WOLVERINE
INVESTMENTS
YIELD-ENHANCED STRATEGIES

Institutional Due Diligence Questionnaire

Background & History

1. Provide a brief description of the firm's history.

The firm now known as "Wolverine Investments" was initially formed in October 1988 in New York City, originally receiving 1940 Act registration in November 1988 as **Bree Associates, L.P.** The firm started managing domestic equity, fixed-income and convertible securities accounts for individual and institutional investors in January 1989. As a result of philosophical differences on the development and growth of that firm between its founder and president, Warren H. Bree, and several outside limited partners, Bree Associates was eventually dissolved in September 1990. **WHB/Wolverine Asset Management, Inc.**, as the successor organization, seamlessly continued the investment management record under Mr. Bree, receiving 1940 Act registration in August 1990.

Following a period of steady and sustained growth, John M. Babyak joined Wolverine in 1993 as an analyst, later becoming its Chief Operating Officer in 1995 and Portfolio Manager in 1997. Subsequent to its relocation to Stamford, Connecticut in 1995, the firm combined operations with Wiese Capital Management, Inc., in 1998 under a Joint Venture agreement. The Yield-Enhanced Convertible product was launched in January 2001, and became Wolverine's flagship portfolio in 2003, as firm assets under management surpassed $100 million. A new chapter in the firm's history began in mid-2005, when Mr. Bree passed away after a brief battle with cancer. With a renewed sense of purpose and dedication, in mid-2006 **Wolverine Investments** relocated to much improved and expanded quarters in Southport, Connecticut.

2. Are portfolios individually or team managed?

Although Wolverine's Yield-Enhanced Convertible (YEC) product is managed by John Babyak, President, Chief Investment Officer and Senior Portfolio Manager, a five-person Investment Committee is directly involved in the decision-making process. In addition to Mr. Babyak, who chairs Investment Committee meetings, the committee is comprised of four other investment professionals: Patrick Fremont, Senior Vice President/Assistant Portfolio Manager , Nick Caruso, Senior Vice President/Assistant Portfolio Manager, Peter Wiese, Senior Vice President/Senior Portfolio Manager, and Tom Corderman, Vice President/Research Analyst.

3. How long has each investment professional been with Wolverine Investments?

John M. Babyak – 10 years as PM and 14 years with firm, the last 2 as President
Patrick W. Fremont III – 5 years as Assistant PM and 9 years with firm
Nicholas A. Caruso, Jr. – 1 year as Assistant PM and 1 year with firm
Peter C. Wiese – 9 years as Senior PM and 9 years with firm
Thomas Corderman – 1 year as Research Analyst and 1 year with firm

4. What is the current ownership structure of Wolverine Investments?

Organized as a Delaware corporation, the firm is 100% owned by its management, directors, current and former employees. The Estate of the late Warren Bree, Wolverine's founder, is the majority shareholder controlling approximately 40% of the outstanding company stock; Mr. Bree's wife, Violet Bree, controls just under 30%; John Babyak, President/CEO, owns or controls just over 25% of the firm. Mr. Babyak is presently in negotiations with the other major shareholders to formulate an agreement for the transfer of ownership and control of the firm within the next twelve months.

Investment Strategy

5. Describe the firm's investment philosophy.

Wolverine's fundamental investment philosophy begins with the belief that wealth can best be created through long-term ownership of growing businesses. In practice, the firm's philosophy emphasizes both preservation as well as growth of capital, resulting in a total return approach for capital appreciation. Integral to the firm's approach, and the key risk control technique that differentiates our management style, is the use of convertible securities as an equity alternative, wherever feasible, with covered option writing on most holdings.

The employment of convertible instruments in client portfolios provides a modicum of downside protection in the event of extreme emotional or unanticipated sell-offs in the market. During this era of historically low cash dividends on stocks and low yields on fixed-income investments, convertibles provide the advantage of a superior cash return of between 200 to 600 basis points annually above that of the underlying common stock.

This structural advantage provides client portfolios with measured downside exposure that is less than that of the representative stock in a declining market, while allowing for significant upside potential in an advancing market. However, an additional benefit can be derived by selling covered call options against the underlying stock of the convertible bond or convertible preferred stock, generating income far in excess of the current yield of the convertible. This "yield-enhancing" technique, in effect, "monetizes" the expected future return from stock price appreciation on the front-end, thus enabling the total position to achieve a more risk averse posture. Our firm's unique specialty of combining investments in convertible securities with the sale of covered call options may be considered a semi-conservative equity investment strategy.

6. Are Wolverine's portfolios tax sensitive or managed with an eye on maximizing after-tax returns?

Wolverine structures client portfolios tailored to the risk/reward objectives and tax sensitivity of each clients. All portfolios are separately managed with individual securities, emphasizing convertible bonds, convertible preferred stocks and covered call options. The use of individual securities --- not the commingling of assets as in a mutual or hedge fund --- provides increased flexibility and consistency in meeting the goal of high after-tax performance.

