NORTH STAR ASSET MANAGEMENT, INC.

April 2006

INVESTMENT UPDATE

Executive Summary

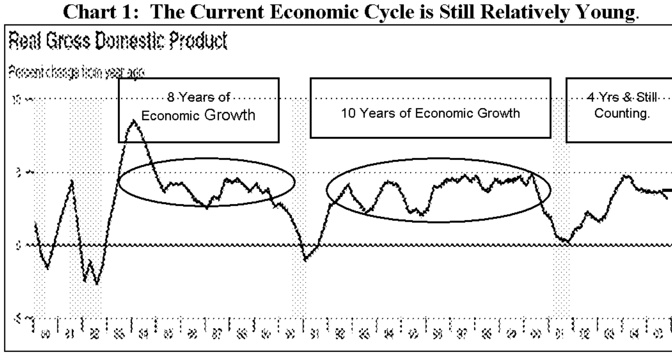
- The U.S. economy remains strong with real growth of +3.5-4.0% projected for 2006.
- With the Fed Funds rate at 4.75%, the Federal Reserve is nearly finished raising short-term interest rates.
- Core inflation rate expected to remain under 2.75%.
- A two-year extension of the 15% capital gains and dividend tax cut should be passed soon.
- The housing market is slowing but should not materially affect the economy in 2006.
- Rising corporate profits and the strong economy are starting to be reflected in the stock market. We believe that the equity market price/earnings ratio (P/E) will expand this year after contracting for the last 5 years.
- The long-term bond market remains moderately overvalued given strong economic growth and the current level of inflation. We believe that the yield on the 10-year Treasury Note will climb to over 5% during the next few quarters.

Economy

The economy has entered its fifth year of economic growth and shows no signs of a significant slowdown. We expect continued above-average real GDP growth of +3.5-4.0% in 2006. Corporate profits, as measured by the S&P 500, rose by +13% in 2005 and have almost doubled in the last four years. The higher profits are being re-invested in the economy, reflected in strong employment growth in excess of 2 million net new jobs per year over the last two years, higher wages and dividends as personal income increased by +5.7% in 2005, and strong capital spending growth of +7% in 2005. U.S. corporations are competitive on a worldwide basis as manufacturing production is at record levels and export growth of +6.5% exceeded import growth of +5.5% in 2005. Household net worth is at record levels and retail sales have grown by over +8% in the past year.

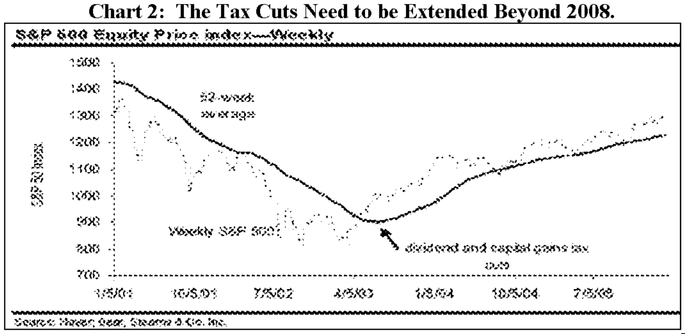
Despite many misconceptions, the economy tends to have long uninterrupted periods of growth. The last two periods of sustained economic growth lasted 8 years from 1982-1990 and 10 years from 1991-2000 (see Chart 1). In fact, economic growth has been positive in 21 out of the last 23 years. Excluding policy errors (tax increases, excessively high short-term interest rates, excess regulation) and imbalances (technology bubble in 2000), the free-market, capitalistic U.S. economy has a natural tendency towards growth.

Chart 1: The Current Economic Cycle is Still Relatively Young.



The main concerns that could slow the economy would be the inability of Congress to extend the tax cuts beyond 2008, the potential for the housing market to slow significantly, and the possibility that the Fed raises rates too high. The capital gain and dividend tax cuts in 2003 helped ignite the current period of sustained strong economic growth and contributed to the rebound in the stock market from the 2003 lows (see Chart 2). The failure of Congress to extend the tax cuts would be a significant negative to the stock market and economic growth beyond 2008. Fortunately, there is still hope for the tax cut extension as the bill is currently in joint conference between the House and Senate with the Senate needing only 51 votes for passage.

Chart 2: The Tax Cuts Need to be Extended Beyond 2008.



In recent months, the housing market has cooled considerably with pockets of regional price declines in many of the previous "hot" areas. While we are concerned about the housing market and the impact on the economy in those "hot" areas, we do not expect a significant national housing price decline. We believe the rapid growth in median home prices in the last several years must be taken in context with below average growth during the late 1980's to middle 1990's. In fact, median home prices have finally caught up to the gains in per capita income over the last three decades (see Chart 3). Other factors arguing in favor of a housing slowdown, not a significant decline, include the outlook

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