

DEAN CHASE GLOBAL VALUE, LLC

Second Quarter 2006

www.dcglobalvalue.com



DEAN CHASE
GLOBAL VALUE

INTERNATIONAL EQUITY PRODUCT

A Closer Look at Dean Chase Global Value, LLC

Dean Chase Global Value, LLC is an investment advisory firm, rooted in the traditions of the Graham & Dodd discipline, founded to manage assets for employee benefit plans, public entities, endowments, foundations, Taft-Hartley and high net worth individuals via separate accounts, pooled trusts and sub-advisory vehicles.

Portfolio Manager: Al Polit, CFA

Product Overview

Dean Chase utilizes an absolute value, Graham & Dodd, bottom-up stock selection process to the international markets. The universe includes foreign stocks with a market capitalization over US \$1 billion. The portfolio tends to purchase unloved and out of favor companies that are temporarily mispriced by the marketplace, yet have absolute determinable value. Dean Chase believes that the temporary disparity that exists between the price of a stock and the true worth of the business will close over time creating a profit for the investor. Strict buy and sell disciplines are adhered to by applying a margin of safety.

The portfolio characteristics tend to exhibit stocks with low price-earnings, low price-book, and low price-cash flow valuation ratios. High dividend yields are simply a by-product of the investment process. Dean Chase has a bias for companies with conservative capital structures. Turnover tends to be low and holding periods are typically three to five years.

For More Information:

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Top Three Holdings

France Telecom	4.49%
Heineken NV	4.36%
Deutsche Telekom	4.31%

Top Three Country Weightings

United Kingdom	24.35%
Japan	16.41%
Canada	14.37%

Top Three Sector Weightings

Telecommunication Services	28.12%
Consumer Staples	16.45%
Information Technology	15.91%

Top Three Industry Weightings

Diversified Telecom. Services	25.39%
Food Products	8.77%
Elec. Equip. & Instruments	8.64%

Portfolio Characteristics

* Ending June 30, 2006

	Dean Chase Portfolio	MSCI EAFE Index
P/E	14.79x	15.80x
P/B	1.63x	2.30x
P/CF	6.92x	9.51x
Div. Yld	2.77%	2.60%
MktCap (mm) (weighted)	\$28,342	\$54,966
MktCap (mm) (average)	\$24,494	n/a

Market Capitalization Weightings

Large-Cap (>\$5bn)	69.47%
Mid-Cap (\$1-5bn)	29.98%

Regional Weightings

Europe	53.21%
Asia/Pacific/Latin America	29.29%
North America	16.95%
Developed Markets	88.88%
Emerging Markets	10.57%

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The MSCI EAFE Index is an unmanaged index consisting of securities listed on exchanges in European, Australasian and Far Eastern markets and includes dividends net of foreign withholding taxes and distributions, but does not reflect fees, brokerage commissions or other expenses of investing.

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PERFORMANCE

The Dean Chase investment process strictly abides by a bottom-up, absolute-value approach and any reference to investments in certain sectors, industries, countries, and the like, are solely a by-product of that discipline. For the quarter, select holdings having reached estimates of intrinsic value, including those in the financials, health care, and consumer discretionary sectors, were sold with the proceeds reinvested in companies having long-term capital appreciation potential in sectors such as information technology, consumer staples, and telecommunication services. Positions in the consumer staples and telecommunication services sectors performed above average while those in materials and information technology dragged results. United Kingdom and Dutch-based companies had the greatest country impacts. Canada was once again a negative factor for the quarter. Large-capitalization holdings (defined as those over \$5 billion in U.S. dollar equivalent) performed better than those categorized as mid-capitalization. The negative effect from the selective emerging markets exposure was limited as at quarter-end the total weighting was 10.6%. On valuation concerns and unlike many other labeled value investors, the portfolios continue to have zero exposure to the metals and mining industry, as well as the energy sector.

MARKET RECAP

Similar to last quarter, the U.S. dollar fell against most developed market currencies. The European euro, Japanese yen, British pound, and Canadian dollar advanced 5.7%, 3.2%, 6.6%, and 4.9%, respectively. The greenback probably did benefit as a safe-haven currency during this volatile quarter, but was likely outweighed by concerns over its high current account deficit and continued action from foreign countries to diversify out of U.S. dollar reserves. Expectations of tighter non-U.S. monetary policies also aided the dollar decline. Initially, emerging markets experienced a broad sell-off. After some reflection, the markets started punishing emerging markets much more selectively. For example, emerging market currencies with significant current account deficits such as the Turkish lira and South African rand plunged while those with surpluses held up relatively well. In general, equity market indices failed to be impressive this quarter. The local MSCI Japan index was down 7.5% while the MSCI United Kingdom index fared better declining only 1.6%. In local currency terms, the best and worst performing MSCI developed equity market indices were Hong Kong and Sweden at 0.0% and - 9.5%, respectively. Excluding Pakistan and Egypt, the worst performing MSCI emerging equity market was Columbia falling 22.8%. Peru was a star emerging market performer advancing 13.8% driven by a new elected president not friendly towards Chavez. For the quarter and in U.S. dollar terms, the MSCI EAFE, MSCI ACWI x-USA, and MSCI EM indices returned 0.7%, 0.0%, and - 4.3%, respectively.

