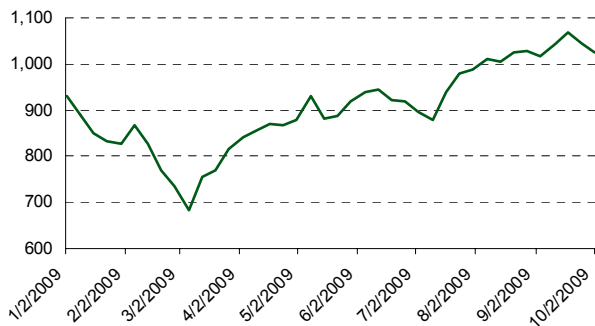




Financial Review

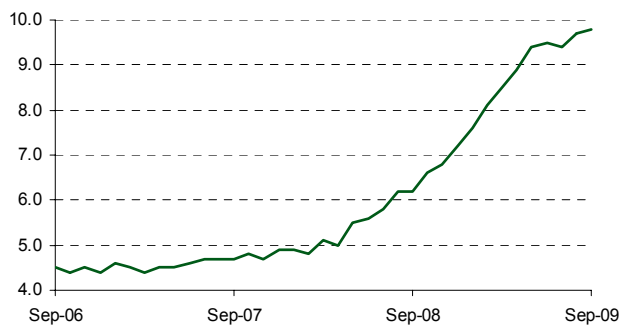
Equity markets continued to rally in the third quarter as corporate and government data suggested the economic recession was near its end. The S&P 500 Index advanced more than 15% for the quarter bringing the nine-month return to 19%. The MSCI EAFE Index, the benchmark for International (developed) markets, rallied almost 20% in the quarter and is up 30% through September.

**S&P 500 Index
Weekly**



The stock market advance was largely re-ignited by corporate earnings. Most corporations posted solid 2nd quarter earnings results, primarily the by-product of substantial cost reduction (i.e., layoffs) pursued over the past year.

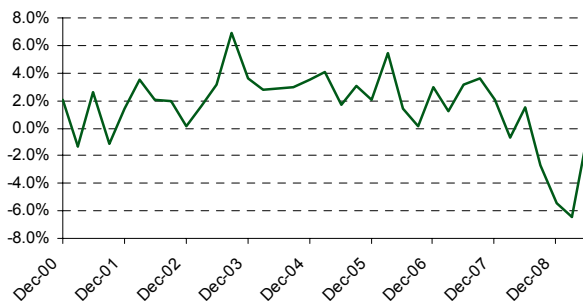
US Unemployment Rate (%)



The US Unemployment data illustrates the swiftness and extent to which corporate America addressed the fallout from last year's credit crisis. After hovering between 4.5-5.0% between 2006 and early 2008, unemployment surged to almost 10% as companies moved to aggressively reduce production in order to manage inventory levels. The rapid reduction in staffing levels allowed many corporations to stabilize and grow profits this year despite the non-existent revenue growth.

Unfortunately, the sheer numbers of unemployed (as well as "underemployed") provide the most significant hurdle to economic expansion – the likely absence of a rebound in consumer spending, which is the largest component of GDP. Although GDP in the second quarter improved substantially from the depressed readings in both the 4th quarter of 2008 and 1st quarter of 2009, the economy has yet to generate growth. The rebound in GDP is almost entirely the result of the massive spending program promulgated by Washington.

US GDP (Annualized)



Government spending will likely continue to provide a significant contribution to total domestic output for the next few quarters. Eventually it will take an increase in Consumption for GDP to return to a more consistent, stable level of 3% or more. Due to the high unemployment levels, and the prospect that job creation might be more anemic than in past recessions, we do not believe Consumption will return to healthier levels until late next year, at the earliest.

Despite this cautionary view toward the economy, the stock market could prove quite resilient, as the exceedingly accommodative Federal Reserve policies make many of the most common alternatives to equity investing (i.e., bonds, CDs, money market accounts) relatively less attractive. It would not be surprising for the market to “take a breather” after such an impressive run, but we believe it is unlikely that a major correction will happen in the current environment. Importantly, valuations for many securities - even after the substantial rise in the market - remain reasonable.

Core Equity Portfolio

During the quarter, we initiated a position in EOG Resources. EOG is an independent oil and gas company with nearly 90% of its reserves in North America. Many clients will be familiar with the stock, as we originally purchased it in October 2006 – selling the position just 18 months later as skyrocketing energy prices lifted the shares to full valuation. Our original premise for buying the stock remains - attractive location of energy assets (primarily natural gas), a strong

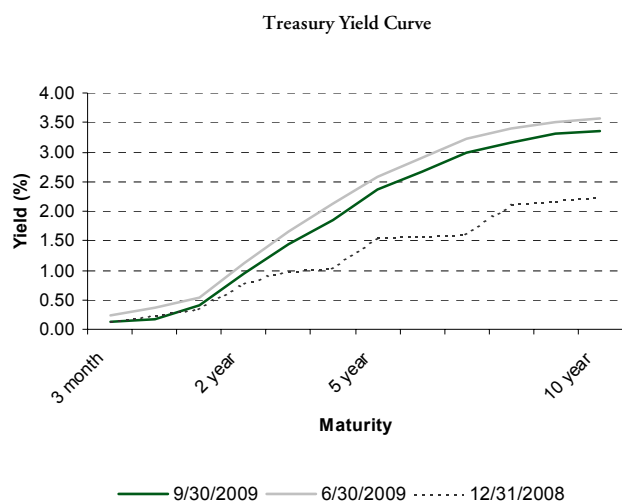
balance sheet, and a management team highly focused on return on investment. Lastly, valuation is even better today than when we originally purchased. Despite the muted near-term demand outlook for natural gas, the shares are significantly undervalued when factoring a more normalized economic environment.

