FIRST QUARTER 2010

Insights for Integrated Wealth Planning

THE ATLANTIC TRUST ADVISOR

Jack Markwalter, Chairman and CEO

Delivering On Our Commitments

Strong performance, highest quality client service and expertise focused on client needs and objectives—these are benchmarks for Atlantic Trust. Jack Markwalter, chairman and CEO, talks about how the firm is delivering on its commitment to clients.

Q How do you characterize the current environment for wealth management, especially given the turmoil of 2009?

A Safety, stability and transparency are front of mind for our clients. They are more concerned than ever about who is managing their wealth and how it is being managed. I'm happy to say that in 2009 we saw a net inflow of new assets from clients, with many taking the step of consolidating their assets at Atlantic Trust—assets under management are now above $15 billion.* We also experienced a significant number of client referrals during the year. Our model—customized asset allocation, open architecture combined with proprietary investment management and comprehensive wealth strategies delivered with high-touch client service—really differentiates our firm during challenging times.

Q How is Atlantic Trust addressing the issue of clients' desire for full transparency and a fiduciary mindset?

A Transparency has a lot to do with ongoing, relevant client communications. We're using our technology to deliver transparency related to our internal decision-making—for example, new client-focused Webcasts (Web-based conference calls) allow our clients to hear directly from our investment team about the economic and financial markets' outlook and how that affects their recommendations.

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Investment Focus: Thinking Globally

Strengthening Family Ties

What Next for Health Care Reform?

ATLANTIC TRUST

PRIVATE WEALTH MANAGEMENT

Our chief investment officer, Dave Donabedian, is providing commentary for our relationship managers to share with clients after every adjustment to our asset allocation models. The most recent one can be found on atlantictrust.com, along with new white papers on the Endowment Model and Alternatives Investing and our Disciplined Equity Strategy, as well as a Webcast presentation on whether to consider a Roth IRA conversion. We're also working on improving our Web site, with new functionality and better content. In addition, our senior executives are visiting our top clients and intermediaries in local offices across the country, gaining valuable feedback directly from clients so that we can continue enhancing the quality of their experience.

A final point is our status as a fiduciary—I often refer to this as the highest calling in serving clients. As fiduciaries, we understand responsibility and stewardship and are committed to putting our clients' interests first. We've found that this mindset, an important point of differentiation, is particularly attractive to our clients today. We are not an investment bank, commercial lending institution or insurance company, nor are we owned by one. We do not risk our capital by making markets in securities, nor do we use leverage in the operation of our business activities. We do not receive incentives or commissions for portfolio decisions or manager selections. We work under one comprehensive, transparent "relationship fee" for all of our services.

Q What does "highest quality client experience" look like to an Atlantic Trust client?

A It's about strong performance, the highest quality service and fully addressing our clients' needs and objectives. The client experience is every touch point at every step of the process. Our relationship starts with asking the right questions and gaining an in-depth understanding of the client's situation, family and goals. It continues with the customization of asset allocation for each client and specific investment manager selection. As appropriate, we review a client's tax, trust and estate situation—we probably put more time and resources than most firms into helping our clients develop their overall strategy for the management of their wealth. Importantly, we have one of the lowest client-to-advisor ratios in the wealth management business, which gives our clients the individualized attention that they need and deserve.

If there's one primary thing on which we want our brand to be built, it's a superior client experience. We do only limited national brand advertising; instead, we rely on word of mouth from our clients and intermediaries for the growth of our business.

Q How can clients best take advantage of the Wealth Strategies Group?

A A holistic wealth strategies approach enables us to better meet our clients' goals and leads to more effective investment management. Every client has a story, a family history, a legacy to build, philanthropic causes that are important, a mission. With a true appreciation of what's important to a family, we can help them create

the right estate plan or the best plan for succession of a family business. Our Wealth Strategies team creates integrated wealth management plans that help ensure clients' resources meet the needs of a family today *and* positions family wealth for future generations.

