

QUARTER 2: 2011



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Style Box Investing: Do You Really Know What's In Your Box?

A recent update of the eVestment Alliance Global Database shows there were 1,108 investment firms reporting performance for 4,015 US equity products. Having options is typically a good thing, but where does one begin when making decisions about which managers' strategies to select and how to combine them when there are 4,015 options?! And that's just for the US equity portion of your portfolio!

An important component of any investment policy is establishing a structure for the investment portfolio. Structure provides an investor with a fundamental discipline in addressing the inherent complexity of making choices among a vast array of uncertain investment options. One approach to structuring the US equity portion of an investor's portfolio, which has become a rather accepted convention, is based on style boxes. The investor selects "the best" value and growth managers for larger and smaller cap stocks and that's it, 4,015 options have been quickly framed into 4 choices.

Can it really be that straightforward? Can such complexity be sufficiently managed by filling out style box assignments? Does style box investing lead to a portfolio of outperforming, best-of-breed managers? Before we look at some recent style box investing results, let's first review the origins and motivations that led to the development of style boxes.

Origins of the Style Box

Styles boxes evolved from the devel-

opment of style indexes, which in turn emerged from an effort aimed at improving the quality of investment manager evaluations. Using broad market indexes such as the S&P 500 as a benchmark to evaluate the performance of managers that exhibit consistent investment biases – e.g., low P/E managers or aggressive growth managers – is an ineffective approach to assessing manager skill. Broad market comparisons for such managers do not allow for accurate attribution of performance into sources arising from systematic style biases versus true active manager skill.

In part, as recognition of this shortfall in manager benchmarking, Wilshire introduced their US equity "Target Style Indexes" in 1986 as representations of very concentrated growth or value investment styles. Similarly, Russell Investments launched their first US style indexes in 1987 by focusing on managers that were more "Earnings Growth" focused (i.e., growth styled) or "Price-Driven" focused (i.e., value styled).¹ Wilshire's and Russell's research in this area was a significant advancement towards a more effective approach to controlling for style biases when assessing an investment manager's active skill.

The analytic use of style indexes were considerably strengthened by the research of William Sharpe in his 1988 landmark article, "Determining a Fund's Effective Asset Mix"² which he furthered in his 1992 article, "Asset allocation: Management style and performance measurement."³ These articles laid the foundation for using

Firm Overview

- A proven leader in the use of disciplined, systematic investment management techniques
- Founded in 1996
- Based in Safety Harbor, FL
- Principals own meaningful equity stake
- Manages the following strategies:
 - MaxCap
 - LargeCap
 - Sustainable Responsible LargeCap
 - AllCap
 - TaxManaged AllCap
 - TaxManaged LargeCap
 - SMidCap
 - Sustainable Responsible SMidCap

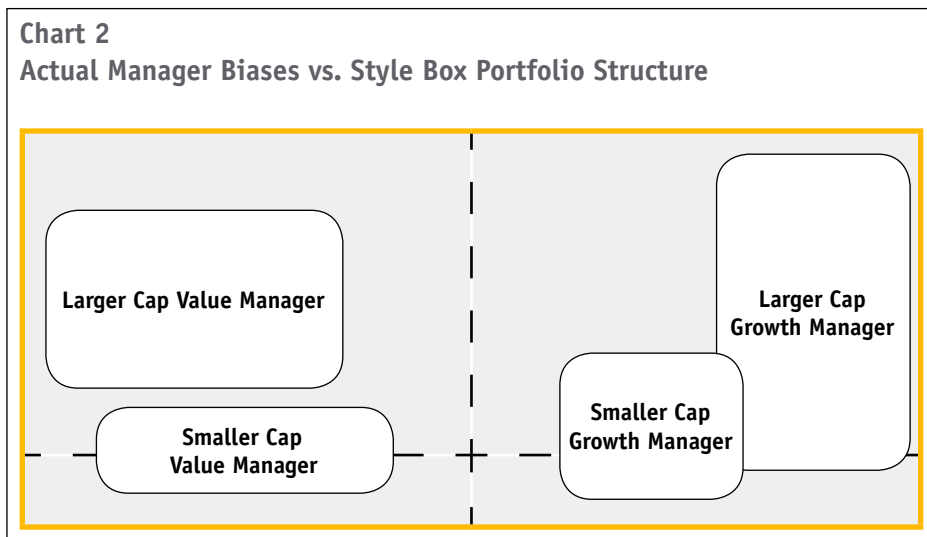
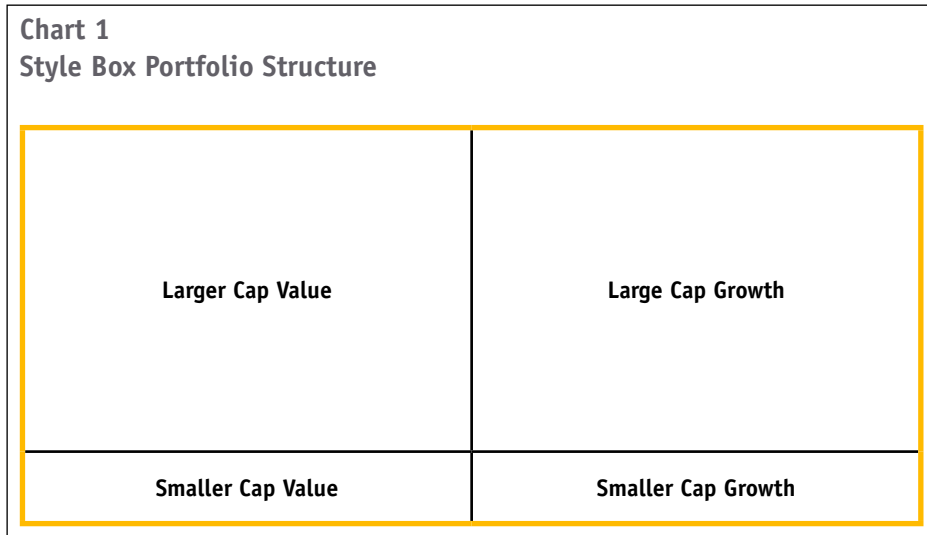
style indexes to perform returns-based style analyses. And then perhaps the most significant commercialization of the use of style indexes was in 1992 when Morningstar introduced their nine-square Morningstar Style Box™ – and voila, the style box was born.