Although we did not fully exit any stock positions in Core in the third quarter, we did trim some positions as part of our risk management process to limit certain exposures. We believe Core is well positioned for the current phase of the market/economic recovery. Typically the initial phase of a market recovery is led by a sharp rebound in the securities that suffered the most in the downturn. The recent rally held true to historical form, as financials and retailers were amongst the strongest performers over the last six months after being amongst the worst performers in 2008. Some market observers refer to this as a rally in “low-quality” stocks. Based on the stock performance of a number of “Zombie” financial institutions (AIG, Fannie Mae, Freddie Mac, etc.) - we would not disagree. Of course, everyone has his/her own definition of “quality”.

We believe the current phase of the recovery will be marked by a rotation of leadership back toward the higher quality companies left behind in the initial 60+% rally off the March lows. Our investment emphasis toward sectors with more stable demand characteristics and earnings (Consumer Staples, Energy, Basic Materials and Utilities) should be rewarded in this environment.

Fixed Income Markets

The U.S. Treasury yield curve shifted slightly lower in the third quarter, as the bond market seems to be pricing in a benign economic and inflationary outlook for the domestic economy. Interest rates on 10-year United States Treasury securities ended the quarter at 3.35%, a decrease of 21 basis points from the prior quarter. As the following chart demonstrates, the yield curve remains well above the distressed levels seen at the end of last year.



Spreads on investment grade corporate bonds continued to tighten - spreads on BBB corporate bonds dropped to 200 basis points over treasuries - as fixed income investors continued to seek yield through higher yielding product. In the last 9 months, these spreads have tightened by more than 300 basis points. At current levels, BBB corporate bonds are at or near fair value. For tax-free investments, yields on municipal bonds remain at attractive levels for new purchases, particularly in the 4 to 7 year maturity range.

Alternative Investments

Credit spreads continued to tighten during the quarter, assisting the performance of **Distressed** and **Long Credit** corporate securities strategies. Better economic data, along with the Fed suggesting that the recession is nearly over, has improved investor confidence. This has benefited riskier high yield corporate securities which offer an attractive alternative to safer, but low yielding, instruments. Hundreds of billions of bonds and loans continue to trade at depressed levels suggesting distressed and long credit strategies still offer attractive opportunities for appreciation.

Although **Merger Arbitrage** continues to produce positive results, this strategy has not kept pace with the strong rally occurring in other directional hedge fund strategies. Deal activity remains muted as corporations are more focused on maintaining a strong balance sheet. As the worst of the recession appears to have passed, merger activity is likely to increase as companies with significant cash reserves look to acquire competitors in order to increase their market share.

Equity Long/Short strategies benefited from the market rebound, but lagged the sharp appreciation that equities experienced this quarter. Better performance was achieved by managers with more net exposure to the market and/or more focus on emerging markets. Having outperformed in the first half of the year, but trailing in the 3rd quarter, Equity Long/Short strategies posted YTD returns that are in line with equity indices, but with significantly less volatility.

There continues to be very little **Real Estate** or **Private Equity** activity. Up to now, investors have chosen to allocate funds to securities that offered more attractive

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valuations and better liquidity. Given the large run-up in public markets, investors may begin to re-evaluate opportunities in real estate and private equity in the coming quarters.

As equity markets have climbed significantly, we expect investors to begin looking elsewhere for opportunities.

Final Notes

- In October, we welcomed John Kearney to our team as a Senior Research Analyst performing in-depth analytical work on publicly held securities including strategic and tactical opportunities. Prior to joining Cedar Hill, John was a Senior Equity Analyst for Morningstar, Inc. He also worked as an associate at Banc One Capital Markets and as an investment analyst for State Farm Insurance Companies. John holds a Bachelor's Degree in Finance from the University of Illinois at Urbana-Champaign. He is a CFA charterholder and a member of the CFA Society of Chicago.

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

One Year Economic Overview

		Sep 2009	Sep 2008
Stock Market			
S&P 500 Index	▼	1,057.08	1,166.36
Russell 2000 Index	▼	604.28	679.58
Fixed Income Yields			
3-Month Treasuries	▼	0.13%	0.87%
5-Year Treasuries	▼	2.36	2.93
10-Year Treasuries	▼	3.35	3.83
30-Year Treasuries	▼	4.09	4.29
Inflation Monitor			
CPI-Trailing 12-Month Growth	▼	-1.4%	5.0%
CPI-(Excluding Food/Energy)	▼	1.4	2.5
Market Expectations*	▼	1.8	1.6
Gold (per ounce)	▲	1,007.70	\$870.95
Crude Oil (per barrel)	▼	70.61	100.64

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