Wealth Management
SERVICES

Due Diligence Notes

Firm:	**Regions Morgan Keegan**	**Date:**	**July 2007**
Product:	**Select Intermediate Bond**	**Location:**	**Onsite**
Style:	**Specialty Bond**	**Purpose:**	**Annual Review**

DUE DILIGENCE SUMMARY

Unique Feature: The product adds value through security selection and a specialization in less traditional sectors such as collateralized debt obligations (CDOs), equipment leases, asset backed securities (ABS), and other types of structured products. The manager looks for deep value opportunities. Bonds are held until the value becomes apparent, taking advantage of pricing inefficiencies. In addition, the product manager also considers the income stream that comes from each position and attempts to create a portfolio that provides a higher income to investors.

Strengths

- Experienced management team
- Unique investment philosophy
- High income
- Lower sensitivity to interest rate movements
- Manager has demonstrated a commitment to the best interest of shareholders.

Issues/Concerns

- The portfolio will have a high exposure structured products and be at risk of periodic underperformance when these areas are out of favor.
- The product's success is highly dependent on one key manager.
- Concerns over downgrades to structured products in the portfolio and liquidity
- Morgan Asset Management is currently going through changes due to the merger with Amsouth

Portfolio Update: The fund has been experiencing difficulties due to the subprime melt down and subsequent shock to the credit markets that started in March. In addition, manager Jim Kelsoe has seen increasing liquidity pressures on prices in the market for subprime backed structured products, as well as issues associated with the sector since the failure of two Bear Stearns hedge funds. While the fund has less than 10% of assets exposed to subprime collateral, the liquidity dry up for associated products has hurt prices on collateralized debt obligations and other structured products in the portfolio despite the quality of the underlying collateral. The TIG recommends the fund be used as portion of the non-traditional mutual fund allocation in a portfolio or in smaller amounts around the core bond holding.

RATING: Buy **STATUS: OPEN**

FIRM/PORTFOLIO SNAPSHOT

Firm/Sub-Advisor

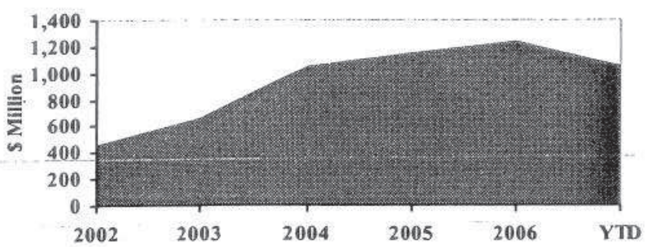
Firm:	Regions Morgan Keegan
Founded:	1971
Headquarters:	Birmingham, AL
Ownership:	100% Regions Financial
F.A. Contact:	Courtney Hines Nash

Portfolio

Inception:	1999	Avg. Mkt. Cap:
Holdings:	175	> $50B
Turnover:	Not Avail.	$15B - $50B
Dividend Yield:	6.64%	$2B - $15B
Min. Investment:	$1000	$500M - $2B
Redemption:	none	< $500

TRENDS

Assets Under Management



Investment Team

Year End	Total	Gained	Lost	CFAs
YTD	5	1	0	3
2006	4	1	0	3
2005	3	0	0	3
2004	3	1	1	3
2003	3	0	0	3
2002	3	0	0	3

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Attendees: Morgan Keegan: Kim Escue, Spencer Hope
Regions: Jim Kelsoe, Portfolio Manager; David Tannehill, Portfolio Manager

ORGANIZATION

History/Owner

Regions Financial (RF) is a publicly traded company that serves the southeast through its banking and brokerage arms. Opened in 1971 as First Alabama Bancshares, the firm has grown to $140 billion in assets through acquisitions of Morgan Keegan, Union Planters, and recently Amsouth. Morgan Asset Management, the sub-advisor to the Regions Morgan Keegan Select Funds, is part of the firm's investment subsidiary, Morgan Keegan.

Principal	Position	Percent Ownership
Regions Financial	Parent Company	100%

Business Structure

Morgan Keegan is the investment subsidiary of Regions. Morgan Keegan is based in Memphis Tennessee and has offices in 19 states, mostly concentrated in the Southeast. Under the firm's trust umbrella, Regions Morgan Keegan Trust, it operates two investment management divisions. Morgan Asset Management acts as the advisor to the Regions Morgan Keegan Funds. Morgan Asset Management is based in Birmingham, AL with satellite offices in Memphis, TN and Mobile, AL. Currently Morgan Asset Management has $36 billion under management in a variety of fixed income and equity disciplines. The group serves both individual and institutional clients.

