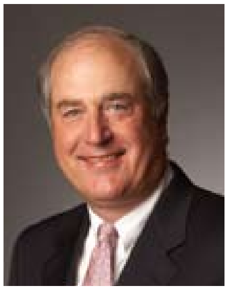
The Atlantic Trust Advisor

Yesterday's News, Tomorrow's New Opportunities

We know that you are inundated with negative news concerning the economy and the financial markets. While there may seem to be little optimistic news, our perspective at Atlantic Trust is that there is still much to encourage us—and you—for the future, says ***Jeff Thomas, Atlantic Trust's CEO****. Every day, we are focused on how we can use market and economic developments to move forward, positioning our clients for 2009 and beyond.*



Jeffrey S. Thomas, CFA,
Chief Executive Officer

Given the magnitude and speed of events since last September, it may seem like there's been little chance for all of us to catch our breaths.

At Atlantic Trust, we embarked in December on an aggressive, two-part plan to respond to the major events in our world. First, we reached out to you to give you our perspective on the year behind us and to talk with you about your needs. Second, we have been quite active in the first quarter in positioning you for the future in light of the economic downturn. In a nutshell, these conversations revolved around one simple premise: We are where we are—now how do we respond to it? Here's how.

In late 2008, we engaged in a significant tax-loss harvesting program in client portfolios, taking advantage of a silver lining in what was a very difficult year. Throughout this year, we have re-examined every asset category to test our fundamental thinking and our asset allocation strategy. We are actively looking at how risk is priced in the marketplace and how we should reallocate capital accordingly. The goal of this ongoing process is to protect portfolios from the downside and capture the opportunities we think are present—and they are numerous. To our overall asset allocation strategy

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ATLANTIC TRUST
PRIVATE WEALTH MANAGEMENT

Yesterday's News, Tomorrow's New Opportunities

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we've added high-yield bonds and an increased recommendation to commodities. We've adjusted our international exposure, recommending that for certain clients an additional position within international be given to emerging markets. And we've recommended an increased position in mid-cap and small-cap stocks.

"Unlike the person who avoids opening the 40l(k) statement because he or she just 'doesn't want to know,' the forward-looking view is to use this time to review and reassess your long-term objectives, cash flow needs, tolerance for risk and overall wealth plan."

"All of these tactical changes reflect our best thinking on both current events and the wealth management responsibility with which you have entrusted us," says Thomas. "Unlike the person who avoids opening the 40l(k) statement because he or she just 'doesn't want to know,' the forward-looking view is to use this time to review and reassess your long-term objectives, cash flow needs, tolerance for risk and overall wealth plan."

A Means to an End

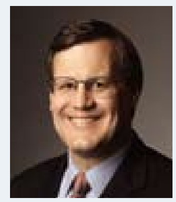
The opportunities arising from the major global and domestic themes discussed in this issue of *The Atlantic Trust Advisor* have one common goal: they are a means to an end for each individual and family that Atlantic Trust serves. A recent example from one of our relationship managers proves this point.

The story begins with Atlantic Trust being selected to manage a portion of a family's investment portfolio based on their perceived need to have multiple managers and styles. When the opportunity presented itself, the conversation turned to exactly how Atlantic Trust could meet this investment need in one holistic client relationship using outside managers through our Multi-Manager Investment Program. Importantly, while the relationship started with a narrow focus, it developed into a comprehensive wealth management plan that benefits the entire client family.

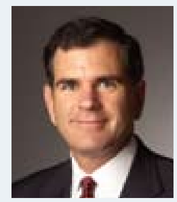
"By also bringing in professionals from the wealth strategies group to examine the family's estate plans and insurance needs, we accomplished one major goal," says Vicken Ekmekjian, CFA, senior vice president and portfolio manager. "We *simplified their lives*. Not everything is about what's happening in a particular market, investment or portfolio. For many Atlantic Trust clients, it's about creating the full picture of their wealth, everything from legacy to tax considerations to risk management to transparency. This is where we can excel."

