55 East 52nd Street
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Second Quarter 2008
Investment Update

In our update one year ago we wrote: "Considering today's market, to value investors like us, the most noteworthy aspect is the reduction of valuation spreads to very tight levels…The causes of spread compression have been well discussed in the media: Significant liquidity, for example, and strong economic growth which is seemingly ubiquitous. Adding it all up, we live in a world with minimal controversy. With risks perceived to be low, credit has been easy." Narrow spreads meant that the return potential for value investors was weak. Over the past 12 months, that world has been turned completely upside down.

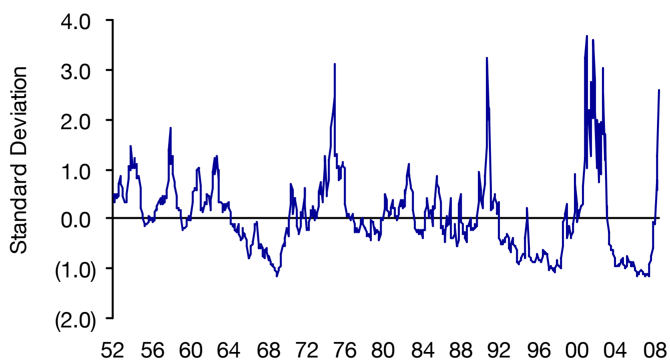
Our Philosophy

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 near-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.

How times have changed!

Figure 1 below shows 50-plus years of valuation spreads, which measure the opportunity in value stocks (it compares the expected returns of the cheapest stocks to the most expensive); the higher the data point, the greater the opportunity. Generally, as the line pushes higher, value underperforms, and as it makes its way back down, value returns lead the way. Today, value spreads are as wide as they were in 1990 and 1974 and are approaching 2000 levels.

Figure 1: Valuation Spreads



Source: Empirical Research Partners Analysis.

Consider these points in time. In 1990 spreads widened as financials became cheap relative to the market, the result of a commercial real estate downcycle leading to an S&L crisis. In 2000, spreads widened as prices of TMT stocks presumed impossible growth rates (the tech bubble). While financials were similarly cheap in 1990, it's likely that the current environment is more comparable

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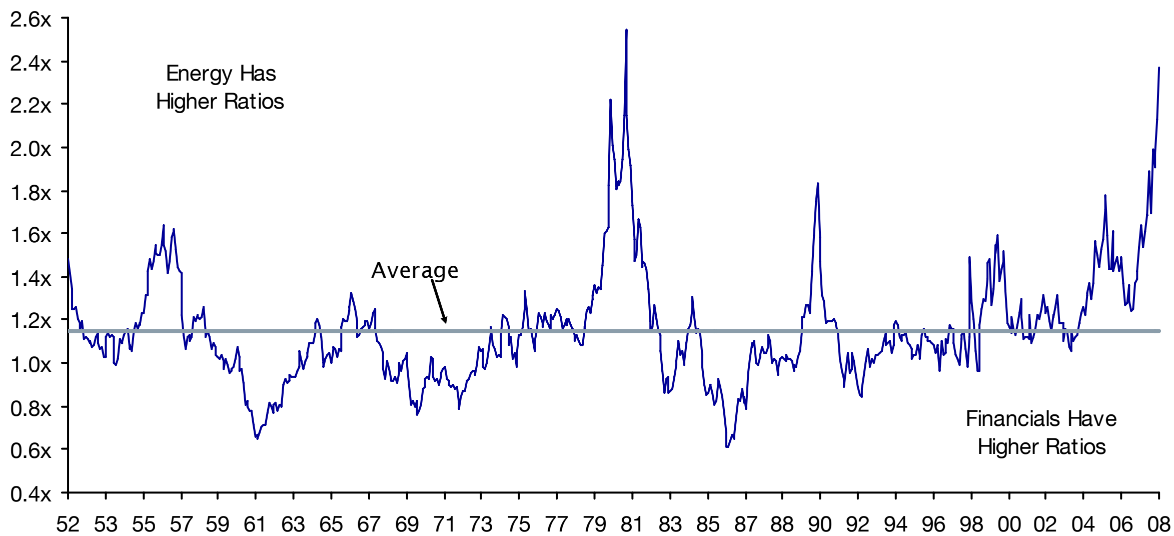
to 1973-1974. Then, as now, we've had to cope with a weakening dollar, rising oil and inflation uncertainty, a credit crunch and (likely) recession. Following each of the previous peaks, value stocks massively outperformed.

