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THE WALL STREET TRANSCRIPT
Questioning Market Leaders For Long Term Investors

Global Asset Allocation Investing

STEVE GIACOBBE, CFA, CFP®, is the Senior Vice President and Chief Investment Officer at Commonwealth Bank & Trust, a privately held community bank based in Louisville, KY. He is the Chairman of the Investment committee and is responsible for overseeing the firm's more than $1 billion in investment assets. Prior to joining Commonwealth, Steve was a Partner and Chief Investment Officer at Stearns Financial Services Group (SFSG), an independent investment advisory firm based in Greensboro, NC. He has served as an adjunct faculty member, teaching investment courses at Guilford College and has spoken to numerous groups on investment strategies and market trends. He received his BA in Economics from Washington and Lee University and his MBA from UNC, Greensboro. Steve also holds the Chartered Financial Analyst and Certified Financial Planner designations.

TWST: Please start with an overview of Commonwealth Bank & Trust and what you do there.

Mr. Giacobbe: We are a privately held community bank and trust company in Louisville, Kentucky, and manage $1 billion in assets for wealthy individuals and institutions. My role as the Chief Investment Officer is to establish investment policy, oversee investment decisions and to manage our team of investment professionals.

TWST: What is the firm's investment philosophy?

Mr. Giacobbe: We invest for our clients using a global asset allocation strategy, combining our individual stocks with outside managers in other asset classes. Our stock strategy is dedicated to identifying world-class companies that are positioned for sustainable growth and possess the characteristics needed to generate superior long-term performance. We invest in companies that have a history of outstanding business results, are well managed and trade at values well below their long-term intrinsic value.

TWST: Do you customize the portfolios for your individual clients?

Mr. Giacobbe: We do. Given the nature of our client base, our strategies are highly customized to fit each individual's financial needs and objectives. So each client gets a detailed investment policy that's specific to their situation. We use asset allocation frameworks and financial models as a starting point, but then we work specifically with each client to customize the strategy to fit their needs.

TWST: What is the investment climate like at this time for your type of investing? Tell us how you did last year.

Mr. Giacobbe: Our managed equity portfolio was up 17.8% last year. We continue to be optimistic on the markets in 2007, believing that strong global economic growth and low interest rates will lead to good equity returns. We recognize there are certainly risks out there — inflation, energy, geopolitical, etc. — but believe they are reflected in current prices.

TWST: What are the growth areas at this time?

Mr. Giacobbe: There are a couple of themes that we like longer term. First, we like firms that are leveraged to the global economy; global economies are experiencing faster growth than the US and are likely to continue growing faster for the foreseeable future. Second, investors are hungry for higher yields, creating a secular buying opportunity for companies with attractive and growing dividend yields. With interest rates at today's low levels, we believe this trend will continue, and we have been looking for opportunities globally. Both areas have been strong contributors to our portfolio returns.

TWST: Over the last 12 to 18 months, how have you shifted the emphasis of your portfolio? Is it more toward international and yield stocks?

Mr. Giacobbe: We have been in those areas for a few years now, and continue to like them going forward. We think these trends will continue for multiple years. Lately, we have been reducing our small cap exposure and increasing our large cap exposure. We view it as an opportunity to upgrade to higher quality securities, which are trading on par with many of the lower quality securities. That's a "no-brainer" based on our investment strategy.

TWST: Tell us about your investment decision-making process. What are the investment criteria that you're looking for in potential holdings?

Mr. Giacobbe: Our Investment Committee meets weekly to discuss potential buy and sell ideas. Our Analysts and Portfolio Managers are generalists, and it is everyone's responsibility to bring their best ideas to the table and debate them. We look for world class companies that possess three characteristics. First, we are looking for high quality companies, meaning companies that have good return on capital, good strong cash flow generators, healthy balance sheets and a leading competitive position in their industry. Second, we look for strong management teams. We like quality managers who are focused on enhancing shareholder value and are good stewards of their firm's capital. The third thing we look for is reasonable valuations. If we find a stock that fits those three criteria, we have a good buy candidate.

TWST: Are you finding enough stocks that are undervalued and meet that criterion?

Mr. Giacobbe: Yes, even though the markets have performed well the past few years, we still think good opportunities exist. Examples are **Coca-Cola** (KO) and **General Electric** (GE); both stocks had been over-valued for years but now look attractive to us.

TWST: What companies can you tell us about that you feel are representative of your firm's investment approach, and the reasons why you are attracted to them?

Mr. Giacobbe: A good example is **Fastenal** (FAST), a company we started buying a couple of months ago. **FAST** is a supplier of industrial and construction supplies that is growing nicely by leveraging its broad product selection and efficient distribution network. The company is expanding its network 15% annually, while maintaining strong same-store sales and high margins. We believe they have carved out a real, competitive advantage in a fragmented industry, and growth should continue for years to come.

