

INFORMATION TECHNOLOGY

September 27, 2011

Introduction

- Software & Services
- Technology Hardware & Equipment
- Semiconductor Equipment
 - 50 Largest companies in the US Sector account for approximately 80% of the market
 - S&P Sector Weighting 19.52% vs. SMIF Sector Weighting 16.93%

Industry Outlook

- Demand for IT services is driven by rapid technological advances, but spending depends on the slowly growing global economy
- The profitability of companies depends on offering technical expertise, innovative services, and effective marketing
 - Large companies have advantages in broad service offerings and global reach, which give them the ability to provide outsourcing services to big corporate customers.
 - Small companies can compete effectively by specializing in market niches or by partnering with larger companies that want to broaden their mix of services

Our Holdings

- eBay - Acquired 2/9/11
 - HPY - 1.50%
- IBM – Initially acquired 10/27/06
 - HPY – 63.81%

Other notable companies in the industry

- Apple
- Google
- Oracle
- Cisco
- HP

Computer Hardware

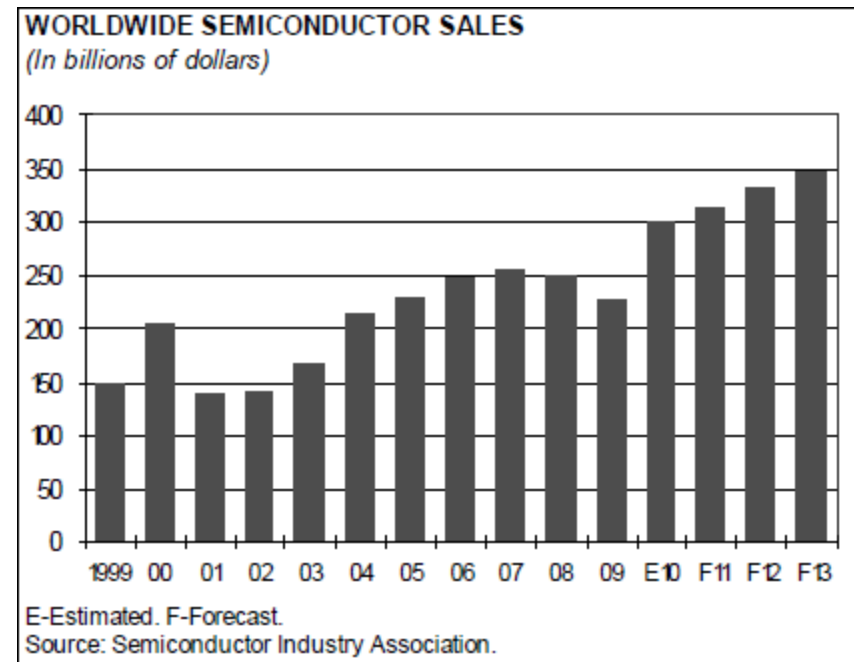
- Computer hardware markets showed modest growth through year-end 2010 and Q2 2011
- Server market rebounded in 2010
 - HP, Dell attempting to catch IBM
- Best performing industry in the InfoTech sector
 - Last 13 weeks -10.5% return

Internet Software & Services

- NetAdvantage's fundamental outlook for Internet Software and Services is **positive**
- Greater advertising spending and revenue expected
 - U.S. online advertising revenues rose 3% in 2009 and 15% in 2010, and Standard & Poor's estimates an increase of 10% in 2011
- Expected segment growth drivers
 - improving multichannel initiatives, better merchandising, more customized offerings, and increasingly sophisticated marketing efforts

Semiconductors

- Chip demand driven higher in 2011
- Profitability near decade highs
- Higher enterprise spending should lead to rebound from a weak ending of 2010 and beginning of 2011



Industry Performance

GICS Sub-Industries for:	% of	1 Wk	13 Wks	YTD
	S&P 1500			
Information Technology (Sector)	19.52	-4.2	-3.1	-5.8
Application Software	0.89	-6.4	-17.6	-13.4
Communications Equipment	2.02	-6.8	-7.1	-15.9
Computer Hardware	3.83	-0.1	10.5	8.4
Computer Storage & Peripherals	0.65	-8.3	-18.5	-18.5
Data Processing & Outsourced Services	1.46	-4.5	-0.2	5.8
Electronic Components	0.26	-10.4	-27.2	-32.2
Electronic Equipment & Instruments	0.12	-9.5	-22.1	-20.1
Electronic Manufacturing Services	0.12	-8	-17.3	-19.9
Home Entertainment Software	0.07	-7.7	-5.3	19.9
Internet Software & Services	1.84	-4.3	5.4	-9.8
IT Consulting & Other Services	2.35	-3.1	-2.2	9
Office Electronics	0.1	-11.2	-28.1	-36.7
Semiconductor Equipment	0.38	-7.4	-15.8	-17.3
Semiconductors	2.33	-3.4	-6.3	-8.4
Systems Software	2.98	-5.2	-2.9	-9.5
Technology Distributors	0.14	-9.2	-13.2	-13.3

Recommendation

- Overweight*
 - Neutral with S&P Weighting
- Many opportunities outside of what we own
- Innovating ideas, such as cloud computing, show increasing potential for growth across all parts of the sector
- InfoTech up 1.05% MTD, -2.19% YTD