

QUARTER 4: 2007



Jon E. Quigley, CFA
Managing Partner,
Investment Management

2007: A Challenging Investment Environment

2007 proved to be a difficult year for quantitative strategies in general, and the AIP LargeCap strategy was no exception. We faced three main headwinds during the year: a decrease in market breadth (as measured by the number of index constituents outperforming the S&P 500); a style rotation from smaller-capitalization value stock market leadership to mega-cap growth stock leadership; and, perhaps most significantly (and certainly most unusually), abnormal factor returns due to heavy liquidations and deleveraging by quantitative long/short hedge funds.

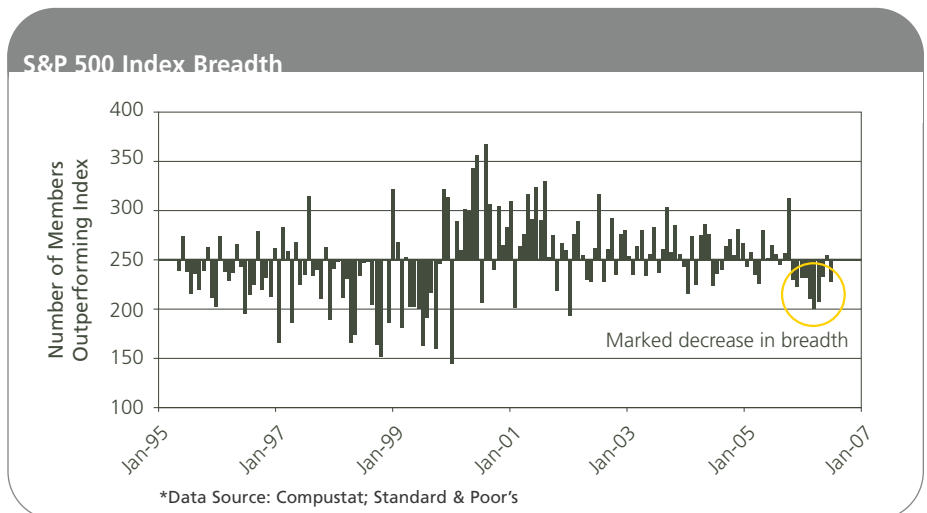
Decrease in Market Breadth

Market breadth tends to ebb and flow, often in conjunction with style rotation. As the US equity market tumbled from its 2000 peak, market leadership broadened considerably. On occasion, more than 70 percent of the members of the S&P 500 outperformed the Index. This type of breadth serves active managers well, making picking “winners” relatively easier than would be the case in a narrow market. As recently as February 2007, more than 60 percent of the S&P 500 constituents beat the market. However, in the following seven months, less than 220 stocks topped the Index in an average month. This created a more difficult environment for active managers in general.

Firm Overview

- A pioneer in advanced quantitative investment strategies
- Founded in 1996
- Based in Safety Harbor, FL
- Majority-owned affiliate of State Street Global Alliance, LLC
- Principals own meaningful equity stake
- Manages approximately \$2.0 billion for clients in the US and Europe
 - MaxCap
 - MaxCap Value
 - LargeCap
 - LargeCap Socially Responsible
 - Enhanced S&P 500
 - AllCap
 - TaxManaged AllCap
 - TaxManaged LargeCap
 - SMidCap

