

The ABC Company

Fourth Quarter Portfolio Review

February 2005

The bull market in stocks resumed during the fourth quarter and most market averages managed to hit three-year highs in the final week of 2004. What a fabulous quarter and year in Small Cap Land! Both growth and value small cap indices gained. The super-charged quarter boosted 2004 returns into the double-digit stratosphere – marking the sixth consecutive year that small beat their large cap brethren. A fortunate confluence of events began with an election result that removed the miasma of political uncertainty from the scene and finished with falling oil prices and a stronger than expected jobs report that helped extend the rally. In the stock market's version of the 80/20 rule, nearly 85% of the return for larger stocks came in the final quarter of the year (70% since October). Moreover, nearly all industry sectors advanced, reflecting good showings from the materials, energy and industrial sectors that represent a relatively large share of the value arena. Consequently value names outperformed their growth counterparts as these stocks retook leadership in the market on the back of resilience in the economic recovery.

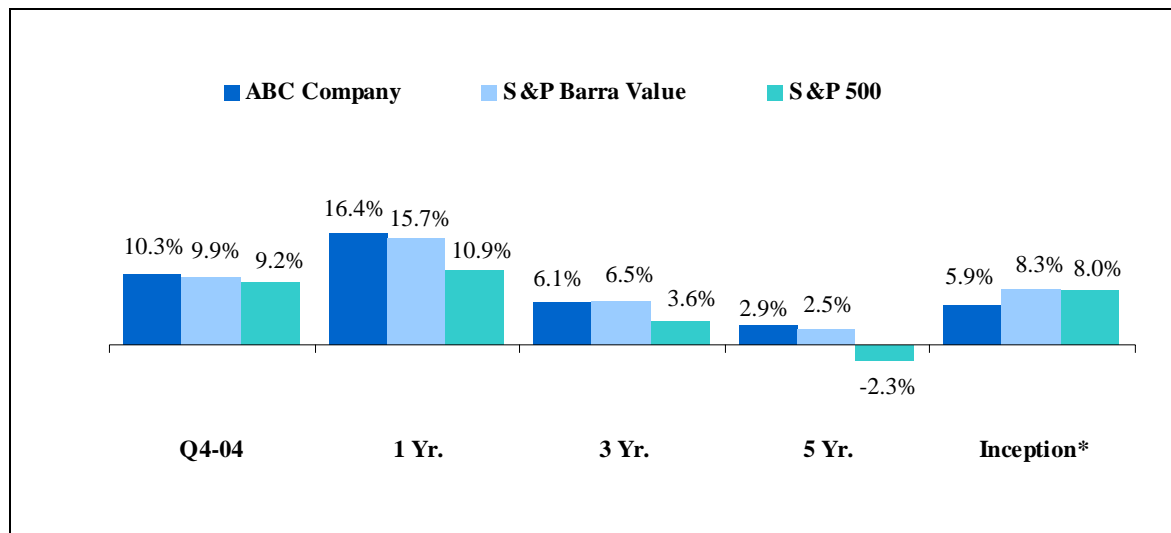
To some extent, the fact that stocks traded lower than late 2003 levels during much of last year, even as operating profits for broad indices rose roughly 20%, and nearly as much the year before, may have done much to discount the combination of slower expected profit growth and higher interest rates looking forward. Throughout this business cycle, aggregate corporate performance has been outstanding. In fact, this has been the strongest profit cycle since the 1950s. Third quarter earnings growth of nearly 17% confirmed these trends and the fourth quarter-quarter looks set to attain nearly 15% growth. The energy sector has seen the highest upward estimate revisions according to Thomson Financial. The strongest sectors for earnings growth for the year have been materials (84%), energy (46%) and technology (40%). These numbers are better than expected and demonstrate a continuation of strong corporate profitability, free cash flow and performance. Conversely the weakest sectors for the year have been telecommunications (-8%) and utilities (1%).

We are guided by our strategy to invest in companies trading below their intrinsic value that are favorably perceived by the market. In the following pages, we present an analysis of your portfolio at the end of December and a review of and outlook for financial markets and the economy.

Thank you for your continued support and confidence in Marque Millennium Capital Management.

