

Value Puzzle

Investing isn't a mechanical or scientific process driven by strict rules, according to Marc Heilweil, the manager of Marathon Value Portfolio. It is the experience, the judgments based on that experience, the research and the intuition that drive his process. Constructed with the idea to be an all-weather fund that is not too dependent on economic or market conditions, the fund provides diversified exposure to equities with a long-term perspective.

Q: What's the investment philosophy of your fund?

A: The purpose of the portfolio is to provide an all-weather equity investment vehicle. The idea is to have a broad portfolio, which provides exposure to the stock market with a long-term perspective, such as retirement. As a result, the fund tends to be less volatile than the average mutual fund. We want it to be a sustainable and reasonable way for equity allocation, even in bear markets.

That idea probably isn't unique but as the 90's evolved, I saw more and more people trying to make decisions whether they should be in growth or value, in large or small cap, in which geographic region, or in which sector. So the fund is managed with no restrictions regarding capitalization or style, and although it is value focused, it includes many stocks that are considered growth stocks.

We'll look anywhere to find value, including high-yield bonds, although we'd only invest in them in periods when we get equity-like returns. But the important thing is to have the flexibility to invest anywhere. We also have a couple of public venture capital companies and several large-cap international stocks.

Generally, we are classified as a blend fund because we invest in both growth and value to support our main purpose. We have higher P/E stocks of compa-

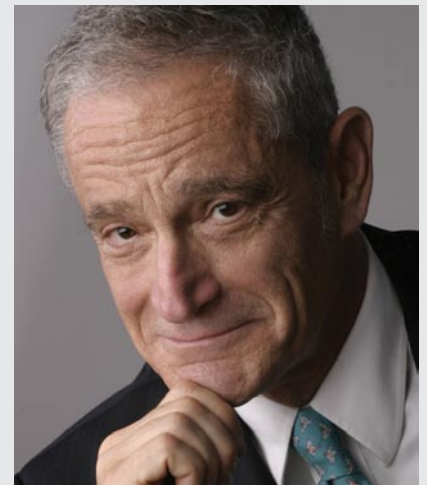
nies that we consider superior and good value. Actually, we use a value approach for the growth stocks except that these companies should have sufficiently predictable growth patterns. So the discipline is value but in my view 'value' is an all-encompassing term as it can take many forms and is arbitrary.

I've always been a value investor focused as a businessperson and I've spent 30 years managing money for high net worth clients. For me the most valuable skill of an investor is looking at companies as businesses. If I had unlimited resources, I wouldn't mind buying the entire company.

Q: What's the idea behind the fund's name and why do you prefer this blend approach?

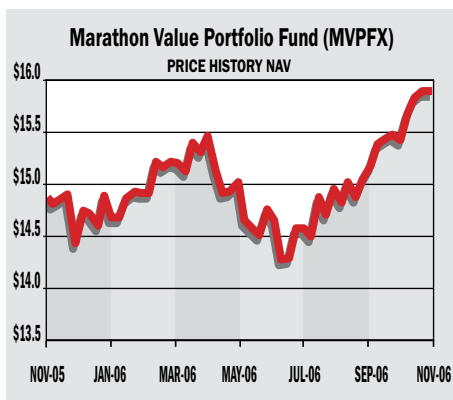
A: In 2000 we took over an existing fund, which didn't have a good track record. The fund was called Marathon Value Fund and we renamed it to Marathon Value Portfolio. The name change reflected the idea that the fund should be viewed as someone's portfolio as opposed to just a mutual fund.

I believe that it is very difficult for the average investor to decide where to put his or her money, unless it is an overall equity fund. That's why we use this blend approach and we decide where the best overall values are in the equity market. If a particular investment style is out of favor, our returns won't suffer with that approach.



MARC HEILWEIL, President and Founder of Spectrum Advisory Services, Inc., has over 30 years of experience as a fiduciary investor. Spectrum Advisory provides asset management services to high-net-worth individuals. He is also the portfolio manager of the Marathon Value Portfolio. Before starting his own investment firm in 1977, Marc practiced corporate and securities law in Atlanta. Previously, he also worked for the CDC and the U.S. Department of State. Marc holds a BA from Yale University where he was a member of Phi Beta Kappa. In 1974, he was awarded a J.D. degree from Yale Law School. He also spent a year as a Fulbright Scholar. From 1994 to 2006, Marc also served as a director of Amlis Residential Properties, a NYSE listed company.