In 2009, our Wealth Strategies Group helped numerous clients take advantage of unique planning opportunities, such as moving wealth to younger generations with reduced transfer tax consequences. Enhancements to the wealth strategies offering in 2010 will include helping clients evaluate whether to convert their IRAs to Roths. We also plan to implement a feature, to be used when appropriate, that will help senior-generation family members communicate their family history and values to younger-generation family members as a part of the family legacy. These are a few examples of the type of anticipatory planning that makes wealth strategies a core value of Atlantic Trust.

Q What can clients expect from the investment management team in 2010?

A Our focus is always on making sure portfolios are structured to meet our clients' objectives. The foundation, of course, is diversification, with asset allocation tailored to a client's risk profile. We have an outstanding open architecture platform providing objective due diligence, and our Multi-Manager Investment Program is completing a thorough review of external managers across the globe. Their goal is to ensure that our clients have access to high performing, institutional-quality managers in each asset class.

An important part of our portfolio emphasis for 2010 and beyond is allocations to international investments and, as appropriate, to alternatives such as hedge funds. We're pleased with the strong results of our internally-managed Disciplined Equity strategy, which will continue to be an important part of our clients' portfolios going forward. For the six years ending September 30, 2009, the strategy has provided favorable performance versus the S&P 500, delivering a repeatable, disciplined process of identifying quality companies at opportunistic valuations. Our fiduciary culture and focus on capital preservation will continue to shape our approach to the bond market. Atlantic Trust's fixed income team has demonstrated their expertise in managing cash and bond portfolios by effectively navigating the stormy credit waters of recent years.

Also in 2010, we will offer even more opportunities for our clients to hear from Dave Donabedian and our other talented investment professionals. Dave, who returned to our firm in June 2009, is one of the most talented and capable chief investment officers in the private wealth management business. He has the ability to think globally and strategically, but also to think and act tactically. That's reflected in his monthly CIO Commentary, which gives a detailed look at how the Asset Allocation Committee's forward thinking is reflected in tactical changes to portfolios' asset allocation and in his team's comprehensive analysis of investment and economic trends and events. This 2009 Outlook was offered to clients twice last year. In a period of tremendous global change in economies and markets, Dave will be leading the team to be opportunistic in asset allocation strategy and investments. There's a wealth of intellectual capital here at Atlantic Trust—we want clients to get to know it.

* *As of November 30, 2009.*

GETTING TO KNOW JACK MARKWALTER

Outside of work, I… "Spend time with my wife, Juanita, and our five sons. I especially love coaching and attending my sons' athletic events and other activities. As a family, we enjoy Georgia Tech sporting events and heading to the beach together."

My best moment in 2009 was… "Celebrating my fiftieth birthday with my family and friends at our home with barbecue and a rhythm and blues band."

My career has been shaped by… "Having a number of very strong mentors through the years—Homer Rice, former Georgia Tech athletic director and author; Mac Caputo, managing director of Morgan Stanley, where I began my career; Charlie Brady, founder of Invesco; and Ed Rudman, founder of our legacy firm, Pell Rudman."

The book on my nightstand is… "**Too Big To Fail,** by Andrew Ross Sorkin. Great storytelling and what may be the definitive history of the banking crisis in 2008."

Most important recent trip… "Traveling to China with Wilbur Ross, CEO of WL Ross & Company, an Invesco subsidiary, and Marty Flanagan, CEO of Invesco, meeting with senior business and political leaders and gaining a first-hand appreciation for the huge growth potential of this awakening giant."

An Exclusive Club

Atlantic Trust received the number 8 ranking in wealth management's exclusive "Top 10" of the biggest multifamily offices (MFOs). The ranking comes from an October 2009 study done by the Family Wealth Alliance and was reported in Barron's. *The article, "Watching Over the Family Fortune," and the rankings are available at online.barrons.com.*

Ranking is based on assets under management as of June 30, 2009. Any reference to a rating, a ranking or an award provides no guarantee for future performance results and is not constant over time.

Thinking Globally: A 21st Century Imperative

TO WHOM DOES THE 21ST CENTURY BELONG?

