

Third Quarter 2006 Investment Update

With the close of the third quarter Evercore Asset Management has now been in business for nine months. Thus, we are pleased to be writing this, our third investment update. These quarterly reviews provide us with the opportunity to report on the progress of our firm and investment services. We are focused on developing our business in a measured and thoughtful manner and are reassured by our progress on a number of fronts: First, our Small-Cap Value and SMID-Cap Value services have two full quarters of performance, details of which we provide in the Portfolio Overview section; second, our investment research staff continues to develop and, lastly, we're making headway in our general marketing efforts.

The most significant happening for our firm this quarter was the addition of an important resource to our investment team – Ciara Burnham. Ciara, a senior managing director in Evercore Partners' private equity business (Evercore Capital Partners), has a tremendous range of knowledge and considerable research and investing experience, honed during her years investing in both the public and private markets. She gained exposure to the public markets as part of Bernstein's small-cap value team in the mid '90s. Her private market experience at Evercore Capital Partners includes originating transactions, hands-on operating experience working with companies in Evercore's private equity portfolios and serving on numerous boards over the years. Ciara's complete biography is available on our Web site which we launched in early September.

Our Web site – www.EvercoreAM.com – currently provides details about our approach, products and team. We plan to broaden and deepen the content and capability of the site to include client-specific account data and reports accessible through a password protected portal. The site will serve as an important tool in our client servicing effort.

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 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.

Portfolio Overview

The market performance of our holdings was mixed this quarter. Our Small-Cap Value product returned -5.9% while SMID-Cap Value returned 3.0%, net of fees¹. Though, as most readers are aware, our approach to investing places no emphasis on short-term fluctuations in share prices, which are often the result of speculation about recent news or events rather than fundamental analysis. Our process focuses, at all times, on the intrinsic value of companies. We invest in businesses where underlying fundamentals are not accurately reflected in the price of their shares. Eventually this discount to intrinsic value narrows as the company's prospects come into focus. Below we have provided a summary of several holdings within our portfolios where intrinsic value became clearer, if not to the market vis-à-vis the stock price, then to us, as the news either supported, or in a few cases, refuted, our thesis.

Cooper Industries – COO

(Small-Cap Value and SMID-Cap Value)

Cooper Industries, a healthcare products manufacturer, reported that it is on schedule with its launch of an important new product, a contact lens made from silicone hydrogel. Cooper lost market share when its competitors beat it to the marketplace with this new lens material, in part because of difficulties Cooper encountered during the startup phase of manufacturing. With Cooper now in the marketplace with a silicone hydrogel product, we expect the company to begin recouping lost market share. Meanwhile, Cooper is gaining market share in fast growing non-U.S. markets. Cooper is also on track to eliminate redundant distribution centers in the wake of its acquisition of a competing lens company.

Global Power Equipment Group – GEG

(Small-Cap Value)

Global Power, which designs and builds equipment for the global energy industry, experienced a major erosion in the value of its business due to the ongoing cash drain from its Deltak heat recovery steam generator business. The company attributes this setback to unexpected increases in labor costs, higher fabrication costs in Asia and a doubling of steel prices. This is a disappointing fundamental development and we eliminated our position in this investment immediately following the end of the third quarter.

Journal Register Corp. – JRC

(Small-Cap Value)

Recent results have caused us to re-examine our original thesis, which was based in part on the idea that the company would be able to make substantial cost reductions at its recently acquired Michigan-based newspapers. Unfortunately, a downturn in Michigan's economy has, to a large extent, offset JRC's cost reduction efforts. More importantly, we have re-assessed our view of the long-term future for small-town local newspapers. We previously believed that there was sufficient value in the content produced by these enterprises to enable them to combat or even capitalize on the migration of advertising spending to the Internet. Upon further analysis, we still see value in the content, but we have concluded that the embedded costs of delivering that content are simply too high for most local papers to prosper in the Internet age. And while it is true that these news organizations can put their content on the Internet, we expect the resulting earnings stream to be

significantly smaller than we originally had forecast. While our current estimate of the intrinsic value of JRC is substantially below that on which we premised our initial investment, it is greater than the value assigned to it by the market at today's price. Therefore, we continue to hold the stock.

