Anchor Bay Securities, LLC.

January 28, 2009

Economic Review and Commentary — Letter to Clients

The United States, in 2008, led the charge of bailout nations, lending and literally guaranteeing trillions of dollars of private liabilities in an effort to avoid the advent of another Great Depression. The fourth quarter completed what turned out to be one of the most disappointing years in our firms 16 year history and the worst year for the stock market since 1931. As we reflect on the past year, we clearly underestimated the worsening of the credit crisis, the impact government interventions would have on the capital markets (and several holdings in the Financial sector), and the depth and breadth of the current recession.

Perhaps even more surprising than some of the remarkable 2008 events themselves were how quickly they unfolded. The U.S. stock market lost nearly 40% of its value in just nine weeks from September through November. In September, an all-out crisis occurred in the financial markets, as financial institutions sold off assets in an effort to shore up balance sheets, meet margin calls, or stave off bankruptcy. Major events included the government intervention of Fannie Mae and Freddie Mac and the collapse of Lehman Brothers.

- Few bright spots as almost every industry and category declined sharply
- Corporate profits plummeted; valuations lowest in at least two decades
- Consumer staples and health care held up best; financials suffered worst declines
- Foreign stock markets tumbled in one of worst years ever
- Financial and economic turmoil spread like wildfire; all countries declined
- U.S. dollar-strengthening worsened losses; valuations at historically low levels. Although a number of factors turned to the positive side during Q4 2008, the credit crisis and economic downturn overwhelmed the markets on the downside.

Positive factors:

- The Federal Reserve slashed interest rates to near 0% and pumped hundreds of billions of dollars of liquidity into the financial system through a number of new initiatives.
- U.S. stock valuations reached levels not seen in at least two decades.
- Energy and other commodity prices plunged, providing relief to consumers and businesses and eliminating inflation as a near-term concern.

In the ultra risk-averse environment in 2008, if the asset was backed in some form by the U.S. government it produced positive returns. Everything else, literally, lost money, and in many cases, these losses were of historic proportions.

One of the dominant themes at the end of 2008 was the extraordinary effort by the Federal Reserve to offset the tightening of credit caused by the U.S. financial crisis. De-leveraging by financial institutions (shoring up balance sheets by selling off risky assets) provoked a severe contraction in the cost and availability of credit to businesses and consumers.

Economic Review and Commentary (cont.)

The Federal Reserve moved to introduce new facilities to offset this contraction of credit. In November, the Fed announced new programs that included purchasing or backing facilities to buy $800 billion of mortgage backed securities, debt of housing-related government sponsored enterprises, and asset-backed securities such as auto, student and small business loans. In general, the actions were aimed at providing economic stimulus or targeted rescue packages for the financial system, supporting banks and guaranteeing banking deposits, and cutting interest rates to boost lending and economic growth. The sum of these efforts is perhaps the largest cumulative official stimulus response the world has ever experienced. These policy responses will present massive challenges on a number of fronts, including future government budgets. For now, however, they stand as a potential counter-weight against the global economic recession and financial crisis, and they stand in sharp contrast to the inadequate and often counter-productive government response that occurred during the 1930s.

While the merits of diversification as a strategy may look less compelling based solely on the broad-based declines of many asset classes in 2008 (including stocks, investment-grade bonds, commodities, etc.), over an extended period diversification has been far more reliable.

Although cash-like investments or Treasury bonds were the only place to find shelter in 2008, concentrating portfolios in these risk-free categories is commonly a far less successful strategy than being diversified in multiple asset classes over the long term. Further, cash has barely outpaced the rate of inflation over the long-term, and provided even less after taxes. In addition, due to the unusually high returns on U.S. Treasury bonds during the past few months, investors should beware that these bonds are currently offering extremely low yields, making the prospects for a repeat performance bleak.

After a very challenging 2008, it's important to recall that one of the basic principles of investing is that there is a trade-off between risk and return that has been true over time, more risk generally means more return, and vice versa.

Long-term investors should be careful not to expect the highly correlated declines of multiple assets classes during the past three months to be the norm going forward, particularly when the history of the markets suggests otherwise. Although the recent meltdown in various asset classes was painful for most investors, it's worth taking into consideration that the alternatives to diversification have generally not fared well over longer time horizons.

The current U.S. recession began in December 2007 (13 months so far), though no one knows when it will end. The typical historical pattern, however, is for new bull markets to begin during (not after) a period of economic weakness. On average, the stock market has begun to recover about halfway through a recession, with the typical rebound being about 25% in magnitude (from market low point to end of recession).

However, throughout the 14 U.S. recessions since 1926, the stock market has generated a positive return in more than half of the instances, and on average returned nearly 9% (all recessions). Investors historically have begun anticipating a recovery in the economy and in corporate earnings prior to the end of a recession.

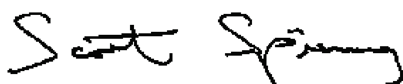
While the outcomes of a number of our investment decisions were disappointing during 2008, we remain

confident in our asset allocation and holdings. Our firm has experienced periods of underperformance in the past; maintaining our investment approach through those challenging periods was crucial to our firms' long-term success, so we have persisted with our long-term, fundamental research driven, price-disciplined approach during this period as well.

During this unique period of extreme volatility and limited liquidity, our equity and fixed income research have been reviewed, updated and stress-tested. The financial model for each of our holdings pays particular attention to any change in business conditions and vulnerability to the tight credit market. We review this work internally while continually monitoring relative values across our investment universe in order to determine the best long-term opportunities on behalf of each investor. As a result of this liquidity review, we sold several equity holdings (e.g., Bank of America, a partial sale of Coke and our exposure to the international index) during the past twelve months. We have maintained our exposure to Citigroup and AIG because our research tells us these securities are extremely oversold and stand a very good chance of recovering a major portion of their fair market capitalization. Ultimately, our enduring value-oriented investment process has now incorporated lessons learned from this credit crisis. We remain confident that our approach will add value for our clients in the years ahead.

I realize that the ups and downs in the stock market can be hard on the nerves so I want to thank you for your continued trust. All too often, in the rush of day-to-day life, people neglect to pause and say "thank you," so at this time, we wish to express our appreciation for the opportunity you have given us to be of service to you in your investment affairs. We look forward to working with you toward accomplishing your financial goals in the years ahead.

Sincerely,



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