

FERGUSON **W**ELLMAN CAPITAL MANAGEMENT

---

2008 ANNUAL REPORT





### About the Ferguson Wellman logo

*Our logo features a bronze coin of Marcus Aurelius Antonius, who served as Emperor of Rome from A.D. 161 to 180. After his aristocratic parents died when he was young, Marcus Aurelius was raised by his grandfather, who hired the best tutors to educate him.*

*Marcus Aurelius embraced the rigid system of the Stoics, which taught “the submission of the body to the mind, and the passions to reason.” According to historian Edward Gibbon, he governed with “invariable spirit of wisdom and virtue.” Gibbon further comments that his was the only period in history in which “the happiness of a great people was the sole object of government.”*

*Marcus Aurelius was a hands-on leader who spent eight campaigns on the Danube front fighting threats to the Empire. There he wrote the famous meditations that reveal a mind of great humanity and natural humility.*

*On the back of our coin logo is the Roman goddess Aequitas, who personifies equity in commercial transactions. This coin shows Aequitas holding scales, for fairness, and a cornucopia, the symbol of abundance. Her image on this coin conveys the message that financial matters are being administered correctly and in a manner beneficial to all.*

### About Ferguson Wellman

Founded in 1975, Ferguson Wellman is a privately owned investment advisory firm established in the Pacific Northwest. The firm manages \$2.5 billion in assets for 522 clients with portfolios of \$2 million or more.

We provide:

- Investment strategies and wealth management services to individuals and families.
- Institutional investment management for nonprofits and retirement plans.

### Mission

Investment Excellence

Lifelong Relationships

### Core Values

Our commitment — to our clients, our profession, our community and ourselves — is to:

- Exceed expectations
- Act with uncompromising ethics and reliability
- Advocate innovation and manage change
- Foster a collegial environment
- Enjoy the journey

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## Annual Letter

To say that the year just ended was **unprecedented** doesn't begin to capture the turmoil we all experienced. Whether our client is an individual responsible for the family's well-being, a trustee for a foundation, retirement trust, corporation or business, 2008 demonstrated how connected today's markets are. A global recession, the U.S. subprime meltdown, the volatile price of fuel — such dramatic events tested the fortitude of even the most seasoned investors.

These are the times when experience, stability and continuity prove indispensable. At Ferguson Wellman, we are veterans. Since our founding in 1975, the firm has weathered numerous market cycles, some of them difficult indeed, with a steady hand. We continue to manage our clients' custom investment portfolios to produce competitive, risk-adjusted performance. At a time when the financial services industry is rapidly changing, operating as an employee-owned firm allows us to always put our clients first — personally responding to their questions, proactively addressing their needs and independently making decisions



Ferguson Wellman Capital Management Board of Directors (from left)  
Dean Dordevic, Jim Rudd, Steve Holwerda, Mark Kralj, George Hosfield

for their benefit. Our clients appreciate the reassurance that comes from knowing that we act exclusively on their behalf.

The events of 2008 affected every company in America, including ours. Our profitability for the year was down. And yet we continued to make the investments in our firm that will enhance our ability to serve our clients. We staffed four new positions — analyst, portfolio manager, operations audit administrator and executive assistant — to maintain the excellent service our clients expect.

In addition, we established new online communication that allows us to convey time-sensitive information more effectively to our clients. We made enhancements to our Horizon™ proprietary financial planning tool. We also hosted new events throughout Oregon and Southwest Washington regarding charitable vehicle options and the impact of wealth on the next generation for our clients.

In 2008 we welcomed 39 new clients. We invited our lead equity trader, Tim Carkin, and our vice president of business development, Jim Coats, to become shareholders in the firm. And we honored the 10-year anniversaries of senior vice presidents Ralph Cole and Don Rainer — the next generation of owners of the firm — and the remarkable 30-year anniversary of Robin Freeman.

In challenging as well as stable times, good communication with our clients, prospective clients, colleagues and partners is vital. That's why we are pleased to share this annual report. It focuses on the process behind our strategies and services — how we go about investing for our clients.

If there's one truth the events of 2008 reinforce, it's that one can never be too well-informed or well-prepared. We hope this report contributes to our clients' understanding of our investment management approach and reminds them that there is nothing we take more seriously than earning their trust. We appreciate the opportunity to manage the assets that have been entrusted to us, and we look forward to serving our clients in 2009.

