

# Victory Capital Management

## The Case for Mid Caps

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It is not approved for public use or distribution.*

# Market Highlight

Mid cap equity strategies continue to gain momentum and increased attention within the investment community. Furthermore, Standard & Poor's recently illustrated this market cap space with an article titled:

## ***“Mid-Cap Equities are Where it is at”.***

- Year to date 2007, mid cap benchmarks continue to outperform respective large cap benchmarks.
- Difficulty for large cap companies to continue to post double-digit EPS advances.
- Investors may gravitate away from large cap equities, and into mid cap's ongoing profit momentum.

*(Source: Plansponsor.com, **Standard & Poors Equity Research Services**, April 2007).*

# Introduction

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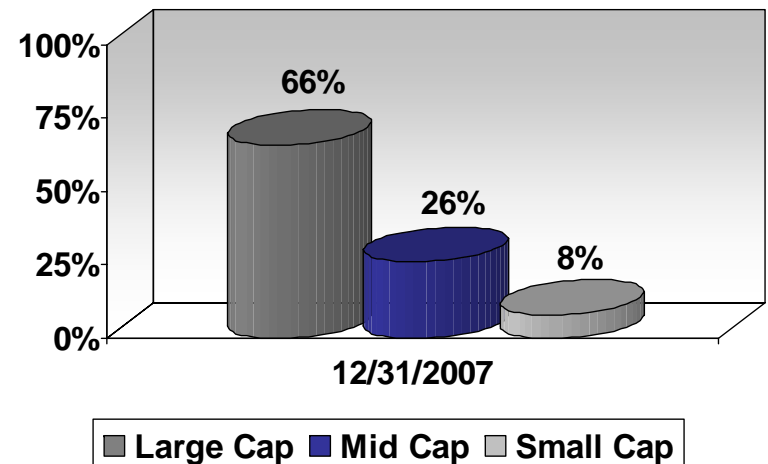
- ***Mid caps continue to be underutilized by investors, resulting in:***
  - Underperformance
  - Less diversification
  - Lack of stabilization with market volatility
- ***What can the mid cap asset class offer?***

# Domestic Equity Market Structure

The mid cap universe of stocks represents over 1/4<sup>th</sup> of the total domestic equity market capitalization (as represented by the Russell 3000<sup>®</sup> Index) as of December 31, 2007. A truly diversified portfolio would allocate a percentage of assets to a mid cap product.

Russell U.S. Equity Index Market Capitalization Groups:		
<b>Large</b>	>\$16 Billion	
<b>Mid</b>	>\$1.4 Billion	<\$16 Billion
<b>Small</b>	>\$125 Million	<\$1.4 Billion