Chart 1



Style Rotation

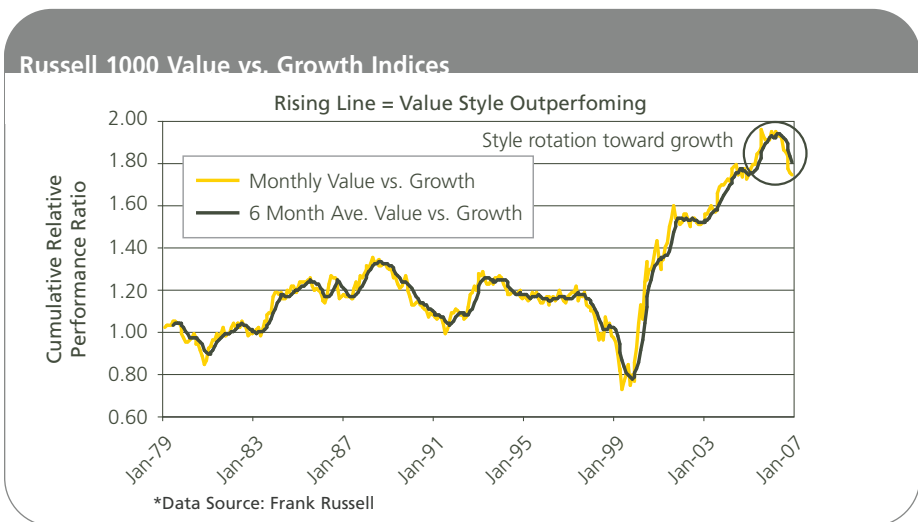
Inflection points in the market (i.e., changes in market leadership) typically create a challenging environment for our modeling process. Our dynamic and adaptive models are designed to detect enduring changes in leadership, rather than reacting too quickly to short-term interruptions in market leadership. We've had a couple of "false starts" in the style/cap rotation since 2000, yet neither proved enduring. The rotation that occurred during 2007 appears to be both significant and enduring. While we'd expect a short-term period of underperformance, we also have seen that our models and portfolios have been adapting to the changed environment, and we believe that our LargeCap clients are now positioned to benefit from what we expect to be a continuation of larger-cap growth outperformance.

Abnormal Factor Returns

The final element of 2007's perfect storm was the behavior driven by hedge funds. As has been reported in the press, many hedge funds bet on convergence of yield spreads across different credit markets. As spreads widen, hedge funds often "double-down (or triple or quintuple down)" betting on a return to normal spreads. As the housing market worsened and sub-prime mortgages began suffering defaults, doubling down actually led to increased losses and in fact funds had to start to cover their bets, in some cases to meet redemption requirements. To raise money, we believe that many of these funds (multi-strategy funds, or funds that had bets in multiple markets) went to the most liquid market (the US equity market) and began raising cash by covering short positions and selling long positions. Knowing that most quant investors

have models largely based on valuation and quality factors (e.g., shorting high P/E stocks and high P/B stocks, while going long low P/E and low P/B stocks), we saw that covering shorts put buying pressure on high P/E stocks and high P/B stocks, and selling longs positions put pressure on low P/E stocks and low P/B stocks. The returns to these factors were highly correlated (nowhere to hide), and the magnitude of this perverse behavior was enormous from late June through early August. This period, in fact, accounted for all of our underperformance in 2007.

Chart 2



Performance Attribution

As discussed above, active exposures to the Barra Risk factors proved to be the primary drag on our LargeCap strategy's active performance for 2007, detracting 1.21 percent from active return. In particular, an overweight to stocks with higher financial leverage, higher trading liquidity and higher earnings yields accounted for the overwhelming majority of the year's underperformance. While stock selection was not among the larger detractors, it nonetheless reduced active returns by 0.33 percent for the year.

Adapting to the Market throughout the Year

AIP's valuation models are dynamic and adaptive. As such, we'd expect the profile of our portfolios to evolve in response to dynamic changes in the market. In Chart 3, we show the LargeCap portfolio's biases toward value, growth and market cap size. At the beginning of 2007, the LargeCap portfolio had a positive value bias, a negative growth bias and a negative size bias — or smaller market cap bias. However, as discussed above, our models — and as a result our portfolios — recognized and adapted to the emerging market leadership of growth styled characteristics, and by year-end we carried a negative value bias, a positive growth bias and a less negative size bias.

Table 1

LargeCap Strategy: Active Performance Attribution — 2007

Source of Return	Annual Contribution (%)
Beta	-0.24
Risk Factors	-1.21
Industries	-0.38
Stock Selection	-0.33
Total Active Return	-2.16

