

Do you know what your homeowners insurance policy covers? See *Ask an Expert* for more information.

Passing the Buck on Retirement Savings

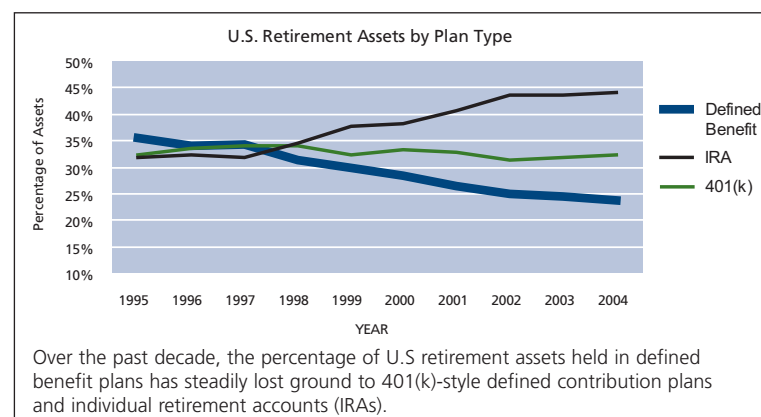
What do IBM, Motorola, Lockheed Martin, Verizon, Northwest Airlines and Alcoa have in common? They are among the many large companies that recently announced plans to curtail their defined benefit pension plans, by either making new workers ineligible or capping benefits for existing employees at their current levels, or both. Clearly, it's not just the troubled airline and automotive industries that are feeling the pressure from increasing global competition. Even strong companies in stable industries are citing cost concerns as they switch emphasis to defined contribution plans. While companies shift the burden of retirement savings more squarely to the shoulders of individual workers, another

trend is becoming clear: When it comes to their own retirement savings, many employees are not taking up the slack.

A Plan for Ozzie and Harriet

While many of the nation's many small companies have relied for years on 401(k)-style retirement plans, larger and more established firms traditionally took the more paternal approach of a defined benefit plan. With these plans, the employer commits to pay a set monthly amount to each employee beginning at retirement. Because the payments continue until the end of the retiree's life, defined benefit plans represent a significant expense and long-term obligation

for the company. The benefit amount is generally based on a percentage of salary during the employee's final – and most highly paid – years of service. In addition to contributing the money, employers take on significant administrative obligations and fiduciary risks as a result of managing investments, employing trustees, custodians and actuaries, and making benefit payments.



Source: Federal Reserve Flow of Funds 1995-2004 Table L 118B, C and I, and EBRI Pension Investment Report.

“When equity and fixed income markets are strong, and businesses is stable and consistent, defined benefit models work well,” said Chris Reagan, managing director, *see Retirement Savings page 2*

Changing the Fed Guard

After 18 years with Alan Greenspan at the helm of the Federal Reserve, on February 1, 2006, Ben Bernanke assumed the role of Fed chairman. Both men have similar philosophies about monetary policy. However, Bernanke has already demonstrated that his execution of policy decisions will differ significantly from that of his predecessor. As the nation adjusts to the new leadership, professional money managers and individual investors alike are watching intently for clues about what the change will mean for their investments.

Following the Leader

While Bernanke will not need to act as aggressively to combat the high inflation that characterized his predecessor's first years in office, he has said that his first priority is to maintain Greenspan's policy of focusing on inflation and price stability. “Monetary policy in 2006 will likely follow the same course that Chairman Greenspan would have taken had he not

left office,” said Diane Swonk, chief economist and senior managing director. Indeed, at his first Federal Open Market Committee (FOMC) meeting on March 28, Bernanke moved to raise interest rates another quarter of a point, following the course laid out at Greenspan's final FOMC meeting on January 31.

