



# OVERVIEW OF INVESTMENT CAPABILITIES



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# FIRM OVERVIEW

Independent and focused.

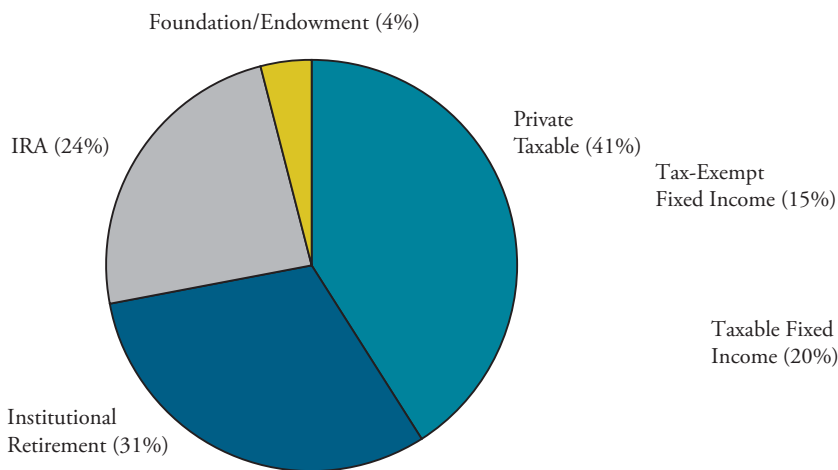
Founded in 1991.

\$1.02 billion under management for families and institutional clients.

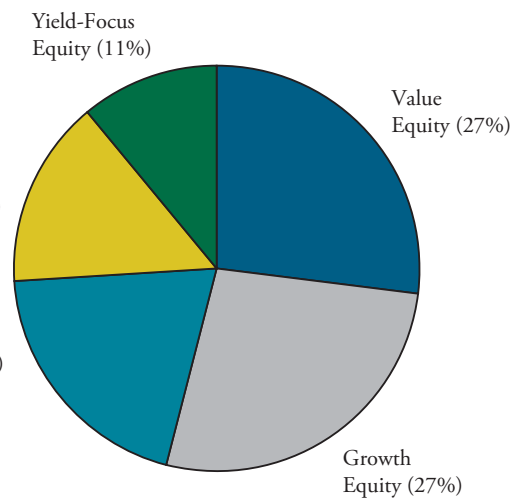
Value centric manager of equity and fixed income strategies.

Industry leader in client retention.

## Clients Served



## Investment Strategies



# INVESTMENT PHILOSOPHY

*Our equity management is based on the following observations and beliefs:*

- **Asset allocation is the key determinant of performance** — we emphasize long-term policy allocation, the use of multiple asset classes and a low-risk approach to fixed-income in a balanced portfolio.
- **Stock prices are more volatile than business valuations.** Emotion, herding instincts, short-term thinking and Behavioral Finance phenomena create opportunities for disciplined investors.
- **Superior results are best achieved by an objective, quantitative approach.** Markets are too broad and complex to approach unsystematically.
- **Bottom-up stock selection is the highest quality source of excess return.** Forecasting macro factors that drive the economy is a low-breadth technique — all investors have the same information.
- **Principles of valuation and skepticism are essential in evaluating securities.** It pays to be wary of “good” companies and trendy growers and be mindful that higher risk does not often translate to mid- and long-range returns.
- **Experienced investors clearly enhance the quantitative process.** Qualitative overlay is additive in controlling risk and avoiding value traps.
- It is important to be “benchmark aware” in order to deliver return characteristics in line with client objectives. **However, the benchmark is not sacred and “benchmark driven” strategies risk sacrificing return opportunities to assure index-like results,** especially in bad markets.
- **Regardless of the investment approach, returns are uncertain.** Timely and thoughtful communication with clients is critical.

# INVESTMENT MANDATES

STRATEGY	INCEPTION
Value Equity	1991
Growth Equity	1998
Yield-Focus Equity	2003
Non-U.S. Equity	1997
Small Cap Equity	2005
Fixed Income	1991

## REPRESENTATIVE INSTITUTIONAL CLIENTS

- Big Brothers/Big Sisters of Greater Kansas City
- City of Lenexa
- City of St. Joseph Police Pension Board
- Earp Meat Company
- Greater Kansas City Chamber of Commerce
- Kansas Orthopedics & Sports Medicine
- Kidney Associates
- Liberty Hospital
- McElroy's Inc.
- MFA Foundation
- National Athletic Trainers' Association
- Paul Mueller Company
- Physician's Reference Laboratory
- Plumbers Local #16
- The Helping Hand of Goodwill Industries
- Truman Medical Center Foundation
- Veterans of Foreign Wars
- Westwood Foundation

# EQUITY INVESTMENT PROCESS

## DECISION FLOW

6500 STOCK UNIVERSE = 5300 U.S. + 1200 NON-U.S. STOCKS

Screen: Quality + Market Cap > \$200M

3500 STOCK WORKING LIST

Multi-Factor Ranking Model: 1 to 100

### BUY LIST

PRIMARY

1-20 = 100 STOCKS

SECONDARY

20-30 = 300 STOCKS

Qualitative Analysis  
Security Selection  
Intuitive Diversification  
Portfolio Construction

45-60 STOCK PORTFOLIO

# QUANTITATIVE ANALYSIS

Screen and Rank by Multifactor Score

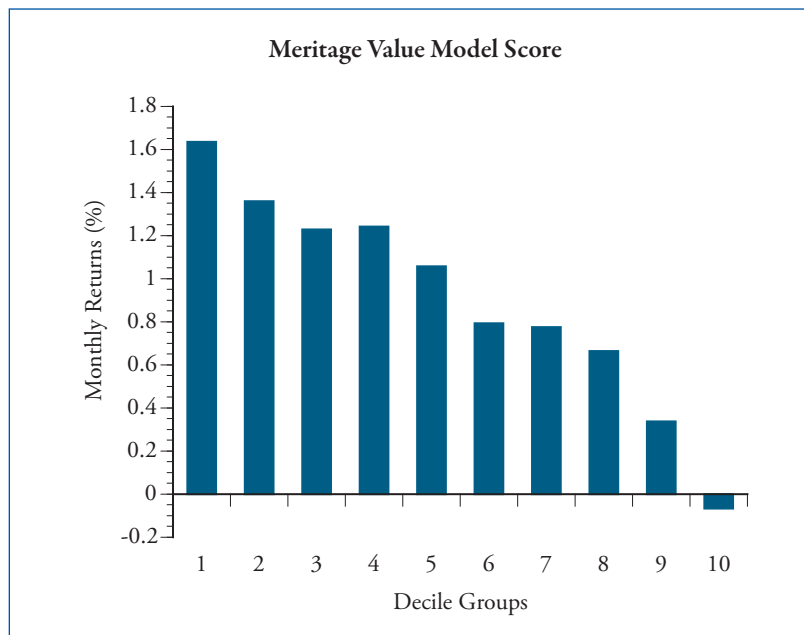
*Objective Discipline* Generates Buy Ideas  
(Top 5%) and Binds Investment Team  
To a Common Mindset

