

## Oppenheimer Value A

### Fund Facts

Symbol	CGRWX
Website	<a href="http://www.oppenheimerfunds.com">www.oppenheimerfunds.com</a>
Address	Oppenheimer Funds, 498 7th Avenue, New York, NY 10018
Tel. No.	800-225-5677
Inception	09/16/85

### Portfolio

Total Net Assets *	\$214.90
Avg Mkt Cap (\$ Weighted) *	\$41,400
Average Price/Earnings Ratio	24.91
Average Price/Book Ratio	2.50
Turnover Ratio	150%

### Investment Information

New Investment	Open
Min Initial Investment	\$1,000
Min Subsequent Investment	\$50
Min Initial IRA Investment	\$500

### Risk (Against S&P 500 - 3 Years)

Alpha	0.9569
Beta	0.8955
R-Squared	0.7961

### Returns vs. Lipper Large-Cap Value Index

	CGRWX	Index
1 Year (Cum.)	22.01%	14.86%
3 Year (Ann.)	6.55%	-2.70%
5 Year (Ann.)	2.07%	0.77%

### Returns vs. S&P 500

	CGRWX	Index
1 Year (Cum.)	22.01%	15.09%
3 Year (Ann.)	6.55%	-5.52%
5 Year (Ann.)	2.07%	-0.47%

### Fees and Expenses

Max Sales Charge - Front	5.75%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	1.00%
Total Expense Ratio	1.22%

### Portfolio Manager

Christopher Leavy	11/01/00
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\* millions Data through: 11/30/03

Source: Company Documents; Lipper

# Clean Sheet

**U**nder Chris Leavy's leadership, *The Oppenheimer Value Fund* has risen from being an underachieving fund to one of the top performing large cap value funds over the past three years. He told Ticker what he believes it takes to beat the peer group year in and year out.

**Q:** In 2000 you took the fund under your management. What changes did you introduce since you took over - in terms of strategy, research, and so on?

**A:** We viewed it as a clean sheet of paper. This fund was managed by Connecticut Mutual Insurance Company. After that it was managed with a quantitative strategy. When we took over in November 2000, we completely changed it to fit our investment process and we did it in about 30 days.

**Q:** What is your investment process?

**A:** Our whole process is geared around producing consistent out-performance against the value universe. That is why we focus so much on picking the best stocks in each sector. So far, our process has delivered on a consistent basis. We think there is an interesting proof statement about that. Let us look at the Lipper numbers measuring the performance of this fund during the down market and the up market. To us, the nature of consistency would be a fund that can demonstrate compelling performance in both kinds of periods. If you look at our performance "since manager inception," in November 2000, until the markets bottomed, which we define as September 2002, the fund was down 10.2% on an annualized

basis, which puts it in the 12th percentile of the Lipper value universe. In the up market, which we define as September 2002 through November 2003, there our total return was 32.68%, which put it in the 6th percentile of the Lipper large-cap value world. To us, that is really the fruit of our stock selection strategy, but also our portfolio construction strategy. We seek to find cheap stocks that will produce significant earnings gains over the next few years.

**Q:** Your prospectus says that you look for "good future earnings." How do you estimate future earnings?

**A:** Basically, we look at three things. We try to assess revenue growth prospects, potential margin changes, and capital management opportunities - what will the management do with the free cash flow.

**Q:** How many research people do you have on staff internally? Do you rely on Wall Street research or in-house research?

**A:** We have seven investment professionals on the Value Team. This is a combination of portfolio managers who take a leading role with other products on the value team, as well as research analysts who specialize in particular sectors.



**Q:** So, do you start your process by looking at sectors? Is it a top-down approach?

**A:** Our main goal is producing consistent out-performance against the large-cap value asset class. Because consistency is part of our goal, we think the easiest thing to do on a consistent basis is pick the best stocks in each sector. Then we will overweight or underweight sectors to a modest extent. If you were to look at our performance attribution since we took over the fund, about 84% of the out-performance has been generated by picking the best value stocks in each sector and about 16% of the out-performance has come from making the correct overweight and underweight decisions about the sectors.

**Q:** So, you tend to hover around certain sectors?

**A:** We have no perpetual biases about which sectors we tend to overweight or underweight. The degree of the overweights and underweights tends to be modest, so that if we were wrong about these decisions, hopefully, the fund will still perform well by picking the best stocks in each sector.

**Q:** How does your screening process work and how do you narrow the stocks down to the ones that make it to your portfolio?

**A:** The first thing that we do is to identify the value universe of stocks. We start with the whole stock market and we recognize that our job is to pick the best value stocks. So, the first thing that we do is identify the value universe. There we look at the price of stocks in relationship to current earnings, future earnings power and also current book value.

**Q:** Do you use software screens for that purpose?

**A:** It's a mixture. We use quantitative tools to help us identify which stocks represent the value asset class.

## Oppenheimer Value A



There is also some subjective judgment that is part of that process. But again, how we pick stocks within the value asset class is the essence of what we do.