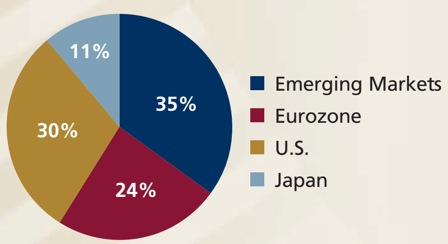
The facts are indisputable: International equity returns have consistently outperformed those of the U.S. A $100 investment in the S&P 500 a decade ago would now be worth $98. That same $100 invested in large, developed foreign markets, as measured by the MSCI EAFE index, would now be worth $140. But the same $100 invested in emerging markets would now be worth $300—a very strong story during what has been a very challenging decade.[1]

The 20th century is often referred to as the American century—and rightfully so. As Great Britain's role as the great growth engine of the global economy began to fade in the late 19th century, the U.S. became the dominant economic and military power in the world. Following the fall of the Berlin Wall and the disintegration of the Soviet Union, political scientists coined the term "unipolar world" to describe the hegemony of the U.S. In the last 20 years, though, U.S. dominance has weakened some. "There is no question that the U.S. is still the most influential economy in the world, but its *relative* influence has diminished, which has to be factored into investment decisions," says Dave Donabedian, CFA, chief investment officer.

To some extent, the weakening is inevitable—mature economies at some point just can't grow as fast as they used to, while emerging economies have more upside and greater ability to grow more rapidly and raise their standard of living more quickly. China, for example, has more than four times the population of the U.S.; but for some bad policy choices in the past, it would already be a bigger economy than the U.S. While the U.S. is still destined to be an imposing economic force, the trend over the next 10 to 20 years will be rapid increases in the strength of emerging economies. In fact, 70% of all economic activity takes place outside the U.S., with 35% coming from emerging markets and only 24% coming from the Eurozone. Real GDP growth is estimated for 2009 at 1.7% in emerging economies, but 6.6% by 2014.[2] "That's more than two and one-half times as fast as the growth projected for the U.S. economy and is why we must take an increasingly global approach to building portfolios, particularly when looking for growth opportunities," says Donabedian.

Shape of the Global Economy

70% of the economic activity occurs outside the U.S.



Source: FactSet, International Monetary Fund, World Economic Outlook Database, April 2009 with data as of Dec. 31, 2008.

Innovation, Debt and the Kindness of Strangers

The micro view of both the U.S. and emerging economies indicates why many growth opportunities will be found abroad: Of the top 15 companies with the most international patent applications in 2008, the top 10 are Asian or European. American companies are represented as numbers 11, 14 and 15 of that top 15. "This isn't a scientific survey, but it does suggest that much innovation is taking place outside the U.S.," says Donabedian. "Other countries are in a better position to put money into long-term research and development."

THE DOLLAR'S DECLINE: BOTH PRO AND CON

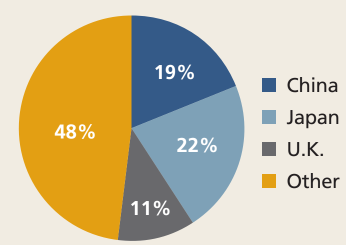
The U.S. dollar has been in a secular decline since 1992. While that may sound negative, a weaker dollar does offer a silver lining: U.S. exports haven't dropped as much as they might in a recession—we're actually narrowing our trade deficit. Further, for U.S. citizens investing internationally, a lower dollar results in a more positive return due to other currencies, such as the euro and the yen, being converted into more dollars in a weak dollar environment.

The euro and the yen probably have more upside potential versus the dollar during the next several years. What may change the picture is if all of the Asian economies whose currencies are currently pegged to the dollar decide to decouple. China is the biggest and most obvious example—their leaders have said that being tied to a weak U.S. dollar may lead to inflation pressures in their economy. Some economists believe that China's currency is as much as 50% undervalued.

A parallel story in the importance of emerging economies is that of shifting global finance. Our federal debt is heading toward highs not seen since World War II. Factoring out those war years, debt relative to GDP has been in the 30 to 50% range for most of the past 60 years. The disturbing news is that our debt may approach 90% during the next decade. A rising debt level has long-term implications for the U.S. economy—it shows up in slower economic growth, higher interest rates and pressure on the dollar. Foreign ownership of U.S. Treasuries is now at 61%, with 40% of our debt being held by China and Japan.[3]

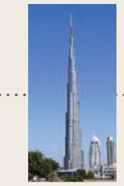
Foreign Holders of U.S. Treasuries

June 2008



Source: JP Morgan via Reuters Knowledge. Data as of June 2008.