Increasing Transparency

A key element of Greenspan's legacy was removing much of the secrecy surrounding the Fed's operations. However, when it came to expressing his thoughts about the economy, Greenspan was known for confounding even professional money managers. Bernanke has shown that he clearly believes in the power of communication. In fact, his emphasis on transparency was in evidence during his first testimony before congressional banking committees in mid-February, in which he left little doubt about his intentions to raise rates if economic data remain strong. He will likely continue to push

the Fed toward greater openness in the months and years to come.

Bernanke has also said that the Fed should use its powers solely to protect the financial system, not to interfere in the asset markets. That philosophy lies in stark contrast to Greenspan's frequent comments on issues not strictly in the Fed's domain, such as his mention of an “irrationally exuberant” stock market and

the “significant risks” to the economy of the excessive federal budget deficit.

To Target or Not to Target

While Greenspan avoided inflation targeting, Bernanke favors establishing – and communicating to the public – an explicit inflation goal range. His reasoning is that if investors knew the inflation range in which the Fed believes the economy would operate

see The Fed page 2

IN THIS ISSUE

- Cover Story: Passing the Buck on Retirement Savings
Shifting the burden of retirement savings from employer to employee
- Changing the Fed Guard
What does the new leadership mean for investors?
- Page 2: New Perspectives
Additional resources on important topics covered in this newsletter
- Page 3: News
Highlights of Mesirow Financial's last quarter
- Page 4: Ask an Expert
Does my homeowners insurance cover it?

READING RESOURCES

As you read various articles in this newsletter, you may be interested in learning more about these topics. Here are a few resources on the topics covered in this issue of *Mesirow Financial Quarterly*.

Retirement Savings

- **401khelpcenter.com** – With dedicated sections for plan sponsors, small businesses and plan participants, this site offers a variety of information intended to help its readers understand 401(k) retirement plan issues. This free site consolidates and publishes information from across the Web into a one-stop shop for information, opinion, analysis, trends, news, regulatory changes and other resources on the 401(k) marketplace. The site's stated objective is to provide an easy and effortless way for its readers to obtain unbiased information specific to 401(k) plans.
- **plansponsor.com** – Geared toward benefit and retirement industry professionals, plansponsor.com is the nation's leading online resource for pension and retirement issues. With free registration, the site provides news, content, research and training related to pensions, benefits and retirement plans.

The Fed

- **The Federal Reserve System: A History** (by Donald R. Wells) – The recent retirement of Federal Reserve Chairman Alan Greenspan, has peaked interest in the Fed's role in managing the nation's money supply. In his book *The Federal Reserve System: A History*, author Donald Wells details the history of the Federal Reserve System and examines how it has come to wield its influence on the world economy. From its creation and initial growing pains to its leadership through the years and administrations it has served, Wells traces the history of this complex institution and its role in determining American financial policy and practices.

Homeowners Insurance

- **www.chubb.com** – While some homeowners claims are unavoidable, many times claims can be mitigated or even completely avoided by taking simple preventative measures. The Chubb Corporation provides a handy "Helpful Tips" area in the Personal Insurance/Home section of their Web site. This section outlines what you can do as a homeowner to protect your home from fire, water damage, burglary, earthquakes and a host of other potentially catastrophic events. It also covers more specialized topics such as caring for an historic home, protecting your secondary or vacation home and safeguarding your swimming pool. To view Chubb's Helpful Tips, visit: www.chubb.com/personal/homes.jsp

RETIREMENT SAVINGS

continued from page 1

Investment Advisory. "In the late 1990s, when the stock market was booming, many plans actually became over-funded."

Times – and Retirement Plans – Change

Today, however, it's a very different story. Increased global competition has made it more difficult to fund generous defined benefit plans. Especially in industries with tight margins, companies are straining to compete with businesses, whether foreign or domestic, that do not have expensive pension obligations. In addition, volatile equity markets and low interest rates over the past several years have meant the underlying equity and fixed income investments in the plans haven't performed very well. As a result, overall returns may not have kept pace with a company's payout commitment.

