AGENDA

★ Introduction and Wright Fund Overview
  • Jimmy Moffett, Chief Operating Officer

★ Macroeconomic Report and Outlook
  • Brian Walker, Chief Economist

★ Fund Performance and Strategy
  • Erin Holmes, Chief Investment Officer

★ Analyst Group Spotlight: Financials
  • David Pantoja, Senior Analyst

★ Stock Position Spotlight: US Bank
  • Matt Scholin, Senior Analyst
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M.A. WRIGHT FUND

Endowment
- Gift of M.A. Wright Estate
- Currently $916,000 AUM

Objective
- Superior risk-adjusted returns
- Manage fund as a portfolio

Scholarship
- Two $5000 WF member scholarships
- CFA exam scholarship
FUND STRUCTURE

★ Council of Overseers
  • Composed of investment professionals and advisors and Dean Glick
★ Dr. Jill Foote
★ CIO, COO, CE
★ MGMT 644 – Senior Sector Analysts
★ MGMT 643 – Junior Analysts
Curriculum differentiated for 1st and 2nd semesters
- Stock analysis (1st semester)
- Sector / portfolio management (2nd semester)
PORTFOLIO MANAGEMENT

Economic Forecast (CE)

Sector Allocation (CIO)

Sector specific drivers, analysis, and forecast (AG)

Benchmark
90% S&P 500
10% Barclays Aggregate Bond Index

- Portfolio management process enhancement
- Senior analyst projects

Sector updates and performance against benchmark
STOCK SELECTION CYCLE

Senior analysts construct sector strategy

Senior analysts develop screeners

Junior analysts present recommendation to AGs

Officers and Analyst groups agree on buy/sell
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ECON REPORT ROADMAP

- Fall 2011 Recap
- Current Drivers
- Economic Outlook
- Market “Forecast”
- Summary Thoughts
MARKET DEJA VU?

(S&P gained ~ 1% through spring 2011)

Source: Bloomberg
CURRENT ISSUES

- Cautiously optimistic US indicators
- Euro Crisis simmers
- Chinese slowdown and monetary easing
- Iranian concerns
- Japanese economy recovers
Four economies dominate World GDP currently, though the growth potential of developing nations increases their importance.

Source: Bloomberg
MIXED FIGURES IN U.S.

- Labor market showing relative strength

- Consumer spending increased, but is income or debt providing the fuel?

- Rebirth of American manufacturing?

- Has housing hit rock bottom?
  - Apartment vacancies at decade-low levels
  - Is the homeowner society dead?
...SLOW JOBS IMPROVEMENT

Unemployment rate (%)

Average weekly hours worked (per week)

Source: Bloomberg

- U6 Unemployment
- Base Unemployment
- Average hours worked (per week)
HAS HOUSING FLATLINED?

- Privately-owned housing starts
- Case-Shiller Composite Index

NHSPSTOT Index level

Case-Shiller Index level (2000=base)
**Constraints:**

- High federal debt levels and continued consumer debt limit expansion capacity
- Monetary policy is at “zero-bound”
- Flat wages/personal income/home equity limit demand

**Way ahead:** Major corporations possess the capacity to hire...but will they in this uncertain climate?
EURO ZONE CONCERNS

- Downgrades
  - Significant? Yields for all but Portugal decreasing

- Fiscal (dis)unity?

- ECB measures
  - Draghi providing strong boost of needed liquidity to banks

- How will recession affect plans?
  - Where will demand growth emerge in austere environment?
ECB has begun to act aggressively under Draghi
Downgrades of sovereigns and stability fund may raise borrowing costs
Will austerity crush growth?
Can the spenders and saver agree on a closer fiscal relationship?
Euro up as confidence rises

Perennial countries leave

Germany and France lead move to fiscal union. Smaller euro survives. Remaining countries retain the euro as the currency of the smaller eurozone, without Germany

Smaller Euro rises sharply

Smaller Euro falls sharply

Euro ceases to exist leaving legal disputes over all Euro contracts

Germany/Neths abandon euro and form new currency/currencies

Agreements reached on rapid fiscal union. Fiscal targets met in periphery. ECB helps finance interim liquidity needs. EFSF expanded. Euro survives

Source: FT, Big Picture Blog
Already weak Eurozone demand looks to worsen with depreciating Euro and government austerity programs.