Lyondell Chemical Company – LYO

(SMID-Cap Value)

Lyondell makes petrochemicals and operates an oil refinery. The company has at last solved a problem that has bedeviled it for some time. In the mid-90's, Lyondell entered into a joint venture with Citgo, a petroleum company owned and controlled by the Venezuelan government. At the time, profitability in the refining industry was weak and volatile. Lyondell's deal with Citgo enabled the company to make major investments in an existing refinery and also created an economic arrangement in which Lyondell would be assured of a more stable income stream representing a reasonable return on the company's investment. For many years, that looked like a good deal, but now refining capacity utilization in this country is extremely tight. Refineries are highly profitable and expected to remain so for quite some time to come, yet Lyondell's profitability was constrained by its deal with the Venezuelans. This quarter, after rejecting outside bids to purchase the refinery, Lyondell instead bought out Citgo's interest. We believe that this transaction has increased the intrinsic value of our investment.

PXRE Group Ltd. – PXT

(Small-Cap Value)

Our investment in PXRE Group is playing out as we expected. PXRE is a reinsurance company that we purchased after losses in last year's hurricane season devastated the company's balance sheet. The company can no longer do business as a reinsurer because its capital is insufficient. We bought the stock at a large discount to what we believe is the liquidation value. We believed that most of PXRE's policy holders would cancel their policies, leaving the company with very little risk exposure to this year's hurricane season. Those cancellations have indeed occurred, and the hurricane season has also been very benign so far this year. The primary remaining risk of this investment – that the company has still not provided adequate reserves for losses incurred last season – is diminishing as time goes by.

Smithfield Foods, Inc. – SFD

(Small-Cap Value and SMID-Cap Value)

Smithfield Foods is a hog producer and pork processor. SFD completed one major acquisition and announced another – the purchase of Premium Standard Farms, which, like Smithfield, is a major pork processor. Smithfield's management has a strong record leading one of the few companies whose acquisitions have created value for shareholders. The acquisition of Premium Standard represents significant industry consolidation – SFD will raise more of the hogs it slaughters rather than purchasing them from a third party. SFD already raises more hogs than any other U.S. company. With the acquisition of Premium Standard, SFD will be able to produce over 50% of the hogs it slaughters, helping shield itself from price fluctuations, which may lead to better long-term returns for Smithfield.

Transactions

Transactions completed this quarter include the purchase of Handleman Company and Par Pharmaceutical and the sale of K&F Industries.

Handleman Company – HDL *(Small-Cap Value)*

Handleman manages the inventory of CD's and tapes for retailers like Wal-Mart, for whom overseeing the vast selection of titles is simply too complex an undertaking. Weak CD sales, a result of a recent dearth of major hits combined with alternative methods for digital music distribution (e.g. iTunes), have put pressure on Handleman's business. Handleman has reacted by taking its inventory management expertise into other categories, including video games and greeting cards. We purchased Handleman stock at a price just above liquidation value.

Par Pharmaceutical – PRX *(Small-Cap Value)*

Par Pharmaceutical is a manufacturer of generic drugs and also has an embryonic branded drug business that is currently losing money. The need to restate results back to 2004, and weak near term sales of an important new product have pushed down the stock price, but we think investors have overreacted. The restatement should not have a material impact on prior earnings and we believe the new product represents the first of a number of branded products that ultimately will turn the branded business into a money maker. Late-quarter management changes – installing a new chairman and a new CEO – are encouraging.

K&F Industries Holdings, Inc. – KFI *(Small-Cap Value)*

We sold K&F Industries, an aerospace parts manufacturer, during the quarter. Our analysis of a recent change in its accounting practices led us to conclude that our initial estimate of the company's long-term earnings power was too high.

Portfolio Characteristics

	Small-Cap Value	SMID-Cap Value
P/E (ex. negative earnings)	16.8x	15.2x
P/B	1.4x	1.7x
Dividend Yield	1.8%	1.9%

- The Small-Cap Value and SMID-Cap Value composites comprise discretionary accounts with no material investment restrictions and that invest primarily in equity securities. 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 in the composite were included on the first day of the month after being fully invested. 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 securities discussed above were holdings during the quarter ended September 30, 2006. 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.*

3. *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.*