Due Diligence: IMS Select Portfolios

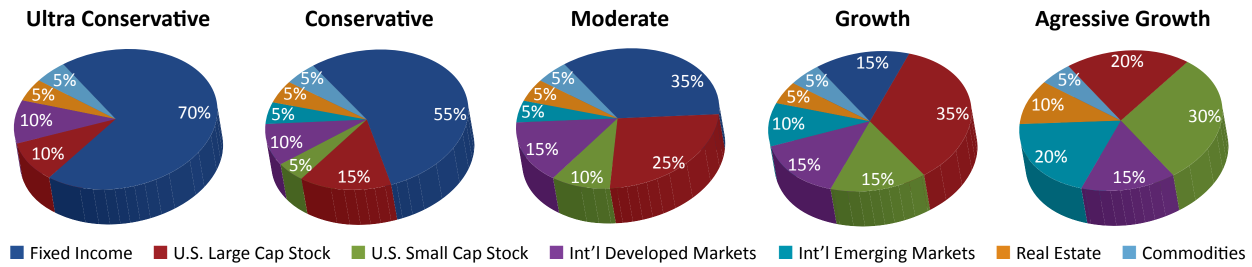
DISCIPLINE, CAPABILITY AND PROCESS TO CREATE A LASTING PLAN FOR HONORING PROMISES

1st Global's due diligence process provides the foundation for the disciplined framework used within 1st Global's IMS Select Portfolios. This process ensures that investment managers chosen embody a direct implementation of the 1st Global asset allocation models. This basis for evaluation and selection follows the application of 1st Global's investment philosophy.

1st Global has long believed in the power of strategic asset allocation, implemented using rigorous academic and intellectual standards, to create the cornerstone of enabling clients to honor their important financial promises. 1st Global also believes that skillful investment managers can be identified. Not with certainty and not with a precise prediction about their future performance, but that, through a consistent process, applied with intellectual rigor and skill, we can find those investment managers with the greatest chance of helping clients honor their promises.

Asset Allocation Model Development and Monitoring

1st Global's strategic asset allocation policy combines seven asset classes to create five distinct asset allocation models for different investor risk profiles. These models are created using forward-looking estimates of expected returns, risk and diversification benefits of the asset classes shown below.



Source: 1st Global Advisors, Inc.

While the initial creation of these models is an intensive process, the ongoing due diligence conducted on the models represents an equally rigorous endeavor. The models are reviewed periodically to ensure that each exhibits characteristics aligned with its respective investor profile. These ongoing reviews help to verify the continued integrity of 1st Global's asset allocation models.

Investment Evaluation and Selection

The goal of active manager selection is to identify managers with consistent investment processes that can demonstrate value-added, risk-adjusted performance over time. The investment manager search and selection process is conducted by 1st Global's Investment Management Research Group (IMRG) in conjunction with an independent, third-party due diligence firm, LCG Associates, and other 1st Global resources.

The evaluation process can be separated into two parts, and the relative importance in the decision-making process is weighted as follows:

1. Qualitative Evaluation – 70% – Evaluation of the investment based on people, philosophy, process and implementation (why the investment performs the way it does)
2. Quantitative Evaluation – 30% – Evaluation of the investment based on numerical, statistical or measurable attributes (how the investment performed)

IMRG begins by working from the universe of mutual funds available, which includes load-waived funds, no-load funds and institutional-class funds. IMRG prefers to screen for funds that have expense ratios in the bottom half of their appropriate peer group and requires that a mutual fund have a three-year performance track record with the current portfolio manager.

Quantitative evaluation begins with a list of funds representing a specific asset class, or sub-asset class, drawn from the available universe. This initial list is then closely reviewed and sifted based on a proprietary quantitative model that includes several Modern Portfolio Theory (MPT) analytics (R-squared, Jensen's Alpha, information ratio, Excess Sharpe, etc.). This type of review is used as an indicator of the probability that the manager's returns were based on a consistent skillful investment process, as opposed to being based merely on luck. Operational and logistical criteria are also considered to ensure that funds selected for additional review represent both prudent and practical investment options for use within the IMS Select Portfolios.

