



## Semi-Annual Report For the Six Months Ended June 30, 2009

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## MCINTIRE INVESTMENT INSTITUTE

**McIntire Investment Institute:** An entirely student-run long-short equity fund. With a portfolio currently valued at approximately \$400,000, 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 actual investing experience with real money.

**History:** The McIntire Investment Institute was first 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 tenacious VAR (value-added research). VAR involves contacting stakeholders (including customers, suppliers, competitors, experts, etc.) to understand the business from the ground up. In short, 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: Long Fund Manager, Short Fund Manager, Associate, Analyst, and Member. Managers are elected for annual terms based on investment memos, prior involvement and discussions. Long fund committee elections are held in December and short fund committee elections are held in April of each year. The club's membership currently consists of approximately five long fund managers, five short fund managers, 10 associates, 20 analysts, and 50 members.

## LETTER FROM THE PRESIDENT

Dear Friends of the McIntire Investment Institute:

In our semi-annual and annual letters, we seek to assess our performance, reiterate our core investment philosophy, share our lessons learned, and provide updates on the organization itself. In addition, we discuss each of our positions in hopes you will share our confidence in the fund's future prospects.

The Spring 2009 semester proved successful. Members came each week with new ideas and a passion for investing. Our analysts engaged with managers to put together quality research. I was humbled to be joined by a bright and innovative management team that worked tirelessly to improve the organization. Like any group of equity analysts, we aspire to the highest risk-adjusted returns. Although we were disappointed with our 2008 performance (-31.5%), MII has recovered a portion of its loss with a 7.9% YTD return. Over a longer horizon, the fund outperformed the broad market averages, with a 7.9% 5-year annualized spread above the S&P 500. Although we are focused on our alpha, the true goal of MII lies within education and experience. In this regard, we've had a remarkable learning experience by testing our core investment philosophy in one of the most turbulent markets in history.

We derive our investment philosophy from our founder John Griffin (COMM, '85) who taught us how to conduct value-added research and provided us with the tools to find a variant perception. He teaches us to "focus like a laser" on the two to three key drivers of value for our investment idea and "do the work" to establish credibility with our research. In that sense, MII does not invest based on Wall Street research or member opinions concerning how companies will perform, but rather as a result of due diligence and formation of an independent view of the company. Our core philosophy has been invaluable in this period of turmoil. Since we conduct extensive value-added research, establish contacts with those in industry, and view the company from several angles (customers, supplier, competitors, experts, etc.), we have strong conviction in our investment ideas that supports us in trying times. Regardless of the market conditions, we stick to our simple strategy of going long companies with a sustainable competitive advantage and going short companies with unsustainable business models.

This past semester has taught us several lessons about the nature of investing. First and most important is the need to constantly reexamine our portfolio positions and reassess how our variant perception is playing out. Since the MII management team turns over every year, managers have the tendency to accept current holdings and focus their energy on finding new ideas. This mistake has cost us as several of our long-term positions had already played out their original thesis points in early 2008 and rapidly declined during the credit crisis. At the beginning of this year, we sold out of those positions and focused on redeploying the capital towards investment ideas where we have a variant perception.

This credit crisis has also taught us the difficulty of picking a market bottom. In April and May of 2008, we added long positions in American Express and Coach, while patting ourselves on the back for finding such attractive valuations. These investments declined rapidly as we discovered the credit crisis was only just beginning. Although we have strong conviction in American Express and Coach, we have since formed a new philosophy of easing into positions over time instead of deploying 5% of our capital all at once in a volatile market. This crisis has also taught us the importance of entry points. Too often we have the tendency to add an investment idea immediately instead of waiting for an appropriate catalyst or valuation. Our short position in Herbalife is an example of where the team jumped into a position without a catalyst, while the company was trading at only 5-6x earnings. We have since added an MII watchlist to allow the management team to reassess good investment ideas for appropriate valuation and timing.

## MCINTIRE INVESTMENT INSTITUTE

The market downturn has quickly taught us the importance of shorting. Due to past restrictions in the fund charter that required managers to monitor the portfolio daily if holding short positions over the summer, we did not hold short positions through the summer of 2008. Holding a long-only portfolio during that period increased our risk and lowered our return. In addition, we found it difficult to add short positions quickly during the fall due to the time required for quality research. While it would be easier to simply short the index and instead focus our energies on our long book, the management team is committed to profitable short selling. We have encouraged analysts to develop short ideas and provided training that supports the effort. Another difficulty with shorting that we are unable to overcome is the difficulty of obtaining shares from our prime broker, Banc of America Securities. The management team voted to short MGM Mirage, Blue Nile, and Federal Realty Investment Trust this past school year, but was unable to borrow shares to initiate a position in each.

A priority of the management team going forward is to increase our gross exposure. We are comfortable with 50% or less in net exposure given our bearish stance on the markets. However, we do recognize that a long/short equity fund can generate sizeable returns despite market conditions by finding more long and short opportunities, and therefore increasing gross exposure.

The current management team is the most enthusiastic and innovative I have ever seen with regard to improving the organization. This past semester we have rethought a number of our initiatives in order to improve the learning experience of MII. For example, we started the Star Analyst award program that is given to a single analyst each semester that provides the most insightful analysis. This past semester's award was given to Ryan Comisky (COMM, '11) for his presentation on Winn-Dixie. We have also hosted speakers at meetings to discuss their investment philosophy and experiences. For example, we were pleased to recently host Chris Brightman, CEO of the University of Virginia Investment Management Company, who spoke to us about what he looks for in fund managers.

