



BELÉN VILLALONGA

The Pitcairn Family Heritage® Fund

On November 20, 2006, Eric M. Feder and David T. Larrabee sat in their neighboring offices at Pitcairn Financial Group, in a quiet suburb of Philadelphia, preparing for their Monday-morning meeting to discuss the evolution of the Family Heritage® Fund.¹ Originally started by Pitcairn in 1989 as a portfolio for its multi-family office clients, Family Heritage® was a collective fund that invested primarily in companies controlled by their founding family or a related foundation.

As co-managers of the fund since 2001, Feder and Larrabee had had many such meetings in the past. However, several recent events made the impending meeting special. Earlier that morning, Touchstone Investments had announced the completion of its acquisition and rebranding of the family of funds that Family Heritage was part of, a deal that would substantially broaden the distribution of the fund. Feder and Larrabee welcomed this development, but to make the most of it they had to find a way to reconcile Touchstone's greater focus on short-term performance evaluation with the Family Heritage Fund's unique investment philosophy.

In addition, Pitcairn Financial Group had just undergone an internal reorganization that led to both managers being promoted, Feder to Chief Investment Officer and Larrabee to Senior Equity Portfolio Manager. As excited as the two were about the opportunities that lay ahead of them, they had to balance their enhanced responsibilities with the team work and disciplined approach that had so far characterized their co-management of the Family Heritage Fund.

History of the Pitcairn Funds

Pitcairn Trust

Pitcairn Trust, the family office of the Pitcairn family, had its earliest predecessor in a holding company founded in 1923 by the Pitcairn brothers Raymond, Theodore, and Harold. Their father, John Pitcairn, was a Scottish immigrant who had co-founded the Pittsburgh Plate Glass Company (PPG) in 1883 and built it into the nation's largest plate glass manufacturer. After his death in 1916,

¹ Family Heritage® is a registered trademark of the Pitcairn Financial Group.

his descendants continued to have a significant influence on the direction of PPG, which grew and diversified successfully into glass products, coatings, resins, and industrial and specialty chemicals. The holding company, which 60 years after its creation held 16% of PPG's equity and pooled over 75% of the Pitcairn family's wealth, helped perpetuate the family's control of PPG for several generations. Pitcairn's descendants remained as controlling shareholders and board members until 1985, when they sold their remaining stake in PPG back to the company for \$530 million, liquidating the holding company.

Pitcairn Trust was created in 1987 to preserve the wealth and resources of the Pitcairn family, who proceeded to re-allocate their now liquid assets to hundreds of broadly diversified portfolios. Their exit from their own family business notwithstanding, the Pitcairn family remained strong believers in the value-creating role of founding families as controlling owners of corporations. This belief led Pitcairn Trust to launch, in October 31, 1989, the Pitcairn Family Heritage Strategy, a common trust fund set to invest exclusively in family-controlled companies. **Exhibit 1** lists some of the milestones in the history of both the family office and the investment funds it offered.

In the same year, Pitcairn Trust opened its wealth management services to clients outside of the Pitcairn family with minimum investible assets of \$5 million, thereby becoming one of the first multi-family offices in the country. The concept had been pioneered by the Bessemer Group, which in 1974 moved from being the single-family office of the founding Phipps family to the multi-family status. Early followers included Glenmede Trust in 1979—formerly the single-family office of Sun Oil founder Joseph Pew's descendants, and Stillrock Management in 1987—formerly the single-family office of William Rockefeller's heirs. In Pitcairn Trust's first two years of operation as a multi-family office, approximately two dozen families joined, bringing along \$140 million in new assets.

The Pitcairn Funds and Pitcairn Financial Group

In 2000, Pitcairn Trust decided to provide its clients with mutual funds as investment vehicles for their personal and trust assets. The Pitcairn Family Heritage Fund (PTFMX), together with two fixed-income funds that Pitcairn Trust also managed, were registered as mutual funds with an inception date of August 4, 2000, and reorganized into a separate trust named Pitcairn Funds. The newly created fund family also included six other open-end, no-load equity funds. Pitcairn Investment Management, a new division of Pitcairn Trust, was created to serve as the funds' investment advisor.

Over the four years that followed, Pitcairn Funds' net assets grew to \$930 million. Yet Pitcairn Investment Management and the Pitcairn Funds' Board of Trustees felt dissatisfied with this asset growth and with the funds' relatively high operating expense ratios. Realizing that the prospects for future growth beyond Pitcairn's high net worth client base and lower operating expenses would be limited under the existing management structure of the Pitcairn Trust, they agreed that the funds should be distributed to a wider base of investors through multiple channels.

To that end, on August 2, 2004, the Pitcairn Funds joined the Constellation fund family, with Constellation Investment Management becoming the funds' new investment advisor in charge of the funds' distribution, and Pitcairn Investment Management, as sub-advisor, continuing to manage the funds on a day-to-day basis. The funds' investment objectives, policies, restrictions, and fund managers were maintained, but with a new fee structure, a much reduced minimum investment of \$2,500, and the name "Constellation" now preceding "Pitcairn" in every fund's name. Constellation thereby became a family of 25 funds with over \$2 billion in assets.

In the same year, Pitcairn Trust, which had been expanding its offer of wealth management and fiduciary services for its clients beyond investment management and into areas such as financial goal

setting, trust and estate services, and tax planning, was renamed Pitcairn Financial Group to reflect this wider spectrum of offerings. By then, the company had grown to over \$2 billion in assets under management through relationships with hundreds of individuals, families, and institutions.

The reorganizations at Pitcairn were not over, however. In November 2005, Touchstone Investments announced plans to expand its own mutual fund family by acquiring and re-branding the Constellation Funds with the Touchstone name.² The acquisition became effective one year later, resulting in a combined family of 39 mutual funds with more than \$8.1 billion in assets, of which \$1.4 billion came from the former Pitcairn funds.