  
**James H. Rudd**  
Chief Executive Officer

  
**Steven J. Holwerda**  
Chief Operating Officer

# Our Investment Process

## At Ferguson Wellman, we have a single aim: helping our clients achieve their investment goals.

We develop investment strategies that are based on the collective best thinking of our entire 18-person investment team. Each strategy derives from a rigorous institutional discipline our professionals have honed over the course of the firm's 34-year history, and each is designed to consistently deliver attractive returns relative to the appropriate benchmarks. This section of our report explains our ongoing process behind our investment strategies for clients.

### From the Top Down ...

In an investment context, **top-down** refers to analyzing the big picture. As investors, we study the global theare expanding and which are troubled? Which industries will enjoy a competitive advantage?

We then narrow our focus to the U.S. economy, examining major indicators such as interest rates, employment and inflation. This broad-based, macroeconomic analysis — which we call tactical asset allocation — enables us to determine which **asset classes** and market sectors are most likely to generate the best returns.

Ferguson Wellman's **Investment Policy Committee** is responsible for making the top-down decisions that dictate the allocation of capital between asset classes, and for identifying the broad **investable themes** and **sector targets** that our analysts and **portfolio managers** seek to implement in their respective areas of expertise.

### ... And the Bottom Up

**Bottom-up** investing considers debt and equity securities solely on the basis of individual company attributes. The goal of this approach is to identify attractively priced companies with favorable prospects, regardless of industry or macroeconomic factors.

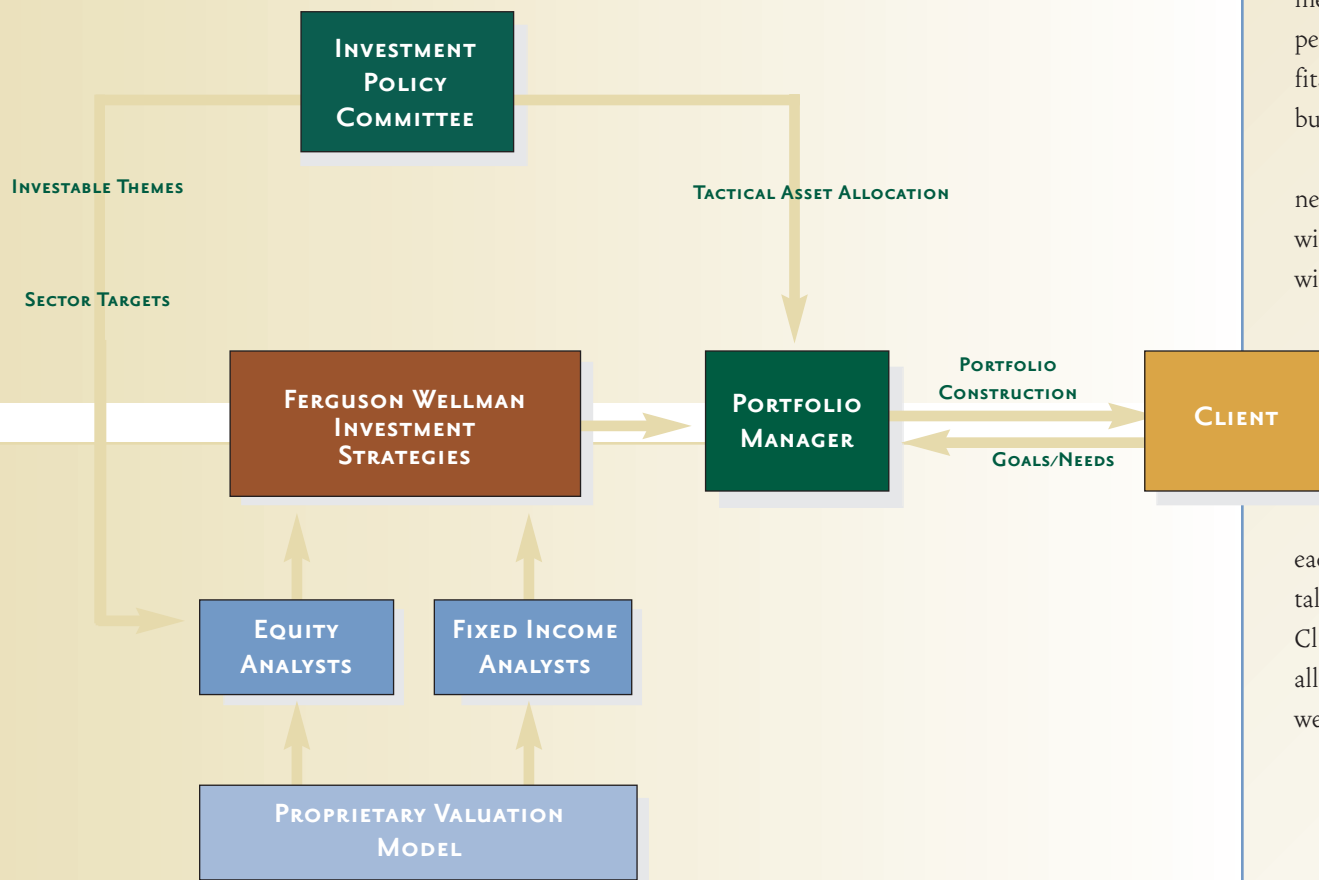
At Ferguson Wellman, our **proprietary valuation models** form the foundation of our bottom-up process. Through these models, **our equity and fixed income analysts** screen and rank publicly traded securities. We conduct this screening by sector, considering a series of variables — valuation, earnings, cash flow, credit worthiness — to identify the most attractive securities in each equity and fixed income sector.

