McIntire Investment Institute

Annual Report
For the Year Ended
December 31, 2010

Post Office Box 400173 • Charlottesville, VA 22904
www.uvamii.com

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McIntire Investment Institute

McIntire Investment Institute: MII is an entirely student-run long/short equity fund. With a portfolio currently valued at approximately $495,000, the MII operates as a nonprofit organization under the McIntire Foundation. Our mission is to educate present and future University students in securities and portfolio management through investing experience with real money.

History: The McIntire Investment Institute was conceived by McIntire alumnus (COMM, '85) John Griffin (President, Blue Ridge Capital). Mr. Griffin donated $1,000,000 to the University in 1993; $575,000 was earmarked for a student-run investment organization. An initial $100,000 was made available to the students in October 1994, and an additional $200,000 was allocated to the fund in 2000. The Institute has since donated $150,000 of its gains, including $75,000 in April 2006 to the new McIntire building on the Lawn.

Investment Philosophy: The Institute strives to achieve real capital appreciation through a variant perception of the market. The MII believes this variant perception is gained by focusing on the key drivers of value for our investment idea and establishing credibility with our research through VAR (value-added research). VAR involves contacting stakeholders (including customers, suppliers, competitors, employees, experts, etc.) to understand the business. Our strategy is to go long companies with a sustainable competitive advantage and go short companies with unsustainable business models.

Involvement: All University students are welcome and encouraged to actively participate. The MII offers a number of programs for engaged students from the beginner to the experienced investor. Students can seek management roles, research and present a company, or simply attend weekly meetings and participate in discussion. The complete list of involvement positions includes: Manager, Associate, Analyst, and Member. Managers are elected for annual terms based on investment memos and prior involvement. Elections are held in December and April of each year.

LETTER FROM THE PRESIDENT

Dear Friends of the McIntire Investment Institute:

2010 was a very active year as MII focused on ambitious portfolio, membership, and outreach initiatives. As the year began, MII managers hoped to raise the fund's gross exposure, cultivate a more diverse and engaged membership, and offer enrichment opportunities to MII members and the University community at large. As reflected in this report, each of the fund's goals were met and surpassed.

MII returned 8.4 percent in 2010 while maintaining a cash position between 15 and 25 percent of AUM for much of the year. Managers inherited a portfolio with a 37.5 percent cash position. Rather than chase performance, managers remained disciplined and opportunistically added positions. As a result, the gross exposure rose to 89.6 percent by year end. Most importantly, managers tripled the fund's short exposure during 2010 (p. 8). As part of its portfolio management goals, MII also switched to Interactive Brokers, which provides lower commissions and better trade execution than the previous brokerage.

The management team also focused on restructuring and invigorating MII's membership. A competitive selection process was installed and required prospective members to attend an education session, submit an investment memo, and speak with an MII manager (p. 9). This process attracted 123 memo submissions and resulted in an acceptance rate of just 37.4 percent. The majority of new members are first- and second-year students.

Managers worked to increase the number of female members throughout the year and made significant progress with this initiative (p. 10). During the fall semester, 13 percent of members were women and the first female manager was chosen in three years. This initiative remains a priority for the 2011 management team.

The most exciting event in 2010 was the "Investing as a Career" panel (p. 10). This event was moderated by John Griffin and featured three current and former hedge fund analysts. Paul Tudor Jones II even made a guest appearance via video conference. Over 100 students attended and interacted with the panelists.

MII offered several outstanding enrichment and educational events during the year. In March, the fund sent four managers to the University of Michigan for a stock pitch competition (p. 11). MII won its bracket, which included teams from the University of Pennsylvania (Wharton), New York University, and Oxford University. During the fall, MII held two stock pitch competitions on Grounds for undergraduate students.

MII sponsored educational events throughout the year (p. 12). The fund enjoyed Joel Ramin's short selling seminar and plans to continue applying Joel's lessons during 2011. Presenters from the University of Virginia Investment Management Company (UVIMCO) and Sands Capital Management discussed recent investments and market opportunities. Bill Richards of UBS spoke to members on October 15 and recruiters from Morgan Stanley, Deutsche Bank, Citigroup, and Bank of America/Merrill Lynch led information sessions sponsored by MII.

2010 was such a successful year due to the efforts and support of MII's benefactor, managers, members, alumni, friends, and advisers. John Griffin, Chris Golden, Dean Zeithaml, Bill Richards, Nola Miller, Joel Ramin, Dega Tufts, Rahul Gorawara, and Professors Dennis and DeMong were particularly supportive of the fund's efforts. MII has outperformed the market since inception and served as a premier training ground for student investors due to the guidance and energy of these supporters and countless others.

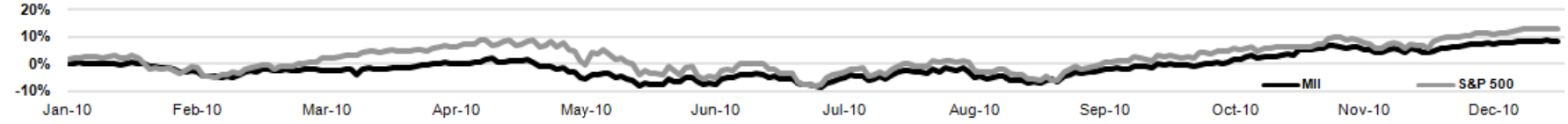
Respectfully yours,

James Rogers
2010 President
jtr5x@virginia.edu
540-808-9474

PORTFOLIO AS OF DECEMBER 31, 2010

Portfolio Valuation as of December 31, 2010	Historical Information			Entry			Position			Percent Change			
Company	Symbol	Shares	Price Jan 1 or IPO	Date	Price	Value	Price	Value	2010 P/L	2010	Total Gain	Annualized	Weight
Philip Morris International	PM	500	48.19	Oct-09	48.50	24,250	58.53	29,265	5,170	21.5%	**20.7%**	17.3%	5.91%
Coach	COH	520	36.53	May-08	35.55	18,486	55.31	28,761	9,766	51.4%	**55.6%**	18.1%	5.81%
Steinway Musical Instruments	LVB	1,385	15.91	Jun-10	17.84	24,707	19.85	27,492	5,457	24.8%	**11.3%**	21.4%	5.55%
Rocky Mountain Chocolate Factory	RMCF	2,575	8.10	Sep-10	9.77	25,158	9.66	24,875	4,017	19.3%	**-1.1%**	-3.8%	5.02%
Diageo	DEO	320	69.41	Dec-07	86.43	27,658	74.33	23,786	1,574	7.1%	**-14.0%**	-4.8%	4.80%
Corrections Corporation	CXW	935	24.55	Jan-10	24.02	22,458	25.06	23,431	477	2.1%	**4.3%**	4.5%	4.73%
Monsanto	MON	325	81.75	Nov-08	75.35	24,490	69.64	22,633	(3,936)	-14.8%	**-7.6%**	-3.6%	4.57%
Google	GOOG	37	619.98	Apr-09	363.61	13,454	593.97	21,977	(962)	-4.2%	**63.4%**	32.6%	4.44%
CME Group	CME	65	338.33	Nov-10	289.02	18,786	321.75	20,914	(1,078)	-4.9%	**11.3%**	90.0%	4.22%
Citrix Systems	CTXS	255	41.61	Dec-10	68.05	17,353	68.41	17,445	6,834	64.4%	**0.5%**	47.0%	3.52%
Thoratec	THOR	615	26.92	Dec-10	28.72	17,663	28.32	17,417	861	5.2%	**-1.4%**	-57.4%	3.52%
Nalco	NLC	545	25.51	Dec-10	31.88	17,375	31.94	17,407	3,504	25.2%	**0.2%**	18.7%	3.52%
Covanta	CVA	995	18.09	Jan-07	21.93	21,820	17.19	17,104	(895)	-5.0%	**-21.6%**	-5.9%	3.45%
DigitalGlobe	DGI	500	24.20	Jun-10	27.00	13,500	31.71	15,855	3,755	31.0%	**17.4%**	33.0%	3.20%
Yum! Brands	YUM	300	34.97	Feb-09	31.62	9,486	49.05	14,715	4,224	40.3%	**55.1%**	26.4%	2.97%
McDonald's	MCD	185	62.89	Nov-10	79.33	14,676	76.76	14,201	2,566	22.1%	**-3.2%**	0.5%	2.87%
Cadence Pharmaceuticals	CADX	1,585	9.67	Dec-10	7.80	12,363	7.55	11,967	(3,360)	-21.9%	**-3.2%**	-86.2%	2.42%
BlackRock	BLK	60	232.20	Apr-03	44.85	2,691	190.58	11,435	(2,497)	-17.9%	**324.9%**	20.5%	2.31%
American Express	AXP	250	40.52	Apr-08	34.63	8,658	42.92	10,730	600	5.9%	**23.9%**	8.3%	2.17%
Ritchie Brothers Auctioneers	RBA	420	22.43	Jun-10	20.25	8,505	23.05	9,681	260	2.8%	**13.8%**	25.7%	1.96%
Winn-Dixie Stores	WINN	1,275	10.04	Jun-10	10.03	12,788	7.18	9,155	(3,647)	-28.5%	**-28.4%**	-46.3%	1.85%
Long Portfolio								**390,244**					**78.81%**
Green Dot	GDOT	135	36.00	Nov-10	53.98	7,287	56.74	7,660	(2,800)	-57.6%	**-5.1%**	-41.9%	1.55%
GameStop	GME	325	21.94	Dec-10	22.36	7,267	22.88	7,436	(305)	-4.3%	**-2.3%**	-52.1%	1.50%
Nuance	NUAN	405	15.53	Dec-10	18.35	7,432	18.18	7,363	(1,073)	-17.1%	**0.9%**	43.2%	1.49%
Invisalign	ALGN	370	17.82	Dec-10	20.15	7,456	19.54	7,230	(636)	-9.7%	**3.0%**	84.6%	1.46%
DineEquity	DIN	140	24.98	Nov-10	50.65	7,091	49.38	6,913	(3,416)	-97.7%	**2.5%**	14.5%	1.40%
Blackboard	BBBB	160	45.39	Jun-10	39.97	6,395	41.30	6,608	654	9.0%	**-3.3%**	-6.0%	1.33%
Garmin	GRMN	190	30.70	Apr-10	37.83	7,188	30.99	5,888	(55)	-0.9%	**18.1%**	24.0%	1.19%
Coinstar	CSTR	75	27.89	Nov-10	61.75	4,631	56.44	4,233	(2,141)	-102.4%	**8.6%**	51.8%	0.85%
Short Portfolio								**53,331**					**10.77%**

