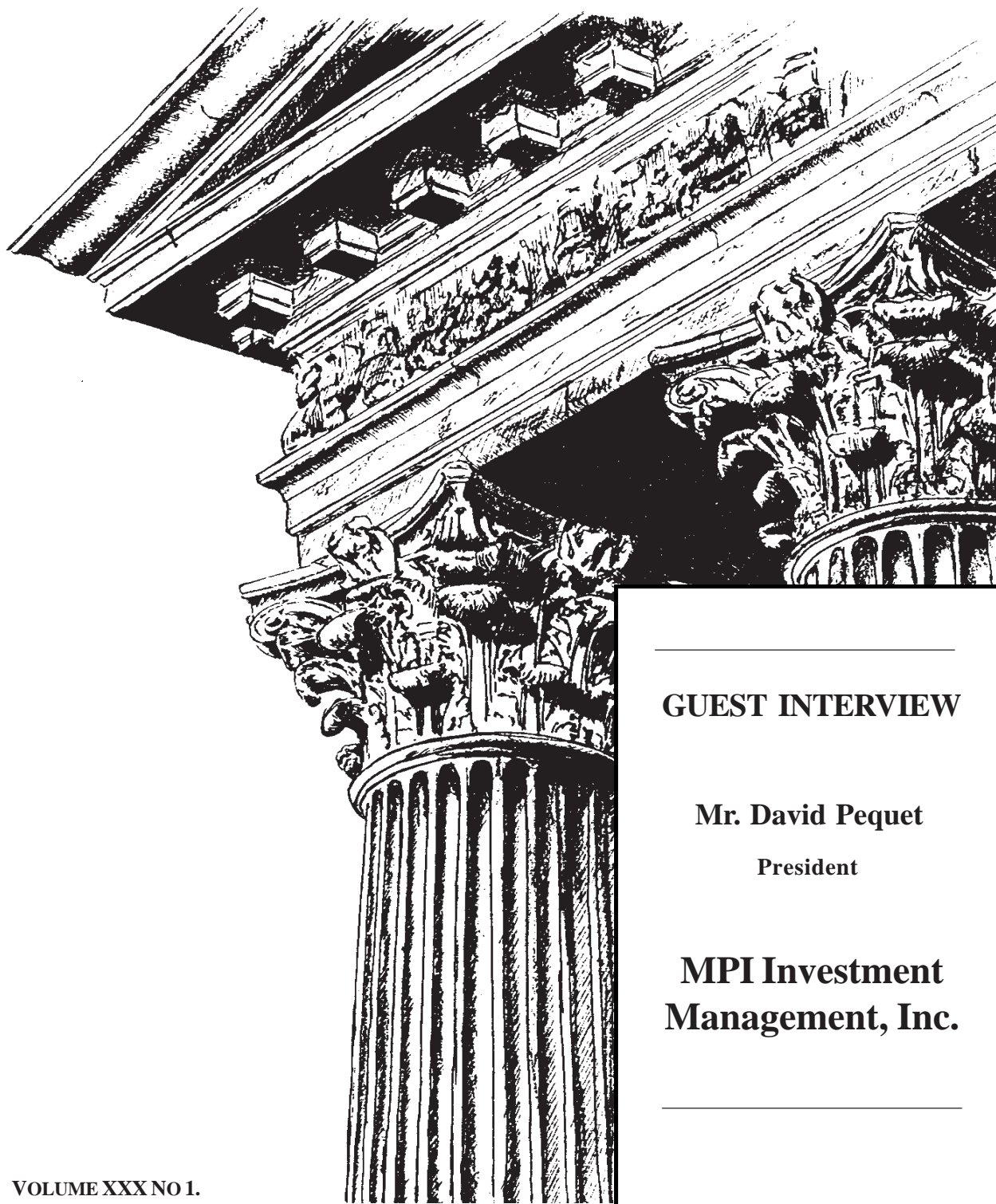


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A Guide To The Nation's Leading Investment Managers



GUEST INTERVIEW

Mr. David Pequet

President

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Management, Inc.

VOLUME XXX NO 1.

Guest Interview: MPI Investment Management, Inc.

