DREMAN CONTRARIAN VALUE INVESTMENT APPROACH
The Contrarian Value Investment Approach

- Definition and history
- Evidence of long-term performance
- Why investors fail to recognize the benefits
What is the contrarian value approach?

- Contrarian, or value, investors:
  - Try to identify investment opportunities that are not necessarily recognized by the majority of other investors
  - Look for financially solid companies that may be temporarily out of favor with the market
  - Seek stocks that are priced low relative to their earnings
The evolution of the contrarian value approach

1934
Benjamin Graham and David Dodd write *Security Analysis*, widely considered the definitive textbook for value investing.

1949
Benjamin Graham writes *The Intelligent Investor*.

1950
David Dreman writes in *Contrarian Investment Strategy*, “Take advantage of the high rate of analyst forecast error by simply investing in out-of-favor stocks.”

1965
After working with Graham for several years, Warren Buffett goes into business for himself, eventually purchasing Berkshire Hathaway.

1977
David Dreman writes in *Psychology and the Stock Market* that investor psychology (i.e., emotion) is the biggest determinant of stock prices.

1979
David Dreman starts writing a regular *Forbes* column called “The Contrarian.”

1992
Eugene Fama and Kenneth French find that there is a “value premium” built into the market.

1998
Amid the growth bubble, David Dreman writes in *Contrarian Investment Strategies: The Next Generation*, “Buy solid companies currently out of market favor, as measured by their low P/E, P/CF or P/B ratios, or by their high yields.”

2005
Jeremy Segal writes in *The Future for Investors* that the key to long-term investment success is investing in established companies selling at low prices that pay healthy dividends.
Traditional definition of “value”

Traditionally, value stocks have been considered stocks that are represented by the Russell 1000 Value Index (in contrast to the growth stocks, which are represented by the Russell 1000 Growth Index)

- **Russell 1000 Value Index**: An unmanaged index that consists of stocks with lower P/B ratios and lower forecasted-growth values.

- **Russell 1000 Growth Index**: An unmanaged index that consists of stocks with higher P/B ratios and higher forecasted-growth values.

- You cannot invest directly in an index.
Redefining “value”

- Nearly half of the stocks in the Russell 1000 Value Index and Russell 1000 Growth Index overlap

<table>
<thead>
<tr>
<th></th>
<th>Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Index</td>
<td>668</td>
</tr>
<tr>
<td>Growth Index</td>
<td>627</td>
</tr>
<tr>
<td>Both Indices</td>
<td>301</td>
</tr>
</tbody>
</table>

Contrarian value strategies define value differently: The real “value” is at the extreme: low P/E, low P/B, low P/CF and high dividend yield.

<table>
<thead>
<tr>
<th></th>
<th>Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest 20% P/E</td>
<td>Value is at the extreme</td>
</tr>
<tr>
<td>Middle 60% P/E</td>
<td>Neither growth nor value</td>
</tr>
<tr>
<td>Highest 20% P/E</td>
<td>Growth is at the extreme</td>
</tr>
</tbody>
</table>

Source: Factset, as of 12/31/10. Performance is historical and does not guarantee future results.
Low-P/E stocks have historically outperformed the market and/or high-P/E stocks

- Cumulative returns
- Annualized returns
- Over calendar years
- Over decades
- In down markets
- After bear markets

The market = the Standard & Poor’s 500 Composite (S&P 500), an unmanaged index that is widely considered to be representative of the market as a whole. You cannot invest directly in an index.
Annualized performance as of 12/31/10

- Investment strategies that employ low P/E ratios have outperformed the S&P 500 over nine annualized periods