Yesterday's news, or even today's, may be a touchstone of worry or hope—or both. Tomorrow's news is our opportunity, and yours, to say, "We were ready for that." ■

In Good Hands



Jack S. Markwalter, Jr., Chairman



Eric B. Propper, CFA, President and COO

On March 3, Jeff Thomas, CFA, was named chief executive officer of Atlantic Trust after serving as chief investment officer for more than 20 years (continuing in this role until a new CIO is named). Additionally, Eric Propper, CFA, has been named president and chief operating officer.

Thomas takes over from Jack Markwalter, Jr., who served as president and CEO since 2004. Markwalter continues his strategic leadership as chairman of Atlantic Trust. He also is a senior managing director of Invesco Ltd. and serves on the firm's Executive Management Committee.

This leadership transition occurs as Markwalter's role at Invesco continues to expand. Markwalter's responsibilities have increased as he has assumed the position as head of U.S. Sales, Client Service and Consulting for Invesco Institutional.

Thomas has a long tenure leading Atlantic Trust's investment team and has been an integral part of the firm's senior executive team since 1993. He began his 35-year career as an investment officer at The Northern Trust Company. Propper brings to the position more than 27 years of industry experience and significant management expertise. He leads the firm's New York office, oversees other regional offices and serves as senior relationship manager for a number of the firm's most substantial clients.

"With our commitment to delivering investment excellence and a high level of customized service to our clients, Atlantic Trust is in the best shape it's ever been," says Thomas. "It's a privilege to continue the forward leadership of Jack Markwalter. Those who know me know that I love a good quote. This one, a favorite from Winston Churchill, seems to be appropriate: 'Difficulties mastered are opportunities won.' Judging from the challenges ahead of our global economy, our opportunities are numerous. As leaders, that is where we need to focus." ■

2009 Outlook: Stimulus, Stability and Strategy

Not in recent memory have so many spent so much time focused on the headlines. It's no surprise, given the extraordinary events of the last six months and the weekly, almost daily, actions taken by the federal government to address crises in our economy and capital markets. And while clients would like nothing better than to know the unknowable answer to the big question—"When will this turn?"—they'll benefit most by learning how major themes in our world today are playing out and how they affect our clients' situation.

"We certainly are having conversations with clients in terms of broad themes," says Martina Frangis, senior vice president and senior relationship manager. "Are we heading into a depression? What would a return to inflation mean for my portfolio? What effect will TARP and other government stimulus programs have on Atlantic Trust's asset allocation recommendations? A top-down perspective lets us articulate how we continually adjust our strategy to seize opportunities for our clients, not just for the short term, but for long-term goals of wealth preservation and recovery."

Atlantic Trust's top-down perspective centers on three major themes that are happening concurrently and have the potential to dramatically remap the investment and wealth strategies landscape for the future: **deleveraging**, **a shift from consumption to savings** and **reflation**. "While these events are dramatic in and of themselves, they also are overlaid with a major demographic shift underway—the leading edge of the 77-million-strong baby boomer generation's move into the pre-retirement and retirement years, a transition that likely will be accompanied by a fundamental 're-thinking' of risk and reward," notes Barry Berlin, CFA, managing director and senior relationship manger. Atlantic Trust's focus on long-term wealth management also addresses the risks and rewards of planning and legacy opportunities that can remap a family's multigeneration strategy.

"Although the national conversation seems to center on how investments are responding to an economic downturn, we're talking to clients now about how to get positioned for a rebuilding and transfer of wealth in the 'right' ways," says Linda Beerman, managing director and wealth strategist. "We can put a strategy into place that addresses current lower interest rates and asset valuations, as well as potentially higher tax rates and larger pools of family wealth in the future. With a large structural shift underway, timing is indeed everything when it comes to wealth planning."

