Large-Cap Growth Equity
4th Quarter 2009

". . . Nothing so liberalizes a man and expands the kindly instincts that nature put in him as travel and contact with many kinds of people."

-Mark Twain 1867

As investors, we have always intuitively appreciated Twain's maxim. Translated into today's investment world, it means "get out of the office and visit companies and people who can broaden our understanding of the markets and industries in which we invest." Those "travels" can be across town or across the globe. In December, we undertook just such a journey--to India. As a result, we will include a few thoughts on how visiting business leaders in one of the world's most dynamic emerging markets has relevance to our large-cap growth portfolio.

For the quarter, the large-cap growth portfolio was slightly ahead of the Russell 1000 Growth Index's return of 8%. The strong performance across markets that began with the March lows continued all the way to year's end, with every industry sector up for the quarter. More to the point, the quarter capped an extraordinary year, as the portfolio gained more than 50% for 2009, far ahead of both the benchmark Russell 1000 Growth Index and the broader S&P 500.

Contributors to Performance

During the quarter, the stocks that most aided performance were **MasterCard** (up 26.7%), **NetApp** (up 28.8%), **Salesforce.com** (up 29.6%), and **PetSmart** (up 23.2%), although it should be noted that performance was broad-based in the portfolio and that all but five stocks were up for the quarter. Those stocks that lagged include **Jacobs Engineering** (down 18.2%), **Comcast** (down 10.4%), and **ABB ltd.** (down 4.7%).

Portfolio Changes

While we fine-tuned position sizes within the portfolio in an attempt to optimize the portfolio around those names with the most upside potential versus downside risk, we experienced unusually low turnover in names, eliminating only one stock from the portfolio.

We had owned Comcast, the cable system operator, on and off for at least the last six years. We finally parted company with the stock for reasons that may be revealing as to our investment process. Our thesis for owning Comcast was 1) the Company was growing its cash flow by about 15% a year; 2) it had built up a cash horde of approximately $2 billion; and 3) perhaps most importantly, management had signaled to investors that it had outgrown its infatuation with making a large acquisition and instead would focus on returning capital to investors via buy-backs, an increasing the dividend, or retiring debt. Unfortunately the specter of the Company's disastrous attempt to acquire Disney in 2004 came back to haunt us: this time management became enamored with NBC Universal's content assets and began an ultimately successful attempt to buy out Vivendi's share of the GE-Vivendi joint venture. We are not media company operators--and this transaction may ultimately be the right thing for Comcast--but for us, when a company changes its strategy, it is a red flag. It causes us to go back and reexamine our thesis for owning the stock, and in this instance, we decided that the correct decision was to avoid the Company's expensive foray into the media content business and exit the stock.

Outlook

We spent almost two weeks traveling throughout India, from Delhi to Bangalore and back up to Mumbai. While the geographies were certainly fascinating, the meetings we had were unique in our experience. From a growth investor's perspective, this was truly nirvana. We are reminded of a plaque in the lobby of the headquarters building of Reliance Industries, Ltd., a very large global integrated energy company and one of the largest companies in India. Underneath Reliance's corporate logo, it simply said "Growth is Life."

And so it goes in India: growth is everywhere, and almost by definition, virtually all companies can be characterized as growth stocks. Without going through each meeting in detail, we can say we met with a wide range of companies, from the global Indian outsourcing companies with which we are well familiar, to companies that are much less well known and more domestically focused in such diverse sectors as watch making and constructing and managing coal-fired power plants. We traversed sectors from a consumer staples company considered the "Wal-Mart of India" to meetings with the established and well-financed Indian private equity community.

All these meetings had a not too subtle subtext: *relatively high economic growth combined with a population of approximately 1.2 billon means that even small per capita changes in government focus or consumer spending can create massive business opportunities.* While there are certainly challenges in India (poverty, entrenched government bureaucracy, sub-standard infrastructure), the upside potential seems to more than compensate investors for the downside risk.

From a U.S.-based stock picker's perspective, however, India is "just" another market that U.S. companies will either shun or try to capitalize on, in an effort to grow. In this connection, it's interesting to note that roughly 45% of our portfolio's revenues are generated outside of American markets. Given India's relative size and growth potential, we are pleased (but not surprised) to note that the vast majority of companies in our portfolio have been creating strategies and infrastructure, and nurturing business relationships in India long before we boarded an airplane to Delhi!

In the uncertain environment that lies ahead, we are less concerned about the exact course of any economy, American, Indian or other for that matter. As investors, we are constantly looking for companies with sound, sustainable business models which can support high absolute growth rates. We believe that earnings drive stock prices. Whether those earnings come from America, India or any other emerging market means very little. In the end, it's the company, not the country that will reward our shareholders over time.

Large-Cap Growth Equity Team
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