GROWTH EQUITY PORTFOLIO REVIEW

First Quarter 2010

PERFORMANCE COMMENTARY

Though investors might have been hoping for a quiet year after the drama of the last two, the stock market certainly didn't provide a soft ride in 2010's first quarter. Broad US stock market averages dropped about 8% from the start of the year into early February, as concern over consumer weakness and financial problems in several European countries gave legitimacy to a market correction. As the causes for those concerns dissipated alongside the appearance of reasonably good economic data, an upward surge lasting through the end of March not only erased the earlier sharp decline but generated a positive 5.4% return for the full quarter (as measured by the S&P 500 Index). Other averages such as the large-cap Russell 1000 Index and the smaller-cap Russell 2000 Index were also up during the quarter (5.7% and 8.8% respectively); indicating that this first quarter's strong showing had legs in all corners of the US equity market.

The Growth Equity strategy enjoyed very good absolute and relative performance in the quarter just completed.

	Periods Ending March 31, 2010				
	Quarter	1 Year	3 Years	5 Years	10 Years
Growth Equity Composite - NET	**7.5%**	**51.5%**	**-0.3%**	**4.3%**	**0.5%**
Russell 3000 Growth Index	4.9%	50.5%	-0.9%	3.5%	-4.0%

Composite performance is reported **NET** of fees and expenses. Please refer to the disclosures at the end of this report.

As we state in our literature, Growth Equity portfolios are comprised of stocks of all sizes selected for the sustainability of their revenue, cash flow or earnings growth attributes. A standout among the larger companies was **Boeing (BA)**, up 35% for the quarter. News in the commercial aerospace industry was increasingly better over the last three months, culminating in the announcements by the two major airframe manufacturers - Airbus and Boeing - of plans to increase production rates during 2010. Though the production rate increase was modest, it was a signal to the industry that the worst of the recession has passed. The updraft in the stock prices of the larger participants in the aerospace industry also helped a smaller Growth Equity company, the Wisconsin-based maker of forged jet airplane parts, **Ladish (LDSH)**, which also gained 35% for the quarter. We purchased both Boeing and Ladish - two duopolies with highly secure competitive positions - on the assumption that the market's worst fears about the airliner purchasing cycle would not be realized, and that a moderate, though not robust, return to normal growth trends would resume. Both stocks were also cheap relative to our belief that each would earn in a more normal demand environment. Though both have started to move upwards, we still believe they have room for significant gains tied to further positive potential in the commercial aerospace cycle.

There were several smaller company positions established last year that continued to do well in the first quarter of 2010. **Websense (WBSN)**, **IMAX (IMAX)** and **Aruba Networks (ARUN)** were all standout performers during this past quarter…delivering double digit returns for announcing very good results during their quarterly earnings reviews. Our position in Websense comes from our investment theme of enterprise information technology (IT) security, or more accurately, enterprise-based Web security. As shown by recent events such as the Chinese government's hacking into Google email user accounts, Web architecture security is a major unmet need. Indeed, today's hackers are no longer teenagers having fun in their dorm rooms, but instead are organized professional teams attempting to steal very high value information from corporations.

Websense, a company that has invested heavily over the past four years to develop products that can neutralize Web 2.0 threats such as video, image and music files, has seen sizable traction in their new products over the past two quarters, resulting in a 30% stock price increase this quarter. Our belief is that Websense has just begun a two-year run of product introductions focused on these threats. We thus see ample reasons to retain it in Growth Equity portfolios for the longer-term.

Aruba Networks has a special position in the wireless networking equipment industry. Aruba and Cisco compete with each other to supply enterprises with network hardware that gives workers wireless access to company networks. The security structure both Aruba and Cisco provide have been successful at dispelling corporate networking administrators' concerns over using wireless facilities to connect its workers, leading to greater acceptance of wireless networks throughout that marketplace. Aruba's equipment also facilitates home-based workers' access to corporate networks. What makes Aruba's network architecture better than Cisco's is its focus on the user rather than the hardware, which makes it much more attractive to network professionals. As a result, Aruba is winning many head-to-head competitions with Cisco, and was able to report strong sales and growing market share during its recent earnings review. The stock rose 28% during the quarter, and we see additional upside potential. Supporting our thesis for continued investment in Aruba are two developing trends. First, the recently approved 'N' addendum to the 802.11 wireless standard (also known as 'Wi-Fi') allows for much faster wireless networking, which should foster greater use of wireless networking versus wired networks in enterprises. Second, in addition to our near-term view that many current wireless customers will eagerly trade-up to the just-ratified 'N' standard, we believe as well that over the next two or three years, many wired corporate networks will incorporate more wireless features. Together these trends should help push Aruba's equipment sales, market share, and stock price, higher.