**Our model evaluates companies based on 13 primary factors which  
fall into 4 conceptual categories.**

MODEL CATEGORY		INSIGHT
<b>Valuation</b>	(60%)	Financial Statements Earnings Cash Flow ROI
<b>Business Momentum</b>	(14%)	Earnings Momentum EPS & CF Surprise Earnings Revisions Analyst Ranking Trends
<b>Investor Sentiment</b>	(12%)	Market Response to Earnings Price Momentum Short Interest Trends
<b>Management IQ</b>	(14%)	Free Cash Flow Return Earnings Quality Capital Structure Change

# MODEL VALIDATION

## 10-Year Back-Tested Results\*



\* Returns calculated monthly for 10 years ending 2010. Stock universe includes 6000 domestic and international (ADR) securities.

## Findings

- Highest ranked deciles deliver strongest results
- Uniform slope shows incremental value at each decile, not just in the tails
- Results in the lowest deciles suggest capability to identify overvalued securities

# QUALITATIVE ANALYSIS

## Quant Buy List: 100 Primary + 300 Secondary Stocks

*All disciplines have weaknesses. Our qualitative work aims to preserve the strengths of model rankings while reducing the blind spots which are intrinsic to all quant processes.*

- Hands on assessment of individual factor results to verify the integrity of the data and why the model likes the stock.
- Question why the market is currently pricing the company below our assessment of its value. Look for non-confirming evidence that the market is correct.
- Assess other non-quantifiable information that might impact a stock's near-term valuation:
  - Freshly released information (competitor warning, management change)
  - Event driven news (political announcement, international turmoil, systemic risk)

# MERITAGE U.S. VALUE EQUITY

## Relative Performance Characteristics

For periods ending 03/31/11

Manager Universe — Large Cap value managers (approximately 370)\*  
Index — Russell 1000 Value

- 1. Returns — Percentile rank**  
3 year — 54th; 5 year — 32nd; 7 year — 29th; 10 year — 38th
- 2. Information ratio — excess return divided by volatility of excess return**  
**Percentile rank**  
3 year — 46th; 5 year — 20th; 7 year — 18th; 10 year — 24th
- 3. Volatility — Standard deviation — Percentile rank**  
3 year — 56th; 5 year — 57th; 7 year — 59th; 10 Year — 67th
- 4. Returns relative to index — Longer term batting average.**  
**Quarterly moving periods past 9 years**  
1 year — 36 total observations — outperformed 26 times or 72%  
3 year — 28 total observations — outperformed 24 times or 86%

\* eVestment Alliance performance analysis

# MERITAGE U.S. GROWTH EQUITY

## Relative Performance Characteristics

For periods ending 03/31/11

Manager Universe — Large Cap growth managers (approximately 334)\*  
Index — Russell 1000 Growth

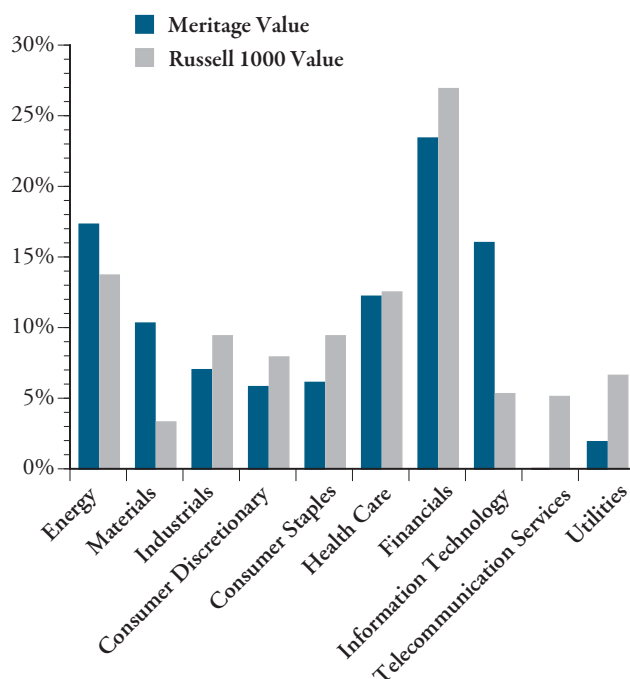
- 1. Returns — Percentile rank**  
3 year — 7th; 5 year — 5th; 7 year — 9th; 10 Year — 15th
- 2. Information ratio — excess return divided by volatility of excess return**  
**Percentile rank**  
3 year — 9th; 5 year — 9th; 7 year — 11th; 10 Year — 11th
- 3. Volatility — Standard deviation — Percentile rank**  
3 year — 94th; 5 year — 95th; 7 year — 93rd; 10 Year — 83rd
- 4. Returns relative to index — Longer term batting average.**  
**Quarterly moving periods since inception**  
1 year — 36 total observations — outperformed 27 times or 75%  
3 year — 28 total observations — outperformed 28 times or 100%

\* eVestment Alliance performance analysis

# MERITAGE VALUE EQUITY

## KEY PORTFOLIO CHARACTERISTICS (MARCH 31, 2011)

### Sector Diversification



### Quantitative Measures

	Meritage Value	Russell 1000V	Normal Operating Range	Actual
<b>RISK</b>				
Risk (Beta)	1.11	1.02	80%-100%	108%
<b>VALUE</b>				
Price/Normal Earnings	15.9	15.9	75%-110%	100%
Price/Cash Flow	9.4	10.0	75%-110%	94%
Price/Sales	1.7	2.0	75%-110%	85%
<b>EARNINGS</b>				
CFROI	14.2	10.8	75%-120%	131%
5 Year Earnings Growth Est	9.8	8.3	75%-110%	117%
<b>INCOME</b>				
Dividend Yield	1.5	2.2	75%-150%	70%
<b>COMPOSITE RANKS</b>				
VA Value Alert Rank	18	28		
CFROI Valuation Rank	26	47		
<b>PORTFOLIO RANK</b>				
Meritage Value Score	22	38	60%-90%	59%

