

Mid-cap Quant Strategy

Small-cap stocks offer great opportunities for capital appreciation, but tend to be vulnerable to competitive challenges and bad economic news. Viking Small-Cap Value fund employs a strategy designed to give downside protection in the search of long-term total return and capital preservation. For Gregory Greene, portfolio manager, buying high-quality companies trading at a discount to the market leads to a better performance over the long term with less risk.

Q: What is your investment philosophy?

A: We believe that by building a portfolio of stocks that are trading at a discount to the market we will generate better performance over the longer term with less risk.

We believe that a focus on controlling and minimizing risk is a big part of maximizing performance. While we want a company to be inexpensive we also want to buy the highest quality companies that we can find that fit within our valuation discipline. By high quality I mean companies with sustainable businesses that generate high returns on capital by way of superior management, products, brands, business models or operational excellence. Quality is not just a function of a clean balance sheet, although we like that too.

Q: How is your research process organized?

A: We utilize a three stage process in the building of our portfolio. The first step is a screening process where we identify companies that fit our portfolios discipline on valuation and market cap. Next, through fundamental, qualitative research, we cull down the pre-screened candidates to a much shorter list of companies that we feel represent high quality businesses selling at discounted prices. We oftentimes analyze situations where a company that we feel is high quality has a temporary problem. At that point our investment process focuses on analyzing exactly what is the nature of

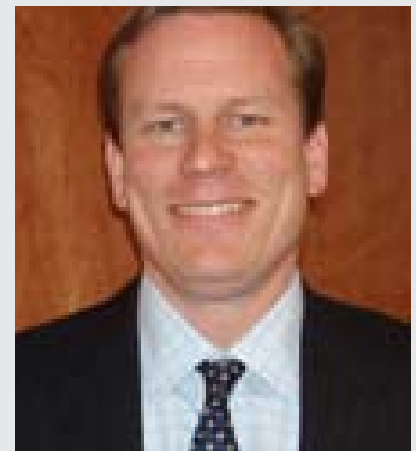
the problem and how long it is likely to persist. The companies where we feel that the problems are temporary and fixable we then look at more closely.

We first talk to the management team. If they are not honest with themselves about what exactly the problem is, that's a big red flag and we stay away from these companies. The management must have a good handle on the problem and a vision on how they are going to solve it. It is very important that they can assess the problems and their skills in solving them, and also to be brutally honest about the challenges they face in solving these problems. Then we try to determine the time the company will take to recover from the problem and how long it will take investors to realize this.

Our interest in companies with problems does not extend to companies that are on the edge of bankruptcy or in highly distressed types of situations. We feel that would expose our clients to a higher level of risk than is warranted. We are trying to build a portfolio of good businesses and also generate superior risk adjusted performance.

Q: Do you measure yourself against a particular benchmark?

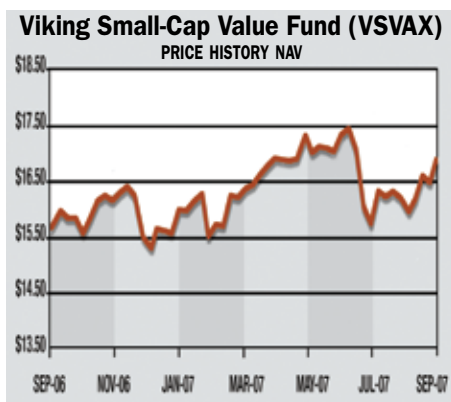
A: We produce a fair amount of research internally starting with a screening process that defines our universe of stocks we can invest in. We use the Russell 2000 Value Index as a universe of stocks to select from.



GREGORY R. GREENE is portfolio manager and managing director of Fox Asset Management LLC and has been employed by Fox for more than five years.

Prior to joining Fox, Greene was a research analyst responsible for the financial services and retail consumer products industries in addition to being head of trading at Chris Blair Asset Management. Previously, he was a vice president and senior position trader in the equity trading department at Merrill Lynch. Greene holds the Chartered Financial Analyst designation.

