The Atlantic Trust Advisor

Also in this issue:

Inflection Points: Anticipation and Focus

"Atlantic Trust has a strong team of professionals, those with the training and insight to take the top-down macro view and those with highly specialized knowledge of industries and securities analysis. Synthesizing this body of knowledge and experience leads us to the strategy for your portfolio," says **Dave Donabedian, Atlantic Trust's CIO**. *"It's also incumbent on us to make sure you understand how our thinking is implemented on behalf of your goals."*

David L. Donabedian, CFA
Chief Investment Officer

One of the definitions of inflection point is "a moment of dramatic change, especially in the development of a company, industry or market." Another one comes courtesy of Andy Grove, the visionary co-founder of Intel. Grove puts it simply: "An inflection point is an event that changes the way we think and act."

With the clarity of hindsight, we can probably call March 10 an inflection point for the financial markets. On that day, the painful downward trend in place since October 2007 suddenly reversed and a powerful rally has ensued. As of June 30, we are now almost 4 months and 38% in distance from those dark days in early March.

The economic news is not good—housing is still troubled, jobs are still being lost—but the rate of economic decline has slowed and some key economic data points have turned more positive. This has boosted confidence that the worst case "Great Depression" scenario will not come to pass, which, in turn, has been the major catalyst for dramatic improvement in equity prices and a more balanced approach to taking risk.

We will not be convinced that a new secular bull market has begun until the economy can pedal on its own, without relying on the current tidal wave of government stimulus dollars

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Inflection Points: Anticipation and Focus

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as the primary driver of forward motion. It will be some time before this happens, so it is prudent to expect setbacks along the way for both the economy and the financial markets. However, the worst is behind us, and Andy Grove's thesis is playing out rather well.

Another recent inflection point is a shift in investor focus from worrying about deflation to concern about inflation. Although I can take no credit, having just arrived at Atlantic Trust on June 1, the work of our Asset Allocation Committee has been excellent in recognizing this important change. Our stance on equities is neutral, which is appropriate. Our movement early this year toward opportunities in the early stages of a recovery—high-yield bonds, commodities and emerging markets—has added substantial value to client portfolios. It also highlights our belief in diversification. While maintaining a neutral weight for equities, these additional strategies provided opportunistic exposure to a reflationary environment while not being highly correlated with the U.S. stock market. This reflects the core mission of investment strategy at Atlantic Trust: seeking opportunities to help clients achieve their investment objectives. For most clients, this means growing their assets while remembering preservation of capital is paramount.

As we move forward through the second half of 2009, the investment team will revisit some of the strengths that allow us to implement our mission. We must ensure that our asset allocation strategy always reflects the best thinking from around the firm—on all asset classes in all parts of the world—and that we incorporate that thinking into our decisions. Atlantic Trust has an incredibly strong team of professionals with diverse skill sets, those with the training and insight to take the top-down macro view and those with highly specialized knowledge of industries and securities analysis. Synthesizing this body of knowledge and experience leads us to the strategy for your portfolio. It's also incumbent on us to make sure you understand how our thinking is implemented on behalf of your goals.

Given the sea change in the investment management business over the last two years, we are examining with great scrutiny all of the managers in our Multi-Manager Investment Program. The severe downturn in the capital markets since 2007 has unleashed a Darwinian process—some firms are gathering talent and getting stronger; the survival of others is in question. As we use the opportunity inherent in the disruption, we are examining each of our managers and focusing on two key questions: Why did we select this manager in the first place? Are those reasons still valid? The Atlantic Trust platform of internal and external managers is strong and is a hallmark of this firm. We intend to take advantage of the opportunity to make sure it *stays* that way.