Only those securities exhibiting the most compelling fundamental attributes merit further research by our analysts. To ultimately qualify for inclusion in client portfolios, each security must be attractively ranked relative to its sector peers and be competitively positioned in accordance with our macroeconomic outlook — this is the top-down consideration.



INVESTMENT EXCELLENCE

## Ferguson Wellman Investment Process



## For Our Clients

**In contrast to off-the-shelf, pooled-fund strategies** where each investor receives an identical product, Ferguson Wellman's investment strategies constitute a starting point — the foundation upon which our portfolio managers customize unique portfolios to meet each client's individual needs. This degree of personalization is increasingly rare in today's one-size-fits-all investment world and remains at the core of our business model.

We are able to tailor each portfolio to the client's needs because we strive to cultivate close relationships with the people we serve. Each client works directly with one of our 13 portfolio managers, who optimize the firm's strategies based on each client's specific requirements.

The portfolio manager is the intermediary who works directly with each client, matching his or her unique needs with the resources of the firm. And yet, as shown in the diagram, each client portfolio is truly the result of the efforts and talents of many people on the Ferguson Wellman team. Clients interact with many of our other 40 employees, all of whom are dedicated to the financial success and well-being of our clients.



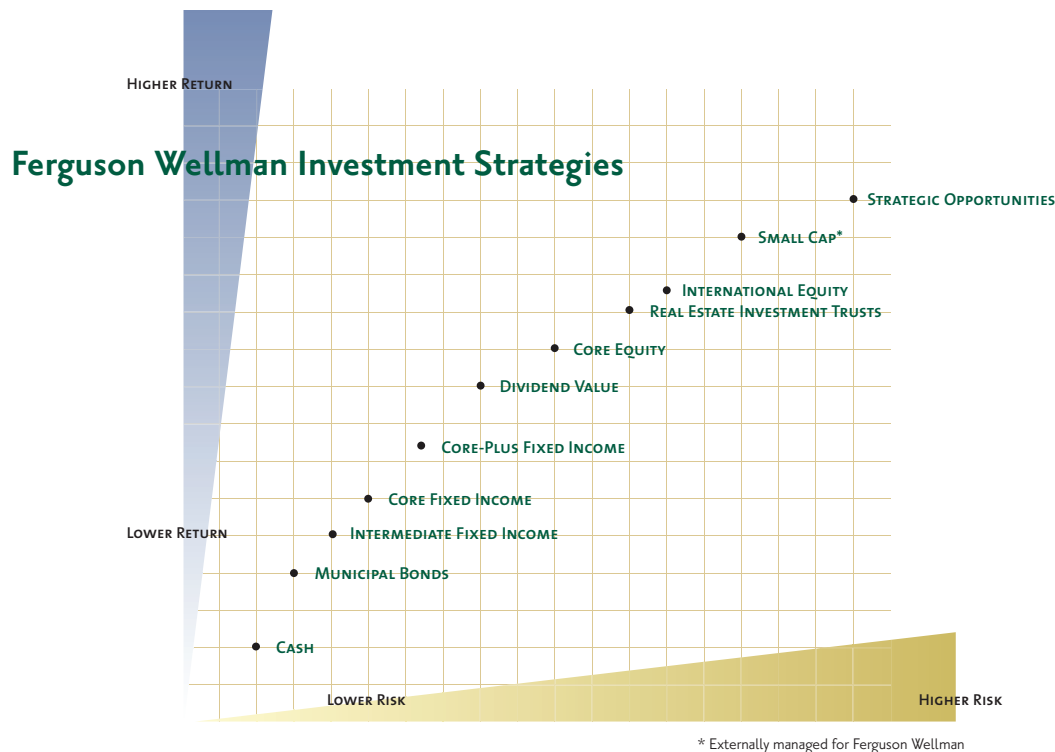
# Our Investment Strategies

**Ferguson Wellman's comprehensive suite of investment strategies is** exclusively designed for our individual and institutional clients. When crafting each asset class strategy, we are always mindful of how much risk we are willing to assume in exchange for an anticipated return. Each portfolio manager shoulders the responsibility for appropriately balancing the expected risk, reward and correlation of the asset classes that are employed for each client.

Many of our clients choose to have us dynamically manage multiple equity and fixed income classes in customized balanced portfolios that combine multiple investment strategies.

In an increasingly complex and volatile investment environment, Ferguson Wellman has consistently and prudently added to its suite of investment strategies over the years. With the broad array of offerings listed on these pages, we are able to combine multiple asset classes in order to minimize the amount of portfolio risk while satisfying the long-term investment objectives of each client.

With our broad array of investment offerings, we have the flexibility to fine-tune each client portfolio with the aim of minimizing the risk assumed in pursuit of an expected return.



