



Aureus Asset Management, LLC
Investment Perspectives
January 2009

I. Introduction

During the past twenty-five years, the US led the world in an economic direction notable for great acceptance of risk, increased leverage, and an emphasis on short-term profits. While one consequence of this strategy was apparent worldwide wealth creation, this was built on the illusory belief that the scaffolding holding up world economies was solid, and that the support structure would withstand some disruption. However, enormous global fiscal imbalances coupled with lack of transparency of many balance sheets contributed too much strain, and the support structure gave way.

US home prices collapsed, triggering a widespread wariness of all asset-backed financial vehicles which then extended to financial instruments on a global basis. Credit markets froze and a massive deleveraging began, with monetary authorities in the US and overseas intervening in unprecedented ways.

We believe that we may be experiencing the creation of a new world order, one which fundamentally changes the US-led model and values promulgated over the past twenty-five years. This shift includes a movement away from US leadership in a political and monetary sense. In this paper, we consider some potential consequences of this changing structure and its possible investment implications.

II. The global attitudinal change

The attitudes of today are in process of shifting, as a result of the massive wealth destruction and loss of confidence in the former *status quo*. The table below highlights some transitions we may experience:

Favored Values

1980 – 2007	Today's Possible Shifts
Free market, little regulation	Government imposed controls and regulations
Conspicuous consumption	Frugality, resource management
Stretching of ethical behavior	Stricter and firmer standards
Focus on the world of finance	Suspicion of financial institutions and Wall St.
Willing acceptance of risk and leverage	Less debt, more stress on quality and liquidity
Acceptance of US leadership	US Government less influential worldwide

III. Investment implications

At Aureus Asset Management, we are considering the changing investment opportunities which may result from a values shift of this magnitude, some of which may include:

Today's value	Implications
More regulation	Transparency, avoid any hint of conflict of interest; Only financial deals which are comparatively unleveraged will work
Frugality	Increased savings, fewer McMansions and luxury goods; Good for old-fashioned banks, bad for credit cards; Little increase in charitable giving
Stricter standards	Higher costs to assure no wrong doing; Good for lawyers and accountants, tough on small businesses
Government intervention	Federal government a partner in many financial institutions
Academics	Lower enrollment in business schools, higher in law and science; Fewer investment bankers, distrust of Wall Street
Public/private balance	Good for environmental concerns, alternative energy; Willingness to tackle entitlements
Liquidity and quality	Countries, companies, and investors with excess cash find good opportunities
Less US influence	Investors will regain confidence in countries which show ability to adjust to a new world; but less foreign interest in US enterprises

Consistent with the table above, Aureus Asset Management will continue to stress high quality financial characteristics for both income statements and balance sheets in its internally-managed equities, in any fixed income products or managers, and in all the external managers in the Aureus Fund.

GLOBAL RETURNS SUMMARY

(%)	Calendar Year 2008	Fourth Quarter 2008	Third Quarter 2008	Second Quarter 2008	First Quarter 2008	Calendar Year 2007	Calendar Year 2006
US EQUITY GENERAL							
S&P 500	-37.00	-21.94	-8.37	-2.73	-9.44	5.49	15.79
NASDAQ	-40.54	-24.61	-8.77	0.61	-14.07	9.81	9.52
Dow Jones Industrial Average	-33.84	-19.12	-4.40	-7.44	-7.55	6.43	16.29
NYSE	-40.89	-23.57	-13.02	-1.56	-9.68	6.58	17.86
Russell 1000	-37.60	-22.48	-9.35	-1.89	-9.48	5.77	15.46
Russell 2000	-33.79	-26.12	-1.11	0.58	-9.90	-1.57	18.37
Russell 3000	-37.31	-22.78	-8.73	-1.69	-9.52	5.14	15.72
INTERNATIONAL EQUITY							
MSCI EAFE	-43.06	-19.90	-20.50	-1.93	-8.82	11.63	26.86
MSCI Emerging Markets	-53.18	-27.56	-26.86	-0.80	-10.92	39.78	32.59
MSCI Asia ex Japan	-52.23	-21.48	-22.89	-7.88	-14.35	40.52	33.74
MSCI Japan	-29.11	-9.00	-17.60	2.48	-7.75	-4.14	6.33
MSCI United Kingdom	-48.32	-26.35	-20.97	-0.79	-10.52	8.39	30.66
FIXED INCOME							
Lehman U.S. Aggregate	5.24	4.58	-0.49	-1.02	2.17	6.97	4.33
Lehman U.S. Treasury: 1-3 Year	6.67	2.75	1.70	-0.96	3.07	7.31	3.93
Lehman U.S. Treasury: 20+ Year	33.72	27.29	3.95	-2.40	3.55	10.15	0.91
Merrill Lynch Municipal Index	-3.95	-0.07	-3.81	0.75	-0.82	3.29	4.96
Merrill Lynch US High Yield Index	-26.39	-17.63	-9.48	1.81	-3.04	2.19	11.77
ALTERNATIVE ASSETS							
HFRX Global Hedge Fund Index	-23.18	-13.09	-10.68	1.81	-2.79	4.23	9.25

Notes:

Source: FactSet, Hedge Fund Research, Inc.