

# Quantitative Strategy

FIRST QUARTER 2008

## STRATEGY OBJECTIVE

THE ZACKS QUANTITATIVE STRATEGY SEEKS TO DELIVER SUPERIOR RETURNS RELATIVE TO THE MARKET THROUGH A QUANTITATIVELY FOCUSED INVESTMENT STRATEGY.

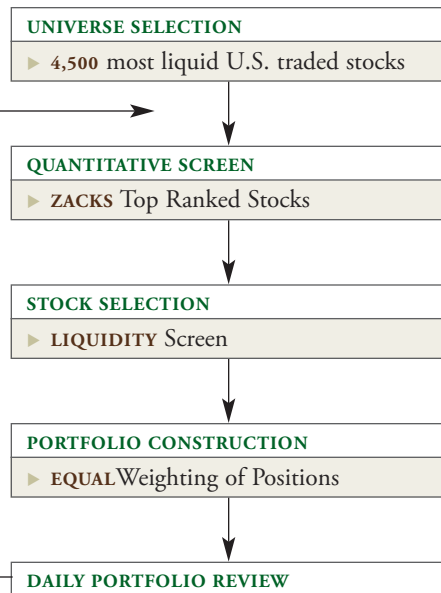
## PERFORMANCE HIGHLIGHT

SINCE INCEPTION, ZACKS QUANTITATIVE STRATEGY HAS DEMONSTRATED SUPERIOR OUT-PERFORMANCE. ON AN ANNUALIZED BASIS THE STRATEGY HAS PRODUCED A 11.8% RETURN.

## Investment Process Summary

“THE ZACKS PERFORMANCE RANKING SYSTEM EFFECTIVELY PREDICTS FUTURE EARNINGS ESTIMATE REVISIONS AND IDENTIFIES STOCKS THAT INSTITUTIONAL INVESTORS ARE LIKELY TO BUY.”

- Mitch Zacks, Portfolio Manager



## Strategy Overview

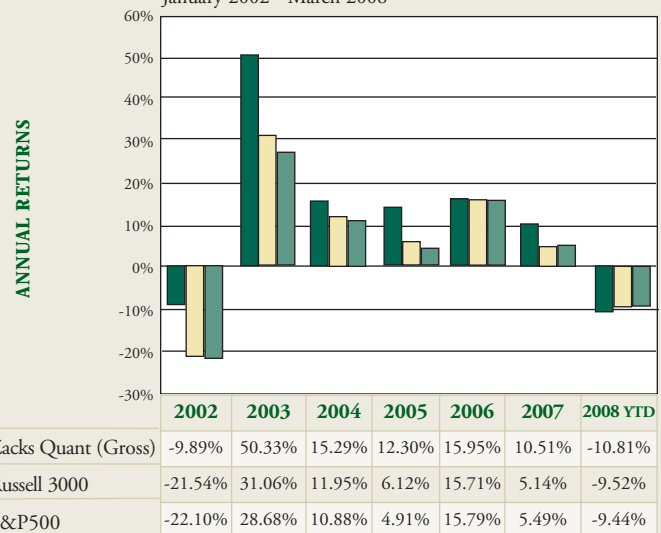
Mitch Zacks is the firm's primary expert in the area of quantitative investing and is a noted author, columnist and public speaker. He is a member of the firm's Investment Committee and is the portfolio manager for the Quantitative Strategy.



The Zacks Quantitative Strategy is a disciplined, systematic and risk controlled portfolio that is rebalanced approximately once each quarter based on a proprietary quantitative stock selection model, the Zacks Performance Rank, which focuses on predicting analyst earnings revisions.

## ZACKS QUANTITATIVE STRATEGY

Annual Returns  
(not annualized if less than one year)  
January 2002 - March 2008



## Portfolio Annualized Returns

JANUARY 2002 TO MARCH 2008

| ANNUALIZED RETURN THROUGH 3/31/08 | QP GROSS | RUSSELL 3000 | S&P 500 |
|-----------------------------------|----------|--------------|---------|
| 1 Year                            | -4.30%   | -6.06%       | -5.08%  |
| 3 Year                            | 8.50%    | 6.10%        | 5.85%   |
| 5 Year                            | 18.25%   | 12.07%       | 11.32%  |
| Since Inception                   | 11.77%   | 4.85%        | 4.16%   |

## Portfolio Characteristics

- ▶ **STOCK SELECTION:** Primarily Zacks Rank of 1
- ▶ **REGULAR REBALANCING:** Stocks with declining rank are sold and replaced with new top ranked stocks
- ▶ **FLEXIBILITY:** Invests in equities of all market caps
- ▶ **BLENDED:** Buys growth and value stocks
- ▶ **DIVERSIFIED:** 175 to 225 positions in the portfolio

## Portfolio Statistics

AS OF 3/31/08

|                | QP STRATEGY | S&P 500 | RUSSELL 3000 |
|----------------|-------------|---------|--------------|
| Price/Earnings | 23.96       | 17.44   | 21.01        |
| Dividend Yield | 1.27%       | 2.16%   | 1.92%        |
| Beta*          | 1.04        | 0.98    | 1.00         |
| Std. Deviation | 15.35%      | 12.07%  | 12.20%       |
| Alpha          | 6.86%       | -0.60%  | 0.00%        |

\* Beta calculated using Zephyr's Style Advisor

# Zacks

ZACKS INVESTMENT MANAGEMENT

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# Quantitative Strategy

## About Zacks

Headquartered in Chicago, Zacks Investment Management is a Registered Investment Advisor. It is a subsidiary of Zacks Investment Research, a privately held firm known for its analysis of investment data and for its independent equity research capabilities.

