

High-Percentage Shots

Companies respond to opportunity and distress in ways that both create and destroy value. VNBTrust's Tim Mullen excels at determining which is which.

As an accomplished athlete, Timothy Mullen is quick with sports-related metaphors to describe his investing style. "I learned early that you should never cut corners in research, even when you think you can," he says. "It's like remembering to bend your knees in tennis."

Mullen certainly doesn't appear to be cutting any corners as an investor. Through December 31, a composite of private accounts he manages for VNBTrust has risen a net annualized 10.7% since inception in April 2000, vs. an annual 4.0% loss for the S&P 500.

Slowly working through what had been a large cash hoard, Mullen today is finding plenty of opportunity in such varied industries as title insurance, satellite television, energy, gaming and silicone. [See page 2](#)

INVESTOR INSIGHT



Timothy Mullen
VNBTrust

Investment Focus: Seeks companies for which there is a defined path for reducing the wide gap between his estimate of intrinsic value and the current market value.

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For additional information on VNBTrust's investment offerings including individually managed accounts or our hedge fund, Swift Run Capital, please contact Mark Meulenberg at 434.817.4237 or email: mmeulenberg@vnbtrust.com

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Investor Insight: Timothy Mullen

Timothy Mullen of VNBTrust explains why the absence of catalysts makes him nervous, how he analyzes the many opportunities in distressed debt, how athletics helped prepare him for an investing career, and what he thinks the market is missing in First American, DirecTV, Kinder Morgan, Teekay Offshore and the debt of Momentive Performance.

Does the fact you majored in Religious Studies indicate you had something other than investing in mind as a career?

Timothy Mullen: I went to the University of Virginia on a basketball scholarship and by the end of my second year, when I had to declare a major, I checked to see what major I was closest to completing and it turned out to be Religious Studies. It wasn't quite a "Rocks for Jocks" strategy, but it also wasn't a precursor to attending the seminary.

After graduating in 1985 and figuring out fairly quickly that I wasn't going to have a career in professional basketball, I went to New York City and through family contacts met probably 15 different people in the hedge fund business. It was a different business then, with a lot of characters sitting four guys to an office and arguing all day. This was not GE, and I'd say the business appealed to me on both an intellectual and cultural level.

I've had the good fortune to work with a lot of smart people: Victor Teicher, who focused on risk arbitrage and bankruptcy-related investing; Bernard Laterman, who was a dean of the risk-arbitrage world; Jay Goldman, who is good friends with Steven Cohen and runs a business similar to his; and Curtis Schenker and Craig Effron at Scoggin Capital, who focus on event-driven investing.

As an introduction to how you invest, describe some of the key lessons you picked up at your earlier career stops.

TM: I think I've taken bits and pieces from virtually everyone. Craig Effron, who had a commodities trading background, was very good at sensing a problem with a trade and exiting a position when new information indicated he should. It was rare that he would let a slight hiccup become a major problem.

The basic idea was, "I own this at \$50 and it's now at \$40, why don't I just get out and be perfectly willing to buy back in even at \$42 or \$44 when the situation becomes clearer?" That sounds simple, but it's counter-intuitive for many people and hard to do in real life. Being able to do it without emotion is a big plus for managing risk in a portfolio.

Curtis Schenker, also at Scoggin, was all about the simplicity of the argument. He didn't want to hear drawn-out discussions of the business model and long-term forecasts, just the two or three reasons something was mispriced and what was going to make it go up. As an analyst, forcing yourself to constantly define what's most important is a valuable discipline.

One last thing I'd mention: The person I first learned research from was Victor Teicher, who had an amazing sense for how the people relevant to a position – management, competitors, owners, etc. – were going to act in a variety of situations. When you're trying to figure out what should happen, it's often easy to overlook the human aspect, which many times can override everything else.

Summarize your basic strategy today.

TM: Our strategy goes under the general category of "event-driven." We're value investors looking for mispriced securities – at any level of the capital structure – with specific catalysts that should help trigger a narrowing of the gap between the market price and our estimate of intrinsic value.

The basic idea, which has probably been best articulated by Seth Klarman, is that if your investment is more predicated on an event occurring, that transfers risk away from the vagaries of the market to the specifics of the particular investment. That doesn't mean you'll always make a lot of money if you're right about the



Timothy Mullen

Practice, Practice, Practice

After nearly 15 years in the hedge fund business in New York City, Timothy Mullen moved to Charlottesville, Virginia in 1998 for a change in lifestyle, if not career. He had graduated from the University of Virginia, based in Charlottesville, where he was a four-year standout on a basketball team that made the NCAA semifinals in 1984. "It was a family move, not one for a job, which I didn't have," he says.