Two years ago, the organization added a sector head program to provide members an additional opportunity for involvement. This management team has reorganized this program with a focus on improving training and involvement. The reformed program will be called the associate program, and is open only to those who are currently analysts. Associates will monitor portfolio positions regularly, generate new investment ideas, and provide additional analysis on analyst presentations. We are enthusiastic about the prospects of this program going forward.

I am pleased to report that all MII managers are enjoying their summers and energized for the fall semester. Thank you for your continued support of our organization. We also owe a great deal of gratitude to Professor DeMong for his continued support and guidance as well as to our founder, John Griffin, whose gift keeps on giving. If you have any questions or comments, I encourage you to contact us.

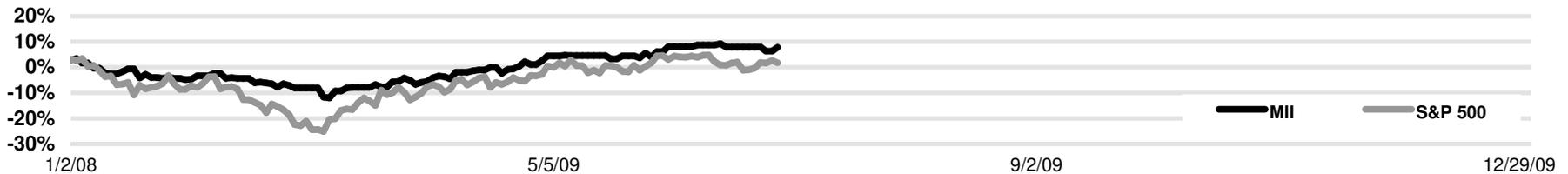
Respectfully yours,

Rahul Gorawara  
President  
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**PORTFOLIO AS OF JUNE 30, 2009**

Company	Symbol	Entry			Position			Percent Change			Weight
		Date	Price	Value	Price	Value	YTD Gain	YTD	Total Gain	Annualized	
Princeton Review	REVU	Apr-09	3.98	18,865	5.41	25,643	6,778	35.9%	35.9%	475.8%	6.35%
FEMSA	FMX	May-06	31.05	21,425	32.24	22,246	1,456	7.0%	3.8%	1.2%	5.51%
BlackRock	BLK	Apr-03	44.85	5,606	175.42	21,928	5,159	30.8%	291.1%	24.5%	5.43%
Google	GOOG	Apr-09	363.61	18,181	421.59	21,080	2,899	15.9%	15.9%	90.2%	5.22%
Ansys	ANSS	Mar-08	35.37	23,875	31.16	21,033	(2,842)	11.7%	-11.9%	-9.4%	5.21%
Coach	COH	May-08	35.55	27,018	26.88	20,429	4,644	29.4%	-24.4%	-21.6%	5.06%
Intuitive Surgical Robots	ISRG	Oct-04	26.29	3,023	163.66	18,821	4,217	28.9%	522.5%	47.4%	4.66%
American Express	AXP	Apr-08	31.14	24,912	23.24	18,592	3,752	25.3%	-25.4%	-22.1%	4.60%
Diageo	DEO	Dec-07	86.43	27,658	57.25	18,320	163	0.9%	-33.8%	-23.7%	4.53%
Covanta	CVA	Jan-07	21.93	21,820	16.96	16,875	(4,975)	-22.8%	-22.6%	-9.8%	4.18%
Monsanto	MON	Nov-08	84.77	18,226	74.34	15,983	858	5.7%	-12.3%	-18.7%	3.96%
Hemisphere GPS	HEMGF	Apr-09	0.89	9,015	0.92	9,361	9,361	3.8%	3.8%	20.1%	2.32%
Yum! Brands	YUM	Feb-09	28.81	7,203	33.34	8,335	1,133	15.7%	15.7%	49.3%	2.06%
<b>Realized Gain (Loss) YTD</b>							<b>7,540</b>				
<b>Long Portfolio</b>						<b>238,645</b>	<b>32,602</b>	<b>15.8%</b>	<b>59.07%</b>		
Simon Property Group	SPG	Oct-08	62.93	8,118	51.43	6,634	219	-3.2%	18.3%	24.8%	1.64%
Pep Boys	PBY	Jun-09	9.87	6,169	10.14	6,338	(169)	-2.7%	-2.7%	-72.9%	1.57%
Corinthian Colleges Inc	COCO	Jan-09	17.46	5,413	16.93	5,248	164	3.0%	3.0%	6.9%	1.30%
Herbalife	HLF	Apr-09	17.45	1,745	31.54	3,154	(1,409)	-80.7%	-80.7%	-1495.7%	0.78%
<b>Realized Gain (Loss) YTD</b>							<b>(2,277)</b>				
<b>Short Portfolio</b>						<b>21,374</b>	<b>(1,194)</b>	<b>-5.3%</b>	<b>5.29%</b>		

