ADVANCED INVESTMENT PARTNERS

iQ

A Quarterly Update for the Investment Community

QUARTER 2: 2009

Jon E. Quigley, CFA
Managing Partner,
Investment Management

Melissa R. Brown
Managing Director,
Wayne Hummer Asset Management

Opportunities and Challenges for Systematic Investors

"Red skies at night, sailors' delight; red skies at morn, sailors take warn"

Given the stormy weather confronting quantitative investment firms since mid-2007, our colleague Melissa Brown and I feel now is an opportune time to survey the horizon and provide an outlook on the future. Before we turn to that conversation, a quick review of the roots of quantitative investing and its benefits is in order.

Quantitative - or systematic – investing traces its roots back to at least the 1920s at Benjamin Graham's Graham-Newman Corporation. In those days, the analysts – including Warren Buffet – wore lab coats and filled detailed profile worksheets for all stocks traded in the U.S. market. This systematic overview led to Graham-Newman's purchase and sale ideas, which were incorporated in a broadly diversified portfolio in an attempt to reduce risk. This system led to annualized excess returns of approximately 2.5% over a 20+ year period.

While quants have exchanged the lab coats for hats with propellers, we continue to believe in this systematic approach to uncovering opportunities and careful risk management to control portfolio risk.

What has changed? Today, quantitative investing relies on statistical analysis of large financial databases using significant computing resources. The processes typically, although not always use fundamental data used by more traditional managers and rank one stock relative to others based on a set of characteristics. These may include value-oriented factors, such as book/price; measures of growth such as earnings growth; quality measures, for instance return on capital; and technical factors like relative price strength. Therefore, in many ways a typical quant manager's process looks similar to that which is used by more traditional managers; however, quants typically use the data in a more systematic and disciplined manner.

Every quantitative process uses different underlying methods of constructing factors and, even if the factors are similar, generally weight them differently. So, although quant managers may look alike from 30,000 feet, their stock assessments are likely to differ significantly. Thus, each quant manager's process is proprietary.

There are several known benefits of systematic investing. As mentioned above, these strategies have a successful long-term history. The disciplined, unemotional approach prevents an analyst from being directly misled in the instance of less-than-forthright company management. Similarly, this approach prevents an analyst from "falling in love" with a stock with a "unique" story. A

continued inside >

Firm Overview

- A pioneer in advanced quantitative investment strategies
- Founded in 1996
- Based in Safety Harbor, FL
- 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

ADVANCED INVESTMENT PARTNERS

continued from page one >

quantitative forecasting system updates projections as new data becomes available. In a traditional fundamental shop, an analyst may cover 20 or so stocks; thus, they would need several dozen analysts if they were to integrate new information on all stocks very quickly.

On the risk management side of the ledger, quants are known for very careful portfolio construction. The sources of risk in the portfolio should match the manager's sources of forecasting skill while meeting the client's objectives. The performance objective of most quants is to consistently hit "singles" and "doubles," admittedly with the occasional groundout, rather than the more exciting grand slams and strikeouts incurred by higher active risk managers. We believe an enormous benefit to asset owners is that relatively consistent value-added should keep the client invested for the long haul, which is really the number one key to success in equity investing.

A Discussion of Challenges and Opportunities:

Below, Melissa plays the role of a client, consultant, or prospect posing several of the questions and challenges that quantitative investors hear most often.

Melissa Brown (MB):
Of course nothing works all the time. Three major challenges to the short-term performance of quantitative models are changing sentiment, overuse, and misuse.

Let's start with changing sentiments.

Over the long term, fundamentals will drive stock returns. For example, stocks of companies with better earnings should outperform comparable companies with poor earnings.

However, in the shorter term, emotion and sentiment can have a dramatic effect. In some circumstances, such as when Russia defaulted on its debt in 1998, the need for liquidity trumps any underlying fundamental. Investors may dump the most liquid stocks first, regardless of their fundamental characteristics. This often happens quite suddenly and without much warning.

In addition, when the economic outlook changes and, especially when overall market sentiment changes (say, from bearish to bullish), it can be quite sudden. Stocks that are deemed to be relative winners in a recession are often dumped in favor of those that are considered early cycle stocks that have generally been quite depressed.

