

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Streamlined Top-Down Value Investing



ALPANA SEN is Fund Manager of the Spirit of America Value Fund and primarily responsible for the day-to-day management of the Fund. She joined David Lerner Associates on Sept. 29, 2008. Prior to joining David Lerner Associates, Ms. Sen worked at Morgan Stanley Investment Management for approximately 11 years. Her last title held was Vice President in the Quantitative Strategies Group, where she was responsible for fundamental analyses on equity securities. Ms. Sen received her MBA in finance from Pace University in 1997. In addition, she passed the CFA Level I exam and owns the Series 7 license.



RAYMOND A. MATHIS is Fund Manager of the Spirit of America Real Estate Fund. Mr. Mathis is also Portfolio Adviser of the Spirit of America Value Fund. He joined David Lerner Associates on Nov. 5, 2007. Prior to joining the Adviser, Mr. Mathis was a Securities Analyst with Standard & Poor's from 2001 through 2007, covering the consumer cyclical and consumer staples sectors, in addition to real estate investment trusts. Noted for calling the top of the housing bubble (Credit Week, Sep. 2005), Mr. Mathis has been the recipient of numerous accolades, including the prestigious "Best on the Street" award from 2007 *The Wall Street Journal*. Mr. Mathis began his experience in commercial real estate management in 1990. He received his MBA from the University of New Orleans in 1998.



WILLIAM MASON is the Executive Vice President of Spirit of America and is responsible for the management of the SOA team. In addition, he has primary responsibility for the day-to-day management of the High Yield Fund. Mr. Mason's career spans 30 years in the municipal bond industry and includes over 20 years with David Lerner Associates, Inc., where he is the Executive Vice President of Fixed Income Trading. He manages trading, underwriting, institutional sales and dealer sales, covering products such as municipal bonds, treasuries, collateralized mortgage obligations, corporate bonds and unit investment trusts. His career began in back-office operations in 1980 at Merrill Lynch, where he stayed until 1983. Mr. Mason then moved to Morgan Stanley, where he was Manager of Trading Operations from 1983 until 1985, when he became an Institutional Trader. In 1988 he left Morgan Stanley

and started working at David Lerner Associates, Inc., where he became Head of the Trading Department. Mr. Mason currently serves as a member of the board of directors at David Lerner Associates, Inc. He is also a member of the Municipal Bond Club of New York. Mr. Mason has obtained his General Securities Principal (Series 24), Municipal Securities Principal (Series 53), General Securities Representative (Series 7) and Uniform Securities Agent State Law Examination (Series 63) licenses.

SECTOR – GENERAL INVESTING

TWST: Tell us about David Lerner Associates and your respective responsibilities at the firm.

Mr. Mason: David Lerner Associates was founded in 1976 by David Lerner. He came from a teaching background and put forth the philosophy of teaching investors. He is very focused on making sure that an investor understands the investments that we do at David Lerner Associates.

We started the Spirit of America family a little over 12 years ago. The first fund that we launched was the Spirit of America REIT Fund, and that is currently being managed by Ray Mathis. About six years ago, we started the Spirit of America Value Fund, and that is currently being managed by Alpana Sen. More recently we added a tax-free municipal bond fund and an income fund.

TWST: Alpana, would you tell us about the Spirit of America Fund?

Ms. Sen: The overall philosophy of the Spirit of America Value Fund focuses on the large-cap value segment of the U.S. equity market. We like to invest in quality companies with a long-term investment horizon. We believe companies that have good earnings growth, strong balance sheets, a good track record and superior management would ultimately perform well regardless of the environment.

TWST: What is the value philosophy? How do you define value?

Ms. Sen: We define value using several factors. We compare price-to-earnings ratios, price-to-growth ratios, price-to-book, price-to-sales, free cash flow and return on equity to their respective historic five-year average. We also evaluate them relative to their peers and to the benchmark index, S&P 500. If we see a company with strong fundamentals yet trading below its historical averages, that would be a perfect stock for our portfolio.

TWST: Would you take us through the investment decision-making process and the criteria that you look for in potential holdings?

