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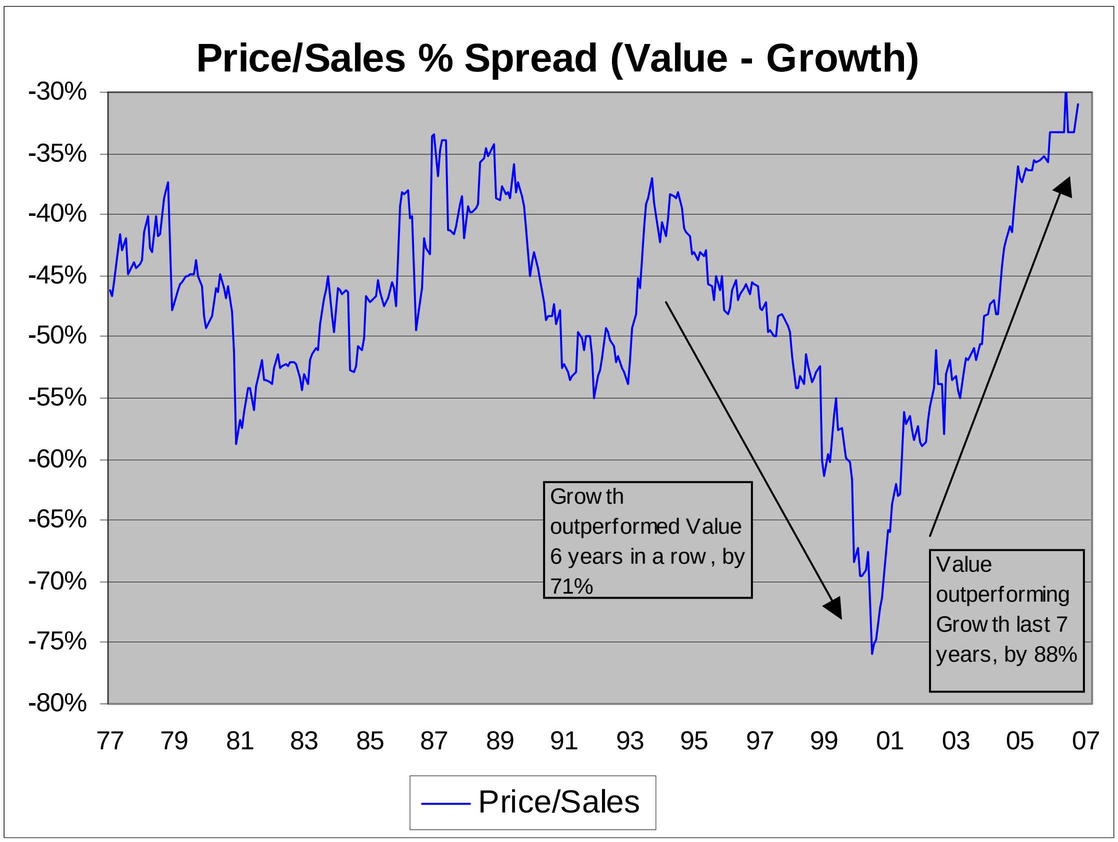
CAPITAL MANAGEMENT

APRIL 2007

GROWTH VS VALUE INVESTING

Value stocks have now outperformed growth stocks for seven years in a row (by a total of 88%), and outperformed again in the first quarter of 2007. This follows a period of six years in a row in which growth outperformed value, by a total of 71%. After the recent run-up in value stocks, they are getting more expensive and riskier, compared to their historical relationship to growth stocks.

Value stocks, by definition (the value index represents stocks with lower price to book value ratios), always trade at cheaper valuations than growth stocks. But the spread between the two is shrinking. The valuation gap is the narrowest it has been in the 30 years of data that we have, as seen below:



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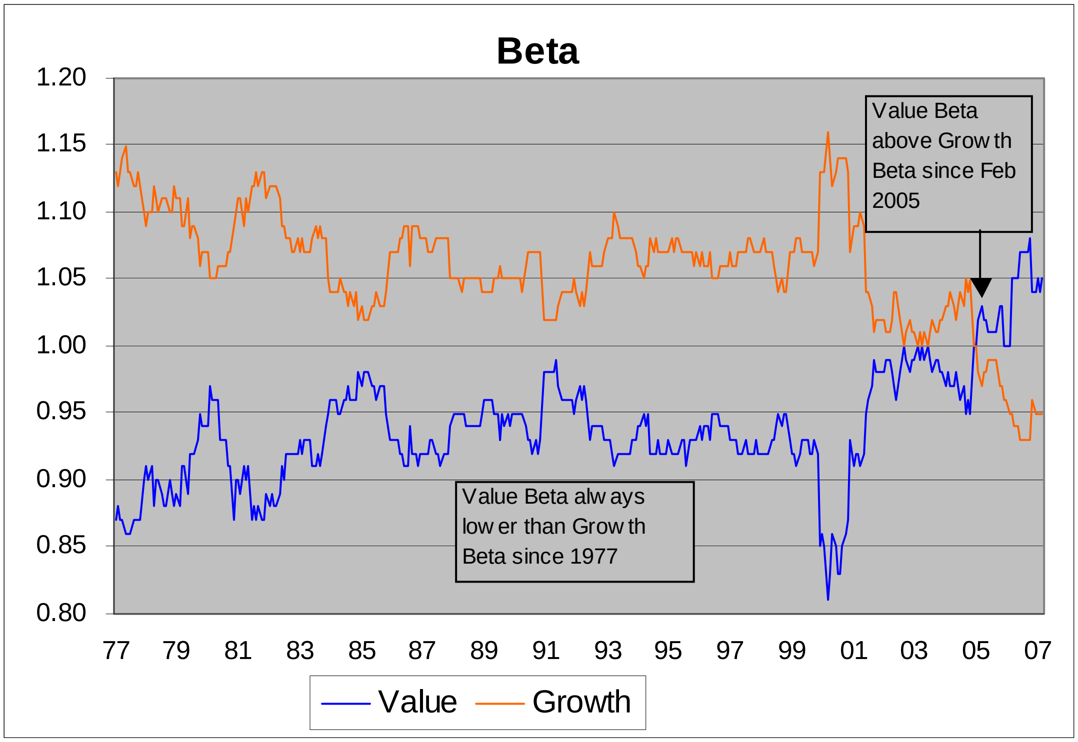
Beta (volatility relative to the stock market) is often used as a measure of riskiness. Value stocks have always traded at lower betas than growth stocks. This changed two years ago, and value's beta has been higher than that of growth since February 2005.



One possible explanation for the recent shift in dynamics between value and growth is the large amount of liquidity around the world, spurred by low interest rates the past few years. There are also large cash hoards at private equity funds, which are being targeted more often than not toward buyouts of value stocks.

In the last 30 years, value stocks have increased 14.5% per year, while growth stocks increased 12.0% with higher volatility. However, they move in cycles, and it seems like the current value cycle is likely getting closer to its end.

We're monitoring these trends, and have some concerns regarding value stocks. However, we don't believe the time is right to make any changes, while the trend is still in favor of value stocks. In addition, many of the managers with whom we have invested have a flexible approach that has led them towards attractive growth stocks.