This reversal in spreads, from below-average opportunity last year to one of the most significant we have ever seen today, has occurred in dramatic fashion; Note the slope of the line and also how far and from where it has come. Change like this doesn't just happen. It's a by-product of human behavior that is manic and, ultimately, irrational.

While we've seen all this play out before – financial crises, speculative bubbles, panic, wide spreads – the details are always different. In fact, this combination of events is in many ways unique; spread widening has been the result of the two ends of the valuation spectrum pulling apart rather than one end gapping away, which is typically the pattern. That is, financials and housing-related stocks have become cheap, a by-product of the credit cycle while at the same time, energy and materials stocks have become expensive as the rise of commodity prices and all things related tracks China's growth story. Returns have been fueled by panic (housing), and uncertainty (inflation) on the one end and overconfidence (unabated emerging markets growth) on the other.

This "tale of two cities" is clearly displayed in the charts below, which compare two sectors traditionally considered to be in the "value" camp. Figure 2 compares the price-to-book ratios of energy and financials. On average energy stocks trade at a P/B nearly 1.2 times that of financials' P/B. Today that comparison yields a ratio that is more than double the average.

Figure 2: Price-to-Book Ratios of Energy compared to Financials



Source: Corporate Reports, Empirical Research Partners Analysis.
(1) Largest 1,500 stocks; capitalization-weighted data.

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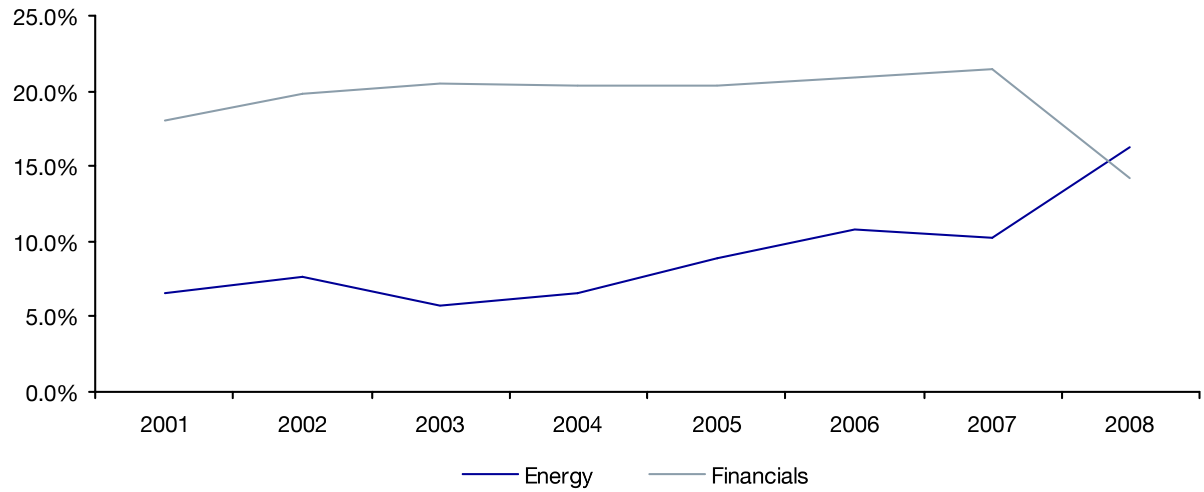
This growing apart of energy and financial valuations is also reflected in their respective weights in the S&P 500 index (Figure 3). The index weight of energy has nearly tripled in the past seven years, overtaking financials which has historically been the largest S&P 500 sector.

Figure 3: S&P 500 Weights of Energy and Financials



Source: Standard and Poor's, Evercore Asset Management.

Fundamentals in our favor

Our portfolios reflect this dichotomy as we have set up almost a pure play on these conditions reversing themselves. Resulting solely from a stock by stock analysis of fundamentals we are long cheap financials and housing-related stocks and effectively short energy and commodities.

