

Cramer Rosenthal McGlynn, LLC is a leading value-oriented investment firm with more than \$10 billion in assets under management. Since our firm was founded in 1973, our client list has grown to include corporate and public pension plans, endowments and foundations, hospitals, community and religious organizations, Taft-Hartley and multi-employer funds as well as individual and family trusts. The intellectual coherence of our investment philosophy is a genuine strength. Companies we buy and hold are characterized by three attributes: **change, neglect and valuation**. The hunt for this trio of attributes provides a solid foundation for every stage of our investment process.

## Current News

- The **CRM All Cap Value Fund<sup>FN</sup>** was successfully launched on October 27, 2006. CRM offers three share classes: Institutional, Investor and Advisor. This Fund completes our mutual fund offerings for all of CRM's long-only strategies: Small Cap Value, Small/Mid Cap Value, Mid Cap Value and Mid/Large Cap Value. Information regarding our Funds can be found at [www.crmfunds.com](http://www.crmfunds.com).
- We are pleased to announce Jeffrey Reich, MD has joined CRM as a senior research healthcare analyst. Prior to CRM, Jeff was a portfolio manager and senior analyst at Merlin Bio Med Group and was an Assistant Clinical Professor in the Department of Neurology and Neuroscience at Weill Medical College of Cornell University for 10 years.

## Market Commentary

The U.S. stock markets proved resilient once again in 2006. In the face of numerous concerns about inflation, interest rates, energy prices, Iraq and a substantial mid-year sell off, nearly all of the major indices posted robust returns. The real catalyst continues to be strong corporate earnings growth. Third quarter earnings for the S&P

*(Continued on page 2)*

<sup>1</sup> Please note that shares of a mutual fund may only be offered through a prospectus. Investors should carefully read a prospectus and consider the investment objectives, risks, charges and expenses before investing in a mutual fund. To request a copy of a prospectus for any CRM Mutual Fund product, please call 800.276.2883 or visit [www.crmfunds.com](http://www.crmfunds.com).

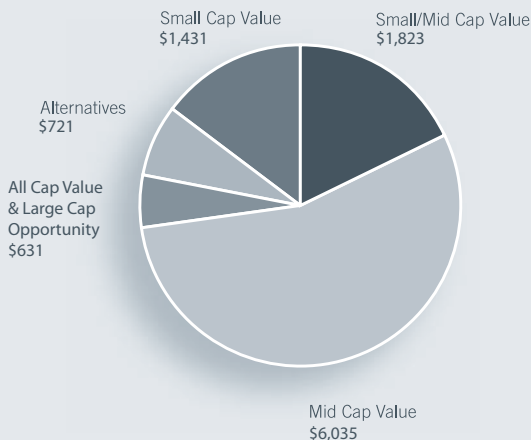
Cramer Rosenthal McGlynn, LLC  
 520 Madison Avenue, 32nd Floor  
 New York, NY 10022  
 T 212.326.5325  
[www.crmllc.com](http://www.crmllc.com)

## Contents

Fourth Quarter 2006 Newsletter

<b>Market Commentary</b>	<b>Page 1</b>
<b>Product Summary</b>	<b>3</b>
<b>All Cap Value</b>	<b>4</b>
<b>Large Cap Opportunity</b>	<b>6</b>
<b>Mid Cap Value</b>	<b>8</b>
<b>Small/Mid Cap Value</b>	<b>10</b>
<b>Small Cap Value</b>	<b>12</b>
<b>Investment Philosophy &amp; Process</b>	<b>14</b>
<b>Important Disclosures</b>	<b>16</b>

**Assets Under Management  
as of December 31, 2006 (In Millions)**



**Assets Under Management (In Millions)**

**Total Assets.....\$10,641**

**Representative Clients**

- Archdiocese of New York
- Archer Daniels Midland Company
- Arizona State Retirement System
- The California Endowment
- Cedars-Sinai Medical Center
- Citigroup Inc.
- Diversified Investment Advisors
- Foresters
- Indiana University
- International Paper
- Highmark, Inc.
- Kentucky Workers' Comp. Funding Commission
- The McGraw-Hill Companies, Inc.
- Prudential Financial, Inc.
- United States Holocaust Memorial Museum
- University of Cincinnati

CRM selected the clients listed above based on a variety of objective criteria including the size of the account, type of account, management style and geographic location of the client. CRM does not know whether the listed clients approve or disapprove of CRM or the advisory services provided by CRM.

(Continued from page 1)

500 were up 20%, the 18th consecutive quarter of double digit growth for the index. More importantly, earnings growth for the second half of 2006 is substantially ahead of what investors initially expected. The persistence of strong earnings growth has kept forward earnings multiples reasonable in the mid-teens and goes a long way to explaining the continued out performance of smaller capitalization stocks. Recent data points show the economy has slowed in the second half of 2006, and has yet to negatively impact corporate earnings. The much publicized fall off in housing and continued difficulties in the auto industry has been more than offset by strength elsewhere. Additionally, many industries have been able to achieve favorable pricing and operating leverage, even with lingering commodity cost pressures. In terms of sectors, REITs continued to be a stellar performer, up 36%. We believe that investors in REITs have redefined investment metrics, moving from a dividend yield orientation to a capital appreciation focus. This change is seen in the tremendous compression in both dividend yields and capitalization rates on transactions, as investors are counting on future robust increases in rent rollovers. Private equity activity has also added fuel to this performance, although most premiums have been modest. Aside from some individual smaller cap companies and one large owner of office properties, we generally do not see good investment opportunities in this group. Utilities have also enjoyed good multi-year performance driven by deregulation, re-pricing of market based generation, restructurings, capital reinvestment and a benign bond market. It has been an area of strength for our portfolios.

Many of the issues that confronted investors in 2006 remain. U.S. involvement in Iraq will be entering its fifth year and there is still no clear path to our withdrawal without leaving behind further regional instability. Domestically, while some data indicate that housing may be stabilizing, tough comparisons to prior years will most likely result in the sector remaining a drag on economic growth. Corporate governance is also at the forefront with continued options backdating investigations and excessive CEO pay packages, both contributing to a record number of CEO changes in 2006. These types of developments are favorable for the CRM investment approach. The market correction in the Spring of 2006 was viewed as a "re-pricing of risk" and yet nearly all asset classes strongly recovered by year end. For example, credit spreads remain tight and emerging equity markets were the best performers. Credit losses remain extremely low. We expect credit losses to begin reverting toward historical norms, particularly with consumer credit. The Amaranth episode remained an isolated event, but a future hedge fund accident in a more "crowded" trade could result from a future risk management failure.

