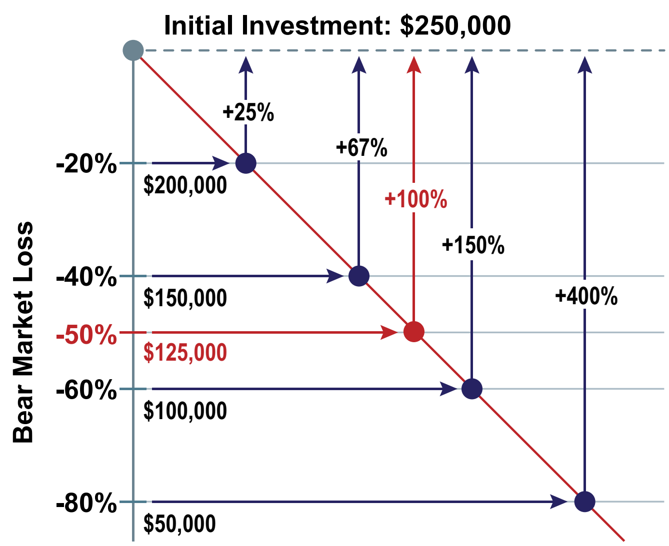
The foundation of Stack Financial Management's investment philosophy is a belief that portfolio construction must be based on a thorough assessment of market risk. With careful attention to the historical forces that move the market, Stack Financial Management utilizes a "safety-first" approach to investment management that is designed to strike a balance between participation and downside protection.

Our respect for risk in the pursuit of profits has led to the evolution of the investment methodology which we employ in constructing portfolios and selecting securities. Many other firms profess the ability to forecast market turning points. At Stack Financial Management we are focused on following the weight of the evidence and allowing an objective assessment of the data to dictate our risk management strategy.

The Importance of Managing Risk

Most investors are familiar with the concept of Compounding Interest and how it increases returns over time. It is one of the simplest but most powerful forces in all of investing. However, most investors fail to realize the damaging power of "reverse" compounding. For example, a -20% loss requires a gain of +25% to get back to even. However, in a bear market like 2000-02 or 2007-09, the S&P 500 can lose -50% or more – which requires a 100% gain to fully recover! As losses become more extreme, so does the effect of reverse compounding. This is why the foundation of our investment philosophy is risk management – minimizing losses is critical to the long-term success of your investment portfolio.



Portfolio Management

Our unique brand of active risk management aspires to achieve returns that meet or exceed long-term averages while reducing risk and volatility – providing the all-important "Sleep at Night" factor for our clients. We utilize a 3-step process to manage risk and construct portfolios that marry our macroeconomic and technical views with bottom-up fundamental analysis.

1. Allocation

The most effective tool in our arsenal is allocating assets to the equity market based on the level of risk. Allocation decisions are made by evaluating the "weight of evidence" provided by technical and macroeconomic indicators to assess the business and market cycle. This strategy is not market timing – it's risk management. It requires objectivity and discipline to make allocation decisions based on the message these tools convey.

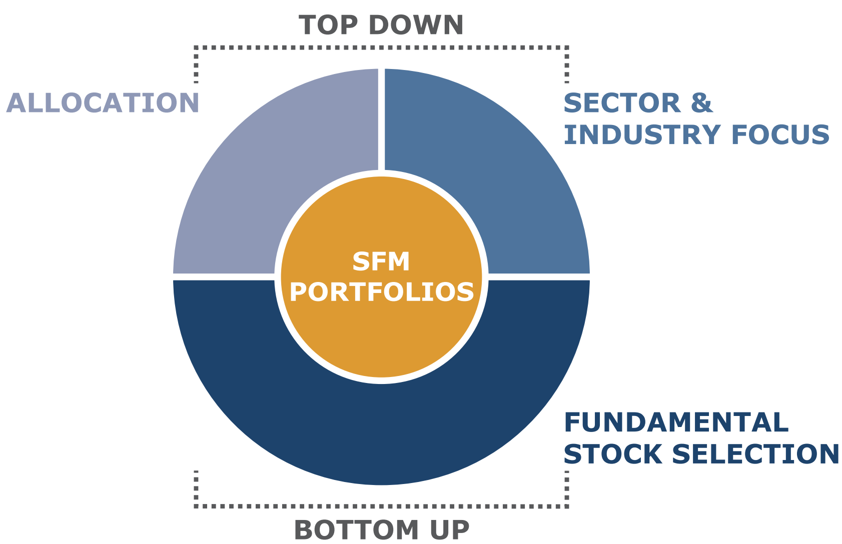
2. Sector & Industry Focus

Sector weighting is a valuable tool in managing risk as sector leadership changes throughout a full market cycle. An active sector strategy should vary based on market conditions, the level of risk, and relative valuations. This analysis is taken a step further by incorporating industry-based data as well. While companies within a sector might perform vastly different over the course of a market cycle, industry-based peer groups tend to correlate more tightly.

Our proprietary ranking methodology evaluates sectors and industries based on five different metrics to create an internal SFM Score. This scoring system helps guide our investment decisions during the portfolio construction process.

3. Fundamental Stock Selection

The third step in protecting one's portfolio is buying good companies based on detailed, fundamental analysis. When selecting stocks, we focus on four key criteria in addition to our proprietary SFM Score: Superior Profitability & Growth, Competitive Advantage, Financial Strength & Discipline, and Attractive Valuation.



Investment decisions are based upon your stated objectives for the assets which have been placed in the portfolio, and not necessarily upon your entire financial profile.