All Eyes on Washington

The policy response to the financial crisis that began in September 2008 and the ensuing economic downturn and market volatility are unlike anything we've experienced—both alarming and reassuring. Taking center stage in a macro sense is the $787 billion stimulus bill signed into law February 17, a plan that is part tax reduction (35 percent) and part government spending (65 percent), primarily on transportation, infrastructure, energy and health care initiatives. The crisis in the credit system is being addressed by a series of initiatives by policymakers, including a six-point Financial Stability Plan from the U.S. Treasury that focuses on banks,

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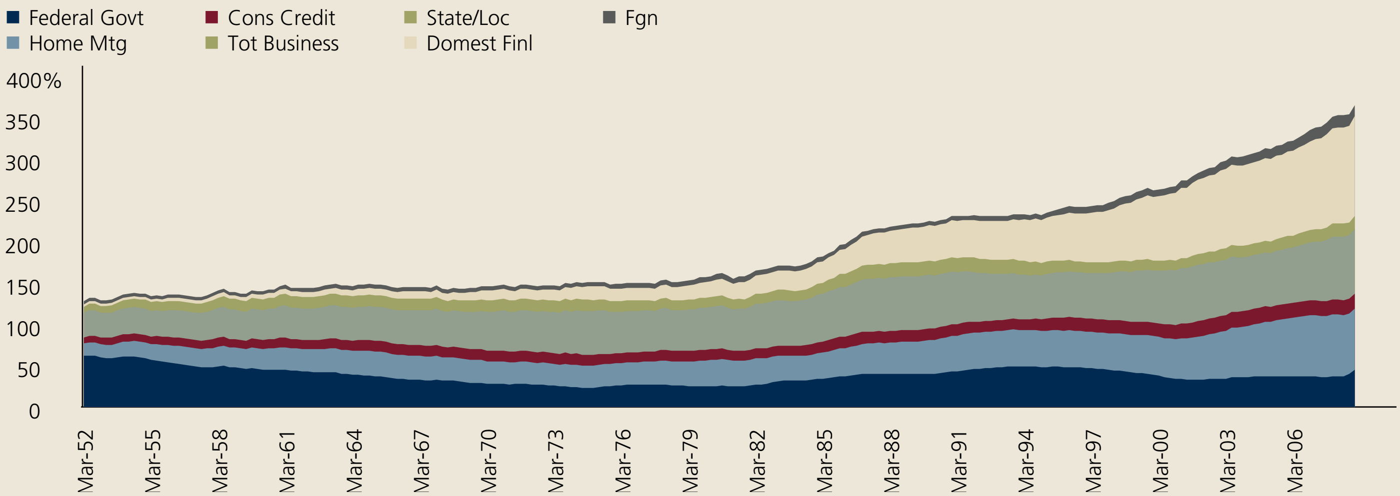
Debt as a % of GDP

As of December 31, 2008



Source: Federal Reserve

2009 Outlook: Stimulus, Stability and Strategy

(Continued from Page 3)

housing support and foreclosure prevention, and consumer and business lending.

The Federal Reserve (Fed) appears to have assumed the lead in the government's attempt to counter the current financial crisis. On March 19, the Fed stepped up its efforts to bolster the economy by announcing plans to pump an extra $1 trillion into the financial system by purchasing Treasury bonds and mortgage securities. The Fed's intent is to stimulate economic activity by lowering interest rates, including those on home loans, and help the financial system get free from the weight of bad loans and poor investments. Less than three days later, the U.S. Treasury, in collaboration with the Fed and the FDIC, announced the next step of the Financial Stability Plan designed to remove "toxic assets" from banks. If successful, this unique public-private partnership will give banks a "clean slate" and shift the focus back to banks' normalized earnings potential.

