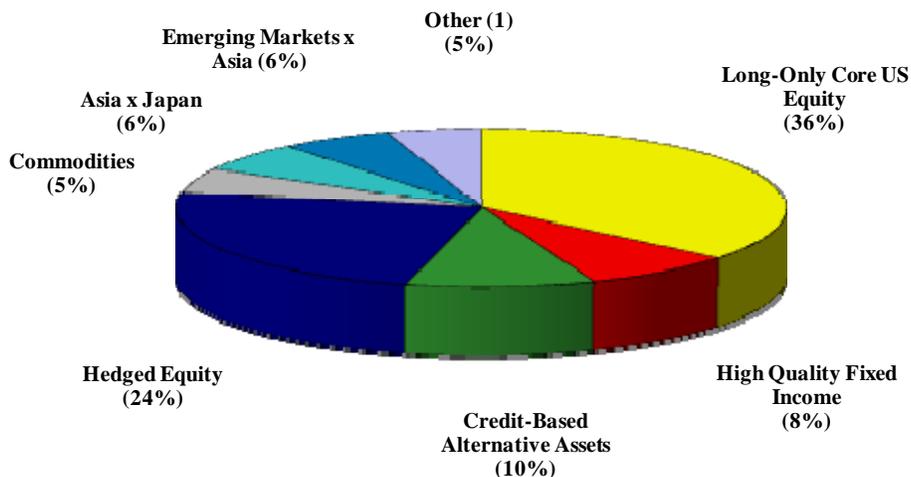


Aureus Asset Management Asset Allocation 2010

Introduction

The Aureus base case asset allocation model for 2010 presents what we believe to be an optimal asset mix for our clients over the next two to three years. Given present uncertainties in today’s world economies and markets, we realize that making any long-term prediction is more than usually difficult. However, we continue to regard wide diversification as a benefit, as shown in the base case graph below:

**Graph I
2010 Asset Allocation Summary**



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

Our model contemplates diversification across asset classes (e.g. equities, hedged equities, credit-based alternatives, commodities, real estate, and high quality fixed income) as well as across geographies (e.g. Asia x Japan, Emerging Europe, Europe, Latin America, Japan, and the United States). The universe of options we consider in these two primary categories is limited only by our analysis of relative value, potential returns, volatility, and liquidity.

Simultaneous consideration of asset classes and geographies is, in our view, the most accurate way to express a truly contemporary investment perspective. A complete investment solution in today’s world can not exist without including both. Translating this allocation approach into actual portfolios can only be accomplished with an investment platform having the breadth, flexibility, and specialization required to capture the benefits of intelligent diversification.

During the course of the year, we may well change allocations tactically, as new information or analysis dictates. As every Aureus client receives an individualized portfolio design, because of that client's own specifics as to tax, liquidity, income or risk profile issues, each will have a different asset mix. That mix will be specifically adapted to a family's own unique circumstances. Our base case scenario, which expresses our view of the world, serves as a fundamental starting point for every one of our clients.

Asset Classes and Geographies

We started with a combination of 21 distinct asset classes and geographies and excluded eight 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 or Geography
S&P 500 Total Return	US Core Equity
Nareit Index	Real Estate
Barclays U.S. Aggregate	Fixed Income
Barclays 1-3 Year U.S. Treasury	Cash Equivalents
Barclays U.S. Corporate High Yield	High Yield / Distressed Debt
HFRI Long/Short Equity	Global Long / Short Equity
MSCI Europe x 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 Asia x Japan	Far East Equity
GSCI Index	Energy & Commodities

Table II
Asset Classes Excluded

Excluded	Rational
Russell 1000	Redundant (US Equity)
Russell 2000	Redundant (US Equity)
Russell Mid Cap	Redundant (US Equity)
MSCI Emerging Markets Full	Redundant (EM Europe, Latin America, Asia x Japan)
MSCI EAFE	Redundant (UK, Japan, Other)
Venture Capital	Marginally attractive at this time
Private Equity	Marginally attractive at this time
Timber	Illiquid

As many clients know, Venture and Private Equity are asset classes we have avoided since we founded Aureus and we continue to exclude them from our model. Conditions for these illiquid asset classes seem a little better than they were a year ago, yet we still see headwinds facing them. In addition, in a volatile and uncertain world, there is a premium attached to liquidity which may not diminish for some time. Nevertheless, we continually challenge ourselves on all illiquid asset classes, and are monitoring these opportunities carefully.

Difficulties in the credit markets for venture and private equity firms mean, to us, that there are interesting opportunities in credit-based asset classes such as distressed debt, mortgages, or high yield.

Europe, Japan and real estate are significantly underweighted in our model. All three areas face serious structural challenges and we see overall return potential for the next two to three years as muted. Within this context we expect skilled managers may find individual opportunities (both long and short) in these areas and our investment platform is structured to give our clients the potential to participate. While we will monitor these areas carefully for changes, we do not feel a meaningful and dedicated allocation is warranted today.

Returns, Volatility and Correlations

We began our statistical analysis with a detailed look at the return history for each asset class and geographical region. Using 19 years of data and statistical models we generated historical returns, standard deviations and correlations for each asset class for different time periods within the 19 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, the subsequent rebound in 2009, and current state of the economy in historical context. We feel that the 1970s offer perhaps a reasonable 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.