With the merger of Amsouth and Regions, a second investment management division was added, Amsouth Asset Management. The group, which was also based in Birmingham, manages in excess of $4 billion in assets. The two groups' main offices in Birmingham will be merged bringing about some changes to the two investment management divisions.

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INVESTMENT STAFF

Regions Morgan Keegan Select Intermediate Bond is team managed by Jim Kelsoe and David Tannehill. In addition to the portfolio management team, the group is supported by an equity portfolio manager, 2 research analysts, 1 portfolio analyst, and a marketing specialist. In 2004, Rip Mecherle left the team to pursue other opportunities and David Tannehill was added as his replacement. Tannehill brought the team more depth in the corporate sector. While Jim Kelsoe is the lead manager and maintains final decision making authority over all sectors, the addition of David Tannehill and the knowledge he brings to the team has resulted in more autonomy for each sector. Jim Kelso, however remains the key element to the product adding much value with his deep knowledge of structured products.

The portfolio management team sits in close proximity to each other. The group discusses ideas and shares knowledge with each other through constant informal communication.

Key Professionals

Name	Position	Sector/Ind. Specialty	CFA	Inv Experience Career	Firm
Jim Kelsoe	Portfolio Manager	ABS/MBS	yes	19	16
David Tanehill	Co-Manager	Corporates	yes	20	3

Key Professionals

Name	Security Research	Security Selection	Portfolio Construction	Trading	Compliance	Mktg. Client Svc.	Mgmt.
Jim Kelsoe	X	X	X	X		X	X
David Tanehill	X	X	X	X			

Additions

Name	Position	Date	Reason
David Tanehill	Portfolio Manager	2004	Replacement for Rip Merchele.
Al Landers	Portfolio Analyst	2004	Addition to Team

Departures

Name	Position	Date	Reason
Rip Merchle	Co Manager	2004	Resigned to pursue other opportunities

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INVESTMENT PROCESS

Philosophy

Management combines value investing and income generation into one product. The manager first focuses on providing high consistent income and then looks for securities that will add to the total return of the product. The team believes that a focus on coupon will add more value over time and exploiting pricing inefficiencies by using an opportunistic deep value approach to bond investing can significantly enhance returns. The manager differentiates the product from other investment grade bond managers by diversifying efforts in esoteric sectors of the bond market that are usually misunderstood due to their complexity.

Buy Discipline

The buy discipline is opportunistic. The team screens using price targets and assesses risk through the value of the bond and the amount of downside potential. The team purchases investment grade bonds and convertibles that are determined through research to be undervalued. Bonds included in the portfolio will possess positive characteristics that are not being priced in by the market due to special situations such as the sector being out of favor, misunderstanding of risks by the market, or issue size.

Decision-Making Process and Monitoring

The investment process is primarily bottom-up, however there are some top-down considerations that go into identifying risks in each sector of the bond market. The group, through, informal communication will discuss and debate top-down issues as they relate to market opportunities and ideas for the portfolio. This macroeconomic view is used to assess risks when screening issues for inclusion in the portfolio.

The screening process is contrarian in nature. Each manager looks for securities that hit specific yield targets, appear unwanted by the market, and are inefficiently traded. Securities that look attractive to the manager will be evaluated further. The team performs fundamental analysis on all issues to assess the risks and determine value. Securities included in the portfolio are monitored continuously. Each manager watches for trends that would indicate a position is deteriorating. Trends in underlying collateral are watch for each structured product. The team receives monthly reports outlining collateral characteristics for structured bonds in the portfolio. The reports are used to spot evolving risks and potential sell candidates. Corporate fundamentals and outside research is monitored to spot deteriorating situations in the corporate and equity sectors.

In addition to monitoring securities in the portfolio, the portfolio is analyzed to track performance and risks versus the benchmark and to spot violations to portfolio constraints. The team's portfolio analyst is primarily responsible for this function.

Sell Process

The sell process is mainly contrarian in nature. Management attempts to sell securities that are in demand when the opportunity arises. These situations usually lead to stronger bids for positions. The manager believes that as the demand drives the price up, the security possesses more risk and no longer offers the desired upside potential. Securities are also sold when management determines through top down considerations that there are risks to certain types of securities held in the portfolio. Finally, positions will be sold when the team becomes uncomfortable with the fundamentals or management of a company.

