

Presentation to Sixth European
Employee Ownership Conference
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Employee ownership Indices and Investment Funds in the U.S. 1992 - Present

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Overview

History of Employee Ownership Indices and
mutual funds in the U.S. –

American Capital Strategies:

- The Employee Ownership Index
- Attempts to start an Employee Ownership Private Equity Fund
- Public Offering

Benefit Capital SouthWest/Capstone Employee stock Ownership Universe:

- An Employee Stock Ownership Mutual Fund
- Domestic and/or International Interest

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American Capital (ACAS)

Attempted on numerous occasions to start a Private Equity Fund

- Founder had mutual fund experience
- ACAS started as an investment bank
- As compensation for investment banking, ACAS received stock in ESOP firms it created
- Track record was extremely positive but potential private equity investors feared being diluted by employee holdings in an ESOP equity fund
- ACAS established relationship with Allied Capital (public company)

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ACAS as a Public Company

- When CEO left Allied he joined ACAS to take it public
- A stated goal was to invest in ESOP companies
- ACAS raised \$155,000,000 in 1987 as it went public
- ACAS was successful partly because of compounded 47% I.R.R. that founder achieved
- Almost instantly it was apparent that \$155,000,000 was too much to invest in ESOPs
- ACAS has greatly diversified its investment and grown to be a \$12 billion firm, returning 22% to investors (\$9B U.S. + \$3B Europe)

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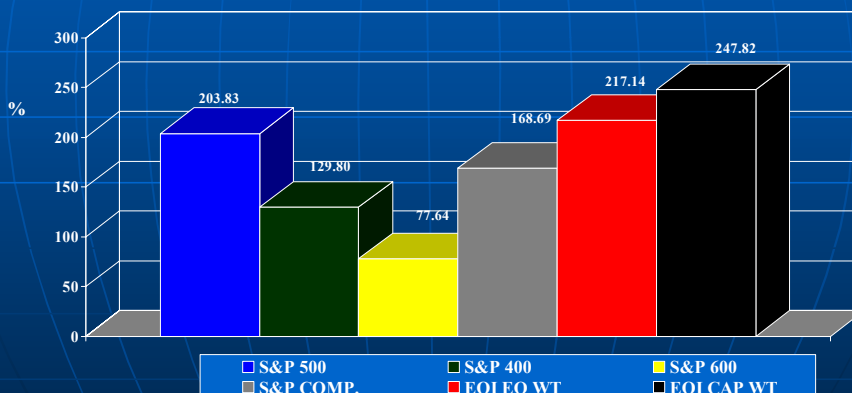
The Benefit Capital SouthWest/Capstone Employee Stock Ownership Fund ("ESOF")

- Early research on the ESOF was based upon the ACAS Employee Ownership Index
- Comparisons of the past performance of various investment alternatives indicated possible good future performance by an Employee Ownership Mutual Fund

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The Benefit Capital SouthWest/Capstone ESOF

CUMULATIVE PRICE APPRECIATION
FIRST QUARTER 1995 THROUGH FIRST QUARTER 1999



Preparing for the Benefit Capital SouthWest/Capstone ESOF

- Based upon this historic Performance of the ACAS Index, the fund was conceived by Benefit Capital SouthWest in 2001
- The ESOF began operating in January, 2002
- Over \$1,000,000 was invested by 39 subscribers
- The concept proved itself! The Benefit Capital SouthWest/Capstone ESOF outperformed the S&P 500 by 4.81%!

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Preparing for the Benefit Capital SouthWest/Capstone ESOF

Key variables in creating the ESOF were:

- Types of investments
 - Size of companies
- An investment process
 - Screening for other variables
 - Spreading risk across industries

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The Benefit Capital SouthWest/Capstone ESOF

Product Concept Universe of Securities

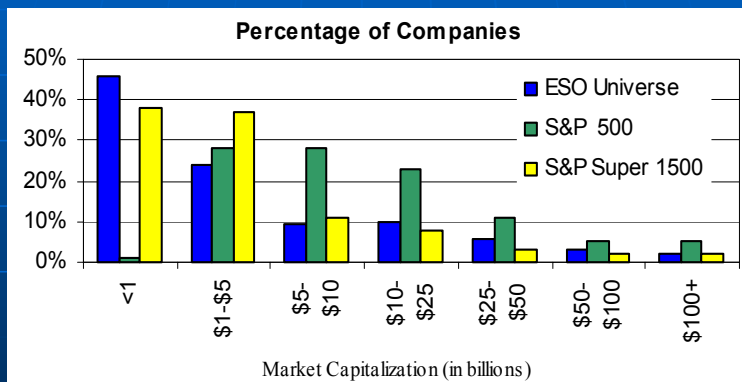
Capstone Asset Management Company and Benefit Capital created the Employee Stock Ownership Universe (ESO) of over 600 companies with market capitalization characteristics of the Employee Stock Ownership Universe and that of three capitalization based S&P indices are shown in the table below.

