1ST QUARTER COMMENTARY

Los Angeles - March 31, 2007

Dear Fellow Investor:

As a registered investment adviser under the Investment Advisers Act of 1940, Bristlecone is required once a year to make available to clients upon request a copy of our Form ADV Part II. This form discloses important information about our firm, such as services, business practices, and potential conflicts of interest. It is available for download at www.bristlecone-vp.com, but we'll be happy to mail you a copy free of charge if you don't have access to the internet (please send a request to: Client Services, Bristlecone Value Partners, 10880 Wilshire Blvd., Suite 880, Los Angeles, CA 90024). We are also required to regularly communicate our Privacy Policy along with summaries of our Proxy Voting Policy and Disaster Recovery Plan. You will find them following this letter. We also like to remind our investors that the portfolio's investment objective is to provide *long-term* capital appreciation. Therefore, it is important to let us, or your financial advisor, know of any material change in financial circumstances, investment objective, and special instructions or limits that might affect the manner in which Bristlecone makes investment decisions on your behalf (examples of such special restrictions would be any social, legal, moral or tax constraints that you may have).

US stock markets started off 2007 in a very volatile fashion. After climbing steadily almost through the end of February, the S&P 500 tumbled about 6% in a few days before recovering later in March and ending the quarter up about 1.1%. There was more than one culprit for this renewed anxiety among investors. Along with some comments from former Federal Reserve chairman Alan Greenspan raising the possibility of a recession were concerns about increased losses in subprime mortgages (more on this below). Later in the quarter, a sharp increase in oil prices following renewed tension in the Middle East rekindled fears of an economic downturn in the US. Net of fees, and based on preliminary estimates, the average Bristlecone Large Cap Value account underperformed the S&P 500 during the quarter returning approximately –0.1%[1].

More relevant to long-term investors, the average Bristlecone Large Cap Value account increased by over 37% (6.6% annualized) net of fees over the last five years. This is slightly better than the 35% cumulative return (about 6.3% annualized) for the S&P 500. Since April 1, 2000, the inception of Bristlecone's investment returns, our portfolios have increased on average by 51% (about 6.1% annualized) versus a cumulative return over 6% for the S&P 500 index during the same period (less than 1% annualized) .

The stocks that made the biggest positive contribution to the quarter's performance were Apollo, Kroger—on increasing speculation that the company might be candidate for a leveraged buy-out—and Molson Coors. The companies that penalized returns the most were Dell, Washington Mutual and SLM Corp. The shares of the latter retreated following an investigation from the New York state attorney general into financial relationships between colleges and student loan lenders.

We also wanted to comment briefly on our sale of McDonald's. The original investment for most of our clients was

Quarterly Activity:

- **New Investments:** Countrywide Financial (CFC) & Progressive Corp. (PGR)
- **Increases in Existing Investments:** Washington Mutual (WM)
- **Reductions in Existing Investments:** General Dynamics (GD)
- **Investments Sold:** AT&T (T) & McDonald's (MCD)

"(...) AS WE'VE DISCUSSED IN THE PAST WHEN TAKING SIMILAR CONTRARIAN POSITIONS, WE ANTICIPATE THE UPSIDE TO BE SEVERAL YEARS OFF—TOO LONG FOR MOST INVESTORS WHO ARE DUMPING THE SHARES TODAY."

[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.

made almost 10 years ago while your portfolio management team was employed by Oppenheimer. The stock at the time was suffering from two main issues, one within management control—lackluster sales in the US—and one out of their control—the impact of mad-cow disease in Europe on beef sales. Our thesis was that the company had a strong balance sheet, remained the most efficient operator in the industry, and that the food scare would not impact the value of the brand over the long-term. New management was brought in and successfully refocused its attention on execution, service and food quality. It also restored strained relationships with franchisees. Almost 10 years later, the company is once again leading the industry in innovation and same store sales growth and we are thankful to the company's management for the value that they created for their shareholders. So why are we selling? We feel that the company's improved fortunes are already reflected in the current stock price. In other words, it is time to reallocate your capital and ours into a new undervalued investment.

Home, Sweet Home?

In order to give you a broader perspective on two investments that we made on your behalf this quarter, we thought it would be useful to comment on recent headline news on the residential housing market and subprime mortgage losses. If the media do one thing well, it is reporting crises. But what they do not do as well is provide context. The term "subprime" characterizes loans made to people with lower credit worthiness. Although the underlying details can be complicated, such home buyers typically do not qualify for traditional 15- or 30-year fixed-rate mortgages and frequently borrow at variable rates using different types of so-called Adjustable Rate Mortgages (ARMs).

Not all variable rate loans are subprime and few of these types of mortgages are completely new. Subprime loans, however, reached a greater proportion of homebuyers this time around because the 2001 to 2005 increase in home values priced an increasing number of households out of the market, especially here in California. As is usually the case during such boom times, some financial institutions were more than happy to accept more credit risk and offer mortgage products that made loan payments more affordable—at least for a while thanks to low introductory teaser rates—to an increasing number of people. These loans were in turn sold to investors, mostly institutional, hungry for the juicy yields that they provided.

Following the succession of interest rate hikes engineered by the Federal Reserve over the last couple of years, rates on ARMs have started to rise, making payments unaffordable to more and more borrowers and leading to greater losses for financial institutions and investors who own such loans. Some mortgage lenders have had to close doors as they can no longer sell the loans they originate and get the funding they need to underwrite more. Others are being investigated by state and federal regulators for abusive lending practices. In response, the market has severely punished the stocks of companies associated not only with mortgage lending but also with residential housing including home builders and home retailers.