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INVESTMENT PROCESS

Portfolio Construction

Characteristic	Guideline
Number of Holdings	175
Weighted Avg Dollar Price	Not Available
Weighted Avg Coupon	Not Available
Weighted Avg Quality	A-
Duration	6.36
Duration Range	Not available
Holding Weight (at Purchase)	Not available
Max. Holding Weight	5%
Sector Limitations	35% max equity, 35% max below investment grade, 35% convertibles
Cash Position (Avg.)	3.6%
Cash Position (Max.)	10%
% Portfolio in Top 10 Holdings	Not Available
Annual Turnover	Not Available
Universal or Dynamic Model Portfolio Used?	Universal
Time to Fully Invest	n/a
Max. Ownership Interest in Holding (Firm)	n/a
Other Liquidity Constraints	15% max to illiquid securities
Tracking Error Constraints	none
Sector Breakdown	Corporates 27.9%; CDO 29%; CMOs 16.1%; CLOs 5.2%; Home Equity ABS 5.9%; Cash 3.8%; Preferred Stock 2.3%; 9.9 Other
Derivatives use	yes
Leverage use	5% max
Dividend Yield	6.64%
Quality Constraints	Baa3 at purchase; 35% below investment grade
AMT exposure	n/a

Research

The team assesses corporate securities through fundamental analysis. Information on corporations is gathered from multiple outside sources and the team receives audited financials directly from private companies. Items such as revenues, EBIT, EBITDA, interest coverage ratios, enterprise value/EBITDA and the firm's debt/EBITDA ratios are considered in the evaluation. Items are downloaded into spreadsheets and analyzed versus historical levels and relative to the appropriate peer group to determine an opinion on the credit. This analysis gives the team insight into the issuer's ability to pay interest and principal. The group monitors all news related to their holdings as well as their competitors. Evaluation of events affecting competitors gives the team insight into each issuer's industry. The capital structure is analyzed to determine the level of security for each issue in the case of default. Each issue's value is determined as a multiple to the debt/EBITDA ratio. The team looks at this as a guideline for assessing value. All research, notes, and news pertaining to holdings in the portfolio are kept on file.

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INVESTMENT PROCESS

Research- Continued

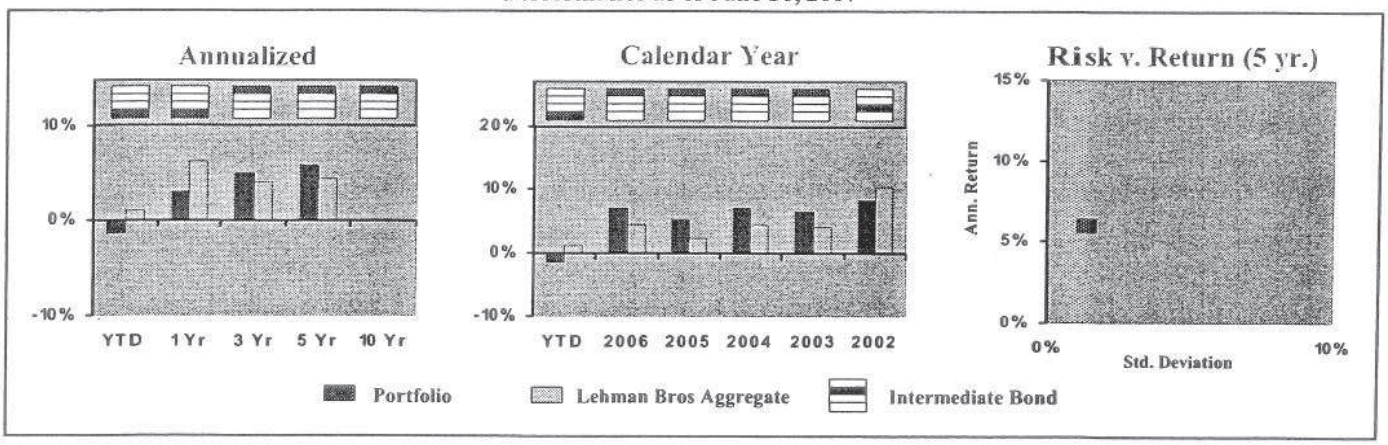
Structured products are subject to collateral and structure analysis. The manager requests collateral information for each bond. The key element in the research is the borrowers equity stake as determined by the loan-to -value ratio of the underlying collateral. Management considers this as an indicator of the probability that the bond will continue to pay interest and principal. In addition, items such as the credit scores, geographic concentration, seasoning, and payment history are assessed. Scenario analysis is used to determine how each bond holds up in varying interest rate and credit environments.

The structure of each deal is also considered to determine the possible payment characteristics of each tranche in structured products included in the portfolio. Analysis attempts to determine the amount of protection a specific tranche offers and the range of possible cash flow scenarios for each issue.

