THE GOLUB GROUP
Investment Counsel

Quarterly Commentary: January 4, 2006

Happy New Year! We hope your 2005 ended with good cheer and good health, and we wish you the best of fortunes for 2006. We are feeling especially fortunate as the new year begins. First and foremost, we are grateful to have such wonderful clients. Your support keeps us going every day, and we thank you for that. Second, and almost as important, we feel fortunate to have delivered solid investment results again this past year. We are pleased to report that most of your accounts enjoyed another year of outperformance in what was, generally speaking, a lackluster year for the markets. During the fourth quarter, the Dow Jones Industrial Average gained 1.4% but was still down 0.6% for the year, and the NASDAQ Composite gained 2.5% to push it to a slight 1.4% gain on the year. The S&P 500, our primary benchmark, gained 1.6% in the fourth quarter, ending up just 3.0% on the year.

After a year like 2005 – in which there was a lot of market activity but ultimately not much forward movement – many of you have asked about our market outlook for 2006. In truth, we do not spend much time trying to divine a prediction for the upcoming year. It's not that we don't have an opinion about the market, it's merely that our opinions are based on business and economic trends that should last quite a bit longer than one year. In keeping with our investment discipline, we focus at a minimum on 3-to-5 year trends, and often our analyses consider trends of 10 years or more.

With that said, we do see a number of signals that point toward strong equity market performance in the coming years. First, U.S. corporations are enjoying record productivity, strong profits and robust cash flows. These companies, many of which we own on your behalf, are generating vast amounts of cash, yet much of it remains in corporate coffers, unspent. At the end of the third quarter, over $1.4 trillion in cash was sitting on corporate balance sheets. Relative to total assets, this is the highest level seen since 1966! Recent years have seen many companies returning a portion of this cash to shareholders in the form of dividends and share repurchases, and we don't see that stopping. But what really excites us is that, even after dividends and buybacks, there is still a mountain of cash waiting to be invested. We can't predict exactly when, but we believe that a massive capital-spending boom is almost inevitable. The potential for renewed investment, combined with the productivity of the companies receiving that investment, is a very positive indicator for equities.

Second, and on a related note, the world is awash in liquidity – and the United States is the safest place to invest that liquidity. The central banks of rapidly growing Asian economies are pursuing near-mercantilist policies, using their export profits to buy dollars to keep their own currencies from appreciating. Similarly, oil-producing countries are seeking a home for the significant profits generated by elevated energy prices. So, regardless of the source, foreign demand for dollar-denominated debt, particularly long-term bonds, has kept interest rates low and helped stimulate the U.S. economy. Furthermore, this global savings pool has driven up the prices of many asset classes (*e.g.*, bonds, real estate, commodities, *etc*.) to the point that they appear to be fairly valued in the aggregate. Yet one asset class has eluded a similar influx of capital: U.S. equities. We believe any shift in asset allocation by foreign investors will benefit domestic equities.

With specific relevance to your portfolios, we believe we have positioned you to capitalize on these emerging long-term trends. With investment set to rise, and the economy showing resiliency and sustainable growth, opportunities exist where solid businesses are underappreciated by Wall Street. We are adding to our positions in the technology and industrial sectors, which should be key recipients of

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increased capital investment. We are also maintaining our weightings in large financial services companies, since these businesses facilitate appropriate levels of capital investment across our economy. And just as a reminder, our strict valuation discipline spurs us to purchase these blue-chip businesses only when they trade below their intrinsic values. So, when we view these companies through our "liquidity lens," we see their corresponding equities as attractively valued.

Thanks to your support, the Golub Group continues to grow. This quarter, we added two new members to our Client Services and Investment Operations team. *Jennifer Rouse* comes to us with over 8 years of experience in the financial services industry. Prior to joining us, she was a portfolio administrator for Stafford Capital Management in San Francisco. Jennifer is currently pursuing her Bachelor's Degree in Business Administration and lives in Alameda with her husband, Roger. *Fannie Tsui* joins us from Wellspring Consulting, where she acted as a Financial Planning Administrator. Fannie holds a degree in Business Administration from California State, Hayward, and we are proud to point out that she speaks both Mandarin and Cantonese. Both Jennifer and Fannie will help fulfill the daily requests made by clients of the firm. They will also handle some of the administrative aspects of client accounts, acting as liaisons between the Golub Group and our financial partners. Jennifer and Fannie are our most recent commitment to serve you with a full complement of talented portfolio managers/analysts and client service representatives. We do not outsource our money management duties to other firms, and we are committed to staying close to both you and your portfolios.

As many of you have expressed your support for us, we feel comfortable seeking a favor from you. One way of letting us know that we are doing a good job is by your referrals. Please show us that we have your confidence by introducing the Golub Group to someone who can benefit from us just as we hope you have. These might include friends or colleagues who are nearing retirement, selling a business, or looking to diversify a single-stock holding. We are eager to meet more wonderful people like you! You can also show your support by entrusting us with more of your financial assets. In particular, don't forget to fund your IRA accounts; the 2005 deadline is April 17, 2006, but also remember the benefits of making your 2006 contributions early in the year. You may also want to revisit your 401(k) deferral percentages. We, of course, stand ready to discuss your retirement situation as needed.

Included with this commentary are your account performance figures, management fee invoice(s), and a copy of your portfolio allocation as of 12/31/05. (You are also welcome to access your accounts online at www.golubgroup.com.) Also, we are required to offer you a copy of our latest Form ADV, which is our registration statement with the SEC and state regulators. If you would like to receive a copy, please let us know and we are happy to send you one. As a final note, in February we will send you realized gain/loss reports for your taxable accounts. Please share these reports with your accountants, and don't hesitate to contact us with any questions.

Once again, we wish you and your loved ones a happy, healthy and prosperous 2006!

With Warm Regards,

The Golub Group

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