

FOURTH QUARTER COMMENTARY

Los Angeles, January 15, 2010

Dear Fellow Investor:

That's a little more like it! Following on the heels of 2008, it really shouldn't have come as a surprise that 2009 would be such a great year for stock markets across the spectrum, but oh! how miserable things felt this time last year.

Last winter, amid all the pessimism and against surprisingly strong emotional currents, we in fact did manage to muscle up the courage in last January's commentary to call the market like it clearly was: a generational buying opportunity. We followed through as net buyers in your portfolio in the 1st quarter, initiating a position in 2 new companies, and adding to a couple of existing ones, while reducing or selling investments with less appreciation potential. The market delivered another month or two of pain, but quickly reversed and headed upward in dramatic fashion.

The fourth quarter actually felt like something of a breather for the market and for the Bristlecone Large Cap Value portfolio. After 15% returns in each of the second and third quarters, the S&P 500 advanced 6% in the fourth quarter. And after outperforming nicely in both those quarters, the Large Cap Value portfolio underperformed somewhat, advancing approximately 3%.

For the full year, we were pleased that Bristlecone's Large Cap Value portfolio delivered excellent returns by any measure, returning close to 33%, handily out-pacing the S&P 500 (up 26.5%). That made 2009 the best single-year for absolute returns in our composite history (now nine full years) and the second best year for relative returns.

We take this year-end opportunity to lay out the year-by-year and cumulative performance of the Large Cap Value portfolio since the April 2000 inception.

Large Cap Value Composite Returns through December 31, 2009¹

YEAR	BVP LCV Non-Wrap Composite Net of Fees (1)	S&P 500 with Dividends Reinvested (2)	Relative Results (1) - (2)
2000	15.0%	-11.1%	26.1%
2001	-6.5%	-11.9%	-5.4%
2002	-19.2%	-22.1%	2.9%
2003	25.9%	28.7%	-2.8%
2004	10.5%	10.9%	-0.4%
2005	5.2%	4.9%	0.3%
2006	19.0%	15.8%	3.2%
2007	-8.2%	5.5%	-13.6%
2008	-41.3%	-37.0%	-4.3%
2009	32.9%	26.5	8.4%
Average Annual Gain/Loss Since Inception	0.8%	-1.2%	2.0%
Cumulative Gain/Loss Since Inception	8.3%	-11.1%	19.4%

¹ PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. Performance quoted is that of the Large Cap Value Non Wrap Composite net of fees and may include estimates for the most recent quarter. Investment returns for the composite and the S&P 500 include the reinvestment of dividends and/or interest income. The Large Cap Value Non Wrap Composite contains fully discretionary, non-wrap large cap value accounts. The S&P 500 is a market value weighted index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. It is widely recognized as representative of the equity market in general. Inception is April 1, 2000. The US dollar is the currency used to express performance. Bristlecone Value Partners, LLC ("Bristlecone") is a registered investment adviser founded on June 1, 2004. Prior to June 2004, the composite represents performance generated by the portfolio management team at a prior firm and includes wrap accounts. Bristlecone claims compliance with the Global Investment Performance Standards (GIPS[®]). A list and description of all composites and/or a presentation that complies with the requirement of GIPS is available upon request (clientservices@bristlecone-vp.com).

NEW INVESTMENTS:

NONE

INCREASE IN EXISTING INVESTMENTS:

WEYERHAEUSER (WY)
 EXXON MOBIL (XOM)

REDUCTION IN EXISTING INVESTMENTS:

NONE

INVESTMENTS SOLD:

NONE

January 15, 2010

In the end-of-decade spirit, the record is getting long enough—and we've surely seen cycles of sufficient number, variety, and magnitude over this period—to merit a self-evaluation. The bad news, of course, is that the absolute level of returns was awful. In fact, the 2000 – 2009 period delivered the worst decade of returns for the stock market of any in the last 100 years, worse than the 1930s. (As a side note, there have been two worse 10-year periods, one beginning in September 1929 and the recent one ended this February 2009.) The decade's poor investing backdrop looks even worse when evaluated using real (inflation-adjusted) returns. Because inflation

averaged 2.8% over the decade, real returns were approximately negative 4% annualized, far worse than any prior decade.

On the other hand, we can be reasonably satisfied with the relative outperformance of the Large Cap Value portfolio since April 1st, 2000. Exceeding the broad market by close to 2% annually after fees over a nearly 10-year period is quite good and a record we would be happy to replicate over the next decade or two. As the media keeps reminding us, most equity managers do not achieve this result over time, and our goal is to keep doing so over rolling 10-year periods going forward.

The Big Picture for Stocks

Given our bottom-up investment approach, we have spent far more time than usual in recent commentaries reviewing macro-economic issues and big-picture stock market valuation. We'll delve back into those waters briefly here once again before looking in greater depth at the Large Cap Value portfolio.

A survey across the landscape of investment alternatives doesn't yield any obvious pockets of under-valuation (read: opportunity) in liquid markets. We said last quarter that stock valuations were within a stone's throw of fair value, neither

greatly over- or under-valued, and they are probably at or slightly above fair value now. Although they don't hold the investment potential they did 9 – 12 months ago, our view is that stocks, broadly speaking, offer the chance for decent returns (in line with historical averages and above inflation). Such average returns would likely result mostly from earnings growth and dividend payments, moreso than a rise in valuation. Looking backward, bonds achieved very attractive returns compared to stocks over the last decade (even two), but our guess would be that stocks offer the better return opportunity going forward.