**YTD Performance**



Long Portfolio	\$ 238,645	59.1%									
Short Portfolio	\$ 21,374	5.3%									
<b>Equity Exposure</b>	<b>\$ 217,271</b>	<b>53.8%</b>									
<b>Cash Value (net)</b>	<b>\$ 186,720</b>	<b>46.2%</b>									
<b>Total Portfolio Value</b>	<b>\$ 403,991</b>	<b>100.0%</b>									
			<b>MII</b>								
			<b>S&amp;P 500</b>								
			<b>Spread</b>								
				<b>YTD</b>	<b>2008</b>	<b>5 Year</b>		<b>10 Year</b>		<b>Since Inception - 1995</b>	
						<b>Annualized</b>	<b>Cumulative</b>	<b>Annualized</b>	<b>Cumulative</b>	<b>Annualized</b>	<b>Cumulative</b>
				<b>7.9%</b>	<b>-31.5%</b>	<b>4.7%</b>	<b>28.5%</b>	<b>-2.3%</b>	<b>-21.4%</b>	<b>8.1%</b>	<b>208%</b>
				<b>3.2%</b>	<b>-37.0%</b>	<b>-3.3%</b>	<b>-16.7%</b>	<b>-2.8%</b>	<b>-25.8%</b>	<b>6.8%</b>	<b>160%</b>
				<b>4.7%</b>	<b>5.5%</b>	<b>7.9%</b>	<b>45.2%</b>	<b>0.5%</b>	<b>4.4%</b>	<b>1.2%</b>	<b>48%</b>

**SUMMARY OF 2009 TRANSACTIONS THROUGH JUNE 30, 2009**

**Long Fund**

Date	Order Type	Company	Price	Shares	Gain/Loss
Jan-23	Close Position	ExxonMobil	77.80	295	10,263
Jan-23	Close Position	Nike	45.25	480	706
Jan-23	Close Position	Express Scripts	53.65	370	13,771
Jan-23	Initiate Position at 2%	Textron	12.20	600	-
Jan-27	Close Position	Johnson Controls	13.18	900	423
Feb-05	Close Position	John Deere & Co	39.71	570	(11,953)
Feb-17	Initiate Position at 2%	Google	341.00	25	-
Feb-25	Close Position	Textron	5.90	600	(3,780)
Mar-23	Initiate Position at 0.5%	Hemisphere GPS	0.77	2275	-
Apr-07	Initiate Position at 2%	Yum! Brands	28.75	250	-
Apr-16	Scale-up to 5%	Google	384.54	25	-
Apr-27	Initiate Position at 5%	Princeton Review	3.97	4740	-
Jun-15	Trim to 5%	American Express	25.44	205	(1,890)
Jun-23	Scale-up to 2.5%	Hemisphere GPS	0.92	7900	-

