AllCap Strategy

Q1 2010 INVESTMENT UPDATE

ADVANCED INVESTMENT PARTNERS

Market Overview

US Equities

During the first quarter of 2010, the US equity market continued the powerful rally which began on March 9, 2009. This is despite a rising chorus of naysayers proclaiming the rally to be overextended. After all, a 75% rally can't go any further, can it? We'd do well to remember the words of Sir John Templeton: "Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria. The time of maximum pessimism is the best time to buy and the time of maximum optimism is the best time to sell."

As during December 2009, higher-risk stocks led the rally during the first quarter. Smaller stocks consistently outperformed larger stocks, and performance improved as one slid down the cap scale. The small cap **Russell 2000® Index** advanced 8.9% during the quarter, and has recorded a 12-month gain of nearly 63%. The **Russell Midcap 800® Index** gained 8. 7% for the quarter, and the large-cap **Russell 1000® Index** added 5.7%. Finally, the generals brought up the rear - the mega-cap **Russell Top 200® Index** tacked on 4.6%.

Value stocks are often considered to be riskier investment plays. With investors back in risk-seeking mode, value stocks outperformed their growth counterparts across the market. The best-performing style group was small-cap value; the **Russell 2000® Value Index** leapt 10.0%. The worst-performing style group was mega-cap growth stocks; the **Russell Top 200® Growth Index** advanced 3.5% nonetheless.

Further evidence of risk seeking can be seen in the various sector returns of the **Russell 3000® Index**. The typically more stable **Telecom** and **Utilities** sectors were the laggards, shedding 3.5% and 2.6%, respectively. **Consumer Discretionary** stocks paced the market's advance, climbing 12.0%. The **Industrial** sector was next-best, tacking on 11.7%

Portfolio Review

Our AllCap strategy was slightly ahead of the Russell 3000 during the first quarter. Individual stock selection – driven by our models – benefited the portfolio's performance, as did a tilt towards stocks with smaller market capitalization, an overweight to higher-than-average yield, and a slight underweight to the Telecommunications sector.

Noteworthy new additions to the portfolio included **Apple** (AAPL), metals producer and seller **Allegheny Technologies** (ATI), and wireless communications company **NII Holdings** (NIHD). Apple outperformed the index by 9.4% while Allegheny and NII Holdings outperformed the Russell 3000 Index by 12.1% and 1.3%, respectively, since our purchase.

Detractors from performance during the quarter included higher-than-average earnings yield as well as a small underexposure to the **Health Care** sector. New additions that didn't perform to short-term expectations included **Chipotle Mexican Grill** (CMG), which trailed the index by 2.3%, and oil & gas company **Hess** (HES), which lagged the Index by 4.2% during the first quarter.

Investment Team

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Firm Overview

- A pioneer in advanced quantitative investment strategies
- Founded in 1996
- Principals own meaningful equity stake
- Manages the following strategies for clients in the US and Europe:

 - MaxCap
 - MaxCap Value
 - LargeCap
 - Sustainable Responsible LargeCap
 - AllCap
 - TaxManaged AllCap
 - TaxManaged LargeCap
 - SMidCap

Portfolio Changes

There were some significant sector shifts in the portfolio during the quarter. We increased our exposure to both the Consumer Discretionary and **Services** sectors by 4.0%, shifting from moderate underweight to a moderate overweight in both sectors. In the Services sector, we initiated positions in **AT&T** (T), **ManTech International** (MANT), and the aforementioned **NII Holdings** (NII). In the Consumer Discretionary sector, we introduced positions in **Tenneco** (TEN), **MGM Mirage** (MGM), and **Fluor** (FLR).

We continued to decrease the exposure to the Retail sector - making this our largest sector underweight - by liquidating positions in **Home Depot** (HD) and **Columbia Sportswear** (COLM). In the Consumer Staples sector, we reduced our position from a moderate overweight to a neutral weight by liquidating positions in **Reynolds American** (RAI) and **Sara Lee** (SLE), and trimming our position in foodservice distributor **Sysco** (SYY).

