

A Disciplined Approach to Achieving Superior Risk-Adjusted Returns

Believing that sound strategies, executed consistently, are the key to long-term investment success, Great Lakes Advisors builds value equity portfolios through a distinctive investment philosophy and process. This approach, which manages risk as a key component, has performed well through a wide variety of market climates. What's more, it can be customized to the needs and preferences of clients who desire socially responsible investing.

A Proven Value Investment Approach

Since 1985, the heart of our equity investment approach has centered around a firm's potential to improve its value, or earning power. We define earning power as a company's ability to generate profit to reinvest into the firm or distribute to shareholders, and consider such measures as return on capital/equity as indicators of company strength.

Selecting from a universe of companies with large-medium capitalizations, we seek to invest in established firms and industries, which we believe will increase their earning power, and whose current valuations suggest that they are underpriced because of low market expectations.

Central to our philosophy and process is a unique way of diversifying the portfolio across industries to manage risk. The result has been a portfolio that has demonstrated competitive returns, low volatility compared to the market and other managers as a whole, and low turnover.

Our Value Equity Investment Process

We identify appropriate stocks and build portfolios through a rigorous process:

1 *Generate investment ideas* from carefully chosen research sources. We use data from price and profitability screens, corporate financials, and information from company and industry meetings and presentations. We learn about companies' products, profitability, plans and people during our assessment of current positions and future prospects. Companies exhibiting potential to improve returns on capital/equity particularly attract our attention.

2 *Build a case for a particular holding* by identifying reasons the company may achieve or sustain above average return on capital and/or equity. We focus on changes that are likely to have a positive long-term effect on return on capital, such as:

- *Improved* margins and/or balance sheet,
- *Better utilization* of assets and cash flow,
- *Increased* return on equity,
- *Changes* in the management team and/or industry structure.

3 *Assess the attractiveness of current valuation* of earning power, including price/earnings ratios and dividend yields—measures that have been proven for decades to produce investment success.

4 *Determine the enhancement to the portfolio.* The selection should have a positive impact on the overall portfolio direction and diversification. We add stocks to the portfolio to:

- Increase portfolio average *earning power*,
- Improve average *valuation* measures,
- Enhance overall *diversification*.

Risk Management Through Diversification

By taking a position in a company, we attempt to gain the benefits of positive changes within its industry as a whole, as well as developments specific to that firm. Through this strategy, we are able to increase the likelihood of good returns in most market climates. Our objective is to ensure that portfolios are neither concentrated nor index-like, but always well-diversified. We endeavor to invest in industries that together represent half of the S&P 500's market value.

Building Long-Term Portfolios

We approach portfolios as investors, not traders, making purchases with the intent of holding the securities for at least three years—a time period long enough to achieve improved return on capital/equity or better market valuation. We typically hold 35 to 50 stocks with low portfolio turnover.

A Well-Defined Sell Discipline

When we purchase a stock, we establish a total return target for the holding period. We anticipate that the total expected return should clearly exceed the long-term return of the overall market. We monitor company progress after purchase and usually sell after achieving the desired return. However, other factors may prompt a reexamination of our strategy and an earlier or later sale based on a different total return target. Some reasons include:

- Improvement or deterioration of the *investment case*,
- *Major changes* to business structure or earning power,
- *Another stock* offers better diversification.

In Summary...

Great Lakes Advisors provides our clients with:

- A proven approach to value equity investing implemented consistently since the 1980s.
- A portfolio based upon established companies building earning power, proven valuation measures, and risk-reducing diversification.
- Competitive returns with lower volatility than the market and other managers as a whole.
- Skilled, experienced investors, and proactive service that keeps clients informed and involved.



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