

Defensive Risk

The Akros Absolute Return Fund aims at long-term capital appreciation and income, while seeking to protect principal during unfavorable market conditions. Fund manager Brady T. Lipp uses quantitative factor modeling systems to identify companies of any size selling at a discount to their underlying assets and also companies that can grow their cash flow streams over a 5-to-7 year period.

What's your investment philosophy?

We believe in compounding money but preserving capital. This particular fund was designed to give the manager the flexibility to capitalize on different types of investment opportunities. It is also designed to take defensive measures and try to preserve capital during difficult periods.

From a stock selection perspective we are value investors. We believe that over a long period a stock price is ultimately going to reflect the true value of the business it represents. A stock price should reflect the present value of future cash flow streams the company is going to generate over its lifetime.

How do you assess the value of a company?

It is very difficult to assess the value of the company if you do not have a viewpoint on the macro environment. We

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believe a measure of company value can be discerned by calculating the present value of its future cash flow. The discount rate we use is the interest rate charged to the best companies in America and then we add between 50 basis points and 5 percentage points to compensate for various levels of risk.

Companies that have more stable cash flow streams and have a longer period of history would have a lower discount rate closer to the AAA corporate bond rate yields. We adjust that discount rate depending on what the cost of capital would be for the company. Usually, the cost of capital is higher for riskier companies.

What kind of companies are you looking to invest?

We are looking for companies selling at a discount to their underlying assets and we also like companies that can grow their cash flow streams over time. Often, that kind of strategy involves investing in unpopular companies.

In short, we like to buy good companies at good prices. The history of management and their friendliness towards shareholders is an important aspect. We like companies

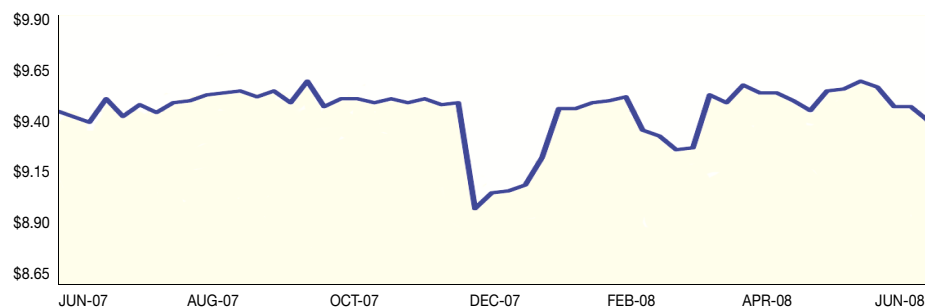


BRADY T. LIPP is the founder of Akros Capital, LLC, serves as the firm's Chief Executive Officer, and is the Senior Portfolio Manager for all investment strategies. Prior to founding Akros in May of 2003, he was a Managing Director at Credit Suisse Asset Management from 1999 to 2003 and a member of the global post venture capital investment team, which focused on stocks that had private-equity backing. Lipp also served as a Managing Director at Warburg Pincus Asset Management from 1994 to 1999, and was an Institutional Relationship Manager at Strong Capital Management from 1987 to 1994.

Lipp received his Masters of Education (1985) and his B.S. (1981) from North Dakota State University.

Performance - Price History N.A.V.

Akros Absolute Return Fund (AARFX)



	2005	2006
S&P 500	15.80%	5.49%
AARFX	1.57%	-0.50%

that are buying back shares and we pay close attention to insider buying and selling activities.

We want to invest in companies that are likely to grow their earnings and cash flow streams over a 5-to-7 year period. We consider ourselves as value investors because we pay attention to the price we pay.

How is your research process organized?

Most of our ideas come internally from our macro viewpoints and from monitoring insider buying activity, share buyback activity, and reading financial publications.

I have been in the investment business for twenty-three years and have developed a set of contacts. I read extensively and we meet with company management teams. We also get some of our best investment ideas by studying the competitors of the companies we are researching.

Our fund is relatively small, so we have considerable flexibility regarding market cap. Sometimes the best opportunities can be in smaller companies and names that are not well-researched by other investors.

How do you screen for companies?

We use some quantitative factor modeling systems to help us screen for stocks. Some of the factors are cash flow yields and price-to-book value. We look at the reported earnings for companies over the course of the last three years. Those companies that have positive trends in terms of their earnings growth tend to score higher on our ranking system.

Some of the factor-modeling systems that we use will display companies that we have never heard of before. For example, in our portfolio, we own a couple of southern Minnesota savings banks. One company has about \$350 million in assets. The other has close to a billion dollars in assets. Most of these companies are selling at nice discounts to their tangible book value. Unlike many of the big Wall Street firms that have taken massive write-offs, these companies have been earning money and pay very attractive dividend yields in the 5% range. These are examples of underfollowed, neglected securities selling at decent discounts to tangible book value.

