

Total Return Focus

In general, investors are attracted to dividend paying stocks for their stable returns that tend to be less volatile than the market. For those who find such a strategy appealing there are no fewer than 800 companies paying dividends that are worth tracking, in combination with a number of real estate investment trusts and preferred stocks. Kirk Mentzer, portfolio manager of the Huntington Dividend Capture Fund, explains how the fund allocates assets across these market segments to generate stable returns.

What is the history of the company and the fund?

Huntington Asset Advisors and its associates have been managing money since 1917. Today the firm manages assets of more than \$13 billion for individuals, institutions, endowments, foundations, retirement plans, IRAs and municipalities across six states.

The Huntington Dividend Capture Fund was started in 2001 as an open-ended equity mutual fund that invests in the public equity markets of the United States. The fund seeks to invest in stocks of companies operating across diversified sectors.

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What is the investment objective of the fund?

The fund seeks total return on investment, with dividend income as an important component of that return. It invests at least 65% of assets in dividend-paying stocks that the adviser believes are undervalued or out-of-favor. Generally, the fund invests in mature, mid and large-cap U.S. companies. To meet the objective of the fund, the adviser focuses on common stock, preferred stock, and REITs which pay higher dividends. Additionally, the fund may invest in convertible bonds and other types of hybrid securities.

What is the main reason for the fund’s emphasis on dividends?

The dividend strategy was devised at the time of the tech boom, and at the time the dividend, as a source of income, was not much sought after. Since history has shown that stocks paying dividends have performed the best over the long term with lower volatility than the broader market, we decided to float a fund that looked at dividend along with other parameters as a source of income for clients who wanted higher total return with lower volatility.



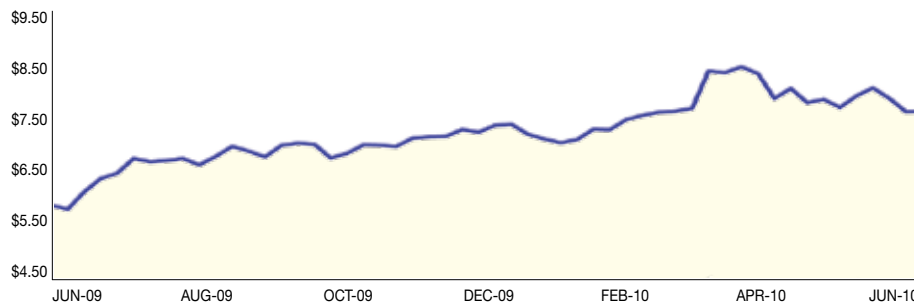
KIRK MENTZER is Senior Vice President and Director of Research at Huntington Funds. Additionally, Mentzer serves as portfolio manager of the Huntington Dividend Capture Fund and the Huntington Fixed Income Securities Fund.

With over 20 years of investment management experience, Mentzer focuses on developing and applying forecasting and portfolio analytic systems. He has managed U.S. government and strategic income funds, annuity products and institutional bond accounts.

Mentzer holds a BS in Finance from the University of Cincinnati and an MBA from Xavier University.

Performance - Price History N.A.V.

HUNTINGTON DIVIDEND CAPTURE FUND (HDCAX)



	2007	2008	2009
S&P 500 Index	5.49%	-37.00%	26.46%
Huntington Dividend Capture Fund	-7.14%	-29.41%	24.93%

Some of our clients wanted a relatively high level of income with as little volatility as possible. We were looking for a product that would get our clients access to a couple of different strategies to help keep the volatility down and also generate that income. Thus, we rolled out a product with three silos, a mix of value stocks, REITs and fixed rate preferred shares.

What do you mean by the term “dividend capture”?

In addition to the portfolio’s base holdings, from time to time we strategically purchase a stock shortly before it is scheduled to pay dividend before we sell the stock thereafter. While this strategy may increase the turnover of the portfolio, it provides an opportunity to deliver a concentrated dose of income to the investor.

What is your investment research process?

We start our research with the names in the S&P Composite 1500 Index. From

this universe of 1,500 names we remove all those names that do not pay a dividend. As the name of the fund suggests, every single holding in the portfolio has to pay a dividend, which brings down the number to around 800 names.

