

R I V E R P O I N T R E P O R T

December 31, 2009

ACTIVE MANAGEMENT & ADVISOR INDEPENDENCE

It is often said that “a rising tide lifts all boats”, meaning that a rising market can lift the stock prices of all companies, regardless of quality. Well, the tide certainly lifted all stocks to where we are today. It appears that the situation is about to change. This market is shaping up to be a classic “stock-picker’s market.” With the strong rally in recent months, less robust returns over the next twelve-to-eighteen months will require investors to invest in those companies best positioned to benefit from an economic recovery. Sound stock-picking will be imperative when separating the wheat from the chafe. With RiverPoint’s nationally-ranked performance (according to PSN, a national investment manager database, our large-cap equity value strategy is ranked in the top 3% in the country as of 9/30/09) we should be up to the challenge.

We begin 2010 committed, more than ever, to actively managed portfolios and we know that this is the best way to add value for our clients over the long-term. There have been studies in the past that concluded that active management cannot produce above-market returns, and that investors should therefore simply invest in broad index funds. These studies, often commissioned by large index fund companies and investment consultants, have assumed that markets are efficient and move primarily on publicly known information and rational analysis. It turns out that these assumptions could not have been more unrealistic! If the past couple of years have taught investors anything, it is that investor emotions - fear, greed, speculative fervor - can overwhelm any fundamental news and move the markets on their own. The recent crisis has essentially killed the notion that markets are efficient. A recent study by Yale researchers¹ supports the reality that active management can produce superior returns. In fact, performance relative to a benchmark index gets better the more a manager deviates from the benchmark. The study also showed that portfolios with fewer positions can generate a higher degree of outperformance relative to a benchmark index by having more concentrated stock positions (a typical RiverPoint portfolio holds between 40 and 60 stocks). Active management can improve relative performance in two ways: managers can better capitalize on their best ideas while at the same time avoiding the weakest stocks in the index. The more an advisor is able to cherry-pick only the best performing stocks, the better performance will be relative to the benchmark index. The study also found that the small and mid-sized firms can benefit more from active management than their larger competitors. This is largely due to how a firm’s size can effectively limit its investment opportunities. At RiverPoint, we were delighted to see the conclusions of the Yale study

– that active management can produce superior returns – something that our clients have known for a long time.

Active portfolio management is just one aspect of RiverPoint that separates us from other money managers; our independence is another. Our independence is crucial to our mission because we are not beholden to any interests other than those of our clients. At traditional brokerage houses, where revenues are generated by transaction-based commissions, the broker is enticed to trade stocks regardless of whether it makes sense for the client. As a registered investment advisor (and not a broker), RiverPoint has a fiduciary responsibility to hold client interests above all else and to treat all clients the same, regardless of account size. At RiverPoint, our interests are aligned with those of our clients – we are compensated based on assets under management, so our rewards grow as our client assets grow.

Independence is also important in light of the recent reports of Goldman Sachs “trading huddles,” where large clients are privy to exclusive stock tips and investment ideas. During these “trading huddles,” Goldman analysts give opinions to select clients that periodically clash with research disseminated to the rest of the firm’s clients. In a way, the larger clients benefit at the expense of the “less important” clients if the hot tips run contrary to what the longer-term outlook is for the same security. Interestingly, Congress has introduced legislation that would hold brokers to the same fiduciary standard as registered investment advisors. Naturally, brokers are lobbying on Capitol Hill to relax some of the bill’s language in order to maintain the ability to profit from activities that may not be in their clients’ best interest.

At RiverPoint Capital Management, we take our fiduciary responsibility very seriously and have policies and procedures in place to ensure that none of our clients are benefitting at the expense of others. Our status as an independent investment advisor demands that we keep our client goals at the forefront as we execute investment strategies. Our independence also benefits our clients because we have a much larger universe of investable stocks than larger firms with conflicting interests, such as investment banking relationships that could influence the appeal of certain stocks. As an independent investment advisor, we do not have to worry about whether our stock choices would offend investment banking or other clients; when we find a stock that we like, we purchase it for our clients.

The size of our firm (a mid-size investment firm with roughly \$1 billion in assets under management) is also a strength for us, in that we are big enough to possess all of the resources we need to serve our clients, while also being small enough to be nimble in the stock market. At RiverPoint, we generally focus on stocks with market capitalizations greater than \$1 billion, providing enough market liquidity to trade in the stock without worrying about affecting the stock’s price. This provides us with the ability to swiftly navigate turbulent markets and take advantage of opportunities when they present themselves.

Larger firms, however, can be severely hamstrung by their own size. Because of their size, such large investment firms are often left with two options: only invest in the largest and most liquid stocks, effectively shrinking their investment universe; or, establish small positions in a large number of stocks in an attempt to avoid impacting share prices through their trading activity. The former is unappealing because many exciting opportunities would be impossible to realize, and the latter forces the fund's composition and performance to more closely approximate the market itself. In essence, once a fund reaches a certain size it becomes increasingly difficult to beat the market because that fund effectively BECOMES the market.

While many other investment firms have struggled mightily over the past couple of years, RiverPoint has been able to notch its best years, steadily adding new clients while maintaining a high client retention rate. We point to our passion for investing, active portfolio management, our dedication to serving client needs and the kind words and generous recommendations from our clients as the predominant factors in our continued success as a firm. We want to thank all of our clients for the opportunity to serve as your investment advisor.

This is the time of year when many people may be looking for a proven, trustworthy investment advisor. We are currently accepting new clients and hope you will let us know if we can be of service to any friends or family.

Happy New Year from everyone at RiverPoint Capital Management!

| <u>Market Summary</u> | <u>12/30/09</u> | <u>2009 Price Change</u> |
|------------------------------|-----------------|--------------------------|
| Dow Jones Industrial Average | 10,549 | 20.2% |
| Nasdaq Composite | 2,291 | 45.3% |
| Standard & Poor's 500 Index | 1,126 | 24.7% |

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