Washington's center-stage role in the economic and financial crisis is a direct result of the massive **deleveraging** underway after an extended period of "artificial" growth based on plentiful and easy credit. This era of explosive consumer and corporate debt expansion has come to an abrupt end—debt is now being transferred from the balance sheets of consumers and businesses to the balance sheet of the government. *(See chart on page 3.)*

Opportunities from Deleveraging

"While there are significant concerns over the eventual 'payback' scenario of deleveraging by the government, our strategy is designed to take advantage of the 'openings' in equities, bonds and hedge funds because of this deleveraging," says Gary Pzegeo, CFA, managing director and head of Fixed Income. "Companies with healthy balance sheets—those generating free cash-flow—should do well and should play a major role in a sooner-than-later recovery. The opportunities are very sector-specific—consumer staples, health care, pharmaceuticals and technology that's not tied to consumers' discretionary spending. The same rationale applies to countries without a credit culture, where growth is not based on the 'artificial' stimulus of leverage."

Hedge funds' flexible mandate—managers can use a variety of strategies to adapt to current market conditions—also offers a compelling story. "Volatility and market dislocations from deleveraging have created an environment for hedge funds to realize returns that may outperform the markets in 2009," says Jigar Patel, CFA, senior vice president in the Multi-Manager Investment Team. "The investment opportunities can now be captured by hedge funds on an "un-levered" basis."

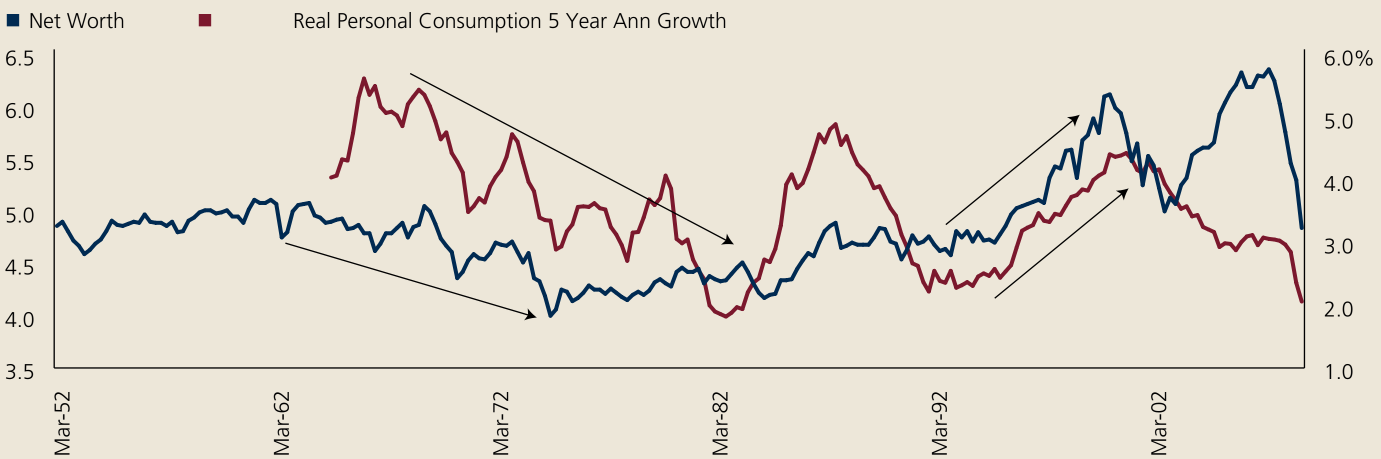
Counting on China?

The U.S. finds itself in an unfamiliar place—our national savings rate is rising. In January, personal savings rose to 5 percent, up from 3.9 percent in December and 0.1 percent one year ago.[1] Because of low confidence rates, a diminished appetite for risk, market upheaval and a higher unemployment rate, the American consumer doesn't have the emotional or financial capacity to spend at the moment. This **shift from consumption to savings** is a double-edged sword. Spending is critical to economic recovery, yet rising savings represent future purchasing power. For the short term, consumers appear to be hunkering down, rebuilding their savings and

