BERKELEY
CAPITAL MANAGEMENT LLC

Growth Equities
Investment Review & Outlook

Quarter Ended, June 30, 2004

Recent Results – Possibly Emerging from a Market Pause

The market continued its consolidation/correction well into the second quarter and finally reached a closing low on May 17. From there it began its slow agonizing climb, with a modest spurt at quarter's end. For the quarter the S&P 500 Index was up +1.8% and the more aggressive NASDAQ Composite was up +2.7%. Our portfolios, most likely because of significantly better earnings progress, did exceptionally well in the rebound, and for the quarter were well ahead of the market.

Attribution – Factors Affecting our Performance

- The environment for large cap growth stocks, our focus, was a shade better than that of the overall market, with the Russell 1000 Growth Index performing slightly better than the S&P 500, +1.9% versus +1.8%. However, the average growth manager, according to Lipper, gained only +1.2% (minus management fees), which was only modestly better than the average value manager at +1.0%, and the average core manager at 0.9%.

- Both market and portfolio performance continued to be restrained in the quarter as the market initially remained in a consolidation or corrective phase after the 2003 run-up. The consolidation was an inevitable pause (albeit greater than we expected) after the market's surge in 2003 and came after substantial funds had rushed into a rising market. The run-up resulted in extreme and normally unsustainable levels of market momentum that are usually followed by a consolidation as investors on margin hesitate committing additional funds before seeing more evidence of economic growth progressing as expected.

- The initial hesitation in the market setting-off the correction started with concerns that the rapidly improving economy lacked sustaining elements. It was felt that growth was being driven primarily by unusual levels of consumer spending, the result of exceptionally low interest rates, possibly excessive debt accumulation, and temporary tax cuts. The missing ingredients to compensate for a likely pull-back by the consumer later in the year were increases in employment and increases in business spending.

- Later, as these factors did in fact kick-in (business spending accelerated and employment gains exceeded 300,000/month), the market quickly began to worry about accelerating inflation and significantly higher interest rates. It became increasingly obvious that the Federal Reserve would have to move from a position of extreme stimulus (Fed funds at 1%) to a more neutral orientation (Fed funds somewhere between 2.5% to 4.0%). Market rates quickly ascended to levels which seemed to discount (if not over-discount) the entire Fed tightening cycle.

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- An additional factor, which seemed to add to investors' uneasiness, was the constant flow of adverse developments in Iraq.

- The market's emphasis rotated in this period from its initial defensive stance, focusing on Health Care, Consumer Staples, Telecom Service, and Utilities, to then gravitating to the more economically sensitive sectors as the market began to recover. The exceptions in the market's changed emphasis were with those sectors that were perceived as being impacted by higher interest rates, Financials in particular. Overall for the quarter the more aggressive, economically sensitive sectors did best, which on balance benefited our portfolio's performance.

% Price Change
S&P 500 Economic Sectors

Economically Sensitive Sectors	***% Price Change 2Q***	***Defensive Sectors***	***% Price Change 2Q***
Industrials	*+8.0%*	*Health Care*	*+2.3%*
Technology	*+2.8%*	*Consumer Staples*	*0.0%*
Materials	*+2.4%*	*Telecom Services*	*-1.8%*
Consumer Discretionary	*-0.5%*	*Utilities*	*-2.3%*

The Energy sector, reflecting higher-than-expected oil prices, was up +7.0%. The Financial sector was the worst performing sector at –2.9%. The Consumer Discretionary sector also experienced a decline since it is also somewhat interest sensitive.

- Two industry groups which accounted for a considerable portion of our positive performance were Semiconductors, led by our holdings in Maxim Integrated and Marvel Technology; and the internet companies, led by Yahoo and eBay. Both groups of companies were experiencing exceptional earnings momentum.
- Our interest sensitive holdings were the drag on performance, particularly our Financial stocks—MBNA Corp, Citigroup, and Fannie Mae. While these stocks obviously had difficulty performing in a period of rising interest rates, we believe they have some of the best valuations in the portfolio.
- An overriding theme in the market was the re-emergence of robust business spending and the expected slowdown in consumer spending. As such, the Industrial/Cap Goods sector was one of the better groups. On the other hand our retail holdings (consumer oriented) did poorly, and this was despite the companies—Lowe's, Bed Bath & Beyond, and Best Buy—producing substantial, above-consensus earnings progress.