The firm acknowledges that the YEC product can be a high current income generator, however, a portion of the dividend income, and the majority of capital appreciation, may be eligible for favorable tax treatment. In general, the use of covered call options can be utilized for tax-efficiency. Short-term capital gains deferred into the next tax year can be partially protected with covered calls until the holding matures into a long-term holding. When written calls that are repurchased (or "closed-out") below cost, or allowed to expire worthless, they are treated as short-term capital gains. Written calls that are closed out above cost are short-term losses, and may therefore be utilized to offset other short-term gains or a certain amount of taxable income in the portfolio.

Moreover, should a significant tax "problem" or liability be created due to substantial appreciation of any individual holding, we would utilize all available techniques to protect the value of the holding so long as the underlying fundamentals were still sound.

7. How does the firm re-evaluate its investment strategy during unforeseen dramatic events (e.g. 9/11, Crash of 1987)?

Wolverine has a policy of not making portfolio changes purely in response to unforeseen, dramatic macro-economic or harsh geopolitical events. In fact, since portfolios are managed using instruments with inherent hedge elements (e.g. long convertible securities/short call options), the firm's discipline is to concentrate on company fundamentals and remain steadfastly invested as long as the underlying companies remain fundamentally sound.

8. What economic situations and market conditions are best and worst for the Yield-Enhanced Convertible (YEC) product?

The performance attributes of the YEC product are threefold:

(a) Dividends paid or interest earned on invested convertible securities (influenced by company credit quality and prevailing interest rates);
(b) Capital appreciation of convertible securities (influenced by underlying individual stock performance);
(c) Net option premiums generated from covered call overwriting (influenced by overall market volatility, as well as individual stock volatility).

Therefore, on an absolute basis, returns of between 7% and 9% can be achieved on a consistent basis in a majority of economic scenarios with little to moderate upside potential or downside risk. Those situations that involve a confluence of factors could produce extreme positive or negative performance, highlighted as follows:

- <u>Best Absolute Economic Situation:</u> One or more of the following factors in combination -- (a) Stable or Gradually Rising Interest Rates; (b) Moderately Rising Equity Market; (c) High Equity Volatility (ex., 1992 -- 1993; 2000)

- <u>Worst Absolute Economic Situation:</u> Sharply Rising Interest Rates, coupled with a Declining Equity Market with Low Equity Volatility (ex., 1994).

9. Describe the firm's investment decision-making process.

The research team at Wolverine uncovers investment opportunities by taking advantage of anticipated changes in the performance of various sectors of the economy. Research is done to identify specific themes – the sectors that will respond either to emerging growth trends or to cyclical opportunities.
Ideas evolve through a combination of in-house and outside research, including information obtained through discussions with a company's officers and employees, and most importantly, with its customers, suppliers and competitors. In selecting individual names, the firm looks for companies with strong balance sheets, active hands-on management, and estimated annualized earnings growth rates at or above the market average. Security price trend analysis and customized technical indicators are utilized in timing investment decisions. The firm has long existing relationships with several of the best-recognized and senior experts in both technical analysis and option strategies, carefully cultivated initially during Warren Bree's career. As a matter of fact, Mr. Bree served as president and CEO of an options trading firm in Chicago, where he also held an exchange membership on the Chicago Board Options Exchange (CBOE). Working side-by-side with Mr. Bree since 1993, John Babyak also studied extensively with former

Citigroup Smith Barney technical analysts Alan Shaw and Louis Yamato at the outset of investment management career.

10. Is there an approved "Buy List" generated by an Investment Committee, or do the firm's portfolio managers pick any security in their appropriate universe?

On a consistent basis, and particularly during periods of higher than normal portfolio turnover or redemption activity, the firm updates a list of "buy" ideas to guide the investment decision-making process of the portfolio management team.

11. Does the firm use a "Top Down" (start with big picture and then drill down to individual names) or "Bottom Up" (start with individual names and then see how it fits into the bigger picture)?

Although the firm does not ignore macro-economic trends and conditions, the preponderance of research is from a bottom-up perspective. More accurately, the firm's research effort is oriented to identify specific investment themes — the sectors that will respond either to emerging growth trends or to cyclical opportunities, and make overweighted investments in convertible instruments in these areas. During the initial stage of our research process, extensive fundamental analysis is conducted to identify themes inclusive of nearly all industries and any company of at least $1 billion in market. The capitalization threshold is an important parameter which we feel elicits greater confidence in the evaluation of a company's business fundamentals. Among the criteria the firm considers most important in the security selection process are:

- Quality and Depth of Corporate Management Team
- Competitive Position Within its Industry
- Earnings Growth Consistency — Equal to or Greater than Market Average Growth Rates
- Predictability of Revenue, Earnings and Cash Flow Rates
- High Profit Margins and Return on Equity

In addition to being well-managed, selected companies generally possess a sustainable, differentiating competitive advantage. Among the factors the firm considers most important in evaluating whether a competitive advantage exists within a prospective holding are:

