

# Cincinnati Retirement System

June 5, 2008

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# **I. ORGANIZATIONAL OVERVIEW: About Opus Capital**

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## **Successful, Well-Managed Firm**

- Small Cap Value Firm Founded in 1996
- Cincinnati, OH-Based Registered Investment Advisor
- Stable and Consistent Management Team
- Focused on Institutional Market Since Inception
- AUM: \$1.1B Small Cap Value

## **Independent, Employee-Owned Company**

- 100% Employee-Owned
- Woman- and Minority-Owned
- Equity Ownership Plan Designed to Attract and Retain Highly Skilled Individuals

# I. ORGANIZATIONAL OVERVIEW: About Opus Capital

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## Key Takeaways

- Our Focus is Small Cap Value – It's the Foundation of our Firm
- We Buy Low Valuation Stocks with Good Growth Rates
- Consistent and Disciplined Investment Approach Through **ALL** Market Cycles
- Excellent Long-Term Track Record of Returns versus Benchmark and Peers

Opus Capital: Experienced, Disciplined, Successful...  
**Experts in Small Cap Value Investing**

## **I. ORGANIZATIONAL OVERVIEW: Client List**

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### **Opus' Client List Includes Foundations and Endowments, Public Funds, Corporate, and Sub-Advisory Relationships**

- American Beacon Small Cap Value Fund
- Boeing Corporation
- California State Teachers' Retirement System (CalSTRS)
- Church Pension Group
- Cincinnati Park Board
- City of Baltimore Employees' Retirement System
- Good Samaritan Hospital Foundation
- Illinois State Board of Investment
- Los Angeles County Employees Retirement System (LACERA)
- Northern Trust Employee Benefit Trust
- Pennsylvania School Employees' Retirement System (PSERS)
- Prudential Retirement Insurance & Annuity Company
- UBS Pace Small/Medium Value Investments

# I. ORGANIZATIONAL OVERVIEW: Management Team

| Name and Title                               | Years of Experience | Responsibilities                         | Licenses / Education   |
|--|---------------------|--|--|
| Jakki L. Haussler, Esq.<br>Chairman and CEO  | 29                  | Corporate Strategy,<br>Marketing         | CPA (inactive)<br>JD – Salmon P. Chase College of Law<br>BBA Accounting – University of Cincinnati                       |
| Len A. Haussler, CFA<br>Portfolio Manager    | 29                  | Equity Research,<br>Portfolio Management | CFA Charterholder, CPA (inactive)<br>MBA Finance – University of Cincinnati<br>BBA Accounting – University of Cincinnati |
| Kevin P. Whelan, CFA<br>Portfolio Manager    | 11                  | Equity Research,<br>Portfolio Management | CFA Charterholder<br>MBA Finance – University of Kentucky<br>BBA Finance / Marketing – University of Kentucky            |
| Jonathon M. Detter, CFA<br>Portfolio Manager | 6                   | Equity Research,<br>Portfolio Management | CFA Charterholder<br>BSBA Finance – Xavier University  |

## Team-Building Philosophy: Recruitment and Retention

- Focus: Hiring Talented, Driven Individuals with Applicable Skill Sets
- Train Them in Opus Investment Philosophy and Process
- Require CFA Program Completion and Continued Professional Development
- Compensate with Above-Market Wages, Bonuses, and Benefits
- Ownership Used to Attract and Retain Key Employees

## II. INVESTMENT PHILOSOPHY & PROCESS: Foundation of Beliefs

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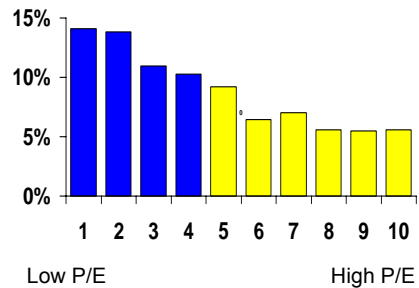
### Investment Philosophy - Genesis

- Researched What Worked Well and Consistently Over Long Periods of Time
  - Low Valuations (P/E, P/B, P/CF)
  - Low PEGY (P/E divided by Growth + Yield)
  - High Earnings Surprises and Revisions
  - Small Capitalization
- Small Cap Value is an Inefficient Market and Has Exhibited the Highest Expected Returns Over Time
- Opus' Bottom-Up Investment Approach Focuses on These Characteristics
- **Our Analogy: Going Fishing Where the Fish Are**

