

BRADY INVESTMENT COUNSEL LLC

CORE GROWTH EQUITY
INVESTMENT STRATEGY
REVIEW

ANNUAL REPORT
DECEMBER 31, 2007

2007

OS277 KELLAR SQUARE
GENEVA, ILLINOIS 60134
TEL. 630.845.1125 CELL 630.453.0016
WWW.BRADYINVESTMENTCOUNSEL.COM

CORE GROWTH EQUITY INVESTMENT STRATEGY

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TO OUR CLIENTS AND INTERESTED INVESTORS

SUMMARY

Our Core Growth strategy achieved a 2.0% annual return for the 12-month period ending December 31, 2007. Performance was paced by solid gains in key holdings such as Chipotle Mexican Grill, Ventana Medical Systems, Google and Microsoft. For the majority of the year, our investment results outpaced the S&P 500; this on top of our impressive 18% gain in 2006. However, the year was not without challenges, especially over the last two months when the problems in the Financial Sector – where we were underweight – spread to the Consumer Discretionary and Technology Sectors – where we are overweight relative to the S&P 500.

The market has corrected more than 15% from the October 2007 high to late in January 2008. Many attractive long-term investment opportunities now exist, especially in the Consumer Discretionary Sector. Economic growth has slowed and we do not expect things to reaccelerate quickly. We are encouraged in the short-term by the by Fed's rate cutting efforts and the US Congress' fiscal stimulus package in the works. However, both, especially the latter, are short-term fixes at best. We expect economic growth to accelerate, perhaps as soon as the second half of 2008. In the meantime we will continue to do what we have always done: invest client portfolios in high-quality companies that are well managed, solidly financed and capable of superior long-term earnings growth.

INVESTMENT REVIEW, FORECAST AND TRADING

REVIEW

The Brady Investment Core Growth Strategy achieved a 2.0% annual return for the 12-month period ending December 31, 2007. This compares to gains of 5.5% for the S&P 500 and 11.8% for the Russell 1000 Growth Index. A number of our holdings performed very well during the year. Posting stellar per share operating results and stock price performance were Chipotle Mexican Grill (CMG), Google (GOOG), Microsoft (MSFT), Intel (INTC) and Ventana Medical Systems (VMSI). Ventana's 2007 share price was also boosted from a buyout offer made by Swiss Pharmaceutical Company Roche Holdings, Inc's (RHHBY). Ventana was not alone in attracting interest from outside suitors. Other portfolio holdings benefiting from

a takeover offer - or rumors of an offer - were technology distributor CDW Corp. (CDWC) and healthcare companies Medimmune (MEDI), and Biogen Idec (BIIB).

2007 was an interesting year to say the least. The portfolio performed well through the first the first 10 months of year achieving a 10.9% return versus a 10.8% return for the S&P 500. We certainly were pleased these results, especially after gaining 18% in 2006. However, our relative performance in the last two months of 2007 was challenged. While we focused on investing in high-quality growth companies and were significantly underweight in Financials to start the year, we could not avoid the hard times that hit the Financial Services Sector. These problems would eventually spread to other Sectors -- most notably Consumer Discretionary and to a lesser extent Technology where Financial Services companies account for 25% of overall technology spending.

Holdings such as Citigroup (C), Goldman Sachs (GS) and Moody's (MCO) performed poorly over the last two months of 2007, along with most of the rest of the Financial Sector. All were caught up, either directly or indirectly, in the sub prime mortgage lending crisis, which continues to rock global financial markets early in 2008. Our Citi position is under review. There is new management team so we will watch closely as they unwind the problems created by their predecessors. The company recently announced its fourth quarter 2007 operating and earnings results. The dividend paid to common share holders was cut to an annual rate of \$1.28 per share and the company recorded \$18 billion worth of mortgage related write-downs. Also of note was the \$12.5 billion in additional capital raised from outside investors. Positively, these funds give an immediate boost to the company's capital position. Negatively, the additional shares issued to new investors in exchange for their capital increases the total number of shares outstanding, thus, diluting our ownership claim as an existing shareholder.

Our valuation work suggests C is worth \$27-\$29 per share, which compares favorably to its current \$25 market price. Our estimate is based primarily on the company's current dividend and is well supported by the C's \$23 in per share book value and our 2010 earnings power estimate of \$3.50-\$4.00. A real concern/risk is the potential need for another round of dilutive capital. We do not foresee this as C's current capital position is above the required minimum levels. Plus, we expect the company to be solidly profitable in 2008, which will provide a further boost to their capital ratios. Obviously, unexpected and significant write downs, perhaps coming from their consumer-related businesses, would change our thinking.