- Proprietary Products/Services or High Quality of Product Pipeline
- Franchise/Brand Name Strength and Leading Market Share Position
- Being the Low-Cost Producer or Possessing a Superior Distribution System
- Unique Leveraging of Information Technology Infrastructure
- Innovative Research and Development Technology

12. Do portfolio managers visit management, talk to competitors, talk to suppliers, talk to former employees?

All new investment ideas evolve through a combination of in-house and outside research, including information obtained from the perspective of (and discussions with) a company's officers and employees, and most importantly, with its customers, suppliers and competitors. The firm utilizes its long-standing relationships with a number of senior sell-side analysts that developed over the past thirty years of investment experience.

13. Describe the firm's sell discipline.

In general, there are four instances that might trigger a serious re-evaluation of any holding, therefore leading to a sell decision:

(a) when there is a negative change to underlying company fundamentals that has an adverse impact on the long-term viability of the company;

(b) if a better investment opportunity is identified within the same industry segment (rotation);

(c) to comply with client cash withdrawals or portfolio re-balancing requirements; or

(d) in response to an unjustified rise to price levels which we feel are unsustainable.

14. Describe an example of a security that the firm sold that rose/fell in price to "unsustainable" levels.

Name of Security: Amkor Technology Convertible Sub. Note 5.75% Due 5/1/03

Holding Period: May 1998 to May 2000

Explanation: After portfolio managers met with company management in May 1998, the convertible security of Amkor Technology was purchased, which coincided with the common stock trading at $11 a share. Additional purchases of the bonds were made in November 1998 with the common trading at depressed prices of $4 a share. As a result, our average unit cost in this holding at the end of 1998 was 82. In early 2000, our firm recognized a price bubble in technology holdings, as evidenced by the significant appreciation in our Amkor Technology position. With the price level of the bonds approaching 300, out-of-the-money call options were sold on the underlying common shares of the convertible. As the stock traded through $40 a share, part of our position was called away. Follow-up action involved eventual liquidation of the position, as the price level of the bonds peaked near 400 --- coinciding with the stock trading at $60 a share --- an unsustainable price in our judgment. Complete liquidation was achieved by mid-2000, resulting in a client total return in this convertible investment, over the two-year period, between 350% and 400%.

15. Describe an example of a security that the firm sold/closed that fell in price due to deteriorating/improving fundamentals.

Name of Security: Healthsouth Corp. Convertible Sub. Deb. 5.00% Due 4/1/01

Holding Period: March 1994 (through conversion in March 1997) to September 1999

Explanation: We present a classic example of our firm establishing a convertible position in an early stage growth company, which eventually made a lot of money for our clients. Ultimately, we exited the position well before the company imploded in the wake of deteriorating fundamentals. We originally bought a new issue of Healthsouth Corp. at Par (100) in March 1994, with the common stock trading around $7 a share. After a steady rise in company fundamentals, with the bonds trading at 221 and the stock trading at $20.87 a share, the company forced investors to convert bonds to stock via an early redemption call. At the time of conversion, our client's total return in the bonds was 136% over three years, or approximately 34% annually. In September 1997, we felt the prudent action was to sell 30% of the initial position at an average price of $25.67 a share. In early January 1999, our portfolio managers attended a presentation by then-CEO Richard Scrushy to review Healthsouth's future prospects. Subsequently in February, we determined that the company fundamentals were questionable and had deteriorated somewhat. The outlook for the healthcare industry was not going to bolster Healthsouth's competitive position for quite some time. The common stock position was therefore liquidated at an average price of $12.90. Subsequent to our decision, in early 2002, trading in Healthsouth's stock was halted pending threatened bankruptcy proceedings after it came to light that the Scrushy was alleged to have engaged in fraudulent accounting practices at the company. As recently as two years ago, when we last analyzed the company, Healthsouth had resumed trading under a new ticker (around $2.50 a share), as the company braced for possible bankruptcy protection, and 17 former top officials faced serious criminal indictments.

16. Describe any valuation techniques that the firm employs (e.g. Dividend Discount Model, P/E, Technical Analysis, etc.)?

Due to the unique nature of the firm's expertise, the relative value of the convertible security is the most important consideration. Because the value of the underlying common stock is the single largest factor in driving the convertible valuation, P/E is closely examined. Our internal P/E benchmarks are committee determined and we endeavor to embrace companies selling below the current S&P 500 average multiple. In selecting individual names, the firm looks for companies with strong balance sheets, active hands-on management, and estimated annualized earnings growth rates at or above the market average. Security price trend analysis and customized technical indicators are also utilized in timing investment decisions. In addition to our in-house technical studies, we are recipients of the daily technical report by Ralph Bloch, formerly of Raymond James, as well as the regular updates from the technical analysis departments of major sell-side firms.

