TRENT CAPITAL MANAGEMENT, INC.

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THE WALL STREET TRANSCRIPT

Money Manager Interview: David M. Labiak, CFA - Sr. Portfolio Manager
Trent Capital Management, Inc.

LARGE CAP BLEND INVESTMENT

MONEY MANAGER INTERVIEW

Large Cap Blend Investment

DAVID M. LABIAK, TRENT CAPITAL MANAGEMENT, INC.

DAVID M. LABIAK is Senior Portfolio Manager and Chief Compliance Officer of Trent Capital Management, Inc. Prior to joining Trent Capital, he was employed by Belk Stores Services. He obtained his Chartered Financial Analyst designation in 2000. Mr. Labiak received a BS in Accounting from the University of North Carolina at Charlotte and an MBA from Appalachian State University.

SECTOR – GENERAL INVESTING

(ZDW501) TWST: Would you start with an overview of Trent Capital Management and what you do there?

Mr. Labiak: Trent Capital Management is a Registered Investment Adviser with about $200 million in assets under management. Of that amount, $125 million is in individually managed accounts, where we design and build custom portfolios for individuals, corporations, foundations and trusts — just about any type of entity. We also have about $75 million in qualified retirement plans, where we offer superior performing mutual funds to qualified retirement plans such as 401(k)s or defined benefit plans. We have two offices, one in Greensboro, North Carolina and one in Lexington, Kentucky.

TWST: What are your responsibilities there?

Mr. Labiak: I have several responsibilities at Trent Capital. I am, first and foremost, Senior Portfolio Manager, assisting our Chief Investment Officer with research and stock selection. I am also the firm's Chief Financial Officer and Chief Compliance Officer.

TWST: What is the investment philosophy at Trent?

Mr. Labiak: We follow a conservative path, which focuses on preservation of capital. We try to think more like business owners than stock pickers. We look for companies that we understand, that have high return on assets, generate strong cash flows and are dominant in their industry. We also consider qualitative measures such as strong franchise characteristics — for example, a strong brand name, barriers to entry and dominant market share.

We don't like to be pigeonholed into investing in one single asset class but more often than not, our overall investment philosophy leads us to large cap companies. We are not concerned with short-term market fluctuations; we concentrate on how well the company is going to do three to five years down the road and beyond.

TWST: How many holdings would you have in a typical portfolio?

Mr. Labiak: In our equity-based portfolios, we now have 17 holdings. We do keep a very concentrated portfolio — it's rare for our holdings to exceed 20 or 21 stocks. It does fluctuate slightly, but it's very rare that you would ever see more than 20 holdings. Since we stay fully invested, we feel that we are more disciplined on the sell side by keeping a limited number of holdings. In order to buy something new, we want to be 100% sure that the company that we are buying will generate a return greater than the one we are selling.

We also have about $29 million in our growth and income composite, which is comprised of the same 17 growth stocks, as well as about 15 additional stocks that are built for income; four or five pipelines, four or five REITs, and four or five high-yield common stocks. It depends on the client's age, risk tolerance and income needs as to whether they would be all equity or whether they would be a growth and income type portfolio.

TWST: Is it a strictly bottom-up approach to selecting stocks or do you look for sectors?

Mr. Labiak: We definitely follow a bottom-up approach to selecting stocks and bonds on an individual basis. While we don't completely ignore the macroeconomic picture, we typically do not include economic forecasting in our investment analysis. First, we think it's difficult to predict economic trends from quarter to quarter, so we try to buy companies with-

Highlights

David M. Labiak looks for companies that he understands and he thinks like a business owner rather than as a stock picker. He identifies businesses that have high return on assets, generate strong cash flows and are dominant in their industry. He also likes to see strong franchise characteristics like a strong brand name, barriers to entry and dominant market share. He keeps a concentrated portfolio, with 17 stocks at the present time. His growth and income portfolio is comprised of the same 17 stocks with an additional 15 stocks that are built for income, four or five pipelines, some REITs and some high-yield stocks.

Companies include: Nokia (NOK); Harley-Davidson (HOG); PepsiCo (PEP); Omnicom Group (OMC); Caterpillar (CAT); 3M (MMM); Procter & Gamble (PG); Estee Lauder (EL).

out regard to where the economy is going in the short term. In other words, we believe that the long-term intrinsic value of, say, **Johnson & Johnson** is completely independent of whether the Fed decides to raise or lower interest rates next month or whether April consumer confidence comes in lower than analysts expected.