Under the terms of the deal, Touchstone effectively replaced Constellation as the funds' advisor while retaining Pitcairn and the other Constellation funds' subadvisors. All of the original Pitcairn funds remained intact, save for a new fee structure and the funds' rebranding. The Family Heritage Fund, in particular, was renamed "Touchstone Family Heritage® Fund."

Also in November 2006, Pitcairn Financial Group announced that it was repositioning itself solely as a multi-family office and focusing on expanding its wealth management services throughout the United States and globally. As part of the strategic shift, Pitcairn would be moving away from its institutional line of business – corporate pension plans, municipalities, etc. – but it would continue to support the distribution of its wholesale separate accounts and its mutual funds through Touchstone.

The Family Heritage Investment Philosophy

The Family Heritage Fund's objective was to achieve long-term capital appreciation by investing at least 80% of its assets in common stocks of U.S. companies where 10% or more of the outstanding shares were owned or held by a founding family or foundation. This investment strategy dated back to the fund's inception in 1989, and was maintained throughout the various reorganizations the Pitcairn funds went through.

The original idea for the fund arose out of the Pitcairn family's belief, based on their own experience with PPG, that family ownership and control could have a positive impact on corporate performance. To test whether this was true in general, Pitcairn Trust researched a large sample of firms with market capitalizations greater than \$200 million and identified among them a group of 132 companies with a controlling interest by a founding family or a related foundation. The Family Heritage Universe, as the 132-firm group was labeled, was found to have outperformed the broad market by a significant margin over the 20-year period ending in 1989. With the Pitcairn family's theory now substantiated by statistical evidence, the Family Heritage Strategy was launched in 1989.

The fund's co-managers, Feder and Larrabee, who had been at Pitcairn since 1994 and 1997, respectively, were also strong believers in the unique concept of the "family effect" on a firm's performance and saw tremendous potential in the fund. As Feder explained,

We believe the ownership of founding families or foundations provide companies with a unique set of benefits. Some of the common characteristics of family-controlled firms that we have identified and which contribute to outperformance include: A strong corporate culture, which ideally leads to less turnover and fosters a more productive workforce; lower debt levels; a focus on shareholder return-on-investment; a lower payout in terms of dividends, with higher reinvestment of cash flows back into the business for future growth; and a strong

² Touchstone Investments was a member of Western & Southern Financial Group, a Fortune-500 financial services conglomerate dating back to 1888, whose assets owned or under management exceeded \$38 billion.

long-term planning for capital appreciation. With less emphasis on managing earnings quarter-to-quarter, we've generally found that the long-term interests of family-controlled firms are better aligned with their shareholders'.

With respect to foundation-controlled versus family-controlled companies, Larrabee commented:

We can safely say foundation-controlled firms take a more hands-off approach and their influence is less tangible than those firms with the founding family actively managing the firm. They can, however, share similar important characteristics with family-controlled companies. For example, Eli Lilly, a major large-cap pharmaceutical company, is an example in which the Lilly family's involvement occurs through a foundation, in this case, the Lilly Endowment. Despite this structure, Lilly is managed in such a way that is consistent with the characteristics of making reinvestments into research and development, and long-term focus.

Pitcairn's Investment Management Process

Research and Stock Selection

Over time, additional research was conducted, and the Family Heritage Universe grew to over 600 firms that were identified as being family-controlled or foundation-controlled. The Universe was maintained by Pitcairn as a proprietary database and continued to serve as a research platform throughout the life of the fund. As with all other Pitcairn-managed investments, Pitcairn's team of research analysts applied a rigorous due diligence effort of quantitative and fundamental analysis to the companies in the Universe, evaluating stocks on their relative valuation characteristics, earnings momentum, and relative price strength. Then Feder and Larrabee, as portfolio managers, would select approximately 50 to 60 stocks from the Universe to build a diversified portfolio with similar risk characteristics to those of the broad equity market. **Exhibit 2** shows the Family Heritage Fund's holdings as of September 30, 2006, along with some financial fundamentals for the companies in the portfolio. **Exhibit 3** shows the degree of family ownership and control of each company.

The fund's managers did not make any sector or industry bets. Because family-controlled companies exist in a broad cross section of industries, the managers were able to keep the fund's industry exposures close to those of the benchmark, the Russell 3000 Index.³ **Exhibit 4** shows the portfolio's sector weightings as of September 30, 2006.

Larrabee explained their selection criteria:

We look to invest in companies that have a distinct competitive advantage versus their peers. We specifically look for solid balance sheets and strong management teams with a long-term focus and a history of returning value to shareholders.

The family's active participation in management or in the board of directors, as CEO, Chairman, or any other role, was not required for a company's inclusion in the Family Heritage Universe.

³ From 1989 until 1994 the fund invested primarily in large capitalization stocks and benchmarked itself against the S&P 500 index. From 1994 to April 1996 the fund shifted its investment focus to mid-capitalization stocks with risk and capitalization characteristics similar to the Russell Midcap Index. In April 1996, the fund changed its benchmark from the S&P 500 to the Wilshire 5000 to reflect the growing diversification of the portfolio and the universe of family-controlled firms. In the fall of 2006, the fund's benchmark was changed again, to the more universally accepted Russell 3000® Index.

However, these kinds of factors, including succession plans, were given careful consideration at the due diligence and stock selection stages, as well as in purchase and sale decisions. Feder noted,

We typically view family involvement in management as positive, but do not have any rules regarding CEOs who are members of the founding family. While our research has shown family control is a positive force, we evaluate each company on its own merits during our quantitative analysis and fundamental research. This process allows us to determine if certain characteristics are likely to have a positive or negative impact on performance.