Source: Bloomberg
Recent moves to decrease reserve requirements combined with benign inflation point to monetary easing through 2012

GDP forecast to grow ~8% 2012 vs 9.2% 2011 and 10.4% 2010
IRANIAN SABER RATTLING

★ Last year Fukushima was the major exogenous shock...will Iran be this year’s?
★ Impact?
  • $50 rise in oil prices within a week
  • 85% of oil and natgas through the strait goes to China, India and other Asian countries
  • US well positioned with Strategic Reserve
★ Definitely a “tail-event”, but we've seen a lot of those lately
ECONOMIC “FORECAST”

Where Will the Economy Head?
POLITICAL PARALYSIS

- Presidential Campaign season
- Budget and tax battles loom with little chance of resolution
- Limited monetary options

Bottom line: Uncertain business climate will continue in absence of long-term policy
SUMMARY

- The problem is **lack of aggregate demand growth**
- Euro’s fate should be clearer by May
- US should slowly improve, but at a tepid rate
- **U.S. political paralysis** rules out any pro-growth programs
- **China is slightly slowing**, but monetary easing should provide boost
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2011 VOLATILITY

VIX (Weekly) vs. S&P 500

Source: Bloomberg
FALL SEMESTER

⭐ Volatility over the summer created headwinds going into the semester
  • Stops put in place before the summer executed
⭐ Fund re-balanced to market weight
⭐ High quality
⭐ Position Size
⭐ Semester performance ended -0.13% from the benchmark
2012 INVESTMENT OUTLOOK

★ Volatility is still expected going in to 2012

• European debt crisis
• Emerging market slowdown
• U.S. unemployment
• U.S. politics
• Banking regulation
• Interest rates
INVESTMENT THEMES

★ Quality stock picks
  • High yield
  • Healthy cash flow
  • Competitive advantage
  • Minimal exposure to Europe

★ Minimal cash

★ Significant position size

★ Minimal ETF exposure
TARGET ALLOCATION

- EQUITY: 89%
- FIXED INCOME: 8%
- CASH: 3%

RICE UNIVERSITY  M.A.WRIGHT FUND
## ASSET ALLOCATION

<table>
<thead>
<tr>
<th>Sector</th>
<th>S&amp;P’12</th>
<th>Fund’12</th>
<th>Delta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>11.04%</td>
<td>12.34%</td>
<td>1.30%</td>
</tr>
<tr>
<td>Materials</td>
<td>3.15%</td>
<td>4.70%</td>
<td>1.55%</td>
</tr>
<tr>
<td>Industrials</td>
<td>9.62%</td>
<td>8.07%</td>
<td>-1.55%</td>
</tr>
<tr>
<td>Consumer Disc</td>
<td>9.60%</td>
<td>6.00%</td>
<td>-3.60%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>10.38%</td>
<td>13.98%</td>
<td>3.60%</td>
</tr>
<tr>
<td>Heath Care</td>
<td>10.67%</td>
<td>10.67%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Financials</td>
<td>12.09%</td>
<td>12.09%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Information Tech</td>
<td>17.12%</td>
<td>17.12%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Telecom</td>
<td>2.85%</td>
<td>2.85%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Utilities</td>
<td>3.48%</td>
<td>2.18%</td>
<td>-1.30%</td>
</tr>
</tbody>
</table>
## PERFORMANCE YTD