YTD Performance



Portfolio Exposure and Value			
Cash Position	$	51,577	10.4%
Gross Exposure	$	443,575	89.6%
Net Exposure	$	336,913	68.0%
Total Portfolio Value	**$**	**495,152**	**100.0%**
January 1, 2010	$	456,869	

Portfolio Performance	2010	2009
MII Portfolio	**8.4%**	**22.0%**
S&P 500 Index*	**12.8%**	**26.5%**
Spread	**-4.4%**	**-4.5%**

*S&P 500 price return data

Recent Long Transactions		
Date	Company	Order
Dec. 29	Thoratec	Long at 3.5%
Dec. 29	Nalco	Long at 3.5%
Dec. 28	Citrix Systems	Long at 3.5%
Dec. 28	Cadence Pharmaceuticals	Long at 2.5%

Recent Short Transactions		
Date	Company	Order
Dec. 27	Invisalign	Short at 1.5%
Dec. 27	Nuance	Short at 1.5%
Dec. 13	GameStop	Short at 1.5%
Nov. 18	Coinstar	Short at 1.0%

2010 LONG TRANSACTIONS

Date	Order Type	Company	Price	Shares	Gain/Loss
15-Jan	Initiate at 5%	Corrections Corporation of America	$24.02	935	-
25-Jan	Initiate at 5%	Syniverse Technologies	16.66	1,500	-
26-Jan	Initiate at 5%	Winn-Dixie	10.30	2,200	-
26-Jan	Trim to 5%	Coach	34.48	100	-107
20-Apr	Trim to 5%	Syniverse Technologies	19.45	300	837
20-Apr	Close Position	Winn-Dixie	13.37	2,200	6,754
3-May	Trim to 2%	BlackRock	186.24	66	9,332
3-May	Trim to 5%	Coach	42.88	140	1,026
3-May	Close Position	Transocean	68.60	265	-3,525
3-May	Trim to 5%	Yum! Brands	42.95	100	1,133
6-May	Initiate at 3.5%	Universal Display Corporation	12.02	1,000	-
2-Jun	Close Position	Universal Display Corporation	17.90	1,000	5,880
10-Jun	Initiate at 2%	Ritchie Brothers Auctioneers	20.25	420	-
29-Jun	Initiate at 3%	Steinway Musical Instruments	18.10	715	-
29-Jun	Initiate at 3%	Winn-Dixie	10.02	1,275	-
29-Jun	Initiate at 3%	DigitalGlobe	27.00	500	-
29-Jul	Initiate at 4%	Western Digital	27.85	555	-
7-Sep	Close Position	Cogent Systems	11.18	2,350	3,972
15-Sep	Initiate at 4%	Rocky Mountain Chocolate Factory	9.75	1,800	-
22-Sep	Trim to 1%	Hemisphere GPS	0.65	2,500	-1,403
29-Oct	Close Position	Western Digital	31.99	555	2,298
29-Oct	Close Position	Syniverse Technologies	30.50	1,200	16,610
2-Nov	Initiate at 4%	CME Goup	289.00	65	-
4-Nov	Close Position	Hemisphere GPS	0.95	7,675	461
4-Nov	Raise to 5%	Steinway Musical Instruments	17.55	670	-
11-Nov	Close Position	Princeton Review	1.20	4,740	-13,177
11-Nov	Trim to 3%	Yum! Brands	51.47	250	4,963
11-Nov	Initiate at 3%	McDonald's	79.33	185	-
13-Dec	Raise to 5%	Rocky Mountain Chocolate Factory	9.55	775	-
13-Dec	Trim to 5%	Google	597.12	13	3,036
28-Dec	Initiate at 3.5%	Citrix	68.05	255	-
28-Dec	Initiate at 2.5%	Cadence Pharmaceuticals	7.80	1,585	-
29-Dec	Initiate at 3.5%	Nalco	31.88	545	-
29-Dec	Initiate at 3.5%	Thoratec	28.72	615	-

2010 SHORT TRANSACTIONS

Date	Order Type	Company	Price	Shares	Gain/Loss
31-Mar	Cover Position	Simon Property Group	$84.24	85	-1,811
12-Apr	Initiate at 1.5%	Garmin	38.23	175	-
13-Apr	Initiate at 1%	Pre-Paid Legal Services	39.80	115	-
3-May	Initiate at 1.5%	Carmike Cinemas	16.75	400	-
13-May	Cover Position	Carmike Cinemas	14.25	400	1,000
13-May	Cover Position	Pep Boys	12.60	625	-1,706
2-Jun	Cover Position	Corinthian Colleges	12.96	310	1,395
10-Jun	Raise to 1.5%	Garmin	33.00	15	-
11-Jun	Initiate at 1.5%	Blackboard	39.98	160	-
4-Oct	Initiate at 1%	Priceline	330.50	14	-
29-Oct	Cover Position	Pre-Paid Legal Services	60.31	115	-2,359
4-Nov	Cover Position	Priceline	380.50	14	-700
4-Nov	Initiate at 1.5%	DineEquity	50.65	140	-
11-Nov	Initiate at 1.5%	Green Dot	53.98	135	-
18-Nov	Initiate at 1%	Coinstar	61.75	75	-
13-Dec	Initiate at 1.5%	GameStop	22.36	325	-
27-Dec	Initiate at 1.5%	Nuance	18.35	405	-
27-Dec	Initiate at 1.5%	Align Technologies	20.15	370	-

NOTABLE PORTFOLIO EVENTS FROM 2010

Focus on Short Selling

As one of its portfolio goals, the 2010 management team focused on adding more short positions. This initiative tripled the fund's percentage of AUM short from 3.6 percent on January 1, 2010 to 10.8 percent by year end. MII's two most profitable shorts from the year are profiled below:

MII shorted Carmike at $16.75/share. We believed the Street's expectations were too high after the company released Q1 results, which were buoyed by surprise blockbusters, including "Avatar," and unsustainable cost cuts. A lingering disagreement with distributor Lionsgate, high levels of insider selling, and a misperception regarding the company's pricing power in rural markets contributed to our investment rationale.

MII shorted Corinthian Colleges in early 2009 at a weighted-average price of $17.55. Our thesis focused on the company's risky lending and poor quality of instruction. VAR found that Corinthian had high teacher turnover and unsatisfied, and often unemployed, graduates. Congressional investigations revealed the same concerns and Corinthian's price plummeted.

Joel Ramin Seminar

Joel Ramin, a former MII manager and current analyst at Bridger Capital, led a short selling seminar on October 15, 2010. Joel presented two case studies from his own research and emphasized the importance of value-added research. Joel also answered student questions about idea generation, conducting research, and career opportunities. Joel's presentation was very informative and engaging and MII sincerely appreciates his involvement.

Long Positions Acquired

For brief periods during the fall semester, MII inadvertently resembled a merger arbitrage fund more than a long/short equity fund due to acquisitions of long positions! The transactions are detailed below:

3M announced its acquisition of Cogent Systems on August 30, 2010. The acquisition was completed at $10.50 a share in cash. MII entered Cogent in early November 2009 at a weighted average price of $9.49. Following 3M's announcement, rumors swirled that another acquirer would bid for Cogent. MII closed it position at $11.18/share. The position resulted in a total return of 18 percent.

Carlyle Group announced a buyout of Syniverse on October 28, 2010. Carlyle offered $31 a share in cash, which represented a 30 percent premium to the previous day's closing price. MII entered Syniverse on January 25, 2010 at a weighted average price of $16.66. The position provided a return of 86 percent.

MII RESTRUCTURES ITS MEMBERSHIP SELECTION PROCESS

Selection Process

During the Fall 2010 semester, MII implemented an ambitious reorganization of the membership program. Disappointed with membership demographics and engagement during the spring semester, managers designed a competitive application process. The new selection procedure was installed in September and required applicants to attend a research training session, submit an original investment memo, and participate in a Meet-a-Manager conversation.

		Participants
Training Sessions	• All applicants attended a value-added research and fundamental analysis training session • MII managers presented investment case studies and discussed how to structure an investment memo or pitch	**160 attendees**
Investment Memos	• Applicants submitted an original long or short investment memo that presented thesis points, risks, and catalysts • Managers reviewed all memos and invited outstanding candidates to schedule a Meet-a-Manager conversation	**123 memos**
Meet-a-Manager	• Each applicant met with an MII manager for 15 minutes • Managers and candidates learned about one another and discussed MII's structure and investment philosophy	**82 conversations**

46 new members selected

Vice President Ryan Comisky teaches an MII training session in early September.