1 Source: *Bureau of Economic Analysis*

Consumption vs. Net Worth

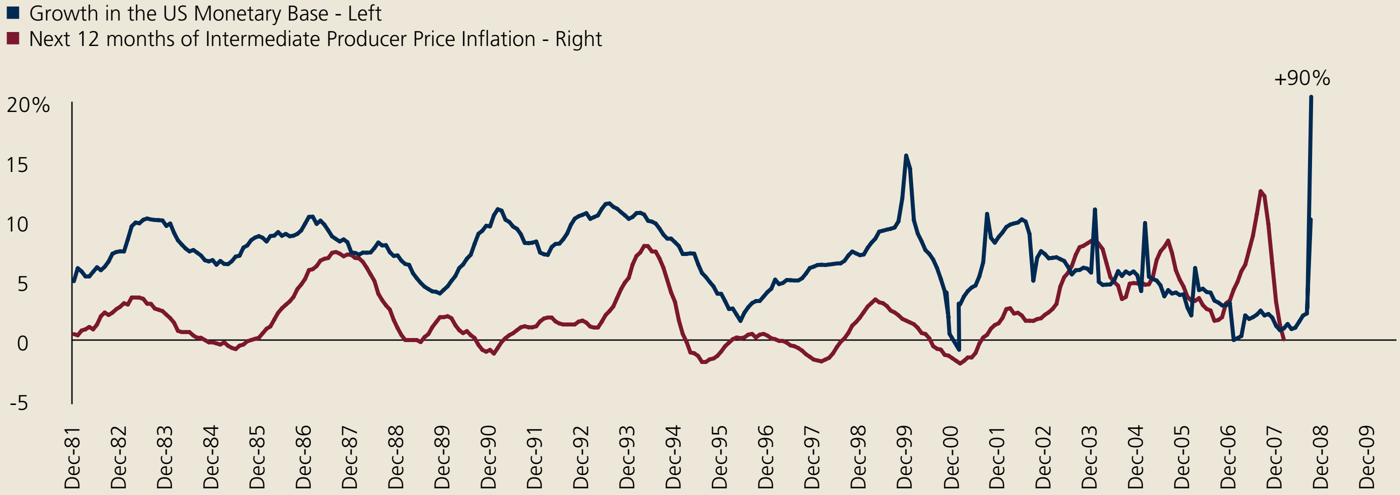
As of December 31, 2008



Sources: Federal Reserve, Bureau of Economic Analysis

Reflation

As of December 31, 2008



Sources: Federal Reserve, Bureau of Labor Statistics

conserving cash in something that resembles the long-dead American practice of thrift. *(See chart on page 4.)*

It's tempting to look abroad and expect that developing countries' appetites to become consumer societies will refuel our own economy. "China and India are the two countries that quickly come to people's minds," says Alan Fields, managing director and director of Alternative Investments. "It's true that it appears the Chinese are intent on a spending spree. New nine-lane highways have eight lanes of cars and one lane of bicycles, a profound reversal of several years ago." But the U.S. can't rely solely on 1.3 billion Chinese to jump-start our factories and job growth: Chinese household savings is at 24.7 percent of disposable income, and recent data indicate that the Chinese are saving even more—they're reducing their spending because of concerns about their own economy. The Chinese government recently announced a $590 billion stimulus package.[2]

Opportunities from Shift to Savings

While developing countries pursue consumer goods and financial instruments of Western culture over time, a longer term bright spot for American manufacturers is the U.S. shift from consumption to savings that will lead to plenty of investing opportunities here at home. "As savings grow, this pool of domestic capital will feed 'reindustrialization,'" says Doug Rogers, managing director and co-manager of the Equity Income Strategy. "We know that green, or clean-energy, initiatives will be big, as will certain engineering, efficient manufacturing and construction. Our active management strategy is closely following attractive equity investment opportunities from this shift."

On the fixed-income side, channeling domestic savings toward infrastructure projects should benefit state and local governments. Greater access to capital for governments will favor municipal bond strategies as governments work to meet the challenges of budget deficits. Hedge funds with an equity long/short strategy also should be able to identify and capitalize on opportunities from this shift, selling short those companies in industries negatively affected by decreased consumption and buying companies that can benefit from increased savings.

