

Riding Stewards of Capital

Not too many funds dare to combine mutual funds and individual stocks in one portfolio, but the holdings of Rogé Partners Fund are bind together by the idea of investing in great managers and businesses. Utilizing a flexible strategy for exploiting valuation anomalies globally and across all market capitalizations, the manager Steve Rogé selects only about 50 holdings, and yet achieves the global allocation necessary to limit the risks.

Q: What are the core beliefs behind your way of money management?

A: The main aspect of our investment philosophy is that we try to find great stewards of capital, which means managers of mutual funds or managers of publicly traded companies that deploy capital prudently and earn high rates of return.

We are value investors, although we may gravitate towards growth at reasonable prices. We invest in a combination of mutual funds and individual stocks. It's a relatively concentrated, but globally allocated, portfolio. The international exposure may come directly, through ADRs, or through mutual funds.

Q: Could you describe your definition of 'value'?

A: For us 'value' means stocks that trade at a meaningful discount to their intrinsic value. We calculate intrinsic value as the price a reasonable and informed buyer would pay to purchase the whole company. We have five different intrinsic value calculations and my favorite one is current price to o much on relative valuation analysis because many investors can go wrong by applying relative valuation comparisons in a vacuum. Relative valuation would not be useful during a stock market bubble, for example, if you were comparing technology companies that were all overvalued.

Another important part of our strategy is investing in companies that offer growth at a reasonable price. Some of our holdings may trade at higher multiples and cannot be defined as traditional value. However, if we know a company well and if we are reasonably certain that its assets may double, or at least gain appreciably, over the next year, we may invest in it. If such a company trades at 18 times next year's free-cash-flow, we would define it as value, although commonly it would be classified as growth at a reasonable price.

Q: Which regions and industry sectors does your universe include?

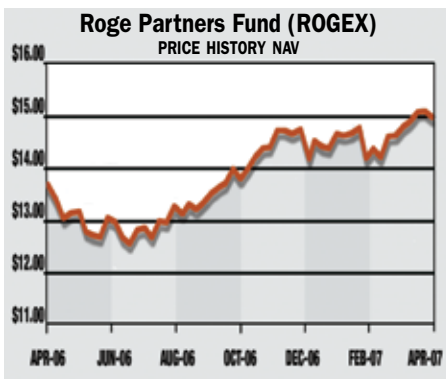
A: The mandate of the fund is extremely flexible because we don't want to limit our investment potential. In essence, the Rogé Partners Fund is almost like a hedge fund. We can short stocks, use leverage and buy derivative securities. Nor are we constrained by market cap categories. For example, we have invested in an Australian moving company with market capitalization of about \$32 million, as well as in Berkshire Hathaway, which is one of the largest U.S. firms. But our average market capitalization is likely to be less than that of the S&P 500 because we find more valuation anomalies in smaller-cap companies.

Globally, we can invest in any region that we feel comfortable with, even in the emerging



STEVEN M. ROGÉ serves as Portfolio Manager at R. W. Rogé & Company, Inc. and co-Portfolio Manager for the Rogé Partners Fund. Rogé joined R.W. Rogé & Company, Inc. in June of 1997 as an intern. After graduating from Bryant University with a Bachelor of Science Degree in Finance and Economics. He assumed the full-time position of Portfolio Manager at the firm.

Rogé is a member of the New York Society of Security Analysts (NYSSA) and is the Chairman of the NYSSA's Value Investing Committee. In addition, he has completed the Chartered Mutual Fund CounselorSM certification program and is a member of the Financial Planning Association (FPA). He serves on R. W. Rogé & Company Inc.'s Research Team and Investment Management Committee and conducts extensive, hands-on research, while continuously refining R. W. Rogé & Company Inc.'s proprietary research methodology –The ResearchEdge.



markets. We invest in more countries than the typical international mutual fund because we're not limited by our mandate, and about 25% of the mutual fund is invested overseas. But we have to be comfortable with the accounting and the political environment in those regions prior to investing there.