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David Pequet
President

Dave, I understand fixed-income management represents the majority of your clients' assets. Before we go into detail on the subject, please give us an overview of the history of MPI?

I started MPI in 1986 while working for a midsize brokerage firm. I had been a broker since 1976. We operated under their registration until we went independent in 1990. From that point forward, we have been a SEC registered investment advisory firm. We have no outside ownership and do not provide custodian or brokerage services. We operate on a fee only basis.

Besides U.S. Government fixed-income portfolios, what other products do you offer?

MPI offers several portfolio management products including Tax Free Municipal Bonds, Large Cap Equity Growth, and Large Cap Equity Value. These products are focused on the highest quality segments of each asset class. MPI's approach to investing in each product is directly aligned with our philosophy in our US Government portfolios, emphasize quality, liquidity and follow a disciplined low risk investment strategy.

How did you come to focus on fixed-income as the core of your management business?

Prior to starting MPI Investment Management in 1986, I was a broker for 10 years. My focus as a broker was heavily in fixed income. I started in Wall Street at a point in time when interest rates rose and were extremely volatile for several years. In 1981, interest rates reached historical highs that were just as dramatic as today's historic lows. During that period, I saw how beneficial it was for an investor to follow a disciplined short to intermediate maturity approach to the fixed income markets with an emphasis on quality. The lessons learned first hand in the turbulent bond market of the late 70's and 80's molded our conservative approach utilized by MPI Investment Management.

What is your overall fixed-income philosophy?

At MPI, we believe investing in quality with a disciplined, conservative investment strategy is the best course to meet our clients' investment goals and objectives. We use a diversified laddered portfolio of high quality bonds in all of our fixed income accounts. The taxable accounts use AAA rated US Government bonds, Agencies and Mortgage Backs and the tax-free portfolios use AA and AAA rated municipals. The portfolios have

an average maturity that ranges from three to five years depending on the current interest rate market. This focus represents the least volatile segment of the yield curve. Managing the portfolio duration within this 3 to 5 year range has provided MPI clients with a consistent low risk return in the market place.

With interest rates at historical lows why would an investor currently want to be in the bond market?

