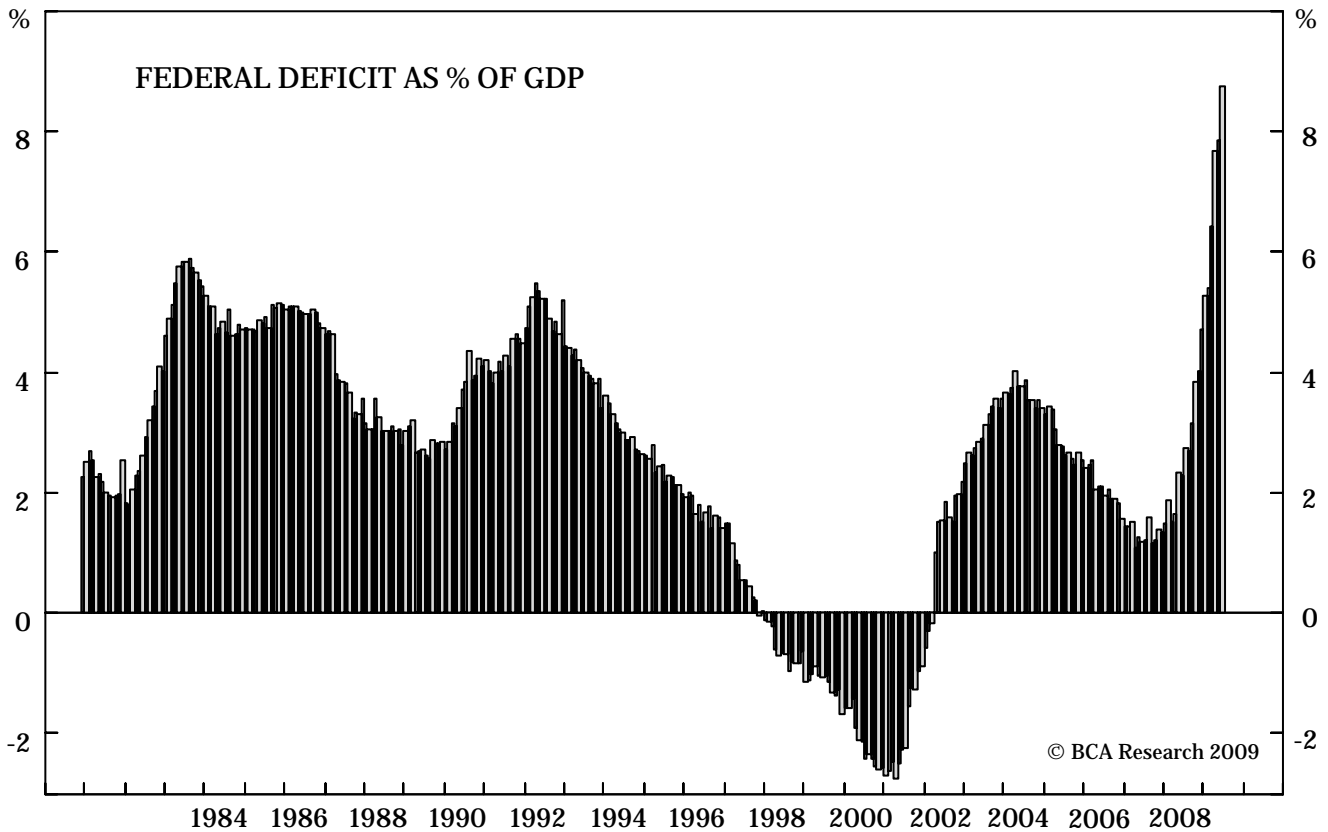
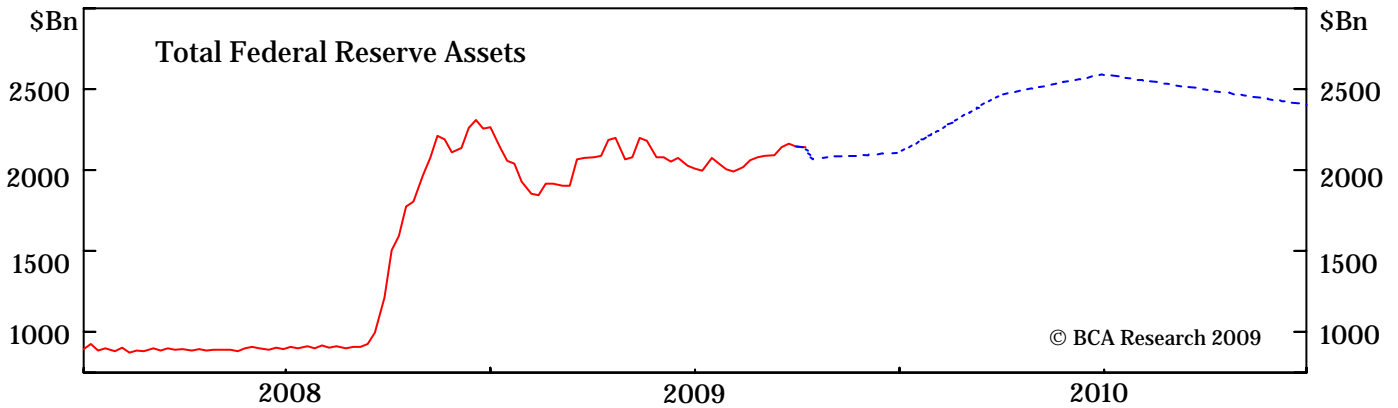