Multi-Manager Portfolio Structuring

In a similar way that style indexes improved the ease with which investors could benchmark individual managers that exhibited consistent style biases, the introduction of style boxes ultimately led to a simplified scheme for structuring multi-manager equity portfolios. An investor could segment their market exposure into market cap slices and weight them appropriately (e.g., 80% larger cap and 20% smaller cap) and then divide each market cap segment based on style (e.g., 50% value and 50% growth). Therefore, in this example, the “optimal allocation” of your portfolio would be to place 40% each with a larger cap value and growth manager plus 10% each with a smaller cap value and growth manager – as shown in Chart 1.

However, the ease of using style indexes and style boxes does not come without potential shortcomings – mostly in the appropriateness of the style indexes as a manager’s benchmark as well as the thoroughness of style boxes in managing aggregate market exposure. Individual managers may have investment biases that are generally in line with a similarly labeled style index, but they may differ in material ways. Therefore, when you combine imperfectly complementary managers into a multi-manager aggregate portfolio, the investor may not achieve the desired – and expected – degree of aggregate market exposure (as suggested in Chart 2).

Chart 2 suggests that the style indexes that define the investment biases for each style box may not be an equally good fit for each manager. We observe that the Larger Cap Value Manager is



biased towards deep value (i.e., skewed to the left) and is underrepresented in the mega cap segment of the market (i.e., biased downwards within the Larger Cap Value style box). The Larger Cap Growth Manager is skewed to the right indicating more of an aggressive growth bias along with a market cap bias that ventures down into the Smaller Cap Growth style box. The Small Cap Value Manager appears to be a pretty good fit within the Smaller Cap Value

style box while the Smaller Cap Growth Manager is skewed leftward – indicating perhaps a growth-at-a-reasonable-price bias – as well as exhibiting more of an upward, mid cap bias. These individual manager skews within their style boxes combine to introduce sources of aggregate risk and return variability that may not be evident to the style box investor.

The gray areas within Chart 2 reveal the sources of misfit risk within the investor’s

Table 1
Larger Cap Manager Annualized Total Returns as of 12/31/10
Value + Growth vs. Core

