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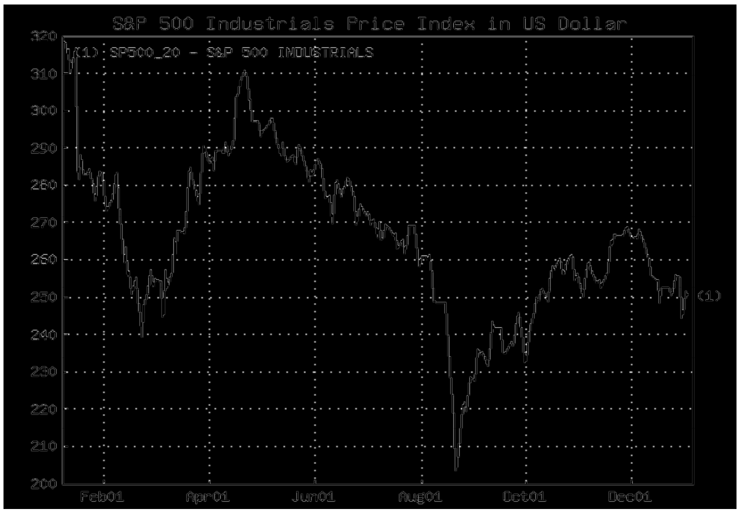
Industrial Sector Analysis & Holdings Review

February 6, 2002 **Equal-Weighting Recommendation**



Industry Groups	Industries
Capital Goods:	Aerospace and Defense
	Building Products
	Construction and Engineering
	Electrical Equipment
	Industrial Conglomerates
	Machinery
	Trading Firms and Distributors
Commercial Services and Supplies:	Commercial Printing
	Data Processing
	Diversified Services
	Employment Services
	Environmental Services
	Office Services and Supplies
Transportation:	Air Freight and Carriers
	Airlines
	Marine, Road and Rail

Overview

We recommend a market weight for the industrials sector. The new year opened on a hopeful note and the economy appears to be turning around more quickly than expected. We want to maintain market weight to benefit from the economic recovery, as the industrials sector is among the most economically sensitive areas. Airlines and transports have been struggling to recover lost business while the defense industry stands to benefit from a forecasted increase in total defense spending. Commercial Services and Supplies also tend to rise as economic activities picking up. We recommend shifting Industrials Sector holdings toward Defense, Home Construction and Commercial Services.

Economic Outlook (January Data)

- Gross Domestic Product (GDP) is poised to have a modest recovery of 2 to 3 %in 2002 after experiencing contraction in the 3rd and 4th quarter of 2001. The recession is not over. The war with terrorism is certainly not over. But so far the damage to the economy and to the nation's psyche is less than we feared.
- Job losses has improved to 150,000 versus 450,000 in October 2001. Factory orders rose 1.2 percent, in line with economists' consensus forecast. We anticipate that order rates for capital goods, manufacturing equipment and other cyclical categories will continue to accelerate especially as proposals for business tax relief gains a foothold in the US Congress.
- Consumer confidence has improved from a low of 85 in October/November 2001 to 97.5 in the first month of 2002.
- Inventories fell 0.6 percent in December and, the inventories-to-shipment ratio fell to 1.37 from 1.39 a month earlier, another sign that stocks are being depleted. We anticipate that manufacturing activity gradually will improve following a year of contraction and massive inventory liquidation. Prices will begin to firm now that inventories have been reduced and early signs of recovery are starting to emerge.
- While earnings were under severe pressure in 2001, owing to the sagging economy, the year 2002 could be a year in which earnings recover. S&P analysts were projecting an approximate 1% increase in year-over-year earnings per share for the Industrials Sector in 1Q02. S&P analysts also believe that subsequent quarters will see continued earnings progress, culminating in an approximate 23% increase in earnings for the full year, to $11.85

Sources: Financial Reports (10K's and 10Q's), *The Wall Street Journal, The Airline Monitor*, Bloomberg, BigCharts.com, Morningstar , Bloomberg.com, Fidelity.com, Multexinvestor.com, Morningstar.com

Overview By Indstry Group

Capital Goods

Holding	Shares	Cost per Share	Current Share Price
General Electric	500	$40.70	$36.02
American Standard	150	$66.30	$60.25

Capital Goods companies continue to suffer from the economic slowdown. Aerospace and defense industries will be positively impacted by the ongoing war against terrorism. Airlines and transports struggle initially to recover lost business while defense contractors stand to benefit from a forecasted increase in total defense spending. In our opinion, capital goods companies are already reached bottom.

