



A shared approach to uncovering opportunities

Chartwell Investment Partners is an independent investment advisor founded in 1997 which is owned by its employees. Our team of analysts and portfolio managers have been developing independent opinions for several decades in an atmosphere of mutual respect and deliberate, thoughtful judgment --- united by a shared approach to uncovering attractively valued growth companies.

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Chartwell's philosophy of investment grade fixed income management stresses security selection, preservation of principal, and compounding of the income stream as the keys to consistently adding value in the bond market. Over time the market's highest returns come from those sectors which offer the most yield; we therefore focus our research efforts in the corporate sector of the market. Because the return potential of any bond tends to be asymmetric - with limited capital appreciation potential, but considerably greater capital loss potential - Chartwell targets high quality credits with stable-to-improving profiles, rather than chasing "cheap" deteriorating credits.

Chartwell utilizes a disciplined value, bottom-up approach to the fixed income market, with emphasis on building the portfolio through individual security selection. Employing in-depth, fundamental research, our highly experienced five member team assesses individual securities and selects those that provide the best relative value. Each team member is responsible for the analysis and trading of one or more fixed income market sectors, including U.S. Government and Agency, Asset-Backed, Bank and Finance, Industrial, Utility, and Yankee. Portfolio managers seek to maintain a diversified high quality portfolio that has more favorable yield characteristics than the benchmark index. Within the investment process, approximately 80% of the value is added through the vigorous security selection process, while the remaining 20% is attributed to sector allocation and yield curve placement. Our goal is to reduce risk and volatility exposures through credit research; therefore, duration shifts, sector swapping, interest rate bets and macroeconomic forecasting are not a central focus in our bottom-up process. Futures, options and other leveraged derivatives are not utilized in our credit central process.

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□ **Research:** Chartwell's philosophy is implemented by assessing the credit profiles of specific issuers through extensive credit research. We search out companies that we believe will experience improving credit profiles in the future. In our opinion, these companies exhibit either a) demonstrated deleveraging capacity, through the generation of predictable and positive cash flow and a track record of using cash flow to reduce debt, or b) sustainable organic growth, with free cash flow reinvested to fuel growth in the context of a strong balance sheet and a targeted debt/equity mix. Credit analysis is focused on absolute and trend line revenue composition and growth, profitability, capital reinvestment, leverage, and liquidity, with particular emphasis placed on scenario analysis of the next 12-24 months. In addition, our security selection process is driven by an analysis of management team strength and depth, the company's ability to access capital, and the quality of the assets available to support the bonds.

Credit research comes from three primary sources. In-house research is our primary source. This is derived by reviewing company financials and meeting with or directly speaking with the management of individual companies. We then combine this information with that modeled by street analysts from both the equity and bond perspective. Finally, of utmost importance is our daily interaction on credits and sectors with the Chartwell equity analysts. We share both bond and equity research, attend equity presentations and meetings, and make management calls together. We feel that this allows us to be proactive and informed on all aspects of a company and events that may impact a credit.

□ **Risk Management:** Chartwell believes that the consistent application of high credit standards, strict trading disciplines, and tight portfolio construction controls is critical in managing investment risk. A formal weekly credit committee convenes to consider all buy and sell decisions, and formulate strategy with respect to macroeconomic and industry considerations. Buys must be unanimous decisions of the committee, while sales may be initiated by any individual member of the committee and need not be unanimous. Sales may be triggered by actual or anticipated deterioration of credit or industry fundamentals or by unexplained negative price action by a security relative to the market. Our streamlined decision-making process allows for quick responses to market opportunities and events.

Portfolio risk is controlled through the construction of well-diversified portfolios with pre-established limits on issue/sector concentrations and duration exposure. Typical portfolios consist of 40 to 50 individual securities, equating to an average issue weighting of 2%. Institutional portfolios limit sector allocations to 150% of the benchmark. Duration is managed to within plus or minus 20% of the benchmark.