That's not to say that our method is right and that a manager who takes the top-down approach is wrong. Obviously, there are many successful managers from many different philosophical schools of thought. However, the bottom-up approach is our area of expertise and has served us very well over the last 20 years.

TWST: What is the benchmark against which you measure the performance of your equity stocks?

Mr. Labiak: Since we are somewhat of a large cap blend manager, we use the S&P 500. Our portfolios that have fixed income and bonds would be measured against a blend of the S&P 500 and the Lehman Brothers Bond Index.

"We like Harley-Davidson. We bought this one in the summer of 2004 at $48 a share. It's got about 50% market share in the US of the heavy-duty motorcycle market. It's growing at a very fast pace in Europe and Japan. In Europe, their sales increased during 2006 by 14.6%, while the overall market expanded by only 7.5%. Harley is one of the stocks where the franchise characteristics are very important."

1-Year Daily Chart of Harley-Davidson

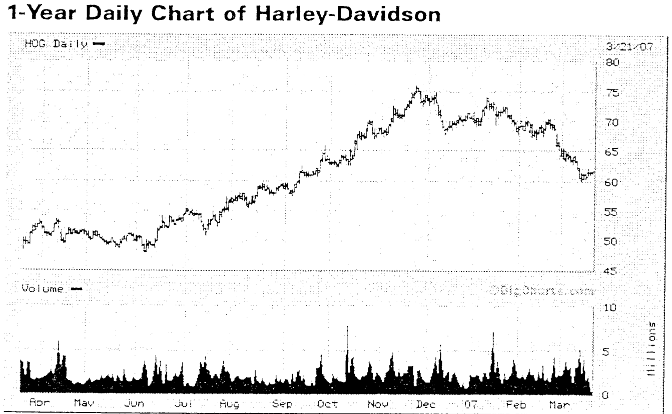

Chart provided by www.BigCharts.com

TWST: What are some of the stocks that you feel are representative of your investment approach at Trent Capital and the reasons why you were attracted to them?

Mr. Labiak: Our top 10 stocks actually account for about 50% of our holdings. A few names from this list would be **Nokia** (NOK), **Harley-Davidson** (HOG), **Pepsi** (PEP) and **Omnicom Group** (OMC). Each of these meet many of the quantitative and qualitative characteristics that we look for. Each of these hits the bull's eye of our investment philosophy and allows us to diversify across several different industry groups.

"At 14 times earnings and 10 times operating cash flow, Nokia is one of the cheapest telecom equipment stocks in our universe, trading well below even its recent historical averages. One out of every three cellular handsets sold worldwide is manufactured by Nokia. While growth in North America is slowing a bit, they have 51% market share in the Middle East and Africa, 44% in Asia Pacific, and 40% in China."

We bought **Nokia** in December 2001 around $17 after it had fallen from about $60 a share during the tech bubble days. We bought quite a bit more in the summer of 2004 when it fell down to $11.50. At 14 times earnings and 10 times operating cash flow, it's one of the cheapest telecom equipment stocks in our universe, trading well below even its recent historical averages. One out of every three cellular handsets sold worldwide is manufactured by **Nokia**. While growth in North America is slowing a bit, they have 51% market share in the Middle East and Africa, 44% in Asia Pacific, and 40% in China, despite the fact that the Chinese government is supporting several homegrown companies.

Another top holding that we like is **Harley-Davidson**. We bought this one in the summer of 2004 at $48 a share. It's got about 50% market share in the US of the heavy-duty motorcycle market. It's growing at a very fast pace in Europe and Japan. In Europe, their sales increased during 2006 by 14.6%, while the overall market expanded by only 7.5%. **Harley** is one of the stocks where the franchise characteristics are very important. It's more than just a motorcycle — it's the feeling of freedom and outlook on life that no one really can duplicate. It embodies the uniqueness that we look for when evaluating the qualitative characteristics of a company.