At the same time that our economy faces some challenges, emerging economies are looking less like a boom-and-bust Wild West. Their percentage of economic growth being financed externally has dropped from 40% to about 25%. These countries are becoming more self-sufficient and self-financing, accumulating currency reserves and savings, which are a buffer for difficult times. Many also are becoming more transparent and more developed in their corporate governance, capital controls and accounting standards, leading to easier due diligence for U.S. investors. Some emerging economies—Vietnam and Zimbabwe, for example—are still considered "frontier," with less liquidity and stability. On the other hand, Taiwan, Korea and Hong Kong will soon pass "emerging" status and be categorized as "developed."



Where in the World Is the…

Tallest Building?
Dubai

Largest Publicly Traded Corporation?
China

Most Richly Endowed Investment Fund?
United Arab Emirates

Biggest Casino?
Macao

Source: Fareed Zakaria: "The Post-American World". Used with permission.

A Global Approach to All Asset Classes

At Atlantic Trust, we incorporate all of these trends and facts into our investment recommendations for a global approach to all asset classes. What that means is that even the companies comprising a "blue chip" domestic equity portfolio get at least 40% of their revenue from international sales. We certainly factor that into our analysis. We also constantly seek the best international managers—for equity, fixed income and alternative investments such as hedge funds or private real estate—to have on our open architecture investment platform. Our monthly meetings of the Asset Allocation Committee focus heavily on multi-country and multi-asset class analysis. For the macro view, we look carefully at interest rates and the actions of central banks in other countries.

Several years ago, adding international exposure to a U.S. investor's portfolio might have meant going from zero to 5 or 10%. Today, we believe a portfolio with real international exposure means 25 to 30% invested outside the U.S. For investors with a strong focus on long term growth, the future could mean international investments up to 50% to take advantage of the global trends now underway.

"There's always, of course, a fine balance to be struck between stability and growth—investing in mature, developed markets will be a more stable 'ride' over time than investing in emerging markets," says Donabedian. "Even the U.S. is a case in point: A 100-year snapshot of the U.S. includes serious volatility, market panic, recessions, bubbles, burst bubbles, enormous booms and long declines. It's all part of the progression from emerging economy to developed economy."

1 Zephyr; data as of September 30, 2009.
2 FactSet, International Monetary Fund, World Economic Outlook Database, April 2009; data as of December 31, 2008.
3 JPMorgan via Reuters Knowledge; data as of June 2008.

ONLINE RESOURCES

Atlantic Trust now offers a quarterly online Economic and Investment Overview with audio and printed text. You can find the Fourth Quarter Overview at www.atlantictrust.com in "Latest News." The latest Global Market Report, the Asset Allocation Update and past issues of *The Advisor* are also on the Web site.

A Family Affair: Strengthening the Ties That Bind

The tendency may be to wax philosophical: "I've lived through other economic downturns; this, too, shall pass." But wealthy families have their own set of unique concerns during a severe recession—and not just about money.

Every family is a living, breathing entity with continually changing dynamics. And every family is presented with both challenges and opportunities during periods of economic uncertainty and stress. The most important opportunity is for clients to use a period of dramatic change to learn more about themselves.

"Some clients have learned how resilient they really are during a downturn," says Daryl Allen, managing director for wealth strategies. "Others have learned that they don't have as big an appetite for financial risk as they thought. Still others have used the events of 2008 and 2009 for an intense focus on and re-examination of what's important to them as a family and, in particular, to answer one question: Fifty years from now, how do we want people to think of our family?"

