

# Surgeons Diversified Investment Fund:

*Two years later*



by Savitri P. Pai, President, Surgeons Diversified Investment Fund

**A**s of June 30, 2008, the Surgeons Diversified Investment Fund (SDIF) net assets were approximately \$24 million. SDIF's total return since the inception date of September 22, 2006, to June 30, 2008, was 3.74 percent. SDIF's return can be compared against the return of 2.03 percent for the combined index of the S&P 500 Index/Lehman Brothers U.S. Aggregate Index during the same period (see Table 1, this page). According to Morningstar Inc., for the period ending June 30, 2008, SDIF placed in the top 25 percent of moderate allocation mutual funds for its three-month performance, and for the one-year period, SDIF placed in the top 35 percent. For more details, go to: <http://quicktake.morningstar.com/fund/totalreturns.asp?symbol=ACSFX>.

In February 2008, several changes were made to SDIF. First, the expense ratio of SDIF was lowered to 1.08 percent, including underlying exchange-traded fund (ETF) costs. Recognizing the goal of offering members of the American College of Surgeons and affiliated organizations a reasonably priced investment product, the decision was made to lower the expense ratio. The lower expense ratio will have a positive impact on the performance returns for shareholders.

Second, a 3 percent commodities allocation was added to SDIF in an effort to further align its asset allocation with that of the ACS endowment. The commodities component allows SDIF shareholders to obtain exposure to various types of commodities, including industrial and precious metals, agriculture, livestock, and

**Table 1: Average annual total returns\* for periods ended 6/30/08**

	Qtr	YTD <sup>†</sup>	One year	Since inception <sup>‡</sup>
SDIF	-0.29%	-5.72%	-5.26%	3.74%
S&P 500 Index/ Lehman Brothers U.S. Aggregate Index	-2.11%	-8.02%	-7.25%	2.03%

\*Average annual total return figures include changes in principal value, reinvested dividends, and capital gain distributions.

<sup>†</sup>YTD (year-to-date) return is not annualized and represents an aggregate total return.

<sup>‡</sup>SDIF commenced operation September 22, 2006.

### Disclosure

- Gross expense ratio: 1.96%\*
- Net expense ratio: 1.08%<sup>†</sup>

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary and you may have a gain or loss when you sell your shares.

\*The gross expense ratio reflects the actual costs of SDIF, not including acquired fund fees and expenses.

<sup>†</sup>The net expense ratio is the cost to the shareholder, including acquired fund fees and expenses. Surgeons Asset Management LLC (the "manager") has contractually agreed for the life of SDIF to limit SDIF's annual fund operating expenses (exclusive of acquired fund fees and expenses) to 0.82 percent per annum of SDIF's average daily net assets.

energy. Commodities exposure adds an asset class to SDIF that provides further diversification and one that historically has a negative correlation to stocks and bonds.

SDIF was created in September 2006 to help ACS members and affiliated organizations develop a healthy financial future. SDIF provides busy surgeons and organizations with access to a professionally managed, diversified investment program. SDIF is a diversified, no-load, open-end, asset allocation mutual fund, which seeks to provide long-term capital appreciation and income through the fundamental investing principles employed by the endowment

**Table 2: Asset allocation changes**

	12/31/06	3/31/07	8/31/07	6/30/08
U.S. equity				
Large cap value stocks	8%	9%	8%	8%
Large cap growth stocks	8	9	8	8
Large cap index stocks	7	8	8	8
Small cap value stocks	5	3.5	3.5	3.5
Small cap growth stocks	5	3.5	3.5	3.5
REIT stocks	6	6	6	6
Energy stocks	6	6	6	6
International equity	25	25	23	23
Emerging market	N/A	N/A	4	4
Commodities	N/A	N/A	N/A	3
U.S. fixed income	30	30	30	27
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Disclosure

*An investor should consider the investment objectives, risks, and charges and expenses of SDIF carefully before investing. SDIF's prospectus contains this and other information about SDIF and should be read before investing. SDIF's prospectus may be obtained by downloading it from SDIF's Web site at [www.surgeonsfund.com](http://www.surgeonsfund.com) or by calling 800/208-6070.*

Performance numbers have been positively affected by fee waivers and/or expense reimbursements. Without such fee waivers and/or expense reimbursements, performance numbers would have been lower.

