

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, particularly those stocks in the value end of the spectrum. 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 (Table 1).

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

Table 1: Returns Coming out of Recessions

Recessions	Small Value Companies*	S&P 500*	12 Month Small Value Excess
Dec '69–Nov '70	37.0%	25.5%	11.5%
Nov '73–Mar '75	57.1	37.2	19.9
Jan '80–Jul '80	55.8	31.3	24.5
Jul '81–Nov '82	79.1	43.9	35.2
Jul '90–Mar '91	40.6	30.5	10.1
Mar '01–Nov '01	-3.3	-18.0	14.7

*Returns calculated from the last three months of the recession through the nine months following its end. Small capitalization value stocks are defined by Fama/French; returns reflect their small value benchmark portfolio.

[†]For notes on performance please refer to the disclosures at the end of this presentation

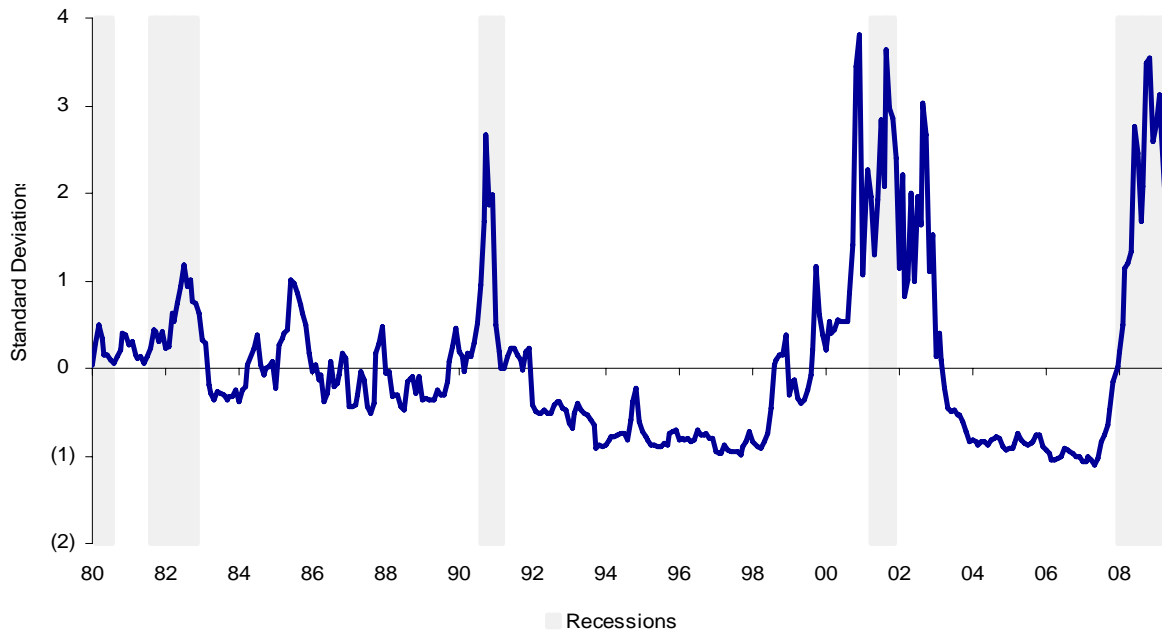
Our Firm

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.

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).

Chart 1: Value Spreads – Top Quintile to Market Avg.



Source: Empirical Research Partners Analysis, National Bureau of Economic Research. Data as of June 30, 2009.

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 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 Value team.

Portfolio Strategy: Small- and SMID-Cap Value

For committed deep value investors in the small capitalization space, the second quarter was a gratifying one. In an absolute sense, achieving net of fee returns of 51% in Small-Cap Value and 38% in SMID-Cap Value is a rare event—more typical of a great year rather than a three month period.* In large part, however, it was merely the mirror image of the poor returns and the pain that we experienced in the fourth quarter of 2008 and the first quarter of 2009. During this volatile economic cycle we have remained steadfast in the belief that our process and research would be rewarded; we just didn't know when. While we are still a long way from declaring any sort of victory, we believe the return potential of our portfolios remains very high by all historical measures.

