AUREUS
ASSET MANAGEMENT

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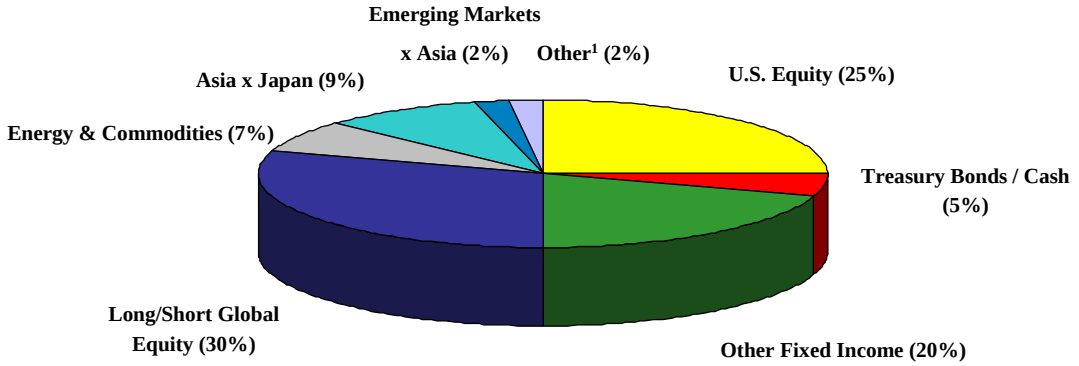
Aureus Asset Management
Asset Allocation
2009

Introduction

Aureus has updated its base case asset allocation model for 2009. Modifications to our model were more pronounced this year than in our updates for 2007 or 2008. Notable adjustments are a larger allocation to fixed income and reduced allocations to Europe and emerging markets excluding Asia. Each Aureus client continues to receive an individualized portfolio design with respect to specifics regarding tax, income, liquidity, risk profile and family structure. We begin with the base case and then adapt to each family's circumstances.

This write-up summarizes each element of our asset allocation model and presents what we believe is the optimal asset mix for our clients over the next three to five years. This base case, before considering unique family or individual circumstances, includes the following allocations:

Graph I
Asset Allocation Summary



1) Other includes: Japan, Europe, and Real Estate.

This model allocation is meant to be a guide for the next three to five year period given the information we have today and that we have anticipated for the near-term. Any meaningful changes to factors including inflation, interest rates, economic fundamentals, and market valuation may lead us to change these allocations on a tactical or more permanent basis.

Asset Classes

We started with the same 21 distinct asset classes we analyzed in 2008 and excluded six from our model because of redundancy and investment rationale. The table below summarizes the asset classes included and excluded from our model.

Table I
Asset Classes Included

Index / Source	Asset Class
S&P 500 Total Return	US Large Capitalization Equity
R2000 Total return	US Small Cap Equity
RMID Total Return	US Mid Cap Equity
Nareit Index	Real Estate
Lehman U.S. Aggregate	Fixed Income
Lehman 1-3 Year U.S. Treasury	Cash Equivalents
Lehman Corporate High Yield	High Yield / Distressed Debt
HFRI Long/Short Equity	Long/Short Equity
MSCI Europe ex UK	European Equity
MSCI United Kingdom	UK Equity
MSCI Japan	Japan Equity
MSCI Emerging Europe	Emerging Europe Equity
MSCI Latin America	Latin America Equity
MSCI Far East ex Japan	Far East Equity
GSCI Index	Energy & Commodities

Table II
Asset Classes Excluded

Asset Classes Excluded	Rational
Russell 1000	Redundant (S&P 500)
MSCI Emerging Markets Full	Redundant (Em. Europe, Latin America, Asia Ex. Japan)
MSCI EAFE	Redundant (UK, Japan, other emerging)
Venture Capital	Not attractive at this time
Private Equity	Not attractive at this time
Timber	Illiquid

Venture and Private equity continue to be exclusions of note. We feel strongly that these, as well as other, less liquid asset classes will continue to face challenges. When we founded Aureus in 2005 we felt too much money had flowed into these asset classes and that returns would be difficult to sustain. Today these asset classes face complex business environments and their access to credit is constrained. These difficulties should, in our opinion, create investment opportunities in credit-based asset classes as deleveraging continues throughout the current recession. The relative attractiveness of these asset classes, both in terms of their own history and in relation to other asset classes, provides the basis for the increase in fixed income in our 2009 model. Furthermore, we favor liquidity as opposed to the lengthy lock-ups involved in private equity. We remain interested

less in liquid asset classes over the long term, but feel the risk/reward profile of each at this time does not warrant exposure for our clients.

