



4TH QUARTER COMMENTARY

Los Angeles - December 31, 2006

Dear Fellow Investor:

US Stock markets followed up a strong third quarter with an even stronger fourth quarter advance, capping a rewarding year for stocks. The S&P 500 advanced nearly 6.7% in the quarter and 15.8% for the year. Net of fees, and based on preliminary estimates, the average Bristlecone Large Cap Value account underperformed the S&P 500 during the quarter but outperformed that benchmark for the year, returning roughly 18.9%¹.

The year end provides a good opportunity to review our longer-term results (see table below), which show that we continue to meet our primary goal of outperforming the broad market with less downside risk through market cycles. Over the last five years, our average account has returned more than 40% (about 7.1% annually) net of fees,

compared to slightly over 35% (6.2% annually) for the S&P 500. Since the inception of our track record in April 2000, our average account has returned 51% (6.3% annually), compared to less than 6% (0.8% annually) for the S&P 500. Over the long-term, our goal is to deliver higher absolute average annual returns, but we are unlikely to generate relative outperformance to the degree we have over the last seven years .

The stocks that made the biggest positive contribution to the quarter's performance were DirectTV, McDonald's, and IAC. The companies that penalized returns the most were Apollo, Tenet, and Wal-Mart. Through the year, investments in DirectTV, AT&T, and General Dynamics made the greatest contributions, while those in Tenet, Expedia, and Sprint Nextel detracted the most.

Quarterly Activity:

- ◆ **New Investments:**
Legg Mason (LM) & Sallie Mae (SLM)
- ◆ **Increases in Existing Investments:**
Apollo Group (APOL)
- ◆ **Reductions in Existing Investments:**
Merrill Lynch (MER), AT&T (T), Merck (MRK), & DirecTV (DTV)
- ◆ **Investments Sold:**
Merrill Lynch (MER)

Portfolio Returns (Inception Through December 31 2006)*

Year	Annual % Change		Relative Results (1) - (2)
	Non Wrap Composite Net of Fees (1)	S&P 500 with Dividends Reinvested (2)	
2000	15.0%	-11.1%	26.1%
2001	-6.5%	-11.9%	5.4%
2002	-19.2%	-22.1%	2.9%
2003	25.9%	28.7%	-2.8%
2004	10.5%	10.9%	-0.4%
2005	5.2%	4.9%	0.3%
2006	18.9%	15.8%	3.1%
<i>Average annual gain/loss since inception*</i>	6.3%	0.8%	5.5%
<i>Cumulative gain/loss since inception</i>	51.1%	5.7%	45.4%

* Inception date is April 1, 2000. Data are for full calendar years with the exception of 2000.

¹ PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. Performance quoted is that of the Large Cap Value Non Wrap Composite net of fees. Investment returns for the composite and the S&P 500 include the reinvestment of dividends and/or interest income. Inception is April 1, 2000. Prior to June 2004, the composite represents performance generated by the portfolio management team at a prior firm and includes wrap accounts. See important performance presentation disclosures on page 4.

“OVER THE LONG-TERM, OUR GOAL IS TO DELIVER HIGHER ABSOLUTE AVERAGE ANNUAL RETURNS, BUT WE ARE UNLIKELY TO GENERATE RELATIVE OUTPERFORMANCE TO THE DEGREE WE HAVE OVER THE LAST SEVEN YEARS.”



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An Unusually Good Year

Not only were 2006 returns well above long-term average levels for stock markets, but 2006 marked no less than the fourth straight year of stock gains. Stocks, as measured by the S&P 500 and including the reinvestment of dividends, have returned nearly 75% since the end of 2002, the last year of the severe bear market. Given our investment discipline, it is somewhat unusual that Bristlecone's large cap value portfolios have slightly exceeded the broad market during this extended ascent. More typically, we anticipate our price-conscious, conservative approach to shine during periods of turbulence but struggle keeping up with the S&P 500 during strong bull markets.

As you might expect, rising share prices brought many of our portfolio holdings closer to our estimates of their intrinsic values and, consequently (and consistent with our discipline), sales outnumbered purchases during the quarter. We trimmed our holdings in Merck, DirecTV, AT&T, and McDonalds—and sold entirely our position in Merrill Lynch—during the quarter.

Despite the broad market advance, there were a few stocks that declined, allowing us to add to or establish new positions at what we think are attractive prices. Apollo Group, which we initially purchased last January, was our worst performer for the year and in the fourth quarter. We believe the market is overestimating the company's current woes and took advantage of the lower price to increase your portfolio's investment. We also initiated positions in Sallie Mae, the leading student lender, and Legg Mason, an asset management company.