Merger and acquisition activity set a new record in 2006 at \$3.79 trillion in global transactions, of which \$700 billion was led by private equity. As we have discussed in previous letters, all of the ingredients for a robust M&A environment were falling into place and we expect this trend to continue as capital is relatively inexpensive and readily available. Valuations of public companies are quite reasonable, particularly for larger companies that are increasingly being targeted by "clubs" of private equity buyers who face little or no competition for their targets. There is clearly more leverage being employed today in these transactions as compared to a few years ago and many of these companies may become part of the distressed opportunities down the road. The nearer term risk is a failed financing of a large bridge loan or some other "financial accident" that creates a chill over the capital markets.

As we look forward, the economic and market backdrop appear to be conducive to continued positive equity performance. The credit markets are still forecasting two 25 bps cuts in the Fed Funds rate by the Federal Reserve by midyear, but the key economic statistics such as employment, inflation and GDP growth probably need to soften for the Fed to ease. Any data that suggests a further postponement of cuts or the possibility of an increase would be an unwelcome surprise to the equity markets. Given reasonable valuations, strong balance sheets and managements who generally are quick to take cost reduction actions, we would expect any dislocation to be modest. The weekly anticipation over the next string of acquisition announcements is also an important backstop. We believe that our portfolios are well positioned with company specific drivers that will result in superior shareholder returns. Aggressive cost programs, portfolio repositioning, strong product cycles and the redeployment of free cash flow are consistent themes across many industries in our portfolios. Each new year presents its own unique and unforeseen challenges. Our investment approach embraces change and misunderstandings and we have no doubt that new and exciting investment opportunities will continue to present themselves during the course of 2007.

# Product Summary

PRODUCT/INCEPTION	ASSETS 12/31/2006 (In Millions)	VEHICLE	MINIMUM INVESTMENT	ANNUAL MANAGEMENT FEE/EXPENSE RATIO	STATUS
<b>All Cap Value</b> January 2002	\$67	Separate Account	\$10 Million	1.00% on the first \$10m 0.75% on the next \$15m 0.65% on the next \$25m 0.55% thereafter	Open
		Mutual Fund, CRIEX (Institutional)	\$1 Million	1.25% on all assets	Open
		Mutual Fund, CRMEX (Investor) Mutual Fund, CRAEX (Advisor)	\$2,500 \$1,000	1.50% on all assets 1.75% on all assets	Open Open
<b>Large Cap Opportunity</b> January 2005	\$117	Separate Account	\$10 Million	1.00% on the first \$10m 0.75% on the next \$15m 0.65% on the next \$25m 0.55% on the next \$50m 0.50% thereafter	Open
		Mutual Fund, CRIGX (Institutional)	\$1 Million	1.25% on all assets	Open
		Mutual Fund, CRMGX (Investor) Mutual Fund, CRAGX (Advisor)	\$2,500 \$1,000	1.50% on all assets 1.75% on all assets	Open Open
<b>Mid Cap Value</b> January 1998	\$6,035	Separate Account	\$10 Million	1.00% on the first \$10m 0.70% on the next \$15m 0.65% on the next \$25m 0.55% on the next \$50m 0.50% thereafter	Closed
		Mutual Fund, CRIMX (Institutional) Mutual Fund, CRMXX (Investor)	\$1 Million \$2,500	0.86% on all assets 1.08% on all assets	Closed Closed
<b>Small/Mid Cap Value</b> April 1973	\$1,823	Separate Account	\$10 Million	1.00% on the first \$25m 0.70% on the next \$25m 0.60% on the next \$50m 0.40% thereafter	Open
		Mutual Fund, CRIAX (Institutional)	\$1 Million	1.25% on all assets	Open
		Mutual Fund, CRMXX (Investor) Mutual Fund, CRAAX (Advisor)	\$2,500 \$1,000	1.50% on all assets 1.75% on all assets	Open Open
<b>Small Cap Value</b> October 1995	\$1,431	Separate Account	\$10 Million	1.00% on all assets	Soft-Close
		Mutual Fund, CRISX (Institutional)	\$1 Million	0.88% on all assets	Closed
		Mutual Fund, CRMXX (Investor)	\$2,500	1.13% on all assets	Closed
<b>Long/Short</b> All Cap – January 1993 Windridge – April 2002	\$144	Limited Partnerships	\$1 Million	1.00%+20% carried interest	Open
	\$402	Limited Partnerships	\$1 Million	1.00%+20% carried interest	Open

For more information regarding investing in any one of these current products please contact the CRM Marketing Team at 212.326.5325.

Shares of a mutual fund are only offered through a prospectus. Investors should carefully read a prospectus and consider the investment objectives, risks, charges and expenses before investing in a mutual fund. To request a copy of the prospectus for one of the mutual funds listed above please call 800.276.2883.

**Strategy Inception: January 2002**  
**Assets in Strategy: \$67 Million**  
**As of December 31, 2006**

### Composite Characteristics<sup>2</sup>

	Composite	R3000V	R3000
Wtd Avg Mkt Cap Nlog (m)	\$7,830	\$33,670	\$29,460
Wtd Median Mkt Cap (m)	\$7,152	\$31,764	\$41,051
P/E '07	16.3x	13.4x	15.2x
Price/Book	2.5x	2.2x	2.8x
Dividend Yield	1.0%	2.3%	1.7%
Number of Holdings	41	1,921	2,959

### Top Ten Holdings<sup>2</sup>

#### % of Composite

Questar Corporation	3.8
C.R. Bard, Inc.	3.4
ONEOK, Inc.	3.1
The Walt Disney Company	3.0
Nestle SA	2.9
MBIA Inc.	2.9
Rockwood Holdings, Inc.	2.9
Brookfield Asset Management Inc.	2.8
General Electric Company	2.6
Yum! Brands, Inc.	2.6

#### Total

**30.0%**

### Sector Allocation<sup>2</sup>

	Composite	R3000V	R3000
Autos & Transportation	0.0	1.7	2.5
Consumer Discretionary	19.6	8.4	13.7
Consumer Staples	9.5	6.5	6.7
Financial Services	14.8	36.6	23.6
Health Care	7.9	6.4	11.9
Integrated Oils	0.0	10.5	5.4
Materials & Processing	10.5	4.9	4.5
Other	9.8	3.3	3.6
Other Energy	1.9	2.7	3.2
Producer Durables	4.2	2.4	4.8
Technology	8.9	4.1	12.6
Utilities	12.9	12.5	7.5

# All Cap Value

## Portfolio Commentary<sup>1</sup>

Strong quarterly earnings were the consistent theme across our top contributors in the fourth quarter. Rockwood Holdings rebounded from an oversold valuation level after posting strong third quarter profitability as raw material concerns abated and management continued the execution of its portfolio repositioning strategy. Quiksilver's core surf and skate brands continued to produce solid results. In addition, the market is starting to appreciate the earnings leverage from the acquisition of Rossignol, a world leader in winter sports. Cost rationalization and the increasing mix of higher margin branded apparel should drive margin expansion over the next few years. Despite modest US job growth, global staffing demand continues to strengthen and operating leverage continues to unfold contributing to Manpower's strong third quarter results. Our forward earnings estimates remain well above the Street, driven by margin expansion and modest revenue growth. MBIA shares moved higher on expected litigation resolution. This will allow the company to deploy roughly \$2 billion of available liquidity towards aggressive share repurchase. Investor recognition of the positive secular outlook for increased energy infrastructure spending combined with the value creation potential at its MLP division were catalysts for Oneok.

