BEACON POINTE ADVISORS

BEACON POINTE RESEARCH

ACTIVE VERSUS PASSIVE MANAGEMENT
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CONFIDENTIAL – PROPRIETARY

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HIGHLIGHTS

- *Background:* Index funds and passive investment management vehicles have become increasingly popular in the institutional investment market. In the past few years, index funds reached almost 30% of all institutional assets. The 2000 NACUBO (National Association of College and University Business Officers) study identified that major endowment funds have on average 27.8% of fund assets invested in index funds. Passively managed investment funds have gained extreme popularity in the retail markets as well—the Vanguard S&P 500 Index Fund has reached $60 billion as of September 2002.

  Investment professionals have long argued whether active or passive management is a better investment strategy. Although the number of actively managed investment products have significantly increased during the past number of years, passively managed index funds have grown in popularity because they cost less, offer sufficient diversification, and require less time to monitor.

- *Summary:* Beacon Pointe's analysis shows that active investment management has outperformed the respective indices over rolling-periods. Although there are periods when outperforming certain indices is difficult, the indices have not outperformed the median manager over a consistent number of rolling periods.

  Our analysis also shows that inefficiencies in certain investment styles, such as small cap growth and international equity, lead to greater outperformance by actively managed portfolios. Although certain factors, such as survivorship bias, influence any analysis using long-term investment manager performance, Beacon Pointe believes that the following analysis sufficiently supports our belief that actively managed portfolios offer greater return opportunities.

  Beacon Pointe does emphasize that not all actively managed portfolios outperform their respective indices. We believe that firms that rank well within our investment manager evaluation process (review of a firm's People/Organization, Investment Philosophy/Process, and Firm/Product Resources) have higher probabilities of meeting future return objectives.

Background – Index Funds

➢ Passively managed index funds have become popular for the following reasons:

- *Index funds are less costly* relative to the traditional actively managed investment product. Not only do index funds have lower management and administrative fees, but the funds also have lower transaction costs due to lower portfolio turnover rates. Our analysis has identified that the average expense ratio for large cap core equity mutual funds is 1.24%. The passively managed Vanguard S&P 500 Index Fund's expense ratio, however, is only 0.18%. This trend is true among other asset classes such as fixed income and international equity funds.

- *It is easier to monitor index funds* than it is to monitor actively managed investment portfolios. Investment committees understand that these funds will mimic and follow performance and stocks within the appropriate index. This understanding results in investment committees spending less time monitoring the index funds.

- *Index funds also offer lower investment management business risk.* Key factors that often lead to underperformance are changes in a firm's organizational structure, key investment professional turnover, or other business related factors. Index funds minimize business risk since the majority of index funds simply mimic the index and do not rely on the expertise of portfolio managers or research analysts. Not having to worry about specific business risk is very compelling to many funds.

- *Index funds have performed well over longer periods of time.* As of June 30, 2002, the major U.S. Equity indices had the following 10-year annualized returns: S&P500: 11.43%, Russell 3000: 11.27%, Wilshire 5000: 11.05%. As of the 2nd quarter end, the Lehman Aggregate had a 10-year annualized return of 7.34%. These positive returns have helped index funds grow in popularity.

Background – Index Definitions

- Individual and institutional investors today can choose from a number of different indices to represent the different investment styles. The major index vendors include, but are not limited to Standard and Poor's, Wilshire Associates, Frank Russell, and Morgan Stanley Capital International. For the following analysis, Beacon Pointe has used the indices most used by institutional investors: Russell (U.S. Equity), Lehman (U.S. Fixed Income), and MSCI (International Equity). Below are the definitions supplied by each of the vendors:

<u>Russell 3000 Index</u>

- Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.
- As of the latest reconstitution, the average market capitalization was approximately $4 billion; the median market capitalization was approximately $700 million.

<u>Russell 1000 Index</u>

- Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.
- As of the latest reconstitution, the average market capitalization was approximately $11 billion; the median market capitalization was approximately $3.5 billion.

<u>Russell 2000 Index</u>

- Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.
- As of the latest reconstitution, the average market capitalization was approximately $490 million; the median market capitalization was approximately $395 million.

<u>Russell 1000 Growth Index</u>

- Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

<u>Russell 1000 Value Index</u>

- Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

<u>Russell 2000 Growth Index</u>

- Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Background – Index Definitions

Russell 2000 Value Index

- Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

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Lehman Aggregate Index

- Represents securities that are U.S. domestic, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. The rules of the index require that securities:

  - must have at least one year to final maturity regardless of call features
  - must have at least $150 million par amount outstanding.
  - must be rated investment grade (Baa3 or better) by Moody's Investors Service. If a Moody's rating is not available, the S&P or Fitch rating is used.
  - must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule
  - must be dollar-denominated and non-convertible
  - must be publicly issued

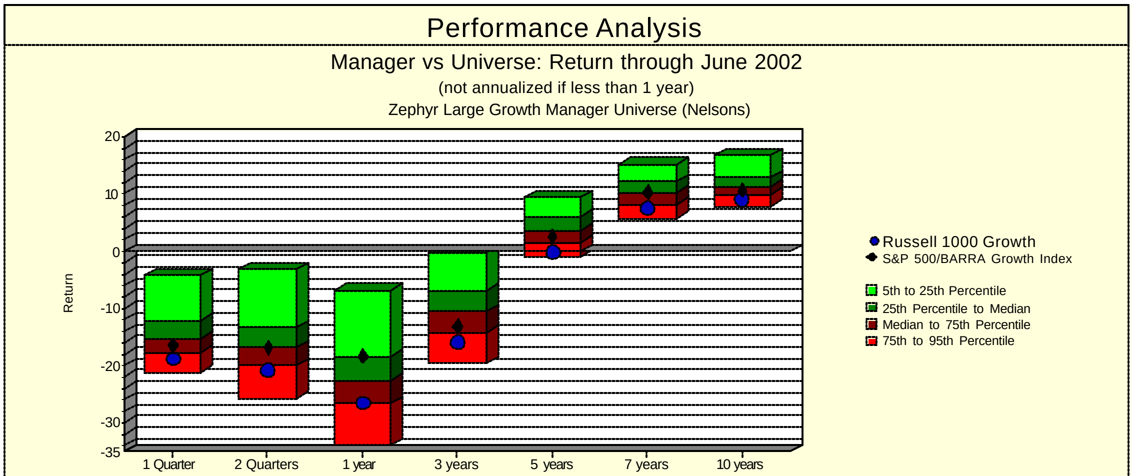
MSCI EAFE Index

- The MSCI EAFE Index (Europe, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of April,2002 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

Large Cap Growth

- Exhibit 1 below plots the Russell 1000 Growth index relative to a large cap growth universe over a number of different annualized periods. *As of June 30, 2002, the Russell 1000 Growth index has underperformed the median large cap growth manager in each of the different periods*. Both the Russell 1000 Growth and S&P500/Barra Growth indices underperformed the median manager for the past 10-year annualized period (Russell 1000 Growth: 8.91%, S&P500/Barra Growth: 10.87%).

Exhibit 1

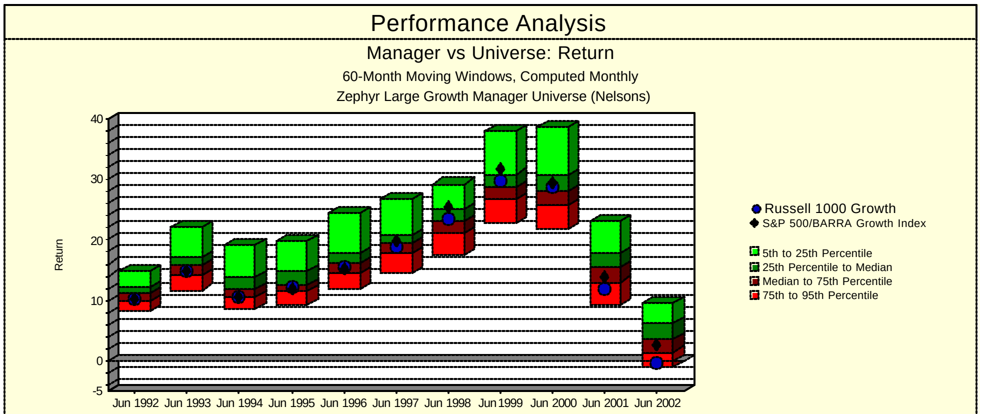


	1 Quarter	2 Quarters	1 year	3 years	5 years	7 years	10 years
Russell 1000 Growth	-18.67%	-20.78%	-26.49%	-16.15%	-0.28%	7.46%	8.91%
S&P 500/BARRA Growth Index	-16.26%	-16.92%	-18.50%	-13.25%	2.45%	10.31%	10.87%

Large Cap Growth

- Exhibit 2 plots the Russell 1000 Growth index relative to a large cap growth universe over rolling 5-year performance periods. *The Russell 1000 Growth index underperformed the median large cap growth manager over a number of rolling periods.*

