FPCM Partner's Manual

Dear Partner,

We would like to thank you for your continued confidence and to also share with you our view of our relationship and fiduciary duty to you. FPCM measures success not only by portfolio performance, but also by our conduct and relationship with you. In serving our clients, we strive to demonstrate personal integrity, ensure investment suitability, and provide portfolio durability.

/Focus on Long-Term Performance

We encourage our clients to focus on their portfolio's long-term performance. We define "long-term" as a minimum three to five year period. We expect annualized turnover of your equity portfolio to approximate 20% to 33% over an extended time frame, which implies a three to five year investment horizon.

Why is a time frame of three to five years a good start?

First, we are long-term investors. As an investor, "time" can be either your best friend or your worst enemy. Attempting to define an investment strategy by buying what is "hot" or "jumping" from one trend to another often results in buying and selling securities at inopportune times. The markets are inefficient over the short-term, but highly efficient over the long-term. Accordingly, companies that are able to both create and compound economic value over an extended period should see their share price increase over time, even though they could underperform in the short-term.

Second, as long-term "contrarian" investors, we often like to buy shares in a company that is out-of-favor with most investors, as this creates the opportunity to buy undervalued assets. While this "contrarian" approach often leads to sizable returns over the long-term, to succeed it is critical to have not only a high level of "conviction", but also enough "patience" to wait for the market to appreciate what is obvious to us. Therefore, although it is tempting to measure your portfolio's performance from one year to the next, we encourage you to focus on long-term performance.

Third, as noted above, investing for the long-term implies low portfolio turnover and transaction costs, positively contributing to the overall performance of your portfolio. For taxable accounts, low turnover will also allow your portfolio to benefit from the significantly more favorable federal tax treatment of long-term capital gains versus short-term (less than one year) capital gains.

Fourth, we manage your investment portfolio in the same way people would manage their own business. When we buy an existing business, we commit a lot of "sweat equity", as well as real equity to the business. We make economic and strategic decisions based on creating long-term business success. As shareholders often desire immediate gratification and put pressure on public companies' management teams to deliver on short-term goals, we seek management teams that have developed and can execute sound business strategies. This includes rational capital allocation plans and a long-term perspective on the business.

/Our Research Effort

Our research efforts focus on identifying companies that meet two main criteria, which we believe are fundamental in providing long-term investment success. First, they must have durable business franchises, and second, they must be trading below what we deem to be the company's fair value (our safety margin). While our investment process includes both a "top-down" and a "bottom-up" point of view, the "bottom-up" view predominates.

Common attributes of companies that we look for in our equity holdings include:

1. Solid economic business models that generate free cash flow and have high barriers to entry. We define "free cash flow" as a company's after-tax operating cash flow less capital investments and working capital requirements. Often, a company's current free cash flow generation might vary significantly from our estimate of normalized free cash flow levels. This often provides an opportunity to buy a company with strong long-term fundamentals that are not factored into the current stock price.

2. Disciplined management teams that have strong, long-term records of creating value.

3. Improving Returns On Incremental Invested Capital (ROIIC). A company that is earning current returns of 5%, but can ultimately achieve 10%, will create more economic value than another company earning 20% this year but only 15% over the long-term. Therefore, a company held in your portfolio will tend to have normalized returns on capital that should exceed the company's cost of capital.

4. Intangibles such as brand equity.

5. Growth. It is better to invest in a company with an industry tailwind than a headwind.

6. Industry attractiveness. We invest with the idea that it is better to buy the cheapest house in a good neighborhood rather than the best house in a deteriorating neighborhood.

Risk management and a strong selling discipline are key to successful performance. We focus on understanding an investment's potential downside by analyzing and understanding both positive and negative scenarios for an investment. We seek to buy securities that are being priced at a significant discount to our estimate of fair value, giving special attention to potential "pessimistic" scenarios. Once we make an investment, as "owners" we continuously monitor the company, and while we practice "patience", we are also proactive when an investment no longer meets our investment criteria. We actively use option strategies, such as selling "covered calls" to generate additional income and partially hedge a position, or buying "out-of-the-money puts" to protect against low probability-high impact events. The culmination of our investment process results in a continuous and disciplined review of our investment decisions and your portfolio.

/What you should expect of us:

1. Unbiased advice. Our relationship with you is built on trust, transparency, and our fiduciary duty to you.

2. Service. We will provide you with the highest degree of client service, and we will be responsive to your needs.

3. Long-term performance. Our objective is to deliver long-term out-performance.

4. After-tax returns. We will manage your portfolio with the objective of maximizing after-tax returns.

/What we kindly ask of you:

1. Have a high degree of both "patience" and "conviction" as we manage your portfolio for long-term out-performance.

2. Keep us abreast of changes in your financial situation.

While financial markets are cyclical, we will continue to define success by adhering to our strong investment philosophy and partnering with you to achieve your long-term objectives.

Thank you for your continued support.

Sincerely yours,

FPCM*

• Readers are advised that this commentary is issued solely for informational purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy. The information contained herein has been obtained from sources that we believed to be reliable, but Financial Partners Capital Management (FPCM) does not offer any guarantees as to its accuracy or completeness. Past performance is not a guarantee of future results. The opinions expressed herein are those of FPCM, are subject to change without notice. Reproduction without written permission is prohibited. Entities including but not limited to FPCM, its officers, directors or employees may have a position, long or short, in the securities mentioned herein and/or related securities, and from time to time may increase or decrease such position or take a contra position.