Our largest detractors were stocks which modestly declined in a rising market. E\*Trade shares declined modestly due to the slowing growth in the Brokerage business. However, we continue to hold the shares as we expect management to either grow or sell the company. Earnings have been pressured at Lance due to higher flour and oil costs. We are early in a long-term margin turnaround story driven by new management, product line extensions and acquisitions. Wal-Mart created major headlines with its aggressive discounting in the pharmacy and electronics sections. Although the major remerchandising program should yield positive results, these programs have not yet translated into increased store traffic and sales. Dollar Tree Stores reported in-line earnings but concerns over margins and a weakening consumer continue to weigh on the stock. The benefits of store transformation initiatives, such as larger stores and more consumables, are becoming evident. Management expressed its confidence in the long term by increasing its stock buyback program. SkillsSoft was impacted as its largest shareholder, a private equity fund, had to liquidate its position due to the end of the fund's life. We believe the supply overhang is temporary and the transformational NETg acquisition from the Thomson Corporation, will drive earnings growth.

New purchases which fit the CRM change, neglect and low valuation investment philosophy are MBIA, Nestle, LSI Logic and Lance. These holdings represent the "best ideas" of our deep research team. The all cap strategy has the advantage of being able to move up and down the market capitalization spectrum to the most attractive opportunities. Due to an investigation which limited its ability to utilize its excess capital, MBIA was neglected and trading at a discount to its adjusted book value and its peers such as Ambac. Nestle is val-

ued at a discount to other large cap food companies despite exposure to higher growth areas of nutrition, health and wellness. Margin initiatives should close the gap to its peers leading to greater earnings growth and a multiple re-rating. LSI Logic's acquisition of Agere Systems transforms the company into a larger player in the storage market, with significant earnings power based on a conservative \$125 million in cost synergies. Valued at only 11x our estimates, LSI is neglected at a 50% discount to peers. At Lance, we see new management as change agents with multiple levers to improve profitability including increased route utilization in its DSD system and improving the operations of recently acquired Tom's Foods.

We remained true to our discipline by selling stocks which have reached price targets, where the fundamental investment case has changed or where better ideas exist. We exited the shares of Genworth when our research noted early indications of credit quality deterioration and increases in long-term care losses at its peers. Harrah's Entertainment received a takeover offer from a private equity group. We sold Ambac for a better relative investment in its competitor MBIA. Concerned about the outlook for the consumer and the auto industry, we sold United Auto Group when signs pointed to a buildup of inventory at car dealerships.

#### Fourth Quarter 2006 Dollar<sup>1</sup>

##### TOP CONTRIBUTORS

Rockwood Holdings, Inc.  
Quiksilver, Inc.  
Manpower Inc.  
MBIA Inc.  
ONEOK, Inc.

##### TOP DETRACTORS

E\*TRADE Financial Corporation  
Lance, Inc.  
Wal-Mart Stores, Inc.  
Dollar Tree Stores, Inc.  
SkillSoft PLC

#### Year to Date 2006 Dollar<sup>1</sup>

##### TOP CONTRIBUTORS

Manpower Inc.  
Brookfield Asset Management  
The Walt Disney Company  
Arris Group Inc.  
NCR Corporation

##### TOP DETRACTORS

International Coal Group  
The St. Joe Company  
LSI Logic Corporation  
Apria Healthcare Group Inc.  
Sprint Nextel Corporation

### PRELIMINARY PERFORMANCE

Through December 31, 2006

	Gross	Net	R3000V	R3000
<b>4Q</b>	7.84%	7.42%	8.10%	7.12%
<b>YTD</b>	17.50	16.39	22.34	15.72
<b>1-Yr</b>	17.50	16.39	22.34	15.72
<b>3-Yr</b>	16.82	15.87	15.20	11.19
<b>5-Yr</b>	12.09	11.21	11.20	7.17

Past performance is not a guarantee of future results.

The information presented for the Composite relates to a composite of CRM client separate accounts. CRM manages each component included in this composite using the same strategy. For information regarding this composite, please reference Important Disclosures, Performance Disclosure on page 16.

<sup>1</sup> It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this commentary/list. Please reference Important Disclosures, Product Disclosure on page 16.  
<sup>2</sup> Please reference Important Disclosures, Product Disclosure on page 16.

# Large Cap Opportunity

**Strategy Inception: January 2005**  
**Assets in Strategy: \$117 Million**  
**As of December 31, 2006**

## Composite Characteristics<sup>2</sup>

	Composite	R1000	R1000V
Wtd Avg Mkt Cap Nlog (m)	\$18,960	\$40,660	\$47,710
Wtd Median Mkt Cap (m)	\$17,110	\$54,413	\$41,828
P/E '07	16.3x	15.1x	13.3x
Price/Book	3.0x	2.9x	2.2x
Dividend Yield	1.2%	1.8%	2.4%
Number of Holdings	53	987	611

## Top Ten Holdings<sup>2</sup>

## % of Composite

Questar Corporation	3.5
General Electric Company	3.1
NCR Corporation	3.1
Nestle SA	3.0
The Procter & Gamble Company	2.4
First Data Corporation	2.4
PepsiCo, Inc.	2.4
Ball Corporation	2.3
Tween Brands Inc.	2.2
Honeywell International Inc.	2.2
<b>Total</b>	<b>26.6%</b>

## Sector Allocation<sup>2</sup>

	Composite	R1000	R1000V
Autos & Transportation	1.6	2.3	1.5
Consumer Discretionary	11.0	13.2	7.5
Consumer Staples	8.3	7.1	6.9
Financial Services	20.3	23.5	36.7
Health Care	13.1	12.0	6.7
Integrated Oils	0.0	5.9	11.5
Materials & Processing	6.2	4.0	4.4
Other	8.6	4.1	3.6
Other Energy	5.4	3.1	2.6
Producer Durables	2.2	4.5	2.0
Technology	11.9	12.5	3.5
Utilities	11.4	7.8	13.1

## Portfolio Commentary<sup>1</sup>

The top five contributors to fourth quarter performance were quite diverse. FPL Group shares benefited from the termination of its merger agreement with Constellation Energy. The company enjoys strong earnings growth from 2% customer additions and the re-contracting of much of its unregulated power fleet and the termination removed what had been a one year overhang on the stock. Dresser-Rand outperformed as the company delivered improving margins on its record OEM backlog, driven by increased secular spending on global energy infrastructure projects. Manpower is experiencing strong demand for temporary staffing in most regions of the world. The company's third quarter earnings demonstrated the favorable operating leverage of its business model and we continue to maintain estimates well above the Street for the next two years. As agricultural commodity prices surged during the late Fall, Syngenta benefited from an anticipated expansion in corn acreage, which is more profitable for them. The company is also closer to having a more complete portfolio of genetically modified seeds to better compete with Monsanto. During the quarter, First Data Corporation completed the spin-off of Western Union and investors could refocus on the strengths of the First Data story: (1) strong market positions in merchant processing and card issuing services; (2) free cash flow well in excess of reported earnings; (3) a \$1.2 billion stock buyback; (4) niche acquisition strategy to build out its international platforms; (5) a cost savings program which includes consolidating IT centers and platforms; and (6) a new CEO search.