Portfolio Management

While most of the fund's investors continued to be clients of Pitcairn Financial Group with long investment horizons, Feder and Larrabee considered important to monitor their holdings closely. However, because their stake in any given company was not large enough to allow Pitcairn to exercise control over corporate affairs, if the fund managers were to become dissatisfied with the portfolio company's performance, they would typically resolve it by reducing or liquidating their position. This passive investment approach was inherent to the fund's diversification strategy, and to its very *raison d'être* as a portfolio of family-controlled companies. "Since we are investing in these firms largely because of their family control, we are comfortable with the way the companies are being managed, and seeking influence is not something we are interested in," Feder pointed out.

For the same reason, the Family Heritage Fund's proxy voting policies differed from the increasingly common practice among mutual funds of withholding their votes for certain directors. Feder commented: "Since we invest in these companies because of family influence, we obviously want to avoid diminishing that influence by voting against family members."

Feder and Larrabee's close monitoring of the portfolio also drove their sale decisions. The two managers generally considered selling a security in the Family Heritage portfolio when it no longer met the fund's family influence criteria, when it reached a target price, when it failed to perform as expected, or when other opportunities appeared more attractive. The fund also shared with other Pitcairn funds a distinctive tax-efficient approach to portfolio management, which called for minimizing turnover, incorporating tax considerations into every purchase and sale decision, and harvesting losses to improve the clients' tax position. The low turnover was particularly pronounced in the case of the Family Heritage Fund given its long-term capital appreciation goal and the long decision-making horizons of the family-controlled companies in which the fund invested. **Exhibit 5** shows financial highlights for the fund from 2000 to 2006.

The Fund's Performance

The Family Heritage investment philosophy was supported by the fund's long-term returns. Between its inception on October 31, 1989, until September 30, 2006, the fund delivered an annualized total return of 9.47%. As **Exhibit 6** shows, a \$10,000 investment made on September 30, 1996 would have been worth \$24,071 ten years later, 5.3% more than what a similar investment on the Wilshire 5000 index would have yielded. Morningstar gave the fund a four-star rating for being in the top quartile in five-year risk-adjusted return among all funds in the "large growth" category.⁴

⁴ Lipper Analytical Services and Touchstone placed the fund in the multi-cap, blend category.

However, superior performance was not always the norm in the short run. In the past two years, for instance, the fund had underperformed its benchmark by a considerable margin. Feder and Larrabee nonetheless remained confident in the Family Heritage strategy. As Feder explained,

Our performance was hampered in 2005 and 2006 by investors' preference for lower quality securities. The fund has historically been positioned as a portfolio of higher-than-average quality stocks. In addition, some prominent stocks in the Fund, including Wal-Mart, Microsoft and Dell, all traditional growth stocks, have been out of favor in recent years. Our longer-term performance remains competitive and we are confident that we are poised for a rebound.

Still, in the midst of all the organizational change at Pitcairn, the fund's recent performance was a reason for concern. As a new stage in the fund's life was about to begin under Touchstone's advisory role, Feder and Larrabee needed to make sure that both Touchstone and its parent company, Western & Southern Financial Group, would share with them and support the long-term outlook and patient approach to investment that was essential to the Family Heritage strategy.

Exhibit 1 Milestones in the History of the Pitcairn Funds

| | The Family Office | The Funds |
|------|--|--|
| 1883 | ➤ John Pitcairn co-founds the Pittsburgh Plate Glass Company (PPG) | |
| 1888 | | ➤ Western & Southern Financial Group founded in Cincinnati, OH |
| 1923 | ➤ John Pitcairn's sons, Raymond, Theodore and Harold Pitcairn, found PPG's holding company | |
| 1985 | ➤ The Pitcairn family sells its remaining stake in PPG | |
| 1987 | ➤ Fourth-generation Pitcairn family members found Pitcairn Trust Co. as a single-family office | |
| 1989 | ➤ Pitcairn Trust Co. becomes a multi-family office | ➤ October 31: The Pitcairn Family Heritage Strategy is established as a common trust fund to invest in family-controlled companies |
| 1990 | | ➤ Brothers Bob and Mark Turner found Turner Investment Partners in Berwyn, PA. |
| 2000 | ➤ Pitcairn Trust Co. begins to offer its clients mutual funds as investment vehicles for their personal and trust assets | ➤ March 24: Pitcairn Funds established as a Delaware business trust |
| | ➤ Pitcairn Investment Management is established as a separate division of Pitcairn Trust Co. to serve as investment advisor to the mutual funds | ➤ August 4: Pitcairn Family Heritage Fund, Pitcairn Diversified Value Fund, Pitcairn Diversified Growth Fund, Pitcairn International Equity Fund, and Pitcairn Taxable Bond Fund begin operating as mutual funds |
| | | ➤ August 11: Pitcairn Select Value Fund, Pitcairn Select Growth Fund, Pitcairn Small Cap Fund, and Pitcairn Tax-Exempt Bond Fund begin operating as mutual funds |
| | | ➤ August 25: Pitcairn Small Cap Fund begins operating as a mutual fund |
| 2004 | ➤ April 26: The name "Pitcairn Financial Group" is created for marketing purposes to reflect Pitcairn Trust Co.'s wide spectrum of wealth management and fiduciary services. Pitcairn Trust Co. continues to exist within Pitcairn Financial Group | ➤ May 10: Constellation Investment Management is spun off from Turner Investment Partners. Twelve Turner Funds are reorganized as Constellation Funds with Constellation Investment Management as advisor and Turner Investment Partners, Clover Capital Management, and Chartwell Investment Partners as sub-advisors |
| | | ➤ August 4: Pitcairn Funds are reorganized as Constellation Funds, with Constellation Investment Management as advisor and Pitcairn Investment Management as sub-advisor |
| 2006 | ➤ November: Pitcairn Financial Group repositions itself solely as a multi-family office, moving away from its institutional line of business | ➤ March 8: Touchstone Investments, a member of Western & Southern Financial Group, acquires Constellation Investment Management. |
| | | ➤ November 20: All Constellation Funds are reorganized as Touchstone Funds with Touchstone as advisor, but retaining their original sub-advisors, including Pitcairn Investment Management for the original Constellation funds. |

