



# REVIEW & OUTLOOK

3RD QUARTER

2006

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### Annualized Returns

	3rd Qtr	Year to Date	1 Year	3 Year	5 Year	7 Year	Since Inception 3/31/1996
CCM Growth	6.0	7.5	10.8	13.0	7.3	4.8	10.7
Russell 1000 Growth	3.9	3.0	6.0	8.4	4.4	(2.6)	6.2
S&P 500	5.7	8.5	10.8	12.3	7.0	2.2	8.9

### Annualized Returns

	3rd Qtr	Year to Date	1 Year	3 Year	5 Year	7 Year	Since Inception 6/30/1998
CCM Conservative Growth	5.8	4.3	5.3	9.6	5.8	3.4	4.8
Russell 1000 Growth	3.9	3.0	6.0	8.4	4.4	(2.6)	0.3
S&P 500	5.7	8.5	10.8	12.3	7.0	2.2	3.6

### Annualized Returns

	3rd Qtr	Year to Date	1 Year	3 Year	Since Inception 12/31/2002
CCM High Quality Tax Exempt Bond	3.0	3.1	3.7	3.2	3.6
Lehman 5 Year Municipal Index	2.6	2.7	3.0	2.2	2.8

### Performance Review

U.S. equity markets rallied strongly during the third quarter 2006. The S&P 500 closed the quarter up 5.7%. Growth stocks, as measured by the Russell 1000 Growth Index, advanced 3.9%. CCM's Growth Equity Composite, increased 6.0% and CCM's Conservative Equity Composite rose 5.8%. Economic data released during the quarter bolstered investors' hopes that the Federal Reserve would halt interest rate hikes. These expectations - coupled with falling energy prices - offset looming concerns of an economic slowdown that many believed would follow the now much publicized piercing of the housing bubble.

Interestingly, large-capitalization stocks significantly outperformed small-caps for the first time in 30 quarters. In fact, returns for the S&P 100 exceeded those of the S&P 600 by 850 basis points (+7.6% vs. -0.9%). Is this a potential inflection point of a rotation back to large-caps? It could be. After several years of small cap out-performance, we believe that large-caps will again start to shine. Reasonable valuations, slowing earnings growth, and the interest rate cycle are some of the reasons underlying our convictions that the shift back to large-caps is underway.

CCM's discretionary equity portfolios typically have a greater exposure to large-cap blue chip companies. In fact, the weighted average market capitalization for our Growth and Conservative Growth strategies are actually higher than the S&P 500. Our general emphasis on larger companies notwithstanding, we do believe that investors must augment the earnings stability of large company shares with investments in faster growing future leaders to achieve higher long-term returns. For this reason, commitments to high quality, established companies make up the core of each CCM portfolio. CCM's core holdings are in turn complemented by positions in a smaller

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number of emerging companies with outstanding long-term growth prospects. Our process seeks not only to identify the best long-term capital appreciation prospects among largest U.S. companies but to also establish meaningful portfolio concentrations in growth industries often dominated by emerging companies of all market capitalizations.

### Where's the Growth? - Not in the Rearview Mirror.

The past 25 years presented a uniquely favorable investment environment in the U.S. financial markets, the likes of which most of us may never see again. From the bottom of the market in August 1982 to the peak in August 2000 the S&P 500 Index returned 18.7% per year. This was 18 years of above-trend wealth creation in the stock market. The bond market had an even more successful run. The interest rate on the ten-year U.S. Treasury peaked at 15.8% on September 30, 1981 and dropped to 3.1% on June 13, 2003. That's an almost 22 year bull market in bonds. The decline in interest rates from peak to trough is the greatest drop on record, by far. The bond market will probably not repeat this performance from its current level.

Dissecting the return of the S&P 500 we observe that the 18.7% annual return came from the following components: approximately 3.6% from dividends (assuming index reinvestment), 7.6% from reported earnings growth and the balance, roughly 7.5%, from P/E (price/earning ratio) expansion. Thus, even while ignoring the positive impact on consumers and businesses of declining interest rates, a significant portion of equity returns resulted from multiple expansion as a result of the steep decline in interest rates.

The relative growth rates of earnings over the course of a business cycle, and longer, are a significant factor in the coincident performance of the underlying stocks of different companies. Many companies have earnings that strongly correlate to the economic cycle. Industrials, materials, consumer cyclicals, and technology companies generally fit that bill. Conversely, certain companies exhibit earnings qualities that are more bond-like. That is, they have revenue, earnings and dividend streams that are stable and dependable over long periods regardless of the overall performance of the economy. Some health care companies and telecoms have historically had those characteristics, but it is electric utilities and consumer staples that most closely resemble bonds.