After managing some private family partnerships, Mullen in late 1999 signed on with Virginia National Bank to build its new investment management division, called VNBTrust, which now manages both private accounts and a hedge fund.

How did his athletic career prepare him for investing? "Success in something like athletics gives you a fairly well-developed sense of the relationship between input and output," he says. "I've read that tour-level tennis players spend 80% of their time on fitness and 20% actually with a racquet. It's all about leg strength and quickness and balance. So the parallel to investing is knowing that it isn't all about making the investment decision, but about how much effort you have to put into the preparation in advance of making it."

event, but it helps clarify the analysis and allows you to arrive at firm conclusions.

A common opportunity for us is when two businesses – which would trade on different valuation parameters if separate – operate under the same roof, resulting in the whole appearing mispriced. One of our best investments over the past couple of years was in Fidelity National, which decided to split up its processing-software and title-insurance businesses. We could get our hands around how to value the two separate pieces, and how much more valuable the sum of the parts was than the whole.

Are you usually predicting or responding to events?

TM: We do both. The best bang for the buck can come when something that should happen is obvious to you but the company hasn't figured it out yet. The next best place along the timing spectrum is usually after a spin-off or restructuring has occurred and the various buying constituencies are trying to work out what things should be worth. In the middle ground – say when a Pershing Square announces an activist plan for a company, but nothing has happened yet – things can get a bit sloppy and I think the risks relative to rewards tend to be less attractive.

The problem today is that macro issues are swamping almost all the situation-specific aspects of an investment, which is certainly not my favorite environment. Teekay Corp. [TK], for example, was at one point a collection of various oil and natural gas shipping assets and they did all the right structural things, spinning off various pieces into separate units and keeping various general partnership interests, large tankers and floating-storage assets. We still believe all that will eventually be extremely valuable, but with the collapse in energy prices, Teekay Corp. shares have gone from \$60 to below \$20 in less than two years.

The definition of “event” sometimes strikes us as a bit fuzzy. You still own Wal-Mart – what was or is the catalyst there?

TM: We do have traditional investments based more on a broad-based analysis of the business, but even in those we like to have specific catalysts to track. In the case of Wal-Mart, we were focused mostly on the company slowing down expansion – reducing spending on new stores and acquisitions and giving that money back to shareholders. It can be a bit fuzzy to determine exactly when an event like that has “occurred,” but our judgment that it has occurred is usually what starts us

ON DISTRESSED DEBT:

We're finding several opportunities where if things don't get much, much, much worse we believe we'll still be okay.

down the road to selling. We're mostly out of Wal-Mart, although we still own some long-term call options on it.

Where are you finding new ideas today?

TM: Given the volatility and sloppiness of the market, we have more ideas to look at than there are hours in the day to look at them, particularly in distressed areas. One example would be gaming, where there has been a lot of turmoil, cancelled construction and busted deals. One we bought into was Penn National Gaming [PENN], whose stock collapsed after a buyout deal fell through and then the economy tanked. It's well-run, not levered and has assets that should do better in a bad economy than those centered on Las Vegas. It's also historically very cheap, trading at around 5x EBITDA. This one makes me a bit nervous because there isn't a specific catalyst to hang my hat on, but the fundamentals just appear very good.

The distressed fixed-income area is also quite interesting. We're finding several opportunities where we believe if things don't get much, much, much worse we'll still be okay, which I think is preferable to having to rely on things staying good or getting better.

I'd add here that it can be tempting from time to time to pursue illiquid “private” investments, especially when it's tough to find ideas in more traditional areas. Another thing I learned from my time at Scoggin is not to underestimate the pain that can ensue when these types of things aren't working out and they become time-consuming, money-losing marathons through Hell. You have to just say no.

Give us a quick example of a current distressed-debt idea.

TM: Momentive Performance Materials is an Apollo Management LBO of what used to be GE's advanced materials business, which is the world's second-largest producer of silicones and silicone derivatives. Because it's too levered, it's very likely the company can't continue with its capital structure as it is. In looking at the bonds, then, one scenario we have to work through is where effectively we're buying the equity that we'd have claim to as a result of a bankruptcy or other restructuring. The company has roughly \$1 billion in net senior secured bank debt, which is above in the capital structure the \$1.5 billion in 9-10%-coupon senior bonds that we're most interested in. Those bonds traded in the high 80s as recently as last summer, but were in the high 30s a month ago. They're now around 50 cents on the dollar.