The most significant detractor for the fourth quarter and the year was Comverse Technology. Although we purchased our position after the stock options investigation had been disclosed, the shares declined after an announcement that there were revenue irregularities in prior years. Our original thesis was predicated on our confidence in the health of the underlying telecom software and services platforms. This confidence was eroded by the announcement and we sold our shares. Endo Pharmaceuticals responded negatively to news that the FDA had adversely changed the rules towards what would constitute an acceptable generic substitute for the company's core Lidoderm product. We subsequently sold our position in Endo as well. E\*Trade suffered from concerns about increased pricing pressure in online trading, weaker summer trading activity and the impact of an inverted yield curve on margins. However, we continue to hold the shares as we expect management to generate more revenues from each customer through new products and services, further penetrate international markets and participate in industry consolidation. CVS stock has been quite volatile since Wal-Mart announced a program to offer a number of generic drugs for \$4 per prescription. Just as investors were regaining confidence in the strength of the company's franchise, CVS announced its mega-merger with pharmacy benefit manager Caremark. Since it was a no-premium deal, we thought it was reasonably attractive for CVS. However, more recently, Express Scripts made an unsolicited topping offer for Caremark. We have sold our position in CVS pending additional clarity on how this process may unfold since we are less interested in a company that overpays for Caremark in a bidding war. Oracle was one of our top contributors for the year, but it experienced some slowing in its applications license revenues during the November quarter, causing some disappointment. At 15x forward earnings with robust free cash flow, we remain holders of the stock.

Our largest new position in the strategy is PepsiCo. Although principally regarded as a domestic soda company, Pepsi generates over half of its operating profit from its market

dominant snack food company, Frito-Lay. Pepsi also has an attractive balance of non-carbonated beverages and enjoys strong low to mid teens operating profit growth in its international portfolio which is under penetrated relative to Coca-Cola. Management returns 100% of free cash flow to shareholders through buybacks and dividends. The stock traded down after third quarter earnings because of concerns over the rising cost of oranges for its Tropicana business. This segment is approximately 5% of revenues and a lesser percent of operating profit. The company is raising prices to recoup this surge in costs and we believe it will be largely irrelevant to sustaining 10%+ eps growth for the foreseeable future. PPL Corporation is an electric utility serving the PJM region (PA, NJ and MD). It has an opportunity to reprice most of its generation capacity in PJM to market prices over the next few years, after the current rate freeze expires. The earnings power of the utility is more than 60% higher than its recently reported run rate. Our next three purchases are all healthcare companies, many of which have substantially underperformed the market over the past year. WellPoint is a company in which we have been previously invested. Since we last sold the stock over one year ago, earnings have continued to grow and the valuation is once again attractive. Management has successfully integrated its last acquisition (WellChoice - Empire Blue Cross) and, pending acquiring future Blue plans, is returning capital to shareholders through buybacks. The shares of Quest Diagnostics declined to an attractive level when they announced the loss of a contract with United Healthcare. We believe the stock overly discounts the impact of the lost business and the company will be able to use its free cash flow to make acquisitions or buyback stock. Medtronic has been a non-performing stock for nearly five years as earnings growth has slowed and its once very robust multiple has compressed. The implantable cardioverter defibrillator (ICD) market has been in turmoil since last year's much publicized recalls. This once 20%+ growth business is flat to down over the past year and expectations for its recovery remain modest. While ICD and related products represent nearly half of its operating profit, Medtronic enjoys a portfolio of other impressive products with attractive growth potential including its entry in the drug coated stent market, artificial cervical and lumbar discs, insulin pumps and meters and neurostimulation products for central nervous disorders and pain management.

In addition to our sales of Endo Pharmaceuticals, Comverse and CVS, we sold our shares of Harrah's Entertainment as the company was considering a buyout offer from a private equity group. Cadbury Schweppes offers great promise behind the strength of its Trident/Dentyne gum franchises; however, the company has consistently failed to achieve operating plans and generate favorable margin leverage. Therefore, we sold our position in favor of other consumer staple companies.

#### Fourth Quarter 2006 Dollar<sup>1</sup>

##### TOP CONTRIBUTORS

FPL Group, Inc.  
Dresser-Rand Group Inc.  
Manpower Inc.  
Syngenta AG  
First Data Corporation

##### TOP DETRACTORS

Comverse Technology, Inc.  
Endo Pharmaceuticals Holdings  
E\*TRADE Financial Corporation  
CVS Corporation  
Oracle Corporation

#### Year to Date 2006 Dollar<sup>1</sup>

##### TOP CONTRIBUTORS

C.R. Bard, Inc.  
Manpower Inc.  
Aviall, Inc.  
NCR Corporation  
Cisco Systems, Inc.

##### TOP DETRACTORS

Comverse Technology, Inc.  
Sprint Nextel Corporation  
LSI Logic Corporation  
Viacom, Inc.  
CMS Energy

### PRELIMINARY PERFORMANCE

Through December 31, 2006

	Gross	Net	R1000	R1000V
<b>4Q</b>	6.65%	6.65%	6.95%	8.00%
<b>YTD</b>	20.62	19.38	15.46	22.25
<b>1-Yr</b>	20.62	19.38	15.46	22.25

Past performance is not a guarantee of future results.

The information presented for the Composite relates to a composite of CRM client separate accounts. CRM manages each component included in this composite using the same strategy. For information regarding this composite, please reference Important Disclosures, Performance Disclosure on page 16.

<sup>1</sup> It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this commentary/list. Please reference Important Disclosures, Product Disclosure on page 16.  
<sup>2</sup> Please reference Important Disclosures, Product Disclosure on page 16.