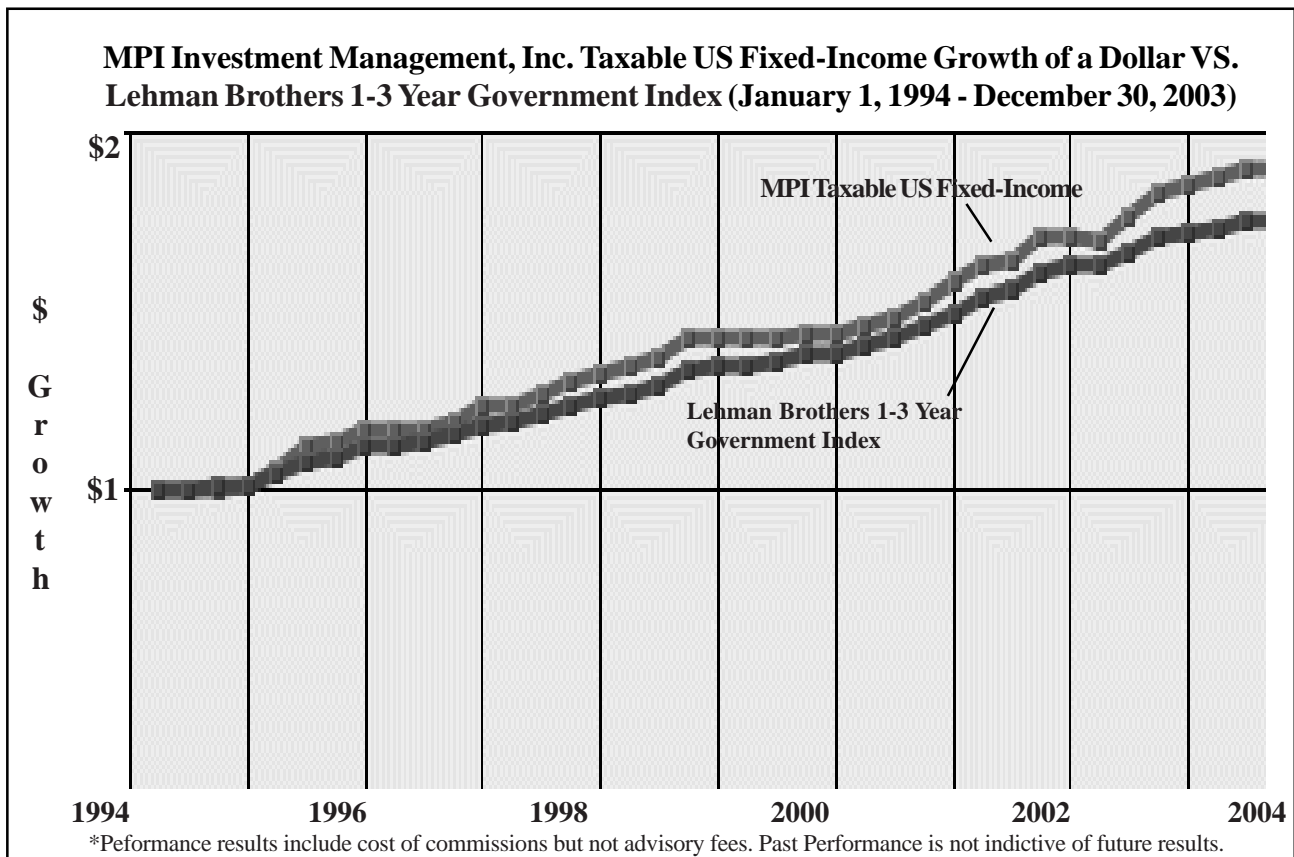
We are not trying to convince an investor to enter the bond market. Our focus is on clients that are in the bond market either because of a formal investment policy, specific income requirement or a desired risk profile. For that type of investor, MPI can add significant value in effectively managing their portfolio. There has not been a better time in nearly 3 decades for a bond investor to evaluate their portfolio. Every bond portfolio is at or near all time high valuations. Maturity and duration analysis and swap considerations have never been as timely. For the investor that does not have fixed income in their portfolio, but desires to, and is trying to time the market, I would

offer this comment. Market timing, even for the most sophisticated professional, is a risky unpredictable proposition. In today's market, your return in cash equivalents is virtually nothing. The current yield to maturity in a taxable MPI fixed portfolio is over 3 times that. It does not take too long on the sidelines for the lost yield differential to exceed any pickup by timing interest rate moves. For a modest extension of maturity (out to a 3-year average), the yield will increase 3 fold plus with only a modest manageable increase in the risk profile

What class of government bond issues normally makes up your fixed-income portfolios?

We normally invest in a strategic allocation of Treasuries, Agencies, and Mortgage Back Securities. We usually favor higher coupon issues and generally underweight zero coupon or strip bonds. Diversification and relative value are important considerations within the asset class.

Why do you concentrate on government debt instruments instead of corporate issued fixed-income securities?



It gets back to our core philosophy as a firm. Invest in quality, be conservative and stick to what you know best. Our management team has a combined 50+ years experience in the government fixed income business and a nationally ranked performance track record. It is our strong belief that the potential of higher income and total return that could be potentially achieved by using corporate issues is not justified by the assumption of the additional credit risk associated with corporate bonds. We can virtually put all of our energy on security selection and not have to worry about credit analysis.

We have never had to sacrifice quality to meet our clients' investment objectives. In recent years, the major defaults of Enron, WorldCom, K-mart, etc have proven there is no guarantee in the corporate bond market, even with some of the biggest, well-known companies. Our typical client is investing in bonds to provide a higher degree of safety and stability to his/her portfolio, not to capture a few additional basis points by taking on credit risk.

You must give up some return when you focus on the short to mid-term bond maturities. Why not invest in high return, long-term maturity debt instruments when the yields are especially high?