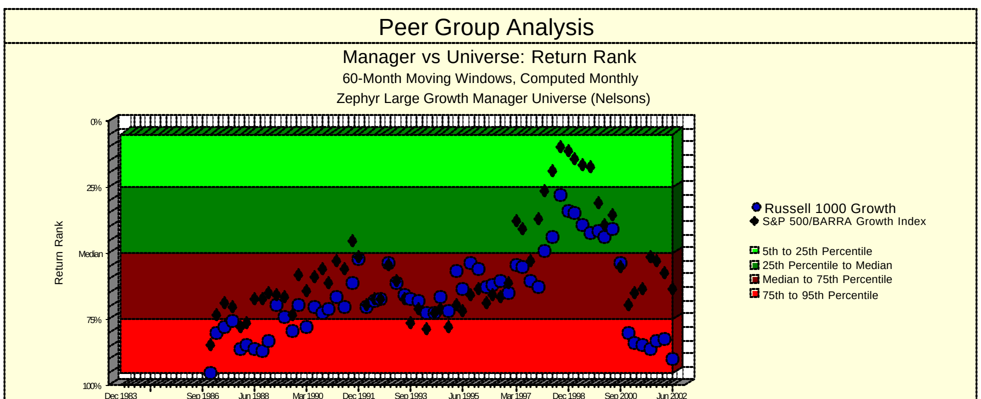
Exhibit 2



	Jun 1992	Jun 1993	Jun 1994	Jun 1995	Jun 1996	Jun 1997	Jun 1998	Jun 1999	Jun 2000	Jun 2001	Jun 2002
Russell 1000 Growth	10.35%	14.98%	10.69%	12.11%	15.56%	18.96%	23.48%	29.65%	28.67%	11.99%	-0.28%
S&P 500/BARRA Growth Index	10.37%	14.75%	10.69%	11.72%	15.25%	19.97%	25.36%	31.81%	29.26%	13.89%	2.45%

- Exhibit 3 presents how the Russell index has historically ranked within the large growth universe over a number of rolling periods. *The analysis shows that the indices ranked below the median manager for the majority of rolling periods*.

Exhibit 3



	Jun 1992 75 mng	Jun 1993 93 mng	Jun 1994 119 mng	Jun 1995 136 mng	Jun 1996 162 mng	Jun1997 184 mng	Jun 1998 203 mng	Jun1999 226mng	Jun 2000 258 mng	Jun 2001 282 mng	Jun 2002 245 mng
Russell 1000 Growth	67.74%	65.46%	72.37%	63.17%	61.70%	55.09%	43.90%	39.37%	41.05%	84.85%	89.63%
S&P 500/BARRA Growth Index	67.48%	67.04%	72.49%	71.55%	65.97%	40.54%	19.22%	16.98%	35.94%	63.33%	63.52%

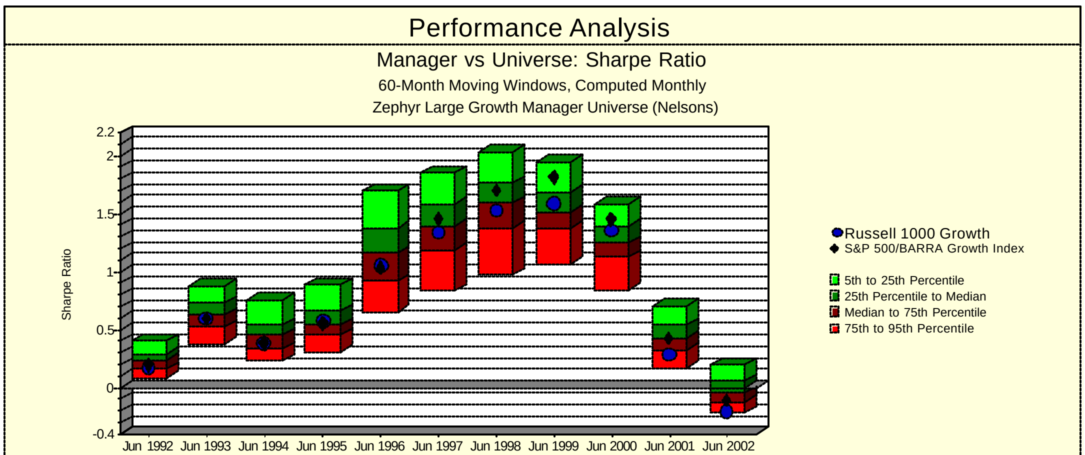
Large Cap Growth – Risk-Adjusted Performance

- Risk should always be considered when evaluating an investment strategy. Sharpe ratio analysis is commonly used to evaluate a portfolio's risk-adjusted returns.

- Sharpe Ratio - The Sharpe Ratio, developed by William F. Sharpe, is a measure of return per unit of risk. The ratio is calculated by taking a portfolio's excess return over the risk-free rate, divided by the portfolio's standard deviation.

- Exhibit 4 below and Exhibit 5 on the following page plot the Russell 1000 Growth's rolling 5-year Sharpe Ratios and 5-year Sharpe Ratio ranking relative to a large cap growth universe. Both exhibits show that the *Russell index has not consistently outperformed the median large cap growth manager on a risk-adjusted basis.*

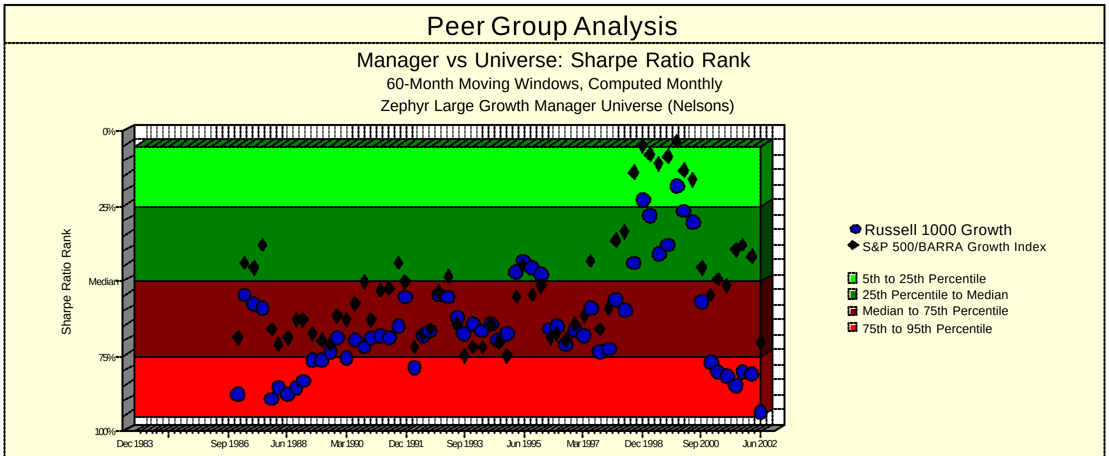
Exhibit 4



	Jun 1992	Jun 1993	Jun 1994	Jun 1995	Jun 1996	Jun 1997	Jun 1998	Jun 1999	Jun 2000	Jun 2001	Jun 2002
Russell 1000 Growth	0.18	0.59	0.38	0.58	1.06	1.33	1.52	1.58	1.36	0.29	-0.20
S&P 500/BARRA Growth Index	0.19	0.58	0.38	0.56	1.03	1.45	1.70	1.82	1.46	0.42	-0.11

Large Cap Growth – Risk-Adjusted Performance

Exhibit 5



	Jun 1992 75 mng	Jun 1993 93 mng	Jun 1994 119 mng	Jun 1995 136 mng	Jun 1996 162 mng	Jun 1997 184 mng	Jun 1998 203 mng	Jun 1999 226 mng	Jun 2000 258 mng	Jun 2001 282 mng	Jun 2002 245 mng
Russell 1000 Growth	68.24%	62.19%	64.35%	42.96%	65.36%	58.80%	60.09%	40.57%	29.98%	81.40%	93.33%
S&P 500/BARRA Growth Index	66.93%	64.46%	64.14%	44.96%	67.16%	43.42%	32.93%	10.93%	15.85%	51.61%	69.95%

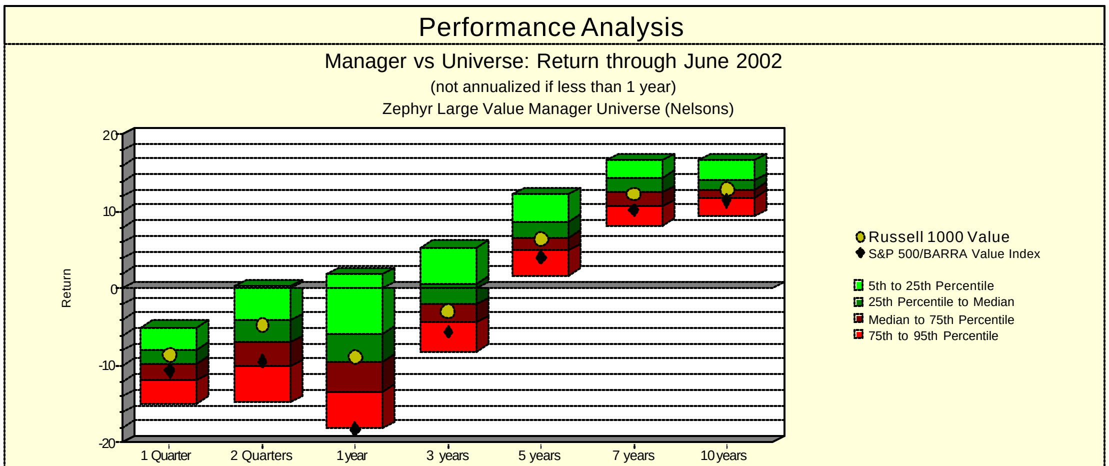
- *The Russell 1000 Growth index has not consistently outperformed the median large cap growth manager on an absolute or risk-adjusted performance basis.* Beacon Pointe believes that the large cap growth investment style is relatively inefficient and investment opportunities can be exploited with actively managed investment products.