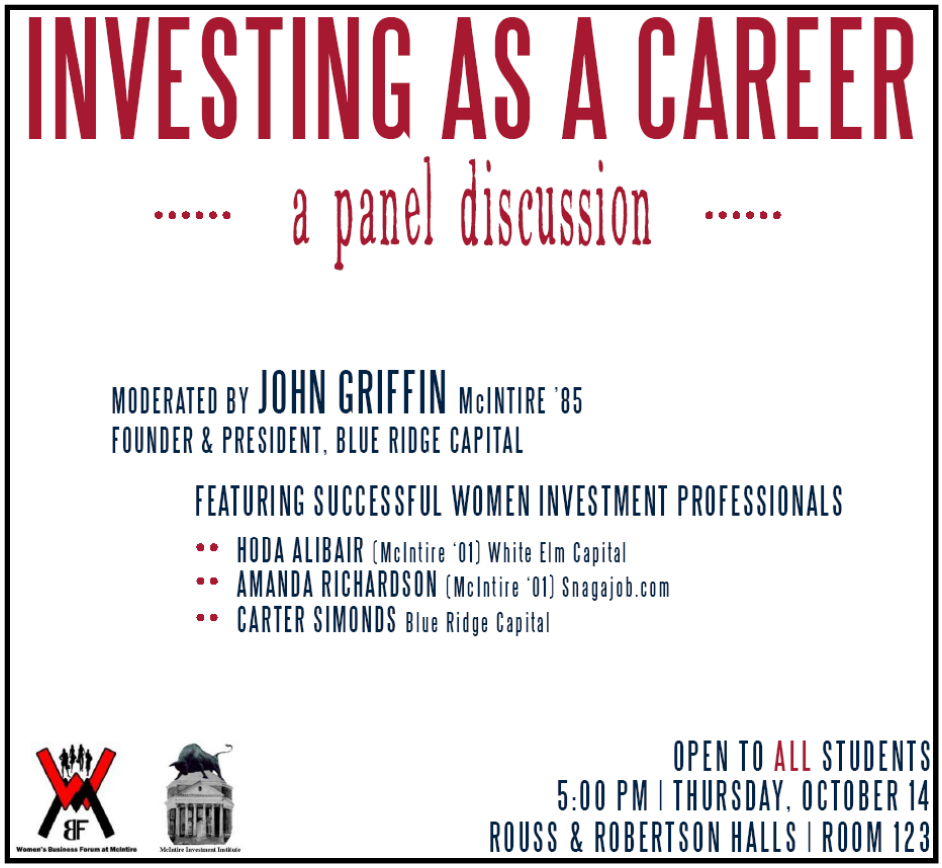
MII WORKS TO INCREASE FEMALE MEMBERSHIP AND HOSTS SPECIAL "INVESTING AS A CAREER" PANEL

Gaining Female Members

The new selection process is an integral part of MII's efforts to attract a more diverse and engaged group of members. Historically, female members have been underrepresented in MII. The 2010 management team was particularly disappointed with MII's lack of female members. The managers focused on female recruitment as part of the new membership initiative. During the fall semester, MII had eight female members and selected its first female manager in three years. Events such as the "Investing as a Career" panel and networking opportunities with MII female alumni encouraged new female members to remain active.

"Investing as a Career" Panel

As part of its initiative to increase female membership, MII worked with Blue Ridge Capital, Dean Zeithaml, and the Women's Business Forum at McIntire to host three female investors in the "Investing as a Career" panel. Over 100 students attended the event, which was graciously moderated by John Griffin. Paul Tudor Jones II spoke to attendees via video conference and the panelists discussed their investing experiences. The panel's poster is displayed below:

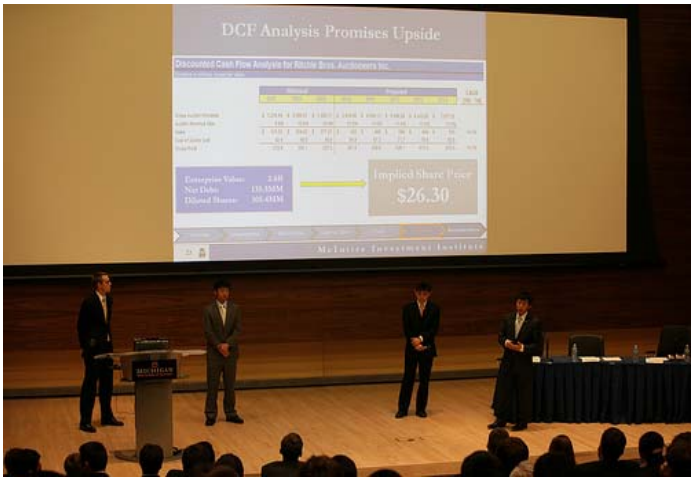


MII PARTICIPATES IN UNIVERSITY OF MICHIGAN STOCK PITCH COMPETITION AND SPONSORS CONTESTS FOR UNIVERSITY OF VIRGINIA STUDENTS

Managers (left to right) Will Liang, Tom Chen, Hideyuki Liu, and Ryan Comisky represent MII in Michigan.

MII participated in the Michigan Interactive Investments competition in late March. MII managers Ryan Comisky, Hideyuki Liu, Will Liang, and Tom Chen presented Ritchie Brothers Auctioneers (NYSE: RBA) as a long. The team conducted extensive value-added research by attending an RBA auction in South Carolina and interviewing customers, speaking with professionals in the construction industry, and analyzing rival auctioneers.

MII won its bracket, which included high-caliber teams from the University of Pennsylvania (Wharton School), New York University, Oxford University, and the University of California, Berkeley. MII competed in the final round alongside the University of Michigan and the College of William and Mary.



MII's team presents during the final round of the Michigan Interactive Investments competition.

MII sponsored two student stock pitch competitions for undergraduates from all colleges within the University. The Senior Division was open to third- and fourth-year students while first- and second-year participants competed in the Junior Division.

	Senior Division
1st Place	Connor Fusselman Nalco (NLC): Short
2nd Place	Scott Law Nuance (NUAN): Short
3rd Place	Kyle Davis and Gordon Carver Thoratec (THOR): Long

Junior Division

The first and second place teams pose with judges Brendan Dawson, Michael Atchison, and Lindsay Larsen.

MII HOSTS BUYSIDE AND INVESTMENT BANKING INFORMATION SESSIONS

UVa alumni and current Sands Capital Management employees Michael Raab (CLAS '06), Dega Tufts (COMM '08), and Pat McKeegan (COMM '09) present to MII.

On September 9, MII hosted Sands Capital Management during its weekly meeting. The presenters discussed their fundamental research and analysis of Visa (NYSE: V). This was the second year that Sands Capital Management has presented to MII. Dega Tufts (Short Fund Manager '07) organized the event and the MII membership is very appreciative of her support and involvement.

Following the formal presentation, MII members asked questions about the Visa thesis, the investment philosophy at Sands Capital Management, and research methods. Members also networked with the presenters.

MII members network following the presentation.

Throughout the Fall 2010 semester, MII sponsored and hosted recruiting presentations from the investment banks listed below. These events educated members about job opportunities in financial services and provided special access to recruiters.

citi®

Bank of America Merrill Lynch

Morgan Stanley

Deutsche Bank

LONG POSITIONS

Philip Morris International (NYSE: PM)

Philip Morris International produces, markets, and sells cigarettes in countries outside of the United States. The company was spun off from Altria in March 2008. MII's investment thesis focuses on three key considerations.

First, the cigarette industry has high barriers to entry and Philip Morris is best positioned with a strong moat. High capital requirements and government regulations limiting cigarette advertising eliminate the threat of new entrants and insulate industry participants. Philip Morris is particularly well positioned with its strong brands. Marlboro is the company's flagship brand and the world's most popular cigarette.

Additionally, Philip Morris is realizing volume growth in many of its international markets. It has first mover status among foreign tobacco companies in China and significant exposure to the high growth Indonesian and Eastern European markets. The company's expansive brand portfolio effectively segments the market and is well-positioned for a consumer shift toward higher margin "premium" brands like Marlboro and Parliament. VAR conducted during study abroad and through interviews with foreign students confirms that Philip Morris brands are among the most desirable cigarettes in several major Asian and European markets.

Finally, the company has strong and steady cash flows. It is selling an addictive product with nearly inelastic demand. Philip Morris has significant operating leverage that allows it to increase volumes without a significant increase in fixed costs. Management has proven its willingness to return cash flow to shareholders through a combination of dividends and share buybacks.

Although MII invested based on company fundamentals, managers also considered the potential impact of macroeconomic forces and concluded that Philip Morris is well-positioned for an inflationary environment and potential weakening of the US dollar. Managers also grappled with the ethical considerations of investing in tobacco and concluded that international labeling requirements and marketing restrictions ensure Philip Morris customers are not misinformed or unfairly targeted when purchasing cigarettes.

Coach (NYSE: COH)

Coach is a designer and marketer of luxury lifestyle accessories for women and men in the United States and abroad (primarily Japan). Coach's product offerings include handbags, women's and men's accessories, footwear, outerwear, business, sun wear, watches, travel bags, jewelry, and fragrance. MII's thesis focuses on Coach's growth potential as it enters new markets, its expansion within existing markets and superior brand equity, and its operational efficiency, which powers a high return on invested capital.

