

Atlantic Trust White Paper

2009

Disciplined Equity

The Atlantic Trust Disciplined Equity Strategy has continued to produce impressive results. For the six years ending September 30, 2009, it has consistently outperformed the S&P 500 Index with lower volatility. Its record ranks in the top 7% in the 5-year performance return of Lipper Large-Cap Core Fund Universe¹.

Investment Highlights

Now entering its seventh year, achieving a \$1 billion-under-management milestone and launching a fund on the Invesco Aim mutual fund platform, the Atlantic Trust Equity Income strategy has a new name: the **Disciplined Equity Strategy**. The new name more accurately reflects the strategy's repeatable disciplined process of identifying quality companies at opportunistic valuations.

Beyond the name change, nothing is changing with the strategy or team. The same portfolio co-managers, Paul McPheeters and Doug Rogers, continue to be focused on identifying high-quality companies with attractive cash flow characteristics. In addition, they still have a disciplined approach on buy-and-sell decisions that is tied to cash flow-based valuation analysis. These equities are often not the highest dividend payers, as much of the cash flow may go to higher return opportunities or share buybacks. This differs from the majority of equity income strategies, the prior namesake, that focus on high dividend yields and will occasionally use fixed income securities to enhance yield.

The strategy has produced impressive results. For the six years ending September 30, 2009, it has consistently outperformed the S&P 500 Index with lower volatility. Also, its record ranks in the top 7% in the 5-year performance return of Lipper Large-Cap Core Fund Universe¹.

Annualized Returns (%) as of September 30, 2009

	1 Year	3 Years	5 Years	Since Inception [*]
Disciplined Equity Composite {Gross}	-4.22	-1.90	5.16	7.55
Disciplined Equity Composite {Net}	-5.06	-2.74	4.18	6.52
S&P 500 Index	-6.91	-5.42	1.02	3.05

Source: Atlantic Trust, Russell, Lipper and Bloomberg L.P. This information is provided for illustrative purposes only and should not be construed as an offer to buy or sell any product. For complete disclosure, please review the notes provided on page 5 of the presentation. Created in part with Zephyr Style ADVISOR. Past performance should not be construed as a guarantee of future results. Data as of September 30, 2009.

* Disciplined Equity Strategy Composite inception date: October 1, 2003.

¹ Any reference to a ranking, a rating or an award provides no guarantee for future performance results and is not constant over time. The standard deviation for the 6-year and 5-year time period ending September 30, 2009 for the Disciplined Equity Strategy was 15.98% versus 16.97% for the S&P 500. For the 5-year period ending September 30, 2009, the Disciplined Equity Strategy ranked 30 out of 463.

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ATLANTIC TRUST

PRIVATE WEALTH MANAGEMENT

Challenges and Opportunities

Investing during a recession in a market this volatile has been both challenging and full of opportunities. We experienced a dramatic drop in equity markets as a result of the credit crisis and economic collapse, followed by a sharp snapback in equity markets after a dispiriting March 2009 low point. We actively reduced risk in the downturn, as the strategy participated in only 68% of the S&P 500 Index's downside during the two-year period ending September 30, 2009. This reduced risk came with only a slight sacrifice of relative upside in the market's robust rebound since early March.

Managing through such a tumultuous period required an intense focus on two criteria that reflect our strategy: minimizing disaster risk and taking advantage of mispriced opportunities. To minimize disaster risk, we avoided companies with high financial leverage because of the potential for damage to the stock's valuation from a drop in the overall value of the company. In addition, companies that faced refinancing risk were excluded because of our focus on attractive cash flow, a characteristic hard to maintain with higher interest payments or, in extreme cases, a question of actual solvency.

Throughout the economic downturn and market volatility, we found attractive opportunities in 80% of the sectors we evaluate, not just in one or two areas. These included extremely high-quality names—market leaders with great business models—that had always been too expensive based on our strict valuation criteria. This put us in a unique situation, as it allowed us to upgrade the quality of the portfolio even higher than it had been historically. At a time when many investors were giving up on these companies, we were adding them to our portfolio with confidence that they would recoup their historical valuation premiums over the next several years.

The recent market volatility put us in a unique situation, as it allowed us to upgrade the quality of the portfolio even higher than it had been historically.

Disciplined Equity Strategy

Philosophy

- Established companies with low capital intensity and strong balance sheets, growing at reasonable rates, will have a better ability to generate cash flow throughout a market cycle.
- The ability of a company to consistently generate and effectively utilize cash flow is often overlooked by investors.
- We seek to identify these quality companies and invest in them when their cash flow attributes are under appreciated.

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Flexible Portfolio Construction

It may sound counterintuitive with “discipline,” but “flexibility” is critical to the strategy. Unlike many managers, we’re not limited to a particular style – growth or value – or market cap. Instead, we are free to search an abundant universe for new ideas that satisfy our disciplined criteria. We do expect the overall characteristics of the strategy to fit a Large Core style and to prove our inherent value bias, but we are able to own a wide variety of names depending on where we find the best risk/reward tradeoffs.