In contrast to defined benefit plans, defined contribution plans establish only the amount an employee can contribute, not the benefit that will be received at retirement. With the exception of employer matching profit sharing contributions, the accounts are entirely funded by the employee. By switching to a defined contribution plan, such as a 401(k), an employer can shift the responsibility for saving, as well as investment performance, to the employee.

Falling through the Gap

"Defined contribution plans give the average person the job of managing his or her own retirement account," said Reagan. "However, it may not be a job they want or can do well." About one-third of American households has saved nothing at all for retirement.* A large percentage of employees who have access to an employer-sponsored defined contribution plan are not taking advantage of it to put aside funds for retirement. (See chart at right.) Of those who do participate, a large portion are not contributing enough or investing too conservatively to achieve the growth they'll need for the future. "Insufficient savings, longer lifespans and increasing costs of healthcare are setting the stage for a perfect storm, especially as the baby boom generation moves toward retirement," said Reagan.

THE FED

continued from page 1

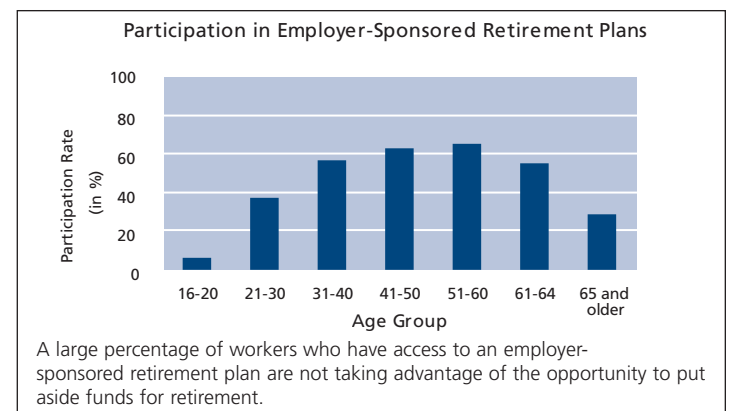
most effectively, they would be better prepared for policy shifts and more confident in the Fed's ability to manage the economy. If inflation neared the upper end of that range, the financial markets could reasonably expect tightening actions by the Fed. Conversely, the markets could also anticipate a move to lower rates if inflation were to fall to the lower end of the range.

"One could argue that the Fed is already implicitly using inflation targeting in its decision-making processes, lowering and raising rates as inflation hits the extremes of what most policy makers consider a reasonable range," said Swonk. Indeed, proponents of inflation targeting argue that such a policy would simply formalize the Fed's current practices and help ensure that future members of the FOMC act responsibly to address inflation.

Designing a Plan to Work

"Studies of investors have shown that it's human nature to take the path of least resistance," explained Reagan. "But defined contribution plans generally require initiative on the part of the employee – to sign up and select investments." As an employer, you can structure your retirement savings plan to work with – not against – your workers' natural tendencies. For instance, by instituting automatic enrollment in the plan for all employees as soon as they are eligible, you take away the initial big hurdle. Additional measures for increasing participation include making salary raises a trigger to increase an employee's plan contribution. You can also change the plan's default investment vehicle from a money market fund to a risk- or time-based portfolio. Of course, employees still have the option to not participate.

Mesirow Financial's investment advisory professionals can help you structure, design and implement an attractive and cost-effective retirement plan as part of a comprehensive employee benefits package. We



Source: Employee Benefit Research Institute, EBRI Issue Brief No. 289, January 2006.

provide guidance with selecting investment offerings and designing an education program to help participants understand the plan and their investment options. In addition, with expertise in a number of employee benefit areas, including qualified and non-qualified plans, group life and disability insurance and voluntary insurance programs, we can help plan sponsors create a compelling overall package to help you not only attract and retain qualified employees, but also control costs. For more information or for help designing a retirement plan, please contact your Mesirow Financial representative.

**Source: The New York Times, February 5, 2006.*

Opponents to inflation targeting fear that a policy that targets inflation alone may undermine the Fed's ability to manage economic growth or respond to financial market crises like those that occurred in the 1990s.

