

An Open-Minded Large-Cap Value Search

Sophia Collier, who has been at the helm of the Citizens Value Fund for the last three years, has an unusual background for portfolio management. As a successful entrepreneur, she brings not only the business perspective, but also the understanding that the world is a dynamic place and you need the open mindedness and the courage to adjust your views frequently. The fund is looking for the industry underdogs that, under the right circumstances, can benefit both from the earnings growth and from the changing investor sentiment that expands their multiple.

Q: How would you describe the investment philosophy of the fund?

A: The Value Fund focuses on stocks that are undervalued relative either to their peers or to their own history. Typically, we look for companies that are asset rich, not for companies in deep-value, turnaround situations. There could be a turnaround element but it shouldn't require a miracle for the company to turn around.

Our philosophy is that below-average companies with a lot of assets, regardless whether intellectual property or a strong balance sheet, have the potential to revert to the mean and move up in value. So we're seeking companies where an upwards reversion is possible.

Unfortunately, sometimes in growth investing, companies that are doing beautifully, tend to decline once reality reasserts itself. They can't grow at 25% a year forever. Sometimes growth investors have periods when the earnings decline, and then the multiples that investors are willing to pay also decline.

I look for companies with prospects for growing earnings either at the current rate or at accelerating rates based on management actions. Therefore, such companies are susceptible to investors re-rating the company and paying a higher multiple for it. The factors that I'm looking for include improving earnings and improving multiples while the company is moving up closer to the industry average.

In order to win and succeed, the companies don't necessarily have to become average or above average; they just have to become a little less below average and that's a pretty easy journey for companies to undertake.

Q: Why do you consider that the easier journey? What's the reasoning behind that?

A: Because it's easier to take a small step than a large one. Citizens Value Fund has a large-cap strategy and large-cap companies often go through a cycle. The cycle includes a young growth pe-

Citizens Value

FUND FACTS

Symbol	MYPVX (Standard shares)
Website	www.citizensfunds.com
Address	Citizens Advisers Inc. 230 Commerce Way, Suite 300 Portsmouth, NH 03801
Tel. No.	800-223-7010
Inception	6/13/1996

PORTFOLIO

Total Net Assets *	\$38.5
Avg Mkt Cap (\$ Weighted) *	\$52,292
Average Price/Earnings Ratio	15.3
Average Price/Book Ratio	2.5
Turnover Ratio	58.3%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$2,500
Min Subsequent Investment	\$50
Min Initial IRA Investment	\$1,000

RISK (AGAINST S&P 500 - 3 YEARS)

Alpha	0.05
Beta	1.16
R-Squared	0.89
Ann Std Deviation	9.43
Sharpe Ratio	1.15

RETURNS VS. S&P 500

	MYPVX	Index
1 Year (Cum.)	9.83%	8.63%
3 Year (Ann.)	13.82%	11.22%
5 Year (Ann.)	-1.33%	2.49%
10 Year (Ann)	8.40%	8.32%

FEES AND EXPENSES

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	1.29%

PORTFOLIO MANAGER

Sophia Collier	12/31/2001
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* millions

Data through: 6/30/2006

Source: Company Documents; Lipper



riod when the company just grows from strength to strength, then their product may get out of favor, or their competitors may strengthen, or the economy turns down, or something else happens and their growth slows. Then they'll frequently have earnings disappointments.

Essentially, they'll go through a period of active selling before they reach a point where they're almost abandoned by growth investors. Then the investors that own the shares are not that demanding. They're holding this below-average underperforming company, and then a catalyst will occur. The catalyst can be a new management, the economy favoring the company again, or a new product cycle.

I look at companies through LCD screens and evaluate them in terms of their price action or from the point of view of our investment chart, while the companies look at themselves in terms of the business, the customers, the environment, the suppliers, etc. Even at below-average companies, the employees are still working and the management is still trying to quickly improve.

In many cases these companies actually can make the second step of the journey and that's what we look for. Often in large-cap investing there will be a company considered the industry darling. It trades at a very significant premium, while the other companies within that industry trade lower. For example, Walgreens, the drug retailer, is considered an outstanding company and CVS is considered to be a lesser company.

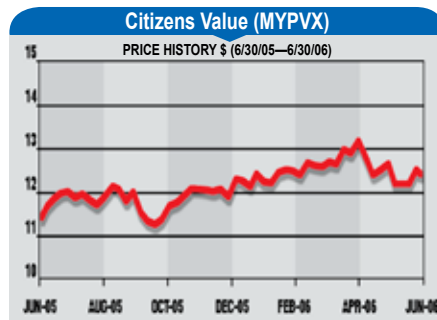
However, if Walgreens is having a peak valuation in terms of the multiple, the only way for the stock to go up is if the earnings grow. In this example, CVS has prospects of both growing the earnings and being re-rated by investors. There is the prospect of investors starting to believe that if Walgreens is worth 24 times earnings, CVS maybe has to be worth more than 12 times earnings. In that way you can get the two factors, multiple expansion and earnings growth, working for you and you'll have much more significant appreciation of

the stock in the presence of a catalyst.

Overall, the basic philosophy is that a certain percentage of below-average companies have the potential to become less below average or even above average, and we can enjoy multiple expansion and price appreciation from that opportunity.

Q: How do you translate that philosophy into an investment strategy and process?

A: We believe that portfolio construction and proper stock selection are very important parts of the investment process. Inevitably, you'll be wrong about some of your stocks or about the timing of the appreciation. The economy may have a downturn or there could be un-



foreseen events, so you have to construct your portfolio to almost insulate yourself against your own judgmental failures. It is not only important to pick stocks, but also to construct a portfolio with an element of hedging that helps you to do well in a wide range of scenarios.

