

Institutional All Cap Value Strategy

1Q10

Market Review

Probably one of the most impressive things in the last year has been the ability of corporations to reduce costs to maintain profitability. This is a good news/bad news factor, because effective cost control's analog is higher unemployment rates. Corporations recently have been generating five times the historic norms for profits on an incremental dollar of revenues. Any meaningful revenue growth should result in substantially higher corporate profits and eventual job growth.

Portfolio Highlights

During the first quarter, stock selection and interaction in the industrials and materials sectors were the largest contributors to relative performance, whereas stock selection and interaction in the financials and healthcare sectors detracted from relative performance.

Relative to the benchmark Russell 3000 Index, at the end of the first quarter, the Strategy's largest overweight positions were in the energy and industrials sectors. The Strategy's largest relative underweight positions at the end of the period were in the consumer staples and healthcare sectors.

The top contributors to Strategy performance for the first quarter included Safeway Inc., in the consumer staples sector, Bank of America Corp. in the financials sector, Boeing Co. in the industrials sector, United States Steel Corp. in the materials sector and eBay Inc., in the information technology (IT) sector. The leading detractors from Strategy performance for the first quarter included Devon Energy Corp. and Weatherford International Ltd., both in the energy sector, Taiwan Semiconductor Manufacturing Co. Ltd. (ADS) and Texas Instruments Inc., both in the IT sector, and Unilever PLC in the consumer staples sector.

Outlook

Our emphasis continues to be on economically sensitive sectors such as the industrials, consumer discretionary, IT, energy and materials sectors, because these are likely to show above-average earnings improvements over the rest of 2010. We also believe that many companies in the financial sector will do well. Where commercial banks are concerned, we are at or just past the period where loss provisions may have peaked. In the past, this segment of the financials sector has performed well when this has occurred.

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