In addition to bottom-up research, the team considers top-down items in the selection of securities for the portfolio. This assessment considers macroeconomic data, market trends, and current events. Top-down considerations aid the research effort in sector selection, industry selection, structure analysis, and in the assessment of risk. The team meets informally to discuss and assess macroeconomic event and news in an attempt to identify opportunities and risks.

PERFORMANCE & RISK CHARACTERISTICS

Performance as of June 30, 2007



Performance

Year-to-date performance has hurt the fund's trailing 1 year return versus the Lehman Brothers Aggregate index and the intermediate duration peer group. Longer term performance remains strong versus the benchmark and peers. Year-to-date the fund returns – 1.46% compared to +.97% for the Lehman Brothers Aggregate index. Despite the recent underperformance, the product's longer term risk adjusted performance as measured by the 5 year Sharpe ratio of 1.52 leads .48 for the index. The fund's up/down capture ratio is strong as the product 74% upside versus -1.6 downside for the 5 year period. Rolling quarterly 3 year and 1 year returns remain positive through June.

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PERFORMANCE & RISK CHARACTERISTICS

Attribution

The product's recent performance is mainly attributed to structured products with subprime exposure. Liquidity pressures associated with the collapse of hedge funds that dominate the market for collateralized debt obligations and asset backed securities have magnified the problems. The product has experienced a drying up of demand for a portion of bonds in the portfolio. Manager Jim Kelsoe noted a credit correction followed by the unexpected news surrounding the collapse of Bear Stearn's hedge funds for the downward pressures on fund holdings. Residential backed structured products, despite loan quality, have been marked down between 20-30 percent as a result. Much of the correction has had an impact on the portfolio's seasoned products that generally display stronger payment expectations. In addition, the fund's average weighted duration has been long the benchmark. Currently at 6.32 it is nearly 2 years longer than that of the index. This may be to some extent a product of extension in the mortgage backed sectors. With recent weakness in the overall bond market, the product would have be hurt with the longer duration. Despite efforts to bring down exposure to such collateral during much of 2006, the market's over reaction has had substantial impacts on the fund's performance.

Expected Behavior

According to lead manger, Jim Kelsoe, the product has been repositioning since early 2006 to mitigate risks associated with subprime and residential mortgage defaults based on the team's macro outlook. The portfolio has been weighting heavier to corporate collateral and collateralized debt obligations backed by bank trust floating rate preferred stock and collateralized loan obligations backed by floating rate bank loans. The portfolio's subprime collateral exposure is limited to more seasoned loans where borrowers have an equity stake. It is expected that the market has over sold the subprime and collateralized debt obligations held in the portfolio and that the subprime exposures in the portfolio have a higher probability of continued payment of interest and principal given the collateral characteristics. The TIG believes that a portion of the portfolio has been marked down due to association and as the market calms there will be more investors realizing the underlying characteristics of such securities. Despite this, lower demand is expected to continue for some time holding prices for the securities down. The fund is currently at risk of credit events associated with the rating agencies downgrading structured products. This could result in more of the portfolio falling in the below investment-grade bucket and less liquidity for positions.

OPINION

The TIG remains confident in the product's management team, philosophy, and process. The manager has reduced much of the fund's exposure to subprime collateral and has limited the holdings to more seasoned issues. The largest threat to the fund at this point would be downgrades by the credit agencies. This would put a lot of bonds in the portfolio in the non-investment grade area. The fund is not considered a core bond holding and may hold up to 35% of assets in below investment grade issues if the team believes the bonds are solid. The fund could also be affected by current market conditions that have squeezed liquidity in the structured product market.

The main concern to current investors is the liquidity premium currently being charged in the market for CDOs. A large portion of the portfolio has been punished in the market and this is likely to continue in the short term. Periodic underperformance is expected for bond strategies that specialize in certain sectors of the market. These types of strategies should be used in smaller allocations within the portfolio. Overweighting to such strategies is not recommended and a strategy of rebalancing over time should be considered.

The fund's prospectus limits exposure to non-liquid securities, including securities that would not be liquid at the stated market value, to 15% of assets. Given current market conditions, the amount of securities that fall into this category could temporarily exceed this limitation. Manager Jim Kelsoe has indicated trading the investment grade Intermediate Bond fund is easier than the High Income. In addition, the fund is open to new investors and has inflows to help manage the fund's cash flows.

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OPINION

Another area of concern is the integration of Amsouth Asset Management and Morgan Asset Management. While this will likely not have an impact on the group located in Memphis responsible for the product, it is worth notice. The TIG will monitor the changes to see that it remains a positive event for Kelsoe's team.