

# DEAN CHASE GLOBAL VALUE, LLC

First Quarter 2009

www.dcglobalvalue.com



DEAN CHASE  
GLOBAL VALUE

## INTERNATIONAL EQUITY VALUE PRODUCT

### Top Three Country Weightings

United Kingdom	30.18%
Japan	29.65%
France	14.31%

### Top Three Industry Weightings

Pharmaceuticals	19.55%
Diversified Telecom. Services	16.82%
Commercial Banks	10.22%

### Top Three Sector Weightings

Telecommunication Services	19.61%
Health Care	19.55%
Consumer Discretionary	15.95%

### Market Capitalization Weightings

Large-Cap (>\$5bn)	70.98%
Mid-Cap (\$1-5bn)	24.36%

### Portfolio Characteristics

\* Ending March 31, 2009

	Dean Chase Portfolio
Price/Earnings Ratio	9.71x
Price/Book Ratio	1.22x
Price/Cash Flow Ratio	4.77x
Dividend Yield	4.14%
Market Cap (mm) <small>(weighted)</small>	\$25,815
Market Cap (mm) <small>(average)</small>	\$19,163

### Regional Weightings

Europe	60.61%
Asia/Pacific/Latin America	36.74%
North America	2.00%
Developed Markets	92.26%
Emerging Markets	7.08%

### Emerging Manager Status

Studies have shown that smaller managers such as Dean Chase have more flexibility in portfolio management and trading implementation relative to larger investment management organizations.

### A Closer Look at Dean Chase Global Value, LLC

Dean Chase Global Value, LLC is an investment advisory firm, rooted in the traditions of the Graham & Dodd discipline, founded to manage assets for employee benefit plans, public entities, endowments, foundations, Taft-Hartley and high net worth individuals via separate accounts, pooled trusts and sub-advisory vehicles.

Portfolio Manager: Al Polit, CFA

### Product Overview

Dean Chase utilizes an absolute value, Graham & Dodd, bottom-up stock selection process to the international markets. The universe includes foreign stocks with a market capitalization over US \$1 billion. The portfolio tends to purchase unloved and out of favor companies that are temporarily mispriced by the marketplace, yet have absolute determinable value. Dean Chase believes that the temporary disparity that exists between the price of a stock and the true worth of the business will close over time creating a profit for the investor. Strict buy and sell disciplines are adhered to by applying a margin of safety.

The portfolio characteristics tend to exhibit stocks with low price-earnings, low price-book, and low price-cash flow valuation ratios. High dividend yields are simply a by-product of the investment process. Dean Chase has a bias for companies with conservative capital structures. Turnover tends to be low and holding periods are typically three to five years.

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The MSCI EAFE Index is an unmanaged index consisting of securities listed on exchanges in European, Australasian and Far Eastern markets and includes dividends net of foreign withholding taxes and distributions, but does not reflect fees, brokerage commissions or other expenses of investing.

### For More Information:

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INTERNATIONAL EQUITY VALUE PRODUCT  
1ST QUARTER 2009 COMMENTARY (page 1 of 3)

The Dean Chase investment process utilizes a strict fundamental, bottom-up, and absolute-performance approach to stock selection and any reference in this commentary to investments in certain sectors, industries, countries, and the like, is solely a by-product of that discipline. Additional information on the performance results of our products is available upon request. Please feel free to contact us or visit our web-site at [www.dcglobalvalue.com](http://www.dcglobalvalue.com) to learn more about Dean Chase.

## PORTFOLIO SUMMARY

The turnover in the portfolios during the quarter was approximately 9.6% and driven once again, similar to last quarter, by opportunistic rebalancing. Select holdings in the consumer finance industry, as well as the information technology and telecommunication services sectors, among others, were sold or pared back in order to raise cash so proceeds could be re-invested into new positions with more attractive risk/reward profiles in the food products, chemicals, construction-related, and retail industries. In addition, two holdings in the information technology sector were sold during the quarter as we felt uncomfortable in light of how their fundamentals had quickly deteriorated during the harsh economic climate. One tech-oriented holding voluntarily filed for reorganized bankruptcy protection given that customers began questioning its future viability thus impacting the ability of the company to attract new business. We continue to actively monitor all of our positions.

