Solid Foundations in Large-cap Growth

With vast experience in growth investing, Gene Sit, manager of the Sit Large Cap Growth Fund, has a long record of documented success in his investment approach. He manages to combine strict discipline with opportunism and flexibility. The understanding of global macro trends is as important as bottom-up analysis.

Q: *What is your investment philosophy?*

A: We are clearly committed to the growth investment approach. Although growth has been out of favor in the last four years, over time it has rewarded investors handsomely. I have more than 40 years of growth investing experience including 24 years with Sit Investment Associates and 13 years with the IDS organization, now Ameriprise Financial Inc.

We invest in companies in a broad spectrum of the economy and look for sectors and industries that have the potential to grow more rapidly than the representative economy or market index. However, we are opportunistic and in addition to high and consistent growth companies, we also invest in conservative and cyclical growth companies.

Our core holdings are usually companies growing at a 10% to 12% rate on a consistent basis, but in a defensive market environment we may complement them with more conservative stocks that grow 7% to 9%. Also, depending on where we are in an economic cycle, we may invest in more economy-sensitive growth companies, such as technology and industrial companies, particularly in the expansion phase of an economic cycle.

We believe that earnings growth is the primary determinant to achieving superior long-term returns. We look for companies with sustained growth rates both in the top line and the bottom line. Our time horizon tends to be longer than that of most investors as evidenced by our lower portfolio turnover rate. We try to focus on longer-term opportunities.

We also pay a lot of attention to the secular forces in the global economy, such as globalization, energy supply and demand issues, and the U.S. dollar. We have an international operation and I personally spend a lot of time in the Far East trying to understand the impact of the Asian economies on the U.S. and the global economy.

For example, China's annual demand for cars has grown from 400 000 to about 2 million. India and Russia are coming back into the global economy. Over the last 20 years energy demand has risen by 1.5%, while now

Sit Large Cap Growth

Fund Facts

Symbol	SNIGX
Website	www.sitfunds.com
Address	Sit Investment Associates, Inc. 3300 IDS Center, 80 South Eighth Street Minneapolis, MN 55402
Tel. No.	800-332-5580
Inception	9/2/1982

Portfolio

Total Net Assets *	$ 76.8
Avg Mkt Cap ($ Weighted) *	$ 76,517
Average Price/Earnings Ratio	20.6
Average Price/Book Ratio	4.7
Turnover Ratio	25.8 %

Investment Information

New Investment	Open
Min Initial Investment	$ 5,000
Min Subsequent Investment	$ 100
Min Initial IRA Investment	$ 2,000

Risk (Against S&P 500 - 3 Years)

Alpha	0.12
Beta	0.96
R-Squared	0.91
Ann Std Deviation	9.99
Sharpe Ratio	1.16

Returns vs. Lipper Large-Cap Growth Index

	SNIGX	Index
1 Year (Cum.)	12.22 %	12.21 %
3 Year (Ann.)	13.25 %	11.03 %
5 Year (Ann.)	-4.97 %	-4.36 %

Returns vs. S&P 500

	SNIGX	Index
1 Year (Cum.)	12.22 %	8.44 %
3 Year (Ann.)	13.25 %	12.10 %
5 Year (Ann.)	-4.97 %	0.64 %

Fees and Expenses

Max Sales Charge - Front	0.00 %
Max Sales Charge - Deferred	0.00 %
Max Redemption Fee**	2.00 %
Total Expense Ratio	1.00 %

Portfolio Manager

Eugene C. Sit	09/02/1982

** millions* *** within 1 month after purchase*

Data through: 11/30/05

Source: Company Documents; Lipper

Q&A TICKER's Choice

with the new players it is growing by 2.25%. The supply is growing about 1% and because of the depletion of the oil reserves, we are closer to a supply/demand bottleneck. We also believe that eventually the low US dollar will be beneficial to American industries because it will make Japanese and European imports less competitive. A company like Caterpillar, for example, benefits not only from the lower dollar, but also from global infrastructure spending, particularly in emerging markets.

Overall, we emphasize companies that represent the best value and strongest fundamental outlook at our entry point.

Q: ***Would you describe your definition of growth? Is the 10%-12% growth historic or projected growth?***

A: It is always forward-looking through a cycle. Historic growth rates can be misleading because industries can change a lot over time. Another problem with historic data is that as companies get bigger, it becomes more difficult for them to grow at their historic rate. If your starting point is 5 years ago, when a lot of companies were struggling in the recession and the downturn, you may have a misleading picture of the growth rate.

The important thing is how the company is positioned for the future. Since we are growth investors, we want to buy future growth. If we can invest in sectors and companies with high earnings and revenue growth at reasonable valuation levels relative to their peers, historically you have been well rewarded.

Q: ***What are the other aspects of your sell discipline?***

A: As discussed, we are fundamental investors and we like to own companies that continue to have strong growth that are selling at reasonable valuations. Should the fundamentals and valuations change, this would force a re-evaluation. Additionally, should our strategic outlook change, we would re-evaluate our holdings. Thus, our sell discipline includes both strategic and fundamental considerations.

To provide you with a couple of examples, we reduced our position in Danaher Corporation, because we felt that there were more attractively valued stocks based on their growth rates, such as United Technologies, General Electric, and ITT Industries. We wanted to own Caterpillar because of their dominant positions in infrastructure developments and prospects of higher capital spending in the U.S. and in China. We also try to lock in profits by reducing our positions when we feel a stock may have gotten ahead of itself, even though we may still like the stock fundamentally.