Corporate accounting scandals that started with Enron Corp. are now spreading as accounting problems are surfacing in a number of other companies such as Tyco International Ltd., which has been hammered by worries that it didn't account properly for its acquisitions. Mainly conglomerates with complicated financial structures -- like General Electric Co. -- have been caught in the maelstrom. We believe that GE will prevail because of their strong management practice.

Commercial Services & Supplies

Holding	Shares	Cost per Share	Current Share Price
None	N/A	N/A	N/A

Commercial Services and Supplies companies are more insulated from the effects of the economic slowdown. These companies often provide essential services which satisfy the fundamental needs of businesses. that cannot be eliminated in a downturn. The commercial services will also bode well in the upturn as it provides the support that business needs. We have sold Concord EFS, a commercial service provider because we believe while it has strong growth potentials, it is over-valued. Since we believe that this industry group has good upside potentials, we will search for a value stock in this sector to purchase.

Transportation

Holding	Shares	Cost per Share	Current Share Price
Forward Air	300	$31.99	$26.39

The transportation industry group encompasses the air freight & couriers, airlines, marine, and road and rail industries. Excluding the airlines sub-industry, the companies in this industry group primarily generate revenue by shipping goods across the country and around the world. The contraction in the U. S. economy as well as other important world economies has slowed consumer demand and hence worldwide shipment activity.

Weakness in this area is likely to persist as long as economic uncertainty lingers.

As has been highly publicized, the passenger airline sub-industry has been slaughtered since September 11th. In order to keep many of these companies afloat, the Federal Government intervened with short-term relief. While government intervention can be viewed as a positive sign of the importance of the industry, it once again calls into question the majority of the business models in this space. The only profitable airline in the S&P 1500 is Southwest Airlines, which focuses on short-haul, commuter hops, strong customer service, and operational efficiency. It appears this model is sustainable, but even its relative attractiveness has ebbed over the past few years.