17. How does the firm value a company with no earnings?

In the rare instance of the firm's investment in a cyclical company, which is temporarily experiencing earnings disruption, cash flow metrics would be relied upon in evaluating the company. In general, the firm does not invest in companies with no current earnings.

18. Describe the firm's relationship with the sell-side.

The firm maintains extensive contact with sell-side analysts and buy-side portfolio managers and analysts to aid in formulating and validating its overall investment strategy. During his extensive career, Warren Bree served as Director of Research for Du Pont Glore Forgan --- at the time, Wall Street's second-largest brokerage firm. Under John Babyak's leadership, the firm continues to utilize long-standing relationships with a number of senior sell-side analysts and traders carefully cultivated over the past thirty years.

19. How does the firm utilize sell-side research?

The firm relies on Street research to the extent that it validates or invalidates an investment idea originated within our investment committee. On occasion, an investment idea may be initiated
by a Wall Street analyst recommendation, but the firm conducts extensive and independent research before an investment is made in any such idea.

20. Discuss the circumstances of the firm's worst drawdown. Did this result in any changes of policy or procedure?

In retrospect, one of the seminal events in the history of Wolverine was the latter half of the calendar year 2000, specifically the 4th quarter. Although equities suffered a broad market decline from all-time highs attained earlier in the year, Wolverine's longtime reliance on convertible securities as a strategy to mitigate systemic risk did not provide the kind of risk-adjusted returns the firm had come to depend on. A properly structured convertible securities portfolio, emphasizing total return (i.e., high convexity) positions would normally exhibit a 2:1 upside/downside ratio. Hypothetically, if a 25% upside move in underlying stocks resulted in at 18% gain for our convertible portfolios, then a 25% downside move in stocks should result in no more than a 9% decline in our convertible portfolios. In 2000, while Wolverine portfolios exhibited slightly better performance that the overall equity market, the performance was much worse than we expected. As a result, a concerted effort was initiated in late 2000, to develop and systematize a strategy which ardently combined convertibles with covered option overwriting. Wolverine's flagship Yield-Enhanced Convertible (YEC) product was born out of our experiences in 2000. Since January 1, 2001, the YEC composite has performed as designed, and represents the most important institutional product/portfolio ever introduced by the firm.

21. Provide an example where Wolverine went against Wall Street conventional wisdom and it paid off?

The firm remained fully invested at the end of 2002 and early 2003, when it was conventional wisdom to be on the sidelines. The firm, on numerous occasions through public pronouncements and client newsletters, correctly forecasted a lifting of the "pall" then existing in the market. The firm's strategy was vindicated by June 2003 with the demonstration of superior relative and absolute outperformance.

22. Provide an example where Wolverine went against Wall Street conventional wisdom and it did not pay off?

The firm made a concerted effort to become more defensive in 1999 based on our prognosis and valuation of the overall market. We ultimately lagged in performance during a time when, in retrospect, a speculative "bubble" had formed. Conversely, the firm was premature in returning to a fully invested posture at the end of 2001, and consequently, performance also suffered early in 2002.

23. Provide an example where Wolverine went with Wall Street conventional wisdom and it paid off?

After the market's technical "break-outs" in early-1991, late-1994 and in mid-2003, the firm did not take a contrary view of the conventional wisdom and stayed with the evolving trend of rising prices. In all three instances, our strategy paid off handsomely.

24. Provide an example where Wolverine went with Wall Street conventional wisdom and it did not pay off?

The firm remained invested for too long in its telecomm holdings in mid-2000, a position that was being supported at the time by the conventional Wall Street "wisdom".

25. How do the firm's portfolio managers analyze firms that have <u>no</u> Wall Street coverage?

The firm's portfolio managers will often talk with fellow buy-side analysts and portfolio managers, also seeking unconventional sources of information, and relying on traditional Graham and Dodd security analysis. As a recent illustration of our approach, we began our research into regional bank Marshall & Ilsley (symb: MI) in early 2003 after visit to the Mid-West, at a time where there was limited Wall Street research coverage in the name. As the firm began to build a small position in the common stock, upon investigation we determined that Raymond James had initiated active coverage in the company, adding the stock to its recommended list and issuing periodic, extensive research. After Marshall & Ilsley issued a convertible preferred security (symb: MIprB), the issue was added to Wolverine's YEC buy list, and has subsequently become one of the firm's largest core holdings.

26. How important is market timing to Wolverine's investment approach? To what extent do portfolio managers utilize cash equivalents?

In managing the YEC product, the firm adopts the posture of remaining fully or nearly fully invested at all times. Generally, the firm makes no attempt to "time the market", or tactically allocate investment funds between asset classes. Price trend analysis and customized technical indicators are utilized only in timing individual security buy/sell decisions. Cash balances may increase modestly (5% to 10%) during <u>short</u> timeframes where opportunities are temporarily lacking (such as during periods of high early redemption activity), or in the very rare case of defensive positioning during an anticipated period of high market uncertainly.