| Superior Manager Selection Skill | | | | | | | | |
|----------------------------------|------------------|-------|-------|---------------------------------|------------------|-------|-------|--|
| | Trailing Returns | | | | Trailing Returns | | | |
| | 3 Yr | 5 Yr | 10 Yr | | 3 Yr | 5 Yr | 10 Yr | |
| Larger Cap Value Q1 average | 1.12 | 5.38 | 6.69 | Larger Cap Value Q1 median | 0.58 | 5.03 | 6.42 | |
| Larger Cap Growth Q1 average | 2.79 | 6.17 | 4.15 | Larger Cap Growth Q1 median | 2.30 | 5.92 | 3.97 | |
| Value + Growth | 1.95 | 5.78 | 5.42 | Value + Growth | 1.44 | 5.48 | 5.20 | |
| Larger Cap Core Q1 average | 2.18 | 6.59 | 6.20 | Larger Cap Core Q1 Median | 1.07 | 5.88 | 5.64 | |
| Value + Growth vs. Core | -0.22 | -0.81 | -0.78 | Value + Growth vs. Core | 0.37 | -0.41 | -0.44 | |
| Good Manager Selection Skill | | | | | | | | |
| | Trailing Returns | | | | Trailing Returns | | | |
| | 3 Yr | 5 Yr | 10 Yr | | 3 Yr | 5 Yr | 10 Yr | |
| Larger Cap Value Q1, Q2 average | -0.17 | 4.51 | 5.98 | Larger Cap Value Q1, Q2 median | -0.60 | 4.11 | 5.60 | |
| Larger Cap Growth Q1, Q2 average | 1.43 | 5.36 | 3.25 | Larger Cap Growth Q1, Q2 median | 0.71 | 5.14 | 3.04 | |
| Value + Growth | 0.63 | 4.94 | 4.61 | Value + Growth | 0.06 | 4.63 | 4.32 | |
| Larger Cap Core Q1, Q2 average | 0.81 | 5.53 | 5.17 | Larger Cap Core Q1, Q2 Median | 0.13 | 5.11 | 4.66 | |
| Value + Growth vs. Core | -0.18 | -0.60 | -0.56 | Value + Growth vs. Core | -0.08 | -0.48 | -0.35 | |
| S&P 500 Index | -2.87 | 2.28 | 1.41 | S&P 500 Index | -2.87 | 2.28 | 1.41 | |

Data Sources: eVestment Alliance Global Database; Standard & Poors.

multi-manager aggregate portfolio. Overall, this example reveals a lack of exposure to mega cap stocks, a lack of core market segment exposure throughout the market cap spectrum (i.e., those stocks that are more balanced in their value and growth characteristics), and an overlapping representation among mid cap growth stocks. A considerable improvement in this investor's multi-manager portfolio's risk profile could be had by introducing a manager specializing in mega cap stocks as well as a core-biased manager. Addressing the

overlapping mid cap growth exposure would require an evaluation of the two growth managers in order to determine whether any changes were potentially warranted.

Style Box Investing Results

Underexposure to the market's core segment has typically not been a concern for investor's pursuing a style box approach to structuring their multi-manager portfolio. The rationale typically advanced is that the investor can hire

"best-of-breed" value and growth managers that when combined – in a barbell manner – will outperform the results of the market's overall core profile. Tables 1 and 2 provide some insight into the recent results of a best-of-breed, style box approach.

Using data from the eVestment Alliance Global Database of reported manager returns, we looked at the results of combining value and growth managers versus the results of core managers assuming two different levels of man-

Table 2
Smaller Cap Manager Annualized Total Returns as of 12/31/10
Value + Growth vs. Core

| Superior Manager Selection Skill | | | | | | | | |
|-----------------------------------|------------------|-------|-------|----------------------------------|------------------|-------|-------|--|
| | Trailing Returns | | | | Trailing Returns | | | |
| | 3 Yr | 5 Yr | 10 Yr | | 3 Yr | 5 Yr | 10 Yr | |
| Smaller Cap Value Q1 average | 10.28 | 10.24 | 14.11 | Smaller Cap Value Q1 median | 9.31 | 9.68 | 13.48 | |
| Smaller Cap Growth Q1 average | 7.45 | 9.95 | 9.40 | Smaller Cap Growth Q1 median | 6.67 | 9.29 | 8.98 | |
| Value + Growth | 8.86 | 10.10 | 11.76 | Value + Growth | 7.99 | 9.49 | 11.41 | |
| Smaller Cap Core Q1 average | 8.92 | 9.81 | 11.81 | Smaller Cap Core Q1 Median | 7.98 | 9.61 | 11.56 | |
| Value + Growth vs. Core | -0.06 | 0.29 | -0.05 | Value + Growth vs. Core | 0.01 | -0.13 | -0.15 | |
| Good Manager Selection Skill | | | | | | | | |
| | Trailing Returns | | | | Trailing Returns | | | |
| | 3 Yr | 5 Yr | 10 Yr | | 3 Yr | 5 Yr | 10 Yr | |
| Smaller Cap Value Q1, Q2 average | 8.54 | 8.89 | 13.13 | Smaller Cap Value Q1, Q2 median | 7.80 | 8.30 | 12.68 | |
| Smaller Cap Growth Q1, Q2 average | 5.66 | 8.61 | 8.10 | Smaller Cap Growth Q1, Q2 median | 5.18 | 8.12 | 7.62 | |
| Value + Growth | 7.10 | 8.75 | 10.61 | Value + Growth | 6.49 | 8.21 | 10.15 | |
| Smaller Cap Core Q1, Q2 average | 6.93 | 8.45 | 10.76 | Smaller Cap Core Q1, Q2 Median | 6.19 | 7.99 | 10.43 | |
| Value + Growth vs. Core | 0.17 | 0.30 | -0.15 | Value + Growth vs. Core | 0.30 | 0.22 | -0.29 | |
| Russell 2500 Index | 1.89 | 4.49 | 6.79 | Russell 2500 Index | 1.89 | 4.49 | 6.79 | |

