



INSTITUTIONAL MODEL PORTFOLIO

Portfolio Description *(Inception date: 1/1/2001)*

INVESTMENT OBJECTIVE

The Institutional Model Portfolio is designed for investors seeking capital gains and modest dividend income and willing to tolerate some risk. Holdings are focused in what we believe are world-class companies with what we believe are the following characteristics:

- Leading competitive positions within their industries;
- Global footprints;
- Strong financials;
- Diversified product portfolios; and
- An aggressive research & development effort fostering innovation.

PORTFOLIO COMPOSITION

Individual Asset Weight. The portfolio will hold approximately 50 issues. No single issue is meant to represent more than 5% of the portfolio. In instances where a single issue experiences accelerated appreciation, however, single-stock holdings can grow beyond 5%. At that point, historically they have been pruned rather than sold.

Sector Weight. Because Argus is a proponent of diversification, the portfolio seeks to select what we believe are the best companies in a wide swath of industries. In general, the portfolio will seek to benchmark sector weights relative to the S&P 500, and strive to keep portfolio weights within 200-300 basis points of the respective sector weight. Sectors we may overweight include technology, healthcare, financial services and consumer discretionary. Sectors we may underweight include utilities and basic materials. Sector weightings are adjusted based on both relative opportunity and relative risk as market and economic conditions – and our assumptions about future conditions – change.

CONSTRAINTS

Income. Given what we believe are the leadership qualities of the underlying companies, portfolio holdings tend to trade at P/Es exceeding their respective industry averages. Accordingly, dividend income is low for most holdings. We anticipate that the dividend yield will be equal to or below the yield on the S&P 500.

Liquidity. Argus' Universe of Coverage includes the large-cap leaders among more than 80 different industries. As the portfolio will be selected from that Universe, the stocks in the portfolio will generally be large-caps. These stocks historically offer a high degree of liquidity.

Time Horizon. Quality equities in the portfolio are intended for a long-term, buy-and-hold strategy. Argus will generally buy issues seeking value capture and sell them when certain gains have been realized and when we believe further outperformance is unlikely. Average annual turnover in the portfolio is anticipated to be in the range of 25%-35% over a market cycle. This may mean that turnover is above this range one year and below it the next year.

Taxes. The Institutional Model Portfolio seeks to minimize capital gains taxes and in particular to minimize short-term trades that expose investors to taxes on gains at their marginal tax rates. Tax considerations, however, are secondary to overall return objectives.

Legal & Regulatory. As a portfolio designed to guide individual investment decisions, the Institutional Model Portfolio is not subject to the specific legal or regulatory constraints that attach to common trust funds and mutual funds.

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OBJECTIVES

Return. The Institutional Model Portfolio seeks a weighted return that, over time, is in excess of the returns posted by the S&P 500. Accordingly, in a market cycle characterized by earnings growth, the weighted portfolio earnings growth rate may be in a range of 15%-20%. In times of market instability, Argus may seek to safeguard against excessive value loss, and focus on slower-growing, more stable companies.

Risk. Argus regards weighted portfolio beta as the appropriate risk metric in the Institutional Model Portfolio. Because of their long history as long-term “core holdings,” most of the equities in the portfolio are heavily represented in mutual funds, retirement accounts and institutional holdings. Accordingly, many of these issues have individual betas that are lower than the averages for their respective industries, resulting in a weighted beta that is close to the S&P 500 beta of 1.00. Despite the low beta, the “nifty fifty” characteristics of these issues result in their being accorded P/E multiples on forward earnings that are typically above the market average. As a consequence, Argus will attempt to outperform the market based on sector allocation, in addition to value recapture and a focus on earnings growth.

CONCLUSION

The Institutional Model Portfolio is generally designed for investors with a predilection for quality and a willingness to face broad-market risk (rather than sector-specific risk) in pursuit of superior returns with low volatility relative to the S&P 500.

Methodology & Disclaimer

ABOUT ARGUS

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

The hypothetical model portfolios may include stocks rated either BUY or HOLD. Generally, the model portfolio management team favors BUY-rated stocks for inclusion. However, in order to achieve objectives such as suitable industry diversification, or low turnover, HOLD-rated stocks may be included in the models.

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