THE DARDEN CAPITAL MANAGEMENT ADVISOR

November 2005

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Darden Capital Management Fund Managers

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Baily Dent, '06	Guido DeAscanis, CFA '06	B.T. Remmert, '06
Greg Faulkner, CFA '06	Jonathan England '06	Raymond Chung, CFA '06
James Fessel, CFA '06	Carlton Getz '06	Anthony Costello '06
Chris Kenny JD/MBA '07	Ed Weklar '06	Blake Lipscomb '06

The DCM Advisor is a publication of The Darden Graduate School of Business Administration's Darden Capital Management club. Darden Capital Management is a student-run organization that manages approximately $3.6 million in Darden Foundation endowment assets. The publication is not endorsed by the Darden Graduate School of Business Administration, although articles are prepared by full-time MBA students at the Darden Graduate School of Business Administration. Any material herein is not guaranteed as to its accuracy and completeness. Contributing authors and editors may hold positions in recommended stocks. Any information herein does not constitute a solicitation to buy or sell any financial or derivative security or instrument.

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DCM Fund Managers Present Exceptional Six-Month Performance to Trustees

By James J. Fessel, CFA

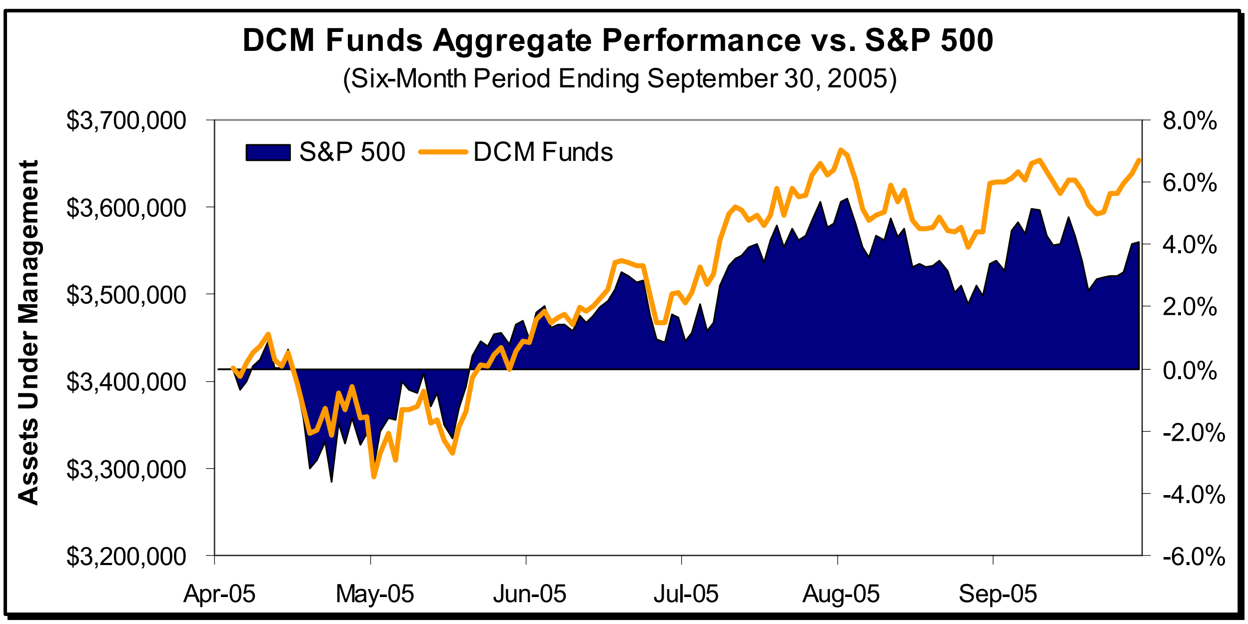
On October 13th, 2005, the Darden Capital Management Club proudly presented to the Board of Trustees of the Darden School Foundation that each of the three DCM Funds generated positive returns that exceeded the performance of the S&P 500 Index during the six month period ending September 30, 2005. In aggregate, the value of assets under management within the three funds grew by $231,869 to $3,647,326, representing a total return of 6.79%. Compared to passive investment in the S&P 500, which returned 4.09%, the fund managers generated an excess return of 270 basis points through active management during this six-month period. Individually, two of the three funds outperformed their respective benchmarks. Annualized, the total aggregate return of the funds was 13.94%.

A particular emphasis on risk management was addressed in each of the three fund presentations, including the use of attribution analysis to examine the contribution of returns from asset allocation, sector selection, and stock selection, and to identify any significant deviations from the benchmark. Other risk management policies presented included the daily monitoring of positions for significant changes to the investment story, a mandate that three of four managers must approve the purchase of security, and a requirement in which a 20% change in a stock price or a significant change to fundamentals requires a written reevaluation of the investment.

As a sign of confidence in the abilities of the fund managers and the Darden Capital Management Club, the Board of Trustees of the Darden School Foundation decided to consider allowing the managers more flexibility in managing the funds by removing certain restrictions related to short selling stocks and use of derivatives within the portfolios. The Board of Trustees will make a final decision when they meet with the Darden Capital Management Club in April.

Darden Capital Management	
Semi-Annual Performance Update	
Beginning Porfolio Value	$ 3,415,457
Ending Porfolio Value	$ 3,647,326
Gains	$ 231,869
Total Six-Month Return[1]	6.97%
Annualized Return[1]	13.94%

(1) Returns are approximate and subject to revision.



The Monticello Fund, managed by B.T. Remmert ('06), Raymond Chung, CFA ('06), Anthony Costello ('06), and Blake Lipscomb ('06), yielded an Actual Total Return of 7.28%, more than 180 basis points above the Benchmark Total Return of 5.45% (Table 1). The fund's investment philosophy focuses on a blended strategy of value and growth, stocks with a minimum market capitalization of $700 million and no maximum market capitalization, and a fixed income position consisting of U.S. government securities with a portfolio duration that does not exceed six years, to decrease exposure to the impact of rising interest rates. The fund's performance exceeded the overall benchmark since June, with solid gains from positions in the energy and technology sectors. The best performing stocks in the fund included Devon Energy (DVN), which returned 44.1%, Chicago Bridge & Iron (CBI), which returned 41.3%, and Symantec (SYMC), which returned 17.8% during the six-month period. The fund's equity portfolio generated an 8.4% total return, 230 basis points above the 6.1% return of the Russell 1000 Benchmark.