<u>Risk Management Process</u>

27. Describe the internal systems used for accounting, portfolio management, trading, etc.

The firm utilizes a combination of internet-based, off-the-shelf, and home-grown applications to managed its business. For business accounting and general ledger, the firm relies on Intuit's internet version of Quickbooks Financial Software; while for portfolio accounting, the firm utilizes Advent's Axys. For portfolio and trade management, as well as for risk management, the firm utilizes a variety of homegrown Microsoft Excel applications.

28. Does the firm consistently monitor its style (e.g., check for style drift)?

Yes, however, since the unique style of the YEC portfolio is to emphasize total return-oriented convertible securities, combined with covered option writing, the style itself is very granular. Hence, style drift is not difficult to monitor, measure and control on an ongoing basis. To maintain consistency and to attain low correlation to the equity markets, the firm periodically re-balances YEC portfolio to achieve an appropriate mix of high-delta, high-convexity, and higher-yielding convertible opportunities.

29. Describe the risk management techniques employed by the firm.

Integral to the firm's approach, and the key risk control technique that differentiates our management style, is the use of the convertible security as an equity alternative, wherever feasible, with covered option writing on most holdings. While firm has not heretofore implemented off-the-shelf risk management software, we do feel the time is approaching that would cost justify a specialized form of "risk oversight" software.

The employment of convertible instruments in client portfolios provides a modicum of downside protection in the event of extreme emotional or unanticipated sell-offs in the market. During the current era of low historical stock dividends, these instruments of investment provide the advantage of a superior cash return of anywhere from 300 to 700 basis points annually above that of the underlying common stock. This special performance advantage provides client portfolios with downside exposure that is less than that of the representative stock in a declining market, while allowing significant upside potential in an advancing market.

Additional risk control can be created by selling covered call options against the underlying stock of the convertible bond or convertible preferred stock, generating income far in excess of the current yield of the convertible. This technique enables the total position to achieve a much more risk averse posture than simply owning the common stock by itself.

30. How does the number of positions in the YEC portfolio change over time?

Fully invested portfolios will generally range between 16 and 20 positions, with an average "net" (long/short) asset weighting of 5% to 6% for a typical YEC position. Portfolio value will often determine the total number of positions a portfolio ultimately has.

31. How does Wolverine minimize transaction costs?

It is firm policy to quote a minimum of three market makers when buying/selling OTC convertible bonds and preferred stocks. Limit orders are utilized for all size orders and for most listed transactions. Moreover, whenever feasible, we endeavor to aggregate multiple transactions into round size lots which are more easily bid for purchase or offered for sale. These "off-board" block trades are executed at competitive bid/ask levels, with little or no standard commissions charged to the client.

32. What is the average "slippage" -- or price that the firm ultimately purchases a security vs. the original price -- when the firm decided to purchase a security.

Slippage isn't really relevant in our yield-enhanced portfolios. More germane is how portfolios are structured. Portfolios are typically constructed with total return oriented, traditional convertible bonds and preferred stocks, with premiums ranging from approximately fifteen percent to forty percent. Taking into account conversion terms and call provisions, laddered convertible positions are initiated with at least a twelve to twenty-four month holding period horizon. At the present time, the expected performance contribution that can be attributed to interest and dividend income is approximately 4% to 5%. The expected performance contribution that can be attributed to option premium income is at least 3% to 4%. Therefore, the average standstill or "cash-on-cash" return, assuming no change in convertible price, would, at a minimum, be in the range of 7% to 9%.

33. Does the firm use derivatives?

If definition of "derivative" includes the use of traditional convertible bonds, convertible preferred securities and listed covered call option strategies, then by all means the firm considers these as core competencies. However, the firm does not use leveraged arbitrage or "naked" strategies to boost returns. More importantly, the use of so-called "exotic derivatives", such as engineered or complicated "structured" securities, and strategies utilizing speculative instruments involving futures and options are not utilized. Again, the firm never takes speculative naked options positions at any time.

34. Are there any industries or markets that you avoid intentionally and why?

Although not integral to the firm's overall investment policy, there has been a tradition and informal practice among Wolverine's portfolio managers to avoid a specific subset of the so-called "sin" stocks in client portfolios (i.e., alcohol and tobacco stocks). Our take is that alcohol and tobacco are potentially addictive and ultimately harmful to human health (except when not consumed in strict moderation); in their extreme, they promote human suffering and prematurely end lives. Wolverine would much prefer to invest in affirming companies that do not produce addictive and harmful products. We note that alcohol is only potentially harmful, and in fact, may be beneficial in small amounts. Our primary concern reflects how we see publicly traded companies operating – by maximizing efficiency and innovation, and through aggressive product distribution and advertising. Since our universe is quite large, we have not had any difficulty in uncovering investment opportunities within our traditional scope of interest.