Large Cap Value

- Exhibit 6 below plots the Russell 1000 Value index relative to a large cap value universe over a number of different annualized periods. As of June 30, 2002, the Russell 1000 Value index has performed in-line with the median large cap value manager in each of the different periods.

  Although this exhibit seems to show that 50% of the large cap value managers underperform the Russell 1000 Value, the performance analysis is time-period sensitive. The exhibits on the following page that show rolling-period analysis are better determinants as to whether passively managed index funds can outperform the median manager in the universe.

Exhibit 6

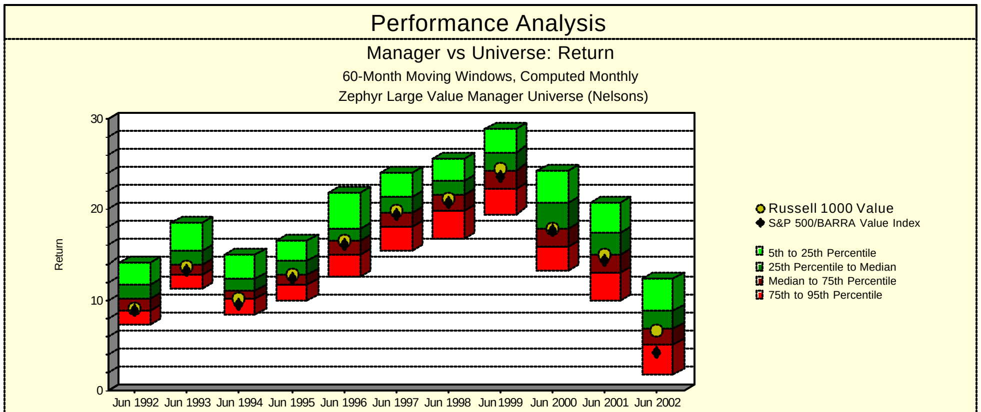


	1 Quarter	2 Quarters	1 year	3 years	5 years	7 years	10 years
Russell 1000 Value	-1.64	-0.64	-0.84	-0.51	0.12	0.52	0.64
S&P 500/BARRA Value Index	-1.80	-1.03	-1.27	-0.63	-0.03	0.35	0.49

Large Cap Value

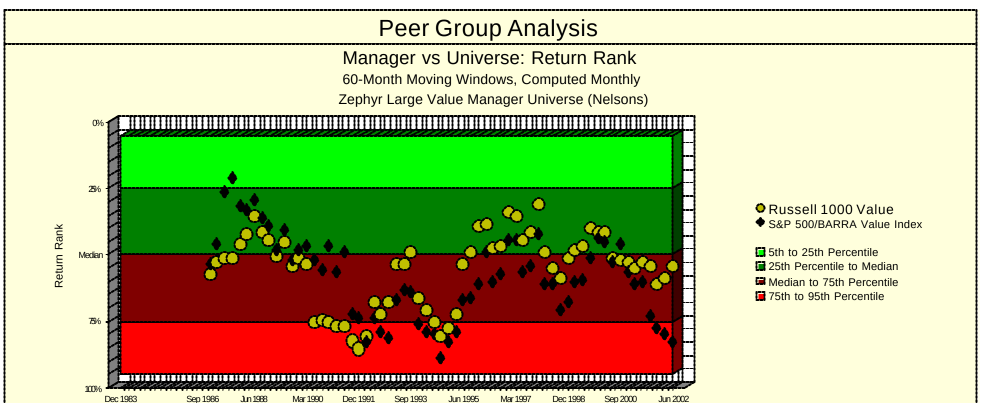
- Exhibit 7 and 8 below plot the Russell 1000 Value's rolling 5-year annualized returns relative to a large cap value universe. The analysis shows that although not on a consistent basis, the Russell 1000 Value has performed more inline with the median large value manager than the Russell 1000 Growth and the median large cap growth manager. *There are periods, however, when the index has underperformed the median manager.*

Exhibit 7



	Jun 1992	Jun 1993	Jun 1994	Jun 1995	Jun 1996	Jun 1997	Jun 1998	Jun 1999	Jun 2000	Jun 2001	Jun 2002
Russell 1000 Value	9.11%	13.78%	10.06%	12.76%	16.61%	19.89%	21.22%	24.55%	17.78%	14.94%	6.52%
S&P 500/BARRA Value Index	8.81%	13.26%	9.54%	12.25%	16.02%	19.34%	20.65%	23.64%	17.71%	14.34%	4.11%

Exhibit 8

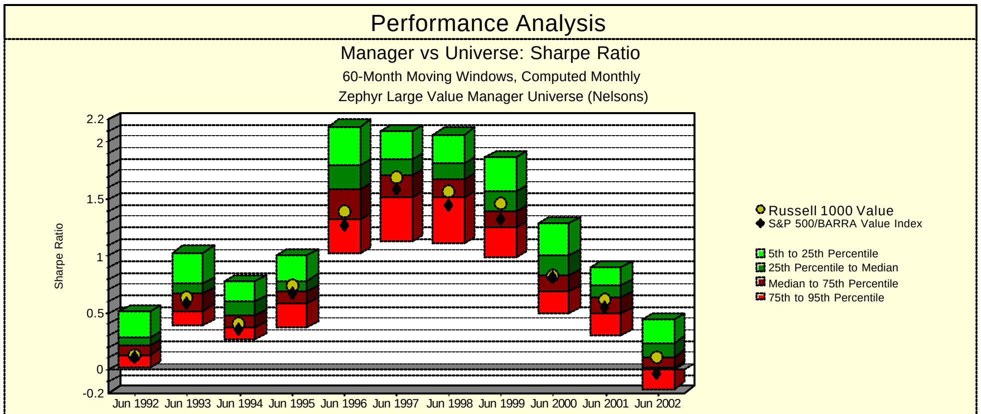


	Jun 1992 103 mng	Jun 1993 122 mng	Jun 1994 144 mng	Jun 1995 170 mng	Jun 1996 194 mng	Jun 1997 214 mng	Jun 1998 233 mng	Jun 1999 255 mng	Jun 2000 275 mng	Jun 2001 292 mng	Jun 2002 268 mng
Russell 1000 Value	67.88%	53.39%	75.43%	53.90%	47.93%	44.78%	55.06%	47.12%	51.35%	52.54%	54.10%
S&P 500/BARRA Value Index	73.71%	63.49%	80.41%	67.50%	60.33%	56.63%	61.36%	59.66%	52.83%	60.52%	82.52%

Large Cap Value – Risk-Adjusted Performance

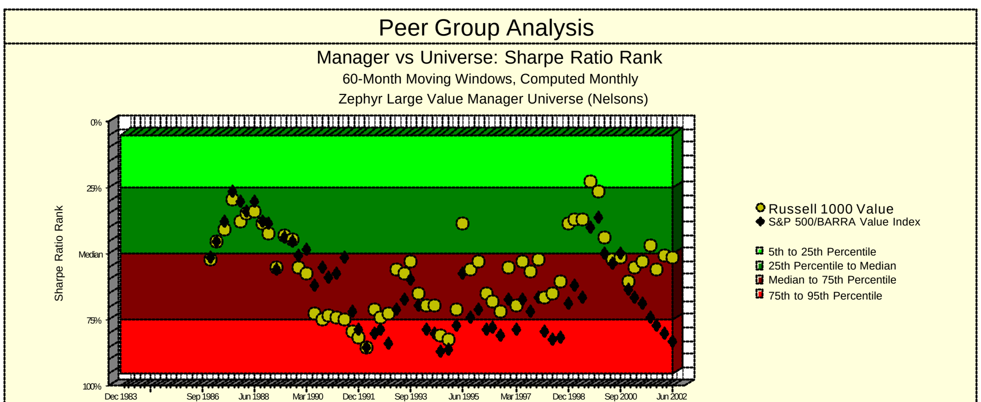
- *The risk-adjusted analysis shows that the Russell 1000 Value index has outperformed the median large value manager for a few rolling periods, but for the most part has underperformed the median manager. The analysis statistically shows that the index funds do not consistently outperform actively managed portfolios on a risk-adjusted basis.*

Exhibit 9



	Jun 1992	Jun 1993	Jun 1994	Jun 1995	Jun 1996	Jun 1997	Jun 1998	Jun 1999	Jun 2000	Jun 2001	Jun 2002
Russell 1000 Value	0.14	0.62	0.40	0.73	1.39	1.69	1.56	1.46	0.82	0.61	0.12
S&P 500/BARRA Value Index	0.12	0.57	0.35	0.67	1.27	1.58	1.44	1.32	0.81	0.55	-0.03

Exhibit 10



	Jun 1992 103 mng	Jun 1993 122 mng	Jun 1994 144 mng	Jun 1995 170 mng	Jun 1996 194 mng	Jun1997 214mng	Jun 1998 233 mng	Jun1999 255mng	Jun 2000 275 mng	Jun 2001 292 mng	Jun 2002 268 mng
Russell 1000 Value	71.09%	57.40%	69.30%	38.57%	68.35%	52.64%	65.14%	36.73%	51.97%	52.95%	51.31%
S&P 500/BARRA Value Index	80.27%	67.50%	80.16%	57.22%	77.97%	67.03%	82.33%	66.71%	53.89%	68.64%	83.01%

Large Cap Value – Summary

- By gauging how the Russell 1000 Value index has performed and ranked relative to the median large cap value manager, it seems that the large cap value investment style is a more efficient style than the large cap growth style. Our analysis shows that on average, 50% of the large cap value managers outperform the index over rolling periods. The Russell 1000 Value index, however, does plot near the median manager on a more consistent basis.