The Jefferson Fund, managed by Guido DeAscanis, CFA ('06), Jonathan England ('06), Carlton Getz ('06), and Ed Weklar ('06), yielded an Actual Total Return of 6.59%, more than 110 basis points above the Benchmark Total Return of 5.45% (Table 1). The fund's investment philosophy focuses on undervalued/underappreciated companies, a limited REIT allocation relative to the previous managers', due to a rising interest rate environment, and an average duration within the fixed income portfolio below the benchmark to protect against a steepening yield curve. The fund's success was primarily attributable to stock selection, rather than asset allocation. Strong returns in the technology sector during the second half of the six-month investment period helped overcome a weak start. The best performing stocks in the fund included Logitech (LOGI), which returned 34.0%, Satyam Computer Services (SAY), which returned 30.2%, and Chevron (CVX), which returned 27.8% during the period. The fund's equity portfolio posted an 8.2% total return, more than 200 basis points above the 6.1% return of the Russell 1000 Benchmark.

The Darden Fund, managed by Baily Dent ('06), Greg Faulkner, CFA ('06), James Fessel, CFA ('06) and Chris Kenny (JD/MBA '07), yielded an Actual Total Return of 6.53%, well above 4.1% return of the S&P 500, though slightly under the Benchmark Total Return of 7.79% during the first six months of management (Table 1). The fund's investment philosophy focuses on small-cap companies with market values in the range of $300 million to $2.0 billion that have strong competitive positions in their respective markets, attractive growth prospects at a reasonable valuation, and near-term catalysts. The managers mitigate risk through frequent position reviews, bottoms-up fundamental research, and a structured sell discipline. The fund's underperformance versus the benchmark was primarily attributable to the poor performance of four inherited securities: Martek Biosciences (MATK), Diebold (DBD), Avid Technologies (AVID), and Thomas Nelson (TNM). Following a thorough review of each positions, the Darden Fund managers decided to sell Martek, and roughly double the size of the positions in Avid Technologies and Thomas Nelson, both of which were viewed as significantly undervalued by the managers, and have rebounded tremendously since. As of the end of November, Avid Technologies has appreciated 31.7%, and Thomas Nelson has appreciated 18.8% since the decisions to increase the size of each position, respectively. The best performing stocks in the fund during the six-month period included Vicuron Pharmaceuticals, which returned 84.6%, reflecting its acquisition by Pfizer, Jos. A. Bank Clothiers (JOSB), which returned 32.5%, and ConocoPhilips (COP), a legacy holding which returned 29.7%.

Table 1: Total Return[1]**-** (Six Months Ending Sept '05)

	Monticello Fund	**Benchmark**	**+/-**
Equity	8.4%	6.1%	2.3%
Fixed-Income	2.4%	2.9%	-0.5%
Total	**7.3%**	**5.5%**	**1.8%**
	Jefferson Fund	**Benchmark**	**+/-**
Equity	8.2%	6.1%	2.1%
Fixed-Income	2.0%	2.9%	-0.9%
Total	**6.6%**	**5.5%**	**1.1%**
	Darden Fund	**Benchmark**	**+/-**
Equity	8.0%	9.0%	-1.0%
Fixed-Income	0.8%	2.9%	-2.1%
Total	**6.5%**	**7.8%**	**-1.3%**

(1) Returns are approximate and subject to revision.

Table 2: Sharpe Ratio[2]- (Six Months Ending Sept '05)

	Monticello Fund	**Benchmark**	**+/-**
Equity	2.65	1.99	0.65
Fixed-Income	1.00	0.73	0.27
Total	**1.93**	**2.34**	**-0.41**
	Jefferson Fund	**Benchmark**	**+/-**
Equity	2.47	1.99	0.48
Fixed-Income	0.32	0.73	-0.41
Total	**2.67**	**2.34**	**0.33**
	Darden Fund	**Benchmark**	**+/-**
Equity	2.58	2.43	0.15
Fixed-Income	-0.37	0.73	-1.10
Total	**2.78**	**2.67**	**0.12**

(2) Risk-free rate (6-month Treasury Note) was 3.04% on 3/31/05.

The 1st Annual DCM Stock Pitch Competition Exhibits New Talent

By Christopher D. Kenny (JD/MBA '07)

On the morning of Saturday, October 1st, twelve Darden students competed in the 1st Annual Darden Capital Management Stock Pitch Competition. The competitors, eleven First Years and one Second Year, each had ten minutes to pitch their idea, followed by a five minute Q&A session. All of the pitches were evaluated by a panel of judges made up of alumni, recruiters, and faculty. The judges included Chris Brightman, CFA – CEO/CIO, UVIMCO; Corley Farber (D'04) – Associate, Investure; Marc Lipson – Associate Professor of Finance, Darden; and Tim Parker, CFA (D'01)– Vice President, T. Rowe Price.

The pitches ranged from former tech & telecom bubble darling Lucent Technologies to high-flying defense contractor Lockheed Martin and classic athletic shoe maker K-Swiss. If there was an overall pitch theme, it would have been healthcare (four pitches) and retail (four pitches). The full list of competitors and pitches follows:

Josh Ayers – Gulf Island Fabrication (GIFI)
Brian Carney – Endo Pharmaceuticals (ENDP)
Brian Duff – The Gap (GPS)
Chris Eastman – Lockheed Martin Corp (LMT)
Ellen Lee – Limited Brands (LTD)
Glenn Miller – Retail Ventures (RVI)
Chris Pond – Legg Mason (LM)
Brian Pratt – Taro Pharmaceuticals (TARO)
John Spears – K-Swiss (KSWS)
Bradley Sullivan – Lucent Technologies (LU)
Tobias Wessels – Boston Scientific (BSX)
Owen Weihman – ViroPharma (VPHM)

After the competition, the panel of judges talked about what they look for when evaluating investments. For example, Chris Brightman discussed the value of understanding the management team and how they bring value to the company, while Corley Farber discussed how he looks for the downside risk in every investment to help him understand the risk/reward profile.

Following the investment advice from the panel of judges, the winners were announced. Glenn Miller won first place, and $250, with his presentation of Retail Ventures (NYSE: RVI), owner of Filene's Basement, Value City, and majority owner of DSW. (For a summary of Glenn's pitch, see page 11). Ellen Lee won second place, and $150, with her presentation of Limited Brands (NYSE: LTD), owner of Victoria's Secret, Bath & Body Works, Express, and Limited Stores. (For a summary of Ellen's pitch, see page 10). A "Mr. Market" prize, of $100, will be awarded to the competitor with the highest return from September 30th to December 31st.

The competition, which is planned to be an annual event, is designed to increase the level of awareness of Darden Capital Management at the University of Virginia and among the investment management community. We view Darden Capital Management not only as a terrific experience for Darden students, but as a competitive advantage over other MBA programs. Our plan was to start small this year with only students from the greater UVA community. In the future, we would like to grow the competition into a national investment conference with the pitch competition as a part of the weekend activities. This will provide us the ability to showcase Darden and Darden Capital Management.