High return instruments carry the greatest risk in a rising interest rate climate. We do not predict interest rates moves or economic climates, never have. However, with rates at 30 and 40 year lows, I think any reasonable person would readily admit that the future will hold higher rates. How much, how far and over what time period is obviously the challenging question. Fed funds were at 3.5% in September 2001. Thirteen rate cuts later they are at 1%. Although it may seem like a lifetime, September 2001 was not that long ago. Rates change and cycle, they always have, that's the market. The popular mistake that many investors make when rates are low is to chase yield by extending maturities and reducing the credit quality of their portfolio. These two changes, in maturity and quality, are exactly what you don't want to do at the bottom of the yield curve.

When analyzing bonds, how do you define relative value?

We use a number of tools to identify relative value and safety in the bonds we buy. First, we do a complete diagnostic analysis of a portfolio emphasizing return attribution, interest rate sensitivity, duration, diversification, and yield. We rely on quantifiable analysis to make our investment decisions. Emotions are not part of the process. It is not enough that a bond show above market yields. It also must pass a series of tests designed to screen out high-risk securities that do exist within the AAA rated world.

There is a widespread misconception that US Government bonds have no risk associated with them. Quite the opposite is true if an investor doesn't have the tools to thoroughly analyze a bond or portfolio. The 30-year bond lost over -14% in principal value in 1999. In July of 2003, the long bond dropped roughly -7.5%. Those scenarios are often overlooked and not considered when an investor builds his bond portfolio.

Bond managers often talk about the yield curve. Please explain what the yield curve is and whether you use it in your analysis.

The yield curve is used as a visual representation of the relationship of current interest rates offered by the different Treasury Maturities trading in the marketplace. At MPI, we use the Yield Curve to identify the optimal maturity/yield relationship for our clients. Think of it as a risk/reward ratio for bonds. How much risk are you willing to take on (longer maturity bonds), versus how much reward do you seek (yield).

We focus on the short-intermediate portion of the yield curve, roughly 3-5 years in maturity length. As our historical performance illustrates, we have been very successful in providing above average returns at below average risk with this focus.

We sometimes hear the term "style drift". Please define it and explain how it relates to the way you manage your portfolios.

Style drift is simply abandoning your investment dis-

rebalance equity portfolios from highly aggressive tech stocks to more traditional, high quality value stocks? You bet. That's the same thing we are seeing now, only the bubble is in long maturity bonds. There has never been a better time.

Dave, employee turnover is quite high at Wall Street firms, especially among talented key professionals. Has MPI experienced such turnover and has this impacted your ability to repeat past successes?

You're right. Turnover is an issue on Wall Street and has caused many firms to lose continuity and be unable to provide a consistently high level of service to their clients.

I am proud to say MPI has had no professional turnover in the fixed income portfolio management team since the inception of the fixed product in 1991. Our portfolio management team, Brad, and myself have been together for over 12 years. Brad is also a principal of the firm and we look forward to continuing our partnership for many years to come. MPI is not a large firm and has always been a boutique. We do not have \$billions under management but we can offer a client face to face service with the senior portfolio managers and the principals of the firm.

This is a unique advantage our firm has in the marketplace. Not only have we been able to consistently provide a high level of service to our clients, but we have developed long lasting relationships with them as well. Relationships based on trust, not just performance.

We are finding that's important to investors in today's environment with the landscape littered with scandals at the investor's expense. We are seeing clients turn away from large, impersonal firms that turnover their staff every few years. Investors are more and more asking: Whose looking out for me? How do they know what I need? Do they have my best interests at heart? Can I trust these guys to manage my life long savings?

And in MPI's case they answer yes?

Absolutely. That's our number one goal.

Who are the other principals in your firm?

Bradley Smith and Mark Margason are my two partners. Brad joined our firm in 1992 and is a member of our equity and fixed income investment teams. He has a background in Economics and Finance and worked with Merrill Lynch's Business Brokerage team prior to joining MPI.

Mark is the CFO of our firm. He comes to us with a strong background in investment banking and structured finance. Mark spent 20 years working in the M&A Departments of Citibank and LaSalle Bank before joining the firm.

