Investment Management Philosophy

Executive Overview

The investment marketplace has grown increasingly complex and unpredictable for individual investors. This reality may make it difficult for many people to effectively manage their own investments to accomplish their objectives. The task becomes especially challenging as the size of the portfolio increases and investment time frames lengthen. As a result, many investors turn to professional investment managers for assistance in creating and managing portfolios that may be better positioned to perform in a variety of market environments.

Our experienced team of investment professionals blend both the "science" and "art" of portfolio management to implement portfolio strategies.

It is our belief that investment performance can be attributed, in large part, to such things as:

- Well designed, appropriately diversified, and strategic portfolio construction.
- Carefully selected investments, managers and funds.
- Tactical strategies, which attempt to add value in the short term through constrained portfolio adjustments.

Our approach to investment management is customized and dynamic. We believe that the investment management experience is successful if it includes the following attributes:

- Creation of a customized investment plan which outlines investment goals within the risk limits that are acceptable to the client.
- Implementation of a portfolio construction process that is customized to reflect the agreed upon investment plan.
- Active investment management with respect to portfolio holdings, managers, funds, and use of tactical allocation strategies.
- Active communication designed to meet client preferences.
- Detailed performance measurement and ongoing evaluation.
- Appropriate adjustments incorporated as client circumstances change.

This steadfast approach exemplifies the long-term commitment of our experienced professionals in helping clients meet their investment objectives.

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The Importance of Professional Management

It can sometimes be difficult for individuals to manage their own assets and achieve the desired results. It is often more demanding as the size of the portfolio grows larger. Today's increasingly complex and volatile markets add to the challenge. For this reason, investors with significant wealth are likely to turn to professionals who can provide management expertise and insight. But how can investors determine whether the approach employed by their investment managers is the most effective method and management style for them? What is the key to effective investing in a market that continues to evolve and offers literally thousands of options to choose from?

One critical step is to identify trusted, competent professionals who understand how best to capitalize on the full range of opportunities available in today's ever-changing investment landscape. Just as important is selecting professionals who understand how to align an investor's objectives and financial philosophy with potential current and long-term opportunities.

Disciplined Process

At the foundation of our investment philosophy is a belief that all portfolio managers should be guided by consistent and disciplined investment methods. For this reason, the creation of our multi-faceted investment philosophy is the responsibility of our chief investment officer and team of senior portfolio strategists. Leveraging a dynamic approach that includes deep intellectual insights and expansive industry experience, this leadership team collaborates to develop, drive and oversee the core principles and key tenents which guide our portfolio managers. Portfolio managers draw on the breadth and depth of this collective knowledge and direction, along with their own expertise, to implement customized portfolio construction decisions for each individual client. We believe the use of a structured, disciplined investment process helps improve local decision making, enables active risk management, and helps ensure potentially successful outcomes are consistent and repeatable.

A Team of Professionals

Our team includes more than 75 portfolio managers located throughout the country who help guide individuals and organizations through the investment process. These professionals are well versed in designing and implementing portfolios around the complex needs of individuals with significant assets. Many are certified as Chartered Financial Analysts (CFA) or Certified Financial Planners (CFP). Clients benefit not just from the experience of the individual Portfolio Manager working with them, but also the collective knowledge and insights of our entire team, one that works closely together to stay abreast of market trends and portfolio strategies.

Discovering the Unique Needs of Every Client

At the core of our philosophy is a fundamental belief that every client deserves a customized portfolio created and maintained to his or her own specifications. Our investment management style is underscored by a belief that taking the time to fully comprehend a client's individual situation makes it possible to tailor solutions that may help dramatically improve the chances of meeting the unique investment objectives of each client.

An important component of our process is the insight gathered about each client's unique situation and objectives. We emphasize a truly personalized approach from the very beginning of the relationship.