Additionally, we view the competition as a learning opportunity for students to listen to alumni and investment professionals, as these judges evaluate pitches and provide insights on the investment management process. The current Darden Capital Management fund managers use the competition to screen attractive investment ideas and evaluate future DCM fund managers.

Darden Well-Represented At MBA Stock Pitch Competitions

By Raymond Chung, CFA ('06) and James J. Fessel, CFA ('06)

On November 1^{st} and 2^{nd}, Raymond Chung ('06), Chris Eastman ('07) and James Fessel ('06) represented Darden Capital Management at the 4th Annual MBA Stock Pitch Challenge at Cornell University's Johnson School of Business. Just one week later, on November 10^{th} and 11th, Greg Faulkner ('06), Blake Lipscomb ('06), and Will Snellings ('07) represented DCM at The Alpha Challenge, hosted by UNC Chapel Hill's Kenan-Flagler Business School. Both events attracted talented students from the nation's top 12 MBA programs. The objective of both competitions was to present compelling arguments to buy or sell particular stocks in an attempt to win over an elite group of judges. In Ithaca, the judges included top executives from Barclays Global Investors, Fidelity Investments, Morgan Stanley, Sandler O'Neill Asset Management, Wellington Management, TIAA-CREF, and a longtime veteran of Merrill Lynch. The Alpha Challenge brought in high-profile judges including Julian Robertson, founder of Tiger Management, and top executives from Evergreen Investments, The Ospraie Fund, Fidelity Investments, Morgan Stanley, Franklin Street Partners, Lehman Brothers, and Morgan Creek Capital Management. DCM participants had opportunities to meet these judges, as well as recruiters from Fidelity Investments and Wellington Management, whom asked for resumes from all participants.

In Ithaca, the teams had 13 hours on the first day to screen and analyze companies, develop buy, hold, or sell decisions, and prepare three final presentations. Each team was given Bowater, a paper products company, and a choice of eight companies from the financial and oil & gas industries to evaluate. On the second day, the teams pitched their recommendations to the judges, which involved 5 minutes to explain their investment case and 15 minutes for Q&A.

(From left to right: James Fessel, Chris Eastman, Raymond Chung)

The Darden team pitched Bowater (BOW) as a "Sell" based on expectations of future net losses, due to significant exposure to the print advertising business, which is in a secular decline, and a heavy debt-load that will likely continue to hinder the company's ability to boost capacity in the faster growing, coated paper segment. The Darden team recommended Commerce Bancorp (CBH) as a "Buy" based on above-average deposit and loan growth and an attractive valuation, with a forward P/E at a historical trough, although it was apparent that some of the judges had a differing opinion of Commerce. Nevertheless, the team believed that most of the future rate hikes were already factored into the stock price and any negative effect on earnings would be limited. Four teams were then chosen for the final round to present an idea from the oil & gas industry. In the end, the Kellogg School of Management was announced the winner, after a final pitch recommending to "Sell" Cabot Oil & Gas Corp (COG). Although the Darden team did not place, the team was pleased with their performance, the learning experience and the opportunity to see the Johnson School's state of the art investment center. After gaining solid experience this year, first-year Chris Eastman is prepared to lead Darden toward better results next year.

In Chapel Hill, the Darden team pitched Titanium Metals (TIE) as a "long" investment idea, and Smurfit-Stone (SSCC) as a "short." As in the Cornell competition, the Darden team was not able to grab the title, but gained valuable experience, networked with other MBA students and industry professionals, and brought first-year Will Snellings to gain the experience necessary to lead Darden toward better results next year. Similar to most competitions, the more you know going in, the better off you will be. Overall, DCM hopes to raise awareness of Darden's investment talent with consistent future participation in these competitions. Darden Capital Management selects 12 fund managers each year to actively-manage a small percentage of the school's endowment, divided among three student-managed funds. The assets managed by student fund managers have grown from $250,000 in 1990 to over $3.6 million today. On behalf of Darden Capital Management, we thank each and every one of the sponsors that made these events possible, and plan to return next year to both events, gunning for first place.

An Interview with New DCM Faculty Advisor Katy Sherrerd

By James J. Fessel, CFA ('06) and Katrina F. Sherrerd, PhD, CFA

Darden Capital Management recently gained a new Faculty Advisor, Katy Sherrerd, from the CFA Institute right here in Charlottesville, Virginia. As a Managing Director and Chief Planning Officer, Ms. Sherrerd was largely responsible for the CFA Institute's Planning and Professional Development Program, Research Foundation, and Strategic Planning. The DCM Advisor recently had a chance to chat with Ms. Sherrerd about a range of topics, from her responsibilities as Managing Director at the CFA Institute to her views on how Darden Capital Management can be enhanced.

DCMA: *First off, we welcome you as our new Faculty Advisor and look forward to working together to strengthen the Darden Capital Management Club each year.*

KS: Thank you. It is great to have the opportunity to work with students interested in investments.

DCMA: *Can you summarize your educational and career paths to date?*

KS: I am proud to be a graduate of both UVA business schools - Darden (PhD 1987) and McIntire (BS 1979). I also have a Master's degree from MIT. (I believe in diversification and didn't want all my degrees from the same school). As for work, prior to joining CFA Institute in 1987, I worked in the corporate finance department of DuPont Company in Wilmington, Delaware, and for Anistics Inc, a small finance-oriented consulting firm in New York. Over the years, I've taught finance courses at McIntire and now Darden on an adjunct basis.

DCMA: *What inspired you to pursue the opportunity to teach at Darden?*

KS: I believe that Darden, as a case-based school with top-notch students, can be a leader in the area of educating investment professionals. So, when Ken Eades called last year to see if I would teach Portfolio while Yiorgos was on leave, I had a tough decision to make. I wanted to teach, but did not have much extra time to spare given my job and family commitments. Fortunately, Portfolio was slotted in Q2 Early Week. Almost any other time slot during the year (or even during the week) would have been very difficult for me to work with.

DCMA: *What led you to the position as the Faculty Advisor of the Darden Capital Management Club?*

KS: Portfolio and DCM Faculty Advisor came as a package offer—and one I couldn't turn down.

DCMA: *Can you describe your primary responsibilities at the CFA Institute?*

KS: My primary role was to head the CFA Institute's Professional Development (that is, post-CFA designation) activities - conferences, publications such as the Financial Analysts Journal, web products, and the Research Foundation. As part of the senior management team, I serve on the Management Committee as head of strategic planning activities, and as executive for the Board's Planning Committee.

