



## APM Returns: 2<sup>nd</sup> Quarter: 7.9% Year-To-Date: 5.3% A Day at the Races

On April 26, the APM class didn't spend class time listening to Kent or listen to conference calls from around the world. Instead, the class went on location to the construction site of the newest racetrack of the **International Speedway Corporation, (ISCB, 1.8% of the portfolio)**. ISCB is a stock that the Jayhawk Fund has held since its inception in 1993 and continues to rank as one of its top performers.

A short drive from Lawrence, and just outside of Kansas City, the students arrived at the Kansas Speedway to observe the construction and discuss the ISCB case. The state-of-the-art 1.5-mile track is financed by ISCB, owned largely by the **France** family, and is scheduled to open in 2001.



*The final turn toward the Grandstands*

**Steve Farley**, owner of **Farley Capital** located in Manhattan in NYC, wrote the ISCB case for the class. Mr. Farley discussed the case in great detail, taking the class through the intricacies of the speedway's unique 10-year history.

The class was impressed with Mr. Farley's presentation, and pleasantly surprised when two

members of the France family stopped by to say hello. The France family who merged ISCB with Penske Motorsports in July of 1999 owns and operates ISCB as well as NASCAR (the governing body of stock car racing). Mr. Farley has been a great believer in ISCB giving it a 65% position in his fund.

After the case review, the students were given a tour of the facilities. The massive spectacle was viewed from atop one of the soon-to-be luxury suites whose licensing agreements are being sold to local businesses for \$30,000. Tickets can now be purchased for events with the first NASCAR event set for the fall of 2001. Information regarding the Kansas Speedway and ticket purchasing can be obtained by visiting their web-site at [www.kansassuperspeedway.com](http://www.kansassuperspeedway.com).



The APM class touring the luxury suites

The class would like to thank Mr. Farley, **Turner Construction** and the France family for making this day so memorable. We will continue to hold ISCB stock in our portfolio.

*Editor's note: In early July ISCB announced its first earning shortfall in current memory and the stock dropped from \$42-\$31. We will revisit ISCB in the third quarter newsletter.*



The portfolio currently holds 29 stocks (not including July), 1 short, 2 equities, and 2 international mutual funds and is valued at \$456,325.99. So far for 2000 were up 5.3%. This follows a great 1999 where we performed 53%.

	Year	Campus	Total	# of Contributors	
	Fall	94	Lawrence	\$3,401.00	8 of 20
	Fall	94	Regents	\$800.00	7 of 13
	Spring	95	Lawrence	\$498.00	4 of 13
	Fall	95	Regents	\$350.00	4 of 20
	Spring	96	Lawrence	\$2,000.00	1 of 24
	Fall	96	Lawrence	\$250.00	1 of 24
	Spring	97	Lawrence	\$0.00	0 of 17
	Fall	97	Regents	\$0.00	0 of 24
	Fall	98	Regents	\$0.00	0 of 24
Students			\$7,299.00	25 of 179	
Supporters			\$67,621.00	28	
Corporate			\$7,100.00	11	
Total			\$82,020.00		

Editor's note: The data listed above is taken from fourth quarter '99 newsletter with additional second quarter '00 contributions. For third quarter we will update our chart with the help of the Endowment Association.

Thank you **Ryan Sprott**, Spring '95, for you generous donation.

**Thank you all for your contributions!**

If you would like to make a contribution to the portfolio, please mail your donation to:

KU Endowment Association McCarthy Fund  
 School of Business Endowment Portfolio  
 c/o Kent McCarthy  
 8201 Mission Road, Suite 110  
 Prairie Village, KS 66028

We are grateful to those people visiting our class, providing us tremendous insight into their companies and the market. Not only do we benefit by the transfer of knowledge, but also through employment opportunities and contacts. A common feeling by those that present is that they get something back as well – an appreciation for what they do and an opportunity to contribute to the education of the country's future leaders.

Thank you **Jim Wineland**, alumni and employee at **Waddell Reed**, for your great Cardinal Health (CAH) pick. Thank you **Bob Boswell**, President and CEO of **Forest Oil (FST, 7% of portfolio value)**, for helping us better understand the oil industry; FST has performed nicely in our portfolio.