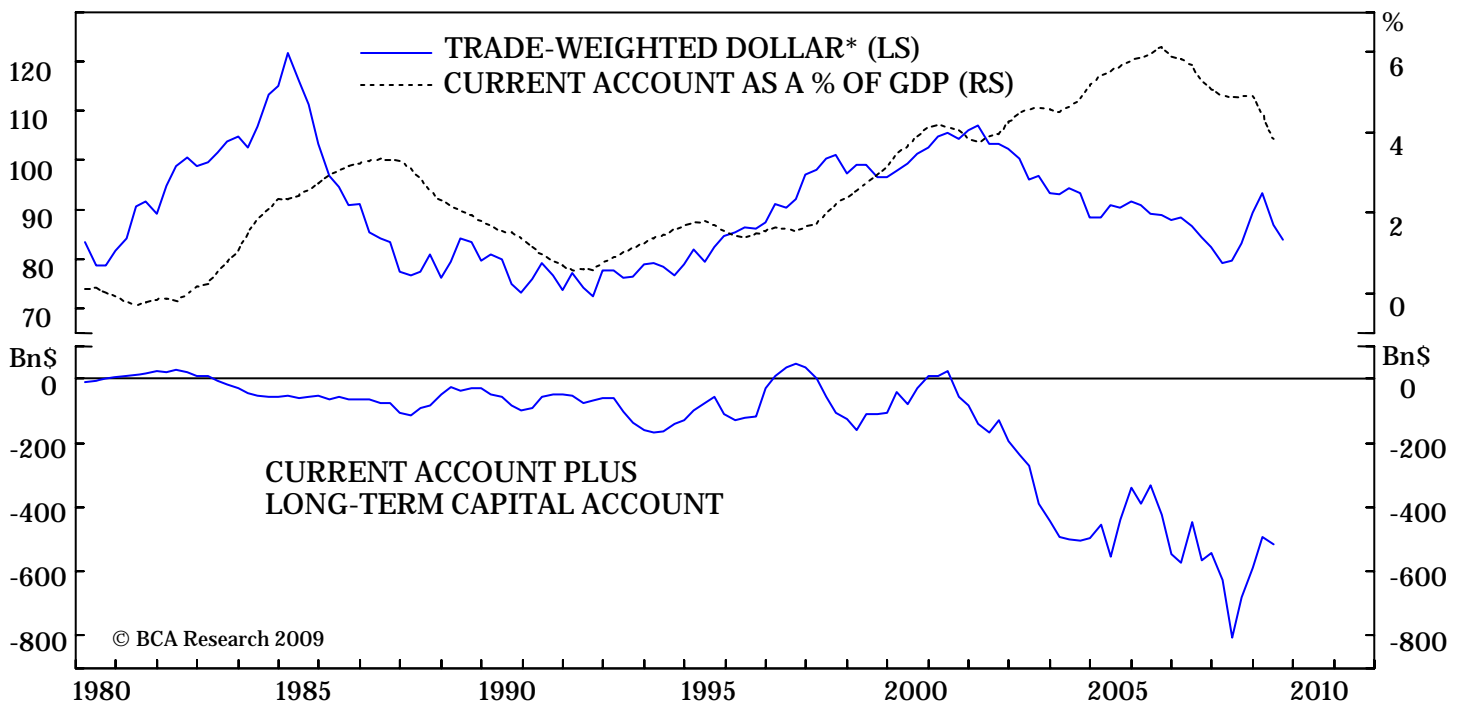
Economic & Market Commentary

The dramatic expansion of the Federal Reserve's assets and the associated monetary base, combined with a federal government deficit surging to over 10% of Gross Domestic Product, has fueled investors' concerns about the dollar.