35. Will the firm maintain significant, e.g., > 5%, cash balances for long-periods of time, e.g., more than one month?

Cash balances may increase above 5%, but probably no higher than 10%, during short timeframes where opportunities are temporarily lacking, during periods of unusually high forced/early conversions, during periods of high redemption activity, or in the very rare case of defensive positioning during an anticipated period of extreme market uncertainly.

36. How does the firm deal with dramatic inflows?

Portfolios are generally fully invested within 15 to 30 days of dramatic cash inflows. Portfolios are generally invested in moderate-to-highly liquid securities with at least $100 mil. in total issue size. Even if it means not charging a client with an unusually large credit balance, the firm will be patient in dollar-cost averaging a dramatic inflow of funds.

37. How does the firm deal with significant outflows?

Portfolios are generally invested in moderately-to-highly liquid securities with at least $100 mil. in total issue size. Furthermore, the firm maintains a policy of never owning more than % of any outstanding issue. Therefore, significant outflows are handled promptly, but prudently, in accordance with client requirements. Portfolios may generally be fully liquidated within 15 to 30 days of significant cash outflows.

38. Does the firm use leverage?

No.

39. How are trades allocated between different accounts?

Block trades are allocated on a pro-rata basis, whenever practical. If a full trade allocation in not possible, the firm attempts to allocate a portion to each account. Occasionally, with a small block trade, a partial allocation will be made only to the largest accounts, or on an opportunistic basis depending on available cash.

40. What is the firm's policy regarding pricing of securities?

The firm ardently subscribes to the practice of pricing securities "marked to market". In theory, this means that a portfolio is priced based on the liquidation value of the portfolio on the margin. Wolverine cannot and should not attempt to price a portfolio based on a complete liquidation of all portfolios under management by the firm. Long securities are priced off of the bid or last trade in highly liquid securities, or in the case of over-the-counter securities, at the bid or midpoint price. Short options are always priced off of the Ask, or the price at which the option would be closed out. While the firm relies on FT Interactive Data as its primary pricing service, we also recognize that this and other pricing services may not be capable of accurately pricing certain convertible instruments. Therefore, we must also rely on other sources of data, including major sell-side trading desks, to confirm or validate pricing data.

41. What are the procedures in place to ensure accurate recording of trades and reconciliation of trades in a timely manner of dealing with errors?

Trades are placed on the firm's Global Trade Blotter as soon as they are filled. Trades are manually entered into the firm's portfolio accounting system, and compared the next day with the applicable custodian to ensure proper, timely and accurate reconciliation. Errors are dealt with immediately, to the satisfaction of the brokers or custodians responsible. In not way will a client ever be harmed by a trade error which was caused by Wolverine, a broker or a custodian.

42. What is the average annual turnover of the portfolio? Does this vary across the portfolio?

YEC portfolios are managed using instruments that combine long convertible security positions with short call option positions. Therefore, the firm's discipline is to concentrate on company fundamentals and remain steadfastly invested as long as positions remain fundamentally sound. Estimated average annual portfolio turnover for the long convertible holdings (approximately 98% of the total portfolio) is between 30% - 40%. Annual portfolio turnover for the short option holdings (approximately 2% of the total portfolio) is estimated between 150% - 250%.

Investment Manager Issues

43. Do the firm's investment professionals have their own money invested with the firm?

The portfolio managers own the same securities and utilize the same strategies as clients' funds. Moreover, the firm adheres to a strict personal trading policy, a complete copy of which will be provided upon request. Among the more prominent facets of the policy, no employee of the firm may engage in "front-running", whereby one trades for one's own account while in possession of knowledge about a large pending client trade order. Also, when participating in the allocation of a block of stock purchased or sold at multiple prices for clients, no employee of the firm can allocate stock to his own account at a more favorable price than any client received.

44. Have any of the principals ever been declared bankrupt?

No. Never. The same holds true for all officers and employees of the firm.

45. What % of the portfolio manager's compensation is tied to performance?

Insofar as those individual portfolios for which we bill a performance fee, the portfolio manager may be judged to receive a bonus as a percentage of the actual performance fee billed to the applicable client. Since the firm's key portfolio manager is also a principal owner in the firm, annual compensation (salary, plus bonus) is based on anticipated profitability, cash flow and the overall level of the success attained by our operation.

46. Is performance measured relative to an index or peer group or both?

The firm actively monitors several convertible securities indexes, including those managed by CS First Boston, Merrill Lynch, Value Line and Citigroup Smith Barney. The firm also monitors relative peer group performance utilizing Mobius and Nelson's Database.

Business/Product Management Issues

47. Summarize the firm's assets in the Yield-Enhanced Convertible (YEC) product each year since launch on January 1, 2001:

12/31/01 - $12.4 mil.
12/31/02 - $38.5 mil.
12/31/03 - $75.3 mil.
12/31/04 - $138.4 mil.
12/31/05 - $165.2 mil.

48. Will the flagship YEC product be closed at a certain level of assets? At what level of AUM would alpha or performance noticeably deteriorate?

