

CARLSON FUNDS ENTERPRISE

A newsletter of the Carlson School Enterprises

CARLSON
SCHOOL OF MANAGEMENT
UNIVERSITY OF MINNESOTA

The Carlson Funds Enterprise grows up

New clients lead to \$3.4 million increase in managed assets

The Carlson Funds Enterprise analysts had reason to celebrate as 2005 came to a close, and so did their investors. The past year had been marked by significant successes. The growth fund delivered another year of exceptional performance, and the fixed income fund had a positive return.

The growth fund's net asset value per share grew 18.9 percent. The fund now has an outstanding seven year track record and, when compared with several hundred other small cap growth mutual funds, ranks in the top quartile of performance. This successful track record is the result of excellent stock research and portfolio management by the students, augmented by staff instruction and significant mentor participation.

The fixed income fund had a positive

return for the year of 0.8 percent, but slightly trailed its benchmark after all fees. Several new investment grade corporate bonds were added to the portfolio, allowing the achievement of greater industry and sector diversification. The duration of the fund remained slightly short of the benchmark index.

The Funds Enterprise is different from student-driven programs at other universities. The students manage money from outside investors, rather than from donations, university funds, or both. The dedicated participation of professional analysts and portfolio managers also makes it stand out. In 2005, the Enterprise attracted three new investors to the growth fund: Piper Jaffray, Securian, and the first individual investor. As a result of these new investments and

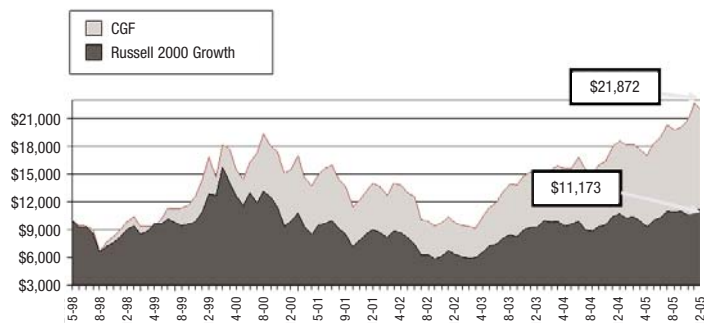
the strong performance, assets under management increased from \$5.4 million at the beginning of the year to \$8.8 million at year end.

Despite this increase, the Funds Enterprise continues to seek new investors, with the students making the pitch to potential clients.

"We have an exciting value proposition in that we are seeking investors, not donors, who want to support our program to develop strong financial analysts who can hit the ground running in both corporate finance and investment jobs," says Joe Barsky, director of the Funds Enterprise. That's certainly proven to be the case so far: all 2005 graduates are employed, and many members of the Class of 2006 have already secured employment upon graduation.

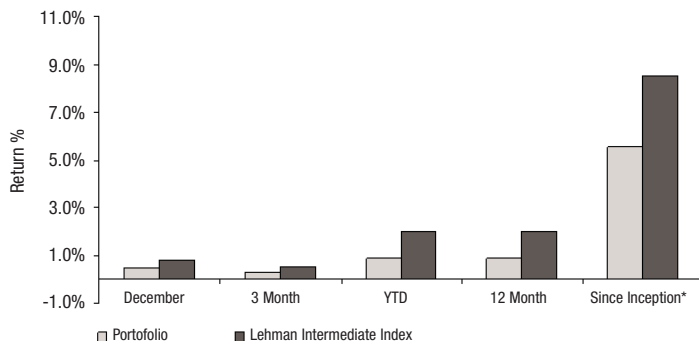
Performance Snapshot

Growth fund
Outperforming the Benchmark



Inception 5/1/98. Performance through 12/31/05.

Fixed income fund
December 2005



	Dec. 2005	3 Month	YTD	12 Month	Since Inception*
Portfolio	0.46%	0.27%	0.83%	0.83%	5.52%
Lehman Intermediate Index	0.78%	0.55%	2.01%	2.01%	8.53%

* Inception 3/1/03. Performance through 12/31/05.

