



## Investment Results &amp; Portfolio Characteristics as of December 31, 2009

Small Cap				
	Small Cap	Russell 2500	Russell 2000	S&P SmallCap
<b>Performance</b>				
4Q09	7.8%	5.1%	3.9%	5.1%
2009	28.3%	34.4%	27.2%	25.6%
3 Year	(1.1)%	(4.9)%	(6.1)%	(4.8)%
5 Year	3.1%	1.6%	0.5%	1.4%
10 Year	-	4.9%	3.5%	6.3%
<b>Standard Deviation</b>				
3 Year	20.2%	24.3%	24.8%	24.7%
5 Year	18.0%	20.3%	21.2%	20.8%
10 Year	-	19.9%	21.5%	20.3%
<b>Characteristics</b>				
Price to Earnings	15.4x	23.6x	24.7x	23.4x
Price to Book	3.4x	3.0x	3.3x	2.5x
Yield	0.7%	1.4%	1.4%	1.1%
Forecast Growth	10.9%	6.4%	7.3%	7.5%
Return on Equity	22.9%	-2.3%	-5.3%	4.3%
Weighted Average Market Cap.	\$2.2 B	\$2.2 B	\$1.0 B	\$1.0 B
Median Mkt. Cap.	\$2.0 B	\$0.5 B	\$0.4 B	\$0.6 B

Note: Past performance is not indicative of future results. Performance is preliminary, annualized for periods greater than one year and calculated NET of fees. Results include the reinvestment of dividends and other earnings. Please be aware that these are composite returns and individual account returns may vary from composite returns. The returns of each strategy may be more volatile than those of the indexes. Dispersion and volatility numbers are available upon request. A full disclosure report is included with the distribution of this newsletter. Our performance disclosure statement is also posted on our website (<http://www.napllc.com/disclosures.asp>) and a hard copy is available upon request. Russell Index data disclosures are an integral part of any disclosure presentation and are included therein.

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he fourth quarter, and 2009 proved to be a challenging environment for our products relative to their benchmarks. However, we are pleased to report that our Small Cap Active Equity portfolio was ahead of its benchmarks for the quarter, and ahead of two out of its three benchmarks for the year.

Prior to the sharp market rally which took hold in early March and has since propelled the broad market nearly 70% higher, our performance had been relatively strong; one reason for our limited upside participation is that the rally has been primarily fueled by lower quality names—those with the lowest ROE, lowest cash flow relative to net income, and highest debt levels. Since the rally began, stocks with negative earnings have doubled the performance of those with positive earnings, just as low ROE names have nearly doubled the performance of high ROE names, as the following table demonstrates:

	3/6/09* – 12/31/09
Return On Equity: Russell 3000 Quintiles	Russell 3000 Total Return
Quintile 1 (High ROE)	54.3%
Quintile 2	57.3%
Quintile 3	66.5%
Quintile 4	58.8%
Quintile 5 (Low ROE)	104.6%

\*The stock market bottomed on March 6, 2009

Although the low-quality effect was at its strongest during the second and third quarters of 2009, it lingered into the fourth quarter, with higher quality issues (ranked B+ or better by S&P) underperforming lower ranked issues (B or worse) by roughly 1.4% in the final three months of the year.



New Amsterdam Partners continues to use our proven process, strategy and proprietary technology to successfully invest our clients' assets with a long-term perspective. We use a valuation model to identify companies with better than average forecast growth and profitability selling at reasonable valuation multiples. We then subject the high expected return companies to rigorous fundamental scrutiny. While, as the recent past has shown, there can be periods where poor quality companies with negative earnings lead the market, over the long term that is unsustainable. That is why we focus on companies with solid earnings and cash flows whose stock prices we believe are below fair value.

We utilize the same philosophy and process for each strategy and invest approximately \$3.0 billion in the U.S. equity market on behalf of our clients.

We are deeply appreciative of the trust and loyalty that our clients have shown us, and we are working hard to keep your portfolios in line with the strong long term track record that we've been able to deliver.

### Our Strategies

- Large Cap Active Equity
- Large Cap Growth Active Equity
- Large Cap Socially Responsible Active Equity
- Mid Cap Active Equity
- Mid Cap Quality Growth Active Equity
- Mid Cap Socially Responsible Active Equity
- Small Cap Active Equity
- All Cap Active Equity

### Fourth Quarter Performance Spotlight on Small Cap Active Equity

This quarter we outperformed the Russell 2500, Russell 2000 and S&P 600 Indexes. From an attribution perspective, our sector selection was positive and stock selection was strong. An underweight position in financials along with an overweight in energy helped performance, but an underweight in utilities detracted from performance. Stock selection was strong in health care, industrials and financials. Our stock picking was weak in consumer discretionary and energy.