Ms. Sen: We take a top-down approach. First, we review the economy and its trends. Then we evaluate the sectors and industries that would benefit in the current environment. Lastly, we do a thorough fundamental analysis to seek companies that would fit our philosophy.

Sen: We started buying Boeing back in January of 2009 at the price around \$45. We believed the commercial aviation sector would recover and the business traveler would come back. Boeing is changing the face of commercial aerospace with the 787-Dreamliner. At their recent investor meeting, they gave a 20-year outlook, expecting 29,000 new airplanes valued at \$3.2 trillion.

TWST: What is the current environment like for your type of value investing?

Ms. Sen: It's actually very good. We believe the economy is showing signs of recovery and has positive signs of strength in many aspects.

TWST: Do you look for sector weightings? Would you tell us about some of the exposures you have in the portfolio?

Ms. Sen: Currently, our largest overweight sector is industrials.

We are optimistic about that sector, as firms continue to reinvest in capital equipment and rebuild inventories. We believe companies such as **Caterpillar** (CAT), **Boeing** (BA), **CSX** (CSX) and **GE** (GE) would benefit.

TWST: Have you made any changes to the portfolio's weightings over the last 12 months?

Mr. Mason: The portfolio's cash position was approximately 18% in September 2008. When the market made a bottom in March 2009, our cash position dramatically declined to about 3%. We started utilizing the cash to buy names that we liked. We did an efficient job of navigating through that difficult time and being close to calling the bottom of the market.

Ms. Sen: We don't take huge bets on any one sector. We are well diversified and have exposure to all 10 sectors of the S&P 500 index.

TWST: Would you elaborate on how you positioned the portfolio to prepare for the current environment and the recovering economy?

Ms. Sen: We overweighted the industrial, the materials and technology sectors, and recently the financial sector coming into 2010, as we believed they would also do well in the current environment. We also bought some of the discretionary names when they were weak and people felt that the consumer, who would be weakened, would not buy, wouldn't be spending too much money on discretionary items. We also lowered our weighting in staples and utilities, which did very well for us.

TWST: What are some of the stocks in the portfolio that you feel are representative of your investment approach?

Ms. Sen: We started buying **Boeing** back in January of 2009 at the price around \$45. We believed the commercial aviation sector would recover and the business traveler would come back. **Boeing** is

changing the face of commercial aerospace with the 787-Dreamliner. At their recent investor meeting, they gave a 20-year outlook, expecting 29,000 new airplanes valued at \$3.2 trillion. That stock is trading at approximately 13 times 2011 earnings, which we believe is cheap.

We are also overweighted in the technology sector and believe this sector will recover when the economy recovers. Furthermore, we believed as companies were laying off employees, they would replace their

Highlights

Alpana Sen, Raymond A. Mathis and William Mason offer an in-depth overview of the Spirit of America Fund, which takes a top-down approach to large-cap value investing. While the fund looks for companies with strong fundamentals that trade below their historical averages, the three managers go into greater detail on exactly which sectors and individual companies are currently represented in the portfolio. For example, the fund is currently overweight the industrial, materials technology and financial sectors. Ms. Sen provides the fund's definition of value along with a detailed overview of the sell process. The managers also touch on REITs and the consumer discretionary sector.

Companies include: Caterpillar (CAT); Boeing Co. (BA); CSX (CSX); General Electric (GE); Cisco Systems (CSCO); Equity Residential (EQR); Merck (MRK); Verizon Communications (VZ); Procter & Gamble (PG), Nike (NKE), Walt Disney (DIS), Exxon Mobil (XOM) and Johnson & Johnson (JNJ).

older machines with newer ones to be efficient and keep their competitive advantage. We believed **Cisco** (CSCO), who is a leader in networking, would benefit from this trend. It is one of our top holdings. Recently they delivered a strong earnings quarter. During their recent earnings release, management said their customers who were delaying upgrades are coming back. Revenues came in strong across all product segments and all geographies. They also have a strong balance sheet. Not only are companies

reporting strong earnings, they are providing long-term visibility.

TWST: What about Equity Residential, the apartment REIT? I heard that was a “buy” to take into account in the recovering economy?

