



APM Quarterly

1st Quarter 2002

April 15, 2002



APM is proud that our portfolio has funded a full-time men's basketball scholarship each year for the past seven years.

Jayhawk Networking!

It's a great time to be a Jayhawk ! It has been a thrilling ride as we watched the unbelievable talent and character of our basketball team throughout this season.

We all wish that there could have been a different outcome and we could have had the chance at one more game. It didn't happen for the team this year, but what did happen is very important. Watching one of the greatest basketball coaches in our time, along with some of the greatest players, representing our school has a way of reuniting all of us in spirit. We at KU have a lot to be proud of. This should be an inspiration to us all to get back in touch and keep our alumni network strong.

We have spent some time this quarter doing just that, and you will have an opportunity to get reacquainted with some former classmates on the following pages.

Inside this issue:

Portfolio Update	2
Alumni Highlights	2
Alumni Spotlight	2
International Ties CIBER	3
CIMBA	3
Stock Highlights: SOHU	3
The Limited, Cerner, Cies de Geophysique	4
Wall Street Connection	5
Alumni Stock Picks On the Street	6
Spring Class	7

Message from Professor Allen Ford

Almost ten years ago while visiting Kent in San Francisco, he described to me a course that he wanted to develop and teach at KU. It was easy to see that the course would be an exceptional learning experience for our students and would generate great publicity for the School; however, Kent wanted more than just an exceptional class. He was interested in increasing financial support for the KU School of Business by encouraging students in the Applied Portfolio Management (APM) class, and others associated with the class, to develop the habit of contributing to the School. It was a unique objective for a class.

Today, the class exists and provides an exceptional learning experience for students. More effort is now being devoted to seeking financial support. Denise Bergin, a former APM student, has been hired, and her major responsibility pertains to fund raising.

To demonstrate their continued support for the course and our efforts to raise funds for the School, Kent and Missy have established a program where they will match contributions dollar for dollar, but will match contributions from former students on a two-for-one basis. They have agreed to contribute \$250,000 in matching funds; however, this

is not a pseudo-matching program. If the contributions are not generated, matching funds will not be received, thus you are strongly encouraged to contribute to the APM Fund.

Contributions to the APM Fund will directly benefit the School, and should be viewed as contributions to the APM Fund – School of Business. The goal is to obtain a fund of about \$2,000,000 as soon as possible, then transfer \$500,000 directly to the School to create a new finance professorship.

Fundraising Highlights:

- If you are making a contribution, please mail to:
KUEA/McCarthy Fund
c/o Denise Bergin
KU School of Business
1300 Sunnyside Ave.
Lawrence, KS 66045-7585
- Kent is still matching alumni gifts 2 for 1, so now is a great time to make a donation.
- KU is conducting its annual telephone drive again. If you are called, any funds you donate can go directly to the APM Portfolio, but be very assertive about your wishes for the funds to go to APM!



Portfolio Performance

The portfolio began the quarter with 26 stocks at \$308,495.41. It ended the quarter with 29 stocks at \$303,612.93, down 1.6%. This compares to the NASDAQ loss of 5%. This is net of the \$15,409.50 that the fund distributed out for the basketball scholarship. Without considering the scholarship, the value of the fund was up 3.4%. On the upside, The Limited (LTD), Cies Des

Geophysique (GGY), and Radian (RDN), and Int'l Speedway (ISCB) posted gains of 22%, 28%, 15%, and 14% respectively.

During 1Q, the portfolio also underwent a few changes. We closed out our position in International Game Technologies (IGT), formerly Anchor Gaming (SLOT). Huge thanks to Robert Tracy who went above and beyond the call of keeping us updated—and for the

great run! We added two tech stocks Microtune, Inc. (TUNE) and Terayon Systems (TERN), based on a recommendation from long-time APM friend Preston Raisin of Bear Sterns in San Francisco. Preston still likes the Jayhawks despite the fact that we whooped his alma mater, Stanford, in the tournament.



Spring semester APM students Luxiang, Harry Falk and Jen Duan discuss which stocks to add to the student portfolio.

APM is on a mission to locate telephone and address information for all alumni. Help us out by sending your daytime telephone number and address to dbergin@ku.edu.