Pepsi is one of the strongest consumer products companies in our investment universe. Of the top 13 selling individual products sold in grocery stores, seven are made by **Pepsi**. It has a strong pipeline of innovative products, an international division that is growing in excess of 15% a year and a very strong balance sheet. In fact, **Pepsi** has increased their annual dividend for 30 consecutive years. At 17 times next year's earnings, it continues to trade at a reasonable valuation

Finally, **Omnicom** is the second largest advertising company in the world. They serve over 5,000 clients in over 100 countries with 46% of revenues generated internationally. They have an excellent management team, top-tier agency brands and a significantly better organic growth profile when compared to their peer group. We bought **Omnicom** in August 2004 at about $68 a share. The business generates very impressive cash flow, which we think will be returned back to shareholders in the form of share buybacks and a potentially increased dividend.

TWST: What about some stocks that were bought in the last 12 months or so?

Mr. Labiak: Our turnover ratio of just 17% over the last two years suggests that we haven't made a whole lot of trades or changed many of the portfolio positions. We did buy **Caterpillar** (CAT) in November 2006. It was trading at $60 a share, down from $82 just six months prior to that. It's trading at 11 times earnings versus a historical range of 13 to 21 times earnings. We expect them to grow their earnings at 15% over the next five years. Foreign sales account for 52% of their total sales, and we think substantial growth in the overseas markets will more than compensate for any weakness in the US housing market.

Another position we added to during 2006 was **3M** (MMM). It dropped about 13% in a matter of days because they came in with an earnings disappointment. We really like that company long term, so we bought some more of that.

In August 2005, we added a position in **Procter & Gamble** (PG). It had a good valuation, has a strong brand name and a strong balance sheet. It's got a lot of the characteristics we look for in a stock. Those are our most recent purchases in the portfolio.

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1-Year Daily Chart of Caterpillar

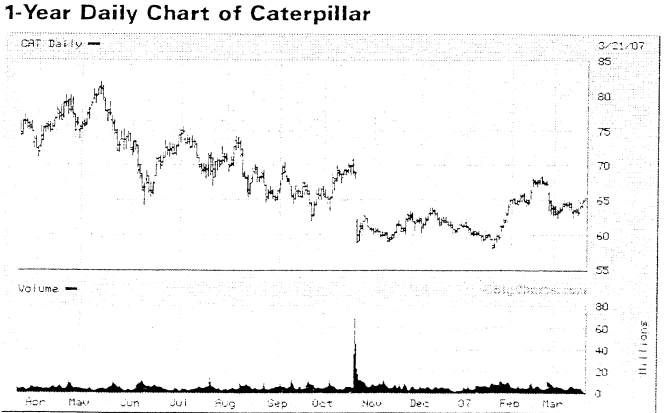

Chart provided by www.BigCharts.com

TWST: In addition to your individually managed accounts, do you still have the Trent Technology Fund?

Mr. Labiak: Yes, we have two limited partnerships, one of which is the Trent Technology Fund. Those are very niche funds in that they are all technology-based with a focus on the telecom sector. They only account for about 2% of our total assets under management but they have performed very well over the last three years.

"Omnicom is the second largest advertising company in the world. They serve over 5,000 clients in over 100 countries with 46% of revenues generated internationally. They have an excellent management team, top-tier agency brands and a significantly better organic growth profile when compared to their peer group."

TWST: You said you've had a low turnover of 17% recently. What is the sell discipline?

Mr. Labiak: We are very disciplined when it comes to our selling process. In fact, there are basically three different situations that would cause us to sell a stock. The first is when we think a company has become overvalued. We don't necessarily use price targets but are constantly evaluating the fundamentals of the stock. If a stock has gone up 40%, but earnings have gone up 35% or 40% over that same time frame, it still may be a good value. On the other hand, if the stock has gone up 40% and the earnings have gone up 15% or 20% over that time frame, we may look at it and say, "This one is getting a little bit ahead of itself. It's fully valued or overvalued," and we'll decide to sell it.

The second situation where we would sell a stock is when we find something that we like better. I mentioned earlier that we stay fully invested so when we do find something that we particularly like, we usually need to find something in the portfolio to sell. If we do find something we like better, we will invest in that. When we bought **Procter & Gamble**, we sold **Colgate-Palmolive** (CL). It's not that we felt **Colgate-Palmolive** was a bad stock, we just liked **Procter & Gamble** better, based on the company fundamentals and the current valuation.