Portfolio performance was negative for the months of January and February while March, having initially been negative through the beginning of the month, eventually turned positive. On a U.S. dollar basis, consumer discretionary holdings performed relatively better than the average portfolio position. Financials, specifically those in Japan and the U.K., negatively impacted overall performance results for the quarter. U.K. holdings performed marginally better than the average position having been aided by the media and retail industries. Japan was displaced by the U.K. to become the largest country weight at 30.2% as select Japanese positions were opportunistically sold during the quarter. At quarter-end, Japan comprised approximately 29.6% of the representative portfolio, and pharmaceuticals became the top industry allocation at 19.6%. Large-cap stocks, defined as companies having a market capitalization greater than \$5 billion, represented 71.0% of the portfolio and accounted for approximately three-fourths of the negative portfolio performance for the first quarter.

Performance for the month of April was strong and, in our opinion, mainly reflects a return to basic fundamental investing by the markets. Financials were the best performing sector for the month of April. We are finding tremendous values at current market prices and would not be surprised to undertake further opportunistic rebalancing in the near future.

## MARKET RECAP

Select governments have responded to the banking and credit concerns by increasing low-cost liquidity to banks, providing additional capital, and, in some cases, offering insurance guarantees against losses incurred on toxic assets. Some countries, such as the U.S., U.K., and Japan, went further by engaging in quantitative easing (QE) which is essentially pumping more money into the economy by purchasing bonds in the open market to bring down yields and make it easier and more affordable for businesses and consumers to access credit. However, there have been growing concerns that such stimulus initiatives may not only debase currencies by spurring long-term inflation but also create another crisis as those governments eventually unwind QE by selling those very same bonds they purchased pushing yields back up and ultimately hurt spending. Central banks around the world also lowered interest rates to record levels. The Bank of England, for example, pushed rates below 1% - a level not seen in over 300 years. And the European Central Bank eased rates to its lowest level since the euro was formed in 1999.

Banking institutions around the world experienced extreme volatility this quarter on fears the industry would be largely nationalized and/or future losses would wipe out existing equity capital. Stock prices for most banks reached multi-decade lows and credit default instruments indicated extreme stress. In light of the economic uncertainty and in an effort to preserve cash, companies that had paid and/or traditionally grown dividends year after year suddenly found themselves cutting or eliminating dividends. Large corporations such as General Electric even lost their AAA credit rating status over concerns they may experience further losses in their real estate portfolio. Businesses also took large write-offs in the value of accounting goodwill implying profitability may not be as bright as once expected. Such events intensified the increased risk aversion during the quarter driving the prices of stocks and corporate credit to low levels.

INTERNATIONAL EQUITY VALUE PRODUCT  
1ST QUARTER 2009 COMMENTARY (page 2 of 3)

The best performing MSCI sector for the quarter was information technology having continually been a poor performing sector quarter after quarter since the credit crisis began. The financials sector recovered dramatically during the quarter in mid-March yet was still the worst performing sector this quarter. For the quarter, the global growth indices largely outperformed value, and smaller non-U.S. companies did better than their larger peers. Excluding the Central and Eastern European countries and a couple of other developing nations, emerging equity markets largely outperformed developed.

Except for Norway's currency, the U.S. dollar advanced against all developed currency markets for the quarter. The greenback appreciated 8.2% relative to the Japanese yen, and the deepening global recession and stronger yen continued to damage the corporate profitability of the export-dependent economy. In fact, the MSCI Japan index was down 9.1% for the quarter and left the Japanese banking system weakened as they retain cross-shareholdings. The British pound, having been strongly correlated to the state of the global financial system, depreciated marginally relative to the U.S. dollar during the quarter. As evidenced by the widespread fall in their currencies, most Central and Eastern European countries such as Poland, Hungary, and the Czech Republic, were not discriminated against during the quarter despite some countries within the bloc being better able to withstand the economic and credit shocks and having relatively better public finances and debt levels. Many Central and Eastern European countries benefitted from the credit boom by borrowing in foreign currency and ran exorbitant current account deficits, and their high export dependency makes this environment particularly challenging for them.

For the quarter and in local currency terms, the best performing MSCI developed equity market was Belgium advancing 0.1% while the worst performing was Finland falling 18.6%. On a U.S. dollar basis, the MSCI BRIC Index was up 4.9%.