At today's price, we figure we're paying less than 5x EBITDA for the share of the business we'd own if the company were handed over to us as senior creditors. That's a wonderful price to buy into what we think is a pretty good business, and a lot of good things could happen that don't involve turning the entire company over to creditors. If the bonds just ended up paying out at maturity at par in four or five years, we'd make a very attractive return.

What percentage of your portfolios do you now have in fixed income?

TM: We've reduced our cash position from 25% or so to around 7%, and now have about half the portfolio in equities

and more than 20% each in bank debt and bonds. The weightings can and have varied widely, but it all starts from the perspective that cash is the default option from which we depart only when we have better alternatives. Given the very wide range of possible expected values on non-cash investments over the past year, we were happy to have a high cash balance.

Even with all the potential opportunities, we're still taking things slowly – which has honestly been a bit hard to do. But as I try to think through the ramifications of the government's bailout efforts and how that will affect the economy, my conclusion is there's really no need to rush.

How do you size portfolio positions?

TM: It's certainly based on the relative size of the discount to expected value, but a lot of it is also tied to the worst-case value we estimate for each position. If the worst-case scenario were to happen, we want the share position to result in no more than a 1-2% loss for the whole portfolio.

Describe your take on the on-again, off-again restructuring story at First American [FAF].

TM: First American has three main pockets of value. Its core business is title insurance, where it's the #2 national player (behind Fidelity National) with roughly 25% of the market. While it has clearly been challenged as home-buying fell off a cliff, title insurance over time has been an excellent business. It essentially involves insuring against a past event, which is the kind of insurance you want to write. Buyers also don't appear very price-sensitive, and the big players have a competitive advantage in the hard-to-replicate databases they have built of properties and their title and transaction histories.

The second group of businesses provide a wide variety of services, information and analytics to real estate lenders, owners and creditors. The company basically took a lot of the money it had earned over the years from title insurance and invested in related database and pro-

cessing businesses, but not all closely tied to the origination of mortgages. Maybe 35% of the collective revenues of these businesses are tied to mortgages, and some are even directly counter-cyclical. One booming business today, for example, provides default-management services to banks for failed real estate loans.

The third major asset is a majority stake in a public company called First Advantage [FADV], which does things like credit reporting and background checks for lenders, sellers and employers. Each share of First American represents around one-half of a share in First Advantage.

What is the status of the company's plan to separate out title insurance?

TM: After studying it forever, First American finally announced a planned split early last year, even after things started to look shaky in the mortgage business. Later in the year, however, they postponed it, basically because they needed the earnings and cash flow from the software businesses to help support the title business through the bad cycle.

That is all fine and makes sense, but the company still has every intention of breaking itself up once the title business stabilizes.

INVESTMENT SNAPSHOT

First American
(NYSE: FAF)

Business: Provider of a wide range of real estate- and insurance-related products, information and services, for both consumer and commercial customers.

Share Information
(@1/29/09):

Price	22.19
52-Week Range	14.27 – 44.22
Dividend Yield	3.6%
Market Cap	\$2.06 billion

Financials (TTM):

Revenue	\$6.72 billion
Operating Profit Margin	3.2%
Net Profit Margin	(-0.4%)

Valuation Metrics

(@1/29/08):

	FAF	S&P 500
Trailing P/E	n/a	15.2
Forward P/E Est.	9.9	11.5

Largest Institutional Owners

(@9/30/08):

Company	% Owned
Highfields Capital	9.5%
Glenview Capital	6.1%
Blum Capital	4.1%
Barclays Global Inv	4.0%
Morgan Stanley	3.7%

Short Interest (as of 12/26/08):

Shares Short/Float	4.4%
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FAF PRICE HISTORY



THE BOTTOM LINE

The company's core title-insurance business is poised to start picking up, says Tim Mullen, as Washington "points both barrels" at current housing and mortgage woes. Assuming the title business returns to form over the next two to three years, his sum-of-the-parts analysis yields a share price of around \$50, more than twice today's level.

Sources: Company reports, other publicly available information

Are you counting on that in order to realize value here?

TM: I don't think there is any doubt the stock would trade higher if the pieces of the business were separate. But as importantly, there's a very good argument to be made that the title business is poised to start picking up. The driver of the business is the volume of mortgage originations, not transaction prices, and all of official Washington is currently pointing both barrels at fostering renewed activity in the housing and mortgage markets. Given that what has been weighing down the stock is that this business is at the bottom of its cycle, good news would go a long way to increasing earnings and the share price.

How are you valuing the shares, which currently trade at \$22.20?

TM: The First Advantage stake is easy – based on the current market price, it's worth \$7 per First American share.

