

Mid Cap for Every Season

Mid-Cap stocks are not well followed by investors. Investors understand the solid financials and safety of the large-cap stocks and are attracted to the growth prospect of small-cap stocks, but rarely are investors aware of the earnings stability and the growth consistency of mid-cap stocks.

Not all mid-cap funds are alike. Few mid-cap funds have a track record of beating the market in the last three and five years and fewer managers have the track record that Tony has built.

Q: Why should investors consider investing in mid-cap funds?

A: Mid-cap stocks constitute 30 percent of the domestic equity market's capitalization. Mid-cap stocks are not as favored as small and large-caps are, though they tend to offer better investment value. In our opinion, investors seeking consistency in return should have exposure to the mid-cap sector. In a recent study we found that when the performance of the S&P 400 Mid-Cap index was measured relative to the Russell 2000 index, the mid-cap index generated 40 percent more return with 10 percent less volatility. During the period between February 1981 (the inception of the S&P 400 index) and March 2004, the S&P 400 generated a 16.0 percent annual return versus 11.4 percent for the Russell 2000, with a standard deviation of 19.6 percent for the S&P 400 and 21.8 percent for the Russell 2000. The mid-cap index in this study generated a higher return with lower volatility.

Q: What is your investment process?

A: The fund is looking to invest in mid-cap companies with market capitalizations between \$500 million and \$10 billion. We believe that mid-cap companies offer both the stability of large-caps and superior earnings growth. Our investment process has three components: quantitative screening, fundamental research and technical evaluation of the stock and its trading history. We look at both quantitative and qualitative factors.

We use a multi-factored quantitative model to screen companies. We evaluate factors related to earnings, balance sheet metrics, and valuation. Historic earnings, earnings growth, earnings surprises and acceleration in earnings are some of the other factors we analyze. In the valuation metrics, we are looking at ratios such as price to earnings, price to cash flow, return and cost of capital. To us a company's return on capital relative to its cost of capital is important.

Munder MidCap Select A		
Fund Facts		
Symbol	MGOAX	
Website	www.munderfunds.com	
Address	Munder Capital Management, 480 Pierce Street, Birmingham, MI 48009-6059	
Tel. No.	800-239-3334	
Inception	7/3/00	
Portfolio		
Total Net Assets *	\$ 10.50	
Avg Mkt Cap (\$ Weighted) *	\$ 5,162	
Average Price/Earnings Ratio	22.80	
Average Price/Book Ratio	4.24	
Turnover Ratio	58%	
Investment Information		
New Investment	Open	
Min Initial Investment	\$ 2,500	
Min Subsequent Investment	\$ 50	
Min Initial IRA Investment	\$ 500	
Risk (Against S&P 500 - 3 Years)		
Alpha	0.2300	
Beta	1.0261	
R-Squared	0.9458	
Ann Std Deviation	17.7699	
Sharpe Ratio	0.1834	
Returns vs. Lipper Mid-Cap Growth Index		
	MGOAX	Index
1 Year (Cum.)	48.00%	43.03%
3 Year (Ann.)	10.73%	1.04%
5 Year (Ann.)	---	2.22%
Returns vs. S&P 500		
	MGOAX	Index
1 Year (Cum.)	48.00%	35.12%
3 Year (Ann.)	10.73%	0.63%
5 Year (Ann.)	---	-1.20%
Fees and Expenses		
Max Sales Charge - Front	5.50%	
Max Sales Charge - Deferred	0.00%	
Max Redemption Fee	0.00%	
Total Expense Ratio	1.87%	
Portfolio Manager		
Tony Dong	July, 2000	
* millions	Data through: 3/31/04	
Source: Company Documents; Lipper		



Unlike some growth managers, balance sheet related items, financial leverage, and stock price trends during different periods are critical. Once we have selected a universe of companies based on these metrics, we develop a composite ranking for each company. This ranking is the initial step in our selection process. Our investment process is based on these rankings.

We are benchmark aware but we are not looking for our holdings to reflect the S&P 400 Mid-Cap index, which is the benchmark we use. Our approach is to look for growing companies in the mid-cap sector of the market. We seek high growth companies with secular and consistent earnings that are reasonably priced.

Once we have ranked these companies, we conduct fundamental research. We are primarily looking for an explanation of a company's historic results and to build some confidence that it will be able to improve on its past results or at least maintain its earnings growth. It is imperative for us to understand the competitive profile of the company and to understand its industry, the company's core competencies, and the customer and supplier base. This information gives us critical insight into the sustainability of the company's growth and a foundation on which we can build an investment case.

Lastly, we conduct technical analysis, evaluating the stock's trading pattern and investor sentiment towards the stock.

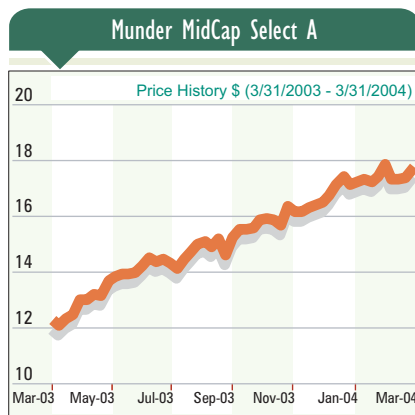
Q: *How do you measure and control various risks?*

A: Our risk control measures aim to limit industry and sector exposure, fund volatility and individual security risk. In our quest to be style pure and to deliver stable and consistent returns, we measure and quantify numerous factor risks. We measure and target the

tracking error at 5 percent for our fund relative to the S&P 400 Mid-Cap index.