Outside of Financials our investments in biotech company Amgen (AMGN) and data storage supplier Network Appliance (NTAP) were both drags on 2007 performance, especially late in the year. However, both companies continue to be well positioned within their respective industries and poised for long-term growth. AMGN has a strong product pipeline. In particular, Denosumab (d-mab), a drug used to treat bone disease, is impressive and could receive FDA approval later this year or early next. If successful, we estimate that d-mab could add as much as \$1.5

billion to AMGN's revenues and \$3.00-\$3.50 to EPS by 2010-2012. This is significant as the company's 2007 earnings are projected to be \$4.40 per share.

NTAP's operations suffered from a slowing in demand for data storage equipment through the middle of 2007. We have already seen signs of a turnaround here as the company reported an impressive October 2007 quarterly result. Long term, NTAP is lead by a strong management team and is well positioned as a leader in the data storage industry.

TRADING

Several positions were added to the Brady Investment Counsel Core Growth Composite in 2007. Coach, Inc. (COH), Nordstrom, Inc. (JWN) and Charlotte Rouse Holding, Inc. (CHIC), each in the Consumer Discretionary Sector, were purchased late in the year. In addition we acquired Merrill Lynch & Co. (MER), Inc. and Accenture, Ltd (ACN) in the Financial Services Sector. In Health Care, we added United Health Group (UNH).

Why add to the Consumer Discretionary Sector at a time when many are forecasting the U.S. economy is heading into a recession? It is because it makes sense from a long-term risk/reward point of view. The Consumer Discretionary Sector performed poorly in 2007 declining 14% in a market that was up 5.5% and is down 10% year-to-date in 2008. The Sector's correction adequately reflects the potential for a downturn in consumer spending over the short term and has created many attractive long-term investment opportunities.

Coach, Inc, for example, is currently trading at \$25 per share. The company is run by an impressive management team, has exhibited outstanding earnings per share growth and is solidly financed with no long-term debt and \$2.00 in net cash on its balance sheet. In addition, we project COH has \$2.60 in 2010 normalized earnings potential. Their customer is currently facing financial problems, which heightens the risk of an earnings shortfall over the next quarter or two. But our long-term view is constructive in spite of this. Equally impressive investment cases for companies with similar risk profiles can be made for JWN and CHIC.

Positions sold in 2007 included Time Warner Inc. (TWX), Starbucks (SBUX), Intel (INTC), Motorola (MOT) and Research in Motion (RIMM). We sell a position when the underlying company's fundamentals are over valued by Wall Street. Our work concluded that the long-term potential was more than fully discounted for each of these respective companies.

FORECAST

The market is off to a challenging start in 2008. The S&P 500 Index is down more than 15% from its early October 2007 peak. How do we proceed? By investing in companies that are well-run, solidly financed and have superior growth potential. In so doing we are confident that in challenging times such as these the only thing happening to our investments is the current market price is changing, while the underlying intrinsic value is unchanged.

Our investment approach is designed to outperform over the long run. The table below demonstrates that our short-term 12-month returns exceeded market's only 57% of the time on rolling monthly basis. In other words the odds of us outperforming the market in any given 12-month period are a little better than a coin-toss, which is 50/50. However, the conviction in our investment approach increases significantly as our performance is analyzed over time. While we do not expect to outperform in every 10-year period, our past performance versus the market convinces us that maintaining a long-term investment time horizon and properly balancing the potential risk with reward for each investment are very real competitive advantages.

Brady Long-Term Quality Growth Strategy Batting Average				
Rolling Monthly Returns				
(Periods of Brady Outperformance Vs. Market/Total Observations)				
	1-Year	3-year	5-Year	10-Year
Brady Composite Vs S&P 500	57%	64%	72%	100%

The current market environment is challenging. The problems created by the financial system debacle are disappointing. Over the past 20 years we have observed market corrections and bear markets. Many were the result of problems that developed in the Financial Sector and for the most part stayed there. Or at least they did not so directly involve the average American Consumer: The S&L Crisis in the mid 1980s, Portfolio insurance in the late 1980s, the Thai Currency Crisis and the Long-Term Capital Management Blow-up in the late 1990s, and the bursting of the Tech Bubble between 2000 and 2002 are examples of market disasters in which the US consumer was at best a secondary participant.