## Cash

The portion of the portfolio that consists of funds immediately available and accessible to the investor.

## Municipal Bonds

We select investment-grade securities from city and state municipalities that will provide stability and tax-free income. Each portfolio is customized to take advantage of the tax structure in the client's home state.

Benchmark: Barclays Capital Intermediate-Short Municipal or Barclays Capital Municipal Index

## Intermediate Fixed Income

This discipline limits bond maturities to ten years or less. Typical average maturity is four years.

Benchmark: Barclays Capital Intermediate Government/Credit Index

## Core Fixed Income

This strategy seeks to provide the highest possible levels of current income through bond investments while minimizing the risk to principal.

Benchmark: Barclays Capital Aggregate or Barclays Capital Government/Credit Index

### Core-Plus Fixed Income

This strategy is designed for bond investors who are willing to tolerate higher risk for higher potential returns.

Benchmark: Barclays Capital Aggregate or Barclays Capital Government/Credit Index

### Dividend Value

A total return strategy employing stocks that pay dividends, have the ability to increase dividends at above-average rates and/or pay a significant special dividend.

Benchmark: Russell 1000 Value Index

### Core Equity

This strategy seeks to consistently generate returns in excess of the S&P 500 while experiencing similar or less risk.

Benchmark: S&P 500 Index

### Small Cap

This portfolio consists of both “active” and “passive” solutions. Active solutions include the Luther King Small Cap Equity Fund, a mutual fund, and the Royce Focus Trust. For passive exposure to small caps, we offer the iShares Russell 2000 Index Fund.

Benchmark: Russell 2000 Index

### International Equity

In this discipline, we invest primarily in high-quality, large-capitalization American Depositary Receipts (ADRs) equities from developed countries, with an emphasis on Continental Europe, the U.K. and Japan. We also provide exposure to emerging markets through an exchange-traded fund and emerging market ADRs.

Benchmark: MSCI EAFE Index

### Real Estate Investment Trusts (REITs)

This portfolio consists of publicly traded domestic securities that invest in real estate holdings across all major categories, including office, retail, apartments and industrial.

Benchmark: NAREIT Index

### Strategic Opportunities

A dynamic global combination of macroeconomic commitments (including commodities), small-cap spinoffs and “special situations,” designed to both manage risk and enhance expected returns of client portfolios.

Benchmark: S&P 500 Index

For complete benchmark information, see page 9.

## For Our Clients

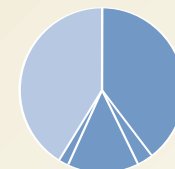
### Each client has unique investment needs and objectives.

