Quarterly Investment Review

September 30, 2008

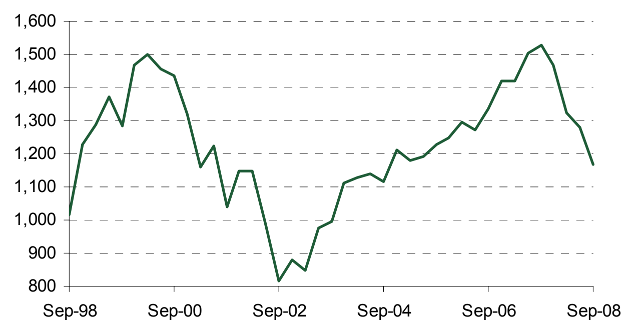
Financial Review

Financial markets ended the third quarter sharply lower, as the deteriorating credit crisis caused investors to shun virtually all investments other than U.S. Treasuries. The Standard & Poor's 500 Index declined 8% for the quarter, while the Morgan Stanley EAFE Index of international stocks declined 20%. Through the first nine months of 2008, the S&P 500 Index dropped 19%, while the EAFE Index fell 29%.

Over the past several weeks, we sent several email communications to our clients updating them on significant events impacting the markets (such as the Treasury bailout plan). Rather than rehashing the exceptionally long list of events that developed in the third quarter, we will briefly reflect on the historical returns provided by stocks to put the current turmoil into broader context.

Depending upon which historical time period is used, U.S. stock market returns averaged somewhere between 8% and 10% per year. There have been some years where the annual return was far above (or below) the average return, with returns (declines) in excess of 40%. As longer periods of time are observed (i.e., 5-years, 10-years, or 20-years), the dispersion of returns tends to be less dramatic, as short-term volatile results tend to be offset by the ebb and flow of economic cycles.

S&P 500 Index



The above chart shows the price movement of the S&P 500 Index over the last 10 years. During this period, we witnessed substantial rallies and descents in the market. Despite all this movement, the average annual return for the index for this 10-year period was a paltry 3%, a level that is about one-third the long-term historical return for the market. This 10-year period of low returns was not completely unexpected to investors who believe in "mean reversion" - as this substandard performance followed a 10-year period of exceptionally high stock market returns. The previous 10-year period (September 1988 to September 1998) generated an average return of over 17%.

Now the real question is, what should we expect for the next 10 years?

We are sure that many responding to a similar question in September 1998 might have based their response, at the time, on the impressive 17% annual returns and a seemingly vibrant economy, expecting more of the same for the ensuing 10-years. With the advantage of hindsight, we can see how wrong investors would have been, as PE ratios were all but certain to contract from historically high levels (approaching 27 times earnings in 1998). In answering the question now, we think it would be erroneous to base expectations solely on the current poor, near-term economic outlook, as well as the unsatisfactory returns of the last decade.

Based on a more modest PE ratio for the stock market today – roughly 13 times earnings - we anticipate index returns for the next 10 years to more closely resemble historical results, as PE contraction is less likely to have a meaningful influence on returns. If we are correct, returns should more closely resemble a combination of earnings growth and dividend yield. With a current dividend yield of about 3%, non-heroic earnings growth of 5% would result in an average total return of about 8%. Although achieving an 8% average return for the next 10 years may seem particularly difficult given the declines already witnessed in October, history suggests that even some of the best decades for returns included painful bear markets.

As a result of this bear market, we are beginning to see securities priced at levels not seen in decades. With the recent coordinated move by governments to stabilize the worldwide financial system, we believe the seeds for a more rational investment environment are being sowed. As always, we will continue to work diligently to attempt to preserve capital, and lay the groundwork for future appreciation when the markets are more accommodating.

Core Equity Portfolio

During the quarter, we initiated positions in Target and an exchange-traded fund (ETF) representing the financial companies in the S&P 500.

Target, an operator of general merchandise discount stores, is a familiar holding for long-term Cedar Hill clients. We originally owned the stock - known as Dayton Hudson Corporation at the time - for its potential in accelerating earnings growth. Today, Target stock represents more of a "value" story. The rationale for purchasing Target is that it remains a superior retailer with a strong balance sheet and a management team pursuing shareholder-friendly actions. The company sold a portion of its credit card portfolio and commenced a large share buyback as well. Operating cash flow - although not expected to grow much in the next year or two - remains strong. The stock trades at roughly 13x depressed earnings, a level we feel is attractive for long-term appreciation.

The Financial Sector Spider is a closed-end fund that represents all the financial companies in the S&P 500. The financial sector has been devastated over the past two years, as the credit/liquidity crisis has broadened from the investment banks to almost all financial institutions. With valuations at historically low levels, and with the expectation that governmental support will be forthcoming, we believe the longer-term risk/reward favors an investment at this time.

We sold positions in American International Group, Bank of New York Mellon, and

Smithfield Foods, each due to the belief that the future risks of holding these securities in this environment far outweighed the potential benefit of holding on through a difficult credit environment.

AIG, the world's largest insurance company, was originally purchased in 2005 as the earnings potential from its dominant position within the industry was not reflected in the share price at the time. This year, however, exposure to certain insurance products and credit default swaps negatively impacted reported earnings, creating a concern whether the company had adequate capital to continue to operate. We sold our position in early August when the company indicated that some of its core operations were not performing up to expectations.

