

FLIPPIN, BRUCE & PORTER, INC.

Equity and Dividend Plus

Investment Philosophy:

The investment philosophy of FBP's Equity and Dividend Plus Portfolio recognizes and emphasizes the historical significance of dividend yield to investor total return. By utilizing a relative dividend yield discipline coupled with fundamental research focusing on historical valuation metrics and comprehensive business analysis, we construct a diversified portfolio of securities providing above-average dividend streams and potential for capital appreciation. Our investment philosophy melds above-average dividend yield, traditional value manager equity selection and a conservative covered call option writing strategy. The objective of the portfolio is to provide high dividend yields, a growing cash flow stream and competitive total returns.

Key Aspects:

Dividends

Historically, dividends and dividend growth have provided a consistent and growing cash flow return to investors. We emphasize companies possessing above-average dividend yields with the financial flexibility to grow dividends in the future. This stream of cash flow can provide opportunity for reinvestment, a steady stream of income for investors, or a portfolio cushion in weak markets.

Valuation

We recognize that valuation history is important in equity selection. Companies are analyzed based on historical valuation ranges of price/sales, price/book, price/cash flow, price/earnings, as well as dividend yield. Equity selection is focused on companies which are trading at a discount to historical valuation ranges and at the upper end of their dividend yield range. Purchasing companies at historically depressed valuation levels provides capital appreciation upside to the portfolio.

Business Analysis

Identifying quality companies with secure and growing dividends is the focus of our business analysis discipline. Company outlook, balance sheet strength, liquidity, margin trends, cash flow generation and payout ratio are a few of the fundamentals researched by our investment team. Fundamental research is critical in identifying dividend growth opportunities where increasing payouts enhance the value of the shares over time.

Diversification

Broad portfolio diversification provides investors the opportunity to participate throughout the market cycle. In addition, diversification also provides both offensive and defensive characteristics important to portfolio total return.

Covered Call Options

By utilizing a covered call option strategy, portfolios benefit from incremental cash flows as well as portfolio protection in periods of market weakness. In addition, writing covered calls provides a disciplined exit strategy at attractive prices, thereby enhancing total return.

Portfolio Construction:

Portfolios are well diversified within the 10 economic sectors with individual companies selected based upon a combination of yield, valuation analysis, business analysis and appreciation potential. Portfolios typically will have 40-45 equity holdings with representation in each sector.

Investment Decision Making Process:

Purchase Discipline

The security universe consists of approximately 1500 securities with a market capitalization of \$1.5B or greater as provided by Factset Data Services. This group is then screened for companies generating dividend yields at least 25% greater than the yield of the S&P 500. This yield parameter typically narrows the universe to 300-350 equity securities that can be considered for investment.

The 300-350 securities are then reviewed applying traditional value oriented methodology encompassing both valuation and business analysis. Valuation work is used to determine companies with depressed stock prices relative to their history. This analysis involves metrics such as price/sales, price/book, price/cash flow and price/earnings. The goal is to identify quality companies currently selling at a discount to their normal valuation range. Business analysis is conducted with particular emphasis on company outlook, including balance sheet strength, free cash flow generation and dividend payment history. The goal is to identify quality companies with secure and growing dividends. Our disciplined approach utilizes internal and external research in addition to a variety of information resources. Company conference calls and recent conference presentations are reviewed to determine the current tone of business and potential catalysts for improved share price performance. We view company commitment toward returning capital to shareholders via dividends and dividend increases as an important aspect for portfolio inclusion.

Once a comprehensive investment case covering all aspects of our investment discipline has been developed for a security, the ultimate purchase decision is based on the agreement of the investment team members. Investment decisions are based on the strength of the investment case combined with top down and portfolio sector specific judgments. Initial positions are generally 1.5 – 2%. Our maximum purchase commitment in a company is restricted to 4% of market value.

Option Strategy

Integral to the Equity and Dividend Plus portfolio is the utilization of an active call option writing strategy. Call options are written to enhance portfolio cash flow, to improve total return of the portfolio, and as a part of our exit strategy. The strategy can also provide downside protection in weaker markets. Option writing decisions are made based upon strike price relative to company valuation, the option premium received, the time to expiration, and the anticipated total return of the security assuming exercise.

Monitoring process

Portfolio investments are monitored by team members on an ongoing basis for changing company fundamentals, investment case progression, and price to valuation discrepancies. Sources monitored primarily include company financial reports, conference presentations, internal and external research. Changes to individual company weightings in the portfolio may be based on depressed or excessive valuation relative to fundamentals.

Sell Discipline

Sell decisions are based upon individual company fundamentals focusing on valuation metrics and business analysis with particular emphasis on anticipated forward dividend yield levels. Sell candidates are typically in the upper end of their valuation ranges. In addition, certain portfolio characteristics and potential reinvestment alternatives are considerations in the decision-making process. Exit strategies are based upon the availability of attractive call option premium and annualized total return relative to required holding period as compared to outright sell. Agreement among team members is attained following review of exit strategies and final decisions are then executed.