

Institutional Small Cap Value Strategy

1Q10

Market Review

The first quarter's rally in stocks was led by a renewed interest in very small, lower quality companies. This focus on lower quality stocks was particularly pronounced in the financials and consumer discretionary sectors. Given the rich valuations and poor fundamentals for low quality stocks, we expect this speculation to fade as earnings are reported. In contrast, many higher quality, larger small-cap companies with solid fundamentals still trade at attractive valuations. As we move through this year, we expect these higher quality companies with superior returns to provide the greatest reward.

Portfolio Highlights

During the first quarter of 2010, stock selection and interaction in the materials sector was the top contributors to relative performance, whereas stock selection and interaction in the information technology (IT) and consumer discretionary sectors detracted from relative performance. Relative to the Russell 2000 Value Index, at the end of the first quarter the Strategy's largest overweight positions were in the industrials and health care sectors. The Strategy's largest relative underweight positions at the end of the period were in the financials and utilities sectors.

The top contributors to Strategy performance for the first quarter included COMSYS IT Partners in the industrials sector, Wintrust Financial Corp., KeyCorp. and The Bancorp Bank, all in the financials sector, as well as RBC Bearings Inc. in the industrials sector.

The leading detractors from performance for the first quarter included Gibraltar Industries Inc. in the industrials sector, Verigy Ltd. and Varian Semiconductor Equipment Associates Inc. in the IT sector, FBR Capital Markets Corp. in the financials sector, and RehabCare Group Inc. in the health care sector.

“We believe the resiliency of the U.S. will be on display in the next few quarters and that employment and corporate earnings trends will be positive.”

John Goode Managing Director, Senior Portfolio Manager

- 41 years of investment industry experience
- MBA from Stanford's Graduate School of Business
- BA in Economics from Stanford University

Peter Hable Managing Director, Senior Portfolio Manager

- 27 years of investment industry experience
- MBA from the Wharton School at the University of Pennsylvania
- BS in Economics from Southern Methodist University

Outlook

We believe the resiliency of the U.S. will be on display in the next few quarters and that employment and corporate earnings trends will be positive. There has been a tremendous amount of stimulus, from both monetary and fiscal initiatives, in the last year. This is highly likely to have a positive impact on most of the metrics used to measure economic progress.

Our emphasis continues to be on economically sensitive sectors such as industrials, consumer discretionary, information technology, energy and materials sectors because these are likely to show above average earnings improvements over the rest of 2010. We also believe many financials will do well. Where commercial banks are

PORTFOLIO MANAGER COMMENTARY



concerned, we are at or just past the period where loss provisions may have peaked. Historically, this segment of the financials sector has performed well when this has occurred.

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