Q: ***You obviously rely a lot on macro-level analysis, while many managers stick to the bottom-up investing process. What else makes your research process different?***

A: While we do feel it is important to have an understanding of the macro and secular issues, the majority of our research efforts are focused on the bottom-up analysis, which is an integral part of our investment process.

What differentiates our organization is that we have sixteen domestic equity investment professionals, mostly CFA charter holders, involved in the investment process with daily input from our international analysts as well. We integrate our research analysts as part of the team approach to managing our funds. The team of analysts focuses on bottom-up analysis, which involves industry research, meeting with company management, company fundamentals, company field trips, etc. They continuously monitor these companies relative to their counterparts. We also have a group that focuses on quantitative screening to assist the analysts in identifying new investment opportunities to evaluate.

Q: ***Do you find value in meeting the management of the companies?***

A: We meet with corporate management to gain a better understanding of a company's business, its people, strategy and competitive environment. We are also interested in the key drivers and how they affect top- and bottom-line growth. We ask management about their concerns, what keeps them up at night regarding their company or industry. Overall, we try to get a better understanding of what's going on in their businesses and industries.

Q: ***How do you approach portfolio construction?***

A: Our portfolio construction is based on our overall strategy, reflecting our economic and financial market outlook, as well as key secular and cyclical investment themes. The sectors and industry emphasis will reflect these decisions. Our analysts and senior investment personnel then work together to select the stocks that represent the best long-term fundamentals and most favorable valuations.

We work as a group to highlight what's happening in the market and around the world and to find what the key issues in specific companies are. Once a week the analysts get together to go through current and potential portfolio holdings. Based on our macro conclusions, we construct the portfolio with individual names.

Q: ***Historically, most investors are led to believe that fraud usually happens in the small-cap companies, but in the last 4 or 5 years, most of the problems have been discovered in larger companies. How do you handle this type of risk?***

A: I think that, to a certain extent, fraud in larger companies was related to the M&A boom. Whenever you acquire companies, you have a lot of room to manipulate the accounting, and Tyco is the best example. Also, I think that the ethical culture in corporate America has improved in the last 5 years due partly to Sarbanes-Oxley. Now everyone is much more vigilant, including the accountants, independent directors, lawyers, and investors.

But we learned our lessons from 2001 and 2002, when we paid a heavy price for some of the frauds in the corporate area. In that period not only technology companies imploded, but we also had corporate malpractices at Tyco, Enron, Adelphia, and others. In 2002, we implemented steps in our investment process to minimize the impact on the portfolio from accounting and corporate frauds.

First, one of our investment professionals, who is both a CPA and a CFA charter holder, consults with our analysts on accounting and corporate governance issues, including revenue recognition, pension accounting, stock options, and other accounting issues. The second thing is that we don't add to a position if our analysts find it difficult to assess the downside potential based on developments relating to accounting and corporate governance. This rule is helpful because it is always difficult in understanding the specific dimensions of fraud, like in the recent case with AIG.

Additionally, we take a much more skeptical view about the underlying assumptions for earnings estimates, especially in more speculative areas like technology. Finally, we give greater attention to free cash flow yield as valuation and earnings quality measurements. It tends to give us more confidence in a company's earnings quality.

Q: ***What are the other risks that you perceive and how do you control them?***

A: Our risk control is embedded in our fundamental process and we have a comprehensive set of risk management procedures at the market level (valuations, macro, etc.), the portfolio level, the individual security level. Diversification is an important risk-control measure, but it certainly varies with the environment. In 2002, we began using a quantitative multi-factor predictive risk model, to assist us in quantifying the systematic and non-systematic risk exposures to make sure we understand the risk in how our portfolio is positioned.

Q: ***You have systematically decreased the portfolio turnover even in the recent environment, when growth stocks were out of favor. How did you do that?***

A: We feel that we have a portfolio that is well structured. If our overall strategy is correct and we have the right industry and sector emphasis, then we just need to occasionally make minor enhancements. The turnover should reflect the areas where we took profits due to price appreciation or where sector emphasis changed periodically. ■

TICKER Staff

> "Our time horizon tends to be longer than that of most investors as evidenced by our turnover rate, which is typically about 50%. We try to be longer-term investors through an emphasis on sectors and companies with above-average and sustainable growth prospects."

about Eugene Sit

Eugene C. Sit, CFA, CPA - Chairman, CEO and CIO: Gene Sit founded Sit Investment Associates (SIA) in July 1981 and is Chairman, CEO and CIO of SIA and its affiliates. SIA is a diverse financial asset management firm with capabilities in both domestic and international financial asset management and serves as investment adviser (the "Adviser") to the 13 Sit Mutual Funds. The Advisor manages each Fund's business and investment activities. Gene Sit, Chairman of Sit Mutual Funds, oversees policy and investment management strategies for the 13 Sit Mutual Funds.

Prior to founding Sit Investment Associates, Gene Sit was Chief Executive Officer and Chief Investment Officer for American Express/IDS Advisory. Gene received his B.S.C. degree from DePaul University in Chicago. He is active in the investment industry and in community affairs.