Realistically, should the firm achieve its goal of $300 mil. in AUM in the YEC product, further solicitation might be curtailed. This decision would, in part, be governed by our success in attracting additional qualified portfolio managers and experienced traders who met our criteria and standards. Also, we are very sensitive to transparency, liquidity and execution issues. The greater the assets in our convertible and open option positions, the greater the chance the firm might experience a degradation in competitive advantage.

49. Detail any periods when the product has been closed to new investors and why?

None to date.

50. Who are the prime broker, custodian, auditor, and legal counsel for the firm? List any affiliations.

- Prime Brokers used include Charles Schwab & Co., Inc. and Raymond James & Associates.

- Custodians used include Charles Schwab & Co., Inc., Comerica Bank, Raymond James & Associates, Merrill Lynch & Co., Inc., and Citigroup Global Markets.

- Our Accountant/Auditor is Mario Conde, PC CPA, Deer Park, New York.

- Wolverine has engaged the following Legal Counselors:

  1. Stark & Stark, PC, Princeton, NJ; for their expertise in the area of investment adviser regulation and securities litigation.

  2. Brody, Wilkinson & Ober, PC, Southport, CT; for their expertise in the area of corporate and general business law.

Wolverine is not affiliated with any of the above entities.

51. Describe the liquidity provisions of the firm?

Investments of securities in the product are only made where there is at least $100 mil. in outstanding issue size. It is firm policy to never own more than 5% of any one convertible issue. Should funds need to be liquidated on an ad hoc basis, every attempt will be made to cross-trade securities to be liquidated into other accounts of Wolverine that we feel should continue to hold these same securities. In the event wholesale liquidations are necessary, the firm is confident that its sales will not move the market for any particular security.

52. Describe the succession process if a portfolio manager leaves the firm?

Prior to the 2005 passing of Wolverine's founder, Warren Bree, it was the firm's policy to have co-portfolio managers assigned to oversee investments in each client account. Back-up and succession was never an afterthought, as it was stated that John Babyak would succeed Mr. Bree should a tragedy come to pass. During his initial illness and the subsequent passing of Mr. Bree, Mr. Babyak assumed the role of primary portfolio manager in the firm. In the event of short-term disruptions, illness, vacation and travel, the firm constantly maintains the appropriate level of depth in staff coverage to manage and effectively oversee client portfolios. Should an unforeseen or tragic occurrence come to pass involving Mr. Babyak, it is unlikely that Wolverine would be capable of sustaining its business. This reality is of obvious of concern to all employees, officers and shareholders, which is why the firm remains steadfast in its goal of growing the firm, ultimately leading to greater succession options.

53. What percentages of the firm's assets are in taxable vs. non-taxable accounts?

40% Taxable; 60% Non-Taxable

Note: The firm actively manages assets for defined benefit pension & defined contribution plans; individual taxable & tax exempt accounts; trusts, estates, foundations & endowments; and unregulated offshore entities.

54. Describe Wolverine's internal policies with respect to employees trading for their own account?

As an integral part of the firm's comprehensive compliance policies, Wolverine maintains the following strictly enforced Personal Trading Policy:

- No employee or officer of Wolverine may ever engage in "front-running" -- that is, trading for one's own account before all positions of the firm's Client orders are completed. This policy covers all types of securities trading including options.

- When participating in the allocation of a block of stock purchased or sold at multiple prices for Clients, no employee or officer of Wolverine can allocate stock to his or her own account (or a family related) account at a more favorable price than any Client received. Likewise, an employee or officer of Wolverine may only make an individual trade for his or her own (or family related) account, when new positions are established or existing positions liquidated, only after all Client allocations are filled. This policy covers all types of securities trading including options.

- If a decision is made by a portfolio manager to reduce current Clients' positions on a percentage basis, then an employee or officer of Wolverine may likewise reduce, but only after all Client positions are satisfied. This policy covers all types of securities trading including options.

- No employee or officer of Wolverine may trade securities on the basis of material, nonpublic information.

- Any "hot issues" (i.e., newly issued convertible securities offerings that will trade at a premium) received must be allocated among Clients in an equitable manner and may not be allocated to any employee or officer of Wolverine.

- No employee or officer Wolverine may purchase a private placement through a personal account without prior clearance from a member of the Executive Committee.

- No employee or officer of Wolverine may purchase publicly traded securities of companies in which they hold restricted securities without prior disclosure to Clients and a member of the firm's Executive Committee.

- As a general rule, employees and officers of Wolverine, as fiduciaries, pledge to the firm's Clients "an affirmative duty of utmost good faith, and full disclosure of all material facts". If any employee is uncertain as to whether there is a conflict of interest with respect to trading in his or her own account, that employee or officer should consult with the firm's Chief Compliance Officer or a member of the Compliance Oversight Committee.

All personal securities transactions shall be reviewed and approved on a daily basis by a member of the firm's Compliance Oversight Committee as noted in Wolverine's Global Trade Blotter.