Qualitative evaluation begins by conducting conference calls with the investment management team of each of the possible funds. The calls serve to clarify the understanding of the fund's investment process, specific risk controls and sources of excess returns. IMRG makes a special effort to understand what differentiates a manager from others in its peer group and what can be expected from the fund in different market environments. The underlying focus within this process is to identify exceptional managers that can offer unique investing insights. A clearly defined investment process that can be evaluated on an ongoing basis is also crucial. This ensures the ability to regularly determine consistency in a manager's ability/skill as well as an investment process' unique characteristics.

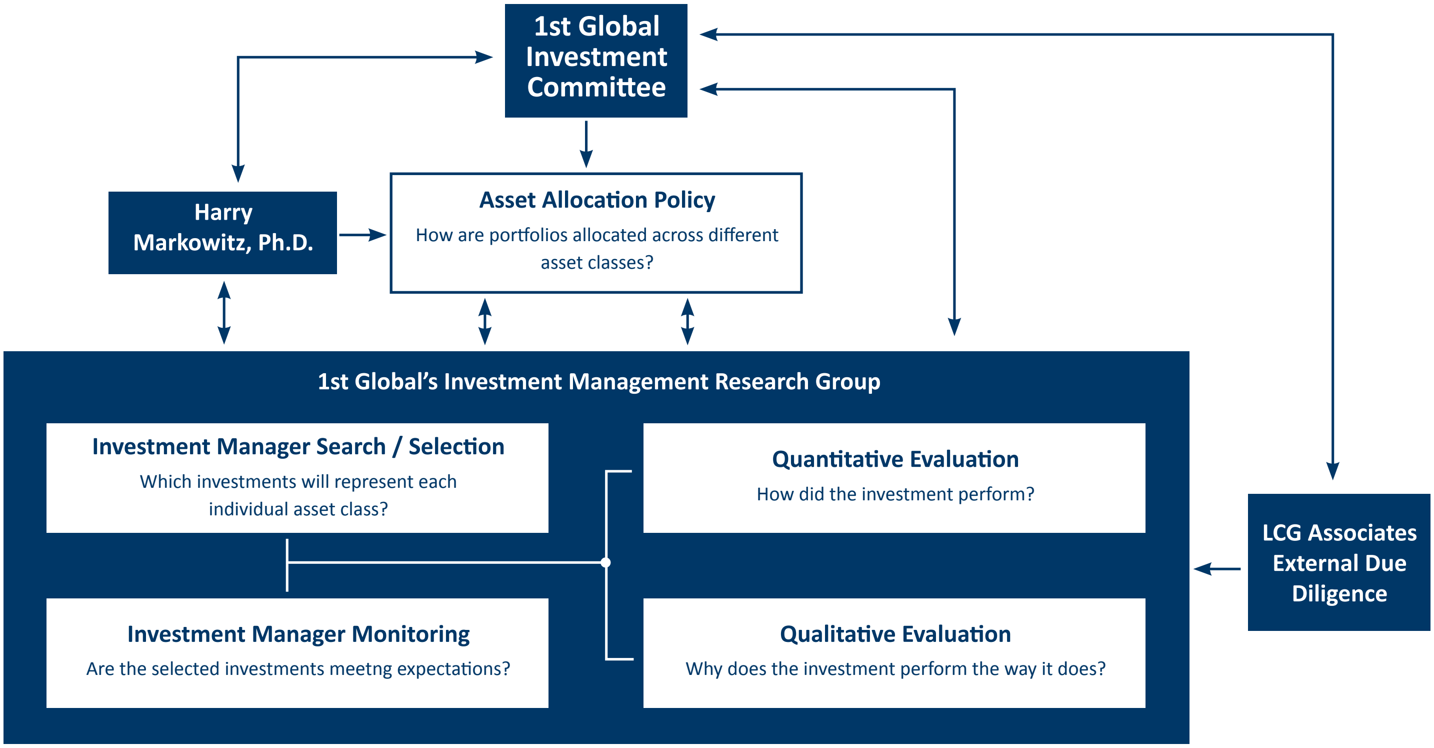
Other qualitative considerations involve such areas as transparency and accessibility to key decision makers as well as the stability and reputation of the investment firm. At this point, additional work is done to evaluate the diversification benefits the fund brings to the portfolios as a whole and how well it will work with the other investments in the IMS Select Portfolios. Final candidates and evaluation findings are presented to the Investment Committee for deliberation. The Investment Committee then votes on the candidates for inclusion in the IMS Select Portfolios.