Alumni Highlights

Molly Yu (Spring 00) is assistant controller for Sonoma Cutrer Vinyard in Sonoma Valley, CA.

Ernie Benner (Fall 98) is a major in the army, stationed at Arlington, VA. Ernie is studying for the 2nd level of the CFA exam.

Alex Verbov (Fall 96) is associate director of Leverage Finance with West Bank LB in Dusseldorf, Germany.

Cedric DeFossez (Fall 96) is a consultant with Accenture in Paris.

Andy Peck (Fall 96) is Manager of Business Development with Williams Communications in Tulsa.

Amos Smith (Fall 94) is executive director of corporate finance with ATT Broadband in Englewood, CO.

Rubin Sigala (Spring 96) is in the MBA program at Harvard Business School in Boston, MA.

Sunil Jain (Fall 97) is a buy-side analyst for Amerindo Investment Advisors in San Francisco. Jain was formerly with Sprint PCS in Kansas City.

Peter Carmack (Fall 98) is a financial consultant for Salomon Smith Barney in Kansas City.

Jeremy Glauner (Spring 00) is a merchant with Louis Dreyfus in Kansas City.

Alumni Spotlight

In the fall 1995 semester Kent McCarthy told a group of APM students that one of them should come work for him and help start a China Fund. **Dan Drake (Fall 95)** raised his hand and accepted that challenge.

In March 1995, Drake who was putting himself through school with income from running his own a nursery business, went to work for Kent full-time, and finished his MBA in the part-time program. Drake's first request to Kent was for \$15,000 for Chinese language lessons. Instead, Kent tossed him a telephone book and told him to figure out how to start a hedge fund. Kent formed a group of investors and in November 1995 Kent started Jayhawk Capital.

Drake worked for Kent until the fall of 1998 when he

moved to Boulder, CO to work for a different hedge fund. In July 2001, he started his own fund, Liberty Asset Management. He is now in the phase of establishing a track record with some initial investors.

Liberty's style is relatively short term and is event-driven. Investment ideas are based on knowledge gained from an extensive network of contacts. Thorough fundamental analysis is then done through proprietary research models, considering macro and micro economic factors, company performance data, earnings reports and company expectations.

Drake called in to the APM class on April 3rd and spent an hour talking with the students about the APM portfolio and his fund. Drake says that he is very grateful for the

experience that he got when he worked with Kent, as well as for the experience he gained taking the class, and that he would not be where he is today without it.

Maybe one of the most important lessons that Drake took from his years with Kent is the importance of giving back. Each year Drake goes to his hometown of Atlanta, KS and recruits students to attend KU. In addition to taking the time to do this, he also selects a student each year to receive an annual scholarship that he funds.



The School of Business will host Ed Whitacre, Chair of SBC, for a discussion on the state of the telecommunications industry on April 19, 2002. The event is sponsored by a donation from Ken Wagnon and organized by the Center for Management Education.



Professor Birch Goes to Beijing

On March 1, Melissa Birch and Sheree Willis made a trip to Beijing. Willis is program coordinator and Birch is professor of international business and director of CIBER, (Center for International Business Education and Research.) CIBER's mission in the business school is to educate students on the global business world and also to provide them with an opportunity to study abroad. In May, Willis will take

a group of MBA students to China for an intensive course on doing business in China.

When they were in China, Birch and Willis had an opportunity to personally visit with management of SOHU, one of the companies in the APM portfolio. Derek Palaschuk, CFO and Caroline Straathoff, Investor Relations, hosted Birch and

Willis for an afternoon. They were taken to lunch and had an opportunity to tour the facility.

Birch and Willis were very impressed with SOHU's dynamic and creative approach to web-based business. More on SOHU below.

SOHU

SOHU is an internet portal based in Beijing China. Founder and CEO Charles Zhang (37) holds a PhD from MIT. In 1993, while working for an internet start-up founded by a Harvard MBA graduate, he got the idea for SOHU. He persuaded friends from MIT to invest in his own internet start up, ITC. ITC brought SOHU public in July 2000. In October 1998, Dr. Charles Zhang was named by Time Digital as one of the world's top fifty digital elite. In July 2001, Dr. Zhang co-lead an executive delegation to support Beijing's successful 2008 Olympic bid at the 112th International Olympic Committee in Moscow.