From these 800 odd names we would like to identify those that are buyable. We typically employ fundamental and qualitative analysis focusing on underlying earnings growth, cash flow, and credit quality to segregate names that are buyable. We look at high quality balance sheets and names with positive earnings-to-price in the previous quarter.

In short, we are looking for companies with smooth internal qualities that are more robust than the market represented by the S&P 1500 index. If a company is having a dividend that is cut down or has problems with profitability, that name will get knocked off the list.

Up to this point, through a plainly mechanical process we knock out many names from the list to arrive at 150 to 200 names. That is where we start the real leg work of matching the names with what we are looking for in our current strategies. Using a top-down view with the help of our quantitative analysis, we bring the number down to 60 to 70 names. This takes care of the common stock part of the silo.

Do you have a benchmark index for the common stock segment of the portfolio?

We follow the S&P 500/Citigroup Value Index for the common stocks.

How do you select names for the other two segments in the portfolio?

For the REIT segment we use the NAREIT index, which has some 200 names. We follow the same procedure as in the common stocks and select names roughly matching the weightings in this index. Since this area of the portfolio has less emphasis now, the turnover here is much lower.

For the preferred share segment we follow the Merrill Lynch Fixed Rate Preferred Index with its 300 hybrid security names, but we only select 50 names from the list that are paying dividend. We do not want to own names that have a deteriorating financial situation that can push the stock to non-investment grade or junk. So, we do a lot of quantitative analysis modeling assessment to arrive at the quality of the name.

What is a common benchmark for the entire fund?

The fund benchmarks the performance of its portfolio against the S&P 500 Index and a composite benchmark comprising of 40% S&P 500/Citigroup Value Index, 40% Merrill Lynch Fixed Rate Preferred Index, and 20% NAREIT Index.

What are the weight limitations for the three segments?

According to the SEC regulations, we cannot have more than 25% weightings in any one industry. As REITs are considered a separate industry group instead of an asset class, we are limited to 25%. In preferred shares we could go up to 40% and the balance would make up the common stocks.

Could you give us some examples that further illustrate the selection processes?

In the industrial space we were looking at three names; The General Electric Co, 3M Co and Textron Inc. By using our quantitative scores, we found that 3M Co scored higher over the others in that while it had above average earnings growth trend, it had the highest earnings quality and paid 2.7% dividend. For some time 3M Co has been one of the favorite holdings in the fund. Granite Construction Inc was at the bottom in the fund because it had negative earnings revisions and earnings-to-price, as well as negative price momentum.

Sovran Self Storage, Inc. was the name we selected in the REIT segment. Sovran had 5% yield, positive earnings revisions and earnings growth. The company is expected to pay dividend this year and then we are likely to sell the stock after the payout.

Could you provide an example of a name that you avoided?

We had looked at ProLogis before it got pushed to the bottom of the list based on quantitative ranking. The company had yield of about 5.5% but the worrying factor was that they had resorted to cutting dividend due to some financial difficulties. Their earnings growth did not look very good with no positive revisions even though their business performance has been acceptable. So, we decided not to

add the stock as core holding but bought the stock just before the dividend and then sold it thereafter.

How long do you typically hold the names in the portfolio?

The core names in the portfolio are held for about six to nine months on average, even though we do not have any set time limit. We do not have any emotional attachment to any names, so if the fundamentals deteriorate, we will sell.

What is your sell discipline?


As I mentioned earlier, we will sell a name if it has deteriorating fundamentals. We may also change our fundamental strategy and decide to change allocation to add more position in sectors that are in favor and to be lower in sectors that are out of favor. The third reason why we will sell a name is when a company has done everything it needs to do on a short-term basis, including the payout of the dividend that we wanted.

What is the total turnover in the portfolio?

It tends to be roughly around 100%.

How do you mitigate risks in portfolio?

The principal risk in the fund is the market risk. If the market goes down as it did in 2008, the fund will suffer. By having the three silo strategy with more weights given to common stocks, we try to mitigate this to some extent.

