

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

High Quality Equity & Fixed Income Investing



W. ALLAN KEYES is the Chief Investment Officer at The Trust Company of Virginia. Before joining The Trust Company of Virginia, he was the Director of Portfolio Management with The Mentor Investment Group, a subsidiary of Wheat, First Union. Prior to that, he was a Vice President and portfolio manager with NationsBank Trust. He is a graduate of Virginia Tech and a member of the Richmond Society of Financial Analysts.

SECTOR – GENERAL INVESTING

(AAE504) TWST: Let's start with an overview of The Trust Company of Virginia and your investment philosophy there.

Mr. Keyes: We are possibly a little different from other investment management companies you have highlighted in that we're an independent trust company and therefore have a little different structure and are regulated differently. We are locally owned and managed, and the employees are the largest group of shareholders.

The assets here are about \$850 million and are about evenly divided now between fixed income and equity. Our equity methodology and philosophy is large cap value. Our fixed income accounts are managed to minimize risk and volatility. We invest primarily in Treasuries, agencies and high grade corporates; we do not own fixed income securities that are derivative-based. We've recently changed our charter to a national charter and we are now chartered by the Office of Thrift Supervision.

TWST: Is that a sign of growth outside of Virginia?

Mr. Keyes: Yes. We do have clients in 10 states other than Virginia and a national charter will enable us to operate and grow outside of Virginia somewhat more efficiently.

TWST: These have been a difficult 12 to 15

months. Money managers have certainly needed to be sharp and taking an active approach to the market. How have you managed to keep going with your investment approach?

Mr. Keyes: In our equity accounts and equity portions of balanced accounts, we've adjusted our holdings to reflect the events of the last 15 months by altering the weights of the most significant sectors in domestic markets as well as stock selection during the last year. We reduced our exposure to financial services and increased our weighting in sectors that are less cyclically sensitive. Again, we are long-term investors and do not believe we are able to market time. The period that we have all experienced has been difficult and we have continued to reduce our exposure in equities with questionable balance sheets and extreme earnings pressure, and increase our positions in companies with better earnings visibility, higher current yields and a dividend growth history.

TWST: What about your exposure to the financials?

Mr. Keyes: This sector of the S&P 500 was over 20% a year and a half ago and now of course is much less. Our recommended weight in this sector has come down over the last year, and today is still less than the market weight. Our efforts to

diversify our equity portfolios have resulted in very significant exposure over many years in other asset categories, including international mature markets, emerging markets, small cap, mid-cap, REITs and so forth. So while we do have some financial exposure in those other asset categories, we have continued to reduce the weight of financial services in our core holdings to less than the market weight.

TWST: Describe your investment process, how you screen for potential holdings and what criteria you look for.

Mr. Keyes: From the beginning, we have continued to stress the most important decision we make is the determination of strategic asset allocation for our accounts. The next is our sector weighting regimen, and for this we continue to utilize some of our external research sources to arrive at our longer-term sector weights. Beyond that is our stock selection process. I mentioned

tunity for long-term investors. A few years ago, we were straining a bit to find good values — domestic and international markets had enjoyed a five-year period of positive returns after the 2000-2002 decline and valuations had become more stretched. Today the very significant decline in markets has created an environment in which we are able to find more attractive values in our selection process. We want to build portfolios that have better than market revenue and earnings growth rates, higher yields, lower price/earnings ratios and that trade at a discount to industry and sector valuation levels. Current markets offer us a more attractive universe to select our long-term holdings.

TWST: What is your view of the market now with all this volatility? Are you taking the opportunity to get some companies that have lower valuations or are you choosing to sit on the sidelines at this time?

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some of the criteria that we believe to be very important. To those I would add the following. We want to own companies that produce consistent earnings and dividend growth, that possess attractive valuation characteristics with above market current yields. We also want to own companies that have attractive earnings purity and practice conservative accounting, that hopefully have very good pricing power and enjoy strong brand identities. I also mentioned earlier that we do not depend upon our ability to time markets and therefore we do expect to stay fully invested through market cycles. In so doing we also want to achieve broad sector diversification in our equity portfolios.

Those of us in the investment area wear a number of hats — in research and in our portfolio management functions. Having said that, Richard Ware has the responsibility for our equity efforts, and Beth Swartz has the same responsibility for our fixed income assets.

TWST: What about your valuation metrics? Have you shifted somewhat in looking at the valuations of companies?

Mr. Keyes: Yes. The bad news over the past 15 months or so has been the dramatic decline in world markets. The good news has been the creation, we think, of an extraordinary oppor-

Mr. Keyes: Back to the comment we made earlier, we expect to remain fully invested through market cycles, and for us that means keeping minimal levels of cash in our accounts. Our equity performance is still ahead of our benchmarks over one, three, five and 10 years, and so this discipline has served us well over longer periods.

TWST: What less cyclical sectors are you investing in now?

Mr. Keyes: We currently are overweight in consumer staples, energy, health care and industrials. In the remaining sectors we are either slightly underweight or market weight. We currently do not have exposure to the telecom sector.

TWST: I'm interested in your energy exposure. Have the stocks declined in value since last summer?

Mr. Keyes: We have been overweight in energy for a number of years. In spite of a short period in 2008 when the price of oil peaked, this call has served us well. As we indicated earlier, we remain overweight and still favor the group. We like the valuation levels, the yield levels, and we believe the longer-term fundamentals support our interest.

TWST: What areas of health care are you interested

in, especially now under the new Administration?

Mr. Keyes: We know there is a fair amount of debate regarding health care and the current Administration. Without choosing sides, we continue to like this sector and are overweight the group. Our exposure in the sector is in the pharmaceuticals and in a biotech exchange traded fund. We chose to own the ETF in order to participate in that industry, know-

philosophy. We also believe our client service regimen is different from many other managers and it continues to support a very high client retention experience. We are also fortunate in that most of our best new business years have been in difficult markets. This experience seems to support the commitment to our disciplines that I mentioned, and the importance of maintaining a very strong client service culture here.

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ing that with the ETF we could capture the expected returns across a broad selection of those companies that in general have higher growth rates than more mature drug companies.

TWST: What about your sell process? What triggers an exit from your portfolio?

Mr. Keyes: There are two circumstances that trigger our sell discipline. The first is a significant change in the original premise upon which the purchase decision was made. In other words, if the fundamentals that resulted in our original decisions deteriorate, we expect to go elsewhere.

Second, a sale can be triggered if a position appreciates to a level where valuations are excessive. Again, our goal is to purchase equities trading at discounts to industry and market valuation levels and be in a position to sell those positions in the future at premium valuations. In short, we exercise our sell discipline if fundamentals change significantly, and if valuation levels increase beyond what we consider pose a risk to stock performance.

TWST: What do you think is distinctive about your investment approach at The Trust Company of Virginia? What differentiates you from peer companies?

Mr. Keyes: We believe our disciplines in the investment process distinguish us from other managers. These disciplines include our low volatility, low turnover rates and risk adverse

TWST: Is there anything you'd like to add?

Mr. Keyes: We are very proud of the history of our company and our products and services. We remain a client-driven company offering fiduciary and investment management services. We originate and provide those services with officers and staff who are very experienced, are owners of the company and are very committed to maintaining the quality of those products and services.

TWST: Thank you. (PS)

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