Another company that we bought earlier this year was **SLM Corp.** (SLM), taking advantage of the market concerns that caused it to trade down to bargain levels. It recently received a buyout offer and is now approaching our target price.

TWST: What about technology stocks? Are they of interest to you?

Mr. Giacobbe: Yes, we have an experienced Technology Analyst who runs a science and technology fund for us. Some of his top picks have been **Apple** (AAPL) and **QUALCOMM** (QCOM), both stocks he likes for the longer term. The fund is a great way for us to get exposure to this sector and add value to our clients' portfolios.

TWST: What about some of your international stocks?

Mr. Giacobbe: Our stock picking is focused on domestic companies that derive a large percentage of their revenues and earnings overseas. When we want direct exposure to international stocks, we identify the very best managers out there. So we spend a lot of time and resources researching managers in the international markets and other asset classes.

"Fastenal is a supplier of industrial and construction supplies that is growing nicely by leveraging its broad product selection and efficient distribution network. The company is expanding its network 15% annually, while maintaining strong same-store sales and high margins."

1-Year Daily Chart of Fastenal

Chart provided by www.BigCharts.com

TWST: You mentioned Coca-Cola, so I gather you like companies with a multinational aspect.

Mr. Giacobbe: The most recent quarter was positive, driven in part from strong sales overseas. **Coca-Cola** is a stock that has been overvalued and is still below where it traded 10 years ago. We have been buying over the past year, and believe it is the type of company that will perform well in a slowing economic environment

TWST: What about health care or financial services? Are those of interest?

Mr. Giacobbe: Both areas are attractive longer term, but on a selective basis. In health care, we have been optimistic on the medical device companies. **Stryker** (SYK) has been a big holding for us and is well positioned going forward.

The financials are such a large sector. Selectively, there are some very good companies that have sold off due to concerns about the housing market and subprime loans. Now is a good time to purchase quality companies with attractive yields, like **Wells Fargo** (WFC) and **JPMorgan Chase** (JPM). We think both companies are valuable franchises with good management and are positioned for good returns.

TWST: On the consumer side, Coca-Cola is a consumer staple. Is that where you are mostly positioned?

Mr. Giacobbe: Yes, we like some of the consumer staples companies, but have been more cautious on the consumer discretionary stocks due to the slowing economy. **Walgreen** (WAG) has been a key holding for us that we continue to like longer term. We also like **Wrigley** (WWY), a consistent performer that should perform well in a slowing economy.

TWST: What triggers an exit from your portfolio? What is the sell discipline?

Mr. Giacobbe: We will sell a stock for several reasons: it hits our target price; we see a decline in the fundamentals and it no longer meets our performance standards; to manage risk in a portfolio; or we lose confidence in management.

TWST: Do you have an example of a stock that you sold or trimmed back on in recent months?

Mr. Giacobbe: Sherwin-Williams (SHW) is an example of a consumer discretionary stock we've recently sold because it hit our price target. We were also concerned the housing market slowdown would negatively impact their core business. The bottom line is there were better opportunities for us to invest our clients' capital.

TWST: What is the average turnover of your portfolio?

Mr. Giacobbe: It's relatively low, usually 20% or less depending on market conditions. The low turnover is a by-product of our disciplined buy process that focuses on long-term holdings.

TWST: You mentioned risk and not having too large a percentage of a stock in your portfolio. What other risk management techniques do you utilize in your portfolio at the portfolio level and at the individual security level?

Mr. Giacobbe: As bottom-up investors we are often attracted to a particular sector based on fundamentals. In order to avoid too much risk or concentration in the portfolio, we require a minimum exposure to at least six different economic sectors. This will vary depending on a client's risk tolerance. We also don't allow individual positions to get too large and will trim them when they reach 5%-6% of the total portfolio. The margin of safety that we build into our buy discipline also provides some risk protection to portfolios.

"Investors are hungry for higher yields, creating a secular buying opportunity for companies with attractive and growing dividend yields. With interest rates at today's low levels, we believe this trend will continue, and we have been looking for opportunities globally."

