

One of the hallmarks of Bowling's investment process is our belief that over the course of a business cycle, investors will be well served by owning a high-quality, diversified portfolio of stocks. Our emphasis on quality, which includes thorough analysis of operating cash flows and balance sheet strength, enabled our Large Cap Core Value ("LCCV") portfolio to make it through the worst financial crisis in history without owning a single share of the companies that went bankrupt.

What has been particularly odd is that during the financial market chaos of the last couple of years, virtually no premium has been given to companies with above average financial strength, global diversification, and outstanding long-term business prospects. In fact, owning a portfolio of very high quality, large-cap stocks over the past 2 years has felt something like being the next door neighbor of someone who had a daisy cutter dropped on their house.

This lack of outperformance by blue chips over the past 18 months doesn't make much sense against the current global economic backdrop, and (in our opinion) is largely due to technical factors rather than valuation-based stock analysis. In late 2008 we saw extreme selling pressure on high quality stocks due to the fact that these were the easiest things to sell into an illiquid market. Then, since March of 2009, the market has experienced a beta trade of historic proportions, where the hot money has chased performance in the more volatile, lower quality names.

As the beta rally fades, we believe that a confluence of factors points towards high-quality, large-cap stocks leading the way over the balance of the current business cycle. These are discussed below and include cyclical, structural, and valuation-based factors.

Cyclical Factors

The initial reaction by market participants upon realizing that we are not heading for the Great Depression II has been one of profound relief. This is typical in the early stages of an economic recovery, and almost always leads to a market rally which is led by the stocks of low-quality companies which were facing the direst consequences of a prolonged recession. In the current cycle this low-quality rally was fueled by historically extreme levels of investor pessimism.

If you put the performance of Bowling's LCCV portfolio into historical perspective, what you find is that most of our outperformance versus the major indices has come in the subsequent years following one of these major relief rallies, when the focus turns from relief to valuations. The following chart summarizes the performance of Bowling's LCCV portfolio coming out of the past 3 U.S. recessions dating back to the early 1990's.

Recession Date	Market Bottom	1-Year Return from Bottom		Balance of Expansion Return	
		S&P 500	LCCV Gross	S&P 500	LCCV Gross
July 1990 – Mar. 1991	Oct. 1990	31%	38%	265%	374%
Mar.-Nov. 2001	Oct. 2002	24%	21%	52%	91%
Dec. 2007 – Dec. 2009	March 2009	54%*	49%*	???	???
Average		36%	36%	159%	233%

* Performance from 02/28/09 through 12/31/09.

Despite the fact that Bowling's LCCV portfolio has provided a cumulative return of over 1000% after fees since 1988 (versus 644% for the S&P), this chart shows that virtually none of that outperformance has come during the first 12 months of a market recovery following a recession. LCCV has, however, been able to average market-like performance during these periods despite having a below-market beta and a focus on high-quality holdings. Historically, as the relief rallies waned and stock valuations started driving returns, LCCV has shined.

Valuation Support

Investors have traditionally demanded a fairly high risk premium to invest in small company stocks, and a relatively lower risk premium to invest in larger, high quality blue chip companies. This makes a lot of sense since larger blue-chip companies typically are more diversified by both product line and end-market geography (global presence), and generally boast higher financial strength. Right now this relationship between high quality blue-chip companies and small caps is upside down.

According to Standard & Poors, the S&P SmallCap 600 index is trading at a forward Price/Earnings ratio of 18.8, versus 14.0 for the S&P 500 (a market-weighted large cap index). This seems a bit odd to us given the current economic landscape and investor psyche. It would make a lot more sense if this relationship were reversed.

Investors should also keep this relationship in mind when interpreting the statements of various market prognosticators about the future direction of the market. There are over 10,000 U.S. companies that are listed on a stock market. There are 30 in the Dow Jones Industrial Average, and the top 50 companies in the S&P 500 make up over 50% of the market weight of the S&P 500 index. Thus, it is not necessarily contradictory to believe that the beta rally is over yet large cap blue-chip stocks look cheap.

Structural Factors

There are also structural factors that we believe favor the blue-chip multinationals going forward. At the top of this list is the fact that globalization has resulted in very attractive growth opportunities for industry-leading multinationals, the overwhelming majority of which are U.S.-listed firms.

In fact, at the present time companies in our LCCV portfolio (excluding financials) get nearly 50% of their revenues from outside of the U.S., and that number is growing by the day. The flip side of this globalization trend has been that the diversification benefits from investing in foreign stock markets directly has dwindled significantly, with U.S. markets being over 90% correlated with the major foreign stock-market indices over the past 3 years. It's becoming far more important to be diversified by industry and source of revenue stream than by country of listing. Blue-chip U.S. multinationals fit this bill and we believe should be the foundation of a long-term investment portfolio.

In addition, readers who have tried to refinance a mortgage or commercial loan recently know firsthand that loan requirements have become much stricter in the past 2 years, with even high-quality borrowers feeling the effects. As deleveraging continues to work its way through the global economy, it seems likely that high-quality borrowers with high amounts of free cash flow are going to best suited to capitalize on growth opportunities. This is yet another factor pointing in favor of quality companies over the balance of the current business cycle.

We appreciate your confidence in our investment team and process. Please feel free to call us if we can be of assistance in any way.

