

McCullough & Associates LLC

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INTRODUCTION

McCullough & Associates

We are an Investment Manager headquartered in San Francisco, initially founded in 1977 as McCullough & Andrews Inc. Our experienced investment team builds customized portfolios for individuals and institutions, including foundations, retirement plans and other pooled accounts.

All portfolios are individually constructed and invested to meet the specific objectives of each client including tax considerations, cash flow needs and individual risk profiles. We seek to enhance the long-term purchasing power of both principal and income by employing an all-cap, value-oriented management style. Our goal with every portfolio is to achieve more return than the associated benchmark while taking less risk. Portfolios are concentrated in roughly twenty-five securities which encompass only our best investment ideas.

We strive to invest in companies we thoroughly understand, that have favorable long term prospects, that are operated by competent management and that are available at attractive prices. We support our philosophy with a thorough and comprehensive investment process.

THE McCULLOUGH TEAM

Portfolio Management

Leon A. Wiatrak, Managing Member: Leon Wiatrak is chairman of the investment committee with final accountability for portfolio decisions. In addition, Leon leads the firm and is ultimately responsible for management of the overall business. Leon's extensive investment knowledge and business experience is an invaluable asset to McCullough & Associates. Leon graduated in 1967 with a B.A. in Economics from the University of San Francisco. He is also a graduate of the Harvard University Graduate School of Business, Senior Managers' Program, Vevey, Switzerland 1983. Leon is the managing Member of the company.

Robert D. Bachmann, CFA, Director of Research: Robert Bachmann is a member of the investment committee and provides research and analysis supporting portfolio management decisions. This includes overall market and company-specific research on existing holdings as well as new investments under consideration. Rob holds a B.S. degree in Business Administration from the Haas Business School at the University of California, Berkeley. He has earned an M.B.A. degree in Finance and Strategic Management from the University of Chicago. In addition, Rob is a CFA Charterholder and is a member of the CFA Institute and the CFA Society of San Francisco.

William J. McLoughlin, Senior Trader: William McLoughlin is the firm's Senior Trader and a member of the investment committee. Bill's career spans 25+ years of expertise in the equity and fixed income markets. Bill provides insightful perspective on the daily supply and demand factors influencing the marketplace. He is an active member of the San Francisco Securities Traders Association, having served on its board from 1978 to 1982. Bill graduated with a B.S. degree from the United States Air Force Academy, and then served as a commissioned officer.

THE McCULLOUGH TEAM

Client Service & Operations

Maryann F. Harrison, Chief Operating Officer: Maryann Harrison started her financial services career in 2004 working in new accounts and cashiering for Round Hill Securities. In 2005 Maryann moved to the trading desk and became a trading assistant for First Allied Securities, who had acquired Round Hill. She earned her series 7 in 2006 and became a Fixed Income Trader and quickly added her series 66 and series 55. Maryann's responsibilities with McCullough & Associates LLC include operations, trading and client services. Maryann attended San Francisco State University.

Adele Beaudreau, Business Development: Adele started her financial services career in 2006 with Fisher Investments, a money management firm based in Woodside. During her studies she also had internships with Kirlin Securities, Morgan Stanley, and Apple Inc. Adele's responsibilities with McCullough & Associates LLC include marketing and branding initiatives to strengthen business development. Adele Beaudreau graduated from Cal Poly, San Luis Obispo with a Bachelor of Science degree in Business Administration, dual concentrations in Finance & International Management, and a minor in Economics.

WHAT IS A SEPARATELY MANAGED ACCOUNT?

A separately managed account is a portfolio of individually-owned securities selected and managed with your diverse goals and objectives in mind.

Separately Managed Accounts Advantages

Separately Managed Accounts (SMAs) have several advantages over mutual funds and other investment vehicles.

Customized portfolio to meet your investment needs: Your portfolio will be constructed to meet your individual investing preferences, income needs and risk tolerance.

Ownership of portfolio's underlying securities: Unlike mutual funds where the funds are commingled, you will own the underlying securities.

Tax conscious portfolio management: Your tax situation will be considered when all portfolio decisions are made.

Direct access to our portfolio management team: McCullough's experienced portfolio management team is only a phone call away to address any questions or concerns that you might have.

INVESTMENT PHILOSOPHY

Our goal with every portfolio is to achieve more return than the associated benchmark while taking less risk.

All portfolio decisions are taken with an emphasis on the risk/reward aspects of that particular investment and the portfolio as a whole.

Price and Value are not the same thing

We believe in active management for our portfolios and are constantly searching for market inefficiencies. We seek to profit from market inefficiencies by doing our own analysis of the financial strengths, management, competitive positions, and assessments of future earnings potential of our companies, and investing in securities trading that we believe are trading below their underlying value.