In getting there, though, we have suffered through a period of very poor performance. Of course, had we fully appreciated the magnitude of the housing crisis we would have moved more slowly. However, it would not have changed what we own today.

As prices have continued to decline we have reaffirmed our confidence in our research by adding to positions on the way down. As painful as it may be in the short run, this process often works in our favor as we can buy a business at an even larger discount. In so doing, the latent performance buildup that we now see indicates a truly outstanding period of relative returns.

While financials exposure is a major theme for us (please see our Web site http://www.evercoreassetmanagement.com/products/inv_updates.php for our most recent point of view on Ambac and MBIA), many other tremendous value opportunities populate the portfolios. Mostly they reside, as we set forth above, in businesses considered vulnerable to housing, credit and energy concerns; think consumer durables, autos and transportation. For example, given the wild ride that crude oil prices have taken us on over the past couple of years, it would seem prudent to avoid investing in businesses where fuel is a considerable factor; likewise, many consumer discretionary stocks, given the depressed state of the real estate market and the associated decline of individual net worth. But it's these very conditions that create the bargains. Consider American Axle, which has been proactive in preparing itself for reduced demand and, in fact, has strong

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earnings power even with only a fraction of the light truck market. Just in the past quarter, it meaningfully improved its long-term cost position and announced plans to significantly reduce capacity. Then there's MarineMax. It's a retailer, after all, of power boats. But it trades at a very substantial discount to the value of its inventory and land, which we believe to be fairly valued.

So, we have very cheap portfolios. They trade at or below book value and have price-to-earnings multiples well below the market average. The thing about ratios, however, is that they are not a timing tool. But they are very useful in making judgments about what stocks to buy and sell. Likewise valuation spreads, which cannot tell us when the markets will redirect attention to fundamentals rather than momentum, but they can suggest when the air is getting thin. With spreads at three standard deviations from average, we're in rarified air.

Getting back to more normal valuations, though, requires a strong sense of ultimate losses from housing and in credit markets; slower growth in China; a rising dollar or a decline in oil demand, perhaps. Whatever the sign, we are compelled by the extraordinary valuations we hold to wait it out. With much of our portfolios at the center of a stock market storm the likes of which we have witnessed only three times in the post-war era (1973-1974 oil shock, 1990-1991 S&L crisis and the 1999-2000 tech bubble), this is painful to endure but we are confident will be quite rewarding in its ultimate outcome to contrarian investors like us.

Evercore Asset Management, LLC

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Portfolio Overview

Performance	2Q2008	YTD
Small Cap Value	-22.3%	-29.8%
SMID-Cap Value	-22.2	-29.2
Partnership Value	-33.6	-42.5
S&P 500	-2.7	-11.9
Russell 2000® Value	-3.5	-9.8

Net of management fees; Preliminary

Portfolio Characteristics	Small-Cap Value	SMID-Cap Value	Partnership Value
P/E (ex. negative earnings)	14.7x	11.9x	8.4x
P/B	0.9x	0.9x	0.8x
Dividend Yield	1.8%	2.6%	1.8%
Wtd. Avg. Market Cap.	$775 mm	$1,650 mm	$1,446 mm
Number of Holdings	43	40	10

Disclosures:

1. *The Small-Cap Value, SMID-Cap Value and Partnership Value composites comprise discretionary accounts with no material investment restrictions. Net of fee performance results reflect the deduction of advisory fees and brokerage commissions. The results also include the reinvestment of all interest, dividends and capital gains and were computed on a trade date (as opposed to settlement date) basis. Accounts that are open and fully invested for one full month are added to the composite at the beginning of the following month. Weighted performance measures the average performance of all portfolios in the composite weighted by size. The performance returns reflect the deduction of fees according to the applicable investment advisory fee schedule. Performance results for individual accounts vary due to the timing of investments, additions/withdrawals, length of relationship, fee schedule and size of positions, among other reasons. Past performance is no guarantee of future results. 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.*

2. *The securities discussed above were holdings during the quarter ended June 30, 2008. 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, 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.*