We apologize to **Tom Rawlings, Greg Greenberg** and any others for past stock ideas getting lost in the substantial information processing of this course. Sorry. Greg's old stock, Rainbow Technologies (RNBO) quadrupled. Tom Rawlings suggestion, Imunogen (IMGN) increased 10-fold before a recent decline. We are regretful to have missed these opportunities. Greg has been willing to submit another stock Spectiran (SPCT), we picked it up at almost \$17. Kent's Italian class (see preceding article) led by **Luca G., Marco S., and Walter G.** selected Telecom Italia. We were a little late purchasing them but finally did at \$11.375 per share.

For all ex-students interested in making suggestions please follow the following guidelines.

1. Email the ideas to Kent:  
[kent@jayhawkcapital.com](mailto:kent@jayhawkcapital.com)
2. One page format with the following three defined sections: 1) Company Profile, 2) Fundamentals, 3) Analysis and Conclusion  
 For examples, see Spectrian and Telecom Italia inside this newsletter.
3. Include email address and phone number where current students or teaching assistants can contact you.

Visit us at <http://eagle.cc.ukans.edu/~prtfolio> and our new site [www.ku-apm.com](http://www.ku-apm.com) to see what we are up to this semester. We would like to hear from you, to reacquaint ourselves with past students, speakers and supporters. You can also email Kent at his address (listed above) to let us know what you have been up to. Jeremy Glauner, a current teaching assistant for APM, is creating an email database for Kent; so email Jeremy at [Jeremy\\_](mailto:Jeremy_)

### LOCATION LOCATION LOCATION

After months of talk, the switch was finally made. As of May, the APM portfolio is being managed through an online account with **Charles Schwab**. Great

thanks should be extended to **Mary Seyk** at the **KU Endowment Association** who coordinated and executed the transfer from **Goldman Sachs**. The seemingly never-ending task of establishing the new account and transferring all assets should allow for improved portfolio management. With instant access to the portfolio's performance and the ability to place a trade with greatly reduced commissions, the class should benefit from the change through more up-to-date information and increased returns.

## MOBILE COMMUNICATIONS

Hardly a day passes without the announcement of a new strategic partnership between dot coms, telecoms firms and computer companies, all jostling for advantage in the "new economy". **Ed Baker**, CEO of **Arch Communications Group (APGR, 1.4% of the portfolio)** called us on April 5 to discuss the strategic repositioning of his company in this new environment. Mr. Baker listed Arch's ReFLEX wireless network, 7 million customer base, extensive distribution network, and expertise in M&A as strategic assets.

The challenge is how to marshal these resources to best use within the five segments in the industry: networks, devices, enablers, value-added applications, and services. Mr. Baker kindly asked us to put on our thinking hats and gather ideas on a new business model for Arch. Students suggested: Arch use its strength in M&A to acquire cellular phone or min-computer (ie. Palm) companies; continue to develop Vast Solutions or merge it with a B2B leader (such as Ariba or Commerce One); machine-to-machine paging (snack machines that automatically alert distribution centers when running low); and enable hotels or airlines to contact guests via reusable customer pagers. Those are just a few of the ideas Arch can run with.

## Wall Street Analysts

**Bill Courtney** from **Midwest Trust Company** visited the class and gave a presentation about the trust industry. Mr. Courtney discussed how being a portfolio manager in a trust company is quite different from that of a financial planner or Wall Street equity analyst.

**Gene Deidrich and two teammates** from **AG Edwards** donated their time to the class. They brought walked us through some of stock picks discussing the advantages and risks of each company.

## BARBARIANS AT THE GATE

**John Svoboda** from **Svoboda and Collins Inc.**, in Chicago, discussed his expertise in M&A and led the class through the LBO of Borg-Warner's Industrial Products Group (BW/IP – a Harvard Business School case) on April 5. Was BW/IP a low-hanging fruit ready to be plucked? Mr. Svoboda guided us through a rigorous analysis of **Cash flows**, **Access to capital markets**, and **Psychology of management and investors** to find out if the LBO partners could indeed put a feather in their **cap**.