**Russell 3000 Market Cap Allocations**

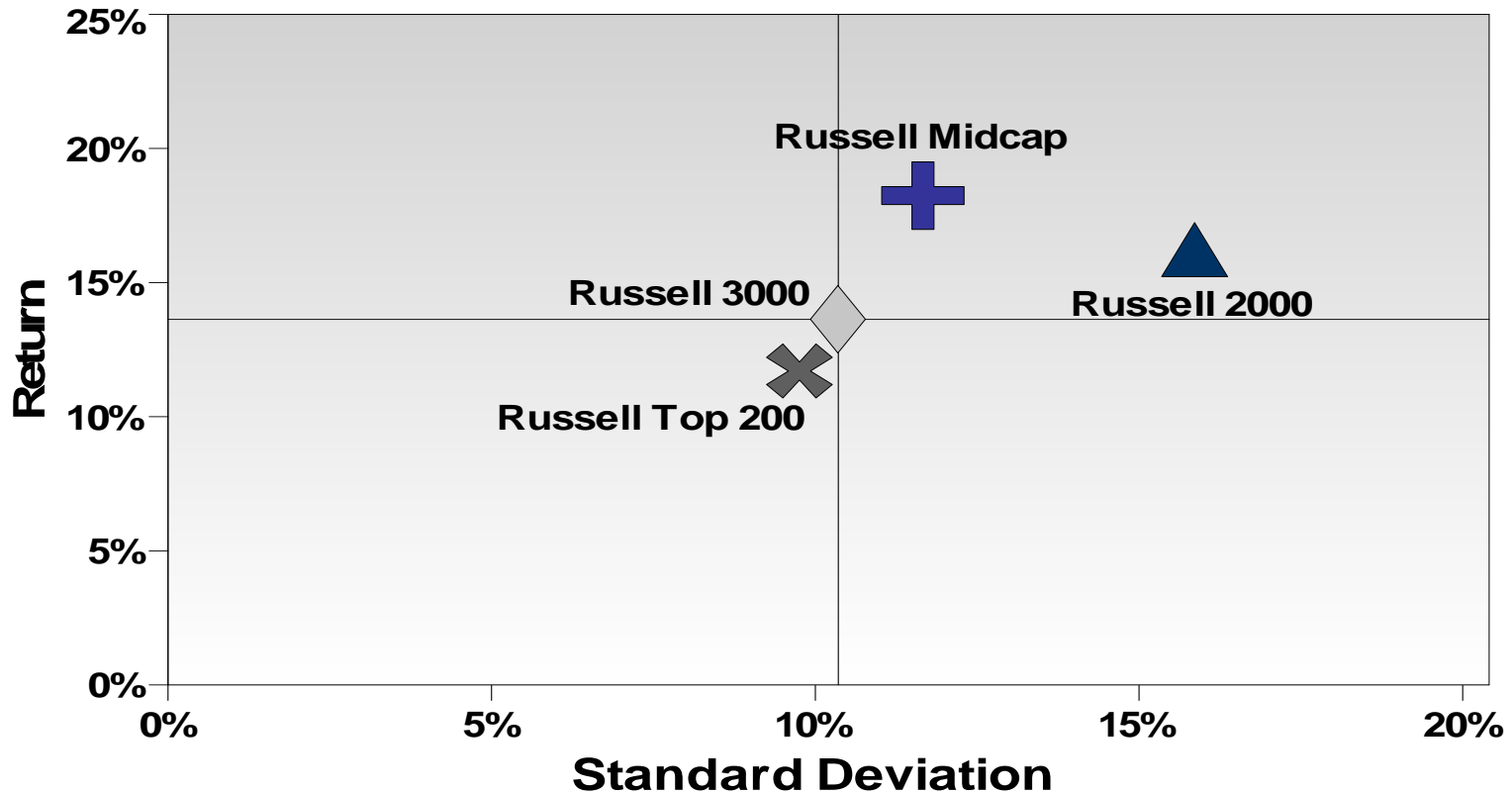


Source: Russell.com as of 12/31/2007.

