

Institutional Diversified Large Cap Growth Strategy 4Q09

Market Review

With every Russell sector advancing in value and the average stock up double digits, 2009 was a good year. After the market declined more than 55% and bottomed out in March, it has staged a remarkable advance. Built on the strength of earnings and fueled by liquidity provided by the Federal Reserve, investors anticipating an economic recovery bought shares and sent the indices higher.

Growth stocks dominated value issues in 2009, outperforming by more than 1800 basis points as measured by the Russell 1000 Growth Index (R1000G) as compared to the Russell 1000 Value Index, while small caps outpaced larger stocks as measured by the Russell 1000 Index as compared to the Russell 2000 Index. The Technology sector produced the year's largest gains in the R1000G and was the Strategy's leading contributor to returns in 2009. This sector is cyclical in nature, thus it tends to benefit from an economic recovery. In addition, its constituents on average had strong balance sheets and generated a disproportionate amount of revenue offshore, where economic growth, particularly in the developing markets, outpaced the U.S. economy. While the recovery was broad-based from an absolute return perspective, the only other Russell sector to outpace the broad R1000G average from a relative point of view was the largely cyclical Materials and Processing sector.

The Utilities and Consumer Staples sectors were the worst performing sectors within the R1000G. The commonality across these sectors was their lack of leverage to an economic recovery.

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With interest rates near zero and the government trying to create incentives for investors to move out on the risk curve, riskier assets provided some of the largest advances in 2009. On a stock specific basis, the best price action came from issues leveraged to an economic recovery, with lower-quality, higher-leveraged names leading the way.

Portfolio Highlights

Our Strategy generated healthy gains in 2009. In light of the fact that we have a bias toward quality, long-term growth companies, and given that some of the lowest-quality, most highly levered companies drove benchmark gains in the middle part of the year, our solid performance was especially encouraging. Our

overweight position within the top performing Technology sector, coupled with good security selection, helped to overcome our quality bias and generate strong returns that outpaced the R1000G benchmark.

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PORTFOLIO MANAGER COMMENTARY



We are pleased that after a dismal 2008, we were able to recoup some losses and produce robust gains in 2009 by adhering to our bottom-up investment style which drove performance through security selection. The five largest individual contributors to relative performance within the Diversified Large Cap Growth Strategy in 2009 came from five different sectors: Amazon (Consumer Discretionary), Nvidia (Technology), Genentech (Healthcare), Weatherford International (Energy), and Blackrock (Financials).

While we added value relative to the benchmark in both sector allocation and security selection, the single biggest detractor to relative return was that we did not own a position in Apple Inc. Other portfolio holdings that detracted from returns include Nasdaq, Gilead Sciences, General Electric and Celgene.

Market Outlook

Despite many equity participants chasing index returns by purchasing smaller, leveraged names, our discipline has remained consistent. We have identified dominant growth themes and looked for securities that we believe can exploit them going forward. We favor companies that are innovative, which can confer pricing power, or that have disruptive technologies and can capture market share. We couple security selection with active risk management.

In spite of the consumer continuing to be challenged, we are cautiously optimistic about 2010. Companies are likely to continue to benefit from lean inventories and lower levels of working capital. With corporations focused on productivity gains, lower levels of revenue growth will likely translate into more robust earnings and margin expansion opportunity.

We believe there is the possibility that the Federal Reserve will begin removing some of its liquidity and stimulus from the marketplace, but given the lack of signs of sustained economic growth, expect that this should happen at a measured pace. Capacity utilization remains low and income growth practically non-existent. With the traditional inflation-producing signals contained and rhetoric from the Federal Reserve benign, we do not see interest rates rising substantially in the near term. The unknown is the impact of the rising deficit on the U.S. dollar and foreigners' willingness to continue to fund our spending. Domestic savings have stepped in to fill any void in offshore demand for U.S. Treasuries, but the continued lack of interest could force an upward bias in rates. Rising interest rates coupled with rising taxes could severely impact consumption patterns. Ironically, a slower growing economy with modestly higher interest rates could be very favorable for quality large cap growth assets. Their superior balance sheets could create a growing disparity between funding costs, and higher valuation multiples could be expected to be rewarded to companies that can deliver growth.

We will continue to try to add value through security selection with a focus on trying to protect the downside while capturing the upside return. We look to build on our solid results for 2009. Thank you for your support.

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