Top Active Weights - 3/31/10

Top Five Overweights vs. Russell 3000	Portfolio
Constellation Energy Group	2.96%
eBay	2.59
General Dynamics	2.55
Procter & Gamble	2.31
ConocoPhillips	2.26

Top Five Underweights vs. Russell 3000	Portfolio
General Electric	-1.54%
Bank of America	-1.41
JP Morgan Chase	-1.34
Cisco Systems	-1.21
Pfizer	-1.10

Recent Transactions

As a reminder, our quantitative portfolio management process places emphasis on the construction of an entire portfolio, seeking to maintain a risk profile very similar to that of our Russell 3000 benchmark with a higher return potential. Stocks are included in the portfolio not only for their expected return, but also for their contribution to the portfolio's risk profile.

Purchases

Apple (AAPL) designs, manufactures, and markets personal computers, mobile communication devices, and portable digital music and video players, as well as sells various related software, services, peripherals, and networking solutions. Apple's attractive rating is based on earnings attributes including forecasted earnings and earnings quality.

Titanium Metals (TIE) produces and sells titanium sponge, melted products, and various mill products for commercial aerospace, military, industrial, and other applications. It serves commercial aerospace and military, chemical process, oil and gas, consumer, sporting goods, healthcare, automotive, and power generation sectors. Titanium Metals Corporation was founded in 1950 and is based in Dallas, Texas. Favorable attributes include strong forecasted earnings and a high potential for a positive earnings surprise.

	Portfolio Weight	Russell 3000 Weight
Consumer Discretionary	9.34%	6.69%
Consumer Staples	9.21	8.98
Energy	8.94	9.13
Financials	18.31	17.30
Health Care	10.38	12.18
Industrials	6.52	7.72
Materials	5.20	5.50
Retail	1.66	5.66
Services	7.15	5.81
Technology	18.79	17.66
Utilities	4.50	3.37

MGM Mirage (MGM) owns and operates casino resorts in the United States. The company's resorts offer gaming, hotel, dining, entertainment, retail, and other resort amenities. In addition, MGM Mirage has an agreement with the Mashantucket Pequot Tribal Nation, which owns and operates a casino resort under the MGM Grand brand name in Mashantucket, Connecticut. MGM achieved buy list status due to attractive book value relative to its historical value, high quality earnings, and an improved trading pattern.

Sales

Columbia Sportswear (COLM) engages in the design, sourcing, marketing, and distribution of outdoor apparel, footwear, and related accessories and equipment in the United States, Europe, the Middle East, Africa, Latin America, the Asia Pacific, and Canada. COLM outpaced the benchmark by 11.4% during our holding period. We liquidated the position due to decreasing cash-based return on capital and an unfavorable trading pattern.

Viacom (VIA.B) operates as an entertainment content company primarily in the United States and Europe. It operates in two segments, Media Networks and Filmed Entertainment. VIA.B bested the index by 8.3% over our holding period, but we sold the position due to a forecast for diminished earnings and an unfavorable trading pattern.

Pitney Bowes (PBI) provides mail processing equipment and integrated mail solutions in the United States and internationally. It offers a suite of equipment, supplies, software, and services for end-to-end mailstream solutions, which enable its customers to optimize the flow of physical and electronic mail, documents, and packages across their operations. PBI was liquidated due to a high book to price value and a poor earnings forecast. It had become a performance problem, as it underperformed the index by 14.9% during our holding period.

Market Outlook

The bond market appears to be nearing the end of – or have already ended - a historic cyclical run. Credit spreads have collapsed from deep crisis levels to more normal levels. Treasury yields can't really go much lower. Ten year yields appear to have bottomed – which would be a cyclical bottom. Much more important to investors should be the fact that long government bonds may have hit the end of a secular bull run as well. The massive health care package recently passed will likely only add to the government's massive debt burden. (The government's debt problem, of course, is really your, mine and our children's debt problem). While increased long-term rates correspond to an increase in the discount rate used in valuing equities, and thus acts as a damper on equity returns, the end of the bull market in Treasuries may also lead to outflows from fixed income and inflows into equities.

We believe that with volatility and credit spreads collapsing, estimated earnings growth slowing later this year, and stock correlation on the decline, we are returning to an environment more conducive to active management. Further, our models are indicating a preference to higher quality stocks (lower earnings variability, lower beta, higher dividend yield). We look forward to a steady crawl back to normalcy – even if it's "new normalcy".

Disclosure

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