Bill Meckel

Section 1: Performance History for the periods ended December 31, 2004



* Annualized since January 1, 1998

During the fourth quarter, the ABC Company portfolio rose more than 10% beating both the benchmark S&P Barra Value index and the S&P 500 index. U.S. equities traded flat during September and then rallied in October on the back of a positive election outcome, better-than-expected economic data and better-than-consensus earnings reports. December saw most domestic equity indices up more than 3%. Your portfolio's best performing equity in the quarter was Canadian National Railway as investors boosted shares of industrial-related stocks. The stock also benefited from the announcement that the company will establish a seamless, direct north-south route by improving its freight service with Norfolk Southern Railway. Pfizer was the fourth quarter's loser as the company halted promotional spending on Celebrex following a damaging cancer trial. Despite that the stock is trading at bargain basement prices, Pfizer's decline demonstrates that the drug sector still possesses headline risk. For the full year 2004, your portfolio gained a stellar 16.4% compared to a gain of 15.7% in the S&P Barra Value index and a rise of 10.9% in the S&P 500 index. Over the last three years, your portfolio has had an annualized gain of 6.1% versus annualized gains of 6.5% and 3.6% for the benchmark indices. For the last five years that include the biggest bear market in history your portfolio has had an annualized gain of nearly 3% compared to an annualized gain of 2.5% in the S&P Barra Value index and an annualized loss of 2.3% in the S&P 500 index—an outperformance of as much as 5%!

* Section 2: Contributors to Returns during the Fourth Quarter 2004

Canadian National Railway	+0.73%
Fluor Corporation	+0.56%
Amdocs Ltd.	+0.53%
Comcast Corporation	+0.48%
Prudential	+0.47%
<hr/>	
Pfizer, Inc.	-0.32%
Unum Provident Corp.	-0.22%
American International Group	-0.10%
Wellpoint Health Networks	-0.08%
J.P. Morgan Chase & Co.	-0.02%

* This supplemental information complements a full disclosure presentation that is also on this website.

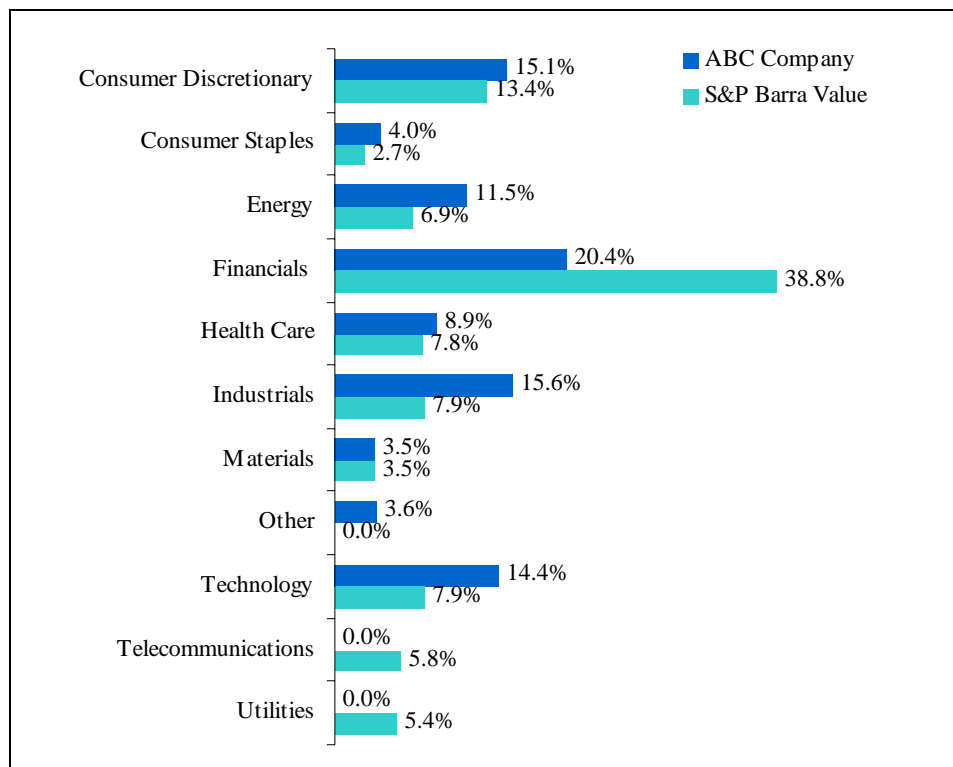
Section 3: Portfolio Characteristics as of December 31,2004