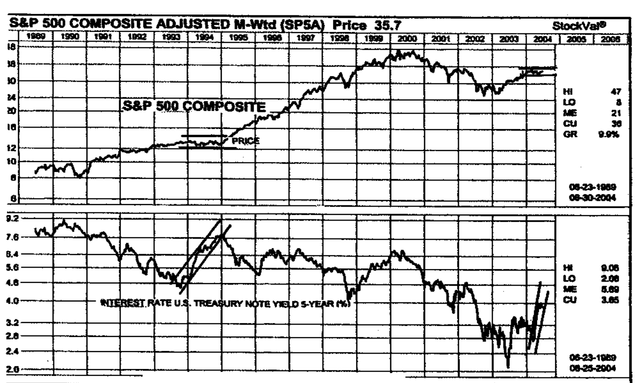
The Market Outlook

- As the market finally reached its low point in mid-May, traditional market momentum indicators reached extreme oversold levels. Several indicators, such as the 10-day advance/decline ratio (an intermediate term momentum indicator) approached the depressed levels of October 2002. Sentiment indicators also declined somewhat, with the CBOE put/call ratio showing the worst deterioration (near record lows). Technically, the market was very oversold and as such it appeared that we had potentially established a strong base for continuing the post-2002 cyclical bull market.

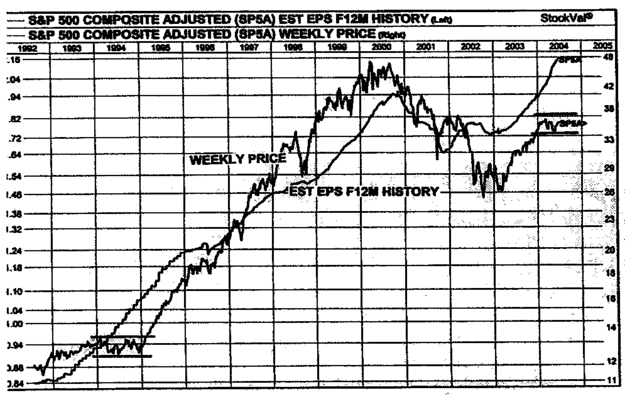
- Despite several cross currents, the economy still appears to be progressing at a healthy rate. Real GDP grew at a +3.9% annual rate in Q1 and has been widely expected to grow in excess of +4.0% for Q2. However, the economy experienced a sudden loss of momentum in June with slowness in retail and auto sales, a small uptick in unemployment claims, and the shocker reported after the quarter—employment gains of only 112,000 versus 250,000 expected for June. Also, total hours worked fell –0.6% month to month in June.

  The result is that domestic GDP could have grown only +3.0% to +3.5% in Q2, as several economists have suggested, and growth could well be less than consensus for Q3, perhaps at the same pace. Nevertheless, many other important statistics still point to only a soft spot and not an economy that is falling apart. ISI Group's company surveys are so far still at a high level and at a level where they have roughly been for the past five months. UBS's "all economy" ISM index, which combines both the ISM manufacturing and non manufacturing surveys, eased only modestly to 59.8 from 60.3, indicating that growth is only moderating somewhat from its recent booming pace. Additionally, the employment index in the recently reported non manufacturing ISM survey rose to 57.4 from 56.3 (it's a diffusion index with numbers above 50 considered a plus) indicating that employment gains will likely accelerate in July from the slower pace in June.

- Rising interest rates have been a factor in restraining investors' expectations and their willingness to commit additional funds. The situation today looks remarkably similar to that of 1994 when the market moved sideways as rates were rising rapidly and the Fed was trying to temper growth because of rising inflation.



In the second quarter long bond yields responded very quickly to the risk of higher inflation and the virtual certainty that the Federal Reserve would begin increasing the Fed funds rate. In fact the market-rate increases were of a magnitude which we believe fully discounted the Fed’s full tightening cycle. Thus, when considering the very sharp rise in rates, some moderation in growth, and indications that “a portion” of the run-up in inflation data in recent months was likely owing to “transitory factors”, it looks like we may have had a very unusual development—a “top” in market rates (the 10-year Treasury) occurring even before the Fed embarked on its rate-hiking campaign. Stable or lower rates should allow the market to react to the very positive trends in corporate earnings, as the market did in 1995.