*Data Source: Standard & Poor's, Russell Mellon

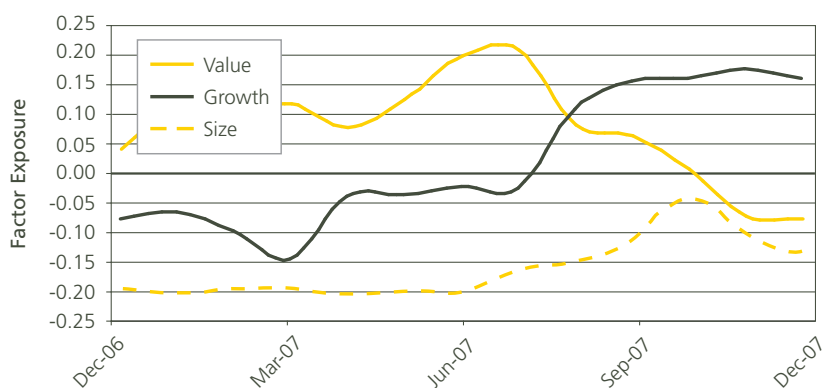
Best Five Individual Policies	Portfolio Bias	Annual Contribution (%)
Momentum	Overweight	0.88
Banks	Underweight	0.51
Oil Refining	Overweight	0.32
Oil Service	Overweight	0.29
Small Caps	Overweight	0.24

Worst Five Individual Policies	Portfolio Bias	Annual Contribution (%)
Balance Sheet Leverage	Overweight	-0.90
Trading Liquidity	Overweight	-0.75
Financial Services	Overweight	-0.37
Earnings Yield	Overweight	-0.37
Defense & Aerospace	Underweight	-0.35

*Data Source: MSCI Barra

Chart 3

LargeCap Portfolio Exposures



*Data Source: MSCI Barra

Contact

Please address your inquiries
or provide feedback to:

Alan C. Ashworth, CFA
Director of Business Development

Laurie Watson
Partner, Client Services

Advanced Investment Partners
100 Main Street
Suite 301
Safety Harbor, FL 34695 USA

(888) 424-7552

(727) 799-3671

Fax: (727) 799-1232

Email: alan@aipllc.com

laurie@aipllc.com

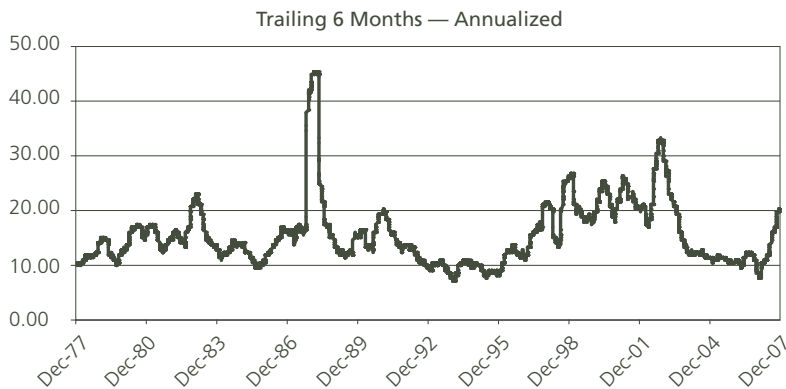
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Looking Ahead to 2008

We've seen evidence of improved performance since mid-August. Given a convincing rotation into mega-cap growth and dynamic models which have ultimately positioned the LargeCap portfolio to benefit from continued mega-cap growth leadership, we expect to have a successful calendar 2008. Risk factor behavior appears to have normalized to a large degree, and an increase in cross-sectional volatility/dispersion should allow us to return to typical active risk levels, and should make for a better stock selection environment.

Chart 4

S&P 500 Index Volatility



*Data Source: Standard & Poor's

MaxCap

Contact firm for information on MaxCap Value.

Benchmark

S&P 100

Quarterly Performance Attribution³

Best Active Performance Policies:

- Style – Overweight Momentum; Underweight Value and Leverage
- Sector – Overweight Technology and Energy
- Industry – Underweight Banks and Semiconductors; Overweight Computer Software
- Stocks – Overweight Google, McDonald's, Goldman Sachs, Hewlett-Packard and Merck

Worst Active Performance Policies:

- Style – Overweight Trading Activity
- Sector – Underweight Consumer Non-Cyclicals and Utilities
- Industry – Underweight Electric Utilities and Tobacco; Overweight Restaurants
- Stocks – Overweight Allegheny Technologies, ExxonMobil, Baker Hughes, Chevron and FedEx