Since its IPO in 2000, Coach has exhibited strong growth in the premium accessories market fueled largely by its luxury handbags. The company is rapidly expanding in the US and Japan. The company plans to nearly double its store base in North America during the next few years with a

long-term target of around 500 stores. International expansion is also important to Coach's continued growth strategy. Indeed, Coach products are being well received abroad, particularly in Japan. Japanese consumption accounts for nearly 40 percent of the global luxury handbag market and Coach is poised to increase its 8 percent Japanese market share to at least 15precent over the next five years.

Beyond its expansion into new markets, Coach is also growing its existing product lines. The women's handbag business has grown from $2.5 billion in 2001 to nearly $5 billion today. Women are buying an average of four handbags per year, twice what they were purchasing in 2001. Coach is well positioned to capture repeat handbag purchases because it fills a void between moderate brands and ultra-luxury designer labels. Coach's brand positioning and product offering give it a wide economic moat and are reasons it is performing well in a weak retail environment.

Finally, Coach management has been able to translate its sales growth into earnings by expanding its highest margin product lines and increasing operational efficiency. Coach has shifted its product mix toward high margin items and improved its sourcing to reduce costs. With the proven ability to turn sales into free cash flow, Coach is in an excellent position to fund continued growth and capture emerging opportunities abroad and in its core American market.

Steinway Musical Instruments (NYSE: LVB)

Steinway Musical Instruments, Inc. manufactures pianos under its Steinway & Sons, Boston, and Essex brands, and band instruments through the Conn-Selmer division. Conn-Selmer sales have historically tracked secondary school music enrollment numbers. Due to Conn-Selmer's predictable sales and steady margins, MII focused on Steinway's piano division as the primary value driver because it accounts for most of the company's EBITDA and provides the most growth potential.

MII has a three-part thesis for Steinway. First, Steinway has a strong brand but is overlooked by most investors. Additionally, the stock's valuation is very appealing based on its tangible book value and hidden real estate value. Finally, MII believes Steinway will experience robust growth in institutional and international sales.

Steinway is the world's premier piano. 98 percent of concert pianists play Steinway pianos exclusively. Despite its fame in the music world, Steinway is overlooked by most investors and is not followed by Wall Street analysts due to its small market capitalization. Consequently, MII believes Steinway is more likely to be inefficiently priced than stocks with larger market capitalizations.

Steinway is significantly undervalued. When first pitched to MII, the stock was trading at less than tangible book value. Steinway owns Steinway Hall in Manhattan and a 12 acre factory in Queens, which are worth much more than their book values of $23 million and $3 million respectively.

Finally, Steinway is poised to realize significant sales growth. VAR confirmed that the "All Steinway" designation is becoming a requirement for reputable conservatories and music colleges. Additionally, MII anticipates very strong growth in foreign markets. China is particularly appealing because Chinese culture values music and views Steinway pianos as status symbols. Steinway opened a Shanghai showroom in 2003 and Chinese piano sales tripled from 2006 to 2009.

Rocky Mountain Chocolate Factory (NASDAQ: RMCF)

Rocky Mountain Chocolate Factory is a premier confectioner with over 300 franchise locations, an online retail presence, a dozen company-owned stores, and nearly 50 co-branded Cold Stone Creameries. The company is an overlooked small market capitalization stock with no analyst coverage. MII believes Rocky Mountain Chocolate Factory is similar to See's Candies when Warren Buffett bought the California-based confectioner. The company has a strong, well-positioned brand, significant growth potential through both its franchise locations and co-branding initiative, and near-term catalysts for stock price appreciation.

Rocky Mountain Chocolate Factory occupies a strong niche position among confectioners. The company's fudge and chocolate candies are sold at an average price of $16.00 per pound. This positions the company as an "affordable premium" retailer with a price point above Ghirardelli yet below Godiva. Rocky Mountain's interactive store fronts are popular with consumers and the company strategically locates stores in tourist-friendly locations to increase brand awareness. As shown by the strong growth in its online retail sales, this strategy has worked as consumers are paying to ship products to their homes.

Most importantly, Rocky Mountain Chocolate Factory has significant growth potential. A large misperception exists because the number of domestic franchise stores declined from 2009 to 2010. VAR calls with current and former franchisees revealed that these closures were due to macroeconomic conditions. New store openings were also muted in 2009 and 2010 because Rocky Mountain Chocolate Factory franchises often cost twice as much as Baskin Robbins, Ben & Jerry's, and Rita's stores. MII expects the number of domestic franchises to increase as lending eases and Rocky Mountain Chocolate Factory continues to outperform rival confectioners and ice cream stores.

The co-branding with Cold Stone Creamery also provides significant growth potential. The pilot program resulted in 14 to 16 percent sales growth for Cold Stone stores during the winter months, which are typically the slowest sales period. Nearly 1,400 Cold Stone Creameries exist and management plans to co-brand several hundred stores through 2013. This expansion program incurs no capital expenditures and provides Rocky Mountain Chocolate Factory with a significant new channel for distribution and increased brand awareness.

Finally, Rocky Mountain Chocolate Factory has a strong balance sheet and robust free cash flow generation. The company's ROIC has exceeded 20% for each of the past five years. Its business model incurs few capital expenditures by focusing on franchise store openings and expanding its online retail operation. Historically, the company has aggressively repurchased shares and increased its dividend by a 12% CAGR since 2005. Rocky Mountain Chocolate Factory has not funded a stock buyback since 2007 and dividends have plateaued at early 2009 levels. The company has a record amount of cash on its balance sheet and MII expects management to resume the buyback program and/or raise the dividend in 2011.

Diageo (NYSE: DEO - ADR)

Diageo is the world's leading premium alcohol business with a diverse portfolio of lucrative brands such as Smirnoff, Johnnie Walker, Baileys, and Guinness. Diageo's geographic diversity offers its

investors exposure to a healthy mixture of developed and emerging economies.

MII has held a long position in Diageo since November 2007 for three primary reasons. First, it has successfully grown, particularly in emerging economies like India and China. MII was particularly impressed with the company's presence in Africa, which is a promising market for products like Guinness and is overlooked by Diageo's competitors.

Second, Diageo has employed an aggressive mobile marketing campaign, which has increased the "buzz" around Diageo products among bar goers and partiers. Finally, Diageo has acquired and developed well known and high margin brands. The world's number one selling vodka, scotch whiskey, tequila, and stout all belong to Diageo.

Diageo was challenged during the global recession as consumers down-traded away from its premium brands. Going forward, MII expects Diageo to gain market share in developing countries through new product introductions and to strengthen its position in mature markets as consumers resume drinking high-end brands.

Corrections Corporation of America (NYSE: CXW)

Corrections Corporation of America is the largest company to own and operate private prisons in the United States. MII believes Corrections Corporation is a compelling long-term investment because there is a large market misperception regarding prison use, the stock has limited downside risk, and the long-term demand trend for prisons is very favorable.

Bears point to state budget crises and falling crime rates as evidence that prison populations will not increase. While state-run prisons are unlikely to proliferate, MII believes Corrections Corporation has a unique value proposition because its model of private prisons offers cost and safety advantages to government agencies. Private prisons allow states to sidestep the contentious process of building new prisons within their borders, and instead export their prisoners to remote locations run by operators like Corrections Corporation. Resistance to prison expansion also creates high industry barriers to entry and favors a proven operator like Corrections Corporation, which is adept at finding suitable locations for its facilities.

Corrections Corporation also poses limited downside risk as it operates in a recession resistant business with long-term government contracts. The company's clean balance sheet and strong recurring free cash flow generation are also compelling. These factors increase the probability of a near-term catalyst materializing, such as an expansion of the company's share buyback program or a growth plan to expand the number of beds.

Finally, Corrections Corporations is well-positioned for an anticipated increase in prison demand over the next 20 years. Prison overcrowding and resistance to building new facilities ensures high occupancy rates and sustained demand for new beds. Currently, many prisons have occupancies above 100%. These conditions are inhumane and more conducive to riots and disease outbreaks. MII expects cash-strapped states to increase their use of cost efficient private prisons as they address overcrowding issues and the general rise in inmate populations.

Monsanto (NYSE: MON)

Monsanto is a leading global provider of agricultural products. Its seeds, biotechnology trait products, and herbicides provide farmers with solutions that improve yield, reduce the costs and risks of farming, and produce better foods for consumers and better feed for animals. Monsanto's seeds protect crops from insects, herbicides, and drought.

With its market leadership and presence around the world, Monsanto is best positioned to profit from increases in global food demand and the dietary shifts that accompany affluence. Economic growth in China, India, Brazil, and other developing nations will be met with higher quality and more protein intensive diets. Monsanto, through its seeds, is poised to support the livestock this growth requires. Outside of global macro trends, Monsanto's continued investment in R&D initiatives and its robust pipeline should ensure future innovation.

MII's VAR confirms that Monsanto is a well-run company that is positioned to profit from macroeconomic trends. MII believes the market has overreacted to Roundup's decline. Monsanto's seed innovations will drive growth and profitability, and the management team is encouraged by Monsanto's pipeline and first mover status in many seed traits. We believe the market's current misperception presents significant opportunity.

Google (NASDAQ: GOOG)

Google is a global technology company that maintains the largest, most comprehensive index of web sites and associated online content. Google's position in China and European antitrust issues have caused many investors to reevaluate their growth expectations for the stock. However, MII believes that Google offers significant value and our investment thesis focuses on Google's dominant advertising position, its R&D capabilities and strategic flexibility, and the projected future of new ventures.

