

Diversified Large Caps

Jerome Heppelmann manages both the Old Mutual Large Cap (“Large Cap Fund”) and the Old Mutual Focused Fund (“Focused”) with a similar philosophy and process that are based on a combination of quantitative and qualitative analysis to find the right balance between valuation, near-term dynamics, and long-term growth. But the Large Cap Fund is more diversified - it is designed for investors who may not want the large individual weights of a concentrated fund.

Q: What’s the investment philosophy behind managing the Large Cap Fund? How does it differ from your approach towards managing the Old Mutual Focused Fund?

A: Both Funds invest in large-cap stocks but the Focused Fund is concentrated. The philosophy is identical – we believe that there is ample opportunity in large-cap core space because the majority of core funds follow benchmarks and track sector and stocks weights with very little differentiation in portfolio construction.

Overall, we believe that a company’s intrinsic value is a function of earnings growth and our philosophy is to look for a market price that is at a discount to company’s value, and to analyze that relationship both quantitatively and fundamentally. Every holding in our portfolio should offer an appropriate trade-off between valuation, near-term dynamics, and long-term growth.

The main difference between the Focused and the Large Cap Funds is the number of securities. While in the Focused Fund we invest in no more than thirty holdings with the idea to add as much alpha as possible while controlling the risk, in the Large Cap Fund we

invest in additional 12 to 15 names. This Fund is more diversified; it is designed for investors who may not want the concentration and the large individual weights of a Focused Fund.

Q: What’s your approach for selecting the securities, especially the additional ones? Do you use any benchmarks?

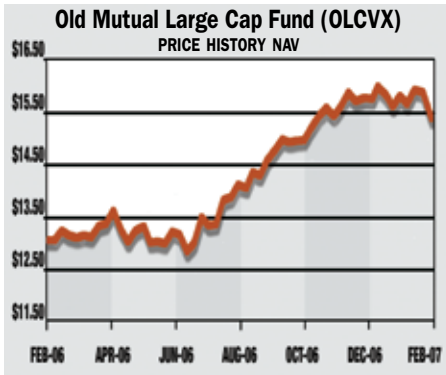
A: The process, both for the Focused and the Large Cap Funds, begins by making sure that we’re in the right market capitalization range. The second part is the quantitative part, where we screen for the characteristics that we consider important for future stock price appreciation. With our custom quantitative screens, we look at three broad areas - valuation, near-term investment dynamics and long-term growth, but we make sure that we’re looking at the right quantitative measure for each industry.

In the fundamental part of the process we look for the right valuation and we make sure that we apply the appropriate metrics for each industry. Return on capital, historical earnings and cash flows and sales growth are some of the metrics we look at. We prefer companies with strong near-term dynamics but sometimes we’ll



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Prior to joining Liberty Ridge Capital, Mr. Heppelmann was a member of the Investment Advisory Group within SEI Investments servicing investment management clients. He holds a BA with a concentration in Finance from The University of Notre Dame. Mr. Heppelmann holds the Chartered Financial Analyst designation and is a member of the CFA Society of Philadelphia.



make an exception if the valuation is compelling and you can wait for investors to change their extremely negative view on the company.

The additional 15 securities are fairly diversified across the top sectors of the S&P 500. Those may be companies that do not have the risk/reward and the value/growth trade off that we look for to take a 4% to 5% weight in the Focused Fund, but rather securities that are appropriate for a 2% to 3% weight.

We measure it against the S&P 500 and we make sure that the Fund is fairly diversified across the major sectors of the index. However, that's something that I monitor as I build the portfolio as opposed to a factor that builds the portfolio.

“This Fund is designed for investors who may not want the concentration and the large individual weights of a more focused fund. So it is a more diversified version of our Focused Fund’s philosophy and process.”

Q: Has the Fund been historically less volatile than the Focused Fund as a result of the larger number of holdings?

A: Actually, in the two years that I've run the Large Cap Fund, it had very similar quantitative risk profile to the Focused Fund. The previous manager used to run it in the same style but was inclined towards deep value. As a result, the historical deviation is lower than in the Focused Fund but so were the historic returns.

So the volatility is lower, but not that much lower. They are always going to have some overlap because there is a close correlation between the two funds. But there is clearly less company risk in the Large Cap Fund as the individual positions are smaller. Overall, the Large Cap Fund has more moderate allocation profile as there are more stocks in the Fund.

Q: Would you give us some specific examples of stocks that you would buy for the Large Cap Fund but not for the Focused Fund?

A: If I have two stocks that I like, I would determine which one would give me the best trade off for the Focused Fund. For the Large Cap Fund, I could buy both of them, giving a smaller weight to the second one.

