



January 28, 2010

Dear Client,

During the fourth quarter of 2009, the economy and financial markets continued their healing trends. In the US, it appears the recession most likely ended sometime during the second half of 2009, although official confirmation is still pending. The economy, especially the more cyclical areas, experienced growth and corporate profitability has shown marked improvement. Consumer confidence continues to climb, global manufacturing is rebounding, housing activity (although still quite anemic) appears to have stabilized, and signs of improvement are apparent in the ongoing weak labor market.

Developing countries have led the worldwide economic recovery – quite a reversal from the historical norm. Continuing global monetary and fiscal stimulus should help maintain a sustained and growing recovery in both developing and developed economies during 2010. Despite this substantial stimulus, inflation has remained relatively tame and likely will not pose a threat until the slack in global operating capacity and labor markets is reduced to more normal levels.

Although the rebound in the world economies and the mending of the financial systems appear to be improving, risks of a reversal still remain. For instance, all is not well within the financial system, especially the regional and smaller banks that provide most credit to small businesses. These businesses generate a substantial proportion of nationwide employment and are still struggling. Also, commercial real estate continues to face ongoing challenges. Additionally, geopolitical risk has elevated, especially in the Middle East, with a spike in oil prices potentially resulting. Further, ‘political feuding’ in the US is causing uncertainty regarding multiple government policies that might negatively affect investment and economic growth.

Financial Markets’ Performance

The global equity and fixed income markets, sensing this recovery, continued to move higher during the fourth quarter, adding to the already impressive year-to-date performance (see Exhibit 1).

Exhibit 1		
Total Return of Equity, Fixed Income and Hedge Fund Indices *		
	<u>4Q 2009</u> (9/30/09 - 12/31/09)	<u>Year-to-Date</u> (12/31/08 - 12/31/09)
<i>Major Equity Indices</i>	%	%
S&P 500 Index	6.0	26.5
Russell 3000 Index (Total US market)	5.9	28.4

Exhibit 1		
Total Return of Equity, Fixed Income and Hedge Fund Indices *		
	<u>4Q 2009</u> (9/30/09 - 12/31/09)	<u>Year-to-Date</u> (12/31/08 - 12/31/09)
Russell 2000 Index	3.9	27.2
MSCI All Country Ex-US Index (Net)	5.4	38.0
MSCI EAFE International Index (Net)	2.2	31.8
MSCI Emerging Markets (Net)	8.6	78.5
<i>Source: Bloomberg, MSCI</i>		
<i>Major Fixed Income and Hedge Fund Indices</i>	%	%
Barclays Capital US Aggregate Bond Index	0.2	5.9
BofA Merrill Lynch US High Yield BB-B Bond Index	4.7	46.1
JPMorgan GBI Global ex-US Index Hedged in USD	0.2	2.3
JP Morgan EMBI Global Index (Emerging markets)	1.5	28.2
HFRX Equal Weighted Strategies Index (Hedge Funds)	2.3	11.4
<i>Source: Bloomberg, PIMCO</i>		

* Including price appreciation plus dividends and/or interest.