Data Sources: eVestment Alliance Global Database; Russell Investments.

ager selection skill. We define an investor with “superior selection skill” as the ability to select the average or median for top quintile performing managers while “good selection skill” is represented by selecting the average or median for managers in the top two quintiles of performance. This analysis was performed for both larger cap managers and smaller cap managers.⁴

For larger cap managers in Table 1, whether we assume superior or good manager selection skill, the typical

convention of a 50/50 combination of value and growth managers rather consistently underperformed a core manager over the trailing 3, 5 and 10 year time periods ending December 31, 2010. While the Value + Growth returns clearly exceeded the return of the S&P 500 index over all trailing periods, the fact that it trailed the Core return suggests that investors have achieved suboptimal results by pursuing a barbell, best-of-breed style box approach to structuring their larger cap market exposure. For the time periods under

review, the investor would have been better served to go with the Core manager instead of the Value + Growth combination, or they should have considered adding a Core manager to their style box combination.

The comparison of results among smaller cap managers in Table 2 were more mixed. In general, the Value + Growth returns were closer to those of the Core with no clear sign of one alternative being better than the other. Therefore, the barbell, best-of-breed style box

approach to structuring an investor's smaller cap market exposure seems to have yielded reasonable results for the time periods under review.

Other Considerations

We've seen that style box investing may not have delivered the expected best-of-breed results over the last ten years. While style box investing has become a conventional approach to structuring a multi-manager portfolio, there may be some other considerations that make this approach less attractive.

The results that we have shown assume a constant 50/50 mix of value and growth manager exposure. However, the reality is that in order to realize the returns associated with this constant mix, the investor would need to rebalance their portfolio – periodically taking assets from the relatively stronger manager and placing it with the other manager – which would result in transaction costs. Such costs would reduce the realized returns from the Value + Growth manager combination.

There is also the potential for cross-manager trading and its associated transaction costs. Stocks can move from value to growth managers and vice versa as the fundamentals and merits of a stock evolve over time. The appreciating value stock may be sold by the price-sensitive value manager only to be bought by the growth manager for its improving growth characteristics. This turnover is a result of each manager remaining true to their narrow style while the multi-manager investor incurs the cost of such noisy trading within their aggregate portfolio.

Another consideration is manager fees. Typically, manager fees are lower for higher amounts of assets that are managed for a client. Therefore, consolidating assets with a single Core manager may result in lower aggregate manager fees than splitting the assets

between Value and Growth managers.

Summary

What began with style indexes and their application towards improved manager benchmarking, has evolved into style boxes being used as a conventional approach to structuring multi-manager portfolios. This is an easy to implement and easy to understand approach, but is not without its drawbacks. The hoped for outcome of achieving superior results by combining best-of-breed style managers has not been realized over the last ten years. Therefore, it's not surprising that we are seeing less conviction towards the simplified style box approach to selecting and combining managers, and greater interest in more flexible and robust multi-manager structures.

Notes

- 1) Houghton, Kelly and Jon Christopherson, "Equity Style Indexes: Tools for Better Performance Evaluation and Plan Management," Russell Research Commentary, September 1989.
- 2) Sharpe, William, "Determining a Fund's Effective Asset Mix," Investment Management Review, September/October 1988, pp. 16-29.
- 3) Sharpe, William, "Asset allocation: Management style and performance measurement," The Journal of Portfolio Management, Volume 18, Number 2, Winter 1992, pp. 7-19.
- 4) Manager return data was collected from the eVestment Alliance Global Database as of December 31, 2010. Each manager universe was screened using the following criteria: 1) manager return data available for all time periods and 2) remove multiple products for individual managers based on less complete return history, more concentrated portfolios, ESG biased strategies, tax managed products, and funds subadvised by managers listed independently. The preferred benchmarks for each manager universe are detailed below. The data includes a survivorship bias as only those managers that had uninterrupted returns were considered. The impact of this bias is to skew the return data

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upwards, but should not adversely impact the conclusions reached by focusing the analysis on superior and good manager selection skill.

Larger Cap Value Managers: Preferred benchmarks included Russell 1000 Value, S&P 500/Citigroup Value or Wilshire Large Cap Value indexes.

Larger Cap Growth Managers: Preferred benchmarks included Russell 1000 Growth or S&P 500/Citigroup Growth indexes.

Larger Cap Core Managers: Preferred benchmarks included Russell 1000 or S&P 500 indexes.

Smaller Cap Value Managers: Preferred benchmarks included Russell 2500 Value, Russell 2000 Value or S&P Small Cap 600/Citigroup Value indexes.