<table>
<thead>
<tr>
<th>Annualized Period (years)</th>
<th>High P/E</th>
<th>Low P/E</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P/E</td>
<td>P/E</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>31.45%</td>
<td>25.15%</td>
<td>15.05%</td>
</tr>
<tr>
<td>3</td>
<td>3.07%</td>
<td>5.39%</td>
<td>-2.86%</td>
</tr>
<tr>
<td>5</td>
<td>5.48%</td>
<td>4.06%</td>
<td>2.29%</td>
</tr>
<tr>
<td>10</td>
<td>9.62%</td>
<td>15.72%</td>
<td>1.41%</td>
</tr>
<tr>
<td>15</td>
<td>9.03%</td>
<td>16.12%</td>
<td>6.76%</td>
</tr>
<tr>
<td>20</td>
<td>11.98%</td>
<td>19.15%</td>
<td>9.14%</td>
</tr>
<tr>
<td>25</td>
<td>9.14%</td>
<td>15.92%</td>
<td>9.78%</td>
</tr>
<tr>
<td>30</td>
<td>8.51%</td>
<td>18.26%</td>
<td>10.58%</td>
</tr>
<tr>
<td>40</td>
<td>10.50%</td>
<td>18.60%</td>
<td>10.02%</td>
</tr>
</tbody>
</table>

- Sources: Kenneth French and Dreman Value Management, as of 12/31/10.
- Performance is historical and does not guarantee future results. This graph and table are for illustrative purposes only and do not represent any Dreman fund.
- Dreman Value Management calculated returns for the time periods stated using Kenneth French monthly performance data. S&P data are provided by INFORMAIS.
Calendar-year performance as of 12/31/10

- Low-P/E stocks have outperformed the S&P 500 and high-P/E stocks in more than 70% of calendar years over the past 50 years.

- Sources: Kenneth French and Dreman Value Management as of 12/31/10.
- Performance is historical and does not guarantee future results. These pie charts are for illustrative purposes only and do not represent any Dreman fund.
- Dreman Value Management calculated returns for the time periods stated using Kenneth French monthly performance data.
Long-term performance evidence

- Rolling periods 12/1959-12/2010

Low P/E outperformed in every rolling 20-year period studied

Sources: Dreman Value Management, INFORMAIS, and mba.tuck.dartmouth.edu, as of 12/31/10. Performance is historical and does not guarantee future results. These pie charts are for illustrative purposes only and do not represent any Dreman fund. Dreman Value Management calculated average annual returns for the time periods stated using Kenneth French monthly performance data. S&P data is provided by INFORMAIS.
Decades, last 50 years as of 12/31/09

- Low-P/E stocks have outperformed the S&P 500 and high-P/E stocks in each of the last 5 decades

<table>
<thead>
<tr>
<th>Decade</th>
<th>Lowest 20% P/E</th>
<th>Highest 20% P/E</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960s</td>
<td>15.37</td>
<td>7.7</td>
<td>6.6</td>
</tr>
<tr>
<td>1970s</td>
<td>11.98</td>
<td>2.42</td>
<td>5.79</td>
</tr>
<tr>
<td>1980s</td>
<td>19.4</td>
<td>12.39</td>
<td>19.4</td>
</tr>
<tr>
<td>1990s</td>
<td>18.5</td>
<td>18.21</td>
<td>19.41</td>
</tr>
<tr>
<td>2000s</td>
<td>15.72</td>
<td>1.41</td>
<td>15.72</td>
</tr>
</tbody>
</table>

The 1960s = 1/1/60 – 12/31/69
The 1970s = 1/1/70 – 12/31/79
The 1980s = 1/1/80 – 12/31/89
The 1990s = 1/1/90 – 12/31/99
The 2000s = 1/1/00 – 12/31/09

Sources: Kenneth French and Dreman Value Management, as of 12/31/10.

Performance is historical and does not guarantee future results. This graph is for illustrative purposes only and does not represent any Dreman fund.

Dreman Value Management calculated returns for the time periods stated using Kenneth French monthly performance data.
In down markets as of 12/31/10

- Low-P/E stocks have outperformed the S&P 500 in 50 down market quarters (out of 160 total quarters) over the past 40 years (1970–2010)

Sources: Kenneth French and Dreman Value Management, as of 12/31/10.