Cumulative Net Returns

Bowling Portfolio's Large Cap Core/Value Strategy

	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	Since Inception 01/01/88
Bowling Portfolio's Large Cap Core/Value	26.51%	-13.72%	12.79%	68.20%	27.31%	278.11%	1076.77%
S&P 500	26.46%	-15.95%	2.11%	45.70%	-9.10%	219.18%	643.69%
Russell 1000 Value	19.69%	-24.55%	-1.25%	49.58%	27.67%	260.51%	738.83%

Data as of 12/31/09

Bowling's composite performance results for the Large Cap Core/Value Strategy include actual total returns for all non-wrap and fully discretionary accounts in this strategy above \$50,000. These net composite returns are calculated on an asset-weighted basis and include transaction costs and the reinvestment of dividends and income. The S&P 500 Index and the Russell 1000 Value Index are unmanaged asset-weighted indices of large U.S. based companies which include income but do not include expenses. Past performance is no guarantee of future results. For additional information, contact Bowling Portfolio Management LLC at 513-871-7776.

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**BOWLING PORTFOLIO MANAGEMENT LLC
LARGE CAP CORE VALUE COMPOSITE
ANNUAL DISCLOSURE PRESENTATION**

Year	Gross Of Fee Return	Net Of Fee Return	S&P 500 Index	Number of Portfolios	Annual Composite Dispersion	Composite Assets End of Period (\$Millions)	Percent of Firm Assets
2000	0.44	-0.75	-9.11	589	5.38	313.9	83.4
2001	-1.99	-3.13	-11.91	610	3.46	314.0	82.3
2002	-20.37	-21.28	-22.07	458	1.89	183.7	66.5
2003	27.83	26.54	28.68	343	1.38	202.9	66.1
2004	19.05	17.85	10.88	398	1.37	233.4	75.6
2005	15.01	13.88	4.91	472	1.14	311.1	78.1
2006	15.85	14.79	15.80	541	1.12	392.3	75.0
2007	12.72	11.71	5.49	613	1.20	460.7	75.7
2008	-38.36	-38.95	-37.00	528	1.08	242.0	65.4
2009	27.67	26.51	26.46	500	1.05	279.3	69.3

Cumulative * 1,426.00% 1076.77% 643.69%

Annualized * 13.19% 11.86% 9.55%

* Cumulative and annualized performance is calculated since inception (01/01/88) through 12/31/09.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

Bowling Portfolio Management LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

- Bowling Portfolio Management LLC ("Firm") is an investment management firm serving both tax-exempt and taxable clients, offering a variety of investment management strategies. The Firm is an SEC-registered investment adviser and is dedicated to the practice of professional investment management. Bowling Portfolio Management, Inc. was founded in 1982 and began managing equity accounts January 1, 1988. Effective July 1, 2001, Bowling Portfolio Management, Inc., became Bowling Portfolio Management, an independently operated division of The Renaissance Group LLC ("Renaissance"). Effective December 31, 2004, Bowling became a stand-alone entity and was no longer a division of Renaissance. The composite of Large Cap Core Value portfolios was created July 1, 1994.
- The Large Cap Core Value Composite includes the portfolios of all clients, whether taxable or tax-exempt, for which the Firm has full discretionary authority to manage in a diversified portfolio of large cap equities. Portfolios below \$50,000 are excluded from the composite.
- Performance results are calculated both gross and net of management fees. Gross returns include the reinvestment of income and are gross of the firm's management fees; they are reduced by transaction costs and administration fees. Net returns reflect the deduction of all fees and transactions costs. Beginning January 1, 2004 the composite contained bundled fee accounts which pay a fee based on a percentage of assets. This fee solely includes brokerage commissions. The percentage of composite market value of these bundled fee accounts at the end of each period is as follows: 2004: 19%, 2005: 8%, 2006: 2%, 2007: 2%, 2008: 2%. Beginning July 1, 2009, all fully discretionary, large cap equity accounts participating in a wrap or bundled fee program were removed from the composite. Additional information regarding policies for calculating and reporting returns is available upon request. The fee schedule is as follows: 2% of the first \$500,000, 1% of the amount above \$500,000, and a flat 1% on all accounts above \$1,000,000. Varying terms may be negotiated. Performance is expressed in U.S. Dollars. After-tax results will vary from the returns presented here for those portfolios that are subject to taxation.
- Annual composite dispersion is calculated using the asset-weighted standard deviation of gross results for those accounts in the composite for the entire year.
- The benchmark for the Firm's Large Cap Core Value Strategy is the Standard & Poor's 500 Index which is an asset-weighted index of large U.S. based companies that includes income but does not have any expenses. Prior to September 30, 2005, presentations included the Standard & Poor's 500/Barra Value and the Standard and Poor's 500 indices. The Standard & Poor's 500/Barra Value is no longer included in the presentation as the index is no longer available.
- A complete list and description of the Firm's composites is available upon request. From January 1, 2005 through January 1, 2008, the composite was named the Large Cap Equity Composite. Prior to January 1, 2005, the composite was named the Large Cap Value Composite.
- The Firm's compliance with the GIPS standards has been verified for the period January 1, 2006 through December 31, 2009 by Ashland Partners & Company LLP and for the period January 1, 1988 through December 31, 2005 by Deloitte & Touche, LLP. In addition, a performance examination was conducted on the Large Cap Core Value Composite for the period January 1, 2006 through December 31, 2009 by Ashland Partners & Company LLP and for the period January 1, 1988 through December 31, 2005 by Deloitte and Touche, LLP.
- For all periods presented, the composite contains non-fee paying accounts. The percentage of composite market value of these non-fee paying accounts is less than 1% at the end of each period listed, 2000 through 2009.