



## PRIVATE CAPITAL MANAGEMENT, INC.

*An investment management firm for individuals and institutions*

June 30, 2004

Dear Clients,

Last week, Mary and I traveled to Chicago and, again, visited Oakmark Funds. As you may recall, our last meeting with Oakmark was in August of last year. At that time, we had a long conversation with Bob Levy, the Chief Investment Officer. This time we were fortunate enough to meet with the other two members of the three person investment committee, Clyde McGregor and Bill Nygren; both were recently named managers of the year by Morningstar. As our assets have grown with Oakmark, we felt it was important to update our evaluation of the managers.

Let us first discuss the meeting with Clyde McGregor. Asked about how he became interested in investments, Clyde related to us his "story". After graduating from Oberlin College and attending Divinity School for a short time, missing out on a Rockefeller Scholarship, and having a job opportunity fall apart at the last minute, Clyde became a calculator salesman. After a while, he was presented with the opportunity of attending the University of Wisconsin under a scholarship program for graduate school where he earned an MBA. While at Wisconsin, he studied under Professor Steve Hawk who greatly influenced Clyde's interest in investments. In 1981, he joined Oakmark and several years later was asked to find another analyst for the firm. He went back to his mentor, Prof. Hawk, who recommended an outstanding student by the name of Bill Nygren!

Clyde is now a Certified Financial Analyst with twenty-six years of investment experience. He says that he works with some of the smartest people in the world and obviously loves his job. Oakmark Equity Income opened in November of 1995 with only two million dollars, one half of which Clyde personally borrowed. The rest is history as that fund now has almost seven billion dollars in assets. The three year compounded rate of return is 12.48%. The five year compounded rate of return is 13.89%. The fund consists of approximately 65% equities, 10% cash and 25% in bonds with a very low duration of 1.7 years. Clyde also co-manages the Oakmark Global Fund with Michael Welch.

Bill Nygren manages the Oakmark Fund and Oakmark Select. With twenty-two years of investment experience, he is also a Certified Financial Analyst. Bill related to us that the Oakmark Select Fund was started in 1996 at his request and he and his co-manager, Kevin Grant, now manage over 5.5 billion dollars in assets. The three year compounded return is 9.59% and the five year compounded return is 13.66%. Bill has managed the Oakmark Fund with over six billion in assets since 1991 when he replaced its previous manager. The three year compounded return is 6.22%. The Oakmark Fund is more focused on large cap while Oakmark Select is small to mid cap. Bill maintains less than 10% in cash regardless of the market. He believes in finding high quality, value investments. He has great faith in the resiliency of our country but not much faith in politicians of either party. Bill believes in concentrated positions and deep research and sees value in current market prices. His philosophy has three distinguishing factors relative to his peers: (1) staying invested; (2) his ability to shift to higher quality larger cap stocks makes it possible for him to buy at good prices; and (3) there is no minimum exposure to individual industries (currently he has no tech stocks in his portfolios).

It is interesting to note that both Clyde McGregor and Bill Nygren have the majority of their liquid assets invested in the Oakmark products. From an investment management perspective, it is great to see such a large percentage of the managers' assets invested in the same funds in which our clients are invested.

We greatly appreciated the assistance of Oakmark's Director of Marketing, Mike Neary, in arranging these meetings. We were very impressed by the candor of Clyde and Bill. They truly believe in the Oakmark process and encourage participation from the many securities analysts at the firm. The combination of teamwork, intensive research and respect for each other gives us confidence to continue to invest in their funds. We believe that our clients' investment dollars at Oakmark are in good hands with trustworthy, competent managers.

Sincerely,

Thomas E. Meade