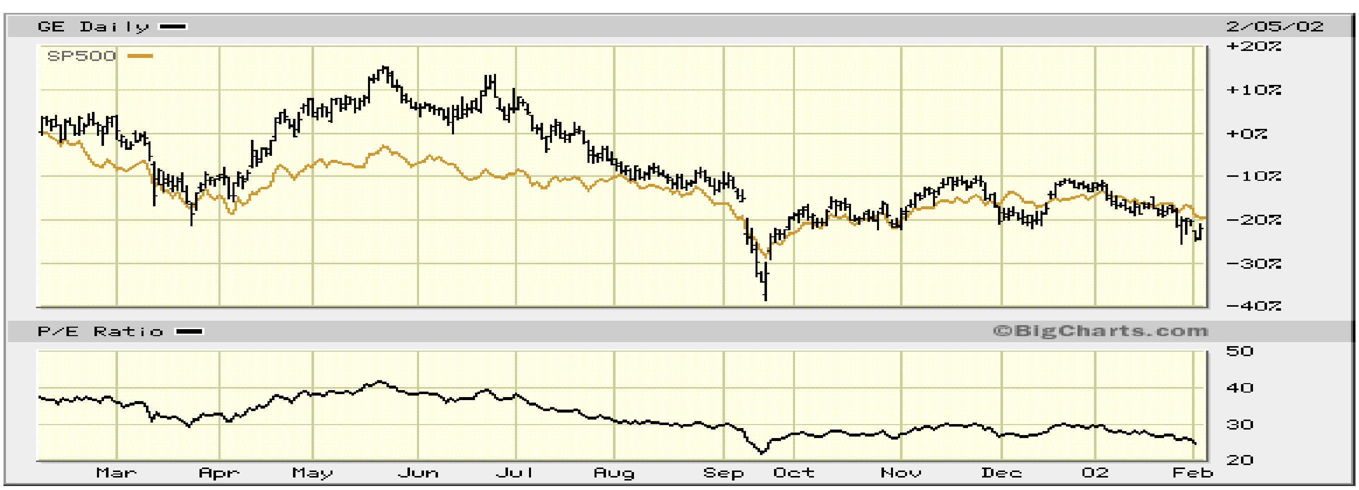
Holdings Review

General Electric

As seen in the chart below, General Electric's (GE) stock price has suffered dramatically falling nearly 15% during the last month as its P/E ratio has plummeted from approximately 30 to 25. This fall can be primarily attributed to a general market sentiment of dumping the shares of large companies with a long history of mergers and acquisitions, and complex accounting methods. In response to this, on 02/05/2002, GE reiterated its first-quarter and 2002 earnings targets in the face of accounting jitters in the overall market. GE said it's confident that first-quarter earnings will "meet or slightly exceed" consensus estimates of 34 cents per share ($1.65 per share for year 2002), and that growth in cash from operations, excluding progress payments, will outpace earnings growth. Speaking to accounting concerns that have hit conglomerate stocks, GE Chairman and CEO Jeff Immelt said that "GE isn't a 'faith' stock -- it's a performance stock. And we're on track for another record performance." He also cited the company's "system of controllership that is second to none."

GE reported EPS of $0.39 for the last quarter of 2002, up 8% as compared to the same quarter in 2001 and in-line with consensus estimates. Industrial revenues were $18.2 billion, up 4% versus up 5% in Q3/01. Short-cycle businesses were strengthened by Appliances – which was up 9% versus up 3% in Q3/01. Plastics was down 17% versus down 14% in Q3/01. Industrial Products and Services was down 6% versus roughly flat in the prior quarter. Long-cycle businesses were up 16% in Q4/01, driven largely by gains at Power and Medical, offsetting earnings declines at Aircraft Engines.

We recommend holding onto GE with a price target of $50. GE is not yet seeing any meaningful signs of economic recovery and is assuming no improvement until 2003. However, even under this somewhat pessimistic economic-recovery scenario, management forecasts 13–14% operating earnings growth in 2002 and 10–15% growth in 2003. In 2003, the company believes that the expected downturn in Power Systems earnings will be offset by more than $2.0 billion in incremental earnings driven by GE initiatives (Digitization, Six Sigma, Services, and Business Development). Currently, GE shares are trading at a very modest premium to the market, which seems unsustainable in the long term, given the company's superior earnings growth outlook and a return on invested capital (ROIC) that is twice as high as the market.



GENERAL ELECTRIC (CONT.)

Company Description

General Electric (GE) is a diversified technology, manufacturing, and services company. Major business units include GE Capital Services; Power Systems, the leading supplier of power generation worldwide; Industrial Products and Systems; and Aircraft Engines, the world's largest producer of large and small jet engines.

Key Investment Positives

- *ROIC should improve*: GE should be able to improve its ROIC to 31% from 28% over the next three to five years, through operating margin expansion — market share gains and cost productivity — and better asset utilization.

- *Company is enhanced by distinctive GE culture*: There are two primary forces that drive GE: its social architecture and its operating system. Social architecture refers to a constantly evolving value system that GE has incubated over the past 20 years that encourages input from all employees, the destruction of bureaucratic practices, and the routine sharing of best practices among divisions. Management has constantly stated that the GE operating system is one of accountability that continually monitors progress toward stated goals — a system that ensures that the corporate initiatives and values are driven into the core of the organization.

- *Performance in Current Economic Scenarios and Earnings consistency*: We believe that, despite the events of September 11, GE will be able to weather the economic storm well given its size, portfolio diversity, management strength, and financial strength (AAA credit rating and virtually no debt outside financing receivables at GE Capital Services). GE has a strong track record of producing consistent and predictable earnings growth. The broad diversity of GE's business portfolio means that the company is insulated from sector-specific issues in any one business unit. In addition, GE's financial strength contributes to its ability to produce consistent results. Finally, GE's rigorous productivity programs cushion results in periods of economic slowdown.

Key Investment Risks

- *Deployment of future cash flows could pose a challenge*: GE's high returns mean that it is throwing off ever-increasing amounts of free cash flow. As the numbers get bigger, GE may find it more difficult to find investment opportunities. In the short to medium term, we are confident that GE has sufficient investment opportunities that will enable it to maintain its high levels of excess return on capital. Longer term, cash deployment could get more difficult. The company is presently generating 25–30% returns on its capital.

- *Economic downturn could affect sales and earnings*: GE's sales and earnings are sensitive to swings in the economic cycle. GE isn't seeing any recovery in its short-cycle businesses — NBC, Plastics, Appliances, and Industrial Systems. The US remains weak, Europe is slowing, and Asia is mixed. These businesses are expected to have produced a 5–15% decline in operating earnings in 2001. However, GE's long-cycle businesses — Power Systems, Medical Systems, and Aircraft Engines — are expected to have been up 30–35% in 2001, more than offsetting expected weakness in short-cycle divisions.