The third situation where we would sell a stock is when we realize we have made a mistake. Despite all the research and all the analysis what we put into it, we do occasionally make a mistake which, I'm sure, has happened to everyone who has ever managed money. If we feel like we have made a mistake in evaluating a stock, we will sell it at that point.

TWST: What about the risk controls that you incorporate into the portfolio and the individual security levels?

Mr. Labiak: That's really a twofold answer. First and foremost, the best way for us to reduce our risk to clients is to work extremely closely to pinpoint each client's individual risk tolerance. We try to meet at least twice a year with every client to go over their account, as well as make sure that we have designed a custom portfolio that meets their goals based on their age, their risk tolerance and their income needs.

We don't feel that there is necessarily a "one size fits all" method to reduce risk for clients. Reducing risk for a 67-year-old retiree probably has a different meaning than reducing risk for a 35-year-old business professional.

As far as specifics go, we don't use a lot of the common "popular press" methods to reduce risk, such as option strategies, hedge funds or selling short. We don't even necessarily subscribe to the belief that high risk and high reward go hand in hand when it comes to selecting individual stocks. We believe that investing in companies with low-risk characteristics brings higher rewards over the long haul. We try to buy companies that we are confident are going to prosper for the next several decades. We never attempt to put our clients in a situation where there is a chance to sustain a permanent loss of capital.

"The vast majority of stocks in the portfolio are definitely taking advantage of the global economic environment. Estee Lauder, for example, has 50% of their sales internationally. Only 6% come from emerging markets. So we think Estee Lauder has fantastic growth opportunities in that area."

TWST: Tell us about your fixed-income side and what strategies you use there.

Mr. Labiak: Fixed income only accounts for about 7% of our assets under management, but is still a critical consideration, especially for accounts whose time frame, income needs and/or risk tolerance necessitate the need for fixed income.

The goal is to generate a competitive rate of return while emphasizing security of principal. We accomplish this goal by accessing the interest rate spreads and tax implications of Treasury, government agency, corporate and municipal issues and analyzing the interest rate spreads between the range of appropriate fixed income securities.

The same fundamental analysis that goes into evaluating stocks goes into evaluating the fixed-income side of our business. We access duration, average life, premium and discount, and zero coupon aspects of securities under consideration and evaluate the quality of the business and financial soundness of the companies issuing fixed income securities.

TWST: You mentioned the tax implications of fixed income. What about for the equity side? How tax efficient are your individually managed accounts?

Mr. Labiak: With a 17% turnover ratio, which has been our average over the last two years, our accounts by default have been fairly tax efficient. We don't go out of our way to make investment decisions based solely on tax implications. If we've held the stock for a long time and we feel like it's overvalued, even if the client has a large gain on that stock, we are still going to sell it.

Our overall philosophy when it comes to taxes is "don't let the tax tail wag the investment dog." We don't ever want taxes to be the overriding consideration in building a portfolio, and with a low turnover ratio like we have, that takes care of the tax efficiency in and of itself. If you are only selling one or two stocks a year like we are, there is not a lot of realized tax liability that gets passed on to clients.

TWST: How is the research conducted in your firm? Where does the information stem from? Is it mostly Wall Street?

Mr. Labiak: While we get a wide variety of Wall Street research, we rely on it very little to make investment decisions. In fact, as contrarian investors, we find that many Wall Street analyst recommendations are on momentum type stocks whose prices are frequently over-inflated.

If there is a stock we feel strongly about one way or the other, many times the analyst reports that we look at more in-depth are those that disagree with our opinion. We feel like it is a good idea to objectively look at "the other side of the coin" to make sure there is nothing we missed in our initial analysis.

We do use some third-party research to get a range of opinions, as well as some financial information, but most of our research is generated in-house. We have many quantitative measures that we like to use when evaluating the stocks, and once that's completed, if a company looks undervalued from a quantitative perspective, we start looking at some of the qualitative characteristics to see if it fits in with our investment philosophy.

TWST: What unique advantages does the portfolio have that would be of interest to prospective investors? What differentiates your investment approach?

Mr. Labiak: Once again, that's probably a twofold answer. Unlike many firms, Trent Capital does not participate in any transaction fees, commissions or selling agreements on any stocks, bonds or mutual funds. We sit on the same side of the table as our clients in all situations, and the only way we increase our revenue is to generate positive returns for our clients.