Source: Compiled by casewriter from <http://www.pitcairn.com>, <http://www.fundinguniverse.com/company-histories/PPG-Industries-Inc-Company-History.html>, <http://www.turnerinvestments.com>, <http://www.touchstoneinvestments.com>, accessed January 2007

Exhibit 2 Constellation Pitcairn Family Heritage Fund Holdings of Common Stock as of September 30, 2006: Companies' Financial Information

| Company | Business Description | Shares Held by Pitcairn | Value (\$000) | Market Cap (\$ M) | Sales LTM (\$ M) | EBITDA LTM (\$ M) | Net Income LTM (\$ M) | Dividends LTM (\$ per share) | Total Assets (\$ M) | Interest-Bearing Debt (\$ M) | Equity Book Value (\$ per share) |
|--------------------------|--|-------------------------|---------------|-------------------|------------------|-------------------|-----------------------|------------------------------|---------------------|------------------------------|----------------------------------|
| <i>Financial</i> | | | | | | | | | | | |
| Berkshire Hathaway | Insurance and holding company | 695 | 2,206 | 147,643 | 97,398 | n/a | 12,562 | 0.00 | 240,002 | 30,970 | 70,265 |
| Capital One Financial | Credit cards, consumer lending, banking | 30,778 | 2,421 | 24,055 | 15,183 | 5,441 | 2,414 | 0.11 | 149,739 | 33,982 | 61.56 |
| CapitalSource | Commercial lending, investments | 78,097 | 2,017 | 4,236 | 1,213 | n/a | 279 | 4.52 | 15,211 | 12,861 | 11.53 |
| Commerce Bancshares | Consumer and commercial banking | 41,434 | 2,095 | 3,304 | 1,194 | 492 | 220 | 0.93 | 15,230 | 1,825 | 20.59 |
| CompuCredit | Consumer credit, credit cards, payday lending | 53,825 | 1,626 | 1,491 | 1,075 | 151 | 101 | 0.00 | 2,104 | 924 | 16.04 |
| Federated Investors | Money market fund management | 57,965 | 1,960 | 3,505 | 979 | 333 | 198 | 0.69 | 810 | 113 | 5.10 |
| Flagstar Bancorp | Retail banking and insurance | 88,264 | 1,284 | 900 | 1,003 | 164 | 75 | 0.60 | 15,497 | 6,605 | 12.77 |
| Philadelphia Cons. Hldg. | Specialty commercial property/casualty insurance | 22,585 | 898 | 2,797 | 1,254 | 443 | 289 | 0.00 | 3,439 | 0 | 16.48 |
| Progressive | Auto insurance | 30,781 | 755 | 18,943 | 14,774 | 2,614 | 1,647 | 0.03 | 19,482 | 1,186 | 9.15 |
| TCF Financial | Retail banking and equipment leasing | 102,342 | 2,691 | 3,350 | 1,371 | 546 | 245 | 0.92 | 14,670 | 3,589 | 7.92 |
| <i>Technology</i> | | | | | | | | | | | |
| Danaher | Instruments, industrial equipment, hand tools | 19,320 | 1,327 | 21,090 | 9,596 | 1,730 | 1,122 | 0.08 | 12,864 | 2,434 | 21.56 |
| Dell | Direct-sale computer vendor | 62,110 | 1,419 | 51,884 | 57,876 | 4,426 | 2,953 | 0.00 | n/a | 504 | 1.77 |
| General Dynamics | Warships, combat vehicles, business jets | 26,295 | 1,885 | 28,653 | 24,063 | 2,876 | 1,856 | 0.89 | 22,376 | 2,781 | 24.22 |
| Marvell Technology Gr. | Semiconductors and related devices | 69,357 | 1,343 | 10,858 | 2,105 | n/a | n/a | 0.00 | n/a | n/a | 5.23 |
| Microsoft | Software, video game consoles, interactive TV, internet access | 101,266 | 2,768 | 265,705 | 46,057 | 17,515 | 11,909 | 0.37 | 66,371 | 0 | 3.99 |
| Oracle | Enterprise software | 102,018 | 1,810 | 93,027 | 16,074 | 6,384 | 3,702 | 0.00 | 28,927 | 5,903 | 2.87 |
| Qualcomm | Digital wireless communications products and services | 30,665 | 1,115 | 61,962 | 7,804 | 2,948 | 2,498 | 0.42 | 16,338 | 67 | 8.11 |
| Vishay Intertechnology | Electronic components | 55,413 | 778 | 2,590 | 2,581 | 468 | 140 | 0.00 | 4,692 | 613 | 16.70 |
| Yahoo! | Online information portal, online marketing, internet access | 30,976 | 783 | 34,916 | 6,426 | 1,481 | 751 | 0.00 | 11,514 | 750 | 6.73 |

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Exhibit 2 (Continued) Constellation Pitcairn Family Heritage Fund Holdings of Common Stock as of September 30, 2006: Companies' Financial Information