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Wright Fund</th>
<th>Benchmark</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Disc</td>
<td>6.76%</td>
<td>8.44%</td>
<td>-1.67%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>0.81%</td>
<td>-0.05%</td>
<td>+0.85%</td>
</tr>
<tr>
<td>Energy</td>
<td>7.56%</td>
<td>4.26%</td>
<td>+3.30%</td>
</tr>
<tr>
<td>Financials</td>
<td>6.95%</td>
<td>11.85%</td>
<td>-4.90%</td>
</tr>
<tr>
<td>Health Care</td>
<td>6.39%</td>
<td>3.09%</td>
<td>+3.30%</td>
</tr>
<tr>
<td>Industrials</td>
<td>10.31%</td>
<td>8.98%</td>
<td>+1.34%</td>
</tr>
<tr>
<td>Information Tech</td>
<td>9.25%</td>
<td>11.79%</td>
<td>-2.54%</td>
</tr>
<tr>
<td>Materials</td>
<td>9.93%</td>
<td>10.76%</td>
<td>-0.84%</td>
</tr>
<tr>
<td>Telecom</td>
<td>4.42%</td>
<td>-2.76%</td>
<td>+7.17%</td>
</tr>
<tr>
<td>Utilities</td>
<td>-3.13%</td>
<td>-3.46%</td>
<td>+0.33%</td>
</tr>
<tr>
<td><strong>Performance Total</strong></td>
<td><strong>6.06%</strong></td>
<td><strong>6.34%</strong></td>
<td><strong>-0.28%</strong></td>
</tr>
</tbody>
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MACRO AND SECTOR DRIVERS

- Bank Lending Up
- Unemployment down
- Income & Confidence up
- Slow Growth
- Support from Indirect Indicators:
  - Junk Bond Spread below 6%
  - Stock Correlations reached historical high
  - VIX dropped

- Yield Curve flattening
- EU uncertainty
- Regulation – may create opportunities
- Slow Growth

Source:
Austin Beerworks - Helms Workshop
INVESTMENT THESIS

★ DARE - Invest in “penalized” and specialized companies
  • Position the sub-sector for a “confirmed” but weak recovery

★ WITH CARE - Retain overall prudent bias, including emphasis on dividend yield.

Source: Google Images
Real Estate – foundation
Current thesis proven but cooling down
MARKET WEIGHT

Diversified Financials
specialization and income
UNDERWEIGHT

Banks - exposure
“Penalized” companies
“Bakken Banking”
OVERWEIGHT

Insurance – insurance
MARKET WEIGHT

Source: Google Images
SCREENERS AND WATCH LIST

★ Low P/B, high estimated ROE (+ geographic concentration)
★ Dreman’s “Contrarian” Filter
  ● S&P 1500, low PE and leverage, high NTM ROE
★ Equity Investment Instruments with high yield, low P/B, P/CF

★ Bank of America, First M&F, First Interstate Bancsystem

★ First Interstate Bancsystem, Eagle Bancorp Montana, Prosperity Bancshares, East West Bancorp

★ NGP Capital Resources, MCG Capital, Kohlberg Capital

**BAKKEN BANKING**

**BUSINESS DVLPMNT**

**PENALIZED**
## POSITIONS AND PERFORMANCE

**Semester Performance:** 6.95% or 490 bps below benchmark  
**Weekly performance:** 0.36% or 155 bps above benchmark  
**Boston Properties (BPX) and Wells Fargo Preferred shares recently sold after reaching their target price**  
**Two ETFs planned to be sold to invest in recently analyzed stocks**

### Stocks

<table>
<thead>
<tr>
<th>Stock</th>
<th>Ticker</th>
<th>SubSector</th>
<th>Performance Period</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercontinental Exchange</td>
<td>ICE</td>
<td>Diversified Financials</td>
<td>Since 2/22/11</td>
<td>7.65%</td>
</tr>
<tr>
<td>Mid-America Apartments</td>
<td>MAA</td>
<td>Real Estate</td>
<td>Since 11/21/11</td>
<td>12.23%</td>
</tr>
<tr>
<td>US Bancorp</td>
<td>USB</td>
<td>Banks</td>
<td>Since 11/21/11</td>
<td>16.32%</td>
</tr>
</tbody>
</table>

### ETFs

<table>
<thead>
<tr>
<th>ETFs</th>
<th>Ticker</th>
<th>Subsector</th>
<th>Performance Period</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPDR S&amp;P Bank ETF</td>
<td>KBE</td>
<td>Banks</td>
<td>Since 1/27/12*</td>
<td>2.59%</td>
</tr>
<tr>
<td>SPDR S&amp;P Capital Markets ETF</td>
<td>KCE</td>
<td>Diversified Financials</td>
<td>Since 11/11/11**</td>
<td>9.12%</td>
</tr>
<tr>
<td>SPDR S&amp;P Insurance ETF</td>
<td>KIE</td>
<td>Insurance</td>
<td>Since 9/23/11</td>
<td>31.33%</td>
</tr>
</tbody>
</table>