Characteristic	ESO Universe	S&P 500 Large Cap	S&P 400 Mid Cap	S&P 600 Small Cap
Weighted Median	\$56.7 Billion	\$97.0 Billion	\$3.5 Billion	\$1.0 Billion
Simple Average	\$12.7 Billion	\$26.7 Billion	\$2.5 Billion	\$6.6 Billion
Median	\$ 1.0 Billion	\$8.2 Billion	\$1.7 Billion	\$5.5 Billion

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The Benefit Capital SouthWest/Capstone ESOF

MARKET CAPITALIZATION – 2001



* 346 out of the 609 companies within the ESO Universe have total market capitalization falling between \$75 million and \$5 billion. Since the S&P 1500 index is a more appropriate benchmark than any one of the large, mid or small cap weighted indexes, Capstone's Employee Stock Ownership Fund will be benchmarked against the S&P 1500.

* Notice the correlation between the ESO Universe and the S&P 1500 Super Index.

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INVESTMENT PROCESS

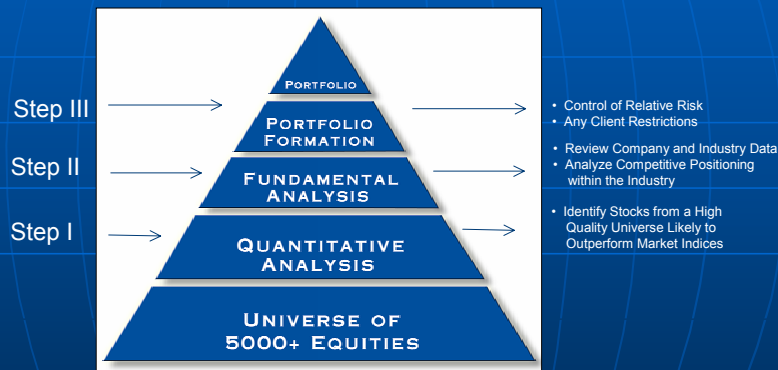
- “Bottom-up” approach investing:
 - Achieves strong performance with controlled risk.
 - Step 1: Screen the data base of over 600 companies with Employee Stock Ownership characteristics for net income, growth, cash flow, book value, and return on equity to determine which shares sell at attractive valuations while incorporating the use of earnings revisions and surprises.
 - Step 2: A fundamental analysis of purchase candidates produced from various screens is performed. The financial data of a company is reviewed with an emphasis on the income statement. This fundamental work may also involve contacting the companies management, visits with Wall Street analysts, and reviews of research reports.
 - Step 3: A diversified portfolio of companies is structured showing the best potential growth, with the timing of purchases being assisted through technical analysis.
 - A portfolio will typically contain 60-80 stocks from various sectors of the market. Over time this diversification reduces portfolio risk and enhances the long term return to the fund.

Capstone and Benefit Capital Southwest worked together to implement this process in the management of the Employee Stock Ownership Fund

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EQUITY INVESTMENT PROCESS



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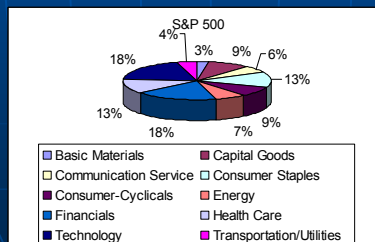
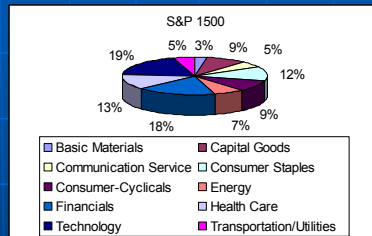
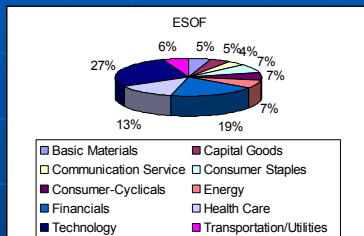
The Benefit Capital SouthWest/Capstone ESOF

The Investment Process yielded a portfolio ranging between 80 – 150 companies traded on U.S. stock exchanges. The group was highly diversified along industry lines and, in terms of industry diversification, resembled an S&P distribution.

