BSC

Capitalizing on Mispriced Stocks to Achieve Excess Returns

A New Pathway to Alpha

Key balance sheet changes can predict the direction of future earnings, yet the market is slow to react thus creating a **market mispricing anomaly**. Combining this with another anomaly, **post-earnings announcement drift** provides an opportunity to achieve **abnormal returns** on a consistent, repeatable basis **with no additional risk.**

Institutional Large Cap Growth Strategy

Summary, Winter 2009

Presented By

BEACON STREET CAPITAL, LLC

INVESTMENT MANAGEMENT

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MISSION

Our mission is to consistently achieve excess relative performance with low volatility, while providing superior service and full transparency through a separately managed account.

PHILOSOPHY

Beacon Street Capital believes that a portfolio of stocks with exceptional business fundamentals and improving internal growth potential will generate greater returns than the market over a three-to-five year period. Purchasing these stocks when mispriced by the market adds to those returns without adding market risk. Furthermore, using a quantitative trading system to capture these pricing anomalies makes the investment results both consistent and repeatable.

INTRODUCTION

- Founded 2001 – Atlanta, Georgia.
- Independent – Employee owned.
- Provides foundations, endowments and affluent business professionals in the Southeast with a conservative approach to managing money.
- Traditional long-only **US Large Cap Growth** manager.
- Bottom up approach combines fundamental stock selection with a quantitative trading system to create consistent, repeatable results.

Product: **Institutional *LCG* ("Large Cap Growth"):** A strategy designed to generate excess returns with a high correlation to its benchmark while being fully invested through all market cycles.

Strategy Characteristics

Style	Large Cap Growth
Process	Quantitative, fundamental bottom-up
Targeted Excess Return	3.0%
Targeted Active Risk	4.5 - 6.5
Common Benchmarks	S&P500 Index, Russell 1000® Growth
Typical Number of Stocks	40-70
5 Yr. Avg. Turnover	52% per year
Minimum Investment	$3 million

Investment Approach

- Seek Consistent Alpha
- Low Volatility
- High Quality Growth Stocks

PERFORMANCE OVERVIEW

The popularity of U.S. large cap stocks makes them the most followed and the most efficiently priced. **Only active managers with** above average skills, or a **competitive edge**, have an opportunity to **boost risk-adjusted returns** for this segment. Beacon Street Capital is one of those managers. The Institutional *LCG* is a model portfolio managed on a real-time basis using the actual trades (stocks, price and date) of the S&P500/*Select* composite portfolio, with quantities adjusted to reflect full investment as excess cash is reinvested at the end of each quarter. The following chart compares the Institutional *LCG* gross returns with the Equity Only S&P500/*Select* gross returns against two benchmarks. The Institutional LCG <u>excludes dividends</u>.

Institutional *LCG*: A Large Cap Growth Strategy

Portfolio Analytics:

<u>Institutional *LCG* vs Russell 1000® Growth</u>

	Excess Ret.	Alpha	Inf. Ratio	Std. Dev.
5Yr.	3.14	2.97	0.71	16.8

3Yr. **<u>Capture Ratio</u>: Upside** 110
Downside 91

4Q09 **Quartile Ranking:**

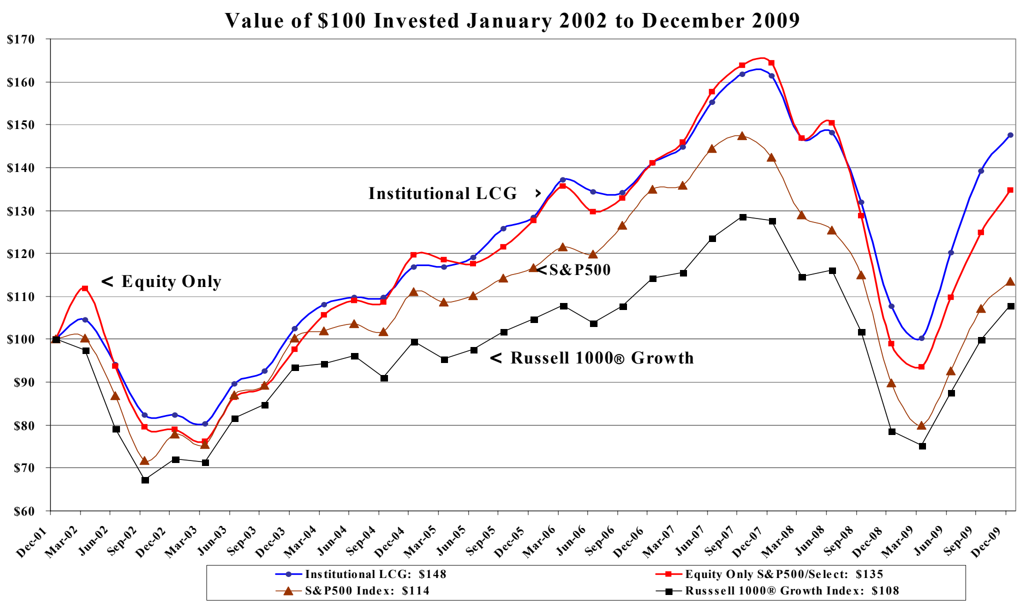
Latest Qrt	1Yr.	3Yr.	5Yr.	Inception
3rd	1st	1st	1st	1st