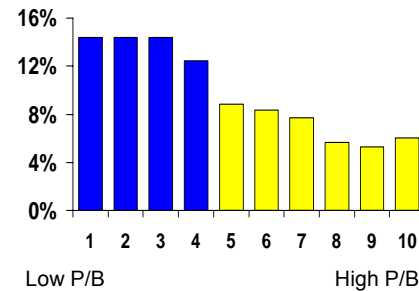
## II. INVESTMENT PHILOSOPHY & PROCESS: Foundation of Beliefs

Highlighted in blue are the areas in which Opus “goes fishing” for its investment ideas:

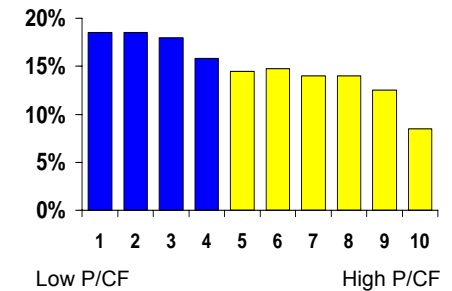
Annual Investment Returns  
Ranked by Price/Earnings Ratio Deciles



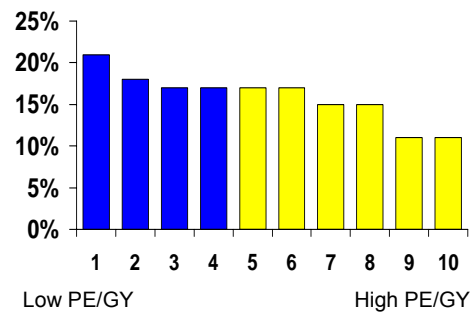
Annual Investment Returns  
Ranked by Price/Book Ratio Deciles



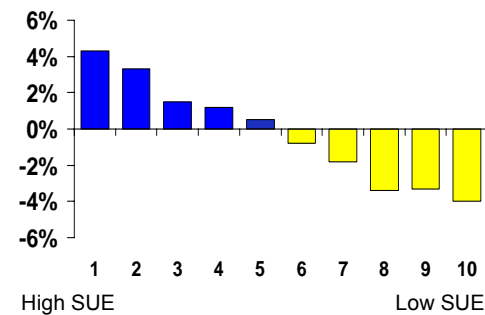
Annual Investment Returns  
Ranked by Price/Cash Flow Ratio Deciles