This asset allocation exercise considers a single rate of return over a two to three 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 continues to recover, 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.

Taking the above into account, our two to three year estimated annual return for the S&P 500 (US Equity) is 6.0%. Given the reduced inflation environment we believe we are in, the real rate of return remains attractive relative to historical comparisons. In spite of this conservative overall return expectation, the potential to generate significant investment returns in a period marked by increased volatility is above average.

Having established a return for the S&P 500, we then looked at historical return premia for each US liquid equity 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 two to three year period following previous dislocations in the credit markets revealed attractive equity-like returns in these asset classes. For geographies outside the US, we compared the MSCI EAFE Index (“EAFE”) to the S&P 500, and all other international asset classes to EAFE. For alternative asset classes, notably hedged equity, we again used the S&P 500 as our starting point and adjusted historical return premia.

Volatility and Correlations:

For 2010 we have weighted observed standard deviations and correlations for each asset class to favor the most recent five years as opposed to simply using the observed standard deviations for the entire period. By using this approach we have attempted to capture the increased volatility and tighter correlation in many asset classes over the past five years, especially in international markets and commodities, while retaining the statistical integrity inherent in a larger data set. With an 80% weight toward the entire 19 year period and 20% weight toward the past five years, we believe we have set levels of volatility and correlation that are more consistent with our thesis that market volatility across the globe will be higher than average for the foreseeable future and that trading patterns among markets have grown more closely linked.

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**

	Aureus	
	Expected Return	Standard Deviation
S&P 500	6.0%	18.0%
Nareit Index	4.0%	25.3%
Barclays U.S. Aggregate	4.0%	4.3%
Barclays 1-3 Year U.S. Treasury	2.0%	2.4%
Barclays U.S. Corporate High Yield	8.0%	13.0%
Long/Short Equity	8.0%	13.0%
Europe x UK	5.0%	22.5%
United Kingdom	5.0%	20.8%
Japan	6.0%	22.8%
Emerging Europe	5.0%	41.1%
Latin America	9.0%	40.7%
Asia x Japan	8.0%	32.9%
GSCI (Energy & Commodities)	6.0%	27.9%

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

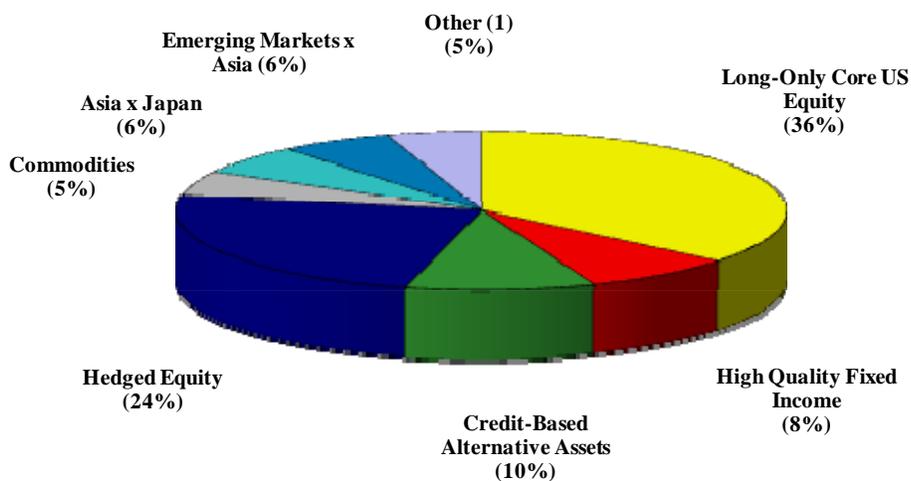
	Holding Constraint	
	Min	Max
S&P 500	35%	50%
Nareit Index	0%	10%
Barclays U.S. Aggregate	5%	10%
Barclays 1-3 Year U.S. Treasury	0%	5%
Barclays U.S. Corporate High Yield	0%	10%
Long/Short Equity	0%	25%
Europe x UK	0%	10%
United Kingdom	0%	5%
Japan	0%	10%
Emerging Europe	0%	10%
Latin America	5%	15%
Asia x Japan	5%	15%
GSCI (Energy & Commodities)	0%	10%

The range of constraints for these categories reflects our judgment as to the appropriate minimum and maximum exposure a base case portfolio should have to each over the next two to three years. From a geographic perspective we consider US equities a core component of any portfolio due to many factors including long-term relative attractiveness and liquidity. We have given the model higher flexibility in considering Asia x Japan and Latin America relative to other non-US geographies. This reflects our belief in a long term structural rebalancing taking place between developing and developed markets and we find these two parts of the emerging world highly attractive over the long term. From an asset class perspective, we give the model highest flexibility with hedged equity due to the return and liquidity characteristics for the asset class. Total exposure across the spectrum of fixed income is also quite high and reflects a combination of the stability offered by higher quality fixed income and the equity-like return potential for areas like distressed debt over the current bankruptcy cycle.

Conclusion

After a complete bottom-up quantitative and qualitative reassessment of 19 years of data for 21 different asset classes and geographies, 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 two to three year period is approximately 7.0%, with a standard deviation of 14.0%. Importantly, the 7.0% expected return is a nominal return. Based on our low outlook for inflation over the next few years this nominal return is attractive in real terms.

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 often during the year and formally updated annually, to ensure that they remain current and contemporary.