### Market Outlook

After the financial and economic turmoil that began in 2008, 2009 saw the US economy shrink by 2.5%. The

### Small Cap Active Equity Top Ten Composite Holdings

Security	%	Security	%
FMC Technologies	3.4	Holly Corp	2.7
Healthways Inc	3.1	Chattem Inc	2.7
Bucyrus Intl Inc	3.1	Energen Corp	2.7
Reinsurance Gp Am	2.8	Affiliated Mgrs Gp	2.6
Dionex Corp	2.8	Iac Interactive Corp	2.6

stock market continued its fall until the beginning of March but then staged a sharp rally once signs of economic improvement appeared, producing the best calendar year return since 2003, while bringing to an end the worst decade on record for US stock performance. The "Great Recession" appears to be coming to an end and, although it involved a lot of pain, proved less dire than many had feared.

GDP growth turned positive in the second half of 2009, and we expect that trend to continue, with GDP growth of 2.5 – 3% in 2010. The continued recovery will be helped by increased demand from emerging markets, the rebuilding of inventories and an improvement in employment and personal incomes. The index of Leading Economic Indicators has moved up sharply while fiscal and monetary stimulus are working their way through the system. We believe that the unemployment rate has peaked and expect the economy to start adding jobs within the next few months. GDP per employee has now risen to the point where more hiring may be warranted. An increase in hiring along with the rebound in household net worth will produce a modest rise in personal incomes and spending.

The main threat to GDP growth lies in the private economy not recovering by the time the effect of the unprecedented fiscal and monetary stimulus wears off. Many states are in fiscal crisis and have been supported by federal stimulus money which is now going away. This may cause public sector employment cuts – a problem if the private sector cannot pick up the slack. Increases in taxation may also hamper the business sector, particularly small business which provides most of the nation's employment. While the domestic real estate market has improved, there is still a shadow over the housing market due to high inventories and the commercial real estate market will continue to be distressed for a while. A major unknown, however, also lies in geo-political and global terror risks. Extremely adverse events could affect U.S. and world economies and stock markets.



In the near term, inflation and interest rates are likely to stay low. Inflation will be subdued in the coming year due to low capacity utilization and modest employment cost increases. The Federal Reserve has stated its intention of keeping interest rates low for the foreseeable future, but we would expect them to start creeping up by year end. There is a longer term inflation threat if the huge amount of public debt becomes monetized, but so far the velocity of money has stayed low (due to banks' reluctance to lend combined with some slack loan demand) and the Federal Reserve has laid out plans to remove liquidity from the system when the economy is back on track. It remains to be seen whether the political will exists to do so once a widespread recovery is underway.

With the exception of the financial sector, corporate America weathered the downturn relatively well, managing to maintain margins through astute cost control. A pick up in top line growth from a reviving economy will allow profits to rise in the double digits. Since the market is trading around its long run average P/E of 15 (on forward earnings), we believe that the increase in profits will allow the US stock market to grow in the low double digits for 2010.

In the wake of a turbulent 2009 featuring volatile stock price moves on what we believe to be unsustainable factors, we expect the market environment in 2010 to be more favorable for our investment process. Low quality stocks led the recovery rally last year, and their returns relative to high quality stocks reached peaks similar to those last seen in 2003 and 1999. History suggests high quality stocks retaking leadership in 2010. Last year also saw a spike in stock price correlations, which proved a difficult environment for bottom-up stock selection processes like ours. Recently, stock price correlations have begun to drop, a factor which should make 2010 much more of a stock pickers market. In 2009, companies generating losses enjoyed the highest stock price returns, but as the business cycle moves forward cash flow generation is likely to be a much more important stock selection factor. We expect more normal stock market behavior going forward and stocks with better than average cash flow and profitability to outperform in 2010.