1-Year Daily Chart of PepsiCo

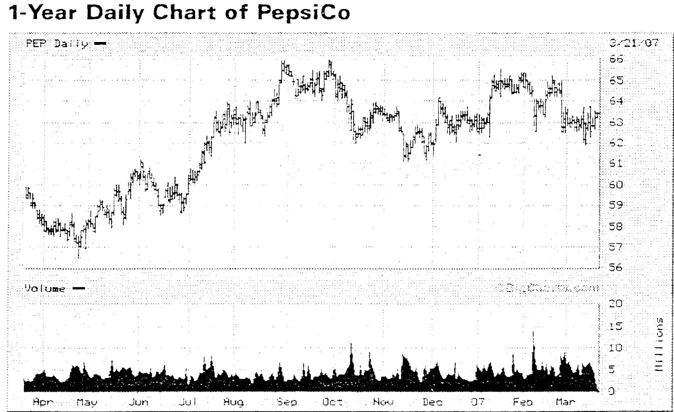

Chart provided by www.BigCharts.com

Second, as I mentioned earlier, we meet with each client about twice a year for a face-to-face review of their accounts. We work closely with each client to define portfolio objectives and to select the appropriate mix of equity and fixed income investments that best fulfill the client's individual risk profile and financial requirements. In addition, as investment objectives change, we emphasize the importance of making timely adjustments. We strive hard to create a comfort level for our clients with regard to how their account is being managed.

Finally, with an average turnover ratio in the range of 15% to 17% versus 89% for the Morningstar universe of funds, our approach is different in that we truly look at the investments as business owners, with a focus on the long-term and the underlying company fundamentals.

TWST: You mentioned Nokia and some multinational companies. Is your portfolio becoming more internationally oriented?

Mr. Labiak: Yes and no. We do hold **Nokia**, which is an ADR. That is technically the only foreign stock we have in the portfolio. However, the vast majority of stocks in the portfolio are definitely taking advantage of the global economic environment. **Estee Lauder** (EL), for example, has 50% of their sales internationally. Only 6% come from emerging markets. So we think **Estee Lauder** has fantastic growth opportunities in that area.

Pepsi is another one of our holdings that derives about 35% of their revenues internationally, and I previously mentioned **Procter & Gamble**. A significant portion of its revenues are international, and **Caterpillar** gets about 52% of their revenues internationally. So while we are not typically buying internationally domiciled companies, we feel like the companies we are buying are certainly taking advantage of the growing global economy.

TWST: What are the key factors in building performance?

Mr. Labiak: First and foremost would be identifying undervalued companies. We're identifying companies whose current value is trading at a price less than what we believe is the intrinsic value. We put a lot of time into quantitative measures to ensure that companies are trading at a discount where they should be. We are contrarian in nature in that we often look for companies whose share price has been beaten down due to short-term, correctable problems. We try to identify those companies and take advantage of the market's shortsightedness. We feel like the stock market in general takes a very short-term view in valuing businesses, and we try to take advantage of that by buying good businesses at prices that are trading below their intrinsic value.

1-Year Daily Chart of Omnicom Group

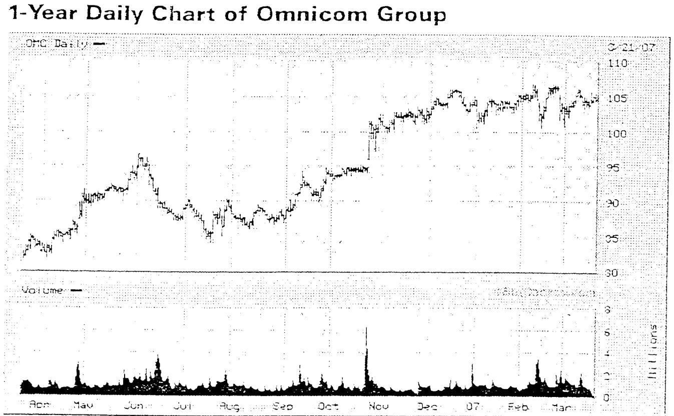

Chart provided by www.BigCharts.com

Second, we try to build positive performance by buying companies that have good qualitative characteristics. I previously mentioned **Harley-Davidson** and **Pepsi**. There are several others in the portfolio that we feel have certain franchise characteristics, strong brand names, pricing power and things of that nature, where they can maintain their growth and they don't necessarily have to depend on diversification and innovation for continued success. We also look for well-understood businesses where we can really get our arms around what they do successfully and how they will continue to be successful in the future.