Although a return to less profligate spending and a new embrace of "conspicuous conservation" may seem like a fundamental shift, patterns always have cyclical overtones, reminds Fields. "Companies may go out of business, merge or be acquired. Those left standing will be well-positioned to handle resurging consumer demand on the 'other side' of the cycle."

Inflation Back on the Radar Screen

With seemingly everything going down—consumer confidence, credit availability, economic growth and the markets—it may be hard to think of anything going up. But whatever our view on government intervention in recent months, we tend to agree with the larger prevailing view: As the cost of the government's various initiatives winds its way through our system, **reflation** may become more of a concern. Classic economic theory tells us that we can expect a period of rapidly rising prices after huge amounts of liquidity are used to stimulate the economy. Or, as Nobel Prize-winning monetary economist Milton Friedman put it: "Inflation is always and everywhere a monetary phenomenon." *(See chart above.)*

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2 Source: *Data Driven Marketing Asia, as reported in* USA Today, *March 18, 2009*

2009 Outlook: Stimulus, Stability and Strategy

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Opportunities from Reflation

Short term, we believe that fear and retrenchment will pervade the economy in 2009, unless recent upward movement in the market appears sustained and consumer confidence and spending rise. When that happens, prices may begin to rise appreciably, a situation that favors equities. Early recovery stocks, including mid-cap growth companies, cyclicals, materials and industrials, are opportunities Atlantic Trust is closely watching. Mid-cap stocks have historically delivered attractive long-term performance relative to larger and smaller peers.[3] When coming out of a recession, mid-cap companies tend to outperform their larger peers. "The asset allocation team also recently crystallized its thinking on small-cap stocks, acknowledging that for some portfolios, an increased percentage could be dedicated to small caps," says Martina Frangis. Equally important, she says, is the opportunity for capitalizing on an expected reflationary period through the use of commodities and Treasury Inflation Protected bonds (TIPs).

Commodities will benefit from a classic supply-demand scenario—current conditions should likely cut supply in commodities and lead to a lift in their prices. Despite a weak economy, consumers in both developed and emerging markets still need gasoline and heating oil, and utilities need copper wire and coal. Infrastructure investments will lead to a steady demand for steel. "Investing in a diversified portfolio of commodities has proven to provide a reduction of total portfolio risk over long periods of time," says Rogers. Although commodities lost value in 2008, along with equities, real estate and most categories of bonds—a phenomenon of "contagion"—commodities are typically countercyclical to other asset classes.

"As economic recovery begins to take hold later this year and into 2010, commodities look like an opportunity on which we'd like to be a little early," says Frangis. "In addition to a direct commodities investment, increasing a portfolio's exposure to emerging markets, *within* a total international exposure, makes sense for many investors. Emerging markets are a de facto commodity play."

We entered 2009 hoping that a change of administration would provide a spark to reverse negative sentiment in the markets; that has not happened. Yet we continue to believe that fiscal and monetary policies will ultimately lift our economy out of recession. We also believe that a framework of disciplined, but flexible, asset allocation can address the issues that we know are on your minds—the need for income and liquidity, the desire for a focus on quality in your portfolio, the flexibility to respond to recovery opportunities and wealth strategies that adapt to current economic and financial issues. We believe that a firm commitment to this philosophy will yield long-term benefits for you and your family.

For fixed-income investors, TIPs represent a good hedge against inflation, as their par value and associated income grow based on a formula directly tied to the Consumer Price Index. "Similar in quality to Treasuries, they are very liquid. As inflation becomes an emerging threat, TIPs have a solid place within bond portfolios and are part of our actively managed fixed income portfolio," says Pzegeo.