What is discouraging about the current bear is that even though the problem started as per usual -- greed among the Financials, it spread to the Consumer Sector. Financial companies, in an attempt to generate fee income, loaned money to an already leveraged consumer. Their collateral was over inflated home equity. What was worse, the reckless lending was done at a time when housing affordability in the United States was at an all-time low in spite of record low mortgage rates. To paraphrase Col. Nathum R. Jessup in A Few Good Men, "They were messing with the wrong Marine."

The U.S. consumer is too important not only our domestic economy but to the global economy. She accounts for better than two-thirds our domestic income and more than 20% of global income. U.S. consumers love to spend a lot and save a little. The one seemingly permanent argument that could be made against saving more, at least since Lyndon B. Johnson was President, was there was no need to do so because the equity in their homes would be worth more next year. Enabling/enticing the consumer to borrow against their inflated home equity and to spend beyond their means was a big mistake with reverberating consequences. It will take time for the consumer to recover from their overleveraged position but it will happen.

Economic growth will likely slow below the historic trend of 3.0%, especially in the first half of 2008. The slow down will be driven by a pullback in consumer spending. We expect the environment to improve by this year's second half but there is no guarantee. The Fed has been active in cutting interest rates and the U.S. Congress is working on the details of a fiscal stimulus package. These are short-term fixes, however.

Since home equity can no longer be counted on to increase in value every year, consumers need to become better savers. Congress can really help here by changing the way it taxes citizens from the current income-based approach to a consumption-based model. Increasing the cost of consumption by taxing it will not doubt lead to a drop in unnecessary and conspicuous consumer spending. With after-tax income higher (because income would not be taxed) and consumption lower, the savings rate will increase. The long run benefits of a change in consumer spending patterns are significant. Greater savings will yield an increase in investment and eventually a more productive and globally competitive U.S. economy.

In addition, a consumption tax would slow or even end the US Dollar's fall against foreign currencies. Taxing consumption would reduce demand not only for US goods but for foreign imports as well. Lower demand for imports means lower demand for foreign currencies. The drop in demand for currencies will cause their respective exchange rates (the price of the foreign currency) to fall versus the Dollar. Or said another way, an increase in US Consumer demand to hold and save dollars will cause the value of the Dollar to gain against foreign currencies. This is important as Reserve Currency demand, or global seignorage, for the Dollar has lessened. Sound economic policy at Home is needed in its place to support our relative trading position against foreign economies.

Since the slow down began in the second half of 2007, the year-over-year comparisons will become easier as we progress through 2008 and move into 2009. Stock prices will lead the way as the potential for earnings growth acceleration improves later this year and into next. Stocks will move up well in advance of the economic reports issued between now and then but expect the markets to be volatile. In the meantime, we will continue to do what we have always done. We will focus on investing our clients' portfolios in high quality companies that are well managed, solidly financed and capable of superior earnings growth.

PORTFOLIO STATISTICS AND ATTRIBUTES

CORE GROWTH STRATEGY GENERAL INFORMATION

Minimum Account Size	\$500,000
Standard Management Fee	50 basis points
Target Portfolio Turnover ⁱ	20-40%
Current Yield	1.8%
BIC LLC Inception	March 20, 2003
Strategy Inception ⁱⁱ	September 30, 1994

Investment Manager: David P. Brady, CFA, developed and manages the Brady Investment Counsel LLC Core Growth Strategy (Core Growth). Prior to founding Brady Investment Counsel LLC, Mr. Brady was lead portfolio manager of the Stein Roe Young Investor Fund (Young Investor Fund) from September 1994 through March 2003. Mr. Brady employs substantially the same investment philosophy and strategy to manage the Core Growth strategy as he did to manage the Young Investor Fund.