“We believe that buying high quality companies that are inexpensive relative to the market and building a portfolio out of these stocks is going to give us better performance over time with less risk.”



Although we have a significant awareness of what is in the benchmark, we don't restrict ourselves only to stocks in the benchmark.

Q: Could you highlight your screening process?

A: We use the parameters of the index, not simply the holdings of the index but the parameters in terms of market cap, and the size of the companies to define the universe. We could buy companies that for one reason or another have not been included in the index but still show up on our screens as making sense from the valuation and quality perspective.

We use quantitative screens where we look at valuation from several points of view. Price to earnings and price to cash flow are two measures of valuations that we look in the preliminary evaluation. The valuation measures we apply to determine if something is inexpensive enough are going to vary depending upon the company and the industry. We are looking for at least a 20% discount to the market multiple to initiate a position.

Another consideration which could prevent a company from including in the portfolio is liquidity. We don't get into stocks that are smaller than \$300 million in market cap simply because liquidity starts to be an issue at that point.

Q: What are the criteria you follow to identify a quality company?

A: Quality can mean a lot of different things. We allow ourselves to use a little more judgment and we are going to be dealing with companies that are not necessarily perfect all the time but that doesn't mean that they

are not high quality. It just means that they are going through some phase that has caused them to be inexpensive and those are the kind of opportunities that we try to get involved in.

We are looking for business sustainability and look for answers to questions such as does the business add value in a way that their competitors do not? Is there something special about it that will lead to a higher return on capital, higher margins or higher growth rate? What are their competitors doing? Do they have pricing power with their products?

Then, we are looking at the quality of the management team. What is their track record? What have they done in the past and what are they saying about the problem the company is facing?

Q: What is the structure of your research team?

A: We have a team of analysts who deal with different sectors and industries. We have a smaller, three-person team that handles the portfolio decisions. I am the lead portfolio manager and we have two other portfolio managers whose names are Brad Ohlmuller and Robert Milmore. The three of us make decisions on a consensus basis about what goes in and out of this portfolio. If we have difference of opinion, I do have power of veto but we prefer to arrive to consensus.

All of us function as analysts including myself but we identify things that fit initially within our conceptual framework. Then we look into the qualitative factors. We analyze the business and the industry, we take a look at their competitors and suppliers, we try to get a full scope of the business environment and company capabilities. If the company doesn't pass the test of business quality and sustainability, then we do not continue further.

The individual analysts put together a standardized report that identifies the investment thesis, the time frame that they think the investment idea will take to generate return, a price target with the

annualized return and the risks we are incurring.

At that point the individual analysis presents the idea to our research group. The discussion after the presentation within the research group will decide the investment merits of the idea. The approved investment idea is added to the buy list and a portfolio manager will use this list to build a portfolio meeting our portfolio guidelines. We are trying to build a portfolio that meets our risk and diversification criteria.

Q: Could you give an example to illustrate how an idea has turned into a holding?

A: We own Chiquita Brands (CQB), the banana company. When we initially looked at it, the street was pessimistic about Chiquita's prospects. The company's problems were well publicized concerning tariffs in the EU, but the banana sales and margins were healthy in the U.S. We analyzed the nature of the tariffs and what we thought the impact on earnings would be using what we felt would be conservative assumptions. The end result was still a healthy, profitable business that we felt the stock price wasn't properly reflecting.

We decided that the company has brand recognition in the market and has the potential to generate and grow earnings. Chiquita is an extraordinarily well recognized brand. They have been able to maintain premium pricing in Europe during a period of oversupply over the last year. The market became saturated with new entrants who weren't subject to the tariffs and who tried to take advantage of what they felt would be an opportunity to gain share. This caused, predictably, a poor pricing environment. Many of the new entrants have now been flushed out, and the market is returning to health.

The other temporary problem in the industry was related to E-Coli bacteria in spinach. While none of Chiquita's products were directly affected or contaminated, the overall effect on the bagged salad segment was negative as consumers simply stopped buying what they felt was a high risk product. The stock reacted poorly to

this. We talked to management several times about whether they thought this was temporary or permanent problem and what they could do about it. And we concluded that this was a temporary problem. We decided that the trends on convenience and health are both things that people want in their food choices and pre-packaged salads are a big part of that. Chiquita is also doing innovative things with packaging for bananas to extend shelf life and packaging of fewer quantities and selling individual bananas for people who just want to buy one banana at lunch.