Q: What are the key elements of your research process?

A: On the mutual fund side, the process represents a combination of qualitative and quantitative research. About 65% to 70% of the fund is allocated in mutual funds, so the fund manager research is very important, and that's where our company has the most expertise.

We start by screening databases like Morningstar or Alexander Steele's Mutual Fund Expert, looking for a strong track record of risk-adjusted returns. When the funds are new, we look at the historic track records of the managers. If the managers run separately managed accounts, or a hedge fund, we review the audited track record of their separately managed accounts.

The important factors in selecting the funds include portfolio construction and turnover.

“We have a flexible strategy, which allows us to go anywhere to exploit the largest valuation gaps that we can find.”

We prefer concentrated versus diversified mutual funds and low turnover over high turnover. We believe in long-term investment strategies because they are tax efficient. We want to invest with money managers that buy businesses for the long-run, not trade stocks based on next quarter's earnings.

On the qualitative side, we talk to management and submit a questionnaire with about 50 essay questions that very much resemble your questions. In that way we collect information that's not available in the prospectus. We then follow-up with management to clear up any remaining questions. That process enables us to weed out a lot of managers who don't conform with our criteria, and it's worked pretty well.

But the crucial factor is whether we believe the managers deploy capital in a prudent fashion and are able to earn a return above their benchmark. Often these funds are very flexible and don't have a set benchmark, and we compare their returns to the S&P 500. Not being pegged to a style box is a positive sign for us because we prefer broader mandates. Overall, we try to find the brightest mutual fund managers and give them as much flexibility as possible.

Q: What is your strategy regarding the individual stock selection?

A: On the individual stock side, we generally adhere to the same strategy of finding great stewards of capital. Our research is bottom up and we use traditional value metrics, such as price to earnings, price to book, price to cash flow, enterprise value to free cash flow – which is my favorite – and enterprise value to EBITDA. We also look at profitability ratios such as operating margins, return on invested capital, return on assets, return on equity, debt to equity, and interest coverage ratios.

A key issue in the selection process is making sure that the companies are well capitalized. They should have plenty of cash on the balance sheet to weather inevitable downturns in the industry or the economy. Large reserves of cash and low debt represent

potential for companies to increase future earnings. The companies could implement share buybacks to increase the earnings per share; they could issue a dividend, or increase the existing dividend, to return cash to the shareholders; or they could leverage the company and invest in other growing markets. There's a lot of flexibility when you deal with a company that's well capitalized.

In our selection process, we take a straight business perspective. We evaluate the strengths of the brand and its momentum, the current market share and its anticipated growth. We examine the marketing plan, the business plan, and the overall strategy. We evaluate management's ability to improve brand loyalty, to increase the margins, and to allocate capital efficiently.

The capital allocation is among the most important issues. Similarly to a mutual fund manager, the company manager every day has to make capital allocation decisions. We look at the five-year history of the managers because there is a difference between saying something and actually doing it. So we review whether they bought a dot-com back in 2001, or bought back shares when their stock was at a 52-week low.

We don't rely too much on the top-down perspective but we do industry research and we check the demographic trends to see if certain companies would benefit from those trends.

Q: How do you generate investment ideas?

A: We get our ideas from numerous sources, including news publications, quantitative screens, investment conferences, company visits, and quarterly and annual reports. We also talk to many different money managers. We know most of them on a personal basis and we visit them frequently, or talk to them on the phone. We attend many of the same meetings together and we network with other professionals all the time. I think that being tight-lipped on investing ideas is detrimental to our shareholders since it keeps you in a vacuum.

Q: What is your buy and sell discipline? How much turnover does the fund generate?

A: The average holding stays in the fund for about four to six years. We rarely sell a mutual fund unless there's a significant change that we're not happy with. Typically, we do all our work on the managers upfront and we know exactly what's happening and why.