“The fund is managed with no restrictions regarding capitalization or style, and although it is value focused, it includes many stocks that are considered growth stocks.”



It is a portfolio of all-weather stocks. At the moment we have taxable investors and our turnover is quite low, 18% last year, as we're trying to minimize capital gains. But if the make-up of the fund changes to include predominately tax-exempt plans, we'll change that focus.

Q: Could you describe your investment strategy? What stocks and sectors do you look at?

A: The investment process starts with deciding where there might be value. While we are not adverse to using screens, our decision making is not a mechanical screening process. I believe that investing really has an element of intuition and you must be able to identify the sectors or the particular companies that are out of favor. My experience definitely helps here as I have a large bank of knowledge about many public companies.

After defining where we think value might be, the second step is to understand the reason for the undervaluation, if it is an industry or a company-specific problem. The next step is research, which is more intensive for the companies that we're not currently holding.

Finally, we ask ourselves if we fundamentally disagree with the market valuation, if we think that there's value in the company, what the discount to the true value is, and how our view differs from the consensus. Once we have done the study of the company and I can be confident that we are right and consensus is wrong, we'll go ahead and invest in it.

So, the process is a constant search of areas of undervaluation. Clearly, a big

discount is important, but it is not the only factor. We may buy a fine company that's just a little bit out of favor and is available only at a modest discount. We might take advantage and that's how we bought some of the high-quality names in the portfolio.

Q: What are the most important elements of your research process?

A: It is not a mechanical process but is based on making an overall business judgment. The research process relies entirely on internal resources and we're not interested in what the Street is saying. We have staff of three other people who are very experienced and what we do is trying to understand the company and making a sound business judgment.

A particular aspect is the understanding of the management. One of the surprising things about corporate America is that there are managements who don't truly understand how to make money in their business, meaning how to make money above their cost of capital. For some reason many companies just pursue gross sales or an average profit. So we have a focus on how the management understands its business and the importance of allocation. That decision requires a historical point of view, so we go back over the company's history to see how it has performed over time.

It is primarily a bottom-up process, but we also take into account the sustainability of the company's place in its industry. We like to have a general understanding of the industry, to know the competitors, and to see if the company has a competitive advantage. We're not just strictly focused on the company but on how it distinguishes itself from other players. It's a long-term approach that doesn't aim to decide if the company will have a couple of good quarters, but aims to understand whether the company's core profitability will continue over a number of years.

Q: It is a hard question to answer unless you have a much broader view.

Could you give us a couple of stock picking examples to illustrate that?

A: It is hard, but we have experience and a certain amount of confidence. We also prepare a spreadsheet to quantify it, but we're not overly dependent upon that. It is the judgment that is most important. I'd rather have an overall viewpoint that makes sense, than nailing to the penny the aspects of the company's growth or its profitability.

A good example of a stock pick would be Campbell Soup, which we bought back in 2002. The judgment was that it had a leadership position in its category, which historically has been profitable. The management was below par but the company brought in someone with excellent reputation in the food business. He had a five-year plan to modify the dynamics of the company, which had been lagging and were reflected in the undervalued stock price.

It was a well-known company, an American icon that I was familiar with, and which had much better days in the past. We were able to buy it at a significant discount to the value that another company would pay for them. In fact, there was risk control because if this person hadn't succeeded, the company could get sold.

Another company is Crescent Real Estate, which is a complicated real estate investment trust. They have several different businesses, including hotel operations, office buildings, and a land business of selling second homes in attractive areas. Having a fair amount of experience in the real estate area, I recognized that this company was out of favor because of its mediocre results, but there was value and cash generated by their land business.

Most people valuing REITs base their valuation on the earnings and then add the appreciation on real estate. But because the land holdings were going to be sold off, they were not included in the valuation and the company was valued mainly on the income from their office properties. Clearly, there was a discrep-

ancy, so we bought the stock and have earned a nice return from that.

Of course, we make mistakes occasionally. Elizabeth Arden, the well-known fragrance company, would be an example of that. It has done a great job transforming itself from a distribution business into a brand name, and that's why I was attracted to it. Actually, we had owned their junk bond in our private accounts when it was originally leveraging up to make the acquisitions necessary for that move. It was way undervalued on most measures and very able in its acquisitions, but in hindsight, we missed that they did not have enough focus on their margins. It doesn't have the profitability like other companies in the industry. My assumption was that they would start showing the same profitability as the industry, but so far they've been a disappointment.