Returns, Volatility and Correlations

We began our statistical analysis the same way we did in 2008, with a detailed look at the return history for each asset class. We extended our timeframe to 18 years from 15 in order to capture, statistically speaking, the recession of 1990/91. Using statistical models we generated historical returns, standard deviations and correlations for each asset class for different time periods within the 18 years as well as over the entire period.

Returns:

For this exercise we have tried to put the very sharp and unexpected decline in the world's equity markets in 2008 and the current state of the economy in historical context. At this time, we feel that the 1970s offer perhaps the best comparison. Over that entire decade, the annualized rate of return from equities was approximately 1.3%. However, there were several periods of substantial volatility during which gains and losses were significantly higher and lower than the overall rate of return for the decade. For example, on the heels of being down 20% in late 1969, the market rallied approximately 24% from January 1970 to January 1973 before losing more than 40% between the beginning of 1973 and mid 1974. From mid 1974 to early 1975, the market then rallied 31%. Occasionally, we expect there to be excellent investment opportunities in the current market but would expect this 1970s type of volatility to persist.

This asset allocation exercise considers a single rate of return over a three to five year period that has its basis in our analysis of valuations, corporate profits, and many other variables. Importantly, our estimate for inflation over the next few years is very low, principally because of the weakness of the economy. As the economy recovers, Government stimulus will have to be withdrawn in order for inflation to remain low, which is a risk factor. However, using the information at hand today, we believe that inflation and the risk-free rate (short-term Government bonds) will remain low for the time period we have projected. Any change in that view will require our model to be re-thought tactically and perhaps over a longer time period. Our projections are also meant to be conservative given the uncertainty which is facing the world's economies today.

Taking the above into account, our three to five year estimated annual return for the S&P 500 was reduced to 6.0% from 7.0% a year ago (and 8.5% in 2007). However, given the reduction in inflation referred to above, the real rate of return going forward is equally as attractive as a year ago. In spite of this conservative overall return expectation we believe there will be potential to generate significant investment returns in a period marked by increased volatility.

Having established a return for the S&P 500, we then looked at historical return premia for each US liquid asset class under consideration in relation to the S&P 500 and carefully adjusted these expected returns going forward. For non-Treasury fixed income classes (high yield and broader corporate indices), we decided to use an equity risk premium as opposed to looking at these asset classes in relation to the 10-year US Treasury. Our analysis of historical returns during the three to five year period following previous dislocations in the credit markets revealed attractive equity-like returns in these asset classes. For international asset classes, we compared the MSCI EAFE Index ("EAFE") to the S&P 500, and all other international asset classes to EAFE. For alternative asset classes we again used the S&P 500 as our starting point and adjusted historical return premia.

Volatility:

For the most part, standard deviations over the entire 18 years were appropriate to use because they were not significantly different than those of the past five years. When differences are relatively insignificant, we believe in using longer-term data. There were two exceptions to our rule this year. First, we made the decision to use volatility for the S&P 500 over the past two years as a more accurate reflection of volatility over the next several years. The result was a slight increase in annualized standard deviation from 16.9% to 18.6%, an adjustment reflecting the volatility we expect in the US for the next several years. The second change involved non-Treasury fixed income indices. Volatility for these asset classes was increased to reflect the equity-like characteristics we expect. For the Lehman Aggregate Index, we adjusted volatility to half of the S&P 500, for the high yield index we concluded that volatility should be equal to the S&P 500. These changes resulted from the review of historical data, during pervious bankruptcy cycles in particular, and our own judgment.

As every period will have unusual and unpredictable circumstances, we have chosen to constrain our projections to allow for what we consider "normal" expectations. Without these constraints, our projections might have been excessively positive or negative because of extrapolating volatile recent returns which reflect highly specific market conditions.

Table III summarizes our return expectations for each asset class as well as the standard deviations mentioned above.

