

Aerospace & Defense

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Sector Strategy

Maintaining Emphasis On Near-Term Growth Outlook

Our Aerospace & Defense sector strategy (BRV-ASD) demonstrates consistent outperformance when compared with a custom benchmark comprised of the Aerospace & Defense stocks in the Russell 1000, producing an annualized return of 13.2% versus the benchmark at 7.3% over the 5-year period ending December 31, 2008*. In addition, the BRV-ASD strategy outperformed the benchmark in FY08 with returns of -30.56% versus the benchmark at -37.81%. At the beginning of each quarter, we select the top 5 names in the group as ranked by our BRV-ASD model and construct an equal weight portfolio. With respect to stock selection, we are focused on fundamental factors that we believe are key to identifying outperformers in the Aerospace & Defense (ASD) group. We are primarily focused on companies in the group that exhibit strong near-term sales and EPS growth. In addition, we favor companies with attractive book multiples and a history of growing profitability. Our strategy also places a strong emphasis on holding positions in the larger names. Historically, we have held an average of 4 out of 5 stocks with market capitalizations of \$20 billion or greater in any given quarter. The key points below highlight our current positions:

- We are focused on names in the group that exhibit strong near-term sales growth (i.e. sales last quarter are growing faster than projected long-term EPS growth). In our view, this is still a key indicator of stock price potential especially in light of the current business climate. Raytheon Co (NYSE: RTN, \$50.37) is the only stock in the Aerospace & Defense group that exhibits this characteristic and is included in our current portfolio.
- We continue to prefer companies whose current earnings are growing faster than their projected long-term growth rate. In the current quarter, this includes General Dynamics (NYSE: GD, \$54.60) and Northrop Grumman (NYSE: NOC, \$48.31).
- We are long stocks with a 5-yr average ROE of at least 8%, a P/E multiple of 12.0x or less and a forward P/E multiple of 11.0x or less. At 2.8%, the dividend yield on our portfolio is slightly higher than the benchmark dividend yield at 2.7%.

* See Appendix A for a more detailed explanation of the Russell 1,000 Aerospace & Defense custom benchmark.

** First Call estimates