I also believe in developing investment themes and I look for large themes where the wind will carry you along. For example, right now there is a worldwide economic boom where emerging nations are growing rapidly so we see a lot of use of materials. Global growth is a very strong theme that allows us to find names in energy, materials, and industry, where we can participate in that trend even though we're primarily a domestic fund. So we try to develop a set of themes, which is an element of portfolio construction that serves as a strategic aspect of the portfolio activities.

Q: Do you try to anticipate a theme or would you rather wait for the theme to emerge and then expect a certain number of years to benefit from it?

A: I look for evidence that the theme is happening. I think it's important to have evidence that the event is occurring and to position the portfolio to participate in something that is already underway. For example one of our holdings is the Mexican television company Grupo Televisa, trading as ADR. It's the largest purveyor of Hispanic video content and has a big Internet business also. It's a pretty good bet as Hispanic culture is a very, very strong force on the rise, So it's a fair bet that Grupo Televisa will benefit from that trend.

Many of the U.S. media companies have downward trends because of the advertising environment. Their business model is defunct because people don't need advertisement. People skip over the ads, so advertisers are fleeing to the web and other solutions. As a result, many established media companies that you might consider value plays, look very well valued relative to the past. You may think that this is true but those companies are participating in almost a return of capital because their businesses are not growing.

So in cases where the U.S. business is in a state of decline I look for a greener field like Televisa. But that as a riskier holding that would represent only about 1% of the portfolio, compared to a typical holding of 1.5% or a large holding of 4%. I don't own many international companies but that would be an example of international exposure.

Strategically, I try to find areas of the economy that are doing well and where it's obvious that things will persist.

Q: How do you decide to sell a theme-minded investment? Would you explain your sell discipline?

A: I would sell if I determined that Televisa was not monetizing the Hispanic opportunity or if I saw other Hispanic-oriented investments doing better, or if the Televisa management was in-

competent or engaging in acquisitions. One of the fears about that particular company is whether they will seek to acquire Univision and pay too much for it. So those are some factors that you need to see.

Q: Would you explain your portfolio construction process? For example, do you have a specific portion devoted for turnaround situations?

A: In terms of portfolio construction, I have a core portfolio, comprised of companies with attractive value and some re-rating going on and no dramatic dynamics within the company. This helps me manage risk. A good example would be WellPoint, which is trading lower than United Healthcare even today, and attempts to realize a number of cost synergies, which can lead to improved metrics. So it's nothing that we're really placing a big bet on, but people are pretty familiar with the company and are coming to believe in it. Core holdings might be 50% of the portfolio.

Then about 35% to 40% of the portfolio is comprised of the catalyst-engaged turnaround situations. WellPoint was a catalyst-engaged turnaround situation, back when it was Anthem and when the big mergers had not yet occurred. There was a bit of risk because it wasn't clear what could happen so it was trading at a more significant discount to its peers. Later on, WellPoint transitioned into a core holding in the portfolio. Hewlett-Packard is in a similar situation although the turnaround is well underway. If it continues to execute well, it could be moved into being a core holding. Motorola was an example of a catalyst-engaged turnaround maybe around 2 years ago. It really executed well initially and then we continued to hold it as a core holding.

Finally, the rest of the portfolio is in special situations, or high opportunity situations that often come but could frequently blow up. I always look at these situations and if after I do the research I believe in this opportunity, then I may initiate a position. Based on the circum-

stances, I could initiate it at half of my full position and wait for a few days, or I might have a strategy to trade into the name. Sometimes there's a lot of risk in those situations and you have to be very careful when you buy them.

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SOPHIA COLLIER is the founder, principal owner and chief executive officer of Citizens Advisers, Inc., the investment adviser to Citizens Funds — one of America's largest families of socially responsible mutual funds. Ms. Collier is portfolio manager for Citizens Value Fund and co-portfolio manager for Citizens Small Cap Core Growth Fund.

Ms. Collier's professional career spans more than 25 years in business management, including over a decade in investment management. She began her career as the 21-year old co-founder of American Natural Beverage Corporation, the manufacturer of SohoSoda, which she built to a \$25 million enterprise and eventually sold to Joseph E. Seagram in 1989. In 1991, Ms. Collier acquired a majority interest in the Working Assets Management Company and went on to launch Citizens Advisers and Citizens Funds. Active in community and charitable work, Ms. Collier is a Trustee of the Global Citizens Circle, an organization whose mission is to foster constructive change by facilitating dialog among diverse individuals.

Another company with a great brand name is Nike. Right now Nike is selling at a good discount to its historic value and to peers. We haven't initiated a position yet because we're doing more work on it but I love companies with a brand that people like, that attracts business and helps companies maintain a margin.

Q: What are the milestones of your research process? How many names do you have in the portfolio and how many names do you follow?

A: Right now we have about 63 names because I like to have adequate diversification but also to have enough bet in each name. When I first started managing the portfolio, I managed it with between 80 and 100 names but I soon realized that it's much better to be a little deeper in your best ideas without having only one best idea.

In terms of the research process, we have a set of quantitative screens that surface different companies based on valuation. We group the companies by industries or sub-industries. In some cases, the S&P groupings are not adequate so we have our own groupings to make sure that we're truly comparing peers, particularly in the technology areas, because it doesn't make sense to compare companies that aren't in the same business.

This will surface ideas and if something looks interesting, we have a group of sector analysts that I seek advice and input from. I will also read the Street research not so much to gather facts but to find out what the investor sentiment is. Then I'll do research contacting the company or other competitors to find out as much as I can. I'll go through economic information and I like to see how the company has performed versus peers over time, when did it start underperforming, and why. I also like to look at the background of the management because I strongly believe that management is the key to the company. **T**