First purchased in mid-2009, we have continued to add IMAX to Growth Equity portfolios right through the beginning of 2010. IMAX was one of the strongest performers in Growth Equity accounts in 2009, and continued its resurgence by posting a nearly 35% gain for 2010's first quarter. While bears on the stock will point out that the movie Avatar is not a repeatable event, the bulls will retort (or does a bull just snort?) that Avatar merely showcased the power of the IMAX business model. Briefly, IMAX has historically sold projection systems to theaters, but over the past three years has been tweaking their business model by signing a growing number of joint venture agreements with theater operators in which IMAX contributes the projector, sound system and screen, while the theater operator contributes and retrofits the theater itself. As a joint venture partner IMAX receives 40% of the gross box office (27.5% from that screen, plus an additional 12.5% from the studio), while the receipts from "equipment sale" clients is less than 15%. IMAX's current mix of joint venture and equipment sale clients is generating receipts of approximately 20-25% of the total gross box office from all IMAX venues. So when Avatar posted global IMAX box office receipts of over $200 million, IMAX itself saw gross revenue of about $40-50 million from that movie alone. While that number is stunning indeed, the gross box office revenues from IMAX theaters as a percentage of the total box office revenue is what is capturing everyone's attention. Studios recognize that if they want to maximize their upside potential, they need to have their blockbuster film shown in IMAX. In addition, theater operators also recognize the power of the IMAX brand. Regardless of other 3D and big screen alternatives, IMAX continues to get the lion's share of movie goers' attention. This leads to a virtuous circle whereby the studios offer more and more movies to the IMAX platform, while more theater owners (domestically and globally) sign deals to install IMAX equipment; all leading to higher box office receipts on the IMAX network of screens, and more high margin revenue to the company. With a strong slate of movies already announced for the rest of 2010 (and a few for next year as well), we believe that IMAX has continued upside potential.

As always, we would be remiss if we didn't mention a poor performer during the quarter. **Cytori (CYTX)**, a company we still believe in, nevertheless fell by 25% over the course of the quarter. Cytori is a unique

company that has a proprietary system that processes adipose (fat) cells to harvest adult stem cells. These stem cells can then conceivably be used to "regenerate" everything from breast tissue for mastectomy survivors, to wound healing skin for diabetics, to faulty heart valves for coronary patients. One of the primary reasons for our enthusiasm for this stock is because Cytori is a "device" company (as opposed to a drug company), meaning the regulatory hurdles their device must pass are lower than the hurdles for drug products. We are optimistic regarding FDA approvals for Cytori's system (especially for breast reconstruction), because their Celution system effectively removes fat cells from a patient at bedside, processes them immediately, and then allows the doctor to re-inject the stem cells right back into the donor/patient. The process is not only fast, but takes away much of the rejection risk that occurs when clinicians attempt to inject foreign matter into the human body. The evidence heretofore in breast reconstruction is very positive, while we are waiting for results from other studies to be released in the coming months.

After starting out the year extremely strong, Cytori fell dramatically in the middle of March because the company heard from the FDA that Cytori would not receive the fairly straightforward "premarket notification" for their system but rather would have to go through the more time intensive "premarket approval" process. This news, while disappointing, was NOT a commentary by the FDA on the safety or efficacy of the device, but rather a request that the FDA receive more data from Cytori. Unfortunately, it is not clear what the FDA's new timeline will be (we should hear more in early May), but the market reacted somewhat rationally and sold the stock off into the certainty that the approval process would be longer, and that the cash needs of the company in 2011 would be greater.

As is our practice with companies that have significant enterprise risk, Cytori was a relatively small position in Growth Equity accounts going into both the year, and the announcement. So while Cytori's -25% year-to-date stock price performance through March hurt portfolio returns, we continue to believe in the significant upside potential of this technology and want to make sure we participate in the long term story that is just beginning to unfold. As mentioned, May will be an important month for the stock, as Cytori is due to release a heart valve study as well as announce further clarification on the FDA's thinking. While Cytori's ability to tap into the coronary area is not vital to our thesis (merely being successful in breast reconstruction and eventually breast enhancement is all we need for a VERY successful holding), any positive news will enable Cytori to joint venture out their heart related R&D costs and add a bigger cushion of cash to their balance sheet. In addition, any positive coronary news would solidify people's thinking that if the harvested stem cells can regenerate healthy heart valves, then Cytori's system is sure to work in breast reconstruction.