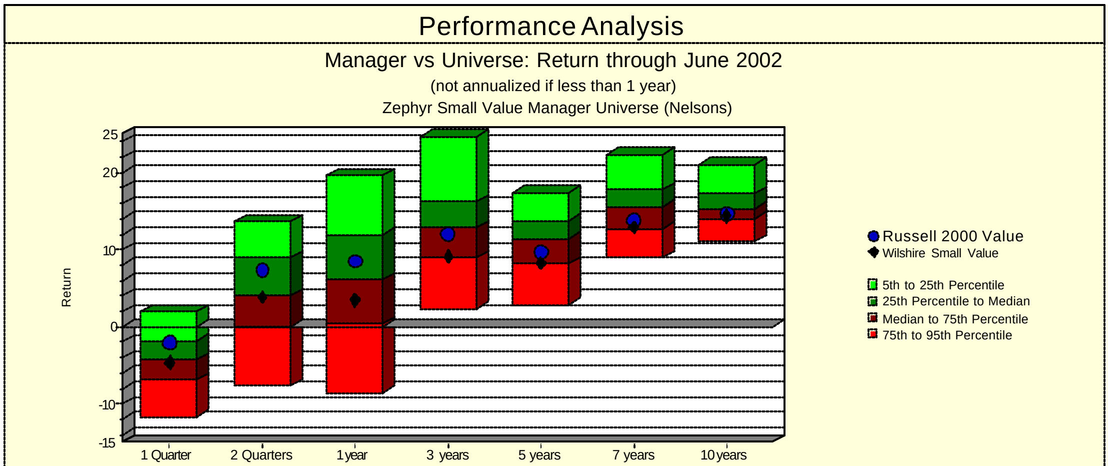
  Beacon Pointe believes that the large value style is a more difficult style to exploit because investment managers normally depend more on quantitative valuations and financial analysis rather than making various assumptions on future earnings and growth rates.

  Although the Russell 1000 Value has better relative performance than does the Russell 1000 Growth, relative to its universe, *the index does not consistently outperform the median large value manager*. Beacon Pointe believes that investors can find active investment products that consistently outperform the Russell index over rolling periods.

Small Cap Value

- Exhibit 11 below plots the Russell 2000 Value index relative to a small cap value universe over a number of different annualized periods. As of June 30, 2002, the Russell 2000 Value index has performed inline with the median small value manager over longer periods of time. The index, however, has outperformed the median manager in the past 1-year.

Exhibit 11

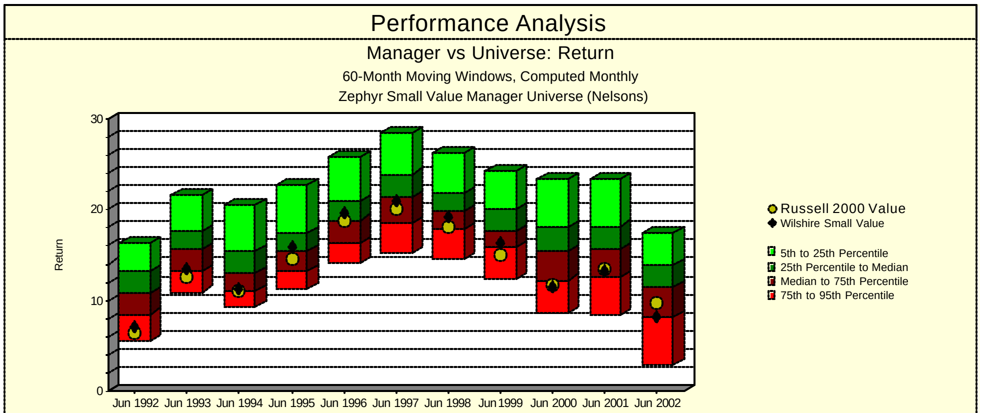


	1 Quarter	2 Quarters	1 year	3 years	5 years	7 years	10 years
Russell 2000 Value	-2.12%	7.26%	8.50%	12.02%	9.70%	13.77%	14.82%
Wilshire Small Value	-4.70%	3.87%	3.55%	9.14%	8.21%	12.90%	14.43%

Small Cap Value

- Exhibit 12, however, shows that the Russell 2000 Value index has *consistently underperformed the median small value manager over rolling 5-year periods.*

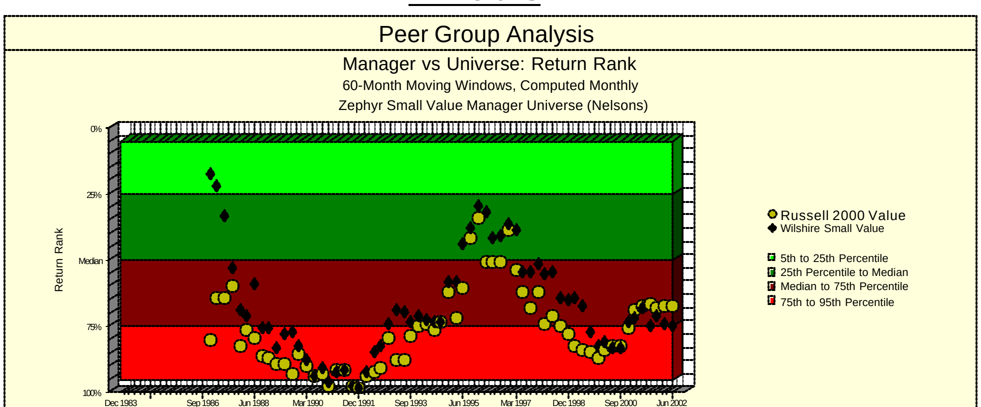
Exhibit 12



	Jun 1992	Jun 1993	Jun 1994	Jun 1995	Jun 1996	Jun 1997	Jun 1998	Jun 1999	Jun 2000	Jun 2001	Jun 2002
Russell 2000 Value	6.32%	12.49%	10.97%	14.63%	18.66%	20.17%	18.09%	15.01%	11.70%	13.43%	9.70%
Wilshire Small Value	7.14%	13.37%	11.24%	15.80%	19.60%	21.01%	19.26%	16.35%	11.43%	13.20%	8.21%

- *Exhibit 13 shows that the Russell 2000 Value index has consistently ranked below the median small value manager over rolling 5-year periods.* The index has only ranked higher than the median small value manager in 3 rolling periods.

Exhibit 13

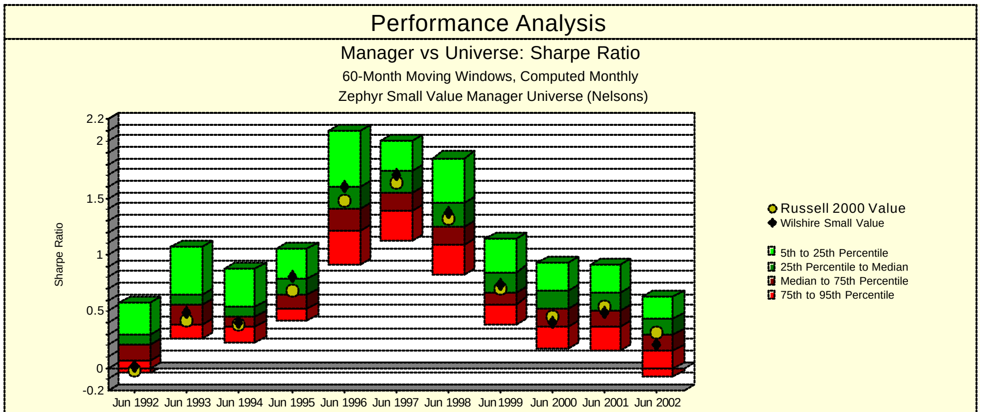


	Jun 1992 50 mng	Jun 1993 63 mng	Jun 1994 70 mng	Jun 1995 84 mng	Jun 1996 96 mng	Jun1997 116 mng	Jun 1998 132mng	Jun1999 153 mng	Jun 2000 181 mng	Jun 2001 221 mng	Jun 2002 217 mng
Russell 2000 Value	92.29%	87.81%	75.98%	60.48%	50.88%	62.07%	71.20%	83.87%	82.15%	67.58%	67.15%
Wilshire Small Value	84.50%	69.47%	73.01%	43.92%	41.81%	54.28%	54.17%	67.60%	83.34%	68.12%	74.91%

