THE BOSTON COMPANY

ASSET MANAGEMENT, LLC

A BNY Mellon Company[SM]

US Large Cap Focused Equity Management
First Quarter 2008 Investment Commentary

Investment Environment

The first quarter of 2008 witnessed an acceleration of the severity of the problems lingering from 2007 and clear indications of severe stress in the US financial system. The US dollar, which struggled against the euro last year experienced significant weakness against all major currencies during the March quarter. Credit and valuation problems in the sub-prime mortgage area produced far-reaching effects throughout the financial system worldwide and cast a pall over global equity markets in general. Write-offs at commercial banks, insurance companies and investment banks increased significantly, and several financial institutions were forced to seek additional capital, most notably by turning to sovereign wealth funds. Eroding confidence and solvency questions caused the credit markets to demand higher spreads over Treasuries, selected markets including auction rate notes to “freeze” and contributed to a modern day version of a “run on the bank” at Bear Stearns. The restrictive credit environment, higher energy costs and declining home values dampened consumer spending during the period. Consumer spending accounts for two-thirds of GDP growth and its slowdown could have serious negative implications for corporate profits and overall economic activity in the months ahead. Commodity prices continued to soar; agricultural commodities such as corn, soybeans, and wheat all reached record prices during the first quarter, as did hard commodities such as oil and gold, although each has pulled back since.

The difficult credit markets and economic slowdown had an overwhelming negative influence on equity markets. All of the broad US equity indices fell during the quarter, with no safe haven across market capitalizations. The small-cap oriented Russell 2000 Index fell 9.9%, the Russell Mid Cap Index dropped 10.0% and the Russell 1000 declined 9.5%, creating one of the most difficult performance quarters in over five years. In this challenging environment, value stocks outperformed growth stocks across the spectrum of small, mid and large capitalization stocks. From a sector standpoint, nine of ten sectors in the Russell 2000 Index showed negative returns (only the Energy sector showed a small gain), and all ten sectors of the Russell Mid Cap Index and the Russell 1000 Index produced negative returns. On the positive side, both the Federal Reserve and Congress have acted with unprecedented quickness to provide monetary and fiscal stimulus to blunt the effects of the downturn. Over the last three months, the Federal Reserve lowered the Federal Funds target rate an additional 200 basis points and has implied its willingness to go lower if needed. Washington has just enacted a fiscal stimulus plan in excess of $160 billion that will attempt to rejuvenate consumer spending through the use of a direct payment of up to $600 per qualified individual. While the benefits of these actions remain to be seen, the speed at which the actions have been taken is heartening. Also benefiting the economy has been the growth in exports. The broad weakness of the dollar has created meaningful cost and pricing advantages for companies with domestic production and dollar pricing.

Portfolio Performance Review

The US Large Cap Focused Equity strategy outperformed its benchmark, the Russell 1000 Index, during the quarter (based on net-of-fees performance). Strong stock selection in many sectors accounted for most the outperformance. However, the outperformance was also a function of the portfolio declining less than the index.

Sector Review

The Healthcare sector was the strongest contributor to the quarter’s outperformance. Two of our positions in the biotechnology sector experienced stock price recoveries from fourth quarter 2007 selling pressure. Overweighting the more stable stocks in the large pharmaceutical industry provided stability to the portfolio’s returns.

The Energy sector was also a key contributor to the period’s returns. Our concentration on companies exploring for natural gas produced excellent returns as the price of natural gas recovered and the cold winter increased overall demand. Our process excelled in this environment as our focus on companies with large earning potential due to large reserve bases was rewarded by the market.

(Continued on next page)

US Large Cap Focused Equity Management
First Quarter 2008 Investment Commentary

An emphasis on cosmetics, large retailers, tobacco and food products all contributed to making the Consumer Staples segment another area of positive relative performance for the portfolio. The defensive nature of each of the positions benefited returns during the market weakness experienced in the first part of 2008.

A large overweight in the media sector of the Consumer Discretionary sector hurt period returns as concerns an economic slowdown would negatively impact advertising revenues weighed on the stocks. Our position in a leading apparel company also proved to be a detractor in the quarter.

Looking Forward

As we move forward through 2008, we anticipate continued high volatility. We expect the market will be challenged by many of the current issues and could experience new negative developments that may include diminished corporate profits, rising unemployment and higher inflationary pressures. However, there are also positive events that could help stabilize the market and place it into recovery mode. At some point, investors could begin to focus on the benefits of the large fiscal and monetary stimulus that has been placed into the US economy. The eventual recovery in corporate profits could act to stabilize and enhance stock market returns. Improvement in investor sentiment should trigger favorable revaluation. Overall, we feel that our investment process is well suited to outperform in this volatile market period.

With the significant price weakness experienced in the area, we have been finding many new investment opportunities in the Consumer Discretionary sector. The specialty retailing areas have presented a number of opportunities and we are overweight the sector based on projected recovery earnings prospects and historically low valuations. We also took advantage of price declines to build holdings in the gaming equipment and textile apparel industries. The media segment continues to offer a variety of special situations combining strong fundamentals with revaluation potential. In addition, recent market rallies allowed us to reduce our exposure to the home building and restaurant industries.

Consumer Staples is another area of increased portfolio exposure. During the quarter, investor concern over sales and earnings prospects for select companies in the food products area created attractive entry points for leading companies in the food and beverage industries. We continue to expect the strong fundamental performance from our retailing and personal products companies to be well received in the market place. The strong relative performance of the tobacco area justified the reduction of the commitment to the area.

Healthcare exposure is limited to holdings in the biotechnology and large pharmaceutical segments. Our positions reflect ownership in strong new product cycles, improving profitability, growing free cash flow, and limited impact from slowing economic trends.

The portfolio weighting in Information Technology has been reduced to a slight overweight relative to the benchmark. A position in the software had been eliminated, which left the portfolio exposure focused on the communication equipment, specialized semiconductor, internet retailing, and the IT services segments of technology.

Our exposure in the Energy sector is concentrated in mid-cap exploration companies and a small-cap refiner. Natural gas prices have yet to catch up with $100+ barrel pricing for crude oil. Small and mid-sized capitalization exploration and refining companies offer more exposure to the benefits of rising natural gas prices, the ability to grow production more quickly than the larger integrated energy companies, and the potential to be acquired by a larger competitor. At the same time, their smaller size can make their stocks more risky in periods of declining oil and gas prices.

Although the investment environment ahead could be challenging, we view the potential volatility as an opportunity for our investment process to continue to generate outperformance driven primarily by stock selection. We believe our broad coverage and proprietary insight can identify some of the most interesting opportunities in the marketplace. We also believe that by concentrating the portfolio into high conviction names, excess return potential can be built into the portfolio. Through the disciplined application of price targets, we hope to introduce a measure of downside protection and capture appreciation after it has occurred. In all, we are highly confident in our team, investment process and portfolio management capabilities.