### Market Cap Distribution

	Meritage Value	Russell 1000V
> \$50 Billion	20%	42%
\$10 Billion to \$50 Billion	36%	38%
\$2 Billion to \$10 Billion	30%	20%
< \$2 Billion	14%	1%

### Non-U.S. Holdings: 23.3% (12 Stocks)

Germany	4.3%	Switzerland	2.1%
Israel	4.2%	Bermuda	1.9%
United Kingdom	3.7%	Canada	1.5%
Netherlands	3.4%		
Russia	2.2%		

### Long Term Performance

	Quarter Ending 3/31/11*	Annualized Performance Through 3/31/11			
		1 Year	3 Years	5 Years	10 Years
Meritage Value Equity	9.5%	13.9%	2.3%	4.0%	6.1%
Lipper Large Cap Value	5.9%	13.2%	1.4%	1.8%	3.3%
Russell 1000 Value	6.5%	15.2%	0.6%	1.4%	4.5%

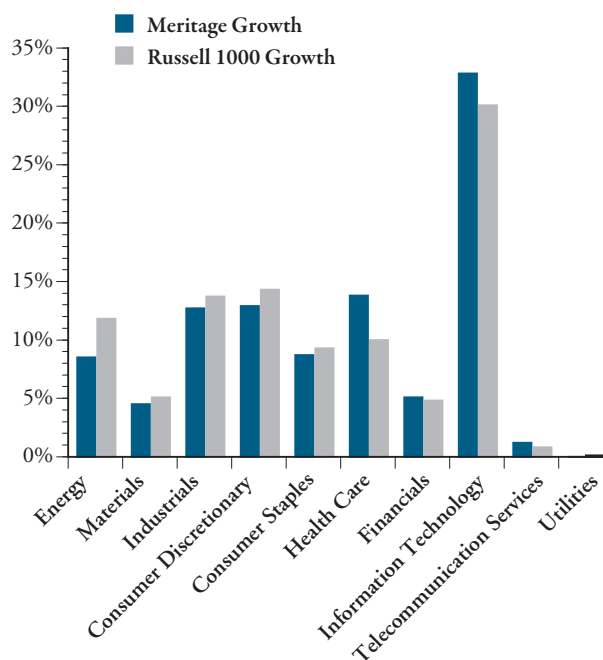
\* Unannualized results.  
Disclosure notes follow.



# MERITAGE GROWTH EQUITY

KEY PORTFOLIO CHARACTERISTICS (MARCH 31, 2011)

## Sector Diversification



## Quantitative Measures

	Meritage Growth	Russell 1000G	Normal Operating Range	Actual
<b>RISK</b>				
Risk (Beta)	1.09	1.00	90%-110%	109%
<b>VALUE</b>				
Price/Normal Earnings	21.0	21.3	70%-100%	99%
Price/Cash Flow	15.0	14.6	70%-100%	103%
Price/Sales	3.1	3.1	70%-100%	98%
<b>EARNINGS</b>				
CFROI	19.2	17.0	90%-120%	113%
5 Year Earnings Growth Est	14.4	13.5	90%-120%	107%
<b>INCOME</b>				
Dividend Yield	0.8	1.4	50%-100%	58%
<b>PORTFOLIO RANK</b>				
Meritage Growth Score	22	31	60%-90%	71%

## Market Cap Distribution

	Meritage Growth	Russell 1000G
>\$50 Billion	25%	45%
\$10 Billion to \$50 Billion	26%	35%
\$2 Billion to \$10 Billion	36%	19%
<\$2 Billion	13%	0%

## Non-U.S. Holdings: 20.6% (13 Stocks)

Denmark	3.5%	Finland	1.2%
Sweden	3.3%	United Kingdom	1.2%
Bermuda	2.2%	France	1.2%
Luxembourg	2.1%	Mexico	1.2%
Chile	2.1%	Japan	0.9%
Brazil	1.7%		

## Long Term Performance

	Quarter Ending 3/31/11*	Annualized Performance Through 3/31/11			
		1 Year	3 Years	5 Years	10 Years
Meritage Growth Equity	5.4%	24.7%	8.4%	6.7%	5.9%
Lipper Large Cap Growth	4.8%	15.7%	3.3%	3.0%	2.0%
Russell 1000 Growth	6.0%	18.3%	5.2%	4.3%	3.0%
S&P 500	5.9%	15.7%	2.4%	2.6%	3.3%

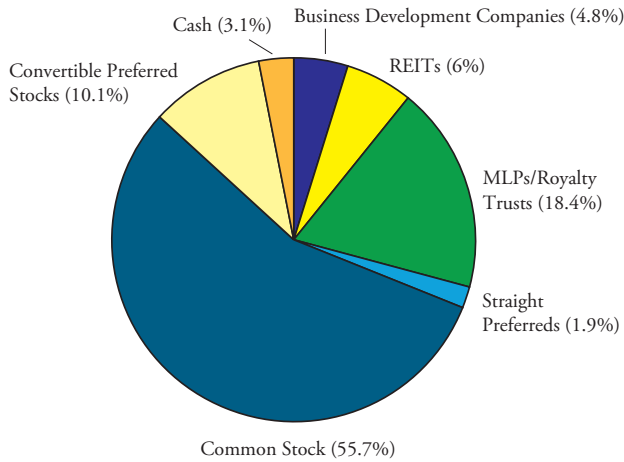
\* Unannualized results.  
Disclosure notes follow.