EUROPE

Evidence points to European inflation picking up further supporting European Central Bank (ECB) tightening. European Union (EU) finance ministers have cautioned that the ECB needs to be sensitive to the fact that the stronger euro (aided by significant Middle East purchases) could naturally put a lid on inflation. Even so, a stronger euro relative to the dollar has not been dramatically damaging to euro-zone competitiveness because the more important trade weighted, or effective, exchange rate has not been as pronounced. However, a significant dollar decline could be expected to have a sizable impact on European businesses.

Germany continues to experience strong business confidence as a result of global export demand and, some insist, joy over Germany hosting The World Cup. However, the retail industry continues to be pessimistic as it relies heavily on the still weak domestic consumer. Consumers have been more limited in spending in part because, unlike other markets, Germany did not participate in a housing boom from which money could be drawn for purchasing. Chancellor Angela Merkel, while making some progress, is still having difficulties pushing for much needed German reform - especially in labor. For example, at least one third of German corporate supervisory boards (representing stakeholders in the governance of corporations) are composed of employee representatives making it difficult for companies to take advantage of labor flexibility. For companies having over 2,000 employees, the representation is 50 percent. Reform discussions, including cutting high corporate tax rates and restructuring the very expensive health care system, are only in the early stages.

French President Jacques Chirac decided to scrap the unpopular labor reform law further denting the presidential chances of Prime Minister Dominique de Villepin. Most polls want de Villepin to resign. Oddly enough, de Villepin did realize the need for labor reform as high minimum wages and employee termination restrictions limit business flexibility; he just went about doing it by decree and without consultation. The *Clearstream* drama, a scandalous French affair involving a fake list of politicians supposedly having received

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illegal kickbacks held in accounts at a Luxembourg bank (Clearstream) from the sale of frigates to Taiwan in 1991, has further eroded the credibility of de Villepin as it is alleged he may have been involved in creating the list to damage his presidential opponent, Nicolas Sarkozy, whose name was rumored to be included. Presidential elections are early next year and it is unlikely candidates will push for any unpopular reforms until then. To boost his popularity, Chirac announced several innovative state-sponsored grand projects projected to cost 1.7 billion euros that will be directed towards larger companies and universities. In a sign of progress, the French finance minister intends to cut public debt by selling more state assets.

Italy continues to be the sick man of Europe wrestling with a budget deficit that will again well exceed ceilings imposed by the EU. The EU has urged Italy to come up with a budget plan or else face sanctions. National credit rating agencies have threatened to cut Italy's ratings once again unless it has a detailed and convincing strategy on how it intends to reduce the country's high public debt. Italy has only taken minimal actions to tackle the deficit, including increasing the retirement age from 57 to 60 in order to reduce pension costs. However, further progress may prove difficult as the new Prime Minister, Romano Prodi, won the election by a hairline victory and is constrained by a weak and still fragmented majority-less government. Prodi does want to impose a 5% cut in payroll taxes to boost the economy, but this may worsen the budget deficit over the short-term.

British mortgage approvals rebounded from last quarter and retail sales were strong eliminating any hope of looser monetary policy in the near-term. In fact, the Bank of England kept rates unchanged at its last meeting as inflation is only slightly above its two percent target. Critics believe that in spite of a still robust housing market, the prospects of tighter monetary policy in the short-term are remote as a weak labor market and recent market volatility may compel the central bank to wait by the sidelines. In government news, Prime Minister Tony Blair and his Labour Party continue to be in turmoil amid a storm of sleaze and allegations of incompetence. There has been growing speculation Blair will resign well before the end of his mandate in 2009.

ASIA

For the first time in over a decade, Japan is seeing signs of inflation as wage pressures are becoming more evident and jobs continue to outpace applicants. Add in the expected start of retiring baby boomers next year along with already low Japanese fertility rates and labor conditions gets tighter. Unlike other countries, Japan does not have an immigration problem to count on when labor supply is short. Such inflationary conditions have aided in pushing long-term interest rates higher.

The Chinese central bank has continued to maintain a rigid exchange rate by buying available U.S. dollars from Chinese exporters in exchange for renminbi. This has flooded Chinese banks with too much liquidity and provoked further lending. Usually, central banks can mop up this sort of excess liquidity by borrowing the money in exchange for notes, but this also has the effect of lifting the exchange rate to which China has been reluctant as it could significantly hamper its mostly export and infrastructure led economy.