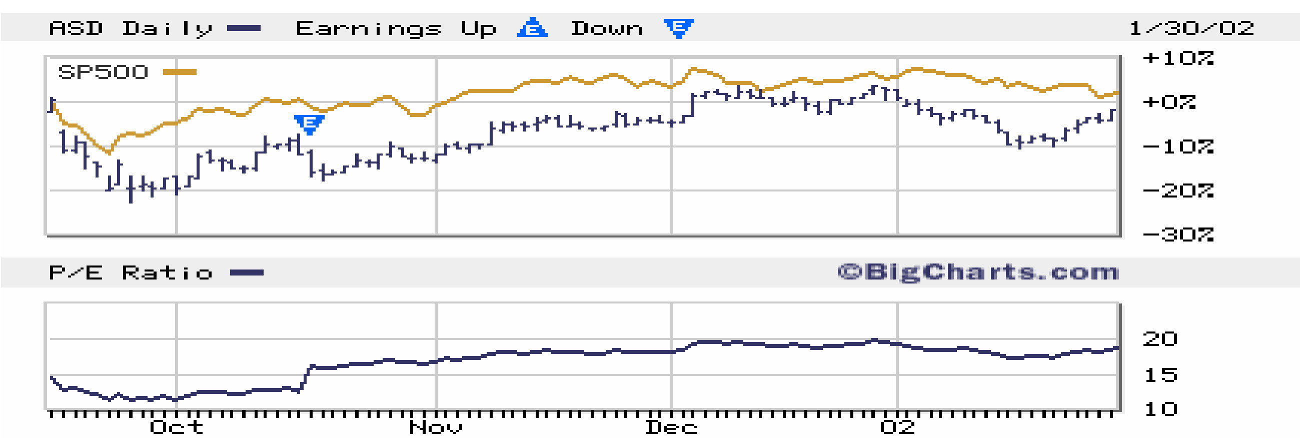
AMERICAN STANDARD

American Standard brought in a new chief executive office, Fredric Poses, in 1999 after the company suffered through several poor years in the nineties. Mr. Poses is implementing a "Six Sigma" operating strategy, which is aimed at improving quality and reducing costs. Thus far, his plan appears to be working as the company has performed okay in a very difficult operating environment. A review of the financial statements has raised some quality of earnings and cash flow questions that will be further evaluated over the next six months. None-the-less, the stock appears to have significant upside potential if cash flows continue to expand as planned, so we feel the position is suitable for the fund at this time.

American Standard is a global manufacturer with market leading positions in three businesses: air conditioning systems and service(63% sales, 66% of operating profit), sold under the Trane® and American Standard® brands for commercial, institutional and residential buildings; plumbing products (24% of sales, 18% of operating profit), sold under such brands as American Standard® and Ideal Standard® (13% of sales, 16% of operating profit); and vehicle control systems, including electronic braking and air suspension systems, sold under the WABCO® name to the world's leading manufacturers of heavy-duty trucks, buses, SUVs and luxury cars. The company employs approximately 60,000 people and has manufacturing operations in 27 countries (44% of sales from outside the United States). American Standard is included in the Standard & Poor's MidCap 400 Index.

The position was opened in mid-September at $62. As the chart below depicts, the stock took an immediate drop after 9/11 but has inched up since, narrowing the gap between its performance and the S&P 500. Despite the economic pressure, American Standard has been performing reasonably well. As evidence, revenue declined 4% in the third quarter and 2% through the first nine months of 2001 compared to 2000 performance. Using the same comparison basis, net income increase 1% in the third quarter, but has increased 7% through the first nine months of 2001. The increase in income despite the drop in revenue can be attributed to productivity improvements and cost control measures.

The air conditioning systems segment performed will during the first nine months of 2001, but contracted appreciably in the third quarter compared to the prior year. The weakness in this division is primarily due to the weak commercial construction market, which is the key driver for this segment. The air conditioning segment appears to be able to maintain the status quo during brief economic weaknesses with backlog and maintenance upgrades. However,



protracted economic weakness would likely have a material affect on this segment. Pluming products have performed opposite of the air conditioning systems as the segments income is down 6% on the year, but increased by 8% in the third quarter compared to the prior year. The recent strength in plumbing, which is primarily driven by the residential market, is likely driven by a relatively strong housing market (which has benefited from historically low interest rates) and the aging inventory of residential properties. In light of recent improvement in consumer confidence and strong cultural momentum for home improvement, this unit will probably be a bright spot for the company going forward.