We thought it would be helpful to address the dollar issue, its potential impact on the markets and the longer-term macroeconomic implications.

Despite public policy pronouncements in support of a strong U.S. dollar by the Bush and Obama administrations, the U.S. dollar has generally been trending downward against most major currencies since 2002. The major interruption to this long decline was after the collapse of Lehman Brothers in September 2008, which precipitated a dramatic change in global investor appetite from risk acceptance to risk aversion. As a consequence, investors shifted assets from global equities, bonds, commodities and currencies into securities that were perceived to be less risky, in particular U.S. Treasuries. The dramatic reversal in risk appetite last fall caused a sharp increase in the demand and value of the U.S. dollar versus other currencies. This increase in the dollar was short-lived, however, as evidenced by a resumption of its downward trend after the global securities, currency and commodities markets turned up in March 2009.

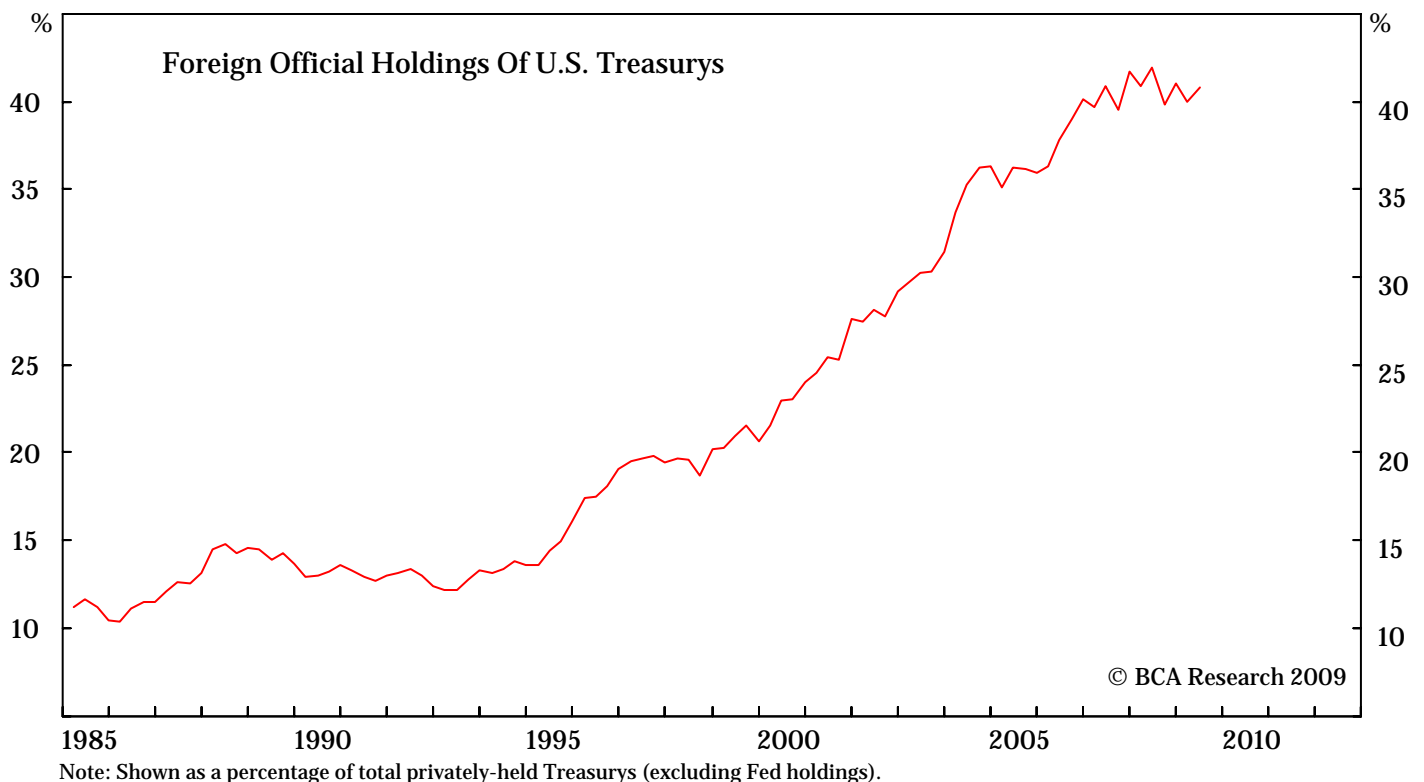


*SOURCE: J.P. MORGAN CHASE & CO.