In 2009, Google generated 97% of its revenue from advertising. The company's dominance of online advertising is rooted in its superior search algorithm, which yields relevant results for users and allows advertisers to provide targeted messages. Through May 2010, 64.3% of searches worldwide were conducted on a Google site. Google compliments its high volume with superior pricing for its targeted advertisements. The company collects an average of $52.50 in revenue per unique visitor, while Yahoo collects $22.00 and Microsoft makes just $8.33. MII believes the core search function has a sizable moat and will continue to generate significant cash flow as internet penetration rises globally and Google expands its proven platform.

MII is also encouraged by Google's R&D function and believes organic innovations will drive future growth. Google’s spending on R&D has grown faster than its revenue and generated important patented technologies that give Google a competitive edge. These technologies include ranking algorithms, text matching techniques, sorting technology, the AdWords Auction System, and the AdSense Contextual Advertising Technology. Importantly, Google holds nearly $30 billion in cash and has no debt, so the company can continue to fund robust R&D, acquire emerging competitors, and purchase promising start-ups that complement internal projects.

At the stock's current valuation, MII believes Google investors are paying for its proven, industry-leading search engine and receiving optionality value on the company's emerging ventures. Google has unveiled promising platforms such as its Chrome browser and the Android mobile platform. As these systems gain market share, MII expects management to become more focused on monetizing the Android and Chrome. Through its successful acquisition and integration of YouTube, Google has proven that it can monetize new platforms. Beyond existing technologies, MII is also encouraged by Google's positioning to benefit from the cloud computing trend and the development of white space as more devices are connected to high-speed wireless Internet.

CME Group (NASDAQ: CME)

CME Group is the world's largest owner and operator of exchanges and clearinghouses for financial derivatives. The company originates 83% of its revenues from fees for trading and clearing of its listed securities, with 75% of trading volumes occurring on its CME Globex electronic exchange network. CME Group stands uniquely positioned to capitalize on developments in risk management techniques as it operates among few well-established peers and holds the competitive advantage presented by its strong market liquidity, internal clearing capabilities, broad product offering, and technological leadership with its Globex electronic trading platform.

With a multi-year history of acquisitions and mergers with its nearest competitors, CME Group is able to minimize its costs through accretive addition and synergistic effects, thus achieving 61% operating margins and creating strong earnings and free cash flow figures. MII expects growth rates to remain high as CME Group continues to expand into emerging markets with partnership and licensing agreements with local exchanges, particularly in Asia and Latin America.

MII perceives CME Group as being undervalued given the large potential benefits from increased regulation with the recently enacted Dodd-Frank Act, which will push trading and clearing of unregulated financial derivatives onto central exchanges owned by CME Group in order to mitigate counterparty risk and prevent future financial crises. Furthermore, the threat of over-regulation via the Volcker rule is unlikely to impair trading volumes at CME Group as many firms have already adjusted by scaling back their ownership in hedge funds with negligible effects.

The competitive landscape is also favorable for CME Group, with formidable barriers to entry created by increased regulatory scrutiny of newly proposed exchanges and the inability of smaller rivals lacking the same high-speed trading capabilities to attract trading volumes comparable to the CME Group. Overall, MII views CME Group as an undervalued company with mispriced risks and overlooked growth prospects that should benefit enormously from volatile macroeconomic and political conditions.

Thoratec (NASDAQ: THOR)

Thoratec, Inc. manufactures and markets devices for heart failure patients in the U.S. Hospitals that conduct open-heart surgery use these devices both as a method to keep patients alive as they wait for heart transplants and as a substitute for transplantation itself. Thoratec competes in a $4 billion market that will grow to $6.4 billion over time. The company's 40,000 current potential patients will

reach 80,000 potential patients when the Center for Medicare Services loosens reimbursement regulations and expands the addressable population to healthier individuals. Subsequent price decreases will likely prompt higher volumes in hospitals, according to VAR.

Heartmate, Thoratec's primary product, offers superior health benefits and cost savings to customers. The device's users have a 67 percent chance of living for two more years versus an eight percent chance from drug therapies. As a result, we expect same-hospital sales growth to drive over 75 percent of incremental volume growth until 2016. Thus, while the Street is fixated on new Heartmate hospital growth, same-hospital growth potential is considerable.

Thoratec enjoys an FDA-enforced moat until 2014 (at the earliest) and strong competitive advantages afterwards. Heartmate is the only FDA-approved device as a substitute for transplant. Threats from the competitor Heartware (expected to come to market in 2014) are likely overblown.

Nalco (NYSE: NLC)

Nalco produces and sells water treatment equipment, consumable chemicals, and services to industrial and commercial clients. These products prevent problems such as calcium buildup and corrosion that commonly exist in water storage and treatment systems. MII believes Nalco is a solid long-term investment due to its recurring revenue base, the company's industry-leading 3D TRASAR system, and growth opportunities which are currently underestimated by the market.

Nalco has high recurring revenues because its systems are non-discretionary for industrial customers and have high switching costs. Many analysts incorrectly believe that a reduction in industrial production results in less water use. However, many industrial water systems continue running even when a facility is below full capacity. Additionally, it is difficult for customers to replace Nalco's systems because water treatment is essential for production processes. These systems require specialized installation and operation by company professionals. As a result, customer churn is below five percent annually.

Nalco's 3D TRASAR treatment technology is protected by 27 patents and provides a higher IRR than competing systems because it uses less energy, water, and chemicals to operate. This business model creates a significant economic moat through its intellectual property protection and high switching costs for customers. Nalco is the leading name in industrial water treatment, and its brand strength should help the company gain market share as new operators come on-line.

Indeed, many analysts misperceive Nalco as a mature and unexciting industrial water treatment company. In reality, Nalco is well-positioned to benefit from emerging market demand for water treatment and upgrades of outdated municipal facilities in the United States. Currently, about 20% of the company's revenue is derived from emerging markets. As infrastructure improvements and additional industrial growth materializes in these markets, MII anticipates that Nalco will gain market share and realize surprise growth.

Citrix Systems (NASDAQ: CTXS)

Citrix provides virtualization services that allow clients to remotely access data. Most of Citrix's revenue is derived from selling licenses for its operating systems and the company focuses on enterprise clients. Citrix is a long because it is best positioned to benefit from rapid growth in the desktop virtualization industry.

Research indicates that the industry is underpenetrated now with many firms expecting to adopt desktop virtualization as the economy recovers and corporate IT budgets rise. Currently, market penetration is estimated at three percent, yet the industry should grow rapidly as corporations recognize the value of virtualization. Virtualization has an attractive ROI for customers as it reduces IT management costs, aids IT updates and maintenance, and provides greater mobility and ease of access to employees.

Citrix is best positioned to profit from virtualization growth. Several misperceptions exist regarding Citrix's competitiveness with VMWare. Research contacts attest that Citrix's FlexCast technology is superior to the Virtual Desktop Interface solution offered by its main competitor. Citrix products also use less bandwidth and processor time than View 4 from VMWare.

Furthermore, Citrix's HDX technology enhances the user experience by accelerating communication between the client and server, which results in superior Flash video viewing, for example. IT professionals note that user adoption rates often disappoint as employees complain about slow and unreliable virtualization services. Citrix's superior product appeals to IT professionals making purchasing decisions because its reliability increases the probability of user adoption. Overall, MII believes several key misperceptions exist regarding Citrix's competiveness with VMWare, and consequently, Citrix is the best in breed performer within the rapidly growing desktop virtualization industry.

Covanta (NYSE: CVA)

Covanta Holding Corporation is composed of an energy subsidiary that focuses on Energy-from-Waste solutions and the National American Insurance Company of California. MII is focused on the Energy-from-Waste division and its growth potential as municipalities become increasingly focused on environmental sustainability and reducing landfill use. Covanta is a well-established "green" company with proven technology and a strong track record of performance. Its solid waste combustion process generates clean electricity and results in net greenhouse gas reduction.

VAR contacts at a consulting firm confirmed the company is the Energy-from-Waste industry leader. Sources at the Environmental Protection Agency noted that Energy-from-Waste capacity could double as municipalities try to reduce landfill use. Although the United States does not have land use restrictions like Europe, MII believes environmental initiatives will spur a transition to more waste incineration.

The EPA policymakers do not believe Covanta will qualify to sell carbon credits under recent cap-and-trade legislation, but they did note that its process is favorably viewed by most environmentalists. Crucially, Energy-from-Waste is classified as a renewable energy source by the

federal government. Overall, MII hopes to benefit from increasing environmental awareness and "green" energy initiatives through its investment in Covanta.

DigitalGlobe (NYSE: DGI)

DigitalGlobe operates three satellites that orbit the Earth and provide imagery to the US government, individuals, and commercial customers. DigitalGlobe's satellite imagery is used by national security agencies, mining and oil/gas exploration companies, and disaster response for events like the Haitian earthquake and BP oil spill. A national security contract with the US government accounts for nearly 61 percent of DigitalGlobe's revenue. MII is long DigitalGlobe because it operates in a very attractive industry, its growth potential is underappreciated, and it has significant operating leverage.

The commercial satellite imagery industry is a domestic duopoly with high barriers to entry and significant government subsidies. DigitalGlobe and GeoEye are the only commercial satellite imagery companies in the United States. The US government subsidizes satellite construction for both companies and guarantees fixed-rate Service Level Agreements for national security images. The presence of technical barriers, high capital expenditures, and the government's unwillingness to support another competitor eliminate the threat of potential domestic entrants.