DCMA: *Do you think that Darden can establish a closer relationship with the CFA Institute?*

KS: Yes, I believe there are opportunities for the two organizations to work together. We've collaborated on several activities over the years, including our work on the Emerging Markets Conference series. A number of Darden faculty members have taught at CFA Institute conferences and/or have written books and articles for our publications. I believe there will be more opportunities in the future.

DCMA: *What do you consider to be your core area of expertise?*

KS: I have spent most of my career bridging the gap between theory and practice, academic and practitioner, in the field of investments. Thus, I have a broad generalist background with some knowledge in lots of areas, but not a lot of depth in any one area. If I had to choose an area where I am most comfortable, it would be in Portfolio theory and practice.

DCMA: *What skills do you feel contribute most to your success?*

KS: One of the skills I think is particularly important is my ability to synthesize information, ideas, and thoughts into strategies and plans. For me, it is important to be able to "see" the big picture - the vision, if you will. From the vision, strategies can be developed to get from where you are to where you want to be. I believe I can do both. I am not particularly strong on the details, however. I rely on people with detail skills for detail work, yet another example of how the portfolio concept is important. Teams deliver better results when they can leverage the different skill sets represented by the team members.

DCMA: *What type of person, in your view, is successful in investment management?*

KS: Lots of different personality types can succeed in the investment management field. There is room for the detail-oriented analytical person as well as the big-picture conceptual person. But to be successful, one needs to make an ongoing commitment to developing the appropriate knowledge and skills necessary for the job, be disciplined in their work, and be ethical.

DCMA: *In what ways do you think Darden Capital Management can be enhanced?*

KS: DCM is a great asset for the Darden School, and I like what the club is doing so far. Admittedly, I have a bias… But I'd like to see DCM expand beyond a predominantly stock-picking orientation to a more comprehensive portfolio approach. To that end, I'd like to see more orientation on portfolio and risk management early in the portfolio managers' terms.

DCMA: *In what ways can you take your experience from the CFA Institute to benefit DCM?*

KS: I see two key areas where my experience can help DCM. First, I have a "great rolodex"—that is, I have worked with people in both practice and academia all over the world. This provides a rich set of resources to call on for advice, stock pitch judges, and/or possible student jobs. Second, through my experience with the theory and practice of portfolio management, I can help broaden the DCM experience beyond the core emphasis on stock picking (which has been very successful) to also include more portfolio and risk management experience. It's not clear whether the broader experience will result in better performance. However, it will provide a more complete experience for the fund managers and a more comprehensive approach to risk management for the Foundation.

DCMA: *What three things do you hope to accomplish by the end of this year as a professor?*

KS: Most of all, I hope the students feel the course was worthwhile and provided a well-rounded understanding of portfolio management. As a teacher, I hope that I was able to convey the core principles of managing investment portfolios. As a person, I hope to grow through the experience. The first two goals are a work in progress, but I know I have learned a lot this year by working with Darden students.

DCMA: *What three things do you hope to accomplish by the end of this year as faculty advisor for DCM?*

KS: Honestly, most of the work in DCM is done by the student members, so my goals are really secondary to the work of the club itself. I hope, though, that I can contribute in a meaningful way to the efforts underway to build DCM into a real asset for the school. Personally, I'd like to see the school increase the number of student portfolio managers/analysts, acquire better analytical/portfolio management tools, and provide greater visibility of the club's work—particularly among employers.

DCMA: *How will you evaluate the potential candidates that apply to be the next DCM fund managers?*

KS: Potential candidates will be evaluated based on their commitment to the funds, interest in learning about investing through this experience, and recommendations of the current fund managers. I look forward to meeting each potential candidate in early 2006.

DCMA: *Do you have any views on the current market that you are willing to discuss?*

KS: No. I tend to take a long-term view of the markets… and hope for the best in the short-term.

Boston Scientific Corp. (BSX – $26.35)

Tobias C. Wessels, '07
WesselsT07@darden.virginia.edu

Target Price: $30
Market Capitalization: $21.6 Billion

Description: Boston Scientific is one of the leading players in the $21 billion worldwide market for cardiology devices. Last year's launch of the TAXUS stent solidified its dominant share of the $8 billion worldwide interventional cardiology market. BSX has the broadest interventional cardiology product bundle, and is also a leading player in peripheral angioplasty products, surgical vascular grafts, interventional neuroradiology catheters and stents, and minimally invasive endoscopy, urology, and oncology devices.

Positive Considerations: Boston Scientific remains the market leader in the U.S. for drug eluted stents with 55% market share (followed by JNJ at 45%). The company's stents require less repositioning (3% vs. 11% for the competition) and show better, (i.e. controllable) drug release, as well as less restenosis (clogging of blood vessels) than competitors products. The company's superior products and solid pipeline should enable it to grow sales by gaining additional share of the U.S. and European market, and introducing stents in Japan in 2006. New product development in separate medical device categories should result in increasing revenues and higher margins.

Risks: Management needs to prove that it can leverage its product platform in direct competition with JNJ. Legal battles should be avoided to reduce uncertainties in the market place about the future ability of BSX to provide follow up services, e.g. for replacement or repositioning of stents. Legal battles: BSX and the whole industry are subject to ongoing litigations. BSX just settled a pending lawsuit with Medtronic for USD 750 million.

Valuation: BSX is trading at a historic low (trailing P/E at 17.8x). Forward P/E for 2006 at 11.3x supports value story. Current PEG ratio indicates 40% discount to industry average. With a PEG ratio of 1.15 (20% discount to industry), growth of 13% and earnings of $2.06, the target price is $30.83. A 32% upside chance versus the current price.

Endo Pharmaceuticals, Inc. (ENDP—$26.27)

Brian Carney, '07
CarneyB07@darden.virginia.edu

Target Price: $34
Market Capitalization: $3.5 Billion

Description: Endo is a specialty pharmaceutical company developing, in-licensing and marketing proprietary and generic pain management drugs. Two-thirds of Endo's estimated 2005 revenues of $840MM will be generated from its patented pain management products, with the remaining one-third coming from its generic franchise. Endo's strategy is to continue developing both its proprietary and generic products through internal research and development, while also continually looking to acquire compounds from third parties.

Positive Considerations: Endo has established a dominant position in the $6.3 billion analgesic market in the United Sates. This market has been growing at a 20% compounded annual growth rate since 2000 and is expected to continue to grow with the aging population.

Sales of the Company's flagship product, Lidoderm, continue to demonstrate strong growth and the Company has a late-stage compound that should be approved in the first quarter of 2006. In addition, the Company recently launched the first generic version of Purdue Pharma's drug Oxycontin. The significant near-term revenues expected from this generic product should provide management with increased financial flexibility to pursue product acquisitions.