Part of the process is quantitative and involves gathering information about a client's financial data. We begin by taking a comprehensive personal financial inventory of all financial holdings. This includes discussions about:

- Assets in retirement plans
- Taxable and tax-exempt investment accounts
- Savings accounts and certificates of deposit
- Real estate holdings
- Life insurance contracts
- Private investments and partnerships
- Current employment and business exposure

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Perhaps more significant than our financial data gathering process is getting to know what's personally important to the client. This qualitative assessment is very subjective and helps us understand more deeply each client's personal beliefs, goals, fears, unique circumstances, income needs, tax situation, and time horizon.

The outcome of these quantitative and qualitative reviews is the development of a personalized plan that guides decisions on how best to construct an investment portfolio that is consistent with the client's unique situation.

Taking inventory

At the outset of each new client relationship, we carefully analyze the specific needs of the client. Seven key areas of discussion help determine how best to structure a personalized portfolio solution. They are:

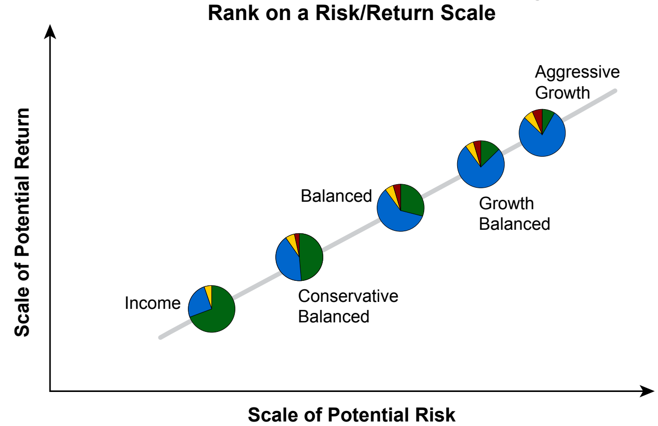
- **Income expectations** — the targeted level of income the portfolio should seek to generate in order to meet client expectations and needs.
- **Risk tolerance** — how the ups-and-downs of the market affect the client's outlook toward the way assets are invested.
- **Time horizon** — key milestones on the client's investment horizon that could affect how assets are positioned.
- **Tax considerations** — the role of tax planning in determining the ultimate asset mix
- **Constraints** — an opportunity to spell out specific restrictions desired in a portfolio, such as industries, social issues or countries that should not be included.
- **Ongoing communication** — the type and timing of personal contact the client desires from The Private Client Reserve as the investment process continues.
- **Liquidity** — any specific financial needs that may require significant withdrawals from the portfolio.

Combining "Science" and "Art" to Construct Portfolios

Our investment professionals combine both the "science" and "art" of investing, selecting among multiple asset allocation styles in an effort to limit the affect of volatility that can occur in individual investments or markets, while striving to achieve client goals. We believe this approach is an effective method of potentially managing risk exposure for clients.

We feel opportunities exist in a variety of asset classes through different market environments. Our asset allocation approach seeks to capitalize on those opportunities by focusing on quantitative analysis of historic asset class attributes (expected return characteristics) and long-term capital market estimates. This is an objective form of market analysis – the "science" of investing – that creates recommended optimal portfolio mixes based on historic returns and risk levels for various assets within each class. Historical return characteristics of different asset classes enables us to potentially determine what mix of assets may generate the best after-tax return for an acceptable level of risk (market volatility).

Example of How Asset Allocation Strategies Rank on a Risk/Return Scale



When designing our range of portfolio strategies, we take advantage of a wide spectrum of investment options, centering on four broad capital market asset classes:

- Equities – including large-, mid- and small-cap; domestic, developed and emerging international markets. Also, when appropriate, alternative investment styles such as hedged equity funds, structured equity notes, exchange funds, and private equity. Active and passive management options are also available.

- Fixed income – bonds, bills and notes with various maturities and tax status, from a broad range of domestic and foreign issuers. Also, when appropriate, alternative investment styles such as structured notes and hedged fixed income funds. Active and passive management options.
- Real estate – including outright ownership of properties, Real Estate Investment Trusts (REITs), direct real estate funds, and as appropriate, structured real estate notes. Both active and passive management options can be utilized.
- Commodities – including outright ownership of mining, oil and natural gas properties, funds which invest in commodity exposures, and as appropriate, alternative investment styles, including structured products and private commodities. Active and passive management options can be utilized.

