

FIRST QUARTER COMMENTARY

Los Angeles, April 15, 2009

Dear Fellow Investor:

The first quarter of 2009 was another miserable one for stock markets, with the S&P 500 suffering its sixth straight quarterly loss. The average Large Cap Value portfolio declined about 12%, net of fees, in the quarter, slightly worse than the 11% decline for the S&P 500 but materially better than the almost 17% drop in the Russell 1000 Value index. The table below shows the long-term and recent cumulative and average annual returns against the broad market:

Large Cap Value Composite Returns Through March 31, 2009¹

	Since Inception	7 Year	5 Year	1 Year
Annualized	-3.7%	-6.0%	-8.3%	-41.0%
S&P 500	-5.1%	-3.2%	-4.8%	-38.1%
Cumulative	-28.5%	-35.0%	-35.1%	-41.0%
S&P 500	-37.5%	-20.4%	-21.6%	-38.1%

¹ PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. Performance quoted is that of the Large Cap Value Non Wrap Composite net of fees. Investment returns for the composite and the S&P 500 include the reinvestment of dividends and/or interest income. Inception is April 1, 2000. Prior to June 2004, the composite represents performance generated by the portfolio management team at a prior firm and includes wrap accounts. A list and description of all firm composites is available upon request.

The full measure of the current downturn in stock prices so far is a drop in the S&P 500 from 1,561 in October 2007 to a low of 676 in March 2009. Accounting for dividends, that tallies to a 55% decline. For further context, note that the prior peak in the market was in March of 2000 at 1,527. The ten-year, cumulative return for the S&P 500, through the end of the first quarter is a stunning loss of 29%.

The quarter was not uniformly negative, however. In fact, the tide turned quite sharply positive since the low on March 9th and into the first half of April, and the Large Cap Value portfolio has performed strongly both in absolute terms (we estimate that it was up approximately 37% from March 9th to April 15th) and relative to the market (the S&P rebounded approximately 26% over the same period). One would have to go back to 1938 to find a 29-day stretch where the market has done as well as its recent winning streak. We do not know with certainty whether this recent upturn is the beginning of a sustained turnaround for the market. We have no better idea than a quarter or two ago whether or not we've seen the bottom. We do know, however, that much ground has been covered already, and we note some mile markers that support a cautiously optimistic view:



NEW INVESTMENTS:

MARKEL (MKL)
 MEDTRONIC (MDT)

INCREASE IN EXISTING INVESTMENTS:

GENERAL DYNAMICS (GD)
 WELLS FARGO (WFC)

REDUCTION IN EXISTING INVESTMENTS:

BRISTOL MYERS (BMY)
 INTEL (INTC)

INVESTMENTS SOLD:

ALLSTATE (ALL)
 HSN (HSNI)
 INTERVAL LEISURE GROUP (IILG)
 LENDING TREE (TREE)

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1) Time heals all wounds – It has been 2 years since a mortgage company, New Century Financial, declared bankruptcy, the canary in the coal mine for the coming sub-prime collapse. The recession officially began sixteen months ago. The stock market has been weak for a very long time, hitting levels in March 2009 previously passed in 1996.

2) Government intervention largely in place – Like it or not, the federal government has become a major player in the financial markets. TARP passed six months ago and bank capital injections occurred not long after. Since, a whole bevy of programs (TALF, PPIP, etc.) have been put in place. Uncertainty over what role government will play remains, but the outlines of the new rules of the game are clearer today.

3) Credit markets are improving – Credit

markets are by no means back to normal, but there are signs of progress. Credit spreads have narrowed, the residential mortgage market is experiencing a strong resurgence, and high quality corporate debt issuers are finding eager buyers. Credit is still constrained for all sorts of businesses and consumers, but conditions are better than they were a few months ago.

We know we still have plenty of bad news in front of us. Corporate earnings will continue to be weak. Actual loan losses will continue to hurt banks. Deleveraging has further to go. Unemployment will continue to rise. It is the unknowns that will determine the near- and intermediate-term course of the market. Key among these are whether the economy is indeed seeing a bottom and what the consequences will be of unprecedented government intervention.

How Did The Portfolio Do?