How many stocks do you own in your portfolio and what benchmarks do you measure your fund against?

We want to produce reasonable rates return over a longer period. We try to do 300 basis points over T-bill rates over a market cycle of five years or longer.

We try to keep the portfolio relatively focused. Our long positions will be in the 40-60 stock ideas. On the short side, we do have some individual stock names that we will short occasionally. Most of what we do on the hedging side involves using S&P 500 future contracts or future contracts on other stock indices. When volatility was lower a couple years ago, we used put options on the S&P 500 index extensively. Now that the market volatility is high, we find futures to be more attractive as far as hedging is concerned. We also occasionally use exchange traded funds.

What is the percentage of shorts that you have as part of the capital?

It has been as high as 40% but currently it is closer to 20%. If you exclude the late-stage private equity securities, our net long exposure is currently about 20%. We have been as high as 40% since we started the fund. In addition, we have been occasionally net short. We would never go more than 20% net short. If we are bearish, we try to keep the fund in that market neutral area.

I do not feel comfortable being net short over extended periods. We would go as much as 100% long if we really felt bullish on the overall stock market.

What kind of absolute return are you targeting?

We believe that we must generate positive returns regardless of market gains or losses. The absolute return that we target is an excess return of 300 basis points over the yield on the

Treasury bill. If the S&P is down 15% from its peak, we do not want to use that as an excuse to have negative performance results.

Relative to the overall stock market, we want to capture 60% of the upside and we want to limit our downside to 20% of the market. If we can do that over a long period, we are going to have very attractive performance results.

Can you discuss the late stage of private equity investing?

It is the idea of trying to find under-followed or undiscovered type investments and opportunities. That is where you really get the best payoff in the end. It is a reason why I have liked some of these smaller mutual savings banks that had converted into stock companies. They tend to be under-discovered. Sometimes you can find some late-stage private equity deals that, if they were publicly traded companies, they would probably have a valuation that might be twice as high as what you are buying in at and we do own a handful of those types of companies.

Could you give us a historical example?

Although it is not one of the fund's holdings, Amgen is a perfect example of that. Amgen almost went bankrupt before they finally got their drugs approved and there were some very dilutive rounds of financing that were done just prior to the business taking off. You repeatedly run into this risk.

If you look at Amgen's valuation now, you will see a company that sells at a nice multiple to its revenue.

What happens if the investment does not work out as you had expected within a reasonable time frame?

We are prepared to hang onto these

companies for as long as we have to. Sometimes they do not reach their objectives. We monitor securities on a daily basis for major events that might affect the valuation of the company. Every month we write detailed valuation memos. Occasionally their valuations will need to change based on developments to reflect their merits and possibilities as a public company.

What kinds of risks do you monitor and what do you do to mitigate these risk?

We limit our gross sector exposure. If you add our long positions plus our short positions, we will probably not exceed 35% in any given sector. In addition, we limit our overall industry exposure to 25%. For individual securities at purchase, we would not take larger than 5% positions. A big position for us would be 3% under normal circumstances. We will normally have 40-60 names on the long side. That way, if a blowup happens, it does not devastate our portfolio.

We have had minimal volatility. If you add back the dividend distribution that we made in December, we have had little drawdown in our fund. Our goal is to try to keep the volatility limited to that 60% range of the S&P 500 so people do not get shaken out and it has been considerably less than that since we have started the fund just because of our defensive posture.

In the current market environment, it is good timing for these types of funds. When the technology bubble peaked in 2000, we thought we had entered into a long-term secular bear market that would probably last for an extended period. We felt that funds like this, if managed properly and with minimized volatility during bear market runs, could provide an attractive alternative for investors. 

Akros Absolute Return Fund

Symbol **AARFX**
 Website www.akrosfunds.com
 Address Akros Capital, LLC
 230 Park Avenue, 7th Floor
 New York, NY 10169
 Telephone 212-499-2591
 Inception 09/30/2005

PORTFOLIO

Total Net Assets*	\$2.6
Avg Mkt Cap (\$ Weighted) *	\$8,700
Average Price/Earnings Ratio	11.63x
Average Price/Book Ratio	1.52x
Turnover Ratio	301%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$2,500
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$1,000

RETURNS VS. S&P 500 DAILY REINV INDEX

	AARFX	Index
1 Year (Cum.)	4.71%	-13.12%
3 Year (Ann.)	N/A	4.41%
5 Year (Ann.)	N/A	7.58%

FEES AND EXPENSES

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee**	1.00%
Total Expense Ratio	1.99%

PORTFOLIO MANAGER

Brady T. Lipp	2005
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* millions **on shares held for less than 60 days
 Data through: 06/30/2008; Source: Company Documents; Lipper

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