SOHU currently competes with Sina, Yahoo China and Lycos in the portal business. To further strengthen Sohu's brand image and recognition, the company acquired ChinaRen.com, a high-traffic youth web site. Sohu focuses on providing Internet solutions exclusively to Mainland China. Sohu.com has 43M registered users and an average of 135M page views per day (12/01.)

During 2001, SOHU's business model diversified from purely advertising to include subscriptions, e-commerce and e-marketing targeting both business and consumers.

Businesses use SOHU's E-marketing services. Corporate clients are maximizing the marketing power of the Sohu web site through a combination of interactive advertising tools that include online ads, mini-sites, product membership recruitment and multimedia webcasting.

Increasingly, Chinese companies have discovered the Internet as an important means of advertising, which contributed to Sohu increasing ad revenue by 58% in 2001. SOHU was the first Internet company to recognize the untapped market potential by actively seeking out domestic advertising clients. SOHU's stable management, reputation in the market and experienced sales team contributed to sales success with corporate clients.

In February of 2002, SOHU extended its services to small and medium enterprises (SME) with the launch of Sohu.net (www.sohu.net), our corporate web site offering one-stop online marketing solutions to the dynamic SME sector in China.

Consumers use SOHU's E-subscriptions and E-commerce services. SOHU's registered users are becoming consumers through wireless and web-based subscription services and e-commerce. The key to success in turning users into

customers is that they trust the SOHU Brand to buy quality goods and services.

SOHU's first mover and leadership position in both e-subscriptions and e-commerce offers sustainable revenue growth. The size of China's mobile phone market – already the largest in the world – makes the long-term growth prospects of short messaging and other wireless and subscription services highly predictable. Likewise, online commerce is an increasingly accepted practice in China. According to the January 2002 report by the China Internet Network Information Center (CNNIC), 32% of Internet users surveyed had made an online purchase in 2001.

On November 7th 2001 SOHU presented our fall APM class with a webcast. On the call were Victor Koo, Chief Operating Officer and Derek Palaschuk CFO, and Caroline Straathoff, Director Corp. Communications. They also held a conference call for the spring class on February 27, 2002.

International Ties



SOHU brought cutting edge technology to the fall APM class by hosting our first webcast presentation on November 7th. .

Did you know...

Approximately 15 graduate students and 100 of our business school undergraduates study abroad throughout the year.



The CIMBA campus is located Asolo, Italy. (within an hour drive of American Italian Pasta Company's Verolanuova plant.) More than 500 students from all consortium schools participate in the program.

Italy 2002

Once again, Kent McCarthy has traveled to the CIMBA campus in Asolo, Italy for an intense week-long session of APM. He was accompanied by guest speakers Greg Duvall

of Overland Park and Brad Shoup of Dallas.

The CIMBA program is a consortium group of 31 American universities headed up by KU. The University of Kansas is

the degree granting institution of the Consortium and the lead for its study abroad programs. Each year KU awards approximately 45 MBA degrees to students that complete the program.



Stock Highlights



International Speedway (ISCB) was one of the top performing stocks of the quarter, up 14%. The fall 2001 class made a fieldtrip to the Kansas Speedway track, where ISC hosted a presentation that included a conference call with APM friend, Steve Farley of Farley Capital in New York.

The Limited (LTD)

We bought The Limited (NYSE: LTD) late last year as a result of incongruity in its valuation (**Brendan Woodbury Fall 2001**). The Limited owned major equity stakes in several companies – 85% of Intimate Brands (NYSE: IBI); 30% of Galyan's Trading Company (NSDQ: GLYN); 20% of Alliance Data Systems (NYSE: ADS); and 7% of Charming Shoppes (NSDQ: CHRS) – as a result of spin-outs in the late 1990's, but the value of those stakes had grown beyond the total value of LTD. In short, for a share of LTD at \$14 in November 2000, the holder got indirect ownership of \$14.30 of stock in other companies plus ownership in the four brands of LTD: The Limited, Structure, Express, and Lerner's New York. The "stub" value (LTD enterprise value minus the value of its equity holdings) accorded these four brands was negative \$119 million. By comparison, LTD had recently sold its Lane Bryant brand to Charming Shop-

pes for \$280 million in cash and \$55 million in stock. In addition, LTD offered a dividend yield of over 2% at the time.

