

April 15, 2003

Dear Client,

The equity market displayed significant volatility during the first quarter, with the S&P 500 Index rising 6.28% by mid-January, then declining 15.63% by March 12<sup>th</sup>, and ending the quarter with a three-month loss of 3.60%. While the general market remained weak, high-technology-led NASDAQ started to show somewhat more stability, with a slight gain of 0.42%.

<b>Index</b>	<b>First Quarter</b>
Dow Jones Industrial Average	-4.19%
Standard & Poor 500	-3.60%
NASDAQ Composite	+0.42%
Russell 2000	-4.84%
Dow Jones World (ex. U.S.)	-7.54%
Merrill Lynch Corporate/Government Bond	+1.58%

Although inconclusive, early indications of moderate economic improvement influenced the market in early January, but intensifying concern about geopolitical risks then became the dominant factor. It had become apparent that the prospect of war in Iraq was increasingly probable, raising numerous unanswerable questions. Moreover, the clouded outlook impacted corporate decision-making, thereby affecting previously anticipated increases in business expenditures and economic activity. In effect, both the economy and the market had become hostage to the war.

While our confidence in the U.S. economy and long-term investment opportunities remain high, we have not ignored short-term uncertainties. We continue to explore new ideas and remain very selective, while we monitor our core holdings to make sure that the fundamentals remain intact. As long as the companies continue to be sound and valuations are reasonable, we will maintain positions and possibly buy more at some point. In addition to continuous follow-up, we thoroughly review each core holding annually.

The current cash position in our model portfolio is more than 10%. While our approach as a long-term investor is to be nearly fully invested without timing the market, our cash position has reached the mid-teens from time to time in the past when dispositions were not immediately replaced. We consider ourselves highly selective. We are willing to maintain a larger cash position if we cannot find attractive investment candidates. This typically is a temporary situation.

We feel comfortable maintaining a positive attitude about our core holdings, and with many of them trading at depressed prices, we made few sell decisions during the quarter. This, combined with the absence of many compelling purchase opportunities that met our investment criteria, resulted in fewer than normal transactions.



## NEW PURCHASES IN FIRST QUARTER OF 2003

### Jacobs Engineering (JEC)

Jacobs Engineering is a Pasadena, California based full-service engineering and construction management company. The company offers engineering, design, consulting, procurement, construction and construction management, and operating and plant maintenance to its customers in the commercial, industrial, and government sectors.

Jacobs focuses on building long-term relationships with a group of core customers who are leaders in their respective industries. 80% of its business is derived from its 40-50 key relationships, many of which have been in place for 15-20 years. This is how Jacobs can generate a steady flow of contract opportunities, a key factor underscoring the company's success for the last three decades. Many peers have tried to duplicate this strategy but have not succeeded. Impressively, Jacobs' earnings have grown at 14% compounded annually for the past 10 years. The fourth quarter just marked its 28<sup>th</sup> consecutive quarter of double-digit, year-over-year EPS growth and its 52<sup>nd</sup> consecutive quarter of year-over-year backlog growth. Thus far, due to its limited liquidity, we were unable to add the stock to all growth portfolios at the price level we consider attractive.

### SPECIAL NOTE

It is my pleasure to introduce a new member of our team. Steven Vannelli joined Noesis as a Portfolio Manager and Managing Director for our west-coast office. Steve has over thirty years of investment experience as a senior analyst, director of research and senior portfolio manager for a nationally recognized investment firm. He has an extensive background overseeing equity and fixed income investments for high net worth individuals, trusts and charitable institutions. Steve received his Bachelor of Science degree from the University of California (Berkeley) and an M.B.A. from Syracuse University. We welcome Steve to the firm and are looking forward to providing our clients with the benefit of his extensive knowledge and experience.

Sincerely,

Joseph T. Lai  
Chief Portfolio Manager