

Small- and Mid-Cap Core

Second Quarter 2007 Investment Update

Second quarter market performance mirrored first quarter performance with the market starting strongly before fading late in the quarter. Favorable March quarter earnings' reports and market-lifting news of mergers and acquisitions rallied stocks in April and May to new highs. June was another story. The daily greed rumor of yet another takeover gave way to the daily fear rumor about the potential for sizable capital losses in the subprime mortgage market. These rumors turned into reality by the end of June when Bear Stearns made front page news as two of its structured credit hedge funds suffered significant losses which in turn led to redemptions, margin calls and further losses in illiquid securities. Ironically, as the subprime drama was playing out and roiling the equity market, the economic data was looking stronger with both a pick up in growth and headline inflation readings. This mix of news rattled the bond market which sold off pushing the yield on the 10 year bond above 5.25%. For the quarter, U.S. equity markets all finished up, but seemingly on shaky ground. Large, liquid stocks did better than their smaller counterparts. We are pleased to report that we delivered returns in excess of both of our benchmarks for the quarter and have done so by over 550 basis points year-to-date in both strategies.

The Russell 2000 and the Russell Midcap Index rose just under 6% and 7.7%, respectively in April and May before declining in June. The Russell 2000's 4.4% gain trailed both the large cap S&P 500 index which was up 6.3%, and the Russell Mid Cap Index which was up 5.3%. Once again, growth outperformed value in the quarter in both of the indexes and has done so year-to-date.

Small Cap Core: Within the Russell 2000 sectors, only two sectors had negative returns. Utilities and financials were down 5.2% and 2.1%, respectively, both reacting to higher interest rates. The biggest positive contribution to Russell 2000 performance came from cyclical industries with energy, +12.3%, and industrials, 11.2%, leading the way. The materials sector appreciated 9.9% and technology gained 7.3% to also contribute to the positive performance in the quarter.

Stock selection was again key to our outperformance for the quarter. Our stock picks in materials and processing, financial services, consumer discretionary, energy and producer durables all contributed positively relative to the Russell 2000. Most of the underperformance relative to the benchmark occurred in our transportation and technology stocks.

Mid Cap Core: Within the Russell Midcap Index, only the financial sector had negative returns, down 1.8% while the utilities sector was basically flat, as both reacted to higher interest rates. The biggest positive contribution to performance came from cyclical industries with energy, +14.5%, and industrials, 12.0%, leading the way. The materials

Small- and Mid-Cap Core

sector appreciated 10.1% and technology gained 7.9% to also contribute to the positive performance in the quarter.

Stock selection was again key to our outperformance for the quarter. Our stock picks in financial services, materials and processing, producer durables and energy all contributed positively relative to the Russell Midcap. Underperformance relative to the benchmark occurred in technology, consumer discretionary and transportation.

We expect market volatility to continue in the second half of the year as the market tries to decipher conflicting economic news. The subprime mortgage issues seem to be weighing on the consumer at the same time the industrial economy appears to be strengthening. Although market volatility can be disconcerting, it also gives us our best opportunities to find miss-priced stocks. Our fundamental, bottom up approach to stock picking and our valuation based buy and sell discipline work well in this market. We are pleased to report another quarter of good results. We remain focused on our process and determined to continue to deliver exceptional results to our clients.