



## Focused Taxable Composite

QUARTERLY PROFILE  
1<sup>st</sup> Quarter 2009

### Investment Strategy and Goal

The *Focused Taxable Composite* seeks long term capital appreciation by investing in companies which, in MCM's judgment, offer value relative to their long term potential and the market as a whole. Using a multi-cap approach, the composite is able to invest in companies of all sizes, although most companies have market capitalization in excess of \$500 million. Our overall goal is to consistently outperform the S&P 500 index.

### Investment Philosophy

- **Flexibility to pursue relative value wherever it is identified** – With a multi-cap approach, opportunities don't have to be overlooked due to market-cap restrictions.
- **Portfolio management** – Our bottom-up approach allows us to build portfolios one company at a time, with a primary focus on identifying reasonably valued companies that offer strong quantitative and qualitative characteristics. With this approach, sector weights are determined by the underlying relative value of the companies within each sector.
- **Relative value approach** – We constantly review our current holdings against opportunities in the broader market. This approach often leads to a balance between growth and value companies, depending on market valuations.

### Period Performance

	Year-to-date	3 Year	5 Year	Since Inception 10/1/98
Focused Taxable Composite	-8.55%	-11.99%	-2.19%	4.77%
S&P 500 Index	-11.01%	-13.06%	-4.76%	-0.60%

\*Past performance does not guarantee future results. Numbers are net of fees. 3 year, 5 year, and inception percentages are annualized figures.

### Composite Highlights

**NEW POSITIONS:** We initiated a position in pharmaceutical company **Bristol-Myers Squibb (BMY)**, which has a 6% dividend yield. The company has \$15 billion in current assets and minimal debt due in the next 5 years. BMY's strong financial position should allow them to buy drug and biotech companies at reasonable prices in this environment. In addition, we bought shares of **Chesapeake Energy (CHK)**, the largest domestic producer of natural gas. We feel natural gas prices will eventually recover due to supply constraints as companies have cut capital expenditures in order to operate within their cash flow. Chesapeake should benefit from their interest in the Marcellus and Huntsville gas shale, which have significantly lower exploration and drilling costs. A 6+% dividend and strong balance sheet enticed us to start a position in energy company **Royal Dutch Shell (RDS-A)**. We also started a position in **General Dynamics (GD)**, a diversified defense contractor that was oversold based on their exposure to executive jet maker Gulfstream. GD has a well diversified backlog that increased by \$74 billion or 58% in 2008. Finally, we initiated a position in **Norfolk Southern (NSC)** because we felt share prices were reflecting an overly pessimistic view and with a PE at 7.5, the valuation was compelling.

**INCREASED POSITIONS:** Our positions in **Marathon Oil (MRO)** and **3M (MMM)** were increased during the quarter. Their strong cash flows should enable them to consummate acquisitions, make debt payments and continue to increase their dividend. We added to shares of **Disney (DIS)** during this downturn because in our opinion their ability to capitalize on their many strong brands is unsurpassed. Finally, we increased our stake in **Conoco Phillips (COP)** in order to take advantage of a possible increase in energy prices. Meanwhile we're happy to collect our 5% dividend as we wait.

**DECREASED AND ELIMINATED POSITIONS:** A tender offer for shares of **Genentech (DNA)** was made during the 1<sup>st</sup> quarter for \$95/share in cash. We accepted the offer and closed our profitable position in DNA. Small trades in discount retailers **DSW (DSW)** and **TJ Maxx (TJX)** were closed out for a net profit. We also trimmed our positions in **BP (BP)**, **Qualcomm (QCOM)** and **Amgen (AMGN)** in order to reduce our stake in portfolios that were overexposed. Lastly, we reduced our position in institutional broker **State Street (STT)** out of concerns related to the transparency of their off-balance sheet assets.

One SW Columbia, Suite 780 – Portland, Oregon 97258

Phone (503) 916-0776/(877) 916-0780 – Fax (503) 916-0781 – [www.mengiscapital.com](http://www.mengiscapital.com)



## Top Ten Holdings

Intel	5.5%
AT&T	5.4%
Amgen	4.6%
Cisco	4.6%
Costco	4.0%
Precision Castparts	3.5%
Valero Energy	3.1%
Qualcomm	3.0%
National Oilwell Varco	2.9%
Walt Disney	2.9%

## Market Cap Segmentation

Small (< 1.5 Billion)	0.8%
Mid (1.5 Billion – 10 Billion)	11.4%
Large (> 10 Billion)	87.8%

## Sector Weights

Sector	Focused Taxable Composite	S&P 500	+ / -
Consumer Discretionary	3.3%	9.8%	-5.5%
Consumer Staples	5.1%	12.8%	-7.7%
Energy	21.0%	13.0%	+8.0%
Financials	3.3%	10.8%	-7.5%
Health Care	8.8%	15.3%	-6.5%
Industrials	8.1%	9.7%	-1.6%
Information Technology	16.4%	18.0%	-1.6%
Materials	6.7%	3.3%	+3.4%
Telecommunications	5.6%	4.0%	+1.6%
Utilities	0.8%	4.3%	-3.5%
Cash	21.1%	0.0%	+21.1%

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of March 31, 2009, cash represented 21.1% of the total composite. This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page.