Small Cap Value – Risk-Adjusted Performance

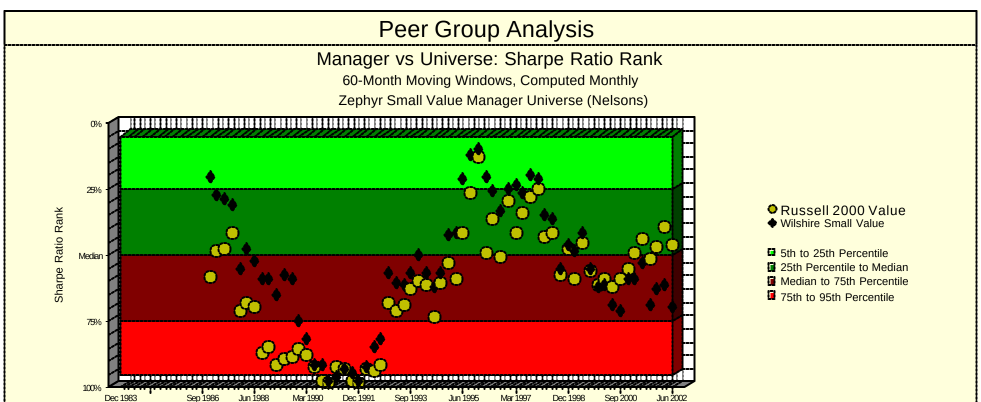
- Exhibit 14 and 15 present the Russell 2000 Value's risk-adjusted performance and Sharpe Ratio rankings over rolling 5-year periods. The index has gained some consistency in recent rolling periods, however, for the majority of rolling periods, has underperformed the median small value manager on a risk-adjusted basis.

Exhibit 14



	Jun 1992	Jun 1993	Jun 1994	Jun 1995	Jun 1996	Jun 1997	Jun 1998	Jun 1999	Jun 2000	Jun 2001	Jun 2002
Russell 2000 Value	-0.02	0.42	0.38	0.69	1.47	1.64	1.32	0.70	0.46	0.55	0.32
Wilshire Small Value	0.02	0.49	0.41	0.81	1.59	1.71	1.36	0.74	0.41	0.49	0.20

Exhibit 15



	Jun 1992 50 mng	Jun 1993 63 mng	Jun 1994 70 mng	Jun 1995 84 mng	Jun 1996 96 mng	Jun1997 116 mng	Jun 1998 132mng	Jun1999 153 mng	Jun 2000 181 mng	Jun 2001 221 mng	Jun 2002 217 mng
Russell 2000 Value	93.86%	69.09%	73.41%	41.70%	36.56%	34.22%	41.80%	45.59%	62.02%	43.70%	46.04%
Wilshire Small Value	84.42%	61.52%	62.22%	20.90%	25.39%	26.80%	36.53%	41.59%	68.83%	53.07%	69.51%

Small Cap Value – Summary

- *Our analysis of the small cap value style shows that a passively managed index fund has not consistently outperformed the median actively managed small cap value manager.* Just as there are periods when outperforming the Russell 2000 Value index is difficult, there are periods when actively managed portfolios outperform the passively managed index funds. Beacon Pointe believes that greater levels of inefficiencies exist in the small cap markets. Inefficiencies in the small cap markets exist simply because there are greater risks associated with the small cap market such as less sell-side research coverage and because the companies within the segment are smaller and less developed.

  Beacon Pointe recommends clients hire actively managed investment products within the small cap value segment.

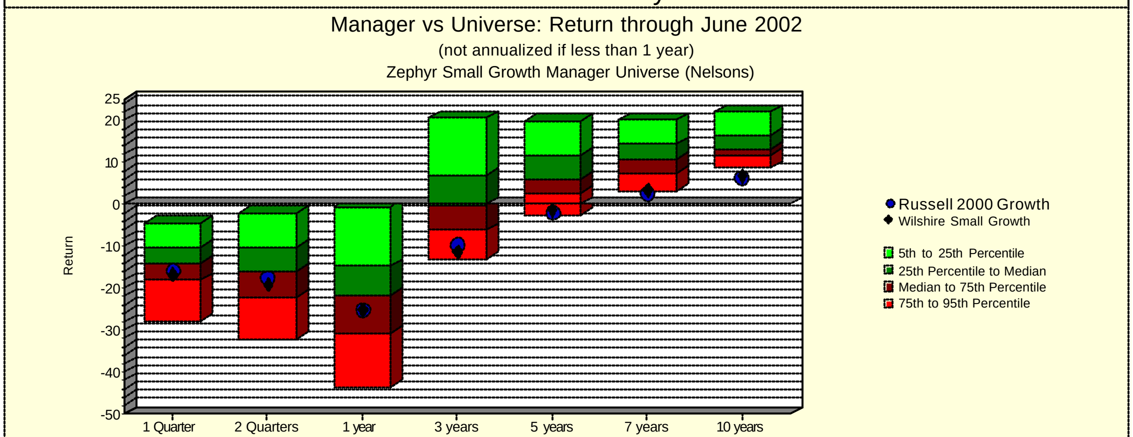
Small Cap Growth

- Exhibit 16 below plots the Russell 2000 Growth index relative to a small cap growth universe over a number of different annualized periods. *As of June 30, 2002, the Russell 2000 Growth index has underperformed the median large cap growth manager in each of the different periods.* Both the Russell 2000 Growth and Wilshire Small Growth indices have underperformed the bottom quartile of small growth managers for the 7- and 10-year periods.

  Over the past 10-years, the Russell 2000 Growth has an annualized return of 0.07%. The Wilshire Small Growth index has a 10-year annualized return of 0.10%.

Exhibit 16

Performance Analysis

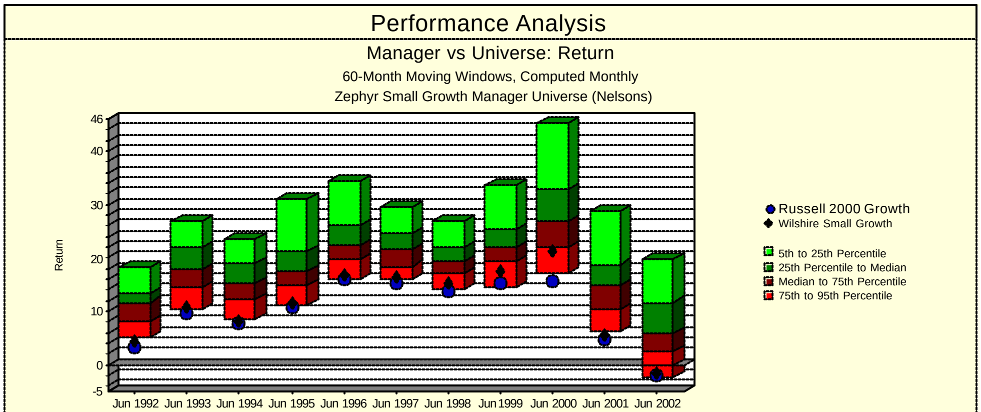


	1 Quarter	2 Quarters	1 year	3 years	5 years	7 years	10 years
Russell 2000 Growth	-2.93	-1.21	-0.95	-0.41	-0.21	-0.08	0.07
Wilshire Small Growth	-3.46	-1.41	-0.97	-0.43	-0.20	-0.05	0.10

Small Cap Growth

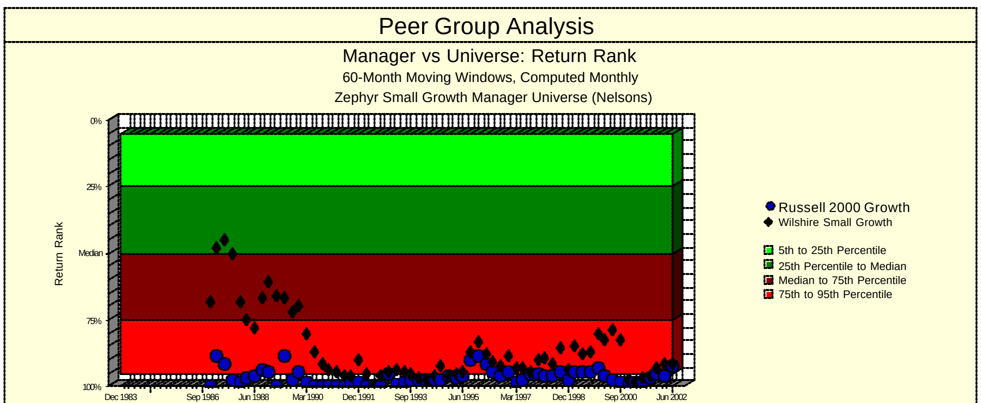
- *Over rolling 5-year periods, the Russell 2000 Growth and Wilshire Small Growth indices have consistently ranked and performed in the bottom quartile of small cap growth managers. The small cap growth segment is considered the most inefficient style relative to the other three major investment styles. Small cap growth managers have relatively little to no difficulty outperforming the indices on a rolling basis.*

Exhibit 17



	Jun 1992	Jun 1993	Jun 1994	Jun 1995	Jun 1996	Jun 1997	Jun 1998	Jun 1999	Jun 2000	Jun 2001	Jun 2002
Russell 2000 Growth	3.11%	9.51%	7.58%	10.77%	15.97%	15.13%	13.71%	15.34%	15.80%	4.77%	-1.98%
Wilshire Small Growth	4.39%	10.91%	8.18%	11.41%	16.82%	16.42%	15.19%	17.57%	21.20%	5.62%	-1.63%

Exhibit 18



	Jun 1992 56 mng	Jun 1993 70 mng	Jun 1994 83 mng	Jun 1995 99 mng	Jun 1996 117 mng	Jun1997 133 mng	Jun 1998 147mng	Jun1999 170 mng	Jun 2000 189 mng	Jun 2001 206 mng	Jun 2002 209 mng
Russell 2000 Growth	100.00%	98.11%	97.68%	95.77%	94.53%	97.57%	96.29%	94.23%	97.75%	98.07%	92.50%
Wilshire Small Growth	99.22%	94.37%	95.82%	94.50%	90.68%	92.70%	91.85%	87.54%	78.94%	96.74%	91.88%

Small Cap Growth – Risk-Adjusted Performance

- The Sharpe Ratio analysis identifies similar results as the risk-adjusted returns have consistently performed inline with the bottom quartile of small growth investment managers.

