

CARLSON FUNDS ENTERPRISE

A newsletter of the Carlson School Enterprises

CARLSON
SCHOOL OF MANAGEMENT
UNIVERSITY OF MINNESOTA

High-Flier

Airline industry turmoil puts financial analysts on top

Dave Rust, '05 MBA, has no regrets about his career path—even though he joined Northwest Airlines only four months before it went into bankruptcy. In fact, a challenging environment was just what he wanted.

“I thought that it would be more interesting to extend my finance knowledge working for a company in a distressed environment, rather than one in a steady-state operation,” Rust says of his decision to accept a position of financial analyst in financial planning and analysis at Northwest Airlines. “I was excited by the opportunity to work in an interesting, dynamic industry where there is lots of data to analyze.”

The job offer came during his second year in the Carlson Funds Enterprise. He was one of eight '05 students managing the growth fund—and one of four who joined Northwest after graduation from the Carlson School that spring.

When Northwest filed for bankruptcy, Rust never feared losing his job. On the contrary, major restructuring made Rust and Northwest's other financial professionals even more crucial to the company. His workload increased, and his knowledge base rose dramatically. After only

10 months, he was promoted to senior financial analyst.

Northwest emerged from bankruptcy in late May '07. This success changes the way that Rust sees his job and the company's future. “We're going from playing defense to offense,” he says. Rust will support the company's goal to build the top line, while also controlling costs.

Rust credits his Funds Enterprise experience with helping him succeed in the world of corporate finance. He says, “The Enterprise enabled me to internalize finance instruction by modeling a company's financial future when I prepared to recommend a new stock to the mentors.” In addition, Rust was one of the first students to use a travel grant from State Farm Insurance, which allows Funds Enterprise students to visit companies across the country to assess their management and operations. Rust and Greg Nelson (now also a financial analyst at Northwest) visited Costa Mesa, Cal.-based Ceradyne, a developer and manufacturer of advanced technical ceramic products and components for defense, industrial, automotive, electronic, and medical markets. In part thanks to the first-hand knowledge gathered on their

visit, Rust and Nelson successfully made a “buy” recommendation to the Carlson Funds Enterprise mentors.

These days, Rust maintains a close connection to the Funds Enterprise. He has been a regular financial contributor since his graduation. And in spring 2007, Rust and his Northwest Airlines mentor and recruiter Jack Malone returned to the Carlson School to lead Funds Enterprise students in a discussion about Northwest's decision to modify 757 aircraft to be able to fly to Europe. In the class, Rust built the framework of a DCF (discounted cash flow) model, presented assumptions involving project finance, bankruptcy law, and marketing, and then challenged the students to fill in the missing pieces to determine if Northwest should modify the 757 aircraft. Rust and other class of '05 growth fund analysts will present this case study to the class of '08 students this coming fall term.

If Rust could do it again, would he have participated in the Funds Enterprise and joined Northwest Airlines after graduation? He says, “It was hard, but I've learned a lot. I wouldn't do anything differently!”

Allianz Life invests \$2 million

The Carlson Funds Enterprise is pleased to announce that Allianz Life Insurance Company of North America has invested \$2 million in the fixed income fund. This is the first new investment since the fixed income fund's inception in March 2003, and Allianz is the seventh investor in the fund. Allianz manages over \$40 billion in primarily medium term investment grade bonds through a sizable investment operation in the Twin Cities.

The new relationship came together thanks to Allianz

board member and former Carlson School interim dean Jim Campbell's efforts. He and Carlson Funds Enterprise director Joe Barsky worked to build relationships with Chief Investment Officer Dr. Volker Stuken and Senior Vice President and Treasurer Ty Campbell. The commitment was cemented by a presentation by three members of the Class of 2007. In addition to the investment, Allianz posted MBA-level internships for Carlson students, providing opportunities for current students to begin to experience work at Allianz.