All index returns listed herein also include the reinvestment of dividends, distributions, and interest (total return). The returns shown do not reflect the deduction of taxes a shareholder may pay on the redemption of SDIF shares or SDIF distributions.

The S&P 500 Index/Lehman Brothers U.S. Aggregate Index is composed of 70 percent S&P 500 Index and 30 percent of Lehman Brothers U.S. Aggregate Index.

Target allocations are subject to change. As a result of SDIF investing in other funds, an investor will pay proportionate share of the expenses charged by the underlying funds invested in. In addition, SDIF is subject to the same risks as the underlying exchange-traded funds that it invests in, including, among others, interest rate risk, credit/default risk, market risk, international investment risk, derivative risks, commodity risks, management risks, and liquidity risks.

Commodity-Linked Derivative Investment Risk—SDIF's investments in the Index may subject SDIF to greater volatility than investments in traditional securities. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. The current or "spot" prices of the underlying physical commodities may also affect, in a volatile and inconsistent manner, the prices of futures contracts in respect of the relevant commodity.

*SDIF is distributed by Ultimus Fund Distributors, LLC, 225 Pictoria Dr., Suite 450, Cincinnati, OH 45246. The phone number is 513/587-3400.*

fund of the College—asset allocation, diversification, and rebalancing.

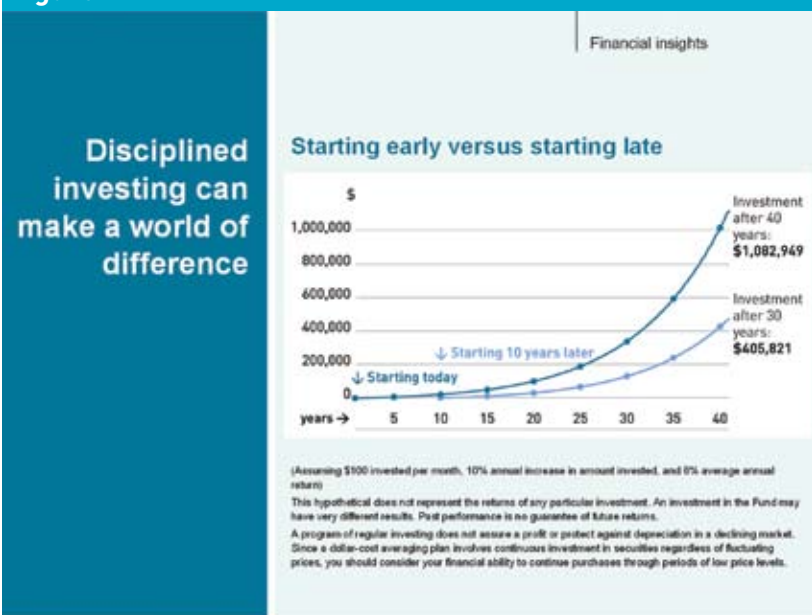
Asset allocation is the discipline of combining asset classes—stocks, bonds, and cash—to achieve an optimally balanced portfolio. Asset classes, considered alone, may vary greatly in performance and risk potential. By combining them in a diversified portfolio, one can seek an ideal ratio of risk versus reward. For instance, adding bonds to a 100 percent stock portfolio may lower return potential and possibly reduce volatility by an even greater margin.

