

October 6, 2008

We are pleased to report that your equity portfolio is up 6.0% this quarter despite the extraordinary market volatility and financial crisis. For the quarter, the Russell Midcap Value (RMV) and S&P 500 indexes are down 7.5% and 8.4% respectively. Your investments in consumer cyclicals (+19%), consumer staples (+15%), and financials (+11%) performed well, partially offset by energy (-23%). Year-to-date, you are up 1.1%, while the RMV and S&P are down 15.4% and 19.3% respectively. The **strength and quality** of your companies and our **disciplined investment approach** have served our investors well throughout the years as the attached table demonstrates.

Investors are relearning an **old lesson**. Assuming excessive risk is extremely dangerous, especially in a low risk premium environment. We believe the widening of the risk premium and the market volatility will continue. However, we remain confident in your portfolio of companies. They have strong balance sheets and free cash flow, which affords them greater opportunities than their competitors to strengthen and grow their business. They have value added products and services, which gives them pricing power to protect margins as raw material costs are soaring. These are exceptional fundamental attributes and based on our research, their valuations are attractive. This is a powerful combination and is the foundation of our investment approach.

We are pleased to report that a university endowment fund has joined you as an investor with us.

Thank you for investing with us, and we look forward to visiting with you soon.

Regards,

Fred, Paul and Ben