Smaller Cap Growth Managers: Preferred benchmarks included Russell 2500 Growth or Russell 2000 Growth indexes.

Smaller Cap Core Managers: Preferred benchmarks included Russell 2500, Russell 2000, S&P 1000, or S&P 600 indexes.

| | MaxCap | | | | LargeCap | | | | | |
|--|--|--------|--|--------------------|---|--|---|---|----------------------|---------|
| Benchmark | S&P 100 | | | | S&P 500 | | | | | |
| Quarterly Performance Attribution ³ | Best Active Performance Policies: | | Worst Active Performance Policies: | | Best Active Performance Policies: | | Worst Active Performance Policies: | | | |
| | <ul style="list-style-type: none"> • Style – Overweight: Momentum • Sector – Overweight: Consumer Cyclical • Industry – Overweight: Apparel & Textiles • Stocks – Overweight: UnitedHealth Group, Nike, and Amazon.com | | <ul style="list-style-type: none"> • Style – Overweight: Volatility • Sector – Underweight: Health Care & Consumer Non-Cyclical; Overweight: Energy & Financials • Industry – Underweight: Drugs; Overweight: Energy Reserves • Stocks – Overweight: Goldman Sachs Group, Wells Fargo & Company, JP Morgan Chase, and Weyerhaeuser | | <ul style="list-style-type: none"> • Style – Overweight: Momentum • Sector – Overweight: Utilities and Energy • Industry – Overweight: Electric Utilities • Stocks – Overweight: Amazon.com and Precision CastParts | | <ul style="list-style-type: none"> • Style – Overweight: Volatility • Sector – Underweight: Health Care • Industry – Underweight: Drugs • Stocks – Overweight: Valero Energy, Goldman Sachs and Bank of America | | | |
| Portfolio Content | Universe S&P 100 Trailing 12-month Turnover74% Number of Holdings 35 Cash Level 3.4% | | | | Universe S&P 500 + 400 largest in Russell 1000 Trailing 12-month Turnover110% Number of Holdings 70 Cash Level 1.7% | | | | | |
| Top Active Weights ³ | Top Five Active Weights | | Bottom Five Active Weights | | Top Five Active Weights | | Bottom Five Active Weights | | | |
| | UnitedHealth | 2.67% | Microsoft | -2.52% | Amazon.com | 2.85% | Microsoft | -1.56% | | |
| | Amazon.com | 2.59 | AT&T | -2.52 | Precision Castparts | 2.74 | Chevron | -1.46 | | |
| | Apple | 2.58 | Johnson & Johnson | -2.49 | Northeast Utilities | 2.60 | Pfizer | -1.37 | | |
| | Baker Hughes | 2.53 | Procter & Gamble | -2.44 | Salesforce.com | 2.57 | JP Morgan Chase | -1.36 | | |
| | Nike | 2.43 | Pfizer | -2.21 | Dow Chemical | 2.51 | Berkshire Hathaway | -1.13 | | |
| Portfolio Characteristics ³ | Barra Risk Factors | | | | Barra Risk Factors | | | | | |
| | | MaxCap | S&P 100 | Difference | | LargeCap | S&P 500 | Difference | | |
| | Currency Sensitivity | -0.05 | 0.02 | -0.07 | Currency Sensitivity | 0.03 | 0.03 | 0.00 | | |
| | Earnings Variation | -0.09 | -0.11 | 0.02 | Earnings Variation | -0.11 | -0.09 | -0.02 | | |
| | Earnings Yield | 0.17 | 0.26 | -0.09 | Earnings Yield | -0.04 | 0.12 | -0.16 | | |
| | Growth | 0.00 | -0.05 | 0.05 | Growth | 0.11 | -0.06 | 0.17 | | |
| | Leverage | -0.23 | -0.26 | 0.03 | Leverage | 0.03 | -0.13 | 0.16 | | |
| | Momentum | 0.00 | -0.13 | 0.13 | Momentum | 0.12 | -0.07 | 0.19 | | |
| | Size | 0.79 | 0.96 | -0.17 | Size | 0.20 | 0.39 | -0.19 | | |
| | Trading Activity | -0.05 | -0.10 | 0.05 | Trading Activity | 0.18 | 0.04 | 0.14 | | |
| | Value | -0.08 | 0.01 | -0.09 | Value | -0.10 | 0.00 | -0.10 | | |
| | Volatility | -0.23 | -0.29 | 0.06 | Volatility | -0.17 | -0.17 | 0.00 | | |
| | Yield | 0.10 | 0.21 | -0.11 | Yield | -0.03 | 0.10 | -0.13 | | |
| Sector Weights ³ | Sector Weights | | | | Sector Weights | | | | | |
| | | MaxCap | S&P 100 | Difference | | LargeCap | S&P 500 | Difference | | |
| | Consumer Discretionary | 4.0% | 4.9% | -0.9% | Consumer Discretionary | 2.0% | 6.3% | -4.3% | | |
| | Consumer Staples | 6.7 | 11.6 | -4.9 | Consumer Staples | 6.8 | 9.9 | -3.1 | | |
| | Energy | 13.7 | 13.7 | 0.0 | Energy | 10.0 | 11.6 | -1.6 | | |
| | Financials | 18.9 | 15.1 | 3.8 | Financials | 14.8 | 16.1 | -1.3 | | |
| | Health Care | 5.4 | 10.3 | -4.9 | Health Care | 10.1 | 11.4 | -1.3 | | |
| | Industrials | 12.0 | 8.5 | 3.5 | Industrials | 8.7 | 8.3 | 0.4 | | |
| | Materials | 1.3 | 4.3 | -3.0 | Materials | 5.0 | 5.1 | -0.1 | | |
| | Retail | 9.3 | 5.0 | 4.3 | Retail | 5.3 | 5.1 | 0.2 | | |
| | Services | 5.3 | 5.1 | 0.2 | Services | 9.9 | 5.4 | 4.5 | | |
| | Technology | 23.4 | 20.1 | 3.3 | Technology | 19.1 | 17.3 | 1.8 | | |
| | Utilities | 0.0 | 1.4 | -1.4 | Utilities | 8.3 | 3.5 | 4.8 | | |
| Performance (as of 06/30/2011) | Performance | | MaxCap Pure Gross of Fees ² | MaxCap Net of Fees | S&P 100 | Performance | | LargeCap Pure Gross of Fees ² | LargeCap Net of Fees | S&P 500 |
| | Second Quarter 2011 ¹ | | | | | Second Quarter 2011 ¹ | | | | |
| Annualized Total Return | For performance data, please contact Laurie Watson at (888) 248-8324 | | | | 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 | | | | | Inception Date – 05.01.99 | | | | | |