| Company | Business Description | Shares Held by Pitcairn | Value (\$000) | Market Cap (\$ M) | Sales LTM (\$ M) | EBITDA LTM (\$ M) | Net Income LTM (\$ M) | Dividends LTM (\$ per share) | Total Assets (\$ M) | Interest-Bearing Debt (\$ M) | Equity Book Value (\$ per share) |
|------------------------------|---|-------------------------|---------------|-------------------|------------------|-------------------|-----------------------|------------------------------|---------------------|------------------------------|----------------------------------|
| <i>Health Care</i> | | | | | | | | | | | |
| Cephalon | Pharmaceuticals | 30,302 | 1,871 | 3,751 | 1,751 | 425 | 145 | 0.00 | 3,045 | 1,248 | 19.96 |
| Eli Lilly | Pharmaceuticals | 70,069 | 3,994 | 62,997 | 15,691 | 4,927 | 2,663 | 1.60 | 21,955 | 3,714 | 10.06 |
| Stryker | Medical equipment manufacturing, physical therapy clinics | 64,248 | 3,186 | 20,080 | 5,406 | 1,294 | 778 | 0.11 | 5,874 | 15 | 10.27 |
| Universal Health Svces. | Hospital operator | 27,183 | 1,629 | 3,399 | 4,189 | 485 | 259 | 0.32 | 3,277 | 823 | 26.03 |
| <i>Consumer Cyclical</i> | | | | | | | | | | | |
| Aaron's Rents | Home and office furniture rental | 30,286 | 696 | 1,221 | 1,319 | 523 | 79 | 0.06 | 980 | 130 | 11.21 |
| Best Buy | Consumer electronics retailing | 18,259 | 978 | 25,617 | 33,728 | 2,310 | 1,258 | 0.34 | 15,386 | 650 | 12.90 |
| Men's Wearhouse | Men's clothing stores | 22,314 | 830 | 1,981 | 1,882 | 302 | 149 | 0.20 | 1,097 | 206 | 13.98 |
| Nike | Athletic shoes, apparel and equipment | 9,702 | 850 | 21,736 | 15,634 | 2,293 | 1,361 | 0.62 | 9,822 | 473 | 12.28 |
| Wal-Mart Stores | Discount retailing | 50,707 | 2,501 | 202,888 | 348,650 | 25,956 | 11,284 | 0.50 | 151,193 | 39,018 | 14.91 |
| <i>Energy</i> | | | | | | | | | | | |
| Apache | Oil and gas exploration and production | 16,729 | 1,057 | 20,670 | 8,074 | 5,753 | 2,552 | 0.45 | 24,308 | 3,822 | 39.58 |
| CARBO Ceramics | Ceramic "proppants" used by gas and oil well operators | 18,611 | 670 | 870 | 312 | 100 | 54 | 0.44 | 405 | 0 | 14.06 |
| Chesapeake Energy | Oil and gas exploration and production | 34,873 | 1,011 | 12,274 | 7,326 | 4,931 | 2,003 | 0.22 | 24,417 | 7,623 | 20.32 |
| Devon Energy | Oil and gas exploration and production | 16,875 | 1,066 | 27,698 | 10,578 | 6,938 | 2,846 | 0.45 | 35,063 | 7,773 | n/a |
| Hess Corp. | Oil and gas exploration, production, refining, and marketing | 30,073 | 1,246 | 11,555 | 28,067 | 4,943 | 1,920 | 0.40 | 22,404 | 3,772 | 25.75 |
| Murphy Oil | Oil and gas exploration, production, refining, and marketing | 17,244 | 820 | 8,808 | 14,248 | 1,536 | 640 | 0.52 | 7,446 | 847 | 21.61 |
| <i>Consumer Non-Cyclical</i> | | | | | | | | | | | |
| Alberto-Culver | Hair and skin care products, seasonings, and laundry-care items | 45,258 | 2,290 | 4,027 | 3,225 | 367 | 147 | 25.37 | 1,316 | 123 | 18.55 |
| Central European Distrib. | Beer, wine, and spirits distributing | 49,446 | 1,157 | 836 | 944 | 98 | 55 | 0.00 | 1,326 | 421 | 13.55 |
| Hansen Natural | Soft drinks | 13,428 | 436 | 2,951 | 605 | n/a | n/a | 0.00 | n/a | 0 | 1.41 |
| Wm. Wrigley Jr. | Chewing gum and mints | 40,097 | 1,847 | 12,574 | 4,686 | 1,067 | 529 | 1.06 | 4,662 | 1,065 | 8.62 |

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Exhibit 2 (Continued) Constellation Pitcairn Family Heritage Fund Holdings of Common Stock as of September 30, 2006: Companies' Financial Information

| Company | Business Description | Shares Held by Pitcairn | Value (\$'000) | Market Cap (\$ M) | Sales LTM (\$ M) | EBITDA LTM (\$ M) | Net Income LTM (\$ M) | Dividends LTM (\$ per share) | Total Assets (\$ M) | Interest-Bearing Debt (\$ M) | Equity Book Value (\$ per share) | |
|----------------------------|--|-------------------------|----------------|-------------------|------------------|-------------------|-----------------------|------------------------------|---------------------|------------------------------|----------------------------------|--|
| <i>Consumer Services</i> | | | | | | | | | | | | |
| Carnival | Cruise lines | 22,238 | 1,046 | 28,930 | 11,839 | 3,601 | 2,279 | 1.00 | 30,552 | 7,847 | 22.93 | |
| Comcast | Cable TV, internet, and digital phone services; TV programming | 46,063 | 1,698 | 51,154 | 24,966 | 8,447 | 2,533 | 0.00 | 110,405 | 28,975 | 13.18 | |
| Marriott International | Hotels | 34,425 | 1,330 | 15,102 | 12,160 | 1,202 | 608 | 0.23 | 8,588 | 1,914 | 6.72 | |
| Viacom | TV and film production | 28,731 | 1,068 | 26,385 | 11,467 | 3,211 | 1,592 | 0.00 | 21,797 | 7,648 | 10.34 | |
| <i>Basic Materials</i> | | | | | | | | | | | | |
| E.I. Du Pont de Nemours | Coatings, agricultural chemicals and seeds, electronic materials, polymers and resins, safety and security materials | 48,471 | 2,076 | 38,614 | 28,356 | 4,792 | 3,148 | 1.48 | 31,777 | 7,530 | 9.96 | |
| Worthington Industries | Steel processing | 70,608 | 1,205 | 1,474 | 3,011 | 225 | 149 | 0.68 | 1,918 | 449 | 10.66 | |
| <i>Commercial Services</i> | | | | | | | | | | | | |
| Fiserv | Financial data processing | 25,465 | 1,199 | 8,204 | 4,544 | 952 | 450 | 0.00 | 6,208 | 747 | 14.18 | |
| Paychex | Payroll accounting | 47,448 | 1,748 | 13,787 | 1,785 | 766 | 505 | 0.69 | 5,871 | 0 | 4.35 | |
| <i>Industrials</i> | | | | | | | | | | | | |
| Illinois Tool Works | Products used in automotive, construction, electronics, food and beverage, paper, and pharma industries | 34,437 | 1,546 | 25,282 | 14,055 | 2,862 | 1,718 | 0.70 | 13,880 | 1,418 | 16.14 | |
| Molex | Electronic, electrical, and fiber-optic connectors and switches | 36,052 | 1,186 | 6,612 | 3,171 | 612 | 274 | 0.25 | 3,261 | 133 | 12.42 | |
| <i>Utilities</i> | | | | | | | | | | | | |
| AES | Electric power production | 136,611 | 2,786 | 13,487 | 12,122 | n/a | 362 | 0.00 | 31,936 | 17,409 | 4.56 | |
| <i>Telecommunications</i> | | | | | | | | | | | | |
| Telephone & Data Systems | Wireless and fixed-line telephone services, printing | 44,063 | 1,800 | 4,768 | 4,181 | 1,083 | 302 | 0.36 | 10,475 | 3,477 | 29.00 | |
| <i>Transportation</i> | | | | | | | | | | | | |
| Werner Enterprises | Trucking and logistics services | 41,383 | 774 | 1,439 | 2,081 | 339 | 99 | 0.17 | 1,478 | 100 | 11.55 | |

