

## Institutional Large Cap Growth Strategy

4Q09

### Market Review

With another year in the books, it is a good time to reflect on what 2009 was, and importantly, what it could have been. Putting aside the stock market for a moment, the world economy suffered quite a few blows (i.e., a global credit collapse leading to a G7 recession), but avoided the “knockout punch” (i.e., a depression). Unprecedented global central bank intervention clearly helped avert the worst-case scenario. With financial Armageddon avoided, the focus has turned toward repairing the world economy. After 20-plus years of debt accumulation by financial institutions and individuals, it will certainly take longer than 18 months to return to normalcy. The economic impact of high and prolonged unemployment and continued delevering is still unknown, in our opinion, as is the timing of a sustained recovery in housing. All are necessary to facilitate a return of real end-demand.

Risk-based assets – equities, most forms of fixed income (with credit spreads narrowing dramatically), hard assets (precious and industrial metals), commodities and many currencies – witnessed a spectacular run in 2009. The notable laggard was the highly liquid U.S. dollar. Global investors borrowed dollars and invested in the assets listed above in a transaction known as the “carry trade.” With seemingly full support from the U.S. government, and the Federal Reserve’s pledge to keep interest rates low for a sustained period, many investors were pushed out of cash in order to earn any return, and most asset classes closed the year at or near their highs.

Turning to equities in particular, the year was broken up into a two-part rally: The first part, following the March swoon, was a sharp move led by “lower-quality” companies most leveraged to an economic recovery. For example, stocks that declined the most in 2008, often due to excessive levels of debt, rebounded significantly. Beaten-down financial institutions, early-cycle technology companies and levered retailers, as well as more cyclical industrials, fit that mold. The second part of the year’s equity move occurred more recently, as the rally broadened out to include “higher-quality” companies, or those with more consistent earnings. We think the market’s preference for these types of stocks is likely to continue in 2010.

**“More than ever, we feel that our focus on investment in high-quality, well-capitalized companies is a wise strategy leading into 2010, as the equity market is likely to be more discriminating in the year ahead.”**

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- 18 years of investment industry experience
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### Portfolio Highlights

In terms of absolute performance, the Strategy had positive returns in five out of the six economic sectors in which it was invested during the fourth quarter (there are 10 sectors in total). The greatest contributions to performance came from the consumer discretionary, information technology (IT) and healthcare sectors, while the only sector to detract from returns for the quarter was industrials.

Relative to the benchmark Russell 1000 Growth Index, the Strategy’s overall stock selection contributed to performance for

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the quarter, while its overall sector allocation had a negative effect. In particular, stock selection in the consumer discretionary sector made a significant contribution to relative performance but was largely offset by the negative impact of stock selection in the IT, industrials, healthcare, consumer staples and financials sectors. In terms of sector allocation, the only significant impact was the Strategy's overweight to the financials sector, which detracted from performance in comparison to the benchmark.

While we did not close any existing positions or establish any new ones in the fourth quarter, over the past 18 months the Large Cap Growth team has been extremely active in the Strategy's portfolio. The market drawdown gave us an excellent opportunity to upgrade the Strategy's holdings by adding higher-growth companies at distressed prices. In addition, we took advantage of several opportunities to adjust our portfolio, trimming stocks where we felt valuations were stretched and using the proceeds to invest in either new or existing holdings that we thought were more attractively priced.

The leading individual contributors to Strategy performance for the fourth quarter included Amazon.com Inc. and Walt Disney Co. in the consumer discretionary sector, as well as Akamai Technologies Inc., Google Inc. and NVIDIA Corp., all in the IT sector. The bottom contributors to performance for the quarter included First Solar Inc. and General Electric Co. in the industrials sector, CVS Caremark Corp. in the consumer staples sector, Amgen Inc. in the health care sector and The NASDAQ OMX Group Inc. in the financials sector..

## Market Outlook

Looking ahead, our recurring investment themes are still in place: we continue to seek large, dominant, global franchises with sustainable competitive advantages that are trading at attractive valuations. We expect that these types of firms will continue to take market share and prosper in the present low-growth environment. More than ever, we feel that our focus on investment in high-quality, well-capitalized companies is a wise strategy leading into 2010, as the equity market is likely to be more discriminating in the year ahead.

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