



A Message from the Chairman

I hope 2007 is off to a great start for you. As the year kicks-off, I thought it would be helpful to provide you with an update on Smith Graham.

Our Core Lehman Aggregate product has delivered outstanding performance with low risk. According to an outside source, eVestment Alliance, peer universe comparisons indicate that our product has top quartile performance for the past 1-year and 3-year periods. The consistency of this product's outperformance is also further illustrated by its information ratio of 2.53, ranking it in the top 6th percentile for the past three years versus our peers. The information ratio is a measure of the value added per unit of active risk by a manager over an index. In addition to our Core product, our Intermediate, Low Duration, Enhanced Cash and Cash products have outperformed their respective benchmarks over the past 1-year, 3-year and 5-year periods.

Adherence to our focused philosophy and disciplined process has led to this outperformance. To that end, Managing Director Cyril Theccanat leads our team of experienced, dedicated professionals. Cyril and the rest of the team remain committed to exceeding client goals and that commitment is shared by the entire firm.

As a part of Smith Graham's quest to anticipate the needs of our clients in an ever-changing environment, we have identified other advantageous strategies within our areas of expertise. Beyond the firm's current product offerings, we have introduced an alpha-plus strategy for broad market mandates which complements core plus (with high yield) strategies. There is very low correlation between the two strategies so clients could employ both and obtain good diversification. We have a return objective of 80 bp to 100 bp over the Lehman Aggregate index for our alpha-plus strategy.

Furthermore, we are launching an absolute return strategy which uses only U.S. Treasury securities and has an objective of producing an annual return of 300 bp – 600 bp over 3-month Libor. With 3-month Libor currently at 5.4%, we have a return objective of 8% - 12% for this product.

Partnering with our clients to meet their goals is a privilege and responsibility. If you become aware of any opportunities that are inline with our areas of expertise or desire additional information, please contact Tamla Wilson at 713-292-2148 or via email at twilson@smithgraham.com. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerald B. Smith".

Gerald B. Smith
Chairman & CEO