Qualitative Attributes

When identifying investment candidates, we analyze several qualitative attributes:

- **Industry attractiveness.** We analyze an industry’s growth potential, returns and margins.
- **Competitive positioning.** We assess a company’s competitive advantage, disciplined cash flow management and balance sheet strength.
- **Management.** We evaluate management’s tenure, track record and accountability, as well as their history of effectively deploying capital.

Overall, the companies that meet our criteria have smart and proven management teams, conservative balance sheets, low levels of capital intensity, high levels of cash flow and the ability to grow their cash flow for many years into the future.

Fundamental Attributes

Our fundamental analysis is based upon a proprietary adjusted cash flow measure and is used in both the analysis and valuation of a stock. We focus on companies that can consistently produce high levels of cash flow, making them less risky investments given higher flexibility in their business models. Our adjusted cash flow measure calculates how much cash flow a company can produce in the future if it only invested what was needed to sustain, but not grow, the business. This measure enables us to effectively compare companies of all sizes across multiple industries and determine how much of a company’s value is represented by its current business versus investors’ views of its future growth potential.

Sell Discipline

The goal of our sell discipline is to capture profits and minimize losses through a repeatable discipline that is not hampered by emotion. We would likely sell a position due to the following:

- **Fundamental deterioration.** A company’s ability to generate cash flow is impaired or its long-term positioning is compromised.
- **Unfavorable valuation.** A company reaches a relatively high cash flow multiple versus alternative investments and its own growth rate.

We also utilize our sell discipline to manage risk, carefully assessing and constantly challenging our comfort level with the portfolio’s positioning.

Discipline, Flexibility and Opportunity

Despite the low overall turnover of the Disciplined Equity strategy, we really are opportunistic investors. We want to buy high quality companies that are trading

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at a discount to fair value based on our assessment of future cash flow generation and growth. While our discipline has a solid valuation bias, it is in no way a deep value strategy and, in fact, we shy away from turnaround situations and lower quality names even when the valuation metrics line up well.

As we enter into the strategy's seventh year, our focus on sustainable cash flow growth and attractive valuation is vital to maintaining our advantage. The world and the capital markets have come a long way from where they were in early 2009, tempting many managers to reach for relative performance by stretching the boundaries of their investment criteria. While it may mean going through a brief period where momentum-driven strategies outperform, we believe that holding fast to a disciplined strategy will yield the results we're seeking for our clients.

For more information on the Disciplined Equity Strategy, please contact Tricia Bannan, senior investment specialist, at 617-531-6915. ■

Portfolio Management

Paul McPheeters, senior portfolio manager and managing director, was instrumental in developing the Atlantic Trust Disciplined Equity strategy in 2003. He is also the lead portfolio architect of Atlantic Trust's Energy Master Limited Partnership strategy. Paul previously co-managed the Large Core Growth strategy and provided analytical coverage for the Energy, Utilities and Media sectors. Prior to joining Atlantic Trust in 1997, Paul served as senior analyst for Price Waterhouse, LLP. There, he performed business valuations for mergers and acquisitions, tax strategies and privatizations for the firm's Valuation Services Group's energy practice. Paul earned his bachelor of science in chemical engineering from the Colorado School of Mines. He holds the CFA designation.



Paul M. McPheeters, CFA
Managing Director

Doug Rogers has co-managed the Atlantic Trust Disciplined Equity strategy since its inception in 2003 and also provides research on Real Estate Investment Trusts as well as quantitative research. He has been a member of the firm's Asset Allocation Committee since its inception in 1999, responsible for developing asset allocation strategies and analysis for the firm's Private Wealth business. Doug previously managed the firm's Convertible Securities portfolio. Prior to joining Atlantic Trust in 1998, Doug was a performance analyst at the Private Bank of Boston, where he was responsible for performance measurement of institutional accounts, creating a screening process for outside managers and running case-by-case asset allocation optimization. A graduate of Lehigh University with a bachelor of science in finance, Doug also holds the CFA designation and is a member of the Boston Security Analysts Society. ■



Douglas L. Rogers, CFA
Managing Director

Atlantic Trust Disciplined Equity Strategy Composite

Composite Assets								
Year End	Dollar (millions)	Percent of Firm Assets	Composite Accounts at Year-End	Gross Annual Return (%)	Net Annual Return (%)	Benchmark Return (%) ^A	Composite Dispersion	Total Firm Assets (millions)
2008	\$229.9	1.72	50	-31.78	-32.33	-36.98	0.22	\$13,392.4
2007	551.9	3.17	115	7.79	6.85	5.49	0.26	17,397.4
2006	456.2	2.74	79	15.16	14.03	15.79	0.83	16,673.0
2005	305.1	4.14	40	12.47	11.24	4.92	0.12	7,372.1
2004	210.2	2.62	8	20.30	18.97	10.88	N/A	8,035.4
2003 ^B	152.2	2.01	2	12.08	11.78	12.18	N/A	7,584.5

A – Not covered by the Independent Accountants Report.

B – Partial Period, composite inception date October 1, 2003.