- Ironically, while the market has remained listless and somewhat depressed, corporate earnings (the ultimate driver of stock prices) were showing unusually positive gains. We started the year with expectations for both Q1 and Q2 S&P 500 earnings to increase by about +13% (bottom-up estimates by analysts on the individual companies). The earnings that were finally reported for Q1, according to First Call, were up by +25.7%; and in view of revision trends and announcements thus far, Q2 looks like another blockbuster with the likely gain at around +25%.

  Investors have been skittish and have not reacted to the better than expected earnings results of Q1 and Q2, presumably because they are uncertain and somewhat fearful of future trends. However, a point worth noting is that a moderate decline in GDP growth does not necessarily lead to a significant decline in overall earnings. In the third quarter of 1994, as the Fed was tightening and raising rates sharply, GDP declined to a little over +2% and yet earnings continued to increase sequentially and at a year-to-year rate in the high teens.

- Stock valuations look reasonable, if not fairly attractive versus historical averages, particularly when considering that inflation and interest rates are likely to remain much lower than in the past 10 years. The S&P 500 Composite’s P/E on forward 12 months EPS is currently 16.4x versus a 10 median of 18.3x. The ratio of the S&P 500 dividend yield to the yield on the 10-year Treasury is now at 0.37 versus the 10-year median of 0.30, indicating that dividend yields are 23% higher than what they have been over the last ten years relative to the 10-year Treasury.

The Positioning of the Portfolio

We focus on companies that we believe can achieve superior earnings growth over an extended period (5 to 6 years) with the thought that superior earnings growth leads to superior price performance. Additionally, we make an effort to position the portfolios with those companies within our focus that we believe are most attractive on a combination of valuation and earnings momentum factors (forward 12 month earnings progress). For the most part, the companies are industry leaders with competitive advantages and experiencing gains in market share. They are also enjoying above-average profitability and have superior financial positions.

- *Growth Orientation*. The distinguishing feature of our portfolio is its growth orientation which is higher than that of the Russell 1000 Growth Index and higher than that of most other growth portfolios. Our expected growth is also higher than that of the NASDAQ 100, which is often thought of as having the most rapidly growing companies.

	Growth Equities Composite	***S&P 500 Composite***	***Russell 1000 Growth Composite***	***NASDAQ 100 Composite***
Projected 5-Year EPS Growth (IBES)	*+19.8%*	*+12.1%*	*+14.6%*	*+15.8%*
Revenue/ Share, 5-Year Hist Growth	*+19.6%*	*+6.4%*	*+7.6%*	*+12.0%*
EPS, 5-Year Hist Growth	*+20.8%*	*+6.8%*	*+9.4%*	*+10.8%*

Source: StockVal
IBES

- *Earnings Momentum***.** In general our holdings are experiencing above average near term rates of earnings gain. Also, in the quarter, 26 out of 31 or 87% of our equity holdings experienced upward earnings revisions.

  The NASDAQ Composite is currently experiencing exceptional earnings momentum partly because its earnings are recovering from more depressed levels of profitability.

	Growth Equities Composite	***S&P 500 Composite***	***Russell 1000 Growth Composite***	***NASDAQ 100 Composite***
Revenue/Share, T4Q, % Chg	*+33.3%*	*+15.4%*	*+23.4%*	*+41.9%*
EPS, T4Q, % Chg	*+41.4%*	*+14.4%*	*+19.1%*	*+37.3%*
FY'04 EPS est, % Chg (IBES)	*+42.7%*	*+17.9%*	*+25.2%*	*+46.0%*
FY'05 EPS est, % Chg (IBES)	*+18.3%*	*+10.7%*	*+15.9%*	*+20.5%*
EPS Revision, FY'03, % Chg last 12 wks	*+2.1%*	*+3.9%*	*+2.0%*	*+3.4%*
EPS Revision, FY'04, % Chg last 12 wks	*+2.5%*	*+2.7%*	*+1.8%*	*+3.5%*

Source: SockVal
IBES

- *Valuation*. We believe that our holdings have very good valuation characteristics as indicated in the following data. While the valuation gaps among the various indices and among stocks in general have closed considerably over the last year, the valuation data suggests that our holdings are still considerably more attractive than that of the indicated benchmarks.