We saw how in order to make handsome profits on it's investments, an LBO firm must convince other greedy bargain hunters that they are getting a good deal.

The key to success lies in the way LBO partners manage the under performing units of big industrial groups they buy. Restructuring, stripping out costs, laying off workers, selling off peripheral businesses to concentrate on what the companies do best, and investing judiciously in the core business lead in expert hands to quickly improving results and an impressive return on investments.

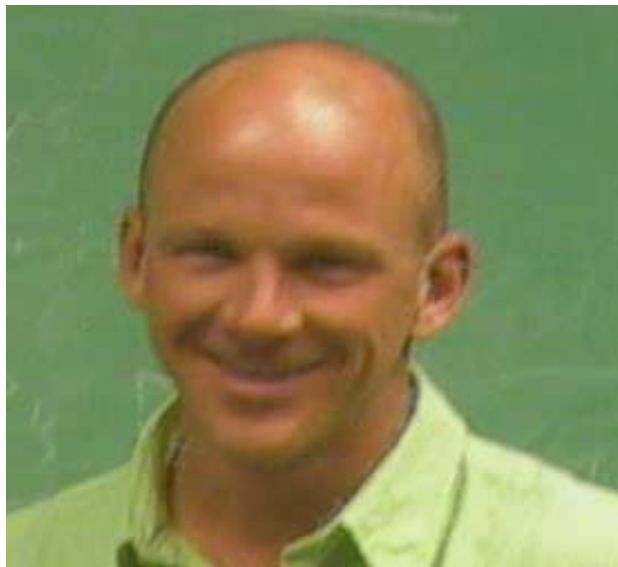
## Unreal Estate

**Andy Wiederhorn**, CEO of **Wilshire Real Estate (WREI)**, thank you for calling us and discussing the WREI throughout the spring semester. We certainly have taken away some good lessons from our interaction with you. We understand you are getting ready to have a good quarter and wish you well.

## Study Abroad

In April, Kent taught a one-week "mini-Applied Portfolio class" in Asolo, Italy. K.U. is the degree granting University for a consortium of about 25 U.S. State Universities and CIMBA which is part of the Italian University structure. The class was composed of about 1/3 American students, 1/3 Italian students, and 1/3 from other countries. The students (age 25-

35) are part of an intense one year program taking place primarily on the Asolo campus, but also a few classes in Slovenia and the final month of the program in Lawrence, Kansas this summer. **Al Ringleb** (director) and **Cristina Turchet** do a great job. The Italian students have picked **Italian Mobil Telecom (TIM)** as their stock to be managed in the KU Portfolio. The one week, eight hour a day program had five cases. Many students were up till 1 or 2 a.m. so they had a little taste of the KU-Applied Portfolio Management Class. The website is [www.cimba.it](http://www.cimba.it) **Victor Almeida**, CEO of **Internacional de Cerámica S.A. (ICM, 7.2% of the portfolio)** called the class-from Mexico to Italy-to as part of a class case and follow-up.



**Alumni Interview**

**Josh Selzer**, Fall 1996 APM student, earned his MBA and J.D. while at KU, and was employed by Kent McCarthy's **Jayhawk Capital Fund**. In February 2000 Josh ventured into entrepreneurial waters and opened his own fund, **Iron Horse Investments**. Josh manages Iron Horse from Kansas City and is very excited about their prospects. Iron Horse is a medium risk fund that is focused on three key areas; 1) syndicate related issues, 2) trading events, and 3) going long on value names.

When asked to recall the most important lesson he learned from APM Josh replied,

*"once you perform a thorough logical analysis of a situation, you must be willing to take a stand and get involved."*

What is Josh's advice to current APM students?

*"Take risks!"*

Josh is certainly practicing what he preaches. Good luck with the fund Josh. Oh, and good luck to Kent as well, since the competition just got turned up a bit!

**APM Basketball & MBA Scholarships** .....

The **Applied Portfolio Management Basketball Scholarship** has, in the past, been awarded to Jeff Boschee, Paul Pierce and Jelani Janisse.

An **Applied Portfolio Management Scholarship** is also given to a high potential, but financially challenged, MBA student. We wish this student all the best in their academic pursuits.