The brake and control segment is suffering from a weak end market that has resulted in price discounting, excess inventory, and overcapacity. These factors will have to regulate before the division can expect the segment to stabilize. Going forward, this segment is likely to experience protracted difficulties as inventory levels are driven down and business spending remains weak.

American Standard is in a negative equity position due to very poor performance over most of the nineties. The negative position has been narrowing rapidly and is not a cause of major concern unless the earnings position weakens dramatically. Additionally, inventories have increased 40% over the past twenty-one months while cost of goods sold has only increased 5%. Accounts receivable increased $218 million over the first nine months of 2000 and then decreased $143 million in the fourth quarter. Through the first nine months of 2001, accounts receivables have increased $126 million, an increase of 11%, while revenues declined 4%.

American Standard also generated free cash flow of $239 million in 2000; however, $177 million, or 75% of yearly free cash flow, was generated in the fourth quarter. Through the first nine months of 2001, free cash flow was $178 million compared to $62 at the same time last year, an increase of 187%. American Standard has not issued any new debt this year and has increased its interest coverage from 3.5 in 2000 to 4.5 through the first nine months of 2001. The financial statements will be monitored closely over the next few quarters to gain familiarity with the company and to ensure the quality of cash flow and earnings numbers.

American Standard's forward price to earnings multiple of 13 and a price to cash flow multiple of 7. These multiples are in line with the company's historical trading range, but somewhat below its peer group. Further, five year earnings growth is projected at 13%, which is reasonable given cost cutting and quality improvement measures that are being implemented. The company has set a goal to generate free cash flows of $500 million by 2003. If this objective is met, the stock has a 30% to 40% upside over the next two years. Given the potential upside due to cash flow expansion, the stock should be retained as long as management continues to show positive progress towards its goal, despite the fact that the company appears to be fully valued on a historical multiple basis.

Transportation

Forward Air

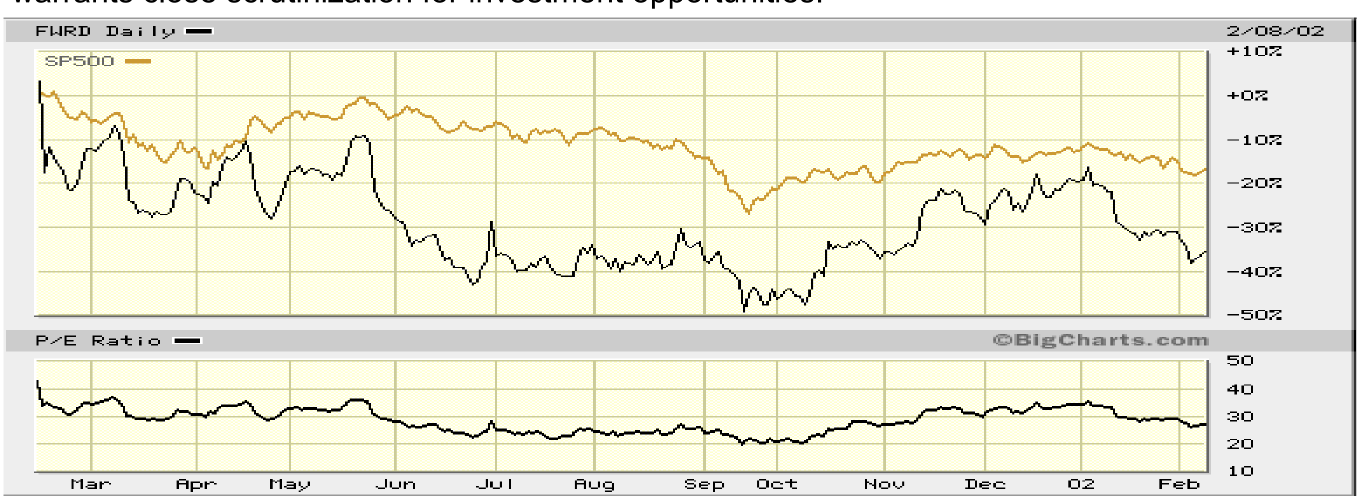
Forward Air (formerly Landair Services) provides ground transportation and third-party logistics for the deferred air freight market (requiring specific-time delivery but less time-sensitive than air freight). The company picks up packages from air freight forwarders, sending packages by truck to terminals near their destinations. Forward Air contracts with owner-operator truckers and truckload carriers for transportation. Other services include electronic tracking and billing services.

