



Quarterly Commentary: July 1, 2007

We typically use the pages of our Quarterly Commentary to give you our current thinking regarding our outlook for the market and economy and why we believe that our investment philosophy is best suited to preserving and growing your assets over the long-term. It is our belief that the markets are beginning to share our enthusiasm for large-cap, global businesses as evidenced by the Dow jumping 9.1% and the S&P 500 rallying 6.3% during the quarter. As our positive outlook remains unchanged, we thought it would be appropriate to focus the content of this commentary exclusively on our investment philosophy and process.

We describe our investment philosophy as being simple, but not easy, and while we would love to take all of the credit for our “brilliance”, we cannot do so with a clear conscience. Much of our thinking derives from the teachings of the late Benjamin Graham who was an influential economist and professional investor, often referred to as the “Father of Value Investing”. Below, we have outlined three of his core principles that form the basis of our investment philosophy. We have also enclosed a descriptive summary outlining our investment process, which we hope will give you an appreciation for the amount of effort that goes into the selection of the securities held in your portfolios. While we have borrowed liberally from one of the great investors, we will take credit for assembling a very talented team of experienced professionals who share this philosophy and are dedicated to delivering outstanding service and care to our clients. We hope that this introduction (or reintroduction), gives you a better insight into how your funds are being managed, and that this philosophy resonates as clearly with you as it does with us.

Benjamin Graham is perhaps best known today due to frequent references made to him by billionaire investor Warren Buffett. In fact, Buffett describes Graham’s book, *The Intelligent Investor*, as “the best book ever written on investing,” we agree and have based our investment philosophy on the following three core principles described in Graham’s book:

- *Business Perspective Investing*: As stated by Graham, “Investment is most intelligent when it is most businesslike.” In other words, an investor should think of stocks as partial ownership interests in a business and not be overly concerned with the daily fluctuations of the stock market. This perspective helps the investor to eliminate any irrational reasons for purchasing a stock (e.g. because the momentum looks good, because the chart looks good, because everyone else is buying the stock and, therefore, I’ll feel “left behind” if I don’t purchase it, etc.). Instead, the investor should focus on understanding the merits, risks, and long-term potential of the company as well as the ability, integrity, and determination of the company’s management team.
- *Margin of Safety*: When a company trades in the market at a significant discount to a conservative estimate of its intrinsic value, a “margin of safety” exists, making it suitable for investment. Investments with a wide margin of safety have minimal risk and high return potential. Investments that lack a margin of safety are not investments at all, but are merely speculative gambles that have high risk and most often low long-term return potential.



- *Mr. Market:* The market is not there to guide you in determining the value of a business but, rather, is there to serve you and to be exploited. To explain this concept Graham used an analogy he named “Mr. Market”. Mr. Market is a very obliging fellow who turns up every day at your door and offers to buy shares from you or sell shares to you. Often Mr. Market is depressed or fearful about a company and quotes you a very low price for a very good business. Other times Mr. Market is euphoric and quotes you a very high price for the same business. Under the former circumstances you should buy shares and under the latter circumstance you should sell your holdings to Mr. Market. The point of the analogy is the market price of a security does not necessarily reflect the true underlying value of the business. It is through patience and discipline that investors can take advantage of the “ups and downs” of Mr. Market.

The principles laid out above are simple. The challenge lies not in the ability to grasp the meaning of the principles, but rather lies in the ability to appreciate the importance of each and to maintain the discipline to adhere to them when speculative market trends temporarily outperform. During periods when stocks are overvalued and speculation is rampant it is important to remember another of Graham’s important lessons, which he so succinctly stated, “In the short-run the stock market is a voting machine. In the long-run the stock market is a weighing machine.” By this, Graham means that short-term security performance is primarily driven, not by business fundamentals but, instead, by the emotional “votes” of Wall Street. In contrast, long-term security performance is driven by Wall Street’s “weighing” of a business’ performance. We hold Graham’s words as Gospel. For this reason, we are willing to forgo short-term performance based on speculative market trends and, instead, invest in securities for your portfolio only when it is intelligent to do so.

At Golub Group our primary objective is to grow your wealth over the long-term while adhering to a focus on minimizing risk. Following the principles and processes described above better enables us to accomplish this objective. While we cannot predict the short-term whims of the stock market, we feel our results should be more than satisfactory over the long-term. You should take comfort in knowing that Golub Group’s investment professionals are well versed in the core principles and processes detailed here and have the knowledge and experience to consistently implement them in discovering suitable investments for your portfolio.