The good news is that liquidity events are typically not long lasting, although the liquidity driven market since July 2007 has been quite prolonged. When things settle down, the market reverts to looking at fundamentals and models begin to work again.

Jon Quigley (JQ):
Liquidity-driven events are somewhat similar to inflection points in market sentiment. We cannot eliminate the impact of either of these occurrences, but at AIP we attempt to mitigate the impact in a couple of ways. First, we limit the weight of any characteristic in our models to a 25% maximum, so that we are not too heavily at risk if and when the market stops rewarding a certain factor. Second, careful portfolio construction prevents us from tilting too heavily toward a given style, market cap, or sector. By implementing these types of risk controls, we are sacrificing a bit of the upside, but we believe the downside protection gained yields a better risk/return trade off.

MB:
The scenario is a little different when there is a clear change in the economy's path. Then, the fundamentals that underlie quant models' stock selection have to catch up with reality. So, for example, analysts may revise their earnings estimates, but quarterly reported income statement data may take a while to look more favorable. This is one reason that many models include momentum, as changes in stocks' momentum may precede changes in reported fundamentals. This means momentum can have a temporarily large shortfall in performance due to the sentiment shift, but will also start to work again faster than many of the fundamentally based models.

JQ:
As for more enduring sentiment shifts, we view those as an opportunity rather than a challenge. A model which focuses on a narrow set of valuation characteristics weighted according to past success cannot handle sustained sentiment changes. We have chosen to include a broader set of characteristics in our model and construct the model so that it can dynamically adapt to prevailing market conditions, rather than statically weighting according to past effectiveness.

MB:
When too many investors are using the same criteria to choose stocks, the benefit of a model may be arbitraged away, as investors have to act ever more quickly to get in or out ahead of the next guy. This is not only a hazard of quant models – witness the swiftness with which the internet bubble burst as soon as the market decided that the internet may not deliver everything that was expected. This "tragedy of the commons[1]" can

affect quant models as well, as was clearly demonstrated in August 2007. Although most quants had different alpha, risk, and trading models, they were similar enough that, when the liquidity crisis hit a specific segment of the market, everyone seemed to be buying and selling the same stocks. This crisis appeared to affect only the quants, and some have surmised that it was probably related to hedge funds having to raise cash (i.e., delever) due to strains in the credit portion of their portfolios that developed as the problems in sub-prime mortgages spread to higher quality credit. Delevering occurred largely in the equity portion of these portfolios as it was deemed to be more liquid and because funds that incorporated quant strategies were probably already experiencing minor performance problems in that part of the portfolios. Consequently, many of the funds sold their long positions (stocks that quants liked) and bought-to-cover their shorts (stocks that quants disliked), causing this performance disruption. This became a self fulfilling prophecy, as the short covering and selling created even worse performance in the equity portion of the portfolio, which created more margin calls, which in turn necessitated more buying to cover and selling. This downward spiral in performance of quant strategies had nothing to do with the underlying fundamentals - it was purely a liquidity driven event. So one possible solution would be to have unique factors that will not allow the model to get caught up in someone else's liquidity crisis.

JQ:
In our view, proprietary factors are inevitably arbitraged away. If there were no academic and practitioner journals, no conferences, and personnel turnover in the industry was zero, you might be able to keep a factor secret, but that is simply not reality. So, rather than trying to differentiate ourselves from the herd by relying solely on proprietary factors, we rely on several other points of differentiation in our process.

We have already discussed the fact that we use a very broad array of factors in our models. Another way to use information differently is to not assume a factor can only work in one direction. In other words, simply because low P/E stocks tend to outperform over time, one should not assume that you always want to have a low P/E bias in your portfolio. For example, in the late 1990s, the market appeared to reward stocks with high P/E multiples. While that may not make intuitive sense viewed in isolation, it does make sense when we think of this as a second-order effect. That is, investor preference was for high earnings growth (i.e., the first-order effect), regardless of the price. Our model will allow us to accommodate complementary second-order effects and tilt toward such seemingly counter-intuitive behavior.

MB:
Finally, models can fail because they are not constructed or used correctly.

