EQUITY MANAGEMENT PROCESS

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Equity Overview

- Large Cap Core Equity
- Blend Manager
- Top Down Approach
- Neutral Third Party Research Utilized
- Three-pronged Sell Discipline
Large Cap Focus

Standard & Poor's 500 Stock Index
Total Return: Calendar Years 1950 - 2005*
Percentage Gain or Loss

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% Year to Date - through June 30, 2005

<table>
<thead>
<tr>
<th>Number of Years</th>
<th>Percentage of Years</th>
<th>Average Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td>42</td>
<td>75%</td>
</tr>
<tr>
<td>All Years</td>
<td>56</td>
<td>100%</td>
</tr>
<tr>
<td>Negative</td>
<td>14</td>
<td>25%</td>
</tr>
</tbody>
</table>
Shaded area indicates periods where Value Stocks or Growth Stocks have outperformed the benchmark index. Source: Barra; Standard & Poor’s Corporation; © Crandall, Pierce & Company • All rights reserved.

Total Return - Last Observations June 2005

*Net Change: Represented by the 12 month change in the Index minus the 12 month change in the Standard & Poor's 500 Index.

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Our process aims to add value to our long-term investment performance and attempts to reduce risk from our control of sector and industry group weightings. All ten economic sectors of the S&P 500 are represented in a typical portfolio. As we filter down to the individual company level, we seek high quality companies that pass our fundamental and quantitative analysis. A Guidance List is created with our best ideas. A portfolio is then constructed based upon the individual needs and risk tolerance levels of our client.
Top-Down Process

### Economic Analysis:
- Define expectations about economic activity
- Formulate an outlook on global economic conditions
- Analyze domestic economy by considering: monetary and fiscal policy, inflation, employment, interest rates, consumer confidence
- End Result—forecast of growth defined by GDP

### Industry Analysis:
- Apply economic outlook at the industry level
- Analyze industry groups based upon: level of competition, consolidation/justification, cyclical/seasonal trends, technological modification, regulatory conditions
- Forecast performance of industry groups versus the market

### Company Analysis:
- Apply industry analysis at the company level
- Utilize buy-side research to help identify leading companies in favorable industry groups
A Complimentary Approach to Research

By analyzing stocks from two research perspectives, we enhance the opportunity for return while helping to control risk.

- **Fundamental Analysis**
  - Business conditions
  - Competitive position
  - Management strategy

- **Quantitative Analysis**
  - Relative valuation
  - Risk attributes
  - Market expectations
Company Analysis – A Six Step Process

Step 1
Determine which companies within each industry have a favorable competitive position and prospects.

Step 2
Forecast growth in sales, earnings, dividends, and cash flows by studying a company’s individual product lines and margins and analyze versus peers and the market.

Step 3
Conduct elaborate ratio analysis of a company’s financial statements and footnotes to fully flush out obligations and opportunities while determining overall health.

Step 4
Build a relationship with a company’s management by attending meetings, presentations, and road shows with senior managers, traveling to corporate facilities and participating in conference calls.

Step 5
Examine institutional and insider ownership trends and measure a company’s beta and volatility of key financial statistics such as sales, earnings growth, and margins to access risk from a quantitative prospective. Determine if potential threats exist from a qualitative standpoint.

Step 6
Use relative valuation techniques such as P/E, P/B, P/S, and P/CF to determine a normal trading range for a company. Adjust the range going forward based on trends in growth and profitability and then use two-stage and three-stage dividend discount modeling to arrive at a 12-month target price.
Intrinsic Value Analysis
• Discounted free cash flow analysis
• Present value of shares vs. current price
• 10-15 year projection
• Defined parameters of DCF to make it more reasonable

Relative Valuation
• Assessing a security’s value by comparing financial ratios across peer groups
• Comparison with industry group: P/E, efficiency, margins
• Company value: P/E trading history, high/low in cycle, current P/E level justification
• Valuation vs. appropriate index

Risk Adjustment
• Technical
• Monitor insider buying
• Beta

Sum of Parts
• Fair value – determining private market values for a firm’s individual units
• No clear comparison and/or conglomerate
• Break divisions up as stand alone business units
• Calculate a relative value for each division
• Arrive at a blended valuation
Sell Discipline

**Up-Side Protection**

Profit Taking
- Target price has been met
- Most (or all) positive developments are reflected in price
- Valuation parameters become full or excessive

**Side-to-Side Protection**

Opportunity Seeking
- Identification of a superior risk/reward candidate
- An anticipated catalyst does not occur
- Changes in economic, sector, and/or industry outlook

**Down-Side Protection**

Capital Preservation
- Decelerating earnings momentum
- Negative earnings surprise
- Relative price deterioration or technical break-down (proprietary factors)

We view each equity investment under three different perspectives to help us determine appropriate exit points.

All sales are considered in conjunction with recommended sector and industry weightings along with individual client objectives and constraints.