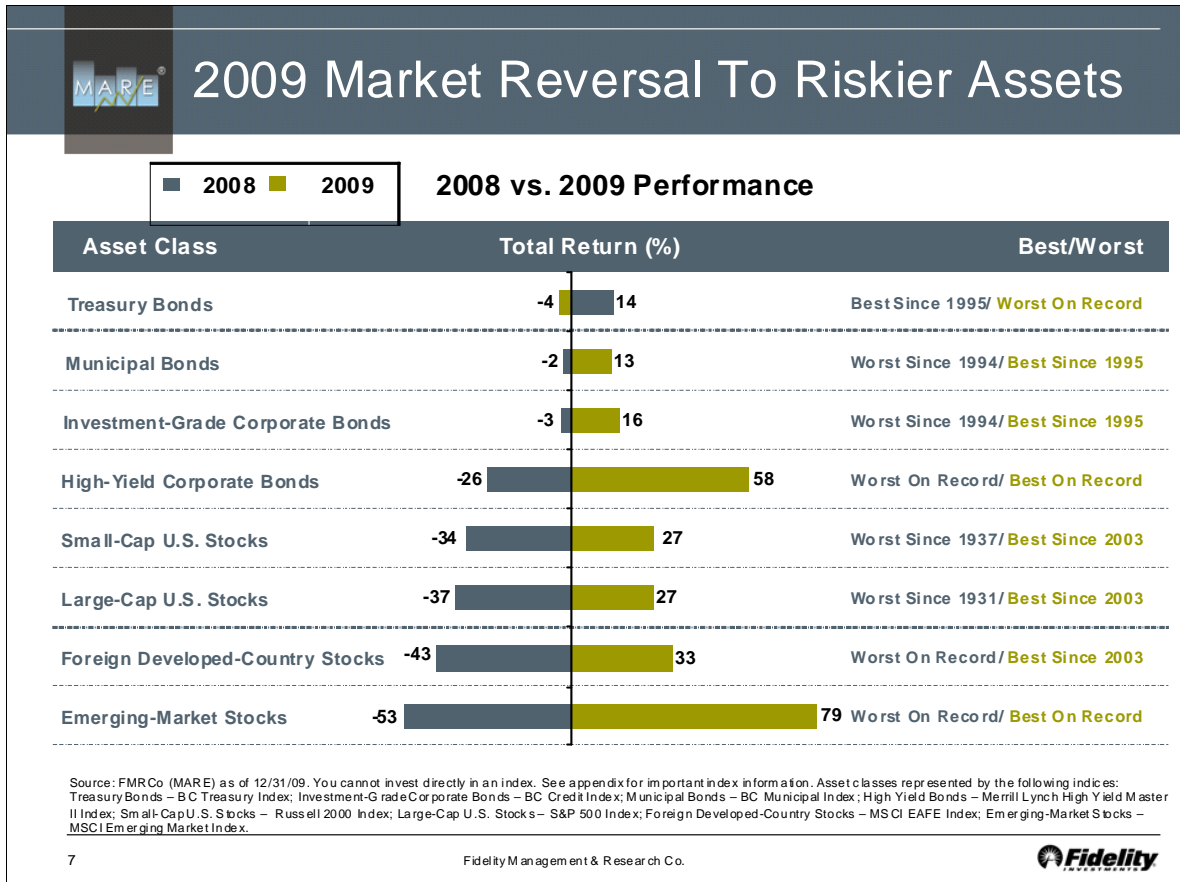
After an extremely difficult 2008, the financial markets underwent a very difficult first two months of 2009, hitting their lowest point around March 9th. Markets then experienced one of the strongest positive turnarounds ever witnessed during a single calendar year, closing the year with a very impressive broad-based rally.

Exhibit 2 below shows the comparative performance in the US of different asset classes between 2008 and 2009. Riskier assets outperformed during 2009 and underperformed in 2008. During this period, emerging market stocks and high-yield corporate bonds experienced both their best and worst annual performance on record.

In the US equity market, the S&P 500 ended the year returning 27% after significantly recovering from its March 9th low. Small and mid cap indices fared even better, while growth outperformed value across all styles. The technology, materials and consumer discretionary segments were the year's top performing market sectors. Corporate earnings rebounded strongly as firms aggressively cut costs. However, recent earnings reports show that revenue growth is also starting to return gradually and will help boost earnings going forward. Additionally, these reports show that in a majority of instances actual earnings exceeded estimates.

International equities, especially emerging markets, showed significant gains during the quarter and year. Many developing economies have experienced stronger economic growth and are poised to offer better growth potential in the short and long term. International valuations appear attractive and, in some cases, returns might benefit from a potentially weaker dollar.