Portfolio Content

Universe	S&P 100
Trailing 12-month Turnover	80%
Number of Holdings.....	35
Cash Level.....	1.1%

Top 10 Holdings³

- | | |
|--|--|
| <ul style="list-style-type: none"> • ExxonMobil • Microsoft • Chevron • IBM • Hewlett-Packard | <ul style="list-style-type: none"> • Google • General Electric • Merck • CVS Caremark • Abbott Labs |
|--|--|

Portfolio Characteristics³

Barra Risk Factors	MaxCap	S&P 100	Difference
Currency Sensitivity	0.00	0.04	-0.04
Earnings Variation	-0.20	-0.17	-0.03
Earnings Yield	0.10	0.17	-0.07
Growth	-0.04	-0.11	0.07
Leverage	-0.35	-0.27	-0.08
Momentum	0.07	-0.09	0.16
Size	0.89	0.93	-0.04
Trading Activity	-0.07	-0.12	0.05
Value	-0.17	-0.04	-0.13
Volatility	-0.26	-0.27	0.01
Yield	0.05	0.24	-0.19

Sector Weights³

Sector Weights	MaxCap	S&P 100	Difference
Consumer Discretionary	7.6%	5.9%	1.7%
Consumer Staples	6.0	11.0	-5.0
Energy	16.2	13.1	3.1
Financials	16.5	18.0	-1.5
Health Care	12.5	11.5	1.0
Industrials	6.1	6.4	-0.3
Materials	4.1	3.4	0.7
Retail	2.2	3.4	-1.2
Services	5.5	7.0	-1.5
Technology	23.3	18.5	4.8
Utilities	0.0	1.8	-1.8

Performance (as of 12.31.07)

Performance	MaxCap Pure Gross of Fees ²	MaxCap Net of Fees	S&P 100
Fourth Quarter 2007 ¹			
Year to Date 2007 ¹			
Annualized			
Total			
Return			
Inception Date – 7.1.98			

For performance data,
contact Laurie Watson at
(888) 248-8324

LargeCap

Enhanced S&P 500

S&P 500

S&P 500

Best Active Performance Policies:

- Style – Overweight Momentum; Underweight Value
- Sector – Underweight Technology; Overweight Financials
- Industry – Underweight Banks and Semiconductors; Overweight Securities and Asset Management
- Stocks – Overweight Mastercard, Google, Diamond Offshore Drilling, Assurant and Goldman Sachs

Worst Active Performance Policies:

- Style – Overweight Trading Activity and Leverage
- Sector – Overweight Consumer Services; Underweight Basic Materials
- Industry – Overweight Financial Services
- Stocks – Overweight Celgene, Whole Foods Market, SYSCO, ExxonMobil and Freddie Mac

Best Active Performance Policies:

- Style – Overweight Momentum
- Sector – Overweight Energy; Underweight Technology
- Industry – Overweight Energy Reserves
- Stocks – Overweight MEMC Electronic Materials, Best Buy, Google and McDonald's; Underweight Citigroup

Worst Active Performance Policies:

- Style – Overweight Trading Activity
- Sector – Overweight Consumer Cyclical
- Industry – Underweight Electric Utilities; Overweight Specialty Retail
- Stocks – Overweight Celgene, Ambac Financial, Whole Foods Market and Freddie Mac; Underweight Apple

Universe S&P 500 + 400 largest in Russell 1000
 Trailing 12-month Turnover 114%
 Number of Holdings 60
 Cash Level 1.4%

Universe S&P 500
 Trailing 12-month Turnover 114%
 Number of Holdings 160
 Cash Level 1.0%

- ExxonMobil
- Google
- Chevron
- Diamond Offshore Drilling
- Hewlett-Packard

- Goldman Sachs Group
- Pepsico
- Humana
- Bristol Myers Squibb
- Microsoft

- ExxonMobil
- Microsoft
- AT&T
- Chevron
- Google

- General Electric
- IBM
- ConocoPhillips
- Hewlett-Packard
- Procter & Gamble

Barra Risk Factors	LargeCap	S&P 500	Difference
Currency Sensitivity	0.06	0.00	0.06
Earnings Variation	0.00	-0.06	0.06
Earnings Yield	-0.07	0.09	-0.16
Growth	0.03	-0.09	0.12
Leverage	-0.11	-0.13	0.02
Momentum	0.09	-0.05	0.14
Size	0.26	0.38	-0.12
Trading Activity	0.14	0.02	0.12
Value	-0.14	-0.01	-0.13
Volatility	-0.09	-0.13	0.04
Yield	-0.08	0.08	-0.16