For the quarter and in U.S. dollar terms, the MSCI EAFE and MSCI ACWI x-USA indices declined 13.9% and 10.7%, respectively, while the MSCI EM index advanced 0.9%.

## NORTH AMERICA

Throughout the quarter, continued concerns over the increased involvement of the U.S. government in private enterprises, such as with the banks and auto manufacturers, and confusion over future government initiatives generated extreme fear as evidenced by the daily market prices of equity and credit instruments. As of this writing, back-door partial nationalization continues to be of primary concern within the U.S. banking sector as TARP funding originally provided to banks may be converted into common stock setting the stage for the government to have more direct control over banking actions. Such fears have prompted some banks that received TARP funds to raise capital in order to rid the government of any potential control.

In an effort to ease credit conditions, the U.S. Fed introduced the Term Asset-Backed Loan Facility (TALF) program aiming to lend up to \$1,000 billion in low-cost financing on a non-recourse basis to support consumer and small business loans. Yet, realizing that this alone would be insufficient in the face of a deteriorating economic outlook, and after seeing some initial success with the Bank of England, the Fed embarked on quantitative easing which is essentially intended to swamp the market with excess cash by buying credit assets in the marketplace to force yields down, improve credit conditions, and ultimately stimulate the economy.

## EUROPE

Being less enthused about engaging in extra-loose stimulus policies, Continental Europe has been left isolated. Efforts to date have been mostly aimed at providing unlimited liquidity to its banks as European companies have traditionally received the majority of their funding from those institutions. However, the possibility of quantitative easing was still left open should the economy deteriorate further. Some European countries, like Germany, have pushed through stimulus packages, but nowhere resembling that of the U.S. Germany is still not willing, as of this writing, to bail-out its banks by taking over or guaranteeing losses on toxic assets. Noteworthy is that the rush by governments around the world to finance their ever growing deficits will create a situation where they compete against one another for limited available funding.

Besides historical rate cuts, the U.K. also embarked on several schemes to alleviate the stress in the financial system, of which the three most notable are bank recapitalizations, quantitative easing, and a government-guarantee insurance program to ring-fence their banks against losses on toxic assets. The insurance program, while minimizing up-front costs to the government, creates potentially

INTERNATIONAL EQUITY VALUE PRODUCT  
1ST QUARTER 2009 COMMENTARY (page 3 of 3)

large contingent liabilities, but more importantly it alleviates the amount of capital banks must hold by improving their capital position which may lead to increased consumer and business lending. The Bank of England has signaled that it is determined to make its quantitative easing program work at any cost. Indirect stimulus is also being provided by the persistently weak U.K. pound as its exports become more competitive globally.

## ASIA

Being largely an export-oriented economy and heavily reliant on the technology sector, Japanese companies have experienced record losses during this downturn. The stronger yen in 2008 had unintended consequences by making Japan globally uncompetitive throwing its companies into the red. Even Toyota Motor Company, one of the most profitable car manufacturers in the world, recorded its first loss in 70 years. However, the weakened state of Japanese competitiveness has opened the door for some companies, like Sony, to force much needed restructuring. Others continue to react slowly. And while Japan does not have a toxic asset problem and/or large credit risks, its banks are heavily exposed to the equity markets via cross-shareholdings and thus have share price risk. This has weakened their balance sheets in the face of a falling equity market and forced them to issue additional equity.

Unlike many of its European counterparts, Japan does not believe there is danger in massive public spending and loose monetary policies to stem a severe downturn. With interest rates at close to zero, Japan has also engaged in its own version of quantitative easing. And with upcoming elections and the single-digit approval rating for Prime Minister Aso, the government plans additional stimulus. To prop up the stock market, government authorities have plans to purchase equities and guarantee losses on equities purchased by banks.

Elsewhere in Asia, South Korean banks are considering setting up their own bad debt fund rather than be in partnership with the government. And China, being the largest purchaser of U.S. public sector debt and with approximately 70% of its foreign exchange reserves in U.S. dollar assets, has expressed concern that the U.S. is being fiscally irresponsible in their reaction to the downturn fearing it will lead to inflationary pressures and a collapse of the U.S. dollar. This may explain why the Obama administration, for fear of angering one of our largest government bond investors, retracted its statement that China was a currency manipulator.