As always, we have included with this commentary your quarterly performance figures, management fee invoice(s), and a copy of your portfolio allocation as of 6/30/07. Finally, you are welcome to visit us online and access your account(s) at www.golubgroup.com. Please contact us to establish a login and password if you do not already have one.

Our best regards,

The Golub Group



Golub Group Investment Process

New Idea Generation and Opportunity Screening

At the Golub Group, a new investment idea can come from anywhere. However, we typically limit ourselves to companies with equity market capitalizations over \$5 billion. Thus, our initial universe comprises over 11,000 publicly-traded global securities. The process then begins. We narrow the universe of investment opportunities using quantitative screening tools that are reflective of the Golub Group's investment philosophy. We also survey the portfolio holdings of professional investors whom, we believe, mirror our investment philosophy. These investors are referred to as our "Shadow Committee". Lastly, we generate ideas from carefully selected professional investment letters, independent research, analyst conferences, and trade and popular press publications.

Watch List

Any potential new idea is placed on the Golub Group Watch List. The Watch List displays a number of trading and financial characteristics for each security. Inclusion on the Watch List implies nothing more than the specific security is a candidate for further review.

The Golub Group's investment committee uses the Watch List to select securities for the next step in the research process, a review of how well the investment meets our investment principles. We review each security on the Watch List by asking ourselves several questions, and the evidence to answer these questions will indicate whether we (a) continue our due diligence or (b) remove the name from our Watch List. This step is intended as a "rough cut" of due diligence, and we use automated processes (software/technology) where possible.

Focus List

There is necessarily some judgment involved in determining whether each security safely meets the requirements posed by the questions we ask ourselves; we recognize that there are few clear-cut answers. Nevertheless, the investment committee discusses the opportunity at this stage to determine whether to continue. If we decide to continue, we place the investment on the Focus List and begin writing a research report that covers the merits, risks, and intrinsic value of the investment.

Research Report and Formal Presentation to Investment Committee

This step is the focal point of the Golub Group's research process. It is here where members of the investment committee elevate the level of due diligence on our investment opportunities. In most cases, this is the longest step in our research process. *We will not purchase a security until this step has been completed.*

There are two key areas of focus in this step, understanding the business that underlies the investment and determining an intrinsic value for that business. To "understand the business," we focus on industry analysis, competitive analysis, operational performance and financial position. We analyze the company's financial statements and evaluate its management team. In short, we expand on the issues raised by the original questions we have



asked ourselves. We then use several valuation techniques (which are beyond the scope of this letter) to triangulate toward our estimate of the company's intrinsic value.

The manifestation of this due diligence is our research report. Research reports typically range from 5-10 pages and, at a minimum, cover: (a) the business' financial and trading statistics; (b) a brief summary of the business; (c) the strengths/merits of the business; (d) its weaknesses and risks; and (e) an intrinsic value estimate for the business.

Once the research report is complete, it is distributed to all members of the investment committee, and the sponsoring analyst formally presents the opportunity to the Investment Committee. The IC discusses the idea and decides as a team whether to purchase the security.

Model Portfolio Review: Buy Lists

After we select a security for purchase, we determine for which account styles it is an appropriate investment. The Golub Group manages five types of accounts, which reflect our clients' investment goals: (a) Growth; (b) Balanced-Growth; (c) Balanced; (d) Balanced-Income; and (e) Income. Securities are assigned to one or more of these model accounts based on expected company growth rates, income generation/dividend yield, business risk assessment, and portfolio diversification/correlation considerations.

We strive to keep all client accounts invested as close to their relevant model portfolio as possible. Therefore, new security additions necessitate the removal of a currently-held security. Essentially, a new idea has to represent a better investment opportunity than one of the current holdings. (In practice, however, we do factor tax implications into our sale decisions.) We also believe in an appropriate level of diversification; therefore, new positions typically represent 3% of an account's total value.

Sell Criteria & Process

We recognize that the decision to sell a security is just as important as the decision to buy. Our sell criterion is simply the failure of an investment to meet the standards defined by our core principles. We may witness deterioration in business fundamentals, or we may anticipate deterioration. More often than not, our sell decision will focus on the investment's valuation. At the Golub Group, we do not use strict price targets. Instead, we use evaluation prices: hitting a target forces a re-evaluation of the business and the valuation. This process ensure the protection of client capital but also the ability to "let winners ride" on the back of improving business fundamentals. We also perform a thorough re-evaluation if a security declines 15% from our initial purchase price. Finally, we will trim positions so that your portfolio is not overexposed to any individual security.

Disclaimer: All opinions presented in this commentary are strictly those of the Golub Group. You should not construe any implied or expressed conclusions presented as a promise of future returns.