I hope that you will take the time to read, on the following pages, the latest Atlantic Trust views on the major themes affecting our world. Inflection points reveal themselves only in the rear-view mirror. Anticipation of the next inflection point is accomplished through a sharp focus on what happens today and what is likely to happen tomorrow. *That* is best thinking. ■

Our New Chief Investment Officer: Atlantic Trust Welcomes Back Dave Donabedian

On June 1, David L. Donabedian, CFA, became the new chief investment officer (CIO) of Atlantic Trust. Donabedian returns to Atlantic Trust after serving as CIO for Ashbridge Investment Management, LLC since 2006. He also served as chairman of Ashbridge's Investment Committee. Previously, he was managing director and chief economist for Atlantic Trust from 1996 to 2006. During that period, he acted as a key member of the firm's Asset Allocation, Multi-Manager and Investment Policy Committees and led Atlantic Trust's Baltimore and Washington, D.C. offices.

Donabedian brings an understanding of Atlantic Trust's strategic asset allocation process and internal management approach and capabilities. He also has broad experience with multi-manager investment programs, which are a critical part of the firm's business.

"Our investment team has accomplished a great deal over the past several years, especially through this most recent volatile and challenging market. We are confident that Dave is the right person to continue to build on our strong momentum," says Jack S. Markwalter, Jr., chairman of Atlantic Trust and senior managing director of Invesco. "Dave has extensive experience working with high net worth clients and the knowledge and expertise to build on our investment team's robust infrastructure and strategic process."

Donabedian received a B.S. and B.A. from the Wharton School at the University of Pennsylvania and an M.B.A. from Columbia University Graduate School of Business with a concentration in finance and money markets. He is a Chartered Financial Analyst and a member of the CFA Institute. ■

The State and Stages of Recovery—and Beyond

Six months ago the headlines used the words "crisis" and "meltdown" to describe the extraordinary events in our economy and financial markets, and the subsequent analysis focused on the policy response of governments around the world. Today, the conversation seems to have changed to one more about the state, and stages, of the recovery—albeit a tenuous one as of now.

Federal Reserve Chairman Ben Bernanke recently told Congress that, "Even as we take steps to address the recession and threats to financial stability, maintaining the confidence of the financial markets requires that we, as a nation, begin planning now for the restoration of fiscal balance."*

Clearly, Chairman Bernanke understands the delicate balancing act required to manage fiscal actions that may result in a $1.7 trillion budget deficit—which will be 13% of GDP, far higher than ever seen before—while moving our economy out of recession and into true recovery.

The encouraging news is that while overall activity is not actually *improving*, the rate of decline has slowed, which can be seen from a fairly broad swath of economic indicators, including unemployment claims, international trade and durable goods orders. Even in the troubled housing sector, there has been a smattering of better news with respect to home sales, permits, inventories of unsold units and consumer attitudes and affordability. Corporate earnings from the first quarter of 2009 were significantly lower year-over-year, but the majority of companies reporting actually topped consensus analyst estimates. Across sectors and industries, the general trend among public companies was an alleviation of the downward pressure on orders for goods and services beginning in the second quarter. While it's a far cry from "turnaround," corporate stabilization was a major factor in the market's rebound.

"Recovery or Relapse?", Forbes.com, June 5, 2009

Stimulus, Stability and the Next Shoe

A common question from clients is: Is the stimulus aiding recovery? Through the end of May, approximately $44 billion from the American Recovery and Reinvestment Act has been paid out, with $49 billion to be provided to state and local authorities in fiscal 2009, according to the General Accounting Office (GAO). Much of the early funding commitment has been geared toward Medicaid cost sharing, which may allow for greater state budget flexibility and free up more funds for infrastructure spending. The potential contribution to economic recovery is clearer in the capital market. Companies are now borrowing at rates close to 3% lower than those available in the fourth quarter of 2008 and markets have reopened to equity funding. Despite these improvements, yields for all types of debt still reflect a recessionary environment and should offer value as liquidity slowly recirculates through the economy.