Not everyone with a computer and a database can be a "good quant." Successful quant equity investing is based on a few principles. A good model is one that is right more often than it is not, but no model is right 100% or even 80% of the time. Models require adequate diversification in the portfolio to be effective. You cannot just choose one stock that looks attractive and expect it to outperform; and, if you could, we would probably all run much more concentrated portfolios. Another point is that the size of the exposure should be proportional to the strength of the view. If the model does not make big distinctions between stocks, then the size of overweights and underweights should be small. Finally, the process should be repeatable. This means that you need to have the opportunity to apply your process regularly. If your process can only emphasize a rare event, such as large stocks substantially beating small stocks, then you have to be right very often, because the opportunity to benefit from that insight is infrequent.

JQ:
We take a balanced approach to position concentration. We are modeling expected investor behavior and tilting the portfolio towards certain characteristics. We know the law of large numbers says we should own as many stocks as possible to reap the benefits of our modeling insights. However, the reality is that many of our clients do not want to own hundreds of stocks in their portfolio and, for smaller accounts, it is not feasible. In fact, we have found that holding 55 to 70 stocks in our LargeCap portfolio addresses both concerns.

MB:
Also, not all models work across the board. A factor that fares well in, for instance, technology may perform quite differently in a universe of cyclical stocks. Also, what works for large cap stocks, which tend to be well diversified companies and have other characteristics like exposure to foreign markets, may not be as effective for small stocks, which, for example, may be much more sensitive to the local economy.

MaxCap

Benchmark

S&P 100

Quarterly Performance Attribution[3]

Best Active Performance Policies:

- Style – Overweight: Earnings Yield
- Sector – Underweight: Financials, Basic Materials; Overweight: Energy, Health Care
- Industry – Underweight: Banks; Overweight: Forestry and Paper, Food & Beverages
- Stocks – Overweight: Goldman Sachs, General Dynamics, Microsoft and FEDEX

Worst Active Performance Policies:

- Style – Overweight: Momentum; Underweight: Growth
- Sector – Underweight: Technology, Consumer Non-Cyclicals
- Industry – Underweight: Home Products, Computer Hardware
- Stocks – Overweight: Chevron, Bristol Myers Squibb and Weyerhaeuser

Portfolio Content

Universe	S&P 100
Trailing 12-month Turnover	71%
Number of Holdings	35
Cash Level	2.3%

Top 10 Holdings[3]

- ExxonMobil
- Microsoft
- Chevron
- Hewlett Packard
- Goldman Sachs Group
- Pfizer
- ConocoPhillips
- Coca Cola
- JP Morgan Chase
- IBM

Portfolio Characteristics[3]

Barra Risk Factors	MaxCap	S&P 100	Difference
Currency Sensitivity	0.08	0.01	0.07
Earnings Variation	-0.01	-0.10	0.09
Earnings Yield	0.25	0.11	0.14
Growth	-0.12	-0.06	-0.06
Leverage	-0.38	-0.29	-0.09
Momentum	0.01	0.00	0.01
Size	0.85	0.91	-0.06
Trading Activity	-0.06	-0.06	0.00
Value	-0.03	-0.10	0.07
Volatility	-0.33	-0.27	-0.06
Yield	0.25	0.15	0.10

Sector Weights[3]

Sector Weights	MaxCap	S&P 100	Difference
Consumer Discretionary	3.7%	3.9%	-0.2%
Consumer Staples	10.3	12.6	-2.3
Energy	15.9	12.2	3.7
Financials	14.8	13.4	1.4
Health Care	17.3	13.5	3.8
Industrials	10.6	6.3	4.3
Materials	4.1	4.2	-0.1
Retail	2.7	5.8	-3.1
Services	4.7	6.1	-1.4
Technology	15.9	20.3	-4.4
Utilities	0.0	1.7	-1.7

Performance (as of 06.30.09)

Performance	MaxCap Pure Gross of Fees[2]	MaxCap Net of Fees	S&P 100
Second Quarter 2009[1]			
Year to Date 2009[1]			
Annualized Total Return: 1 year			
3 years			
5 years			
Since Inception[1]			

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

Inception Date – 07.01.98

MaxCap Value

Benchmark

Russell Top 200 Value

Quarterly Performance Attribution[3]

Best Active Performance Policies:

- Style – Overweight: Earnings Yield
- Sector – Overweight: Financials, Underweight: Energy
- Industry – Underweight: Banks; Overweight: Tobacco and Entertainment
- Stocks – Overweight: US Steel, State Street, Franklin Resources, General Dynamics and Omni Group