Mengis Capital Management, Inc., has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Mengis Capital Management, Inc. is a registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request. Performance prior to November 28, 2001 occurred while the portfolio manager was employed at a prior firm and was the only individual responsible for selecting the securities to buy and sell. A review of this track record for compliance with the portability requirements of the GIPS standards was conducted by Ashland Partners & Company LLP. Compliance with the Association for Investment Management and Research Performance Presentation Standards (AIMR-PPS®, the predecessor to GIPS) was verified at the prior firm, beginning February 1, 1998. As represented by management, the performance from the predecessor firm conforms to the GIPS guidelines with regard to portability of investment results. Focused Taxable Equity Composite contains fully discretionary taxable equity accounts and for comparison purposes is measured against the S&P 500 Index. Sector weightings observed in the Focused Taxable accounts vary significantly from those in the S&P 500 Index. In addition, from time to time, the Focused Taxable accounts will generally have 20-30 holdings as compared to the S&P 500 Index (composed of 500 different stocks). For certain time periods, the composite may be more concentrated than the benchmark. Due to the limited number of holdings relative to this index, the investment risks associated with concentration are significantly greater for the Focused Taxable accounts than it is for the index used for comparison. For periods shown prior to January 1, 2006, the minimum account size for this composite is \$50 thousand. Effective January 1, 2006, the minimum account size has been changed to \$150 thousand. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. At present, there are 13 accounts being managed consistent with the discipline referred to as "Focused Taxable." Mengis Capital Management, Inc. currently manages over 200 other portfolios on a discretionary basis. These portfolios are not managed according to the Focused Taxable methodology and the results in these accounts will vary, both positively and negatively, from those experienced by the Focused Taxable accounts. Information regarding the performance achieved in these accounts is available upon request. The U. S. dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Prior to January 1, 2002, accounts in the composite were charged an all inclusive wrap fee. Gross returns for this period are shown as supplemental information and are stated gross of all fees and transaction costs; net returns are reduced by all actual fees incurred. The standard management fee is a maximum of 2.00% on all assets. Mengis Capital Management, Inc. has been verified for the periods November 28, 2001 through September 30, 2008 by Ashland Partners. In addition, a performance examination was conducted on the Focused Taxable Equity Composite beginning November 28, 2001. A copy of the verification report is available upon request. Additional information regarding policies for calculating and reporting returns is available upon request. There has been no material change in personnel responsible for the investment management of this composite. The Focused Taxable Equity Composite was created October 1, 1998. Past performance is not indicative of future results. Investments are subject to market fluctuations and investors could lose some or all funds invested.

	Total Firm Assets (thousands)	Composite Assets		Accounts at Year End	Asset-Weighted Annual Return		S&P 500	Annual Composite Dispersion
		US Dollars (thousands)	% of Firm Assets		Gross	Net		
2008	92,666	7,021	8%	13	(33.80%)	(34.45%)	(37.00%)	1.5%
2007	121,952	17,970	15%	14	8.29%	7.20%	5.49%	2.5%
2006	97,596	15,637	16%	16	14.66%	13.50%	15.80%	1.1%
2005	89,242	15,206	17%	12	9.55%	8.49%	4.88%	1.1%
2004	85,368	11,016	13%	9	17.70%	16.51%	10.88%	1.2%
2003	86,803	8,414	10%	13	30.04%	28.79%	28.69%	1.1%
2002	61,896	4,072	7%	10	(24.82%)	(25.44%)	(22.10%)	2.2%
2001*	45,728	1,848	4%	8	(9.74%)	(11.16%)	(11.88%)	4.4%
2000*		1,404	2%	6	35.90%	33.49%	(9.11%)	N.A.
1999*		481	1%	5 or fewer	25.13%	22.35%	21.04%	N.A.
1998*		137	<1%	5 or fewer				

- N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

- \*Information presented pertains to portfolios managed by the portfolio manager while affiliated with a prior firm. Their presentation conforms to AIMR-PPS guidelines (the predecessor to GIPS) regarding the portability of investment results.

- S&P 500 Index performance returns reflect gross dividends reinvested into index. S&P Index performance returns through September 30, 2001, were obtained from Bloomberg; index performance returns for periods after September 30, 2001, were calculated using data from FT Interactive Data.