On the securities side, turnover is a bit higher. We typically sell stocks when the price targets are met. We periodically re-evaluate our stock holdings and if the intrinsic value hasn't grown, a stock becomes a sell candidate. But some of our core positions, which are great businesses, may be in the fund for 10 years. Other holdings may just be trading at cheap valuations and we purchase them to exploit the valuation anomaly.

An example of such as stock is PetroKazakhstan, which we bought in 2005 when the stock was down about 50% over three months. Subsequently, they became a takeover target and we made a nice return in just a couple of months. That's an example of a short holding period, which wasn't a function of timing the stock, but was rather an example of exploiting a valuation anomaly. Typically, if a stock we think is fundamentally sound moves down, we'll purchase more.

We like to purchase stocks at a discount of 30% to our estimate of intrinsic value, and that serves as our margin of safety. We like to see the free-cash-flow yield of 10% or more. We have companies that can consistently earn return on invested capital of above 15%. The ideal company should have a current ratio of above one.

Q: What is your portfolio construction process? How many securities do you hold?

A: Right now we are invested in about 25 mutual funds, 33 stocks and a limited partnership. Usually, we have a little over 50 holdings, but the top 10 holdings represent approximately 40% of the portfolio, so it's relatively concentrated. On the mutual fund side, we typically invest in very concentrated

mutual funds, but with a global scope. So the combination is unique.


Another unusual aspect is that we have the flexibility to invest in hedge funds. We have invested in a limited partnership, Armor Capital Partners L.P. Armor is a conservative, absolute value investor which focuses on undervalued securities from around the world. It represents about 3% of our mutual fund.

The weightings in the portfolio are based on our level of conviction, so we may overweight certain businesses or funds that offer the best risk/reward potential. That's one of the ways to control risk.

Q: What are the other ways to control risk?

A: The most important risk control is the uniqueness and the independence of our investment ideas and the quality of the due diligence on each company or manager prior to purchase. Buying at reasonable valuations also helps buffer against downside risk. Investing in under-leveraged or well-capitalized companies is also important, because in an inevitable downturn, they'll be able to take advantage of industry flux.

Another factor is investing in concentrated mutual funds. Most people would argue that a 25-stock portfolio is more risky than a 500-stock portfolio but I would disagree. Investing in 25 stocks is safer because the manager knows those companies more intimately. We like our managers to invest in their best ideas. Typically, concentrated managers have had more success over the long term than diversified funds, which often end up mimicking their index. Our approach is to combine a couple of dozen concentrated mutual funds to reduce any stock-specific risk.

Nevertheless, our allocation is spread among many different regions, sectors, companies and market capitalizations. We have a flexible strategy, which allows us to go anywhere to exploit the largest valuation gaps we can find. 

Roge Partners Fund

Symbol	ROGEX
Website	www.rogepartnersfunds.com
Address	Roge Partners Funds c/o Gemini Fund Services, LLC 4020 South 147th Street, Suite 2 Omaha, NE 68137
Tel. No.	888-800-7643
Inception	10/01/2004

PORTFOLIO

Total Net Assets*	\$17
Avg Mkt Cap (\$ Weighted) *	\$4,398
Average Price/Earnings Ratio	5.99x
Average Price/Book Ratio	0.74x
Turnover Ratio	13%

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 - SINCE INCEPTION)

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

RETURNS VS. S&P 500 TOTAL RETURN INDEX

	ROGEX	Index
1 Year (Cum.)	14.61%	11.83%
5 Year (Ann.)	N/A	6.27%
10 Year (Ann.)	N/A	8.20%

RETURNS VS. THE WORLD INDEX

	ROGEX	Index
1 Year (Cum.)	14.61%	15.44%
5 Year (Ann.)	N/A	10.39%
10 Year (Ann.)	N/A	7.88%

FEES AND EXPENSES

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	1.99%

PORTFOLIO MANAGERS

Steven M. Rogé	10/01/2004
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*millions

Data through: 03/31/07

Source: Company Documents; 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.

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