Worst Active Performance Policies:

- Style – Overweight: Momentum; Underweight: Volatility, Value and Growth
- Sector – Overweight: Technology, Underweight: Consumer Non-cyclical
- Industry – Overweight: Property/Casualty Insurance; Underweight: Home Products
- Stocks – Underweight: Wells Fargo; Overweight: Chubb, Travelers and Chevron

Portfolio Content

Universe	Russell Top 200 Value
Trailing 12-month Turnover	98%
Number of Holdings	36
Cash Level	3.4%

Top 10 Holdings[3]

- ExxonMobil
- Chevron
- JP Morgan Chase
- Johnson & Johnson
- AT&T
- ConocoPhillips
- Eli Lilly & Company
- Travelers
- State Street
- Franklin Resources

Portfolio Characteristics[3]

Barra Risk Factors	MaxCap Value	Russell Top 200 Value	Difference
Currency Sensitivity	-0.02	-0.04	0.02
Earnings Variation	0.08	0.04	0.04
Earnings Yield	0.27	0.19	0.08
Growth	-0.18	-0.16	-0.02
Leverage	-0.27	-0.15	-0.12
Momentum	-0.14	-0.17	0.03
Size	0.61	0.77	-0.16
Trading Activity	-0.02	0.10	-0.12
Value	0.26	0.26	0.00
Volatility	-0.20	-0.11	-0.09
Yield	0.28	0.27	0.01

Sector Weights[3]

Sector Weights	MaxCap Value	Russell Top 200 Value	Difference
Consumer Discretionary	8.5%	4.7%	3.8%
Consumer Staples	7.0	9.5	-2.5
Energy	16.5	18.0	-1.5
Financials	22.7	23.3	-0.6
Health Care	17.9	15.5	2.4
Industrials	10.0	5.5	4.5
Materials	4.6	5.2	-0.6
Retail	4.2	3.4	0.8
Services	6.2	8.4	-2.2
Technology	2.4	2.6	-0.2
Utilities	0.0	3.9	-3.9

Performance (as of 06.30.09)

Performance	MaxCap Value Pure Gross of Fees[2]	MaxCap Value Net of Fees	Russell Top 200 Value
Second Quarter 2009[1]			
Year to Date 2009[1]			
Annualized Total Return: 1 year			
3 years			
5 years			
Since Inception[1]			

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

Inception Date – 06.01.02

LargeCap

S&P 500

Best Active Performance Policies:

- Style – Overweight: Earnings Variation
- Sector – Overweight: Consumer Services; Underweight: Industrials
- Industry – Underweight: Life/ Health Insurance; Overweight: Home Products, Entertainment and Securities & Asset Management
- Stocks – Overweight: Cablevision Systems, Freeport McMoRan Copper & Gold and Diamond Offshore Drilling

Worst Active Performance Policies:

- Style – Overweight: Momentum, Underweight: Value, Earnings Yield
- Sector – Underweight: Technology, Overweight: Financials
- Industry – Overweight: Banks, Underweight: Telephone, Defense & Aerospace and Tobacco
- Stocks – Overweight: Northern Trust, Walmart, Chevron and Embarq

Universe	S&P 500 + 400 largest in Russell 1000
Trailing 12-month Turnover	106%
Number of Holdings	70
Cash Level	1.9%

- ExxonMobil
- JP Morgan Chase
- Procter & Gamble
- Pfizer
- Walmart
- Hewlett Packard
- Microsoft
- Chevron
- Freeport McMoRan Copper & Gold
- Diamond Offshore Drilling

Barra Risk Factors	LargeCap	S&P 500	Difference
Currency Sensitivity	0.12	0.01	0.11
Earnings Variation	0.02	-0.06	0.08
Earnings Yield	0.10	0.06	0.04
Growth	-0.09	-0.06	-0.03
Leverage	-0.19	-0.12	-0.07
Momentum	-0.04	-0.05	0.01
Size	0.42	0.37	0.05
Trading Activity	0.05	0.05	0.00
Value	-0.13	-0.03	-0.10
Volatility	-0.11	-0.10	-0.01
Yield	0.00	0.07	-0.07

