

International Value
Manager Commentary
March 31, 2010

Global equity markets maintained their upward momentum in the first quarter as economic activity continued to rebound from the recessionary lows of last spring. Positive economic data out of the United States and several leading, developed European markets overshadowed many of the negative political stories dominating their local headlines. While concerns of U.S. deficits and EU sustainability are not to be taken lightly, we remain committed to the belief that the current global economic recovery will continue and that numerous investment opportunities remain amongst companies whose valuations fail to reflect their long-term earnings potential. We deployed capital during the first three months of the year into new investment ideas, which coupled with strong performance from several of our largest holdings, led the portfolio to return 6.3% in the quarter versus the MSCI EAFE return of 0.9%.

The biggest story during the first quarter, and the one which we have received the most questions about, involves the fiscal situation in Greece and its impact on the future of the European Union. This is an important topic to address for any international equity manager, as the member countries of the EU when viewed in aggregate represent the largest economy in the world.

The EU was founded as a monetary union with a single currency whose founders hoped would lead to future political convergence amongst its member countries. Over the past two decades the EU has successfully increased its membership from 6 countries to 27, but now increasingly looks like a shaky marriage of cultures whose structure is fundamentally untenable. The current debt crisis in Greece typifies the double threat to the future of the EU – the internal fiscal imbalances amongst the member countries and the lack of an effective resolution regime to manage them. The recent commitment by EU members and the IMF to support Greece, should it be unable to finance its deficit, provides little comfort as it fails to address either of these issues.

It is impossible to predict exactly what the future holds, but we expect that there will most likely be a material event this year that will serve as a catalyst for permanent change within the EU. That catalyst could come in several forms such as a Greek default, an expulsion of Greece or one of its deficit brethren, or the voluntary exit of a stronger economic power such as Germany whose populace has no desire to support the fiscal irresponsibility of its neighbors.

That being said, we hold several companies based in the Eurozone and will continue to look for new investment opportunities in the region. As fundamental value investors, we are focused

on finding inexpensive, quality companies regardless of where their headquarters might reside, especially in the case of the Europe, where cultures and economies vary widely. In fact, it is often situations such as this one that provide the opportunity to invest in world-class companies at valuations that might not have occurred otherwise.

For example, we added Deutsche Bank (DB) to the portfolio in early February when concerns regarding Portugal and Greece were taking a significant toll on the euro and Eurozone equities. DB is the largest bank in Germany and a company we have followed closely as it successfully managed itself through the credit crisis without taking government aid. With an improved balance sheet and business mix, DB was performing strongly until the first quarter when its stock fell over 22% in four weeks from its peak in January. Confident this was an overreaction by investors, we purchased DB shares at \$59 and have been pleased to watch its subsequent recovery to the high \$70s.

We applied the same approach to our other European holdings and found a similar situation in which the momentum selling provided attractive prices on two of our portfolio holdings – Diageo (DEO) and Swiss Re (SWCEY). We took advantage of the opportunity to increase both companies to full positions in the portfolio.

Turning to other parts of the world, we sold our position in Hutchison Telecommunications International (HTX) at the start of the first quarter. We initially purchased HTX in early 2008 before management split the company in two, creating Hutchison Telecommunications Hong Kong (HTHKY) to house its Hong Kong assets, and leaving the emerging markets assets in HTX. In early January, the parent company, Hutchison Whampoa, made an offer to buy HTX at a 37% premium leading us to sell our stake. We have maintained our investment in the Hong Kong company and are excited about its long-term prospects.

We have started the year off well by remaining positive on the long-term prospects of the global economy and taking advantage of individual opportunities that arrive during a gradual, bumpy recovery. We will maintain this strategy as the portfolio is currently well-positioned and fully-invested, and we continue to discover attractive investment opportunities.

We are pleased to announce the addition of Mark Yancey to the firm. Mark joins RCB as Senior Managing Director of Global Distribution and brings with him 25 years of institutional marketing experience. Prior to his association with RCB, Mark was a founding member of Hillcrest Asset Management and a partner and co-head of institutional marketing and sales at Metropolitan West Capital management from 1999-2007. Mark has also held positions at Wells Capital and Mass Mutual and is a graduate of the University of Oklahoma. We welcome the contributions of his experience and new ideas to the team.

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