In the coming months, we invite you to look for more detailed discussions on how our investment and wealth strategies respond to these broad themes. ■

3 Source: *Russell Indexes*

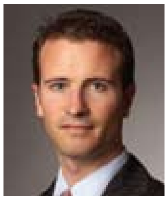
Going Forward

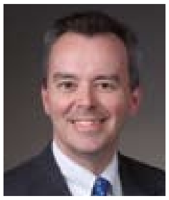
Atlantic Trust's team is focused on how it can use market and economic developments to help achieve your goals for wealth preservation and recovery in 2009 and beyond. Now is the time to look ahead, to restructure investment and wealth planning programs as necessary, to position portfolios to take advantage of opportunities and to hedge against the risks that continue to exist. Our professionals are experienced in both the investment and planning disciplines. Your relationship manager will work together with you to:

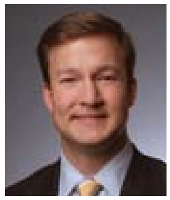
- ✓ **Reevaluate your long-term financial goals**
  How has your wealth picture changed and how does that affect your plans for retiring, transferring wealth to family members and establishing your legacy to the community?
- ✓ **Reassess your cash flow needs**
  What spending is essential versus discretionary and where might you need to make adjustments?
- ✓ **Reconsider your tolerance for risk**
  What do you want your financial picture to look like in 10 or 20 years, and how much uncertainty can you bear?
- ✓ **Revisit your long-term asset allocation targets**
  How can you use this period of extreme valuation change to rebalance your portfolio and position yourself for recovery?
- ✓ **Restructure your wealth plan**
  Who do you want to benefit as your wealth is rebuilt in the future? How can you take advantage of the low asset valuations and interest rates to move wealth into their hands now—and avoid the estate tax bite later? ■

Income Opportunities

A Conversation with the Investment Team







Paul M. McPheeters, CFA
Manager, MLP Fund LLC and Co-manager, Equity Income

Gary E. Pzegeo, CFA
Head of Fixed Income

Douglas L. Rogers, CFA
Co-manager, Equity Income

Q Many Atlantic Trust clients need current income, perhaps now more than in the past. What are some income opportunities and the pros and cons of each?

A It's true that given declines in principal, clients are asking us about strategies to generate more current income. Let's start by looking at **REITs**, an investment about which we get frequent questions.

Most REITs are struggling with this recession, primarily because they are tightly tied to the credit markets and generally carry high degrees of debt, often taken on when property values were inflated. Given the current conditions in the credit markets, refinancing this debt at more favorable rates will be quite difficult. REIT property groups are certainly feeling the effects of the downturn. We'd have to call the outlook for commercial property quite bearish—companies are downsizing and retailers are closing their doors, leaving commercial property vacant. There are small, market-specific pockets of strength in apartments, but with the government's bailout focus including stabilizing home ownership, we don't see a lot of good news for apartment REITs.

Conserving cash is the focus of REITs right now; to do so, they have three options. First, they can cut expenses and operate more lean cost structures. Second, they can issue more equity, but the market appetite for secondary offerings is very low and these deals are massively dilutive. Third, they can—and likely will need to—cut their dividends. Worst case, it is likely to be a combination of the latter two. The average dividend yield on REITs is nearly 9 percent, compared to the 10-year Treasury yield of 2.7 percent. Normally, that would be very attractive, but we don't think this spread is sustainable, and as many REITs will be forced to refinance debt in 2010 and 2011, dividends will be trimmed and equity will likely need to be raised. As such, we are quite cautious about recommending REITs.

Q What is your view on master limited partnerships?

A Most energy infrastructure businesses owned by master limited partnerships (MLPs) have utility-like qualities to them, making them more recession resistant than many other businesses. MLPs typically have stable businesses, growth opportunities, reasonable leverage and high levels of cash flow—often excess cash flow above what they pay to investors. Pipelines and storage facilities are the primary assets of MLPs, which makes volumes and pricing the primary drivers of revenue. We estimate that volumes will be down mid-single digits in 2009 for most companies, offset by pricing growth (much of it regulated) and positive impact from growth projects. There are some MLPs with direct commodity exposure and more aggressive leverage levels as well as numerous unique situations within the sector.