PORTFOLIO CHARACTERISTICS (REPRESENTATIVE PORTFOLIO)

	<u>Brady core growth</u>	<u>S&P 500</u>
Number of Stocks	45	500
Median Market Capitalization	\$22.0	\$12.0
Largest Co's Market Cap.	\$311	\$512
Smallest Co's Market Cap	\$0.40	\$0.71
Normalized ⁱⁱⁱ P/E		
Trailing	17X	15X
Forward	15X	13X
3-Yr. Normalized EPS Growth Rate		
Trailing	23%	14%
Forward	13%	3%

TEN LARGEST HOLDINGS

	% Invested Assets
Microsoft Corp.	2.9%
Amgen Inc.	2.9
Cardinal Health, Inc.	2.9
Google, Inc Class A	2.8
Pfizer Inc.	2.8
Wal-Mart, Inc.	2.8
Oracle, Corp.	2.8
Accenture Ltd Class A	2.7
Goldman Sachs Group Inc.	2.6
Chipotle Mexican Grill	2.6

AVERAGE ANNUAL TOTAL RETURN

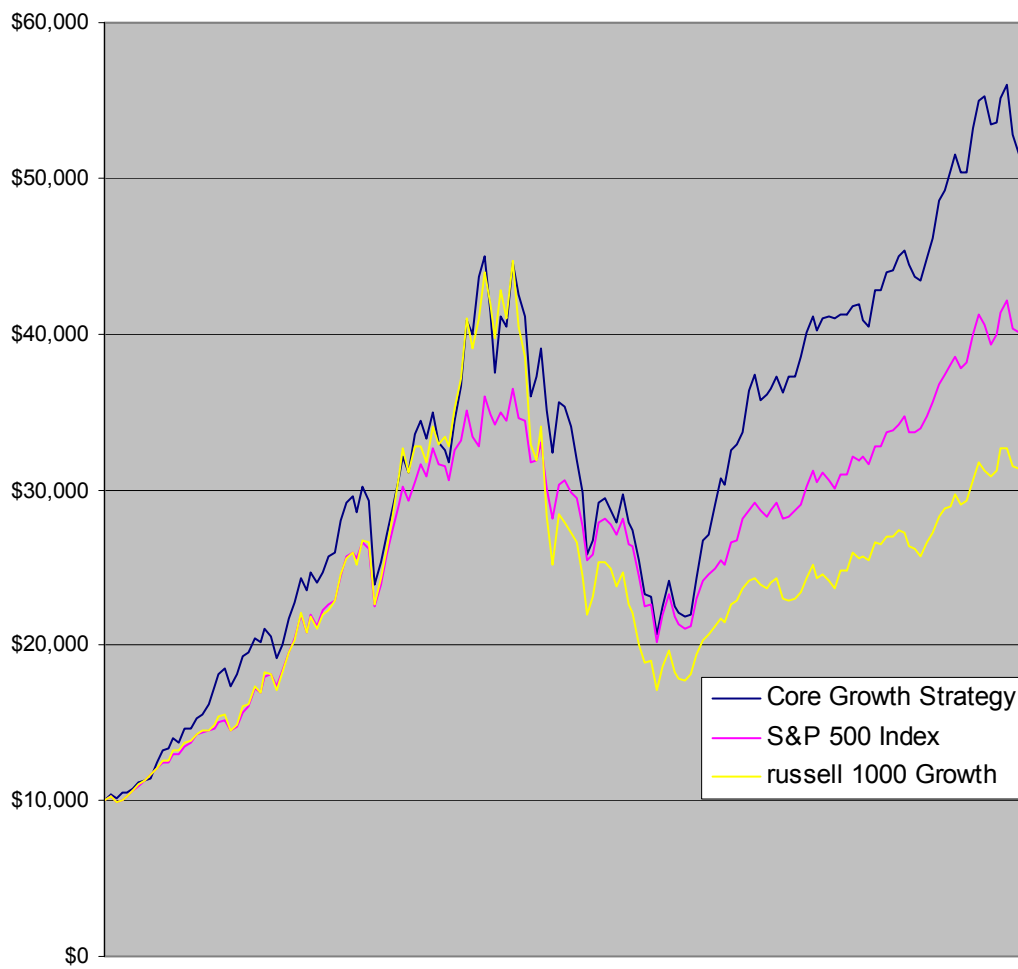
Ending 12/31/2007	1-Yr	3-Yr	5-Yr	10-Yr	Inception	
					BIC LLC 03/31/2003	Strategy 09/30/1994
Brady Core Growth	2.0%	7.8%	18.0%	7.2%	20.0%	13.2%
S&P 500	5.5	8.6	12.8	5.9	14.3	11.0
Russell 1000 Growth	11.8	8.7	12.1	3.8	13.0	9.3

SECTOR DIVERSIFICATION

AS OF 12/31/2007	Brady Core Growth	S&P 500
Health Care	24.7%	12.0%
Technology	22.3	16.7
Consumer Discretionary	19.7	8.5
Financials	17.3	17.6
Industrials	6.6	10.2
Consumer Staples	6.4	11.5
Materials	2.2	3.3
Energy	0.0	12.9
Telecommunications	0.0	3.6
Utilities	0.0	3.6

