THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

High Quality Growth Investing

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SECTOR – GENERAL INVESTING

TWST: Why don't you begin, as you have done before, telling our readers about Premier Asset Management LLC and your investment philosophy there?

Mr. Seminetta: We have been in business for eight years. We manage approximately $400 million; principally in large cap growth equities, although we manage some fixed income as well. Recently, we have been acquiring both new accounts and hiring new employees. There is currently a rare employment opportunity to hire some very experienced individuals that we know, trust and respect. We are benefiting from the downsizing of the large financial institutions.

In terms of our clients we tend to be focused, working mostly with significant families, ERISA accounts, foundation and endowments.

TWST: And how would you describe your investment style?

Mr. Seminetta: We invest in high quality growth companies. We have a process that identifies companies with consistent, increasing revenues, bottom line growth, and managements that demonstrate strong execution as measured by high return on equity and low debt to total capitalization. We screen for those characteristics and develop a working universe. We then spend a lot of time doing good old-fashioned primary research. Nearly everyone in our firm is dedicated to research and portfolio management. If you were to spend a day in our office you would find people on conference calls, speaking with trading desks, analysts and competitors and suppliers. This is the hardest part of our process to describe, but it's clearly the most important. The focus is to identify companies that have a niche product or service that makes them a leader in their field. Our companies enjoy either a high barrier to entry and/or they have a significant competitive advantage in terms of new products. Finally, we overlay a technical strategy to ensure the demand for the stock exceeds the supply. We are fundamentally focused, but we think technical analysis has a way of being very objective and we can identify lower risk entry points or potential sell targets.

1-Year Daily Chart of EMC

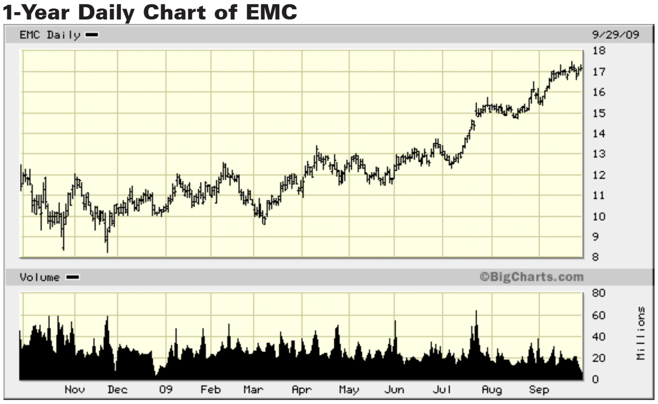


Chart provided by www.BigCharts.com

for large cap US growth companies. I have many relevant points if you are interested.

TWST: Yes, that will be great.

Mr. Seminetta: The first data point is that the asset class of large cap growth has underperformed for the better part of a decade now. In the 2000s, which we're almost out of, U.S. large cap stocks were the worst performing major asset class (down 3.6% per year versus long-term government bonds which were up 10.5% per year). Among all US stocks, large cap growth was the worst performing group. It was down 6.8% per year versus positive 8% for small cap value. If history is any guide, large cap growth should reverse to the upside in the next decade. Large cap growth also underperformed dramatically in the 1970s, a period which had some similarities to the current environment. Large cap growth then led most asset classes in the 1980s and 1990s.

The second data point is that valuation is extremely attractive. In the tech bubble, the peak valuation of large cap growth to large cap value was 2.6 times. Right now it's 1.0, so large cap growth has no valuation premium over large cap value. The low of all time was 0.9 and that was during the crisis of last fall. The historic average is 1.4, a 40% premium to today's levels, and we think a mean reversion move is likely. You drill down even further and find large cap growth has a forward price to earnings ratio of about 19 times, where small cap growth has a forward PE of 72 times and small cap value has a forward PE of 44 times. Large cap growth is cheap!

Another data point is large cap growth benefits from low interest rates, as growth stocks are really long duration securities

"Walmart has been growing earnings about 10% a year and we think they have the opportunity to increase that to 12% to 15%. The P/E is near an all-time low and international sales are rising, especially in China. WMT is a strong cash generator and focused on improving return on invested capital through better apparel offerings, better inventory controls and cost cutting."

TWST: This has been a difficult 12 months with the turmoil in the markets and the credit crunch. How has your investment approach been impacted by all these events?

