

INTRODUCTION

Flippin, Bruce & Porter, Inc. is an independent investment counseling firm, which was formed and registered with the Securities and Exchange Commission in April of 1985. Facilities are at one location in Lynchburg, Virginia. Currently 8 professionals out of 13 total employees are shareholders. The firm’s activities involve independent discretionary investment management for individuals, retirement funds, foundations, endowments, public funds, multi-employer funds and hospitals.

EQUITY INVESTMENT PHILOSOPHY

The foundation of our equity investment philosophy is based on the following:

- *Understanding Human Emotion is Key.* As investors overreact to near-term events, optimism and pessimism create overvalued and undervalued security prices in relation to a company’s long-term outlook.
- *Risk is Determined by Price.* Using primarily large capitalization, quality companies, risk is related to price, where the lower the price the lower the risk and vice versa.
- *History Matters.* Company history and key valuation characteristics are analyzed, identifying when a stock was both in and out of favor.
- *Fundamental Analysis Uncovers Value.* An in-depth study of a company’s fundamentals and future prospects allows determination of its true business value.

For more information regarding our Balanced philosophy, please see the Firm Highlights *Balanced Profile*.

STRUCTURE

Founded	1985
Type of firm	Investment Advisory
Ownership	Employee Owned
Minimum account size	\$0.5 million
Investment Style	Large Cap Value
Investment Products	Equity/Balanced/Dividend
Total staff/investment professionals	13/5

PORTFOLIO CHARACTERISTICS

Average Market Cap	\$222.6B
Number of Securities	52
Annual Percent Turnover	10%
Dividend Yield*	3.8%

BOND STATISTICS

Coupon Rate	2.70%
Current Yield	2.60%
Quality Rating	A
Duration (years)	1.5

ASSET ALLOCATION

The process for making asset mix decisions for a balanced portfolio is twofold. First, economic and interest rate analysis is performed. Next, each client’s investment objectives, risk tolerance and constraints are considered. In general, equities comprise 40-70%, fixed 20-50% and cash is a by-product of security selection. Asset mix changes tend to be gradual shifts over time based on valuation, security selection and business cycle consideration.

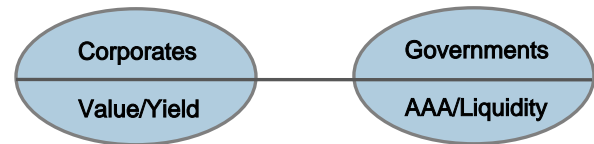
DECISION-MAKING

At Flippin, Bruce & Porter, Inc. our investment committee is made up of five portfolio manager/analysts, of which all have their CFA designation. The experience level of our portfolio management team is high, with an average of 38 years. Our investment committee works as a team with all investment decisions coming from the committee. Portfolio managers are responsible for security implementation, ongoing portfolio management and client contact.

*Dividend Yield is equal weighted

FIXED INCOME APPROACH

As part of our balanced portfolio management, we employ a fixed income approach using intermediate government and corporate bonds to create a "barbell of quality" structure, which produces a short average maturity with a higher than average yield.



The two primary characteristics we look for in corporate bonds are attractive yield spread over treasuries and potential upgrades in quality ratings over the next several years. Analysis of quality rankings, sector spreads and the business cycle helps us determine which investment grade corporate issues to select. Our focus is primarily towards the lower end of the investment grade scale for yield enhancement to the portfolio. Bond ideas also come from our equity research. This equity work allows us to discover quality companies that may be at the trough of their economic cycle. Our fixed income research is fundamental in nature, and primarily performed in-house. To provide liquidity, U.S. Treasury and Agency bonds are purchased.

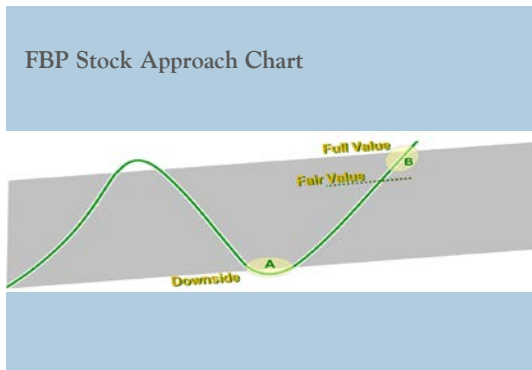
We structure our fixed income portfolios to provide stability and income. Typically, we maintain an average maturity in the two- to five-year range and will generally not exceed ten years in maturity as, the longer the maturity, the higher the volatility. Based on the shape of the yield curve, our interest rate forecast and the absolute level of interest rates, we will shift the average maturity of the fixed income portfolio. U.S. Government bonds will equal 5-10% per position and corporate bonds will equal 3-5% per position of the bond portion of the portfolio. Our final fixed structure will be based on our security selection, shape and level of the yield curve, and interest rate forecast. FBP does not make significant changes to the portfolio to manipulate duration. We will shift duration depending on our interest rate outlook and risk/reward perceptions. The frequency of these changes is a function of changing market conditions.

FBP INVESTMENT DISCIPLINE

OUR APPROACH TO STOCKS

The time from peak to peak is approximately ten years. FBP's research effort begins early in the cycle, as a company falls out of favor and its stock price declines toward an eventual bottom. As part of our security selection process, we establish three price targets for each company followed. These downside, fair and full value targets are determined, monitored and adjusted on an ongoing basis.

