

International Value
RCB Manager Commentary
October 1, 2009

The rally in global equity markets continued through the third quarter led primarily by the developed countries of Europe. This is a change from the second quarter when it was the larger emerging markets that first shook off the contraction in global economic activity and experienced substantial gains. Low interest rates, ample liquidity and strong growth throughout most of Asia continue to prime the pump of economies around the world which combined with the continued weakening of the US dollar, drove the MSCI EAFE index to returns of 19.5% for the third quarter and 29.0% for the year.

The RCB International strategy has maintained its outperformance this year gaining 33.5% through September, but gave back some of its lead over the benchmark in the last quarter. The growing belief amongst investors is that we are on the verge of a widespread recovery which will result in solid economic growth in 2010. This has driven cyclical sectors such as industrials and basic materials to perform strongly during the summer. Our preference for stable, cash generating companies with solid balance sheets is a large reason for our outperformance YTD, but has resulted in these two sectors being underrepresented in the portfolio as their dependency on economic growth and credit access led us to tread lightly.

This is not to suggest that we have been sitting on our hands during the last quarter. In fact, we took advantage of the market's focus on the cyclicals to tactically add to our positions in several world class consumer-oriented companies that were being overlooked such as Nestlé, Philip Morris International and Hutchison Telecom Hong Kong Holdings. We also added a new name to the portfolio during the quarter, Provident Financial plc. This UK company has a 129 year history of providing credit products to low income families that do not have access to traditional bank lending. With small, short-duration loans, Provident provides a critical service to many UK communities that is well received by the local residents and has little competition. While rising unemployment is a concern for the company, it remains an attractive investment with an experienced management team, dominant franchise position and dividend yield approaching 7%.

The performance of the international equity markets this year, while impressive, is indicative of the extent to which they were oversold just two quarters ago. Concerns regarding continued credit tightness and falling industrial and consumer demand have waned as have the sheer number of attractive investment opportunities that existed during this period of heightened pessimism. We are finding that now the majority of companies we follow are trading at valuations which suggest a meaningful recovery in earnings next year. Most have significantly lowered their cost structures this year but will need a healthy improvement in sales in 2010 to drive the bottom line. While we remain confident in the strengthening foundation of the current global economic recovery, we are certain that it will not be without its fits and starts.

Capital spending will need to pick up in the developed economies of North America and Europe, replacing the unsustainable level of government expenditures currently flooding the markets with liquidity. In addition, greater domestic consumption in trade surplus nations such as China, Japan and Germany will be necessary in order to bring greater balance to the global economy and drive steady growth going forward. These are significant undertakings that will likely take many years



to occur. Meanwhile, we will continue to benefit from our fundamental research and concentrated investment style as our focus remains solely on uncovering individual investments such as Provident Financial plc, that will undoubtedly be overlooked as investors focus on market momentum and macroeconomic indicators. This is what we have done since the strategy began at the start of the downturn and what we will continue to do during the upturn.

We appreciate your continued support of the RCB International strategy and as always, welcome your feedback and questions.

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