Barra Risk Factors	Enhanced S&P 500	S&P 500	Difference
Currency Sensitivity	-0.03	0.00	-0.03
Earnings Variation	-0.11	-0.06	-0.05
Earnings Yield	0.01	0.09	-0.08
Growth	-0.05	-0.09	0.04
Leverage	-0.20	-0.13	-0.07
Momentum	0.02	-0.05	0.07
Size	0.31	0.38	-0.07
Trading Activity	0.02	0.02	0.00
Value	-0.04	-0.01	-0.03
Volatility	-0.12	-0.13	0.01
Yield	0.01	0.08	-0.07

Sector Weights	LargeCap	S&P 500	Difference
Consumer Discretionary	9.1%	6.5%	2.6%
Consumer Staples	9.6	8.9	0.7
Energy	16.0	12.3	3.7
Financials	18.1	18.1	0.0
Health Care	15.6	12.4	3.2
Industrials	2.6	7.1	-4.5
Materials	1.1	4.7	-3.6
Retail	6.5	4.4	2.1
Services	6.6	6.0	0.6
Technology	13.4	16.2	-2.8
Utilities	1.4	3.4	-2.0

Sector Weights	Enhanced S&P 500	S&P 500	Difference
Consumer Discretionary	8.6%	6.5%	2.1%
Consumer Staples	6.9	8.9	-2.0
Energy	13.4	12.3	1.1
Financials	18.1	18.1	0.0
Health Care	14.1	12.4	1.7
Industrials	5.4	7.1	-1.7
Materials	2.9	4.7	-1.8
Retail	6.4	4.4	2.0
Services	6.2	6.0	0.2
Technology	15.3	16.2	-0.9
Utilities	2.7	3.4	-0.7

Performance	LargeCap Pure Gross of Fees ²	LargeCap Net of Fees	S&P 500
Fourth Quarter 2007 ¹	<div style="border: 1px solid black; padding: 5px; text-align: center;"> For performance data, contact Laurie Watson at (888) 248-8324 </div>		
Year to Date 2007 ¹			
Annualized Total Return			
Since Inception ¹			
Inception date – 5.1.99			

Performance	Enhanced S&P 500 Gross of Fees	Enhanced S&P 500 Net of Fees	S&P 500
Fourth Quarter 2007 ¹	<div style="border: 1px solid black; padding: 5px; text-align: center;"> For performance data, contact Laurie Watson at (888) 248-8324 </div>		
Year to Date 2007 ¹			
Annualized Total Return			
Since Inception ¹			
Inception Date – 11.01.02			

AllCap

Russell 3000

Best Active Performance Policies:

- Style – Overweight Momentum; Underweight Yield
- Sector – Underweight Consumer Cyclical
- Industry – Overweight Oil Services; Underweight Specialty Retail and Computer Hardware
- Stocks – Overweight Diamond Offshore, Google, Mastercard, Goldman Sachs and TriQuint Semiconductor

Worst Active Performance Policies:

- Style – Overweight Trading Activity and Leverage
- Sector – Overweight Energy
- Industry – Underweight Energy Reserves; Overweight Financial Services
- Stocks – Overweight Celgene, NutriSystem, SYSCO, Whole Foods Market and Chevron

Universe Russell 3000
Trailing 12-month Turnover 118%
Number of Holdings 63
Cash Level 1.1%