Performance is historical and does not guarantee of future results. This chart is for illustrative purposes only and does not represent any Dreman fund.
Low-P/E stocks have outperformed the S&P 500 and High P/E stocks in every post-recession period since 1970

5 year average annual returns after each recession

- **1970s** = 1/1/76 – 12/31/80
- **1980s** = 1/1/83 – 12/31/87
- **1990s** = 1/1/92 – 12/31/96
- **Early 2000s** = 1/1/02 – 12/31/06
- **Late 2000s** = 1/1/10 – ??

Sources: Kenneth French and Dreman Value Management, as of 12/31/10.

Performance is historical and does not guarantee of future results. This chart is for illustrative purposes only and does not represent any Dreman fund.
Bear markets as of 12/31/10

- For 10 of 12 years following the last sustained bear market, in 1973 and 1974, low-P/E stocks outperformed high-P/E stocks—is history repeating itself?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Low P/E</td>
<td>-30.3</td>
<td>-22.8</td>
<td>75.79</td>
<td>64.22</td>
<td>29.3</td>
<td>28.34</td>
<td>37.99</td>
<td>31.56</td>
<td>18.04</td>
<td>39.81</td>
<td>47.75</td>
<td>14.35</td>
<td>36.9</td>
<td>19.72</td>
</tr>
<tr>
<td>High P/E</td>
<td>-37.9</td>
<td>-28.4</td>
<td>67.75</td>
<td>34.52</td>
<td>13.8</td>
<td>25.37</td>
<td>49.05</td>
<td>62.75</td>
<td>-10.5</td>
<td>19.21</td>
<td>29.06</td>
<td>-20.6</td>
<td>18.81</td>
<td>-1.89</td>
</tr>
</tbody>
</table>

2000–2004 bear market and after—is history repeating itself?

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low P/E</td>
<td>9.84</td>
<td>38.28</td>
<td>7.75</td>
<td>63.15</td>
<td>27.2</td>
<td>14.05</td>
<td>17.92</td>
<td>-11.6</td>
<td>-39.4</td>
<td>54.37</td>
<td>25.15</td>
</tr>
<tr>
<td>High P/E</td>
<td>-11.4</td>
<td>21.39</td>
<td>-22.11</td>
<td>57.25</td>
<td>20.2</td>
<td>7.39</td>
<td>17.18</td>
<td>1.77</td>
<td>-42.9</td>
<td>45.87</td>
<td>31.45</td>
</tr>
</tbody>
</table>

- Sources: Kenneth French and Dreman Value Management, as of 12/31/10.

- Performance is historical and does not guarantee future results. These tables are for illustrative purposes only and does not represent any Dreman fund.

- Dreman Value Management calculated returns for the time periods stated using Kenneth French monthly performance data.
Growth of $1,000,000
(Inflation Adjusted Alternate CPI)
1970-2010

Performance is historical and does not guarantee future results. These charts are for illustrative purposes only and do not represent any Dreman fund. Dreman Value Management calculated returns for the time periods stated using Kenneth French monthly performance data.

Un-invested returns are calculated using adjusted alternate CPI from Shadowstats.com. The SGS Alternate CPI is net of methodological changes - including the shift to geometric weighting and the shift to owners' equivalent rent -- since the early 1980s that were introduced so as to depress reported inflation, moving the concept of the CPI away from being a measure of the cost of living needed to maintain a constant standard of living.
Why investors fail to recognize the benefits

- Over-diversification
- The number of growth funds vs. value funds
- The composition of traditional growth and value indices
Investors have embraced overdiversification

Over the past three decades, common growth and value investing strategies have evolved—from “have one or the other” to “have both”

- **1980s to early 1990s**
  - “Growth shop” or “value shop”
  - Investment firms were either all growth or all value
  - Investment firms argued for one style over the other

- **Mid to late 1990s to today**
  - Need both for balance
  - Styles are cyclical and alternate
  - One style is not better than the other
  - Diversification rules! Own everything just in case!
Low-P/E stocks have outperformed the Russell 1000 Growth Index more often than traditional value stocks have