Along with rising consumer confidence, small and early effects from the stimulus package and rising equity prices, there is still the underlying question: Is there a next shoe to drop? In fact, says Bas Solleveld, associate vice president, there is—and its name is commercial real estate. "We're waiting to see the magnitude of the fallout," says Solleveld. "The sheer enormity of debt financing coming due in the next several years does concern us, as well as increasing vacancy rates in many metropolitan areas—think Linens 'n Things and Circuit City for examples of empty stores and warehouses. This isn't a good combination for commercial property owners seeking to refinance debt." The spike in delinquencies and defaults, while significantly less

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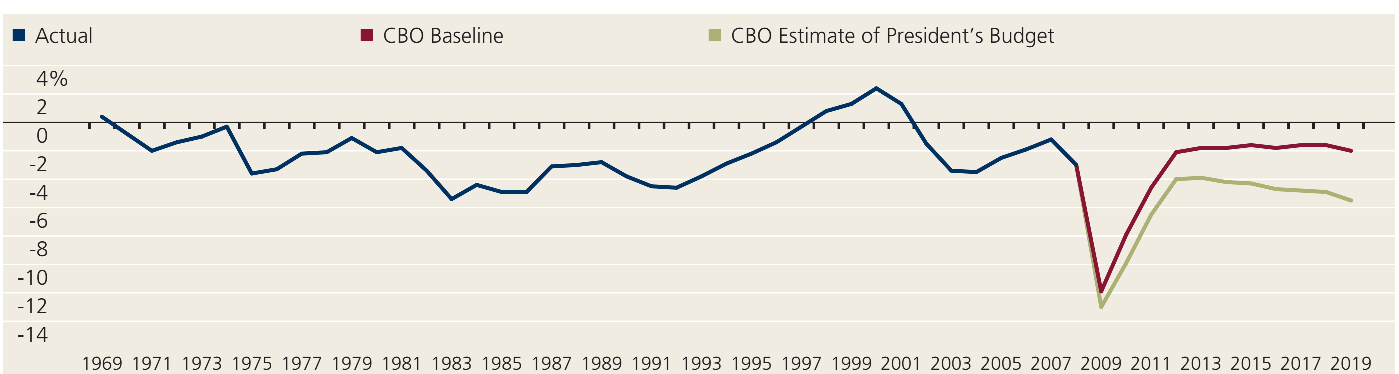
U.S. Surplus/Deficit as a % of GDP

Actual as of March 2009, Congressional Budget Office (CBO) Estimate as of June 2009



Sources: US Treasury, Congressional Budget Office

The State and Stages of Recovery—and Beyond

(Continued from Page 3)

than residential thus far, has been rising at a rapid pace: Economy.com expects roughly 11% of the $3.5 trillion in commercial loans and securities to be lost, twice the rate of residential losses.

On a positive note, the Federal Reserve recently announced plans to help stabilize commercial real estate markets. Its plan will free banks of bad investments and create room on balance sheets to lend elsewhere. And, as always, location, location, location is the key word to bright spots in the commercial real estate sector. Certain geographic areas—for example, Washington D.C., due to its new status as the center of both political and fiscal power—are strong, and some will recover more quickly than others, limiting a sustained downturn.

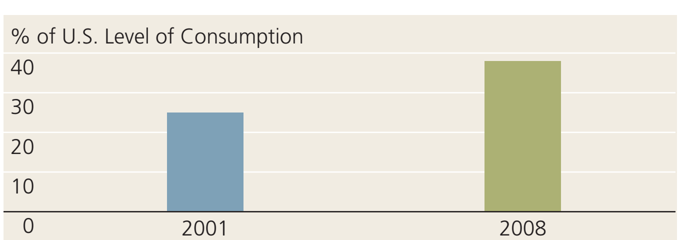
The China Effect

Global consumer spending has not yet rebounded strongly and China still seems to be on many investors' minds. "We believe there will continue to be a gradual shift in Asian economies toward more growth in domestic consumption," says Michael S. Battey, managing director, "but this evolution won't be immediate. In the long term, the gradual, secular change to a more balanced, export-and-consumption-driven economy will unfold as the emerging Asian economies develop a larger middle class."

As shown in the graph below, rising consumer spending in emerging Asia is a fast-growing trend in the global economy. China's own $585 billion stimulus plan already may have been one of the major drivers in the year-to-date recovery of global commodity prices—base metals such as steel, copper and nickel have all risen significantly off of their winter lows. In addition, many economists forecast a resumption of economic growth for China in the second half of 2009 and in all of 2010, and commodity prices also may be responding today to this expansionary economic view.