Mr. Seminetta: We are currently enjoying a very favorable market rebound. But as you know, the world almost ended several times from an investment point of view! Thankfully it did not, but last year was very difficult, and this year the recovery has been very robust. Now we find ourselves in a nearly 10 year, 900 point trading range on the S&P 500. So what has changed is the need to be more active. We expect this large, wide trading range could last several more years, and that will reward active versus passive managers. If we have a W shape recovery or take whatever letter you think we are going to have (unless it's a V) successful investing will require a much more active and dynamic approach and that probably means a higher turnover ratio. You need to know your companies well and you might have to trade them more frequently as they move in wide trading ranges. Look at **Apple** (AAPL) and **Google** (GOOG), two benchmark growth stocks. Last year the stocks dropped by half, yet earnings actually grew. The problem was an extreme movement away from risky assets. Today the appetite for risk is coming back.

We believe that we are in one of the most exciting and opportunistic periods for investing in growth companies; particularly

1-Year Daily Chart of Intel

Chart provided by www.BigCharts.com

with higher revenue and earnings in future years. Large cap growth tends to perform better when economic growth is improving, as investors are willing to pay higher valuations for companies with robust revenue and earnings growth. We believe we are in one of those periods right now. Large cap growth also benefits from a weaker dollar, as most of these companies have a significant portion of their earnings generated outside the US. We believe the US economy will lag other emerging economies and large cap growth stocks will probably benefit from doing business in many parts of the world.

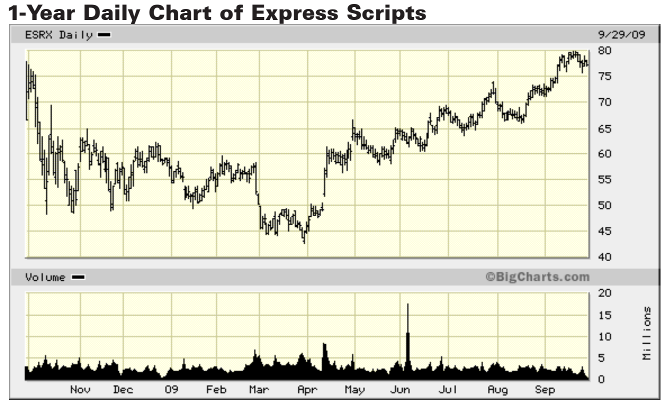
"EMC is also a majority owner of Vmware, which is a leader in cloud computing and virtualization, two things that almost every company is looking at as a way to cut costs. The majority of companies are likely to be in a cost saving mode for quite a number of years as the economy faces numerous headwinds."

Finally large cap growth should benefit from the increase in investors' risk tolerance. People have been on a starvation diet when it comes to risk, and growth stocks tend to be more volatile, which scared investors in 2008. There was very little disruption in many quality growth companies' earnings last year, but the stocks fell dramatically. They have since recovered and they should be rewarded going forward with their superior business models and growth prospects.

TWST: What are the criteria that you are looking for in potential quality growth stocks?

Ms. Seminetta: We invest in companies with above-average earnings and revenue growth, high return on equity, low debt, and a billion dollar or higher market capitalization. In light of the statistics that Joe mentioned, we are looking at three particular types of growth stocks.

1-Year Daily Chart of Express Scripts



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"Gilead has a dominant HIV franchise. Their products, TRUVADA and ATRIPLA are the two most prescribed drugs for HIV, each garnering 30% market share. It is trading near it's all-time low valuation with a P/E on forward earnings of 18 with the all-time low being 16 and the high being 40. We think there is a good opportunity for Gilead, a winner really no matter what happens with healthcare reform."

The first are companies with dominant global franchises that did not participate in the last bull market. Large cap technology names are an excellent example of this. **EMC** is a clear leader in the networked storage market, which is growing 8% a year. Their growth is being driven by the need to back up or save everything from digital photos to corporate records. The Internet is growing exponentially and the number of things that individuals and corporations want or need to save, whether it's just for fun or because of regulatory requirements, is growing at a significant pace.

EMC is also a majority owner of **Vmware** (VMW), which is a leader in cloud computing and virtualization, two things that almost every company is looking at as a way to cut costs. The majority of companies are likely to be in a cost saving mode for quite a number of years as the economy faces numerous headwinds.

Two other names that fit into this similar technology area are **Dell** (DELL) and **Intel** (INTC). Both companies are benefiting from strong product introductions, in particular netbook computers and handheld devices. We just went through a severe inventory correction, and now that the economy is stabilizing companies are starting to reorder, with a strong focus on these new products. These companies also both have very strong international sales, for **Intel** 85% of their sales are overseas, both have increased their guidance for the second half of this year and both have very strong cash positions. **Intel** has over $12 billion in cash and **Dell** is expected to generate nearly $3 billion in free cash in 2009.

