

Growth on the Horizon

Small and micro cap funds require fund managers to be risk takers and cautious at the same time. Historically, this universe of stocks is not well covered or researched by Wall Street brokers, and investors do not have enough timely information regarding these companies. The Oppenheimer Emerging Growth fund is one of the unique funds that seek emerging growth in all the right places.

Q: *The Micro and Small Cap universe is not well known to investors. What is your investment philosophy for this market sector?*

A: The micro and small cap universe, which comprises less than ten percent in market capitalization, has more than seventy percent of the listed stocks on various exchanges. The opportunity to invest in this sector can be rewarding to those investors who are willing to research the companies, understand the stock volatility and have the discipline to be a long-term investor. We screen thousands of stocks and select around one hundred for the portfolio. Our investment philosophy centers on identifying new product cycles that drive revenue and earnings growth, which in turn drives share price performance.

Q: *What is your investment strategy to find these stocks?*

A: As an emerging growth fund seeking to invest in micro and small cap growth stocks, we focus on

companies that have a market cap below \$1.5 billion. We try not to buy illiquid stocks whose average daily trading volume is less than 100,000 shares. We are not averse to buying micro-cap stocks as long as the trading volumes for the stock meet our criteria. We also look for companies that have proprietary products or services and have the potential to emerge as leaders in their field.

We look for companies with projected profitability, although we pay attention to historical earnings. We often find the inflection point in earnings from loss to profitability to be an attractive indicator, however we will not buy companies that are not expected to be profitable in the next three years. We use consensus earnings projections when available and aggregate those models to create our own proprietary revenue and earnings models. Maybe ten to fifteen percent of the portfolio's stocks are not covered by anyone on the street while a much larger percentage of stocks we own are covered by only one or two analysts.

Oppenheimer Emerging Growth A

Fund Facts

Symbol	OEGAX
Website	www.oppenheimerfunds.com
Address	Oppenheimer Funds, Inc. Two World Financial Center 225 Liberty Street New York, NY 10281
Tel. No.	800-225-5677
Inception	11/1/00

Portfolio

Total Net Assets *	\$ 107
Avg Mkt Cap (\$ Weighted) *	\$ 1,200
Average Price/Earnings Ratio	40.39
Average Price/Book Ratio	5.77
Turnover Ratio	204%

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	0.8842
Beta	1.4426
R-Squared	0.6128
Ann Std Deviation	31.3758
Sharpe Ratio	0.4631

Returns vs. Lipper Small-Cap Growth Index

	OEGAX	Index
1 Year (Cum.)	38.03%	36.82%
3 Year (Ann.)	2.11%	-0.02%
5 Year (Ann.)	---	5.73%

Returns vs. S&P 500

	OEGAX	Index
1 Year (Cum.)	38.03%	22.88%
3 Year (Ann.)	2.11%	-2.36%
5 Year (Ann.)	---	-2.26%

Fees and Expenses

Max Sales Charge - Front	5.75%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	2.00%
Total Expense Ratio	1.72%

Portfolio Manager

Laura Granger	11/1/2000
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* millions Data through: 4/30/04

Source: Company Documents; Lipper



Q: *Is the information advantage real in this sector?*

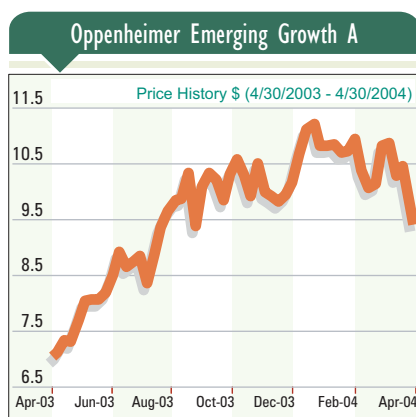
A: I would say the answer is yes. We try to find companies that are relatively under-followed. While many of these companies have growing revenue and earnings; the brokerage community is simply not monitoring these companies closely. We find that they tend to have lower debt and less complicated balance sheets and if you have a systematic way to monitor these companies you can find attractive investments.

Q: *What kinds of investment screens do you use and what kinds of companies pass your muster?*

A: We start with a universe of U.S.-traded companies with market capitalizations of less than \$1.5 billion. Using proprietary screening techniques, we sift among these thousands of companies to identify the 200 to 250 candidates that best meet our investment criteria. We then subject these candidates to intensive fundamental research - the foundation of our process. In addition to inspecting each company's operating history, we personally visit every company we can, talking to management teams to thoroughly understand their business philosophy and practices, competitive position and prospects for future growth. Finally, we confirm our judgments through a process of technical analysis that helps us evaluate stock price movements and pinpoint attractive buying opportunities. We generally continue to hold a stock unless a company's business fundamentals change or the stock appreciates more quickly than we believe is justified by the company's growth rate.

Q: *Do you like to meet management?*

A: In our experience we have found it essential to meet company management. I have three analysts on my team and we try to meet as many companies as we can, sometimes as many as 20 companies a week. We try to understand what is proprietary about these companies' products and services that will allow them to emerge as a leader. These meetings prove very useful in helping us to not only understand the company's long-term vision, but also their competitive environment. We like to form an opinion whether management has the capability to generate higher revenue and earn-



ings and steer the company to the next level. We think we can only do that by meeting them and understanding their long-term growth strategies.

