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Economic indicators point to a base for renewed expansion.

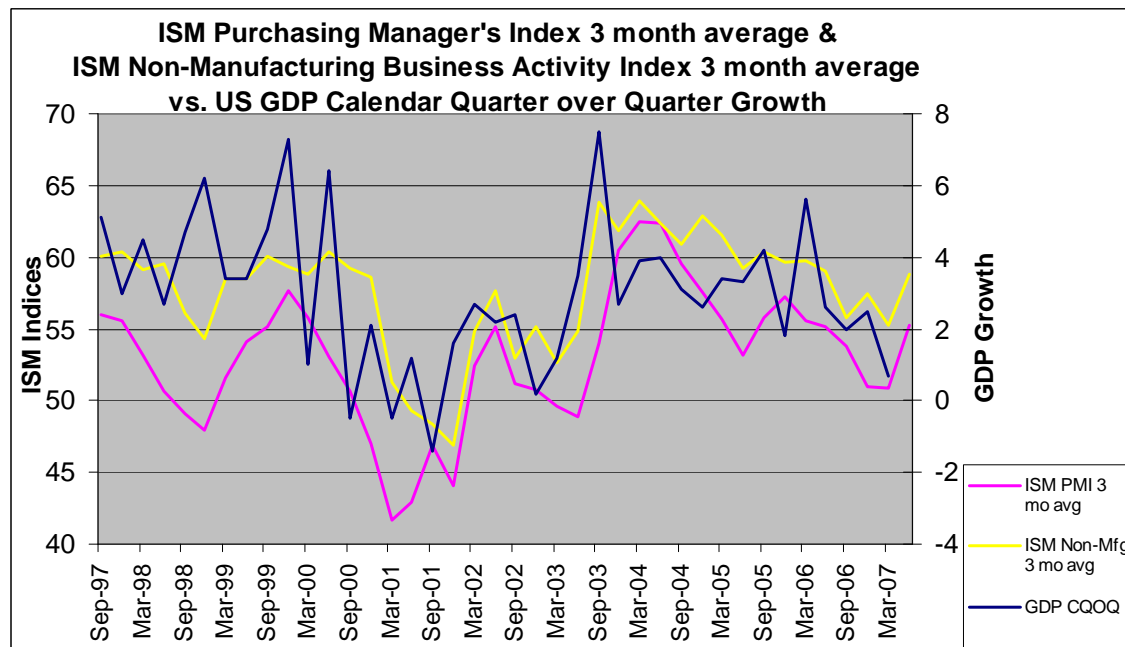
2007 2nd Quarter Review

The equity markets showed strength in the 2nd Quarter of 2007. Although some of the quarter's gains can be attributed to heightened merger & acquisition activity, the economic "soft landing" many were looking for appeared to develop a base.

The MSAM Growth Composite produced reasonable results in the 2nd Quarter. Refer to updated performance numbers on the MSAM website: <http://www.msam.net/products.htm>. We maintained a conservative approach to putting cash to work, and found companies with good growth potential at reasonable valuations to invest in during the 2nd quarter. We also began to be rewarded for investments we had in place, especially in the technology & telecommunications areas.

Current Observations

1: Many economic indicators appear to be providing a base for strengthening economic activity. Below are two commonly reported indices from the Institute for Supply Management (ISM) charted against GDP growth. The improvement in the ISM indices in April through June implies improving GDP growth numbers for the second quarter.

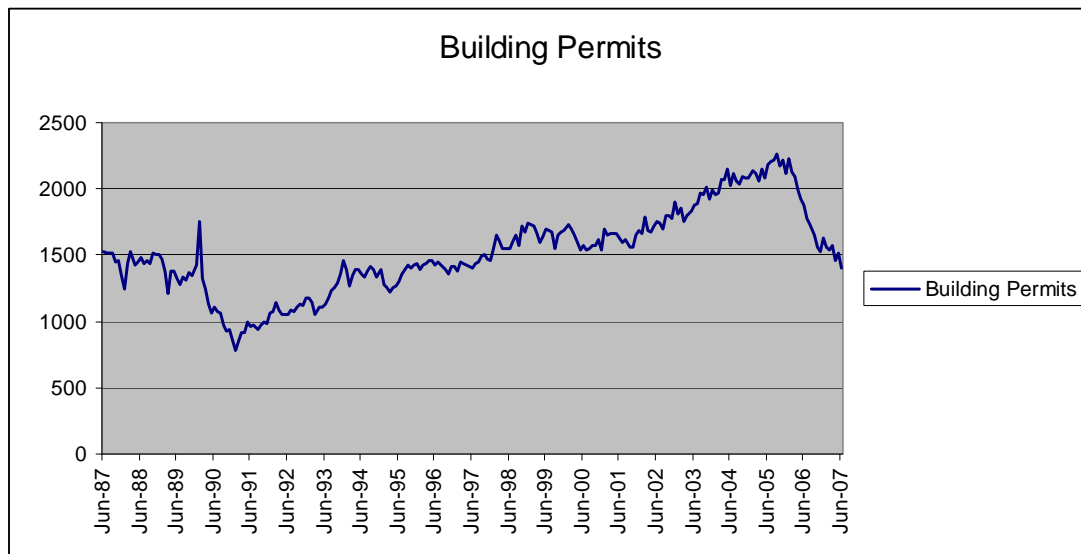


Sources: ISM, Bureau of Economic Analysis, Bloomberg

With a backdrop of low unemployment, low interest rates, contained inflation, and good international growth, the economic environment appears to have stabilized.