We customize portfolios around these goals, matching risk tolerance and cash flow with asset allocation. Some examples of client portfolio goals include:

#### High Income

**Goal:** a high level of income through dividends and interest, while preserving capital

**Returns:** mostly from dividends and interest

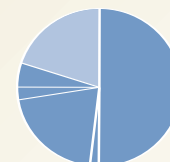


40% DIVIDEND VALUE  
40% CORE FIXED INCOME  
15% INTERNATIONAL  
3% REITS  
2% SMALL CAP

#### Capital Appreciation

**Goal:** capital appreciation, without current income needs

**Returns:** mostly from capital appreciation

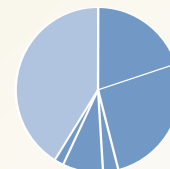


50% CORE EQUITY  
20% CORE-PLUS FIXED INCOME  
20% INTERNATIONAL  
5% STRATEGIC OPPORTUNITIES  
3% SMALL CAP  
2% REITS

#### Income and Growth

**Goal:** income and growth for taxable portfolios

**Returns:** a balance between capital appreciation and tax efficient income



40% MUNICIPAL BONDS  
25% DIVIDEND VALUE  
20% CORE EQUITY  
10% INTERNATIONAL  
2% SMALL CAP  
3% REITS



## Our Client Services

### LIFELONG RELATIONSHIPS

#### Helping clients achieve their investment goals is Ferguson Wellman's first priority.

In addition, our firm provides many other investment-related services, including client-focused communications about economic trends and developments in capital markets, events and education, as well as wealth management resources.

Whether we invite expert speakers to share their industry knowledge with our clients face-to-face, send out special reports after attending investment conferences, or collect, analyze and distribute data from trusted resources, we continually keep our clients apprised of issues that will affect their investment objectives and goals.

Each of these services delivers important information or support to our clients, whether they are individuals and families or institutional entities such as foundations, endowments, corporate retirement plans or Taft-Hartley accounts.

In 2008 Ferguson Wellman developed a number of new communication tools, events and educational opportunities to help our clients understand the rapidly changing capital markets and to address their questions and concerns. We connected with clients more frequently through our *Capital Markets Update* emails and our Investment Forum and Outlook events.

Also, as news media outlets were having to report on unprecedented market developments, our portfolio managers were often interviewed. In addition to helping media convey important information to the public, our portfolio managers were asked to speak to outside organizations about complex financial and economic issues throughout the year.

#### 2008 Communication, Events and Education

**January** | Investment Forums and Outlooks for clients, accountants and attorneys: Portland, Salem, Boise, Bend, Spokane, Medford, Roseburg  
*Q4 Market Letter: Hurricane Hunters*  
*Special Report: Outlook 2008*  
*Capital Markets Update: Stepping Back from Risk*

**February** | Investment Outlook: Vancouver  
Investment Forum: Palm Springs  
*Capital Markets Update: Trying to Shake the Subprime Hangover*

**April** | Family Foundation Forum: Portland  
*Q1 Market Letter: Crisis in Perspective*

**May** | Philanthropy Forum: Medford  
*Capital Markets Update: Sell the Rallies*

**July** | *Q2 Market Letter: Rough Rice*  
*Special Report: Frank Jüngers on Oil*  
*Capital Markets Updates: Oil ... The Speculative Bubble, Fannie Mae and Freddie Mac*

**September** | *Capital Markets Updates: Fannie Mae and Freddie Mac – Part II, How Safe Are Your Assets?, Repricing Risk in a Deleveraging World*

**October** | Investment Forum and Investing 101: Medford  
Dr. Lee Hausner event on wealth and family: Portland  
*Q3 Market Letter: Hubris*  
*Capital Market Updates: Where Do We Go From Here?, Price DOES Matter*