It is customary at this time of year for money managers to offer stock market forecasts. Those of you who know us well will know that we don't find much use in our own work for such predictions, resting our decisions instead on our assessments of how individual companies' stock prices compare to our estimate of their worth. On that more pertinent score, while we are not finding as many attractive new ideas as we were a year ago, as the fourth quarter attests, we are still able to find enough undervalued securities to keep the portfolio nearly fully invested.

Putting News in Perspective

Despite many years now of attempted behavioral engineering, we still receive the occasional excited phone call from investors wondering what impact the latest headline has on our investment decisions. An abbreviated example might be: "I just read that AMD released a chip that's 15% faster than Intel's. Why aren't you selling Intel?"

Whether it's the ubiquity of financial news channels or the rising prominence of the internet as a news source, a stark difference in investing today compared to even ten years ago is the easy accessibility of massive streams of information. This, combined with regulatory changes that require companies to broadly disclose all material public information (i.e., no more special insights narrowly disclosed to select analysts), has made it so that access to information is no longer much of (if at all) a competitive advantage for professional investors.

In the place of raw knowledge stands insight as the critical link to better investment decisions. Marty Whitman, famed manager of the Third Avenue Value Fund, put it nicely: "the fund doesn't have superior information; 'the trick' is to use publicly available information in a superior manner." The key task for investors has shifted away from "How do I learn what or how this company is doing?" to "How do I sift through the mass

of available information to decide what is important?" Being able to quickly dismiss the 99% of data that doesn't, or shouldn't, inform our investment decision is a key skill.

Just as the 15th-century development of linear perspective based on geometry allowed visual artists of the Renaissance to coherently depict objects in space on a two-dimensional plane, an intellectual framework developed over the years helps us place pieces of information in their proper size and context. Sharing some of the characteristics of this framework goes a long way to helping you understand how we use information to make investment decisions.

Foremost, it is critical to understand that we see ourselves as long-term owners of businesses, not traders of stock certificates. Most news generated on a day-to-day basis is informative more to short-term speculators than long-term investors. Before we become owners, we will have identified the core reasons we want to own the business. These always include: 1) whether the competitive environment in which the business operates is attractive; 2) whether management can operate the business effectively and allocate excess capital intelligently; and 3) whether the market offers us the ability to purchase the shares at a significant discount to what we think they are worth.



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We evaluate new information through the filter of these core questions about the company, asking ourselves whether the new information better informs us about the long-term value of the business.

Another truth we hold dear when evaluating new information is to weigh heavily actual results rather than descriptions of results. This especially holds true in evaluating management. Many portfolio managers place an emphasis in their investment decision making process on kicking the tires and meeting with management. This can be useful, and the best managers will be candid in their self-assessments, but many facts of modern American corporate life provide heavy disincentives for candor. We've learned it's far more useful, and objective, to judge managers by their results rather than what they say.

It is important to understand that headline risk is inherent to Bristlecone's investment process. Because we are looking for undervalued companies, it is not just coincidental that we frequently are investing in companies that are in the headlines for the wrong reasons. Whether the CEO has behaved badly or the business hasn't met Wall Street's expectations, it is frequently those headlines and the subsequent market reaction that give long-term oriented investors the opportunity to buy fundamentally good businesses at a discount. The trick is deciphering which news impacts the long-term value of the business and what is merely transitory. Rationally accounting for new information in our business evaluations has been, and will continue to be, a key to our long-term investment success.

An Exciting New Initiative to Benefit Philanthropic Organizations

As our third anniversary as an independent company approaches, we at Bristlecone have put much thought into how we could best deploy our unique resources to benefit those less fortunate. While we each have our individual priorities in giving, we sought a way to leverage our firm's time and expertise to make a broader positive impact on our communities.

To that end, the partners and employees of Bristlecone are genuinely excited about a pricing initiative benefiting foundations, endowments and other charitable organizations wherein we will waive our management fee for the first \$1 million in assets and offer a 25% discount off our normal fee schedule for amounts above \$1 million. To ensure our ability to help as many organizations as possible, we are also lowering our minimum account size to \$1 million for eligible entities. As a result, participating philanthropic organizations will save an extra \$10,000 or more to go toward funding valuable programs or always stretched operating budgets.

We believe our investment process—one that has produced returns that have exceeded the broad market over the course of our track record with less downside—is particularly well suited to the investment needs of foundations and endowments and we hope to make serving these organizations an important aspect of our business as we grow. We hope this initiative will help

numerous worthy organizations achieve their goals and at the same time increase awareness of our services among these institutional clients, their consultants and advisors. If you are involved in, or know of, an organization that might benefit from this initiative, please let us know. This is an idea whose success will be especially meaningful to all of us.

As we start 2007, we want to thank our colleagues at Bristlecone. From administration, client services and investment research, each of them is instrumental in helping us earn your trust year after year. They all join us in wishing you and your families a healthy and happy New Year.