* Fully purchased to hold funds from recent stock sell.  
** Funds added to existing position to hold funds from recent stock sell.
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US Bancorp (USB)
PERFORMANCE

U.S. Bancorp

Nov 2010 Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov 2011

USB

KBE

FACTSET

RICE UNIVERSITY M.A.WRIGHT FUND
CREDIT QUALITY

Core Tier 1 Capital Ratio %

Q3 2009: 6.8%
Q4 2009: 6.8%
Q1 2010: 7%
Q2 2010: 7%
Q3 2010: 7%
Q4 2010: 7%
Q1 2011: 8%
Q2 2011: 8%
Q3 2011: 8.5%

Source: Capital IQ
# PEER COMPARISON

## Comparable Analysis - US Bancorp

<table>
<thead>
<tr>
<th></th>
<th>ROE</th>
<th>Profit Margin</th>
<th>ROIC</th>
<th>Market Value</th>
<th>Float Value</th>
<th>Enterprise Value</th>
<th>Price to Book</th>
<th>Price to Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Bancorp</td>
<td>14.4%</td>
<td>21.2%</td>
<td>7.3%</td>
<td>49,408.6</td>
<td>1,908.4</td>
<td>101,939.6</td>
<td>1.62x</td>
<td>11.51x</td>
</tr>
<tr>
<td>Average</td>
<td>8.0%</td>
<td>13.7%</td>
<td>3.9%</td>
<td>40,119.5</td>
<td>1,590.4</td>
<td>94,615.3</td>
<td>0.88x</td>
<td>14.31x</td>
</tr>
<tr>
<td>Median</td>
<td>8.9%</td>
<td>15.9%</td>
<td>4.9%</td>
<td>16,458.6</td>
<td>697.1</td>
<td>43,530.6</td>
<td>0.93x</td>
<td>12.25x</td>
</tr>
<tr>
<td>Wells Fargo &amp; Co.</td>
<td>11.3%</td>
<td>15.9%</td>
<td>5.0%</td>
<td>134,074.0</td>
<td>5,272.2</td>
<td>320,013.0</td>
<td>1.08x</td>
<td>9.85x</td>
</tr>
<tr>
<td>Fifth Third Bancorp</td>
<td>8.9%</td>
<td>16.6%</td>
<td>4.9%</td>
<td>11,267.5</td>
<td>919.8</td>
<td>22,571.5</td>
<td>0.93x</td>
<td>12.25x</td>
</tr>
<tr>
<td>BB&amp;T Corp.</td>
<td>5.6%</td>
<td>9.1%</td>
<td>2.4%</td>
<td>16,458.6</td>
<td>697.1</td>
<td>43,530.6</td>
<td>0.97x</td>
<td>17.36x</td>
</tr>
<tr>
<td>PNC Financial Services</td>
<td>11.0%</td>
<td>20.2%</td>
<td>5.2%</td>
<td>28,277.8</td>
<td>526.0</td>
<td>62,226.8</td>
<td>0.88x</td>
<td>7.89x</td>
</tr>
<tr>
<td>SunTrust Banks Inc.</td>
<td>3.3%</td>
<td>6.8%</td>
<td>1.9%</td>
<td>10,519.8</td>
<td>537.0</td>
<td>24,734.8</td>
<td>0.54x</td>
<td>24.19x</td>
</tr>
</tbody>
</table>

Source: FactSet Fundamentals, FactSet Estimates
STRATEGY GOING FORWARD

★ Wholesale & Commercial Real Estate:
  • Expand footprint
  • New product/services

★ Consumer & Small Business Banking
  • Branch Technology
  • Acquisitions

★ Wealth Management
  • Corporate Trust acquisitions
  • Ascent Private Capital Management

★ Payment Services
  • International expansion
  • Mobil payments
  • Acquisitions

Source: Mgt Presentation
RECOMMENDATION - BUY

- Strong capital position going forward
- Commitment to redistribute 60-80% of earnings
- Growing, not selling
- Reputation = strong deposit growth
- Revenue mix
- Positive leverage to economic recovery