The company expanded considerably during the strong economic expansion experienced in the late nineties. Due to the rapid expansion, Forward Air was investing heavily in fixed assets by building out its terminal base and investing in technology. Unfortunately, business began to slow after the market bottomed out in March of 2000. Since, revenues and earnings growth has eroded and will remain under pressure until the economy begins to expand again. Forward Air does not stand alone; however, as the entire transportation industry group has been under tremendous pressure since the economy slowed.

Forward Air does have a strong balance sheet, low debt ratio, expanding free cash flows and a high return on capital. In addition, the company is positioning itself to gain more international business evidenced by a recent agreement with British Airways. Solid fundamentals and future expansion opportunities make Forward Air a reasonable holding despite its recent decline. However, prolonged economic weakness will weigh heavily on the stock's price, so we will be keeping close track of the company's performance.

Potential Investments

We will be looking at the aerospace and defense industry for potential investment opportunities. The recent fighter contract, the proposed increase in defense spending by the Bush Administration, and heightened security needs, should propel this industry over the next eighteen to twenty-four months. While much of this information has already been factored into these stocks, we feel this is one of the few areas in the industrial sector with earnings visibility, which warrants close scrutinization for investment opportunities.



COMMERCIAL SERVICES & SUPPLIES

CONCORD EFT

We have just sold Concord EFT on the basis it is over valued. Concord is a leading, vertically-integrated electronic transaction processor, providing transaction authorization, data capture, settlement and fund transfer services. Service for the cashless transactions at the grocery stores and gas station is experiencing a phenomenal growth rate of 30% a year. It is estimated that by 2007, 60% of all supermarket payments will be electronic. Given Concord strong fundamental and good projected growth, we will consider to own Concord EFT again once it become reasonably price. Currently Concord EFT P/E was around 80. We are currently researching for a stock to purchase in this industry group.

CSG Systems International

We are presently evaluating portntial investment options. One of the companies we have been looking is CSG Systems International (CSGS). Below we present a brief preliminary evaluation for CSGS

Company Description
CSG Systems International (CSGS) is a leading provider of customer care and billing solutions to the communications industry. The company approximately 78% and 16% of total revenue from North American cable television and direct broadcast satellite (DBS) industries, respectively. CSGS also serves the telecommunications and online services industries. In December, CSGS announced its agreement to acquire Kenan Systems, the billing and customer care assets of Lucent Technologies.

Key Investment Positives

- *Industry leader:* CSGS dominates the US cable billing and customer care market, supporting roughly 40% of domestic cable subscribers. In the long term, the company is well positioned to win additional business from both new and existing cable customers in the United States.

- *Powerful outsourcing trend:* In the long term, at least three factors should continue to drive the outsourcing for cable billing and customer care. First, carrier growth fueled by deregulation and competition has translated into a rising number of network operators requiring billing and customer care solutions. Second, the convergence of the communications market has generated a need for increasingly complex billing technology. Finally, the cost of developing such systems internally remains high.

CSG Systems International (Contd.)

Key Investment Risks

- *Limited earnings visibility and growth:* The slowdown in the global economy and the uncertain timing of a rebound are pressuring information technology budgets in the cable, telecom, and Internet industries. Driving processing revenue, which is 71% of total expected 2001 revenue, should be domestic cable subscriber conversions, limited in 2002, combined with modest increases in average monthly subscriber revenue.

- *Delay in development of international opportunities:* While we continue to believe that international markets represent a solid growth opportunity for CSGS over the long term, international expansion will likely be limited through 2002. The global economic slowdown, combined with changes in the European cable industry landscape, may delay CSGS's progress in the international arena.

- *Revenue concentration:* CSGS generates 50% of its revenue from its contract with AT&T that extends through 2012.

Sector Risk Diversification

Industrials Sector's holdings include GE, ASD, and FWRD. Below we have presented the Correlation Matrix for our sector's present holdings. We see that our holdings are very well diversified, with a highest correlation between stocks of 0.28. As new stocks are selected, we will diligently make sure the correlations remains low.

Industrial Sector Correlation Matrix

	ASD	*FWRD*	*GE*
ASD	1.00		
FWRD	0.16	1.00	
GE	0.28	0.25	1.00