Sector Weights	LargeCap	S&P 500	Difference
Consumer Discretionary	7.4%	5.1%	2.3%
Consumer Staples	10.8	10.7	0.1
Energy	14.6	11.2	3.4
Financials	18.3	14.5	3.8
Health Care	15.9	13.5	2.4
Industrials	5.5	7.1	-1.6
Materials	7.4	5.0	2.4
Retail	5.6	5.5	0.1
Services	1.5	6.1	-4.6
Technology	13.0	17.3	-4.3
Utilities	0.0	4.0	-4.0

Performance	LargeCap Pure Gross of Fees[2]	LargeCap Net of Fees	S&P 500
Second Quarter 2009[1]			
Year to Date 2009[1]			
Annualized Total Return: 1 year			
3 years			
5 years			
Since Inception[1]			

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

Inception Date – 05.01.99

SR LargeCap

S&P 500

Best Active Performance Policies:

- Style – Overweight: Earnings Yield
- Sector – Underweight: Industrials; Overweight: Basic Materials
- Industry – Underweight: Specialty Retail and Life/Health Insurance
- Stocks – Overweight: Cablevision Systems, Freeport McMoRan Copper & Gold, Int'l Paper and US Steel

Worst Active Performance Policies:

- Style – Overweight: Momentum
- Sector – Overweight: Financials; Underweight: Technology
- Industry – Overweight: Banks: Underweight: Tobacco and Telephone
- Stocks – Overweight: Northern Trust, Walmart, Bristol Myers Squibb and Chevron

Universe	S&P 500 + 400 largest in Russell 1000
Trailing 12-month Turnover	103%
Number of Holdings	70
Cash Level	1.0%

- ExxonMobil
- JP Morgan Chase
- Hewlett Packard
- Walmart
- Procter & Gamble
- Chevron
- Pfizer
- Freeport McMoRan Copper & Gold
- IBM
- McDonalds

Barra Risk Factors	SR LargeCap	S&P 500	Difference
Currency Sensitivity	0.10	0.01	0.09
Earnings Variation	0.02	-0.06	0.08
Earnings Yield	0.08	0.06	0.02
Growth	-0.09	-0.06	-0.03
Leverage	-0.15	-0.12	-0.03
Momentum	-0.02	-0.05	0.03
Size	0.43	0.37	0.06
Trading Activity	0.08	0.05	0.03
Value	-0.12	-0.03	-0.09
Volatility	-0.10	-0.10	0.00
Yield	-0.01	0.07	-0.08

Sector Weights	SR LargeCap	S&P 500	Difference
Consumer Discretionary	7.5%	5.1%	2.4%
Consumer Staples	10.9	10.7	0.2
Energy	14.3	11.2	3.1
Financials	18.5	14.5	4.0
Health Care	17.5	13.5	4.0
Industrials	2.5	7.1	-4.6
Materials	8.4	5.0	3.4
Retail	5.8	5.5	0.3
Services	1.6	6.1	-4.5
Technology	13.0	17.3	-4.3
Utilities	0.0	4.0	-4.0

Performance	SR LargeCap Pure Gross of Fees[2]	SR LargeCap Net of Fees	S&P 500
Second Quarter 2009[1]			
Year to Date 2009[1]			
Annualized Total Return: 1 year			
3 years			
5 years			
Since Inception[1]			

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

Inception Date – 12.01.04

AllCap

Russell 3000

Best Active Performance Policies:

- Style – Overweight: Earnings Variation, Underweight: Yield
- Sector – Underweight: Industrials
- Industry – Overweight: Entertainment: Underweight: Life/Health Insurance
- Stocks – Overweight: Cablevision Systems, Freeport McMoRan Copper & Gold and Diamond Offshore Drilling

Worst Active Performance Policies:

- Style – Overweight: Momentum; Underweight: Growth
- Sector – Underweight: Technology; Overweight: Consumer Cyclical and Financials
- Industry – Overweight: Banks; Underweight: Tobacco and Telephone
- Stocks – Overweight: Walmart, Chevron and Northern Trust

Universe	Russell 3000
Trailing 12-month Turnover	118%
Number of Holdings	65
Cash Level	1.4%

- ExxonMobil
- JP Morgan Chase
- Hewlett Packard
- Microsoft
- Chevron
- Pfizer
- Freeport McMoRan Copper & Gold
- Abbott Labs
- Eli Lilly
- Walmart

