

Aerospace & Defense

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Focus On Near-Term Growth Prospects

Our Aerospace & Defense sector strategy (BRV-ASD) demonstrates consistent outperformance when compared with a custom benchmark comprised of the Aerospace & Defense stocks in the Russell 1000, producing an annualized return of 20.7% versus the benchmark at 13.8% over the 5-year period ending September 15, 2008*. In addition, the BRV-ASD strategy has outperformed the benchmark year-to-date with returns of -5.7% versus the benchmark at -16.5%. At the beginning of each quarter, we select the top 5 names in the group as ranked by our BRV-ASD model and construct an equal weight portfolio. With respect to stock selection, we are focused on fundamental factors that we believe are key to identifying outperformers in the Aerospace & Defense (ASD) group. We are primarily focused on stocks in the group that exhibit strong near-term sales and EPS growth. In addition, we favor companies with attractive book multiples and a history of growing profitability. Our strategy also places a strong emphasis on holding positions in the larger names. In any given quarter, we hold an average of 4 out of 5 stocks with market capitalizations of \$20 billion or greater. The key points below highlight our positions in the current quarter:

- We are focused on stocks in the group that exhibit strong near-term sales growth (i.e. sales last quarter are growing faster than projected long-term EPS growth). In our view, this is an indicator of a healthy business climate for Aerospace & Defense stocks. Four out of five stocks in our current portfolio exhibit this characteristic.
- We are long stocks with a 5-yr average ROE of at least 8%, a P/E multiple of 15.0x or less and a forward P/E multiple of 13.0x or less. At 2.0%, the dividend yield on our portfolio is lower than the benchmark dividend yield at 2.3%.
- Our strategy emphasizes holding positions in the larger names in the group. In our current portfolio we are holding United Technologies Corp. (NYSE: UTX, \$63.11), Lockheed Martin Corp. (NYSE: LTM, \$112.03), Honeywell International, Inc. (NYSE: HON, \$45.95) and General Dynamics Corp. (NYSE: GD, \$85.09) each having a market capitalization that exceeds \$30 billion.

* See Appendix A for a more detailed explanation of the Russell 1,000 Aerospace & Defense custom benchmark.

** First Call estimates

Sector Strategy