Source: Compiled by casewriter from the Constellation Funds Group 2006 Annual Report, company documents, Hoover's, Inc., www.hoovers.com, company websites, and Standard & Poor's Compustat® data, all accessed June 2007.

Exhibit 3 Constellation Pitcairn Family Heritage Fund Holdings of Common Stock as of September 30, 2006: Companies' Family Ownership and Control

| Company | Founding Family | Family Ownership (incl. Foundations) | Family Voting Control (incl. Foundations) | Family Foundation Ownership | Family Foundation Voting Control | Family Members in Top Management | Family Members in Board of Directors (%) | Family CEO Generation | Family Chairman Generation | Latest Family Generation among Top Management, Directors, or Blockholders |
|---------------------------|-----------------|--------------------------------------|---|-----------------------------|----------------------------------|----------------------------------|--|-----------------------|----------------------------|---|
| <i>Financial</i> | | | | | | | | | | |
| Berkshire Hathaway | Buffet | 31.0% | 33.0% | 0.01% | 0.12% | 1 | 18% | 1 | 1 | 2 |
| Capital One Financial | Fairbank | 2.7% | 2.7% | - | - | 1 | 11% | 1 | 1 | 1 |
| CapitalSource | Delaney, Fish | 8.1% | 8.1% | - | - | 2 | 18% | 1 | 1 | 1 |
| Commerce Bancshares | Kemper | 9.2% | 9.2% | - | - | 1 | 17% | 4 | 4 | 4 |
| CompuCredit | Hanna, Gilbert | 56.1% | 56.1% | - | - | 2 | 33% | 1 | 1 | 1 |
| Federated Investors | Donahue | 10.0% | 0.0% | - | - | 4 | 29% | 2 | 1 | 2 |
| Flagstar Bancorp | Hammond | 40.9% | 40.9% | - | - | 4 | 33% | 2 | 1 | 2 |
| Philadelphia Cons. Hldg. | Maguire | 23.9% | 23.9% | 1.10% | 1.10% | 4 | 30% | 2 | 1 | 2 |
| Progressive | Lewis | 6.5% | 6.6% | - | - | 0 | 9% | 0 | 2 | 2 |
| TCF Financial | Cooper | 3.1% | 3.1% | - | - | 0 | 9% | 0 | 1 | 1 |
| <i>Technology</i> | | | | | | | | | | |
| Danaher | Rales | 16.0% | 16.0% | 0.04% | 0.04% | 0 | 20% | 0 | 1 | 1 |
| Dell | Dell | 11.1% | 11.1% | - | - | 1 | 9% | 0 | 1 | 1 |
| General Dynamics | Crown | 8.3% | 8.3% | - | - | 0 | 17% | 0 | 0 | 2 |
| Marvell Technology Gr. | Sutardja | 19.5% | 19.5% | - | - | 3 | 43% | 1 | 1 | 1 |
| Microsoft | Gates | 10.4% | 10.4% | - | - | 1 | 10% | 0 | 1 | 1 |
| Oracle | Ellison | 24.2% | 24.2% | - | - | 1 | 9% | 1 | 0 | 1 |
| Qualcomm | Jacobs | 2.5% | 2.5% | - | - | 2 | 18% | 2 | 1 | 2 |
| Vishay Intertechnology | Zandman | 5.3% | 45.8% | - | - | 4 | 36% | 0 | 1 | 2 |
| Yahoo! | Filo, Yang | 10.2% | 10.2% | - | - | 0 | 10% | 0 | 0 | 1 |
| <i>Health Care</i> | | | | | | | | | | |
| Cephalon | Baldino | 1.7% | 1.7% | - | - | 1 | 14% | 1 | 1 | 1 |
| Eli Lilly | Lilly | 12.4% | 12.4% | 12.40% | 12.40% | 0 | 0% | 0 | 0 | 5 |
| Stryker | Stryker | 23.3% | 23.3% | - | - | 0 | 14% | 0 | 0 | 3 |
| Universal Health Services | Miller | 14.0% | 88.0% | - | - | 1 | 75% | 1 | 1 | 2 |

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Exhibit 3 (Continued) Constellation Pitcairn Family Heritage Fund Holdings of Common Stock as of Sept. 30, 2006: Companies' Family Ownership and Control