The negative investment return during the quarter was again driven primarily by the financial stocks, which comprised 3 of the bottom 5 weighted detractors. Wells Fargo led the way down, followed by Allstate, Vulcan Materials, BankAmerica, and Pfizer. Although it rebounded sharply towards the end, the financial sector declined by about 28% during the quarter. One factor seemed to be concerns about the upcoming government “stress test” of banks’ capital. The uncertainty about which bank would pass and which would not seemed to definitely stress... investors. Pfizer’s shares declined following the announcement that it was buying Wyeth, a competitor. Unlike the fourth quarter, there were some meaningful positive contributors, namely Sprint, Cintas, Intel, Liberty Media Entertainment (primarily a holding company for DirecTV), and Home Depot. It is hard to find a common theme among these. Cintas, Intel and Liberty Media seemed to be weathering the storm better thanks to their solid competitive positions, while shares of the other two were probably due for a rebound for no other reason than they previously reflected too much pessimism.

Our activity slowed down a little from previous quarters, yet we found some opportunities to either upgrade the quality of our holdings at a similar

discount to our appraisals, or reallocate capital into investments trading at an even greater discount. One example was our sale of Allstate to purchase Markel. Both are in property and casualty insurance (P&C), but we believe that Markel benefits from better economics. Allstate’s bread and butter is offering auto and homeowner policies. Although the company enjoys economies of scale, these policies are heavily regulated by each of the 50 states in which it operates. Allstate’s underwriting and pricing practices are under increasing regulatory oversight, thus limiting the ability of the company to maximize returns for its shareholders going forward. Markel, on the other hand, operates in specialty insurance. Regulatory oversight is less burdensome because policies are sold to companies rather than consumers. Additionally, the company’s management has one of the best records in the industry when it comes to underwriting profitably and investing the company’s portfolio.

During the quarter, we added to your portfolio’s investments in Wells Fargo and General Dynamics as we felt that both their shares traded at very attractive valuations. We also made a new investment in Medtronic, a company manufacturing a wide range of medical devices. If you were a fan





Portfolio Review

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of the Million Dollar Man TV show in the 1970s, you might understand part of our excitement for the company's prospects. As the country's population ages, we anticipate that demand for implants and other devices that address a wide range of chronic diseases will grow nicely. We also like the diversity of the company's products, which alleviates some

of the technology substitution risks. Finally, the company's balance sheet is strong and the business generates plenty of free cash flow.

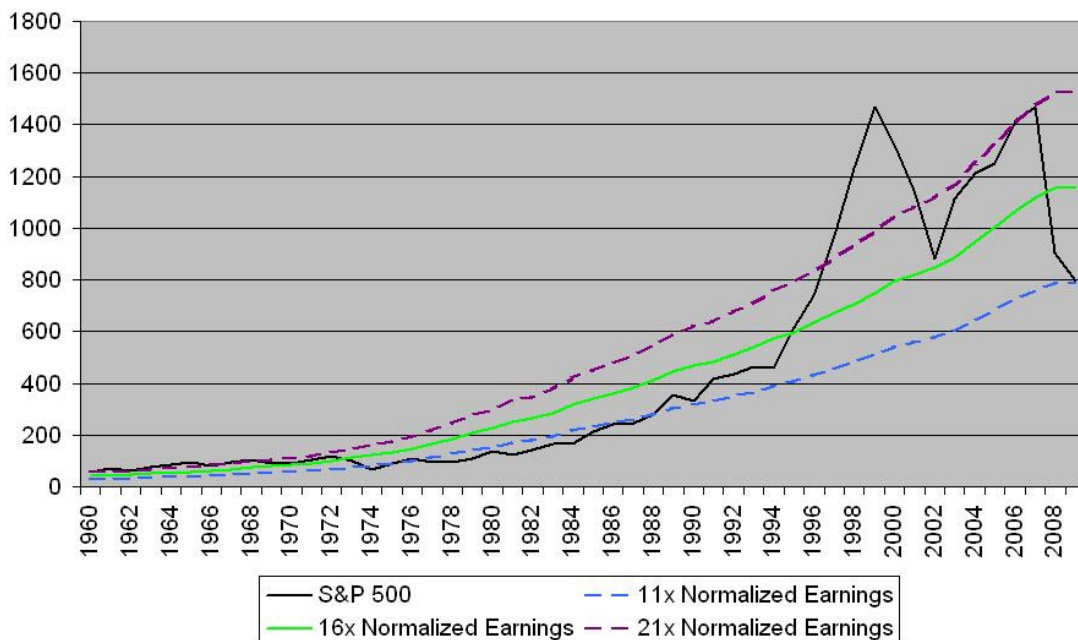
To make room for these investments, we reduced your holdings in Bristol Myers and Intel. We also sold some small spinoffs from Interactive Corp.

