SILVERCREST
ASSET MANAGEMENT GROUP

WHERE WE STAND

Fear appears to have overwhelmed reason, judging by the distress that recently has gripped global capital markets, with the U.S. at the forefront. Pervasive pessimism is being marketed as wisdom, with media headlines advertising the worst expectations and creating self-fulfilling prophesies.

What began a year ago as concern about an overextended housing sector has apparently regressed into a loss of confidence in the entire financial system and, by extension, the foundation of the U.S. economy. This is evident in the faulty assumption that financial obligations supported by viable businesses with hard assets and/or valuable franchises built over many decades could be worth little or nothing.

While the U.S. economy may be slowly sliding into recession, there are no indications that the downturn will be more severe than the average decline experienced during the post-war period. In fact, the production/consumption aspects of the economy provide no hint that a severe adjustment is in progress. The housing sector, which is being blamed for the currently distressed credit market, may be well on its way to stability and potential recovery as inventories, prices, affordability and conventional mortgage rates converge to attract buyers.

Although highly-indebted consumers may not soon embark on another spending binge, other economic sources should support the economy. Foremost is the contribution of exports, particularly to developing countries seeking a rapid improvement in their infrastructure. Second, fiscal policy has been and will remain stimulative irrespective of the election outcome. Third, the inflationary spike of the past two years appears to be reversing itself as commodities slide, giving consumers a measure of relief.

Most critically, and perhaps not being accorded proper appreciation, is the involvement of monetary authorities in seeking solutions to avert serious financial consequences. While somewhat late in coming to the rescue, their recent actions indicate that they recognize the urgency of the situation. In this connection, the clear cooperation among key central banks reduces the chances of a mishap due to adherence to narrow national interests.

Those who invoke the Great Depression as a template for the current conditions ignore many stark differences. Specifically, trade protectionism, restrictive monetary policy, tax increases and other anti-consumption measures and anti-business practices set the stage for the debacle that dominated the 1930s. This is not the case at present.

Our view is that the U.S. economy may experience a mild recession that will likely come to an end no later than mid-2009. While business profits may weaken further, they are not likely to collapse in light of strong productivity gains, controlled wages, and disciplined management. Furthermore, lower inflationary pressures should permit an accommodative monetary policy, while a still-undervalued

dollar should continue to stimulate growth in exports. Market recoveries always begin in the midst of recessions as investors sense a trough in the economic downturn.

For the stock market, the decline of about 25% from its peak remains in line with the average of prior cyclically-driven corrections. What is comforting in the current situation is that valuations are distinctly conservative, based on various relevant metrics. This is not likely to be lost on potential acquirers with abundant liquidity seeking productive investments. Once stability returns, the transaction wheel is likely to turn swiftly, once again validating the real value of a wide range of companies.

It should be instructive to recognize that the U.S. stock market has been in a consolidation process since its peak in March 2000. At various periods in the interim many industries were subject to price adjustments in their share prices, beginning with the collapse in technology. Today, earnings for the Standard & Poor's 500 Index are nearly 45% greater than at its peak in the year 2000, but the index is more than 20% lower.

While Silvercrest's equity portfolios have not been spared some of the pain inflicted by declining stock prices, our relative performance is at the high end of the scale. Our superior returns have been achieved due to our disciplined approach which seeks to invest in companies with strong attributes, including: a proven track record; earnings subject to low volatility; abundant cash flows; and company management teams which treat shareholders as partners rather than a mere source of capital. We plan to take advantage of the compelling opportunities currently available as we continue to make timely changes in the structure of our portfolios. Please see Roger Vogel's commentary below for more information regarding the current state Silvercrest's equity portfolios.

Silvercrest's municipal and core fixed income portfolio have generated positive returns year-to-date. Recent market turmoil and fear is similar to what shook the market in early 2008, which proved to be a profitable entry point for municipal bond buyers. Silvercrest's high-yield municipal strategy has avoided the pitfalls and dramatic declines faced by many other high-yield managers, and the high-yield strategy appears well-positioned to take advantage of the current market dislocations.

September 18, 2008

Stanley A. Nabi, CFA
Vice Chairman

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SILVERCREST EQUITY PORTFOLIOS

The bad news appears relentless and equity markets world wide have tumbled. Some degree of panic has set in among investors, and we thought we would offer a perspective on how Silvercrest has done during this debacle, our sense of the current climate, and how we intend to position equity portfolios.

Year-to-date (through September 17) the S&P 500 total return is down -20%. Small cap stocks, as measured by the Russell 2000, are down less, about -11%. While we are not proud that most of our equity portfolios are negative year-to-date, all of our portfolios are at least 400 basis points ahead of their benchmarks. Silvercrest's portfolios are performing strongly compared with their peers and, in some cases, exceptionally well. Silvercrest's small cap portfolio has managed an estimated return of +2% year-to-date. Equity income, SMID, and focused value portfolios are each down less than -10%.

We are not panicking in the current environment. What we hear from company management teams is quite different from, and much better than, most media reports. We believe the current turmoil is more of a "Wall Street" issue than a "Main Street" problem. Nonetheless, company management teams have softened their outlooks from earlier this year. Europe and Asia are slowing and North America remains sluggish. Exports, which have been a source of strength, may slow should the U.S. dollar strength continue. On the positive side, recent commodity price weakness may give companies a respite from rising raw material costs. Additionally, we believe corporate balance sheets are in solid shape, and most companies should be able to weather further credit market tightening.

We believe most of the bad news has been priced into the market. With the S&P 500 selling at about 14-15x forward twelve-month estimates, and a host of blue chip companies selling closer to 10-12x estimates, the market appears undervalued. Of course, not all sectors and stocks look equally attractive. The financial sector is under extreme duress and we expect more bankruptcies and mergers of necessity. The bulk of the sector's problems involve the use of excessive leverage to manufacture higher equity returns. We believe, however, that this is primarily a financial services problem and not a problem for most of corporate America.

The pessimists believe it is only a matter of time before the rest of the economy is overwhelmed, and we agree that a global liquidity crisis is a risk not to be taken lightly. Should that transpire, however, we believe the higher quality, soundly capitalized companies which we favor will continue to prosper and emerge as even stronger competitors. We think that consensus earnings expectations for the balance of 2008 and 2009 are probably too high, but not drastically so. We expect many companies to lower expectations for 2009 as third-quarter earnings are reported.

Recovery won't happen overnight, but expect trends to stabilize sometime later this year and into the first half of 2009. We will maintain our primary focus on soundly financed companies available at reasonable prices. We expect to do more shopping in the discount aisle, however, since many companies with what we think are only modest, near-term difficulties are available at bargain prices. In short, we firmly believe that current weakness is giving us opportunities for solid longer term returns.

September 18, 2008

Roger W. Vogel, CFA
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