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1st Quarter Commentary

Los Angeles - March 31, 2008

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:

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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).

The credit crisis that hit financial markets in 2007 carried over to the 1st quarter of 2008. Financial stocks continued their struggle due to persistent deteriorating credit and liquidity conditions. The Federal Reserve aggressively reduced short-term interest rates by 2% to 2 ¼% and, in late March, regulators supported the purchase of investment bank Bear Stearns by JP Morgan at what appeared to be a very depressed valuation in an effort to avoid further stress on the banking sector. The portfolio's absolute and relative performance was once again disappointing. Net of fees, the average Large Cap Value account fell more than 12% during the quarter, underperforming the S&P 500, which declined by about 9.5%. Based on preliminary estimates for the 1st quarter, the numbers below show the long-term and recent cumulative and average annual returns:

Large Cap Value Composite Returns Through March 31, 2008[1]

	Since Inception	7 Year	5 Year	1 Year
Cumulative	21.3%	11.0%	50.4%	-19.7%
S&P 500	0.9%	29.0%	70.8%	-5.1%
Annualized	2.4%	1.5%	8.5%	-19.7%
S&P 500	0.1%	3.7%	11.3%	-5.1%

[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. A list and description of all firm's composites is available upon request.

Quarterly Activity:

- **New Investments:**
  Harley Davidson (HOG), Novartis (NVS), & Wells Fargo (WFC)
- **Increases in Existing Investments:**
  American International Group (AIG), Motorola (MOT), & Sprint Nextel (S)
- **Reductions in Existing Investments:**
  Emerson Electric (EMR), DirecTV (DTV), & General Dynamics (GD)
- **Investments Sold:**
  Countrywide (CFC), Keycorp (KEY), & Washington Mutual (WM)

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Volatility in stock prices also carried over from the end of last year. As we've mentioned in the past, volatility is the friend of the long-term investor and we stepped up our activity to take advantage of it. We reduced our investments in Emerson Electric, General Dynamics, and DirecTV as their stocks approached our estimate of their intrinsic value. We also sold shares in 3 lending institutions, Keycorp, Countrywide Financial, and Washington Mutual. We reallocated the proceeds into existing or new investments trading at similar or greater discounts, including two regional banks, Wachovia and Wells Fargo, with better underwriting standards. In doing so, we believe we maintained the portfolio's future return potential, while decreasing credit risk.

Why Not Stay Away from Financials Altogether?

At the risk of repeating ourselves, we continue to find valuations extremely attractive in this sector, in some cases, at 20-year lows. Financial companies also fit the type of business in which we like to invest. Although energy, gold and other commodities have been rewarding investments for the last couple of years, you should not expect us to be significant investors in these areas. We believe that, over the long run, technological improvements will continue to make world economies more efficient and that commodity prices will continue to decrease—after adjusting for inflation—over long periods of time, as they have throughout history. Consequently, to profit in these areas, an investor needs to successfully time the bull leg of the cycles within a long-term deflationary trend. We do not feel we can do that consistently. Last, commodity businesses involve depleting assets that need to be continuously replaced at great cost.

We believe that investments in companies with intangible assets (such as brands, patents, or intellectual capital) will continue to outperform those with physical assets over the long term. Such companies tend to have greater pricing power, are harder to compete against and require less capital to grow their business. Importantly, we also find them easier to value. Consequently, expect financial intermediaries, services and consumer-oriented companies to continue to represent the preponderance of the portfolio's investments.

How Did Our Investments Fare?

The 3 biggest positive contributors to performance were Wal-Mart, DirecTV and Home Depot. DirecTV saw the completion of the transfer of ownership between News Corp and Liberty Media. Wal-Mart and Home Depot beat very low expectations for sales at their stores. On the negative side, of the 30 stocks in the portfolio that retreated during the quarter, Sprint Nextel, Motorola, and Dell had the largest impact. The first two are in the middle of a turnaround to restore profitability and growth. We continue to expect the issues to be fixable and find valuation compelling at both companies. New management teams are in place and we will keep monitoring their decisions. As we write this letter, despite lowering our appraisal of Sprint's intrinsic value, the stock recently traded at a significant enough discount to warrant adding further to our investment. Finally, we initiated three new positions in Wells Fargo, Novartis, and Harley Davidson. We feel that Novartis—a Swiss pharmaceutical company—is somewhat misunderstood by the market. It has strong franchises in generic drugs and vaccines with very attractive economic characteristics. We also liked the pristine balance sheet, the diversified drug portfolio and pipeline, as well as management's track record. Harley Davidson is an American icon, a testament to the value of the brand. What few people know is that it is also a very profitable company with a clean balance sheet and attractive growth opportunities overseas. The fear currently is that demand for motorcycles will drop domestically. This is a concern that we share but that we feel is already discounted by the market.