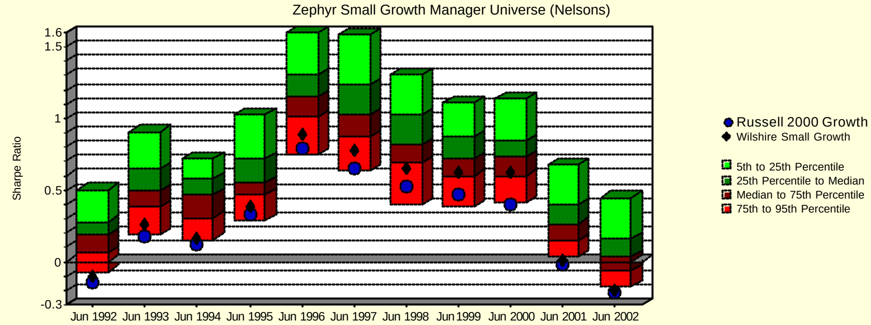
Exhibit 19

Performance Analysis

Manager vs Universe: Sharpe Ratio

60-Month Moving Windows, Computed Monthly

Zephyr Small Growth Manager Universe (Nelsons)



	Jun 1992	Jun 1993	Jun 1994	Jun 1995	Jun 1996	Jun 1997	Jun 1998	Jun 1999	Jun 2000	Jun 2001	Jun 2002
Russell 2000 Growth	-0.15	0.17	0.12	0.33	0.79	0.65	0.52	0.47	0.39	-0.02	-0.21
Wilshire Small Growth	-0.10	0.26	0.16	0.39	0.88	0.78	0.66	0.62	0.62	0.01	-0.20

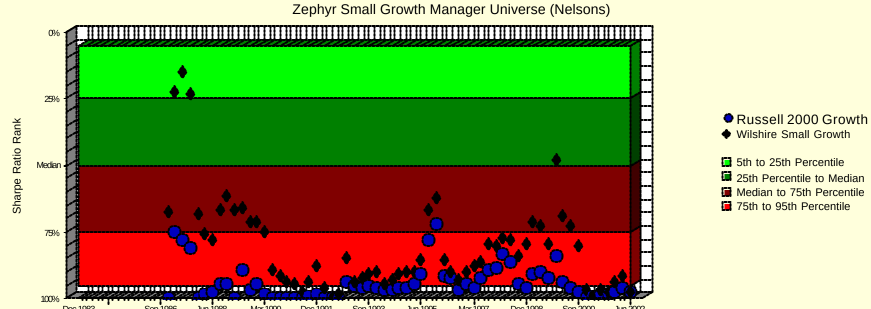
Exhibit 20

Peer Group Analysis

Manager vs Universe: Sharpe Ratio Rank

60-Month Moving Windows, Computed Monthly

Zephyr Small Growth Manager Universe (Nelsons)



	Jun 1992 56 mng	Jun 1993 70 mng	Jun 1994 83 mng	Jun 1995 99 mng	Jun 1996 117 mng	Jun1997 133 mng	Jun 1998 147mng	Jun1999 170 mng	Jun 2000 189 mng	Jun 2001 206 mng	Jun 2002 209 mng
Russell 2000 Growth	100.00%	96.26%	96.58%	90.50%	92.51%	92.00%	86.53%	89.89%	96.05%	98.33%	97.53%
Wilshire Small Growth	100.00%	91.95%	92.93%	85.46%	90.16%	86.24%	78.17%	72.97%	72.92%	96.66%	97.17%

Small Cap Growth – Summary

- *The Russell 2000 Growth and Wilshire Small Growth indices have consistently underperformed the median small growth manager over a number of different time and rolling periods. Not only have the indices underperformed the median manager, the indices have consistently ranked in the bottom quartile of the small cap universe.*

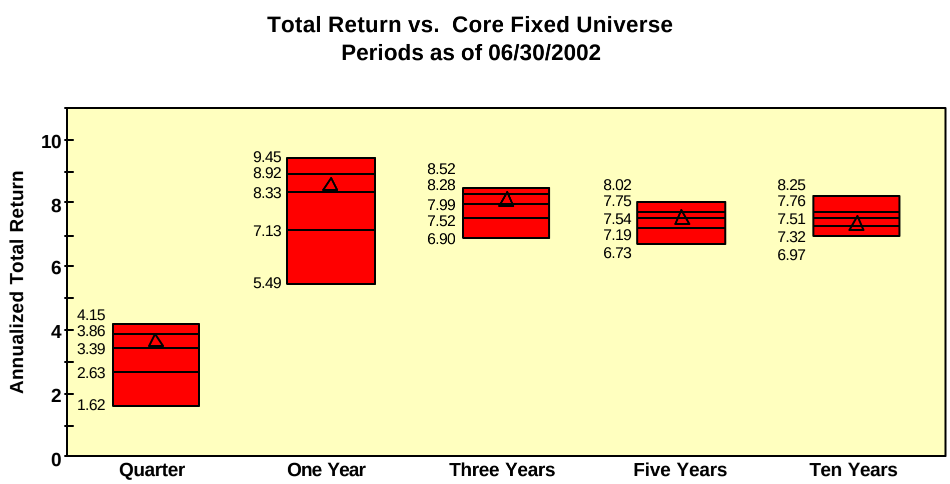
- The small cap growth segment is considered inefficient relative to the large cap growth, large cap value, and small cap value styles.

- Although Beacon Pointe is in favor of a small cap value tilt for a fund's overall investment structure, we do believe that the small cap growth segment is the area with the largest alpha-generating opportunities.

Fixed Income

- Exhibit 21 below plots the Lehman Aggregate index relative to a core fixed income universe over a number of different annualized periods. *As of June 30, 2002, the Aggregate index has underperformed the median core fixed income manager for the 10-year period*. The index, however, has ranked above the median manager for the 1-, 3-, and 5-year periods.

Exhibit 21



* Percentiles: 10, 25, 50, 75, 90

		QTR	1Yr	3Yr	5Yr	10Yr
Δ	Lehman Aggregate	3.70 (33)	8.63 (37)	8.11 (41)	7.57 (47)	7.34 (72)
	# of Managers	268	268	256	235	167

Fixed Income

- Exhibit 22, however, shows that the Lehman Aggregate index has *consistently underperformed the median core fixed income manager over rolling 5-year periods.* Exhibit 23 shows the index's actual rankings within the universe over rolling periods.