Private Consumption in Emerging Asia

As of May 26, 2009



Source: Resourceinvestor.com

"Climbing a wall of worry" is a well-worn phrase in the early stages of any market recovery and accurately reflects where we are today in terms of market psychology. Skepticism about the sustainability of recent recovery-like movements is a healthy and constructive sign. We are at the tail end of the recession and there is still much cause for concern. But the green shoots of spring also offer opportunities for adjusting portfolios to take advantage of near-term developments and to position you well for the longer term. ■

Our Current Investment Strategy

While we expect a short-term boost for the economy in the months ahead, we believe a self-sustaining and robust economic recovery is still far out on the horizon. Thus, we anticipate a trading range for the broad stock market averages for some months to come. Within equity portfolios, we favor companies with low debt levels, good access to credit and sustainable cash flows. Our recommendation is to build long-term equity positions gradually, while emphasizing more opportunistic strategies identified by the Asset Allocation Committee, as outlined below:

Emerging Markets. We currently recommend an overweight to emerging market equities, since these countries are enjoying much stronger economic and profit growth. They are also seeing structural improvements in their banking systems and fiscal/monetary responsibility, which are enhancing credibility and attracting more investors.

Commodities. A general pickup in inflation is not around the corner. But, as the economy reinflates—away from recession and toward stabilization and ultimately growth—the secular rise in commodity demand and prices witnessed earlier in the decade is likely to resume. A moderate commodity exposure also has positive portfolio diversification advantages, given its low correlation with stock and bond markets.

Hedge Funds. In a range-bound stock market, long/short equity hedge funds are well positioned to outperform. These managers focus on picking stocks on both the long and short end. They also can reduce overall portfolio risk since hedged equity portfolios do not have full exposure to the direction of the often volatile stock market. After an extremely turbulent 2008 in which investor demand for liquidity sapped assets, flows into hedge funds have turned positive again.

High-Yield Bonds. "Junk" bonds have rallied from depressed levels earlier this year, with yields well above those of Treasuries. With the economy showing signs of bottoming, high-yield issues remain attractive from both an income and capital appreciation standpoint.

We invite you to talk with your relationship manager for more details on any of these ideas. ■

Seeking a Silver Lining in the Downturn

Surprise, Denial, Fear, Acceptance

Behavioral psychology tells us that there are classic emotional stages that clients pass through during a period of extreme market volatility or downturn. Even those with significant assets and net worth can succumb to these feelings, leading to what might be called the "de-wealth" effect. In a February survey of 1,700 affluent households, 41% named the primary retirement goal of "comfort," but 25% said "not running out of money" was now their primary concern and 40% said they are concerned about outliving assets.*

The recent stresses, with clients experiencing an erosion of assets and feelings of vulnerability, are a focus of discussions among the Atlantic Trust Wealth Strategies team. Clients with newer wealth may experience the feeling that the fruits of their hard labor may have to be rebuilt, says Linda Beerman, managing director. At the same time, though, because they've generated the wealth themselves and are often risk-takers by nature, these individuals may have confidence that they can "do it again." On the other hand, clients with legacy wealth may have more extreme emotional reactions to a downturn. Most importantly, though, is that we at Atlantic Trust understand. "We want to walk alongside our clients as they rebuild wealth, but it's also very important to show them how to take advantage of current planning opportunities for wealth transfer," says Beerman. "It's the silver lining in a downturn. Stage five, following acceptance, is action."

The Foundation: A Cash Flow Analysis

Getting comfortable with their current situation is best accomplished by a thorough review of cash flow, a critical exercise that many clients haven't felt the need to undertake until recently. Once that is done, planning strategies can be evaluated. Now is a great time to consider strategies for shifting wealth, while market values of stocks, real estate and family businesses are down and interest rates are low. The right strategy can accomplish multiple goals: a significant savings on estate taxes, the foundation of a family legacy and a reaffirmation of financial security for a first generation.