*Net Realized Long* 7,540

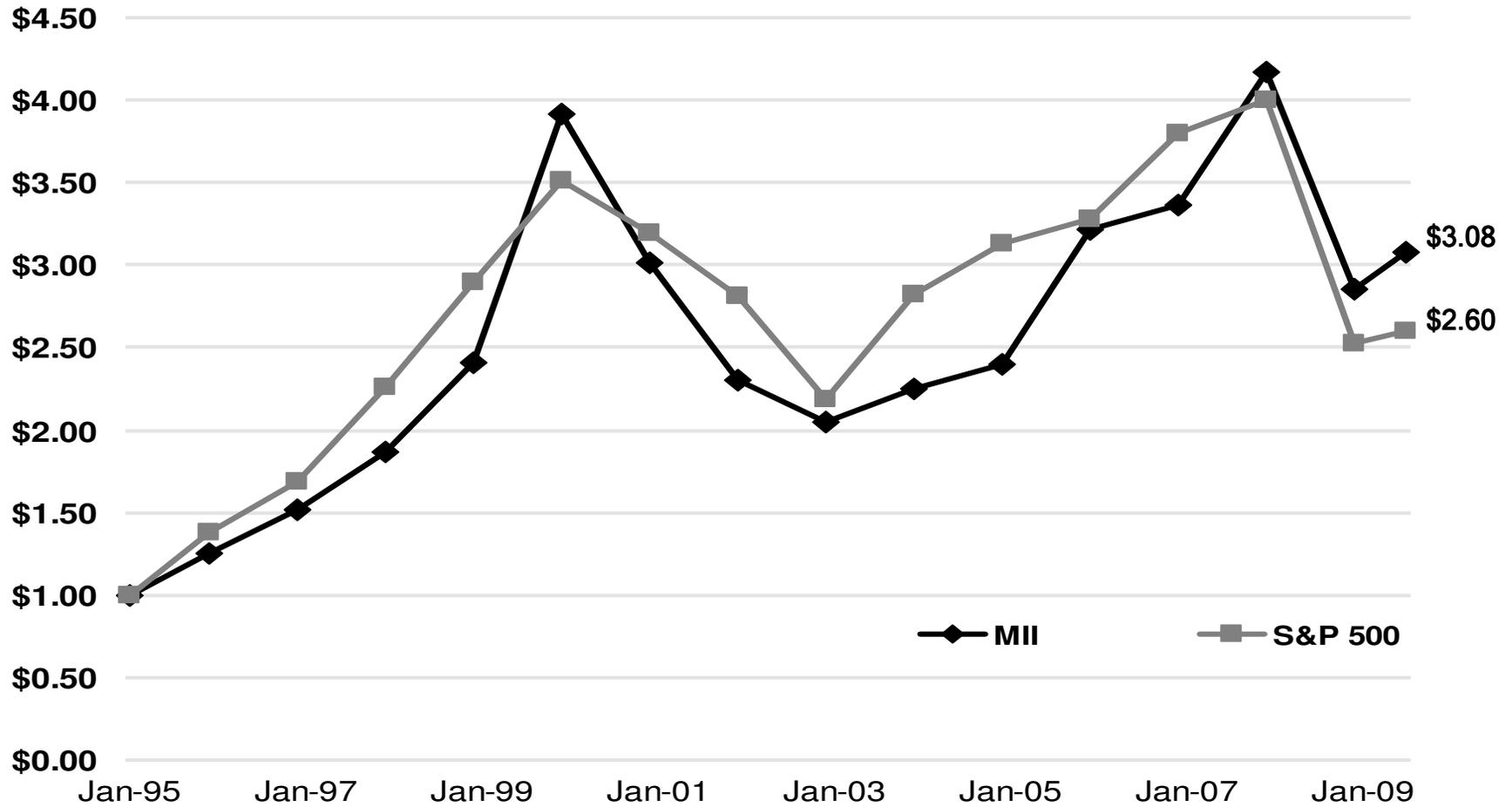
**Short Fund**

Date	Order Type	Company	Price	Shares	Gain/Loss
Jan-23	Initiate Position at 1%	Herbalife	20.10	180	-
Jan-23	Initiate Position at 1%	Corinthian Colleges	18.40	200	-
Apr-13	Scale-up to 1.5%	Herbalife	17.55	140	-
Apr-13	Scale-up to 1.5%	Corinthian Colleges	16.00	110	-
Jun-12	Initiate Position at 1.5%	Pep Boys	9.89	625	-
Jun-16	Trim to 0.7%	Herbalife	29.33	220	(2,277)

*Net Realized Short* (2,277)

**Total Net Realized Gain** 5,263

**VALUE OF \$1 INVESTED AT INCEPTION: MII VS. S&P 500\***



\*S&P 500 Total Return data (includes dividends), Source: Standard & Poor's Index Services

	2009 YTD	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
<b>MII</b>	<b>7.9%</b>	<b>-31.5%</b>	<b>24.0%</b>	<b>4.6%</b>	<b>34.2%</b>	<b>6.8%</b>	<b>9.4%</b>	<b>-10.7%</b>	<b>-23.7%</b>	<b>-23.2%</b>	<b>62.7%</b>	<b>29.0%</b>	<b>23.0%</b>	<b>21.0%</b>	<b>25.5%</b>
<b>S&amp;P 500*</b>	<b>3.2%</b>	<b>-37.0%</b>	<b>5.5%</b>	<b>15.8%</b>	<b>4.9%</b>	<b>10.9%</b>	<b>28.7%</b>	<b>-22.1%</b>	<b>-11.9%</b>	<b>-9.1%</b>	<b>21.0%</b>	<b>28.6%</b>	<b>33.4%</b>	<b>23.0%</b>	<b>37.6%</b>
<b>Spread</b>	<b>4.7%</b>	<b>5.5%</b>	<b>18.5%</b>	<b>-11.2%</b>	<b>29.2%</b>	<b>-4.1%</b>	<b>-19.3%</b>	<b>11.4%</b>	<b>-11.8%</b>	<b>-14.1%</b>	<b>41.6%</b>	<b>0.4%</b>	<b>-10.4%</b>	<b>-1.9%</b>	<b>-12.1%</b>

## LONG POSITIONS

### *Princeton Review (NASDAQ: REVU)*



Princeton Review is among the top names in test-prep services and admissions guidance. According to a 2007 regulatory filing, “the company and its franchises provided test preparation courses and tutoring services for the SAT, GMAT, MCAT, LSAT, GRE, and other standardized admission tests to more than 129,000 students in over 1,500 locations throughout the United States and abroad.” The company currently controls 23% of the SAT test prep market. Only Kaplan is bigger. Yet, in a demonstration of Princeton Review’s brand strength, one of Kaplan’s biggest complaints is that the two companies are often mentioned together even though Kaplan is a much larger company with about \$2 billion in revenue compared to Princeton Review’s \$140 million.

The company’s test prep philosophy also serves to differentiate its products and build the brand. Princeton Review insists that the SAT measures nothing but a student’s ability to take it. Thus students can learn to take the test using strategies taught by Princeton Review. For instance, instructors urge students to eliminate wrong answers and take advantage of order of difficulty through the Joe Bloggs approach. That is, instructors advise students to pick the answer that seems right on easy questions and eliminate the answer that seems right on hard questions. For the vocabulary portion Princeton Review performed a statistical analysis of past tests and honed a list of only 200 words to drill students on. By contrast, Kaplan drilled on 6,000 vocabulary words. These techniques bode well with students looking to improve their scores over the Kaplan approach that involved re-teaching the curriculum. For Princeton Review, its prep course raises each students’ SAT score, on average, by 200 points out of 2400 possible.

The company has accumulated \$67 million in losses since its June 2001 IPO despite favorable test prep market trends and consistent growth in revenue to the tune of over \$140 million in 2006. The problem at Princeton Review has not been operations, but executive mismanagement. In 2008, for example, selling, general, and administrative (SG&A) expenses topped \$90 million -- or 65% of revenues. But most importantly, this sort of mismanagement is relatively easy to fix given the company’s rising revenue, strong brand name, sound business model, and a rapidly growing market. That’s the primary reason why Bain Capital Ventures recently invested \$40 million in the company and another private equity outfit, Prides Capital, followed suit with an additional \$20 million. It is no coincidence that at the same time founder John Katzman stepped down as CEO and handed the reigns over to Michael Perik. Perik comes to Princeton Review following stints as chairman of Houghton Mifflin’s Assessment Group (where he was also a board member), CEO of The Learning Company, and CEO of Achievement Technologies. In other words, he brings both industry and leadership experience to the table and was essentially handpicked by Bain Capital to turn the company around.

MII believes the firm is a long and poised for a turnaround from years of mismanagement due to several reasons, including: new management, strong brand name, effective products, international potential, and a highly favorable test preparation market. We expect the company to generate more than \$30 million in free cash flow once the new management allocates SG&A dollars more efficiently. When it does, we expect the market to reevaluate Princeton Review.