Barra Risk Factors	AllCap	Russell 3000	Difference
Currency Sensitivity	0.03	-0.01	0.04
Earnings Variation	0.03	0.02	0.01
Earnings Yield	0.06	0.00	0.06
Growth	-0.16	-0.01	-0.15
Leverage	-0.07	0.01	-0.08
Momentum	0.02	-0.02	0.04
Size	-0.09	-0.04	-0.05
Trading Activity	-0.03	0.02	-0.05
Value	-0.12	0.01	-0.13
Volatility	-0.06	0.03	-0.09
Yield	-0.05	0.00	-0.05

Sector Weights	AllCap	Russell 3000	Difference
Consumer Discretionary	10.0%	6.1%	3.9%
Consumer Staples	9.8	9.6	0.2
Energy	13.2	10.2	3.0
Financials	19.4	14.8	4.6
Health Care	13.5	13.2	0.3
Industrials	5.7	7.4	-1.7
Materials	5.2	5.4	-0.2
Retail	5.4	5.4	0.0
Services	4.8	6.7	-1.9
Technology	13.0	17.2	-4.2
Utilities	0.0	4.0	-4.0

Performance	AllCap Pure Gross of Fees[2]	AllCap Net of Fees	Russell 3000
Second Quarter 2009[1]			
Year to Date 2009[1]			
Annualized Total Return: 1 year			
3 years			
5 years			
Since Inception[1]			

Inception Date – 01.01.97

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

SMidCap

Russell 2500

Best Active Performance Policies:

- Style – Overweight: Earnings Yield; Underweight: Yield
- Sector – Overweight: Financials and Consumer Services: Underweight: Transportation
- Industry – Underweight: Banks; Overweight Semiconductors and Hotels
- Stocks – Overweight: Graftech Int'l, Swift Energy, Herbalife and Varian

Worst Active Performance Policies:

- Style – Overweight: Momentum; Underweight: Volatility and Growth
- Sector – Overweight: Consumer Cyclicals: Underweight: Consumer Non-Cyclicals
- Industry – Overweight: Construction & Real Estate and Energy Reserves
- Stocks – Overweight: ITT Educational, Granite Construction and TFS Financial

Universe	Russell 2500
Trailing 12-month Turnover	117%
Number of Holdings	144
Cash Level	1.2%

- Cymer
- Graftech International Ltd.
- PS Business Parks
- Novellus Systems
- Greenhill & Company
- Steven Madden
- Capella Education
- ITT Educational Services
- Varian
- Swift Energy

Barra Risk Factors	SMidCap	Russell 2500	Difference
Currency Sensitivity	-0.25	-0.25	0.00
Earnings Variation	0.29	0.34	-0.05
Earnings Yield	-0.17	-0.33	0.16
Growth	0.01	0.10	-0.09
Leverage	0.46	0.62	-0.16
Momentum	0.14	0.12	0.02
Size	-2.20	-2.05	-0.15
Trading Activity	-0.04	-0.05	0.01
Value	0.12	0.22	-0.10
Volatility	0.54	0.60	-0.06
Yield	-0.36	-0.29	-0.07

Sector Weights	SMidCap	Russell 2500	Difference
Consumer Discretionary	13.8%	9.0%	4.8%
Consumer Staples	1.3	4.0	-2.7
Energy	6.0	4.9	1.1
Financials	19.7	17.7	2.0
Health Care	8.5	13.7	-5.2
Industrials	6.9	8.8	-1.9
Materials	5.1	6.6	-1.5
Retail	10.0	6.3	3.7
Services	13.2	9.0	4.2
Technology	13.9	14.6	-0.7
Utilities	1.6	5.4	-3.8

Performance	SMidCap Pure Gross of Fees[2]	SMidCap Net of Fees	Russell 2500
Second Quarter 2009[1]			
Year to Date 2009[1]			
Annualized Total Return: 1 year			
3 years			
5 years			
Since Inception[1]			

Inception Date – 11.01.02

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

Notes to Composite Performance Presentations

Advanced Investment Partners is a registered investment advisor specializing in the professional management of investment portfolios utilizing advanced quantitative techniques. The firm claims compliance with the Global Investment Performance Standards (GIPS®).