Atlantic Trust has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). The Composite creation date and inception date was October 1, 2003. The Composite inception date is the initial date in which performance data was available and the creation date reflects the date accounts were first grouped to create the Composite.

- The Firm referred to in this document as "Atlantic Trust" comprises two wholly-owned subsidiaries of Atlantic Trust Group, Inc. ("ATG"): Atlantic Trust Company, a division of Invesco National Trust Company ("ATC") and Stein Roe Investment Counsel, Inc. ("SRIC"). All of these entities are indirectly wholly owned by Invesco Ltd., a company whose shares are listed on exchanges in the U.S., U.K., and Canada. SRIC was purchased by ATC on March 1, 2004. SRIC is the successor organization to the Private Capital Management Division ("PCM") of Stein Roe & Farnham Incorporated. Prior to January 1, 2006, ATC and SRIC were two different firms for performance reporting purposes. Subsequent to January 1, 2006, the two firms were merged, the portfolios were aligned and the firm was redefined as Atlantic Trust. Total firm assets reflect the integration of the investment management platforms at the private wealth management division, which includes SRIC and ATC.
- Composite Description: This composite is a collection of all discretionary accounts that are managed in Atlantic Trust's Disciplined Equity Strategy. This Strategy's objective is to provide growth and current income, with lower intended volatility than a typical equity portfolio by investing in equity and convertible securities. We seek to accomplish this through a broadly diversified portfolio, primarily invested in common stocks that generate strong cash flow and are available at attractive valuations. The portfolio is not restricted to investing in particular sectors or in stocks within a market capitalization range, but will tend toward large-cap companies with positions of market leadership.
- The benchmark for this composite is the Standard & Poor's 500® Index. The benchmark is used for comparative purposes only and generally reflects the risk or investment style of the product. Investments made by the Firm for the portfolios it manages according to respective strategies may differ significantly in terms of security holdings, industry weightings and asset allocation from those of the benchmark.
- Monthly account returns are calculated using the Modified Dietz method. Monthly composite returns are calculated by weighting individual account returns by their beginning of month market value as a percentage of the composite's beginning of month market value. Annual composite returns are calculated by linking the monthly composite returns through compounded multiplication. All realized and unrealized gains and losses as well as all dividends and interest from investments and their accruals and cash balances are included. Investment transactions are accounted for on a trade-date basis. Portfolios are included in the composite beginning with the first full month of performance to the present or to the last full month prior to the cessation of the client's relationship with Atlantic Trust. Composite performance results are presented in United States dollars. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. Prior to January 1, 2006, composites returns were calculated quarterly rather than the monthly basis as previously discussed.
- The dispersion of annual returns is measured by the standard deviation across asset weighted portfolio returns represented within the composite for the full year. Composite dispersion is shown for those years when there were five or more portfolios in the composite for the full year.
- The gross returns for the composite are calculated net of brokerage commissions, but do not reflect any deduction for investment advisory fees, custodial charges or other costs, which a client might bear in connection with the management of the account. The returns realized by an investment advisory client would be reduced by these costs. Monthly net of fee performance is calculated by subtracting one twelfth of the actual fee or one twelfth of the firm's highest annual fee from the monthly gross return for each account. This composite has historically included one or more pooled vehicles for which there was no fund-level fee. In these cases, the firm's highest level of fees was applied to calculate net of fee returns. Annual net of fee performance is calculated by geometrically linking the monthly net of fee performance returns. The investment advisory fees typically charged by Atlantic Trust to clients are as follows:

Up to \$5,000,000	1.20%
\$5,000,000 to \$10,000,000	0.80%
\$10,000,000 to above	0.60%
- The minimum portfolio size for the Atlantic Trust Disciplined Equity Strategy composite is \$500,000. Prior to January 1, 2009, the portfolio minimum asset size was \$1,000,000.
- A complete list and description of Atlantic Trust's composites and performance results are available upon request.
- Past performance, as shown in the presented composite results, should not be construed as a guarantee of future results.
- Paul McPheeters, Co-Portfolio Manager, resigned as of January 2006, but returned to Atlantic Trust in the same capacity in June 2006.
- As of September 16, 2009, the Atlantic Trust Equity Income III composite has been renamed the Atlantic Trust Disciplined Equity Strategy.

Atlantic Trust Private Wealth Management includes Atlantic Trust Company, a division of Invesco National Trust Company (a limited-purpose national trust company), and Stein Roe Investment Counsel, Inc. (a registered investment adviser), both of which are wholly-owned subsidiaries of Atlantic Trust Group, Inc. This document is intended for educational purposes only and the material presented should not be construed as an offer or recommendation to buy or sell any security. Concepts expressed are current as of the date of this newsletter only and may change without notice. The Chartered Financial Analysts® (CFA®) designation is globally recognized and attests to a charterholder's success in a rigorous and comprehensive study program in the field of investment management and research analysis. Certified Financial Planner Board of Standards Inc. owns the certification marks CFP® and CERTIFIED FINANCIAL PLANNER in the U.S.

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