



VANDERBILT TVA INVESTMENT CHALLENGE FUND

YTD Performance

Fund: +2.27 %
S&P Value: +0.75 %

Vanderbilt's TVA Investment Challenge welcomed its new portfolio managers at the turn of the year and has had a successful first quarter. The fund earned a return of 2.3% in the first quarter, outpacing its benchmark by 152 bps.

The new team took the reins in January 2007 and used the first two meetings to analyze the current holdings and portfolio positioning. Each member was assigned a group of stocks and charged with evaluating the strategic value to the portfolio. While the fund review did not result in any major strategic changes, we found there was some over-exposure to the healthcare industry. The new managers also expressed a desire to trim the overall number of stocks held by the portfolio in order to make more concentrated bets on compelling stories.

The first meeting featured sell pitches for both Wyeth Pharmaceuticals and Symbion to reduce the fund's healthcare exposure. The managers desired to lighten the concentration of the portfolio in pharma companies and questioned the near-term upside potential and drug pipeline of Wyeth. Symbion was the subject of a sell pitch due to weak industry fundamentals and multiple portfolio holdings in the hospital space—the portfolio also owned Triad (ticker: TRI). Since selling SMBI, the stock has risen only slightly versus a return in excess of 20% over the same timeframe for Triad after the announcement of a sale of the company.

The fund reviewed its position in Medco Health Solutions after a run-up of more than 27% in the first two

months of the year, but elected to maintain the holding due to strong industry fundamentals, a strong pipeline of generic drugs over the next several years and a solid balance sheet. The stock has risen an additional 5% since the hold pitch.

The managers added several holdings during the quarter including Goldman Sachs, Caterpillar, NetEase.com, and Trex Co. Goldman Sachs was viewed as a solid play in financial services given the volatile economy. Caterpillar represented a compelling valuation on a defensive stock in a volatile market. NetEase.com provided the fund some exposure to the Chinese gaming market. Trex Co., a manufacturer of composite lumber, was purchased because of the high earnings leverage in its model and our view that the stock was largely washed out after recent announcements of poor results. We remain optimistic about the long-term prospects of these portfolio additions.

The fund elected to sell positions in Altus Pharmaceuticals, Nissan Motors, and Esco Technologies due primarily to a lack of near-term catalysts.

The managers have made the desired changes to the portfolio and are confident in the holdings heading into the second quarter.

Top Ten Holdings 4/11/07	%
BERKSHIRE HATHAWAY B	6.5
SILGAN HOLDINGS	3.9
CONOCOPHILLIPS	3.9
THE TRAVELERS CO.	3.7
ORIENT EXPRESS HOTEL	3.5
MEDCOHEALTH SOLUTIONS	3.5
CHECKPOINT SOFTWARE	3.4
REINSURANCE GROUP	3.3
AMERICAN EQUITY INVT LIFE	3.2
CHICOS FAS	3.1

PORTFOLIO MANAGERS

Oscar Atkinson Eric McGirt
Tim E vans Brian Nelson
Bill Lambert Phil Rutterer
Haibo Zhang

Fund Outlook

Riding the Buyout Bonanza

The NASDAQ and S&P 500 both ended the quarter up slightly (up 0.2% and 0.3%, respectively), while the Dow finished down 0.9% marking the worst quarterly performance since Q2 2005.

The economy appears to be holding up well despite housing weakness, rising energy prices, and international volatility. The unwinding of the housing boom has certainly weighed on the economy, but recent housing results were better than the market anticipated. Oil prices and geopolitical issues remain a concern and the implosion of the Chinese market derailed the bull market, but stocks have recovered somewhat in recent weeks.

Buyouts have buoyed our returns, but we don't know how long private equity money can prop up the market and we have limited faith in our ability to pick the next target of the buyout sharks. Therefore, we are looking to find pockets of value in overlooked sectors.

