

Johnston Investment Counsel

Research • Analysis • Results

Johnston Investment Counsel's (JIC) index plus strategy is designed to outperform a broad market index using style rotation. To reduce the possibility of active manager underperformance, this strategy is implemented by using low-cost and tax-efficient exchange traded funds that are designed to replicate the return and risk characteristics of style-based indices.

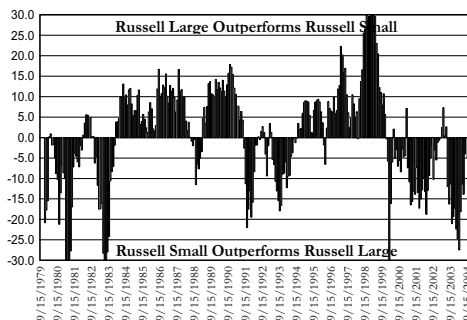
Advantages to this strategy include: outperformance potential, broad portfolio diversification, a low-cost investment strategy, and the tax advantages associated with low turnover exchange traded funds.

Style Rotation: Background

Within the U.S. equity market there are different company size ranges (large, mid, and small) and investment approaches (value, core, growth). Developed international and emerging market stocks are also categories stock investors should consider.

History suggests investment styles do not always perform the same. The following chart shows the rolling 1-year return difference between large and small-company stocks.

Rolling 12-Month Return Difference
Large-cap Stocks Vs. Small-cap Stocks
Return of Russell 1000 - Return of Russell 2000



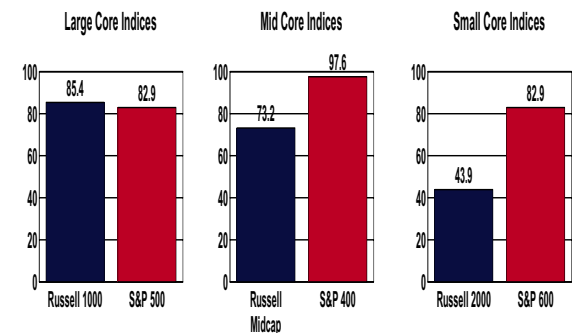
It is interesting to note that the return difference is often quite large and tends to last -- in many cases -- for a period of years. A similar chart can be shown for the value/growth investment approaches, domestic/international stocks, as well as various bond

investment style categories. *JIC seeks to enhance broad market index returns by adjusting the portfolio's allocation to take advantage of these "style trends".*

Why Use Index Funds?

In most investment style categories, index funds have consistently -- but not always -- outperformed the median actively-managed fund. The following chart shows the percent of time, over rolling three year periods, that index funds have outperformed the actively managed median fund.

Percent of Rolling 3-Year Periods Index Has Outperformed Peer Group Median



While index funds will rarely be the "best performing" fund, they generally provide *consistent above-median performance*. Index funds' low cost and turnover increase their attractiveness.

Investment Process

JIC has identified various fundamental, macro-economic, and technical characteristics that help explain future investment style trends.

Examples include:

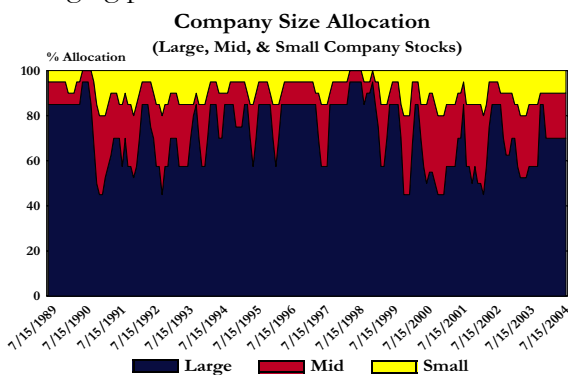
- Relative price/earnings
- Leading indicators
- Recent return patterns

Using these factors, JIC forecasts expected return differences for domestic/international stocks, as well as each company size and investment approach segment. Once a *meaningful* style-trend is identified, JIC will adjust the portfolio's allocation.

Index Plus Management

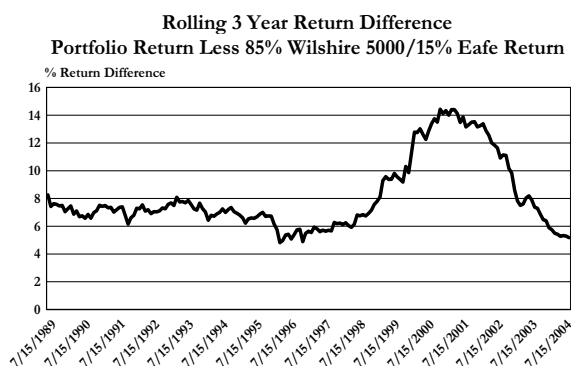
In constructing portfolios, each company size, investment approach, and domestic/international segment has a minimum, neutral, and maximum allocation range. These ranges are designed to ensure sufficient portfolio diversification but provide enough opportunity to enhance future returns.

Using JIC's company size model, the following graph provides an example of the historical domestic company size allocation. This type of allocation should allow for return enhancement while maintaining a "base level" of portfolio diversification. JIC also uses domestic/international and value/growth models in managing portfolios.



Does It Work?

The following graph shows the *return difference* between JIC's style-allocation portfolio and a benchmark index that consists of 85% U.S. stocks and 15% developed international stocks. Clearly, these backtested results, while not providing a future return guarantee, suggest this approach may consistently add value.



About Johnston Investment Counsel

JIC is an employee-owned firm founded in 1997 by Gregory A. Johnston, CFA. JIC's sole source of compensation is from its investment advisory and consulting based fees. JIC conducts its own internal research and evaluation prior to making investment decisions.

As a 100% independent firm, JIC has no affiliations and receives no compensation from brokerage, insurance, bank, mutual fund, or other financial-related firms. ***JIC has no incentive to recommend a specific financial product.***

Since JIC has no financial conflicts, our clients can be assured that JIC's advice is always in their best interest. JIC's sole interest is, and always will be, providing our clients with the best possible investment returns consistent with their risk-taking ability.

JIC's services are offered to corporations, defined benefit and contribution plans, endowment and foundations, Taft-Hartley funds, and high net worth individuals.

Gregory A. Johnston, CFA, JIC's President and Chief Investment Officer, has over 15 years of investment consulting and advisory experience. He has earned the prestigious Chartered Financial Analyst (CFA) designation, has a B.A. from the University of Illinois, and a MBA from DePaul University.

To learn more about JIC's index plus strategy you may:

1. Call Greg Johnston, CFA at (309) 674-3330
2. Email us at info@jicinvest.com, or
3. Go to the JIC website at www.jicinvest.com.