Ms. Sen: EQR has a strong balance sheet and management. The company expects same-store revenues and FFO/share to be at the high end of its prior range. They previously guided to 2010 FFO/share of \$1.95-\$2.15. Their current dividend yield is 3.13%.

1-Year Daily Chart of Boeing



Past performance cannot guarantee future results.

Chart provided by www.BigCharts.com

TWST: We don't hear much about REITs from money managers anymore, so it's nice to hear about EQR.

Mr. Mathis: It was amazing how beaten down REITs were; they were left for dead. I think a lot of investors just assumed that since homebuilding was dead, the REITs were dead as well. But in fact, that wasn't the case. REITs have raised billions and billions of dollars of equity over the last couple of years, and they've successfully refinanced the majority of their near-term debt maturities. We believe **Equity Residential**, being one of the largest apartment REITs in the country, would benefit from a resumption of job growth. If you talk to any CEO of a residential real estate investment trust, they will tell you that their future growth is based on three things, jobs, jobs, jobs. When we saw the economy starting to turn, we saw a number of REITs that were trading well below asset re-

Mathis: We believe Equity Residential, being one of the largest apartment REITs in the country, would benefit from a resumption of job growth. If you talk to any CEO of a residential real estate investment trust, they will tell you that their future growth is based on three things, jobs, jobs, jobs.

placement value, well below net asset value, at liquidation prices at the time. We made an effort to buy into those and they performed quite well. **Equity Residential**, I think, is going to continue to perform quite well for us in the future; it's up 42% year-to-date. In my opinion, it still has some room to run because we are just starting to enter the job growth phase. And with the GDP numbers we are seeing, we should see fairly significant job growth through the remainder of the year.

TWST: What about the financials?

Ms. Sen: The financial sector was one of the weakest sectors during the fourth quarter of 2009. And since we were underweighted, we did well. We believed the bad news surrounding that sector was priced in and started adding to our current holdings during the first quarter 2010. The sector did rebound as companies began reporting earnings. In general we saw improvements in net charge-offs, with credit costs flat to down. Commercial losses appear to be getting better; credit quality continues to

improve. However, we are cautious on the regulatory issues as well as the European debt crisis, which plagues this sector.

TWST: What about the sell discipline? What triggers an exit from your portfolio?

Ms. Sen: Our sell discipline is based on several factors. If a stock becomes too expensive or the fundamentals are becoming

1-Year Daily Chart of Equity Residential



Past performance cannot guarantee future results.

Chart provided by www.BigCharts.com

weaker, then we may look to trim or sell our position. In addition, if the company consistently reports weak numbers, that may also trigger us to sell out of the name.

TWST: What about the average turnover?

Ms. Sen: The average turnover, for the year ending Dec. 31, 2010, is 18.51%.

TWST: So you really are a long-term investor?

Ms. Sen: Yes, we are a long-term investor.

TWST: The other part of the sell discipline of course is risk management. How do you attempt to manage risk at the portfolio or individual level?

Ms. Sen: We have a third-party, PNC, which reviews our portfolios to make sure that we are in compliance with fund mandates and other regulations.

TWST: You talked about the dividends of REITs and the financial sector. Is that an integral part of your process, to find yields for your clients?

Ms. Sen: That's a secondary goal of the fund. The fund focuses on capital appreciation. Some of the names we own, such as **GE**, **Merck** (MRK) and **Verizon** (VZ) have healthy dividends, and that's a bonus.

TWST: What distinguishes the investment approach at Spirit of America Management? What do you bring to the table that other peer companies might not?

Ms. Sen: We are a very small team, just three of us. So we are very nimble, and we don't have to go through an investment committee or have a big decision-making process. If we believe we would like to buy, sell or trim any stock, the process is seamless. We have good communication with everyone on the trading team. We don't use trading models or leverage the portfolio or use complicated hedging strategies. Most importantly, we are in constant touch with

our sales team to educate them on our funds and help them market our funds.