Annual Client Review

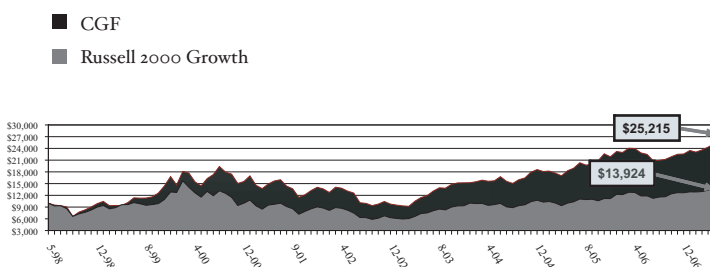
Like any investment management firm, the Carlson Funds Enterprise conducts annual client reviews. Because of the difficulty of reaching each client individually, each year the Enterprise invites clients, alumni, and others to a student presentation on the performance of the two funds.

The March 2007 client review focused on the performance of the fixed income fund and the recent changes in the fund's benchmark index. Students also discussed the fund's investment policy, bond selection process, and strategy. The fund now consists primarily of investment grade corporate bonds, treasury, and agency securities. Exchange traded funds are also

used to allow the fund's duration and sector composition to more effectively match the Lehman Intermediate Government Credit Index.

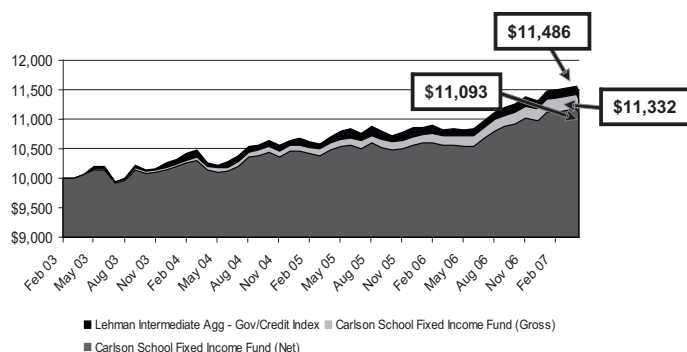
In March 2006, the presentations focused on the Carlson growth fund. Students discussed investment strategy, reported on annual and longer term performance, and showed a comparison of the growth fund's performance versus both the benchmark index and the universe of domestic, small capitalization growth stock mutual fund managers. Over its nine-year-long history, the Carlson growth fund has ranked in or very close to the top quartile of managers for all time periods.

Cumulative Performance *Carlson Growth Fund*



Inception date is 5/1/98. Performance data is through May 2007.

Cumulative Performance *Carlson Fixed Income Fund*



Inception date is 3/1/03. Performance data is through May 2007.

Celebrate good times!

The Class of 2007 marked a Carlson Funds Enterprise milestone: the 10th graduating class since its inception in 1998. The Funds Enterprise now has over 200 alumni working in diverse firms. In May 2008, the growth fund will have a ten-year-long performance record, an occasion that we will celebrate by hosting an alumni reunion scheduled for Thursday, May 1, 2008. Please mark your calendar now and plan to come back to the Carlson School for this event, and watch for more information as the date draws nearer.

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Mentor and mentee

Mike Cox, '03 MBA and Arin Kornchankul, '07 MBA

In spring 2006, Arin Kornchankul, then a first-year MBA candidate and a new participant in the Carlson Funds Enterprise, was paired with mentor Mike Cox, '03 MBA. "As an alum of the Carlson School and the Enterprise, it's great to be able to give back," says Cox. "I value being a part of the mentor community, because it allows me to meet other analysts."

The mentors are analysts, portfolio managers, and bankers from many Twin Cities financial institutions. They advise students on networking and career plans. They also play the role of an advisory board. Twice a year, students in the Funds Enterprise present their careful evaluations of companies and their recommendations—buy, don't buy, or hold—to the assembled mentors.

Mike Cox was in a good position to advise Kornchankul. After graduating, he parlayed his growth fund experience into a job at Piper Jaffray as a junior analyst following hard-line retailers. After a year, Cox was promoted to senior analyst and hired an associate to work for him. Early in 2007, Cox changed industries and began following smaller, relatively under-followed industrial growth companies.

