

Mid-Cap Value Wrap

Firm Information:

Location: Conshohocken, PA
Year Founded: 1982
Total Employees: 44

	Firm	Product
Assets (\$mil):	11,739	249
Accounts:	1,530	824

Key Personnel:

Ron Mushock, CFA
 Portfolio Manager
 D. Kevin McCreesh, CFA
 Chief Investment Officer

Overview

Systematic Financial Management Inc. was founded in 1982 as a registered investment advisor specializing in the management of value portfolios. In 1995, a majority stake in the firm was sold to Affiliated Managers Group (AMG), a holding company and publicly traded company that invests in mid-sized asset management firms.

Ronald Mushock, CFA, has been the lead portfolio manager for the Mid Cap Value strategy since its inception on April 1, 2000. Kevin McCreesh, CFA, chief investment officer, is also active in the management of this strategy.

Process

The Mid Cap Value strategy is based on a value discipline with a proven catalyst. Systematic believes that buying stocks based purely on valuation is often a mistake and that buying stocks based upon unproven catalysts has the potential to lead to inconsistency. Systematic takes all publicly traded U.S. companies generally with a market cap of \$1 billion - \$20 billion, and ranks them from lowest to highest based on two factors: lowest forward Price/Earnings and the firm's proprietary earnings catalyst score. Systematic will then take the best 15 names in the S&P economic sectors with the best relative score. These 100-150 names make up Systematic's focus list. All new names on this list that have not been rejected due to other fundamental reasons are then subject to Systematic's rigorous fundamental analysis, which is conducted by the firm's investment team. After the investment team completes this study the team will then present its case to the portfolio manager. The portfolio manager has the ultimate responsibility with regards to buy and sell decisions.

Systematic's sell discipline is essentially a reverse of its buy discipline. The firm sells as it tries to anticipate negative news. Systematic will also sell a stock due to an increase in valuation, deteriorating fundamentals and a significant negative

earnings surprise. Finally, stocks generally will also be sold if a more attractive investment alternative arises or if a company reaches \$20 billion in market capitalization.

The Mid Cap Value strategy generally holds 60-80 securities, with maximum individual holding weights of 5%. The firm follows sector guidelines of typically investing no more than 30% in any one sector and +/- 5% weighting vs. the Russell Midcap Value Index weight. Turnover has averaged approximately 115% annually.

Summary

One of Systematic's strengths is its disciplined, time-tested approach to security selection. This approach has historically helped the firm avoid falling into what it coins the "value trap" by utilizing its earnings catalyst model. This has enabled Systematic to pick those stocks that are experiencing positive fundamental improvements rather than those companies that appear cheap based purely on valuation with no catalyst in place.

The Mid Cap Value strategy has the potential to perform favorably in periods of stable to strong economic growth, when earnings strength is in demand. Conversely, during economic contraction, Systematic's process has been effective in providing defensive characteristics. During periods of irrational speculation when investors' sentiment becomes the driver of stock price valuation, and quality fundamentals and earnings no longer matter, this approach is less likely to be rewarded. Systematic's strategy would serve as a solid complement to the various growth managers available in the program.

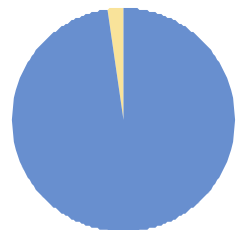
The prices of mid sized company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

Top 10 Holdings*

Security Name	Pct of Portfolio
LEAR CORP	2.60%
AMERICAN WATER	2.60%
WORKS CO	
MACY'S INC	2.40%
DISCOVER FINANCIAL	2.20%
CMS ENERGY CORP	2.20%
FIFTH THIRD BANCORP	2.20%
KEYCORP NEW	2.10%
SLM CORP	2.10%
MARSH AND MC LENNAN	2.00%
WESTERN REFINING INC	2.00%

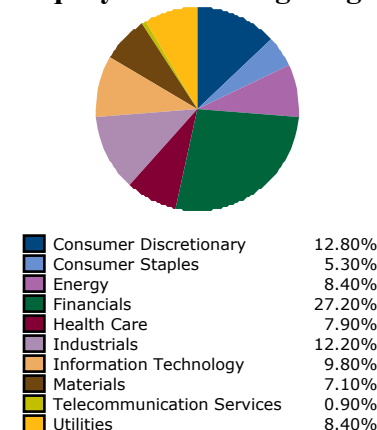
*The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified were or will be profitable.

Asset Allocation



Domestic Equity	97.80%
Cash Alternatives	2.20%

Equity Sector Weightings



Portfolio Characteristics

P/E Ratio: 11.90 P/B Ratio: 1.70 Div Yield: 1.20 EPS: -2.00 Avg Mkt Cap: 7,851 Turnover: 118.00 # of Securities: 71