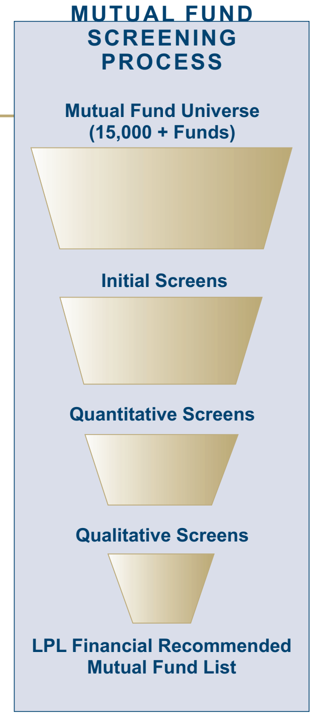
Strategic Asset Management

The Mutual Fund Research Process



The Mutual Fund Research Process focuses on identifying, recommending and monitoring investment opportunities that will translate into optimal long-term, risk-adjusted returns. The LPL Financial Research team adheres to a well-defined analytical process based on diligent fundamental research. This process involves three steps, including initial screening, quantitative analysis and qualitative analysis that is utilized to distinguish the most attractive mutual funds within an asset class and investment style.

Initial Screening

- **Tenure**
  To ensure commitment to the fund's investment process and philosophy, we prefer managers with at least a three-year track record working with the fund under consideration or a similar fund.
- **Size**
  Minimum asset size guidelines are applied to assess fund liquidity and financial stability. Typically, we look for minimum asset bases of approximately $250 million for large cap funds and $100 million for small cap portfolios.
- **Expenses**
  Our recommended funds have expense ratios that are reasonable and consistent with industry averages.

Quantitative Measures

We conduct comprehensive statistical analysis of a manager's long-term performance relative to specific managed and unmanaged benchmarks. Some of the other factors the LPL Financial Research analysts screen for include:

- **Long-Term Performance**
  Funds are screened initially on three-, five- and ten-year risk-adjusted basis, utilizing such measures as Sharpe ratios, Treynor ratios and Alpha generation.
- **Consistency of Returns**
  We seek managers with strong risk-adjusted performance on a long-term basis to avoid impressive short-term gains only to be followed by periods of underperformance.
- **Style Consistency**
  We look for managers that adhere to their stated asset class, investment style and investment objective to avoid style drift that may limit suitability from an asset allocation standpoint.
- **Portfolio Diversification***
  We identify mutual fund portfolios that are diversified by both sector and issuer to limit portfolio volatility and reduce tracking error.
- **Performance Attribution**
  Managers who have consistently generated excess returns through ongoing application of their stated investment process are favored over managers whose returns are a function of large rotational bets or periodic allocations outside their asset class or investment style.
- **Asset Growth**
  We monitor mutual fund asset growth, as well as total assets under management to avoid potential changes in the investment process or style drift, particularly for small cap funds.
- **Fully Invested**
  We review the historical composition of the portfolio to confirm that a manager has maintained relatively consistent cash levels and not used cash as a market timing pool.

* There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Sharpe ratio is a risk-adjusted measure of performance evaluation. It compares the return above the risk-free rate (risk premium) earned and the corresponding risk that the fund took (as measured by the Standard Deviation).

Treynor ratio is a measurement of excess return per unit of risk (risk is defined as portfolio beta).

Alpha measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive (negative) Alpha indicates the portfolio has performed better (worse) than its Beta would predict. Beta measures a portfolio's volatility relative to its benchmark.

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The Mutual Fund Research Process, continued

Qualitative Measures

We greatly value personal skill, intuition and experience, as they are key to successful portfolio management.

- **Clearly Stated Investment Philosophy and Process**
  Firms that clearly describe their investment methodology and remain dedicated to their stated process over time tend to score well in our qualitative analysis.
- **Investment Depth**
  We favor management structures with several individuals responsible for management of the portfolio. We feel this reduces the possibility of fundamental changes to the investment process.
- **Ownership and Compensation Incentives**
  Firm ownership incentive structures and performance-based compensation are viewed as important retention tools for key investment personnel.

Monitoring

Our monitoring process is rigorous and thorough, with LPL Financial analysts reviewing recommended funds on a continuous basis. We focus on several key factors that may indicate deviations from historical performance patterns. In doing so, LPL Financial advisors are given the ability to make proactive decisions before investment performance deteriorates substantially. Some of the key indicators we focus on are:

- **Changes in Portfolio Risk Levels**
  Significant increases or decreases in security. Industry or sector concentrations can signal changes in the investment approach of the manager.
- **Style Drift**
  Deviations in investment style may change the risk/return characteristics of a fund. An example of this would be a manager who has traditionally invested in value stocks switching to growth stocks.
- **Changes in Key Investment Personnel**
  A change in a fund's management team can be an early indicator of fundamental changes to the investment process, which may, in turn, lead to changes in traditional performance profiles and risk levels.
- **Removal from the Recommended List**
  Changes in any of the indicators we monitor will not automatically result in the removal of a fund. Rather, they will trigger a heightened level of review, including increased dialogue with the management team to better our understanding of the shifts in investment strategies and their likely impact on performance and risk levels. If we determine any of the changes may lead to future underperformance, a fund may be removed. In addition, ongoing underperformance, independent of changes in the investment process, may also result in the removal of a fund.
- **Conclusion**
  At LPL Financial, we are proud of our tradition of in-depth mutual fund research. LPL Financial Research operates on a shared philosophy that diligent fundamental research and a well-defined analytical process are the keys to making informed investment recommendations. The end result is a powerful resource for LPL Financial advisors that helps them meet their clients' financial objectives.