Quarterly Letter to Investors: *January 2011*

Year in Review

Financial markets and global economic conditions continued to improve in 2010 as we witnessed a second year of recovery from the financial crisis of 2008. Governments and central banks around the world maintained their unprecedented policy of fiscal and monetary stimulus to spark economic growth and enhance returns on financial assets. As can be observed in the chart below, whenever investors became nervous, whether it was European sovereign debt crises, sluggish U.S. economic growth or concerns that expiring U.S. tax rate policies would retard future growth, policy makers responded with measures that directly or indirectly drove asset prices higher.

Most major world stock indexes posted double digit gains in 2010 with emerging markets once again leading the way. Bond market performance was up and down last year as bonds rallied through September and then experienced a significant correction in the fourth quarter when fears of a double dip recession abated. Commercial real estate saw some improvement especially in Washington D.C. and New York City and home prices may have stabilized even though sales have rebounded only modestly. In the currency markets, the U.S. dollar showed mixed results, gaining against the euro as the European debt crisis took its toll, while losing ground to the Japanese yen and most emerging markets currencies. As China and other rapidly developing economies bounced back quickly from recession, a broad rally in commodities prices ensued. Copper and gold prices have surged to record highs and many agricultural and energy prices are above their mid-2008 levels.

Current Economic Outlook

As 2011 begins, we are confronted with increasingly divergent economic growth rates around the world. The European region continues to suffer from a sovereign debt crisis, sluggish growth and fears of deflation. Policymakers across Europe will endeavor to enact and enforce austerity measures on the weakest and most heavily indebted members of the ECU. Attempts to restore economic growth throughout the Euro zone will be no easy task. In China, Brazil, India and other emerging market economies, strong growth has resumed and inflation is on the rise. In these countries, the challenge will be to maintain robust growth even as tighter monetary policies are implemented to curb inflation.

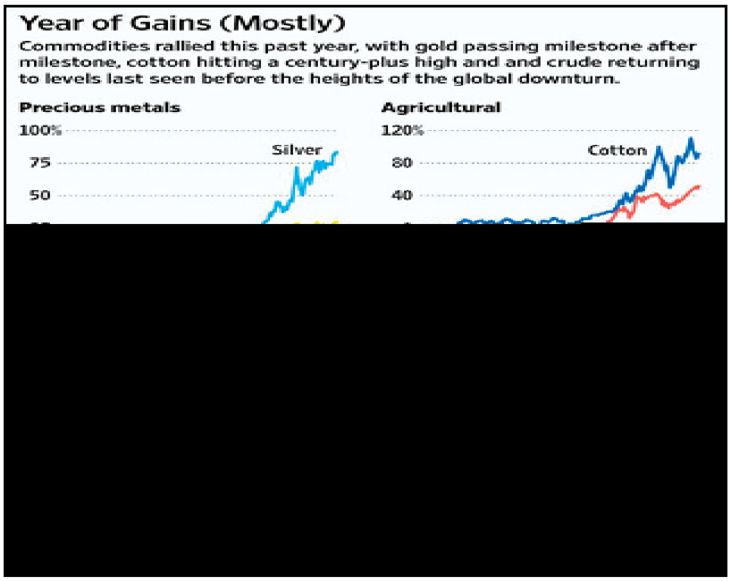
In the U.S. the outlook for economic growth has improved over the past few months. We now appear to be entering a stage of moderately accelerating economic growth in the 3-4% range, combined with low core price inflation. When fourth quarter GDP numbers are released, we expect to learn that gross domestic product, the broadest measure of economic activity, has returned to the level experienced in the fourth quarter of 2007. This would imply that the recovery phase of the economic cycle is about to transition into an expansion phase. Up until now, the recovery has been dominated by improved trends in business spending and exports. As the expansion continues, labor markets and housing should slowly improve, allowing consumers to begin contributing to economic activity in a more meaningful way. We saw the initial signs of this in the fourth quarter when consumer spending exceeded expectations and increased at the fastest pace in three years. Much of the spending occurred at the high end as wealthier individuals are feeling more confident now that the economy is growing and the stock market has rebounded. As employment and the housing market recover, consumer spending patterns should become more even across income levels.