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# Risk/Reward Relationship

January 2003 - December 2007

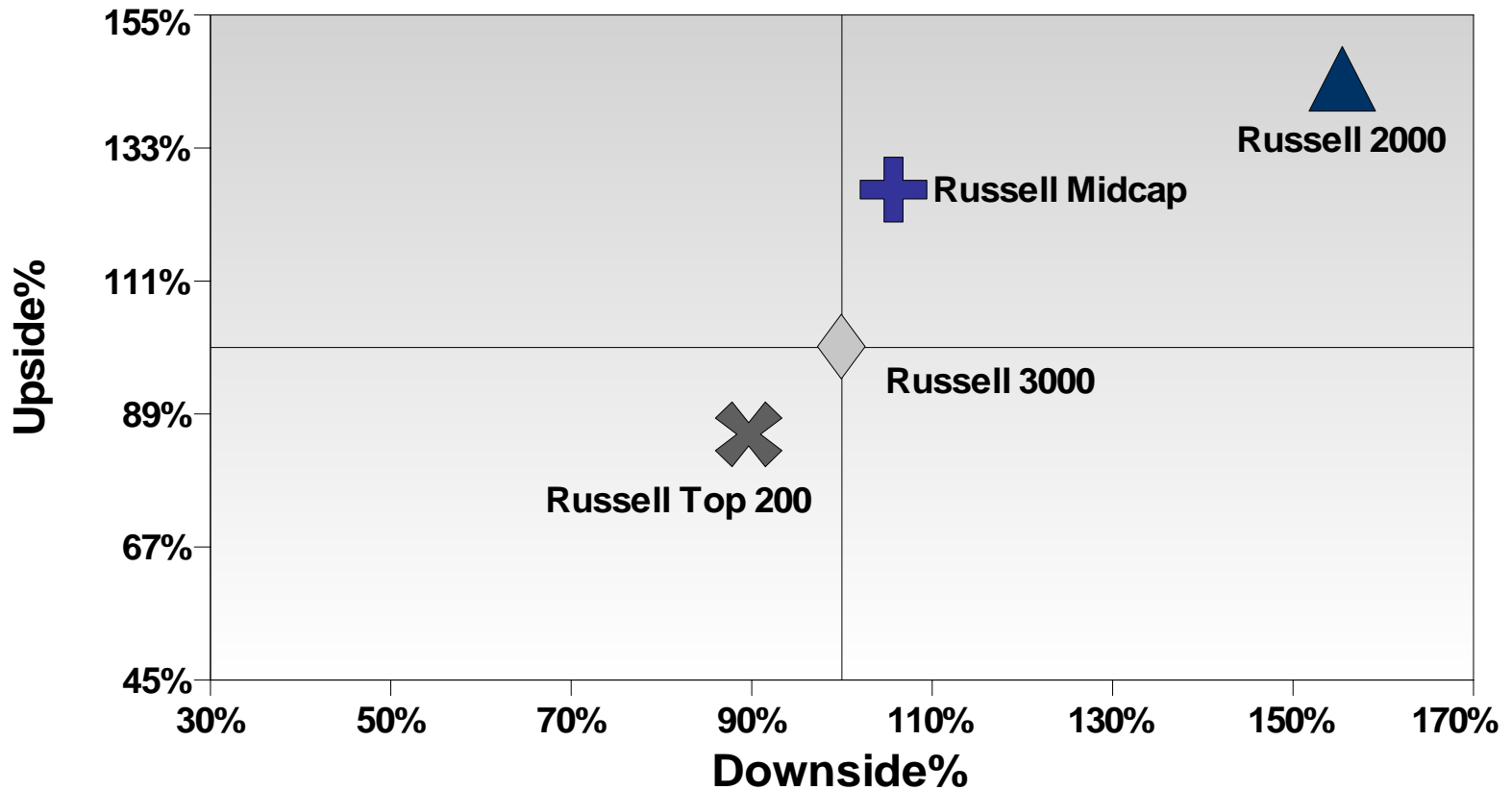


Source: Zephyr StyleADVISOR™ as of 12/31/2007.

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# Market Capture

January 2003 - December 2007



Source: Zephyr StyleADVISOR™ as of 12/31/2007.

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# Plan Allocation

## Typical Moderate Plan (Plan A)

<input checked="" type="checkbox"/>	Large Cap	40%
<input checked="" type="checkbox"/>	Small Cap	10%
<input checked="" type="checkbox"/>	International	15%
<input checked="" type="checkbox"/>	Fixed Income	30%
<input checked="" type="checkbox"/>	Cash or Stable	5%

## Adjusted Allocation Plan (Plan B)

<input checked="" type="checkbox"/>	Large Cap	30%
<input checked="" type="checkbox"/>	<b>Mid Cap</b>	<b>20%</b>
<input checked="" type="checkbox"/>	Small Cap	5%
<input checked="" type="checkbox"/>	International	10%
<input checked="" type="checkbox"/>	Fixed Income	30%
<input checked="" type="checkbox"/>	Cash or Stable	5%

### Five Years Ending December 31, 2007

	Return	Standard Deviation	Alpha	Sharpe Ratio
<b>Plan A</b>	11.23%	7.32%	0.71%	1.13
<b>Plan B</b>	11.78%	7.23%	1.27%	1.22

*Hypothetical manager blends of performance are for illustrative purposes only and do not reflect past performance results. (Blended portfolios assume an annual re-balancing methodology).*

*Definition of asset classes: Large Cap: Russell Top 200® Index; Mid Cap: Russell Midcap® Index; Small Cap: Russell 2000® Index; International: MSCI EAFE Index; Fixed Income: Lehman US Aggregate Bond Index; Cash: Citigroup 3-Month T-Bill.*

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# Victory Mid Cap Equity

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# What Sets Victory Mid Cap Equity Apart?

