

Mariner Concentrated Value

Perspectives

October 2009 Discussion

with Scott A. Moore, CFA—Partner, Chief Investment Officer and Senior Portfolio Manager

Performance Update

- Since its inception on November 13, 2008, the Mariner Concentrated Value Composite (through October 31, 2009) is up 36.06 percent (net of fees) versus the Russell Midcap Value Index up 24.49 percent, the S&P MidCap 400/Citigroup Value Index up 23.03 percent, and the S&P 500 Index up 16.50 percent.
- Year-to-date through (October 31, 2009) the Mariner Concentrated Value Composite is up 30.83 percent (net of fees) versus the Russell Midcap Value Index up 21.48 percent, the S&P MidCap 400/Citigroup Value Index up 19.58 percent, and the S&P 500 Index up 17.05 percent.
- As we have stated in previous *Perspectives*, we are pleased with our results since we joined the Mariner family, but want our clients to remember that these returns were compiled over a relatively short period of time and during a period of abnormally high volatility as the market was contemplating the worst economic period since the Great Depression. It is your team's opinion that during abnormally high volatility periods, experienced investors can achieve excellent investment returns if they continue to focus on acquiring excellent companies at excellent prices.

Stocks we recently added to your portfolio

- Xilinx Inc. (XLNX) - Xilinx is a leading supplier of high-density programmable logic devices with excellent financial strength as displayed by the net cash the company has on its balance sheet. Recent concerns regarding capital spending levels in the communications industry has led to underperformance and an attractive entry point based on valuation.
- Merck & Co. Inc. (MRK) - We have increased our exposure to the embattled pharmaceutical industry through industry leader MRK. MRK's recent announcement that it has entered into an agreement with Schering-Plough Corp. (SGP), along with concerns over the direction of the United States' healthcare system has led to underperformance for MRK. After much fundamental review, it is our view that the risks of the SGP deal are now fully priced into the stock of MRK, and the strengths of the combined entity are being underestimated. MRK trades at one of the lowest valuations we have seen for the company and we will receive an approximate 5 percent dividend yield while we wait on market appreciation.

Stocks we recently sold from your portfolio

- March & McLennan Cos. (MMC) - We sold our position in MMC as the price approached our internal view of fair value. We will continue to monitor this company for buying opportunities in the future.

Interesting Notes For the Month

- This was an interesting month in the market as higher quality stocks finally outperformed lower quality stocks. This was the first month since the markets rallied in March that this has occurred. So why is this important? Remember that your portfolio is comprised of higher quality stocks (leading market share positions, good balance sheets, etc..) and when higher quality stocks become fashionable, your portfolio is likely to do well. While we certainly do not make predictions over the short-term, we hope this month is the beginning of a multi-period trend towards higher quality companies. That said, we are quite pleased to have outperformed all of our primary and secondary indices during a period when lower quality stocks have materially outperformed and hope the trend of outperformance continues. More data about high quality and low quality stocks is noted below.
- Lower quality stocks (those rated B or worse by S&P) finally underperformed higher quality stocks (those rated B+ or better by S&P) this month with lower quality stocks down 6.29 percent while higher quality stocks were down 3.84 percent per Merrill Lynch. This reverses the year-to-date trend (per Merrill Lynch) as lower quality stocks are up 57.61 percent this year (through October 31, 2009) while higher quality stocks are up 24.70 percent. Your team believes that higher quality companies will outperform over the long-term and again are hopeful for continued mean reversion back to high quality stocks in the coming months.
- Value, as a style of investing, has materially underperformed Growth in the market so far in 2009. For example, the Russell Midcap Value Index is up 21.48 percent this year while the Russell Midcap Growth Index is up 31.61 percent. We continue to be pleased with our outperformance thus far this year despite this material "wind in our face." Remember that your team believes Value investing will outperform Growth investing over the long-term.
- Overall, we believe that each company we own in your portfolio is trading at a discount to our internal view of intrinsic value. While the level of discount is diminished given the sharp rise in the market and our stocks since March, we continue to see opportunities in individual stocks.

Don't forget to visit our website at www.marinervalue.com for more information about our team, our process, and value investing. You can also get real-time access to Mariner Value website updates and information via traditional mail or email. Simply contact us at client.services@marinervalue.com or call 913-387-2714 to sign-up.

Thank you for your continued confidence and support.



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