The company has a high debt load and we were aware of that. We liked the company's plan to sell and lease back its fleet of refrigerated trucks and use proceeds to reduce leverage on the balance sheet.

While I don't think S&P would consider Chiquita to be high quality, we do because of the combination of a strong brand and an innovative management team that is aware of the company's problems and dealing with them in a realistic and responsible fashion.

Q: How do you go about portfolio construction?

A: We hold between forty and sixty stocks in the portfolio at any given time. Right now we are holding 56 stocks and we will always try to stay close to 60 stocks for purposes of diversification and portfolio structure. We want a well balanced portfolio in which the biggest positions will be generally between 1.5% and 2.5%. We will occasionally let something get bigger than that if we have a very high conviction in an idea and we see a limited downside. We don't go straight to 1.5% but we build a position over time knowing that our timing isn't going to be perfect.

We try not to have too much concentration in the top ten names and we invest with an awareness of the index but we certainly are not trying to mirror the index in any way. Our awareness of the index is simply designed to make intelligent decisions about the sector weighting relative to the benchmark.

Q: What kinds of risk do you monitor?


A: A big part of value investing is trying to minimize the downside. Why value investing works over time is not because you have high flyers that work better than growth investors during the good times but because your strategy is designed to give more downside protection and do better during times when the market has gone sideways.

We have invested in a company with a problem and we hope they can fix it but what if we are wrong? So we have taken into account the trade-off between what the possible reward is and what is the risk. We have analyzed ideas with tremendous upside that we haven't bought because they also had tremendous downside risk, and that's not an acceptable trade-off to us. The performance of any portfolio is determined as much, if not more, by the losers as by the winners.

Q: How do you control risk?

A: We control risk in three ways. First, through our philosophy and research process, we are buying stocks that we deem to be inexpensive. We are concentrating on what we feel is high quality and sustainable businesses with higher return than industry peers and we are trying to focus on what's the downside risk.

Second, we are trying to maintain a diversified portfolio, equally weighted among several stocks so that no one stock holding can affect the performance to an extreme degree.

Third, when a stock is down a certain percentage from our average price, we will sell it. It is a mechanical rule but it is one that has worked for us. This is a risk control measure that is really designed for extreme situations, and it does not come into practice very often. 

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Viking Small-Cap Value Fund

Symbol	VSVAX
Website	www.foxasset.com
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Tel. No.	877-841-7235
Inception	05/03/2001

PORTFOLIO

Total Net Assets*	\$4.0
Avg Mkt Cap (\$ Weighted)*	\$1,700
Average Price/Earnings Ratio	20.06x
Average Price/Book Ratio	2.28x
Turnover Ratio	37%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$500
Min Subsequent Investment	\$25
Min Initial IRA Investment	\$250

RISK (AGAINST S&P 500 DAILY REINV INDEX - 3 YRS)

Alpha	-0.24
Beta	1.12
R-Squared	0.66
Ann. Std Deviation	10.22
Sharpe Ratio	0.74

RETURNS VS. S&P 500 DAILY REINV INDEX

	VSVAX	Index
1 Year (Cum.)	13.10%	16.44%
3 Year (Ann.)	11.59%	13.14%
5 Year (Ann.)	15.48%	15.45%

RETURNS VS. S&P 600 TR INDEX

	VSVAX	Index
1 Year (Cum.)	13.10%	14.93%
3 Year (Ann.)	11.59%	14.29%
5 Year (Ann.)	15.48%	18.73%

FEES AND EXPENSES

Max Sales Charge - Front**	5.25%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	1.65%

PORTFOLIO MANAGER

Gregory Greene	05/03/2001
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*millions **for amount invested less than \$50,000

Data through: 09/30/2007

Source: Company Documents; Lipper

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