- Google
- Chevron
- Diamond Offshore Drilling
- Microsoft
- Humana

- Goldman Sachs Group
- PepsiCo
- Hewitt Associates
- SYSCO
- Carnival

Barra Risk Factors	AllCap	Russell 3000	Difference
Currency Sensitivity	0.05	-0.01	0.06
Earnings Variation	0.07	0.01	0.06
Earnings Yield	-0.14	0.01	-0.15
Growth	0.11	-0.02	0.13
Leverage	-0.03	0.01	-0.04
Momentum	0.17	-0.02	0.19
Size	-0.12	-0.06	-0.06
Trading Activity	0.18	0.02	0.16
Value	-0.12	0.01	-0.13
Volatility	0.01	0.03	-0.02
Yield	-0.16	0.01	-0.17

Sector Weights	AllCap	Russell 3000	Difference
Consumer Discretionary	10.2%	7.5%	2.7%
Consumer Staples	8.4	8.0	0.4
Energy	14.4	11.4	3.0
Financials	20.2	18.1	2.1
Health Care	13.4	12.3	1.1
Industrials	3.2	7.4	-4.2
Materials	0.8	5.1	-4.3
Retail	2.3	4.5	-2.2
Services	9.9	6.5	3.4
Technology	14.8	15.6	-0.8
Utilities	2.4	3.6	-1.2

Performance	AllCap Pure Gross of Fees ²	AllCap Net of Fees	Russell 3000
Fourth Quarter 2007 ¹	<div style="border: 1px solid black; padding: 5px; text-align: center;"> For performance data, contact Laurie Watson at (888) 248-8324 </div>		
Year to Date 2007 ¹			
Annualized Return			
Total Return			
Since Inception ¹			
Inception Date – 1.1.97			

SMidCap

Russell 2500

Best Active Performance Policies:

- Style – Overweight Momentum; Underweight Yield
- Sector – Overweight Financials; Underweight Consumer Cyclical
- Industry – Underweight Banks, Specialty Retail and Thrifts
- Stocks – Overweight CF Industries, Terra Industries, Energy Conversion Devices, Atwood Oceanics and TriQuint Semiconductor

Worst Active Performance Policies:

- Style – Underweight Earnings Yield; Overweight Momentum
- Sector – Overweight Energy; Underweight Basic Materials
- Industry – Underweight Energy Reserves and Mining and Metals; Overweight Semiconductors
- Stocks – Overweight Protalix BioTherapeutics, Sturm, Ruger & Company, Novatel Wireless, NutriSystem and W-H Energy Services

Universe Russell 2500
Trailing 12-month Turnover 109%
Number of Holdings 125
Cash Level 1.4%

- CF Industry Holdings
- Terra Industries
- Janus Capital Group
- Atwood Oceanics
- Bio-Rad Laboratories

- Fresh Del Monte Produce
- Discovery Holding Company
- KBR
- Alleghany
- Kansas City Southern

Barra Risk Factors	SMidCap	Russell 2500	Difference
Currency Sensitivity	0.02	-0.09	0.11
Earnings Variation	0.38	0.31	0.07
Earnings Yield	-0.44	-0.30	-0.14
Growth	0.33	0.21	0.12
Leverage	0.54	0.61	-0.07
Momentum	0.17	-0.01	0.18
Size	-2.10	-2.06	-0.04
Trading Activity	0.24	0.10	0.14
Value	0.06	0.15	-0.09
Volatility	0.71	0.72	-0.01
Yield	-0.43	-0.26	-0.17

Sector Weights	SMidCap	Russell 2500	Difference
Consumer Discretionary	13.5%	10.0%	3.5%
Consumer Staples	4.1	3.0	1.1
Energy	5.8	6.2	-0.4
Financials	23.3	18.4	4.9
Health Care	13.8	12.0	1.8
Industrials	6.1	9.9	-3.8
Materials	6.3	7.9	-1.6
Retail	1.6	5.5	-3.9
Services	9.3	8.2	1.1
Technology	13.3	14.1	-0.8
Utilities	2.9	4.8	-1.9

Performance	SMidCap Gross of Fees	SMidCap Net of Fees	Russell 2500
Fourth Quarter 2007 ¹	<div style="border: 1px solid black; padding: 5px; text-align: center;"> For performance data, contact Laurie Watson at (888) 248-8324 </div>		
Year to Date 2007 ¹			
Annualized Return			
Total Return			
Since Inception ¹			
Inception Date – 11.01.02			

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LargeCap-Institutional Composite

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