# MERITAGE YIELD-FOCUS

KEY PORTFOLIO CHARACTERISTICS (MARCH 31, 2011)

## Diversification by Security Type



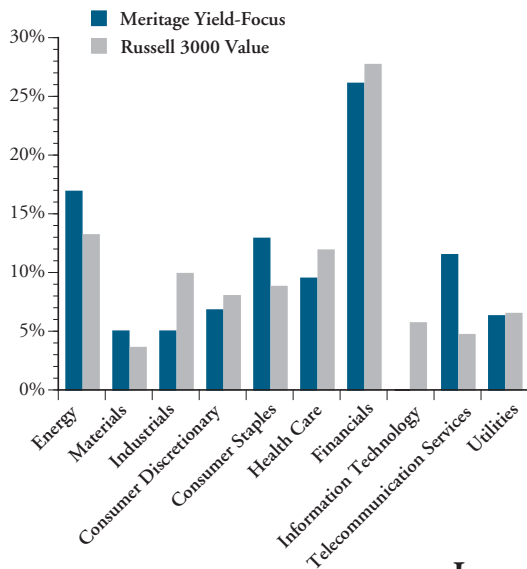
## Yield by Security Type

Security Type	Div Yield
Business Development Companies	10.0%
MLPs/Royalty Trusts	7.0%
Straight Preferreds	7.0%
REITs	6.4%
Convertible Preferred Stocks	6.1%
Common Stock	5.3%
Cash	0.1%
<b>Weighted Avg</b>	<b>5.9%</b>

## Non-U.S. Holdings: 25.3% (15 Stocks)

Canada	5.9%	Switzerland	1.9%
Bermuda	5.9%	Greece	1.7%
United Kingdom	3.6%	New Zealand	1.3%
Australia	2.1%	Ireland	0.9%
Italy	2.0%		

## Sector Diversification



## Market Cap Distribution

	Meritage Yield-Focus	Russell 3000V
>\$50 Billion	20%	38%
\$10 Billion to \$50 Billion	29%	34%
\$2 Billion to \$10 Billion	28%	20%
<\$2 Billion	23%	7%

## Long Term Performance

	Quarter Ending 3/31/11*	Annualized Performance Through 3/31/11			
		1 Year	3 Years	5 Years	7 Years
Meritage Yield-Focus	6.9%	18.9%	7.0%	5.4%	8.0%
50% Dow Jones Select Dividend/ 50% Russell 3000 Value	6.1%	16.9%	1.5%	1.4%	4.3%
Russell 3000 Value	6.5%	15.6%	1.1%	1.4%	4.8%

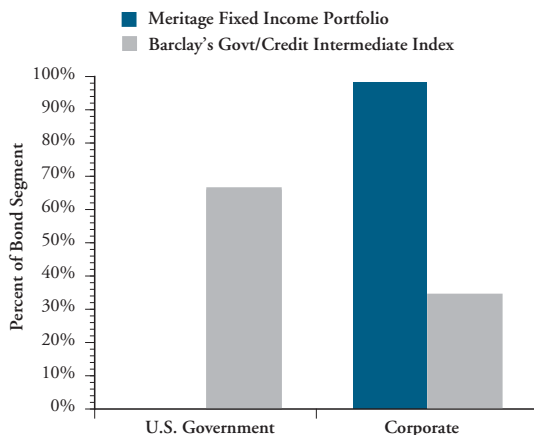
\* Unannualized results.  
Disclosure notes follow.



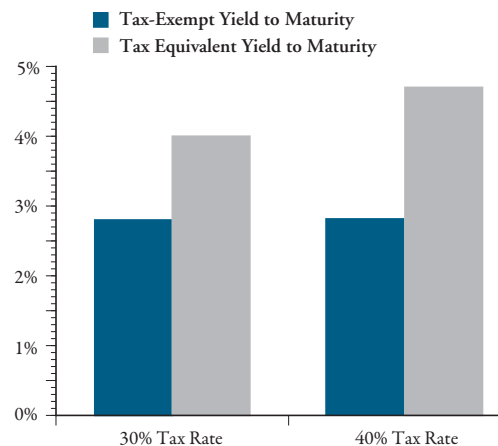
# FIXED INCOME

- Custom portfolios based on client income needs with an emphasis on capital preservation
- Sector allocation and overall duration of portfolio determined by yield spreads, inflation expectations and outlook for the broad economy
- Conservative approach for 80–100% of the portfolio
  - U.S. Government and agency bonds
  - High quality corporate bonds
  - Tax-exempt bonds — state focused with emphasis on current yield
- Opportunities in other vehicles:
  - High yield bonds
  - Preferreds
  - Non-U.S. bonds
  - Local, creditworthy, non-rated tax-exempt bonds
- Yield, taxes and other investment criteria used to assess relative attractiveness of tax-exempt versus taxable issues

**Taxable Fixed Income  
Sector Diversification**



**Tax-Exempt Fixed Income  
Taxable Equivalent Yield to Maturity**



# TOTAL FUND MANAGEMENT

## OUR OBJECTIVES

- Identifying the optimal policy allocation
- Generating excess return in individual asset classes
- Favorable active allocation to equity styles and asset classes\*

### Components

Value Equity  
 Growth Equity  
 Yield-Focus Equity  
 Non-U.S. Equity  
 Small Cap Equity  
 Tax-Exempt Bonds  
 Taxable Bonds

### Client Input

Risk Tolerance  
 Time Horizon  
 Income/Liquidity Needs  
 Return Objectives — Ab./Rel.  
 Tax Status  
 Investment Restrictions  
 Other Investments

## SAMPLE OF CLIENT GUIDELINES

<u>All Equity</u>	<u>Policy Target</u>	<u>Balanced</u>	<u>Policy Target</u>
Equities	100%	Equities	60%
Value Equity	40%	Value Equity	35%
Growth Equity	40%	Growth Equity	25%
Yield-Focus Equity	20%		
Fixed Income	0%	Fixed Income	40%
		Tax-Exempt Bonds	40%

\* See Appendix for a discussion on active allocation.

# CLIENT COMMUNICATION

## MEETINGS

- A summary of current investment guidelines, noting any recent changes
- Review of any changes in client's financial status and investment objectives, and related asset allocation implications
- A summary of client performance results, broken out by asset class and equity style, for all appropriate time frames compared to appropriate benchmarks
- A full accounting of the dollar change in client portfolio(s)
- A summary of key portfolio characteristics and recent portfolio activity
- Our current market outlook on the investment environment
- Review of client's tax needs/objectives and any other relevant financially related matters

## CORRESPONDENCE

- Quarterly report including portfolio update, performance table, transactions and commentary on recent portfolio activity, the investment environment and current outlook
- Periodic e-mail messages regarding noteworthy market activity or investment topic of interest
- Phone access to Investment Team members

## WEB SITE

- Secure, password protected
- View portfolio summary, holdings and recent activity

APPENDIX

# MERITAGE INVESTMENT TEAM



Clinton W. Anderson, CFA  
Investment Analyst



Mark E. Eveans, CFA  
President, Chief Inv. Officer



James M. Klein, CFA  
Principal, Sr. Portfolio Mgr.



