

Firm Highlights

Balanced

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. FBP is 100% owned by active employees. Currently 14 professionals out of 26 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.
- *Historical Financial Characteristics Indicate Valuation Ranges.* Five financial characteristics over the past ten-year period are analyzed, determining valuation levels when a stock is both in and out of favor.

For more information regarding Equities, please see the Firm Highlights *Equity Profile*.

STRUCTURE

Founded.....	1985
Type of firm.....	Investment Advisory
Ownership.....	100% Employee Owned
Minimum account size.....	\$1 million
Investment style.....	Large Cap Value
Investment products.....	Equity and Balanced
Total staff/investment professionals.....	26/9

BOND CHARACTERISTICS

Average Market Cap.....	\$57.2B
Number of Securities.....	42
Annual Percent Turnover.....	20%
Trailing P/E.....	16.1x
Dividend Yield*.....	1.8%

STATISTICS

Coupon Rate.....	5.10%
Current Yield.....	5.00%
Quality Rating.....	A
Duration (years).....	1.8

ASSET ALLOCATION

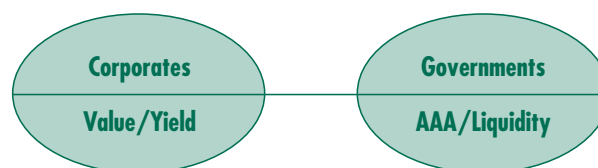
The process for making asset mix decisions for a balanced portfolio is twofold. First, economic and interest rate analysis is performed. From this we develop expected return projections for the security markets. Next, each client's investment objectives, risk tolerance and constraints are considered. 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 managers and four research analysts. Of the nine individuals, seven have their CFA designation. The experience level of our portfolio management team is high, with an average of 27 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.

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.

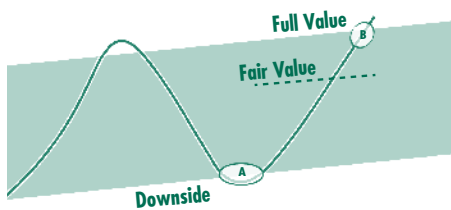
We structure our fixed income portfolios to provide stability and income. Typically, we maintain an average maturity in the two- to five-year range and will generally not exceed ten years in maturity as, the longer the maturity, the higher the volatility. Based on the shape of the yield curve, our interest 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.

*Dividend Yield is equal weighted

FBP Investment Discipline

FBP Stock Approach Chart

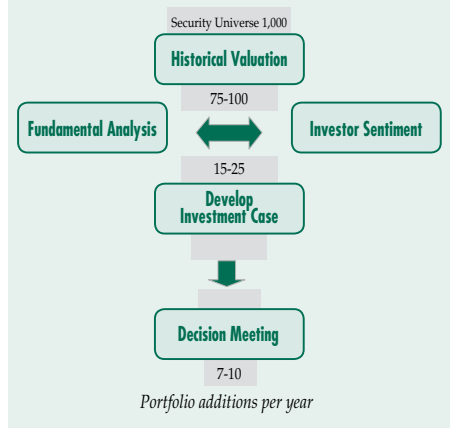


OUR APPROACH TO STOCKS

The time from peak to peak is approximately 10 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. 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.

Purchase Discipline



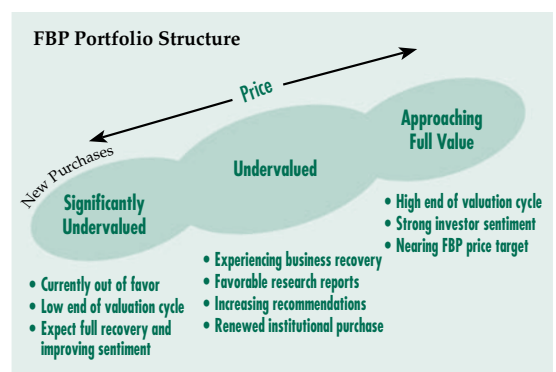
OUR PROCESS BEGINS WITH OUR PURCHASE DISCIPLINE

Using a large capitalization universe of approximately one thousand companies, our research 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. Additionally, investor sentiment is judged by reviewing Wall Street buy and sell recommendations, evaluating the tone of written research and institutional commitment.

Our research group then develops an investment 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 our approach is the decision meeting. At this time, the investment case is reviewed. Each security is then voted upon with the resulting purchase and weighting decisions made at this level.

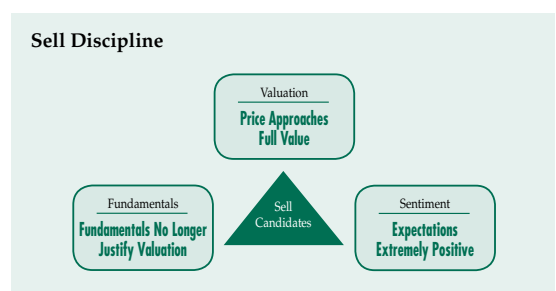
EQUITY PORTFOLIO STRUCTURE

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 PROCESS ENDS WITH OUR SELL DISCIPLINE

Selling is based on the same three factors we use for buying stocks: valuation, fundamentals and sentiment. *Valuation* is monitored through our price targets. As a stock approaches and/or exceeds our full value target, we scale out of positions. *Fundamentals* can also trigger a sale if they do not keep up with valuation. 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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