55. Relative to brokerage commissions, do you meet both the requirements and the recommendations of CFA Institute Soft Dollar Standards? If not, how do you vary from these standards?

Yes, we meet all requirements and recommendations of the CFA Institute Soft Dollar Standards.

Note: It is our understanding that the CFA Institute Soft Dollar Standards contemplate the use of a voluntary statement of compliance. With the above claim of compliance in meeting the CFA Institute's requirements and recommendations, we affirm that <u>all</u> brokerage arrangements specifically dealing with The MDE Group and its client accounts shall comport with the mandatory provisions of the Standards. Currently, Wolverine has <u>no</u> soft dollar brokerage arrangements where we direct a broker to effect securities transactions for any MDE Group client account in exchange for services and/or products.

56. What provisions have you made for disaster preparedness in case of fire, earthquake, etc.?

WHB/Wolverine has developed and keeps current a comprehensive Business Continuity Plan (or "BCP"). Wolverine's policy with respect to handling disasters is to declare a Significant Business Disruption (or "SBD", such a caused by flood, fire, earthquake, etc.), and respond by safeguarding employees' lives and firm property, making a financial and operational assessment, quickly recovering and resuming operations, protecting all of the firm's books and records, informing our clients of the situation, and allowing the firm to continue to transact business. In the event that we determine we are unable to continue our business, we will assure customers prompt access to their funds and securities.

Our plan anticipates two kinds of SBDs, internal and external. Internal SBDs affect only our firm's ability to communicate and do business, such as a fire in our building. External SBDs prevent the operation of the securities markets or a number of firms, such as a terrorist attack, a city flood, or a wide-scale, regional disruption. Our response to an external SBD relies more heavily on other organizations and systems, especially on the capabilities of our clearing firm.

John Babyak, President and Chief Executive Officer, is responsible for approving the plan and for conducting the required annual review. Any other officer of Wolverine has the authority to execute this BCP. Our firm will maintain copies of its BCP plan and the annual reviews, and the changes that have been made to it for inspection. An electronic copy of our plan is located on the PC-based ADMINISTRATION system in Southport, Connecticut in the "Wolverine" file folder.

57. Are there any complaints, litigation, or enforcement actions (including enforcement actions initiated by the DOL or SEC) outstanding against your firm, any of its affiliates, or any of its investment professionals? If so, would you please comment on these actions?

There are no litigation or enforcement actions outstanding against the firm or its principals.

58. Have you had any additional such complaints, litigation, or enforcement actions in the past five years?

There have been no such complaints, litigation or enforcement actions in the past five years. Moreover, since inception of WHB/Wolverine Asset Management, Inc. in 1990, and the predecessor firm Bree Associates, L.P. in 1988, there has never been any such litigation or enforcement action against the firm.

Operational Issues

59. How and how frequently does Wolverine download and reconcile data into its portfolio management system.

Trades and trade data are downloaded and reconciled daily. Cash balances, inclusive of the payment of dividends and interest, are monitored on a daily basis, but are reconciled to the penny on a monthly basis.

60. How fast do portfolio managers invest new money?

Portfolios are generally fully invested within two weeks of the addition of new funds. Small, incremental new money will typically be invested within a few days.

61. How is SEC Form ADV offered initially and then annually?

SEC Form ADV is offered initially and quarterly to all clients, in writing. Form ADV, Part I is public information and available online at the SEC's investment adviser web site; while Part II is available in electronic or written form.

62. How does Wolverine charge its fees? Are they automatically withdrawn from client accounts?

All management fees are billed to clients in arrears, on either a monthly or quarterly basis. Fees may be automatically withdrawn at the discretion of the client. Some clients elect to pay fees upon presentation of the monthly or quarterly billing, as applicable.

63. How are restricted securities dealt with and what happens to the percentage that was supposed to be in the restricted security? Is it kept in cash or reallocated across the other securities in the portfolio?

Restricted securities are generally avoided, except as applicable to Qualified Institutional Investors. Generally, the firm is not asked or otherwise mandated to manage the restricted securities held by individual clients.

64. How do you process investments redemptions and terminated account relationships?

Investment redemptions and terminated relationships are processed on a timely basis. The firm will make every effort to accommodate the requested delivery of the account to a new investment adviser, broker or custodian.

65. What mailings go directly to clients?

Direct clients of Wolverine receive monthly statements, comprised of Appraisal and year-to-date Performance Reports.

66. Does Wolverine manage the same strategy across all accounts?

All accounts with the same strategy are managed in a nearly identical manner. At the request of a client, the account many be managed in a customized manner, to address the specific risk and return objectives of that client.

67. Have you ever had to make a client whole and how was it handled?

We have never had to make a client "whole" for any reason. In the event such a situation were to occur, Wolverine would not hesitate to refund or deposit funds into client account from a reserve account which the firm maintains for emergency/contingency situations. A letter or memo stating the problem or error, as well as corrective restitution, would be sent to the affected client proactively.