Fundamentally Justified Growth

When looking for growth, the Jordan Opportunity Fund explores macro trends and dislocations in the fundamental supply-demand story that go unrecognized by the market. It focuses on four to six investment themes where the firm builds analysis advantage. A crucial part of Jordan's strategy is avoiding high-multiple stocks and the risks that go with them.

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

A: We believe that investing in growth stocks is the most successful strategy over time because the opportunity for earnings growth boosts share price growth. We also firmly believe in the physics theory that a body in motion tends to stay in motion. Therefore, the companies that are growing their earnings, if you have a good understanding of why and how they run their businesses, will continue to grow them. So the likelihood of large-scale surprises decreases and you have the opportunity to benefit from the company as the earnings grow.

We're not necessarily a GARP investor, but we rarely pay a high multiple because we don't think that growth at any price is worthwhile. We don't believe in the PEG ratio, which people use to justify buying stocks with high multiples; it's that simple. They believe that if a stock is growing at 40%, you should be able to pay 60 times earnings and that's ridiculous. Once you're above a multiple of 40, there must be something truly dynamic and truly different about the company.

Q: ***What are the other factors influencing the multiples, besides the growth rates?***

A: Everything in the market is about supply and demand, and the lack of supply increases the price. If you're in an environment where growth is difficult, the market will pay a higher multiple for a company that can grow. We believe that once you get above a multiple of 40, it doesn't really matter what you purchase. It may be a good investment, but the odds are pretty good that most stocks at 40 multiple will not work that well over a 12 to 24-month period. It doesn't mean that a multiple of 40, by definition, is too high. It just means that the risks are higher at that level.

Q: ***How would you describe your strategy?***

Jordan Opportunity Fund

Fund Facts

Symbol	JORDX
Website	www.jordanopportunity.com
Address	Windowpane Advisors LLC 600 West Broadway, Suite 1225 San Diego, CA 92101
Tel. No.	800-441-7013
Inception	01/21/2005

Portfolio

Total Net Assets *	$ 25
Avg Mkt Cap ($ Weighted) *	$ 10,610
Average Price/Earnings Ratio	21.46
Average Price/Book Ratio	3.61
Turnover Ratio	N/A

Investment Information

New Investment	Open
Min Initial Investment	$ 10,000
Min Subsequent Investment	$ 500
Min Initial IRA Investment	$ 5,000

Risk (Against S&P 500 - 3 Years)

Alpha	N/A
Beta	N/A
R-Squared	N/A
Ann Std Deviation	N/A
Sharpe Ratio	N/A

Returns vs. Lipper Multi-Cap Growth Index

	JORDX	Index
3 Mo. (Cum.)	6.59 %	5.76 %
1 Year (Cum.)	23.71 %	20.95 %
3 Year (Ann.)	N/A	20.55 %

Returns vs. S&P 500

	JORDX	Index
3 Mo. (Cum.)	6.59 %	4.21 %
1 Year (Cum.)	23.71 %	11.73 %
3 Year (Ann.)	N/A	17.22 %

Fees and Expenses

Max Sales Charge - Front	0.00 %
Max Sales Charge - Deferred	0.00 %
Max Redemption Fee**	2.00 %
Total Expense Ratio	2.07 %

Portfolio Manager

Gerald Reid Jordan	01/21/2005

** millions* *** within 2 months after purchase*

Data through: 3/31/06

Source: Company Documents; Lipper

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A: While our philosophy is to buy growth stocks, our strategy is to find four to six themes. We invest predominantly in a top-down process, starting with a general overview of the markets, the industry environment, inflation, and that leads us in a certain direction. Then we try to find themes with something big and secular going on, cyclical or underappreciated, or unnoticed by the market. We look for a discrepancy that the market didn't recognize.

Then we can leverage our research capabilities as a small firm based in Boston. We're looking for industries where the information is primarily public, and our edge comes from our ability to analyze that information. We tend to avoid areas where somebody else has the information and you don't. For example, in biotechnology, the edge is a function of reading abstracts, looking at trials, doing special surveys with doctors, and finding information that's not readily available. As generalists, we will never have an edge in this sort of situation.

Q: ***Could you give us an example of an area that you like?***

A: One area that we currently like is flat panel TV. There are only four to five global producers of flat panels because the entry costs are too high and the learning curve is too steep. We think that's a real opportunity as there is a massive upgrade cycle until everybody on the planet gets rid of his CRT and buys the flat panel.

This is the kind of area that we like, an area where the drivers are the economy, pricing,and demand. If we go into a global recession, demand for TVs will slow, and there will be excess capacity and poor pricing. But if we go into an economic deceleration with lower energy prices, there will be more free money for buying TVs, better visibility, and therefore, better perception by stock investors, allowing for higher multiples.

Q: ***Could you give us an example of being wrong? What did you learn from it?***

A: We got out of a group too soon, mostly because we believe that the markets tend to move through cyclical patterns. We aggressively bought energy stocks in 2002 and 2003, but we were out of most of them by the end of 2004 because of the enormous run of energy prices. Inventories were starting to accumulate in the G7 countries, and whenever inventories build up, even if prices don't go down a lot, you don't make a lot of money in crude oil. It turns out that we were wrong. Oil was $45-$50 and on its way to $70 over the next 12 months, even with rising inventories.