Concentrated Portfolios

In 1934 the famous economist John Maynard Keynes wrote in a letter to a friend:

“As time goes on, I get more and more convinced that the right method of investment is to put fairly large sums into enterprises which one thinks one knows something about and in the management of which one thoroughly believes. It is a mistake to think one limits one's risk by spreading too much between enterprises about which one knows little and has no reason for special confidence.”

We agree and limit our portfolio to roughly twenty-five companies. However, we invest in companies in various industries and sectors to achieve proper diversification in portfolios and lower overall portfolio risk.

We are long term investors

We seek to enhance the long-term purchasing power of both principal and income. Our time horizon when purchasing a company is usually 3 to 5 years, which is reflected in

our low portfolio turnover. We feel that a low turnover helps performance returns by lowering trading costs.

SECURITY SELECTION

Overview

Security selection at McCullough & Associates is conducted in-house and focuses on identifying companies that meet our four critical company characteristics. Our goal is to find the best companies in industries selling at attractive valuations and to hold them long term for maximum price appreciation. The four key company characteristics include:

1. Financial Strength

We seek companies with solid fundamentals, specifically strong balance sheets with positive cash flows and positive profit margin trends. Asset rich companies such as these are more likely to meet capital needs from internal sources and maintain reasonable dividend payments. This is a competitive advantage during periods of tight credit, when external capital is expensive or unavailable.

We also focus on companies generating consistent “cash earnings” and assess the quality and character of these earnings. We stress cash earnings, rather than GAAP earnings, as cash earnings are more representative of the true operating and financial leverage that exists. We also carefully review capital expenditure needs and fixed assets replacement factors.

2. Shareholder Oriented Management

The second characteristic is shareholder oriented management. We seek experienced, capable management teams with a proven track record of success. Companies should utilize conservative accounting principles and align the financial interests of management and shareholders. We often invest in companies where management has large personal stock holdings in the business.

We also want to see commitment to controlling expenses and consistent capital allocation decisions. Shareholder oriented managements use free cash flow to create shareholder value. This is accomplished by reinvesting profitably in the business,

paying down debt or returning money to shareholders through dividends or share buybacks.

SECURITY SELECTION

3. Sustainable Business Model

Once we identify financially strong companies with quality shareholder oriented management, we examine our third characteristic, a company with a sustainable business model.

We build a holistic profile of the company which includes a thorough review of their operating functions including products and services, labor relations, raw material expenses, plant and equipment, capital reinvestment requirements, inventories, receivables and working capital needs.

We also want to understand any competitive advantages and whether a particular niche exists. This requires an analysis of their respective industry dynamics. Factors include bargaining power of suppliers, bargaining power of customers, threats of new entrants and threat of substitute products. We also look at the supply and demand equation for the industry and overall growth trends.

4. Undervalued

"A good business is not always a good purchase, although it is a good place to look for one," remarked Warren Buffet. We perform fundamental research to establish a target price for the company by focusing on the intrinsic value of the business and assessing the near term risks to that value. Our objective in establishing a target price is to establish a "margin of safety" and reduce the risk to invested capital.

We also perform technical analysis which involves analyzing price trends to identify key support and resistance levels. In addition the supply and demand dynamics for particular securities are analyzed. When selecting investments, the portfolio management team places great emphasis on companies it believes can offer the best long-term appreciation and the highest probability of realizing their value.

IMPLEMENTATION

Buy Discipline

We keep our investment selection process simple and straightforward. We will add a position to our portfolio if it survives our screening process and we feel it is superior to one of our existing holdings. A key advantage of a concentrated portfolio is that only the best ideas are implemented.

Sell Discipline

As value investors we recognize two reasons to sell a position. One, deteriorating fundamentals have eroded our confidence in the business. Two, the market has fully valued the position and thus eliminated our margin of safety.

Trade Execution

We view trade execution as a critical factor in our ability to achieve superior investment returns for our clients. Our experienced traders continuously monitor and gather information on our portfolio stocks. By closely following the daily market dynamics, our traders provide valuable information to the portfolio management team such as liquidity characteristics, market conditions and individual stock news. This information exchange continues through the execution phase of the investment process to ensure an optimal and effective trading strategy.

Portfolio Construction

All portfolios are individually constructed and invested to meet the specific objectives of each client including tax considerations, cash flow needs and individual risk profiles. Our portfolio is concentrated in roughly twenty-five businesses which encompass only our best investment ideas. We seek to enhance the long-term purchasing power of both principal and income. Each portfolio is managed on a team basis, consisting of portfolio managers, research analysts, and traders.

CONTACT US

Contact Us

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Hours of Operation

6:30 a.m. - 3:30 p.m. PST

Monday through Friday

Our Location

Our offices are located at 101 California Street, which has been our address since 1986.