Leonard C. Mitchell, CFA  
Principal, Sr. Portfolio Mgr.



Corey J. Saathoff  
Trader/Portfolio Analyst



Sharon L. Divine, CFA  
Principal, Sr. Portfolio Mgr.

## PROFESSIONAL SUPPORT TEAM



Deborah K. Eveans,  
CPA, CFO  
VP - Finance &  
Administration



David R. Phillips,  
Director of  
Operations



Janice S. Franklin,  
CSOP  
Senior Operations  
Specialist



Alex K. Johnson,  
Director of  
Technology



Linda K. Gocken,  
CFA  
Director of  
Client Relations



Tammy M. Dannewitz,  
CFP  
Senior Operations  
Specialist



## APPENDIX

# BIOGRAPHIES

## INVESTMENT TEAM

### **Mark E. Eveans, CFA, CIC, President, Chief Investment Officer**

Mark Eveans is Chief Investment Officer of the firm and leads the Meritage Value Equity investment style. He has over 35 years of experience managing institutional and private portfolios, preceded by four years as an institutional security analyst. Prior to founding Meritage (formerly Eveans Bash Klein, Inc), Mark served for 11 years as a Managing Director for Reimer and Koger Associates, Inc., where he led the Core Value Group. Prior to this, he was the Chief Portfolio Manager and Chairman of the Stock Selection Committee for Continental Illinois National Bank of Chicago. He is past President of the Kansas City Society of Financial Analysts. He received his B.A. and M.B.A. in Finance from Wichita State University with Honors.

### **James M. Klein, CFA, CIC, Principal, Sr. Portfolio Manager**

Jim Klein is a member of the Investment Management Team. He leads the tax-exempt fixed income strategy and co-manages the taxable fixed income strategy. Jim has over 24 years of investment experience with the firm. Prior to founding Meritage (formerly Eveans Bash Klein, Inc), Jim spent five years as a Vice President with Reimer and Koger Associates, Inc. and five years working in private business. Jim received his B.S. in Economics from The Wharton School, University of Pennsylvania, and M.B.A. in Finance from the University of Chicago.

### **Clinton W. Anderson, CFA, Investment Analyst**

Clint Anderson is a member of the Investment Management Team. He co-manages the Yield-Focus Equity strategy and the taxable fixed income strategy. He also assists all portfolio managers in their equity research processes and is responsible for database development. Prior to joining Meritage, Clint spent 7 years at FactSet Research Systems, Inc. He received his B.B.A. in Finance from the University of Iowa.

### **Leonard C. Mitchell, CFA, Principal, Sr. Portfolio Manager**

Len Mitchell is a member of the Investment Management Team. He leads the Meritage Growth Equity strategy. Len's career covers 29 years, including time as an oil and energy analyst, and managing high net worth portfolios at banks and trust companies in Texas. Prior to joining Meritage, Len spent seven years with The Private Bank for the Chase Investment Management Group in Dallas, Texas where he was Vice President, Senior Portfolio Manager and supervised a group of 12 professionals managing nearly \$3 billion throughout the Southwestern part of the U.S. He received his B.A. in Accounting and M.B.A. from Texas Christian University with Honors.

### **Sharon L. Divine, CFA, Principal, Sr. Portfolio Manager**

Sharon Divine is a member of the Investment Management Team and works closely on the Meritage Value Equity strategy. She is the Director of Quantitative Research and leads the development of the quantitative aspects of the firm's equity investment process. Sharon has 20 years of investment experience in portfolio management and investment analysis. Prior to joining Meritage, Sharon spent four years with the Educational Retirement Board in Santa Fe, New Mexico, where she managed the equity portfolio of the State Teacher's Retirement Fund. Sharon received her B.A. in Business Administration with Emphasis in Computer Science and M.B.A. in Finance from the University of Missouri-Kansas City with Honors.

### **Corey J. Saathoff, Portfolio Analyst & Director of Trading**

Corey Saathoff is a member of the Investment Management Team. He leads the equity trading activity, manages the transition function for new and existing clients and supports the Yield-Focus Equity strategy. Corey's career includes 13 years of institutional equity trading and analytical work for Meritage. He is a graduate of Kansas State University, where he received his B.S. in Electrical Engineering and M.B.A. in Finance.



## ASSET ALLOCATION

# ACTIVE ALLOCATION THE UNFORTUNATE TRUTH

In the management of balanced portfolios, investment advisors have several “levers” available in their quest to add value by increasing returns or lowering risk. This paper provides a brief description of the four most common methods and contrasts the relative difficulty and success rates.

- **Policy asset allocation** — There is wide agreement that this activity is the most important aspect of the investment process. Defined as the identification of long term target allocations for various asset classes, the primary determinants are the client’s estimate of their tolerance for risk and their investment time horizon. The advisor’s role is to maximize return given these inputs by selecting the proper balance of risky assets and by taking advantage of the one “free lunch” available to investors through the combination of uncorrelated asset classes.
- **Security selection** — Attempting to add value by owning individual stocks or bonds that outperform a passively held index. In actively managing the portfolio, the advisor has discretion to own a concentrated or diversified portfolio, and have sector exposures that mirror or are far different from the index.
- **Active style allocation** — Shifting portfolio allocations to equity sub-styles differentiated by growth or value characteristics, and by the capitalization size of the companies away from “target” long term allocations based on the advisor’s assessment of relative opportunity.
- **Active asset allocation** — Also referred to as tactical asset allocation or market timing, this activity refers to shifting asset class exposures away from target allocations, again based on insights into the market environment which generate near term relative return expectations which are different from the long term assumptions.

*Continued*

## ACTIVE ALLOCATION — THE UNFORTUNATE TRUTH

Policy allocation is a must. All advisors attempt to tailor the appropriate target allocations based on the client's profile. Some advisors have the ability to use a greater number of asset class options than others, but the policy allocation is viewed as the most significant determinant of returns over time.

World-wide, the vast majority of equity and fixed income portfolios are actively managed. At Meritage, while we do accept that alpha (the ability to beat an index) is a zero sum game, we do not believe the markets are efficient. At times, market prices for individual securities can be way off the mark. To believe that the markets are efficient requires accepting that all investors have identical and perfect information, they have equal skill in interpretation, they react the same regarding risk and return opportunities and they are at all times rational. We are active managers of securities, using quantitative methods to contrast valuations across a broad universe of stocks and bonds, and using qualitative assessment for final buy and sell decisions.