Risks: The largest near-term risk for Endo involves the approval of its late-stage compound called Oxymorphone. Lack of FDA approval for this product in early 2006 could impact the stock price.

Valuation: Endo trades at a discount to its peers on a forward looking P/E and P/E/G basis. Applying the median 2006 P/E multiple of its peers of 18.3x to Endo's consensus 2006 EPS estimate of $1.84 implies a valuation of $33.67 per share. Given Endo's large target market, strong pipeline and superior gross margins, Endo should eventually trade at a premium to its peers.

The Gap, Inc. (GPS — $16.87)
Brian Duff, '07
DuffB07@darden.virginia.edu

Target Price: $24
Market Capitalization: $14.8 Billion

Description: The Gap, Inc. ("GPS") is one of the most well known apparel retailers offering casual apparel, accessories, and personal care products for men, woman, and children. GPS designs, markets, and sells its own private label products under three brands: Gap (45% of sales), Old Navy (40% of sales), and Banana Republic (15% of sales). As of January 29, 2005, the GPS had a work force of 152,000 employees.

Positive Considerations: Investment in GPS is an opportunity to own a premier brand which is currently trading at a discount to its peers as well as to its historic three year multiple. GPS is a value and turnaround story. Management is focused on improving the merchandise offerings across all three brands and is targeting woman "baby boomers" who represent the largest growth segment of the market. With $2.44B in cash on the balance sheet and strong free cash flow generation ($1.2B in FCF in 2004), GPS is extremely well positioned financially to execute management's strategy to promote top line sales growth. The cash position as well as aggressive share repurchases (71M shares repurchased during the first 26 weeks of 2005), should limit the downside risk and therefore provide investors with an attractive investment from a risk/reward perspective.

Risks: The company's ability to improve comps and top-line sales growth is directly linked to management's ability to execute the merchandise and marketing strategy and the markets acceptance of the new product offerings.

Valuation: GPS currently trades at 12X forward earnings and 2.7X book value. If the merchandise strategy is successful I expect GPS to return to the low end of its historic 2 to 3 year average multiple (16.8x). The consensus analyst estimate for 2006 FY EPS is $1.45 which implies a 2006 year end price target of $24.

Gulf Island Fabrication, Inc. (GIFI—$25.56)
Josh Ayers, '07
AyersJ07@darden.virginia.edu

Target Price: $34
Market Capitalization: $314 Million

Description: Gulf Island is an Oil Services company primarily involved in the business of manufacturing and constructing jackets, deck platforms, and living quarters for offshore oil & gas production platforms.

Positive Considerations: Located on the Houma navigation channel in southern Louisiana, GIFI provides investors with a unique "pure play" opportunity to gain exposure to an upswing in offshore production activities. Due to a persistent disconnect between the equity market's valuation of Exploration & Production companies' reserves and the underlying price of crude oil, E&P companies have, for the past two years, sought out reserve acquisitions via equity markets (Tom Brown, Unocal, Petrokazakhstan), instead of through more traditional means such as drilling. Now that the equity valuations of the major oil & gas producers more accurately reflect the reality of $60 crude, E&P companies will have to return to more traditional acquisition activities in order to replenish their reserves. This upswing coupled with reconstruction needs in the Gulf of Mexico due to an extremely active 2005 hurricane season should provide high demand for GIFI's services. Furthermore, high barriers to entry should protect any enhancement in GIFI's ability to exercise pricing power.

Risks: Increased steel & iron ore prices, environmental regulation, customer concentration.

Valuation: Thanks to recent investments in capacity, GIFI should be able to accommodate an upswing in Rig activity in the GOM. Any such upswing would translate into an increase in demand for GIFI's services, which manifests itself in an increase in revenues and greater pricing power thanks to larger, higher margin projects like deep water platforms. Target price of $34.16 based on 20.7 comp median forward p/e at $1.65.

LEGG MASON

Legg Mason, Inc. (LM—$107.93)
Chris Pond, '07
PondC07@darden.virginia.edu

Target Price: $138
Market Capitalization: $11.9 Billion

Description: Legg Mason is a global financial services company with core businesses including asset management, securities brokerage, and capital markets. At the end of this year, LM will be swapping its brokerage division for Citigroup's asset management group. The deal will transform LM into a pure-play asset manager.

Positive Considerations: Legg Mason may not be able to sustain its organic growth rate of 23%+, but it will continue to grow faster than its peers going forward. This growth will largely be driven by LM's access to additional distribution channels and geographic regions as a result of the Citi deal. LM has also strategically positioned itself to take advantage of any type of market environment with its multi-disciplined premier asset managers. This adds a stability element to earnings not often found in financial services companies.

Risks: LM's success in the past has not only been the result of acquiring high-quality asset managers, but also by allowing them to continue functioning mostly independently from LM. In contrast, the Citi deal represents a risk to LM in that it will now have to integrate personnel, cultures, systems, and products. While the massive influx of new assets and increased distribution channels from the Citi deal represent a significant potential for asset growth, the question arises of whether Bill Miller & Co. at LM can continue their unprecedented track records with much larger pools of funds to invest.

Valuation: LM stock has performed exceptionally well over the past year, especially following the Citi/Permal announcement, and seems to be in a consolidation phase as investors digest the ramifications of the deal going forward. If LM can continue to grow faster than its peers, albeit at a lower rate than TTM, it will continue to garner a high earnings multiple relative to its competition. At 25x earnings, which represents a premium over peer FTM median multiple, LM would be valued at $138 using consensus EPS for FY 2007.

Limitedbrands

Limited Brands, Inc.(LTD—$20.14)
Ellen Lee, '07
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Target Price: $31
Market Capitalization: $8.1 Billion

Description: Limited Brands, Inc. sells women's intimate apparel, personal care and beauty products, and women's and men's apparel. The company operates through three segments: Victoria's Secret, Bath & Body Works, and Apparel Businesses. Founder Leslie Wexner is Chairman and CEO and actively involved in daily activities.

Positive Considerations: Over the past 10 years, Limited Brands has transformed itself from a company with 70% of sales from its apparel business, Limited and Express, to its current sales mix of 70% personal care, beauty and lingerie, with the bulk of these sales from two strong brands and very profitable businesses, Victoria's Secret and Bath & Body Works. LTD is growing businesses with predictable growth and more inelastic demand to create a more stable revenue base. The market is not valuing the growth potential of LTD. On a standalone basis, Victoria's Secret and Bath & Body Works divisions are growing at 11% and 12% respectively and the market is valuing LTD's overall growth at 5%. LTD has a strong focus on shareholder value, with average share repurchases per year of $500M-$1B, and a 3.1% dividend.