**Strategy Inception: January 1998**  
**Assets in Strategy: \$6,035 Million**  
**As of December 31, 2006**

### Composite Characteristics<sup>2</sup>

	Composite	RMidV	RMid
Wtd Avg Mkt Cap Nlog (m)	\$8,450	\$7,070	\$7,050
Wtd Median Mkt Cap (m)	\$8,848	\$7,680	\$7,567
P/E '07	16.0x	15.3x	16.5x
Price/Book	2.8x	2.0x	2.8x
Dividend Yield	1.2%	2.0%	1.4%
Number of Holdings	60	481	784

### Top Ten Holdings<sup>2</sup>

	% of Composite
Questar Corporation	3.9
NCR Corporation	3.1
Ball Corporation	2.6
Goodrich Corporation	2.5
Textron Inc.	2.5
Dollar Tree Stores, Inc.	2.4
Millipore Corporation	2.4
Genuine Parts Company	2.3
PG&E Corporation	2.1
Manpower Inc.	2.1
<b>Total</b>	<b>25.9%</b>

### Sector Allocation<sup>2</sup>

	Composite	RMidV	RMid
Autos & Transportation	3.2	3.7	4.0
Consumer Discretionary	7.2	11.4	18.4
Consumer Staples	2.2	6.9	5.0
Financial Services	23.1	33.4	22.3
Health Care	10.7	2.6	8.9
Integrated Oils	0.0	1.1	0.5
Materials & Processing	9.4	7.8	7.3
Other	7.6	1.9	1.6
Other Energy	5.5	3.9	5.7
Producer Durables	3.7	4.8	6.7
Technology	10.9	5.6	10.0
Utilities	16.5	16.9	9.6

# Mid Cap Value

## Portfolio Commentary<sup>1</sup>

MBIA continues to defy negative investor sentiment by posting solid operating results despite the general lack of risk aversion in the credit markets, which diminishes the value of the company's credit wrap protection services. Moreover, news that the company is poised to deploy its roughly \$2 billion of available liquidity toward aggressive share repurchase once its settlements are finalized, rallied the shares as 'long' side investors purchased and 'shorts' scrambled to cover. Despite modest job growth in the US in recent months, staffing demand globally seems to continue to strengthen in certain areas (especially EMEA) and operating leverage also continues to unfold, two factors that contributed to Manpower's strong third quarter results. Our forward earnings estimates remain well above the Street, driven by margin expansion and modest revenue growth. Goodrich shares gained as its quarterly earnings delivered margin improvement in its airframe division, dispelling fears that the company would struggle to dramatically improve in this segment. In addition to the solid upside earnings, the company offered solid 2007 earnings guidance, a combination that delivered on investor expectations that had risen along with broad strength of the aerospace group. FPL shares rose after the company terminated its merger with Constellation Energy Group, since investor sentiment had grown too negative on the implications of not completing the merger. As noted in our third quarter letter, FPL's strong organic growth and earnings from re-contracting its unregulated power fleet made the company an attractive investment whether the merger was completed or not. Precision Castparts continues to increase its dominant share in castings and forgings, both in the aerospace and the oil & gas markets. Further, the company has successfully integrated the recent SMC acquisition, which is delivering sales leverage and margin expansion off its fixed asset base and significant free cash flow.

The most significant detractor for the fourth quarter was Converse Technology. Although we purchased our position after the stock options investigation had been disclosed, the shares declined after an announcement that there were revenue irregularities in prior years. Our original thesis was predicated on our confidence in the health of the underlying telecom software and services platforms. This confidence was eroded by the announcement and we sold our shares. Shares of Apollo Group fell after its quarterly results that showed a softer than expected student registration figure for the fall semester. Although these results continued a trend of more positive than negative 'bumps' in its migration to the new AXIA platform, we agree with the strategic moves of the company and believe its shares are undervalued in light of the high returns and strong cash flow of its business model. Shares of Endo Pharmaceuticals declined after the FDA indicated it may be possible for a generic form of Lidoderm, Endo's most important product, to garner approval and eventually come to market. We sold our position in Endo following the news as we felt the risk profile of the investment had changed, however we continue to monitor the company as the FDA's stance on this issue is not final and additional barriers to a generic form of Lidoderm exist. Despite a small upside surprise in earnings, shares of Carlisle sagged in the quarter as investors focused on the meager improvement in incremental margins. We remain confident that strong margin gains will resume, as the raw material headwinds of the last few years are finally abating and as Carlisle benefits from its late cycle market exposure. Shares of Omnicare underperformed during the quarter after the company reported disappointing results for the third quarter resulting from near-term operational issues and an ongoing dispute with United Healthcare. We believe that at the current share price the market has

priced in very little, if any, probability of the company overcoming these near term issues within a reasonable amount of time and as such we have used the current weakness as an opportunity to increase our position.

We purchased shares of the 'new' First Data Corporation, post its spin-off of Western Union. We believe investors have overlooked the positive attributes of the company and its dominant market positions, including strong free cash flow, an aggressive share repurchase, a disciplined acquisition program, a significant internal cost save program and the catalyst of a new to-be-announced CEO. We initiated a position in Computer Sciences Corp, as we believe the company will deliver new booking awards well above street estimates. Further, the company continues to execute on its internal restructuring program, and the new CFO seems intent on driving business rationalization and strong cash flow. Leveraging our work on FPL Group, we purchased shares of its 'scorned' partner Constellation Energy Group, as investor sentiment here had also dropped substantially, despite the attractiveness of its service territory. CEG stands to post substantially higher earnings results as its long-term power contracts reset to market rates through the end of the decade. Ameriprise continued its metamorphosis post the spin-out from former parent American Express. Over the next two years, the company expects to shift more of its revenue and earnings to lower capital intensive businesses such as its advisor, asset management and variable annuity operations. This mix shift should unlock additional capital and accelerate the inherent earnings growth rate. We added shares of Quest Diagnostics, as the stock declined to an attractive level when management announced the loss of a contract with United Healthcare. We believe the stock overly discounts the impact of the lost business and the company will be able to use its free cash flow to make acquisitions or buyback stock.

In addition to the aforementioned sales of Endo Pharmaceuticals and Comverse, we sold our shares of Harrah's Entertainment as the company was considering a buyout offer from a private equity group. Further, we sold shares of both Northeast Utilities and Avnet, as the stocks met our price targets.

#### Fourth Quarter 2006 Dollar<sup>1</sup>

##### TOP CONTRIBUTORS

MBIA Inc.  
Manpower Inc.  
Goodrich Corporation  
FPL Group, Inc.  
Precision Castparts Corp.

##### TOP DETRACTORS

Comverse Technology, Inc.  
Apollo Group, Inc.  
Endo Pharmaceuticals Holdings  
Carlisle Companies, Inc.  
Omnicare, Inc.

#### Year to Date 2006 Dollar<sup>1</sup>

##### TOP CONTRIBUTORS

Manpower Inc.  
C.R. Bard, Inc.  
NCR Corporation  
Syngenta AG  
Precision Castparts Corp.

##### TOP DETRACTORS

Boston Scientific Corporation  
Comverse Technology, Inc.  
LSI Logic Corporation  
ChoicePoint Inc.  
Omnicare, Inc.

### PRELIMINARY PERFORMANCE

Through December 31, 2006

	Gross	Net	RMidV	RMid
<b>4Q</b>	8.16%	8.01%	8.50%	7.67%
<b>YTD</b>	18.37	17.69	20.22	15.26
<b>1-Yr</b>	18.37	17.69	20.22	15.26
<b>3-Yr</b>	18.05	17.40	18.77	16.00
<b>5-Yr</b>	14.67	13.99	15.88	12.88

Past performance is not a guarantee of future results.

