

Independent and Focused

A small but experienced and loyal team is one of the greatest assets of Becker Capital Management. The privately held advisor to the Becker Value Equity Fund is committed to remain independent with all of its shareholders being employees of the firm. Opportunistic in nature, the fund invests primarily in large undervalued companies with stable to improving fundamentals.

Q: Could you give us some background information on Becker Capital? What are the benefits and the challenges for a small, independent fund?

A: Becker Capital is independent, privately held, and we plan on remaining that way. We have no intentions of selling. Of the 29 Becker employees, 18 are shareholders, and to be a shareholder at Becker Capital Management, you have to be an employee.

We can also claim that we have seen no professional turnover on the equity staff since the inception of the firm in 1976. Becker tends to be a career destination rather than a starting place so we don't hire junior analysts or people fresh out of college. We prefer people with experience as analysts or portfolio managers at another organization.

The portfolio managers average 28 years in the industry and have been at Becker for 18 years. The situation with the analysts is similar; they have an average experience of 26 years in the industry and 12 years at Becker. For a firm of our size, we have considerable depth and breadth and a lot of resources dedicated to that process. Very stable, consistent group and like I mentioned, that plays out in the philosophy and the process that we implement.

I believe that the fact that we've had zero turnover in the 30 years of operations, has been very beneficial to our clients over the years. When they hire Becker, they know that they are getting a focused group of people that have been working together for a long time, both in good markets and in bad markets. The consistency and the stability have created a long-standing and well thought out process. I think that the client base over the years has developed a lot of confidence in that process because they know what we do and why we do it.

The firm was founded as a regional high net worth shop and, with the growth of the business, has evolved more into an institutional firm. We manage about \$2.6 billion in assets in total. About \$1 billion is for high net worth individuals primarily in the local Portland and Northwest market, while the other \$1.6 billion is institutional money from coast to coast.

Q: How would you describe Becker's investment philosophy?

A: In a nutshell, we're a bottom-up value biased manager. We're investing primarily in large-cap stocks and we're essentially looking for two types of situations. The first one can be described as

Becker Value Equity

FUND FACTS

Symbol	BVEFX
Website	www.beckervaluefunds.com
Address	Becker Capital Management, Inc. 1211 SW 5th Avenue Suite 2185 Portland, OR 97204
Tel. No.	877-785-7979
Inception	11/3/2003

PORTFOLIO

Total Net Assets *	\$48.7
Avg Mkt Cap (\$ Weighted) *	\$50,200
Average Price/Earnings Ratio	17.0
Average Price/Book Ratio	2.5
Turnover Ratio	32%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$2,500
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$2,500

RISK (AGAINST S&P 500 - 3 YEARS)

Alpha	N/A
Beta	N/A
R-Squared	N/A
Ann Std Deviation	N/A
Sharpe Ratio	N/A

RETURNS VS. RUSSELL 1000 VALUE INDEX

	BVEFX	Index
1 Year (Cum.)	13.07%	14.62%
2 Year (Ann.)	14.16%	15.65%
Inception (Ann.)	13.67%	15.29%

RETURNS VS. S&P 500

	BVEFX	Index
1 Year. (Cum.)	13.07%	10.79%
2 Year (Ann.)	14.16%	11.52%
Inception (Ann.)	13.67%	10.27%

FEES AND EXPENSES

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	1.00%
Total Expense Ratio	1.00%

PORTFOLIO MANAGER

Robert Schaeffer	Nov-2003
Michael McGarr	Mar-2006

* millions

Data through: 9/30/2006

Source: Company Documents; Lipper



an 'absolute value company,' or a good company qualitatively and fundamentally trading at a great price. The second situation is a 'relative value company,' or a great company trading at a good price.

The absolute and relative value categories share a couple of common characteristics. In all cases, the stock we buy must be out of favor with the investing public, meaning that the price must be at a level where we're interested in it. The other common thing is that the business fundamentals must be at least stable and, hopefully, improving. We're not interested in turnarounds, at least not until there is some evidence that they are really turning around.

The difference between the absolute and relative categories is the quality of the business. In general, the absolute value companies are not as good as the relative value companies in qualitative terms. They typically have fairly average balance sheets and historic growth rates, whereas the relative value companies have much better than average history of growth and balance sheets.

From a valuation standpoint, our absolute value company is purchased at a significant discount to the market averages in terms of price to earnings, price to book, and price to sales. On the other hand, when we're targeting better quality companies representing good "relative" value, we want to buy these at the low end of their historic range, preferably not above the market valuation level.

Q: Would you describe the specifics of your research process? How do you generate your investment ideas and turn them into portfolio holdings?

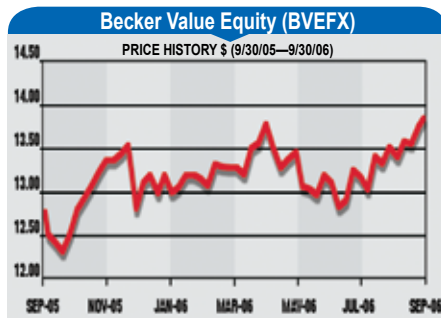
A: New ideas can come from anywhere but most of them come from inside Becker Capital Management. We've been able to leverage the experience of our analysts and portfolio managers who have pretty good working knowledge of many companies.

We also have a significant analyst and research travel budget for attending conferences, trade shows, and management meetings. In the last year we had direct

contact with about 700 companies. The analysts have industry assignments to make sure that things don't fall through the cracks in terms of industry-related ideas. We have access to databases, screening tools, and online SEC filings.

Our research process is fundamentally driven and bottom-up. We're trying to build the evidence case for owning a stock at a particular price so we'll look at whatever fundamentals are relevant to the particular idea. The research may emphasize balance sheet or margin trends, competitive situation, product cycle, the point of the economic cycle, whatever is relevant, and it's going to vary across industries and companies. We always look at things in the context of the particular industry or sector and try to understand the competitive situation.