Risks: The apparel business has underperformed and continues to struggle with its fashion mix. LTD has hired industry veteran Jay Margolis, former COO of RBK and former Vice Chairman of LIZ to lead the apparel division. LTD has a 70% debt to equity ratio following a $3B stock repurchase in 2004. Due to the changing product mix, the more stable revenue base will allow the company to generate consistent cash from operating activities.

Valuation: LTD deserves an industry market multiple of 19x vs. its current 13x because its main businesses are growing faster than the total company. The apparel businesses are currently being valued at $0 and valuing them using the industry average price to sales multiple of 0.87 gives Express a $1.6B value and Limited a $502M value, or approximately $5 per share.

Lockheed Martin Corp. (LMT—$60.93)
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Target Price: $72
Market Capitalization: $27.1 Billion

Description: Lockheed Martin Corporation principally researches, designs, develops, manufactures, integrates, operates and sustains advanced technology systems, products and services. Their primary customers are agencies within the U.S. government (80%) and they serve customers and international defense (16%) and civil markets (4%). Lockheed Martin is divided into five business areas: Aeronautics, Electronic Systems, Information & Technology Services, Integrated Systems & Solutions and Space Systems. Currently Lockheed has $74 billion in backlog order. For fiscal year 2004, Lockheed Martin had revenue of $35.5 billion and EBITDA of $2.99 billion.

Positive Considerations: The Defense business has been very strong post 9/11. With large increases in government spending, defense companies have seen large growth at the bottom line as the military moves away from stockpiled arsenals to flexible, quick response capabilities.

In that time Lockheed (the largest defense contractor) has become the sole producer of fighter jets for the U.S. military winning the largest defense contract ever awarded and has been consistently setting records in order backlog. It has continued to diversify its product base to increasingly developmental programs that position Lockheed well for the changes in war fighting. Lockheed has a strong balance sheet, as Lockheed has paid down $1.2B in debt and increased share repurchase and dividends.

Risks: Decreased government spending, cancellations to parts of the JSF F-35 fighter and ACS programs

Valuation: Lockheed has a strong financial outlook and is cheap relative to its peers. My estimate of $72 per share is in line with the industry EBITDA multiple of 10.8x vs. the present 9.6x and reflects its strong ROE, dividends and earnings growth.

Retail Ventures, Inc. (RVI —$9.99)
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Target Price: $14.50
Market Capitalization: $394 Million

Description: RVI owns and operates 114 off-price Value City and Filene's Basement "off-price" department stores in the Midwest, Northeast and Southeast. Majority-owned subsidiary DSW, Inc. (DSW - $22.74) operates 177 large-scale discount shoe stores in 32 states, with a focus on women's footwear. In addition, DSW manages 25 leased shoe departments for RVI-owned stores, and over 200 non-affiliated department stores.

Positive Considerations: DSW plans to add 30 additional stores per year through 2009. The company has gained a 2% share in the $40B adult footwear market through its unique concept (high-end shoes for less) and measured expansion. Substantial market share growth potential exists in the very fragmented footwear space, particularly given DSW's nascent efforts to expand athletic footwear offerings.

RVI's relatively new CEO Heywood Wilansky has experience in repositioning off-price department stores, having led the successful turnaround of The Bon-Ton Stores during the 1990s.

Risks: Execution risk with respect to the turnaround of RVI's off-price stores: the retail space is intensely competitive, and off-price discounters have been losing business to "big box" retailers like Wal-Mart.

Valuation: Investors long RVI pick up growth and value, with minimum upside to $14.50. The RVI "stub" trades at roughly 3.3X next year's estimated EBITDA, reflecting the hard times that have befallen its department stores. A moderately successful turnaround would add an incremental ~$2.50/share, given just a 5X EBITDA multiple (still a discount to peers). Assuming no P/E multiple expansion, 20% growth (consensus estimate) in DSW EPS would add another $2 to RVI's stock price.

American Eagle Outfitters, Inc. (AEOS—$20.57)

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Target Price: $30
Market Capitalization: $3.2 Billion

Description: American Eagle Outfitters is a mall-based retailer selling casual apparel and accessories aimed at men and women ages 15-25. It operates about 850 American Eagle stores in the US and Canada and plans to open more. Direct sales come from the company's Web site and its AE Magazine, a lifestyle magazine which doubles as a catalog.

Positive Considerations: At the current time of valuation, October sales were strong and customer response to the company's first Holiday floor sets was positive, which are good indications for 4Q sales and earnings. American Eagle is also continuing expansion of high margin accessories which roughly make up 10% of current sales. American Eagle continues to focus on expanding its customer base and optimizing store operations with its new AE All-Access Pass Customer Loyalty program, new store concept, Martin+Osa (on track to open in fall 2006), and implementation of new markdown optimization and logistics software. The Martin+Osa concept will target a slightly older customer (25-40) base with higher price point casual and active apparel offerings. Roger Markfield (former head merchant of AE responsible for the recent turnaround) is spearheading this growth vehicle. American Eagle announced a 2.5 million share repurchase program on 10/6/2005 following the completion of its previous 3.5 million repurchase program.

Risks: Difficult same-store comparisons in the second half of 2005, AE concept could be reaching maturity, inventory growth, macro economic concerns (higher energy prices, higher interest rates and a slowing U.S. housing market)

Valuation: Current economic concerns over higher energy costs and interest rates have caused an exaggerated decline in confidence in the retail sector. This overcompensation combined with the continued growth of AEOS has created a temporary window of opportunity. AEOS comparatives to its peers make this an attracted buy and DCM could buy AEOS at a value price—14x 2005 P/E vs. a historical industry average P/E of 19x.

CarMax, Inc. (KMX— $26.77)

Charles Seidman, CFA '07
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Target Price: $40
Market Capitalization: $2.8 Billion

Description: CarMax, a Fortune 500 company and one of the Fortune 2005 "100 Best Companies to Work For," is the nation's largest retailer of used cars. CarMax, and its wholly owned subsidiaries, operate as a retailer of used cars and light trucks in the United States. It purchases, reconditions, and sells used vehicles. The company also provides a range of related services, including the financing of vehicle purchases, third-party lenders, sale of extended service plans and accessories, and vehicle repair service. The company also sells new vehicles under various franchise agreements. As of August 31, 2005, it operated 63 used car superstores, as well as operated 7 new car franchises. CarMax was co-founded by Austin Ligon in 1993.

