

### FAST FACTS

#### Objective

To provide competitive performance with below-market risk.

#### Investment Approach

Bottom-up

#### Number of Holdings

50-70

#### Benchmark

Russell 1000 Value Index<sup>1</sup>

#### Buy Discipline

- Search for value catalysts
- In-depth company financial analysis
- Evaluate company management
- Timeliness

#### Sell Discipline

- Change in fundamentals
- Change in valuations
- Diversification
- Review if stock declines 15% or more

## WHY FREE CASH FLOW IS IMPORTANT TO US

If there's one thing that means more to us than anything else, it is finding those companies that emphasize the generation of free cash flow. There are many things companies that have free cash flow can do to increase shareholder value, including:

- Pay down debt
- Increase dividend payout
- Make strategic acquisitions
- Buy back their own stock

In addition, companies with free cash flow are better positioned to weather market downturns. They have the flexibility to evaluate different options to enhance shareholder value.

Through a diligent and disciplined investment process, our Value Team uncovers companies believed to be undervalued based on their prospects for earnings and cash flow growth. We begin with our customized Value Screening Process in which we measure the trailing four quarters of price/earnings and price/cash flow multiples of all companies with market capitalization over \$2 billion. We isolate the bottom 30%, which are the least expensive on both a price/earnings and price/cash flow basis. *Our studies have shown that the least expensive 30% have historically offered the highest level of excess returns versus the large cap universe.*<sup>2</sup> (See table below.)

### Annualized Excess Returns of Large Cap Companies' Stock

Ranked by Free Cash Flow Yield

Free Cash Flow Yield (FCFY)	1/1/1951 - 9/30/2008	Expansionary Business Cycle	Recessionary Business Cycle
<b>Companies with the Highest FCFY</b>	<b>4.3%</b>	<b>3.8%</b>	<b>7.6%</b>
Second Highest	1.7	1.4	3.7
Third Highest	-0.8	-0.7	-2.0
Fourth Highest	-2.0	-1.7	-3.9
Companies with Lowest FCFY	-1.9	-1.6	-3.6
<b>Difference between Highest and Lowest</b>	<b>6.1%</b>	<b>5.4%</b>	<b>11.2%</b>

Source: Empirical Research Partners Analysis, Sept. 30, 2008.

Companies generating the highest levels of free cash flow have turned out to be superior investments over time and throughout market cycles.

1. Russell 1000 Value Index is an unmanaged index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. It is not possible to make investments directly in an index.

2. Source: Empirical Research Partners LLC. The study used the largest 700 companies + S&P 500 constituents (\$5 billion market capitalization), equally weighted relative and absolute returns by gross cash flow yield deciles (financials and utilities excluded) from January 1, 1951 – September 30, 2008.

We then conduct an operating test on these 300-400 companies to identify those that generate the most cash, and a financial test to determine the overall health of the companies. We require a minimum free cash flow yield of 5%, which is calculated by dividing the free cash flow per share by the share price.

We believe that this is the way to manage money: invest in inexpensive stocks with free cash flow and strong catalysts for growth.

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Investment objectives may not be met as the underlying investment options are subject to market risk and fluctuate in value. Please keep in mind that there are fees and expenses associated with investing in managed accounts.

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### Value Catalysts

The next step is a critical component of what makes our process unique. We perform a Value Catalyst Test, which is a subjective screening test. Some of the Value Catalysts that we search for regarding cash flow include:

**Stock Buybacks:** Companies that are using excess cash to reduce shares outstanding by a minimum of 5% per year. Stock buybacks enhance earnings and support shareholder value.

**High Dividend Yield:** Companies with dividend yields that are at least 50% higher than that of the broad market. However, a high dividend alone is not enough to qualify as a Value Catalyst, so further research is completed to understand sustainability and growth potential of the dividend stream.

**Positive Earnings Trend:** What factors are driving corporate earnings and cash flow? What are the market's expectations, as well as the likelihood that earnings forecasts will be achieved?

**Private Market Value:** Stocks trading at a minimum of 30% discount to the private market value of its assets.

**Asset Restructuring:** Situations where there is potential for a material, positive change in a company's earnings trend. The team relies on detailed financial analysis to separate promising opportunities from stocks that are undervalued for good reason.

**High Insider Ownership:** Management that owns at least 5% of the company's total shares outstanding.