Investment Manager Monitoring and Review

Once an investment strategy is included in the IMS Select Portfolios, a great deal of effort has gone into gaining a clear understanding of who the people behind an investment strategy are, how the investment strategy is implemented and what can be expected from the investment. One of the primary goals of ongoing monitoring is to identify early warning signs of adverse changes in existing managers' strategies or organizations. Every quarter, IMRG performs robust quantitative analysis of each investment strategy. This evaluation is conducted on both the performance returns of the managers and the underlying holdings within each strategy. This analysis is based on various numerical, statistical and measurable attributes and helps ensure that selected managers are adhering to 1st Global's expectations regarding their stated disciplines.

The quantitative review provides information that will focus the qualitative review efforts. IMRG evaluates each investment strategy by studying the manager's written commentary and keeping in close contact with the management of each strategy. As such, conference calls are conducted on a regular basis in which IMRG seeks to understand what is driving the performance of a fund.

While IMRG conducts the majority of the above-mentioned functions, they are supported by a number of additional resources. IMRG draws upon the expertise of an external independent due diligence firm, LCG Associates, to provide additional insight into the investment selection and ongoing monitoring within the IMS Select Portfolios. In addition, IMRG works closely with the 1st Global Investment Committee. The Committee includes members from 1st Global's executive leadership team, the Investment Management Consulting Group, IMRG, 1st Global Capital Markets and 1st Global Compliance. Each member of the Committee provides insight on different aspects of the due diligence process by drawing on his or her work responsibilities and professional experiences to help in making decisions for the IMS Select Portfolios.



Source: 1st Global Advisors, Inc.

For more information on 1st Global's due diligence process, please ask your advisor for a copy of "The 1st Global Investment Manager Due Diligence Process: Enabling Promises Through Intellectual Rigor and Institutional Standards."

For more information about 1st Global's investment philosophy, please ask your advisor for a copy of "Our Beliefs About Investing: The 1st Global Philosophy for Disciplined, Long-Term Investors."

Disclosures

International investing presents certain risks not associated with investing solely in the United States. These include, for instance, risks relating to fluctuations in the value of the U.S. dollar relative to the values of other currencies, custody arrangements made for foreign holdings, political risks, differences in accounting procedures and the lesser degree of public information required to be provided by non-U.S. companies.

Investing in emerging markets involves greater risk than investing in more established markets. Such risks include exchange rate changes, political and economic upheaval, the relative lack of information about these companies, relatively low market liquidity, and the potential lack of strict financial and accounting controls and standards.

Investing in fixed income securities involves special risks not typically associated with equity securities. These risks include credit risk, which is the risk of potential loss due to the inability to met contractual debt obligations, and interest rate risk, which is the risk that an investment's value will change due to a change in the level of interest rates. Additionally, there is an inverse relationship between bond prices and interest rates specific to fixed income securities. As interest rates rise, bond prices fall and, conversely, as interest rates fall, bond prices rise.

An investment in commodity-linked derivative instruments may be subject to greater volatility than investments in traditional securities and are not suitable for all investors.

Investing in a non-diversified fund that concentrates holdings into fewer securities or industries involves greater risk than investing in a more diversified fund.

Investing in micro, small or mid-sized companies may involve risks not associated with investing in more established companies. Since equity securities of smaller companies may not be traded as often as equity securities of larger, more established companies, it may be difficult or impossible for the securities to sell.

The returns of the actual investments selected as part of your portfolio will vary. Before investing in any mutual fund, investors should carefully consider a fund's investment objectives, risks, charges and expenses. Fund prospectuses contain this and other information about the funds and may be obtained from your financial advisor.

Neither asset allocation nor diversification assures a profit or protects against a loss in declining markets.

Past performance is not an indicator of future results.