The title business is more difficult to value, given the variability in earnings, so we use ranges. Putting a 5x multiple on what we think are normalized earnings for the business of \$1.50 per share, at the low end it would be worth \$7.50 per share. At the high end, putting that same multiple on peak earnings of \$4 per share, it would be worth \$20. As another data point: based on its tangible book value of around \$7 per share and the 2x multiple at which Fidelity National's title business trades, the title business would be worth \$14 per share.

For the information and data analytics businesses, we apply peer multiples of 7-8x the \$2.50-3.00 per share in normalized EBITDA these businesses earn, which translates into another \$15-25 per share in value.

Add it all up and we believe a conservative, low-end valuation for the shares is closer to \$30, while the base case that assumes the title business returns to form, is around \$50.

Would you sell if the company announced it would never split the business?

TM: That's an interesting question. I basically believe it's the right thing to do and that it will happen – it's only a question of when, or if it came to that, under what management.

Describe the investment case for satellite-TV operator DirecTV [DTV].

TM: The company over the past three years has in many ways overhauled how it does business. Rather than focus on gross subscriber additions, the emphasis has been on attracting higher-paying, more credit-worthy customers who are more likely to stick around. Through pre-

mium offerings like the NFL Sunday Ticket game package, they've successfully positioned themselves as a higher-end TV service. All these efforts have shown up positively in the metrics, including lower subscriber acquisition costs, higher net customer additions and higher average revenues per user. EBITDA has been growing at better than 20% per year.

Even with all the good news, the cloud remaining over DirecTV is the fear that bundled TV services by telephone and cable companies will eventually leave the satellite-TV companies on the outside looking in. Analysts have been warning of this for some time, but the reality is that

INVESTMENT SNAPSHOT

DirecTV
(Nasdaq: DTV)

Business: Provider of subscription satellite television services to the home, under the DirecTV brand name, primarily in the United States and Latin America.

Share Information
(@1/29/09):

Price	22.26
52-Week Range	17.70 – 29.10
Dividend Yield	0.0%
Market Cap	\$23.38 billion

Financials (TTM):

Revenue	\$19.26 billion
Operating Profit Margin	14.3%
Net Profit Margin	8.0%

Valuation Metrics

(@1/29/08):

	DTV	Nasdaq
Trailing P/E	16.5	33.7
Forward P/E Est.	12.9	15.9

Largest Institutional Owners

(@9/30/08):

Company	% Owned
Primecap Mgmt	4.9%
Southeastern Asset Mgmt	4.6%
Barclays Global Inv	3.5%
State Street Corp	2.8%
Fidelity Mgmt & Research	2.5%

Short Interest (as of 12/26/08):

Shares Short/Float	2.3%
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DTV PRICE HISTORY



THE BOTTOM LINE

The market is recognizing neither the operational improvements the company has made in recent years nor its still-ample growth prospects, says Tim Mullen. Even assuming no multiple expansion – from the current level of 4x EBITDA – he expects 50% share-price upside over the next two to three years from earnings growth and share buybacks.

Sources: Company reports, other publicly available information

over the past two or three years satellite TV has continued to gain subscribers and that most of the gains by the telephone companies have come at cable's expense. We believe DirecTV offers a superior, more reliable product and would expect it to continue to surprise on the upside in how it holds on to its customers.

Are there any new initiatives to drive further growth?

TM: Yes, two in particular. The first is the rollout of new technology that finally allows them to service people living in what are called multiple dwelling units, such as apartment houses or college dorms. Residents in these types of buildings make up maybe 20% of the pay-TV population and while the company is playing down the rollout, this could be a significant area of growth over the next two to three years. The second growth initiative is a new distribution relationship with AT&T. As of January 1, AT&T will now market DirecTV services to all parts of its network in which it doesn't have its own TV product, replacing a similar deal with Dish Network in many of its regions.

The shares of cable and satellite-TV companies have been optically inexpensive for some time. How cheap do you consider DirecTV shares at a recent \$22.25?

TM: The EBITDA multiple on this year's estimated earnings is just over 4x, which is surprisingly cheap for a company that has been increasing EBITDA 20% per year and that has already done much of the big capital spending necessary to add capacity to provide high-definition television services.

If they continue to execute and we're right about how strong they are in the face of phone company and cable competition, we believe there's 50% or more upside in the stock over the next two or three years just from earnings growth and the return of cash to shareholders through share buybacks and maybe even a dividend. Beyond that, it's not unreasonable to expect the market to eventually conclude

the company is worth an EBITDA multiple greater than 4x.

Is there a catalyst here?