	Growth Equities Composite	***S&P 500 Composite***	***Russell 1000 Growth Composite***	***NASDAQ 100 Composite***
PE F12 Months EPS (IBES)	*21.1x*	*16.1x*	*19.1x*	*25.9x*
PE F12 Months/5-Year Median	*57%*	*72%*	*66%*	*55%*
PE F12 Months/Growth Rate/5-Yr Median	*75%*	*109%*	*91%*	*86%*

Source: StockVal
IBES

Of particular importance in comparing valuations is the use of PE F12 Months/Growth Rate/5-Year (PEG) ratios, mostly because there have been a significant across-the-board reductions in investors' perceptions of longer term growth. PEs are to a large extent a function of expected growth and should be adjusted with changes in growth expectations. Currently, the PE to growth ratio for the S&P 500 Composite is 109% of its 5-year median. For our Growth Equities portfolio it is 75%.

- *Risk Factors*. The flip-side to high growth is higher than average volatility, which is a characteristic of our holdings, reflected in the data below:

	Growth Equities Composite	***S&P 500 Composite***	***Russell 1000 Growth Composite***	***NASDAQ 100 Composite***
Weighted Average Market Capitalization	*$63.2 bil*	*$93.5 bil*	*$88.9 bil*	*$114.6 bil*
Total Return Variability, 5-Yrs (mean est. error)	*17.0%*	*8.0%*	*10.2%*	*21.5%*
5-Year Beta	*1.78*	*1.15*	*1.28*	*1.89*

Source: StockVal
IBES

- *Industry Sector Emphasis*. Generally our emphasis is on those sectors which we believe have the best prospects for superior growth. However, we also try to stay diversified and maintain a reasonable balance in the portfolio. We are currently moderately overweighted relative to the Russell 1000 Growth Index in aggressive growth and cyclicals, and moderately underweighted in defensive growth.

Sector Weightings
% Assets
As of 6/30/04

	Growth Equities Composite	S&P 500 Composite	Russell 1000 Growth Composite	NASDAQ 100 Composite
Aggressive Growth				
Technology	30%	16%	23%	64%
Cyclical Growth				
Consumer Discretionary	31%	12%	15%	16%
Financials	18%	20%	12%	--
Industrials	1%	12%	13%	5%
Materials	--	3%	2%	1%
Energy	--	6%	1%	0%
Defensive Growth				
Health Care	17%	13%	20%	11%
Consumer Staples	--	11%	12%	1%
Telecom Services	--	3%	1%	2%
Utilities	--	3%	0%	--

- Our ten largest holdings in order of size as of 6/30/04, accounting for about 50% of our equity portfolio, were as follows:

% Portfolio	Company	Industry
7.3%	Yahoo	Consumer Discretionary/E-commerce
6.2	Cisco Systems	Technology/Telecom Equipment
5.8	MBNA Corp	Financial/Credit Cards
5.4	Maxim Integrated Products	Technology/Semiconductors
4.6	Marvell Technology	Technology/Semiconductors
4.5	* InterActive Corp	Consumer Discretionary/E-commerce
4.4	Fannie Mae	Financial/Specialty Finance
4.1	Bed, Bath and Beyond	Consumer Discretionary/Retail
4.0	* Lowe's	Consumer Discretionary/Retail
4.0	Citigroup	Financial/Banks

* *New to the Top 10 holdings since 3/31/04.*

All information is provided for informational purposes only and should not be deemed as a recommendation to buy the securities mentioned. The above information represents the ten largest holdings of the Growth Equities strategy as of 6/30/04. Each quarter, Berkeley Capital Management uses this same objective, non-performance based criteria to report the securities held in the Growth Equities model.

- A more complete listing of our holdings is as follows.

As of 6/30/04

Aggressive Growth (30%)

Technology

Telecom Equipment (10%)
Cisco Systems
Juniper Networks

Software (5%)
Veritas Software
Siebel Systems

Computer & Peripherals (1%)
Dell Computer

Semiconductors (14%)
Maxim Integrated Products
Marvell Technology
Linear Technology
Applied Materials
Intel

Cyclical Growth (50%)

Consumer Discretionary

Retail (10%)
Bed, Bath & Beyond
Lowe's Corp
Best Buy

Internet Commerce (15%)
Yahoo
InterActive Corp.
E-Bay Inc.

Media(5%)
Cablevision Systems
XM Satellite Radio

Financial

Banks (4%)
Citigroup

Credit Card (6%)
MBNA Corp.

