmark	0.47%	0.83
85% Russell 3000/LB Benchmark	-0.02%	0.83

Exhibit II

Here we find that after transaction costs, we have held our ground against these benchmarks. Against the Russell 3000 blended benchmark the ARC Portfolio is roughly flat, suggesting our returns are in-line with the risk assumed. Compared to the S&P 500 blended benchmark, however, the ARC Portfolio generated alpha of .47% for the trailing five-year period. This suggests that the ARC class has exhibited some stock-selection ability--no small feat considering the portfolio was managed by five different groups of students during that time period.

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The analyst reports that underlie all of our recommendations can be found on our website; http://people.smu.edu/undergrad_practicum. This site also contains an archive of reports and analysis from previous years. There is a parallel web site called the grad practicum which contains an archive of analysis by the MBA portfolio practicum. Have a look!