Again, these are three stocks that sat out the last bull market of 2003-2007. **EMC** traded at 102 in 2000 and today is around 15, **Intel** traded at 75 in 2000, today around 19, and **Dell** traded at 59 in 2000, today trading around 15. So we think there is opportunity for these companies to reemerge as their earnings growth reemerges.

A final stock in that area is **Wal-Mart** (WMT). **Wal-Mart** peaked in 1999 at $70 and is now working on a ten-year base. Often when companies emerge from these long multi-year bases, you have a significant period of out-performance. They have been growing earnings about 10% a year and we think they have the opportunity to increase that to 12% to 15%. Their P/E is near an all-time low and international sales are rising, especially in China. **WMT** is a strong cash generator and focused on improving return on invested capital through better apparel offerings, better inventory controls and cost cutting.

1-Year Daily Chart of Qualcomm

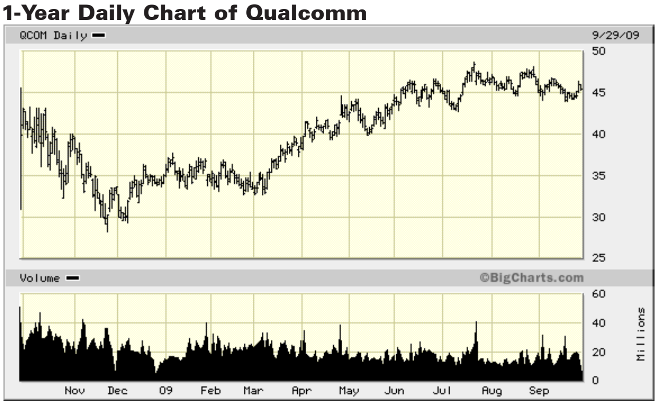


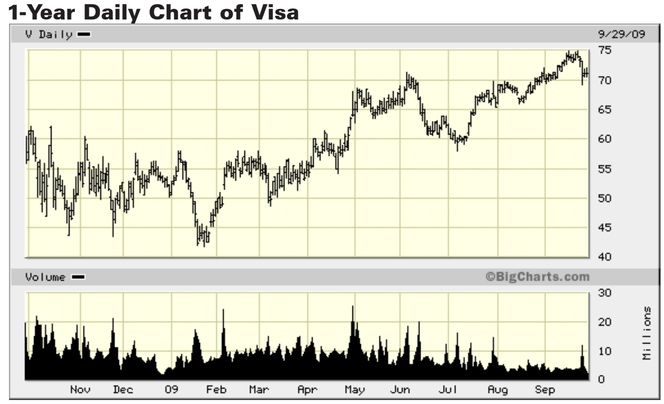
Chart provided by www.BigCharts.com

A second focus is high quality companies that have lagged the rally in 2009. One example is **Gilead Sciences** (GILD). **Gilead** has a dominant HIV franchise. Their products, TRUVADA and ATRIPLA are the two most prescribed drugs for HIV, each garnering 30% market share. TRUVADA is the Number 1 brand in all five of its European markets. Gilead has 11 products in late-stage development, with a particular focus on cardiovascular and Hepatitis. Here is another company that's trading near it's all-time low valuation with a P/E on forward earnings of 18 with the all-time low being 16 and the high being 40. We think there is a good opportunity for Gilead, a winner really no matter what happens with healthcare reform.

of wireless technology. So QCOM benefits regardless of who is selling the most phones. Recent settlements of legal disputes with **Nokia** (NOK) and **Broadcom** (BRCM) will allow them to improve margins as legal expenses decrease. They are particularly exposed to growth opportunities in China and India. In 2010, **China Telecom** (CHA) will launch at least 15 million new units and **China Unicom** (CHU) will be launching 44 new phones including the iPhone.

Our final pick in this high quality group that has lagged this year's rally is **Visa** (V). **Visa** has better than 20% earnings growth over the next couple of years; that's driven by the increase in debit cards, both in the US and internationally. Cautious consumers are spending within their means using debit cards rather than credit cards. And **Visa** takes no credit risk, they are just the transaction processor, they earn a fee for each transaction they process. Again, valuation looks very attractive to us. The P/E of 20 times, which is one times their growth rate, is down from a high of 47. They have no debt and margins continue to expand as the company streamlines expenses as a public company (they were previously owned by the large banks). V has free cash greater than a billion dollars to continue investing and growing.