Specialty Finance (4%)
Fannie Mae

Invest/Broker (4%)
Goldman Sachs

Industrials

Data Processing (1%)
First Data Corp.

Defensive Growth (17%)

Health Care

Biotechnology (7%)
Amgen
Genentech
Gilead Sciences

Drug Companies (3%)
Pfizer
Abbott Laboratories

Medical Devices (5%)
Medtronic
Stryker Corp.

Managed Care (2%)
Health Mgmt. Associates

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- <u>Changes in our Holdings During the Quarter</u>

  In this quarter, as the market declined, we made a number of changes. Our intent was to have the portfolio in a better position to benefit as the market again began its recovery. Turnover in the quarter was 15%.

  On margin we wanted to increase our exposure to the emerging capital cycle, that is, to the acceleration in business spending as the economy developed more robust underpinnings. We added Goldman Sachs, and added to positions in Maxim and Juniper Networks.

  We also tried to capture some of the valuation opportunities that developed in the quarter. Here we added to positions in Lowe's Co and InterActive Corp.

  Additionally, we reduced positions in those securities where we felt the risks of a reduction in earnings growth had increased. These names included Amgen, Forest Labs and Abbott Labs. To make room for our purchases, we reduced or sold positions in Paychex, Applied Materials, Microsoft, Intel, Dell Computer and Medtronics. The considerations ranged from slower growth to higher than average valuations.

  A new opportunity name was XM Satellite Radio. Satellite Radio has been growing rapidly, and we believe it has now reached the stage where it has actually become an established, mainstream product.

I hope this report has been helpful in explaining investment results for the quarter. Please do not hesitate to call me at (415) 393-0368 or contact me at rgrimm@berkeleycm.com if you have any questions.

Sincerely yours,

Rupert E. Grimm

REG:sms.qtrly_ltr

DISCLOSURE

Berkeley Capital Management LLC ("BCM") is an SEC-registered investment adviser. The performance presented represents the returns of accounts in the BCM Growth Equities composite invested in BCM's Growth Equities strategy over which BCM maintains discretionary authority. BCM's Growth Equities strategy focuses on identifying industry leading large cap companies with long-term sustainable earnings growth.

The performance presented has been calculated by BCM and is believed to be accurate and reliable.

Returns are presented gross of investment management fees and other appropriate fees (i.e. commissions, custodial fees, etc.). A BCM client's return will be reduced by the advisory fee and any other expenses that it may incur in the management of its investment advisory account. For example, an account that has returned 10% annually over 1, 3 and 5 year periods would have increased by 10%, 33% and 61% over those periods. Assuming a maximum all-inclusive wrap fee of 3% , those returns will be reduced by 3%, 12%, and 23% over those periods. BCM's investment advisory fees are further described in Part II of its Form ADV as required by the United States Securities and Exchange Commission and is available to clients at no charge. The performance results reflect all income, gains and losses and the reinvestment of interest and other income.

The returns are compared to the following indices:

- The Russell 1000 Value Index contains those Russell 1000 companies that have higher book-to-price ratios, and thus a less-than-average growth orientation, than the remaining companies in the Russell 1000 Index that encompass the Russell 1000 Growth Index.
- The Russell 1000 Growth Index contains those Russell 1000 companies that have lower book-to-price ratios, and thus a higher-than-average growth orientation, than the remaining companies in the Russell 1000 Index that encompass the Russell 1000 Value Index.
- The Nasdaq Composite Index is unmanaged and measures all Nasdaq domestic and non-U.S. based common stocks listed on the Nasdaq Stock Market. The index is market-weighted.
- The S&P 500 Index is a market-capitalization weighted index containing the 500 most widely held companies (400 industrial, 20 transportation, 40 utility and 40 financial companies) chosen with respect to market size, liquidity, and industry. The index is calculated on a total return basis with dividends reinvested.

The volatilities of the indices may be materially different from that of the Growth Equities strategy. In addition, the holdings in the Growth Equities strategy may differ significantly from the securities that comprise the indices. The indices have not been selected to represent appropriate benchmarks to compare the performance of the Growth Equities strategy, but rather are disclosed to allow for comparison of Growth Equities performances to those of well-known and widely recognized indices. The performance results relate to accounts with assets under management exceeding $2,000,000 and whose investment objectives warrant investment the Growth Equities strategy. BCM has determined that this objective account inclusion criteria has no material effect on the results portrayed. Past performance is not indicative of future results.

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