In the first quarter of 2002, LTD acquired the 15% of IBI, that it did not own and reabsorbed the company and its three brands: Victoria's Secret, Bath & Body Works, and White Barn Candle Company. At the same time, LTD launched a new brand, New York & Company, and re-branded Structure as Express for Men. LTD increased 9% during the first quarter. Performance reflected strong same-store sales performance but was retarded by uncertainty surrounding the merger with IBI. Despite the increase in the stock price, the disparity between the market's valuation and the implied value on a sum-of-the-parts basis is becoming more pronounced - if less clear. As a result of the merger, IBI ceased trading on March 22. At that time, its enterprise value was \$9.92 billion.

After the acquisition, LTD's enterprise value was \$9.3 billion. That included equity stakes worth over \$500 million. The stub value of those four LTD brands had dropped from negative \$119 million to negative \$1.1 billion. In the weeks since the close of the quarter, LTD has increased 12%. This is a start, but The Limited and Express are both powerful brands, and each deserves a valuation in excess of \$500 million. Even excluding any synergies from the merger, LTD's fair value is surely in excess of \$11 billion, an increase of more than 10% over its 52-week high, set in February. LTD is responsible for the development of The Limited, Limited Too, Abercrombie & Fitch, Express, Victoria's Secret, Bath & Body Works, and Galyan's Trading Company. The growth promised by this expertise continues to be available with an insurance policy provided by market inefficiency. We continue to believe in LTD.

Cerner (CERN)

Is Cerner overvalued? Not according to **Marcos Garcia (Fall 2001)**. Cerner has had a high PE for a long time, but, continues to grow at 30% or more per year, and is the industry leader.

While some of the software programs used in hospitals have become purely administrative tools, the leading edge products that Cerner provides have an immediate effect on the bottom

line. Here are two examples: Cerner has software to automate the medication ordering and administration process which can dramatically reduce the number of adverse drug events (ADEs). ADEs happen when a patient is given the wrong drug by mistake.

It is estimated that the amount of people dying daily of medical errors are the equivalent of a 747 crashing each day. If we can save the patient's life and save the hospital from a \$30

million lawsuit, we can sell our software for a pretty decent margin. We also have the ability to automate the whole hospital. This means that everything done to a patient in a hospital is recorded in the patient's electronic medical record. From a medical point of view, this is great news. From a financial point of view, you can make sure that bills are always correct and include all procedures performed.

"Cerner continues to grow at 30% or more per year and is the industry leader."

Cies des Geophysique (GGY)

APM purchased GGY for the portfolio in December at an average cost of \$6.34 per share based on a recommendation from alumni **Brett Young (Spring 97)**. Since the end of the 4th quarter the stock has rallied to the current price of \$8.10/share as technicals have improved, with Aker Maritime almost done unloading its previously held 1.6mm shares to its current holdings of 0.2mm shares. Aker received the shares as partial payment last January for two ships and data.

It is predicted that the Veritas (VTS)/ Petroleum Geo-Services (PGS) merger

is going to happen with revised terms as of 4/2/02, with PGS agreeing to reduce its acquisition price. This should lead to improved pricing as the industry consolidates to three players – WesternGeco, VTS/PGS and CGG (GGY).

The current market cap is \$473mm. Based on the VTS/PGS merger multiple of 6.1x - CGG has an implied market value of approximately \$850mm. Once the stock price goes into the \$12-\$14.5/share range - the stock will be properly valued on a fundamental basis.

The latest developments in the Middle east, with rising oil prices is a positive for CGG, as the company's profitability is tied to global crude oil prices, rather than North American natural gas prices. The backlog remains strong at 310mm euros.

The first quarter of 02 is expected to be weaker on seasonality, due to a normal slowdown in activity in the North Sea. The major players also review their capital spending budgets during this time period. The 4th quarter is traditionally the strongest quarter.



Radian, (RDN) recommended by Brian Murray (Fall 96) was also a top performer, up 6% for the quarter.



The Yellow Brick Road...

APM provides a unique learning opportunity, allowing students to get hands on experience researching and analyzing investment ideas. For me, it has provided much more than just a great classroom experience. Although KU does not have an established relationship with Wall Street, APM has a network of alumni who are more than happy to serve as a resource for students trying to break in the investment industry. I am trying to break into the investment industry and start my career in New York.