Consumer staples companies like PepsiCo (PEP), Coca-Cola (KO), Procter Gamble (PG), Gillette and Colgate (CL) became premier growth stocks from the 1980's through 2000. For example, between 1982-2000 Coca-Cola shares returned 24% compounded annual growth rate (CAGR), including a roughly 2% dividend yield. However Coca-Cola's EPS during that period grew at a 9.7% rate, which was less than half the rate at which its shares appreciated. Medtronic (MDT), a small medical device company in 1982, is an example of an emerging growth stock that performed well during the period in question. Its shares returned 28.5%. But its EPS grew 16.7% during that period. Coca-Cola shares appreciated at 80% of the rate of Medtronic shares though its EPS grew at only 60% of the rate that Medtronic's EPS did. Obviously, there was a materially greater P/E expansion for Coke than Medtronic. Coke's bond-like features rewarded investors.

*“...it will be critical to find companies whose earnings growth rates significantly outpace those of the market in order to achieve above average returns.”*

We envision an economy that will exhibit slower long-term growth than that of the past decade or two and without the tailwind provided by a record drop in interest rates. Given that investors should not expect much help from bonds in the years ahead, it will be critical to find companies whose earnings growth rates significantly outpace those of the market in order to achieve above average returns. We think the old-guard growth companies won't have the EPS growth it will take to provide significant outperformance. This does not mean they will necessarily be bad investments, but earnings surprises will be hard to accomplish. We are drawn to innovative companies that can

provide above market robust long-term earnings growth. Areas such as materials, energy and particularly health care are among those of interest.

One old investment philosophy says "buy the best companies and hold them". Yet Ford, Eastman Kodak, Bristol Myers Squibb, and hundreds of other underperforming stocks were once among the "best" companies. In 1986 Microsoft would not have been viewed as one of the "best" companies. Nor would Amgen, Genentech, Intel, Medtronic, St. Jude Medical- the list is lengthy. And yet, a small investment in even one of these companies could have had a significant positive effect on your returns. Consider this: if you had put \$100,000 in an S&P 500 index fund on December 31, 1985 and held it you would have about \$951,000 on December 31, 2005, an 11.9% CAGR. Alternatively, using the same buy-and-hold strategy, if you had bought \$5,000 worth of Amgen and invested the remaining \$95,000 poorly at 5% you would have about \$1,650,000 on December 31, 2005 for a 15% return. Actually, you could have lost the entire \$95,000 and still come out with almost \$1,400,000 worth of Amgen.

Maybe a better adage should be "buy some of the most promising growth companies at reasonable prices and hold them". Not as pithy, but then, investing for above average returns over the long-term is not simple either. It requires an approach of balancing the risk of young companies and their potentially outsized rewards with investor intolerance for portfolio volatility.

### Fixed Income Commentary for Third Quarter 2006

The Federal Open Market Committee (FOMC) met twice during the quarter, but there was change in the air. For the first time since June 2004, the FOMC did not raise rates. At both meetings, they kept the federal funds rate steady at 5.25%. From June 2004 until the third quarter of 2006, the FOMC had increased the federal funds rate at 17 consecutive meetings.

While the FOMC may have held the federal funds rate steady, they were not prepared to state that they have finished raising rates". After the first meeting of the quarter on August 8, the FOMC stated that "economic growth has moderated from its quite strong pace earlier this year, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices." Even with the previous statement, there is still a possibility of more interest rate hikes in the future because the FOMC "judges that some inflation risks remain." They also stated that "the extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information." The FOMC was taking a *wait-and-see* approach to upcoming meetings. At the following meeting on September 20, the FOMC acknowledged that "the moderation in economic growth appears to be continuing, partly reflecting a cooling of the housing market." However, they also noted that "readings on core inflation have been elevated...", but the FOMC also believes that "inflation pressures seem likely to moderate over time..." The FOMC reiterated its *wait-and-see* approach by using the exact same language as the August 8 statement, when they stated that it "judges that some inflation risks remain" and "the extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information."

As a result of the FOMC actions as well as other factors, the bond markets settled down in the third quarter after a volatile first half of the year. Returns for fixed income investments were positive with most of the largest positive movement occurring in the months of July and August.

The yield on the 10 year U.S. Treasury decreased 51 bps from 5.14% to 4.63% with the low yield being 4.55% and the high yield being 5.22% during the quarter. The Bond Buyer 20 weekly index, a municipal bond index that is comprised of 20 General Obligation bonds rated "A1" by Moody's Investors Service with maturities of 20 years, decreased 48 bps from 4.71% to 4.23% with the low yield being 4.21% and the high yield being 4.71% during the quarter. In general, bond values increased as a result of the interest rate movement during the quarter.