Source: *Informa Investment Solutions*

Positive Quarters	20	(63%)
Negative Quarters	12	(37%)

<u>Alpha</u>: Measures the return added by the manager. It is the excess return over the benchmark return, adjusted for volatility.

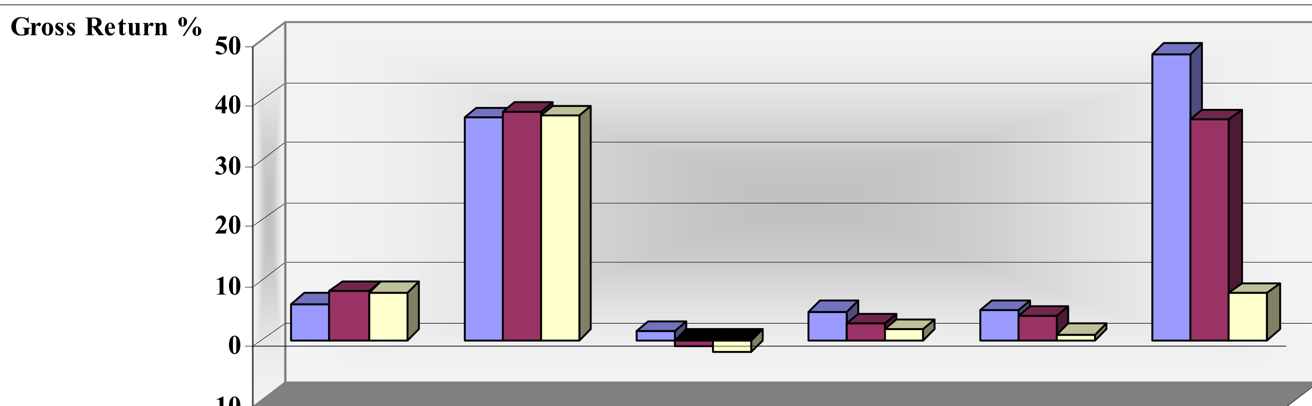
<u>Information Ratio</u>: The return added by the manager for each 1% of risk added.



PERFORMANCE VS BENCHMARK

While we accept the use of index benchmarks for performance comparisons, not all stocks or sectors within the index will contribute to positive performance. Therefore, in the absence of benchmark risk controls such as replicating stock and sector weightings to the index, superior stock selection and the capture of growth potential results in significant positive performance divergence from the index. However, risk of under-performance is highest with this process when the market is transitioning from a Bear Market to a Bull Market as lower quality stocks with negative, or no, profits tend to outperform the higher quality growth stocks that we own. This is mitigated by remaining fully invested and re-balancing the portfolio each quarter.

Period Ending: *December 31, 2009*



	4Q09	1Year	3Yr. Avg.	5Yr. Avg	Avg. Since Inception	Total Since Inception
Institutional LCG	6.03	37.03	1.53	4.77	4.99	47.61
Equity-Only S&P500/Select	8.04	37.94	-1.07	2.68	3.97	36.59
Russell 1000 Growth	7.94	37.21	-1.89	1.63	0.95	7.86

Institutional LCG Equity-Only S&P500/Select Russell 1000 Growth

STYLE ANALYSIS

Our growth strategy is actually a **blend of** traditional **growth** and **value** stocks, but each stock must show a positive change in its internal growth potential before selected for the portfolio. Many value stocks eventually become growth stocks and we prefer to own them prior to that "style" transition, which also produces a price transition. Therefore we use the **Russell 1000® Growth Index** as a style comparison and to screen for stocks, but also screen the S&P500 Index in order to capture value stocks with the potential to become growth stocks.