Building a Consensus

Under Greenspan, public debate and dissent within the ranks of the FOMC were curtailed, perhaps partly because he feared that disagreement would be seen as a sign of weakness. "Bernanke is much more of a true consensus builder, open to debate more common in academic circles than in the halls of the Fed," said Swonk. As a result, investors who have grown accustomed to a single voice from the Fed may need to adjust to hearing conflicting messages.

News

INVESTMENT MANAGEMENT

Addition of Former Ibbotson Executives Anchor Mesirow Financial's New Investment Strategies Group

Mesirow Financial recently announced that the firm bolstered its quantitative analysis capabilities with the hiring of Mark Kowalczyk and Michael Annin, formerly of Ibbotson Associates. Together these professionals established a new business unit within Mesirow Financial's Investment Management Division. The Investment Strategies group uniquely blends qualitative and quantitative analysis to provide asset allocation modeling, fund selection and due diligence for institutional investors.

Private Equity Completes Investment in Dexterra, Inc.

Mesirow Financial's Private Equity group recently announced the completion of its investment in Dexterra, Inc. Located in Bothell, Wash., Dexterra is a leading innovator of mobile business software. Mesirow Financial joined previous investors Motorola Ventures, Intel Capital, Canaan Partners and Sigma Partners in the funding round totaling \$12 million. This latest investment will enable Dexterra to continue its rampant global growth of the past two years. The firm will also use the funds to continue research and development of its innovative Dexterra Concert™ platform, provide a multitude of new mobile applications across industry verticals, and support its global distribution and partner ecosystem.

CONSULTING

Consulting Hires Industry Veteran Tom Allison

The Consulting division recently added financial advisory services veteran Thomas J. Allison to its team. Allison, who joins the firm as an executive vice president and senior managing director, will be instrumental not only in enhancing the group's debtor and interim management capabilities, but also in furthering its position as a leading provider of financial advisory services. Allison has more than 25 years of financial advisory experience, most recently as the national practice leader for Huron Consulting's restructuring group. His industry expertise includes airlines, transportation, retail, consumer products, general manufacturing, importing, distribution, high technology, healthcare, food and paper and packaging. He may be contacted by e-mail at tallison@mesirowfinancial.com or by phone at 312-595-8550.

INVESTMENT BANKING

Investment Banking Group Showcases Financial Advisory and Financing Services

Mesirow Financial's Investment Banking group recently acted as financial advisor to The CAPS Group and arranged financing in connection with its acquisition of the Educational Product Development, Catalog, Publication and New York-Based Advertising Pre-Media Operations for \$29 million in cash plus assumed liabilities from Schawk, Inc. Headquartered in Chicago, The CAPS Group is one of the largest independent graphic arts services providers in the United States.

In addition, the Investment Banking group added the following acquisitions to its portfolio:

- Fremont, Cal.-based AC Label Company, a subsidiary of Impaxx, Inc. and a portfolio company of Aurora Capital Group, has been acquired by Emigrant Capital. Mesirow Financial acted as exclusive financial advisor to AC Label Company.
- Menasha Corporation has sold its two Southern Complex corrugated sheet plants to Mid South Packaging LLC, a newly-formed portfolio company of Coridel Capital Partners LLC. Mesirow Financial acted as the exclusive financial advisor to Menasha Corporation in the sale of its Cullman, Ala. protective packaging sheet plant and its Olive Branch, Miss. point of purchase display plant. This transaction represents the third divestiture that Mesirow Financial has completed for Menasha Corporation.
- Exopack Holding Corp., a portfolio company of The Sterling Group, has been acquired by Sun Capital Partners, Inc., a leading private investment firm. Mesirow Financial provided a solvency opinion in connection with the acquisition of Exopack.