Therefore, it is important to carefully analyze each company and be strategic when building a portfolio of MLPs to avoid high risk situations or making a material bet on a commodity. As a whole, the outlook for MLPs to continue providing stable income to investors is quite good for the foreseeable future, which is why we view the sector as an attractive place to invest.

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Historical Yield Spreads*

As of December 31, 2008

Index	Current	Average	Min	Max
S&P 500 Index	75	-322	-526	75
S&P 500 REIT**	567	116	-102	567
Alerian MLP Index	989	292	51	989
Barclays Capital 8-12 Year Municipal Index***	494	199	125	494
Merrill Lynch High Yield Corporate Bonds	1729	540	289	1729
Merrill Lynch BBB Rated Corporate Bonds	763	184	82	763
Merrill Lynch AAA Rated Corporate Bonds	307	77	22	307

Inception for all series is December 31, 1995; *Values are expressed in basis points; **Source: Citigroup Investment Research (DVD yield); ***Tax Equivalent Yield
Past performance is not a guarantee of future results.

Income Opportunities

(Continued from Page 7)

Q The Asset Allocation Committee recently added a high-yield corporate bond fund to the matrix. What makes high-yield bonds attractive?

A Because we expect them to provide better return and less risk than equities during the next one to two years, high-yield bonds are a strong tactical investment right now. Along with commodities, high-yield bonds should participate in the stock market's upside when conditions improve but also provide some degree of relative downside protection in the short term. Yields in this area have risen sharply over the last two years, and are now at a point where we believe investors are well compensated for the high risk of default. A diversified portfolio of high-yield bonds has the potential to offer high income relative to other fixed-income investments and with lower volatility than traditional equity investments.

Q How should investors put income opportunities into perspective with other opportunities?

A Investors often are looking for dividend yield from the equity market. It's well worth noting that the dividend on the S&P 500 is currently 2.8 percent, and has been ranging from 2.8 to 3.1 percent for the past several months, the highest it's been in 15 years. Although not all companies in the S&P 500 pay dividends, and some large companies have had to cut their dividends recently, the dividend rate is strong and certainly higher than what is available from the 10-year Treasury, an investment that many people have turned to in our current environment. Our equity portfolios generally focus on companies that generate enough cash and have strong enough balance sheets that their dividends are relatively safe and sustainable. ■

Wealth Strategy Case Study: The Best Laid Plans …

Can change. More specifically, they need review and updating during, and after, periods of major change in financial markets, economic conditions and tax policy.

The Dean family established what they thought was an optimal estate plan with properly executed documents to achieve their goal of transferring during lifetime and at death a majority of their assets to children and grandchildren. However,10 years after the plan was put into place, the family picture looked different—two of their adult children did not intend to marry and have children. The wealth strategies team at Atlantic Trust overhauled the Deans' estate plan, using new planning options to achieve the Deans' changed goals. Now, several years later, the plan needs a fresh look to reflect a decline in the portfolio's size. The current focus? Making sure the first-generation Deans have adequate income and growth for their own needs.

"The original plan was intended to preserve wealth for generations," says Judith Saxe, managing director. "Now we must ensure that current needs are addressed. We also know that the rules involving wealth transfer are likely to change, and a rigidly constructed plan that worked during periods of rapidly rising wealth may no longer be appropriate."

As wealth begins to rebuild, families like the Deans have the unique opportunity to "get ahead" of changes, says Daryl Allen, managing director. The most important opportunity is to take advantage *now* of strategies to prevent the main problem that accompanies a significant concentration of wealth in one generation: a large erosion from taxes. "Planning need not be as complex as in the past, *if* families lay the foundation now," says Allen. "The current economic downturn certainly may require some adjustments for the first generation's present needs, but it doesn't mean that legacy goals can't be met in the future." ■

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