Table III: Benchmark Correlation (5 Yr):

	Institutional *LCG*	Russell 1000® Growth
R^2	0.93	1.00

Source: *Informa Investment Solutions*

Table IV: Growth Characteristics

	Institutional *LCG*	Russell 1000® Growth
P/E Ratio	17	19.5
P/Book	7.2	3.6
ROE T4Q%	18	19
Avg. Market Cap(in $bln)	$68.8	$78.2

Portfolio Constraints:

(1) **Minimum cash** levels. (2) **Minimize** large **sector** imbalances (3) **No shorting** of stocks.
(4) **No options** or futures. (5) **No soft dollar** arrangements. (6) **No margin** purchases
(7) **No lending** securities (8) **No market timing.**

COMPETITIVE EDGE / Q.E.P. INDEX

Internal Growth Potential:

Allocations of capital are the most important decisions management will make. These decisions reflect their view of the future, whether to get defensive or stimulate growth, and are first observable through changes in key balance sheet items before they impact on earnings. Consequently, these **balance sheet variables have predictive characteristics** regarding the direction of growth potential. When new quarterly financial data is released a **temporary lag** occurs between a change in this accounting-based measure of internal growth potential and the **market's reaction to it**.

Market Pricing Anomaly:

This market mispricing is corrected in two stages, with the first being related to expectations from prior period information and is corrected rapidly once the new data becomes available. The second pricing anomaly is known as "post earnings announcement drift' which is associated with future periods and is normally corrected over the next several weeks. Beyond this, if the positive trend in growth potential continues there exists an opportunity for a concentration of abnormal returns in quarters after the mispricing exists. Plus, the direction and magnitude of these abnormal returns should be consistent with the direction and magnitude of the predictable bias revealed by the previous quarterly changes to the balance sheet variables.

Capitalizing on Mispriced Stocks:

To capture this growth potential before market participants adjust to the new data Beacon Street Capital combines these predictive balance sheet variables into a summary measure called the *Quantitative Earnings Power (Q.E.P.) Index.* A change in the Index is used as a unique buy/sell indicator to **minimize market emotion** and **produce more consistent and reliable excess returns**.

COMPETITIVE EDGE / Q.E.P. INDEX (cont'd.)

Q.E.P. Index:

The Q.E.P. Index is an earnings leverage model. It looks at the rates of change in sales and earnings relative to the rates of change in capital investment items (which impact the various line items in the balance sheet) in the business. The relevant basic capital investment categories are Shareholder's Equity, Long-Term Debt and Working Capital. The basic sales and earnings categories are Revenues, Operating Expenses and Dividends.

$$\text{Q.E.P. Index} = f\,\{\text{SHE, LTD, WC, REV, OP EXP, DIV}\}$$

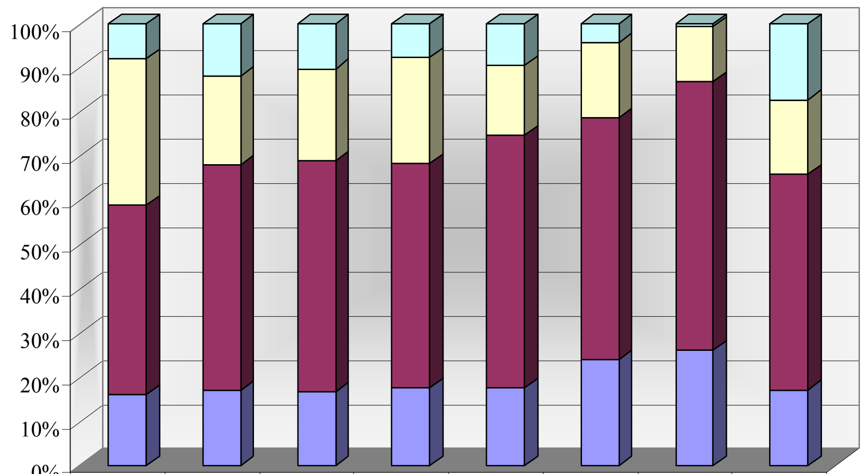
Within the Working Capital component, additional weight is given to changes in inventories as well as to the trends and levels of receivables and payables. The Index is configured as a reverse indicator which trends lower as growth potential improves, with the company's stock price following in the opposite direction over time.

