

## Basic and Classic

*No one knows where the winners of tomorrow are likely to come from. However, Michael Willis, lead portfolio manager of Giant 5 Funds' Total Investment System believes there are five essential themes on which people, the world over, will spend irrespective of market conditions and therefore, a diversified investment strategy and asset allocation that encompasses wider asset classes beyond stocks and bonds, are the keys to performance*

**Q: What is your investment philosophy?**

**A:** We believe no one knows the future or where the winners of tomorrow are likely to arise from. However, our investment philosophy is pegged on the belief that there are 5 essential areas, real estate, raw materials, energy, bonds and capital markets, on which people, the world over, will spend or invest irrespective of the market situation. We believe that a diversified investment strategy and asset allocation that encompasses wider asset classes, beyond stocks and bonds, are the keys to performance. We also try to gain up to 50% international exposure within each theme, when such opportunities exist.

**Q: How does this philosophy translate into investment strategy and process?**

**A:** We look at the 5 essential themes from a macro standpoint and try and divide the holdings equally among the five sectors that we think each portfolio should hold. Namely we have bonds, stocks, energy, raw materials and real estate. This strategy is applied in the management of our two five-sector mutual funds structured

as funds of funds - the Giant 5 Total Index System (NASDAQ Ticker INDEX) and the Giant 5 Total Investment System (NASDAQ Ticker FIVEX). Both funds are identical in investment strategy. The only difference is that in the Giant 5 Total Index System uses index driven exchange traded funds and Giant 5 Total Investment System or FIVEX uses managers.

We have both portfolios side by side, being traded and managed identically, except for the fact the underlying engine for FIVEX costs more because we have to pay for the managers; whereas the Exchange Traded Funds or ETFs, held in INDEX, create a cheaper engine. We are thereby matching the experience, intuition and skill of managers against the efficiency of low cost in diversification, in INDEX. So it is kind of using actively managed funds versus the passive indexes.

We have broken away from tradition asset allocation with our 5 Essential Themes. Most portfolios favor large caps, believing they are safer and have less risk. We believe technology has irreversibly changed the competitive landscape over the past 10 years



**MICHAEL WILLIS** has served as the president of Willis Group, Inc since its organization in 2004.

Prior to that, Willis was a senior vice president-investments of UBS Financial Services, Inc. from 2003 to 2004. He was a senior vice president-investment of PaineWebber from 1999 to 2003. Willis also served as first vice president of Smith Barney from 1994 to 1999.

**“We believe that global diversification through 5 Essential Asset Classes is the key to long-term performance.”**

by giving smaller cap companies the tools to compete more effectively and bring out quality products. We therefore take a more sector-based approach and look at what we call 'pocketbook investing' or where the consumers are spending their money.

**Q: Why did you arrive at only those five themes?**

**A:** A look at a person's budget on any given month will reveal that more than 80% of the spending will fit into one of the five categories. However, there is one potential sixth category that we do overweight and that is technology. We believe it is interwoven in all of them and we hold it in our capital market category in our portfolios. We look for funds that will outperform in the down market and not just the best performing funds in five asset classes.

**Q: How do you select a manager appropriate for your FIVEX fund?**

**A:** We have 39 performance screens that we use in FIVEX to select our managers; we call it our "All Star Selection Process" in which we prioritize performance. We value long term performance more than in the short term and value performance in down market more than up market; and also look at the manager's tenure. Then we crunch the ratios for tax efficiency of the portfolio. Fees are an important factor, though we will not compromise performance for the sake of fees.

**Q Can you give an example to illustrate the importance of performance over fees?**

**A:** Black Rock Energy recently came out with their global resources fund and we jumped at the opportunity to own that in the portfolio. We were excited as it had one of the best manager teams in the energy space. There was one major hitch: fees in that portfolio were over 1%. A close

competitor, Vanguard, that we own, has an energy portfolio for 21 basis points or 0.21%. When we ran the Black Rock Energy portfolio side by side with Vanguard through all the 39 screens, Black Rock looked superior to its peers.

The fund fee still remains one of our top ten screens because we do weight the 39 screens differently. Fees definitely get a higher weighting than other screens that we have in the portfolio in our All Star selection process, but we also look at all other ratios. For example, in our FIVEX portfolio we will not buy a new manager unless he has an extensive track record in the asset class he's currently managing. It is fine if he opens a new fund as long he has a historical track record that we can measure.

**Q: How do you plan to tackle the fee versus performance hurdle?**

**A:** One advantage we have is our access to institutional managers especially through FIVEX. We buy into the funds that are available to institutional investors, for our retail investors, at a lower fee. Our fees are 1.35% and our goal is to lower them to 35 basis points. We want to take fees completely out of the equation. This is possible only if we have both investment architecture and an independence to go to any firm in the world and pick the best managers that are available.

We plan to lower our fees down to 35 basis points as our assets grow. At \$150 million, we are going to cap fees at 95 basis points; ultimately reducing fund expenses to 35 basis points.