1-Year Daily Chart of Visa



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"Express Scripts is another winner regardless of what happens with healthcare reform as this pharmacy benefit manager gets nearly two-thirds of sales from generic drugs. We expect earnings to accelerate into 2010 due to an acquisition from WellPoint which will give them opportunities with new customers as well as synergies. They have just re-signed their two biggest clients, so the risk of disappointment is very low."

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In the technology area, we also like **Qualcomm** (QCOM). **Qualcomm** is an excellent pick-and-shovel play on the 3G to 4G migration, and the smartphone market. They have dominant market share in the CDMA technology and that makes them the top licenser

The final area that we are looking at is both high quality and high growth stocks. One of our screens highlight seven companies that have double-digit earnings growth, return on equity greater than 20%, debt-to-capitalization less than 40% and they grew their earnings in 2007, they grew their earnings in 2008, they are growing their earnings in 2009 and they will have earnings growth in 2010. So despite the significant setbacks that the economy and majority of companies have experienced in the last 12 months, these companies are continuing to execute at a very high level.

A few of them I've already mentioned, such as **Wal-Mart**, but in the consumer space we also really like **Ross Stores** (ROST).

Ross Stores is a discount retailer, and in this slower growth environment the consumer is looking for better value. Research indicates that only 13% of consumers will go back to their previous spending habits from the 2006/2007 timeframe. We are looking for companies like **Wal-Mart** that can benefit from that. **Ross Stores** is smaller and they have had excellent opportunities to buy name brand merchandise at much more attractive prices. Their margins are strong as they reduce inventory costs by holding fewer items in-house at any one time, increase inventory turns , and lower real estate costs.

Another favorite is **Amazon** (AMZN). **Amazon** has three exciting drivers. The first is that they are becoming an online **Wal-Mart**. They are combining excellent choices for the customer with excellent technology. It's a terrific consumer experience with very good quality control, as most products they sell are not **Amazon** products, they are from different manufacturers. It's very challenging to control the external manufacturers' quality, but they have done a good job. We really like their recent acquisition of Zappos, which offers shoes and clothing with free overnight shipping. So this is significant improvement to the customer experience. The second driver is the Kindle e-reader. The Kindle is the first mover, has the best technology, is the easiest to use with the best front-end interface. This is the exact roadmap that **Apple** used to make the iPod a dominant product and no competitors were ever really able to catch up. We think the Kindle is following that same path. The third area is in cloud computing. Most people don't even realize Amazon is involved in cloud computing and it's small, but growing quickly. AMZN leases out their excess server capacity to other companies; ranging from start-ups all the way to large companies. For example, the New York Stock Exchange uses Amazon's cloud computing service to test out new products. This is a significant cost savings to companies because they don't need to invest in that extra hardware to do research and development for new product development.

"Amazon is becoming an online Wal-Mart. They are combining excellent choices for the customer with excellent technology. It's a terrific consumer experience with very good quality control, as most products they sell are not Amazon products, they are from different manufacturers."

1-Year Daily Chart of Gilead Services

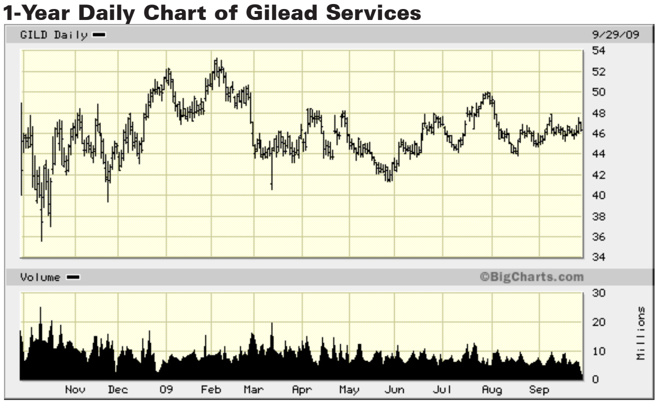

Chart provided by www.BigCharts.com

In the global biotech area, we really like **Gilead**, which I have talked about, but also **Monsanto** (MON). **Monsanto**, we believe, is more than an agriculture company, it is a global biotechnology company. They are very focused on the long-term, investing more than a billion dollars a year into research and development. Their goal is to increase crop yields in corn, soy, and cotton by 3% to 4% a year. This is driven by increasing the seeds per acre through better plant health by reducing weeds and pests. They have a significant number of new products and over the next seven years we will see the benefits of their strong R&D pipeline. This will replace declining sales in Round Up, which investors are concerned about right now. So they will double yields by improving drought tolerance, improving root health, reducing the need for nitrogen(one of the most expensive inputs for farmers is fertilizer) and reducing the need for external pest control. In addition, **Monsanto** has about 50% of their sales outside the U.S.