**FEMSA (NYSE: FMX)**

Fomento Economico Mexicano SAB (FEMSA) is a Latin American beverage company that bottles Coca-Cola brand soft drinks, produces and distributes 30 alcoholic beverage brands, and operates Oxxo convenience stores. Coca-Cola FEMSA, which is partially owned by the Coca-Cola Company, offers 99 juice and soft drink brands including Sprite, Fanta, and Ciel. FEMSA Cerveza sells beer brands such as Tecate, Sol, and Dos Equis. The Oxxo convenience store chain constitutes the largest and fastest growing retail network in Latin America, with over 6,300 stores in Mexico. FMX's operating income in 2008 was \$2.036 billion on revenue of \$15.081 billion.

MII initiated a position in FEMSA because of the firm's strong brand portfolio, market position, distribution network, and exposure to the U.S. beer market. Many of the firm's beverages enjoy considerable brand equity among consumers, with number one soft drinks in nine countries. Indeed, Coca-Cola's brand is widely considered one of the most valuable in the world. With over 2 million points of sale in Latin America, FEMSA's products are widely distributed throughout its main operating region—often through its own Oxxo locations. Its convenience store locations only sell FEMSA brands, which should expand its share of the beer market as more convenience stores are opened. Young demographics also support the company as 40% of the population in Latin American Nations is under the age of 20.

**BlackRock (NYSE: BLK)**

BlackRock is one of the largest and most innovative investment management firms in the United States. Although at the time many investors were focusing on BlackRock's premier role in managing fixed income assets, in 2003 the MII saw BlackRock as a long for reasons beyond its role in the fixed income field, including: BlackRock Solutions as a competitive edge, growth opportunities in the equity markets, growth opportunities in the private client market, further revenue from existing clients in the company's core of fixed income, top management's dedication to ensuring the stability of the company's franchise, and the company's dynamic and youthful culture (a key edge versus stodgy old-line firms).

Today many investors are concerned about BlackRock's composition and growth of its assets under management (AUM). Despite a drop in AUM since 2008, Blackrock has three hidden growth platforms that are underestimated by the market. The first is Blackrock Solutions, its risk advisory arm that is at the head of the financial crisis and has grown over 200% annually since 2004. Our research indicates that BlackRock Solutions has high barriers to entry and high switching costs for customers, which will work to retain current clients while expanding the base. The second platform is BlackRock's growing presence in Asia Pacific, as the region has come to see the firm as a problem fixer. Finally, 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.

**Google (NASDAQ: GOOG)**

Google is a global technology company that maintains the largest, most comprehensive index of web sites and other online content. Google has been expanding its efforts beyond the online search category.

These initiatives are intended to broaden Google's advertising reach and to attract user activity and registrations. These offerings are freely available to anyone with an internet connection. Google generates revenue primarily by delivering relevant, cost-effective online advertising.

We believe Google is a sound long-term investment for the following reasons: advantages of targeted online advertising, user-focused design philosophy, superior technology, large cash position, human capital, focus on open-source development, growth of cloud computing, and development of the white space spectrum (700MHz). Google's user-focused design philosophy is the foundation of its success and underpins its vast array of technology solutions. Other internet content providers have repeatedly missed the insight of providing fast access and a clear interface. The company is committed to this philosophy with a User Experience team focused solely on testing new products for adherence to core design principles. Google's spending on research and development 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.

We also see a number of trends in the computer technology space benefiting Google. First, Google's unwavering commitment to open-source development stands to separate it from other software and internet providers. Open-source software is software for which the human-readable source code is made available. This permits users to use, change, and improve the software, and to redistribute it in modified or unmodified form. Google's new browser, Chrome, as well as its mobile platform, Android, are both open-source. Second, Google stands to benefit from the rise of cloud computing as the leader in free web applications and data storage centers. Cloud computing is the notion that all you need is a computer with an Internet connection to realize the functionality of a PC. These web applications do not store content on your computer, but rather on a data-center in the "cloud." Our research indicates that cloud computing is the future of computer technology and a natural byproduct of the thousands of miles of fiber-optic cable laid in the late 1990s. Finally, Google stands to benefit as the white space is developed and more devices connect to high-speed wireless Internet. American television stations recently stopped broadcasting in the analog spectrum (700 MHz) and now broadcast only in digital. The analog spectrum that was used by television stations became "white space" (or unused space). Google, along with other technology companies, lobbied aggressively to put the white space to use. To their credit, the Federal Communications Commission (FCC) recently voted 5-0 in favor of developing the unlicensed use of the white-space spectrum. As FCC Chairman Kevin Martin explained, "Opening the white spaces will allow for the creation of a Wi-Fi on steroids. It has the potential to improve wireless broadband connectivity and inspire an ever-widening array of new Internet based products and services for consumers." Google is poised for long-term growth as a result of this trend, its capacity for innovation, and its strong industry position.

***Ansys (NASDAQ: ANSS)***



Ansys develops and globally markets engineering simulation software and services used by engineers and designers across a range of industries, including aerospace, automotive, manufacturing, electronics, biomedical, energy and defense. The Company focuses on the development of open and flexible solutions that enable users to analyze designs directly on the desktop, providing a common platform for product development, from design concept to final-stage testing and validation.