As the trend moves lower the stability of growth potential also improves which diminishes the impact of market volatility, or systematic risk. Stocks with the most stable growth potential are those with an Index that ranges between 30 at the high end and 3 at the low end. Above 30 growth potential is less defined, thus price is influenced more by market factors. Below 3 competitive equilibrium sets in and growth potential eventually turns negative.

Within these boundaries and as the Q.E.P. Index moves down, growth potential is influenced less by earnings and more by capital allocation, which is controlled by management. Therefore, growth potential becomes more clearly defined to market participants who can then make better judgments as to the current change in value which, in turn, makes that value less influenced by market volatility. Consequently, all stocks we purchase are in this 30-3 comfort zone, with the majority being in the mid-range of 20-6, which produces excess returns with a low standard deviation.

▌COMPETITIVE EDGE / Q.E.P. INDEX (cont'd.)

Average % of Stocks Owned per Range



	2002	2003	2004	2005	2006	2007	2008	2009
Range 30 - 20	8.0%	11.8%	10.2%	7.5%	9.4%	4.2%	0.5%	18.3%
Range 20 - 12	33.0%	20.1%	20.9%	24.1%	15.9%	17.1%	12.6%	17.8%
Range 12 - 6	43.0%	51.0%	52.3%	50.6%	57.1%	54.7%	60.6%	51.9%
Range 6 - 3	16.1%	17.0%	16.6%	17.7%	17.7%	24.0%	26.2%	18.3%

Qualitative Judgment Overlay:

While the firm's quantitative algorithm provides a **strict, disciplined** framework for **buy/sell decisions**, a qualitative judgment overlay is used to select stocks that meet our fundamental guidelines. No Wall Street research or third party sources for data gathering are used. Specific accounting line items needed to compute growth potential are acquired directly from SEC company filings. The qualitative aspects represent 20% of the decision to buy, sell or hold and are based on the management team's extensive experience in understanding the companies we select and the market's relationship to the change in their internal growth potential.

INVESTMENT PROCESS

Stock Screening: A universe of large-cap stocks (both growth and value) are screened to identify those that are **financially sound**, **profitable** and have **positive cash flow**.

(1) Return-on-Equity ≥ 12% (2) Cash Return-on-Equity ≥ 5% (3) Net Profit Margin ≥ 4%

Fundamental Review: Of the 200 candidates that remain, the investment team conducts a line item review of quarterly changes in their balance sheet and income statement to verify consistency. Those with accelerating growth in R-O-E and Net Profit Margins are selected for further analysis.

Quantify Growth Potential: A proprietary algorithm (Q.E.P. Index) based on **key balance sheet** changes is applied to 3 years of quarterly data to determine the strength and trend of each remaining candidate's internal growth potential. A change in growth potential provides a **more significant and reliable buy/sell mechanism** than analyst expectations. However, a fundamental judgment overlay adds common sense to the buy/sell decision.

(1) Buy Decision

- Positive Trend in Growth Potential as Measured by their Q.E.P. Index
- Accelerating Returns-On-Equity and Expanding Net Profit Margins
- **Let Profits Run** Until Change in Trend

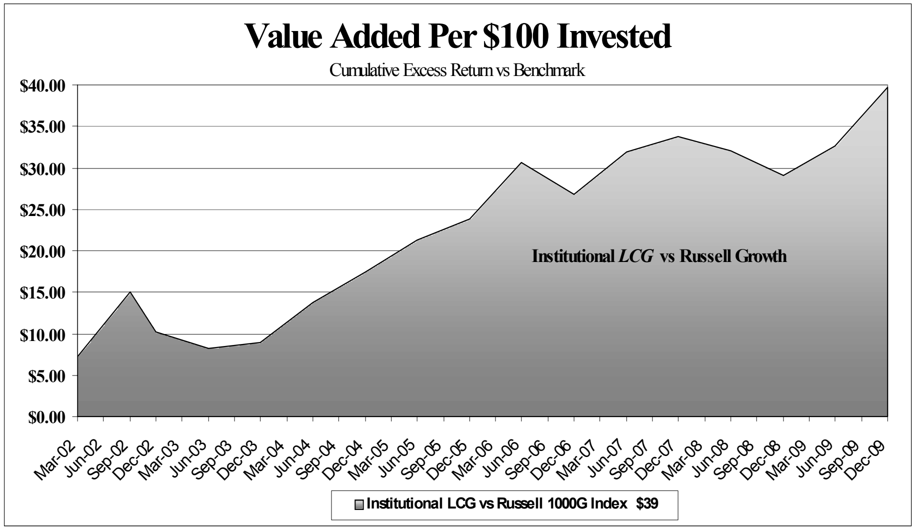
(2) Sell Decision

- Opposite Buy Decision – Negative Trend in Growth Potential as Measured by their Q.E.P. Index
- Decelerating Returns-On-Equity and Contracting Net Profit Margins
- Existence of accounting irregularities or negative government action
- **Profits Harvested and Losses Cut Early** When Trend Changes

INVESTMENT PROCESS (cont'd.)