Strengthening Family Communication

As the Atlantic Trust wealth strategies team met with clients during 2009, a focus on strong communication among family members was an oft-mentioned topic as a way for them to deal with the challenges the year brought—an erosion of wealth, a new way of looking at risk, revisiting what were believed to be bedrock principles of economics, intra-family leadership transitions. Judy Barber, a marriage and family therapist who works with Atlantic Trust, says that the first hurdle a wealthy family may have to overcome is the uncomfortable feeling that our society believes the wealthy are not "entitled" to ordinary human emotions such as anxiety and fear over their financial losses. "Because of that, families often retreat into silence among themselves, which can make things worse," she says. "Where the advisor can really add value is in helping the family talk about how 'Yes, our situation *is* different and uncertain; here's how we feel about it and here's how we're going to make smart decisions *together.*'"

Courtney Pullen, a psychotherapist, family wealth counselor and business advisor who works with wealthy families and their advisors, reminds us that about 80% of wealthy families "fail" by the end of the third generation. "It's rarely because of poor estate planning," says Pullen. "It's usually because of ingrained behavioral and communication issues. A successful family can break the pattern that leads to the failure statistic. It's important to remember that when under stress, we regress. The recent financial environment has exaggerated pre-existing fault lines for many families. Now is a great time to explore issues and strengthen family communication."

Some of those "fault lines" precede the economic downturn by decades, even generations. A family's wealth may have been made through previous boom-and-bust cycles, a situation that could be far more disconcerting for younger family members than for the first generation. Even within the same generation, siblings may have dramatically different views on each others' spending habits. One may have taken on more responsibility for running a family business and feel unfairly criticized for the business's current fiscal health. The first-generation wealth builders may feel that the youngest family members have not been well prepared for the "new" experience of wealth as something to be preserved, not consumed. Whatever the emotions under the surface, honest and direct communication facilitated by the wealth advisor and an outside expert can result in stronger family bonds.

"Once the family is centered around talking about their purpose, it's easier to proceed with the strategic plan for managing the wealth for the future," says Allen. "As advisors, we are much better positioned for wealth management implementation when we know how the family's philosophy affects potential investments in assets, community and the family itself."

> *"When under stress, we regress. This financial environment has exaggerated pre-existing fault lines for many families. Now may be the perfect time to explore issues and strengthen family communication."*

The "Other" Types of Capital

As families come together to do their own post-mortem on the economic and financial crisis, they may see their weaknesses or "failures" as worse than they really are—and fail to acknowledge their strengths and successes. They may also forget to focus on what makes them a family: each other. Judy Barber worked with one multi-generation family in which the unspoken, but strong, assumption was that "everybody stays together in the family's endeavors because that's the way it's done." But the children in the second generation weren't sure they could be good partners. The parents finally realized that it was more important for the children to be happy siblings than unhappy business partners. "Sometimes the family soul-searching involves giving up on a long-held, but arbitrary, notion of what a family 'should' be like," says Barber.

For some families, the focus on achievement and financial gains during the prosperous years has sometimes crowded out other goals of personal growth, strong communication and deeper family relationships. The silver lining of the economic crisis and recession is that families can break down barriers and confront issues that may have been ignored for years. "Times that test families," says Pullen, "push the strong ones back to their core values, reinforcing all the *other* kinds of capital in a family—emotional, intellectual, spiritual, social and wellness."

STORYTELLING AND THE FAMILY'S MISSION

While there are many reasons to think about a new year as a time for a fresh start, the turmoil of 2009—economic, market and, in many cases, family—may put a family meeting on top of the agenda, says Courtney Pullen, psychotherapist and business advisor. Pullen often facilitates meetings for families and their advisor for three important circumstances: creating or revising the family's mission or vision statement, preparing a strategic plan for dealing with intra-family dynamics and facilitating working through a difficult situation.

"The mission statement is critical because it serves as the family's touchstone," says Pullen. "A family meeting is a time to revisit it and make sure it's representative of each member and his or her purpose. When families have experienced an economic period that may present difficult choices, it's important to return to the mission statement to ensure they're operating from a shared purpose."

