Evercore Asset Management, LLC

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Third Quarter 2007
Investment Update

It's a well known axiom in our business that investors hate uncertainty, especially when the magnitude of the concern is potentially very large.

At times like this in the market, psychology really starts to take over. At Evercore Asset Management we try to steer clear of this, yet at the same time, take advantage of the pricing anomalies that often result. We talk a lot about the fundamentals test – cash flows, corporate earnings – as key to our strategy. Sometimes, though, the market is overly focused on short term concerns – the breadth and depth of the credit crisis, risk of recession, Fed actions – as it was during this past quarter. The resulting investor response – a repricing of risk – has pushed cheap stocks perceived to be exposed to these risks cheaper still, setting up a significant opportunity as value spreads widen.

Individual stock price volatility was remarkable at times this past quarter – certainly like nothing we can remember – most of it based on little, if any, fundamental news. Our companies had little to report. And, for several of our holdings, the earnings outlook has improved. Yet many were down significantly at some point during the quarter; a few saw intra-day moves of 20-30%. There were no earnings disappointments let alone catastrophes that would explain these types of adjustments. By way of example, consider Lear. The Icahn buyout deal was rejected and the stock moved ahead to over $40 in the ensuing days. Then, three weeks later, it was below $28. All of this activity with no change to fundamentals. We saw similar moves to other holdings, Bowne, JAKKS Pacific, Nash Finch, Rent-A-Center and Stewart Information Services, for example, each of which experienced dramatic swings in price over the course of several weeks. The fact that numerous companies in unrelated industries experienced such erratic behavior is further evidence that the price moves were driven by changes in risk premium and an immediate need for liquidity rather than changes in expected cash flows.

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.

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Currently, it's not enough to understand fundamentals and be correct in your forecast. There's also the issue of timing. We'll be early on some. The market has already seen to that. Investors have eschewed perceived risky assets – homebuilders such as M/I Homes which now trades at less than 0.4 times book value, for example; Rent-A-Center, a rent-to-own retailer, with its connection to the subprime borrower; Stewart Information Services because of its title insurance business; and JAKKS Pacific, a toy manufacturer, because of, what? Cautious consumer concerns? Fear of a lead paint problem? Second quarter profit was down, but that's a seasonally insignificant quarter. JAKK sells at a P/B of 1.2x and STC trades at 0.8x book; both have excess cash on their balance sheets. We'll continue to wait.

What many of our stocks had in common was that they were potential private equity buy-out candidates. The private equity bid for many stocks provided a big push to prices earlier this year. But as it becomes more expensive to borrow, the business model carries greater risk and likely lower returns. As the credit market tightened the near term opportunity for private equity decreased and many traders sold their buyout candidates. But the fact remains that the companies were viewed as selling below intrinsic value. Many were, and still are.

The upside to all of this is that we have taken advantage of the volatility to reposition the portfolio, on the margin, by selling and trimming stocks that traded near fair value, while adding to holdings and, in a few cases, buying deeply discounted new names. Many of these stocks were mentioned above.

We sometimes describe our approach to investing as having a private equity mindset, thinking of our positions as fractional ownership interests in companies. Like a PE buyer we don't focus on the short term; we want to buy below intrinsic value. Our approach has never been to try to time the value opportunity perfectly. The inflection point is impossible to predict – change happens fast, often without notice – and the penalty for being late is typically greater than for being early. This is what cycles/bubbles/human behavior are made of – excesses that push prices too high, and too low. We now see more value in our portfolios than at any time since the inception of our investment services.

Portfolio Overview

Performance*	3Q2007	YTD	One Year
Small Cap Value	-16.1%	-6.8%	1.7%
SMID-Cap Value	-8.5	4.1	12.8
Partnership Value	-15.3	-9.0	0.1
S&P 500	2.0	9.1	16.4
Russell 2000® Value	-6.3	-2.7	6.1

*Periods ending September 30, 2007; Net of management fees; Preliminary

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JAKKS Pacific, Inc. – JAKK

JAKKS Pacific, the fifth largest toy company, has a very strong balance sheet. JAKK currently trades at $27, or 1.1x book, and has $2.50 of net cash per share, providing it with a significant opportunity to improve shareholder value by returning excess capital. This quarter we added to JAKK on weakness following a decline in share price that had no link to fundamentals. We see a very positive environment for JAKK and expect strong holiday sales. JAKK holds the toy license for Disney's mega-hit show "Hannah Montana," and has produced a line of Hannah-related dolls, accessories and dress-up and role play items, which are expected to be among the year's top selling toys. Another highly anticipated product is the Eye-Clops, a plug-and-play electronic magnifier that's surprisingly powerful, projecting images at 200x onto a TV screen. Although toys are a notoriously hit-driven business, JAKKS proves itself to be an attractive partner for intellectual property producers such as Disney and Nickelodeon by delivering on profit expectations for licensed products, which positions the company to win more valuable license agreements in the future.

Quest Diagnostics Incorporated – DGX

Quest Diagnostics provides laboratory services to roughly 50% of the nation's doctors and hospitals. Buyout speculation led to a volatile quarter for DGX, which we first purchased in June of this year. DGX fell out of favor late last year amid worries of a pricing war driven by the loss of its largest client. But the market was missing the view that the current duopolistic market structure made a truly damaging price war in the near-term unlikely. Quest still generates a lot of cash despite fixed cost absorption issues following the client loss, and is now showing signs of regaining lost profitability and continued sales growth, aided by the acquisition of smaller, more specialized laboratories. Additionally, Quest's cost cutting, strong cash flow, and growing demand for sophisticated medical tests suggest solid long-term growth prospects for DGX.

Stewart Information Services Corp. – STC

Stewart, which provides title insurance, also has a very strong balance sheet with approximately $8 per share of excess capital and currently trades at $34, which is approximately 0.8x book. This quarter, STC approved the repurchase of up to 1.5 percent of its common stock which we applaud as a very affective way for it to return value to shareholders. We also see a significant opportunity to reduce its expense ratios so that they are more in line with competitors. With title revenues expected to drop, expense controls will be critical to maintaining profitability over the next couple of years.

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W Holding Co. Inc. – WHI

W Holding Company, Inc. operates as the holding company for Westernbank Puerto Rico, which offers business and consumer financial services in Puerto Rico. Recent news (which we discussed last quarter) over a rather large loan impairment – related to a drug company that provided fraudulent documents to Westernbank's lending department – continues to weigh on WHI's share price, which we think has suffered excessively. We are following the bankruptcy proceedings of two of its borrowers, representing two of the larger loans investors are worried about. We see some potential for recovery in the case of the drug company, but the outcome of those proceedings is uncertain and WHI has already written off the loan. With a second loan, to a Puerto Rican grocery store chain, we expect significant recovery. The parent company has a buyer and the proceeds from the sale will go straight to WHI, making them nearly whole on an approximately $90 million loan. WHI is not out of the woods, but initial fears that the fraudulent loan was the tip of the iceberg of bad loan decisions have not so far become reality.

Portfolio Characteristics

	Small-Cap Value	SMID-Cap Value	Partnership Value
P/E (ex. negative earnings)	14.6x	13.7x	11.7x
P/B	1.4x	1.5x	1.2x
Dividend Yield	1.4%	2.0%	1.0%
Wtd. Avg. Market Cap. (mm)	$1,070	$3,313	$1,210

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 September 30, 2007. 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.*
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.*