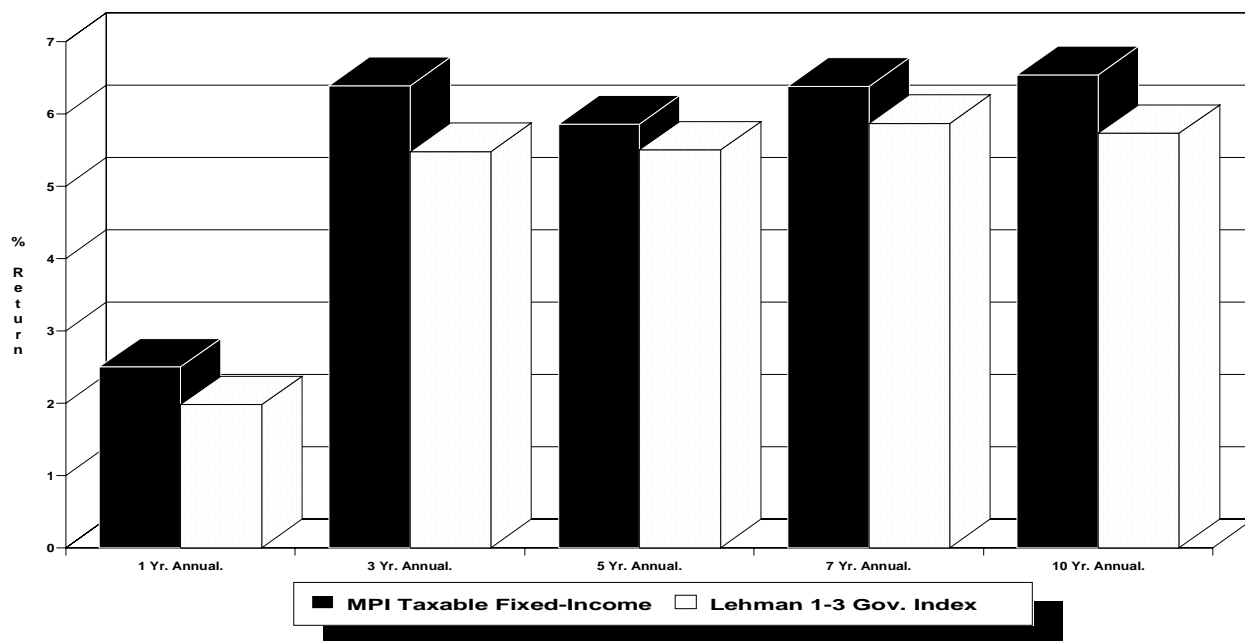
Do you think there is any possibility we will go back to the days of high inflation and sky-high yields?

If you look at the rates just a few years ago, we have come a significant way down. Will we get back to high rates and high inflation in the near future? Probably not, but then in 1981 if someone would've told me that fed funds would go down to 1% in the U.S. I wouldn't of thought that possible either. The key is to have your fixed portfolio in a position that you can weather any interest rate scenario. If we move back to the 7%+ range of the past several years on the long bond, we are looking at a very significant increase in interest rates from this current level. That will negatively impact many long bond portfolios, or portfolios with a high concentration in mortgage related securities.

How are you planning to protect your clients if interest rates begin to rapidly move upward?

MPI's core strategy of building a laddered portfolio of high coupon, short-intermediate maturity, and government bonds is defensive in nature. These bonds tend to be less volatile than longer maturity or lower coupon bonds or zeros or strips. In the last two examples of years in which interest rates spiked up, 1994 and 1999, our portfolios had positive years while long bonds were down double digits for each year. One year like that can wipe out several years worth of gains. Our clients preserved their capital during those years. That's why

MPI Investment Management, Inc. Taxable US Fixed-Income Annualized Return VS. Lehman Brothers 1-3 Year Government Index (January 1, 1994 - December 30, 2003)



*Performance results include cost of commissions but not advisory fees. Past Performance is not indicative of future results.

discipline and philosophy to chase returns. It is truly one of the more significant risks facing an investor when choosing an investment professional. A bond investor may feel comfortable in choosing a “conservative” fixed income manager, but be horrified to find out this manager’s style has “drifted” towards more aggressive investments because he is chasing returns. The manager begins lowering his quality standards or extending his maturity focus, or investing in highly volatile issues to “beef-up” his performance numbers, all at the expense of the client. In investment management, consistency of style is critical to predictability of long-term results.