## Performance

- Outperformed Russell Midcap® Index over trailing 1-, 3- and 5-year periods\*\*
- Top decile ranking for 1, 3 & 5 years based on returns\*

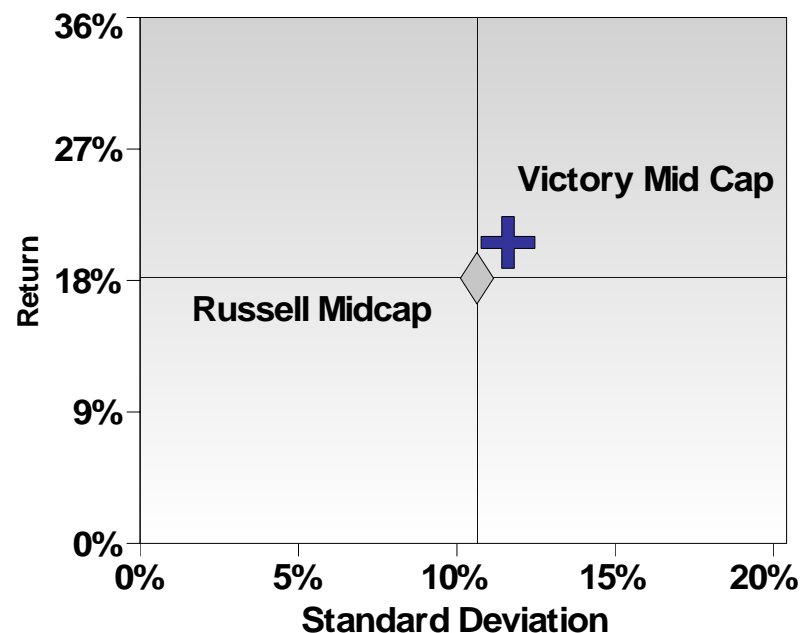
## Style

- Mid Cap Core

## Disciplined, Repeatable Process

- Process emphasizes fundamental research
- Combines top-down and bottom-up investment approaches
- Risk management fully integrated throughout portfolio construction

## January 2003 - December 2007



\*Source: Zephyr StyleADVISOR™ for all information on this page.  
Victory Capital Management Inc. composite and PSN manager database reflect performance gross of fees.

\*Composite returns and peer-based rankings as of 12.31.2007.

\*\*Performance versus the Russell Midcap® Index is calculated net of fees.

For one-on-one use only. Past performance should not be considered indicative of future results.

See composite information for additional information.

# Mid Cap Equity Objective & Philosophy

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## *Objective*

To outperform the Russell Midcap<sup>®</sup> Index on a relative and risk-adjusted basis over the long-term.

## *Philosophy*

Consistently strong relative performance can be achieved by employing:

- A relative value approach that combines top-down and bottom-up methodologies with integrated risk management.
- A thematic approach that incorporates macroeconomic analysis to help identify investment opportunities.
- A rigorous, well-defined and repeatable process.

# Mid Cap Equity Strategy Team

***Leslie Z. Globits***  
Senior Portfolio Manager  
Chief Investment Officer

Joined firm in 1987  
25 years investment experience  
MBA, Cleveland State  
BA, The University of New South Wales

***Kirk A. Schmitt, CFA***  
Portfolio Manager  
Director

Joined firm in 2000  
8 years investment experience  
MBA, Virginia Commonwealth University  
BSBA, West Virginia University

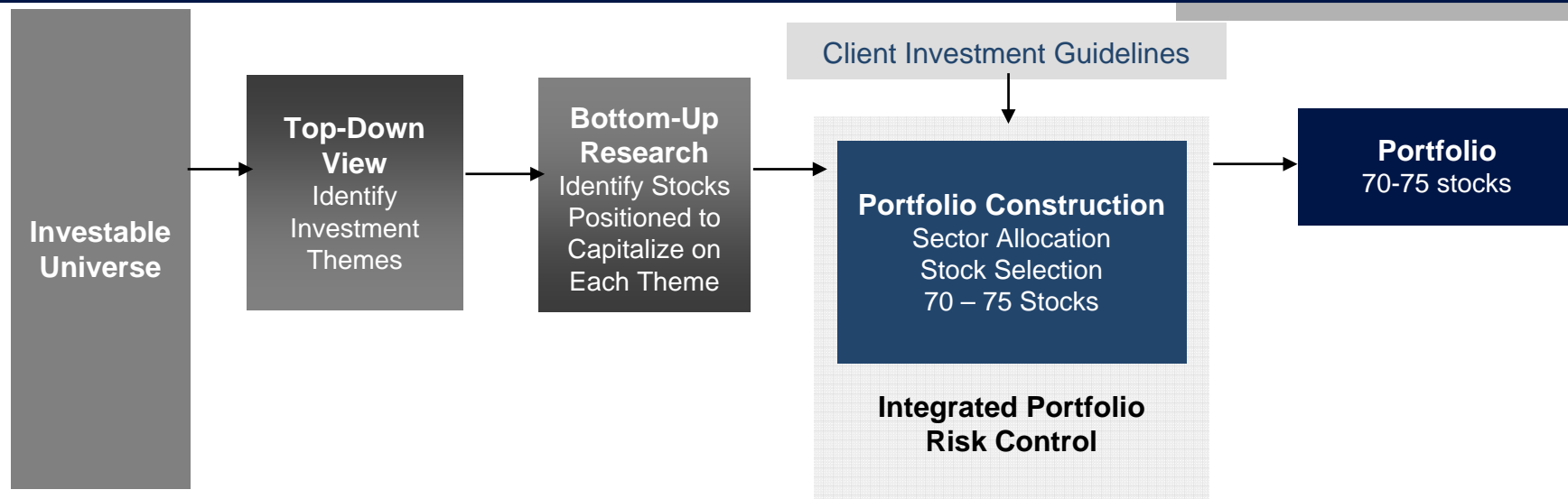
***Matthew J. Lombardo***  
Equity Portfolio Associate