There are three main reasons behind MII's decision to take a long position in Ansys. First, Ansys faces tremendous growth opportunities both in the US and international markets as more companies are adopting the simulation technology to develop and test their products. The rising focus on research in countries like India and China will also grow demand for simulation software. Second, Ansys software is more powerful and user friendly than competition in the market. Many engineers describe Ansys software as an "inexpensive interface" to run simulation tests that produce powerful results during product development process. Ansys software is also used in universities where professors describe it as a "well customized and user-friendly interface" that helps students design and solve complex research problems.

Third, Ansys stands to benefit from new reforms in the US biomedical and energy sectors. Ansys has a competitive advantage in producing power and biomedical simulation software. Its simulation software products have already been adopted by many alternative energy and biomedical companies for research purposes. These contracts with leading US and European energy and biomedical companies will boost revenue growth as the path for new reforms is cleared.

### ***Coach (NYSE: COH)***



Coach is a designer and marketer of luxury lifestyle accessories for women and men in the United States and internationally (primarily Japan). Coach's product offerings include handbags, women's and men's accessories footwear, outerwear, business, sunwear, watches, travel bags, jewelry and fragrance. It operates in two business segments: Direct-to-Consumer and Indirect.

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 with plans to enter China in the near future. Management has been able to translate its sales growth into earnings while expanding its highest margin product lines and increasing operational efficiency. Meanwhile, the market has created an attractive buying opportunity due to concerns over consumer spending. In May 2008, MII entered a long position believing we bought into a strong, growing brand at an attractive price.

Coach has continued to perform well in the current tough market due to its strong brand equity. The company fills a void between moderate brands and designer labels. Coach's brand positioning and product offering give it a wide economic moat and are reasons it is holding up in a weak retail environment. Coach has been an amazing growth story. Despite the downturn in retail, it has achieved average annual growth of 20% during the last five years, largely due to new domestic stores and expansion into the Japanese market. Strong sales at older stores have also contributed to Coach's phenomenal growth. At the same time, operating profits have grown even faster, increasing by about 30% on average annually. It has been driven by growth in high margin product lines and better sourcing. With little debt and the ability to turn sales into free cash flow, Coach is in an excellent position to fund continued growth. Coach has also benefited from the doubling of the women's handbag business 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 in 2001. During that period, Coach has extended its market share from 17% to 25%

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. Given the popularity of the brand and Coach's buyout of its Japanese partner's stake in Coach Japan, expansion into new Japanese markets should fuel growth. Japan plays an important role in this market since the

Japanese consumer makes up about 40% of the global luxury handbag market. Coach currently has 8% of the Japanese market and aim to increase its share to 15% over the next five years.

***Intuitive Surgical Robots (NASDAQ: ISRG)***



Intuitive Surgical, Inc. designs, manufactures, and sells minimally invasive surgical machines. Their innovative products have heralded a fundamental revolution in the way surgery is performed. Founded in 1995, the firm has experienced rapid growth in recent years as the clinical success of its *da Vinci* Surgical System became widely known. By providing detailed 3D images of the surgical space to a physician seated at the machine's console, the *da Vinci* Surgical System allows for highly precise incisions that lead to faster and less costly patient recoveries.

When the McIntire Investment Institute initiated a long position in ISRG in 2004 at \$26.26 per share, the three thesis points undergirding the decision were the opportunity for greater market penetration among medical professionals, the potential for further patient demand as news of the benefits of this surgical approach spread, and the fact that a major medical device company could acquire the firm. MII's management believes the firm remains a solid investment going forward. MII realizes that the easy gains on Intuitive are behind us, but we still think the company holds promise for two reasons.

First, the company is making a major push into the hysterectomy market. MII believes that the promise of the daVinci system will translate to the hysterectomy market as well. Given the size of the hysterectomy market, this would be a meaningful increase in revenues for Intuitive Surgical. Second, the company will still generate steady revenue from its existing products and existing target markets. With only 1,171 of the systems sold, the company has not penetrated the 2<sup>nd</sup> tier hospital network in the US or the hospital market abroad in a significant fashion yet. While this will be in a more piecemeal fashion, there is still healthy growth in this area. Also, the company has recurring revenue from its existing machines. The company generates significant revenue from daVinci surgical instruments and yearly service agreements with member hospitals. This is guaranteed revenue for the company and will increase with higher usage as well.

***American Express (NYSE: AXP)***



American Express is a leader in global payments, network, and travel industries. The card business accounts for 85% of American Express' total revenue. Many investors look to American Express's recent bad quarter and exposure to consumer credit as reasons the stock will decline. Although Amex will face difficulties in a recessionary environment, MII believes it has a unique spend-centric and closed loop business model with outstanding growth potential. The closed-loop model gives the company a competitive advantage in terms of customer satisfaction that Visa and MasterCard cannot easily overcome. The chief Amex cardholder complaint is its acceptance rate. Only 17% of American Express cardholders say their card is accepted everywhere they want to use it. Comparatively, 89% of Visa's and 87% of MasterCard's customers say their card is accepted everywhere they want to use it. We see this as a source of growth for American Express as merchants join its network to capture revenues from American Express's high spending cardholders. We see a strong expansion in the company's 11% global market share as more merchants join its network.

We also see broader global growth in credit card usage that American Express stands to benefit from. 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 American Express 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. We also find that investors have overestimated the credit exposure of American Express. Indeed, 85% 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% 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 banking firm has seen credit quality deteriorate. It also means the nature of the economic difficulties facing Amex customers are of a different flavor than the ones facing other lenders as its average cardholder spends five times more than the average Visa or MasterCard cardholder. Since the market has underestimated its growth potential and mispriced its consumer credit exposure, we are enthusiastic about our position going forward.