	<u>ABC Company</u>	<u>S&P Barra Value</u>
Number of Holdings	51	322
Weighted Average Market Cap.	\$61 billion	\$62 billion
Ten Largest Holdings (as % of portfolio)	30%	26%
P/E Ratio	18.5x	17.2x
Price/Book Ratio	2.4x	2.1x
Dividend Yield	1.3%	2.0%
Largest Cap Holding	\$378 billion	\$249 billion
Smallest Cap Holding	\$4 billion	\$747 million

At the end of 2004, the number of holdings in the ABC Company portfolio was 51 up from 48 at the end of September. The weighted average market capitalization increased to \$61 billion from \$59 billion while the dividend yield declined to 1.3% from 1.4%. At the end of 2004 your portfolio had an average P/E ratio of 18.5x, up from 17.4x, with a price-to-book ratio of 2.4x. The top ten holdings accounted for 30% of your portfolio's total value. Your portfolio's largest capitalization holding remained General Electric and the smallest capitalization holding was Diebold Inc. Your portfolio's sector weightings outlined below are not the result of a top-down decision but are a by-product of our stock selection process. The largest deviations from the S&P Barra Value index are:

1. Overweight: Industrials. Demand for U.S. manufactured products increases as the global economy expands. Additionally, these companies benefit from the implementation of information technology that leads to rising productivity.
2. Underweight: Financials. Rising interest rate concerns coupled with high valuations and ties with the stock market make many financial services companies unattractive.

* Section 4: Sector Weighting Analysis as of December 31,2004



* This supplemental information complements a full disclosure presentation that is also on this website.

*** Section 5: Key Holdings in Portfolio as of December 31,2004**

Citigroup, Inc.	Citigroup Inc. is a financial services holding company that conducts its activities through the Global Consumer, Global Corporate and Investment Bank, Private Client Services, Global Investment Management and Proprietary Investment Activities segments.
Canadian National Railway	Canadian National is the most efficiently run railroad in North America and has consistently churned out more than 10% of its sales as free cash flow. This cash generation coupled with the company's well-executed growth-through-acquisition strategy has resulted in excellent share-price performance. This performance can be attributed to its strict adherence to running a scheduled railroad. By focusing on the clock rather than the weight or size of the train as many others do, the company has significantly improved the efficiency of its operations and its asset utilization.
Comcast Corporation	Comcast Corporation is principally involved in the development, management and operation of broadband cable networks and in the provision of programming content. The Company is the largest provider of cable and broadband services in the United States, serving more than 21 million cable television subscribers and more than 6 million high-speed Internet customers. The Company's content businesses include Comcast SportsNet, Comcast-Spectacor, E! Entertainment Television, Style Network, G4techTV, The Golf Channel, International Channel Networks and Outdoor Life Network.
Amdocs Ltd.	Amdocs Limited is a provider of software products and services to the communications industry in North America, Europe and the rest of the world. Its products and services provide an integrated approach to customer management, which the Company refers to as Integrated Customer Management. Its Integrated Customer Management product offerings consist primarily of billing and customer relationship management (CRM) systems, which Amdocs refers to, collectively, as Customer Care and Billing Systems (CC&B Systems). Its portfolio also includes a range of directory sales and publishing systems for publishers of both traditional printed yellow page and white page directories and electronic Internet directories. It also provides information technology (IT) services, including extensive system implementation, integration, modification, ongoing support, enhancement and maintenance services.
Toys R Us	Toys "R" Us is one of the leading specialty toy retailers in the world. It sells merchandise through more than 1,500 stores, including 685 toy stores in the U.S. and 603 international toy stores, including licensed and franchise stores as well as through its Internet sites at www.toysrus.com , www.imaginarium.com and www.sportsrus.com . Babies "R" Us is the largest baby product specialty store chain in the world and a leader in the juvenile industry, and sells merchandise through 215 stores in the U.S. as well as on the Internet at www.babiesrus.com .

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Section 6: Focus Stock – Sysco Corp. (NYSE: SYY)

Sector: Consumer Staples
Industry: Food Distributors
P/E Ratio (2004 Actual): 25X
P/E Ratio (2005 Expected): 21X
P/E Ratio (2006 Expected): 20X

Price: \$35 (as of 11/12/04)
Price/Book Ratio: 7.7X
Price/Sales Ratio: 0.8X
Dividend Yield: 1.7%
Market Cap: \$22.6 billion

Description and Introduction

Sysco Corporation (short for Systems and Services Corporation) is the largest North American distributor of food and related products to restaurants, nursing homes, hospitals, hotel/motels, schools, colleges, cruise ships, sports parks, camps, etc. Sysco is able to provide food stuffs, or prepared meals, as well as all related supplies and equipment. The company will deliver everything from the front of the house service hardware to the janitorial supplies.