Active style allocation and active asset allocation sound like panaceas. Seizing opportunities and protecting assets by raising and lowering allocations to stocks, or moving to growth stocks when they are poised to outperform. In investing, it is frequently the case that the more experience we have, the more we understand what we do not, or cannot know. Active allocation is a difficult game for three reasons. First, with so many investors attempting to time asset classes and styles, unique insights into these decisions are hard to come by. Second, while the variables in the success of security selection are primarily tied to the performance of the underlying company, the variables in allocating to global asset classes are far more diverse, complex and frequently unknown before the fact. Finally, there is the issue of breadth. Assume the advisor has a 65% chance of being correct for each separate investment decision. In a stock portfolio, because these decisions can be spread across 50 to 60 stocks, the probability of adding value is high and the likelihood that a few bad decisions would cause major harm to performance is very low. In making asset allocation calls, the manager has few choices (low breadth) so the impact of mistakes is amplified.

At Meritage, we take great care in working with clients to set policy allocations. Additionally, all stock and bond portfolios employ active security selection. We ask clients for the flexibility to modify allocations to asset classes and equity styles because we have confidence this activity will add value over the long term. However, we tend to only make these shifts when our expectations regarding relative returns are at extremes, and as you might expect, our primary decision criteria are driven by valuations. We caution clients on the risks and difficulties described above, and that there is a tendency when making allocation shifts to be too early, sometimes very early. In this regard, we advise that the use of active allocation is accompanied by the use of a relatively long time horizon to evaluate success.

## APPENDIX

### FEE SCHEDULE

\$ 0 TO \$2,500,000	0.875%/YR
\$ 2,500,001 TO \$5,000,000	0.750%/YR
\$ 5,000,001 TO \$10,000,000	0.625%/YR
\$10,000,001 AND ABOVE	0.500%/YR

Disclosure notes to follow.

# DISCLOSURES

## (VALUE)

Year Ending	Value Equity Returns			R1000V* Benchmark	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Number of Portfolios	Composite Assets		
	Total Gross Asset-Wtd.	Total Net Asset-Wtd.	End of Period (MM)					Composite Assets vs. Firm Assets	Asset-Wtd. Standard Dev.	
12/31/01	(6.6%)	(7.3%)	(5.6%)			8	0.37%	34.2	4.8%	
12/31/02	(13.3%)	(14.0%)	(15.5%)			12	0.05%	25.7	4.5%	
12/31/03	29.4%	28.5%	30.0%			10	0.31%	32.8	5.2%	
12/31/04	16.3%	15.5%	16.5%	13.58%	14.76%	21	0.59%	55.6	7.8%	
12/31/05	7.4%	6.6%	7.1%	9.74%	9.46%	27	0.47%	67.1	8.6%	
12/31/06	24.4%	23.6%	22.3%	6.83%	6.68%	35	0.33%	80.0	8.5%	
12/31/07	8.4%	7.7%	(0.2%)	7.14%	8.06%	47	0.21%	91.3	8.8%	
12/31/08	(33.9%)	(34.4%)	(36.9%)	16.55%	15.36%	55	0.29%	77.6	9.6%	
12/31/09	22.7%	21.8%	19.7%	19.53%	21.10%	75	0.61%	111.3	11.6%	
12/31/10	8.1%	7.3%	15.5%	21.45%	23.18%	90	0.18%	118.7	11.1%	

	Quarter Ending 03/31/11 <sup>†</sup>	Annualized Performance Through 03/31/11			
		1 Year	3 Years	5 Years	10 Years
Meritage Value Equity — Gross Returns	9.5%	13.9%	2.3%	4.0%	6.1%
Meritage Value Equity — Net Returns	9.3%	13.0%	1.5%	3.2%	5.3%
Russell 1000 Value	6.5%	15.2%	0.6%	1.4%	4.5%

<sup>†</sup>Unannualized results

### Composite Description:

The Meritage Value Equity Composite is an actively managed strategy that evaluates companies of all capitalization sizes and is driven by Meritage's value-centric quantitative process. Portfolio holdings have unsustainably low valuations and strong improving cash flow/return on investment criteria. The Manager combines experienced-based qualitative fundamental analysis with the firm's proprietary multi-factor models.

### Definition of the Firm:

For the purpose of complying with the GIPS, the firm is defined as Meritage Portfolio Management, an independent investment management firm that is not affiliated with any parent organization.

### Basis for Composites:

Meritage Portfolio Management's Value Equity Composite consists of information for managed, fully discretionary, fee paying accounts since January 1, 2001. Separate composites have been created for each investment product offered by Meritage Portfolio Management.

Composites include all new portfolios with similar investment policy guidelines that have been managed by the firm for at least one full month. Pursuant to GIPS, no portfolio is removed from a composite unless the portfolio: (a) has terminated, in which case the portfolio then leaves the composite after the last full month the portfolio was under management, or (b) the client guidelines change so that inclusion in a different composite is more appropriate.

### Definition of Discretion:

A discretionary portfolio is defined as any portfolio which is managed by Meritage Portfolio Management under an executed Investment Advisor Agreement, where the client has not imposed any conditions or restrictions that causes the portfolio to materially deviate from the strategy in which it is invested.

*Continued*



Meritage Portfolio Management may on occasion experience a temporary loss of discretion over a portfolio. This can occur when Meritage Portfolio Management is notified of a significant cash flow. Since the new contribution or withdrawal will dictate Meritage's management of the portfolio, a loss of discretion is deemed to have occurred. If loss of discretion and the flow are in two different months, the portfolio is removed from the composite in the month when discretion was lost, and is included in the composite in the first complete month in which discretion is regained.

**Definition of Significant Cash Flows:**

Meritage Portfolio Management removes a portfolio from a composite if a significant flow within the portfolio occurs. A flow is deemed significant if it is at least 10% of the portfolio's market value on the final day of the month prior to the date of the significant flow.

One significant flow will remove a portfolio from a composite for a period of one month, for the month in which the flow occurs. A one month exclusion is imposed no matter what day of the month the flow occurs.

**Portfolio Valuation:**

Portfolio valuations are based on market values, using trade date accounting. The market value of fixed-income securities includes accrued income. The market value of equities includes accrued dividends (as of the ex-dividend date.)

Policy for pricing — Meritage Portfolio Management utilizes FT Interactive Data, a subsidiary of Interactive Data Corporation, as its principal vendor for the pricing of equity and fixed income issues.