***Diageo (NYSE: DEO)***



Diageo is the world's leading premium drinks business with an outstanding portfolio of lucrative brands across the alcoholic beverage spectrum. These brands include Smirnoff, Johnny Walker, Cuervo, Baileys, and Guinness. Diageo's geographical diversity (its revenues are distributed 36% in North America, 28% in Europe, 9% in Asia Pacific, and 27% elsewhere) offers its investors exposure to a healthy mixture of developed and emerging economies.

MII has held a long position in DEO since 2007 for three primary reasons. First, it has successfully grown both organically and inorganically over the past few years, particularly in emerging economies like India and China. Second, DEO has employed an aggressive mobile marketing plan. According to an MII analyst survey, this investment in advertising has made DEO drinks among the most ordered on the Corner in Charlottesville. Finally, DEO has acquired and developed well known and high grossing brands. The world's number one selling vodka, scotch whisky, liqueur, tequila, and stout all belong to DEO.

Despite these thesis points, DEO has been one of MII's worst performing investments. As of June 30, 2009, the stock has dropped about 31% since our acquisition date. Going forward, MII is looking for DEO to gain market share as its competitors flounder in a tough alcoholic beverage market.

***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 a net greenhouse gas reduction.

VAR contacts at the Environmental Protection Agency confirmed that Covanta is the industry leader in Energy-from-Waste solutions. These sources noted that Energy-from-Waste capacity could double as municipalities try to reduce landfill use. Although they do not believe Covanta will qualify to sell carbon credits under recent cap-and-trade legislation, EPA policymakers noted that its process is favorably viewed by most environmentalists and 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 Covanta investment.

### ***Monsanto (NYSE: MON)***



Monsanto is a leading global provider of agricultural products for farmers. Their seeds, biotechnology trait products, and herbicides provide farmers with solutions that improve productivity, reduce the costs of farming, and produce better foods for consumers and better feed for animals. Their seeds not only increase crop yields, but also allow crops to protect themselves from insects, herbicides, and even tolerate drought. These innovative products have propelled Monsanto towards increasing revenue growth and profit margins over the last three years.

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 increases in wealth. 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.

Monsanto’s aggressive management has also been able to successfully expand and strengthen their business through the strategic acquisitions of industry leaders, all while maintaining a strong balance sheet. The free cash flows they generate provide Monsanto with the flexibility necessary to strategically navigate the road ahead.

### ***Hemisphere GPS (PINK: HEMGF)***



Hemisphere GPS is primarily engaged in the design, manufacture and marketing of advanced wireless and precision Global Positioning System (GPS) products and technologies for ground agriculture. This technology helps farmers to practice precision farming. Precision farming provides farmers with predictability tools that make farming more scientific. This provides productivity gains and cost savings by using accurate amounts of fertilizer and predicting the right time for spraying pesticides and water. Precision Farming also focuses on sound crop production, applying geo-technology to effectively understand and manage the dynamic flows and cycles within a landscape perspective.

MII believes that there are three main fundamental reasons for purchasing HEMGF. First, rapid growth in the adoption of precision farming technology among farmers in the US indicates high growth potential for this business. Precision farming has redefined modern agriculture by providing high cost savings to

farmers. Since the moderately priced precision farming products offered by HEMGF translate to cost savings and higher margins for farmers, we expect to see continued rapid growth regardless of overall agriculture sector performance.

Secondly, HEMGF has witnessed high growth in international markets like Europe. Countries like the Netherlands provide farm subsidies to farmers practicing precision agriculture and more European countries are following this lead. HEMGF's aggressive marketing efforts in these countries will ensure growth and high market presence in European countries for HEMGF.

Thirdly, Hemisphere GPS is a turnaround of CSI Wireless, which focused on developing wireless technology and GPS technologies for military, farming and retail purposes. Shareholders realized that focusing only on GPS products would provide a competitive advantage to the company and hence it transformed itself into Hemisphere GPS. MII believes that this move will give a significant competitive advantage to Hemisphere GPS, which has now become a wholly dedicated GPS company for precision agriculture products.

### ***Yum! Brands (NYSE: YUM)***



Yum! Brands, Inc. was incorporated in 1997 and is a quick service restaurant (QSR) 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, 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. Yum's business consists of three segments: United States, Yum! Restaurants International (YRI) and the China Division. The China Division includes mainland China, Thailand and KFC Taiwan, and YRI includes the remainder of its international operations.

The Company has approximately 20,000 system restaurants in the United States. The International Division, based in Dallas, Texas, comprises more than 13,000 system restaurants, primarily KFCs and Pizza Huts. The China Division, based in Shanghai, China, comprises approximately 3,600 system restaurants, predominately KFCs.

Yum! revenue has largely been driven by the strong growth in non-U.S. geographic regions. Specifically, the China and YRI Divisions make up more than 60% of the company's total operating margin. Recognizing the 1.3 billion Chinese population and growing middle class, Yum! successfully entered the China market through powerful branding and ingenious localizing. For example, Pizza Hut has been marketed as a high-end restaurant chain and has become synonymous with pizza itself in China. Additionally, Yum! has integrated traditional Chinese flavor and cuisines in its recipes to appeal to the local population. We believe that Yum! will be able to replicate its strategic penetration in China to other parts of the world.

Our second thesis is that the Yum! leadership has a strong track record of superior management. Our VAR shows that senior managers visit the company's restaurants periodically to ensure product quality and mentor staffers. Last, Yum's cash generating capability has helped and will continue to help the firm weather the financial storm. For the past several years, Yum's restaurants have brought in over \$1 billion annually. Consequently, Yum does not need to access the credit market to finance its expansion plans.