If an idea meets our criteria and represents a compelling value, it will be included in the portfolio. If not, it will go into the analyst's watch list as part of our



library. At some point in the future at a better valuation or improved fundamentals, we may include it.

Q: What are the key elements of the portfolio construction process?

A: After the process of identifying specific buy candidates and assembling a working list, we'll hold between 50 and 60 issues at any point in time. Typically, they are equally weighted in the neighborhood of 2% initial position. Sometimes the weighting can be a bit less depending on the nature of the company.

In terms of sector diversification, we're not benchmark oriented. We believe in diversification but if we can't find companies that meet our qualitative and

valuation criteria in a specific sector, we won't be invested there. The portfolios are relatively fully invested with only 5% to 10% in cash. Overall, we have a fairly well diversified portfolio with a clear emphasis on large-cap names and some mid-cap names if the valuation warrants and merits.

Q: Would you explain your sell discipline?

A: There are three things that can trigger a sale. First, if there's a significant negative change in the company's fundamentals to the extent that we no longer think it's the company that we thought we owned. In that case we'll sell the stock with no questions asked.

The other type of change is valuation oriented. We have different buy disciplines for our absolute and relative types of companies and if our upside valuation targets are met, we'll simply pull the plug and look for better value.

The third factor that can trigger a sale is if we're able to find a better idea. For example, a year ago we thought that pharmaceutical companies were approaching an interesting valuation level. They clearly had some issues with product liability so we didn't want to bet on just one name. We bought a package of pharmaceuticals - Abbott, Merck, Eli Lilly and Pfizer. We recently sold our position in Merck and moved the money into Pfizer and Lilly, which had reasonably comparable valuations but not as much baggage as Merck did with Vioxx. It wasn't a new idea, but we were more comfortable with the alternatives there.

Q: You mentioned that you aren't interested in what people call 'deep value' or 'turnaround' situations. Why?

A: We look at turnarounds, but we like to be sure they are in fact turning around, because frequently they don't. Whether we're more heavily skewed towards the absolute or the relative value camp will depend on the market conditions at the time. For example, in 1999

and 2000 we had an oddly valued market with exceedingly high valuations of tech stocks and attractive valuations on almost everything else. In that case we were much more in the absolute value camp.

Within the absolute value camp, I would not classify us as a deep value or a contrarian manager. Typically, the quality characteristics of the companies that we own are higher than that. Instead, I'd classify us as a more opportunistic manager as our emphasis often will be a function of the market. As the market has moved forward in the last few years, many of the relative value companies have come down in valuation. In the last 5 or 6 years, our shift has been in the direction away from more of the absolute value names in favor of the relative value companies.

Q: How often do you change the mix in the portfolio?

A: Our long-term turnover ranges have been in the neighborhood of 20% to 50% depending on the market. About 35% is probably a rough average annual number.

Q: In the last five years large-cap growth hasn't done as well as large-cap value, although that depends on what sectors you have been invested in. Do you expect a shift to eventually occur?

A: I've often told our clients that we're much better at forecasting the future than we are at forecasting the future accurately. It is very difficult for me to make predictions and I think that every market cycle is different. One of the things you come to realize with experience is all market cycles are different. We've been fortunate to have had success over a long period of time, including the recent years, relative to our peers and to some of the large-cap growth guys. So I don't know where it's going to end up but I do know that our approach has flexibility with a clear value bias. The opportunistic nature of the fund hopefully gives us a competitive advantage.

“I don't know where this market cycle is going to end but I do know that our approach has flexibility with a clear value bias. The opportunistic nature of the fund hopefully gives us a competitive advantage.”



ROBERT N. SCHAEFFER Vice President, Portfolio Manager, joined Becker in 1984 and manages the firm's Large Cap product. Prior to joining Becker, Bob managed equity portfolios for private and institutional clients at First Interstate Bank of Oregon, where he headed the Endowment and Charitable Funds Management Group. Bob received a B.A. in Economics from Willamette University



MICHAEL A. MCGARR, CFA, Vice President, Senior Equity Research Analyst, joined Becker in 1985 and co-manages Becker's Large Cap Fund. Prior to joining Becker, Mike was an equity analyst with Qualivest Capital Management, the investment subsidiary of U.S. Bancorp. Mike spent a total of six years at US Bancorp, where he also gained experience as an auditor and a government bond trader. Mike received a B.A. from Williams College and an M.B.A. from University of Virginia's Darden Graduate School of Business Administration. Mike is a Chartered Financial Analyst.

Q: In the large-cap universe do you generally stick to U.S.-based companies or you would look at foreign names as well?

A: We invest primarily within the U.S. but we own several ADRs. We'll only own the big household names such as Honda, Royal Dutch Shell Oil, Unilever, and Cadbury Schweppes, because we're getting better numbers from the companies. They comply with international accounting standards and this makes the research process to our liking. So we have a handful of ADRs, but they're always going to be a handful and they're always going to be names we're familiar with. We're not trying to be an international investor.

Q: There are several mega-cap stocks, like Microsoft, that haven't been in favor with investors for the last five years. Is that part of your research process?

A: Generally, those types of companies would fall under the relative value umbrella. We're always looking for companies with growth but the real issue is the valuation. As former growth companies struggle in the marketplace and their stock prices go down to what we think is a compelling valuation level, we're willing to pick and choose those types of companies.

One of the things that we do see in the marketplace right now is a compression of valuation. There are many companies of good, average, and high quality that are all trading around 16 to 18 times earnings, and that's an environment that gives us the opportunity to qualitatively upgrade the portfolio. **T**

Ticker

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