Exhibit 2

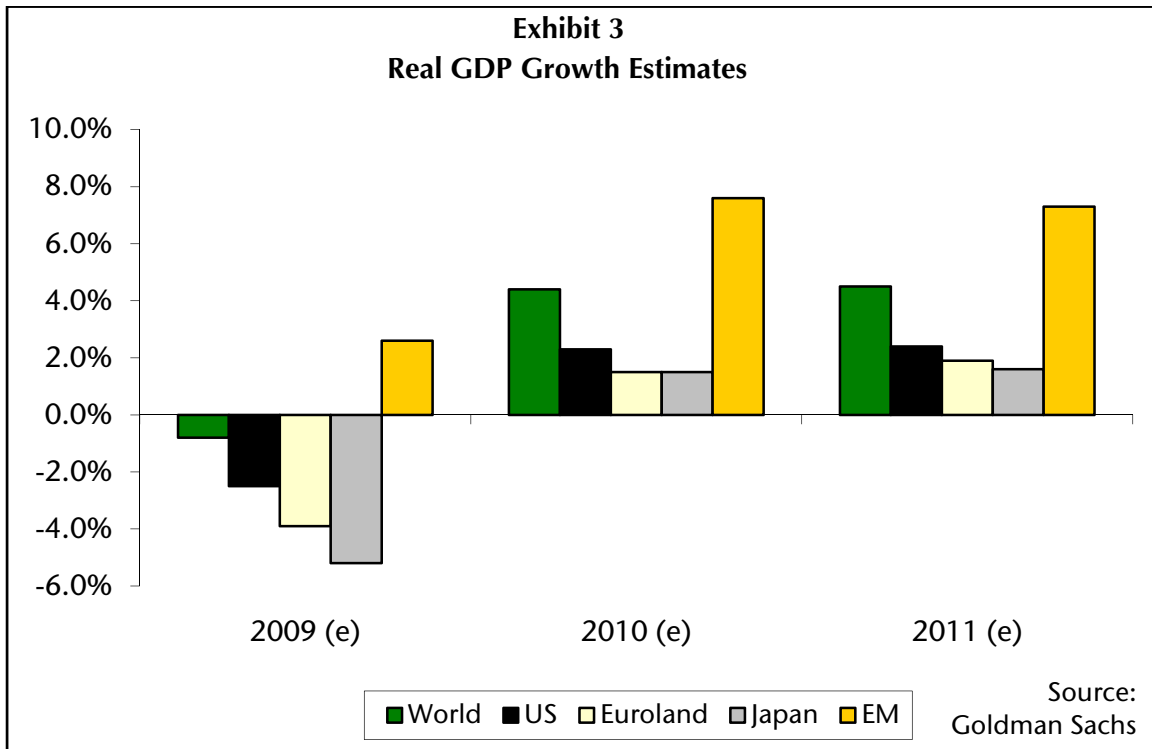


The performance of most fixed income categories was very positive, with the exception of US Treasuries. Returns ranged from a low of -3.6% for Treasuries to a high of over 58% for lower quality high-yield corporate bonds (46% for BB-B High Yield Bond Index). Treasuries experienced their worst performance year on record due to the increase in long-term interest rates from historic lows. Treasury yields continue to be exceptionally low and likely are unsustainable in the long term. In contrast, most other categories (i.e., municipals, credit, emerging market debt, asset backed securities, leveraged loans, high yield and others) experienced large positive returns and recovered, on average, from their lows following the liquidity crisis in 2008. Corporate bond yield spreads declined substantially from record highs to levels approaching their long-term averages. Although spreads, on average, have tightened closer to normal levels, market inefficiencies still exist, creating potential opportunities for active fund managers.

Generally, though valuations have trended closer to fair value, ample opportunities are still present in most asset classes, especially as the global economy improves. We expect continued volatility in the financial markets, although at substantially lower levels than the record levels previously experienced.

Economic Growth

As mentioned above, the US economy is recovering from a substantial downturn. Third quarter GDP grew 2.2% while 4Q GDP stood at 5.7% as of our publication date, which is better than the 4-5% growth that was widely expected. Still, the upturn is expected to be on the lower-end as compared to previous recoveries. It is estimated that 2009 GDP might close



at -2.5% (see Exhibit 3). We expect growth to be positive in 2010, exceeding 2%. This anticipated growth likely will result from consumer confidence slowly returning and consumption rebounding, capital spending increasing, additional fiscal stimulus (as of 1/8/10, only 33% of the \$787 billion stimulus package has been spent¹) and monetary policy remaining accommodative.

Despite the prospects of net employment gains in 2010, the unemployment rate is likely to move higher prior to declining. In 2010, discouraged workers who stopped looking for jobs during 2009 are expected to re-enter the job market, thereby increasing the unemployed labor force pool. However, businesses most likely will increase hiring as they continue to regain confidence in the economy. Still, judging by historical trends, reaching full employment (i.e., 5% unemployed) after a recessionary period can take several years.