With Denise Bergin's help, I found almost all the KU graduates in New York who are in the investment world. With their advice, help, and guidance, I was able to secure some interviews for spring break. When spring break came I ventured to the Big Apple to try to show all those in the city that a midwest girl was exactly what their firms were missing. While in New York, I met with almost every alumnus for lunch, dinner, drinks, or the KU vs. Illinois game to express my thanks, put a face to a name, and some more advice.

Everyone I met with was extremely helpful and supportive.

Although it would be nice to have every major firm come to KU and recruit, I would not trade the relationships I have made with these alumni for anything. APM has made the world a little smaller place for me and showed me how much pride some people have for KU. It is so refreshing to know that there are people who are willing to help out a fellow Jayhawk and support your dreams.

-Kelly Robin, current APM undergraduate.



"APM has a network of alumni who are more than happy to serve as a resource for students trying to break in the investment industry." Kelly Robin, Spring 2002

...to Wall Street

Brett Young's (Spring 97) journey to Wall Street began in Wichita when he was accepted into Raytheon's Financial Management training program. Raytheon sent Young to Boston. When the training was completed, Young decided that he wanted to be an analyst and headed to New York.

He started out working in a portfolio group for American Express researching internet companies. Young later left AMEX when he got the opportunity to become a research analyst for RBC Dominion Securities.

Young felt right at home moving to New York, as about 12 of his Delta Chi fraternity brothers were already there. He says that he gets together with fellow Jayhawks at least every few weeks. He and classmates **Fred Couslon**, and **Jade Shopp**, continue to be good friends in New York.

Young stopped in for a visit to Summerfield Hall on a recent trip back to Lawrence. He stated that taking APM and

Bill Beedle's Capital Budgeting class in the same semester were the perfect combination to get him thinking about how financial markets behave. Beedle's pounding in the efficient markets theory and Kent's creating opportunity by finding inefficiencies in the market.

Fourth generation Jayhawk **Fred Couslon (Spring 97)** took a different road to New York. Couslon went directly to London following graduation in May 1997. He used KU Alumni and other contacts to find two finance internships in London. He started out at Citibank in asset management, working for a global equity and bond fund. Wanting to play a more active role with companies, he moved to Tufton Capital, a small venture capital firm.

After his London experience, he decided to pursue a role in investment banking. On his return trip home, he changed his flight and lined up several interviews in New York. Two

weeks later he moved there to start a job with Morgan Stanley where he works today.

Couslon's first assignment with Morgan Stanley focused on traditional and early stage media companies. He was promoted to associate in 2000 and had day to day management of the Associate Generalist and the Summer Associate program before joining the M&A Dept. where he is a generalist.

Couslon thinks that the most significant thing that APM did was to give him market perspective and real world application of his finance education.

Couslon says the New York Jayhawk Alumni group is an active one. A group gets together to socialize every few weeks and never misses a Jayhawk basketball game.



Kent and Missy McCarthy have set aside \$250,000 in matching funds to encourage others to donate to the APM fund. Contributions made to the APM fund are tax deductible and will directly benefit the School of Business.



Alumni Picks: 23% of Portfolio

Name	Class	Stock
Bart Baldwin	Spring '00	KR
Greg Greenberg	Spring '96	SPCT
Guan Hwee Lim	Spring '00	SV/PCL
Brian Murray	Fall '96	RDN
Chris Rasmussen	Fall '98	BKS
Jessica Reuss	Spring '95	TGT
Betsy Rowe	Fall '95	DUSA
Joe Searle	Fall '95	CERN
Robert Tracy	Fall '98	IGT (sold)
Brett Young	Spring '97	GGY



Jennifer Duan, Spring 02
"APM is a class that all future financial analysts and portfolio managers must take! From interacting with Kent McCarthy, listening to conference call, attending shareholder meetings, visiting portfolio managers, and working on cases, I have gained so much. Take it and prepare to WORK hard and learn A LOT."

Most of you know that we would like to increase the percentage of the portfolio picked by class alums from the current 23% to around 75%. To do this, we need some of you brave investment pros to lay your reputations on the line (and risk being tormented in future newsletters) and send us your picks

(see information below). Otherwise, we'll have to result to laying down the stock quotes section of the newspaper, letting Kent's dogs go to work, and randomly assigning the "selected" names to class alums.

