

Second Quarter 2006
Investment Update

Firm Update

Evercore Asset Management reached a significant milestone this quarter. We began managing our first external account in our Small-Cap Value service, a \$22.5 million assignment from a key sub-advisory client – Callan Associates. We are very excited about the opportunity and appreciate Callan’s endorsement.

Portfolio Overview

Our Small-Cap Value portfolio was down a bit less than the broad small-cap market for the quarter. Similarly, our SMID-Cap Value portfolio did a bit better than its slice of the market. The changes in market value experienced in both portfolios can be attributed primarily to the vagaries of the stock market. Although both of our products’ returns were down in aggregate, none of our holdings reported news that negatively affected our opinion of its long-term prospects. In fact, we don’t concern ourselves with how the market values our stocks from day to day or even over the course of a quarter. Our focus, this quarter, as always, was on the intrinsic value of the cash flows we own as a result of our fractional ownership interest in each of our companies.

Before we get into the specifics of some of our holdings, we thought it would be worthwhile to reiterate our investment process. We have built concentrated portfolios that we think, over the long term, will produce meaningful returns. As deep value investors, our view is that opportunities arise from emotional investors who are more concerned with market risk than business risk. We believe that short-term price movements are typically driven by hope or hype – reactions to recent news or events that are often irrelevant to a company’s long-term prospects. This price volatility is largely unrelated to volatility in the cash flows of the underlying investments. And so, over time, as investors react – and often overreact – to news, a company’s stock price often becomes disconnected from its underlying fundamentals. This creates opportunities for value investors. Our strict focus on the fundamentals – the operating environment, earnings and free cash flow – identifies companies whose stock prices have become cheap relative to their long-term normalized earnings power. Our portfolios consist only of companies that we believe have an outsized opportunity to appreciate in value.

The approach we’ve taken with this update is similar to our investment approach – one stock at a time. We discuss on the following pages a selection of fundamental developments that took place during the quarter for selected companies in our portfolios.

Bausch & Lomb – BOL (Small-Cap Value and SMID-Cap Value)

Bausch & Lomb develops, manufactures, and markets eye health products. BOL made a decision to recall and permanently remove from sale a major contact lens care product when a link was established between a high incidence of a relatively rare infection and this solution. With the stock down significantly upon news of CDC reports and FDA inquiries, we moved relatively quickly to purchase BOL once our research led us to believe that plant contamination was not the cause of the infections, and that other BOL products were unlikely to be recalled. That conclusion has since been supported by additional evidence, and the stock has rebounded. We continue to hold it in the belief that it is still significantly undervalued, given the strength of the Bausch & Lomb brand name and the cash on the company's balance sheet.

ExpressJet Holdings, Inc. – XJT (Small-Cap Value)

ExpressJet is the airline operator that runs the regional jets in the Continental Express fleet. Margins in the regional jet operator industry have been under pressure primarily because of excess capacity in the industry. In December, Continental announced that it would discontinue usage of 69 planes – about 25% of XJT's fleet. While XJT is entitled to give the planes and their accompanying lease obligations to Continental, XJT announced this quarter that it will retain the aircraft. This has concerned investors who are skeptical of XJT's ability to deploy these planes profitably.

We believe that XJT will be able to at least break even on the redeployment of the planes by either operating them in another major carrier's network or using the aircraft in off-shore ventures similar to the agreement it has with Continental. Meanwhile, the company will continue to fly the 69 planes for Continental into next year. The stock is trading at about 7x our estimate of normal earnings which assumes both a smaller revenue base and a lower profit margin as a result of the redeployment. Further, XJT is also selling at a price we believe to be below liquidation value.

Lear Corporation – LEA (Small-Cap Value, SMID-Cap Value)

Lear is one of the world's largest automotive suppliers. It supplies automotive manufacturers with complete seating systems, electrical distribution systems and various electronic products and interior components and systems. Seating accounts for two-thirds of revenue. LEA's 2005 earnings dropped dramatically due to a decline in SUV sales, severe weakness in the company's Interiors division, and higher raw material costs. Perhaps because of the leverage on Lear's balance sheet and the bankruptcy of a competitor, the market has severely overreacted to the earnings decline.

There was a notable positive development at Lear this quarter: the company refinanced its debt, significantly extending maturity and boosting liquidity. More importantly, we believe that Lear will be able to make the appropriate adjustments to its business to manage the decline in SUV sales, and eventually to pass on higher raw material costs. We further expect the company to be able to eliminate the losses of the Interiors business, if not by restructuring, then by divestiture. Accounting for these changes, the company is selling at a very compelling multiple of about 7x our estimate of its normal earnings power.

Wolverine Tube – WLV (Small-Cap Value)

Wolverine is a manufacturer of copper tubing, much of which is used in commercial and residential air-conditioning systems. WLV's balance sheet is highly leveraged, making the company and its stock price unusually sensitive to relatively small changes in business conditions. We anticipate near-term improvement in demand for one of the company's key products due to certain changes in environmental regulations. In the meantime, however, WLV has struggled with the effects of a strike at one of its facilities, and, more importantly, with the price of copper, which has more than tripled since 2003. One of the ways in which copper prices pressure WLV is that it has to hold a great deal of copper raw material in inventory. Financing this inventory has become increasingly burdensome, particularly so during this quarter, when inventories were at seasonal high points while copper prices ran up from \$3/lb to nearly \$4/lb, before easing back to a bit more than \$3/lb currently. We believe that WLV has adequate liquidity – though just barely. Those who disagree pushed the stock down about 25% this quarter, to about 7x our estimate of normal earnings. This is a risky, but potentially very rewarding investment.

Portfolio Characteristics

	Small-Cap Value	SMID-Cap Value
P/E (ex. negative earnings)	17.6x	14.5x
P/B	1.6x	1.7x
Dividend Yield	1.9%	1.9%

Looking Ahead

Both Small-Cap Value and SMID-Cap Value are fully invested in stocks – cash balances are below 5% – however we continue to research other ideas which have screened into the top of our quantitative model. Although most of these names have fallen short of meeting our qualitative criteria, our universe of opportunity remains robust and we continue our due diligence on potential new investments for our portfolios.

All information provided in this presentation is for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned. We believe this is a balanced presentation of the performance of the portfolio, including a general summary of certain investments effected by the services that have both over and under performed the expectations of our portfolio managers. Past performance is not necessarily indicative of future results. Evercore Asset Management closely monitors the securities held in the portfolios. If a company's underlying fundamentals or valuation measures change, Evercore Asset Management will reevaluate its position and may sell part or all of its holdings.

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