Annual Investment Returns  
Ranked by PE/(Growth + Yield) Ratio Deciles

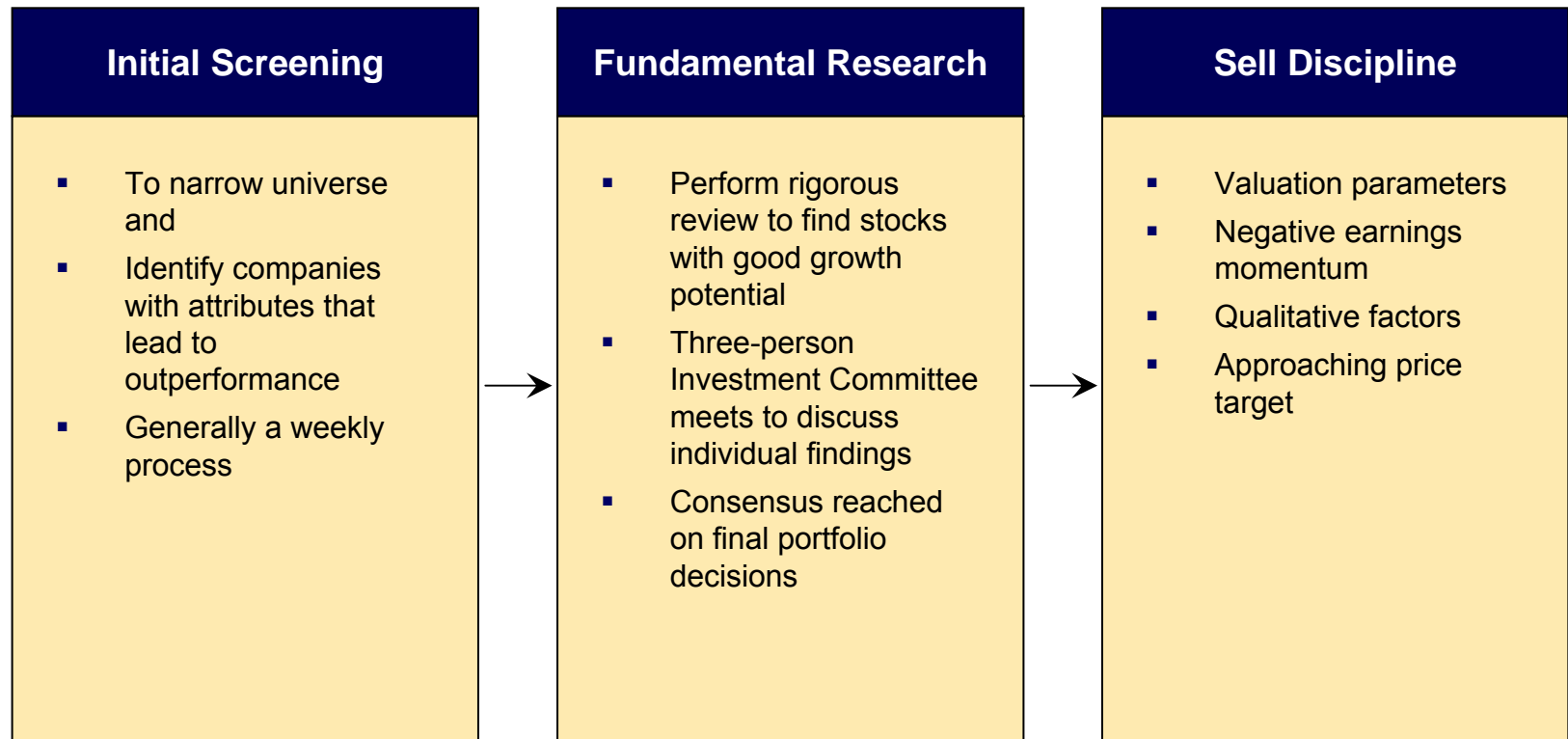


Excess Investment Returns  
Ranked by Earnings Surprise (SUE) Deciles



## II. INVESTMENT PHILOSOPHY & PROCESS: Investment Process

### The Opus Three-Step Investment Process



## II. INVESTMENT PHILOSOPHY & PROCESS:

### Step 1 – Initial Screening

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#### Individual Stock Characteristics

- Small Capitalization
- Fundamentally Undervalued
  - Price/Earnings (Primary)
  - Price/Book
  - Price/Cash Flow
  - High Dividend Yield
- Relative Financial Strength
- Attractive Valuation versus Growth Relationship (PEGY Ratio)
- Earnings Momentum
  - Positive Earnings Surprise
  - Positive Earnings Revision
- Resulting Universe of 100 – 150 Stocks
- Cross-Reference vs. Research Library and Current Portfolio to Identify 5 – 10 Research Candidates

## II. INVESTMENT PHILOSOPHY & PROCESS:

### Step 2 – Fundamental Research

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#### Fundamental Analysis

- “Company Tearsheet” containing fundamental data considered central to company analysis
  - Current and historical valuation metrics
  - Earnings history and estimate trends
  - Growth forecasts
  - Competitive analysis
- In-depth analysis of company’s core business, capital structure, and earnings potential
  - Data Feeds (FactSet, Zacks, Morningstar, Valueline, S&P)
  - SEC Filings
  - Company Press Releases and Presentations
  - Direct Contact with Management
  - Sell Side Analyst Reports

#### Investment Committee Meetings

- Held weekly to rank companies and discuss individual analysis
- Spirited discussion results in consensus purchase and sell decisions

#### Investment Thesis

- Captures catalysts for stock appreciation
- Identifies any potential risks to Investment Thesis

## II. INVESTMENT PHILOSOPHY & PROCESS:

### Step 3 – Sell Discipline

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#### Valuation

- Approaching Price Target
- Trailing and Forecasted P/E Ratio Above Market

#### Valuation vs. Growth

- High P/E Ratio Relative to Growth Plus Yield

#### Earnings Momentum

- Negative Earnings Revisions
- Negative Earnings Surprises

#### Fundamental Factors

- Change in Business Model
- Management Turnover
- Rising Short Interest
- SEC Investigations