Joined firm in 2005  
3 years investment experience  
BA, Michigan State University  
CFA Candidate

**Victory Capital Management Inc. Equity Research Team**

*The Portfolio Management Team's decision-making is supported by Victory's research team which provides a framework for the team's analysis.*

# Disciplined, Repeatable Process



## *Our Mid Cap Equity process is disciplined, well-defined and repeatable:*

- We consider approximately 800 stocks in the Russell Midcap® Index and other equity securities of similar market capitalization.
- Our top-down macroeconomic analysis uncovers thematic opportunities.
- Using fundamental research and rigorous stock selection, we identify companies positioned to capitalize on selected themes.

# Integrated Risk Control

## A well-diversified portfolio:

- 70-75 stocks
- Exposure to all sectors

## Scaled purchases and sales:

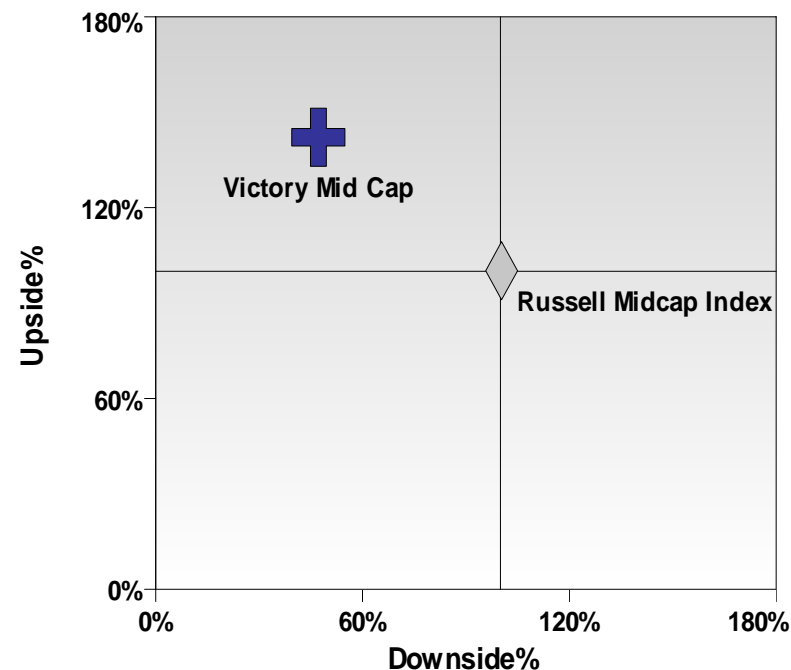
- Positions are increased on rising conviction
- Positions are trimmed if conviction decreases

## Dedicated risk management analyst:

- Northfield system utilized to identify sources and magnitude of risk in portfolio
- Tracking error to benchmark risk range: 4 – 7.5%
- Monitor predicted beta, peer concentrations and risk direction

## Strong Upside/Downside Market Capture

January 2005 - December 2007



\*Source: Zephyr StyleADVISOR™ for all information on this page.  
Statistics are for the three years ended 12.31.2007 utilizing quarterly returns.  
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See composite information for additional information.

# Summary

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*Mid caps should not be an ignored asset class.*

# Definitions

## **Russell Midcap® Index**

An unmanaged index of medium and medium/small companies in the Russell 1000® Index. This Index does not include the effect of expenses, is not representative of any specific fund or product and cannot be invested in directly.