Large Cap Value Portfolio Review

As the market rose in value during 2009, opportunities to purchase under-valued securities diminished. At the same time, the stocks in the portfolio have not yet risen to values at which we feel compelled to sell. The result was that trading activity was minimal in the fourth quarter. We added to two existing names: Weyerhaeuser and Exxon Mobil, both of which announced interesting transactions in the quarter.

Weyerhaeuser is a forest products company

whose main asset is a rich store of timberlands throughout the country. Housing is a major end-market for Weyerhaeuser's products, and the stock performed about like a Florida condo in the time leading up to our initial purchase in 2008 (down from \$86 to \$47). Our assessment when we bought the stock originally was that the value of these timberlands, together with the other assets of the company, exceeded the market value of the stock. Part of that original thesis was the potential for Weyerhaeuser to convert



Large Cap Value Portfolio Review

to a real estate investment trust (REIT), a tax-advantaged corporate status that would highlight the company's substantial income-producing real estate holdings.

After trading down more than 25% from our initial purchase price, we added to our Weyerhaeuser holdings in the first week of the fourth quarter. Later, the company announced that it would, in fact, likely convert to a REIT in 2010. We feel this is a shareholder friendly move and the stock was one of the stronger contributors to performance during the quarter. We expect more to come as our appraisal of the company's value remains significantly higher.

Exxon Mobil has been a long-term holding in the portfolio. We decreased our investment at successively higher prices (the last time in 2008) as energy commodity prices rose substantially from 2000 to 2008. With the global economic downturn, energy prices, and Exxon's stock price, fell; and although oil prices have recovered to what we consider to be normal to above-normal

prices, natural gas prices have been relatively weaker. Exxon seemed to recognize this, too, and announced during the quarter a deal to acquire XTO Energy for \$41 billion. XTO Energy is a large, U.S.-based, natural gas producer. Exxon has an excellent history of deploying capital wisely, and more specifically has a history of well-timed acquisitions (e.g., the Mobil acquisition in 1999).

The market reacted negatively to the deal, and we took the opportunity to increase our investment in Exxon for the first time in more than a decade. As a savvy industry participant, we also view Exxon's purchase as somewhat of an endorsement of fellow portfolio holding EOG Resources (also a U.S.-based natural gas producer). The market seemed to agree, and EOG Resources was another of the portfolio's top contributors during the quarter.

The table below lists the top five contributors and detractors to portfolio performance during the fourth quarter and for full year 2009.

Top Contributors		Bottom Contributors	
Fourth Quarter	Full Year	Fourth Quarter	Full Year
American Express	Expedia	Cintas	Allstate
Weyerhaeuser	American Express	Motorola	Vulcan Materials
Home Depot	Liberty Interactive	Dell	Exxon Mobil
Progressive	Motorola	Bank of America	Wal-Mart
EOG Resources	Walgreen	Washington Post	HSN

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. The holdings identified in this list do not represent all of the securities purchased, sold, or recommended for advisory clients. To obtain a description of the methodology used in the return contribution analysis, or to obtain a list showing every holding's contribution to the overall performance during the measurement period, please send a request to clientservices@bristlecone-vp.com.

Looking Forward

There is always uncertainty about the future. Even though markets have recovered and should feel more “normal,” our sense from speaking with many of you is that fear and uncertainty still hold great sway. The truth is, beyond evaluating the broad stock market as being at or slightly above fair value, we don’t have any better idea today than every other day what the market holds in store for us in the near or intermediate term. This fact may be discomfoting. We have, however, tried to account for that uncertain future by first understanding the past, then sticking to our circle of competence by investing only in companies we feel reasonably capable of understanding, and finally by requiring a margin of safety before we invest (using conservative estimates and purchasing stocks we believe are trading at a discount to our estimate of intrinsic value).

The Great Recession through which we have suffered had an unprecedented impact on many, if not most, of the companies in which we are invested. Sales, earnings, and asset values declined, sometimes precipitously. Coming out of the recession, it is helpful to recognize a few things.

First, most portfolio companies have much higher earnings power than they are currently showing. We expect sales to rise and earnings to improve.

To the extent that you hear about stocks being expensive, the explanation is usually that stock prices are being compared to cyclically weak earnings. This expected fundamental improvement may support improvements in portfolio stock prices.

Furthermore, while it may not have felt this way and it hardly showed in the stock prices during the downturn, the portfolio holdings tend to be the leaders in their industries and in many cases are emerging from the recession with improved competitive standing. This may be due to weakened competitors or advantageous industry consolidation. Future profitability may well have been enhanced by the recent downturn.

Finally, despite the appreciation of the last nine months, portfolio companies in aggregate still trade at a meaningful discount to our intrinsic value estimates. Candidly, our process of buying stocks of quality companies at a discount did not seem to provide much safety during the chaos of 2008 and early 2009. Based on the record over the past 10 years, though, we’re willing to wager it will continue to prove a good investment strategy over time. As you know, we invest in the same portfolio as our clients, so we’ve put our money where our mouths are.

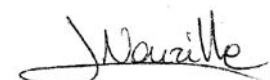
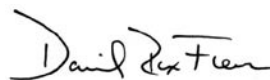
Happy New Year!

As we start 2010, we take this opportunity to wish you and your families a happy and prosperous New Year. We truly value the long-term relationships we have developed with you over the years and look forward to the coming decade with hope and determination to reward the trust you have placed in Bristlecone.

Sincerely,

David Fleer
Portfolio Manager

Jean-Luc Nouzille
Portfolio Manager



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.