Insights into ethics

Each year, Faegre and Benson attorneys Matt Thompson, a member of the Carlson Funds Enterprise Advisory Board; Mark Strefling, '98 MBA; and Trina Winkelman visit the Funds Enterprise. They inform the new class of laws regarding insider trading and the standards of the Investment Advisors Act that apply to both registered and unregistered investment advisors. The student analysts gain an understanding of issues such as churning, front running, market timing, late trading, and unequal treatment of clients.

As in any investment management firm, Carlson Funds Enterprise students are expected to follow regulatory requirements and to act ethically. Each year, the incoming class of students signs a code of ethics laying out expectations for appropriate behavior and limitations on personal trading. The Enterprise appoints a student compliance officer whose responsibilities include enforcement of the code of ethics and responsibility for voting on corporate proxies.

The Funds Enterprise is not a registered investment advisor, but members believe that it is extremely important that it operate in a manner that is expected of registered investment advisors. This is especially important as the Enterprise grows its assets under management and emulates the activities of a real-world investment management firm.

Diversity matters

Linda Henderson, professional advisor of the Carlson Funds Enterprise's growth fund, shares some thoughts on being a woman in the investment field



Q. Has being a woman impacted the choices you've made during your career?

A. I'm the kind of person who doesn't like to be told that I can't do something. Thus, the fact that women weren't expected to go into the investment field when I started my career was probably one of its attractions. I was always very competitive in school and drawn to the logic of economics and finance courses.

Q. Have you ever felt that you've had an advantage or disadvantage because of being a woman?

A. I bristle a bit at the notion that being female in this male-dominated business could be a net advantage, on the whole. I won't say that there haven't been specific advantages within an overall disadvantaged situation. Once you prove yourself, which is, or at least can be, very tough, people do notice that you're different. That's occasionally helpful. It's also sometimes very lonely.

I don't find it productive to focus on the differences, however. We're all well advised to just focus on doing the best job we possibly can. And one of the best things about jobs in the investment field is that so many can be objectively measured, reducing the chance of discrimination.

I do feel the responsibility to help other women and those in the minority to get a fair chance in their career. I enjoy it, too. I had quite a bit of success as a manager in my career hiring nontraditional candidates, as so many employers inevitably overlook people who are a little bit different from themselves. That left more talent available for those of us willing to consider atypical candidates. It was one of those wonderful chances to do well and do good.

Diversity can come in different forms, too. I was visiting with one of my former RBC Dain Rauscher colleagues recently, who mentioned their hiring of a white male with a very different personal style and creative way of looking at the business. That's diversity. It's a danger in business to have too many people who are too much alike, comfortable as that may be.

Advisory board update

The Carlson Funds Enterprise welcomed three new members to the advisory board in 2005:

Marilyn Froelich, vice president and director, Advantus Capital Management

Debbie Sit, vice president, Sit Investment Associates

Russ Swansen, chief investment officer, Thrivent Financial

Three long-time board members retired:

Herb Hanson

Al Harrison

Lou Nanne

The Carlson Funds Enterprise thanks you for your years of dedication.



An American success story

Voyager Asset Management takes aboard alum Kamen Dimitrov

By the second year of his MBA program at the Carlson School, Bulgarian-born Kamen Dimitrov, '05 MBA, knew that he wanted to be a corporate bond analyst for a U.S. investment firm. But U.S. government limits on work permits would make it difficult to secure a permanent position, and so Dimitrov knew he would need to return to Bulgaria after graduation.

Dimitrov's Funds Enterprise experience was teaching him how to analyze corporate bonds. But daunted by the time required by an overseas job search, Dimitrov feared he wouldn't have time for the Funds Enterprise. Against all advice, he decided that his only option was to quit.