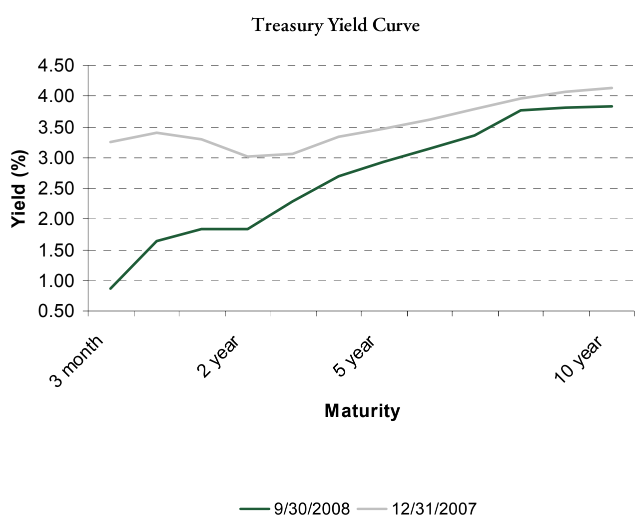
Bank of New York Mellon was also purchased in 2005, due to the attractiveness of its transaction processing business. The fact that Bank of New York continued to shift away from the banking business only served to enhance its value for shareholders. Bank of New York's stock price held up relatively well over the last year, primarily due to the limited exposure to the mortgage securities problems afflicting so many of the large financial companies. With limited upside potential in the current environment, we decided to take our profits.

We sold our position in Smithfield Foods, the world's largest hog producer and processor. Although we continue to like the underlying businesses, continued margin pressures due to high feed costs may put the company in jeopardy of breaking loan covenants. With credit markets in disarray, we determined this was not the market environment to accept this risk, as their fate may be in the hands of lenders unwilling to lend to any business, and substantial future losses in equity value are possible.

As a result of our moves during the quarter, we continued to add to our historically high cash balances in Core portfolios, and remain in a defensive posture. In October, we have already begun to put some of the cash to work. We anticipate taking advantage of the market dislocation in order to buy dominant businesses at distressed levels - laying the foundation for strong absolute returns in the future.

Fixed Income Markets

During the third quarter, U.S. Treasury securities rallied at the expense of all spread products as investors shunned risk. The yield for benchmark 10-year treasury dropped 19 basis points in the quarter to end September at 3.83%. More telling of the flight to quality was the movement in 3-month treasuries, with yields dropping from 1.77% in June to 0.87% in September.



Corporate bonds suffered their worst quarter in recent memory, as Lehman's failure, as well as the rumors of many bank failures to come, removed buyers from the market. Municipal bonds also performed poorly relative to treasuries, as safety was sought at any price. We believe high quality corporate and municipal bonds are exceptionally attractive at current yields.

Alternative Investments

With credit, equity and commodity markets all declining sharply in the third quarter, alternative asset strategies failed to offer much protection to investors. **Long/Short** funds have been disappointing, posting returns similar to the market losses of long-only funds. While SEC's actions made short-selling more difficult in September, we do not believe this was an important factor in the disappointing numbers.

Distressed Credit managers will continue to see more opportunities arise as the economy softens, but for now they are experiencing declining prices for their existing positions. The considerably large amount of distressed debt coming to market, combined with forced selling by investment banks, makes this a volatile segment even for the most senior positions in the capital structure.

Event-driven and **Merger Arbitrage** strategies that take advantage of corporate restructurings, mergers, buy-backs, spin-offs and other corporate actions have faired better than the market, but still posted negative returns. The lone bright spot seems to be **Global Macro** managers who tend to more heavily emphasize top-down analysis of macroeconomic variables. These managers have been able to post slightly positive returns in a very difficult market.

The results of **Private Equity** funds remain an unknown in the market place. With many highly levered buyouts taking place in 2005-2006, and the economy decelerating, we expect to see difficult times ahead for many funds. Those that utilize less leverage and are positioned to bring operational improvements to smaller firms – representing our focus – will be in a better position to withstand the downturn.

Final Notes

All Cedar Hill personnel have moved to our newly expanded headquarters in Chicago. Please change your records to reflect our new address:

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If you would like to receive important communications from us via email, please send your request to debbi.frenzel@cedhill.com.

One Year Economic Overview

		Sep 2008	Sep 2007
Stock Market			
S&P 500 Index	▼	1,166.36	1,526.75
Russell 2000 Index	▼	679.58	805.45
Fixed Income Yields			
3-Month Treasuries	▼	0.87%	3.95%
5-Year Treasuries	▼	2.93	4.24
10-Year Treasuries	▼	3.83	4.66
30-Year Treasuries	▼	4.29	4.83
Inflation Monitor			
CPI-Trailing 12-Month Growth	▲	5.0%	2.0%
CPI-(Excluding Food/Energy)	▲	2.5	2.1
Market Expectations*	▼	1.6	2.4
Gold (per ounce)	▲	$870.95	$743.60
Crude Oil (per barrel)	▲	100.64	81.66

*Comparison of yields for 10-Year Treasury and 10-Year TIPs