## **Sharpe Ratio**

A portfolio's excess return over the risk-free rate divided by the portfolio's standard deviation. The portfolio's excess return is its geometric mean return minus the geometric mean return of the risk-free instrument (by default, T-bills).

## **Standard Deviation**

A statistical measure of volatility indicated the risk associated with a return series. Standard deviation of return measures the average deviations of a return series from its mean, and is often used as a measure of risk. A large standard deviation implies that there have been large swings in the return series of the manager.

## **Upside & Downside Market Capture**

The up and down capture is a measure of how well a manager was able to replicate or improve on phases of positive benchmark returns, and how badly the manager was affected by phases of negative benchmark returns.

## **Victory Capital Management Inc.**

Victory is a wholly owned subsidiary of KeyBank N.A. and a second tier subsidiary of KeyCorp.

# Composite Performance

## Victory Mid Cap Equity vs. Russell Midcap<sup>®</sup> Index

Year Ending	Gross Return Asset-Wtd.	Total Net Return Asset-Wtd.	Russell Midcap <sup>®</sup> Benchmark	Number of Portfolios	Asset-Wtd. Dispersion	Composite Assets - End of Period (MM)	Total Firm Assets End of Period (MM)
12/31/2007	15.18%	14.33%	5.60%	14	0.18%	\$1,627	\$62,136
12/31/2006	18.21%	17.34%	15.26%	13	0.17%	\$1,036	\$60,896
12/31/2005	20.60%	19.58%	12.65%	11	0.18%	\$642	\$56,013
12/31/2004	19.05%	18.00%	20.22%	4	0.19%	\$397	\$53,089
12/31/2003	30.84%	29.70%	40.06%	4	0.06%	\$455	\$50,205
12/31/2002	-8.35%	-9.18%	-16.19%	4	0.25%	\$385	\$44,352
12/31/2001	7.17%	6.22%	-5.62%	4	0.17%	\$457	\$28,017
12/31/2000	26.32%	25.21%	8.25%	3	0.51%	\$433	\$33,072
12/31/1999	0.28%	-0.62%	18.23%	6	0.61%	\$1,080	\$33,323
12/31/1998	-7.55%	-8.39%	10.09%	6	0.16%	\$1,350	\$29,161

1. Victory Capital Management Inc. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>).
2. Victory Capital Management is an independent investment advisor registered under the Investment Advisers Act of 1940. Victory is a wholly owned subsidiary of KeyBank National Association and a member of the Key financial network. A complete list and description of firm composites and additional information regarding policies for calculating and reporting returns are available upon request.
3. The Mid Cap Equity composite includes all separately managed accounts invested in mid cap securities (i.e. markets caps between \$1-\$20 million), long term growth of capital and dividend income from value and growth companies with a minimum equity commitment goal of 70-90%. Benchmark is Russell MidCap<sup>®</sup> Index. (In January 2005 the benchmark was changed retroactively. The previous benchmark was the S&P MidCap Index for all time periods. The current benchmark more accurately reflects the industry preference for comparing Mid Cap product performance.) Composite creation date is 1Q93. The composite was previously named "Managed Mid Cap Value Equity".
4. Returns are net of non-reclaimable withholding taxes, if any. Returns reflect the reinvestment of dividends and other earnings. All returns are expressed in U.S. Dollars. Minimum asset size requirements for composite participation were used prior to 1/1/2004. The minimum asset size for this composite was previously set at \$1m.
5. The benchmark returns are provided to represent the investment environment existing during the time periods shown and are not covered by the report of independent verifiers. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The returns for the index do not include any transaction fees or other costs.
6. The dispersion of annual returns is measured by the asset-weighted standard deviation of account returns represented within the composite for the full year.
7. Victory Capital Management net of fee performance results for composites are based on model fees. The model fee is set equal to the highest fee on the fee schedule for the product and deducted from the composite total return on a monthly basis. The model fee for this composite is set at 75 bps. The fee schedule for this product was updated 10/01/05. The model fee for this product composite was previously set at 90 bps. The change in the model is on a prospective basis only. There is no change to historical net of fee rates of return. The complete fee schedule for this product is:

Market Value	Annual Fee	Market Value	Annual Fee
First \$25,000,000	0.75% (Min. Annual Fee: \$75,000)	Above \$100,000,000	0.60%
Next \$25,000,000	0.70%		
Next \$50,000,000	0.65%		

8. Past performance should not be considered indicative of future performance.