

Second Quarter 2009 Investment Update

It may seem obvious to many, but we'll state it nonetheless: "small-cap" stocks have historically performed the best coming out of a recession. While different theories have been advanced over the years to explain this dynamic, our tendency is to think the answer isn't all that complicated: small *capitalization* investing isn't necessarily about investing in small, fast growing companies. More often than not, it is about investing in companies—often fairly large cyclical and financial companies—that have fallen into small-cap territory by virtue of a decline in their stock prices. When the turn comes, these are the stocks that rebound the most.

We believe this cycle will be no different. Since the March 9th bottom, small-caps have had quite a run. During that time, the Russell 2000 Index has surpassed the Russell 1000 Index by more than 1,100 basis points.

As active managers running concentrated portfolios we have been able to meaningfully exceed the benchmarks for all four of our major services (Small-Cap Value, SMID-Cap Value, Small-Cap Core and Mid-Cap Core) in the second quarter. In addition, each service enters the second half of 2009 with notable YTD premiums ranging from 700 basis points to more than 2000 basis points on a net of fee basis.*

While some might think of the rally as being led by lower quality names, we prefer to think of it differently. In our minds, the biggest beneficiaries were those companies (both "high quality" and "low quality") with risky balance sheets (real or perceived) in a setting where the ability to raise external financing had largely evaporated. With the credit markets showing signs of a thaw, and a variety of companies demonstrating their ability to access the debt and equity markets without government help, investors began to reassess the market's implicitly dire valuation.

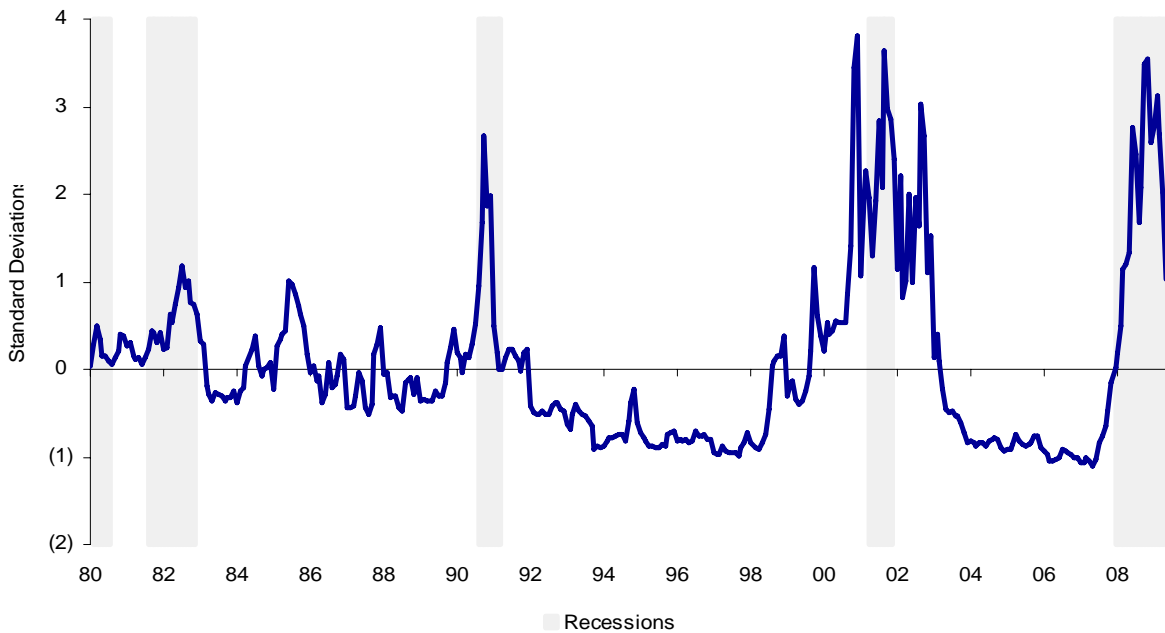
It is important for investors to keep in mind the starting point of this cycle's rebound. At the March 9th nadir, valuation spreads within the equity market were some four standard deviations wider than normal, the largest spread on record and wider than the levels reached even during the late 1990's tech and telecom bubble (Chart 1).

Our Firm

At Evercore Asset Management we focus first and foremost on achieving superior returns for our clients. We build concentrated portfolios of small- and mid-cap companies, one stock at a time, through extensive fundamental research. Our portfolios consist only of companies that we believe have outsized opportunity to appreciate in value. We strive to build long-lasting client relationships through consistent portfolio management and timely, straightforward communication.

*For notes on performance please refer to the disclosures at the end of this presentation

Chart 1: Equity Market Valuation Spreads



Source: Empirical Research Partners Analysis, National Bureau of Economic Research. Data as of June 30, 2009. Top quintile to market average.