Beginning January 1, 2000, Advanced Investment Partners has engaged independent accountants to verify the firm's compliance with GIPS and to perform individual performance exams for the firm. To receive a complete list and description of the firm's composites and/or a presentation that adheres to the GIPS Standards, contact Advanced Investment Partners at (727) 799-3671 or write to Advanced Investment Partners, 100 Main Street Suite 301, Safety Harbor, FL 34695.

In each of its investment strategies, the firm seeks to outperform the stated benchmark over time through superior stock selection combined with rigorous, precise portfolio risk management. Accounts under each composite strategy will hold a diversified portfolio of common stocks that in aggregate exhibit investment characteristics and industry representations similar to those of the strategy's benchmark index. Performance results represent a market value-weighted composite of all discretionary accounts under the respective investment strategy, calculated on a time-weighted basis for cash flows on a monthly basis, including the reinvestment of dividends, interest and capital gains. Historical portfolio returns are calculated by linking individual monthly returns. Pure gross of fee returns do not reflect the deduction of investment management fees or bundled fees for certain accounts where transaction costs cannot be separately identified from other service fees charged by the client's broker/dealer or outside custodian. Gross of fee returns deduct transaction fees but do not take into account investment management fees, brokerage fees or bundled fees paid for certain accounts where transaction costs cannot be separately identified from other service fees charged by the client's broker/dealer or custodian. Net of fee returns reflect the deduction of investment management fees, brokerage fees and bundled fees as applicable.

Composite returns, both historic and future, will be impacted by the same material market and economic conditions that influence the benchmark index. All returns have been calculated in US dollars. COMPOSITE RETURNS REPRESENT PAST PERFORMANCE AND ARE NOT PREDICTIVE OF FUTURE RESULTS.

Each strategy's performance composite and related benchmark index are defined as follows:

LargeCap-Institutional Composite includes all discretionary accounts greater than $3 million managed under the LargeCap strategy where the firm is authorized with best execution trading responsibility. The LargeCap institutional composite is benchmarked to the S&P 500 Index, a broad based market value weighted index of 500 stocks chosen by committee at Standard and Poor's Corp. for their size and industry characteristics.

AllCap Composite includes all non-wrap discretionary accounts managed under the AllCap strategy and is benchmarked to the Russell 3000 Index. The Russell 3000 Index is an index of US stocks that represents approximately 98% of the US equity market's total capitalization.

MaxCap Composite includes all discretionary accounts managed under the MaxCap Strategy and is benchmarked to the S&P 100 Index. The S&P 100 Index is widely regarded as a standard for measuring the performance of 100 of the very largest capitalization US stocks as chosen by committee at Standard and Poor's Corp. for their size and industry characteristics.

SMidCap Composite includes all discretionary accounts managed under the SMidCap strategy. The SMidCap composite is benchmarked to the Russell 2500 Index, which measures the performance of the 2,500 smallest companies in the Russell 3000 Index and represents approximately 17% of the total market capitalization of the Russell 3000 Index.

MaxCap Value includes all accounts managed under the MaxCap Value Strategy. The composite is benchmarked to the Russell Top 200 Value Index which measures the performance of the especially large cap segment of the U.S. equity universe represented by stocks in the largest 200 by market cap that exhibit value characteristics.

Sustainable Responsible LargeCap includes the actual performance of all unrestricted discretionary wrap fee accounts that follow AIP's Sustainable Responsible Strategy. The Sustainable Responsible LargeCap strategy is benchmarked to the S&P 500 Index, a broad based market value weighted index of 500 stocks chosen by committee at Standard and Poor's Corp. for their size and industry characteristics.

Notice: Although the information contained in this publication has been prepared by sources deemed to be reliable and is believed to be accurate as of the date referenced, there is no representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

Frank Russell Company (FRC) is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination, or redistribution is strictly prohibited. This is an AIP presentation of the Russell Index data. Frank Russell Company is not responsible for the formatting or configuration of this material or for any inaccuracy in AIP's presentation thereof.

Standard & Poor's is the owner of the trademarks and copyrights relating to the S&P indexes. MSCI Barra. Barra, Inc.'s analytics and data (www.barra.com) were used in the preparation of this report. Copyright 2008 BARRA, INC. All Rights reserved.