The information presented for the Composite relates to a composite of CRM client separate accounts. CRM manages each component included in this composite using the same strategy. For information regarding this composite, please reference Important Disclosures, Performance Disclosure on page 16.

<sup>1</sup> It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this commentary/list. Please reference Important Disclosures, Product Disclosure on page 16.  
<sup>2</sup> Please reference Important Disclosures, Product Disclosure on page 16.

# Small/Mid Cap Value

**Strategy Inception: April 1973**  
**Assets in Strategy: \$1,823 Million**  
**As of December 31, 2006**

## Composite Characteristics<sup>2</sup>

	Composite	R2500V	R2500
Wtd Avg Mkt Cap Nlog (m)	\$3,070	\$1,950	\$1,970
Wtd Median Mkt Cap (m)	\$3,057	\$2,194	\$2,226
P/E '07	16.1x	15.5x	16.7x
Price/Book	2.5x	1.9x	2.5x
Dividend Yield	0.7%	2.0%	1.3%
Number of Holdings	56	1,616	2,464

## Top Ten Holdings<sup>3</sup>

	% of Composite
Questar Corporation	3.7
NCR Corporation	3.1
Ball Corporation	2.6
People's Bank	2.5
Goodrich Corporation	2.5
Dresser-Rand Group Inc.	2.5
Millipore Corporation	2.4
Armor Holdings, Inc.	2.3
CACI International Inc.	2.2
Dollar Tree Stores, Inc.	2.2
<b>Total</b>	<b>26.0%</b>

## Sector Allocation<sup>2</sup>

	Composite	R2500V	R2500
Autos & Transportation	1.1	3.5	3.7
Consumer Discretionary	11.7	15.0	18.2
Consumer Staples	1.8	3.5	2.4
Financial Services	11.4	34.6	24.6
Health Care	8.2	3.8	10.4
Integrated Oils	0.0	0.1	0.1
Materials & Processing	19.1	10.4	9.6
Other	3.3	0.9	0.9
Other Energy	5.1	3.6	5.1
Producer Durables	10.6	5.9	7.3
Technology	15.1	7.5	11.1
Utilities	12.6	11.2	6.6

## Portfolio Commentary<sup>1</sup>

The leading contributors were Kos Pharmaceuticals, Goodman Global, Dresser-Rand Group, Rockwood Holdings and Esterline Technologies. Kos Pharmaceuticals was a top performer for the quarter after the company agreed to be acquired by Abbott Laboratories for over a 50% premium, validating our belief in the enormous upside in the company's cholesterol management drug Niaspan. The shares of Kos reached our established price target and we sold our position. HVAC manufacturer Goodman Global's shares appreciated 30% in the fourth quarter after handily beating the consensus earnings expectations, which demonstrated both the margin expansion opportunities and the stability of the replacement market. Dresser-Rand outperformed as the company delivered improving margins on its record OEM backlog, driven by increased secular spending on global energy infrastructure projects. Specialty chemical company, Rockwood Holdings benefited from abating raw material inflation concerns as well as management's continued execution of its portfolio repositioning strategy. During the third quarter, we added to our position in the shares of aerospace supplier Esterline Technologies after a sharp sell-off following several temporary factors precipitated an earnings shortfall. We were rewarded in the fourth quarter as the shares rebounded sharply after posting better than expected results, demonstrating that the prior quarter's shortfall was a bump in what we believe will be a long up-cycle in the commercial aerospace cycle.

The largest detractors to performance were Comverse Technologies, Endo Pharmaceuticals, NCI Building Systems, E\*Trade and Carlisle Companies. Comverse's shares price declined following the disclosure of accounting irregularities in prior years and the announcement of further delays in the filing of financial statements. Our original thesis was predicated on our confidence in the health of the underlying telecom software and services platforms. This confidence was eroded by the announcement and we sold our shares. After a period of strong performance shares of Endo Pharmaceuticals declined after language from the FDA indicated it may be possible for a generic form of Lidoderm (Endo's most important product), to garner approval and eventually come to market. We sold our position in Endo following the news as we felt the risk profile of the investment had changed. However, we continue to monitor the company as the FDA's stance on this issue is not final and additional barriers to a generic form of Lidoderm exist. NCI Building System's shares declined modestly in the fourth quarter. We had reduced our position following a sharp run up earlier in the year as Street expectations got ahead of fundamentals, but we believe the fundamentals and the investment case remain intact and will look for opportunities to add to the position. E\*Trade suffered from concerns about increased pricing pressure in online trading, weaker summer trading activity and the impact of an inverted yield curve on margins. We continue to hold the shares as we expect management to generate more revenues from each customer through new products and services, further penetrate international markets and participate in industry consolidation. We took advantage of the decline in Carlisle Companies during the quarter and added to our position in the diversified industrial manufacturer, as we believe

the fundamentals and the valuation look extremely attractive at current levels.

During the quarter, we initiated positions in Armor Holdings, Kinder Morgan, RR Donnelley, Sierra Health Services and Dade Behring. Armor Holdings completed a transforming acquisition of Stewart and Stevenson, creating the industry leading manufacturer of Army vehicles. We purchased shares in pipeline company Kinder Morgan due to our belief that significant organic growth opportunities lie ahead that will reaccelerate the distributions to limited partners. The current slowdown in distribution growth and accounting rule changes that do not affect cash flow have resulted in a neglected stock. We purchased shares in commercial printer RR Donnelley as we believe accretion and synergies from recent acquisition of Banta Corp. will be greater than current expectations. We have also reinstated positions in Sierra Health Services, as we believe investors' fears over contract negotiations with hospital operator HCA are overblown, and Dade Behring, as the company will benefit from the launch of its new Vista product platform.

As previously mentioned, we did sell our positions in top contributor Kos Pharmaceuticals, Comverse Technologies and Endo Pharmaceuticals. We also sold our position in both Flir Systems and Northeast Utilities as the respective shares reached our established price targets.

#### Fourth Quarter 2006 Dollar<sup>1</sup>

##### TOP CONTRIBUTORS

Kos Pharmaceuticals, Inc.  
Goodman Global, Inc.  
Dresser-Rand Group Inc.  
Rockwood Holdings, Inc.  
Esterline Technologies Corp.

##### TOP DETRACTORS

Comverse Technology, Inc.  
Endo Pharmaceuticals Holdings  
NCI Building Systems, Inc  
E\*TRADE Financial Corporation  
Carlisle Companies, Inc.

#### Year to Date 2006 Dollar<sup>1</sup>

##### TOP CONTRIBUTORS

Manpower Inc.  
C.R. Bard, Inc.  
NCI Building Systems  
Kos Pharmaceuticals, Inc.  
Moog Inc.

