

After a weak second quarter, the S&P MidCap 400® Index rebounded in the third quarter with a healthy gain of 13.12%. Performance was volatile as the market rose in the month of July, declined in August, and rallied strongly in September, despite economic news that seemed to worsen as the quarter progressed. Mid-cap stocks continued to lead their large- and small-cap counterparts, as they have for more than a year. This strong performance resulted in the S&P MidCap 400® Index returning 11.57% for the year-to-date period, nearly all of which was realized in the month of September. The Mid-Cap Core Growth strategy also posted double-digit increases for both the third quarter and year-to-date time periods, although it lagged its S&P MidCap 400® benchmark for the quarter, while performing approximately in line with its benchmark on a year-to-date basis.

As was the case during the second quarter of this year, the market was less impacted by the drivers of performance that dominated the stock market as it rebounded from its March 2009 lows. At that time, leadership in the market was dominated by stocks with the highest volatility, the smallest market capitalizations, lower growth, higher risk, and generally lower quality. That theme ended early in the second quarter of 2010, with these factors having a relatively neutral impact as investors returned to fundamental investing that placed a greater focus on company-specific characteristics. However, in the third quarter, more volatile stocks (as measured by beta) did perform better than the overall mid-cap market, as would be expected during a strong rebound in the market. There was also a tendency for stocks with higher earnings growth and higher valuation levels, as measured by price/earnings ratios, to outperform. In general, the Mid-Cap Core Growth strategy, which had a slightly more conservative posture and therefore lower beta than the mid-cap market as a whole, was most negatively impacted during the quarter by the volatility factor.

The sectors of the strategy that had the strongest relative performance during the third quarter were information technology and telecommunication services. The biggest detractors from the strategy's relative performance for the third quarter were spread across a number of sectors, including consumer staples, industrials, energy and financials. While all of these sectors had positive performance, they lagged behind the corresponding S&P MidCap 400® benchmark sectors.

The consumer staples sector was one of the top performing sectors in the S&P MidCap 400® Index for the quarter. The strategy's consumer staples sector outperformed the benchmark's consumer staples sector in September. The heavily weighted industrials sector and energy sector had a mix of strong and weak holdings, and lagged the benchmark slightly. As was true of the industrials and energy sectors, the strategy's financials sector, which is heavily weighted in both the strategy and its benchmark, had a mix of strong and weak holdings.

The focus of the Mid-Cap Core Growth strategy continues to be on earnings momentum and reasonable valuation. Over the past twelve months, earnings per share for the typical company held in mid-cap core growth portfolios grew at 21%, compared to 13% for the benchmark. Over the next twelve months, earnings growth of 15% is expected for the strategy, slightly higher than the 14% growth expected for the S&P MidCap 400® Index.\* Revenue growth over the past twelve months was 4% for the strategy and 2% for its benchmark. Return on equity, a basic measure of profitability, was 14% over the past twelve months for mid-cap core growth portfolios, compared to 12% for the S&P MidCap 400® Index. Despite these favorable fundamental characteristics, the strategy's valuation was quite reasonable, with a price-to-earnings ratio on projected earnings over the next twelve months of 17 times earnings, only slightly higher than the S&P MidCap 400® multiple of 16 times earnings.\* We believe this combination of fundamental strength and reasonable valuation positions the Mid-Cap Core Growth strategy for strong competitive performance in the year ahead. These are the characteristics that have contributed to the strategy's long-term record, and we firmly believe that they will continue to serve our investors well.

\*Estimated earnings growth and price-to-earnings ratios are based on information obtained from a third-party that is believed to be reliable. Estimates are only projections and not guarantees.

### **Past performance does not guarantee future results.**

Reflects information for a representative account managed in the Mid-Capitalization Core Growth strategy. The model portfolio is an actual account and the information provided will vary for other actual accounts. Portfolio holdings are subject to change. The S&P MidCap 400® Index is a capitalization-weighted index that measures the performance of the mid-capitalization sector of the U.S. stock market. Index performance information was furnished by sources deemed reliable and is believed to be accurate, however, no warranty or representation is made as to the accuracy thereof and the information is subject to correction. You cannot invest directly in an index, securities in the Composite may not match those in the index and performance of the Composite will differ. Although reinvestment of dividend and interest payments is assumed, no expenses are netted against an index's returns.

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