Lowe's is a good example of a stock that I chose for the large cap Fund but not for the Focused Fund. I was very interested in the sector a couple of months ago and was doing a lot of work on Home Depot. As part of the process, while comparing Home Depot to industry peers, I realized that Lowe's is growing faster and didn't have a high premium on the multiple for that faster growth. It still had many of the characteristics I was looking for and offered more downside protection than Home Depot.

Neither of the stocks qualified for the 4% or 5% weight necessary for the Focused Fund because of the macroeconomic environment. The long-term growth was stable and solid, the valuation was getting more compelling, but I prefer to see the near-term dynamics for the businesses improving before I take a really large weight in a portfolio. But since the holdings in the Large Cap Fund have smaller weights, Lowe's could go in the large-cap portfolio.

Another example is ConocoPhillips, an energy name that I don't own in the Focused Fund yet. I've always followed and liked energy companies because I believe in the long-term growth. But when the oil price spikes, the reserves go to all-time highs, and the interest rate environment is not benevolent, there were too many factors against them. Moreover, I already had energy exposure in the Focused Fund via El Paso and I didn't want to increase that weight further. Nevertheless, as Conoco is one of the cheapest large oil companies, I've added it to the Large Cap Fund. I would continue to add to that stock on weakness.

Q: Do you find value in the newspaper business, which isn't quite popular with investors?

A: The newspaper companies don't qualify on my list because their near term dynamics are just horrendous. The subscriber count drops have continued and the Internet is a strong competitor. If you really want to know what's happening in the news, sports and finance, the Internet is the most efficient way to get that information. So I cannot get excited about shrinking companies, although I have to admit that they are very inexpensive and have got strong cash flows. But I don't understand how they'll sell

the perceived value there. It is just a tough business as the subscriber numbers continue to fall.

I've read pretty compelling statistics showing the 18 to 30 year old segment of the population subscriptions continue to plummet. There's no doubt that many of us, myself included, prefer to hold a paper in our hand but the subscriber base is not growing. Advertisers continue to shift to different mediums so it's a tough business as they want a more measurable audience to see where the money is going.

Q: Would you describe your buy and sell discipline?


A: As the stock goes up and the valuation becomes less compelling, we trim on the strength. If a company is priced for perfection, we don't want to own it even if we're happy with the company. Likewise, if there is a change in the fundamentals that isn't reflected in the valuation, we would probably take advantage of that change.

Sometimes in the course of our research process we'll find another company with very compelling valuation, and we'll sell something to include it in the portfolio. So the portfolio changes reflect our updated view of the best companies in terms of the trade off between valuation, near-term dynamics, and long-term growth.

Q: How does risk management differ for a portfolio with more names?

A: We try to mitigate the risk by finding companies with attractive valuations, strong free cash flow, strong balance sheets and expectations that are short of perfection – this provides support in down markets or should individual company problems arise. We also limit the exposure to compa-

ny risk by limiting individual security weights. Our largest weights in the large cap Fund would not be nearly as large as the weights in the concentrated product.

The other risk control is diversification and being fully invested. We try to diversify away all the risks on the portfolio level – market cap, sector, etc. and concentrate on the making sure that each individual company represents an appropriate risk/reward and provides ample downside protection. 

Old Mutual Large Cap Fund

Symbol	OLCVX
Website	www.oldmutual.com
Address	Old Mutual Capital Inc 4643 South Ulster Street 6th Floor, Denver, CO 80237
Tel. No.	800-395-4848
Inception	12/31/1996

PORTFOLIO

Total Net Assets*	\$111.3
Avg Mkt Cap (\$ Weighted)*	\$84,300
Average Price/Earnings Ratio	21.47x
Average Price/Book Ratio	3.88x
Turnover Ratio	91.7%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$2,500
Min Subsequent Investment	\$0.00
Min Initial IRA Investment	\$2,000

RISK (AGAINST S&P 500 DAILY REINV IX - 3 YEARS)

Alpha	-0.02
Beta	0.94
R-Squared	0.81
Ann. Std Deviation	7.25
Sharpe Ratio	0.69

RETURNS VS. S&P 500 DAILY REINV INDEX

	OLCVX	Index
1 Year (Cum.)	17.55%	11.97%
3 Year (Ann.)	8.28%	9.10%
5 Year (Ann.)	4.00%	6.82%

RETURNS VS. S&P 100 P INDEX

	OLCVX	Index
1 Year (Cum.)	17.55%	10.83%
3 Year (Ann.)	8.28%	4.47%
5 Year (Ann.)	4.00%	2.74%

FEES AND EXPENSES

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	1.00%
Max Redemption Fee**	2.00%
Total Expense Ratio	1.15%

PORTFOLIO MANAGER

Jerome Heppelmann	12/9/2004
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*millions

**for purchases made in the last 10 calendar days

Data through: 02/28/07

Source: Company Documents; Lipper

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