HYPOTHETICAL INVESTMENT GROWTH

Hypothetical Growth of \$10,000



Sept. 30, 1994 - Dec. 31, 2007

Additional Product Information, Disclosures and Compliance Statement:

Brady Investment Counsel LLC has presented this report in compliance with the Performance Presentation Standards of the CFA Institute (formerly AIMR), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). The CFA Institute has not been involved in the preparation or review of this report. Performance prior to March 31, 2003 is of The Stein Roe Young Investor Fund (the Fund). The Fund's past performance has been linked to the Core Growth Composite performance for supplemental evaluation purposes only. Linking returns is not GIPS compliant. Mr. Brady was lead manager of the Fund from September 1994 to March 2003. He employs substantially the same investment strategy managing the Brady Investment Counsel LLC Core Growth Composite as he did managing the Fund. The Stein Roe Young Investor Fund data were provided to Brady Investment Counsel LLC by Columbia Management Group, the Fund's advisor. Brady Investment Counsel does not warrant their accuracy.

Brady Investment Counsel LLC Core Growth Composite performance represents time-weighted rates of return for a dollar-weighted composite of that portion of all fully discretionary taxable and tax-exempt accounts managed in accordance with the Firm's Core Growth large cap growth equity strategy whether focused or diverse. Accounts greater than \$300,000 are eligible for inclusion. Performance is calculated monthly in U.S. dollars on a total return basis. Composite Creation Date: March 31, 2003. Gross returns are time-weighted; include cash and a return on cash, and after deducting trading expenses. Net returns are gross returns after deducting our maximum 0.50% (fifty basis points) management fee accrued monthly.

Prior to March 2003, the Core Growth gross returns are the linked to the investment returns before management fees but after certain expenses of the Stein Roe Young Investor Fund (the Fund). The Core Growth net investment results are linked to The Fund's net returns are after deducting the maximum Brady Investment Counsel management fee of 0.50%. David P. Brady was the lead manager of the Fund between September 1994 and March 2003. Mr. Brady employs substantially the same investment strategy of buying high quality growth stocks managing the Firm's Core Growth Strategy as he did while managing the Fund. The Fund returns are given as supplemental information only. The Fund performance numbers were provided to Brady Investment Counsel LLC by Columbia Management Group, the Fund's advisor. Brady Investment Counsel does not guarantee there accuracy.

The Russell 1000® Growth Index is a subset of those Russell 1000® Index securities with a greater-than-average growth orientation. Companies included in the Index tend to have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth than value securities. The index is unmanaged and does not hold cash, reflect transaction costs or management fees and other expenses. Unlike the index, a portfolio is actively managed and may

include substantially fewer securities than the number of securities comprising the index. Investors cannot purchase interests directly in an index.

The S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the US economy. Unlike a portfolio, the S&P 500 Index is market-weighted and focuses on the large-cap segment of the market. Returns reflect the reinvestment of dividends. The index is unmanaged and does not hold cash, reflect transaction costs or management fees and other expenses. Unlike the index, a portfolio is actively managed and may include substantially fewer securities than the number of securities comprising the index. Investors cannot purchase interests directly in an index.

Past performance is not indicative of future returns. Past GIPS Compliance does not guarantee future compliance. Contact Brady Investment Counsel LLC for their up-to-date opinion of the Brady Investment Counsel Core Growth Composite's GIPS Compliance. The value of an investment may decrease as well as increase, an investor may not receive the amount initially invested, and income, if any, may fluctuate. The value of an investment may be affected by a variety of factors, including economic and political developments, interest rates and foreign exchange rates, as well as issuer-specific events. Performance records of any accounts and composites presented herein reflect the particular guidelines, cash flows and timing considerations applicable to that account or group of accounts. Careful consideration should be given to the potential differences between any account opened in consideration of the information contained in this presentation and the results of any accounts shown herein. Tracking and calculating investment performance is cumbersome and inexact. Brady Investment Counsel puts forth its best effort when calculating performance. This notwithstanding, mistakes can be made. Brady Investment Counsel LLC reserves the right to change previously reported performance numbers without notification and free from liability should the firm discover a computational mistake that leads to a change in previously reported performance. Contact Brady Investment Counsel for the firm's most up to date investment performance data.