**Fees:**

Returns are presented gross and net of management fees. Gross-of-fees performance returns are presented before management fees. Net-of-fees performance returns are calculated by deducting Meritage Portfolio Management's standard fee rates from the gross composite return on a monthly frequency. This produces a compounding effect on the total rate of net return.

**Meritage Portfolio Management's standard fee schedules are as follows:**

For Equity Strategy Composites the standard fees are: 0.875% on the first \$2,500,000; 0.75% on the next \$2,500,000; 0.625% on the next \$5,000,000; and 0.50% on assets over \$10,000,000.

Actual investment management fees incurred by clients may vary.

**Calculation Methodology:**

Composite returns are calculated by asset weighting the individual portfolio returns using beginning-of-period values. Returns from cash and cash equivalents held in portfolios are included in total return calculations. Total return includes realized and unrealized gains and losses, plus income. Gross-of-Fees returns are calculated gross of withholding taxes on foreign dividends and after the deduction of direct trading expenses. Net-of-Fees returns are calculated after the deduction of investment management fees and direct trading expenses.

Additional information regarding policies for calculation and reporting returns is available upon request.

**Minimum Account Size:**

The established minimum portfolio market value is \$200,000, effective as of 02/28/2009. A portfolio is included in the composite one month after it reaches the minimum size inclusion level for a full performance period. A portfolio is excluded from the composite if the portfolio market value drops below \$150,000 for 2 consecutive months. Prior to 02/28/2009, the established minimum inclusion level was \$300,000, with a minimum exclusion level of \$250,000. (The Meritage Exchanged Traded Funds composite does not impose a minimum account size.)

**Currency:**

Returns are calculated and presented in U.S. dollars.

eVestment universe returns, benchmark indices and related statistics are presented gross-of-fee. A complete list and description of Meritage Portfolio Management's composites is available upon request.

Meritage Portfolio Management claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Meritage Portfolio Management has not been independently verified.

\*Russell 1000 Value

Past Performance is no guarantee of future results.



# DISCLOSURES

## (GROWTH)

Year Ending	Growth Equity Returns		R1000G* Benchmark	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Number of Portfolios	Asset-Wtd. Standard Dev.	Composite Assets	
	Total Gross Asset-Wtd.	Total Net Asset-Wtd.						End of Period (MM)	Composite Assets vs. Firm Assets
12/31/01	(20.0%)	(20.6%)	(20.4%)			15	0.58%	52.7	7.4%
12/31/02	(21.6%)	(22.1%)	(27.9%)			11	0.25%	36.1	6.3%
12/31/03	30.9%	30.0%	29.8%			12	0.43%	48.9	7.7%
12/31/04	13.1%	12.3%	6.3%	12.96%	15.45%	20	0.37%	56.0	7.9%
12/31/05	6.7%	6.0%	5.3%	9.87%	9.53%	28	0.23%	65.6	8.4%
12/31/06	15.2%	14.3%	9.1%	8.50%	8.31%	51	0.30%	80.0	8.5%
12/31/07	9.3%	8.5%	11.8%	8.69%	8.54%	73	0.19%	114.1	11.1%
12/31/08	(28.8%)	(29.3%)	(38.4%)	14.01%	16.40%	69	0.29%	74.7	9.2%
12/31/09	25.9%	24.9%	37.2%	16.73%	19.73%	101	0.56%	117.3	12.2%
12/31/10	23.4%	22.4%	16.7%	19.10%	22.11%	127	0.28%	155.1	14.5%

	Quarter Ending 03/31/11 <sup>†</sup>	Annualized Performance Through 03/31/11			
		1 Year	3 Years	5 Years	10 Years
Meritage Growth Equity — Gross Returns	5.4%	24.7%	8.4%	6.7%	5.9%
Meritage Growth Equity — Net Returns	5.2%	23.8%	7.6%	5.9%	5.1%
Russell 1000 Growth	6.0%	18.3%	5.2%	4.3%	3.0%

<sup>†</sup>Unannualized results

### Composite Description:

The Meritage Growth Equity product is an actively managed strategy that evaluates companies of all capitalization sizes and is driven by Meritage's value-centric and growth quantitative process. Portfolio holdings focus on companies that exhibit attractive sustainable growth and above-average cash flow/return on investment. The manager combines experienced-based qualitative fundamental analysis with the firm's proprietary multi-factor models.

### Definition of the Firm:

For the purpose of complying with the GIPS, the firm is defined as Meritage Portfolio Management, an independent investment management firm that is not affiliated with any parent organization.

### Basis for Composites:

Meritage Portfolio Management's Growth Equity Composite consists of information for managed, fully discretionary, fee paying accounts since January 1, 2001. Separate composites have been created for each investment product offered by Meritage Portfolio Management.

Composites include all new portfolios with similar investment policy guidelines that have been managed by the firm for at least one full month. Pursuant to GIPS, no portfolio is removed from a composite unless the portfolio: (a) has terminated, in which case the portfolio then leaves the composite after the last full month the portfolio was under management, or (b) the client guidelines change so that inclusion in a different composite is more appropriate.

### Definition of Discretion:

A discretionary portfolio is defined as any portfolio which is managed by Meritage Portfolio Management under an executed Investment Advisor Agreement, where the client has not imposed any conditions or restrictions that causes the portfolio to materially deviate from the strategy in which it is invested.

*Continued*

Meritage Portfolio Management may on occasion experience a temporary loss of discretion over a portfolio. This can occur when Meritage Portfolio Management is notified of a significant cash flow. Since the new contribution or withdrawal will dictate Meritage's management of the portfolio, a loss of discretion is deemed to have occurred. If loss of discretion and the flow are in two different months, the portfolio is removed from the composite in the month when discretion was lost, and is included in the composite in the first complete month in which discretion is regained.

**Definition of Significant Cash Flows:**

Meritage Portfolio Management removes a portfolio from a composite if a significant flow within the portfolio occurs. A flow is deemed significant if it is at least 10% of the portfolio's market value on the final day of the month prior to the date of the significant flow. One significant flow will remove a portfolio from a composite for a period of one month, for the month in which the flow occurs. A one month exclusion is imposed no matter what day of the month the flow occurs.

**Portfolio Valuation:**

Portfolio valuations are based on market values, using trade date accounting. The market value of fixed-income securities includes accrued income. The market value of equities includes accrued dividends (as of the ex-dividend date.)