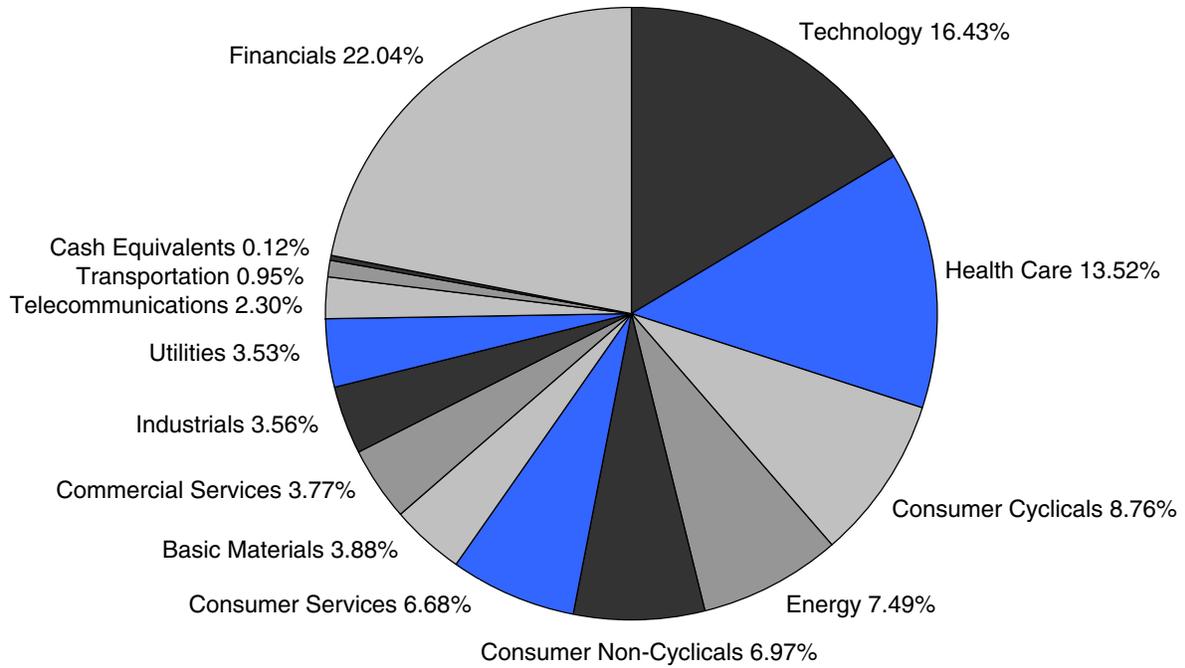
| Company | Founding Family | Family Ownership (incl. Foundations) | Family Voting Control (incl. Foundations) | Family Foundation Ownership | Family Foundation Voting Control | Family Members in Top Management | Family Members in Board of Directors (%) | Family CEO Generation | Family Chairman Generation | Latest Family Generation among Top Management, Directors, or Blockholders |
|------------------------------|-------------------|--------------------------------------|---|-----------------------------|----------------------------------|----------------------------------|--|-----------------------|----------------------------|---|
| <i>Consumer Cyclical</i> | | | | | | | | | | |
| Aaron's Rents | Loudermilk | 14.5% | 63.8% | - | - | 2 | 63.8% | 1 | 1 | 2 |
| Best Buy | Schulze | 15.7% | 15.7% | 0.07% | 0.07% | 1 | 10% | 0 | 1 | 1 |
| Men's Wearhouse | Zimmer | 8.3% | 8.3% | 0.17% | 0.17% | 2 | 13% | 1 | 1 | 1 |
| Nike | Knight | 38.4% | 38.4% | 0.30% | 0.30% | 0 | 78% | 0 | 1 | 1 |
| Wal-Mart Stores | Walton | 41.1% | 41.1% | - | - | 0 | 15% | 0 | 2 | 2 |
| <i>Energy</i> | | | | | | | | | | |
| Apache | Plank | 0.4% | 0.4% | - | - | 2 | 8% | 0 | 1 | 2 |
| CARBO Ceramics | Morris | 13.3% | 13.3% | 0.14% | 0.14% | 0 | 14% | 0 | 1 | 1 |
| Chesapeake Energy | McClendon, Ward | 10.9% | 10.9% | - | - | 1 | 12% | 1 | 1 | 1 |
| Devon Energy | Nichols | 0.6% | 0.6% | - | - | 1 | 11% | 1 | 1 | 1 |
| Hess Corp. | Hess | 6.4% | 12.3% | 0.76% | 0.76% | 1 | 8% | 2 | 2 | 2 |
| Murphy Oil | Murphy | 8.7% | 8.7% | 0.53% | 0.53% | 1 | 40% | 3 | 3 | 3 |
| <i>Consumer Non-Cyclical</i> | | | | | | | | | | |
| Alberto-Culver | Lavin | 15.0% | 15.0% | 1.24% | 1.24% | 2 | 27% | 2 | 2 | 2 |
| Central European Distrib. | Carey | 10.2% | 10.2% | - | - | 1 | 14% | 1 | 1 | 1 |
| Hansen Natural | Sacks, Schlosberg | 26.2% | 26.2% | - | - | 2 | 29% | 1 | 1 | 1 |
| Wm. Wrigley Jr. | Wrigley | 18.9% | 46.0% | - | - | 1 | 10% | 4 | 4 | 4 |
| <i>Consumer Services</i> | | | | | | | | | | |
| Carnival | Arison | 36.8% | 36.8% | - | - | 1 | 7% | 2 | 2 | 2 |
| Comcast | Roberts | 1.5% | 33.3% | 0.01% | 0.00% | 1 | 17% | 2 | 2 | 2 |
| Marriott International | Marriott | 15.9% | 15.9% | 1.29% | 12.90% | 1 | 20% | 2 | 2 | 3 |
| Viacom | Redstone | 12.7% | 72.3% | - | - | 1 | 17% | 0 | 1 | 2 |
| <i>Basic Materials</i> | | | | | | | | | | |
| E.I. Du Pont de Nemours | Du Pont | 0.5% | 0.5% | - | - | 0 | 9% | 0 | 0 | 7 |
| Worthington Industries | McConnell | 21.4% | 21.4% | 0.15% | 0.15% | 1 | 10% | 2 | 2 | 2 |