Financial Market Outlook

Given the divergent regional economic trends depicted above, near term financial market conditions appear most favorable in the United States. Corporations are well-positioned to generate record profits in 2011 as margins remain strong and disciplined spending persists. Federal Reserve Bank policy continues to be

stimulative and fed funds rates are likely to remain near zero throughout most of this year. If GDP growth meets the projected 3-4% levels during the year's first half and the employment picture improves, look for the Fed to begin setting the stage to raise short term interest rates later this year. As the expansion progresses, it would be reasonable to expect bond yields to rise, with the ten-year U.S. Treasury yield approaching 4% within the year, up from 3.30% currently. Stock prices could rise further from current levels near 1,300 for the S&P 500 stock index toward 1,400 by year-end.

European stock markets are likely to remain laggards until debt issues are brought under control. Similarly, a cloud will exist over many of the fast growing emerging market nations in Asia and Latin America until there is more clarity on the inflation front. Beyond the near term, we continue to be especially constructive on emerging markets as economic growth trends are stronger and financial conditions are far superior to most developed economies.

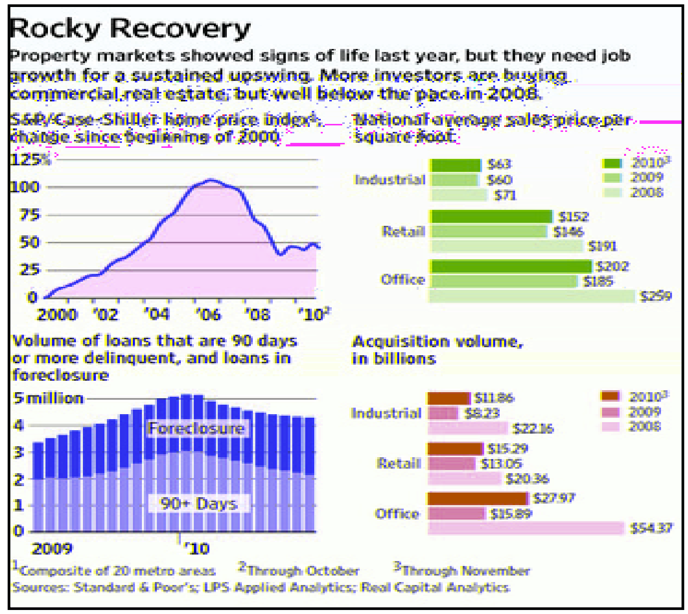


Commodities markets may pause or even experience a correction after soaring higher since the global economic recovery began in mid-2009. However, global demand for natural resources should continue to outstrip supply for the forseeable future as the developing markets, hosting much of the world's population, continue to grow rapidly.

Investment Strategy

Our view of a strengthening U.S. economic recovery leads us to expect that equity markets will continue to perform well in 2011. On this basis, our bias is toward economically sensitive stocks found in sectors such as energy, materials, technology and financials. We are not as enthusiastic about the prospects for the more defensive sectors of the market at this early stage of economic expansion, believing that consumer staples, healthcare and utilities may perform better at a later stage of the economic cycle.

In contrast, a healthier economic environment suggests the bond market could perform poorly this year, continuing the negative trend begun in last year's fourth quarter. Our strategy is to reinvest bond maturities in short duration instruments or substitute floating-rate securities until the interest rate environment normalizes. Alternatively, investors seeking income may consider a greater exposure to REITs, master-limited partnerships or high-yielding common stocks, where appropriate.



As intimated earlier, we maintain our conviction that investment opportunites in emerging markets should exceed that of developed markets, including the U.S., for timeframes beyond the very short-term. With this in mind, we do not believe it would be productive to defer new commitments to the most attractive emerging market countries or regions.

Of course, any forecast is subject to an assortment of surprises and risks. The European debt crisis could spread to larger countries beyond Greece and Ireland, namely Portugal and Spain. With this in mind, we do not presently recommend any material exposure to Europe. Within the U.S., state and local government finances are of particular concern. With a new congress focused on greater fiscal responsibility, it is unlikely the federal government will agree to any municipal bailouts. Our policy has always been to focus on high grade bonds to mitigate the risks of any potential financial dislocations. In addition, there is no shortage of geopolitical hotspots around the world ranging from Korea to Pakistan to Afghanistan to Iran, just to name a few.

The key to effective investing is to align investment objectives with the proper mix of domestic and international stocks, fixed income instruments and other asset classes. We look forward to reviewing your individual objectives and circumstances in conjunction with our view of economic and market trends to affirm or modify your investment strategy.

We extend our best wishes for a safe, healthy and prosperous 2011.

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