# SKBA CAPITAL MANAGEMENT, LLC

PERSPECTIVE PROCESS PERFORMANCE

## VALUE *OPPORTUNITY*

### INTRODUCTION

SKBA Capital Management, LLC ("SKBA") was founded in 1989 as an independent investment advisory firm. In 1999, SKBA became an affiliate of Convergent Capital Management LLC ("CCM"). In 2003 CCM was acquired by City National Corporation.

Our investment philosophy and process are backed by uncompromising professional ethics and consistent investment discipline.

### OUR PHILOSOPHY

- Challenge conventional thinking to discover real value.
- Develop unique perspectives by looking beyond reported earnings.
- Purchase inexpensive stocks to increase upside potential and decrease downside risk.
- In the long run, we believe undervalued securities will outperform the market.

### RESEARCH

SKBA employs a team approach to investing. Our research effort is centralized to ensure that investment ideas translate to each investment discipline.

SKBA

### DISCOVERING VALUE

SKBA brings the investor a strategic array of value-based investment solutions, backed by perspective, process, and performance. Our objective is to outperform our benchmarks while maintaining appropriate risk exposure.

Value *Opportunity,* a value-oriented investment philosophy, seeks to achieve long-term capital appreciation by investing in undervalued equity securities. The strategy uses a company's relative market capitalization to revenues ("RMCR") to ascertain a historical framework for investment. The research process attempts to discover stock prices lower than companies' terminal net worth. Focusing on growing cash flows and sustainable business models are crucial in the construction of the portfolio.

### PERFORMANCE *As of 12/31/09*

| | 4Q 2009 | YTD | One Year | Three Years | Five Years | Seven Years | Ten Years | Since Inception (7/1/96) |
|---|---|---|---|---|---|---|---|---|
| Gross of Fees | 4.3 % | 30.1 % | 30.1 % | -6.5 % | 1.1 % | 7.4 % | 4.7 % | 8.2 % |
| Net of Fees | 4.2 % | 29.7 % | 29.7 % | -6.8 % | 0.8 % | 7.0 % | 4.2 % | 7.7 % |
| Russell 1000 Value | 4.2 % | 19.7 % | 19.7 % | -9.0 % | -0.3 % | 5.9 % | 2.5 % | 6.8 % |
| S&P 500 Index | 6.0 % | 26.5 % | 26.5 % | -5.6 % | 0.4 % | 5.5 % | -1.0 % | 5.7 % |

*Performance for periods greater than one year is annualized. Past performance is not indicative of future results.*

### APPROACH

We begin with a universe of securities with a minimum market capitalization generally greater than $1 billion. Our initial valuation filter evaluates the Relative Market Capitalization to Revenues ("RMCR") of each company in relation to the S&P 500 and to that company's history. Companies that pass the RMCR valuation filter provide us with a diverse group of investment ideas from which to begin our research process.

We then determine a company's earnings power -- its long-term ability to generate profit for reinvestment or distribution to shareholders. Our research process determines if an investment offers sufficient return potential. We focus on factors such as balance sheet and income statement improvement, competitive position, industry prospects and management's alignment with shareholders' interests.

### SELL DISCIPLINE

We will sell a security when:

- Stock reaches valuation extreme
- We expect long-term deterioration of fundamentals
- We identify more compelling investment ideas
- Company exhibits a lack of shareholder orientation
- The stock weighting exceeds 5% of portfolio

### PORTFOLIO CONSTRUCTION

Our objective is to construct a portfolio of 40-60 stocks diversified by sector to control risk. Our bottom up approach to stock selection highlights industries and sectors with the most attractive values. Sector weights are reviewed when they reach the greater of 15% of the portfolio or two times the Russell 1000 Value Index.

### STRATEGY TEAM

Andrew W. Bischel, MBA, CFA
Kenneth Kaplan, MBA, CFA
Josh J. Rothe, MBA
Matthew Zuck, MBA, CFA

# VALUE *OPPORTUNITY*

## DISCLOSURE

❖ SKBA Capital Management, LLC ("SKBA") claims compliance with the Global Investment Performance Standards (GIPS®).

❖ SKBA , an investment advisory firm registered with the Securities & Exchange Commission, was founded in 1989 as an independent investment advisory firm. In 1999, SKBA became an affiliate of Convergent Capital Management LLC ("CCM"). In 2003 CCM was acquired by City National Corporation. SKBA manages a variety of equity, fixed-income and balanced assets for U.S. institutional and high net worth clients. Firm assets under management are defined as all actual, institutional and private client, accounts managed by SKBA.

❖This composite contains all fee-paying equity-only institutional and tax-exempt discretionary accounts that employ SKBA's Value *Opportunity* strategy. Value *Opportunity* is a large-capitalization value-oriented investment philosophy that seeks to achieve long-term capital appreciation by investing in undervalued equity securities as identified by the firm's Relative Market Cap to Revenues (RMCR) valuation discipline. A stock selected for purchase usually has a low RMCR compared to its history, an opportunity to improve returns on capital, and/or a larger sum of value in its businesses than the current stock price. At the time of purchase, the common or preferred stocks typically consist of securities with market capitalizations greater than $1 billion. Although cash reserves may vary from time to time, normal cash reserves are expected to be frictional.

❖The U.S. Dollar is the currency used to express performance.