Mr. Mathis: Just to give you an example of the streamlined process that Alpana just described, I can tell you that if a fund needed to endure a lengthy process of vetting all the names in the portfolio through some investment committee, there could have been a potential for disaster. Last Thursday, with that “flash crash,” I can tell you this: When things were hitting rock bottom, we were in there trying to buy a lot of stuff. If we had to go through an investment committee, that wouldn’t have happened. But in fact, we are able to take advantage of some of the weakness in the market on that particular day. We are a small team, we are very streamlined, and that works very well for us. From a broader perspective, David Lerner Associates focuses on investments that we believe provide value with the potential to earn dividends and interest. Several of our funds, in addition to the fixed income products that we sell and the private REITs, are very income oriented. I think one of the overarching philosophies of the firm is to try to preserve investors’ money, and that’s one of the things that we try to adhere to.

Mr. Mason: It comes back to the product mix. To elaborate on what Ray was saying a little bit, we do have an investment model at David Lerner Associates, and these two funds fit in perfectly towards the top of that model. The base of our model is fixed income investments, such as tax-free municipal bonds and taxable municipal bonds.

TWST: Looking out through the rest of this year, what headwinds or challenges should investors be wary of now?

Mr. Mathis: The biggest potential challenge will be sovereign debt. Obviously that was a huge scare that the market received last week and over the weekend. It would appear that the European Union has addressed this issue; I sincerely hope that they’re successful in containing any potential contagion. But heading into next year, there could be some headwinds. Of course, we’ve got some temporary tax cuts that are expiring, that may or may not be renewed. We have potential financial industry regulation in Congress right now; it’s still too early to say what that legislation is going to look like. And in addition, we have the health care overhaul.

Ms. Sen: The other fear I have in the market is that investors are trading on fear and not on fundamentals.

TWST: One area we didn’t touch on was the amazing growth that has come from the emerging markets and international economies. Is your portfolio strictly domestic or do you also take into account international investments?

Ms. Sen: We are basically a domestic fund. However, most of the companies that we own are global; therefore, we have exposure to markets all around the world. For example, **Procter & Gamble (PG)**, **Nike (NKE)**, **Walt Disney (DIS)**, **Exxon Mobile (XOM)**, **Johnson & Johnson (JNJ)** and many, many more.

TWST: Thank You. (PS)

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There are risks inherent in investing. Past performance cannot guarantee future results.

FFO or FUNDS FROM OPERATIONS: is a commonly used supplemental metric that attempts to standardize operating performance of real estate companies. The National Association of Real Estate Investment Trusts defines FFO as GAAP net income, excluding gains (or losses) from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

Percent of Net Assets as of May 12, 2010:

Caterpillar (CAT) – 1.69%

Boeing (BA) – 1.40%

CSX (CSX) – 0.98%

General Electric (GE) – 2.10%

Cisco Systems (CSCO) – 2.92%

Equity Residential (EQR) – 0.96%

Merck (MRK) – 1.09%

Verizon Communications (VZ) – 0.87%

Procter and Gamble (PG) – 1.69%

Nike (NKE) – 0.50%

Walt Disney (DIS) – 1.19%

Exxon Mobile (XOM) – 1.61%

Johnson and Johnson (JNJ) – 1.44%

Investment Risks. Any investment involves risk. The risks associated with an investment in the Value Fund include:

- **Market Risk-** The market value of the Value Fund’s investments fluctuates as the equity market fluctuates. Market risk may affect a single issuer, industry or section of the economy or it may affect the market as a whole.
- **Large Capitalization Company Risk-** The Value Fund invests primarily in large cap companies. Larger, more established companies may be unable to respond quickly to new competitive challenges like changes in consumer tastes or innovative smaller competitors. Large cap companies are also sometimes unable to attain the high growth rates of successful, smaller companies, especially during extended periods of economic expansion.
- **Volatility Risk-** The performance of the Value Fund can be affected by unexpected events (e.g., significant earnings shortfalls or gains, war, or political events) that cause major price changes in individual securities or maker sectors.
- The stocks purchased by the Value Fund, while believed by the Value Fund’s Adviser to be undervalued, may not appreciate in value as the Adviser anticipates.
- The potential loss of your investment in the Value Fund if the Value Fund depreciates in value.
- The risk that a portfolio holding is unable to maintain dividend payments at historical levels.