As a result, throughout the trough which ran from approximately September 2008 through March 2009, bargains were readily available. In our Value services, where the emphasis is primarily on cheapness, we were buying a host of companies for anywhere between two and five times normal earnings; in a few instances we purchased companies at even greater discounts. In our Core services, which seek to balance valuation with management quality and the identification of growth catalysts, the reward/risk metrics of our models were as strong as they've been in a decade.

We've come a long way in recent months, but even today, with equity market valuation spreads still one to two standard deviations wider than average (and perhaps on their way to tighter than average levels once all is said and done), we believe our portfolios continue to exhibit characteristics that suggest significant future alpha generation.

Active portfolio managers have an advantage in this environment by taking profits in the first groups to correct and reinvesting the proceeds in those that have lagged. We believe capturing this remaining premium will be different, and more challenging than it has been over the past few months, given that the returns of the most recent period were largely driven by a realization that government intervention has taken the worst case scenario off the table.

In turn, that has triggered a combination of short covering and something of a scramble by many managers to up their exposure to stocks in general and somewhat riskier stocks in particular. In short, it was a rally driven by a P/E expansion from depths which assumed a rather dire scenario.

As we move further along in this cycle, we look for our premiums to be accrued in a less dramatic fashion, driven by the market's recalculation of normalized earnings and a slow recalibration of stock prices to those earnings.

Our best guess is that the economy will show some signs of real GDP growth toward the end of this year due in part to federal stimulus spending and a manufacturing sector, at some point, going through a period of inventory restocking. The spread of "just in time" inventory management certainly appears to have exacerbated the downturn but should help to boost real output in the early stages of any recovery. Beyond that, however, we would look for modest growth at best. With continued labor market weakness, and the establishment of a positive savings rate which could be permanent, we just don't see consumer spending rebounding to pre-downturn levels.

Below we discuss the current portfolio strategies employed by our Core team.

Portfolio Strategy: Small- and Mid-Cap Core

Given our process of selecting companies at the low end of their valuation ranges, with intermediate term catalysts, and management teams we have confidence in, our portfolios were well positioned to capitalize on signs of economic stabilization and better than expected first quarter earnings. Some of the largest contributors to returns—**Carrizo Oil & Gas (CRZO)**, **Gildan Activeware (GIL)**, **R. R. Donnelley (RRD)**, and **Plains Exploration (PXP)**—were among the hardest hit during the fourth quarter of 2008 and the first quarter of 2009. In many cases we initiated positions in these names and added to them as valuations broke through historic lows. Of the names that did not keep pace with the rally—such as **Granite Construction (GVA)**, **Mastec (MTZ)**, and **American Water Works (AWK)**—many had been strong performers earlier in the year because of investor interest in stocks that were expected to benefit from the administration's stimulus spending. Given their prior run-up, these stocks did not experience the same surge as many others in the portfolios had during the second quarter.

Despite a strong market recovery, the quarter presented a number of opportunities to purchase companies that exhibited reward to risk multiples well in excess of our 2x minimum. Our purchases during the quarter were an eclectic group, not surprisingly, given our bottom up approach to stock picking.

We also took the opportunity to trim many holdings where large increases in stock prices had pushed position sizes up to our 4.5% limit. In addition, there were a handful of positions we closed due to the recent run-up in valuations and/or fundamental developments that impacted our reward to risk estimates.

In this regard, as bank stocks rallied we chose to reduce our exposure to the credit sensitive area of the financial sector by exiting **Wilmington Trust (WL)** and **East West Bancorp (EWBC)** in Small-Cap Core, and **Comerica Inc. (CMA)** and **Zions Bancorporation (ZION)** in Mid-Cap Core. We believe the run up in banks was overextended as the need to raise capital and additional problems in loan books could cause further weakness in the stocks. We also completed our exit

of **Prestige Brands (PBH)** and sold our position in **Centex (CTX)** in both Small-Cap Core and Mid-Cap Core. Centex received a stock buyout offer from Pulte Homes at a 30% plus premium to the previous day's close, and we opted not to own Pulte as we were less confident that their market positioning would be early to benefit from a recovery in home construction.

In Small-Cap Core we purchased **Chimera Investment Corp. (CIM)** a mortgage REIT we knew well due to our mid cap investment in its parent company, Annaly Capital Management. With the stock trading at 1.1x book value we estimated a reward to risk of 4x. The company exhibits multiple catalysts; in particular, it is strategically positioned to benefit from the dislocation in the AAA non-agency MBS market through purchasing highly discounted loan and security pools.