Sysco, which went public in 1970 with sales of \$115 million dollars, reported sales of \$26.1 billion dollars in 2003. Sysco has 420,000 customers served by 47,000 employees and 152 locations in North America alone.

Investment Thesis

Sysco has increased earnings in each of the last 28 years. The company is well-managed and boasts above average growth and earnings consistency. Although the industry is mature, Sysco has built and maintained its leadership position by streamlining distribution, developing economies of scale and expanding its purchasing power to lower costs and improve margins. Moreover, the company recently implemented new information systems and improved compensation programs that should contribute to the bottom line.

Sysco boasts operating margins more than twice those of the nearest competitor and has a return on equity of about 30 percent with an attractive dividend yield. Recent food cost inflation has forced management to be nimble in expanding gross margins. The future growth prospects of Sysco are promising. The company should benefit from favorable industry trends, including increased dining out and efficiency gains from industry consolidation. Moreover, Sysco should benefit from an increase in the sales of private label products that carry a higher margin and management's strong focus on attaining and building customer relationships. Risks to growth include the company's size and reach and the more recent slowdown in restaurant sales.

Conclusion

In March, Sysco was trading at approximately \$40 per share. Investors became concerned about higher oil prices as well as rising dairy and meat prices. Sysco was identified by our weekly stock screens in August when the stock was trading at about \$32 per share. Our fundamental analysis of the company concluded that the stock was significantly undervalued and well-positioned technically to realize its full value within a twelve month time-frame. We purchased Sysco shares at \$32 and are looking for the stock to rise to \$45.

Section 7: Review of and Outlook for Financial Markets and the Economy

Third Quarter 2004

The equity market has experienced a better-than-expected rally since mid-August, climbing roughly 8%, with the S&P 500 breaking out to a two-and-a-half-year high, driven by President Bush's election win (with his promises to overhaul taxes, effect tort reform, and privatize part of the Social Security system), the surprising Republican gains in the Senate, lower energy prices, better jobs numbers, less fear of higher interest rates, and the investment community's desire to see markets higher this year after a frustrating nine months. The likelihood that fourth quarter earnings expectations are too high as not appeared to faze investors as it did earlier this year, while geopolitical/terrorism fears have eased. Moreover, for now, the fighting in Iraq has faded into the background of investors' minds.

The third quarter turned out to be another disappointing period for those invested in U.S. stocks. Virtually all U.S. equity indices ended down. The Dow Jones Industrial Average posted an overall decline of 3.4%, the biggest percentage quarterly decline since the first quarter of 2003. The S&P 500 fell 1.9%, leaving it up 0.2% on the year while the Nasdaq Composite Index, with its high component of technology shares, fell harder, down 7.4%, leaving it down 5.3% so far this year. Overall, small capitalization stocks continued their winning streak compared to their larger cap brethren while value stocks of all sizes significantly outperformed growth stocks.

The breadth of bad news toward the end of the third quarter was striking. Oil futures surged above \$49 a barrel, near a 21-year high, and more companies warned of quarterly earnings disappointments than in any other month this year. At the end of September, the election outcome remained uncertain and so did the future of Iraq and the dangers of terrorism. Unfortunately, investors in equities have been struggling with losses since the market peaked in February.

Based on history, a weak September stock performance isn't unusual. The typical stock pattern, in fact, is a rally in late summer followed by a September slump. Although stocks historically show gains for most months, they have averaged a small decline in September since 1900. One reason is that September is the last month of what often is a difficult quarter. Many companies tend to slow down over the summer and then stage their strongest performance in the fourth quarter. In September, investors are returning from vacations and beginning to worry whether companies will live up to the market's expectations.

Forty years ago, when the United States was entering the Vietnam War, inflation was rising, and everyday, people lived with the fear of global nuclear war and annihilation. The equity markets were volatile during that period, but the economy grew steadily, and successful investors found strong companies. We are in a similar climate today, and though the equity markets may do better now than they did then, stock picking at the company level will be a crucial factor for success. It would be nice to live in a perfectly safe and secure climate, but in the meantime, the economy, businesses, and the markets can thrive even in a tumultuous, chaotic, and rapidly changing world. We think that equity markets have quietly entered a phase of steady gains fueled by good fundamentals, attractive valuations, and cautious investor sentiment. These characteristics have not yet diminished widespread investor concerns, but concern and upward movement in the markets can co-exist.