But when his fellow students learned of his plans, they wouldn't let him do it. Touched by this positive reinforcement,

he rejoined the fixed income team. He also began to study for the CFA level two exam (he'd passed level one at the end of his first year).

Each semester, the student analysts present recommendations to their mentors, all industry professionals, who

“This is what we are all about—educating and encouraging students, cultivating networks, and helping students realize their dreams.” *Joe Barsky, director, Funds Enterprise*

serve as the investment policy committee. Dimitrov's recommendation of a

Weyerhaeuser bond generated a spirited discussion, but Dimitrov defended his position. In April 2005, the mentors voted to approve the purchase of the bond.

Dimitrov's presentation so impressed mentor John Huber, '95 MBA and Voyager Asset Management's chief investment officer, fixed income, that he offered the student one of the two new summer internships at Voyager.

“This is what we are all about—educating and encouraging students, cultivating networks, and helping students realize their dreams,” says Joe Barsky, director of the Funds Enterprise.

At the end of the summer came the best news yet: Voyager offered Dimitrov a permanent position, including aid with work permits. The final triumph? He'd also passed the CFA level two.

Meet a director

Paul A. Richardson is professional advisor to the Carlson Funds Enterprise's fixed income fund. He also teaches a course on the world economy for MBA candidates. Previously, Richardson served as managing director and portfolio manager of Black River Asset Management and as director of research and quantitative trading for global capital markets at Cargill. His experience also includes time as vice president of fixed income research at Lehman Brothers in New York.

Richardson received his doctorate in economics from

Harvard University and his bachelors degree from the University of California, Los Angeles. He has been a visiting assistant professor of finance at the University of Michigan, Ann Arbor. In the 1980s, Richardson worked as an assistant professor of finance and economics at the Carlson School of Management, where he researched term structures of interest rates and option pricing theories. After several years serving as an adjunct professor, Richardson says, “Coming back full-time to the Carlson School is like coming home.”

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Meetings yield meanings

“Investing is both a science and an art,” says Linda Henderson, professional advisor of the Carlson Funds Enterprise’s growth fund. After extensively researching companies using criteria that include three years of profitability and \$10 million to \$2 billion in market capitalization, Funds Enterprise students make site visits to companies across the country, thanks to a generous gift from State Farm. In addition to further probing officials on their financial data, the students can see if the numbers are backed up by solid management teams, sensible strategies, and a product that generates enthusiasm.

Creating relationships with leadership is important, but, as student analyst Chuck Sawicky observes, “It’s a fine line to walk. You can’t be their best friend and just accept what they say.”

On a visit to a California software company, MBA students Jason Deleew and Sean Naughton learned of the

close relationship of top managers: the CEO, the CFO, and a vice president spend an hour and one half together every day—on their commute, when they carpool. And when an employee gave the team of analysts a demonstration of the product, his enthusiasm showed that employees were as passionate as the leadership. “You can’t learn that from the financial data,” says Naughton.

Sometimes, the analysts were surprised by what they found. On a visit to the headquarters of a Texas oil company, Joe Brill found an impressive lack of ostentation. “It wasn’t what you expect an oil company to be,” he said. “There were eight employees, and they were all working hard. I didn’t see any wastefulness.”

Brill gained insight into the company’s strategy. The company had made 30 acquisitions in the past five years, which had led to profits, but Brill knew that

the company could have been responding to threats or seeking short-term profits. “When I asked them about their strategy, their focus was long-term growth, despite the cyclical nature of the oil industry,” says Brill. “Employees recommended the acquisitions, which were always of small, low-priced companies in areas complimenting current offerings. The CEO then evaluated the acquisition to see if it would benefit the shareholders.”

Brill also observed the interactions of the CEO and vice president. “The two referenced their different points of view on certain matters, which showed me that the CEO hires people with expertise and lets them use it. He’s not surrounded by yes-men.” The company’s thoughtful process impressed analysts and their professional mentors alike: the mentors approved the investment in December.