Changes to the portfolio during the quarter were principally on the margins. While about one-third of our Small- and SMID-Cap Value portfolios remain invested in financials, including a broad range of banks and insurance companies, we did alter the mix somewhat by increasing our exposure to banks and trimming some holdings in the insurance industry. Among the additions to banks, most of the new money we put to work was in adding to existing positions including: **Comerica (CMA)**, **City National (CYN)**, **Key Corp. (KEY)**, **Marshall & Ilsley (MI)**, **Regions Financial (RF)**, and **Washington Federal (WFSL)**. We initially held these positions at 1% due to the unpredictability of government actions. Once the stress tests were over and the threat of unlimited government-imposed dilution or takeover began to recede, we increased these positions to 2%.

We also added a new bank, **Associated Banc Corp. (ASBC)**, during the second quarter. It is similar to several other banks we own in that it is a Midwestern bank facing current losses, but it

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

is well capitalized with a strong deposit base. As with all the banks in our portfolio, we have modeled very deep levels of distress in their loan portfolios and have concluded that these banks can withstand those losses with significant equity value remaining intact. Given the current valuation levels—deep discounts to book value and extremely low multiples of normalized earnings—we believe that even in what we deem to be a worst case scenario, the downside is modest.

Funding for the increased investment in banks came from a couple of areas. We exited **Renaissance Re (RNR)** a reinsurance company that had no real investment controversy, but got caught up in the pricing irrationality that impacted life and other insurance companies. We also cut back our holding in **Stewart Information Services (STC)**, a title insurance company which rallied as interest rates troughed and the mortgage refinancing boom took off. Completely unrelated, were our investments in auto suppliers **Borg Warner (BWA)** and **Superior Industries (SUP)**. They rallied hard off the bottom as fear surrounding the Chrysler and GM bankruptcies turned out to be worse than the reality. We exited both positions during the quarter.

Insurance contributed meaningfully to performance during the quarter, particularly **Assured Guaranty (AGO)** and **XL Capital (XL)**. Both companies had seen their stock prices pushed down to irrational levels and benefited greatly from the general reduction in investor anxiety. This was somewhat offset by our investment in **MBIA (MBI)**. MBIA has created a new subsidiary that it hopes will enable it to resume activity insuring municipal bonds. We think it is unlikely that, even with the new subsidiary, MBIA will be able to attract much new business. Nevertheless, the formation of a new subsidiary is an exciting development as it has been structured and capitalized in a way that protects roughly \$20 per share of equity value regardless of the size of the losses in the most troubled part of MBIA's insurance business.

We experienced a number of big wins in the quarter, but none bigger than **Dollar Thrifty Automotive (DTG)**. DTG, the fourth largest car rental firm whose focus is on the leisure market, fell from a high of more than \$50 per share in February '07 to as low as \$0.60 per share at the market's March nadir. As travel fell sharply, residual used car values fell, Chrysler (its primary supplier) faltered and the company found it difficult to obtain fleet financing. While the demand fall-off for rental cars was steep, the company took the right corrective actions: shrinking its fleet dramatically, raising prices as others in the industry also shrunk their fleets, proactively reducing its balance sheet exposure to Chrysler, signing a new supply agreement with Ford, and renegotiating its financing arrangements. During the quarter investors seemed to recognize that these actions could restore earnings back toward a normal level of \$1.50 per share, and the stock responded accordingly rising from a price of \$1.29 to \$13.95.

Portfolio Overview

Periods Ending 6/30/2009

Performance	MRQ	YTD	1Year	3Year*
Small-Cap Value	50.8%	18.1%	-8.2%	-18.7%
Russell 2000® Value	18.0	-5.2	-25.2	-12.1
Excess Return	32.8	23.3	17.0	-6.6
SMID-Cap Value	37.6	8.2	-18.3	-17.4
Russell 2500™ Value	18.8	-0.6	-26.2	-11.2
Excess Return	18.8	8.8	7.9	-6.2

*Annualized

Net of management fees

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

Portfolio Characteristics	Small-Cap Value	SMID-Cap Value
P/E (ex. negative earnings)	12.7x	12.1x
P/B	0.8x	0.8x
Dividend Yield	1.3%	1.7%
Wtd. Avg. Market Cap.	\$1,453 mm	\$1,940 mm
Number of Holdings	41	41

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.

Value Performance Disclosures:

1. The Small-Cap Value and SMID-Cap Value 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 the reinvestment of all interest, realized and unrealized dividends, capital gains, capital losses and brokerage commissions computed on a trade date basis. Results 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.
2. Composite Inclusion: Accounts that are open and fully invested for one full month are added to the Small-Cap Value and SMID-Cap Value composites at the beginning of the following month. Composites include terminated accounts for all full months under management.