

Johnston Investment Counsel

Research • Analysis • Results

Johnston Investment Counsel's (JIC) individual stock selection process seeks to invest in companies with the following attributes:

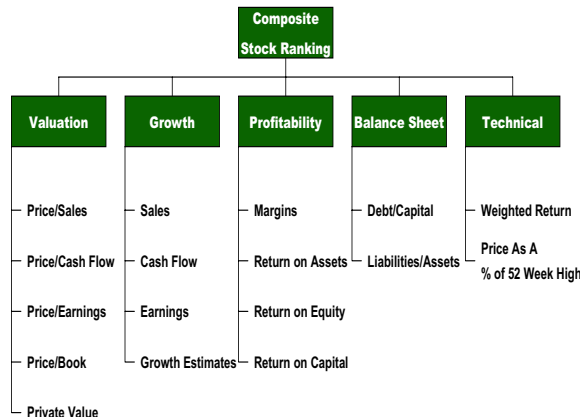
- Growing sales, cash flow, and earnings,
- Profitable as measured by margins and return on capital measures,
- Relatively strong balance sheets, and
- Whose current valuation and stock price, does not fully reflect the companies future prospects.

JIC is not driven by short-term trading strategies, but by fundamental analysis. We purchase stocks that not only meet our fundamental criteria, but are selling at a significant discount to our target price (based on JIC's expected return models). Assuming the fundamental outlook for the company does not change, JIC will be patient until the stock appreciates to our target price estimate.

Investment Process

For stocks with market capitalizations above \$100 million, JIC calculates a composite stock ranking versus all other stocks in the universe, specific sector, and industry.

The composite stock ranking is based upon five major categories: valuation, growth rates, profitability, balance sheet, and technical measures. Each category has several underlying variables used in calculating the category ranking.

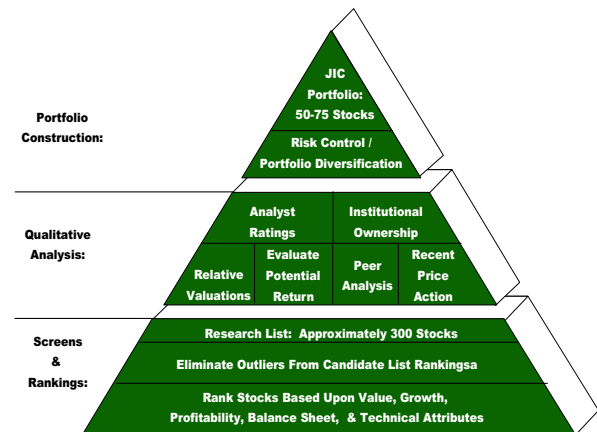


Stocks that have a composite ranking in the top one-third of the universe or sector are eligible for further consideration. In addition, stocks with above-average expected returns, based upon JIC's expected-return models, may be considered.

Purchase Process

For stocks meeting these criteria, JIC conducts a more thorough analysis of each company's financial statements. JIC seeks companies with consistent and improving financial characteristics.

Based upon its fundamental analysis and expected return models, JIC determines a target price range and expected return for each candidate stock. Stocks offering attractive expected returns are considered further. JIC then reviews outside analyst research to determine outstanding issues surrounding each



candidate stock. Lastly, JIC reviews the institutional holders of the stock.

Portfolio Construction

Stocks meeting JIC's thorough review and analysis are eligible for purchase. JIC selects stocks based upon the combination of quantitative, qualitative, and expected return measures.

Individual Stock Selection Process

Portfolios will hold anywhere between 50 and 75 names. A single holding is limited to 5% of the portfolio and JIC will not invest more than 30% of the portfolio (or three times the S&P 500 weighting -- whichever is less) to a single economic sector.

Sales Process

JIC will sell a security when: 1) the target price is reached, 2) a better opportunity exists, 3) the stock's fundamentals begin to deteriorate, or 4) the stock has a market adjusted loss of 25% from its purchase price (although, depending on the reason for the decline in value, JIC may invest additional funds to lower the average cost).

