

# Mariner Concentrated Value

## Perspectives

### December 2009 Discussion

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

#### Product Overview and Performance

The Mariner Concentrated Value Composite is a classic value investment product investing primarily in the equity or equity-linked securities of United States based companies. The product will typically maintain 10-25 positions in the securities of companies that, in the opinion of the Mariner Concentrated Value Strategies team, have leading and sustainable market share positions, above-average financial strength, and are trading at prices materially below our internally derived view of intrinsic value. The product's primary benchmark is the Russell Midcap Value Index. Clients may also compare the product to the S&P MidCap 400/Citigroup Value Index and the S&P 500 Index. Since our inception on 11/13/2008, Mariner Value is up 41.48 percent (APR and net of fees) versus the Russell Midcap Value Index up 32.52 percent, the S&P MidCap 400/Citigroup Value Index up 32.61 percent, and the S&P 500 Index up 22.15 percent (all APR).

#### The Year 2009 in Review

The Mariner Concentrated Value Composite ended 2009 up 42.39 percent (net of fees) versus the Russell Midcap Value Index up 34.20 percent, the S&P MidCap 400/Citigroup Value Index up 33.77 percent, and the S&P 500 Index up 26.47 percent. We are pleased to have outperformed our primary and secondary benchmarks for the year. In our opinion, the theme for 2009 was stock selection and taking advantage of the mispricing of individual companies due to the enormous volatility that marked the first half of 2009. Frankly, stylistic considerations were not favorable during 2009 as growth (as a style) beat value and lower quality stocks (as a group) beat higher quality stocks. Those of you who are new to our product should be aware that both of these factors typically make it difficult to outperform our primary and secondary benchmarks as we believe that value outperforms growth over the long-term and higher quality stocks will outperform lower quality stocks over the long-term. As such, the outperformance for the year is even more gratifying.

#### 4th Quarter 2009

The Mariner Concentrated Value Composite ended the fourth quarter up 7.59 percent (net of fees) versus the Russell Midcap Value Index up 5.21 percent, the S&P MidCap 400/Citigroup Value Index up 5.54 percent, and the S&P 500 Index up 6.04 percent. As most of you know, we do not emphasize quarterly performance information due to the short-term nature of the time period.

#### 2009 Performance Contribution

Our best performing sector in 2009 was the Healthcare sector as good stock performance from multiple stocks (SYK, MTD, BEC, BDX, and JNJ) contributed to performance results. Other sectors that performed well included the Industrial sector (EMR, UPS, AIMC, and RSG), the Information Technology sector (LFUS, INTC, AMAT, and ADSK), Materials (IFF and ATR), the Consumer Staples sector (KMB, KFT, and KMB), and the Utility sector (POR, GXP, WR, and WEC). Only one sector had negative contribution to return and that was the Consumer Cyclical sector. Solid performance from Lowe's Cos. (LOW) could not offset a negative contribution from Genuine Parts Co. (GPC).

#### Stocks we recently added to your portfolio

- Synopsis Inc. (SNPS)—We recently purchased this leading electronic design automaton software firm following their recent lowering of earnings. That lowered guidance led to material underperformance of its shares and has resulted in a reasonable entry points for the stock.
- STERIS Corp. (STE) - We recently purchased STE due to share price weakness resulting from an issue between between the U.S. Food and Drug Administration (FDA) and its surgical unit business. STE is a leading supplier of sterilizers, surgical tables, and other consumable products for the healthcare industry. We believe that STE has a very strong market share position and excellent financials strength and that the market has over-reacted to the FDA issues.
- Patterson Cos. Inc. (PDCO) - PDCO is a leading dental supply company. Recent economic weakness has resulted in modest decline in the need for dental procedures which has negatively impacted the fundamentals of the business and the price of PDCO's stock.

#### Stocks we recently sold from your portfolio

- Becton Dickinson & Co. (BDX) - We sold our position in this leading medical technology company in the upper \$70's as it approached our internal view of fair value. We will continue to monitor this company for buying opportunities in the future and are pleased with the outperformance generated for our clients since our initial purchases.

# Mariner Concentrated Value

## **Interesting Notes For the Month**

- Lower quality stocks (those rated B or worse by S&P) outperformed higher quality stocks (those rate B+ or better by S&P) this month with lower quality stocks up 7.46 percent while higher quality stocks were up 4.33 percent per Merrill Lynch. For all of 2009 (per Merrill Lynch) lower quality stocks are up 75.09 percent while higher quality stocks are up 34.78 percent. Your team believes that higher quality companies will outperform over the long-term.
- Value, as a style of investing materially underperformed Growth in 2009. For example, the Russell Midcap Value Index ended 2009 up 34.20 percent this year while the Russell Midcap Growth Index is up 46.29 percent. We continue to be pleased with our outperformance 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 continue to 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 has diminished given the sharp rise in the market and our stocks since March, we continue to see opportunities in individual stocks.

## **Discussion of the Future—2010 Outlook**

As we look forward to 2010, your team continues to focus on studying one company at a time, always in search of leading business franchises with above-average return potential for our clients. Remember we do not make short-term market or economic calls, but rather focus on buying leading businesses, one company at a time, at excellent prices based on the long-term fundamentals of each company.

In our view, and as a result of the meaningful positive performance for our Mariner Concentrated Value product and the market in 2009, we do not anticipate a repeat of the abnormally large upside potential that existed during the first half of 2009. Further, the downside risk of the market and our portfolio has clearly risen as well. However, and most importantly, it is our opinion that your portfolio consists of companies that, together, comprise leading market share positions around the globe, have above-average financial strength, and trade at prices well below what our work suggests they are worth

Don't forget to visit our website at [www.marinervalue.com](http://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](mailto:client.services@marinervalue.com) or call 913-387-2714 to sign-up.

Thank you for your continued confidence and support.



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