##### TOP DETRACTORS

Avid Technology, Inc.  
Comverse Technology, Inc.  
The St. Joe Company  
International Coal Group, Inc.  
LSI Logic Corporation

## PRELIMINARY PERFORMANCE

Through December 31, 2006

	Gross	Net	R2500V	R2500
<b>4Q</b>	8.56%	8.45%	9.14%	8.70%
<b>YTD</b>	20.33	19.63	20.18	16.17
<b>1-Yr</b>	20.33	19.63	20.18	16.17
<b>3-Yr</b>	16.22	15.46	16.33	14.10
<b>5-Yr</b>	12.95	12.19	15.51	12.19

Past performance is not a guarantee of future results.

The information presented for the Composite relates to a composite of CRM client separate accounts. CRM manages each component included in this composite using the same strategy. For information regarding this composite, please reference Important Disclosures, Performance Disclosure on page 16.

<sup>1</sup> It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this commentary/list. Please reference Important Disclosures, Product Disclosure on page 16.

<sup>2</sup> Please reference Important Disclosures, Product Disclosure on page 16.

# Small Cap Value

**Strategy Inception: October 1995**  
**Assets in Strategy: \$1,431 Million**  
**As of December 31, 2006**

## Composite Characteristics<sup>2</sup>

	Composite	R2000V	R2000
Wtd Avg Mkt Cap Nlog (m)	\$1,180	\$1,020	\$1,020
Wtd Median Mkt Cap (m)	\$1,107	\$1,166	\$1,153
P/E '07	16.7x	15.8x	17.2x
Price/Book	2.4x	1.9x	2.4x
Dividend Yield	0.9%	1.8%	1.1%
Number of Holdings	57	1,310	1,972

## Top Ten Holdings<sup>2</sup>

## % of Composite

Kaydon Corporation	3.4
School Specialty, Inc.	3.3
American Equity Investment Life Holding	3.2
SkillSoft plc	3.1
Tween Brands Inc.	2.9
Range Resources Corp.	2.9
Korn/Ferry International	2.8
Quicksilver, Inc.	2.6
Barnes Group Inc.	2.3
G&K Services, Inc.	2.3
<b>Total</b>	<b>28.8%</b>

## Sector Allocation<sup>2</sup>

	Composite	R2000V	R2000
Autos & Transportation	4.4	3.4	3.8
Consumer Discretionary	31.3	17.4	19.6
Consumer Staples	4.1	3.0	2.1
Financial Services	14.8	35.5	24.1
Health Care	5.5	4.2	11.3
Integrated Oils	0.0	0.1	0.2
Materials & Processing	13.7	9.7	9.2
Other	0.0	0.3	0.2
Other Energy	4.9	3.5	4.6
Producer Durables	6.1	6.3	7.3
Technology	9.5	9.5	13.3
Utilities	5.7	7.1	4.3

## Portfolio Commentary<sup>1</sup>

The leading contributors were Quicksilver, Greif, Barnes Group, Per-Se Technologies and Regal-Beloit Corporation. Quicksilver's core surf and skate brands continued to produce solid results. In addition, the market is starting to appreciate the earnings leverage from the acquisition of Rossignol, a world leader in winter sports. Cost rationalization and the increasing mix of higher margin branded apparel should drive margin expansion over the next few years. Greif, a manufacturer of packaging products, has been a strong performer throughout the year and produced another solid gain during the quarter. The company continues to benefit from a focused rationalization of its worldwide manufacturing facilities. Barnes Group, a small cap industrial conglomerate gained as the company's core industrial springs business rebounded from a temporary sales shortfall in the prior quarter. Per-Se Technologies, a leading provider of outsourced accounting solutions to the healthcare industry was acquired by McKesson during the quarter. Motor manufacturer Regal-Beloit, another strong contributor throughout the year, also saw continued price appreciation during the quarter. The company continues to benefit from increased market share associated with the introduction of new energy efficient motor technology.

The performance during the quarter was facilitated by a lack of meaningful detractors, which were led by Technical Olympic USA, Interline Brands, Integrated Device Technology, Lance Inc. and Insight Enterprises. Home builder Technical Olympic once again topped our detractors list, as the stock continued to sell-off while we were exiting the position. The remaining detractors were all down minimally during the quarter. With that observation in mind, Interline Brands, a well diversified industrial distributor, saw its shares decline modestly. Sentiment toward the company was impacted by its exposure to the home rental market, where vacancies ticked up slightly. Semiconductor manufacturer Integrated Device Technology saw its shares lose ground over market concerns regarding a slower pace of telecom equipment spending. We believe the company is less exposed to that business segment than most market participants recognize and we also added to our position. Lance saw its shares decline as earnings have been under pressure due to higher flour and oil costs. We are early in a long-term margin turnaround story driven by new management, product line extensions and acquisitions. Insight Enterprises, a distributor of technology products, continues to generate strong operating results; however, during the quarter its shares were hurt by market concerns about a slowdown in overall technology spending.

We continue to find attractive investment opportunities across industries for our change focused investment philosophy. Shares of Commercial Vehicle Group, a manufacturer of cab systems for class-8 trucks, were purchased as the company is poised to pick up market share over the next few years through its ability to offer complete interior systems. We purchased shares of Investors Financial Services Group, a mutual fund services provider, which has invested significantly in its sales and technology platforms over the past few years. We believe the company is poised to reap the financial gains from those investments over

the next several years. The recent merger of competitors Mellon Financial and Bank of New York should further strengthen the company's sales efforts. We also established a position in security systems provider Checkpoint Systems, as the company is set to see a meaningful margin expansion. The company is benefiting from market share gains and restructuring of underperforming segments. Finally, we purchased medical battery maker Greatbatch as it is in the early stages of introducing a broad range of new products, completing a cost reduction program and targeting greater penetration at each of its key customers.

The ongoing strong idea flow continues to underpin our sell discipline. As noted earlier, we finished our sale of Technical Olympic during the quarter as the housing market remained worse than expected. Per-Se Technologies and Stellant were purchased by strategic acquirers, while RailAmerica agreed to be taken private during the quarter. Flir Systems and United Auto Group were sold as the stocks reached our established price targets. Finally, we sold Lionbridge Technologies as cost savings that we had identified in our investment case were not materializing at the level we had expected.

#### Fourth Quarter 2006 Dollar<sup>1</sup>

##### TOP CONTRIBUTORS

Quiksilver, Inc.  
Greif, Inc.  
Barnes Group Inc.  
Per-Se Technologies  
REGAL-BELOIT CORPORATION

##### TOP DETRACTORS

Technical Olympic USA Inc.  
Interline Brands, Inc.  
Integrated Device Technology  
Lance, Inc.  
Insight Enterprises, Inc.

#### Year to Date 2006 Dollar<sup>1</sup>

##### TOP CONTRIBUTORS

REGAL-BELOIT CORPORATION  
Aviall, Inc.  
Greif, Inc.  
Kaydon Corporation  
Compass Minerals International

##### TOP DETRACTORS

Technical Olympic USA Inc.  
W.P. Stewart & Co., Ltd.  
Avid Technology Inc.  
Briggs & Stratton Corporation  
Apria Healthcare Group Inc.