We felt that in some cases the market reaction was too negative, and we took advantage of it to increase your portfolio's holdings in Washington Mutual as well as initiate a new investment in Countrywide Financial, the leading mortgage company in the US. Our decision to selectively commit capital was based on the following assessment:

- Low underwriting standards that brought on these problems have already been corrected;
- As we write these comments, surprises in delinquencies seem to be contained to certain types of loans issued during a relatively short period. There is no evidence yet that a similar problem, a rise in delinquencies that occurs faster than in previous cycles, will spread to older home loans, to better credits or even to other consumer loans[2];
- As marginal lenders disappear, remaining players will come out stronger and more dominant than before.

This being said, we do not expect a smooth ride over the next few months. This is because investors who traditionally buy mortgages in the secondary market from lenders are currently demanding lower prices. These mark-downs will flow through lenders' earnings over the next quarter or two, whether they decide to keep the loans on their books or bite the bullet and sell them.

As far as our investments in Countrywide and Washington Mutual were concerned, though, we felt that valuations already discounted more than our estimate of the most likely impact. We also anticipate that bigger financial institutions might take advantage of the current depressed situation, as some of these lenders represent valuable distribution franchises. Finally, as we've discussed in the past when taking similar contrarian positions, we anticipate the upside to be several years off—too long for most investors who are dumping the shares today.

[2] For instance, in its 4th quarter survey, the American Bankers Association reported that late payments on property improvements and mobile homes loans *fell* from the 3rd quarter. Surprisingly, the rate of credit card delinquencies also edged down. Typically, delinquencies increase in credit cards lead as consumer would rather miss payments on those first in order to keep their homes or cars.

After-Tax versus Pre-Tax Returns: Are All Returns Created Equal?

Among the things that we never forget is that most of our fellow investors pay taxes on realized gains. Nonetheless, some of our loyal clients recently expressed surprise at the size of gains that we realized last year. Although we don't want the tax tail to wag the investment dog when we consider selling a position, we are keenly aware that not all returns are created equal.

Over time, realized gains are a function of two factors, embedded *unrealized* gains and portfolio turnover. As we discussed in our 2006 4th quarter commentary, from October 2002 through the end of 2006, the market (as measured by the S&P 500) has returned more than 75% and the average account under our management has grown slightly in excess of that. Consequently, a number of holdings have seen their value increase significantly over the price that we purchased them. Unrealized capital gains currently represent a significant portion of the overall value of most of our long-standing investors' portfolios. We also no longer find as many opportunities to offset gains with losses since the bull market tide did not leave many boats behind over the last 3 years. Therefore, when we sell an investment these days, it is very likely that it will generate a gain, in some cases a significant one. Also remember that if you contributed appreciated stocks to your account in the past, or if you make regular withdrawals, your tax liability could be even greater than our average client.

The second factor influencing realized gains in any given year is how frequently we trade. Historically, our annual turnover has fluctuated within a range of 10% to 30%. The significance of that number is that—taking the midpoint —we hold an investment for an *average* of about 5 years before selling it. In doing so, we keep Uncle Sam waiting for a while and you accrue the benefits of what is essentially an interest-free loan from the IRS. By contrast, and to give you some measure of comparison, the average equity mutual fund turnover last year was over 100%, meaning that the average stock was held for just under a year. Due to large differences in tax rates for most investors between short-term (securities held less than a year) and long-term realized gains, high turnover can have a dramatic negative impact on after-tax returns that taxable investors get to keep.

We are also confident that our core investing principles should help over time to minimize the tax impact on the pretax returns that you see on your statements:

- We invest in companies with a minimum 3 to 5 year horizon, thereby deferring taxes for a similar length of time;
- Unless an investment becomes fully valued within a year of purchasing it (a relatively rare occurrence), we will typically avoid realizing short-term capital gains;
- When appropriate, we will realize losses in your portfolio and offset gains in order to further reduce our investors' potential tax liability.

Finally, it is important to remember that realized gains will fluctuate dramatically over time, through bull and bear markets. As Benjamin Graham noted "In the short term the market is a voting machine; in the long term it is a weighing machine." We typically initiate our investments during periods of negative investor sentiment, when the shares trade at a significant discount to our estimate of intrinsic value. More often than not, the true worth of these businesses will eventually weigh out over short-term negative sentiment. When this occurs, our investment discipline requires that we reduce or eliminate our investment in these fully-valued stocks in order to control downside risk and protect our principal. Limiting realized gains is a worthy goal, but it is only one of several variables that we must consider in our effort to maximize long term returns for taxable clients.

On a different note, Howard Deshong, who was our colleague for more than six years, decided to leave Bristlecone in March to pursue other opportunities. We enjoyed working with him very much, and we wish him good luck in his new endeavor. Josh Graybill, who passed level I of the Chartered Financial Analyst examination last year, was promoted to analyst. We plan on hiring one more analyst as well as a portfolio administrator to fill Josh's position in the coming months.

We take this opportunity to thank you again for the trust you show in us. We always welcome your referrals, comments, or questions (call 877-806-4141or email us at clientservices@bristlecone-vp.com).

Sincerely,

Your Portfolio Management Team.

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 Global Investment Performance Standards (GIPS®) guidelines regarding the portability of investment results.

	2006	2005	2004	2003	2002	2001	2000
Composite Dispersion	0.7%	0.6%	0.5%	0.8%	1.2%	0.7%	N/A
Number of portfolios	98	87	89	689	659	784	804
Composite Assets ($ million)	$52	$42	$54	$278	$236	$333	$315
Firm Assets ($ million)	$568	$525	$654				
% of Firm Assets	9%	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 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.