Q: Would you explain your portfolio construction process? How many stocks do you have?

A: We have about 70 stocks in an effort to have broad exposure to most areas. We're rarely out of a major stock market sector but the exposure varies depending on where the value is. Right now we've got each of the consumer discretionary, financial, healthcare, and industrial sectors weighting at around 11.5%. We also have smaller exposures to information technology, materials, energy, and staples, but we've got representation there.

So we're not trying to be heavily concentrated in a sector that looks attractive. The portfolio is constructed with the idea to be an all-weather fund that is not too dependent on the economic conditions or the market but tries to have good value in all the sectors. We benchmark against the S&P 500 and I think that's the best overall benchmark.

Q: What is your view on risk control?

A: We control risks thorough diversification and the price at which we buy stocks. The price usually provides a margin of safety for most of our hold-

ings. And if there isn't a margin of safety, there are enough spare parts in the portfolio to ensure that there won't be a dramatic negative impact if things go wrong for one company.

But I think that the most important risk control is to understand the business that you're buying and its value. Although you can't control the market price, you can avoid disastrous results if you understand the business.

Another risk control is the larger cash allocation. We've managed cash and asset-backed securities pretty aggressively; our current yield on fixed income is 5.75% through short-term securities. We look for good buys with low risk, which is better than keeping your money available for investing. Since we have an idea about how much cash we'll need for investing, it makes no sense to keep the rest. At the same time, the cash cushion provides some safety in the case of a major market catastrophe and enables us to buy at bargain prices if there is a price drop.

Q: How would you describe your sell discipline?

A: The sell discipline is largely mistake-driven or change-of-circumstances driven. We do not use technical measures at all. We'd usually sell a stock based on a change in the circumstances or a change in our evaluation of the way the management is handling the situation. Another reason to sell would be if a company has run far ahead of its valuation.

So we differ from the other funds in the sense that our approach and discipline are not as quantitative. Our process is very experience driven and judgment driven. If it was a scientific process with simple rules, it would be more comfortable, but I wouldn't be interested in doing it. I can't just follow rules such as to sell a stock if it drops more than 10%, or to buy stocks only if their return on equity is greater than 18%. The truth is that investing is a large puzzle with a lot of different pieces, and in certain occasions one piece is more important than the other. **T**

Marathon Value Portfolio Fund

FUND FACTS

Symbol	MVPFX
Website	www.marathonvalue.com
Address	Spectrum Advisory Services, Inc. 1050 Crown Pointe Parkway Suite 750, Atlanta, GA 30338
Tel. No.	770-393-8725
Inception	3/28/2000

PORTFOLIO

Total Net Assets *	\$ 24.9
Avg Mkt Cap (\$ Weighted) *	\$ 12,777
Average Price/Earnings Ratio	16.6x
Average Price/Book Ratio	2.8x
Turnover Ratio	38 %

INVESTMENT INFORMATION

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

RISK (AGAINST S&P 500)

Alpha	1.08
Beta	0.88
R-Squared	0.84
Ann Std Deviation	7.00
Sharpe Ratio	1.20

RETURNS VS. LIPPER MLT-CAP CORE IX INDEX

	MVPFX	Index
1 Year (Cum.)	10.42 %	13.10 %
3 Year (Ann.)	11.88 %	11.26 %
5 Year (Ann.)	8.80 %	6.80 %

RETURNS VS. S&P 500 INDEX

	MVPFX	Index
1 Year (Cum.)	10.42 %	14.23 %
3 Year (Ann.)	11.88 %	11.82 %
5 Year (Ann.)	8.80 %	6.08 %

FEES AND EXPENSES

Max Sales Charge - Front	0.00 %
Max Sales Charge - Deferred	0.00 %
Max Redemption Fee	0.00 %
Total Expense Ratio	1.25 %

PORTFOLIO MANAGER

Marc Heilweil	3/28/2000
---------------	-----------

* millions

Data through: 11/30/06

Source: Company Documents; Morningstar; Lipper

Ticker staff searches for mutual funds for their consistency in performance and durability of investment style.

Our interview covers investment philosophy and strategy, research process, portfolio construction and risk control for funds. Through an interview we uncover long-term strategies and processes that help to generate long-term returns.

You can read more on this and other funds at Ticker.com