TWST: What has the performance track record been of your accounts over the last three to five years?

Mr. Labiak: The growth and income portfolios have done exceptionally well. The REITs and pipeline stocks and some of the high-yield stocks have done extremely well. That particular composite is beating the benchmark by quite a bit both short term and long term.

"In August 2005, we added a position in Procter & Gamble. It had a good valuation, has a strong brand name and a strong balance sheet. It's got a lot of the characteristics we look for in a stock."

Our model portfolio — the 17 stocks I talked about earlier — has done well over the long haul, though the last three to five years have been a little bit tough, in that the market has been favoring small caps, mid-caps and energy stocks. The large caps had a great run in the late 1990s and certainly held their own through the tech bubble, but for the last four or five years, the small caps, mid-caps and energy sectors have performed extremely well. History has shown time and time again that these trends do not last forever. With valuations being where they are now with the large cap and the mega-cap stocks, we look for that to turn fairly quickly and our investment philosophy to come back into favor.

Especially with the recent volatility in the market, there is going to be, in our opinion, a flight to quality where people will start looking at a company like **Johnson & Johnson** (JNJ) that's trading at 15 times earnings and say, "That's a very good value. That's where I want to be." **Caterpillar** is trading at 11 times earnings. So we think you'll start to see that trend reverse a bit and you will start to see some money flowing into those large cap names.

TWST: Who are your typical clients? Are they mostly high net worth individuals?

Mr. Labiak: Yes. I mentioned the 401(k) side of our business, but as far as the individual accounts, our minimum account size is $250,000. So yes, we do focus on the high net worth individuals.

TWST: Has the growth and income side been growing?

Mr. Labiak: Yes, that side has been growing quite a bit, and at least with our client base, we are getting more and more clients that are requiring some income. While it's difficult to pinpoint an exact reason for this, I think that many of our clients have, for many years, accumulated assets and wealth and are somewhat reaching the end of the asset accumulation stage and are now starting to draw on those assets that they spent many years accumulating. Maybe they are reaching the age of retirement or getting close to retirement, or maybe they just want to move into something that has the safety of a nice dividend. Regardless of the exact reason, our growth and income composite is our fastest-growing account type that we have now.

TWST: What are some of the things that you believe have been your keys to success in managing the portfolios?

Mr. Labiak: The number one thing that has been key to our success has been our communication with clients. As I mentioned, we do typically sit down with each investor face to face at least twice a year, and we go over their portfolio, their holdings and any stocks that we may have bought or sold since the last time they were in and why we bought that stock and why we think it's attractive.

We go over their tax situation. If they've got some gains passed on and they want to do some tax loss selling, that gives them an opportunity to do that. We also go over the performance of the account on a one-year, three-year, five-year and 10-year basis, and how we are doing versus the benchmark. Our goal is to make sure that every client is extremely comfortable with his or her portfolio, and that we are building a portfolio that meets his or her risk tolerance and income needs.

The most important thing for us is to make sure that each client is going to sleep at night not worrying about their portfolio. We also focus on preservation of capital. We are not buying high-flier, technology-type stocks where there is a potential for a permanent loss of capital. Those two items in particular have led to our success more than anything else.

TWST: Have we overlooked anything that you wanted to bring out in this interview?

Mr. Labiak: We continue to believe that the economic environment, both nationally and globally, will thrive for many years into the future. We've got increasing productivity around the world, the trend of countries worldwide to promote free trade, the free flow of capital goods across borders, and relatively low inflation around the world. That all bodes well for investors with a long-term time horizon. While there certainly will be some bumps and bruises along the way, we think the next 15 to 20 years will show impressive returns for equity investors. We think the key to enjoying this growth will be to think like a business owner rather than a stock picker, and to stay invested.

TWST: Thank you. (PS)

Note: Opinions and recommendations are as of 3/15/07.

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TCM's investment professionals closely monitor the companies held in clients' portfolios. If a company's underlying fundamentals or valuation measures change, TCM will reevaluate its position and may sell part or all of its holdings. TCM uses objective, non-performance based criteria to select the holdings profiled in interviews.

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