SR LargeCap

AllCap

S&P 500

Russell 3000

Best Active Performance Policies:

- Style – Overweight: Momentum
- Sector – Overweight: Utilities and Energy
- Industry – Overweight: Electric Utilities and Medical Services
- Stocks – Overweight: El Paso, Oneok, Teradata, and Colgate Palmolive

Worst Active Performance Policies:

- Style – Overweight: Volatility
- Sector – Underweight: Health Care and Financials
- Industry – Underweight: Drugs and Food & Beverages
- Stocks – Overweight: Goldman Sachs Group, Valero Energy, and Google

Best Active Performance Policies:

- Style – Overweight: Momentum
- Sector – Underweight: Industrials; Overweight: Energy
- Industry – Underweight: Oil Services and Heavy Electrical Equipment; Overweight: Medical Services
- Stocks – Overweight: Amazon.com, El Paso, WR Grace and WellCare Health Plans

Worst Active Performance Policies:

- Style – Overweight: Volatility
- Sector – Overweight: Financials, Health Care, and Consumer Services
- Industry – Underweight: Biotech, Drugs, and Media; Overweight: Securities & Asset Management
- Stocks – Overweight: Vulcan Materials, Goldman Sachs Group, and Valero Energy

Universe S&P 500 + 400 largest in Russell 1000
 Trailing 12-month Turnover 109%
 Number of Holdings 85
 Cash Level 3.2%

Universe Russell 3000
 Trailing 12-month Turnover 116%
 Number of Holdings 69
 Cash Level 0.9%

Top Five Active Weights

IBM 2.55%
 Dow Chemical 2.51
 UPS 2.39
 Pinnacle West Capital 2.36
 Johnson Controls 2.25

Bottom Five Active Weights

Chevron -1.70%
 Microsoft -1.56
 Pfizer -1.37
 JP Morgan Chase -1.36
 Berkshire Hathaway -1.13

Top Five Active Weights

Amazon.com 3.01%
 Dow Chemical 2.78
 Edison International 2.59
 Johnson Controls 2.51
 El Paso 2.06

Bottom Five Active Weights

General Electric -1.34%
 Microsoft -1.30
 Pfizer -1.13
 JP Morgan Chase -1.10
 Coca-Cola -0.96

| Barra Risk Factors | SR LargeCap | S&P 500 | Difference |
|----------------------|-------------|---------|------------|
| Currency Sensitivity | 0.03 | 0.03 | 0.00 |
| Earnings Variation | -0.08 | -0.09 | 0.01 |
| Earnings Yield | -0.02 | 0.12 | -0.14 |
| Growth | -0.03 | -0.06 | 0.03 |
| Leverage | 0.04 | -0.13 | 0.17 |
| Momentum | 0.09 | -0.07 | 0.16 |
| Size | 0.20 | 0.39 | -0.19 |
| Trading Activity | 0.13 | 0.04 | 0.09 |
| Value | -0.10 | 0.00 | -0.10 |
| Volatility | -0.16 | -0.17 | 0.01 |
| Yield | 0.04 | 0.10 | -0.06 |