Number of calendar years of outperformance

- Sources: Kenneth French and Dreman Value Management as of 12/31/10.
- Performance is historical and does not guarantee future results. These charts are for illustrative purposes only and do not represent any Dreman fund.
- Dreman Value Management calculated returns for the time periods stated using Kenneth French monthly performance data. Russell 1000 Value Index data and Russell 1000 Growth Index data are provided by Factset.
Contrarian value strategies beat traditional value strategies

- Low-P/E stocks outperformed the Russell 1000 Value Index and the average large-cap value fund over the past 20 years

Contrarian value strategies vs. traditional value indices (1991–2010)

<table>
<thead>
<tr>
<th></th>
<th>Average annual return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contrarian value</td>
<td>19.15%</td>
</tr>
<tr>
<td>(20% lowest P/E)</td>
<td></td>
</tr>
<tr>
<td>Russell 1000 Value Index</td>
<td>10.07%</td>
</tr>
<tr>
<td>Average large-cap value fund</td>
<td>9.01%</td>
</tr>
</tbody>
</table>

-Sources: Kenneth French, Dreman Value Management and Morningstar, Inc., as of 12/31/10.

-Performance is historical and does not guarantee of future results. This chart is for illustrative purposes only and does not represent any Dreman fund.

Dreman Value Management calculated returns for value funds using Kenneth French data. Russell 1000 Value Index data are provided by Factset. Large-cap value fund data represent the average return of all funds that fall within the Morningstar Large Value category. Morningstar returns assume reinvestment of dividends and, unlike fund returns, do not reflect any fees or expenses. It is not possible to invest directly in a Morningstar category.
IMPORTANT DISCLOSURES

Value stocks may remain undervalued for extended periods of time and the market may not recognize the intrinsic value of these securities. The Fund’s past performance does not guarantee future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost.

We believe that it is important for you to understand what performance information means, and the limitations on the use of such information. As you know, past performance is not indicative of future results. The enclosed information includes data prepared in conformity with certain industry standards referred to below.

The information presented in this presentation has been developed internally and/or obtained from sources which DVM believes to be reliable; however, DVM does not guarantee the accuracy, adequacy or completeness of such information nor do we guarantee the appropriateness of any strategy referred to for any particular investor. There is no guarantee that any opinion, forecast, estimate, or objective will be achieved. Forecasts and estimates have certain inherent limitations, and unlike actual data, do not reflect actual market conditions.

This presentation is provided for informational purposes only and should not be construed as a recommendation or offer of any particular security, strategy or investment product. This presentation reflects the opinion of the commentator(s) on the date made and is subject to change at any time without notice and does not constitute tax, legal, or investment advice to, or particular recommendation for, any investor.

Leading economist Kenneth French identified a universe of stocks consisting of all stocks registered on the New York Stock Exchange, the American Stock Exchange and the Nasdaq. Kenneth French then sorted stocks into groups: The top 20% are those with the highest P/E ratios, representing the universe of expensive stocks. The bottom 20% are those with the lowest P/E ratios, representing the universe of cheap stocks. Dreman Value Management calculated the average annual returns for these stocks over the time periods stated using the monthly performance data provided by French.

Price Earnings Ratio (P/E) is the price of the stock divided by its earnings per share.

Dreman Value Management’s universe returns do not reflect payment of any expenses, fees or sales charges an investor would pay to purchase the securities that the universe represents; such costs would lower performance.
IMPORTANT DISCLOSURES

© 2011 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of information. Past performance is no guarantee of future results.

You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund’s prospectus contains this and other information about the Fund, and should be read and considered carefully before investing. You may obtain a current copy of the Fund’s prospectus by calling 1-800-247-1014 or by visiting www.dreman.com/products/. Past performance is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost.

The fund is distributed by Unified Financial Securities, Inc., 2960 North Meridian Street, Suite 300, Indianapolis, IN 46208. (Member FINRA)

NOT FDIC INSURED  MAY LOSE VALUE
NO BANK GUARANTEE  NOT A DEPOSIT
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY