Evercore | Asset Management

First Quarter 2009
Investment Update

For the Small- and Mid-Cap Core team, the big news in 2009's first quarter was the merging of our team with Evercore Asset Management (EAM), an investment boutique of a deeply experienced small- and mid-cap investors based in New York. Led by Greg Sawers, the firm of ten people has established a well run organization managing portfolios for institutional clients utilizing a deep value style of investing.

From our perspective, joining EAM was an opportunity to partner with experienced investors who viewed the addition of core products to the firm as a very logical extension of the business. Our team will continue to invest from our Boston office as we always have, while EAM will provide us with marketing and client service support as well as the full range of back and middle office operations. We are pleased to report that the integration has been seamless, and has permitted us to remain focused entirely on investing and managing our clients' portfolios.

On the investing front, the first quarter of 2009 saw both good and bad extremes with a bullish first ten days quickly followed by a return of the late 2008 market collapse and, finally, a very sharp rally to close the quarter. We take some heart from the strong results we achieved in March and April, mostly because our portfolios behaved in a manner which we think provides a glimpse into their imbedded latent performance potential. Market inflection points are very tricky to gauge, but our hope is that investors in "stepping back off the ledge" will become a bit more rational, and as they do, will again give greater weight to valuation and individual company business fundamentals.

Portfolio Strategy: Small- and Mid-Cap Core

During this relentless bear market, we have stayed keenly focused on a stock by stock assessment of valuation based on realistic earnings, book value or other measures of a company's intrinsic worth. We make sure we have confidence that management teams can maneuver their companies through this very difficult economic environment. And we look for catalysts that will cause the stocks in our portfolio to rise in the next 6 to 12 months. If anything, we are being even more rigorous in making sure the catalysts we have identified are visible and significant enough to matter. Given the lack of earnings visibility – from almost all of the companies we follow – we view our ability to identify the catalyst and then monitor each company's progress against our expectations, as essential in this environment.

Perhaps not surprisingly, we are finding new ideas in almost all sectors as the market has been an equal opportunity devastator. In general both in Small- and Mid-Cap Core we retain a pro-cycle bias. However, during the first quarter we also have found opportunities in energy, transportation, and in healthcare. We see many stocks where we feel the valuation is attractive, and even compelling, but when we focus on the question of near term catalysts, the number of possible investments drops considerably. In this vein, we made some opportunistic dispositions of credit sensitive financials. While on a pure valuation basis several of these names can still be considered attractive, our view is that the catalysts are not yet in place and that the macro environment is both difficult and too unsettled to warrant a meaningful exposure in this sector.

One of the new portfolio additions in Small-Cap is **Smithfield Foods (SFD),** a hog producer and pork packager. Smithfield is a company we have held in the past and know well. As a result, we are comfortable with management's strategy and its ability to execute. The stock had been a strong performer during the first part of the decade as emerging economies were seeing strong per capita income growth which creates demand for better diets and more meat consumption. The stock had fallen almost 70% from its peak in mid-2007 on fears that the worldwide slow down would stunt demand for meat. While we agree with the premise, the stock was selling so far below historic valuation metrics (despite having resolved its liquidity issues) that we felt we would be rewarded for owning the stock with in our 6 to 12 month time horizon.

We also made an opportunistic switch during the quarter reducing our holding in **Prestige Brands (PBH)** and adding a position in **Perrigo (PRGO)**. Perrigo is the leading provider of over-the-counter private label and store-branded medicines. Store-branded products appeal to both consumers and retailers because even as the consumer enjoys a 30% cost savings to the comparable national brand, the retailer is earning more profit per unit. We have followed Perrigo for years and have had only limited opportunities to invest in the stock as it rarely meets all three of our investment criteria: valuation, catalyst and management with the ability execute. In spite of good growth prospects and strong cash flows, we were able to initiate our position in Perrigo at the low end of the company's 15-year valuation range. Prestige, while still attractively valued, is facing a threat from private label, or "store-brands," which could accelerate, at least for the balance of 2009.

Our sales this quarter represented both victories (e.g., **SCX Health - SXCI)** and disappointments (e.g., **Swift Energy - SFY)**. We began buying SXCI in late 2007 and added to our position in early 2008, capitalizing on the market's misplaced concern about its acquisition of National Medical Health Card. We thought it was a great deal which both eliminated a competitor and expanded SXCI's capabilities in mail-order refills and specialty drug management. Drivers of SXCI's outperformance were the increased acceptance of its transparent pricing model and the successful integration of the NMHC acquisition which closed in 2Q08.

SFY, on the other hand, turned out to be a disappointment. The company made a surprising announcement during the quarter that, as a result of declining commodity prices, it was making substantial cuts in its 2009 capital budget in order to preserve cash. While the company made a good long term decision based on its belief that oil service costs had not come down to a level commensurate with current commodity prices, in the short term the decision will result in much lower 2009 and 2010 production levels than we had anticipated. We viewed this as a negative fundamental development to our original investment thesis which was higher production growth due to a redeployment of capital from the sale of their New Zealand properties in 2008. As a result, we sold the stock at a loss.

In Mid-Cap Core a couple of our new additions were **Bunge (BG)** and **Adobe Systems (ADBE)**. **BG** is a name we have held in the past and have confidence in management's strategic direction and in its ability to manage its businesses. Bunge has built a global infrastructure for buying, fertilizing, processing and distributing soy beans. It has no rivals that can provide farmers and end users around the world the same, complete service offering. Soy beans are the biggest feed component for all animal protein and as wealth increases, so does meat consumption. As the economic slow down worsened, Bunge's stock fell from a high of $128 to a low of $28 which we felt was discounting far too deep and long a global recession. With the stock trading at 0.7x book value, the lowest valuation in Bunge's stock history, we bought the stock. The catalysts we have identified - commodity prices, including soy beans, appear to be stabilizing, and farmers planting at good levels, especially in Brazil which is Bunge's stronghold – should position Bunge well over the next 6 to 12 months.

ADBE, is the dominant provider of software for web publishing and on-line video production. The stock came under pressure as data indicated that the sale of its late 2008 CS4 product release would not meet original projections. At that point the stock was trading at a reward/risk ratio of 4.0x. We identified the following catalysts: firstly, management was making aggressive cost reductions to maintain profitability through this revenue downturn, secondly, the company was increasing market share through a continued high level of R&D spending for future roll-outs and thirdly, the mission critical nature of their products will require upgrades either by corporate buyers or freelancers. In addition, the company is committed to maintaining its product leadership position with plans to highlight a new product, CS5 (scheduled for release in the spring of 2010) at its Fall 2009 user conference. We have confidence in management's ability to execute and to preserve high cash generation and thus a pristine balance sheet with $2 billion in net cash.

Portfolio Overview

Performance	1Q2009	2008	2007	2006	5 Year*
Small-Cap Core	-16.6%	-30.1%	-6.7%	16.7%	-3.3%
Russell 2000®	-15.0	-33.8	-1.6	18.4	-5.2
Mid-Cap Core	-5.6	-43.5	11.6	16.7	-0.4
Russell Midcap®	-9.0	-41.5	5.6	15.3	-3.5

*Annualized ending 3/31/2009

Net of management fees

For notes on performance please refer to the disclosure at the end of this document

Portfolio Characteristics	Small-Cap Core	Mid-Cap Core
P/E (ex. negative earnings)	13.5x	12.4x
P/B	1.0x	1.2X
Dividend Yield	1.2%	2.1%
Wtd. Avg. Market Cap.	$850 mm	$4,915 mm
Number of Holdings	34	33

Disclosures

The securities discussed above were holdings during the quarter ended March 31, 2009. The stocks we elect to highlight each quarter will not always be the highest performing stocks in the portfolio, but rather will have had some reported news or event (e.g. new contract, acquisition/divestiture, financing/refinancing, revenue or earnings, changes to management, plant strike, product recall, court ruling, etc.) of significance. They do not represent all of the securities purchased, sold or recommended by the advisor, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. All information is provided for informational purposes only and should not be deemed a recommendation to buy the securities mentioned.

Core Performance Disclosures:

1. The Small-Cap Core Composite includes all tax-exempt and taxable portfolios utilizing a fully invested equity allocation with an emphasis on the small cap segment of the U.S. equity market. Portfolios within the composite are managed to a client-directed broad market index, typically the Russell 2000 Index.

2. The Mid-Cap Core Composite includes all tax-exempt and taxable portfolios utilizing a fully invested equity allocation with an emphasis on the mid cap segment of the U.S. equity market. Portfolios within the composite are managed to a client-directed broad market index, typically the Russell Midcap Index.

3. The Small-Cap Core and Mid-Cap Core Composites comprise discretionary accounts with no material investment restrictions. Net of fee performance results reflect the deduction of fees according to the applicable investment advisory fee schedule. The results include all interest, realized and accrued dividends, capital gains, capital losses and brokerage commissions. Composite results prior to February 1, 2009 are based on aggregated data at the product level. Results following that date are based on asset weighted returns. Asset weighted performance measures the average performance of all portfolios in the composite weighted by size. Performance results for individual accounts vary due to the timing of investments, additions/withdrawals, length of relationship, and size of positions, among other reasons. Past performance is no guarantee of future results.

4. Composite Inclusion: Accounts must be fully invested as of the last day of the previous month to be included in the composites. Composites include terminated accounts for all full months under management.

5. All investments involve risk including the loss of principal. The performance and volatility of an index may be materially different from that of a client’s account. In addition, a client’s holdings may differ significantly from the securities that comprise an index. The indexes have not been selected to represent an appropriate benchmark to compare the advisor’s performance, but rather are disclosed to allow for comparison of the advisor’s performance to that of a well-known and widely recognized index.