TM: There's an excellent case to be made for Verizon or AT&T, both of which are financially capable, to acquire DirecTV. This isn't a new idea, but I'd argue it

ON ENERGY MLPs:

The yield spread for energy MLPs over 10-year Treasuries – typically 100-200 basis points – has gotten way too wide.

makes more strategic sense for them as DirecTV further establishes its competitive position. We don't need an acquisition for this to pay off, but it certainly could nicely shorten the investment time horizon.

Describe the general opportunity you're seeing in energy-related master limited partnerships?

TM: These are businesses structured as publicly traded partnerships, so they have

unusual securities with more complicated tax rules, but also with tax advantages. Similar to REITs, MLPs have to pay out a high percentage of their distributable cash flow and some of that can be deferred for income-tax purposes by investors.

Energy MLPs run the gamut, from small to large, and from virtually no commodity risk to lots of commodity risk. One large MLP we've owned for some time is Kinder Morgan Management [KMR], which was one of the pioneers in the asset class. The company has a web of facilities throughout North America that transport and store natural gas and oil. Producers typically buy capacity from Kinder pipelines and send it a check every month whether or not they use the capacity, or they rent space in one of Kinder's storage facilities for a fee. Only about 10% of the entire business is sensitive to the price of the underlying commodities, so it tends to be a predictable and solid profit generator.

The more-established the business and the lower the commodity-price risk, the safer the annual distribution, which in Kinder Morgan's case has been just over \$4 per share. That results in a better than 9% yield at the current share price, and given the contractual and fee-based nature of the business, we think that distribution is at very little risk.

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Do you expect the distribution to grow?

TM: The company expanded for years by acquisition, buying pipelines at low multiples and with cheap enough money that the added capacity allowed them to increase distributable cash flow per unit. As purchase prices escalated, Kinder started building out its own pipeline network. Those big capital projects are largely done and the company now has new capacity going on line that will generate incremental revenue and profit. The dynamic of new revenue generation and diminished capital-spending needs should help drive distribution increases going forward.

What kind of upside do you see for the MLP units themselves, now trading around \$43.60?

TM: Until recent times, these types of MLPs typically traded at a very narrow spread over 10-year Treasury bonds, say 100-200 basis points. With 10-year Treasuries now yielding 2.5%, the spread has gotten way too wide. Even assuming Treasuries go higher, there's plenty of room for capital appreciation on the units as the spread narrows.

When you take into account the current yield, the fact that distributions should grow over time and that the

spreads are very likely to narrow, it's not a stretch to assume a 20%-plus return on these units over the next few years.

What's the difference between these units, with the ticker symbol KMR, and Kinder Morgan Energy, with the symbol KMP?

TM: Each share of KMR is a share of KMP, only it pays distributions in additional shares instead of cash. That simplifies some of the tax reporting – you don't get a K-1 form, for example – and the tax consequences should be better because all distributions are treated as capital gains when you sell the shares.

At the smaller end of the MLP spectrum is Teekay Offshore Partners [TOO]. What is the opportunity there?

TM: This is one of Teekay Corp.'s spin-offs, which essentially moves oil from platforms in the North Sea to shore using a fleet of shuttle tankers. You wouldn't know it from the way the units have traded, but the commodity-price risk in the business is very low. The company contracts with producers for long terms – often for the entire lives of the fields – and for fixed fees. That's all they do, which is about as straightforward as you can get.

The basic thesis is the ability to earn an outsized yield – more than 11% at the current unit price of around \$14 – for a safe business that should see distributions grow at a healthy clip over time.

Is there an event providing potential upside here?

TM: Yes. TOO itself doesn't own the shuttle tankers, but 50% of a partnership that owns the ships. The other half of that partnership is owned by Teekay Corp., which is the general partner. The general partner has said it will downstream over the next couple of years to TOO the other 50% of the partnership that owns the ships. TOO will have to pay for that in some way – and they should ultimately have plenty of capacity to do so – but the end result should be much higher distributable cash flow for TOO.

INVESTMENT SNAPSHOT

Kinder Morgan Management
(NYSE: KMR)

Business: Owns and manages a broad network of North American facilities used in the transport and storage of natural gas, crude oil, refined fuels and carbon dioxide.