Q: *Do you use technical analysis to your advantage?*

A: Absolutely. Once our quantitative screening process and fundamental research is completed, we then conduct technical analysis as our final confirmation to pinpointing attractive buying and selling opportunities. The reason we use technical analysis is because the stocks in the micro and small-cap sector can be very volatile and we want to capture that volatility in trading. Additionally, we use moving averages and money flows coupled with trend and support lines to

figure out the best entry and exit point in stocks.

Q: *Why do you have a high portfolio turnover ratio?*

A: The official portfolio turnover ratio is approximately 200%. The reason that the turnover is so high is because we try to trade in and around stock positions, trying to add value by capturing volatility. For example, for the last eighteen months, we have owned a company called eResearch Technology Inc. The stock has traded between \$17 and \$34 and currently resides around \$25. Because our trading strategy takes advantage of this type of volatility, we generally generate a higher turnover ratio, and not because of selling the entire position of a stock.

Q: *What is your sell discipline?*

A: First, we look to see if there are any changes in the fundamental outlook for the company, second we monitor valuations. If a stock is trading at twice the one-year growth rate, then it is a sell candidate. Additionally, if we buy a stock and it declines 15% from the purchase price, we sell. However, if the sector is also down, then we may not sell the stock. We also look for warning signs such as insider selling or when a stock declines due to large volume activity or any major change in the growth rate of the company. From the portfolio perspective, we may sell stocks if any one sector or security becomes too overweight.

Q: *Does the fund track any index?*

A: We do not manage this fund to track an index. We are benchmark sensitive when it comes to industry and sector allocations. Additionally, we are conscious of portfolio factors such as market cap, P/E and beta relative to our benchmark.

Q: *What are your parameters for the portfolio construction?*

A: The portfolio is broadly diversified and built from a bottom-up stock picking perspective. We do not own any stock with a weighting greater than 2.5% of the fund. Because our universe is so volatile, we do not want too few specific stocks to impact the fund. This fact differentiates us from many of our competitors that have significantly higher weightings in stocks. For example, some of our peers hold 5% to 8% positions in single stocks in their funds. We do not make those types of big bets.

Q: *Can we discuss some of your winners and losers?*

A: We tend to find many opportunities in the tech, healthcare and consumer sectors that meet our disciplined criteria.

eResearch Technology Inc is a great example of one of our winners. Our investment screens flagged the company's growing revenue and earnings and we met the company's management team. The company has a proprietary technology solution that allows pharmaceutical, biotech and medical device companies to digitize clinical trial data that gets filed with the FDA. The FDA has recently requested companies to submit clinical trial data in this format. eResearch is one of a few companies that enable users to digitize data for filing. They have signed several contracts with major pharmaceutical companies. This is a good example of the kind of stock that we like to own as it has strong management and a proprietary technology. From the time we initially purchased the stock, earnings estimates have quadrupled.

Over the course of the year Martek Biosciences (MATK) was among the largest contributors to the Fund's performance. The com-

pany develops two nutritional fatty acids (DHA & ARA) that are sold to infant formula manufacturers. These fatty acids, when added to infant formulas are important for proper brain and eye development and have been proven to increase IQ

in studies. They have also been shown to support cardiovascular health in adults. The company has a proprietary technology that derives these fatty acids from microalgae. Typically these are derived from fish oils, and since many fish are contaminated with mercury and other carcinogens, they may be a risk to developing infants. The company is experiencing triple digit growth rates. The investment was a success and the company met all the criteria that we have in stock selection such as a proprietary technology, a new product cycle, strong management and extremely strong operating fundamentals. The stock was initially not well covered by Wall Street analysts but seems to have been discovered more recently as more firms picked up coverage.

Not all our picks work out. United Online is one such stock. The company through its subsidiaries NetZero, Juno and BlueLight provide free and value-priced Internet access and email over speed-band accelerated dial up services. While the company has had strong subscriber gains, record profits, and has increased earnings guidance it has been under a negative cloud since AOL announced they would provide a competing online service. Again, despite no change in operating fundamentals, the company sold off because of a perceived threat and negative market sentiment. This was a classic "don't fight the tape" story and we finally sold the stock because it failed to perform for us.

Another example was Carreker Corp. (CANI), which provides payments related software and solutions to financial institutions. The company basically helps financial institutions improve operational efficiency in payments processing. The company lowered guidance due to a delay in a contract and was subsequently sold due to fundamental concerns. ■

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about

Laura E. Granger

Laura Granger is a Vice President and Portfolio Manager responsible for the Oppenheimer Emerging Growth Fund, which launched in November 2000. Additionally, since July 2002, she has managed the Oppenheimer Emerging Technologies Fund, and since March 2003, she has managed the Oppenheimer Discovery Fund. Ms. Granger is a member of the Equity department's Growth Investment team.

Before joining OppenheimerFunds in October 2000, she was a Vice President and Portfolio Manager at Fortis Advisors, where she managed the Fortis Capital Appreciation and the Fortis Aggressive Series Growth Funds. Prior to Fortis, she managed pension and foundation accounts for General Motors Investment Management.

Ms. Granger is a graduate of Cornell University and is a Chartered Financial Analyst. She has 19 years of industry experience, including 12 years as an investment manager. During her career, Ms. Granger has been featured in financial publications such as The Wall Street Journal and Investor's Business Daily.

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