Portfolio Management: Although each company's quantitative model is updated each quarter and the decision process is repeated, each stock held is monitored during the quarter for news that may have a negative impact and cause a sell to be made (i.e. SEC investigation, merger or major acquisition, misleading information revealed, etc.). With the objective being to remain fully invested:

a. Stocks are trimmed at the end of each quarter when value exceeds 5% of clients account value. Stocks are added to, if cash is available, at the end of a quarter when value becomes less than 1% of the account value.
b. Cash holdings are kept to less than 5%. The average cash holding per quarter has been 2.7%.
c. Portfolio holdings range from 40-70 stocks. Turnover has averaged 54% for the past five years.



For periods ending December 31, 2009

Institutional *LCG* vs. Russell 1000® Growth			
	Alpha	**Tracking Error**	**Information Ratio**
3yr	3.22	3.90	0.88
4yr	2.61	4.52	0.62
5yr	2.97	4.44	0.71

Source: *Informa Investment Solutions*

PERIOD COMPARISONS

There have been two bear market and one bull market cycles since this strategy began in 2002. Below is a comparison of this products performance during each cycle and we can only assume the comparisons will continue into the future, although past performance is no indication of future performance.

a. Period 12-31-01 (inception) to 3-31-03

Bear Market		Excess
Institutional *LCG*	-19.69	+8.96
Russell-1000® Growth	-28.65	

b. Period 4-01-03 to 10-31-07

Bull Market		Excess
Institutional *LCG*	103.22	+16.73
Russell-1000® Growth	86.49	

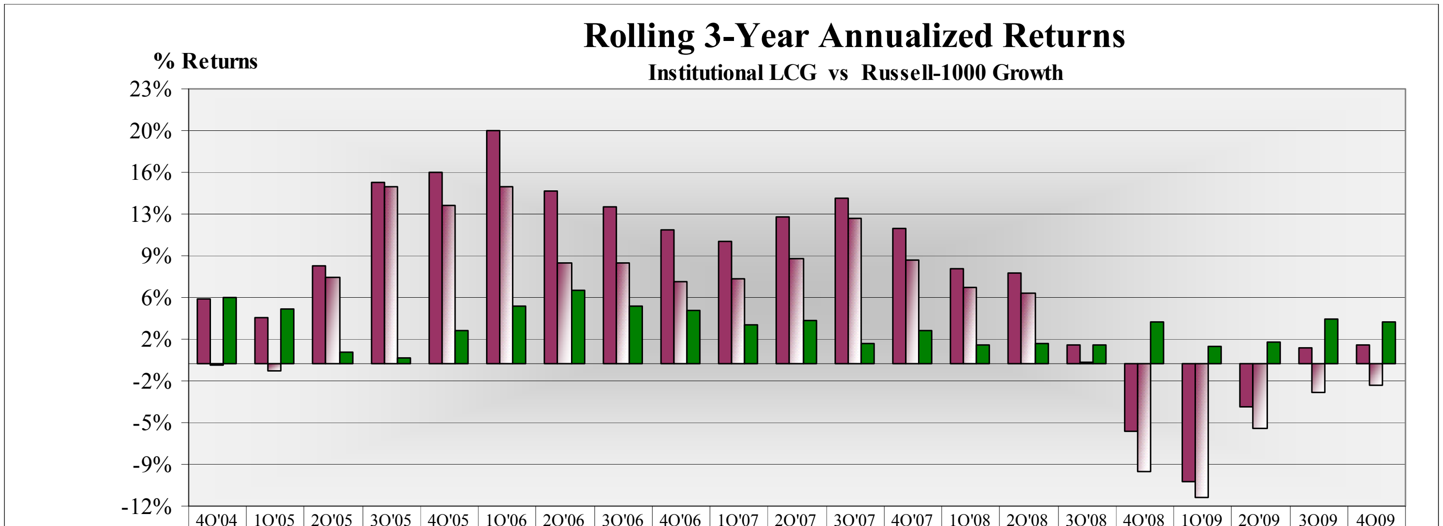
c. Period 11-01-07 to 3-31-09

Bear Market		Excess
Institutional *LCG*	-38.55	+4.80
Russell-1000® Growth	-43.35	

d. Period 4-01-09 to 12-31-09

? Market		Excess
Institutional *LCG*	47.19	+4.09
Russell-1000® Growth	43.10	

Capturing growth potential through the Institutional *LCG* strategy maximizes the long-term value added.