Table III
Summary Return and Standard Deviation Results

(in percent)	Aureus Expected Return	Standard Deviation
S&P 500	6.0%	18.6%
R2000	8.0%	22.1%
RMID	8.0%	19.5%
Nareit Index	6.0%	18.6%
Lehman U.S. Aggregate	5.0%	9.3%
Lehman 1-3 Year U.S. Treasury	2.0%	2.4%
Lehman U.S. Corporate High Yield	8.0%	16.9%
Long/Short Equity	8.0%	12.8%
Europe x UK	5.0%	20.5%
United Kingdom	5.0%	18.1%
Japan	5.0%	22.8%
Emerging Europe	6.0%	37.0%
Latin America	7.0%	38.4%
Asia x Japan	9.0%	32.0%
GSCI (Energy & Commodities)	7.0%	24.6%

Correlations:

There were meaningful differences in correlations between asset classes over the 18-year period and those in more recent time periods, which point towards a higher correlation than in the more distant past. In previous years we had drawn our projected correlations partially from the entire historic period and partially from the most recent five-year period – thus overweighting more recent history but still giving significant credit to older history. Taking into consideration the high correlations witnessed in 2008, we have adjusted our methodology to focus primarily on the most recent five-year period in order to more accurately reflect the tighter relationship between and among asset classes and geographies. We recognize that over shorter term periods correlations may vary.

Optimization

We used state-of-the-art optimization models to establish an efficient frontier from which to select an appropriate asset allocation given the risk/return profile of combinations of positions along that continuum. An important modification we made during this process was our decision to constrain the model in terms of the minimum and maximum possible allocations to each asset class. A summary of these restrictions appear in Table IV.

Table IV
Summary of Optimization Constraints

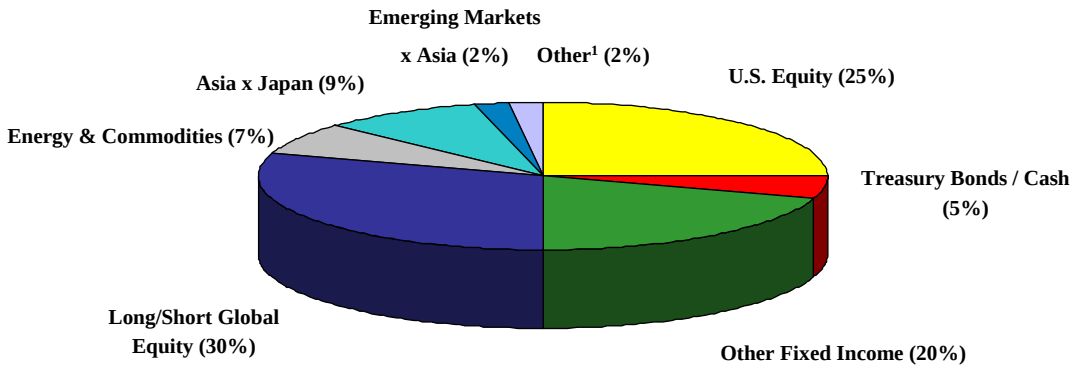
	Holding Constraint	
	Min	**Max**
S&P 500	10%	50%
R2000	5%	20%
RMID	5%	20%
Nareit Index	0%	15%
Lehman U.S. Aggregate	5%	15%
Lehman 1-3 Year U.S. Treasury	5%	10%
Lehman U.S. Corporate High Yield	0%	15%
Long/Short Equity	0%	35%
Europe x UK	0%	15%
United Kingdom	0%	10%
Japan	0%	10%
Emerging Europe	0%	10%
Latin America	0%	10%
Asia x Japan	5%	15%
GSCI (Energy & Commodities)	5%	10%

One notable adjustment from 2008 was a lower minimum constraint for Europe, reflecting our view that economic conditions there are in far worse condition than they are in other developed markets.

Conclusion

After a complete bottom-up quantitative and qualitative reassessment of 18 years of data for 21 different asset classes, revising adjustments to return expectations, time periods, correlation metrics, and exposure ranges, we established the appropriate data with which to update our base case model. The resulting portfolio is presented again in Graph II.

Graph II
Asset Allocation Summary



1) Other includes: Japan, United Kingdom, and Real Estate.

The expected return for this mix over a three to five year period is approximately 7.0%, a decrease of approximately 1.0% from 2008, with a standard deviation of 13.0%, in line with last year's model. Importantly, the 7.0% expected return is a nominal return. Based on our low outlook for inflation over the next two years this nominal return is attractive in real terms. Over a slightly longer time frame we would expect inflation to pick up, lowering the expected real return from the model portfolio. We are watching carefully for a possible increase in future inflation as any such increase may meaningfully impact our asset allocation outlook.

Monte Carlo simulations using our model produce a range of return outcomes for our base case asset mix. This methodology suggests a 50% to 75% probability that $10 million invested today (with no distributions but net of a 0.80% annual management fee) would grow to between $14 million and $18 million over 10 years.

Markets continue to be fluid and constantly reflect circumstances germane to that particular moment in time. Our base case demonstrates both careful historical research as well as our analysis as to what may constitute normality going forward. Our projections will be reviewed and updated annually, to ensure that they remain current and contemporary.