Share Information
(@1/29/09):

Price	43.59
52-Week Range	34.01 – 57.32
Dividend Yield	9.1%
Market Cap	\$3.33 billion

Financials (TTM):

Revenue	\$11.74 billion
Operating Profit Margin	13.3%
Net Profit Margin	11.3%

Valuation Metrics

(@1/29/08):

	<u>KMR</u>	<u>S&P 500</u>
Trailing P/E	31.4	15.2
Forward P/E Est.	22.0	11.5

Largest Institutional Owners

(@9/30/08):

<u>Company</u>	<u>% Owned</u>
Kayne Anderson Capital	9.8%
Janus Capital	6.8%
Tortoise Capital	4.7%
Argyll Research	4.2%
Oppenheimer Funds	3.1%

Short Interest (as of 12/26/08):

Shares Short/Float	1.4%
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KMR PRICE HISTORY



THE BOTTOM LINE

As the company's new pipeline capacity comes on line while the capital spending related to it declines, Tim Mullen expects distributable cash flow per unit to increase. Those future distributions, coupled with unit-price appreciation as the yield spread between energy MLPs and Treasuries narrows, should deliver 20%-plus annual returns, he says.

Sources: Company reports, other publicly available information

Beyond that, the company in the regular course of business is starting to bid on deals to expand its contract base to other parts of the world, particularly at the moment in Brazil. The current energy-services environment may temper some of their near-term expansion plans, but in a more normal environment they have plenty of opportunity to expand geographically.

Speaking generally again, do you tend to be active on the short side?

TM: Our shorting in our hedge fund tends to be as part of paired trades where we

want to remove risks we don't want to invest in. An example was going long EMC and short VMware, because we didn't want the long exposure to VMware that was in EMC because it still owns a large stake. We also hedged some of our spot-market energy exposure by going short Frontline, which operates large crude-oil carriers only on the spot market, against our long position in Teekay Corp.

We'll also short based on specific catalysts, such as pending litigation, accounting irregularities or potential fraud. We avoid shorting based primarily on excessive valuation, which can persist for a painfully long time.

As an aside, it annoys me when management blames short-sellers for a variety of ills and then tries to get Congress or the regulators to harass and vilify them. I long for the day when a management team, which has a well-known short-seller publicly short its stock, starts its quarterly earnings call with a Q&A session with the short-seller. "We are now going to take all the questions which Jim Chanos, manager of Kynikos Associates, who is short our stock, would like to ask. Mr. Chanos, your line is open. Please proceed." Wouldn't that clear the air?

Have any recent mistakes particularly galled you?

TM: The shorter-term trades we've done have had a very high incidence of failure. On two different Fridays in 2008 we bought shares of financial institutions that I was sure couldn't possibly get seized over the weekend, even though there were rumors about it. One was Lehman and the other was Wachovia. In both cases I figured I'd sell when they traded up on Monday, but they didn't trade on Monday! Those were spectacularly bad decisions and totally unforced errors.

I've purposely started exercising much more in the past 12 months, and one big reason has been to help avoid making stupid mistakes because I get all caught up in staring at the screen and overthinking. It obviously hasn't always worked, but it has been a help.

Last question: What's more of a rush, playing in a Final Four or managing other people's money?

TM: The exhilaration you get with 20,000 people yelling while you do something is pretty remarkable, and can inspire you to physically do things you can't normally do. It's clearly not the same, but the satisfaction from making money on an investment idea is pretty good, too.

Even without the cheering fans?

TM: Yes. For most investors, the absence of spectators is a good thing. VII

INVESTMENT SNAPSHOT

Teekay Offshore Partners
(NYSE: TOO)

Business: Publicly traded master limited partnership that operates tankers and floating storage facilities serving a broad range of global offshore oil producers.

Share Information
(@1/29/09):

Price	13.98
52-Week Range	6.22 - 26.77
Dividend Yield	11.4%
Market Cap	\$292.9 million

Financials (TTM):

Revenue	\$819.9 million
Operating Profit Margin	15.9%
Net Profit Margin	1.6%

Valuation Metrics

(@1/29/08):

	TOO	S&P 500
Trailing P/E	21.8	15.2
Forward P/E Est.	9.9	11.5

Largest Institutional Owners

(@9/30/08):

Company	% Owned
Luxor Capital	8.1%
Neuberger Berman	7.8%
Kayne Anderson Capital	6.1%
Eagle Global Adv	3.2%
Merrill Lynch	2.8%

Short Interest (as of 12/26/08):

Shares Short/Float	n/a
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TOO PRICE HISTORY



THE BOTTOM LINE

One wouldn't know it from the hit the company's share price has taken, says Tim Mullen, but the commodity-price risk in its business is actually very low. He believes the annual distribution level – resulting in a current yield of more than 11% – is not only safe, but likely to grow smartly over time for both operational and partnership-specific reasons.