Q: ***Why do you think that happened based on your research?***

A: Because we're in a commodity bubble. In the last 12-14 months people have bought the idea that this time it's different; that China, India, Brazil, and Russia are going to grow forever, so there will never be enough commodities for their growth. People have heard the mantra that the world goes through these 20-year hard asset cycles and there is a grain of truth in that idea.

That being said, we have plenty of periods through history where parts of the world started to grow, such as Taiwan, Korea, and Japan, but when the price of energy went up, consumers bought less, did without, and substituted. Obviously, it's harder to substitute oil, but you can do it on the margin.

People sometimes don't realize that you could still adjust demand for crude oil. It's not like Apple's iPod where demand is growing at 100% year; oil demand, in aggregate, grows at only about 1.5% a year. You can moderate that demand by buying a different car, for example. The plummeting SUV sales or the roll out of hybrids represent meaningful numbers. In our minds, Pandora's Box is now open, and we'll see Moore's Law in automobiles, and thus a doubling of fuel efficiency every three to five years.

So we thought this whole thing with oil was crazy. People were piling into energy funds, so we had a flood of money, but it didn't necessarily make sense from the fundamental supply and demand standpoint. Everyone talked about China as if demand was going to grow forever, but this year demand is looking down a little because when the prices go up, people use less.

The same is true about copper and steel. We got out of steel in late 2004 because steel inventories were rising, prices were falling, and the stock prices didn't make any sense. You can't have growing inventories and insufficient supply, so there's a dislocation that has gone a little too far.

Q: ***What are the other factors that would prompt selling a stock or a group of stocks?***

A: Sometimes we'd get out of a group because everybody has piled in and we're running out of available buyers. One of the greatest risks in energy right now is the enormous hedge fund exposure. That doesn't mean it has to go down a lot, but it means that, historically, it's been hard to make money in such sectors.

We would also sell a stock if it gets too expensive. For example, I cut back Apple in December, even though I believe that it's a truly revolutionary company with incredible execution and opportunities going forward. However, it was getting too

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expensive, over-believed and over-hyped. Every stock has corrections and expensive stocks have expensive corrections, so I have been hedging stocks.

Q: ***Regarding your buy discipline, do you wait for a catalyst or you buy in anticipation?***

A: We're looking for big, monolithic moves so it is not vital to catch it at the bottom. Also, we always sell going in the top – or what we think is the top. Often you wait to see that growth has changed or that a big driver has changed. It varies.

Q: ***How often do you replace the holdings?***

A: The market goes through cycles and we often end up with fairly high turnover because growth stocks tend to go up three-to-one to the market, but they also tend to go down a like amount. When we get nervous, we raise cash and create turnover. However, even when the turnover is more than 100%, we don't turn over the entire portfolio. Usually, we turn over a quarter of the portfolio a couple of times, and we don't touch 25% to 50% of the portfolio.

Q: ***Would you describe your research process?***

A: We're always looking at new things and market leadership to see if something is going on. Every quarter we go through the earnings of 1,000 companies to see if some of them jumped out of the box with big earnings. We may find out that it wasn't just one, but four other companies in the industry, so something must be going on.

From a research standpoint, the beauty of our portfolio is that we don't constantly work on industries where we don't have major investments. With only six or seven investment professionals, we focus on the ones we own or plan to own. I'm spending no time on the banks and thrifts and very little time on commodities because I don't want to own them right now.

Everybody in our office is focused on our concentrated portfolio, as opposed to our competitors where they've got 45 analysts and are covering 115 categories, even though they only care about 10 of them.

> "Once you get above a multiple of 40, it doesn't really matter what you purchase. It doesn't mean that a multiple of 40, by definition, is too high. It means that the risks are higher at that level, while there are plenty of companies that trade at lower multiples, 20 or 30."

about Gerald Reid Jordan

After graduating from Harvard College in 1989, **Mr. Jordan** spent three years as a Position Trader for Salomon Brothers in New York City before attending The Harvard Business School. He joined Hellman, Jordan in 1996, serving as Senior Portfolio Manager for the firms Separate Account strategies as well as several limited partnerships. Mr. Jordan is the acting President of Hellman, Jordan Management Co., Inc.

We have a highly concentrated process, focused on four to six themes. It might be 25 to 40 stocks, with each theme representing 10% to 25% of the portfolio. Obviously, if the theme doesn't work, though, it's a bigger problem for us.

Q: ***What major risks do you perceive? How do you measure, monitor, and control them?***

A: There are specific risks with stocks selection, and we manage that on the idea that if it's our best pick and the multiples are reasonable, we'll keep owning it. If the multiples expand too much, we will let them go, because when the multiples are too high, the risks are too high. If we trun cautious on the markets, we'll take money out of everything on the idea that in a bad market, all stocks will go down.

Q: ***Do you worry about issues like corporate fraud? How do you protect yourself from huge blow ups?***

A: There are things that you cannot control, and corporate fraud is one of them. I have to assume that the companies will do the right thing, but if you start to get nervous, just sell the stock. One of the reasons we haven't owned any of the public education companies, like Apollo and Career Education, is because I'm suspicious of their corporate practices, not only at the macro, but also at the micro level.

I believe that a category can grow by 15% for a long time, but when companies grow for five or six years at a huge rate, something "funny" might be happening. It is not necessarily illegal, but something like pushing revenue recognition, etc. As it gets harder and harder to grow sales each year, people are bound to push things a little further, and a little further. ▌

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