

Pricing the Value

ICON believes the news, the theories, and all the noise in the market can lead only to emotions and beliefs that distort the true worth of a company or an industry. That's why Todd Burchett, the manager of the ICON Long/Short Fund, focuses on the results of the fund's quantitative system in an effort to spot market opportunities presented by investors' emotional responses to news and current events.

Q: Would you describe the investment philosophy behind managing the ICON Long/Short Fund?

A: ICON's investment philosophy is based on a quantitative, non-emotional model. We believe that events and emotions can create situations where stocks trade below their fair value, and we look to capitalize on these opportunities. Using a modified Benjamin Graham equation, we value each of the stocks in our universe to identify the stocks and industries that are significantly overvalued or undervalued.

A key part of our long/short philosophy is that we are opportunistic, and we go where we see a gap between the intrinsic and the market value of a company. We don't try to fit into a style box. Overall, we let our quantitative methodology dictate where we go. We focus on the numbers and we ignore the emotions because we believe that investors' emotions create opportunities for us.

Q: How does that philosophy translate into an investment strategy and process?

A: Our universe consists of approximately 2,000 U.S. companies and we value them on a quarterly basis using a modified value approach. We use the

historic earnings to form a proprietary earnings base that is representative of the company's past. Then we grow that base using a long-term growth rate that we feel is sustainable and conservative. We do look at the analysts' estimates for the short- and long-term growth, but we adjust those numbers with a conservative bias because we believe that analysts tend to be overly optimistic more often than they are pessimistic.

We then discount these future cash flows back to the present with a factor that accounts for the opportunity cost and risk relative to the Moody's AAA bond yield opportunity. The discounted cash flow of future returns gives us the present value of the company.

We divide that present value by the market price of the stock. The difference between the value and the price represents a ratio that reflects our estimation of how undervalued (or overvalued) a company is. We call it the "value-to-price" ratio. Overall, we look for companies that trade at a value/price ratio above 1.00. That means that for every dollar invested, we believe we would get more than one dollar in value.

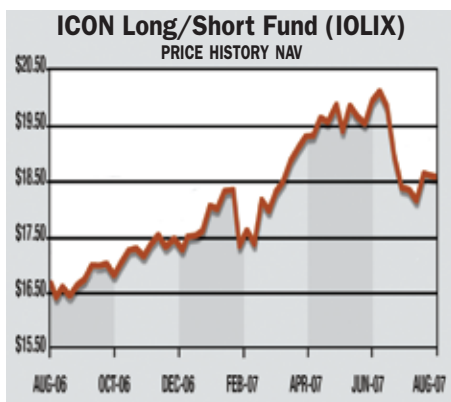


TODD BURCHETT is the primary Investment Committee member for the ICON Long/Short Fund.

Burchett joined ICON in 2005 as a Research Analyst and was named to the Investment Committee in 2006. He has passed all three Chartered Financial Analyst exams and his charter is pending. He also passed the Financial Risk Manager exam and is a member of the Global Association of Risk Professionals.

Burchett received masters of business administration and masters of science degrees from The Ohio State University. He also received a bachelor of arts degree in economics from Stanford University and a master of arts in curriculum and instruction from the University of Mississippi.

Prior to joining ICON, Burchett was employed by The Ohio State University as a research and training assistant. He was also a teacher, coach and faculty adviser for Rutland Vermont Public Schools.



ICON next breaks down the universe of approximately 2,000 companies into nine different sectors, and we further break those sectors down into 147 different industries. We look for the industries with high value-to-price ratios. In the final selection, we also follow an indicator of how the stock has performed over the last six months.

That means that our process begins from the bottom up as we value each company based on its own merits. Then we take a top-down look at the sectors and industries to determine their value and relative strength.

Since value analysis may lead us to buy stocks and industries before they are ready to move, we also employ a relative strength calculation. By comparing company, industry and sector performance to the broad market, we attempt to identify underpriced issues that are demonstrating leadership and therefore are favorably positioned to outperform the market.

“We go where we see a gap between the market value of a company and our estimate of the company’s intrinsic value. We don’t try to fit into a box and we don’t follow a benchmark. Overall, we let our quantitative methodology dictate where we go.”

Q: How would you describe the portfolio construction process?

A: The portfolio construction process on the long side involves overweighting sectors, industries, and companies with the most value. The average number of holdings in the fund varies from approximately 70 to as many as 120.

Currently, as of August 31, 2007, in terms of sectors, we believe that the leaders are Energy and Industrials. Healthcare is also starting to show signs of leadership, so we would overweight those three sectors.

Then we drill down to the industry level to find the best industries within those sectors. Within Energy, for example, we follow seven different industries, and we see the most value right now (as of August 31, 2007) in oil & gas equipment services. On average, we calculate this industry as having a 1.38 value/price ratio, which means that for every \$1 you invest in that industry, we estimate you get about \$1.38 in value. Oil & gas equipment services has been leading the market over the last six months, which we interpret as a clear signal that investors recognize its value.

The next step is exploring the company level and looking for the best two or three companies within that industry.

So we use a combination of a bottom-up and a top-down approach that is strictly quantitative, objective, and non-emotional. It is based on mathematics and finance. Our quantitative system measures what we believe is the quality of a company. It looks at the company’s ability to maintain and grow its profits, to control liquidity risks, financial risks, and business risk.

