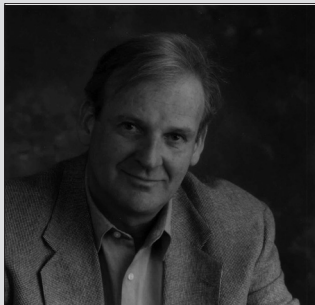


THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Disciplined Investing Strategies



ED MEIHAUS is the Chief Investment Officer at Hanseatic Management Services. Since joining in 1985, he has developed quantitative model-based investment applications, primarily the set of disciplines which underlie the company's equity products. Mr. Meihaus earned a B.S. degree in mechanical engineering from the University of Louisville and an MBA from the University of Memphis.

SECTOR — GENERAL INVESTING

TWST: Tell us the history of Hanseatic Management Services and the impetus behind starting the company.

Mr. Meihaus: The company was started in 1977 by a California-based businessman returning to New Mexico and a Sandia National Laboratories physicist who had developed an algorithm for trading commodities and currencies. The company name came from the founders' interest in the history of the Hanseatic League, the 13th century forerunner to the European banking system.

TWST: What made you decide to join the company?

Mr. Meihaus: I was an Engineer/MBA working in Los Angeles. I had worked for three Fortune 500 companies, two energy companies and a bank. The primary work at all these firms was return-on-investment analysis on capital investment projects, traditional financial analysis with an engineering background — helpful with some of the energy-related projects. It was kind of a dream job for me at the time, combining engineering and finance.

The last of the three companies was **Tosco**, an independent oil refiner who also had a joint venture with **Exxon** (XOM) to develop shale deposits from the Western Slope of Colorado. The company had substantial floating rate debt in the high interest rate environment of the early 1980s. I was trying to encourage the company to hedge the interest-rate volatility in the relatively new Treasury bond futures market. A friend at PaineWebber referred

Hanseatic as one of their qualified interest rate hedging programs. A year or so later **Tosco** was near bankruptcy. I had been developing the early stage of the models we apply today and was anxious to apply it to equities, which Hanseatic did not do. So I thought it would be a good opportunity to join the company.

TWST: How would you define your investment philosophy?

Mr. Meihaus: That it is most important to have a clearly structured investment process that is disciplined, objective and helps minimize the cognitive biases that make investments in general and portfolio management in particular so challenging. Based on my early work experiences and practical equity market experience since then, we think fundamental variables and analysis is a lot more complex than commonly assumed. All our buy/sell/risk management algorithms are from our model for which price is the only input. Everything we do is based on research and testing.

TWST: How do you target returns in excess of benchmarks?

Mr. Meihaus: The way we do it really came from some research in the early 1990s, culminating in 1994. We try to take a universe of stocks, large-cap growth for example, and then apply a liquidity filter. Then we have a set of buy disciplines along with a set of sell disciplines. The buy algorithms select stocks, which our research has shown to have a better-than-normal chance of

persisting into a trend over an investment horizon, which we arbitrarily define as six months to three years. Stocks must meet a minimum trend measurement hurdle and conform to time, volatility and other parameter boundaries. We are then left with a smaller subset of the original stock universe, which are buy candidates for the portfolio. Again, the objective is to select stocks which have a better-than-normal chance of persisting into a trend over the investment horizon. I would argue that no matter how one chooses to pick stocks, that ultimately is the objective.

“It is most important to have a clearly structured investment process that is disciplined, objective and helps minimize the cognitive biases that make investments in general and portfolio management in particular so challenging. Based on my early work experiences and practical equity market experience since then, we think fundamental variables and analysis is a lot more complex than commonly assumed.”

TWST: Your company also emphasizes managing risk. How do you do that?

Mr. Meihaus: For us, managing risk is first the sell disciplines, which we think is the most challenging part of portfolio management, and then portfolio structure and diversification. With the sell disciplines, we are trying to determine that point at which, in terms of our model parameters, the risk/reward equation changes from positive to negative. The stocks in every portfolio are going to have consolidations and corrections over an investment time horizon. But at some point the combination of time, degree of correction and volatility alters the risk/reward outlook for a stock from “positive” to “neutral” or “negative.” We have devoted a lot of effort to researching this, and we know we are not going to get it right for every stock, but we view the disciplines in probabilistic terms.

We also have portfolio structure restraints relative to the sector and industry group weightings in the benchmark. Diversification is also a part of risk management. We are probably much more diversified than the average institutional money manager. We have about 100 stocks in the portfolio. We take small initial positions, typically about 1%, and then we add incrementally to those that continue to meet our parameters. We also have some guidelines relative to sectors and industry groups, so we are not going to be any more than 10% sector weight relative to the benchmark, or minus 10%. If technology is 20% of Russell 1000 Growth Index, 30% is our max weighting technology, and then we also have some guidelines relative to industry groups where we cannot be more than 5% over the benchmark weighting for any one of the 90-some-odd industry groups.

TWST: Do you have both domestic and international stocks?