We attempt to accomplish risk management within portfolio strategies by effectively utilizing correlations between different asset classes (and specific investments that represent those classes) and matching them to the investment objectives and risk profile of the client. We believe thoughtful portfolio construction may help balance the return with the risk.

Tactical decisions to each portfolio strategy are applied to adjust for changing market and economic conditions and to take advantage of potential market movements with the goal of reducing risk and possibly enhancing returns. This represents the "art" of investing, incorporating the judgment of our chief investment officer and senior portfolio strategists. They use their experience and expertise to make adjustments to our quantitative strategies, assessing how current market conditions could impact overall portfolio performance. This is a critical "value-added" factor designed to potentially limit the prospective risk inside an individual portfolio while attempting to capitalize on the market's full return potential.

Our approach to asset allocation also includes a unique emphasis on differentiating strategies based on clients who may be more tax sensitive versus those who are not subject to taxation. This allows us to construct portfolios incorporating expected after-tax return and volatility assumptions to assure that tax concerns are addressed in the final asset mix.

Broad Capabilities Targeted to Specific Needs

For many clients with significant wealth, preservation of capital is often a top priority. This may be one of the most important measurements of a professional asset management organization. Individuals and organizations that place importance on trying to protect what's already in place will look for managers with the expertise to understand market cycles, how to read economic trends and the impact they may have on a portfolio.

We offer broad-based capabilities and in-depth proficiency not just with securities (stocks and bonds) but with a wide variety of asset types, including:

- Managed asset class solution – mutual funds, separately managed accounts (SMAs), exchange traded funds (ETFs)
- Alternative investment styles – hedge and exchange funds, private equity and venture capital opportunities
- Risk management approaches – including hedging strategies and structured notes
- Concentrated management strategies – use of collars and covered calls
- Stock options – defining appropriate exercise strategies and timing
- Specialty assets – including farm, ranch and timber land, income-producing real estate, oil, gas or mineral rights, loan assets, and closely-held companies.

A key element of our approach is the belief that a client's investment universe should not be limited to "in-house" capabilities. We provide access to a broad array of third-party investment managers. One way we try to maximize the potential for returns is to capitalize on well-researched, best-in-class separate account managers, public mutual funds and private alternative investment funds. An emphasis is placed on selecting managers who can not just articulate an investment process, but have historically shown their ability to successfully apply it consistently over time.

Keeping Portfolios on Track

Each client's portfolio requires appropriate rebalancing, tactical decision making, and ongoing assessment. This is carried out in three different ways:

1. Through **rebalancing** of asset classes within the portfolio. The need to rebalance occurs from time-to-time as certain assets perform beyond expectations, while other holdings lag or underperform expectations. To assure that portfolios continue to be positioned in accordance with the client's investment objectives, risk profile and tax sensitivity, assets are bought and sold to adjust the mix back to an allocation that better reflects current tactical recommendations.
2. Through **market-driven adjustments** made on a tactical level. Our investment team continuously assesses current economic conditions, asset class valuations, market sentiment and momentum factors. This information supports the judgment of the portfolio manager, who recommends appropriate changes in an attempt to capture short-term opportunities with the goal of managing risk and potentially improving the overall performance of each portfolio. This form of constant monitoring of economic and market trends as well as the performance of specific holdings is especially important in an environment where markets don't stand still and underlying investment objectives can change.
3. Through ongoing **assessment and supervision** of investment decisions based on the portfolio manager's active supervision of funds and managers utilized in the portfolio.

Along with developments in the markets and the economy that can affect portfolio success, another element in our process is to incorporate changes in the client's own circumstances. We conduct regular reviews to assure that the stated investment strategy remains in line with any developments that could affect the client's investment goals and risk profile.

A typical portfolio review meeting includes:

- A review of actions committed to during the last meeting.
- A discussion of rebalancing measures, investment and/or manager changes, and tactical strategies implemented in recent months.
- A review of economic and market conditions since last meeting.
- A review and analysis of investment performance compared to expectations.
- An assessment of any changes in the client's circumstances that could affect portfolio strategy and a reconfirmation of the long-term strategy.
- Economic and market outlook, along with review of current tactical asset allocation advice.
- Agreement on anticipated tactical and rebalancing measures that may be implemented in the coming months.