| Barra Risk Factors | AllCap | Russell 3000 | Difference |
|----------------------|--------|--------------|------------|
| Currency Sensitivity | 0.09 | 0.01 | 0.08 |
| Earnings Variation | 0.06 | -0.02 | 0.08 |
| Earnings Yield | -0.04 | 0.00 | -0.04 |
| Growth | 0.05 | -0.02 | 0.07 |
| Leverage | 0.17 | -0.02 | 0.19 |
| Momentum | 0.21 | -0.01 | 0.22 |
| Size | -0.25 | -0.04 | -0.21 |
| Trading Activity | 0.15 | 0.00 | 0.15 |
| Value | -0.05 | 0.01 | -0.06 |
| Volatility | 0.07 | 0.00 | 0.07 |
| Yield | -0.02 | 0.00 | -0.02 |

| Sector Weights | SR LargeCap | S&P 500 | Difference |
|------------------------|-------------|---------|------------|
| Consumer Discretionary | 2.8% | 6.3% | -3.5% |
| Consumer Staples | 8.6 | 9.9 | -1.3 |
| Energy | 10.5 | 11.6 | -1.1 |
| Financials | 13.4 | 16.0 | -2.6 |
| Health Care | 9.7 | 11.4 | -1.7 |
| Industrials | 7.1 | 8.3 | -1.2 |
| Materials | 7.3 | 5.1 | 2.2 |
| Retail | 3.9 | 5.2 | -1.3 |
| Services | 10.4 | 5.4 | 5.0 |
| Technology | 17.6 | 17.3 | 0.3 |
| Utilities | 8.7 | 3.5 | 5.2 |

| Sector Weights | AllCap | Russell 3000 | Difference |
|------------------------|--------|--------------|------------|
| Consumer Discretionary | 5.8% | 7.3% | -1.5% |
| Consumer Staples | 7.2 | 8.6 | -1.4 |
| Energy | 11.6 | 10.7 | 0.9 |
| Financials | 15.8 | 16.2 | -0.4 |
| Health Care | 12.5 | 11.5 | 1.0 |
| Industrials | 5.1 | 8.5 | -3.4 |
| Materials | 7.0 | 5.5 | 1.5 |
| Retail | 4.3 | 5.3 | -1.0 |
| Services | 6.5 | 6.0 | 0.5 |
| Technology | 18.2 | 16.9 | 1.3 |
| Utilities | 6.0 | 3.5 | 2.5 |

Performance
 Second Quarter 2011¹

| | SR LargeCap Pure Gross of Fees ² | SR LargeCap Net of Fees | S&P 500 |
|--|---|-------------------------|---------|
|--|---|-------------------------|---------|

Annualized
 Total Return
 Since Inception¹

Inception Date – 12.01.04

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

Performance
 Second Quarter 2011¹

| | AllCap Pure Gross of Fees ² | AllCap Net of Fees | Russell 3000 |
|--|--|--------------------|--------------|
|--|--|--------------------|--------------|

Annualized
 Total Return
 Since Inception¹

Inception Date – 01.01.97

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

SMidCap

Russell 2500

Best Active Performance Policies:

- Style – Overweight: Momentum
- Sector – Underweight: Energy & Industrials
- Industry – Underweight: Energy Reserves; Overweight: Medical Services
- Stocks – Overweight: Ulta Salon Cosmetics & Fragrance, HealthSpring, and WellCare Health Plans

Worst Active Performance Policies:

- Style – Overweight: Volatility
- Sector – Underweight: Financials
- Industry – Underweight: Biotech and Equity REITs
- Stocks – Overweight: Ciber and Georgia Gulf

Universe Russell 2500
Trailing 12-month Turnover 116%
Number of Holdings 136
Cash Level 2.0%

Top Five Active Weights

| | |
|-------------------|-------|
| B&G Foods | 1.97% |
| Ulta Salon | 1.83 |
| SolarWinds | 1.75 |
| Domtar | 1.63 |
| Wyndham Worldwide | 1.60 |