	4Q'04	1Q'05	2Q'05	3Q'05	4Q'05	1Q'06	2Q'06	3Q'06	4Q'06	1Q'07	2Q'07	3Q'07	4Q'07	1Q'08	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q09	4Q09
Institutional LCG	5.36%	3.79%	8.12%	15.19%	15.96%	19.53%	14.43%	13.16%	11.22%	10.26%	12.26%	13.83%	11.35%	7.89%	7.56%	1.57%	-5.70%	-9.91%	-3.64%	1.25%	1.53%
Russell-1000 Growth	-0.18%	-0.70%	7.25%	14.74%	13.23%	14.80%	8.35%	8.35%	6.87%	7.01%	8.71%	12.20%	8.68%	6.33%	5.91%	0.05%	-9.11%	-11.28	-5.45%	-2.50%	-1.88%

PORTFOLIO RISK CONTROLS

Company Specific & Valuation Risk: We view the stock market as a market of individual stocks, all of which perform differently. Within an index of stocks generally only 20% are strong performers and those members rotate through various economic and industry life cycles. Our objective is to capture those 20% top performers without over-paying and without adding to the risk that exists by being in the market. To accomplish this, risk controls in stock selection and portfolio construction emphasize the following:

(1) Company-specific risk, centered on business risk or the chance of failure.

- Companies selected have positive internal growth potential, are profitable, financially sound and have positive cash flow.
- Maximum 2.5% allocated to each stock when purchased. Stocks are trimmed when allocation exceeds 5% and added too with available cash at the end of each quarter when allocation is less than 1%.
- Maximum 30% allocated to one sector – average allocation <15%.

(2) Valuation risk or the risk of paying too much for growth potential.

- Capture growth potential at a discount due to a market mispricing anomaly.
- Market value increases due to "post earnings announcement drift" from consensus building among analyst.
- Retain captured growth potential by selling before the market can price it out.
- Avoid setting price targets – prefer to let profits run as growth potential improves and cut losses early when growth potential turns negative.

Market (Volatility) Risk: Whether the growth premium that is priced into a stock is maintained in a volatile market depends on the quality of its growth potential. The **Q.E.P. Index identifies the quality**, **and** by extension the **stability**, of that potential from the position of the Index within a certain range.

- Higher the quality more reliable the growth potential and greater the price stability relative to the market.
- Lower the quality the more external forces influence price which creates greater price volatility.
- Stocks outside their Index comfort range are excluded from the portfolio.

Risk Comparison

While market risk cannot be avoided and company specific risk should not be totally diversified away, a portfolio of high quality stocks with positive growth potential will outperform the benchmark index over the long-term by a substantial margin and with less volatility.

Five Year Period Ending 12/31/09

Institutional *LCG* vs. Russell 1000® Growth

Volatility/Correlation

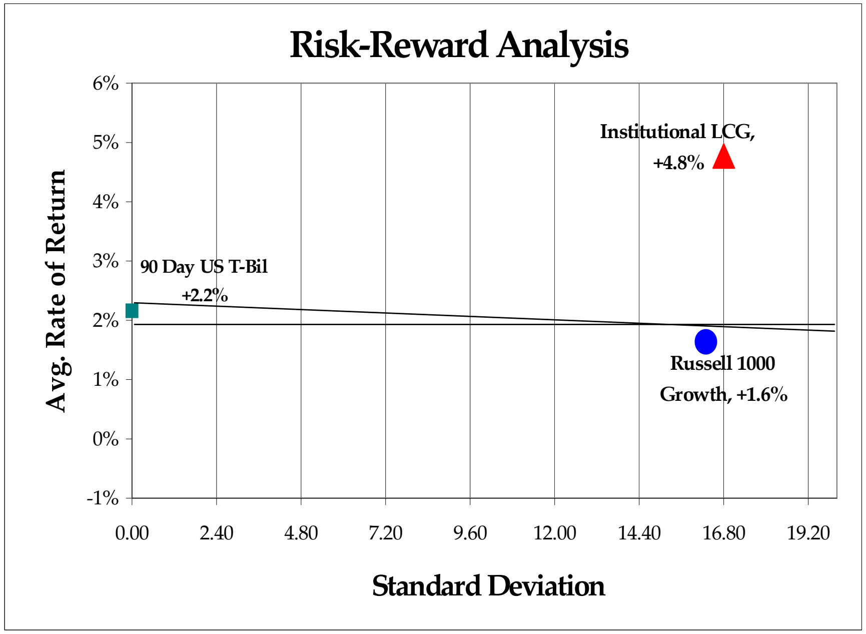
	Average Return	Standard Deviation
Institutional *LCG*	4.77	16.82
Russell 1000® Growth	1.63	16.30
90-Day T-Bill Rate	2.17	0