Another name we added to the Small-Cap Core portfolio was **Solutia (SOA)**, a manufacturer of chemicals and engineered materials that emerged from bankruptcy in early 2008. The company continues to trade at a 40% discount to its peer group suggesting a reward to risk greater than 4x. Solutia has an attractive high margin product portfolio which will be enhanced with the recent sale of its money losing nylon business. We also added **Harris Stratex Networks (HSTX)**, a communications equipment provider to wireless carriers. The company has over \$2 a share in cash on the balance sheet, it is free cash flow positive at the bottom of the cycle, and our models suggest a reward to risk greater than 3x. The company also has a new CEO from Nokia Siemens who, we believe, provides an upgrade to the senior management team.

In our Mid-Cap Core service we initiated a position in **Harsco Corporation (HSC)**, a unique industrial services company that is closely tied to steel operating rates and residential construction. With the steel industry operating at perhaps 35-45% of capacity and commercial construction levels dropping, the stock hit historical lows going into the quarter. On the management front, the company's new CEO is focusing on a back to basics approach and we have confidence the team will be successful in its pursuit of a leaner, more profitable company. In addition, there is a likely near-term growth catalyst for the rail part of their business due to China's advances in a countrywide rail infrastructure plan. Our estimates suggest the stock's reward is more than 3x its downside risk.

Also among the new additions to Mid-Cap Core was **United States Steel (X)**. United States Steel, we believe, is near or has already reached a trough from both an operational and valuation standpoint. Our belief is that any further downturn for the company is already built into current investor expectations and valuation, thus providing a reward to risk greater than 3x. The company recently refinanced its debt and recapitalized its balance sheet which put covenant worries to rest, another limiting factor to overall risk in the investment. The management team of United States Steel, in our opinion, is solid. We are also seeing increased purchases of iron ore and scrap, two key raw materials, from China suggesting that global demand may turn higher in the near-term.

Portfolio Overview

Periods Ending 6/30/2009

Performance	MRQ	YTD	1Year	3Year*
Small-Cap Core	34.7%	12.4%	-15.6%	-6.7%
Russell 2000®	20.7	2.6	-25.0	-9.9
Excess Return	14.0	9.8	9.4	3.2
Mid-Cap Core	23.9	17.0	-27.8	-7.2
Russell Midcap®	20.8	10.0	-30.4	-9.3
Excess Return	3.1	7.0	2.6	2.1

*Annualized

Net of management fees

For notes on performance please refer to the disclosure at the end of this document

Portfolio Characteristics	Small-Cap Core	Mid-Cap Core
P/E (ex. negative earnings)	16.0x	14.8x
P/B	1.4x	1.7X
Dividend Yield	1.2%	2.0%
Wtd. Avg. Market Cap.	\$1,134 mm	\$6,077 mm
Number of Holdings	35	35

Disclosures

The securities discussed above were holdings during the quarter ended June 30, 2009. The stocks we elect to highlight each quarter will not always be the highest performing stocks in the portfolio, but rather will have had some reported news or event (e.g. new contract, acquisition/divestiture, financing/refinancing, revenue or earnings, changes to management, change in relative valuation, plant strike, product recall, court ruling, etc.) of significance. They do not represent all of the securities purchased, sold or recommended by the advisor, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. All information is provided for informational purposes only and should not be deemed a recommendation to buy the securities mentioned.

All investments involve risk including the loss of principal. The performance and volatility of an index may be materially different from that of a client's account. In addition, a client's holdings may differ significantly from the securities that comprise an index. The indexes have not been selected to represent an appropriate benchmark to compare the advisor's performance, but rather are disclosed to allow for comparison of the advisor's performance to that of a well-known and widely recognized index.

Core Performance Disclosures:

1. The Small-Cap Core Composite includes all tax-exempt and taxable portfolios utilizing a fully invested equity allocation with an emphasis on the small cap segment of the U.S. equity market. Portfolios within the composite are managed to a client-directed broad market index, typically the Russell 2000 Index.
2. The Mid-Cap Core Composite includes all tax-exempt and taxable portfolios utilizing a fully invested equity allocation with an emphasis on the mid cap segment of the U.S. equity market. Portfolios within the composite are managed to a client-directed broad market index, typically the Russell Midcap Index.
3. The Small-Cap Core and Mid-Cap Core Composites comprise discretionary accounts with no material investment restrictions. Net of fee performance results reflect the deduction of fees according to the applicable investment advisory fee schedule. The results include all interest, realized and accrued dividends, capital gains, capital losses and brokerage commissions. Composite results prior to February 1, 2009 are based on aggregated data at the product level. Results following that date are based on asset weighted returns. Asset weighted performance measures the average performance of all portfolios in the composite weighted by size. Performance results for individual accounts vary due to the timing of investments, additions/withdrawals, length of relationship, and size of positions, among other reasons. Past performance is no guarantee of future results.
4. Composite Inclusion: Accounts must be fully invested as of the last day of the previous month to be included in the composites. Composites include terminated accounts for all full months under management.