At this point in our quarter-end reviews we generally highlight a recent purchase and sale or two, but there is nothing to discuss this quarter as there were no major purchases or sales in the Growth Equity portfolio. Is this a change in strategy, you ask? No. Purchase and sale activity is not a goal on its own, but is generally the result of changes in company prospects or the market's estimation of them. During this past quarter we were not moved by price changes, our outlook for any of our holdings' futures, nor by the attractiveness of any of the stocks on our watch list relative to our cash reserves. Don't worry that this state of inactivity will continue and we won't have anything to write about in future reviews! We are currently discussing a number of potential changes that will likely unfold in the next quarter or two, and look forward to sharing with you the rationale behind those changes as they occur.

SOME THOUGHTS LOOKING FORWARD

Like most investment professionals, we examine broad economic trends and discuss expected impacts on industries and companies. Such big picture considerations, however, do not drive our investment decisions.

We prefer to draw our investment conclusions by conversing with and observing the companies we follow, with the big picture considerations providing an interesting perspective to our analyses. That said, we thought we'd share a few top-down observations about the economy and markets.

First, in the past twelve months or so, the stocks that did very, very well tended to be of companies that are smaller, generate sales from a limited number of geographies, have a limited product or service lineup, are cash consumers (not cash producers), and have leveraged balance sheets. The stocks of larger, multi-national, multi-product, companies that have relatively clean balance sheets and are throwing off gobs of cash have seen their stock prices move up with much less enthusiasm. If we had to guess - we don't make promises when it comes to future portfolio moves - we would say upcoming purchases in Growth Equity portfolios will look pretty boring - that is, favor the larger, more diverse companies over the smaller ones with limited function. When we look at the companies in our portfolios and on our watch lists, it's these more 'boring' companies that are still attractive - on average.

Our second comment pertains to a theme we have spent significant time discussing over the course of the slowly strengthening economy. During the depths of 2008, we asked ourselves "what has to change? What appeared to be real before that will no longer appear to be gospel?" Our answer then, as well as now, is: the US as über-consumer of the world's manufacture will not continue. For the US, consuming beyond its means while piling on debt is a finite trend that is in the process of reversing. Obviously, we're not the first to discuss this, and we will leave the moral bromides and preaching to others. Our interest is in how this unwinding will affect the minutiae of the US and world economies. For example, the transportation chain (ships, railroads, trucks, shipyards, computer systems, and human resources) that has been created over the past twenty years to handle inbound freight to the US is undergoing change. Several of the chain's elements have found the re-balancing of trade patterns to be an unexpected challenge. We fully expect a greater balance between consumption and production between the US and the world. However, while we are already hearing buzzwords like 'onshoring' (moving manufacturing to the US), this shift in direction will be slow to appear and take quite a few years to yield substantial change. And as with any economic or market movement, it will contain a number of short-term reversals. We don't expect the US to become a manufacturing powerhouse like China or Germany, but we do expect the one-sided nature of the US economy - all consumption all the time - to subside. We also expect this re-balancing of trade patterns to be a fertile source of investment opportunity.

DISCLOSURES: The Growth Equity Composite is comprised of discretionary equity accounts managed for growth. Accounts are included in the composite at the beginning of each account's first full calendar month under management. Results are calculated internally using the Advent investment management software and information provided by outside custodial firms. Performance figures are net of fees and commissions. Client returns may be reduced by other expenses incurred in the management of a client's portfolio. The composite calculation has been weighted for the size of each individual account. Composite and index performance reflects the inclusion of dividends, interest and other earnings, if any. All performance figures for periods one year and greater are annualized. Valuations and returns are computed and stated in U.S. Dollars. Performance results for individual accounts may vary due to the timing of investments, fees, size of positions and other reasons. PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF FUTURE PERFORMANCE. Further information regarding policies for calculating and reporting returns is available upon request. Composite information displayed according to the Global Investment Performance Standards (GIPS) is available upon request.

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