Exhibit 22

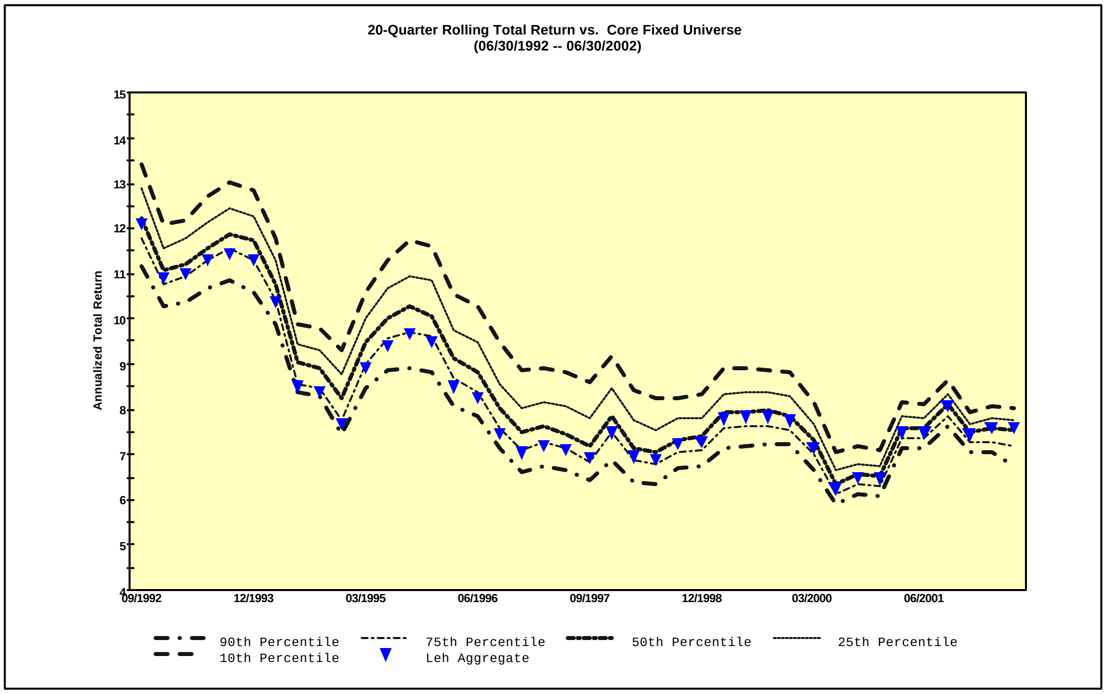
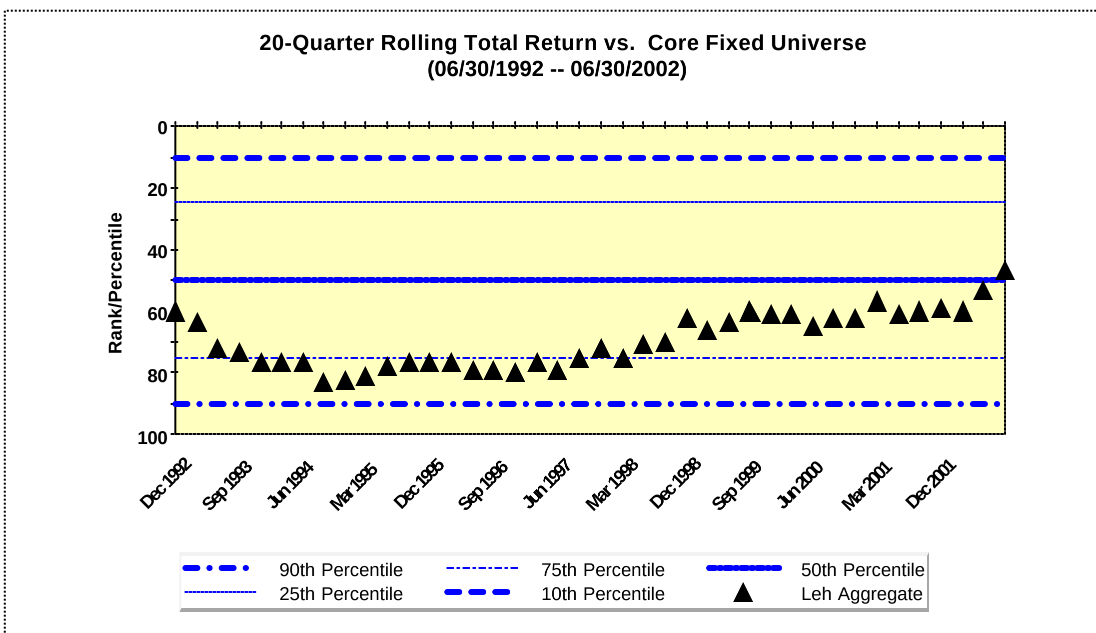


Exhibit 23



Fixed Income

- Beacon Pointe is a firm believer in active fixed income (*Beacon Pointe – Lehman Brother's Fixed Income Indices-August 2002)*. We believe that active fixed income management provides a high probability of success. Clients, however, must understand that the level of alpha generated by the active fixed income managers cannot be compared with the alpha generated by active equity managers. We have listed below a few reasons why we believe in active fixed income management:

  - The Lehman Aggregate, which is the index most used to represent the U.S. fixed income market, is not as strong an index as the Russell 3000 or Wilshire 5000 equity indices. Although one of the best, if not the best fixed income indices, the Lehman Aggregate is not as inclusive as the equity indices. Many issues and bonds are not included within the index. The fixed income market is a dealers' market and not an auction market. In order to purchase some issues, for example, an investor must not only find a dealer who holds the issue, but he must find the dealer who is willing to sell the issue as well. Other bonds not included in the Aggregate are CMOs and adjustable rate securities (only fixed rate securities are included in the Lehman Aggregate). Investment managers will add value if they have the ability to identify the times when certain issues in the market that aren't in the index are attractively priced. Ultimately, investment managers have the ability to buy outside the opportunity set of the index and have a better probability of outperforming the benchmark.

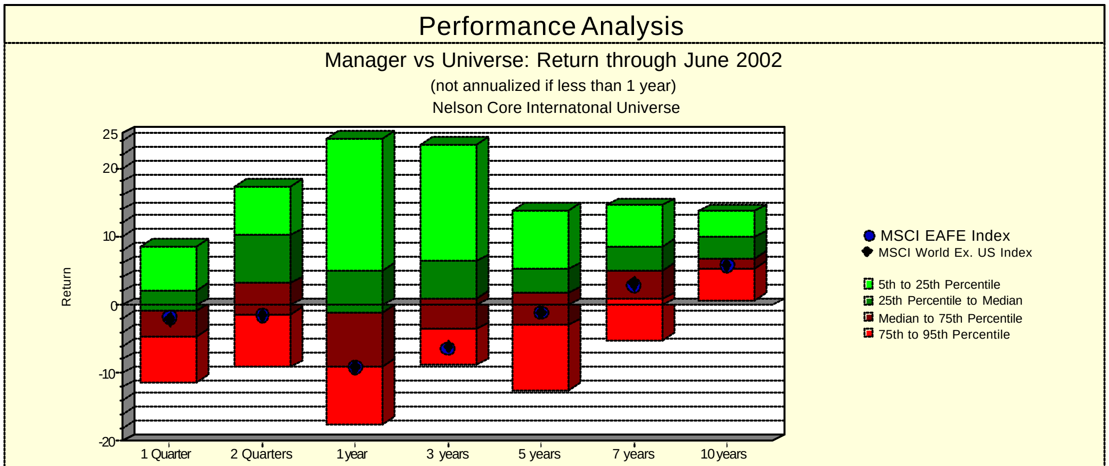
  - Non-total return investors, such as insurance companies, exist in the market. These investors have a different objective than total return—yield only issues, for example. Some issues have constraints that allow only certain types of investors. These non-total return investors create structural inefficiencies in the market allowing total return investors to exploit certain opportunities.

  - Active fixed income managers will, in general, systematically overweight sectors with higher return premiums (such as the corporate or mortgage-backed security sectors). At times, investment managers will underperform as corporate yield spreads widen. For the most part, however, managers have been able to add alpha by overweighting these sectors relative to the market.

International Equity

- Exhibit 24 below plots the MSCI EAFE index relative to an international equity universe over a number of different annualized periods. *As of June 30, 2002, the EAFE index has underperformed the median international equity manager over a number of time periods*.

Exhibit 24



	1 Quarter	2 Quarters	1 year	3 years	5 years	7 years	10 years
MSCI EAFE Index	-1.93%	-1.37%	-9.21%	-6.49%	-1.25%	2.72%	5.71%
MSCI World Ex. US Index	-2.05%	-1.43%	-9.13%	-6.12%	-1.03%	3.00%	5.84%

International Equity

- Exhibit 25 shows that the Lehman Aggregate index has *consistently underperformed the median international equity manager over rolling 5-year periods.* Exhibit 26 shows the index's actual rankings within the universe over rolling periods.

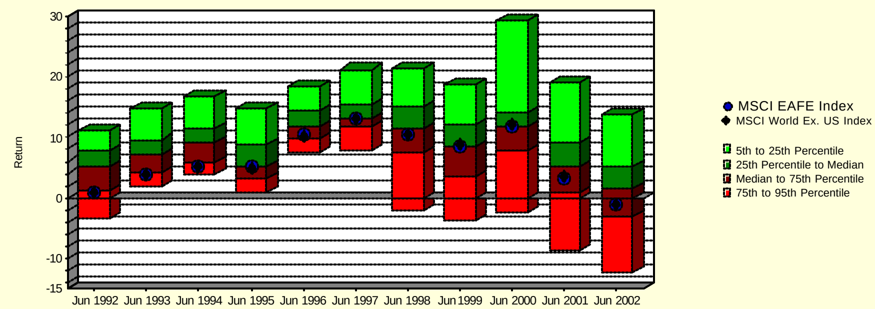
Exhibit 25

Performance Analysis

Manager vs Universe: Return

60-Month Moving Windows, Computed Monthly

Nelson Core International Universe



	Jun 1992	Jun 1993	Jun 1994	Jun 1995	Jun 1996	Jun 1997	Jun 1998	Jun 1999	Jun 2000	Jun 2001	Jun 2002
MSCI EAFE Index	0.97%	3.96%	5.34%	5.02%	10.33%	13.16%	10.34%	8.51%	11.63%	3.19%	-1.25%
MSCI World Ex. US Index	1.00%	3.96%	5.19%	5.01%	10.17%	13.18%	10.53%	8.80%	12.10%	3.54%	-1.03%