Trading Suggestions

To make suggestions please follow these guidelines:

1. Email the ideas to Denise at dbergin@ku.edu
1. Send one page broken down by the following three sections: company profile, fundamentals, analysis and conclusion.

Include an email address and phone number where current students or teaching assistants can contact you.

On the Street

Peter Carmack	Solomon Smith Barney	Kansas City
Fred Coulson	Morgan Stanley	New York
Trevor Cox	Koch Industries	Wichita
Gene Diederich	AG Edwards	Kansas City
Dan Drake	Liberty Asset Mgmt	Wichita
Jeremy Glauner	Louis Dreyfus	Kansas City
Greg Greenberg	HR Block	Kansas City
Sunil Jain	Amerindo Inv. Advisors	San Francisco
Scott Jones	AG Edwards	St. Louis
Paul Maxwell	Solomon Smith Barney	New York
Matt Michaelis	Greenhill & Co.	New York
Matt Moore	Paine Webber	Denver
Jeff Morrison	Capital City Banks	Topeka
Brian Murray	KC Life Ins.	Kansas City
Max Myers	Westar Industries	France
Shane Parr	George K. Baum	Kansas City
Jessica Reuss	Bank of America	Bank of America
David Reynoldson	George K. Baum	Kansas City
Frank Sciara	George K. Baum	Kansas City
Josh Selzer	Iron Horse Investments	Kansas City
Ryan Sprott	C.S. First Boston	New York
Jeremy Tasset	AG Edwards	Lawrence
Matt Warta	Villages Ventures	Boulder
Brett Young	RBC Securities	New York



Spring 2002 students Luxiang, Chris Parra, Harry Falk, Bruce Pinedo, and Jun Mao.



APM Quarterly

Thank you for your contributions!
If you would like to contribute to the portfolio,
please mail your donation to:
KU Endowment Association McCarthy Fund

KU Endowment Association
McCarthy Fund
c/o Denise Bergin
School of Business
1300 Sunnyside Avenue
Lawrence, KS 66045-7585



University of Kansas
School of Business

Mailing Address Line 1
Mailing Address Line 2
Mailing Address Line 3
Mailing Address Line 4
Mailing Address Line 5

We're on the Web!

<http://falcon.cc.ku.edu/~prtfolio/>

Spring Semester Highlights

January 23rd: Kent McCarthy Jayhawk China Fund., Class Introduction and Market Overview

February 6th: Jim Sicht, Consultant and investor in LSB Industries, American Italian Pasta Co. Shareholder meeting. The class heard the latest growth plans from the company and sampled the product.

February 13th: Victor Almeida, CEO, Internacional de Ceramica (ICM) The class had a teleconference with Mr. Almeida, who gave us some insight on the future of the ceramic tile industry.

February 20th: Class Portfolio Presentations.

February 27th: SOHU Conference Call with Derek Palaschuk, Vice President and CFO and Caroline Straathoff, Director, Corporate Communications.

March 6th: Steve Glennon, CEO, and Bruce Weinstein, CFO, Wilshire Financial (WFSG.OB) Mr. Glennon and Mr. Weinstein called in from Portland to field some tough questions about the specialty finance industry.

March 13th: Professor Mark Hirschey, Stillwell Financial and Level 3. Prof. Hirschey presented a strong buy case on Stillwell and discussed the rise and fall of LVL.

March 20th: Spring Break!

March 27th: Visit to Security Benefit Group's corporate offices in Topeka. Vice President and Analyst Frank Whitsell, along with small cap analysts Troy Showalter and Chuck Lauber hosted the class.

We sincerely appreciate the time all of the time and effort our speakers have put for on behalf of APM.

Coming Up...

April 10th: Tim Dehaemers, AG Edwards

April 17th: Al Simmons, AG Edwards

April 24th: Brad Shoup, BCS Capital, Professor Emeritus Jack Gaumnitz

May 1st: Frank Becker, Western Resources Board Member and KU Endowment Association Board Member

May 8th: Scott Jones, Sell Side Analyst AG Edwards, Josh Selzer, President Iron Horse Investments

Class meets at 2:00 in Room 424 Summerfield Hall at the KU Campus in Lawrence.