

Market Commentary – 1st Quarter 2008

Stocks declined sharply in the first quarter 2008 as economic woes and a broadening financial crisis continued to gather steam. The FOMC resorted to an unprecedented combination of measures to help calm financial markets. Their efforts included an emergency rate cut, substantial cash infusions into the banking system, a bailout of a major investment bank and broadening of their lending powers to non-bank financial institutions. While these actions provided some positive short-term effects, markets still finished in negative territory for the quarter and exhibited extreme volatility. Over half of this quarter's trading days saw the S&P 500 fluctuate by at least 1% - a level of daily volatility not seen since 1938. The S&P 500 has now declined for five consecutive months, only the third such occurrence in the last 40 years. The market however appears hopeful that the Fed's actions will soon take hold and to that end rallied by approximately 4% on April 1, erasing a sizeable chunk of 1st quarter losses.

There was no place to hide during the quarter from a style perspective, but value held up marginally better than growth. There was little difference in returns across capitalization ranges so the mid cap size bias in the portfolio had no impact. The best performing segment of the US market was small cap value (last year's laggard) but even it posted a 6.5% decline. All sectors of the market delivered negative returns during the quarter, led down by Technology and Financials. The best performing sectors included Consumer Staples and Materials.

LSV had a disappointing quarter relative to the benchmark primarily due to results in March. For the quarter, deeper value stocks in the Russell 1000 Value did not fare as well as those with higher multiples. This is somewhat counterintuitive given value's outperformance of growth in the broad market. As an example, the cheapest two quintiles of stocks in the Russell 1000 Value as measured by price/book (LSV is overweighted here) were down 19% and 10% respectively. At the same time the most expensive quintile was down just 4%, a group to which LSV is underweighted. From a holdings perspective a combination of what we did and did not own detracted from returns. Holdings within the Financials sector, particularly the Brokers, hurt results, as did our non-exposure to General Electric. GE continues to rank poorly in our model but is now nearly 5% of the Russell 1000 Value index and it rose 1% during the 1st quarter. While our approach has been out of step the last several quarters we would note that the portfolios are quite cheap in both absolute and relative terms. We cannot predict when this positioning will be rewarded but remain confident your patience will pay off.

LSV Update

- LSV's Large Cap Value Strategy is closed to new investors, however, existing clients may add to their portfolios.
- Jason Karceski, Ph.D., is joining LSV as an Academic Advisor in June. Jason, an Associate Professor of Finance at the University of Florida, spent last summer with us here in Chicago. He is now taking a year's sabbatical from the University to work with LSV full-time until August 2009.
- Total Value Equity Assets Under Management: \$66 Billion. Large Cap Value Equity Assets Under Management: \$24 Billion.
- Visit our recently enhanced website at www.lsvasset.com to view research papers and to find out what's new at LSV.

Market Update

	<u>1Q08</u>	<u>1YR</u>	<u>3YRS</u>	<u>5YRS</u>	<u>10YRS</u>
S&P 500	-9.5%	-5.1%	5.9%	11.3%	3.5%
Large Cap Value Stocks (R1V)	-8.7%	-10.0%	6.0%	13.7%	5.5%
Large Cap Growth Stocks (R1G)	-10.2%	-0.8%	6.3%	10.0%	1.3%
Big Cap Value Stocks (RT200V)	-8.7%	-8.5%	5.7%	12.3%	4.5%
Big Cap Growth Stocks (RT200G)	-9.8%	1.2%	5.9%	8.5%	0.4%
Mid Cap Value (RMCV)	-8.7%	-14.1%	6.6%	16.8%	8.2%
Mid Cap Growth (RMCV)	-11.0%	-4.6%	7.8%	15.2%	5.2%
Small Cap Value (R2V)	-6.5%	-16.9%	4.3%	15.5%	7.5%
Small Cap Growth (R2G)	-12.8%	-8.9%	5.7%	14.2%	1.8%

.....Periods greater than one year are annualized. Source: Frank Russell Company & S&P