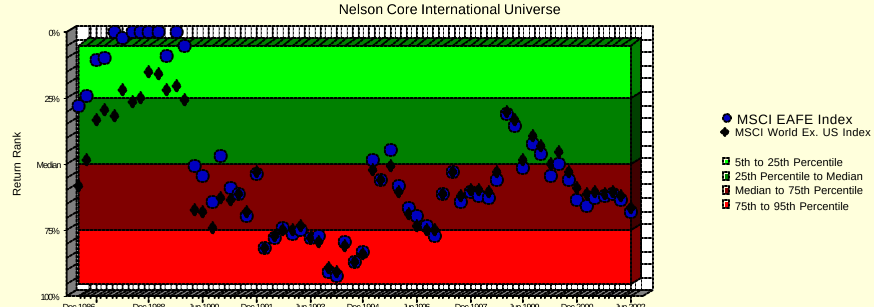
Exhibit 26

Peer Group Analysis

Manager vs Universe: Return Rank

60-Month Moving Windows, Computed Monthly

Nelson Core International Universe

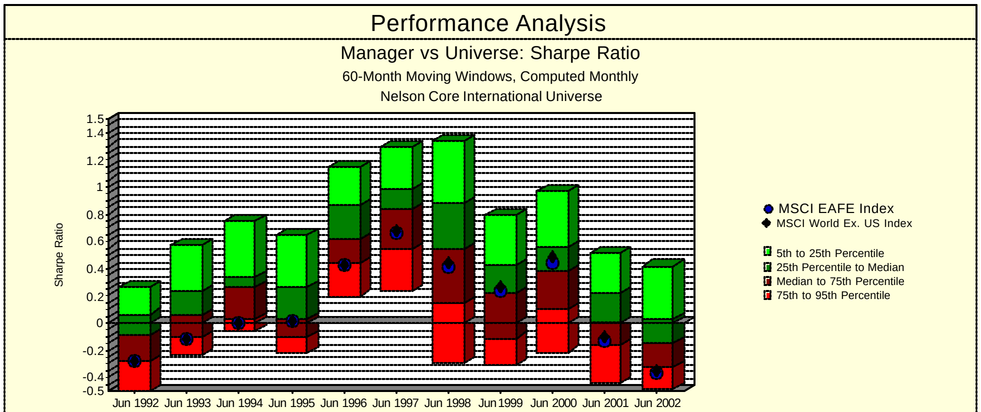


	Jun 1992 32 mng	Jun 1993 38 mng	Jun 1994 46 mng	Jun 1995 62 mng	Jun 1996 76 mng	Jun1997 98 mng	Jun 1998 113mng	Jun1999 130 mng	Jun 2000 154 mng	Jun 2001 166 mng	Jun 2002 176 mng
MSCI EAFE Index	78.18%	77.67%	79.38%	56.04%	69.44%	52.94%	62.48%	51.11%	50.13%	62.83%	67.98%
MSCI World Ex. US Index	77.44%	77.57%	80.69%	56.08%	73.39%	52.60%	60.85%	48.22%	45.45%	60.84%	66.80%

International Equity

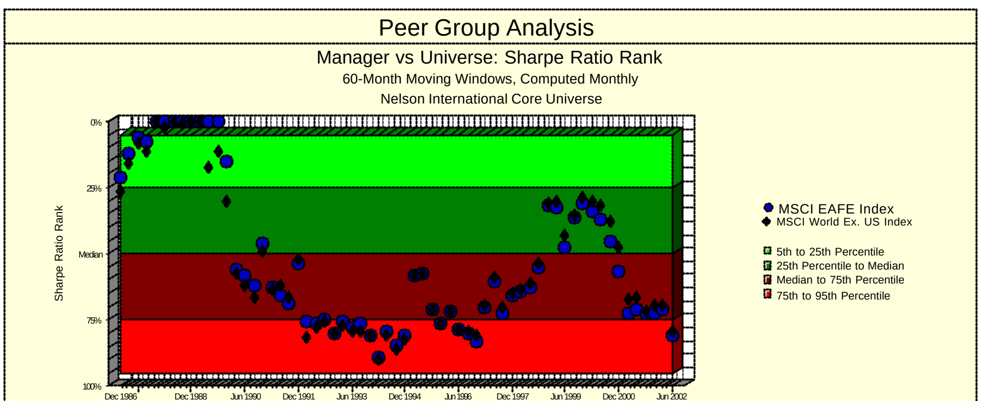
- Exhibit 27 and 28 present the MSCI EAFE's risk-adjusted performance and Sharpe Ratio rankings over rolling 5-year periods. The index ranked well on a risk-adjusted basis within the international equity universe in earlier rolling periods, but have proved inconsistent since then.

Exhibit 27



	Jun 1992	Jun 1993	Jun 1994	Jun 1995	Jun 1996	Jun 1997	Jun 1998	Jun 1999	Jun 2000	Jun 2001	Jun 2002
MSCI EAFE Index	-0.28	-0.11	0.00	0.02	0.42	0.66	0.42	0.24	0.45	-0.13	-0.36
MSCI World Ex. US Index	-0.28	-0.11	-0.00	0.02	0.42	0.68	0.44	0.26	0.48	-0.11	-0.35

Exhibit 28



	Jun 1992 32 mng	Jun 1993 38 mng	Jun 1994 46 mng	Jun 1995 62 mng	Jun 1996 76 mng	Jun1997 98 mng	Jun 1998 113mng	Jun1999 130 mng	Jun 2000 154 mng	Jun 2001 166 mng	Jun 2002 176 mng
MSCI EAFE Index	76.04%	78.02%	79.46%	57.45%	78.76%	60.59%	63.03%	47.95%	37.23%	70.75%	81.11%
MSCI World Ex. US Index	77.62%	79.58%	80.51%	57.36%	78.86%	59.24%	61.34%	43.30%	32.12%	66.18%	79.16%

Summary – Beacon Pointe Investment Manager Research Process

- Beacon Pointe believes that actively managed investment strategies can outperform passively managed index funds over longer periods of time. Although there has been great debate in the industry for some time, this paper shows that the indices for the main investment styles (large value, large growth, small value, small growth, core fixed income, and international equity) have, for the most part, consistently underperformed the median manager within each universe. Our analysis shows that over rolling time periods, the small cap styles offer greater opportunities to outperform the respective indices. The international equity segments also offer certain opportunities due to social, economic, political, and currency risks.

- Beacon Pointe's investment professionals are dedicated to finding and monitoring the "best" investment managers—those who have the highest probability of meeting our clients' objectives and achieving high risk-adjusted performance. The following paragraphs detail our investment manager research process.

- Beacon Pointe Advisors has implemented a stringent process that will enhance its investment manager research and evaluation process. The purpose of this process is to cover the large universe of investment managers, but *more importantly, to have a thorough and in-depth analysis of each firm's investment capabilities*. This process will not only give Beacon Pointe professionals extensive information on each investment manager, but will also allow our consultants to specifically focus on the best investment managers. We believe that our clients will receive an unparalleled level of investment manager research and evaluation.

  Although most consulting firms rely solely on quantitative analysis to recommend or monitor investment managers, quantitative analysis is "backward-looking" and shows how the investment managers have performed in the past. Studies show that past performance is not a good indicator for future performance, yet many consulting firms continue to rely solely on, or heavily on quantitative analysis. *It is great to see that a manager has performed well in the past, but what Beacon Pointe research professionals are interested in is how well the investment managers will perform for our clients in the future.*

  Factors that Beacon Pointe's research team has incorporated into the manager research process fall within the categories of People/Organization, Investment Philosophy/Process, and Firm Resources. Beacon Pointe is interested in whether the firm has a strong culture, whether the employees all have the same conviction, if the employees are motivated and have ownership in the company, what is unique to the manager's philosophy and process, how a manager will add value in the future, whether a manager know what types of risks he is taking and if those risks are being managed, and what types of research and resources are available to the manager. *Beacon Pointe, will discuss these factors with each investment manager and subsequently rank these factors, assigning a value to each factor.* Answers to these questions will give Beacon Pointe consultants the ability to select managers with the highest probability of meeting future objectives and adding future value or "alpha". These factors give the clients a deeper insight into how well a firm will do *going forward*. Beacon Pointe strongly believes that a combination of quantitative and qualitative analysis will maximize value to our clients.

Summary – Beacon Pointe Investment Manager Research Process

Beacon Pointe requires all investment managers to complete and submit qualitative questionnaires that will focus on the investment manager firm and the firm's investment products. These questionnaires will cover the above-mentioned factors of the organization, the investment process, and the firm's resources. Once submitted, Beacon Pointe's Qualitative Research Team will carefully evaluate all responses as the first stage of a strict process.

Those investment firms with a positive evaluation will be asked to submit further information regarding their specific products. Beacon Pointe will require all investment managers to submit their data electronically. This will allow each consultant to access files directly. Beacon Pointe's Qualitative Research Team will add another layer of due diligence as the submitted data will be tied together with a detailed and thorough quantitative analysis. This analysis includes returns based style analysis, peer universe comparisons, risk-adjusted return analysis, and performance and risk consistency analysis, at the very least.

Beacon Pointe consultants will accept and pro-actively seek meetings with investment managers who rank highly in each of the evaluation steps. Beacon Pointe consultants do have the discretion to meet with any investment manager. Beacon Pointe requires that key investment professionals (portfolio managers, senior analysts, etc) join the marketing individual for the initial meeting.

Finally, an investment committee has been appointed at Beacon Pointe to review the manager evaluations and will provide the final scoring for the product.

We believe that the combination of active quantitative and qualitative analysis is an enhancement of the typical investment manager research and evaluation process. The combination will allow Beacon Pointe's research professionals to make a thorough evaluation of investment manager firms and their products. We understand that selecting the best investment managers is not an easy task. There are so many investment managers that finding the best can be akin to finding a "needle in a haystack." We firmly believe that our newly implemented processes will identify investment managers and strategies that have the highest level of probability to meet the clients' objectives.

Please feel free to contact your Beacon Pointe consultant if you have any questions.