A planning strategy presented recently by the Wealth Strategies team is a good case in point. A new client—an older widow—was interested in passing on assets to her children, but at the same time was concerned about maintaining capital to support her living needs. Because her investment portfolio, prior to becoming an Atlantic Trust client, contained several substantially concentrated stock positions, it had experienced significant value depreciation. For those reasons it was the right time to begin an estate transfer strategy to take advantage of depressed asset values and low interest rates. The client agreed that the timing was favorable, but remained concerned about meeting her own living expenses. Her fears? That the financial markets would not "return" and that lackluster equity performance, combined with an environment of hyper-inflation, would result in a significant loss of purchasing power. Such a scenario would result in her needing to retain capital to meet her needs.

The team first prepared a cash flow analysis and determined that—barring the scenario of her worst fears—she had

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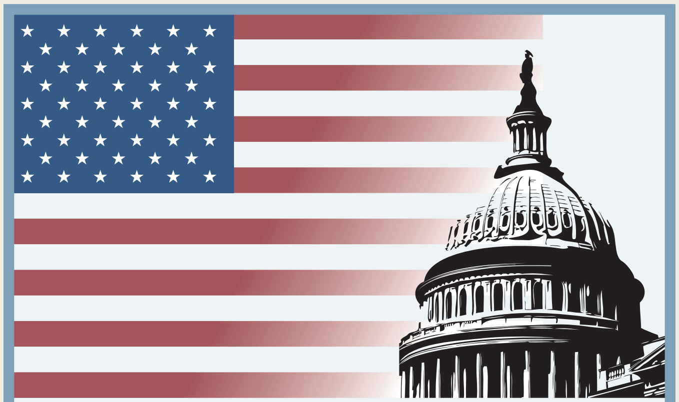
Phoenix Wealth Survey, as reported in Financial Planning *magazine, May 1, 2009*



What Will Congress Do?

Because of President Obama's desire to completely overhaul health care, the administration and Congress will be looking for ways to raise revenue to pay for it, and changes to certain estate and tax planning strategies may be a likely target. In fact, the administration has already said that revising estate and gift tax rules would raise $24 billion over the next 10 years, money that would be earmarked for health care reform.*

Changes to the GRAT may include a minimum term of 10 years as the administration reportedly isn't happy with what it has called a "proliferation" of GRATs with terms as short as 2 years. A second administration proposal calls for limits on the ability of wealthy families to use partnership structures to minimize the valuation of assets for estate tax purposes.

Congress will likely be debating these issues through the summer. Atlantic Trust will keep you updated on changes as they happen. ■

As reported in The Wall Street Journal, *May 15, 2009*

Seeking a Silver Lining in the Downturn

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more than enough capital to support her living needs. In fact, it showed that she had excess capital she should consider shifting to her children. While not believing her fears will come to fruition, the team decided to develop a planning strategy that would take advantage of the estate planning opportunity at hand while protecting against the worst—providing her the peace of mind to move forward.

After reviewing her portfolio, the team felt there was a substantial opportunity to do some planning with a particular asset—one large equity position ("Equity A") that had experienced 60% depreciation in value in the last two years. Due to an emotional attachment to the position, the client did not want to diversify out of Equity A until it recovered some of its lost value. Accordingly, the team presented the idea of a grantor retained annuity trust (GRAT). A GRAT is a short-term irrevocable trust that provides an annual annuity stream equal to the value of the asset contributed, with asset appreciation passing to family members at the GRAT's expiration. The team presented a two-part analysis illustrating the performance of a GRAT under differing market conditions—both a bear market and a bull market, including a solid recovery in the value of Equity A (see illustration below).

In this client's case, the GRAT term was set at two years and shares of Equity A were used to fund the GRAT. Under the bear market scenario, at the GRAT's conclusion the client will receive back all of the shares in Equity A contributed to the GRAT—she has given nothing away and has maintained her capital to meet her needs. Under the bull market scenario, estate tax savings rise to almost $500,000, with the children receiving shares of Equity A worth slightly more than $1 million. As shown in the illustration below, if after the term of 2 years, the pie is the same size ($5 million), she retains it all for her needs; however, if the pie becomes much larger ($6.5 million), the children will share in this larger pie—receiving nearly $1 million—while providing her with more than she would have in the worst-case scenario ($5.2 million). In addition, the substantial tax savings of $500,000 will lead to a win-win-win situation.