Sources: Company reports, other publicly available information

VNBTrust

Tim Mullen
Manager

Start Date Apr-00
End Date Dec-08

(434) 817-4237

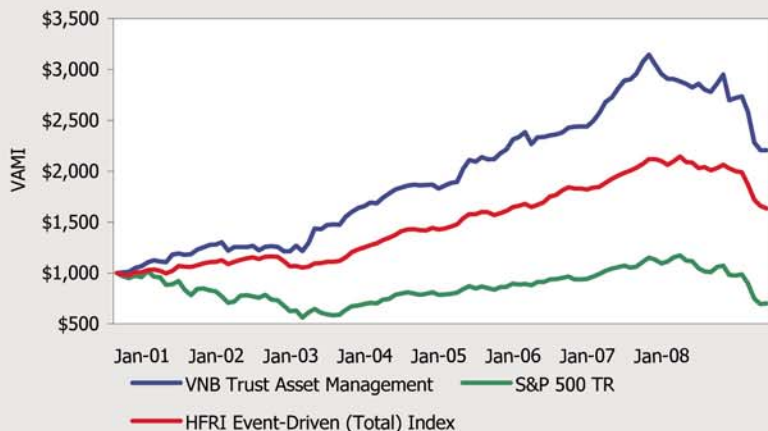
BM1 S&P 500 TR
BM2 HFRI Fund Weighted Composite Index

Contact: Mark Meulenberg mmeulenberg@vnbtrust.com

Fund Strategy

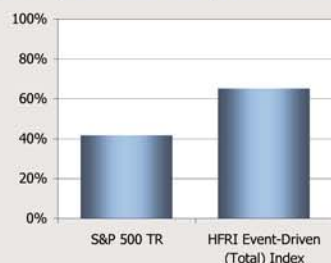
The Manager pursues an Event-Driven, Absolute Return strategy. Investments are made in the undervalued securities, both debt and equity, of companies undergoing various types of corporate events, including, but not limited to: refinancings, mergers and acquisitions, balance sheet restructurings, earnings, divestitures, spin-offs and litigation. The Manager will normally not have more than 20 positions in the portfolio. Position size of individual holdings is determined by the Manager's estimate of worst-case economic loss from the investment. The Manager does not manage to an index, short securities, invest in securities with excessive illiquidity or employ leverage.

Growth of Initial \$1000



Annual Returns	Fund	BM1	BM2
2008	(21.8%)	(37.0%)	(21.5%)
2007	0.4%	5.5%	6.6%
2006	20.4%	15.8%	15.3%
2005	10.7%	4.9%	7.3%
2004	16.0%	10.9%	15.0%
2003	27.2%	28.7%	25.3%
Latest Returns	Fund	BM1	BM2
Last Month	0.1%	1.1%	(1.4%)
Last Quarter	(14.5%)	(21.9%)	(12.5%)
Last Year	(21.8%)	(37.0%)	(21.5%)
2-Year	(11.4%)	(18.5%)	(8.5%)
3-Year	(1.8%)	(8.4%)	(1.2%)
5-Year	4.0%	(2.2%)	3.6%
Historical Data	Fund	BM1	BM2
Compound ROR	9.5%	(4.0%)	5.8%
Cumulative Return	121%	(30)%	64%
Cumulative VAMI	\$2,209	\$703	\$1,636
Largest Month Gain	11.1%	8.8%	4.6%
Largest Month Loss	(11.6%)	(16.8%)	(8.0%)
% Positive Months	70.48%	57.14%	65.71%