Kornchankul came to the Carlson School from Bangkok, Thailand, where she and her brother had started a lube oil business. She hoped to find a job in the investment industry upon graduation

in May 2007.

In the fall of 2006, Kornchankul and her research partner Ila Mittal began screening for a company to research. She met with Cox to discuss stock selection, and he offered observations and asked questions about the companies under consideration. Ultimately, Kornchankul and Mittal decided to research and model Ambassador Group,

"As an alum of the Carlson School and the Enterprise, it's great to be able to give back."

—Mike Cox
'03 MBA

an educational travel company focused on students.

Throughout the fall 2006 semester, Kornchankul and Cox met to discuss the company. At the same time, Cox suggested questions that mentors might ask when the team presented their recommendation in December, an event that is the climax of the term.

A panel of mentors questioned the student analysts on their recommendations, then voted whether to accept or alter the team's recommendation to buy, don't buy, or hold. Kornchankul and

Mittal successfully pitched a recommendation to buy. (A pitch is successful when the mentors agree with the recommendation made by the students, no matter what this recommendation is).

For their spring 2007 project, Kornchankul and Mittal identified Liquidity Services, an operator of an on-line wholesale marketplace for surplus product liquidation, as a new stock idea. Cox suggested questions that Kornchankul might ask when she visited company management in March, as well as challenging Kornchankul to contact the Department of Defense, with which Liquidity had a significant contract. Kornchankul took his advice, calling the Department of Defense to find someone to answer her questions. Kornchankul then shared a draft of the report with Cox, who was impressed. He says, "They hit all of the key points in the recommendation in the first couple of pages."

While all of this was going on, Kornchankul was searching for a post-graduation job. Lightning struck in February when she learned that Oppenheimer Funds in Boston sought a high-yield bond analyst. In early April, Kornchankul was offered and accepted the position.

For both Kornchankul and Cox, this was a fantastic finish to a great year. Kornchankul is thrilled with her new job at Oppenheimer, and Cox has already begun mentoring a new student.

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Message from the Director

It has been an exciting year for the Carlson Funds Enterprise. The 10th class of Funds Enterprise analysts graduated, and our alumni now number more than 200. Please mark your calendars for a reunion event on May 1, 2008.

Assets under management exceeded \$10 million for the growth fund and \$14 million for the fixed income fund. In March the students conducted our second annual client review. In May we welcomed Allianz Life as our newest fund participant. A gift from State Farm continued to support student travel to meet with company managers, for the purpose of investigating potential recommendations.

The advisory board met three times, offering guidance on many issues that affect the funds. We enjoyed extraordinary support from our mentors, as they gave an enormous amount of their time meeting with students, dissecting stock and bond recommendations, and approving new holdings for both funds.

In fall 2006, Jeannette Parr joined the Enterprise as professional advisor to the fixed income fund. Over the course of the school year, she helped to implement changes to the benchmark index, a new teaching curriculum, and new trading relationships. Emily Dombeck, program coordinator, worked diligently to build the alumni and friends database, as well as revamped the website (take a look at csom.umn.edu/funds). And Professor Tim Nantell, our academic advisor and member of the Department of Finance, was everywhere!

Linda Henderson, for three years the professional advisor to the growth fund, has decided to pursue other interests. During Linda's time at the fund, the quality of the students' research reports improved enormously and relationships between students and mentors were solidified. Linda did a great job, and we will miss her. I will succeed Linda as the advisor to the growth fund. I will also continue in my

role as the program director.

This fall our largest class yet will return from summer internships. The Enterprise will have 30 students, with 15 in each fund. Over the last few years, we have admitted select undergraduates who plan to pursue careers in the investment business. In 2008, 11 undergraduate students will work alongside 19 graduate students.

I invite you to keep in touch with us. We are always looking for additional investors (our goal is to double the assets under management), mentors, speakers, and student internships. Please contact either me at jbarsky@umn.edu or Emily Dombeck at edombeck@umn.edu with any questions, comments, or help you can provide.

Best wishes,

Joe Barsky
Director of the Funds Enterprise
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