A Good Time to Dig into the Numbers

"This client loved the idea of preparing for the best while still protecting against the worst—creating an opportunity to transfer the potential appreciation on Equity A to her children *and* saving estate taxes while not risking giving away assets she may need," says Daryl M. Allen, managing director. "Many of our clients have been a little shell-shocked by declines in equity portfolios and real estate holdings, making them hesitant to make large gifts. But from a gifting perspective, now is a great time to dig into the numbers, show them it can be done prudently and help them move forward. These analyses can provide peace of mind."

The perennial problem with a downturn includes fear of the unknown. Detailed and comprehensive cash flow analyses help alleviate those fears. And with the right, carefully chosen wealth transfer strategies, even during difficult periods in the economy and markets clients can move beyond acceptance to action—finding the silver lining they're seeking. ■

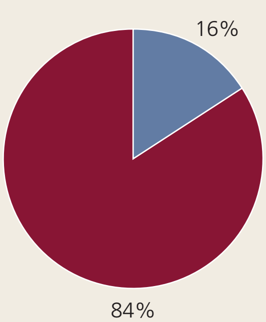
The Wealth Strategies Group at Atlantic Trust integrates estate, financial and investment planning through assessment of goals to achieve multigenerational capital preservation, family business continuity and strategic philanthropic objectives.

Planning for Peace of Mind

As described above, this analysis illustrates the performance of a grantor retained annuity trust (GRAT) under differing market conditions.

■ Children ■ Grantor

Bull Market Scenario

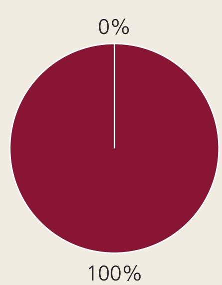


Equity A Price
2007 – $99.06
2008 – $81.59
2009 – $52.26
2010 – $60.00
2011 – $69.00

Summary

Children	$1.1M
Grantor	$5.4M
Total	**$6.5M**
Savings*	$0.5M

Bear Market Scenario



Equity A Price
2007 – $99.06
2008 – $81.59
2009 – $52.26
2010 – $52.26
2011 – $52.26

Summary

Children	$0
Grantor	$5.2M
Total	$5.2M
Savings	$0

**Note: Estate tax savings is based on a 45% estate tax rate.*

Al Kugel: A Five-Decade Perspective

Q&A with Alfred F. Kugel, CFA

Alfred F. Kugel, CFA, Chief Investment Strategist, Atlantic Trust

Few people in the financial services profession today can match the 56-year career of Al Kugel, CFA, chief investment strategist of Atlantic Trust. Kugel has been a member of the firm's Investment Committee for 25 years, is one of the primary investment spokespersons for Atlantic Trust, is a frequent guest on Bloomberg TV and has been quoted extensively in such media outlets as *The Wall Street Journal*, CBS Radio, Reuters and the *Los Angeles Times*. After earning degrees from Washington University and Harvard Graduate School of Business Administration, Kugel began his career with Stein Roe & Farnham, an Atlantic Trust predecessor company, as an equity analyst trainee. Today, he writes the firm's "Daily Note" and monthly "Insights" pieces and is well known for his pithy commentary ("enough pork in the stimulus bill to start a chain of barbecue restaurants") and for those carefully chosen cartoons.

Q What gets you charged up and ready to go every morning?

A There's always something new, and I want to know about it—what does it mean and what should the firm say about it? I turn on the 24-hour CBS Radio news station before I even get in the shower. On the train to work, I read *The Wall Street Journal*. By the time I get in, I'm pretty well caught up on what was printed overnight. Then I check what's on my schedule and also see what's breaking.

Q Who or what do you most rely on for data, perspective or insight?