**November** | Philanthropy Forum: Bend  
*Capital Markets Update: Aren't We Out of the Woods Yet?*

**December** | Investment Outlooks: Previews for Portland media

## Wealth Management Services

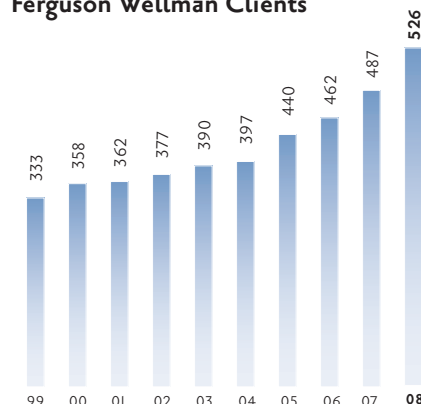
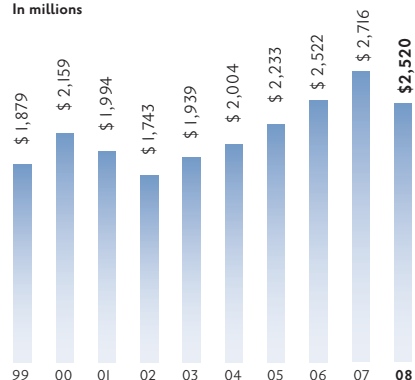
**Financial Forecasting Model — Horizon™** | Horizon is Ferguson Wellman's proprietary financial planning tool that analyzes real-world factors to estimate the long-term growth of client portfolios.

**Electronic Safe Deposit Box** | This essential tool provides clients with a secure, convenient way to quickly access critical legal and financial documents in the event of a family emergency or death.

**Tax and IRA Impacts on Major Purchases** | Our proprietary analytical model details the financial impact of using proceeds from taxable portfolios or IRAs, versus taking a loan, for major purchases where interest could be deductible.

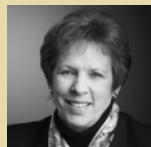
**Other Resources** | Our portfolio managers work closely with clients' accountants and attorneys for seamless estate planning. Portfolio managers also educate family members in money matters, assist with philanthropic planning, identify gifting alternatives, help protect family legacies and provide continuity for future generations.



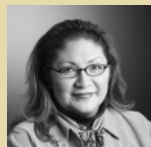


Ferguson Wellman today serves more clients than at any other time in the history of the firm. We will continue to invest in experienced and skilled people, technology and investment strategies and services on our clients' behalf.

## Ferguson Wellman Team In order of tenure



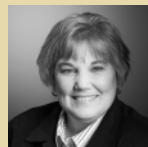
**Robin Freeman\***  
Vice President of  
Personnel



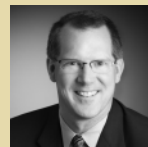
**Kathi Kimes\***  
Administrative  
Assistant



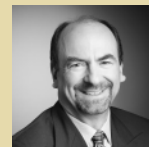
**James Rudd\***  
Chief Executive  
Officer



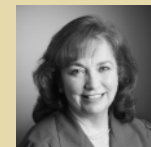
**Kerrie Young\***  
Chief Compliance  
Officer



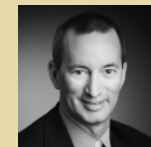
**Steven Holwerda, CFA\***  
Chief Operating Officer



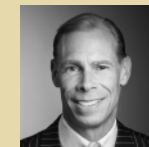
**Mark Kralj\***  
Principal



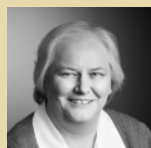
**Ginny Marsh\***  
Executive Assistant



**Marc Fovinci, CFA\***  
Principal



**George Hosfield, CFA\***  
Chief Investment  
Officer



**Patricia Van Dyke\***  
Audit Administrator



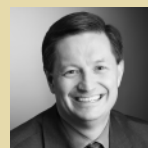
**Dean Dordevic\***  
Principal



**Shawn Swagerty\***  
Director of Information  
Systems



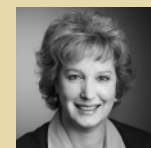
**Amy Woods\***  
Executive Assistant



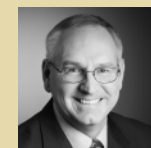
**Ralph Cole IV, CFA\***  
Senior Vice President



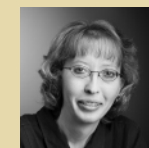
**Donald Rainer\***  
Senior Vice President



**Lori Flexer, CFA\***  
Senior Vice President



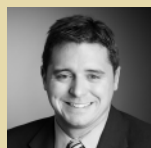
**Michael Knebel, CFA\***  
Senior Vice President



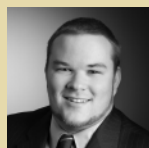
**Jeanene Wine\***  
Audit Administrator