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Exhibit 3 (Continued) Constellation Pitcairn Family Heritage Fund Holdings of Common Stock as of Sept. 30, 2006: Companies' Family Ownership and Control

| Company | Founding Family | Family Ownership (incl. Foundations) | Family Voting Control (incl. Foundations) | Family Foundation Ownership | Family Foundation Voting Control | Family Members in Top Management | Family Members in Board of Directors (%) | Family CEO Generation | Family Chairman Generation | Latest Family Generation among Top Management, Directors, or Blockholders |
|----------------------------|-----------------|--------------------------------------|---|-----------------------------|----------------------------------|----------------------------------|--|-----------------------|----------------------------|---|
| <i>Commercial Services</i> | | | | | | | | | | |
| Fiserv | Muma | 0.9% | 0.9% | - | - | 0 | 0% | 0 | 0 | 1 |
| Paychex | Golisano | 10.2% | 10.2% | 0.14% | 0.14% | 0 | 14% | 0 | 1 | 1 |
| <i>Industrials</i> | | | | | | | | | | |
| Illinois Tool Works | Smith | 11.0% | 11.0% | 0.01% | 0.01% | 0 | 20% | 0 | 0 | 4 |
| Molex | Krehbiel | 25.0% | 39.3% | - | - | 2 | 25% | 0 | 3 | 4 |
| <i>Utilities</i> | | | | | | | | | | |
| AES | Sant | 3.4% | 3.4% | - | - | 0 | 0% | 0 | 0 | 1 |
| <i>Telecommunications</i> | | | | | | | | | | |
| Telephone & Data Syst. | Carlson | 12.2% | 53.9% | - | - | 1 | 66% | 2 | 2 | 2 |
| <i>Transportation</i> | | | | | | | | | | |
| Werner Enterprises | Werner | 38.8% | 38.8% | - | - | 3 | 38% | 1 | 1 | 2 |

Source: Compiled by casewriter from the Constellation Funds Group 2006 Annual Report, company documents, Gale Group Inc., International Directory of Company Histories, Hoover's, Inc., www.hoovers.com, accessed June 2007, company websites, and casewriter analysis of data in company proxy statements.

Exhibit 4 Sector Weightings in the Family Heritage Fund as of September 30, 2006

Source: Company Documents.

Exhibit 5 Financial Highlights for the Family Heritage Fund from August 4, 2000 to Sept. 30, 2006

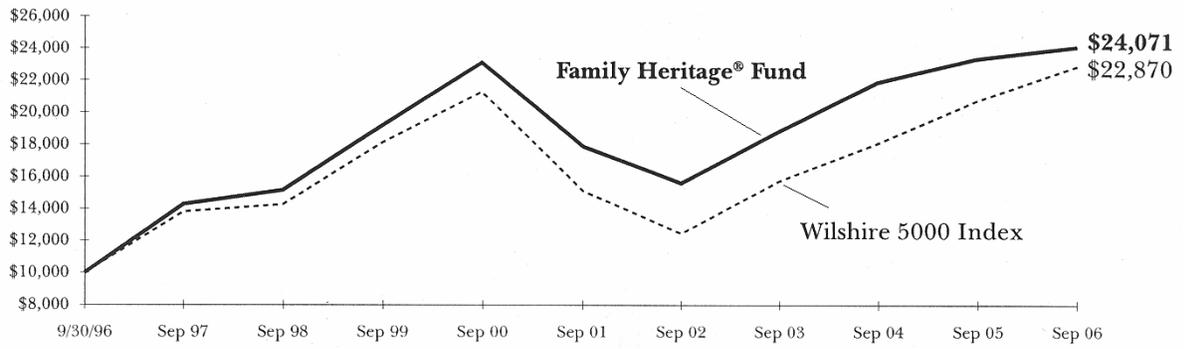
| | 2000 ^a | 2001 | 2002 | 2003 | 2004 ^b | 2005 | 2006 |
|--|-------------------|----------|----------|----------|-------------------|----------|----------|
| Net asset value per share, end of period | \$9.87 | \$7.82 | \$6.97 | \$8.55 | \$9.38 | \$9.96 | \$10.25 |
| Total Return (excluding effect of applicable sales loads) | -1.31% | -20.77% | -10.87% | 22.67% | 9.77% | 6.72% | 3.08% |
| Net assets, end of period (000) | \$98,420 | \$77,295 | \$66,126 | \$73,490 | \$78,103 | \$84,448 | \$80,381 |
| Ratio of Net Expenses to Average Net Assets | 1.20% | 1.20% | 1.27% | 1.23% | 1.23% | 1.29% | 1.25% |
| Ratio of Total Expenses to Average Net Assets | 1.44% | 1.37% | 1.36% | 1.38% | 1.27% | 1.44% | 1.42% |
| Ratio of Net Investment Income (Loss) to Average Net Assets | -0.29% | -0.19% | -0.18% | 0.06% | 0.01% | 0.50% | 0.24% |
| Portfolio Turnover Rate | 1% | 37% | 24% | 12% | 19% | 25% | 27% |

^a Since the fund's inception as a mutual fund on August 4, 2000. All ratios have been annualized, but returns have not.

^b For the eleven-month period ended September 30, 2004. The fund changed its fiscal year end from October 31 to September 30. All ratios have been annualized, but returns have not.

Source: Constellation Funds Group 2006 Annual Report.

Exhibit 6 Growth of \$10,000 Invested in the Family Heritage Fund from September 30, 1996 to September 30, 2006, relative to the Wilshire 5000 Index



Source: Constellation Funds Group 2006 Annual Report.