**On The Street** .....

Congratulations and best of luck to these KU alums who are dazzling Wall Street!

Fred Coulson	Morgan Stanley	New York
Trevor Cox	Koch Industries	Houston
Gene Diederich	A.G. Edwards	Kansas City
Dan Drake	TalMOR Capital	Boulder
Greg Dunlap	Koch Industries	Wichita
Greg Greenberg	Olde	Kansas City
Mark Hensel	Enron	Wichita
Scott Jones	Interstate Securities	Atlanta
Paul Maxwell	Sal. Smith Barney	New York
Matt Michaelis	Greenhill & Co.	New York
Matt Moore	Paine Webber	Denver
Jeff Morrison	Commerce Bank	Kansas City
Brian Murray	K.C. Life	Kansas City
Max Myers	Western Resources	Topeka
Shane Parr	George K. Baum	Kansas City
Todd Preheim	Sprint (M&A)	Kansas City
Jessica Reuss		
David Reynoldson	George K. Baum	Kansas City
Josh Selzer	Iron Horse	Kansas City
Ryan Sprott	C.S. First Boston	New York

Jeremy Tasset      A.G. Edwards      Lawrence  
Alex Verbov

*Editor's note: Please keep us updated to position  
or location change(s).*

Greg Greenberg

Spectrian Corp. (SPCT)

### Company Profile

Spectrian designs, manufactures, and sells RF Power Amplifiers that go into wireless towers. Power Amplifiers are the most expensive cost (about 30%) involved in a wireless towers and sends the signals to your handset to allow you to have a conversation or receive wireless data. The company's semiconductor division, UltraRF, historically has produced semi's exclusively for internal operations but currently has began designing products for Nokia and Alcatel. These products are to be used in module base stations that would be able to be mounted on buildings/poles and cover less range (micro/pico cells) than traditional cell towers. Spectrian has hired Dain Rauscher to evaluate ownership options with regard to UltraRF and may take this unit public within the year. Company's main competitor is Powerwave Tech (PWAV) which currently holds about 50% market share (Spectrian is at about 30%). Spectrian's main customer is Nortel Networks, but it is diversifying to selling directly to service providers of the wireless networks. The company has a strong balance sheet with 6 Million in long term debt and 50 million in cash (\$4.60 a share).

### Fundamentals

	SPCT	PWAV	TELCO	S&P
Price/Sales	1.08	11.99		
Price/Book	1.64	20.53	11.45	8.99
P/E	N/A	134	48	35

	SPCT
Recent Price	16 3/8
Common Shares	10.7 Million
Current Mkt Cap	175 Million
Debt	6 Million

*Editor's Note: Not sure when Greg wrote this document; therefore unaware of when this info was current. Also revised title of Greg's original submission, but text is in the original format.*

### Analysis and Conclusion

Preferred Capital Markets recently initiated coverage on the company with a target price of \$35. The analyst felt that Ultra RF was worth \$20, the core power amp business \$10, and including \$5 in cash. He also commented "This issue could be a very profitable asset play with a growth kicker on the continued build out in cellular base stations for both voice and data communications." I believe the Power Amp business is worth at least 2X sales (\$30 a share, giving a price objective of \$55, remember PWAV trades at 12X trailing sales) because they are gaining new customers in the Multicarrier product segment and overall revenues grew over 66% last year, although rebounding to the level seen two years earlier.

## Telecom Italia Mobie (TIM) S.p.A.

## COMPANY PROFILE

TIM operates mobile phones over the whole of Italy. The company was set up on July 14, 1995, to run the mobile phone operations of Telecom Italia S.p.A (the parent company). Tim offers telephone services on the TACS (total access communication system) and GSM (global system for mobile communication networks). The company also offers paying systems, centralized answering systems and data and fax transmission. TIM also sells telephones and accessories and offers after sales services and repairs through a network of 37 owned outlets and over 4000 authorized retailers.

