



LMCG Global Multi Cap: Flash Report

Update 6/30/10: Reduction in US large cap and US small/mid cap value allocation. Increases to international large cap and emerging markets.

At the beginning of July, the team made significant changes to GMC portfolio allocations.

We added 4 % to our position in **non-US large cap stocks**, as well as **5 % to emerging markets** using US large cap securities and small cap value stocks as sources of funding.

These moves were driven primarily by valuation considerations and the observation that growth prospects of non-US multinational companies were as solid as US companies of comparable quality. While we are uncertain if forecasts of potential further Euro devaluation are accurate, the shift we are making recognizes that multinational companies in which we are investing are likely to hold up fairly well in the face of a Euro decline, and will therefore benefit near-term should the Euro strengthen relative to the USD.

Broad market decline and fear of weakening recovery has hit every global segment. Cyclical stocks, particularly manufacturing and materials producers, were particularly hard-hit in the second quarter. However, there has been surprising resilience in the technology sector, which helped in the performance recovery of our small and mid-cap growth stocks.

Fundamental issues still plague the Euro area, however, and credit downgrades to major European sovereign debt weigh heavily on investor outlook. With pessimism and a likely difficult earnings season ahead, we do not anticipate easy gains in the third quarter in any region.

Raising Weights of International Large Cap - Developed Markets:

By mid-June, non-US equities began to catch up to an outperforming US equity market, although all markets were experiencing significant declines. Up until the first week of June, European markets and currencies had produced very poor returns, falling 10 % more than the weak 5 % decline in US equity markets year to date. While equity markets only began to firm by early July, relative performance changed markedly; as of mid-July, Europe has staged a reversal in both currency relative to the USD and equity market returns relative to US and Asia. This leaves large cap stocks in Europe at better-than-fair value, while Japanese shares continue to be more defensive. We still maintain a fairly sizable weighting of US securities after our shift.

Back Into Emerging Markets – with Caution:

We divested completely from emerging markets late last year, as growth expectations and market valuations contradicted market indicators in the rest of the world. While the economies of China and Brazil are becoming somewhat less dependent upon exporting to major industrial powers in Japan and the west, it seemed unreasonable (at that time) that valuations were reflecting the pressures coming to bear upon growth from the flagging global economy. While emerging market performance has lagged US performance since that time, new leadership is emerging in countries once deemed unlikely growth markets. Indonesia in particular stands out, as anew growth and optimism is offsetting steep declines in the Chinese and Brazilian markets. India has also been notable for its stability in the face of global economic uncertainty. We reestablished positions in emerging markets, but with a cautious 5% weight – below where many global investors and benchmarks are currently positioned.

**US Small Caps Getting Expensive – We reduce Small and Mid Cap Value Securities;
Maintain Small and Mid Cap Growth Position:**

US small cap stocks have continued to outperform nearly every other equity category in up-and-down markets, but finally seem to have lost steam at the turn of the third quarter.

We have noted before that overall valuation of US small cap growth and value stocks are stretched relative to global large capitalization stocks. The good news is that valuations look fair on an absolute basis; most equities, by reasonable long term comparisons, look attractive, but of the 10 or so categories we consider, US small cap growth and value are less attractive than most. In short, we are trying hard not to overstay our welcome in US small cap stocks by incrementally reducing our exposure. We continue to be pleased by the ability of our underlying strategies in small cap to add value over index returns, and this makes us reluctant to rush for the exit.

	June 30, 2010	<u>Strategic Allocation</u>	<u>Tactical Allocation</u>	<u>Shift</u>	<u>Relative</u>
US Equities					
	<i>US Large Cap Core</i>	47.0%	50.0%	-5.0%	3.0%
	<i>US Small / Mid Growth</i>	8.0%	13.0%		5.0%
	<i>US Small / Mid Value</i>	8.0%	4.0%	-4.0%	-4.0%
	TOTAL	63.0%	67.0%		
Non-US Equities					
	<i>International Large Cap</i>	22.0%	18.0%	4.0%	-4.0%
	<i>International Small Cap</i>	5.0%	8.0%		3.0%
	<i>Emerging Markets</i>	8.0%	5.0%	5.0%	-3.0%
	TOTAL	35.0%	31.0%		
Other					
	Cash	2.0%	2.0%		0.0%
	GRAND TOTAL	100.0%	100.0%		100.0%

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