DigitalGlobe also has significant growth potential that is overlooked by most investors. Wall Street analysts focus on the company's defense and intelligence sales because they currently constitute the majority of revenue. However, the greatest source of value is potential growth in commercial sales. Several growth avenues exist as satellite imagery is becoming cheaper and easier to access by commercial customers due to cloud computing. VAR conversations with imagery resellers indicate that demand is robust and DigitalGlobe is best positioned to capture market growth because it has the industry's largest collection capacity.

DigitalGlobe also has significant operating leverage. Its proprietary ImageLibrary system is the industry's largest and resells images at operating margins over 80 percent. If the expected rise in commercial demand occurs, DigitalGlobe will experience strong top-line and earnings growth as it takes images once and resells them multiple times to customers. Additionally, the company is positioning itself for rising commercial demand in value-added imagery services, which will further enhance profits.

Yum! Brands (NYSE: YUM)

Yum! Brands, Inc was incorporated in 1997 and is a quick service restaurant with over 36,000 units in more than 110 countries. Through the five concepts of KFC, Pizza Hut, Taco Bell, Long John Silver's, and A&W Root Beer, the company develops, operates, franchises, and licenses a global system of restaurants. The company either operates units or contracts with independent franchisees or licensees. In addition, the company owns non-controlling interests in unconsolidated affiliates in China who operate similar to franchisees.

MII's investment in Yum! focuses on two key thesis points. First, the company's revenue growth has been driven by strong expansion in non-US geographic regions. Yum! successfully entered the

Chinese market through powerful branding while customizing its offerings to local tastes. For example, Pizza Hut has been marketed as a high-end restaurant chain and has become synonymous with pizza itself in China. We believe that Yum! has significant growth potential in China and can apply its proven model to other emerging markets.

The second thesis point focuses on the company's superior management. VAR contacts noted that senior managers visit the company's restaurants periodically to ensure product quality and mentor staffers. Yum!'s cash generation ability and impressive return on invested capital demonstrate management's abilities. Overall, MII believes Yum! will continue to realize strong organic growth and high efficiency due to management's proven judgment and ability to enter new markets.

McDonald's (NYSE: MCD)

McDonald's Corporation franchises 26,000 and operates 6,300 quick service restaurants. The US, Europe, and APMEA constitute 35%, 41%, and 19% of McDonald's revenues, respectively. McDonald's possesses several sustainable competitive advantages. MII's thesis focuses on the company's industry leadership and its role within the fund's portfolio.

Economies of scale at McDonald's lead to best-in-industry operating margins of 30 percent while its superior credit rating gives the company access to low interest leverage. Beyond its financial characteristics, McDonald's is well-positioned to continue gaining global market share by leveraging its brand and catering its menu to local customs.

McDonald's also plays an important role in MII's portfolio. Combined with Yum! Brands, the company offers exposure to international growth in quick service restaurants. Additionally, Yum! and McDonald's constitute the long portion of a three stock restaurant pair trade. MII is long the industry's leaders and short DineEquity. Overall, McDonald's is a long-term blue chip holding and MII anticipates superior risk-adjusted returns due to the company's international growth and industry leading practices.

Cadence Pharmaceuticals (NASDAQ: CADX)

Cadence Pharmaceuticals, Inc. is a modern drug company that is actively engaged in acquiring late stage FDA approved drugs, international drugs that can receive FDA approval, and FDA approved drugs that can be mixed into other combinations. The company's business strategy allows it to focus on promising uses for already developed drugs, rather than investing billions in research and development.

Its main product is Ofirmev, which was acquired from Bristol-Myers Squibb in 2006. Ofirmev, which is intravenous acetaminophen and is essentially an injectable version of Tylenol, was FDA approved on November 2, 2010. Sales begin in early 2011 although various hospitals around the country have already agreed to add it to their formularies, as there is a high demand for the drug in the pre/post surgical environment. Ofirmev is Cadence's most valuable asset at the moment and has a high boundary to competition due to its exclusive license in the US and Canada.

Ofirmev is the first intravenous pain reliever that is non-opioid and non-NSAID. It treats mild to severe pain. The parent drug, Tylenol, has gained widespread acceptance by the medical community for over 50 years. Ofirmev is widely accepted due to its faster acting effects, more even distribution, and lower reliance on opioids for treatment. In addition, its main side effect is virtually nonexistent if dosed properly. By mixing Ofirmev with other pain medications, less opioids can be used which drastically lessen side effects and eliminate extended stays for patients in ERs and ORs.

Based on VAR conversations, MII believes sales for Ofirmev will begin six to nine months earlier than the market believes. As Cadence Pharmaceuticals continues to grow organically, we believe the company will make other strategic purchases thus increasing its portfolio of hospital-oriented drugs and revenues.

BlackRock (NYSE: BLK)

BlackRock is one of the largest and most innovative investment management firms in the United States. MII has held BlackRock since 2003 and continues to view the company as an attractive play on the asset management industry. The current thesis focuses on BlackRock's significant acquisitions during the credit crisis and the company's hidden growth platforms, which are headlined by BlackRock Solutions.

The recent acquisition of the iShares franchise from Barclays offers BlackRock a reputable name in equity index fund management, a field set to grow as more US and foreign retail customers invest in the financial markets. BlackRock's reputation centers on its fixed income prowess, but the company is positioned to continue expanding its equity offering, which will help drive top-line growth.

Additionally, BlackRock has hidden growth platforms. The company's growing presence in the Asia Pacific region gives it access to a large body of potential customers and will help raise AUM. Based on VAR, BlackRock has also gained the reputation of being a "problem fixer" for institutional clients. BlackRock Solutions, which is the company's risk advisory arm, has shown strong growth since 2004. Our research indicates that BlackRock Solutions has high barriers to entry and high switching costs for customers. The value proposition of BlackRock Solutions and the company's other analytic tools has increased in the wake of the credit crisis, and should power growth going forward.

American Express (NYSE: AXP)

American Express (Amex) operates a leading global payments and travel services company. During the recession, many investors were deterred from Amex due to the company’s consumer credit exposure. However, MII has held Amex through the recession and our thesis focuses on the advantages of Amex's business model, the company's ability to capture global growth in credit card usage, and the misperception surrounding Amex's credit exposure risk.

Amex has a unique spend-centric and closed loop system with outstanding growth potential. This business model gives the company a competitive advantage in terms of customer satisfaction that

Visa and MasterCard cannot easily overcome. This model is also advantaged as Amex increases its acceptance rate, which is currently lower than acceptance rates for Visa and MasterCard. Merchants are incentivized to join the Amex network and capture revenues from the company's affluent cardholder base.

Additionally, MII believes Amex will benefit from broader global growth in credit card usage. Credit card purchase volume is expected to rise 40% by 2011. While debit cards will also gain popularity, credit cards will remain the consumer preference for purchases over $50. Since the typical Amex charge card operates similar to a debit card while also offering a one month, interest-free window before payment, the company will fare better than its competitors as debit card usage increases.

Finally, investors have overestimated the credit exposure of American Express. Indeed, 85 percent of American Express' cardholders always or usually pay their balances in full each month. The company focuses on generating revenue as a result of high spending volume and its industry-leading 2.57 percent average merchant discount rate, as opposed to lending fees. With regard to credit exposure, Fair, Isaac and Company (FICO) scores have actually increased among Amex cardholders since 2004 and are higher than 2007 levels, indicating that Amex has managed to increase overall credit quality during a time period where nearly every other bank has seen credit quality deteriorate. Since the market has underestimated its growth potential and mispriced its consumer credit exposure, MII is enthusiastic about its long position going forward.

Ritchie Brothers Auctioneers (NYSE: RBA)

Ritchie Brothers Auctioneers is the world's largest live and online equipment auctioneer. The company generates nearly 75 percent of its revenue from auction commissions and the remaining 25 percent by purchasing equipment to auction from a proprietary account or guaranteeing sale prices. MII likes Ritchie Brothers because it is a contrarian play with a large moat and strong brand, it has significant long-term growth potential, and the market misperceives its competitive position.

Ritchie Brothers is a contrarian long because of its exposure to the hard-hit construction industry. Many investors worry that construction companies will not buy new or used equipment. However, VAR at an auction in South Carolina indicates surprisingly robust bidding and fewer liquidations than expected. Ritchie Brothers has an unrivaled footprint across the world and strong brand power. In the words of one VAR contact, "Ritchie Brothers is the best in the business."

Ritchie Brothers can capitalize on its favorable position by capturing long-term growth opportunities in the equipment marketplace. Currently the auction market is highly fragmented and although it is the largest player, Ritchie Brothers has a market share of less than five percent. Management is focused on expansion through a "smart growth" penetration strategy that conducts auctions on temporary sites and gauges market dynamics before committing to significant capital outlays. Currently Ritchie Brothers has permanent auction sites in just nine countries, but plans to aggressively expand and take advantage of emerging market growth.

Finally, the market misperceives the company's competitive positioning. The emergence of online auctioneers and Caterpillar dealerships offering their own auctions concern many investors. However, no one will buy a piece of heavy equipment without examining it at a live auction. Thus far,

local Caterpillar auctions do not pose a serious threat because they lack the inventory variety and number of bids of a Ritchie auction.

Winn-Dixie Stores (NASDAQ: WINN)

Winn-Dixie is the 13th largest grocery chain in the United States with stores in Louisiana, Mississippi, Alabama, Georgia, and Florida. The company emerged from bankruptcy in 2006 and has pursued an aggressive turnaround program since then. MII has a contrarian viewpoint of Winn-Dixie and believes the company provides significant value. MII's thesis focuses on key market misperceptions, Winn-Dixie's promising turnaround strategy, the stock's wide margin of safety, and the presence of many near-term catalysts, which should drive price appreciation.