A family mission statement can be facilitated by first-generation members engaging in storytelling. According to a study done by the Family Office Exchange, the value of family storytelling includes preserving the thoughts, values and principles of the wealth builders; building a legacy archive for future generations; strengthening the family legacy through education; building pride in the family history; and preserving valuable family myths, stories, legends and anecdotes.*

** "Managing Threats and Opportunities Through Effective Risk Planning," Family Office Exchange.*

Carrots and Sticks: Getting a Final Health Care Reform Bill to Americans

On November 7, the House of Representatives passed H.R. 3200, its version of health care reform, by a margin of only 5 votes. And on Christmas Eve, the Senate passed its own bill on a 60-to-39 party-line vote after 25 straight days of debate on the legislation. It was the first time the Senate had gathered for a vote on Christmas Eve since 1895. The House bill is estimated by the Congressional Budget Office (CBO), a bipartisan group charged with determining what every piece of legislation costs or how much revenue it will raise, to cost $1.1 trillion over the next decade. The Senate bill's tab is $871 billion.

What Happens Now?

The New York Times refers to the ultimate passage of final health care reform legislation as "a milestone in social policy, comparable to the creation of Social Security in 1935 and Medicare in 1965." Unlike those programs, both Senate and House bills lack bipartisan support—only one Republican supported the House's bill and no Republicans backed the Senate version. When legislators reconvene in early January, both chambers will have the significant challenge of hammering out a final, negotiated bill, reconciling provisions included in each. Some of the more contentious ones may be what types of fees or taxes will be used to pay for reform's cost (some have

Continued on page 8

already been negotiated to a later start date) and how deep the proposed cuts to Medicare will be. President Obama endorsed both the Senate and House bills and said he would be "deeply involved" in trying to help the two chambers work out their differences. The Senate bill will likely dominate; no Senate support can be lost without reform completely dying.

"The entire process of presenting a final bill for vote is one long series of negotiations," says Fred Weiss, CFA, managing director in Atlantic Trust's Boston office. "It emphasizes how complex this process really is. Each piece of legislation considered throughout 2009 had numerous carrots and sticks, from various committees' viewpoints, that had to be negotiated. The final bill will be no different." Weiss points out that the final health care reform legislation ideally will be focused on three primary goals: changing insurance laws, expanding insurance coverage and reducing the rate of health care costs' increases. "Of the three, the last one is the weakest in all of the proposed legislation," he says. "The independent actuary for the Centers for Medicare & Medicaid Services has said that health care expenditures will rise by $289 billion over the next 10 years in H.R. 3200. That's really unsustainable."

How Reform May Affect Investment Sectors

The very public, back-and-forth, year-long process of reforming health care has influenced investing in two fundamental ways, says Weiss, who manages the Atlantic Trust Mid-Cap Growth (ATMCG) Strategy. "Investors dislike uncertainty, as it increases the perception of risk. However, it also lowers valuations. Combined with the high-quality characteristics of health care businesses—low cyclicality, high margins, strong balance sheets and good cash flow—lower valuations make certain investments attractive."

For **health insurance companies,** the fundamental investment principle will include more customers, helping achieve broader goals of reducing the uninsured, unreimbursed "charity" care and bad debts. The ATMCG Strategy currently owns many of the well-managed health insurance stocks, as they are at historically low valuations; these companies could gain market share after reform is implemented. **Hospitals** will see their bad debt reduced once more individuals have coverage, but will likely realize lower reimbursement rates from both Medicare and Medicaid. The Strategy doesn't currently own hospital stocks, primarily because of the anticipated increased pressure on reimbursement rates. In addition, reform may result in better primary care, which should result in fewer hospital visits. **Pharmaceutical companies** will be asked to make significant price concessions, possibly $80 billion over 10 years; these will be mostly offset by additional sales volume to the now-uninsured. The wider use of generic drugs, supported by all the major insurance companies, will get a big boost from reform. The ATMCG Strategy has a significant exposure to anticipated growth in generic drugs by investments in drug stores, distributors and pharmacy benefits managers. **Medical device makers** are expected to pay a fee—"the new word for 'tax,'" says Weiss—of about $20 billion over 10 years, a manageable cost as these companies' international markets will be unaffected by health care reform.

Finally, although there is much talk about **biotechnology** and **electronic medical records,** the Strategy has very limited exposure to those stocks. "The underlying risk of developing biotechnology products is still quite high and will be unaffected by any reform," says Weiss. "And the valuations of stocks of health care IT companies are still very high."

Atlantic Trust continues to monitor health care reform legislation and will keep you updated.

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