Of interest, much discussion has revolved around the financial condition of consumers. The prevailing view is that consumers' balance sheets have dramatically deteriorated and that their consumption potential has been compromised for the long-term. Appendix A attached,

¹ www.recovery.gov

prepared by JP Morgan Asset Management, presents some interesting statistics on consumer finances which offer a different perspective to the current prevailing perception.

As shown in Appendix A, as of September 2009 estimated total consumer assets were \$67 trillion, estimated total consumer liabilities (including mortgages, credit cards, non-revolving lines of credit and other liabilities) were \$14 trillion and estimated consumer net worth stood at \$53 trillion, showing a relatively robust consumer balance sheet. These statistics are skewed by income distribution factors and therefore the average consumer is not as healthy as it would appear from the data - there are many consumers whose spending patterns might be permanently compromised, as they are now suffering under the pressures of having negative net worth. However, the average consumer's financial condition is still much better than portrayed. Further positive data shows that the household debt service ratio has improved over the last two years and consumers have substantially increased their personal savings rate during the recent economic crisis. This savings rate increase might negatively affect consumption in the short term, but is very positive in the long term.

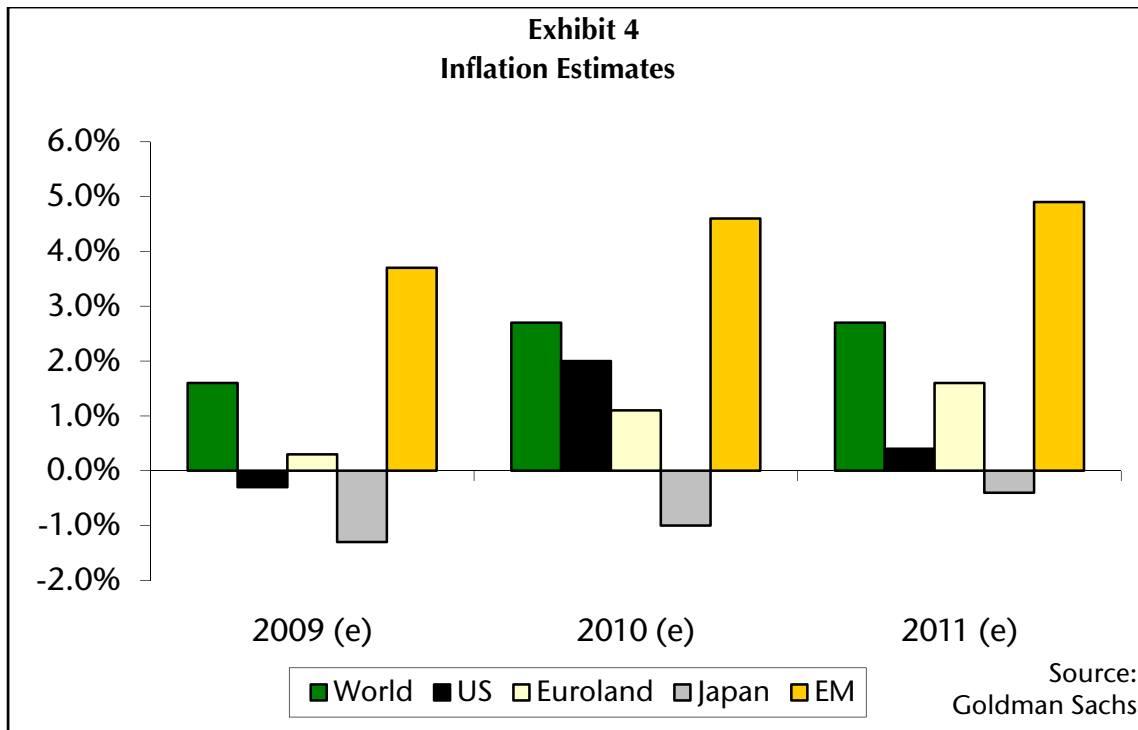
Economic recovery around the world continues to be led by emerging markets. These economies suffered a smaller contraction than their more developed counterparts and in fact, some emerging countries have already seen their growth rates return to pre-crisis levels and are starting to implement tighter monetary and fiscal policies. As an example, after instituting a massive stimulus during the height of the recession and seeing its economy return to an annualized growth rate of 10.7%, the Chinese have already begun to slowly drain money from their economy. Investors' fear of a newly created asset bubble, resulting from excessive lending, has prompted the central bank to raise the reserve requirements and curb the amount of loans generated.