INSURANCE SERVICES

Mesirow Financial Adds Settlement Planning Capabilities

In February, Mesirow Financial announced the acquisition of Settlement Planning Associates, LLC (SPA), a boutique structured settlement firm that serves insurance companies, federal and local governments, self-insured corporations and mass tort litigation trusts. The added capabilities represent a strong complement to our existing suite of financial advisory and insurance products and services.

The new unit, called Mesirow Financial Structured Settlements, will be part of our Insurance Services division and will be headed by former SPA president Joseph Gargan, who joins the firm as senior managing director. Joe and his team bring with them a history of success and innovation in structured settlement consulting stemming from general liability, workers' compensation, medical malpractice, public entity, tax advantaged solutions, environmental and mass tort litigation. The team of 31 Structured Settlement professionals will operate from offices in Chicago, Dallas, Los Angeles, New York, Tampa and Washington, D.C. The Chicago employees will be located in the John Hancock Center at 875 N. Michigan Ave., Suite 2135, and can be reached at 312-279-2121.

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company of

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Exopack

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THE STERLING GROUP

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SUN CAPITAL PARTNERS, INC.

Mesirow Financial provided
a solvency opinion in
connection with the
acquisition of Exopack.



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Ask an Expert

Does My Homeowners Insurance Cover It?

Oftentimes, after an accident or disaster, homeowners are surprised to learn that damage sustained to their homes may not be covered under their insurance policies. These disappointments can be avoided by knowing the answers to a few key questions about your insurance coverage. We asked our expert, Mary Gould, senior vice president, Insurance Services, to help us understand some common misconceptions about homeowners policies.

How do I know if my home is sufficiently protected?

You can begin by checking two commonly overlooked areas of your policy. First, evaluate whether the level of replacement cost afforded by your policy would sufficiently cover the cost to reconstruct your home in the same location with materials of a similar kind and quality. Oftentimes, homeowners mistakenly believe that their policy provides for the guaranteed replacement cost of their home, when in fact about 70 percent of insurance carriers place a limit on

replacement cost. I would encourage all homeowners to clarify with their insurance provider whether their policy provides for guaranteed replacement costs or if a limit applies.

Secondly, it is important to understand how your policy responds to water damage and flooding. When it comes to water damage each carrier has its own rules governing what is, and is not covered, most often based on how the damage occurred. Since there are a number of ways a home can experience water damage, buyers need to be aware of how their policy treats different kinds of water damage and how the carrier responds to various types of claims.

Are jewelry, antiques and artwork covered under my homeowners policy?

The answer depends on your insurance carrier. In most cases, these types of personal articles are not 100 percent covered. A standard homeowners policy

may have a very small limit on these items and a deductible usually applies. However, homeowners can fully protect these personal items by adding a personal articles floater to their policy. These floaters enable homeowners to “schedule” or state the value of each item separately and are not subject to a policy deductible.

I recently heard that identity fraud is covered on my homeowners policy, is that true?

While many homeowners policies do provide some protection for identity fraud, buyers should understand that this coverage does not replace stolen funds. Rather, it covers the costs associated with correcting the problem, such as replacing credit cards and checks, sending documents via certified mail, attorney fees, and even lost income due to time off of work. This type of coverage varies by carrier, so it’s a good idea to check to see what fraud protection your policy affords.

How can I make sure that my policy is as comprehensive as possible?

Complex details and differences between insurance providers put the average consumer at a disadvantage in the marketplace. However, working with an experienced professional helps even the playing field and eliminate any surprises in the event of a loss. Mesirow Financial’s insurance professionals can secure a comprehensive policy that meets your particular needs. In addition, our relationships with carriers allow us to secure the most favorable coverage terms and pricing.

If you have any questions about your homeowners coverage, please contact your Mesirow Financial representative.

If you have a question you would like answered in “Ask an Expert,” please forward it to your Mesirow Financial representative or contact:

Laura Davies, Manager, Marketing Services
Mesirow Financial
350 North Clark Street
Chicago, Illinois 60610
ldavies@mesirowfinancial.com