Diversification and rebalancing are two additional investment principles used by SDIF. Diversification can help to manage risk and may increase return potential by ensuring that a portfolio remains invested in a variety of sub-asset classes, each of which will exhibit performance variations over time. Rebalancing is the process of returning to the original allocation. Over time, a portfolio's diversified asset allocation will shift as certain investments outperform others. Rebalancing keeps a portfolio focused on specific objectives and prevents the risk level from moving too far in one direction or another. Rebalancing can be one of the hardest things to do, as it is counterintuitive: You must sell your winners and buy more of your losers in order to get back to your target allocation. Busy professionals may lack the time to rebalance regularly and consistently. SDIF rebalances to the determined allocation at least quarterly.

### Targeted allocation

SDIF invests, on average, 70 percent of its securities in equities and 30 percent in fixed income. The asset allocation for SDIF is actively managed. As previously mentioned, in February 2008, the investment advisor recommended to adjust the allocation by shifting 3 percent from

Figure



fixed income to commodities. (See Table 2, page 24.)

SDIF currently invests in ETFs, which hold a portfolio of common stocks or other securities designed to track the performance of a particular index. ETFs differ from traditional index funds in that their shares are listed on a securities exchange and can be traded intraday.

### How to invest

SDIF is available to be used as an investment vehicle in individual accounts, such as traditional individual retirement accounts (IRA), Roth IRAs, simplified employee pension IRAs, simple IRAs, rollover IRAs, beneficiary/inherited IRAs, profit-sharing plans, and regular personal investment accounts. SDIF can also be used as an investment vehicle in institutional accounts, such as associations, foundations, societies, chapters of the ACS, hospital and university retirement plan platforms, surgical group practice plans, and others. Following is a list of participating organizations:

- ACS Alabama Chapter
- ACS Arizona Chapter
- ACS Connecticut Chapter

- ACS Ohio Chapter
- ACS Virginia Chapter
- ACS West Virginia Chapter
- American Society of Transplant Surgeons Foundation
- American Surgical Association
- Association for Academic Surgery Foundation
- Congenital Heart Surgeons Society
- Kenneth Warren Foundation (IHPBA)
- National Foundation for Trauma Care
- Ohio Committee on Trauma
- Society of Gynecologic Oncologists
- The Foundation for Excellence in Women's Healthcare Inc.

The suggested minimum investment to participate in SDIF has been reduced to \$5,000, assuming an automatic investment plan<sup>‡</sup> of at least \$100 per month is implemented, and \$10,000 if no automatic investment plan is implemented; waivers of the minimum are possible. The minimum investment has been modified for Medical Student Members (\$500), Resident Members (\$1,000), and Associate Fellows (\$2,500) of the College. For those who find it appropriate, an automatic investment plan is available.

It is never too late to begin investing. The Figure on page 25 presents the benefits of starting early versus starting late. The Figure illustrates the difference between two investors who invest identical amounts, starting with \$100 per month, and increase their contributions by 10 percent each year. The Figure assumes an average annual return of 6 percent, compounded monthly. The only difference is that one investor starts today and the other starts 10 years from now. Forty years later, the investor who started early has a portfolio of more than \$1 million. The investor who started later has only \$400,000.

This is a powerful message for younger investors who are starting their careers and believe they have no spare cash to invest. Setting aside even a little bit for investing may reap big dividends over time.

<sup>‡</sup>A program of regular investing does not ensure a profit or protect against depreciation in a declining market. Because a consistent investing program involves continuous investment in securities regardless of fluctuating prices, you should consider your financial ability to continue to purchase through periods of various price levels.

### More information

For more information about SDIF or regarding the waived minimum, contact Savi Pai at 312/202-5056 or [spai@facs.org](mailto:spai@facs.org), or Tom Kiley at 312/202-5019 or [tkiley@facs.org](mailto:tkiley@facs.org). Both individuals are available to discuss specific details regarding SDIF. You may also visit the Web site at [www.surgeonsfund.com](http://www.surgeonsfund.com) or call 800/208-6070.

The American College of Surgeons hopes that many of you will explore this investment opportunity it is providing for its members. It is anticipated that this service will be of assistance in alleviating some of the financial pressures that members all face. □