Bottom Five Active Weights

| | |
|------------------------|--------|
| ProLogis | -0.53% |
| Green Mountain Coffee | -0.36 |
| Chipotle Mexican Grill | -0.34 |
| Health Care REIT | -0.34 |
| Concho Resources | -0.32 |

| Barra Risk Factors | SMidCap | Russell 2500 | Difference |
|----------------------|---------|--------------|------------|
| Currency Sensitivity | -0.05 | -0.15 | 0.10 |
| Earnings Variation | 0.32 | 0.33 | -0.01 |
| Earnings Yield | -0.28 | -0.49 | 0.21 |
| Growth | -0.02 | 0.09 | -0.11 |
| Leverage | 0.68 | 0.49 | 0.19 |
| Momentum | 0.44 | 0.23 | 0.21 |
| Size | -1.93 | -1.92 | -0.01 |
| Trading Activity | -0.11 | -0.05 | -0.06 |
| Value | 0.00 | 0.09 | -0.09 |
| Volatility | 0.69 | 0.73 | -0.04 |
| Yield | -0.33 | -0.35 | 0.02 |

| Sector Weights | SMidCap | Russell 2500 | Difference |
|------------------------|---------|--------------|------------|
| Consumer Discretionary | 11.7% | 10.8% | 0.9% |
| Consumer Staples | 4.9 | 3.4 | 1.5 |
| Energy | 5.0 | 6.5 | -1.5 |
| Financials | 19.6 | 19.4 | 0.2 |
| Health Care | 15.4 | 10.3 | 5.1 |
| Industrials | 5.6 | 9.3 | -3.7 |
| Materials | 7.6 | 8.0 | -0.4 |
| Retail | 5.5 | 5.6 | -0.1 |
| Services | 4.9 | 7.3 | -2.4 |
| Technology | 16.7 | 14.2 | 2.5 |
| Utilities | 3.1 | 5.2 | -2.1 |

Performance
Second Quarter 2011¹

Annualized
Total
Return

1 year
3 years
5 years
Since Inception¹

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

Inception Date – 11.01.02

SR SMidCap

Russell 2500

Best Active Performance Policies:

- Style – Overweight: Momentum
- Sector – Underweight: Industrials and Energy
- Industry – Underweight: Energy Reserves; Overweight: Medical Services
- Stocks – Overweight: Ulta Salon Cosmetics & Fragrance, Genesco & GT Solar International

Worst Active Performance Policies:

- Style – Overweight: Volatility
- Sector – Underweight: Financials
- Industry – Underweight: Biotech and Equity REITs
- Stocks – Overweight: Ciber, Georgia Gulf, and Teekay

Universe Russell 2500
Trailing 12-month Turnover 109%
Number of Holdings 144
Cash Level 1.3%

Top Five Active Weights

| | |
|-----------------------|-------|
| B&G Foods | 1.90% |
| Ulta Salon | 1.82 |
| Huntington Bancshares | 1.69 |
| Domtar | 1.67 |
| Anixter International | 1.66 |

Bottom Five Active Weights

| | |
|------------------------|--------|
| Chipotle Mexican Grill | -0.34% |
| Health Care REIT | -0.34 |
| Concho Resources | -0.32 |
| CenterPoint Energy | -0.29 |
| Frontier Comm. | -0.28 |

| Barra Risk Factors | SR SMidCap | Russell 2500 | Difference |
|----------------------|------------|--------------|------------|
| Currency Sensitivity | -0.09 | -0.15 | 0.06 |
| Earnings Variation | 0.32 | 0.33 | -0.01 |
| Earnings Yield | -0.28 | -0.49 | 0.21 |
| Growth | -0.02 | 0.09 | -0.11 |
| Leverage | 0.63 | 0.49 | 0.14 |
| Momentum | 0.42 | 0.23 | 0.19 |
| Size | -1.91 | -1.92 | 0.01 |
| Trading Activity | -0.04 | -0.05 | 0.01 |
| Value | 0.00 | 0.09 | -0.09 |
| Volatility | 0.69 | 0.73 | -0.04 |
| Yield | -0.27 | -0.35 | 0.08 |

| Sector Weights | SR SMidCap | Russell 2500 | Difference |
|------------------------|------------|--------------|------------|
| Consumer Discretionary | 10.1% | 10.8% | -0.7% |
| Consumer Staples | 4.7 | 3.4 | 1.3 |
| Energy | 5.6 | 6.5 | -0.9 |
| Financials | 18.3 | 19.4 | -1.1 |
| Health Care | 14.8 | 10.3 | 4.5 |
| Industrials | 5.9 | 9.3 | -3.4 |
| Materials | 7.6 | 8.0 | -0.4 |
| Retail | 6.0 | 5.6 | 0.4 |
| Services | 6.9 | 7.3 | -0.4 |
| Technology | 15.8 | 14.2 | 1.6 |
| Utilities | 4.3 | 5.2 | -0.9 |

Performance
Second Quarter 2011¹

Annualized
Total
Return

1 year
3 years
5 years
Since Inception¹

Inception Date – 03.01.10

Notes to Composite Performance Presentations

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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 Composite includes all discretionary accounts managed under the LargeCap strategy. The LargeCap 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.

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.

Sustainable Responsible SMidCap includes the actual performance of all unrestricted discretionary wrap fee accounts managed under the Sustainable Responsible SMidCap strategy. The Sustainable Responsible 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.

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