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

**A:** We have an independent architecture that gives us the freedom to choose best available managers for

the funds. In the index space where you have ETFs, the independent architecture helps because people are choosing from ETFs. In our FIVEX portfolio, this isn't the case. Our goal is to select the most appropriate managers for the portfolio and our independent architecture is designed for this freedom of choice. When I was at Smith Barney I could not recommend Vanguard to my clients simply because Vanguard did not have a dealer agreement with Smith Barney.

In terms of research, we use anyone who tracks performance; we use Morningstar and S&P 500 databases. With the influx of over 300 ETFs in the past year, we are conducting primary research because many industry databases are still in their early stages of collecting information.

**Q: What is your portfolio construction process?**

**A:** Ours is a five-step portfolio building process. First, we look at available funds in our core areas that include bond funds, REIT funds, mutual funds, index funds and ETFs. Next, these funds are run through our 39 screens. The third step involves allocation of the selected funds into the five essential themes; these include bonds, capital markets, energy, raw materials and real estate. In the fourth step, we divide our allocation equally between domestic and international securities. Finally, we distribute the funds between Index and FIVEX – based on whether they are index-based or managed. Index fund currently has over 10,000 underlying securities and FIVEX has around 3,000.

**Q: How many holdings do you have in your portfolio in the five areas and what is the minimum number you would hold?**

**A:** We own more than 25 holdings and that is kind of a benchmark. We

are trying to hold five different major asset classes, not just sectors. Unlike Wall Street, we do not think real estate is a sector. We may lower the minimum to 20 holdings; however, there are several different dynamics going on in this portfolio which require a broad diversification. So we prefer 25 plus positions in the portfolio not including our money market positions.

**Q: How would you define your buy and sell discipline?**

**A:** Our buy/sell discipline is all about rebalancing the portfolios based on our performance metrics driven 39 screens. We have recently initiated daily calculation of fund performance in our holdings and fund universe of 20,000 funds. We have discovered that there is a measure of volatility that we can take advantage of with the daily NAV measurements compared to quarterly computations that we used to rely on.

The other time we buy or sell is as a result of our performance rebalancing exercise. We rebalance our portfolio with a proprietary mathematical model that keeps our fund from being concentrated in any one of the 5 themes. An example of this is that we take the spread of the highest performers such as, energy and raw materials against the spread of the lowest performer, which is real estate. We observe what happens if we rebalanced at 1% deviation between the themes, at 5%, 10%, 15% and more finally coming to a percentage point when we rebalance the whole portfolio.

Our buy decision is also because of the fact that we value performance in the down market more than in the rising market. We prefer to invest in a fund that is a steady performer in both up and down market than in a fund that shoots up one year and


then lags the market in the next five years. We do not need to be the best performing fund in the up years, but want to be the number one performing fund or in the top 5% of the funds, during down years.

**Q: How do you manage risk?**

**A:** We are in a transition to increase frequency of our portfolio performance measurement and NAV assessments from 4 times a year to daily. We believe that continuous risk monitoring and portfolio evaluation adds great value to our shareholders.

We do not hedge the portfolio by shorting ETFs or stocks. Our risk management is based on the premise that we are going to own five permanent positions and provide a core holding to our investors. We are a long-only fund so we sell positions if we find out managers we have invested with are shorting the market. We also do not believe in leveraged positions. If managers start using leverage to generate performance then we stop working with them.

**Q: How do 5 Essential Themes weather volatile markets?**

**A:** As long-term investors, we understand that the markets will always have something to panic about, and should expect one or two such events per year. The key is to have an investment plan and to be able to ignore the day-to-day distractions that tempt you to deviate from it. The bottom line is that the type of market volatility you are seeing today emphasizes the need for a sound, long-term investment plan. The higher the quality of your investment plan, the higher your confidence level will be. The higher your confidence level, the greater your ability to ignore the day to day noise that tempts you to deviate from it. 

## Giant 5 Funds

Website	<a href="http://www.Giant5.com">www.Giant5.com</a>
Address	Willis Group Inc. 128 South Tejon Street Suite 150 Colorado Springs, CO 80903
Tel. No.	888-5GIANT5 or 888-544-2685
Inception	05/01/2006

**GIANT 5 TOTAL INVESTMENT SYSTEM FUND**

Ticker Symbol	FIVEX
Minimum Initial Investment	\$2,500
Min Subsequent Investment	\$100
Max Redemption Fee*	1.00%
Total Expense Ratio**	1.35%
Turnover Ratio	40%

**RETURNS VS. S&P 500 DAILY REINV INDEX**

	FIVEX	Index
1 Year (Cum.)	20.57%	20.59%

**GIANT 5 TOTAL INDEX SYSTEM FUND**

Ticker Symbol	INDEX
Minimum Initial Investment	\$2,500
Min Subsequent Investment	\$100
Max Redemption Fee*	1.00%
Total Expense Ratio**	1.35%
Turnover Ratio	40%

**RETURNS VS. S&P 500 DAILY REINV INDEX**

	INDEX	Index
1 Year (Cum.)	16.58%	20.59%

**PORTFOLIO MANAGER**

Michael Willis	2006
----------------	------

\*6 months after purchase

\*\*Capped by the Investment Advisor

Data through: 06/30/07

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.

You can read more on this and other funds at [Ticker.com](http://Ticker.com)