

Fund With Initial Offers

It will be a rare chance for an individual investor to get allocation of a hot IPO. A fund for an investor with a bigger buying power and a commitment to ferret out a young company is the next best way to participate in the success of growth companies. The IPO Plus Fund aims to invest in companies when they go public, track them in the aftermarket and seek out dynamic companies with organic growth ahead of them.

Q: *What is the investment philosophy of the fund?*

A: The IPO market is one of the most challenging areas to analyze, but it is also one of the most interesting and rewarding. It is very diverse and consists not only of traditional small-cap or growth companies, but also large-cap companies as well. Our philosophy is to be able to invest in the securities of these companies because they offer potential returns that are unavailable to the broader stock markets. These companies are generally new, underfollowed and not that well understood. When there is a lack of information, there is potential that can be leveraged by investment professionals who study these companies and understand their structure appeal.

Typically the IPOs are a underpriced relative to their peers when they come to market, simply because investors want to be compensated for their risk of buying these new, untested companies. We have found over time that this initial discount to the valuations of publicly traded companies from 10% to 15% on average. Most individual investors don't have access to buying IPOs because they may have a discount

brokerage account, invest through a mutual fund or have only one brokerage account therefore they can't avail themselves of IPOs from other brokers. Our fund is a way for individual investors to invest in these companies in a knowledgeable way.

Q: *What is the unique thing an IPO fund offers that a small cap-fund would not be able to offer?*

A: We are totally focused on investing in IPOs as opposed to a small-cap growth fund which may invest in IPOs but is constrained to investing in small capitalization companies. The holdings in our fund reflect the recent IPO calendar rather than the stock picks according to a particular investment philosophy that is focused on small caps. IPOs are small-cap, mid-cap and large-cap companies. They are value companies as well as growth companies and they could be spin offs, foreign companies and leveraged buyouts.

A small-cap manager is always guided by the small-cap benchmark they are using. They structure their portfolios around the benchmark's industry weights and securities included in the

IPO Plus Aftermarket

Fund Facts

Symbol	IPOSX
Website	www.ipohome.com
Address	4020 South 147th Street, Suite 2, Omaha, Nebraska 68137
Tel. No.	1-888-476-3863
Inception	12/18/1997

Portfolio

Total Net Assets *	\$18
Avg Mkt Cap (\$ Weighted) *	\$1,651
Average Price/Earnings Ratio	23.6
Average Price/Book Ratio	3.3
Turnover Ratio	197%

Investment Information

New Investment	Open
Min Initial Investment	\$5,000
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$2,500

Risk (Against S&P 500 - 3 Years) - as of 7/31/06

Alpha	-2.17
Beta	1.27
R-Squared	50
Ann Std Deviation	13.95
Sharpe Ratio	0.57

Returns vs. Nasdaq OTC Composite

	IPOSX	Index
1 Year (Cum.)	6.47%	5.60%
3 Year (Ann.)	15.12%	10.21%
5 Year (Ann.)	2.48%	0.11%

Returns vs. S&P 500

	IPOSX	Index
1 Year (Cum.)	6.47%	8.63%
3 Year (Ann.)	15.12%	11.22%
5 Year (Ann.)	2.48%	2.49%

Expenses

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee **	2.00%
Total Expense Ratio	2.50%

Portfolio Manager

Linda R. Killian CFA	12/18/1997
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* millions ** within 90 days after purchase

Source: Company Documents; Lipper

Data through : 6/30/06



benchmark. Deviations from the benchmark are based on industry bets and stock selection.

Our portfolio construction, in contrast, depends on what companies are going public over time. While our portfolio does not exactly mimic what the IPO calendar, the stocks in the portfolio are companies that have recently gone public. However, we don't automatically include every IPO in the portfolio. For example, there have been a number of biotechs that have gone public. We generally don't invest in these companies unless they are in late stage development and have compelling science supporting their drugs.

Another important thing we do as an advisor is weed out the legitimate new industries and legitimate new companies from the fads that are highly risky and that don't have substantive investment underpinnings. Thus, we have stayed away from the blank check companies, not only because they don't have any underlying operations but because the trading is illiquid. We'll leave that fad to the hedge funds.

Q: *What is your investment process based on?*

A: As an investor with specialized knowledge in a highly selective sector, our whole investment process is based on a fundamentally driven discipline. We developed this discipline using philosophies and criteria not only from traditional buy-side metrics, but also from the standpoint of being a buyer of the whole company. That is, an investment-banking perspective.

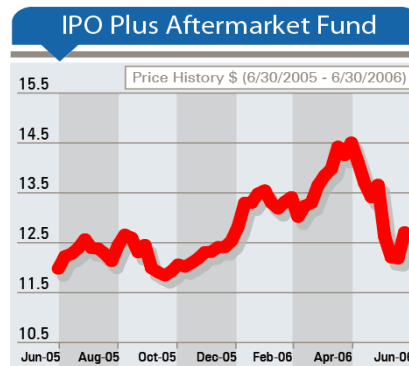
Q: *What are the essential criteria that you look at?*

A: We look at four criteria, two of which are long-term in nature and the other two are short-term. First, we examine the fundamentals of the company, looking at its business model competitive strengths and weaknesses, relative margins, how well the company is positioned, does this company offer something innovative and different from what its competitors do or is

it just a commodity? All of those questions go into creating not only the business model but the financial model for the company. We try to understand what the company really does.