## SHORT POSITIONS

### *Simon Property Group (NYSE: SPG)*



Simon Property Group, the largest U.S. Real Estate Investment Trust (REIT), owns 261 million square feet of gross leasable area including 333 properties in the United States and 50 overseas (mostly in Italy and Japan). The company focuses exclusively on malls, both regional and outlet. Its business model is quite simple: build or acquire large retail malls and rent the space out to tenants. Simon operates from five retail real estate platforms: regional malls, Premium Outlet Centers, The Mills, community/lifestyle centers and international properties. At June 30, 2008, Simon owned or had an interest in 383 properties comprising 261 million square feet of gross leasable area in North America, Europe and Asia. In order to receive preferable tax treatment, Simon and all other REITs must distribute at least 90% of taxable net income in the form of dividends each year, allocate at least 75% of total assets to real estate, and reap at least 75% of gross income from rents.

The first thesis point for shorting this stock in the fall of 2008 was based on our dim outlook for the U.S. retail sector. While the retail sector had held up despite the financial crisis in most of 2008, sales figures from retail stores nationwide were starting to decelerate. VAR revealed that most of SPG's tenants were losing sales at Fashion Square Mall. Second, not only is SPG's portfolio limited to retail, but it is comprised exclusively of malls, most of which are in the states that have been hit the hardest by the crisis, such as Florida, Texas, California, New York, and Massachusetts. If homeowners continue to lose confidence, the retail in those states with the biggest housing problems will continue to face the greatest downturn. Third, we believe that SPG has a history of bad debt management. The annual interest expense as a percentage of total expense has gone up from 40% in 2005 and 2006, to 43% in 2007, to 70% for the second quarter of 2008. SPG's debt schedule indicates that a significant portion of the company's debt is due within the next couple of years. Last, SPG's stock had fared a lot better than its competitors and the industry index throughout 2007 and 2008. Most of the analysts who cover this company provided "buy" recommendations. They pointed to the historical revenue growth, expanding profit margins, and good cash flows. Again, we advocate a more forward-looking investment approach, and do not believe that SPG will be able to deliver the same kind of ROE and income growth given the ongoing economic condition.

We believe the commercial real estate market still has more problems to clear up. This spring's rally has pushed the stock back up over \$50, yet, based on our research, we believe commercial real estate faces significant problems going forward.

### *Pep Boys (NYSE: PBY)*



Pep Boys has two lines of business: automotive parts retail (81.4% of revenue) and automotive service (18.6% of revenue). More specifically, the stores sell everything from tires to headlights to batteries, while the garages perform a full range of automotive repair and maintenance (except body work) and install tires, hard parts, and accessories. It operates 562 stores with 5,845 service bays in 35 states. With a motto of "Does everything. For Less," Pep Boys provides its goods and services at relatively low prices and with relatively low quality.

On June 12, 2009, MII initiated a 1.5% short position on The Pep Boys—Manny, Moe, and Jack, due to the company's poor leadership, business model, and market position. In recent years, the management team has aggressively pursued an array of unfocused and gimmicky endeavors, compensated itself handsomely, and quit (there have been four CEOs in the last seven years), despite net losses. Since Pep Boys offers both automotive parts retail and service, other service shops are inclined to buy their parts from non-competitors, such as AutoZone or Advance Auto Parts. And as the company transitions to a performance-based compensation program, there is much potential for cannibalization between the two lines. Finally, several industry trends, including the rising cost of Automotive Service Excellence (ASE) certified mechanics and high relative cost of replacement parts versus new vehicles, will have adverse effects on PBV's bottom line. We look for the small loss on the position to turn into a gain as the company continues to lose money and cut dividends.

***Corinthian Colleges Inc (NASDAQ: COCO)***



Corinthian Colleges is a private post-secondary education company with schools in the United States and Canada. Current MII managers voted to short Corinthian because of its poor management and weak financial position. Rigorous VAR revealed that past and current students believe that Corinthian exaggerates its graduate placement rates and starting salaries. Indeed, quality is so bad that at least one former student sued the school for misleading prospective students. In 2007, Corinthian paid \$6.5 million to avoid a lawsuit from the California Attorney General concerning its placement rates. Corinthian also has an annual faculty and staff turnover rate approaching 50%. Current and former teachers confirmed that year-long courses often have several instructors due to high turnover.

Despite its poor track record, Corinthian lists goodwill as its second largest asset. Most concerning, it has achieved strong year-over-year enrollment growth by assuming the credit risk of subprime students who were denied federal loans. Due to its exposure to risky borrowers and poor management, MII believes Corinthian is a compelling short position.

***Herbalife (NYSE:HLF)***



Herbalife markets nutritional shakes, dietary pills, and creams through a network of individual distributors. The current management voted to short Herbalife because its marketing strategy is misleading, its business model is not sustainable, and expectations surrounding international expansion are too high. VAR with medical doctors and a biology professor revealed that Herbalife vitamins employ the same active ingredients as generic over-the-counter supplements. However, a month's quantity of Herbalife pills sells at a 788% premium to substantively identical competitors.

Herbalife's has approximately a 60% annual turnover rate for entry-level distributors. It employs a pyramid scheme business model that incentivizes distributors to recruit lower-level distributors. Although this system may benefit from the high unemployment rate, we do not believe new distributors will provide sustained revenue due to the high turnover rate and increasing likelihood of market saturation. Likewise, managers believe Herbalife's expansion into China will disappoint investors due to lower margins and China's prohibition of multi-level marketing.

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