"Monsanto is more than an agriculture company, it is a global biotechnology company. They are very focused on the long-term, investing more than a billion dollars a year into research and development. Their goal is to increase crop yields in corn, soy, and cotton by 3% to 4% a year. "

The final area is in technology. Two stocks that meet the screen we put together are **Google** and **Priceline** (PCLN). **Google** will benefit from a recovery in the advertising market, particularly in Europe as search spending was lagging behind the US even before the downturn. So we expect to see a a few drivers propelling the stock; a cyclical upturn as well as expanding market share in Europe, focus on monetizing recent acquisitions, especially YouTube and DoubleClick, and the realization that **Microsoft's** (MSFT) Bing is really not a threat. Internationally we're really seeing no impact at all on **Google's** search dominance. In addition, next generation Google

Apps, which have very attractive margins, will be a significant improvement over what's currently being offered. We expect to see those coming out in 2010. GOOG has a high ROE, no debt and is trading near the low end of it's historical valuation range.

Finally, **Priceline**. **Priceline** also meets those criteria of no debt, very high ROE, strong earnings growth, and is trading near the low end of it's historical valuation range. Bookings for 2010 should be around $11 billion, and growing two to three times faster than competitors. International bookings provide two-thirds of profits and online travel is the biggest e-commerce industry. They have differentiated themsleves with the Name Your Own Price strategy and by focusing on online hotel reservations and deeply discounted travel. So with the rebound in the economy, we expect them to grow even faster as travel recovers.

TWST: How would you say that your portfolio has changed since over the last twelve months?

Ms. Seminetta: I would reiterate some of the things that Joe said earlier about the trading range market. We have seen a significant increase in volatility. So while we are trying to find companies that meet all of these criteria that we identified earlier, they move up quickly and they move down quickly. We may buy stocks and then sell half as it goes up 20%, 30% or 40% and then if they have a correction we will buy back in. That's been a significant change from previous years.

Mr. Seminetta: It's a very dynamic process with the multi year rise in market volatility. But again, we believe an active not passive dynamic process is what's going to really do well over the next few years. We have been in a very wide range on the major averages since 2000, and may remain in that range for a few more years.

Ms. Seminetta: Typically coming out of a recession you would have small cap and low quality leading, because the things that got hurt the most at the low, bounce back first. For example, Bank of America goes from 2 to 16. But as the recovery takes hold, we expect to see higher quality names start to outperform because that's where the strong and consistent earnings growth is with the most attractive valuations.

TWST: You mentioned volatility of the stocks and that brings up your sell process. Do you set specific targets in your sell discipline?

Mr. Seminetta: Yes the sell discipline is a major part of our process, and frankly the hardest element of investing. We don't, per se, set sell targets because we hope, if we correctly select growth stocks, their consistently improving fundamentals will drive the price. Setting a sell target at that time may result in selling them prematurely or early in a growth cycle. We have a very disciplined approach to selling. One of the keys is right out of the growth stock bible, we usually sell almost any stock that goes down 8% from our purchase price. Keeping your losses small and letting your winners accumulate is one of the great investment tenants. It also makes you a better buyer of stocks when you know it's on a close watch to be sold.

Other sell disciplines includes: if a stock falls 15% off its high price we want to try and protect that profit. We will sell any stock with accounting irregularities. We sell stocks if earnings estimates are missed by more than 10%; we want to own companies that are beating their estimates and surprise to the upside. We will tend to sell companies if analyst's expectations are being reduced. In addition we try to sell stocks if the relative strength rating falls below 50. This means the stock is underperforming the overall market. Ironically, valuation is not one of our key sell disciplines, because it doesn't have a very good record at determining future stock performance.

TWST: It strikes me that you are always forward looking, you are always looking for the new areas of potential growth and secular trends, is that correct? Is that part of what distinguishes your approach?

Mr. Seminetta: It is, and I think there are two components. One is, being large cap you have plenty of time to review companies before they enter your universe. So hopefully by being dynamically engaged in equity research and being naturally inquisitive, we will know about the companies as they are entering our universe.