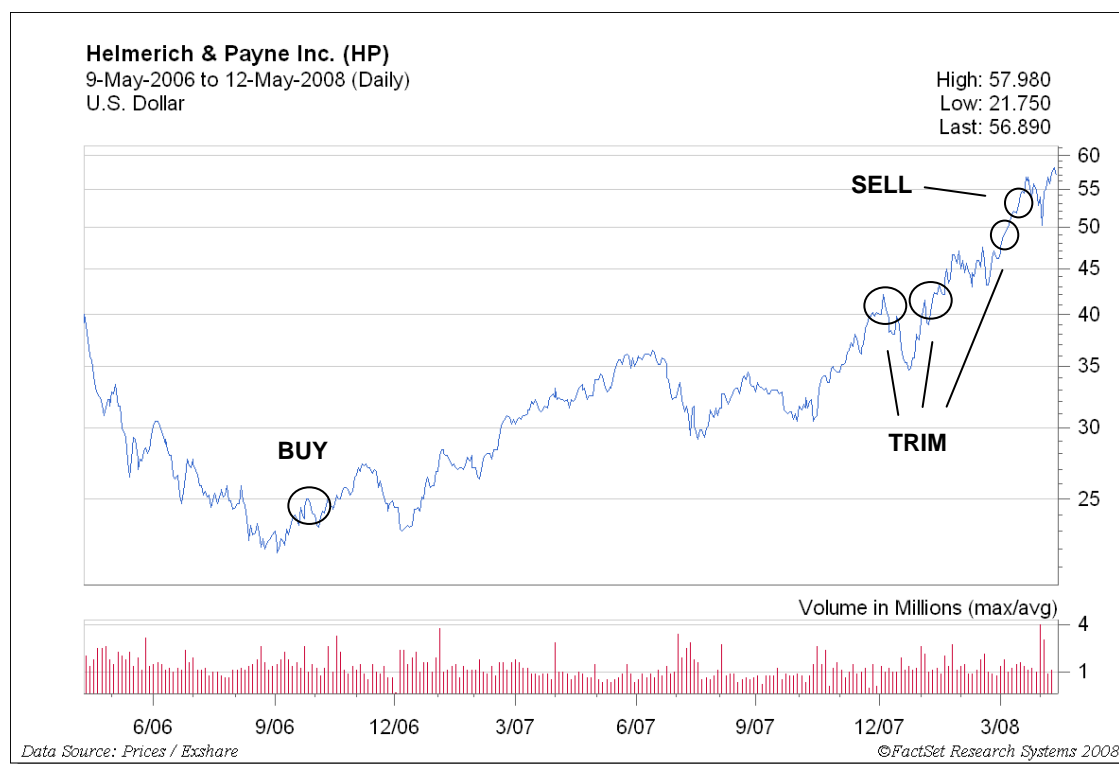
## II. INVESTMENT PHILOSOPHY & PROCESS: Resulting Portfolio

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- Consistent Characteristics
- Fully Invested at All Times
- 55 – 75 Issues Held
- 40 – 60% Annual Turnover
- Diversified by Sector, Industry and Security
  - No more than 25% or the benchmark weighting, whichever is greater, in one sector
  - No more than 15% in one industry
  - No more than 5% in one security

## II. INVESTMENT PHILOSOPHY & PROCESS:

### Stock Example – Full Cycle



#### Purchase Thesis

- Very Cheap Compared to Historical Valuations
- FlexRigs Offered Competitive Advantage