Despite signs of economic improvement, many developed countries are thoughtfully cautious regarding implementing an exit strategy from their stimulative policies, wanting to minimize the risk of a relapse. High unemployment, weak income growth and a continued constrained credit environment have helped to minimize inflationary pressures, with Japan falling back into deflation. Of G-20 nations, only Australia raised policy rates (twice) during the fourth quarter of 2009, while Russia continued to ease.

Emerging market GDP is expected to grow 7.6% in 2010; Euroland and Japan will likely experience economic growth, albeit at a much slower pace (e.g., both at an estimated 1.5%). Within Europe, Germany is well-placed to benefit from strong demand from the emerging world, although its recovery has been restrained and its banking system remains weak, so far. The UK also should see recovery led by investment and increased export demand aided by a weaker currency. Spain is still undergoing its housing crisis and Greece's fiscal condition remains worrisome. A government budget freeze in Japan could hinder economic growth in early 2010, but an improving relationship with China and other emerging Asia countries could lead to higher export growth.

Inflation and Interest Rates

As indicated previously, we estimate the risk of inflation is low for the next two years due to global excess operating capacity and weak conditions in the labor force (Exhibit 4). Even though in 2009 energy prices have risen substantially, interest rates are at historical lows and



banks are holding inordinate amounts of excess reserves (which can be transformed to loans at any time), these factors have not translated into inflationary pressure. Banks' reluctance to lend will only dissipate as the rate of loan defaults subsides and banks see their capital positions stabilize. Given these circumstances and the Federal Reserve's commitment to maintaining both price stability and full employment, it is unlikely the Fed will raise rates in the near future.

Conclusion

Although global financial markets experienced a quick and dramatic comeback during the last nine months, we believe ample opportunities still are available across most asset classes, albeit with returns closer to historical norms. Valuations remain below fair value in US and international equities and the economic and profit outlook appear favorable. Additionally, significant levels of cash continue to sit on the sidelines - earning nearly nothing - while waiting to be deployed into more profitable investments. Surprisingly, despite the very high returns seen during the past nine months, US equity mutual funds (as a whole) experienced net cash outflows. It appears that most of the transfers out from cash assets went to fixed income mutual funds, where net new bond fund sales soared.

Regarding opportunities, we will be investing broadly in the US and international equity markets with special emphasis on large multinational growth companies and maintaining our exposure to emerging markets. In the fixed income sector, we plan, on average, to lower duration as well as credit risk. In both equity and fixed income markets, we will be giving special attention to fund managers who take advantage of discrepancies in valuation that have not yet been corrected.

While we continue to rebalance portfolios our focus, as always, remains on achieving your long-term investment objectives (given your risk profile) and the funding of your future

liquidity needs. Please note that past performance is not an indication or guarantee of future returns and diversification does not ensure profits or guarantee against a loss.