## PRELIMINARY PERFORMANCE

Through December 31, 2006

	Gross	Net	R2000V	R2000
<b>4Q</b>	9.17%	8.96%	9.03%	8.90%
<b>YTD</b>	15.31	14.43	23.48	18.37
<b>1-Yr</b>	15.31	14.43	23.48	18.37
<b>3-Yr</b>	15.28	14.40	16.48	13.56
<b>5-Yr</b>	13.71	12.87	15.37	11.39

Past performance is not a guarantee of future results.

The information presented for the Composite relates to a composite of CRM client separate accounts and one registered mutual fund managed by CRM. CRM manages each component included in this composite using the same strategy. For information regarding this composite, please reference Important Disclosures, Performance Disclosure on page 16.

<sup>1</sup> It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this commentary/list. Please reference Important Disclosures, Product Disclosure on page 16.  
<sup>2</sup> Please reference Important Disclosures, Product Disclosure on page 16.

# Investment Philosophy & Process

Our track record, spanning more than 30 years, is testament to our success in serving clients and providing strong investment performance. Clients benefit from consistent application of one cohesive philosophy and process, implemented by a team with diverse experience in appraising the intrinsic value of companies.

## Investment Philosophy

Investing at the Intersection of Change and Neglect

The intellectual coherence of our investment philosophy is a genuine strength.

Companies we buy and hold are typically characterized by three attributes:

**change, neglect and valuation.**

## Change

The financial markets are rich with change. Every day the markets present investors with mergers, divestitures, restructurings, new management teams or new products and expanded markets.

## Neglect

Especially in its early stages, change tends to be greeted with uncertainty, expressed as investor neglect — manifested through low analytical coverage, negative to neutral stock ratings and low institutional ownership.

## Valuation

When change meets neglect, the intrinsic value of a company may exceed the current stock price. At the intersection of change and neglect with attractive valuation, CRM finds the potential for substantial outperformance.

The conviction to invest before the rewards of change are realized requires an investment process grounded in intensive original research.

## Investment Process

### Identify change

CRM seeks to identify change at an early stage that is material to the operations of a publicly traded company, capitalizing on the opportunity to invest while others wait for certainty. Based on the experience of our research team, we excel at “connecting the dots”, which that is, we identify many situations where positive change in one company may lead to a broader set of investment opportunities. A divestiture in one industry, for example, may lead to a new opportunity in another industry. Or a supplier of a company turns out to be an attractive investment in its own right.

### Appraise the business

Once potential positive change is identified, we appraise the business by producing a financial model based principally upon projected cash flow. We evaluate the business in the context of what the market is willing to pay for comparable companies, and also what a strategic buyer would pay for the entire company. CRM further measures institutional ownership and tracks the degree of recognition by investors and sell-side analysts.

### Conduct research

We visit companies on site and cross reference management claims about future profitability through an extensive network of research contacts built over decades. We amass information from numerous sources, looking for evidence of a catalyst or critical variable that will bring a stock out of the shadows into the mainstream of investor enthusiasm. Our goal at this stage of the investment process is to build a solid investment case, ensuring that future buy and sell decisions are driven by clear milestones as opposed to human emotion.

### Take action

Intensive due diligence enables us to move swiftly in situations where change and neglect coincide to create attractive valuations. Every CRM portfolio reflects a series of separate, well-reasoned decisions to invest in individual companies. We are cognizant of benchmark structure, but this awareness does not drive portfolio construction. Our investments seek to capture underlying fundamental change at the company level—hinging not on variables that can spiral out of control, such as commodity prices, interest rates or geopolitical events, but on developments that company management can control and execute. This strategy allows us to define clear milestones, providing guidance in sell discipline implementation.

### Sell

Clearly defined investment milestones — an earnings target met or missed, a new product unveiling precisely when anticipated or still languishing on the drawing board long past the deadline — make it possible either to sell without emotion or take advantage of price declines to increase holdings. CRM's entire process is focused not only on building the investment case but also on understanding how the case might deteriorate. Virtually on the day we identify a new idea, we start thinking about our exit strategy.

## Product Disclosure

### Portfolio Commentary & Contributors/Detractors

It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities mentioned. Upon request, CRM will furnish a list of all securities purchased, sold or held in any of the portfolios referred to in this newsletter during the twelve month period preceding the date of the list of securities for that portfolio included in this newsletter.

### Composite Characteristics

Information pertaining to Composite Characteristics includes weighted average market capitalization, median market capitalization and other preliminary numbers that have been derived from FactSet Research Systems and Russell/Mellon Analytical Services. As these numbers are preliminary, they are subject to change.

### Top Ten Holdings

It should not be assumed that the Top Ten Holdings presented for each portfolio in this newsletter will, in the future, be profitable or will equal any references to performance in this commentary. Upon request, CRM will furnish a list of all securities purchased, sold or held in any of the portfolios referred to in this newsletter during the twelve month period preceding the date of the list of securities for that portfolio included in this newsletter.

### Sector Allocation

The Sector Allocation presented for each portfolio in this newsletter may not be representative of the portfolios' current or future investments. The source of the information for all Sector Allocations is FactSet Research Systems, Russell Sectors.

## Important Disclosures

### Performance Disclosure

Past performance is no guarantee of future results.

The performance information for each portfolio relates to composites of client accounts with particular investment strategies. Valuations and returns are computed and stated in U.S. Dollars, are dollar-weighted and reflect the reinvestment of dividends and other earnings. Performance is calculated monthly, and the gross performance results for each portfolio are presented before management fees but after all trading commissions. The net performance results are presented after deducting a management fee based on the management fee schedule that is listed in the Product Summary section. In addition, the composite for the Small Cap Value includes the performance of a registered mutual fund, and the fees for the fund are listed in the Product Summary section.

The performance information includes a comparison to various benchmarks, which are rebalanced annually. The benchmarks used for each portfolio are as follows:

- Small Cap Value: Russell 2000 Value Index and the Russell 2000 Index
- Small/Mid Cap Value: Russell 2500 Value Index and the Russell 2500 Index
- Mid Cap Value: Russell Midcap Value Index and the Russell Midcap Index
- Large Cap Opportunity: Russell 1000 Index and the Russell 1000 Value Index
- All Cap Value: Russell 3000 Value Index and the Russell 3000 Index

The Small Cap Value composite consists of all fully discretionary, fee-paying, taxable accounts by CRM managed using the same strategy as the other accounts in the composite. The Small/Mid Cap Value, Mid Cap Value, Large Cap Opportunity and All Cap Value composites consist of all fully discretionary, fee-paying, tax-exempt accounts managed by CRM using the same strategy as the other accounts in the composite. Accounts which were active during the quarter but are no longer with the firm are included in each composite.