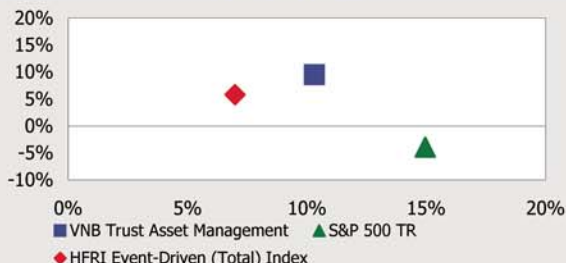
Outperform BM in Up Markets



Outperform BM in Down Markets



Risk vs. Return



Monthly Performance (%) Net of Fees

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2008	1.2%	(2.0%)	(0.7%)	2.9%	3.1%	(8.6%)	0.9%	0.5%	(5.5%)	(11.6%)	(3.4%)	0.1%	(21.8%)
2007	2.8%	0.4%	2.0%	3.9%	2.2%	(3.0%)	(3.1%)	(1.5%)	(0.2%)	(0.7%)	(0.9%)	(1.2%)	0.4%
2006	0.7%	0.4%	0.8%	2.0%	0.4%	0.0%	0.1%	2.2%	3.1%	4.3%	1.5%	3.3%	20.4%
2005	(0.7%)	2.0%	(1.0%)	0.2%	2.6%	1.8%	4.3%	1.2%	1.9%	(4.8%)	2.9%	0.1%	10.7%
2004	1.1%	1.0%	0.6%	(0.4%)	0.1%	0.2%	(2.0%)	1.6%	1.3%	0.7%	6.8%	4.2%	16.0%
2003	2.8%	0.5%	(0.2%)	5.3%	3.1%	2.2%	1.3%	2.0%	(0.4%)	3.3%	2.2%	2.3%	27.2%
2002	1.1%	(3.6%)	2.9%	0.6%	(0.7%)	(3.3%)	(0.1%)	4.5%	(4.1%)	6.4%	11.1%	(0.5%)	14.1%
2001	0.8%	(1.1%)	0.7%	3.5%	2.0%	1.8%	0.4%	1.7%	(6.2%)	2.7%	0.1%	(0.1%)	6.1%
2000				0.7%	0.7%	3.5%	1.7%	3.3%	2.0%	(1.1%)	(0.4%)	6.7%	18.2%

Risk

	Fund	BM1	BM2
Standard Deviation	10.3%	15.0%	7.0%
Sharpe Ratio (5.0%)	0.5	-0.5	0.1
Sortino Ratio (10.0%)	-0.1	-1.0	-0.6
Downside Deviation (10.0%)	7.8%	13.5%	6.1%
Maximum Drawdown	(29.8%)	(44.7%)	(23.7%)
Months In Maximum Drawdown	18	25	14
Months To Recover	0	49	0

Comparative Returns

	Fund	BM1	BM2	Fund	BM1	BM2
	Ann. Ret.	Ann. Ret.	Ann. Ret.	Std. Dev.	Std. Dev.	Std. Dev.
Last Year	-21.78%	-37.00%	-21.50%	15.87%	21.02%	9.64%
2-Year	-11.37%	-18.47%	-8.52%	12.72%	17.55%	8.88%
3-Year	-1.85%	-8.36%	-1.17%	11.44%	15.29%	8.88%
5-Year	3.95%	-2.19%	3.56%	10.29%	12.86%	7.22%

Comparison To Benchmark(s)

	BM1	BM2
Alpha	0.9%	0.3%
Annualized Alpha	11.6%	3.3%
Beta	0.5	1.1
Correlation	72.5%	73.5%
R-Squared	52.6%	54.0%

Up/Down Capture

	BM1	BM1	BM2	BM2
	Up	Down	Up	Down
Fund	35.88%	-39.52%	21.10%	-18.36%
Fund	30.26%	-13.17%	27.81%	-18.63%
Capture	84.35%	33.32%	131.81%	101.47%
Excess Capture	-15.65%	66.68%	31.81%	-1.47%

Past Performance is not indicative of future results

Notes on Performance

1) Since inception for the VNBTrust Composite reflects the time period of March 31, 2000 through December 31, 2008. The Composite Portfolio is comprised of individually managed accounts for which VNBTrust receives performance-based fees. Performance numbers are net of all investment management fees including performance fees.

2) The S&P 500® Index is an unmanaged market capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index results assume the reinvestment of dividends paid on the stocks constituting the index. Unlike the VNBTrust Composite, the index does not incur fees and expenses.

3) The HFRI Fund Weighted Composite Index is an equal-weighted index of over 2000 domestic and offshore funds (excluding Fund of Funds) that report in U.S. dollars net of all fees on a monthly basis and have at least \$50 Million under management or have been actively trading for at least twelve (12) months. You may not invest in the index.

4) Past performance may not be indicative of future results. While the VNBTrust Composite may outperform the relevant indices over various time periods, there may be periods in the future when it underperforms these indices, and there can be no guarantee that it will outperform in the future.

Disclosure

No Investment Advice

This reprint is furnished for general information purposes in order to provide some insight into the investment management process and techniques that VNBTrust uses to make investment decisions. It is provided for illustrative purposes only. Opinions and information provided are as of the date indicated. This material is not intended to be a formal research report, and as such, it should not be construed as an offer or recommendation to buy or sell any security, nor should information contained herein be relied upon as investment advice. Opinions and information provided are as of the date indicated. The statistics in the article were obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed.

This article contains commentary regarding several securities that have been purchased by VNBTrust on behalf of our clients. Individual account holdings may vary, and the views expressed herein may change at any time subsequent to the date of this article. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of securities referenced in this article. The price and value of securities referenced in this article will fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed and a loss of all of the original capital invested in a security discussed in this article may occur.