Worries such as the housing market and its effect on the economy persist.

2: While the economic outlook appears stable, we continue to climb a “wall of worry” as there is no shortage of real concerns: continued slower housing environment, high energy costs, credit tightening, the subprime mortgage market malaise, etc. For example, here is a chart of building permits which have continued to deteriorate to levels not seen in a decade.



Source: US Dept. Of Commerce, Bloomberg

3: The 2007 second quarter (2Q07) earnings season thus far has come in largely as expected. Here is a summary of S&P 500 earnings by sector which offers a glimpse into which sector’s year over year changes are positive or negative and how their respective results compare to analyst earnings estimates.

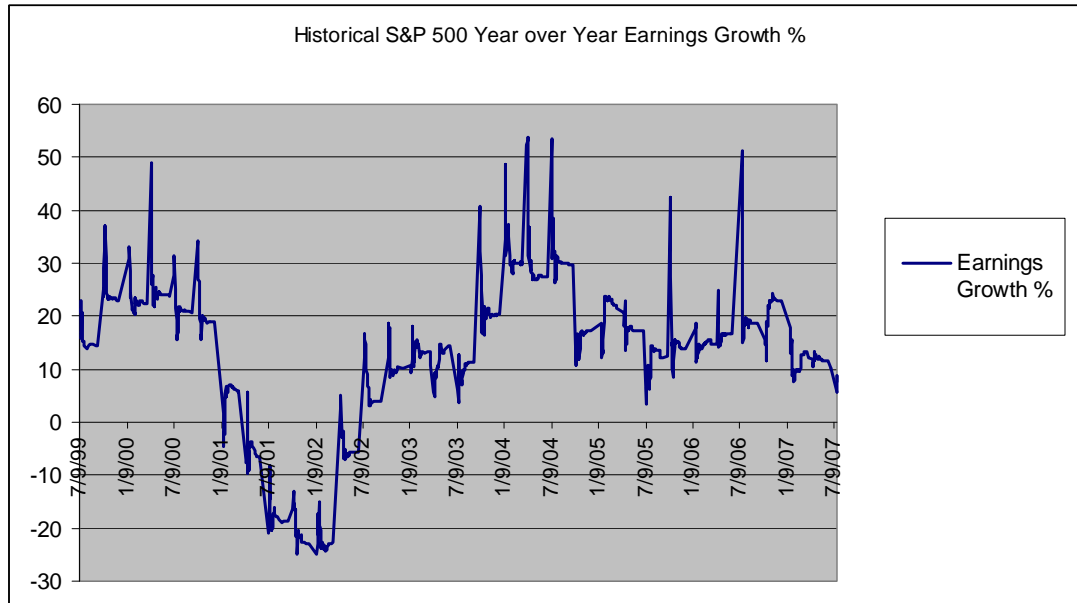
2Q07 earnings are generally as expected thus far and point to areas of strength and weakness.

	Reported /Total	Share Weighted %Change	Earnings Surprises (+)	same	(-)
Consumer Discretionary:	15/88	-29.0%	7	3	5
Consumer Staples:	10/39	11.8%	8	2	0
Energy:	0/32	na	0	0	0
Financials:	19/92	15.4%	10	3	6
Health Care:	6/54	-4.7%	4	0	2
Industrials:	8/53	9.0%	5	1	2
Information Tech:	12/73	18.4%	9	2	1
Materials:	2/28	20.2%	2	0	0
Telecom Svcs:	0/9	na	0	0	0
Utilities:	0/32	na	0	0	0
Total Reported:	72/500	7.8%	45	11	16

Source: Thomson Financial, Bloomberg

Year over year estimated Earnings Growth %'s for the S&P 500 reflect a trend of slower growth.

4: Year over year earnings growth in the S&P 500 continues to reflect a trend of slower growth. Below is a chart of historic year over year earnings growth percentages for the S&P 500.



Source: Thomson Financial, Bloomberg

2007 3rd Quarter Preview

The Fed on hold, a slower but growing economy, and continuing to locate companies in areas of strength at reasonable valuations should continue to offer returns for our investors.

Federal Reserve Chief Ben Bernanke noted in his semi-annual testimony before congress on July 18th that the Fed has reduced its economic growth projection to 2.25%-2.5% for 2007 from a 2.5%-3% projection in February. He also noted that they are looking for a little stronger GDP growth in 2008: 2.5%-2.75% vs. the 2.75%-3% that they had modeled previously. Stable leading indicators, expectations of slower growth, and contained inflation, appears to have the Fed on hold with interest rates for the foreseeable future.

The process of adjusting to slower near term growth and placing hopes for better growth 6 to 12 months out has now shifted the Fed and the market's view into estimating growth and earnings for 2008. Through that process of shifting the view forward, we have noted pockets of strength in the services, technology and telecommunications areas. Additionally, strong international growth, especially in Asia, continues to offer support to companies in lieu of slower growth expectations domestically.

With the economy working from a base of slower growth, assuming the slowest growth is behind us, the current environment presents the opportunity to find good companies at reasonable valuations in contrast to a "rising tide lifts all boats" type of growth environment. Within industry sectors, we expect to continue to see a separation of companies that can manage their business model well in this type of environment vs. those that can't. That separation will likely reward investors whose portfolios are positioned accordingly and is what we will continue to work to do for our investors.

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