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Conclusion

We offer customized portfolio solutions and access to a wide range of investment options.

Different asset managers have different investment philosophies. Determining if one is more likely to succeed over another can be difficult for investors who are assessing their options. But one crucial element, regardless of the attributes of the manager, includes having a customized investment policy statement and staying disciplined about adhering to the investment strategy that is implemented.

Choosing an investment manager who can narrow down an investor's ultimate financial objectives and recommend an appropriate portfolio solution may help improve the chances of success in today's market, which offers both tremendous opportunity and increasing complexity.

Within The Private Client Reserve, our disciplined process ensures that each client solution is aligned with our overall philosophy. Portfolio managers leverage a broad-based investment platform when constructing customized portfolios and provide ongoing assessment and active supervision. It is our belief that we serve our clients' interests best by providing personalized attention to make a significant difference in achieving investment objectives.

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IMPORTANT DISCLOSURES

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Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes may be suitable for every portfolio. Hedged equity and hedged fixed income investment strategies are typically available via hedge funds which may not be appropriate for all clients due to the speculative nature and high degree of risk involved in these investments.

Mutual fund investing involves risk; principal loss is possible. Investments in certain funds involves special risks, such as those related to investments in small- and mid-capitalization stocks, foreign, debt, and high-yield securities, and funds that focus their investments in a particular industry. Investors should refer to the fund prospectus for additional details pertaining to these risks. U.S. Bank may enter into agreements with non-proprietary mutual funds or their service providers whereby U.S. Bank provides shareholder services and/or sub-transfer agency, custodial and other administrative support services and receives compensation for these services. Compensation received by U.S. Bank directly or indirectly from mutual funds does not increase fund fees and expenses beyond what is disclosed in the fund prospectus. For more information, investors should review the fund prospectus.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. Stocks of **small- and mid-cap companies** pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies. **International** investing involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. **Investment in fixed income debt securities** are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investment in debt securities typically decrease in value when interest rates rise. This risk is usually greater for **longer term debt securities**. Investments in **real estate securities** can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties, such as rental defaults. **Alternative investments** very often use speculative investment and trading strategies. There is no guarantee the investment program will be successful. Alternative investments may not be suitable for every investor, even if the investor does meet the financial requirements. It is important for investors to consult with their investment professional prior to investment in these investments. There are special risks associated with an investment in **commodities**, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes, and the impact of adverse political or financial factors. **Hedge funds** are speculative and involve a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem units in a hedge fund. **Structured products** are subject to market risk and/or principal loss if sold prior to maturity or if the issuer defaults on the security. Investors should request and review copies of Structured Products and Pricing Supplements and Prospectuses prior to approving or directing an investment in these securities. **Private Equity** consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity. Potential investors should remember that investments in private equity are illiquid by nature and typically represent a long-term commitment. The investments made by private equity funds are not readily marketable and the valuation procedures for these positions are often subjective in nature. **Options** involve substantial risk and are not suitable for all investors. Prior to buying or selling an option, investors must receive a copy of the “Characteristics and Risks of Standardized Options.” Copies may be obtained from an investment professional, any exchange on which options are traded, or by contacting The Options Clearing Corporation at One North Wacker Drive, Suite 500, Chicago, IL 60606 (phone: 1-800-678-4667). Investments in **exchange funds** are available to investors who meet “Qualified Purchaser” qualifications. While they provide diversification, they will not protect against broad market declines. For details about various risks associated with these types of investments, investors should review the offering materials, including the Private Offering Memorandum for the exchange fund. **Exchange-traded funds (ETFs)** are baskets of securities that are traded on an exchange like individual stocks at negotiated prices and are not individually redeemable. ETFs are designed to generally track a market index (broad stock or bond market, stock industry sector, international stock), and shares may trade at a premium or a discount to the net asset value of the underlying securities.