We believe that in the next years the growth drivers for TIM will be:

1. The exploit of new technologies;
2. International strategic alliances and partnerships.

It's almost 99% sure that TIM will win one of the five licenses for the UMTS (Universal mobile telecommunication system) in Italy. This system will enable the customer to easily access the Internet with their mobile phones. TIM can also count on the partnership with SEAT-TIN.IT that is now the Italian leading portal/provider of Internet service. The financial power of TIM enables the company to compete for the assignment of the UMTS licenses internationally as well.

TIM is already playing an active role in international negotiation and planning for partnerships with other European TLC companies. Being the n# 1 (as number of subscriber) wireless telecommunication company in Europe it will be considered a desirable partner.

## FUNDAMENTALS

Price per share (05/06/00): 11.438 E.

52 Wk Price change: 138.79%

Market Cap.: 75,865 Million E.

N# of shares outstanding: 6,632,715

P/CF: 36.08

Data are expressed in million of Euro (except Eps and Cfps)

## Company valuations

Year	Eps	Cfps	P/E	P/CF
2000e	0.208	0.317	58.5	38.39
1999	0.191	0.289	63.58	42
1998	0.154	0.257	78.54	47.39

## Financial data

Year	2000e	1999	1998
Revenue	8,521	7,450	6146.00
Gross Margin	3,860	3,478	2916.00
Operating Income	2,923	2,647	2125.00
Net income	1,705	1,546	1,304
Cash flow	2,600	2,384	2,061

## ANALYSIS AND CONCLUSIONS

The figures show a very positive performance of TIM. These numbers must be analyzed taking into account the progressive saturation of the wireless telecommunication market in Italy during the last years due to the entry of new competitors and the consequent strong price competition. TIM reported sales of E 7.44 Billion (US\$ 6.7 Billion) for the year ending December of '99. This represent an increase of 21.1% versus '98. During the same period the cash flow increased of 15.6%. A comparison of the P/CF fundamental of the main European competitors shows that TIM stock price is currently undervalued. The average P/CF among these competitors is

40, while TIM shows a P/CF 36.08. Recently Actinvest has issued target price of 14 Euro for TIM based on the comparison of P/CF fundamental of the competitors. We believe that this target price could be too optimistic in the short run looking at the recent situation of the market that I penalizing the high-tech companies. However TIM can be a good investment in the long run if we consider all the business opportunities that can be leveraged to increase the cash-flow (i.e. the provision of trading on line platform services; the acquisition of other GSM and UMTS licences in other countries, like Turkey, Greece and Brasil).

Sources of Information:

<http://www.actinvest.com>

<http://profiles.wisi.com>

## Portfolio Overview

### Alumni

Name	Class	Stock
Guan-Lee	Fall '98	AGX
Chris Rasmussen	Fall '98	BKS
Todd Banks		CERN
Betsy Rowe	Fall '95	DUSA
Marc Hensel	Spring '96	ENE
Dan Drake	Spring '95	FON
Jessica Reuss	Spring '96	LVLT
Brian Murray	Fall '96	Q
Robert Tracy	Fall '98	SLOT
<b>Percent of Portfolio</b>		<b>21</b>

### Instructors

Name	Stock
Kent McCarthy	CHL
Kent McCarthy	Latin Amer Discovery Fund, Inc.
Kent McCarthy	SCB Munkhong Fund 5-Foreign
Kent McCarthy	Templeton China World Fund, Inc.
Paul Koch	GDT
<b>Percent of Portfolio</b>	<b>13</b>
<b>Cash, Short and other</b>	
<b>Percent of Portfolio</b>	<b>10</b>

### Guests

Name	Title/Cert.	Stock
Ed Miller	CEO	ANSR
Ed Baker	CEO	APGR
Ed Baker	CEO	APGRW
Jim Wineland	CFA	CAH
Mike Bigham	CEO	CLTR
Doug Woodrum	CFO	CNET
Bob Boswell	CEO	FST
Victor Almeida	CEO	ICM
Steve Farley		ISCB
Jack Coalson	CEO	LSBD
David Walthall		NWSA
Cregg Baumbaugh	CFO	VSTR
John Stupka		WCOM
Steve Glennon		WFSG
David Wittig	CEO	WR
Andy Wiederhorn	CEO	WREI
Cregg Baumbaugh		WWCA
<b>Percent of Portfolio</b>		<b>56</b>