The end result is ICON ranks each of the companies on a scale from 1 to 5. A 1 means we believe the company is of the highest quality, and a 5 means

we believe the company has the least quality, relatively speaking. We generally look for companies with rankings of one through three because we believe those companies have the best chance for stock price appreciation to intrinsic value, not of value coming back down to price.

We apply the same methodology to the short side, but with a twist. We look for the best of the best on the long side, and on the short side we look for the worst of the worst. That is, we’ll look for companies we believe have the least chance for stock price appreciation.

Q: What are the key quantitative metrics that you would most often use to calculate the quality of a company?

A: We look at the profitability growth over the last seven years, the trends in cost control, efficiency, business risk, liquidity, flexibility, and financial risk. Then we compare the company against its peers in the industry and the sector. We look for companies we think are able to best control those factors.

We break the business risk down into percentage change in sales, percentage change in operating cash flow, dividend payout, dividends per share, dividend yield, and how a company has grown and maintained those metrics through time. Regarding the financial risk, we look at debt, shareholder equity, operating cash flow, long-term debt, and interest coverage.

Q: What are the key elements of your shorting strategy?

A: On the short side, we use the same methodology but we focus on the stocks with the lowest value/price ratios and relative strength indicators. The value/price ratio is our computed intrinsic value of the company divided by its market price. Therefore, under our methodology, we believe a good op-

portunity exists when for every dollar you invest, you receive more than one dollar in value. On the other hand, in periods when the market overvalues an industry or a stock, we can, in theory, capitalize on shorting a company or an industry.

Again, we start at the industry level, and if we find industries that we believe are overvalued and show weakness, we drill down to the company level to spot the weakest companies within that area, and those are the ones we short.

Q: What is the ratio between the short and the long holdings in the fund?

A: Because our strategy is opportunistic, we cannot be classified as a 130/30 fund, a 120/20 fund, or a market neutral fund.

When we see value completely absent from the market, we may keep 50% in cash and 50% in short positions in an effort to make money on that side as well. So the best description of the fund is that it is an opportunistic fund that follows a strict quantitative methodology.

Q: What is your view on risk control?

A: We try to control risk at the portfolio level by attempting to limit company specific risk. I typically try to limit portfolio weight to around 1.3%, so I'm not taking a large bet in any given company.

We are aware of benchmark risks as well. We monitor our sector ratings relative to where the benchmark is. Then, as far as the holdings go, we monitor our beta, the measure of risk, the measure of all volatilities incorporated into our model.

Another risk control measure is our rating on management quality which was


explained earlier in the portfolio construction process.

Q: Could you give us a couple of specific examples of stocks or industries that you have selected in the past?

A: REITs represent a good example of finding industries that are overvalued and show weakness. Our discounted cash flow model suggested REITs were not worth as much as the market was valuing them. The REITs were overvalued across the board, so about 15% to 20% of our portfolio was short in REITs as of August 31, 2007.

Q. What do you think makes your long/short investment approach distinctive or differentiated from other long/short funds at other firms?

A. We believe we have the ability to be more opportunistic than many of the funds. I think you'll find a lot of funds that are market neutral. We don't try to be market neutral. You'll find a lot of 130/30 funds, but if you think the market is undervalued by, say, 50%, why would you stay 30% short. I think that's a big thing.

I think another thing that makes us different is we're really an all-cap manager. We believe in going anywhere - it doesn't matter, small cap, large cap, mid cap, value, growth. We don't restrict ourselves by market cap and we really think that can offer investors some good opportunities. 

Consider the investment objectives, risks, charges, expenses, and share classes of each ICON Fund carefully before investing. The prospectus and statement of additional information contains this and other information about the Funds and is available by visiting www.iconadvisers.com or by calling 1-800-828-4881; please read the prospectus and statement of additional information carefully before investing.

ICON Long/Short Fund

Symbol	IOLIX
Website	www.iconadvisers.com
Address	ICON Funds 5299 DTC Boulevard Suite 1200 Greenwood Village, CO 80111
Tel. No.	800-764-0442
Inception	09/30/2002

PORTFOLIO	
Total Net Assets*	\$279
Avg Mkt Cap (\$ Weighted)*	\$36,800
Average Price/Earnings Ratio	16.68x
Average Price/Book Ratio	3.44x
Turnover Ratio	38.81%

INVESTMENT INFORMATION	
New Investment	Open
Min Initial Investment	\$1,000
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$1,000

RISK (AGAINST S&P 500 DAILY REINV IX - 3 YRS)	
Alpha	-0.05
Beta	1.15
R-Squared	0.58
Ann. Std Deviation	11.08
Sharpe Ratio	0.83

RETURNS VS. S&P 500 DAILY REINV INDEX		
	IOLIX	Index
1 Year (Cum.)	11.32%	15.13%
3 Year (Ann.)	13.35%	12.16%

RETURNS VS. S&P 600 TR INDEX		
	IOLIX	Index
1 Year (Cum.)	11.32%	14.28%
3 Year (Ann.)	13.35%	15.69%

FEES AND EXPENSES	
Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	1.29%

PORTFOLIO MANAGER	
Todd Burchett	05/16/2007

*millions

Data through: 08/31/2007

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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