Positive Considerations: CarMax is in the early stages of revolutionizing the used car business. It is not just an auto retailer. A unique business model allows customers to shop for cars in a way similar to shopping at other big box retailers. KMX is a pioneer in consolidating the once fragmented used car industry dominated by mom and pop shops. Recently the stock has been beaten down by a series of factors, both internal and external, including the retirement of its CEO, Hurricane Katrina, and rising interest rates.

Risks: Principal risks include unfavorable macro conditions, overproduction of new cars from manufacturers, as well as higher than expected rising interest rates.

Valuation: CarMax has continuously beat analyst estimates, yet has not been rewarded by the market. It should achieve a same store growth rate of 15-20% and should increase EPS by 20% per year over the next 5 years. KMX should eventually achieve an 8-10% market share of the $265 billion retail used car market, translating into revenues of approximately $20 billion. Additionally, KMX carries only about 3% debt on its balance sheet, which will make financing future growth easy.

Compass Minerals International (CMP—$24.76)
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Target Price: $31
Market Capitalization: $785 Million

Description: Compass Minerals is primarily engaged in the mining and marketing of salt for highway deicing and diverse general trade purposes. They are the #2 producer of salt in North America, and the largest producer of highway deicing salt in North America. Their primary market is the upper Midwest and eastern/central Canada.

Positive Considerations: Compass is in an attractive competitive position for the delivery of highway deicing salt. Its primary mine is located on the Great Lakes, which reduces transportation costs, the highest component of delivered highway salt. It is also the low-cost leader, with an average cost advantage of 30-45%. At current rates of production, the company's mines are expected to last between 30 and 177 years, which reduces the expected need for substantial capital expenditures in the future. The salt industry is also recession-resistant and has relatively stable pricing for a commodity. The company is committed to paying a substantial dividend (4.6% yield), which will rise in the future as it pays down its large debt load.

Risks: The biggest risk to which the company is exposed is the weather – if the Midwest winter is warm and without snow, the stock will likely be hurt. Additionally, rising energy costs in the mining and transporting of salt could hurt margins. However, Compass has demonstrated an ability to pass on such price increases to customers. The company also has a large debt load, but it is committed to paying it down and has demonstrated its ability and intent to do so in recent years.

Valuation: Many of the companies in the specialty chemicals industry are not comparable, since they are much more dependent on the overall level of economic activity, experience higher commodity price volatility, and require higher capital expenditures. In light of this, CMP's fundamentals support a higher multiple than the industry. My $31 price target is based on a free-cash flow to the firm model using an exit EV/EBITDA multiple of 8.2X (versus current CMP and specialty chemical multiples of 7.6X and 7.2X, respectively).

Merck & Co. Inc. (MRK— $30.11)
Tobias C. Wessels '07
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Target Price: $35
Market Capitalization: $65.8 Billion

Description: Merck is a global pharmaceutical products and services company that discovers, develops, makes and markets a broad range of products to improve human and animal health, directly and through its joint ventures. The company's products include cholesterol drugs Zocor and Zetia as well as hypertension drug Cozaar/Hyzaar.

Positive Considerations: MRK dominates the major drug market with well established "classic" products in four segments: hypertension, cholesterol, osteoporosis and viral. The company has a cost advantage over competition: (e.g. Pfizer: Zocor sells for less than Lipicor). Additional strengths include; long pipeline, brand name, existing distribution network.

Risks: The management needs to prove that it can leverage its product platform in direct competition with Pfizer and smaller manufacturers. Legal battles should be avoided to reduce uncertainties in the market place about the future ability of MRK to provide sustainable product platform. MRK faces severe competition as soon as the patent is lifted for its product. Generic manufactures are ready to offer equivalent copies of Zocor at a 60%-70% discount. Cost pressure forces physicians to use cheapest drug producer. MRK invested heavily (USD 2.7 million or 17% of sales) in R&D. It remains questionable if the leaving cash cows (Zocor and Fosamax) can be replaced with other promising products. MRK and the whole industry are subject to ongoing litigations. However, current court rulings on a state level (NJ) were in favor of Merck. Federal charges are usually less likely to succeed due to tighter regulations and admissions procedures.

Valuation: MRK is trading at a historic low (trailing P/E at 14.4). Forward P/E for 2006 at 12.5 (versus 17.3 for peers) supports value story. Dividend yield at 5.1%.

Monsanto Company (MON — $72.01)
Benjamin B. Mackovjak, '07
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Target Price: $90
Market Capitalization: $19.3 Billion

Description: Monsanto Company (MON) is a leading global provider of technology-based agricultural products that improve farm productivity and food quality. It produces seed brands and develops biotechnology traits that enable farmers to produce crops with higher yields while controlling weeds, insects, and disease.

Positive Considerations: MON offers incredible growth potential that is hard to find in the market for a company of this quality and size. MON's immense growth thesis is based on the untapped market potential that exists for biotech seeds. If MON can penetrate half of these remaining conventional row crop acres, earnings could increase 2 to 3 times. In addition, as the world's population increases, existing farmland will need to become more productive to keep up with the increase in food demand. Farmers are being forced to adopt MON's products out of competitive necessity. The acceptance of genetically modified food has gained momentum in the past several months leading to a decrease in the risk of prohibitive government regulations. MON has the first-to-market advantage and has invested over $1 billion in biotechnology. It continues to invest more into R&D than all of its competitors combined and as a result, it is estimated that MON's pipeline offers an incremental $2.29 per share.

Risks: MON sells to the agricultural market and bears some of the risks associated with weather. Another risk MON faces is regulatory approval. The final risk is that of new competitors.

Valuation: MON's stock is not cheap relative to historical valuations in the chemicals sector but I argue that MON should be valued relative to biotech companies. MON's business plan going forward more closely resembles a biotech company rather than a chemical company. Applying MON's guidance from the November 10, 2005 conference call to the NASDAQ Biotech Index multiples, MON could easily hit $90 a share and still trade below the index PE average and price/book even though MON actually has a higher EPS growth rate.

NCO Group, Inc. (NCOG—$15.60)
Will Snellings, '07
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Target Price: $28
Market Capitalization: $501 Million

Description: NCO Group, Inc. performs accounts receivable management, customer relationship management, and purchases past due consumer accounts receivable.

Market Position: NCO Group sustains a dominant market position in the long term accounts receivable collection business because of historical investments in data warehousing, proprietary collection modeling, and its extensive nationwide attorney network. NCO produces the highest collection success rates of its peers and generates consistent and growing free cash flow.

Positive Growth Considerations: The IRS will begin outsourcing the collection of $250B of overdue taxes in 2006. NCO's dominant position in long term AR collection market bodes well for its chances to win a contract. Also, a recent change in the bankruptcy code makes it more difficult for individuals to file for bankruptcy protection which should inc. NCO's collection percentages.