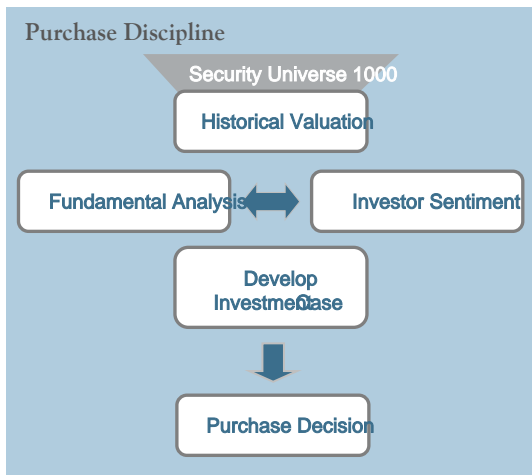
Our goal is to begin purchasing at point A, which is at a significant discount to our full value, thus providing a margin of safety. As company valuation measures, fundamentals and investor sentiment improve, the security price will increase. As this scenario continues to develop, the stock will move through our fair value range and eventually toward our full value target. Our exit strategy is implemented at point B. The average holding period for stocks in our portfolio is five years.



OUR PROCESS BEGINS WITH OUR PURCHASE DISCIPLINE

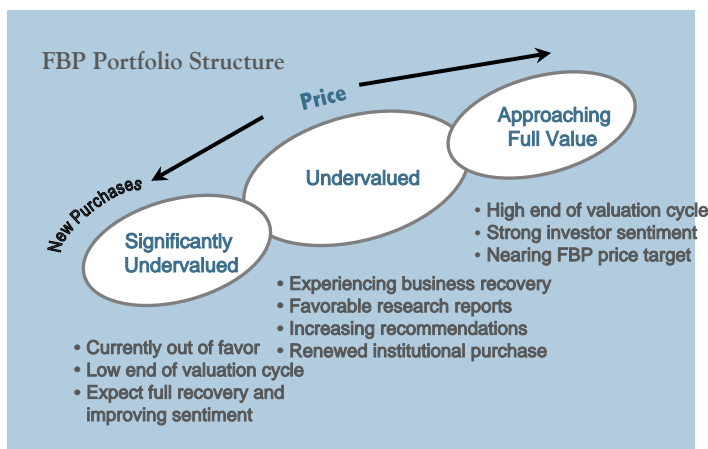
Using a large capitalization universe of approximately one thousand companies, our investment group screens five historical valuation factors: price/sales, price/book, price/cash flow, price/earnings and dividend yield. Based on these factors, stocks trading in the bottom third of their ten-year historical ranges are identified. These stocks are examined further from a fundamental standpoint. The objective of our fundamental effort is to identify catalysts for reversal and for future value creation. Additionally, investor sentiment is judged by reviewing Wall Street buy and sell recommendations, evaluating the tone of written research and institutional commitment.

Our investment team then develops a case outlining valuation, fundamentals and sentiment. Using this research, three price targets are established. Downside, fair and full value targets are calculated using a 12- to 18-month horizon. The last step in the approach is our purchase decision. At this time, the investment case is discussed and debated. Each security is then voted upon with the resulting purchase and weighting decisions made at this level.



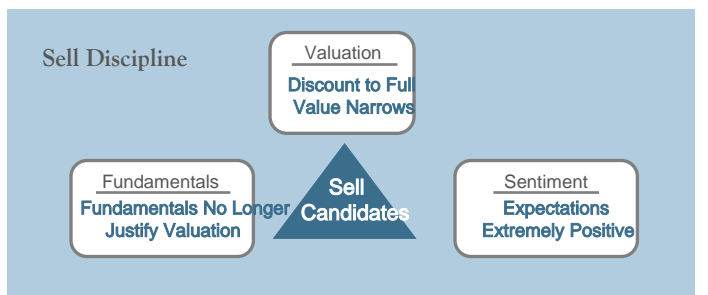
EQUITY PORTFOLIO STRUCTURE

We view our stocks as falling into three categories, which we call *significantly undervalued* stocks, *undervalued* stocks and stocks that are *approaching full value*. As new purchases are added to our portfolios, they are viewed as *significantly undervalued*. Stocks that we bought over the last one to three years that are now picking up buy recommendations make up the *undervalued* part of the portfolio. The remainder of the portfolio consists of stocks we bought three to four years ago which have now picked up multiple buy recommendations. These issues are now at or near the top of our price expectation and are *approaching full value* and are generally candidates for sale. As money comes out of these stocks, it then flows back into new *significantly undervalued* ideas. Our goal is to create an overall portfolio that trades at a substantial discount to its true value, providing significant upside potential.



OUR PROCESS ENDS WITH OUR SELL DISCIPLINE

Selling is based on the same three factors we use for buying stocks: *fundamentals*, *valuation* and *sentiment*. *Fundamentals* can trigger a sale if they do not keep up with valuation. *Valuation* is monitored through our price targets. As our discount begins to narrow and fundamentals remain strong, we scale out of positions. Additionally, if investor *sentiment* changes more than fundamentals warrant, then a stock becomes a sell candidate.



There is no assurance that the stated goals of the portfolio can be obtained. Investments in securities involve risks, including the risk of losing principal. Past performance is no guarantee of future results.

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