During the 1st quarter, we liquidated 2 investments that resulted in a permanent loss of capital, Countrywide (CFC) and Washington mutual (WM). We frequently distinguish between losses based on market prices, or unrealized—which do not concern us, and losses from selling an investment for below what we paid —an outcome whose frequency and severity we try hard to minimize over time. CFC and WM represent the latter, an unsatisfactory result and a big reason for the portfolio's recent underperformance.

You've all read by now what happened to the housing market and the consequences on mortgages and the banks that hold them. When such disruptions happen, they create both opportunities and threats. In the case of banks, every time the credit cycle turns and loan losses start mounting, investors with a short-term horizon sell without any regard to valuations. Our approach is to quantify the impact first. We analyze the composition of the loan portfolio, project losses based on historical data and estimate what the bank will earn after accounting for them, not only during the down leg of the cycle but also on a normalized basis. The key to finding investment opportunities is to make sure that a lending institution has the balance sheet to survive the down leg of the cycle (stress test). Ideally, you also want a management team that has experience in dealing with recessions.

We already discussed Countrywide in our 4th quarter letter. We sold Washington Mutual shares because,

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following the release of their financial statements, we lost confidence in our ability to use historical data to project future losses in their loan portfolio. The company disclosed for the first time a piece of crucial information (which we had earlier requested) that led us to believe that loan losses would be much worse than at other banks, but also worse than we had projected. Our conclusion was that in all likelihood, WM needed to raise more capital, resulting in a significant impairment of our appraisal of the company's value[2] and raising the possibility that it might not survive as an independent entity. We also lost our confidence in the company's management team and board. We felt that recent compensation arrangements were very self serving and did not align management's interests with shareholders.

In both cases (CFC and WM), we misjudged how far these institutions' loan underwriting standards had deteriorated, and even if we originally made allowance for higher charge-offs in our models, we under estimated the impact on capital and investors' confidence. We finally made the decision to sell because we felt that over the next 3-5 years, even if these companies survive as independent entities, they will underperform the rest of the portfolio. Although some of you were probably relieved, we won't know whether we made the right decision for awhile.

On Keeping Our Heads Cool While Others Are Losing Theirs...

While we understand that we'll achieve better results by remaining rational, it is easier said than done. When you buy a cheap stock and it gets even cheaper, it is not unusual to start questioning yourself. Is it possible that the market is that irrational? Are you missing something in your analysis? We benefit from using a roadmap—value investing—that ensures a fundamental, long term approach to investing, a disciplined pursuit of bargains, and a framework that views the market as "serving us not instructing us" to paraphrase Benjamin Graham.

To help us act rationally, we use some techniques: 1) We are disciplined in our purchase and sale decisions. We only commit capital when a new idea passes a check list of conditions, the most important of which is a minimum price-to-value discount of 30%. We are also disciplined in reducing first then selling our investments as they approach and reach full valuation; 2) We avoid companies that might not be in a situation to survive during hard economic times by checking the quality of the balance sheet; and finally 3) We keep a diversified portfolio, and although we like adding to our investments as the price goes down (presumably, the stock is a greater bargain), we limit the amount of capital that we will invest in one single company. This is to avoid the psychological pressure that comes from experiencing losses in one single large investment, which can in turn lead to poor investment decisions.

Though we always discourage investing with a short-term time horizon, recent numerous examples of stocks that have rapidly collapsed in value illustrate how it is even more important today to commit capital that can remain invested for 5 years at least and preferably longer. The financial media continues to paint a very dark picture of the economy and financial markets in general. But despite all the gloom and doom, we remain confident in our belief that the current period will constitute a great buying opportunity for long-term investors. When appropriate within the context of your financial circumstances, we encourage you to consider adding to your portfolio. Although there is no guarantee that things can't get worse in the short-term, we continue to find the portfolio's investments to be very attractively valued.

Thank you for your trust in Bristlecone Value Partners' investment philosophy. We always welcome your referrals, comments or questions (call 877.806.4141 or email us at: clientservices@bristlecone-vp.com).

Sincerely,

Jean-Luc Nouzille
Portfolio Manager

David Fleer
Portfolio Manager

[2]As we were writing this letter, Washington Mutual rejected a takeover offer from JP Morgan and announced that it would raise an additional $7 billion in capital as it faces mounting loan losses, which will result in diluting the interest of existing shareholders by about 50%.

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CAUTIONARY STATEMENT

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