**Luz Garcia\***  
Executive Assistant



**Jason Norris, CFA\***  
Senior Vice  
President



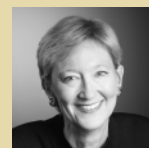
**Timothy Carkin\***  
Trader



**Lori Ferraro**  
Executive Assistant



**Deidra Krys-Rusoff**  
Fixed Income Analyst



**Helena Lankton\***  
Senior Vice President



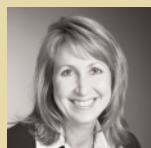
**Joseph Brooks**  
Assistant Trader



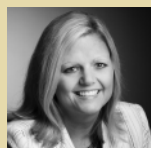
**James Coats\***  
Vice President



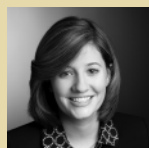
**Mary Miller**  
Vice President of  
Marketing



**Sandy Fendall**  
Executive Assistant



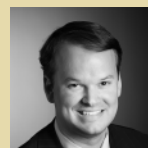
**Tracie Maslen**  
Executive Assistant



**Natalie Miller**  
Sales and Marketing  
Assistant



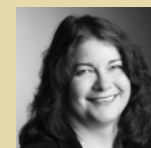
**Lynelle Tarter**  
Audit Administrator



**Nathan Ayotte**  
Vice President



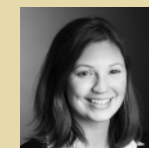
**Scott Christianson**  
Assistant Trader



**Helen Hansen**  
Audit Administrator



**Becky Horvat, CFA**  
Controller



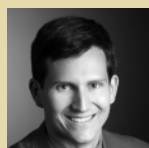
**Megan Johnston**  
Executive Assistant



**Chad Long**  
Information Systems  
Specialist



**Julie Mark**  
Executive Assistant



**Shawn Narancich, CFA**  
Vice President of  
Research

Not pictured:  
**Warren Foltz\***  
Audit Administrator

\* Shareholders of the firm

## Industry Benchmarks

**Balanced Composite:** The index is a blend based on 50 percent S&P 500 Index and 50 percent Barclays Capital U.S. Government/Credit Bond Index, rebalanced on a monthly basis. The S&P 500 Index covers 500 industrial, utility, transportation and financial companies of the U.S. markets (mostly NYSE issues). The index represents about 75 percent NYSE market capitalization and 30 percent NYSE issues. It is a capitalization-weighted index calculated on a total return basis, with dividends reinvested. The Barclays Capital U.S. Government/Credit Index is the non-securitized component of the Barclays Capital U.S. Aggregate Index and includes Treasuries, government-related issues and USD Corporates.

**Dividend Value Composite:** The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92 percent of the total market capitalization of the Russell 3000 Index.

**Equity Composite:** The S&P 500 Index covers 500 industrial, utility, transportation and financial companies of the U.S. markets (mostly NYSE issues). The index represents about 75 percent NYSE market capitalization and 30 percent NYSE issues. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested.

**Fixed Income Composite:** The Barclays Capital U.S. Aggregate Index is composed of securities from Barclays Capital Government/Credit Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indexes are rebalanced monthly by market capitalization. The Barclays Capital Government/Credit Bond index is offered here for informational purposes only.

**Fixed Intermediate Composite:** The Barclays Capital U.S. Intermediate Government/Credit Index tracks the performance of U.S. dollar-denominated fixed-rate Treasury, Agency and investment-grade rated sovereign and corporate debt securities having at least one, but no greater than 10 years remaining to maturity.

**International Composite:** Morgan Stanley Capital International Europe Australia Far East (MSCI EAFE) Index is a market capitalization-weighted index composed of companies that represent the market structure of 20 developed-market countries in Europe, Australia and the Far East. The index is calculated with gross dividends reinvested with U.S. dollars.

**Municipal Bond Composite:** The Barclays Capital Municipal Short/Intermediate Index tracks the performance of investment-grade rated U.S. municipal bonds having at least one, but no greater than 10 years remaining to maturity.

**REIT Composite:** The NAREIT Composite includes all REITs currently trading on the New York Stock Exchange, the NASDAQ National Market System and the American Stock Exchange.

**Small Cap Composite:** The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10 percent of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market capitalization and current index membership.

**Strategic Opportunities Composite:** The S&P 500 Index covers 500 industrial, utility, transportation, and financial companies of the U.S. markets (mostly NYSE issues). The index represents about 75 percent NYSE market capitalization and 30 percent NYSE issues. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested.

## Ferguson Wellman Capital Management

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