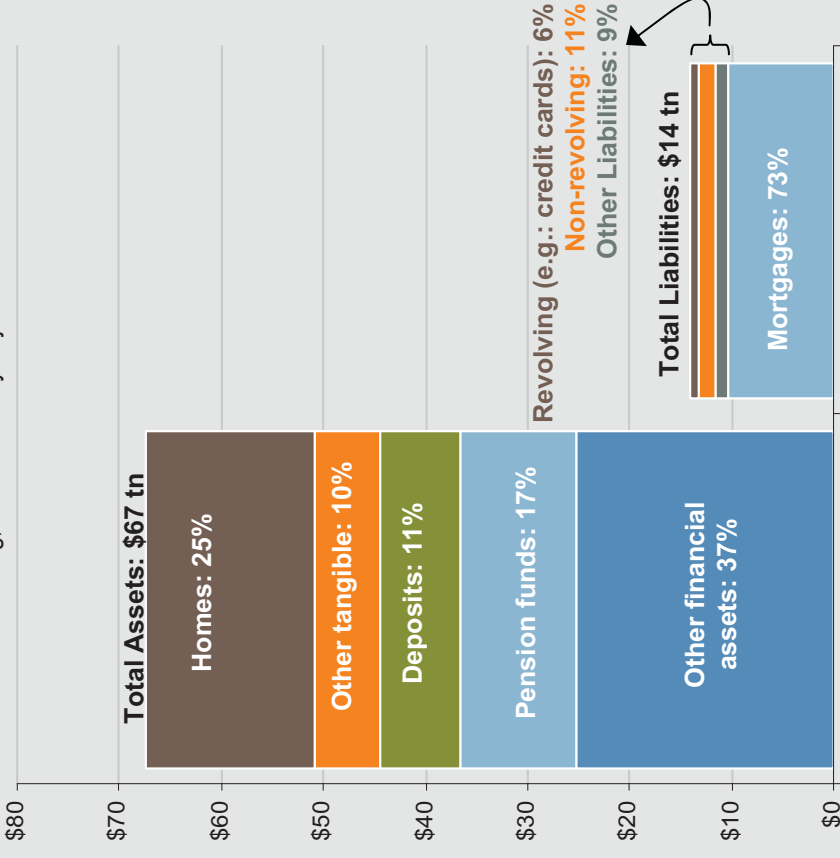
Sincerely,

The SOL Capital Management Team

Economy

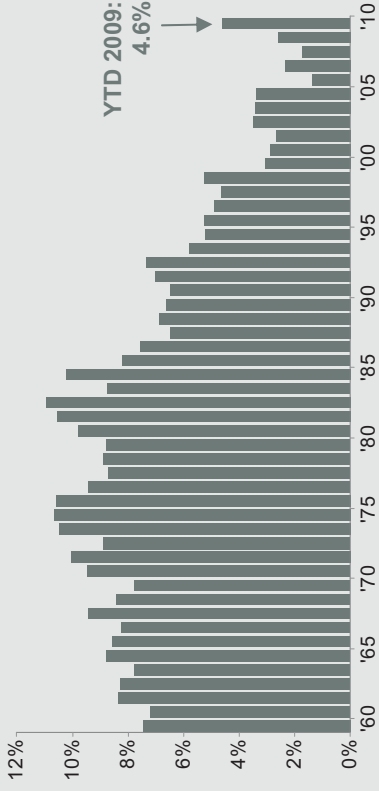
Consumer Balance Sheet

Trillions of dollars outstanding, not seasonally adjusted



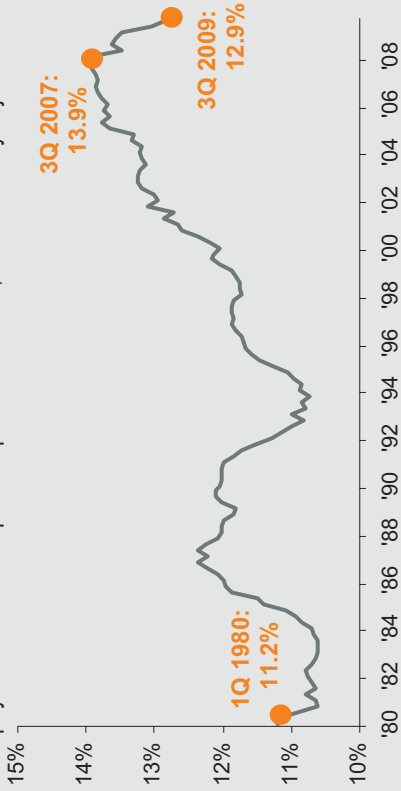
Personal Savings Rate

Annual, % of disposable income



Household Debt Service Ratio

Debt payments as % of disposable personal income, not seasonally adjusted



Source: (Left chart) J.P. Morgan Asset Management, Federal Reserve. Data includes households and nonprofit organizations. (Right chart) J.P. Morgan Asset Management, BEA, Federal Reserve.

Personal savings rate is calculated as personal savings (after-tax income – personal outlays) divided by after-tax income and reflects data through November. Employer and employee contributions to retirement funds are included in after-tax income but not in personal outlays, and thus are implicitly included in personal savings.

All other data are as of 3Q09.