Once we have identified what the value stocks are, we spend our time trying to assess the long-term earnings power of each company. That is a dynamic process that we do all the time. All seven investment professionals on the team perform fundamental analysis.

We view the value universe as the cheaper half of the market. If there are about 300 to 400 large-cap stocks, then the value universe is somewhere between 150 to 200 companies, depending on where you draw the line. Frankly, we feel that we know those companies pretty well and we tend to own about 50 of them. The real key to success is assessing the long-term earnings power of each of these companies. We try to focus on the companies that have the most compelling earnings and cash flow prospects.

**Q:** Why then was your fund classified as a blend fund?

**A:** Conceptually, we manage this fund to pick good value stocks, so we expect this fund to be in the value style box most of the time.

Recently, the fund was just over the line between value and blend, on the blend side. There were basically two stocks that were responsible for that. They were both satellite stocks - GMH, which owns DirecTV, and EchoStar, which runs the DISH network. In both cases, at the time we purchased the stocks, we believed they represented compelling value. I should add that since then those stocks have worked well and we have taken profits. However, to go back to your question, in the case of both companies, when these companies gain a subscriber, they tend to run the expense of acquiring that subscriber through the income statement rather than amortizing that expense over the lifetime of the subscription. As a result, since these companies were in a growth mode and were gaining subscribers very quickly, and since there is an expense associated with adding each subscriber, that narrowed the reported earnings and

cash flow of these companies. As a result, the economic value was clearly there, however, given the way some services measure it, that affected our style box representation. Since taking profits in these stocks, we have returned to the value style box in most measurement services.

**Q: Do you still own those stocks?**

**A:** We do not own GMH and we have taken significant profits from Echostar. So, these stocks are not stocks that should be bought today but it is the answer to your question about why we spent a little bit of time just over the value gridline.

**Q: You can invest up to 25% of the portfolio's assets in foreign issues and you actually have some at the moment. What is the weighting of foreign issues in the fund at the moment and how does that affect the amount and nature of risk the investor is exposed to?**

**A:** Usually, the foreign stocks that we own, which are mainly ADRs, tend to be about 10% of the portfolio, give or take a few percentage points. One thing I want to mention here though is that in many cases, not all the cases, we view the ADR as a technicality. I think the big example of that is one of our top holdings, British Petroleum. BP is obviously headquartered outside the United States, but if you look at the business of BP it is very comparable to ChevronTexaco or Exxon Mobil. It is just that the CEO shows up at work in a different country. So, yes, technically speaking, it is a foreign stock, but is it really riskier than other companies that are headquartered in the US? We don't think so.

**Q: Aren't there any other issues that come into play, such as exchange rates?**

**A:** For any company that does business outside the U.S., exchange rates are an issue. This is true for multinationals headquartered both in and out of the U.S.

**Q: How do you make a decision to sell or trim a position? Can you give me a few scenarios that you have had in the past?**

**A:** There are three possible reasons. The first is valuation. The second reason would be that the business fun-

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**About Christopher Leavy:**

Christopher Leavy joined Oppenheimer Funds, Inc. in September 2000 and serves as head of the Value Equity Investment team. Prior to joining Oppenheimer Funds, he managed money for Morgan Stanley Asset Management. A Magna Cum Laude graduate from Trinity University with a BA in economics, he is also a Chartered Financial Analyst.

damentals deteriorate. The third reason would be simply competition for capital - perhaps the stock is not a bad idea but we find a better idea and we need to make room for that better idea. The extent to which we trim a

position would depend on the extent to which it meets the criteria for the sell discipline. The more that stock meets the criteria for the sell discipline, the more we sell.

**Q: Under the policies of the portfolio, you can invest in derivatives and you can also use hedging strategies. Have you taken advantage of those terms at any time?**

**A:** We do occasionally write covered call options although historically that has been to a limited extent and currently we have no covered call options written in the portfolio.

**Q: What have your best performing holdings been and what was the story there?**

**A:** As we discussed earlier, our satellite stocks have done well for us. Another example would be McDonald's. We were interested in McDonald's because we thought same store sales and margins would turn around due to some of the new innovations the company was implementing. In addition, the company was going to be more frugal with their capital spending budget, leaving more free cash flow for shareholders. Given the appreciation of the stock, we have taken some profits. While we are not recommending investors buy the stock today, it has clearly been a good performer since we purchased it earlier in 2003.

**Q: Have you had disappointments with certain equities?**

**A:** Lockheed Martin is a stock that we have eliminated from the portfolio. With the federal budget deficits being where they are, much greater than we thought they would be, we were concerned that would produce some headwind on Lockheed Martin's revenue prospects looking out a few years. It was a position that we sold in pieces, a couple of different times. ■

**Jana Tchinkova**