Then we move on to governance. Over the long term governance is very important. The bottom line on governance for us is how closely management's interests and the private owner's interests are aligned with the public shareholders. Is management qualified? Do management and the private shareholders hold a lot of shares or are they selling on the offering? Those things are very important.

Another area we look at is the technical performance of analogous already



publicly traded companies. Sometimes it's easy to pick comparables. But when a company like Yahoo! went public, it didn't have any analogy. The new industries are very tough.

The last criteria is the valuation of the company. Naturally, the relative valuation depends on what you pick as comparables, but we believe it is essential to get a good hand on not only what the overall enterprise value is on an absolute basis but also how the company stacks up relatively to analogous companies.

We rank each company so that it has an overall rating based on those four criteria. The fund selections are made from those rankings. Not every high ranked deal may make it into the portfolio because of portfolio diversification issues. A lower ranked company has average ratings but it has a great

valuation and money starts to move into this area based on the charting and the technical services that we get, that company might end up in the portfolio.

Q: *Could you give one or two historical examples to walk us through the process of how from an idea the company becomes a holding and how you harvest the returns on that?*

A: The fund is able to go back and hold companies that have gone public as far off as 10 years ago. But in practice we stick with the relatively recent IPO calendar. If we have had a holding in the portfolio that we understood very well and sold for valuation reasons, then the company was revalued because the market went down, it would be an occasion to re-look at the company. Our strategy is to have core holdings of high quality companies around which we may have shorter term positions in the IPO calendar.

Genentech was a holding in our portfolio very early on. It was a good performer, but then it reached a valuation that did not support its near-term drug pipeline. In 2001 we sold the company but a couple of years ago as all of the drug companies hit a low on the pharmaceutical cycle, we took another look and realized Genentech had a potentially huge winner in Avastin, the colorectal cancer treatment. We thought the valuation was excellent, so we went back and bought Genentech. However, towards the end of last year, we sold it because we felt as though the valuation reflected so many good things about Avastin. That's how we'll stay longer term with a particular company and revisit it because we believe that building a new portfolio not only around the IPO calendar but more established IPOs that are larger and have solid track records give stability.

Another example of a long-term holding was hand bag retailer, Coach. Coach was a unique brand that was creating a strong niche between the cheaper leather goods and the expensive designer leather goods with a quality that was equivalent to the designer

goods, but at a much more affordable price, but yet well up from moderate.

Coach migrated its brand to more fashion forward designs. In doing so, they were able to attract a younger and broader customer base, who buys a new bag for each season, in contrast to their traditional, more conservative customer, who tends to buy handbags for their longevity. We continued to hold this company until about a year ago when a couple of us concluded that Coach had become too fashion forward, so their stuff was indistinguishable from the handbags that abound in the department stores.

Q: *How is your research process organized?*

A: We have a group of ten experienced analysts. Our process is disciplined. First, we have to stay on top of the IPO market and follow every IPO's path from its initial filing with the SEC to the offering and then its aftermarket trading. Every company is assigned a research team with a lead analyst and a reviewer. When the research report is completed, the team presents its conclusion to the entire research department.

Q: *How do you go about portfolio construction?*

A: The portfolio tends to have anywhere between 40 and 60 holdings with position sizes ranging from about 1% up to around 5%, with the larger and more liquid companies tending to be at the high end of the holdings, as a smaller less liquid company at the lower end.

We are diversified and very cognizant of not having huge weights in any one sector. We will look at our weighting in a particular sector as broadly defined as financial services, or energy, and if, for example, we have 20% weighting in energy, that is a little high for a diversified portfolio and we ought to cut it back. If you want to add another energy company, then we have to reduce the holding of something else to keep the balance.

It is important to note that we are a multicap manager. The portfolio holds stocks of all market caps, with the caveat that the minimum market cap is \$50 million. In practice, however, we tend to avoid the microcap companies and focus on stocks with market caps of at least \$100 million.

"The IPO market consists not only of traditional small-cap or growth companies but large-cap companies as well. Our philosophy is to exploit the potential returns of IPOs, which are unavailable to the broader stock markets. "



Linda Killian

Manager of the IPO Fund since inception, **LINDA KILLIAN** has many years of Wall Street experience as an analyst, portfolio manager and investment banker. She began her career as an investment banker at Credit Suisse First Boston and moved to Citibank Investment Management as a portfolio manager and analyst. There, she created the first fund to focus on medium capitalization companies.

In 1989 she joined Wertheim Schroder as a senior portfolio manager and analyst. In 1991, William Smith, Kathleen Shelton Smith and she founded Renaissance Capital, the first research firm focused on initial public offerings.

Q: *What is the turnover in the portfolio?*

A: The turnover in the portfolio has ranged from 100% to 200%. It's a high turnover.

Q: *What are your views on risk control?*

A: First, if the company is not working out after we buy it, we tend to sell if the near term loss hits 15%. We believe in cutting our losses although we're not always able to do that. Another thing we could do is short the portfolio up to 33.3%

The other risk control is that we can go to cash for a short period of time. We have done that, not quite 100%, but we've had our cash go up to significantly. But we try not to be market timers.

Q: *Between 2001 and 2003 there was very little on the calendar. How did you handle the situation?*

A: We focused on owning the very best companies of recent IPOs, which is when we took a new look at Coach, we took a look at Genentech. We will then go back in time to the top IPOs. When the IPO market slows down, we know that is a sign of overall market weakness and we tend to get more conservative and try to pick up high quality companies whose valuations may have become more attractive. The first IPOs to emerge after a correction tend to be very cheaply priced, because buyers demand low valuations to assume the risk of stock ownership.

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