All indices are unmanaged and performance of the indices includes reinvestment of dividends and interest income, unless otherwise noted. The indices are not illustrative of any particular investment and it is not possible to invest directly in an index.

[1] These returns are presented as supplemental information to the returns required by the GIPS Advertising Guidelines.

[2] Pure Gross of Fee Returns are presented as supplemental information and do not reflect the deduction of investment management fees or bundled fees for certain accounts where transaction costs cannot be separately identified from other service fees charged by the client's broker/dealer or custodian. Information presented on a pure gross of fee basis has not been independently verified. Net of fee performance reflects the deduction of investment management fees and bundled fees as applicable.

[3] These characteristics, allocations and holdings are determined from the representative portfolio. Holdings are subject to change over time. Individual client portfolios may vary.

The specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients, and it should not be assumed that investment in securities identified and discussed has or will be profitable.

To obtain a full list of all securities recommended during the past year, contact Advanced Investment Partners at (727) 799-3671.

This information has been prepared for informational purposes only and Advanced Investment Partners, LLC (AIP) is not soliciting any action based upon it. The material is not intended to provide specific advice or recommendations but, rather, a basis from which strategies can be built, taking into account the specific objectives of each portfolio, in terms of return, time horizon, and risk constraints, as well as diverging investment perspectives and assumptions. The material contains information regarding the investment approach described herein and is not a complete description of the investment objectives, policies, guidelines or portfolio management and research that supports this investment approach. Any decision to engage AIP should be based upon a review of the terms of the investment management agreement and the specific investment objectives, policies and guidelines that apply under the terms of such agreement.

Opinions expressed are AIP's present opinions only and are subject to changes based on market, economic and other conditions and may not actually come to pass. Any historical price(s) or value(s) are also only as of the date indicated.

JQ:
You mention that not all models will produce good security selection in all segments of the market. We address this directly by isolating market segments and customizing models for these segments. We cleave the market into eight style-based groups along market cap and growth/value lines, as well as into 11 economic sectors, and independently determine the most effective stock selection factors for each segment. We often find that something like earnings revisions will work for the broad market, but does not for stocks within a certain economic sector.

MB:
Quants tend to assume the relationships they discover will remain stationary and not become overly crowded. But there are, for example, bull market factors like momentum that are less effective in bear markets and there are bear market factors like low volatility that may not work in bull markets. Further externalities, such as a credit crisis, can have a significant effect and are difficult to foresee or model. For example, value models should fare well when stocks are falling, but because of concerns about credit in this recent bear market, value has not behaved as expected.

JQ:
A couple of the challenges you point out have to deal with factor selection. As far as selecting factors based on recent behavior, we attack that in two ways. The first is to test factor behavior back into the 1980s. However, this in isolation is not sufficient because we want our model to include factors that will allow us to outperform in a variety of conditions. Therefore, we break the study period into four distinct time periods and select a subset of the best factors from each of those regimes. We then add a few additional factors which provide diversity to our factor set while still leading to expected outperformance. This leads to a group of factors with low correlation and gives our model a robustness to outperform in a variety of circumstances.

The Forecast:

Turning back to our original question about the conditions for quants as we move forward, after several years of stock returns driven by systemic factors such as industry exposures and beta, we believe stock-level dispersion should increase as market volatility recedes from notably high levels. Valuation spreads remain at very high levels, despite the recent market rally. The tepid economic recovery should translate into clear intra-industry winners and losers. Each of these conditions leaves ample opportunity for investment strategies that focus on stock selection rather than style or sector bets as a primary source of value-added. This also means that managers will need to adequately diversify portfolios in order to control risk.

We have undergone two severe liquidity events in the past 20 months. As we move towards, what some are calling the "new normal," having an adaptive model which capitalizes on emerging investment opportunities will be very important. The "old" static method of investing may no longer work.

Contact

Please address your inquiries or provide feedback to:

Laurie Watson
Partner, Relationship Management

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

(888) 248-8324
(727) 799-3671
Fax: (727) 799-1232
Email: laurie@aipllc.com
www.aipllc.com

[1]Garrett Hardin, "Science", 1968. When multiple individuals act independently in their own self-interest and destroy a common resource, even if that is not in anyone's long term interest.