Risks: NCO was the target of two revenue recognition scandals that the SEC recently exonerated them from. The collection agency industry is unattractive and has shown minimal growth in the last 5 years.

Valuation: NCO currently trades at 6.5x FCF and 8x 2006 consensus EPS. Over the last 5 years, FCF has steadily increased with low variability and sales and net income have grown at approx 15% per year. However, the stock price is down over 50% over that period.

Bottom Line: Disregarding the growth opportunities, NCO is a cash flow machine that is trading below intrinsic DCF valuation at a very conservative 15% discount rate. If NCO wins an IRS outsourcing contract or the change in the bankruptcy code produces growth, there is significant upside for the stock, representing a great Risk/Reward proposition.

SEARS HOLDINGS CORPORATION

Sears Holdings Corp. (SHLD—$116.71)
Chris Pond, '07
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Target Price: $142
Market Capitalization: $19.2 Billion

Description: Sears Holdings Corp., formed following the merger of Sears, Roebuck, & Co. and Kmart on March 24, 2005, is now the nation's 3rd largest retailer behind Wal-Mart and Home Depot. It currently operates 3,868 full-line and specialty retail stores in the U.S. and Canada. The company's key brands include Kenmore, Craftsman, Diehard, Lands' End, and Martha Stewart Everyday.

Positive Considerations: Chairman Edward Lampert continues to reward shareholders while improving the operating capabilities of SHLD. Sears has announced two separate $500MM share repurchases this year. It has already repurchased $434MM, and the remaining $566MM represents 3% of shares outstanding at current prices. Through headcount reductions and benefit changes, management has driven SG&A expense down by $90MM in 2Q '05 compared to last year on a pro forma basis. Also, as a result of the merger, Sears should be able to negotiate better prices from its suppliers due to a higher revenue base.

Risks: The major concerns with SHLD right now center on the negative same-store sales trends at Sears and (marginally) at Kmart. The key driver to the success of this company will be an improvement in operating margins. However, limited visibility (no earnings forecasts, little coverage, and short track record) has forced some investors to shy away from the company.

Valuation: Current valuations represent a good entry point as SHLD is now trading 27% off of its 52-week high, and below its 200 & 50 day moving averages. If Sears can begin to close its revenue and earnings gap by increasing margins, it will continue to carry a "management premium" relative to its peers. At a P/E multiple of 18x (10% premium over peer median forward multiple) SHLD would be valued at $142 using FYE Jan '07 consensus earnings estimates.

Timberland® Make it better.™

The Timberland Company (TBL—$33.33)
Luke Semple, '07
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Target Price: $40
Market Capitalization: $2.2 Billion

Description: The Timberland Company designs, markets and distributes premium-quality footwear, apparel and accessories. Timberland's products are sold in specialty stores, department stores, and through its own retail and outlet stores. Footwear accounts for 78% of sales, and 22% come from apparel and accessories. Timberland operates over 100 stores and 25 factory outlets in Europe and Asia. Domestic sales are 58% of the total, with 42% of sales from international regions.

Positive Considerations: Timberland's brand remains strong in the U.S. and continues to grow in both Europe and Asia. Among outdoor brands, Timberland is the most recognized brand. Management recognizes the maturity of the domestic boot market and is focused on building upon brand equity through innovation while carefully developing brand extensions. Management has decided to avoid "pushing" fashion product and return to "basics" by making products geared for everyday use that may be adopted as fashion products (similar to their boot success in urban markets). Timberland tightly controls its supply to avoid over-saturation of its products and maintain its premium price-points. Primary geographic growth markets are international. Europe accounts for 75% of international sales, while Asia accounts for 20%, and Canada, 5%. In the Spring of 2006, Timberland will open its first stores in China.

Risks: The high volume of international sales makes Timberland susceptible to exchange rate risks, slowdowns in the European economy, and the European footwear industry, in general. Other risks include a competitive domestic environment and rising raw material costs.

Valuation: Timberland's stock is cheap. The stock is selling at 7.1x Enterprise Value/EBITDA and 12.7x 2006 EPS consensus of $2.50, both significantly below its peers. Free Cash Flow should exceed $150 million in 2005, and the company has no long-term debt.

Darden Fund	Jefferson Fund	Monticello Fund
Equity Holdings	**Equity Holdings**	**Equity Holdings**
Avid Technology Inc	Berkshire Hathaway	Berkshire Hathaway
Clean Harbors Inc	Anheuser-Busch	Capital One
ConocoPhillips	Chevron Corp	Chicago Bridge & Iron
Curtiss-Wright Corp	Education Mgt Corp	China Mobile
Corrections Corporation of America	FPIC Insurance Group	Chevron Corp
Diebold Incorporated	General Dynamics	Devon Energy
Delphi Financial Group	Hospira Inc	Endo Pharmaceuticals
Emcor Group Inc	iShares Russell 1000 Index	Gilead Sciences
Equity One Inc	JP MorganChase	Home Depot
Gardner Denver Inc	Monro Muffler Brake Inc.	Kellogg
Harman Intl Inds Inc	Nokia Corporation	Lam Research
Headwaters Inc	Norfolk Southern Corp.	Microsoft
iShares S&P Small Cap 600 Index	Pfizer Inc.	Pepsi
J2 Global Comm Inc	Royal Caribbean Cruises	Symantec
Jos A Bank Clothiers Inc	Satyam Computer Services	Target
Kanbay International Inc	Sovran Self Storage	Thor Industries
Maverick Tube	Verizon Communications	Titanium Metals
Molecular Devices Corp		
Piedmont Natural Gas		
Steak N Shake		
Texas Capital Bancshares Inc		
Thor Industries		
Titanium Metals		
THQ Inc		
Thomas Nelson Inc		
Fixed Income Holdings	**Fixed Income Holdings**	**Fixed Income Holdings**
3.250% UST Notes due 8/15/07	6.125% UST Notes due 08/15/07	3.500% UST Notes due 11/15/06
6.125% UST Bonds due 11/15/27	4.250% UST Notes due 08/15/14	4.375% UST Notes due 05/15/07
6.875% Wal-Mart Bonds due 8/10/09	2.750% UST Notes due 08/15/07	4.125% FHLB Cllbl due 09/30/08
6.250% SBC Bonds due 3/15/11	3.250% UST Notes due 08/15/07	1.875% USTII Notes due 07/15/13
5.000% GNMA MBS due 7/20/34	4.375% UST Notes due 08/15/12	2.000% USTII Notes due 07/15/14

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