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*Partner & Senior Portfolio Manager*

### Investment Results & Portfolio Characteristics as of December 31, 2009 (continued)

Large Cap						
Performance						
	Large Cap Core	LC Social	Russell 1000	S&P 500	Large Cap Growth	Russell 1000 Growth
4Q09	5.5%	5.1%	6.1%	6.0%	7.0%	7.9%
2009	24.7%	31.3%	28.4%	26.5%	29.3%	37.2%
3 Year	(6.2)%	(4.5)%	(5.4)%	(5.6)%	(3.4)%	(1.9)%
5 Year	(0.7)%	0.0%	0.8%	0.4%	0.0%	1.6%
10 Year	1.5%	0.7%	(0.5)%	(0.9)%	1.5%	(4.0)%
Standard Deviation						
3 Year	18.5%	19.5%	20.1%	19.6%	18.8%	19.7%
5 Year	15.1%	15.9%	16.3%	15.9%	15.4%	16.2%
10 Year	16.1%	16.7%	16.3%	16.1%	16.2%	18.9%
Characteristics						
Price to Earnings	19.6x	18.4x	23.3x	23.6x	20.9x	23.8x
Price to Book	4.1x	4.0x	3.5x	3.6x	4.5x	5.0x
Yield	1.4%	1.3%	1.9%	1.9%	1.1%	1.5%
Forecast Growth	6.2%	6.2%	5.3%	5.1%	6.8%	7.7%
Return on Equity	20.3%	17.2%	13.8%	15.1%	22.2%	22.3%
Weighted Average Market Cap.	\$39.4 B	\$43.2 B	\$72.7 B	\$80.9 B	\$45.1 B	\$77.6 B
Median Mkt. Cap.	\$23.5 B	\$23.1 B	\$4.1 B	\$9.0 B	\$24.2 B	\$4.4 B

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Mid Cap						
	Mid Cap Core	MC Social	Russell Midcap	S&P MidCap	MC Quality Growth	Russell Midcap Growth
<b>Performance</b>						
4Q09	5.1%	6.2%	5.9%	5.6%	8.8%	6.7%
2009	24.9%	28.9%	40.5%	37.4%	32.7%	46.3%
3 Year	(5.7)%	(5.8)%	(4.6)%	(1.8)%	(2.8)%	(3.2)%
5 Year	0.8%	0.1%	2.4%	3.3%	2.1%	2.4%
10 Year	4.3%	-	5.0%	6.4%	-	(0.5)%
<b>Standard Deviation</b>						
3 Year	21.1%	22.1%	24.2%	23.5%	21.4%	24.0%
5 Year	17.9%	18.5%	19.8%	19.4%	18.1%	19.9%
10 Year	17.7%	-	18.6%	18.5%	-	24.4%
<b>Characteristics</b>						
Price to Earnings	16.3x	17.7x	22.4x	25.1x	19.8x	25.3x
Price to Book	3.3x	3.2x	3.3x	2.9x	3.5x	4.6x
Yield	1.0%	0.9%	1.6%	1.4%	0.7%	1.0%
Forecast Growth	9.7%	9.3%	5.9%	6.8%	9.2%	8.6%
Return on Equity	23.2%	20.6%	5.3%	4.1%	21.0%	11.1%
Wtd. Avg. Mkt. Cap.	\$4.0 B	\$4.1 B	\$6.2 B	\$3.0 B	\$4.7 B	\$6.6 B
Median Mkt. Cap.	\$3.2 B	\$3.4 B	\$3.5 B	\$2.3 B	\$3.5 B	\$3.6 B

All Cap				
	All Cap	Russell 3000	Russell 1000	S&P 500
<b>Performance</b>				
4Q09	4.8%	5.9%	6.1%	6.0%
2009	28.4%	28.3%	28.4%	26.5%
3 Year	(2.6)%	(5.4)%	(5.4)%	(5.6)%
5 Year	(1.3)%	0.8%	0.8%	0.4%
10 Year	1.6%	(0.2)%	(0.5)%	(0.9)%
<b>Standard Deviation</b>				
3 Year	20.7%	20.3%	20.1%	19.6%
5 Year	17.6%	16.5%	16.3%	15.9%
10 Year	19.1%	16.4%	16.3%	16.1%
<b>Characteristics</b>				
Price to Earnings	19.9x	23.4x	23.3x	23.6x
Price to Book	4.3x	3.5x	3.5x	3.6x
Yield	0.9%	1.8%	1.9%	1.9%
Forecast Growth	8.8%	5.5%	5.3%	5.1%
Return on Equity	25.7%	12.3%	13.8%	15.1%
Weighted Average Market Cap.	\$26.7 B	\$67.1 B	\$72.7 B	\$80.9 B
Median Mkt. Cap.	\$6.5 B	\$0.7 B	\$4.1 B	\$9.0 B

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