Point of Interest

History of the Brazilian Favelas

It is widely believed that in 1897 after the Canudos Civil War (1895-1896) in Canudos (the northeastern part of Brazil in the state of Bahia) approximately 20,000 northeastern federal troops were simply dropped off and abandoned to the south in the city of Rio de Janeiro. Having no place to go and forgotten by the government, the soldiers eventually settled on un-reclaimed public land on the hillsides of Rio de Janeiro building self-constructed houses of very poor quality. The first such documented settlement was named *Morro da Favela* after the favela plant existent not only on their new hillside but also generously spread on the hills the troops were stationed at in Canudos. Freed black slaves with very little also came to live in these communities. These early establishments had a dual purpose as they not only provided a place to live for a large displaced and abandoned population, but were also close enough to the city for work. In the late 20th century, hundreds of new poverty-stricken hillside communities, or *favelas* as they generally came to be known as, sprung into existence as poor workers throughout Brazil came to the large cities to participate in economic booms. Today, it is estimated there are over 600 favelas in Rio de Janeiro alone housing approximately 20% of the city population. Infrastructure varies by favela with many having inadequate sewage, electricity, roads, telephone service, trash collection, or running water. Housing is typically very crowded and landslides can also be problematic for poorly built homes. There are some more advanced favelas in Rio de Janeiro with places of business, such as banks, food markets, and even clothing stores. A few even claim government politicians as residents. The widely held view is that favelas are infested with powerful drug traffickers. As a result, many favela residents, or *favelados*, claim these cities within a city are safer because of supposed internal codes of conduct forbidding criminal activity.

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Clearly, China's own policies and weak bank lending standards are to blame for its unsustainable export-led economic growth. During the quarter, China decided to take some action by lifting one year lending rates 0.27% to 5.85% and announced guidelines to limit lending to a dozen industries. All else being equal, this only encouraged banks to lend further as deposit rates were left unchanged and lending was more profitable. Later in the quarter, China went further and announced an increase in bank reserve requirements by 0.50%. And, to reduce U.S. dollars into the country, China is now allowing companies and local ordinary citizens to buy foreign securities. These actions are still insufficient. Ultimately, China needs to adopt a flexible exchange rate regime. Unfortunately, this will likely be accompanied by rising corporate bankruptcies and an increase in non-performing loans. Independent reports suggest that China's non-performing loans could be as high as \$900 billion. It is believed that China does want a stronger currency, but not until it has implemented a more advanced local foreign exchange market.

LATIN AMERICA

Chavez-ism continues to be a dominant theme in much of Latin America. As one of the original founding fathers of OPEC and crafter of its cartel-like policies, Venezuela disappointed OPEC members at the latest OPEC meeting in Caracas by aggressively calling for oil production cuts - a move that may have been diplomatic suicide for members at current prices. President Chavez continues his quest to seize foreign property within Venezuela. Elsewhere in Latin America, Ollanta Humala, a radical nationalist former Peruvian army officer friendly with Chavez and promising to break with free-market principles, lost the Peruvian presidential election to Alan Garcia, a former Peruvian President. In Argentina, political figureheads have been critical of President Kirchner's close ties with Chavez, as well as his runaway government spending, use of state subsidies, and lack of free market principles. Bolivian President Morales continues to act Chavez-like having seized foreign-controlled natural gas fields and promising to go after unproductive landowners next. Under much intense domestic political pressure, Ecuador's President was forced to revoke Occidental Petroleum's contracts.

At the time of this writing, the outcome of the Mexican presidential election has yet to be determined. President Vicente Fox, who could not run again, rallied behind Felipe Calderón, a presidential candidate and fellow member of the Partido Acción Nacional (PAN). Of the three main political parties in Mexico, the right-winged PAN advocates a smaller government, free markets, and lower taxes. Andrés Manuel López Obrador, another presidential candidate and member of the Partido de la Revolución Democrática (PRD), initially led in the opinion polls, but eventually fell to a close second behind Calderón after the PAN was successful in labeling him Chavez-like. Obrador is not favored by the U.S. as he has been very critical of U.S. policies. Mexican businesses are also cold to Obrador as he lacks fiscal discipline and a reform agenda.

RISK RE-ASSESSMENT

There is strong evidence to support the belief that inflationary expectations may not be the main cause for the recent market volatility. If rising inflationary expectations were truly such a concern, long-term U.S. Treasury bond yields should be much higher than current levels. Granted, low yields can be partially explained by the demand for U.S. Treasury bonds serving as safe-harbor investments during volatile times. However, gold, long considered an inflation hedge and having reached \$725 per troy ounce during the quarter, closed significantly lower at quarter-end. In our opinion, the markets are engaging in risk re-assessment having long been negligent by not factoring in appropriate equity risk premiums and believing that business cycles were a thing of the past. It wasn't so long ago that the average emerging market yield spread over U.S. Treasuries was as high as ten percentage points versus slightly over two percent today. Speculative money was and still is rampant in some sectors; especially considering that at one point this quarter it was reported that the metals component in a U.S. penny was worth more than its face value. Year-to-date, metals and mining stocks have performed much better than other sectors and, in our opinion, are still significantly overvalued. The same is true for oil and gas stocks. Dean Chase does not re-assess risk when market conditions change; rather we estimate the intrinsic value of a company by focusing on the fundamentals as would any rationale business owner. Volatile markets will continue to be welcomed as they create opportunities to optimize the portfolios for maximum capital appreciation potential.