Sincerely,

Your Portfolio Management Team

PS: We have included with your quarterly statements a tally of transactions, fees, and realized gains and losses for 2006. This information may be useful in preparing your tax returns. Please consult with your tax advisor if you have any questions.

CAUTIONARY STATEMENT

One of Bristlecone Value Partners' principles is to communicate frequently, openly and honestly. We believe that our clients benefit from understanding our investment philosophy and process. Our views and opinions regarding the investment prospects of the portfolio are "forward looking statements," which may or may not be accurate over the long term. While we believe we have a reasonable basis for our appraisals, and we have confidence in our opinions, actual results may differ materially from those we anticipate. Information provided in this report should not be considered as a recommendation to purchase or sell any particular security. You can identify forward looking statements by words like "believe," "expect," "anticipate," or similar expressions when discussing prospects for particular portfolio holdings. We cannot assure future results and achievements. You should not place undue reliance on forward looking statements, which speak only as of the date of this report. We disclaim any obligation to update or alter any forward looking statements, whether as a result of new information, future events, or otherwise. Our comments are intended to reflect trading activity in a mature, unrestricted portfolio and might not be representative of actual activity in all portfolios. Portfolio holdings are subject to change without notice. Current and future performance may be lower or higher than the performance quoted in this report.

Additional Performance Presentation Disclosures

DESCRIPTION OF COMPOSITE

The Large Cap Value Non-Wrap Composite was created June 1, 2004. It includes all actual, fee-paying, discretionary Large Capitalization Value investing style non-wrap accounts advised or sub-advised by Bristlecone Value Partners for each investment period from June 1st, 2004, including those accounts that are no longer managed. Prior to June 2004, the composite represents the performance of Oppenheimer Investment Advisers' (OIA) Large Cap Value composite, which includes both wrap and non-wrap accounts. The composite is dollar-weighted and presented both gross and net of transaction costs and actual advisory fees charged to clients (see fee schedule). Quarterly performance for each account is calculated using geometrically linked, time weighted, total returns and includes the reinvestment of dividends and/or interest income. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. This presentation conforms to GIPS® guidelines regarding the portability of investment results.

	2005	2004	2003	2002	2001	2000
Composite Dispersion	0.6%	0.5%	0.8%	1.2%	0.7%	N/A
Number of portfolios	87	89	689	659	784	804
Composite Assets (\$ million)	\$42	\$54	\$278	\$236	\$333	\$315
Firm Assets (\$ million)	\$525	\$654				
% of Firm Assets	8%	8%				

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS:

There can be no guarantee that any of the composites will continue to deliver the same investment performance. Equity markets are volatile, and investors may suffer losses. Nor can there be any assurance that an investor will earn a profit. Investment returns and principal value will vary so that, upon termination, the value of an investment with Bristlecone Value Partners may be worth more or less than when initiated. Because the portfolios are typically concentrated in fewer than 40 holdings, the performance of each holding will have a greater impact on the portfolios' total return, and may make returns more or less volatile than an index.

IMPORTANT PERFORMANCE PRESENTATION DISCLOSURES:

Bristlecone Value Partners, LLC ("Bristlecone") was founded on June 1, 2004. The portfolio managers, analyst, and trader at Bristlecone were formerly the Large Cap Value portfolio management team at Oppenheimer Investment Advisers (OIA). Bristlecone's investment discipline is substantially similar to that of OIA's Large Cap Value Composite from the 2nd quarter of 2000 through May 2004 and Bristlecone believes it is a fair representation of the investment performance achieved by Bristlecone's current portfolio management team. Complete additional information on OIA's Large Cap Value Composite is available upon request. This presentation conforms to GIPS® guidelines regarding the portability of investment results.

Bristlecone Value Partners, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Bristlecone Value Partners, LLC is a registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of at least 25% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite the next full month after the withdrawal is made or the deposit is fully invested. Additional information regarding the treatment of significant cash flows is available upon request.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net of fee performance was calculated using actual management fees. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding policies for calculating and reporting returns is available upon request. Prior to May 31, 2004, the composite includes both wrap and non-wrap accounts. Through June 1, 2004, gross performance for wrap accounts did not reflect the deduction of transaction costs, while net performance reflects the deduction of all actual wrap sponsor fees incurred.

The management fee schedule begins at 1% for assets up to \$2.5 million, 0.85% for the next \$2.5 million, 0.70% for the next \$5 million, 0.60% for the next \$40 million, and 0.40% for assets above \$50 million. Actual investment advisory fees incurred by clients may vary. The Large Cap Value Non-Wrap Composite was created June 1, 2004. A third-party verification as set forth by the GIPS standards has been conducted by Ashland Partners & Company LLP from June 1, 2004 through September 30, 2006.