Q: *Can you give examples of two companies that you have bought and why you like them?*

A: We had been researching the gaming sector for a while and we were looking to invest in a leading player. We selected International Gaming Technology. The more we looked at it the more we understood the business and its growth potential. The company is the largest manufacturer of slot machines and has 70 percent market share. The



company's demonstrated consistency in earnings meets our requirements. We also like the secular growth nature of the earnings. We believe drivers exist that will help the company continue to grow its earnings over the next three years. Budget deficits at the state level and the resulting need for revenue have improved the environment for the gambling industry. For instance, slot machines are now allowed at some racetracks, which are increasingly referred to as racinos. International Gaming is also entering the class two gaming market, which includes electronic bingo machines, and is introducing cashless machines, which produce higher profit margins.

Electronic Arts offers another example of our investment selection

process. More money is spent in the computer game sector than in the movie industry. The universe of players is growing as long-time game fans continue to play into their forties alongside newer, younger video game players. The company has a leading market share in the industry. Electronic Arts is the only company with such a broad portfolio of games in different categories, including sports, movies, children, male adult, women-specific and others. This broad portfolio has generated consistent earnings and, in our opinion, is better than its competition. And the company has an excellent track record in launching new products.

Q: *Can you give examples of companies that you have reduced your holdings in or have sold the positions in?*

A: Our investment style leads us to select companies that have consistent earnings. Performance Food Group, a leading food distributor, has the earnings growth consistency and leading market share we prefer. However, its excellent earnings growth was recently undermined by distribution and procurement problems related to such products as salads and lettuce. Even though demand is good for the company's fresh food products, we believe that it will take time to solve this problem. We were caught with this unpleasant surprise and we sold the stock. We like the company's business model and management team and will keep monitoring its operational improvements. It is a good mid-cap growth story and we will continue to follow the stock.

Countrywide Financial is one example of a stock that we have trimmed recently. The company is one of the largest mortgage bankers, has a leading market share and some of the highest operating margins in the industry. However, we are concerned with the business cycle. We

had years of expanding mortgage originations and refinancings. This is expected to slow down in the next year as interest rates are likely to rise, though management believes that the origination and refinancing slow down will be partially offset by fees from their expanding servicing portfolio. The stock is selling at roughly 9 to 10 times 2004 expected earnings. It is well known that interest rates may go up, and that is why the stock is trading at this low valuation—compensating for the lower expected earnings.

Countrywide's stock rallied recently and, in our opinion, based on the technical indicators, the stock seemed to be overbought. Countrywide has been a big holding in our portfolio. We hold about 60 to 70 companies in the fund. We do not make big bets on one single stock. No one stock carries a relative overweight of more than 3 percent of the fund. The relative overweight in Countrywide had reached higher than 3 percent. The stock had done well for us over the last three years, and we think that the stock is overbought. This led us to trim our position.

Q: *What is unique in your fund management? How does your fund management differ from other mid-cap managers?*

A: We do not do anything that is radically different, except that we attempt to execute better and pay better attention to details. We have also made some contrarian calls, but the consistency of the process and

keeping the investment style pure is what we are seeking. We want to be disciplined but not handcuffed and close-minded.

We are a mid-cap core growth fund and we do not have the biases

"We are looking for high growth companies with secular and consistent earnings that are reasonably priced."

about

Tony Y. Dong

Tony Y. Dong, CFA is a Senior Portfolio Manager with Birmingham, MI-based Munder Capital Management. He joined the money management firm in 1988, and is currently responsible for management of The Munder Mid-Cap investment discipline. As well, Mr. Dong, manages equity and balanced portfolios for institutional clients, and is a member of the team responsible for the firm's Large-Cap Core Growth investment discipline. He earned his BBA with Distinction from the University of Michigan School of Business Administration, and his MBA in Finance from Wayne State University.

that may affect some deep value or high growth managers. We are disciplined in how we evaluate compa-

nies. We look at numerous growth and valuation metrics. We will pay for growth if the company's growth rate justifies it. Because we lack certain biases, we will not keep from investing in a fast growing company simply due to a high P/E ratio. We acted somewhat contrarian to the overall market by investing in Internet and home building companies when it was highly controversial to do so. For example, in late 2002, Expedia, Yahoo, and some others looked cheap to us. We bought the homebuilders early and held them throughout the cycle, when many growth investors stayed away from the sector or under-invested in it. We believe that the home building industry is in a consolidation phase and that the publicly traded companies have advantages in the marketplace relative to the smaller private firms.

Q: *Do you believe in meeting management?*

A: We believe in communicating with management. Does it add a great amount of value? That is debatable. But we certainly talk to them. We like to get a feel for management's approach to their business.

Q: *How big is your research staff?*

A: The fund has two full-time analysts. We also draw on the strength of the fifteen analysts who work at the company.■

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