## Performance Disclosures

GROWTH COMPOSITE								
Year End	Total Firm Assets (millions)	Composite Assets			Annual Performance Results			
		U.S. Dollars (millions)	% of Firm Assets	Number of Accounts	Composite Gross	Composite Net	Russ 1000 Growth	Composite Dispersion
2005	304	76	25%	50	12.78%	11.66%	5.27%	0.50%
2004	256	43	17%	27	4.97%	3.95%	6.30%	0.68%
2003	215	42	20%	29	28.27%	26.98%	29.76%	1.31%
2002	165	15	9%	19	-22.66%	-23.45%	-27.89%	2.30%
2001	155	25	16%	31	-19.46%	-20.28%	-20.42%	4.30%
2000	172	37	22%	32	8.33%	7.26%	-22.43%	1.60%
1999	137	17	12%	17	34.37%	33.07%	33.16%	14.43%
1998	109	25	23%	12	25.17%	23.95%	38.71%	4.70%
1997	99	21	22%	12	29.23%	27.97%	30.49%	2.90%
1996	30	11	35%	5 or fewer				

CONSERVATIVE GROWTH COMPOSITE								
Year End	Total Firm Assets (millions)	Composite Assets			Annual Performance Results			
		U.S. Dollars (millions)	% of Firm Assets	Number of Accounts	Composite Gross	Composite Net	S&P500	Composite Dispersion
2005	304	60	20%	36	8.33%	7.24%	4.89%	1.17%
2004	256	54	21%	41	3.84%	2.82%	10.87%	0.64%
2003	215	64	30%	43	28.17%	26.92%	28.69%	1.60%
2002	165	12	7%	13	-20.66%	-21.44%	-22.10%	1.90%
2001	155	15	9%	9	-18.12%	-18.92%	-11.86%	N.A.*
2000	172	15	9%	5 or fewer	7.32%	6.30%	-9.12%	N.A.*
1999	137	15	11%	5 or fewer	31.39%	30.15%	21.03%	N.A.*
1998	109	8	7%	5 or fewer				

2006 GROSS AND NET QUARTERLY PERFORMANCE FOR COMPOSITES								
	1Q 2006		2Q 2006		3Q 2006		4Q 2006	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Growth Composite	5.8%	5.5%	-4.1%	-4.4%	6.0%	5.7%		
Conservative Growth Composite	2.3%	2.0%	-3.7%	-4.0%	5.8%	5.6%		

HIGH QUALITY TAX-EXEMPT BOND COMPOSITE								
Year End	Total Firm Assets (millions)	Composite Assets			Annual Performance Results			
		U.S. Dollars (millions)	% of Firm Assets	Number of Accounts	Composite Gross	Composite Net	Lehman 5 Yr Muni	Composite Dispersion
2005	304	19	6%	16	2.19%	1.77%	0.95%	0.68%
2004	256	15	6%	11	3.12%	2.71%	2.72%	N.A.*
2003	215	7	3%	Five or fewer	4.99%	4.73%	4.13%	N.A.*

2006 GROSS AND NET QUARTERLY PERFORMANCE FOR COMPOSITE								
	1Q 2006		2Q 2006		3Q 2006		4Q 2006	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
High Quality Tax-Exempt Bond Portfolio	0.1%	0.0%	0.0%	-0.1%	3.0%	2.9%		

\*Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Chilton Capital Management, LP (CCM) is a registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request.

The CCM Growth Composite contains fully discretionary taxable and tax-exempt growth equity accounts. Prior to March 1, 2003, this composite contained only taxable growth equity accounts. The Conservative Growth Composite contains fully discretionary conservative growth equity accounts. The minimum account size for each composite is \$250 thousand. For comparison purposes, the Growth Composite is measured against the Russell 1000 Growth Index. In materials shown prior to January 1, 2005 the composite was measured against the S&P 500 Index which was changed retroactively to better reflect the composite strategy. The Conservative Composite is measured against the S&P500 Index for comparison purposes. Balanced portfolio segments are not included in the composites. Though leverage is not part of the firm's strategy, it is occasionally used in the Growth Composite. The Growth Composite was created April 1, 1996 and the Conservative Growth Composite was created July 1, 1998. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in the composites. As of December 31, 2005, the Growth Composite contains approximately 84% of the accounts managed in that strategy and the Conservative Growth Composite contains approximately 72% of the accounts in that strategy. Past performance is not indicative of future results.

The U.S. dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the accounts. A fee schedule is an integral part of a complete presentation. Net of fee performance is calculated using the highest management fee as described in Part II of the firm's ADV, which is available upon request. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding the policies for calculating and reporting returns is available on request.

Chilton Capital Management, LP has prepared and presented this report in compliance with Global Investment Performance Standards (GIPS®).

A third-party verification as set forth by the GIPS standards has been conducted by Ashland Partners & Company LLP from April 1, 1996 through June 30, 2006. A copy of the Independent Verifier's Report is available upon request.

High Quality Tax-Exempt Bond Composite contains fully discretionary non-custom fixed income accounts and for comparison purposes is measured against the Lehman 5-Year Municipal Index. The minimum account size for this composite is \$200 thousand. Chilton Capital Management, LP has prepared and presented this report in compliance with Global Investment Performance Standards (GIPS®).

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in this composite. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net of fee performance was calculated using the highest management fee of 40 basis points per year. Prior to January 1, 2004, the highest management fee was 25 basis points per year. A fee schedule is an integral part of a complete presentation and is described in Part II of the firm's ADV, which is available upon request.

Balanced portfolio segments are not included in this composite. Leverage is not used in this composite.

The High Quality Tax-Exempt Bond Composite was created January 1, 2003.

The Independent Verifier's Report is an integral part of this presentation.

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