

All of us at HGK look forward to working with you in 2008. If we can be of assistance in any way, please let me know.

2007 was another successful year for HGK and our clients, and we expect 2008, which marks our 25th anniversary, to be a good year, as well.

We now manage approximately \$4 billion in assets, with this growth coming from new clients, as well as from greater investment by existing clients. HGK now serves about 120 clients, several of whom have been with us twenty years or more. We are especially proud that three clients have been with us since we launched the company in 1983.

HGK continues to gain favor among the consultants that serve the pension market, and has achieved improved distribution of its products by industry-leading organizations. Because of this increased distribution, assets in our Large Cap Value equity product have reached the \$2 billion mark.

We attribute our growing success to providing superior results for our clients and for delivering a very high level of client service and support. We are proud to note that HGK remains one of the few firms in which any client or prospective client can get immediate access to all company personnel.

In 2007, we introduced two new products: the HGK Strategic Income Fund and the HGK Small Cap Value equity product. We note with pride that Eric Fuhrman, CFA, Portfolio Manager in our Equity Management department, and Matthew Kosara, CAIA, Portfolio Manager for Alternative Investments, played important roles in the development of these products.

To support the Strategic Income Fund, HGK teamed with Monroe Capital LLC, a respected organization that offers senior and junior secured debt solutions to middle-market companies.

Several new people joined HGK during 2007, including Karl Laufenberg, Analyst in the Equity Management department; MaryBeth Iacono, Executive Assistant to the Board of Directors; Zoraida Rosa, Administrative Manager in Administrative Services; and Maria Sosa, our new receptionist.

A 2007 report from AFL-CIO's Office of Investment, entitled *Retirement Security: How Do Investment Managers Stack Up?* cited HGK as "expressing strong support for preserving Social Security and defined benefit pensions."

HGK continues to receive favorable mentions in leading financial media. Paul B. Carlson, CFA, Senior Portfolio Manager in the HGK Equity Management department, for example, was quoted in an April 18, 2007 Bloomberg. Com report regarding probable future trends in gasoline prices.

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HGK Asset Management, Inc.

Jeffrey T. Harris  
Chairman and CEO



HGK Asset Management, Inc. is proud to reflect on 25 years of service to its investors. 2007 was another successful year for HGK and its clients. Long-term endurance in the highly competitive and volatile asset management industry is a significant achievement of which we are very proud.

In addition to the multiple talents of HGK's investment professionals, the prosperity of our clientele has been an important part of HGK's success. The majority of HGK's clientele are benefit funds and it has been the commitment of legislators, employers, and labor to these retirement funds that has allowed them to persist and grow. This commitment has allowed many working people to count on having substantial, constantly improving benefits.

Today, however, the retirement security of working people is under attack as never before. Many financial firms are covertly and overtly supporting the privatization of Social Security, while others are campaigning to replace defined benefit plans with defined contribution plans, which tend to be loaded with company stock and therefore vulnerable to market swings. Others are sponsoring cash balance plans, and other investment plans that do not provide the same level of security as defined benefit plans.

In 1985, when 80% of full-time employees were participating in defined benefit plans, fewer than half of employees were participating in defined contribution plans. By 2000, only about one-third of employees were participating in defined benefit plans, and about half in defined contribution plans. Today, the percentage participating in defined contribution plans is even higher, but overall, employee participation in all retirement plans has decreased to less than 50% of the workforce.

Although the assets of the 1,000 largest U.S. defined benefit plans grew 13.1% in 2007, and the assets of the 1,000 largest defined contribution plans grew by 14.5%, future prospects are less encouraging, according to *Pensions & Investments* magazine in a January 20, 2008 report. An April 2007 Gallup Poll showed that only 53% of non-retirees expect to have enough money to live comfortably in retirement - down from 59% in 2002, 2003, and 2004.

As I look at the next 25 years, it is clear that without a strong, continuing commitment to the preservation of benefit funds by HGK, other professional organizations, and plan sponsors, the future will look much



Arthur E. Coia II

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