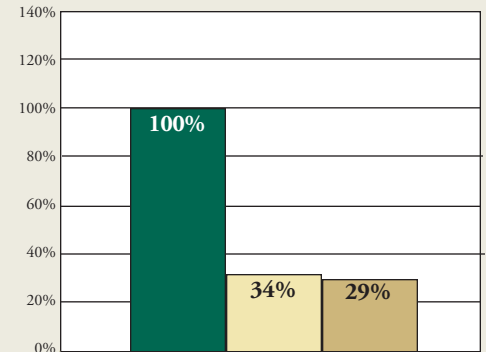
Zacks Investment Management specializes in portfolio management and asset allocation for institutions and wealthy individual investors. We employ a unique process combining a quantitative screening methodology and fundamental bottom up analysis. We manage assets in an active fashion incorporating both a macro and micro view of the markets, the economy and our clients objectives.

## The Quantitative Strategy's...

**investment process exploits the delays inherent in stock price response to significant changes in brokerage analysts' earnings estimates. When analysts change their earnings estimates, large institutional investors react slowly and over time modify their own perceptions of the company through extensive internal review. By relying on a quantitative model and above average turnover, we anticipate and profit from analysts' earnings estimate revisions. The ability to anticipate revisions provides the opportunity to earn significant excess returns.**

## CUMULATIVE PERFORMANCE COMPARISON

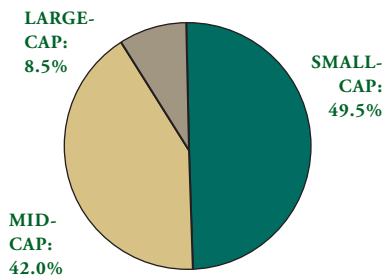
Zacks Quantitative Strategy (January 2002 to March 2008)



|                    |      |
|--------------------|------|
| ■ Zacks QP (Gross) | 100% |
| □ Russell 3000     | 34%  |
| ■ S&P500           | 29%  |

## Market Capitalization

The current portfolio is an all-cap blend that includes 49.5% small-, 42% mid- and 8.5% large-cap stocks representing both value and growth styles. The average weighted market cap is \$4.4 billion.



## How the Zacks Quantitative Strategy is Managed

- ▶ **QUANTITATIVELY DRIVEN** process with qualitative oversight managed by Mitch Zacks.
- ▶ **PROPRIETARY MODELS** predict analyst behavior.
- ▶ **POSITIONS** selected from a universe of the 4,500 most liquid stocks.
- ▶ **EXTENSIVE RISK CONTROLS**
- ▶ **POSITIONS** are of approximate equal-weight.
- ▶ **ROBUST EXPLOITATION** of the earnings estimate revision factor.

### INDEPENDENT

Research | Thinking | Results

## Sample Portfolio Holdings

(AS OF 3/31/08)

- ▶ LINDSAY MANUFACTURING CORP
- ▶ NETFLIX, INC.
- ▶ WALTER INDUSTRIES INC
- ▶ PSYCHIATRIC SOLUTIONS INC
- ▶ INTUITIVE SURGICAL INC
- ▶ GAMESTOP CORP
- ▶ MASTERCARD INC
- ▶ INTERMUNE CORP
- ▶ FTI CONSULTING INC
- ▶ CSX CORPORATION

**Note:** The positions listed are a representative sample for the Quantitative Strategy on 3/31/08 and may not be indicative of the portfolio holdings at any other time.

**DISCLOSURE** Past performance is no guarantee of future results. Results for Zacks Quantitative Strategy are from a representative account. Results for Zacks Quantitative Strategy are shown gross. Results for the Strategy reflect the reinvestment of dividends and other earnings. Individual results may differ. Investments in the Zacks Quantitative Strategy are not deposits of any bank, are not guaranteed by any bank, are not insured by FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested.

Lower fees may apply to larger accounts, higher fees may apply to smaller accounts. Separately managed account minimums apply. Standard management fees are available on request and are described in Part II of Form ADV.

The Russell 3000 index measures performance of the 3000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The S&P 500 Index is a well-known, unmanaged index of the prices of 500 large-company common stocks, mainly blue-chip stocks, selected by Standard & Poor's. The S&P 500 Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index.

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