NORTH STAR
ASSET MANAGEMENT, INC.

April 2003

INVESTMENT UPDATE

Executive Summary

The stock market recovery was put on hold in the first quarter as trepidation over the escalating Iraqi conflict caused businesses, consumers, and investors to be extremely cautious. The economy is still growing but at a rate that is slower than its potential. Assuming the Iraqi war is concluded in the next few months, the economy should strengthen throughout 2003, leading to higher corporate profits and positive equity returns. The combination of extremely low interest rates, growth in Federal spending, additional tax cuts, falling energy prices, and a weak dollar is a recipe for stronger economic growth. Considering the fact that consumers and businesses are re-liquefying their balance sheets, the potential exists for above-average growth once the war is concluded. Even if the war lingers, given the amount of fiscal and monetary stimulus and the increased competitive position of the US due to the weak dollar, a period of slow growth is more likely than another recession. The stock market is poised to rally on good news as evidenced by the large weekly increase (+8.2%) in the stock market leading up to the start of the war. The bond market is a different story as a stronger economy and a weaker dollar is likely to push interest rates higher in 2003. The extremely low yields are not enough to compensate for this risk, indicating a shorter-than-average duration for our bond portfolios.

Iraqi War

The war in Iraq is casting a huge shadow over corporate spending, consumer confidence, consumer spending, and the stock market. Until there is concrete evidence that the war is nearing its conclusion, the economy and the stock market will be constrained. Nonetheless, we continue to believe the effort will be successfully completed in months, not quarters, and the subsequent recovery in the economy and the stock market could prove significant. Unlike the previous Gulf War, the underlying fundamentals and fiscal and monetary stimulus have been strong enough, to avoid another recession. When the war is finally completed, the economy should rebound as corporations and consumers have re-liquefied their balance sheets. Combined with the reduction in the threat of terrorism along with lower energy prices, the end of the war should prove a catalyst for renewing investor confidence and improving economic growth.

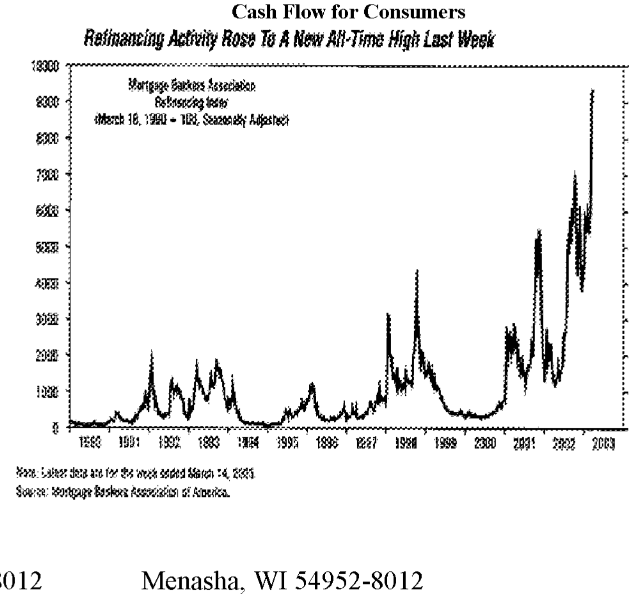
Economy

Economic growth slowed in the fourth quarter of 2002 and into the first quarter of this year as war fears restricted corporate and consumer spending. Economic growth in the first quarter is expected to be +2.0%, down from a +2.9% growth rate last year. Given the war fears prior to the start of the war, the severe winter weather in the East and Southeast, higher energy costs, and the "CNN" effect of consumers watching the war, +2% growth in the economy is respectable.

The combination of rapid money supply growth by the Federal Reserve, extremely low interest rates, increased government spending, additional tax cuts, and the weaker dollar should provide more than enough stimulus to offset any short term economic weakness caused by the Iraqi war. This much stimulus two years into a recovery is unprecedented. When the war fears dissipate, we believe the strength of the economy will surprise investors. Even now, the consensus economic growth forecasts for the remainder of the year are +2.2%, +3.5%, and +3.7% for the second, third, and fourth quarter, respectively. The stock market appears solely focused on the war and is ignoring the strong second half growth potential (+3.5% or better) of the economy.

The consumer has been and should continue to be the stalwart for economic growth. While job growth has been elusive, 94% of those wanting to work are working and are receiving +2-3% real wage increases. Consumers continue to benefit from the phase in of new tax cuts and more importantly from the recent drop in energy prices and mortgage rates. Over the last three months, disposable personal income has grown by +5.7% from a year ago. Another recent wave of mortgage refinancings will free up billions of dollars for incremental spending, savings, or debt repayment in 2003 (See Chart 1).

CHART 1: Mortgage Refinancing Freeing up Substantial Amounts of Cash Flow for Consumers



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