The other issue is whether you are bottom-up or top-down in style, and we don't think it's as simple a differentiation as that. We are clearly stock pickers looking for great companies, but you also have to have a world view. It's a lot easier to pick great companies in sectors that have sustainable long-term growth. We are looking for trends that are secular in nature, not fads that wane in short periods of time. We were fortunate enough to have almost no exposure to banks in the last couple of years. I can't say that we exactly predicted the global financial meltdown, but we knew that after a bull run, whatever sector is the largest in the S&P 500 typically underperforms by a big margin. It's a lot easier to pick the winning sectors and then pick the best stocks within those sectors.

Ms. Seminetta: As Joe mentioned, we have some secular themes that we impose on the portfolio, and that helps us to be more forward looking. We are looking for the industries and segments of the market that are benefiting from secular growth trends. For example, right now, international sales exposure is important because there are many countries that are ahead of the US in their economic recovery. China, Singapore, India, Brazil, and many other Asian countries all have emerged from the recession more quickly than the US has. It is likely they will have continually higher economic growth rates than the US, so we want to overweight those segments of the portfolio. Other secular themes we are emphasizing are the trade down in consumer spending and cost efficient technologies.

TWST: What gives your investment approach its edge? What distinguishes or differentiates your approach from that at other quality growth investors?

Mr. Seminetta: We are very nimble and active. I think a lot of investment firms will stick with the thesis for a long time even if the stock is going in the opposite direction. If they like it at 50 and it goes down to 40 or 30, they may even like it more. We'd rather sell and then reinvest in it at a later time when the dynamics are more attractive and positive. We think that helps a lot.

We are not wed to any of our stocks. We like to think we are creative buyers and disciplined sellers. We are opened minded about areas where we'll look for future growth. During the 80s and 90s energy and industrial stocks never showed up in a growth manager's portfolio. Those who were late to realize those would be the growth industries of the 2003-2007 bull market missed a lot of opportunity for profits. We're always trying to find the untold story that's not already being discounted in the market. We tend to hunt for information in unusual places to try to get that research edge.

If you had to really quantify where our leading edge is, I would say it's an ability to combine the different types of research, fundamental, quantitative and technical. That's what all our professionals here are passionate about. They like getting the unknown story and they like picking stocks.

TWST: What about the risk element? What challenges do you see in growth investing that investors should be wary of now?

Mr. Seminetta: It's a very important question, because we have a lot of internal risk controls that we use, in addition to our sell discipline. We have limits on sector weights, position sizes and so forth, which I'm happy to go through.

As far as our sector weights, we'll be 0 to 2 times the broad S&P Sector weightings. So if Energy is 11%, we can be anywhere from 0 to 22%. That controls exposure should our secular thesis be wrong. It also allows us to avoid a sector if it doesn't meet our growth criteria, such as airlines or autos. As far as position sizes, we usually start out at 2-3%. If they get up to 5 or 6%, we'll generally trim them back.

The part of your question that I find very interesting is whether some of the policy decisions that are coming out of Washington will slow long term economic growth. It's very difficult to know what has been priced into the general market. I think that's actually another reason we may be in a multi year wide trading range. As there has been pushback on major spending initiatives, such as healthcare, we've seen the stock market rally. We could vacillate on investor thinking on economic growth from muted to strong several times in the next 5 or 10 years. This favors having companies with a global reach.

Ms. Seminetta: I would highlight three general factors that we're keeping our eye on that could significantly impact what happens over the next few years. The first one that we're living through right now is consumer deleveraging. In 2007 we had a level a consumer debt as a percentage of GDP that was similar to what it was in 1929 and it took 13 years for the consumer to delever. Now the stock market didn't go down that whole time, but it certainly threw up many challenges in terms of growth for different segments of the economy. The stock market was in a wide trading range and didn't surpass the 1929 peak until well into the 1950s. In terms of politics, there's a lot of uncertainty right now as to exactly what the government is going to do. We have a $750 billion stimulus program, and only $200 billion has been used. We have lots of pending legislation and in process legislation that could dramatically change business outcomes. If healthcare reform is implemented in the form of some of the current bills, there would be a dramatic increase in the price of labor. That kind of uncertainty prevents businesses from making quick decisions, they delay projects, they delay hiring, and that certainly impacts the GDP.

And then finally, the level of government debt. We're working towards a level of government debt as a percentage of the GDP nearing previously unseen levels outside of wartime. At the moment, the demand for that debt is still very strong, but we don't know the long term impact of trillion dollar deficits

If the demand for government debt does not match ever increasing supply, the government bond market will be very destabilizing, not only to the equity markets, but to the overall economy.

TWST: Thank you. (PS)

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