Average Active Risk

	Average Excess Return	Alpha	Tracking Error	R^2
Institutional LCG	3.14	2.97	4.44	0.93

Source: *Informa Investment Solutions*

R^2: Measures the correlation between the portfolio return and the benchmark return. Over 0.70 means the alpha measure is meaningful.



*Total Risk-Reward for Five Year Period Ending 12/31/09

▲ **Institutional *LCG*** ● **Russell 1000® Growth**

ATTRIBUTION

Market leadership to the upside follows stocks that have positive changes in growth potential, so portfolio turnover (54% five year average) is actually a **rotation into** those stocks and sectors that will become the **next market leaders**. In a long-term upward trend positive growth potential is relatively stable, so average turnover is 30%-40%. When growth potential for a majority of stocks is transitioning from positive growth potential to negative growth potential, or vice versa, turnover will be much higher and closer to the typical 100% turnover rate of a growth-oriented mutual fund. This **built-in sector rotation** eliminates non-productive diversification, giving heavier weight to one or more sectors to **create greater alpha**. However, **no one industry or sector** will exceed 30% of the total portfolio. The following tables compare the Institutional *LCG* strategy with the S&P500 Index to calculate the excess return in terms of that portion created by the built-in sector rotation and that portion created by stock selection.

Table I: Net Excess Return (Excluding Cash) Based on Sectors – 2009

Institutional *LCG* Portfolio	**Sector Weighting**	**Sector Returns**	**Portfolio Return**		**S&P500 Index**	**Sector Weighting**	**Sector Returns**	**Benchmark Return**	**2009 Excess Return**
Consumer Discretionary	5.5	36%	2.0		Consumer Discretionary	9.5	39%	3.7	
Consumer Staples	11.5	11%	1.3		Consumer Staples	11.2	11%	1.3	
Energy	16.2	48%	7.8		Energy	11.7	11%	1.3	
Financials	2.2	38%	0.8		Financials	14.7	15%	2.2	
Health Care	17.3	8%	1.4		Health Care	12.6	17%	2.1	
Info. Tech.	12.8	57%	7.3		Info. Tech.	19.6	60%	11.7	
Industrials	25.8	30%	7.7		Industrials	10.3	17%	1.8	
Materials	3.9	211%	8.2		Materials	3.7	45%	1.7	
Telephone	4.8	10%	0.5		Telephone	3.1	3%	0.1	
Utilities	0	0	0		Utilities	3.6	7%	0.2	
Total	100.0		**37% (A)**		Total	100		**26.1% (B)**	**10.90%**

ATTRIBUTION (cont'd.)

The Sector Allocation Effect applies the sector returns of the benchmark to the sector weights of the portfolio, which provides a positive return of 22.6% (C). This, minus the overall benchmark return of 26.1% (B), is the excess return of the portfolio owing to sector allocation, or -3.6%. The Stock Selection Effect is the sector returns of the benchmark applied to the sector weightings of the portfolio (C) minus the portfolio returns applied to the portfolio equity sector weightings (A), 10.9%.

Of course with our strategy **Sector Allocation is a by-product** of the sector rotation that occurs from the stocks we select to buy or sell. Consequently, since the market rewards those stocks with the greatest growth potential we **benefit** by being predominantly in the right stocks at the right time.