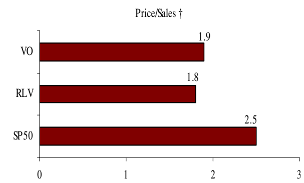
❖To receive a full disclosure presentation that complies with the requirement of the GIPS standards and/or a list and description of the firm's composites, please e-mail clientservice@skba.com, call us at 415.989.7852 or follow the link to the Annual Disclosure Presentation on our website:

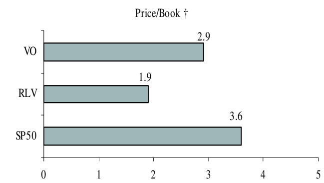
http://www.skba.com/

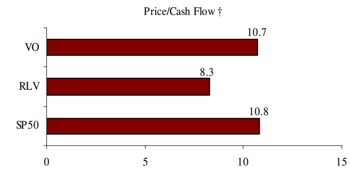
SKBA

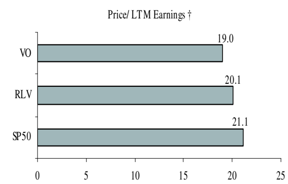
## EQUITY CHARACTERISTICS *As of 12/31/09*

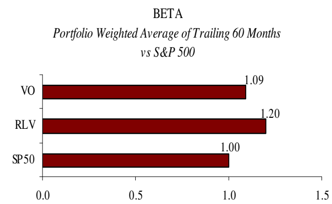
VO = SKBA's Value *Opportunity* / RLV = Russell 1000 Value / SP50 = S&P 500

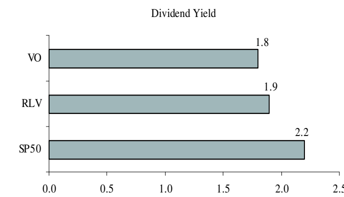


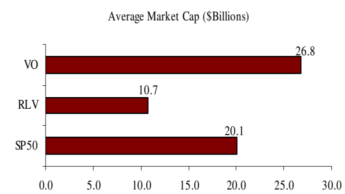



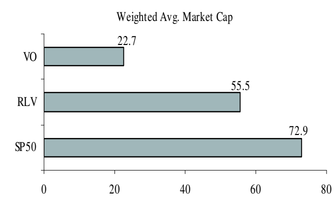



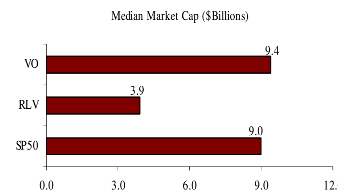



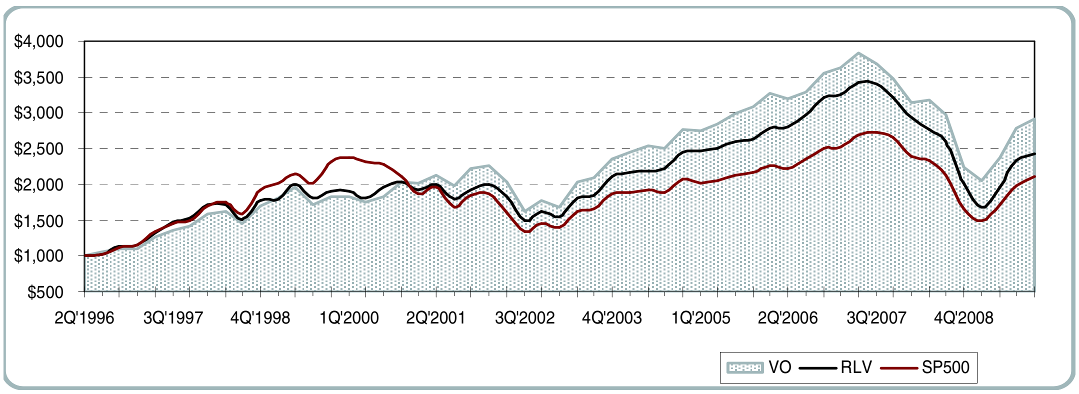

† *Excluding outliers less than zero or greater than fifty, calculated from Compustat data through FactSet.*




## Value of $1,000 Invested *Gross of Fees, Since Inception through 12/31/09*



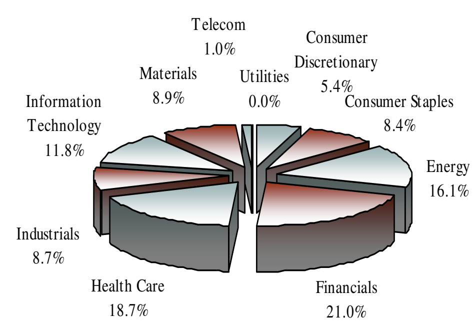

## 10 LARGEST HOLDINGS *

*As of 12/31/09*

| | |
|---|---|
| U.S. Bancorp | 3.8% |
| HCC Insurance Holdings Inc. | 3.4% |
| Tyco International Ltd. | 3.4% |
| Quest Diagnostics Inc. | 3.3% |
| Symantec Corp. | 3.3% |
| Covidien PLC | 3.2% |
| Unit Corp. | 3.1% |
| Cliffs Natural Resources Inc. | 3.0% |
| Brookfield Asset Management | 2.7% |
| Mylan Inc. | 2.7% |
| TOTAL | 31.9% |

## SECTOR DIVERSIFICATION *

*As of 12/31/09*




*Reader should not assume that investments in the securities identified were or will be profitable.*

* *Percent of total equity holdings*

*The Equity Characteristics, 10 Largest Holdings, and Sector Diversification are included as supplemental information and complements a full disclosure presentation, which can be obtained upon request.*