As it approached bankruptcy, Winn-Dixie was notorious for poor management, inefficient inventory management systems, and deteriorating stores. Today, many investors are scared away because of the company's poor reputation. Additionally, investors are concerned about competitive threats posed by Wal-Mart and Publix. Based on VAR with customers, employees, and suppliers, MII believes that Winn-Dixie is positioned for organic growth as its tarnished image recovers and its experienced management team continues to improve margins.

Following its emergence from bankruptcy, the company has a clean balance sheet and is working to improve its reputation. Management is focused on remodeling stores, moving the product mix toward high margin private label brands, and introducing new targeted offerings for Hispanic, Kosher, affluent, and vacationing shoppers. So far, remodeled stores have shown strong growth in same-store sales and VAR indicates that disillusioned customers are returning to Winn-Dixie.

Winn-Dixie is also significantly undervalued. Although the grocery business is recession resistant and Winn-Dixie's turnaround is promising, the stock trades at depressed valuations. Winn-Dixie has a strong net cash position and its NOL carryforwards also provide significant value if the company turns profitable.

Multiple catalysts could lead to price appreciation. The company's clean balance sheet, NOL carryforwards, and Sunbelt footprint make it an appealing takeover target for a strategic buyer like Kroger or Safeway. Additionally, Winn-Dixie's focus on cost controls and targeted remodeling should improve its industry-worst margins. Overall, MII believes Winn-Dixie is a contrarian play with a large margin of safety and several catalysts for price appreciation.

SHORT POSITIONS

Green Dot (NYSE: GDOT)

Green Dot Corporation provides Visa and MasterCard-branded prepaid debit cards to underbanked and unbanked US consumers. Unlike "closed-loop" gift cards with a pre-set spending limit, Green Dot's cards can be reloaded via the purchase of a Green Dot-branded MoneyPak in denominations of between $20 and $1,000.

Green Dot's products and services are largely undifferentiated from its competitors. Since the true convenience of the cards stem from their ability to be accepted like any regular Visa or MasterCard, a multitude of firms have found little difficulty in setting up shop and competing with Green Dot for customers. Furthermore, low switching costs have driven customer churn rates upwards of 50 percent in recent quarters.

Green Dot's phenomenal growth story has reached its climax. As of the start of 2009, Green Dot had a retail footprint that 92 percent of all US consumers encounter in their normal shopping trips. Sales at Wal-Mart contribute 64 percent of Green Dot's revenues, but given that the company has shelf space in at least 97 percent of all Wal-Marts, this channel of growth has dried up.

Prepaid debit cards are becoming increasingly commoditized. Almost anyone can establish a prepaid card program with Visa or MasterCard backing, including Kim Kardashian and her sisters, who recently released their MasterCard-backed "Kardashian Kard." Most cards are also commoditized in terms of fee structure and customer value provided, as indicated by customer and industry expert reviews.

GameStop (NYSE: GME)

GameStop Corp. is a retailer of video game hardware and software with over 6,000 locations worldwide. The firm also operates in the market for used video game hardware and software, which has become an increasingly important part of its buisness model over the years.

GameStop will be unable to continue selling used games at the premium which it currently commands. As we saw with Blockbuster, the brick-and-mortar model is being replaced by lower cost kiosk and online competition. Toys R Us has expanded its used game operations nationwide and Best Buy has had success with its trial operations in Texas using kiosks. The prices of GameStop's used games (which constitute 45 percent of GameStop's gross profits) are 36 percent higher than those available on Amazon.

Along with competition, video game technology will destroy GameStop's business. New and used software sales will deteriorate significantly with digital distribution on next generation consoles, which will be introduced as early as 2012. Console makers like Sony possess technology that would prohibit the use of games being played on multiple systems. GameStop has declining ROIC and MII anticipates the company's brick-and-mortar business model to be very uncompetitive within five years.

Nuance (NASDAQ: NUAN)

Nuance Communications offers Automatic Speech Recognition capabilities for mobile phones, healthcare systems, and automobiles. The company also operates a division that automates back office operations for corporate clients. Nuance has a history of acquiring other companies and using aggressive accounting techniques to maintain its EPS growth. The company is a short because its accounting policies mask the deteriorating underlying economics, its speech recognition technology will fail to meet lofty expectations, and the company has dismal organic growth prospects and is challenged by new entrants.

Many analysts incorrectly focus on Nuance's non-GAAP EPS. However, the company's adjustments misrepresent economic reality. For example, the company's accounting gimmicks seek to obscure its disappointing integration of acquisitions. Additionally, Nuance's two-way revenue sharing partnerships contribute revenue, but the company capitalizes expenses associated with these revenues, thus overstating margins. Overall, Nuance employs several aggressive accounting tactics and uses a little known accounting firm as its auditor.

Nuance's speech recognition technology has received much attention from analysts. However, research indicates the product consistently disappoints. The healthcare sector has failed to provide significant growth despite an industry trend of new efficiency-related IT expenditures. Nuance's Dragon system is poorly suited for medical applications because of inaccuracies transcribing speech to words. Although the system is available on mobile phones, a VAR survey reveals that few customers actually use their voice recognition technology, and those who do prefer solutions from Google over Dragon.

Historically, Nuance has masked its inferior R&D through acquisitions as the company's speech recognition products have repeatedly disappointed healthcare customers. Nuance relies on acquisitions to shore-up its shaky products, but few desirable targets remain and larger players like Google and Microsoft are entering the space, raising the potential of costly bidding wars for attractive start-ups. Large competitors also pose a serious threat to Nuance due to their existing mobile platforms and considerable R&D resources.

Align Technology (NASDAQ : ALIGN)

Align Technology makes the popular Invisalign system to treat teeth misalignment. Dentists and orthodontists use clear Invisalign products to treat mild and moderate misalignment cases. Invisalign currently sales its products in the United States, Europe, and Japan, and is entering the Chinese market with much fanfare. The investment thesis states that the market for clear misalignment treatments is reaching saturation, new competitors are challenging Invisalign's current market leadership, and the company's foray into China will fail.

Although it has posted strong growth since the introduction of Invisalign, MII expects Align Technology's growth to slow as market saturation nears. Indeed, the number of dentists using Invisalign has declined for the previous four quarters and the number of North American orthodontists installing the system showed no growth year-over-year. Consumer demand is linked to population growth and no significant catalysts exist for rising demand in North America.

Furthermore, many analysts overestimate the company's true market size. Conversations with orthodontists indicate that only about one third of patients who express interest in Invisalign qualify for the system.

Invisalign will also be challenged by the introduction of new competitors, which will likely result in margin compression. Competitors like ClearCorrect and Ormco's Simpli5 have significant cost advantages and are being adopted by dentists and orthodontists. In 2006, Invisalign cut prices by 30% and filed lawsuits in response to a new competitor entering the market. A similar response to credible new entrants will compress margins as Invisalign tries to preserve market share.

Finally, Invisalign has created unrealistic expectations for its China entry. Research found that the market size is overestimated by many analysts and the number of eligible Invisalign providers is surprisingly small. If Invisalign's China entry fails, the company will have exhausted all reasonable growth opportunities and its multiple will fall.

DineEquity (NYSE: DIN)

Great franchisees. Great brands.™

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DineEquity is the parent company of two well-known restaurant chains, IHOP and Applebee's. With over 1,500 IHOP and over 1,900 Applebee's locations, DineEquity is the largest full-service restaurant company in the world. In 2007, the company completed a highly levered acquisition of Applebee's. MII's thesis focuses on DineEquity's inferior position in an increasingly competitive industry, limited growth opportunities, and a questionable turnaround strategy. These factors, when combined with DineEquity's high leverage, make bankruptcy a real possibility.

DineEquity operates in the casual dining industry, which faces insurmountable demographic, competitive, and economic headwinds. While management believes that IHOP and Applebee's have leadership positions within the industry, VAR shows that this is not necessarily the case. Through a telephone survey of 60 casual dining restaurants across the US, MII learned that competitors have wait times that are often twice as long as that of an Applebee's in the same ZIP code.

Domestic saturation and poor international appeal limits DineEquity's growth prospects. An analysis of DineEquity's 3,400 domestic restaurants shows that there are already approximately 14 restaurants per US city with over 100,000 in population. International growth prospects are weak as well. Don't be fooled by the name, only 1.6% of IHOP (International House of Pancakes) restaurants are actually located abroad. In addition, discussions with consumers in China show that Applebee's is unheard of and that the idea of eating pancakes for dinner is unappealing.

DineEquity's current strategy includes selling off company owned restaurants to pay off debt and remodeling restaurants to increase same store sales. However, DineEquity acquired Applebee's at the top of the real estate market in 2007. The current market is much weaker than in 2007, which means that DineEquity is unlikely to get good valuations for its restaurant sales.

Furthermore, over 95% of DineEquity's restaurants are already franchised, making this an unsustainable strategy. In addition, store remodeling has had a negligible effect on sales so far, as same store sales continue to decline.

A comparable companies analysis shows that DineEquity is overvalued based on valuation metrics such as EV/EBITDA. Furthermore, DineEquity's free cash flows have been decreasing and ratios related to debt covenants have been getting worse. If DineEquity is unable to improve cash flows, failure to meet interest payments or satisfy covenants could increase our upside due to a potential bankruptcy.