We at MPI have prided ourselves in “sticking to our knitting” so to speak. We know one thing very well and that’s what we do. We buy short-intermediate, AAA rated quality bonds, period...end of story.

What techniques do you use to minimize volatility and overall investment risk?

As I mentioned, we focus on the short – intermediate portion of the yield curve first and foremost to limit volatility and overall investment risk. In

addition, we also analyze our bond investments on a number of other characteristics including Coupon, Call features, OAS, Convexity, Portfolio GRADE which is a graduated risk evaluation model software that is extremely useful in predicting a bonds reaction to interest rate moves.

Ultimately we combine all of these factors to create the safest, highest yielding portfolio for our clients. I think the past performance proves how we have been successful.

Under what conditions would you rebalance your fixed-income portfolios?

There has never been a better time to rebalance your fixed income portfolio. Interest Rates have dropped nearly 50% over the last decade and presently stand at 40+ year lows. This has helped erase many sins in the bond market. Highly volatile bonds and long maturity bonds have significant gains and the average bond investor has yet to experience the downside to owning these volatile debt instruments.

It is not unlike the bubble we saw in technology stocks in 1999 & 2000. Was that a good time to

we do what we do.

Your reputation has caught the attention of some large investment firms. Have you been asked to be a sub-advisor for the fixed-income portion of any recognized investment firms?

As the mentality in the markets has changed to a more realistic expectation for stock returns, we have seen a dramatic increase in the interest for our asset class, style and focus. In fact, we have recently been hired as a sub-advisor by three mid-size institutions: a bank, a high net worth wealth manager and an international mutual fund.

It is a great fit in each situation because they don't have to build a 12-year track record in the style and we can increase our channels of distribution. You may not realize it but the competition in our particular duration (short-intermediate), with a 12-year nationally ranked track record is quite small.

We expect this trend towards outsourcing through sub-advisory agreements to continue to be quite strong in the years to come.

I understand that you have received recognition from Nelson Financial Information on your fixed income performance. What can you tell me about your Nelson Rankings.

Nelson's is a large consultant that publishes data on over 2000 money managers. Since 1995 MPI's taxable fixed income performance has been ranked over a dozen times for its trailing historical performance in Nelson's short duration U.S. Government securities category. Currently I believe our trailing ten year numbers are ranked 3d in the nation. **Please describe your typical client. What are they looking for when they come to you to manage their assets?**

MPI works with High Net Worth individuals, small to midsize institutions, and other financial services companies. It is our mission to maintain one on one contact with our clients. We do not want to become a large, faceless, financial services con-

glomerate that treats its clientele like a number. That will never happen as long as I have anything to say about it.

Dave, you have been in the industry for 27 years. How has the business changed in that time?

When I first became registered on Wall Street, the Dow was at 760 and the average trading volume was 25 million shares per day. The quote machines had screens 3 inches square and all the info you could get was bid, ask, high, low and volume. News Wires were printed on rolled paper from a Dow Jones Teletype machine and tacked to the wall. Computers were the size of a room and no one ever heard of FEDX, a fax machine, a cell phone let alone the Internet. The Wall Street Journal was only one section. Not to date myself but does that give you an idea of the changes I've seen?

Why should a client choose MPI's separate account management over a bond mutual fund?

Mutual Funds, aside from their scandal related problems, present many disadvantages for the High Net Worth investor. There is no control over maturity. Bond funds must make redemptions at their investors' request. One investor deciding to sell will cause issues for all investors. Perhaps, they will incur tax gains or have to sell a bond at a loss, etc.

The other issue with Mutual Funds is they are by law mandated to invest only 80% of their assets in the style they advertise as their strategy. The other 20% can be invested in lower quality issues or in other asset classes altogether. In addition, administration and operating expenses generally are higher than individually managed accounts and impacts an investor return.

We think the High Net Worth investor deserves a more competitive, personalized and customized service than those offered by most mutual funds. The market place seems to agree as assets with separate account managers have grown significantly over the last few years.



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