

Portfolio Commentary – 4th Quarter 2009

The decade wrapped up with a strong finish for the stock market in 2009 and a gain of 26.5% for the S&P 500. It was the second best year for the market during the decade with only 2003 posting better results (+28.7%). The 2000's saw six up years and four down years but the down years had the deciding impact and the S&P 500 posted a 10-year annualized return of -1.0%. This was the worst decade ever for the index as even the depression decade (1930's) saw the S&P 500 decline just 0.1%. While the market delivered lower than historical results this decade, we started the 2000's with the bursting of the technology bubble resulting in market declines for 2000, 2001 and 2002. The ensuing recovery (2003-2007) was then erased by the financial crisis begun in 2008 so even with strong results in 2009, the 2000's were a lost decade for equities. The potential good news is that the historic 10-year rolling average return on the S&P 500 is 10.8%, so perhaps the 2010's will see a mean reversion.

Growth stocks were dominant in 2009 across all capitalization segments, a trend that continued in the 4th quarter as well. Given the poor relative showing for value stocks, one might expect that LSV's deep value orientation would struggle. However, portfolios exceeded the value indices this year due in large part to our smaller size bias. Mid cap value stocks outperformed larger cap value stocks by a wide margin (see table below) in 2009. Also, within the value indices, the cheaper stocks performed somewhat better (the inverse of 2008) so our deep value orientation was helpful in 2009. For the past three years now, value stocks have underperformed growth stocks by a wide margin (-7% spread between R1V and R1G), yet portfolios held up reasonably well on a relative basis due to good stock selection despite the tough environment for our deep value approach. For the decade, LSV's large cap value composite exceeded the Russell 1000 Value by nearly 4% and the S&P 500 by more than 7% on an annualized basis. We have remained true to our value approach throughout the firm's history and are focused on continually enhancing our approach via insightful research. Key resources were added to our team in 2009 and we feel well positioned for the years ahead.

LSV 4th Quarter Update

- LSV's Large Cap Value strategy is open to new investors for limited capacity.
- No organizational changes. On March 1, 2010 LSV is moving to a new office in Chicago.
- Total Value Equity AUM: \$56 Billion.
Large Cap Value Equity AUM: \$20 Billion.
- Visit our website at www.lsvasset.com to find out what's new and for the latest research papers.

Market Update

| | 4Q09 | 1YR | 3YRS | 5YRS | 10YRS |
|--------------------------------|-------------|--------------|--------------|--------------|--------------|
| S&P 500 | 6.0% | 26.5% | -5.6% | 0.4% | -1.0% |
| Large Cap Value Stocks (R1V) | 4.2% | 19.7% | -9.0% | -0.3% | 2.5% |
| Large Cap Growth Stocks (R1G) | 7.9% | 37.2% | -1.9% | 1.6% | -4.0% |
| Big Cap Value Stocks (RT200V) | 3.8% | 14.6% | -9.8% | -1.1% | 0.4% |
| Big Cap Growth Stocks (RT200G) | 8.4% | 34.0% | -1.3% | 1.4% | -4.8% |
| Mid Cap Value (RMCV) | 5.2% | 34.2% | -6.6% | 2.0% | 7.6% |
| Mid Cap Growth (RMCG) | 6.7% | 46.3% | -3.2% | 2.4% | -0.5% |
| Small Cap Value (R2V) | 3.6% | 20.6% | -8.2% | 0.0% | 8.3% |
| Small Cap Growth (R2G) | 4.1% | 34.5% | -4.0% | 0.9% | -1.4% |

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