Policy for pricing — Meritage Portfolio Management utilizes FT Interactive Data, a subsidiary of Interactive Data Corporation, as its principal vendor for the pricing of equity and fixed income issues.

**Fees:**

Returns are presented gross and net of management fees. Gross-of-fees performance returns are presented before management fees. Net-of-fees performance returns are calculated by deducting Meritage Portfolio Management's standard fee rates from the gross composite return on a monthly frequency. This produces a compounding effect on the total rate of net return.

**Meritage Portfolio Management's standard fee schedules are as follows:**

For Equity Strategy Composites the standard fees are: 0.875% on the first \$2,500,000; 0.75% on the next \$2,500,000; 0.625% on the next \$5,000,000; and 0.50% on assets over \$10,000,000. Actual investment management fees incurred by clients may vary.

**Calculation Methodology:**

Composite returns are calculated by asset weighting the individual portfolio returns using beginning-of-period values. Returns from cash and cash equivalents held in portfolios are included in total return calculations. Total return includes realized and unrealized gains and losses, plus income. Gross-of-Fees returns are calculated gross of withholding taxes on foreign dividends and after the deduction of direct trading expenses. Net-of-Fees returns are calculated after the deduction of investment management fees and direct trading expenses.

Additional information regarding policies for calculation and reporting returns is available upon request.

**Minimum Account Size:**

The established minimum portfolio market value is \$200,000, effective as of 02/28/2009. A portfolio is included in the composite one month after it reaches the minimum size inclusion level for a full performance period. A portfolio is excluded from the composite if the portfolio market value drops below \$150,000 for 2 consecutive months. Prior to 02/28/2009, the established minimum inclusion level was \$300,000, with a minimum exclusion level of \$250,000. (The Meritage Exchanged Traded Funds composite does not impose a minimum account size.)

**Currency:**

Returns are calculated and presented in U.S. dollars.

eVestment universe returns, benchmark indices and related statistics are presented gross-of-fee.

A complete list and description of Meritage Portfolio Management's composites is available upon request.

Meritage Portfolio Management claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Meritage Portfolio Management has not been independently verified.

\*Russell 1000 Growth

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# DISCLOSURES

## (YIELD-FOCUS)

Year Ending	Yield - Focus Equity Returns			Composite Assets					
	Total Gross Asset-Wtd.	Total Net Asset-Wtd.	Custom* Benchmark	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Number of Portfolios	Asset-Wtd. Standard Dev.	End of Period (MM)	Composite Assets vs. Firm Assets
12/31/2003**	13.8%	13.5%	13.8%			1	0.00%	4.2	0.7%
12/31/04	20.2%	19.2%	17.6%			13	0.15%	15.4	2.2%
12/31/05	9.3%	8.4%	5.3%			27	0.36%	28.8	3.7%
12/31/06	21.2%	20.2%	21.0%	6.60%	6.44%	40	0.30%	54.4	5.8%
12/31/07	(3.7%)	(4.5%)	(3.1%)	8.66%	7.62%	64	0.28%	65.0	6.3%
12/31/08	(27.2%)	(27.8%)	(33.5%)	14.42%	14.64%	35	0.47%	27.4	3.4%
12/31/09	29.9%	28.9%	15.4%	18.43%	21.24%	54	0.69%	52.8	5.5%
12/31/10	15.6%	14.7%	17.3%	19.02%	23.07%	60	0.27%	63.5	5.9%

	Quarter Ending 03/31/11 <sup>†</sup>	Annualized Performance Through 03/31/11			
		1 Year	3 Years	5 Years	7 Years
Meritage Yield-Focus — Gross Returns	6.9%	18.9%	7.0%	5.4%	8.0%
Meritage Yield-Focus — Net Returns	6.7%	17.9%	6.1%	4.6%	7.1%
50% Dow Jones Select Dividend/ 50% Russell 3000 Value	6.1%	16.9%	1.5%	1.4%	4.3%

<sup>†</sup>Unannualized results

### Composite Description:

The Meritage Yield-Focus Equity product is an actively managed, yield-oriented, deep value approach that uses Meritage's quantitative process to evaluate a global universe of securities in all capitalization sizes. The objective is to generate at least 50% of the expected long-run equity return from cash dividends. Key research criteria are positive cash-flow characteristics, attractive valuation, and growth of the dividend.

The manager combines experienced-based qualitative fundamental analysis with the firm's proprietary multi-factor models. The majority of the portfolio will be allocated to U.S. common stocks, with opportunistic allocations to non-U.S. common stocks, nonstandard equity securities including REIT's, MLPs, Convertible Preferred Stocks, Straight Preferred Stocks, Business Development Companies and income oriented ETFs.

Active strategies used by the manager to add value include security selection, active allocation of security type, sector allocation and country allocation.

### Benchmark Components:\*

The custom benchmark for Meritage Yield-Focus Equity is comprised of 50% Russell 3000 Value and 50% Dow Jones Select Dividend indices.

### Definition of the Firm:

For the purpose of complying with the GIPS, the firm is defined as Meritage Portfolio Management, an independent investment management firm that is not affiliated with any parent organization.

### Basis for Composites:

Meritage Portfolio Management's Yield-Focus Equity Composite consists of information for managed, fully discretionary, fee paying accounts since September 1, 2003. Separate composites have been created for each investment product offered by Meritage Portfolio Management.

Composites include all new portfolios with similar investment policy guidelines that have been managed by the firm for at least one full month. Pursuant to GIPS, no portfolio is removed from a composite unless the portfolio: (a) has terminated, in which case the portfolio then leaves the composite after the last full month the portfolio was under management, or (b) the client guidelines change so that inclusion in a different composite is more appropriate.

*Continued*



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Policy for pricing — Meritage Portfolio Management utilizes FT Interactive Data, a subsidiary of Interactive Data Corporation, as its principal vendor for the pricing of equity and fixed income issues.

**Fees:**

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Actual investment management fees incurred by clients may vary.

**Calculation Methodology:**

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Additional information regarding policies for calculation and reporting returns is available upon request.

**Minimum Account Size:**

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**Currency:**

Returns are calculated and presented in U.S. dollars.

eVestment universe returns, benchmark indices and related statistics are presented gross-of-fee.

A complete list and description of Meritage Portfolio Management's composites is available upon request.

Meritage Portfolio Management claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Meritage Portfolio Management has not been independently verified.

(\*\*) Partial period represents data from 09/01/2003

Past Performance is no guarantee of future results.





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