Today's Opportunity

While the short-term outlook remains murky, we continue to believe the long-term course of the market is somewhat simpler to foresee from today's vantage point. Two powerful forces—corporate earnings and stock valuations—will eventually revert to normal (and, if history is a guide, above normal) levels, fueling an extended period of above average returns. Investing for the long-term in equities should not be the loser's game it has been for the last ten years.

We attempt to illustrate this in the accompanying chart showing the last fifty years of market history. The black line represents the S&P 500. That "M" pattern on the right third of the chart shows the enormous tech-driven 1990's bull market, followed by the tech wreck bear market of 2000 - 2002, then the credit and commodity fueled recovery, ending with the downturn of the last eighteen months.

S&P 500 and Normalized Corporate Earnings



To make some sense of those gyrations and provide a context of valuation over that same period, the three colored lines show the typical valuation range of the market using what we'll refer to as normalized earnings. Corporate earnings fluctuate greatly from year to year due to the business cycle

and other factors; but through cycles, profits have tended to revert to a fairly constant level of gross domestic product. By looking at the market as a multiple of these smoothed out earnings, we can gain a different insight into where the market stands today. The top and bottom lines (11x and





Today's Opportunity

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21x normalized earnings) establish a range that captures most, but not all, of the market's valuation shifts. The middle line shows the rough average valuation, about 16x earnings.

You can readily observe that the market has strayed above and below this normal range over time, but also that there is a powerful tendency, eventually, toward the average valuation. By far, the greatest contributor to the poor market returns over the last ten years has been the shift from an above average valuation (2000) to a below average valuation today. From today's starting point, we believe this reversion to average profitability and average valuation should combine to produce returns far superior to what investors have experienced the last ten years.

One of the key reasons the market didn't look as expensive as it in fact was in 2007 was that well above average corporate profitability made the actual market multiple look pretty close to average.

Similarly, today, below average corporate profitability is making the market look more expensive than it really is.

Before we end, we'd like to mention a new email piece we're now issuing on a monthly basis to our clients. It's a digest highlighting interesting articles, editorials, videos and interviews we've come across during the month. We've received positive feedback on the first two editions. If you'd like to be added to our list, please sign up on our website.

We appreciate your continued trust in Bristlecone's services.

Sincerely,

David Fleer
Portfolio Manager

Jean-Luc Nouzille
Portfolio Manager

Annual Form ADV Offer

As a registered investment adviser under the Investment Advisers Act of 1940, Bristlecone is required once a year to make available to clients upon request a copy of our Form ADV Part II. This form discloses important information about our firm, such as services, business practices, and potential conflicts of interest. It is available for download at www.bristlecone-vp.com, but we'll be happy to mail you a copy free of charge if you don't have access to the internet (please send a request to: Client Services, Bristlecone Value Partners, 10880 Wilshire Blvd., Suite 880, Los Angeles, CA 90024). We are also required to regularly communicate our

Privacy Policy along with summaries of our Proxy Voting Policy and Disaster Recovery Plan. You will find them following this letter. We also like to remind our investors that the Large Cap Value portfolio's investment objective is to provide long-term capital appreciation. Therefore, it is important to let us, or your financial advisor, know of any material change in financial circumstances, investment objective, and special instructions or limits that might affect the manner in which Bristlecone makes investment decisions on your behalf (examples of such special restrictions would be any social, legal, moral or tax constraints that you may have).

CAUTIONARY STATEMENT

One of Bristlecone Value Partners' principles is to communicate frequently, openly and honestly. We believe that our clients benefit from understanding our investment philosophy and process. Our views and opinions regarding the investment prospects of the portfolio are "forward looking statements," which may or may not be accurate over the long term. While we believe we have a reasonable basis for our appraisals, and we have confidence in our opinions, actual results may differ materially from those we anticipate. Information provided in this report should not be considered as a recommendation to purchase or sell any particular security. You can identify forward looking statements by words like "believe," "expect," "anticipate," or similar expressions when discussing prospects for particular portfolio holdings. We cannot assure future results and achievements. You should not place undue reliance on forward looking statements, which speak only as of the date of this report. We disclaim any obligation to update or alter any forward looking statements, whether as a result of new information, future events, or otherwise. Our comments are intended to reflect trading activity in a mature, unrestricted portfolio and might not be representative of actual activity in all portfolios. Portfolio holdings are subject to change without notice. Current and future performance may be lower or higher than the performance quoted in this report.