A I analyze data from government agencies, the Federal Reserve, The Conference Board and other private groups, and I have a very detailed calendar about what data comes out which day. I don't really follow a particular "guru," but I read a lot. That's what I spend most of my time doing—reading and absorbing information on far-reaching and complex topics. There is news every single day on about 50 various topics, including economic data, and I try to pick the 2 or 3 daily bites that I think are most important to Atlantic Trust staff and clients. Since I'm not a trained economist and I don't write like one, I think it helps clients understand and relate to my writing.

Q What are the most important indicators you're watching right now?

A I pay close attention to the index of Leading Economic Indicators (LEI), compiled by The Conference Board, which has 10 components. The latest clues in the index suggest that things are likely to get better. In the May report, the latest, the overall reading was up strongly, with one of the largest monthly gains ever. I tend to focus on three of the individual components of the LEI—stock prices, money supply and the slope of the yield curve, all of which have turned significantly positive in the past three to six months. Stocks, as reflected by the S&P 500, are up 35% in the past 3 months; the Federal Reserve has increased money supply sharply since late 2008; and the yield curve (the difference in the cost of short-term money, or Fed Funds, and that on 10-year U.S. Treasury Notes) is the steepest in memory.

Q So what does that and other information tell you about where we are right now?

A We still have conflicting data and mixed signals, but I believe that the economy passed an important inflection point a few months ago and is now transitioning from a sharp recession to a moderate recovery. Economists date the current recession to December 2007—I say that's debatable, because we had a couple of positive quarters of GDP growth last year, and the sharp decline in activity didn't start until September. Most of the drag in the early part of this recession was housing and it hasn't

Reprinted with permission by Harley Schwadron

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Al Kugel: A Five-Decade Perspective

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improved much yet. Of course, the big financial sector meltdown in the fourth quarter of 2008 caused major problems. But with all the fiscal stimulus beginning to flow, the economy is likely to resume growing again the second half of this year and into 2010.

I must say the amount of stimulus from all governments, not just in the U.S., is staggering. In effect, the medicine is being forced down the patient's throat—and eventually it will work. In fact, the money from the fiscal program really just started flowing in March, with big contracts being let for infrastructure improvement. We expect to see improvements every month as this spending triggers a turnaround in the economy.

Q Unemployment figures are still not very encouraging. Can we have a recovery without improvement in that?

A Yes, because employment is a lagging indicator. While theoretically the recession has been underway since late 2007, it was only in the last quarter of 2008 that we saw the huge numbers of layoffs. But even as things pick up elsewhere, companies may not start hiring right away—they will often pay employees overtime, because it's less expensive than hiring new employees. If the economy turns up in the third quarter, we'll start seeing net jobs added in 2010.

Consumer confidence has turned up, too. People really reined in their spending during the early part of this year, but as they begin to feel better about things, spending will pick up. As long as things aren't getting worse and as the decline is slowing, we will get past the worst of the psychological aspects of the recession. However, it's a slow healing process. We won't have a big "whoosh" coming out of this downturn like we have had with some.

Q Do you worry about a return to inflation with all the stimulus money entering the economy?

A Right now, government spending is replacing the big hole in consumer and business spending, so I don't think it's necessarily going to be inflationary. The Federal Reserve has boosted the money supply, and when the economy is back on its feet, they'll have to be very careful to make the right moves to reduce the stimulation at that point. I'm favorably impressed with Ben Bernanke and believe he will take the proper steps to bring things back to normal. We do have to keep our eye on possible tax increases. The administration is desperately seeking to raise money to help pay for health care reform. ■

Up Close and Personal

You might be surprised to know that … "I have been a philatelic collector since I was about six years old. I love military postal history. Collecting the entire envelope, not just the stamp, gives you greater insight into the history of a country and is a different way to look at our world."

I couldn't live without … "My daily Coca-Cola after I get to the office. And attending my granddaughter's athletic activities."

My best business advice is … "Long-term trends are your friends. We don't know, nor does it matter, what the wiggles will be next week or next month. And keep diversified. The experience of the past six months has made that more important than ever."

My favorite quote is … "'It ain't over 'til it's over,' from Yogi Berra. We can be looking at a gain in the stock market at 3:00 p.m. and by 4:00 p.m. it can be a completely different situation." ■

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