Table II: Net Excess Return Attribution – 2009

Institutional *LCG* Portfolio	Portfolio Sector Weighting	Benchmark Sector Returns	Return
Consumer Discretionary	5.5	38%	2.1
Consumer Staples	11.5	11%	1.3
Energy	16.2	11%	1.8
Financials	2.2	15%	0.3
Health Care	17.3	17%	3.0
Info. Tech.	12.8	60%	7.7
Industrials	25.8	17%	4.5
Materials	3.9	45%	1.8
Telephone	4.8	3%	0.1
Utilities	0	7%	0
Total	100.0		**22.6% (C)**

Sector Allocation Effect -3.5%
Stock Selection Effect 14.4%
Excess Return 10.9%

TOTAL PERFORMANCE COMPARISON

Institutional *LCG* vs. Russell 1000® Growth Index: Gross Returns

Period	Institutional *LCG*	Russell 1000® Growth	Institutional LCG *Excess Return*
Avg. Since 12/31/01	4.99	1.63	*3.36*
Avg. Last 3 Years	1.53	-1.89	*3.42*
4Q09	6.03	7.94	*-1.91*
3Q09	15.75	13.97	*1.78*
2Q09	19.93	16.32	*3.61*
1Q09	-6.91	-4.12	*-2.79*
2008	-33.28	-38.44	*5.15*
2007	14.47	11.81	*2.67*
2006	9.79	9.07	*0.72*
2005	9.84	5.27	*4.56*
2004	14.08	6.30	*7.78*
2003	24.45	29.76	*-5.31*
2002	-17.62	-27.89	*10.27*

Source: *Informa Investment Solutions – Gross Returns without dividends.*

5-Year Annual Turnover Ratio:

2009	59%

2008	55%	**2006**	50%
2007	37%	**2005**	59%

5-Year Average: 52%

Investment manager databases that monitor our performance:

(1) Informa Investment Solutions (PSN) (2) eVestment Alliance (3) Morningstar (4) Altura Capital (5) Money Manager Review

(6) EACM (7) Northern Trust (8) UIM (9) FIS Group (10) Callan Associates (11) Mercer

WHY BEACON STREET CAPITAL?

- Team Approach
  - Experienced
  - Informed Judgment
- Disciplined Investment Process
  - Bottom-up Stock Screening
  - Fundamental Accounting Review
  - Create Alpha by Selecting Stocks with Positive Internal Growth Potential
  - Boost Alpha by Capturing Pricing Inefficiencies Related to Growth Potential
  - Positive Growth Potential & High Quality Stocks Lower Volatility
- Quantitative Trading System
  - Cleary Defined Buy & Sell Mechanism
  - Consistent & Repeatable Results
  - High Correlation to Benchmark
- Service Oriented / Client Focused

THE FIRM / MANAGEMENT TEAM

The Firm:

- Beacon Street Capital, LLC, is a registered investment advisor located in Atlanta, GA.
- **Co-founded** by Terry Burke and Herron Weems, who **have their own capital invested in the company and alongside clients** in the investment products.
- **No affiliation** with any financial institutions.
- **Independent: Founders own 93%** of the firm and work closely together on a daily basis. Both are committed to providing their clients with a better way to invest in large cap stocks.
- **All** portfolio and administrative **decisions are made jointly**.

Management Team:

- **Terry Burke, CEO**, provides the quantitative analysis of each stock covered. Mr. Burke created the **accounting-based algorithm** from his experience at **DataBase Research Corporation**, a company he founded in 1977 to provide financial consulting to public and privately held companies. Mr. Burke received a B.A. degree in 1970 from the **University of Florida** with a double major in Finance and Business Administration, and did post baccalaureate work there in accounting.

- **Herron Weems, Managing Director,** provides external research on those same stocks as well as compliance and client communication. Mr. Weems has over 23 years experience in the securities industries with Salomon Brothers, which he joined in 1977 and with **Salomon Smith Barney** after the merger of Salomon Brothers and Smith Barney. In 1980 he joined the fledgling mortgage department of Salomon Brothers under **Lewis Ranieri** and helped to build the department into a leadership position on Wall Street. Mr. Weems received a B.A. in 1975 from **Vanderbilt University** with a double major in Economics and Business Administration, and earned an MBA in 1977 from the **University of Chicago Graduate School of Business** with concentrations in Finance and Accounting. He is a member of the Leadership Atlanta Class of 1998 and currently serves on the Advisory Board of Literacy Action, Inc.

Experienced. Capable. Consistent.

FEE & MININUM ACCOUNT SIZE

- **Fee Schedule for Investment Management Services:**
  - 1.00% on amounts up to $5 million
  - 0.90% over $5 million but less than $10 million
  - 0.85% for amounts over $10 million

- **Minimum Account Size:**
  - Institutional *LCG* $3,000,000

Achieve Significant Excess Returns with Low Volatility

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