The U.S. has been running ever widening trade deficits with our trade partners since 2000. Much of the trade deficit was a result of the increase in consumption in the U.S., fueled by the tremendous increase in debt consumers assumed. For too long, U.S. consumption grew faster than incomes. To make up for the shortfall, consumers borrowed ever larger amounts from their credit cards, auto loans and various types of mortgages. This borrowing binge has come to an abrupt end, as financial institutions have belatedly increased their credit standards and borrowers have grown more conservative in their spending and borrowing habits. In an effort to repair their personal financial balance sheets, consumers have reduced their spending and started to save again. The U.S. savings rate has gone from zero a few years ago to roughly 4% currently. We believe the savings rate will continue to rise over time as individuals have come to the realization that they cannot depend on a high and consistent level of appreciation in the value of their real estate and financial assets to provide the security they need.

An increasingly large portion of the goods consumers have been purchasing is being produced outside the United States, leading to an increase in the U.S. trade deficit. Our reliance on foreign producers for much of our crude oil needs is a contributing factor. While the U.S. recession has caused a weakening in demand and fewer imports of foreign goods, the trade deficit remains wide and shows little near-term prospect of dramatically improving. Part of the problem is that some of our larger trading partners (China) peg the value of their currency to the dollar and so the decline in the dollar versus the euro or the yen has not helped to reduce the U.S. trade deficit with China.

The large trade deficit means that foreign central banks now have very large holdings of dollars that exceed their countries' internal financing needs and therefore need to be invested. For the most part, these foreign central banks have been buying U.S. Treasury securities with their excess dollars because of the safety and liquidity the Treasury market provides.



However, foreign central banks are getting increasingly worried about the direction of U.S. fiscal and monetary policies and the impact those policies might have on the continuing large supply of Treasury securities, inflation and a continued decline in the dollar. After the Lehman Brothers bankruptcy, the Federal Reserve initiated a number of aggressive policies to stabilize the financial system and the economy. The U.S. central bank adopted a Fed Fund's target rate of 0-0.25% and engaged in "quantitative easing", where it has been actively buying longer-term U.S. Treasury, Agency and mortgage securities to lower long-term interest rates as well. The Fed also initiated an alphabet soup of lending programs (TARP, TALF) to help provide liquidity to the credit markets. As a result, the Fed's balance sheet has doubled in size to \$2.1 trillion.

In addition to the Fed's aggressive monetary easing, the administration and Congress have been increasing government spending at the same time that the weaker economy has negatively impacted tax receipts. This has caused the U.S. budget deficit to increase to an estimated \$1.4 trillion or about 10% of the country's projected Gross Domestic Product in 2009. While the aggressive monetary and fiscal measures were needed to offset the deflationary economic contraction the U.S. was facing, we are concerned about the Fed's and the Obama administration's abilities to withdraw the stimulus in a timely fashion. Unfortunately, the historical record in this regard is not encouraging.

Another reason for the weakness of the dollar is that U.S. interest rates are lower than the yields investors can earn in some foreign fixed income markets. Relative interest rate differentials have traditionally had an impact on currency prices, but it seems to have become more pronounced recently with the growth of "macro" hedge funds that engage in what is called the "carry trade"- borrowing huge amounts of money in a low yielding currency and investing the capital in higher yielding currencies.

Foreign central banks have been diversifying their purchase out of dollars into other reserves. The Chinese have even been stockpiling commodities. This has helped commodity prices in dollar terms even though global supplies and inventories would normally be driving commodity prices lower.

The dollar appears to be in secular decline. The value is dependent on continued purchase by foreign central banks and the use of these dollars to buy U.S. Treasury bonds. If foreign central banks lose confidence in the dollar, its value could go down and long-term interest rates could surge higher. In this scenario, the Federal Reserve would have limited choices and could be forced to raise short term rates to protect the dollar, even in the face of weak, non self sustaining recovery.

We continue to expect a sub par, erratic recovery, largely due to the headwinds caused by a combination of weak employment and income growth, cautious lending and a consumer who has already made significant large ticket purchases of houses and cars. This combination will, in our opinion, continue to act as a constraint on consumer spending into 2010.

From an investment strategy point of view, stronger international growth and a weaker U.S. dollar will benefit U.S.-based multinationals with large international operations; our client portfolios have significant investments in these types of companies. Our client portfolios are more heavily invested in the health care sector compared to benchmarks like the Standard and Poor's 500. Notwithstanding the concerns investors have about the impact of the health care reform efforts (as evidenced by the low relative valuation multiples of these stocks), the long-term investment case for health care remains the same: an aging population in the developed countries and a wealthier developing world will demand more and better health care. This combination should enhance the future revenue and earnings prospects of the health care sector. Just as important, the health care stocks we have purchased are selling at large discounts to our estimates of fair value, while providing attractive dividend yields.