We also keep reminding our clients that high yield does not necessarily mean high returns. So, as a policy, we only look at above-average returns and dividend paying stocks in order to generate above-average returns most of the time. We will write call options when conditions dictate to generate incremental cash flows, which helps buffer returns when markets are flat or expected to decline. 

Huntington Dividend Capture Fund

Symbol **HDCAX** (Class A)
HDCTX (Trust Shares)
Website www.huntingtonfunds.com
Address Huntington Asset Advisors Inc
41 South High Street
Columbus, OH 43287
Telephone 800-253-0412
Inception 03/01/2001

PORTFOLIO INFORMATION	
Total Net Assets (millions)	\$107.45
Number of Issues	108
Dividend Schedule	Monthly

TOTAL RETURNS VS. S&P 500 INDEX		
	HDCAX	Index
1 Year (Cum.)	13.06%	10.16%
3 Year (Ann.)	-4.09%	-7.16%
5 Year (Ann.)	0.70%	0.64%

TTL RTNS VS. DIVIDEND CAPTURE INDICES BLEND *		
	HDCAX	Index
1 Year (Cum.)	13.06%	16.90%
3 Year (Ann.)	-4.09%	-6.22%
5 Year (Ann.)	0.70%	-0.02%

FEES AND EXPENSES	
Expense Ratio - Class A	1.66%
Expense Ratio - Trust Shares	1.41%

PORTFOLIO MANAGER	
Kirk Mentzer	2001
Randy Bateman	2001

* A custom, blended index comprised of the: S&P 500/Citi Value Index (40%), Merrill Lynch Fixed Rate Preferred Index (40%) and NAREIT Index (20%).
09/30/2010; Source: Company Documents

About Ticker Q&A

Our research staff analyzes and selects funds based on their consistency in performance and durability of investment style.

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Views are as of (09/10/10) and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security.

Diversification does not assure a profit nor protect against loss in a declining market.

Investments in real estate investment trusts (“REITs”) and real-estate related securities involve special risks associated with an investment in real estate, such as limited liquidity and interest rate risks and may be more volatile than other securities. In addition, the value of REITs and other real estate-related investments is sensitive to changes in real estate values, extended vacancies of properties and other environmental and economic factors.

S&P 500 Index: An unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy though changes in the aggregate market value of 500 stocks representing all major industries.

Citigroup Value Index: A market-capitalization-weighted index developed by Standard and Poor’s consisting of those stocks within the S&P 500 Index that exhibit strong value characteristics.

The Merrill Lynch Fixed Rate Preferred Index is a total return index comprised of fixed-rate preferred stock issues.

NAREIT Index: NAREIT stands for the National Association of Real Estate Investment Trusts, a trade organization focused on REITs.

There are no guarantees that dividend paying stocks will continue to pay dividends. In addition, dividend paying stocks may not experience the same capital appreciation potential as non-dividend paying stocks.

The holding listed below, which is referenced in the interview, made up the following percentage of Huntington Funds’ portfolios as of 9/30/10:

General Electric		ProLogis	
Dividend Capture	1.50%	Mortgage Securities	0.11%
Rotating Markets	1.05%		
Sovran Self Storage		3M Co	
Mid Corp America	0.50%	Dividend Capture	1.17%
Mortgage Securities	0.04%	Income Equity	2.19%
Dividend Capture	0.60%	Rotating Markets	5.55%
		S/I Gov’t Income Sec	0.58%

Other holdings mentioned in this article were not holdings of any Huntington Fund as of 09/30/10.

Mutual funds are subject to risks and fluctuate in value.

For more complete information about the Huntington Funds, call 1-800-253-0412 or contact your investment representative for a prospectus or view the prospectuses available on this website. You should consider the fund’s investment objectives, risks, charges, and expenses carefully before you invest. Information about these and other important subjects is in the fund’s prospectus, which you should read carefully before investing.

The funds are distributed by Unified Financial Securities, Inc. (Member FINRA) a wholly owned subsidiary of Huntington Bancshares, Inc. and an affiliate of Huntington Asset Advisors, Inc. the advisor to the Huntington Funds.

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