1-Year Daily Chart of Walgreen

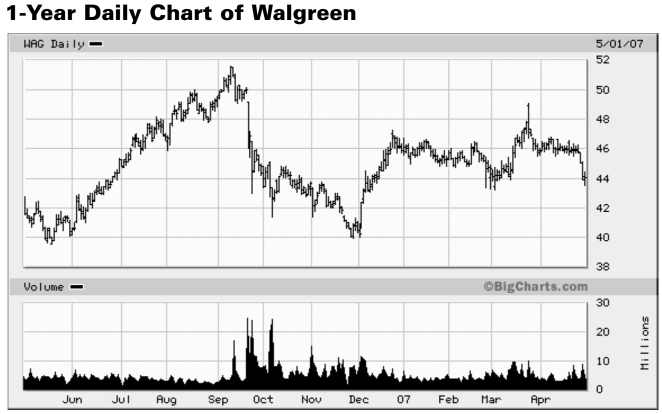

Chart provided by www.BigCharts.com

TWST: You've mentioned management performance being of particular interest to you. Do you have management visits at all? How do you monitor the performance and accountability at management?

Mr. Giacobbe: We don't visit on site. It is not practical for us and, most times, management only tells you what they think you want to hear. The best measure of management comes from studying their financials, trying to evaluate how they allocate capital and the financial decisions they make. Are they good stewards of capital? How do they treat options? Answering these types of questions gives us a good idea whether or not management is focused on enhancing shareholder value.

TWST: Who are your typical clients? Are they mostly high net worth individuals?

Mr. Giacobbe: Yes, they are mostly high net worth individuals; however, we also manage substantial assets for foundations and pension plans. Our ability to provide full-service banking, investment management and trust services at one location is compelling to most of our clients.

TWST: What advice would you give to potential investors about entering the market at this time?

Mr. Giacobbe: Financial markets have had quite a successful run the past few years, so I would be mindful of valuations and selective with investments. Now is a good time to be well diversified and have exposure to several different asset classes on a global basis.

TWST: So asset allocation is of vital importance to potential investors?

Mr. Giacobbe: Asset allocation is a big part of our investment strategy. We spend a lot of time and resources regularly studying over a dozen different asset classes and investment styles. That doesn't mean we will invest in all of them at any particular time; rather, we regularly follow them so we can quickly take action when we see opportunities. For example, since the tech bubble burst, it has been an excellent opportunity to overweight and underweight different asset classes. Being in the right asset class has been far more important than picking the hot stock in any one market. We balance the big picture, making sure we've got the right asset allocations, and combine that with disciplined security selection to provide good risk-adjusted returns that can outperform the benchmarks on a consistent basis.

TWST: Do your clients ask you about alternative investments?

Mr. Giacobbe: Yes, many of our clients have asked about hedge funds. Our take on these is that we don't expect after-tax performance to be very good going forward. We think there is too much capital chasing the same investments and the fees are simply too high to generate consistent returns. That said, there are exceptions to the rule. For example, we have utilized long/short hedge fund strategies sponsored by Mainstream Investment Advisors for some of our clients. Their track record, net of fees, has been outstanding.

TWST: What about ETFs? Is that what you were referring to when you talked about the international side?

Mr. Giacobbe: There is a tremendous amount of new products coming out in the ETF market. We have been using them more frequently in portfolios and find them to be effective when making a tactical investment in a particular sector or market.

TWST: Looking out at the rest of this year and beyond, do you foresee any challenges or problem areas that might impact your investing?

Mr. Giacobbe: Some of the big concerns today are inflation, energy and geopolitical risks. As long as these risks stay reasonably contained, we think equities are attractively valued and set to outperform bonds. We watch these risks regularly, but recognize they are difficult to predict. We therefore tend to rely on fundamentals and valuations, which currently look pretty good.

TWST: What are the differentiators that distinguish the investment approach at Commonwealth Bank & Trust from that at other firms? What do you bring to the table that others might not?

Mr. Giacobbe: It's our ability to provide world-class wealth management services in the client-friendly manner of a small community bank. Being privately held we are able to focus on long-term decisions and to provide our clients with custom-designed strategies. Our investment team has over 150 years of combined experience and proven success managing investments in all market conditions.

TWST: Is there anything that we have overlooked that you wanted to bring out about your views or your work?

Mr. Giacobbe: In summary, to successfully manage our clients' investments we focus on three things. First, we develop the right strategic asset allocation for our clients. That really comes from getting to know the people who we work with and truly understanding their desired level of risk and return objectives.

Second, we take a global approach to tactical asset allocation. We follow numerous different asset classes, and knowing when to overweight or underweight them allows us to add value and outperform our benchmarks.

The third area is sticking with our proven and disciplined security selection process. Combining those three elements is a winning combination for our clients.

TWST: Do you have any performance track records that you can tell us about compared to your benchmark?

Mr. Giacobbe: Our flagship product is our managed equity portfolio, which returned 17.8% last year, beating the S&P 500. Our long-term track record has been just as strong.

TWST: Thank you.

Note: Opinions and recommendations are as of 4/27/07.

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