Mr. Meihaus: We do have some small international products. We have taken the same process and applied that to a European portfolio, Far Eastern portfolio and Latin American portfolio, but those are relatively small and probably retail products at this point, although we hope them to make more than that.

TWST: What are your buy and sell disciplines?

Mr. Meihaus: The buy disciplines try to define the relatively optimal space to initiate the holding period for a stock. This space is defined by trend measures, some developed in the

1990s, others more recent. Other tools we apply to the buy discipline include time and volatility measures, stock environment descriptors and pattern recognition algorithms. All these tools are intended to identify stocks which have a better probability of achieving a persistent trend relative to the benchmark.

TWST: What about the sell disciplines?

Mr. Meihaus: The sell disciplines are trying to maximize the holding period return. The buy decision can be relatively controlled, but the sell decision can be more difficult because the market environment in general can change abruptly and individual stocks can become very volatile, often in reaction to earnings news and guidance. In general, the same tools we use with buy decisions we also apply to the sell decision. More recently, we incorporated some algorithms designed to be more responsive in high-volatility environments. All the algorithms we use are tested over large databases.

TWST: What are your products?

Mr. Meihaus: In addition to our primary large- and small-cap products, we have been using a retail platform that has provided a venue for developing new products in real time. The platform allows Hanseatic to run a live model that gives clients access to money managers that they would not normally have. This platform charges a modest fee to the client, about 1%, and then splits the fee with the active managers. Our split is very minimal. We provide model buy/sell signals and position sizing. There is no client interface, reporting, compliance, etc.

As of January 2008, we have six products running on the platform, all with growth type mandates: large, small, mid, Asia, Latin America and Europe. We are in the process of adding a multicap and high-yield strategy, pending some final R&D work. The foreign-focused products are all domestically traded.

TWST: Would you give us a few examples of companies you like right now?

Mr. Meihaus: I would say that our largest weightings currently are in the consumer discretionary and technology areas. The stocks that have the largest weight within technology include **Maxim (MXIM)**, **F5 Networks (FFIV)**, **Macrovision (ROVI)** and **VeriSign (VRSN)**. **Apple (AAPL)** is our largest absolute weight, but it has a very large weight in the Russell 1000 Growth, so it's not very large relative to the benchmark. In the consumer discretionary area, we own a variety of stocks, including **Las Vegas Sands (LVS)**, **CarMax (KMX)**, **Priceline (PCLN)**, **Tiffany (TIF)** and **Liberty Media (LINTA)**.

1-Year Daily Chart of Maxim Integrated Products



Chart provided by www.BigCharts.com

TWST: What percentage do each of the sectors account for in your portfolios?

Mr. Meihaus: Consumer discretionary and technology are both about 5% greater than their weight in the Russell 1000 benchmark. We are underweight consumer staples, health care and finance, and we have no utility stocks.

TWST: How has year-to-date performance been?

Mr. Meihaus: Fairly good for the large-cap portfolio. Relative to the Russell 1000 benchmark, it's a little more than 600 basis points greater than the benchmark, and it's about 750 basis points greater than the S&P 500.

TWST: Who is your typical client?

Mr. Meihaus: State and large-city pension funds.

TWST: What do you see as the major pressures on the market right now and how will they affect your investment strategy over the next year?

Mr. Meihaus: I think we are actually in a fairly good market environment right now. Over the summer, the market corrected and got very close to what we thought was the bending versus breaking point, but it didn't break down. As you recall, the market seemed to be discounting a second recession and a lot of international problems and obviously a serious domestic unemployment problem. So the market was discounting an awful lot at that time. I thought it came through it in a fairly healthy way, considering what was being discounted. We are not in the forecasting business, but I think the market has a better chance to do much better over, let's say, the next year than is conventionally thought.

The market is healthier than most think because the leading market sectors are the ones you want to have leadership in an environment conducive to growth. That's technology and consumer discretionary primarily, and energy and industrial stocks are improving. That's primarily consumer discretionary and technology, and I think energy is getting better. Also it's important not to have leadership in the defensive sectors, primarily consumer staples and health care. For instance, in the fall of 2008, the money left all the sectors that I mentioned before and went into the **Wal-Marts (WMT)** and the **Procter & Gambles (PG)** of the world. I think that if **Procter & Gamble** and **Wal-Mart** are the market leaders, then that suggests a market environment that is not conducive to growth stocks.

TWST: Is there anything else you would like to add?

Mr. Meihaus: The reason we are so diversified, the reason we take small positions, is because we try to take our egos out of the investment process and we think that consistency in investment process is really important. That process trumps individual stock outcomes. When you make thousands of stocks buy and sell decisions over long period of time, you want a consistent, disciplined process.

TWST: Thank you. (LMR)

ED MEIHAUS

Chief Investment Officer

Hanseatic Management Services, Inc.

5600 Wyoming NE

Suite 220

Albuquerque, NM 87109

(505) 828-2824

(505) 828-2825 — FAX

www.hanseaticgroup.com