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“Employee Stock Ownership Fund”
Pro Forma Sector Distribution



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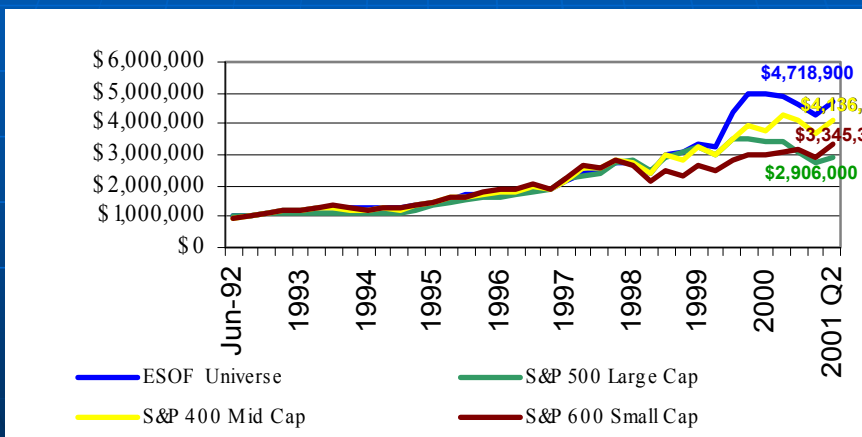
The Benefit Capital SouthWest/Capstone ESOF

Benefit Capital SouthWest and Capstone Asset Management performed several forms of back-testing to substantiate the concept. Both Total Returns and Annualized Returns were examined over a ten-year period.

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The Benefit Capital SouthWest/Capstone ESOF

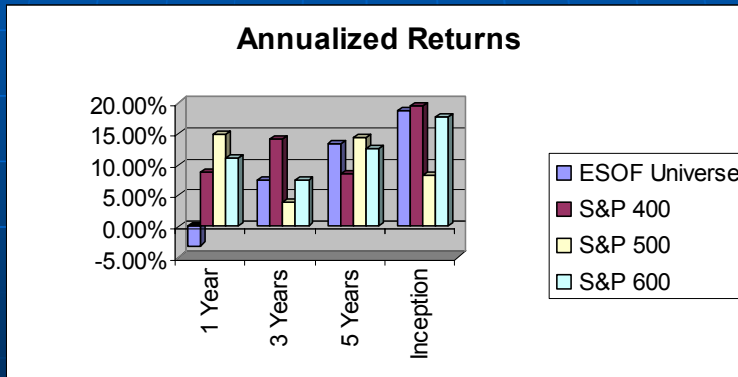
PERFORMANCE
GROWTH OF \$1,000,000 FROM 1992 THROUGH JUNE 2001



* Performance - In comparing performance, the ESO Universe has outperformed the S&P 500, S&P 600, and the S&P 400 indices through June 2001.

The Benefit Capital SouthWest/Capstone ESOF

Performance - 1992 Through Second Quarter 2001



* A study published in the Spring of 1998 edition of the *Journal of Employee Ownership Law and Finance* which tracked the performance of 350 of these companies with broad based employee ownership programs from second quarter 1992 to year-end 1997. The study was later brought current through June 2001.

The Benefit Capital SouthWest/Capstone ESOF

Following months of review and analysis by Benefit Capital into the basic employee ownership universe and Capstone into the Investment Process, the concept proved itself.

Despite historically harsh conditions in the post-9/11 capital markets, the Benefit Capital SouthWest/Capstone ESOF outperformed the S&P 500 by 4.81%

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The Benefit Capital SouthWest/Capstone ESOF

The ESOF closed in October, 2002, due to:

- the tragedies of 9/11,
- general declines in the overall markets,
- Resistance from the brokerage community, mainly because of its “No-Load” pricing structure
- Failure of the ESOP community – Companies, professionals, etc. – to support the concept

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