QUOTE OF THE MONTH

DIVERSIFICATION IS ONLY REQUIRED WHEN INVESTORS DON'T UNDERSTAND WHAT THEY ARE DOING.

- WARREN BUFFETT

STOCKS PROFILED

CATERPILLAR (\$67.03)

Analyst: Oscar Atkinson Date Presented: 2/20/2007

Price Target	Market Cap	Dividend	2007E EPS	2007 PE
\$77	\$43B	\$1.20	\$5.46	12.2x

Description: Caterpillar, Inc. manufactures construction and mining equipment, diesel and natural gas engines, and industrial gas turbines. The company operates in three business segments: Machinery, Engines, and Financial Services.

Valuation: We believe that CAT is undervalued relative to peers: Trades at a P/E of 13.1x vs industry of 18.9x. \$7.5B stock buyback program should provide price appreciation. Growth in developing nations provides diversification to US economic downturn. Joint venture with Mitsubishi should benefit from infrastructure build-out in China. Continued earnings growth should result in multiple expansion to be more in line with industry average. Price target of \$77 based on 14 x \$5.50 EPS in 2008.

Risks: Weakness in US housing sector and energy extraction could hamper growth of heavy machinery division which accounts for 60% of revenues.

Action: We bought 300 shares @ \$67.48

TREX Co. (\$21.53)

Analyst: Brian Nelson Date Presented: 2/20/2007

Price Target	Market Cap	Dividend	2007E EPS	2007 PE
\$34	\$325M	0	\$0.80	27x

Description: Trex Co. manufactures and distributes wood/plastic composite products for residential and commercial decking and railing applications in North America.

Valuation: Trex has experienced a number of set backs over the past couple years that have driven the stock down significantly. The company's margins are currently depressed due to excess capacity and significant spending on operational improvements, which should yield benefits in 2008. There is significant leverage in TWP's earnings model and I believe the company can achieve EPS of \$2.00 in 2008. The stock should trade in the mid-\$30 range based on that earnings level.

Risks: Trex has exposure to the housing market and oil price volatility.

Action: We bought 750 shares @ \$23.53.

SYMBION (\$18.88)

Analyst: Brian Nelson Date Presented: 1/23/2007

Price Target	Market Cap	Dividend	2007E EPS	2007 PE
\$18	\$410M	NM	\$0.93	20.8x

Description: Symbion Inc. owns and operates short stay surgical facilities, which includes ambulatory surgery centers and surgical hospitals in the U. S. As of March 10, 2007 the company owned 50 surgical facilities and managed an additional nine facilities.

Valuation: Shares of Symbion were trading at a premium relative to its peers on several valuation measures. Additionally, our portfolio had too much weighting in healthcare and owned Triad, another hospital operator. Given the poor fundamentals in the industry and premium valuation, we chose to sell Symbion and hold Triad. Since the sale of Symbion, the stock has risen slightly, while shares of Triad rose in excess of 20% on news of a buy-out.

Risks: Potential buy-out could enhance share price.

Action: We sold 874 shares @ \$18.78

NETEASE.COM (\$17.33)

Analyst: Haibo Zhang Date Presented: 3/20/2007

Price Target	Market Cap	Dividend	2007E EPS	2007 PE
\$23	\$2.2B	0	\$1.17	14.8x

Description: NetEase.com, Inc., through its subsidiaries, operates an interactive online and wireless community in China. It provides Chinese language content and services through its online games, wireless value-added services, and Internet portals.

Valuation: NetEase's financial results for the fourth quarter of 2006 were driven mainly by its online games business, which exceeded the company's expectation and market consensus. We think NetEase's results demonstrate that it has the ability and experience to operate and develop online games despite the fierce competition in the Chinese online gaming market. Its leading position can help NetEase leverage the great potential of China's online gaming market.

Risks: Two games make up nearly 80% of its revenue. Its current popular games have gotten long in the tooth, and new games may not be as successful as its current popular games.

Action: We bought 1,080 shares @ \$18.45.