

Institutional All Cap Value Strategy

4Q09

Market Review

The portfolio is structured to benefit from stronger-than-expected performance by the economy in the first half of 2010. As such, we are overweight in financials, industrials, technology, and energy; sectors that should lead the market if GDP expands faster than anticipated. We believe that overshoots on the downside by inventories and capital spending are the most significant seen in 50 years. If GDP grows at 4%, as we expect, and job growth is in the 100,000-125,000 monthly range, as we also expect, both inventories and capital expenditures could surprise on the upside. A faster-growing U.S. economy should cause the dollar to strengthen. This will improve chances that our assets, including equities, are seen in a more favorable light.

Portfolio Highlights

During the fourth quarter, stock selection and interaction in the consumer staples and materials sectors were the largest contributors to relative performance, whereas stock selection and interaction in the information technology (IT) and industrials sectors detracted from relative performance.

Relative to the Russell 3000 Index, at the end of the fourth 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 healthcare and consumer staples sectors.

The top contributors to Strategy performance for the fourth quarter included Walt Disney Co. in the consumer discretionary sector, Microsoft Corp. and Texas Instruments Inc., both in the IT sector, as well as Merck & Co. Inc. in the healthcare sector and Jones Lang LaSalle Inc. in the financials sector.

The leading detractors from performance for the fourth quarter included State Street Corp., Bank of America Corp. and JPMorgan Chase & Co., all in the financials sector, as well as Weatherford International Ltd. in the energy sector and Enzo Biochem Inc. in the healthcare sector.

Outlook

We are always alert for emerging themes and trends that bode well for companies in a particular area of the stock market. We believe that nuclear energy will be an important new theme in 2010. Nuclear energy has been a "pariah" in the United States since the problems at Three Mile Island in 1979. Increased nuclear power generation in this country would reduce dependence on foreign energy sources, limit carbon emissions, and provide a new source of domestic employment.

The President's State of the Union Address later in January will be important for a number of reasons, including its psychological

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John Goode Managing Director, Senior Portfolio Manager

- 40 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

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

PORTFOLIO MANAGER COMMENTARY



impact. Many investors continue to be risk averse, which is reflected in individual investors putting nine times as much money in bond funds in 2009 as they placed in equities. With more than \$3 trillion still residing in money market funds, we believe any improvement in confidence could cause much more interest to develop in common stocks.¹

The bottom line is this: A number of things could improve at a faster rate than expected in the next few quarters. We hope to capture some of this “upside surprise” through our positioning of assets.

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¹ Ned Davis Research.

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