Blackboard (NASDAQ: BBBB)

Blackboard is a provider of software applications and tech services to the education industry. Although it operates primarily in the US, international revenues accounted for 15.8% of total revenues in 2009. Blackboard's product line consists of four main software packages that provide online learning content for distance education courses and traditional universities. MII believes Blackboard is a short because it faces serious structural concerns, education spending will be low going forward, and Blackboard lacks the ability to develop profitable new products.

Open source solutions are cheaper to create and more flexible than Blackboard's offering. Research institutions value easily accessible and adaptable systems. Blackboard frustrates researchers by prohibiting changes to its code in licensing agreements. VAR confirms that many institutions with Blackboard systems are piloting open source solutions, and schools without Blackboard already prefer open source programs rather than Blackboard's technology. To compound these problems, Blackboard has no competitive moat to insulate it from these emerging challenges. The company's software is undifferentiated from competitors such as Moodle and Desire2Learn.

Furthermore, Blackboard will face further difficulty attracting new customers due to higher education spending cuts. Both public and private institutions face shrinking budgets that prevent new technology investment and upgrades for existing Blackboard systems. Many investors believe that education spending will rebound along with the economy and drive stronger demand for Blackboard's technology. Even if spending rebounds, MII believes technology investment will favor open source systems rather than Blackboard's solutions.

Finally, Blackboard's growth will disappoint investors. Acquisitions in non-core businesses have accounted for much of Blackboard's revenue growth over the past three fiscal years. Blackboard has increased marketing and R&D expenses significantly to maintain its market share in learning management systems. Margins and ROIC have suffered and will continue to be compressed as competition stiffens. Blackboard's management seems to share MII's negative outlook. CEO Michael Chasen sold nearly $7 million worth of stock in April and insiders have sold almost 12% of total shares outstanding in the first half of 2010.

Garmin (NASDAQ: GRMN)

GRMN produces Global Positioning Services (GPS) devices with applications in automobiles, outdoors/fitness, marine and aviation. The majority of the company's revenue and operating profit comes from its fixed-mount, GPS-enabled products installed in automobiles. GRMN is one of the top two global PND producers. MII believes smartphone applications will cannibalize sales for personal navigation devices. MII also believes margins will deteriorate as Garmin sells fewer units

and is unable to enter new navigation markets.

Many smartphones are now equipped with GPS applications that assist navigation. iPhone, Blackberry, and Android applications are cheaper than Garmin's units and more convenient to use than dash-mounted GPS devices. Going forward, MII expects consumer demand to significantly decline as Garmin's price point is uncompetitive compared to more versatile and trendy smartphones.

As a result of increasing navigation competition and declining demand for Garmin's traditional units, MII expects margins to be squeezed. Volume is the primary cost driver for Garmin and MII expects particularly soft demand on a year-over-year basis during the Christmas shopping season. Given these near-term headwinds, MII believes Garmin is a compelling short.

Coinstar (NASDAQ: CSTR)

Coinstar operates coin counting machines and Redbox DVD rental kiosks that are installed in grocery stores, pharmacies, convenience stores, and major retailers. The Redbox division accounts for approximately 80% of revenue. MII believes the secular trend of streaming will render Redbox kiosks obsolete and the company's Coinstar machines are a slow death business due to the rise of electronic payments. Although Coinstar promises to unveil its own streaming plan in late January 2011, MII believes this strategy is doomed because the company lacks delivery devices and licensed content.

Near-term, Redbox is challenged by new entrants in the kiosk business, which has low barriers to entry. Coinstar management optimistically estimates that America has capacity for 60,000 kiosks. To date, Coinstar has deployed approximately 28,000 machines. However, the market is quickly saturating as new competitors deploy kiosks. NCR is the most serious competitor due to its strategic partnership with Blockbuster and its installed base of nearly 10,000 kiosks. NCR has existing relationships with many retailers and already convinced 207 Bi-Lo grocery stores to switch from Redbox to NCR kiosks. As new entrants like NCR match Coinstar's price point of $1/night basic DVD rentals, MII expects Coinstar's transactions per kiosk to fall.

Coinstar will also be challenged by its relationships with movie studios as new DVD sales continue to decline. Coinstar has strained relations with 20th Century Fox, Universal, and Warner Home Video because it filed antitrust lawsuits against the studios. Contract re-negotiations will occur in 2012, and it is likely studios will demand a longer DVD release window and raise licensing fees.

Additionally, retailers are likely to demand higher revenue sharing agreements with Coinstar as rental kiosks pose a larger sales cannibalization threat to new DVD sales. It is projected new DVD sales will fall 66% over the next five years, thus eliminating a significant source of revenue for retailer electronics departments.

Most importantly, Coinstar is a late entrant to streaming and the company's strategy is likely to fail. The streaming market has attracted many formidable competitors such as Netflix, Apple TV, Amazon-on-Demand, Hulu Plus, and Google TV. Netflix is the most entrenched competitor and has

already introduced a $7.99/month streaming-only subscription plan. Meanwhile, Coinstar continues to seek a streaming partner.

While Netflix is available to American consumers through over 100 different delivery devices, Coinstar has no device penetration. Coinstar must also license content, yet based on Netflix's precedent agreements, it will cost over $3 billion to build a competitive title library. Netflix can aggressively defend its market share by shifting customers from its lower margin mail order business to streaming, which will increase cash flow available for new content licensing and allow the company to lower subscription fees without sacrificing margins.

Finally, Coinstar's legacy coin counting division is a slow death business that MII values at $309 million. Coinage use has declined with the rise of electronic payments, and MII expects this trend to accelerate. Indeed, Coinstar's own Redbox kiosks operate on debit or credit card transactions rather than coinage. Overall, MII believes Coinstar's Redbox kiosks will be obsolete within four years. The liquidation of brick-and-mortar rental stores gives Coinstar a near-term tailwind and complicates the short thesis. MII will monitor per kiosk transaction trends, streaming subscriber growth, and Coinstar's streaming partnership as signposts for the short position.

2010 MANAGEMENT TEAM

James Rogers

President

James is a fourth-year from Radford, VA majoring in Commerce (Finance and Management) and History. Outside of MII, James has co-taught a course on the financial crisis, serves as a Commercial Law teaching assistant, and tutors students through Madison House. During the summer, James interned at McKinsey & Company. Next year he will work for The Blackstone Group in Technology M&A investment banking in the firm's Boston office.

Ryan is a fourth-year McIntire student concentrating in Finance and minoring in Philosophy. On Grounds, Ryan has taught an undergraduate course on investments, participated in the Catholic Student Ministry, and volunteered through Madison House. He interned last summer at Lazard Freres & Co. as an Investment Banking Summer Analyst in the Real Estate Group and accepted his offer to return full time.

Ryan Comisky

Vice President

Hideyuki Liu

Chief Financial Officer

Hideyuki is a fourth-year from Tokyo, Japan majoring in Mathematics and Economics. Outside of MII, Hideyuki introduces trading concepts to students through the Sales and Trading Group at McIntire, serves as a Finance columnist at the *Cavalier Daily*, and enjoys traveling. Next year he will work for Deutsche Bank's Distressed Products Group in the firm's Tokyo office.

Will is a third-year from Midlothian, VA majoring in Commerce (Finance and Accounting) and Economics. Outside of MII, Will is an active member of his fraternity and plays violin for the Charlottesville and University Symphony Orchestra. During the summer, Will interned at Transact Capital Partners, a boutique investment bank in Richmond, VA. Upon graduation, Will intends to work as an analyst in investment banking.

Will Liang

Chief Information Officer

Tom is a third-year from Herndon, VA majoring in Commerce (Finance and Marketing). Apart from MII, Tom choreographs for his dance group, and enjoys working on start-ups. During the summer, Tom interned at Volkswagen Group of America. This spring he will intern for Neerg, a start-up in the green space, as a marketing, social media, and customer relations intern.

Tom Chen

Chief Marketing Officer

Tim is a third-year from Herndon, VA majoring in Commerce (Finance and Management). Outside of MII, Tim co-manages a private portfolio and works on personal projects, serves as a marketing research assistant, and choreographs for AKAdeMiX, his co-founded hip hop dance crew. During the summer, Tim interned at the Federal Housing Finance Agency.

Tim Chen

Manager

Andrew is a third-year from Virginia Beach majoring in Commerce (Finance and Information Technology). Outside of school, Andrew coaches a YMCA lacrosse team and plays intramural sports. Last summer, Andrew interned in the business development department at Portfolio Recovery Associates.

Andrew Fredrickson

Manager

Harrison is a second-year from New York, NY. He is a Pre-Commerce student minoring in Art History. In addition to MII, Harrison writes the "Following the Money" finance column for the *Cavalier Daily*. Also, he is a competitive sailor and the Treasurer of UVA's Sailing Association. This past summer, Harrison participated in UBS' Freshman Forum and taught sailing at Camp Winnebago in Maine. Harrison hopes to have an internship in New York this summer.

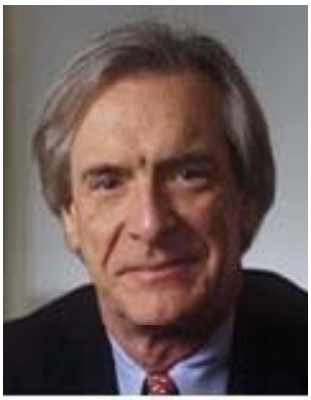
Harrison Freund

Manager

Thank you to our advisers John Griffin, Dean Zeithaml, Dean Starsia, and Professor Dennis for their support of the fund. We sincerely appreciate this learning opportunity and your continued involvement.

John Griffin

MII Benefactor



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