

## Institutional All Cap Value Strategy

2Q10

### Market Review

We continue to believe the stock market is in the early stages of its 4- to 5-year cycle and that it makes sense to focus on companies that will be leveraged by an improvement in economic activity in the next few years. This approach may stand in contrast to the high and growing levels of pessimism on the part of many investors at this time.

### Portfolio Highlights

During the second quarter, stock selection and interaction in the health care sector contributed to relative performance, whereas stock selection and interaction in the energy and materials sectors were the largest detractors. Relative to the Russell 3000 Index, at the end of the second quarter, the Fund's largest overweight positions were in the energy and industrials sectors. The Fund's largest relative underweight positions at the end of the period were in the consumer staples and health care sectors.

During the quarter, we added a new position to the Fund's portfolio in Noble Energy (energy), while we sold out of existing Fund positions in Marriott International (consumer discretionary), Mitsubishi UFJ Financial Group Inc. (financials), Murphy Oil Corp. (energy) and Robert Half International Inc. (industrials). The top contributors to Strategy performance included Ericsson (ADR) in the information technology sector, Lawson Software Inc. in the information technology sector, Allied World Assurance Co. in the financials sector, Marriott International Inc. in the consumer discretionary sector and Noble Energy Inc. in the energy sector. Top detractors for the second quarter included Anadarko Petroleum Corp. in the energy sector, United States Steel Corp. in the materials sector, eBay Inc. in the information technology sector, Safeway Inc. in the consumer staples sector and Microsoft Corp. in the information technology sector.

### Outlook

The most important missing ingredient today is confidence. Confidence is easy to have in the best of times, but it is possible to foster it even when conditions are not great, as is the situation now. The bottom line is this: Pessimism is at very high levels in the stock market (positive). We also look for some good news in the next 30 to 60 days. We expect a stronger stock market between now and year-end. It is our opinion that the probability of a very strong advance is significantly greater than a material decline from here. We believe many economic and political concerns are factored into stock prices at this time. Even modest positive surprises could cause a significant advance for stocks.

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