Through fundamental research and analysis, JIC creates portfolios that will generally exhibit the following characteristics:

- Valuation characteristics similar to or lower than the market
- Above-average revenue, cash flow, and earnings growth,
- Higher than average profitability characteristics, and
- Relatively attractive balance sheets

About Johnston Investment Counsel

JIC is a privately-owned firm that was formed in 1997 by Gregory A. Johnston, CFA. JIC provides investment consulting and advisory services to corporations, defined benefit and contribution plans, endowment and foundations, Taft-Hartley funds and high net worth individuals.

JIC is a 100% independent firm whose sole source of compensation is from its client-based fees. JIC conducts its own internal research and evaluation prior to making investment decisions.

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.

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, call (309) 674-3330 or visit our website -- www.jicinvest.com.

Summary of Portfolio Characteristics

| <u>Top 10 Holdings</u> | | <u>Sector Allocation</u> | |
|---------------------------|----------------|--------------------------|----------------|
| <u>Company</u> | <u>Percent</u> | <u>Sector</u> | <u>Percent</u> |
| Norfolk Southern Corp. | 2.2 | Finance | 21.5 |
| Wyeth | 2.0 | Cons Cyclical | 18.3 |
| Computer Sciences Corpor | 2.0 | Health Care | 16.9 |
| Alliant Techsystems Inc. | 1.9 | Technology | 12.9 |
| AmSurg Corp. | 1.9 | Capital Goods | 9.6 |
| United Defense Industries | 1.9 | Cons Staples | 8.2 |
| DRS Technologies, Inc. | 1.8 | Basic Materials | 4.0 |
| Pactiv Corporation | 1.8 | Energy | 3.2 |
| Affiliated Computer Servi | 1.7 | Transportation | 2.2 |
| Lincare Holdings Inc. | 1.7 | Utilities | 1.7 |
| | | Communication | 1.4 |

| <u>Portfolio Characteristics</u> | | | | |
|--------------------------------------|------------|---------------------|-----------------------|---------------------|
| | <u>JIC</u> | <u>Russell 1000</u> | <u>Russell Midcap</u> | <u>Russell 2000</u> |
| Valuation Characteristics | | | | |
| Wght Avg Mkt Cap (\$ Mil) | \$13,544 | \$80,254 | \$6,472 | \$947 |
| Price / Earnings | 16.5 | 20.5 | 19.2 | 18.0 |
| Price / Cash Flow | 7.8 | 12.6 | 11.4 | 10.6 |
| Price / Sales | 1.6 | 2.4 | 2.2 | 2.1 |
| Price / Book Value | 2.3 | 3.1 | 2.7 | 2.3 |
| Growth Characteristics | | | | |
| Sales Growth (3 Year) | 11.5 | 6.6 | 7.4 | 8.9 |
| Cash Flow Growth (3 Year) | 18.8 | 11.3 | 13.5 | 10.7 |
| Earnings Growth (3 Year) | 9.4 | 10.2 | 10.4 | 9.2 |
| Estimated Long-term Growth | 12.8 | 12.2 | 12.5 | 15.4 |
| Profitability Characteristics | | | | |
| Operating Margin | 14.1 | 16.4 | 14.7 | 13.7 |
| Net Margin | 9.2 | 11.1 | 9.3 | 6.5 |
| Return on Equity | 15.6 | 16.4 | 14.4 | 8.6 |
| Return on Total Capital | 7.7 | 8.8 | 8.2 | 5.2 |
| Balance Sheet Characteristics | | | | |
| Long-term Debt / Total Capital | 35.9 | 33.4 | 31.5 | 28.5 |
| Times Interest Earned | 11.4 | 11.9 | 9.3 | 5.3 |
| Pre-tax Income / Long-term Capital | 12.9 | 14.2 | 13.3 | 8.9 |