#### Sell Thesis

- Approaching Price Target
- Market Cap Rose Above \$5 Billion

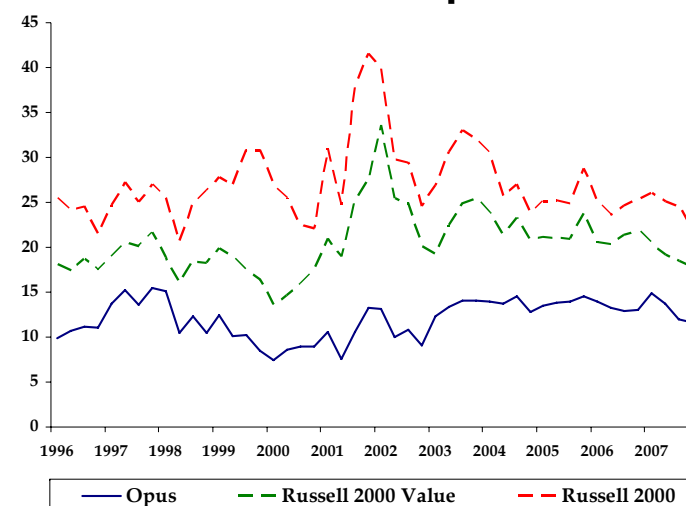
## III. PORTFOLIO CHARACTERISTICS & PERFORMANCE

As of March 31, 2008

| Characteristic     | Opus Capital | Russell 2000 Value | Russell 2000 |
|--------------------|--------------|--------------------|--------------|
| P/E Ratio          | 11.6         | 17.8               | 22.1         |
| P/B Ratio          | 1.5          | 1.4                | 1.9          |
| P/CF Ratio         | 9.4          | 10.3               | 12.8         |
| LT EPS Growth Rate | 14.6%        | 11.7%              | 16.0%        |
| PEG Ratio          | 0.8          | 1.5                | 1.4          |
| Return on Equity   | 15.6%        | 10.0%              | 12.5%        |

Source: Frank Russell, Zacks

Opus P/E vs. Benchmarks Since Inception



- Current Characteristics Demonstrate Our Strict Value Discipline
- Historical Chart Provides Proof of its Consistent Implementation

## III. PORTFOLIO CHARACTERISTICS & PERFORMANCE

| Return Time Period       | Opus Capital (Gross) | Opus Capital (Net) | Russell 2000 Value | Russell 2000 |
|--------------------------|----------------------|--------------------|--------------------|--------------|
| April 2008               | 5.3%                 | 5.2%               | 3.2%               | 4.2%         |
| YTD 2008 Through 4/30/08 | 0.7%                 | 0.5%               | -3.6%              | -6.1%        |

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Q1 2008 Ending 3/31/08                        | -4.4%  | -4.5%  | -6.5%  | -9.9%  |
| 1-Year Ending 3/31/08                         | -12.1% | -12.5% | -16.9% | -13.0% |
| 3-Years Ending 3/31/08                        | 3.1%   | 2.6%   | 4.3%   | 5.1%   |
| 5-Years Ending 3/31/08                        | 18.3%  | 17.7%  | 15.5%  | 14.9%  |
| Annualized From Inception (6/30/96 – 3/31/08) | 12.2%  | 11.6%  | 10.6%  | 7.4%   |

The net returns presented above reflect the deduction of advisory fees and other expenses a client may incur in the management of the account. Opus advisory fees are disclosed in Part II of our Form ADV. The performance data featured represents past performance, which is no guarantee of future results. Investing in the securities of small capitalization companies involves greater risk and the possibility of greater loss of capital than investing in larger capitalization and more established companies. You should carefully consider your investment objectives before investing.

## IV. SUMMARY: Fees

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### Standard Fee Schedule:

|                   |       |
|-------------------|-------|
| First \$5 Million | 1.00% |
| Next \$5 Million  | 0.90% |
| Next \$15 Million | 0.80% |
| Next \$25 Million | 0.70% |
| Thereafter        | 0.60% |

### Proposed Fee Schedule for Cincinnati:

|                    |       |
|--------------------|-------|
| First \$10 Million | 0.75% |
| Thereafter         | 0.50% |

Fees are calculated as a percentage of assets under management and charged quarterly in arrears, based upon the amount of assets under management at the end of the quarter.

## **IV. SUMMARY: Client Service**

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### **Communication**

- Direct Access to Portfolio Managers
- Quarterly Newsletter and Phone Calls

### **Reporting**

- Frequency: Ad Hoc, Monthly, or Quarterly
- In-House Portfolio Attribution and Contribution by Sector, Industry, and Security
- Customized Reporting Based on Client's Needs and Requests

## IV. SUMMARY: What Sets Us Apart?

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- Focus on Small Cap Stocks
- Low P/E – High Growth Relationship
- Consistent and Disciplined Investment Strategy
- Ability to Respond Quickly
  - Idea Generation to Implementation
  - Market Conditions
- Superior Client Service and Communication
- Outstanding Track Record

Opus Capital: Experienced, Disciplined, Successful...  
**Experts in Small Cap Value Investing**