Atlantic Trust's

2009 Outlook

Stimulus, Stability & Strategy

ATLANTIC TRUST

PRIVATE WEALTH MANAGEMENT

We know that you are inundated with negative news concerning the economy and the financial markets. While there may seem to be little optimistic news, our perspective at Atlantic Trust is that there is still much to encourage us – and you – for the future. Every day, we are focused on how we can use market and economic developments to help you reach your financial goals for wealth preservation and recovery in 2009 and beyond.

For many investors, the natural tendency or instinctive reaction to a period of uncertainty, volatility and asset decline is to reduce the source of the "pain." Calling market bottoms or predicting the point of an economic or market upturn is of great interest to many people, yet we repeatedly emphasize how difficult it is to do so. This time is no different. While we certainly acknowledge the pain, our strategy at Atlantic Trust is to help you focus on your immediate cash flow needs and long-term objectives, then take action accordingly.

In times like these, it is important to have a comprehensive, integrated wealth plan that considers investment, financial and estate planning goals and opportunities. Strategic planning helps ensure that your resources meet your needs and the needs of your family, today and through retirement, and it positions family wealth for future generations. Atlantic Trust's team of professionals experienced in both the investment and planning disciplines can add value to your long-term goals for wealth accumulation, preservation and transfer. We encourage you to let them help you position for these goals.

We should all use 2009 to prepare for both the challenges and opportunities to come. On the following pages, our investment experts and wealth strategists provide analysis of major themes affecting the global economy and financial markets, as well as insights on how these themes are influencing our strategy. In the coming months, we will be offering you regular updates on tactical and strategic developments at Atlantic Trust.

As always, we appreciate your continued confidence in us and welcome your questions and comments.

With best wishes,

Jeffrey S. Thomas, CFA
Chief Executive Officer

The Big Picture

Crisis, meltdown, fiasco or "correct correction." Our current economic environment has been given many descriptive names – including "extraordinary." As extraordinary as these economic events have been, so, too, has been the policy response, the scope of which is both reassuring and alarming. Taking center stage in a macro sense is the $787 billion stimulus bill signed into law February 17, a plan that is part tax reduction (35 percent) and part government spending (65 percent), primarily on transportation, infrastructure, energy and health care initiatives. The stimulus will help those unemployed and likely replace some "lost" consumer spending, but as many economists point out, it will be meaningless if the government fails to restimulate the flow of funds through the credit system.

The crisis in the credit system is being addressed by a series of initiatives by policymakers, the most recent of which is a six-point Financial Stability Plan from the U.S. Treasury that focuses on banks, housing support and foreclosure prevention, and consumer and business lending. The many steps that must be taken to successfully re-establish and strengthen our credit system are necessary ingredients for a rebound in growth. The Federal Reserve appears to have assumed the lead in the government's attempt to counter the current financial crisis. This shift is confirmed by the dramatic expansion in the Fed's long-term lending programs announced at the conclusion of the March 18 Federal Open Market Committee meeting. Absent these stimulative actions, we are likely to be in for a much deeper and longer adjustment than any other period in recent memory.

With numerous complex layers, the current financial environment may seem to many people both daunting – Is there a way out of this? – and irrelevant – How do subprime mortgage foreclosures affect me? And as a society, we must be sensitive to broader questions: How heavy an increased tax burden will the current generation, in good conscience, allow itself to defer to future generations? Will we have free trade or protectionism? How redistributive will our tax policy become?

Because we feel it is important that all investors have a good understanding of the major issues that are influencing them, we offer our thoughts on three major themes – **deleveraging, global shifts between consumption and savings,** and **reflation** – that are informing our strategy at Atlantic Trust.

What does a prolonged period of deleveraging mean for capital markets and economies?

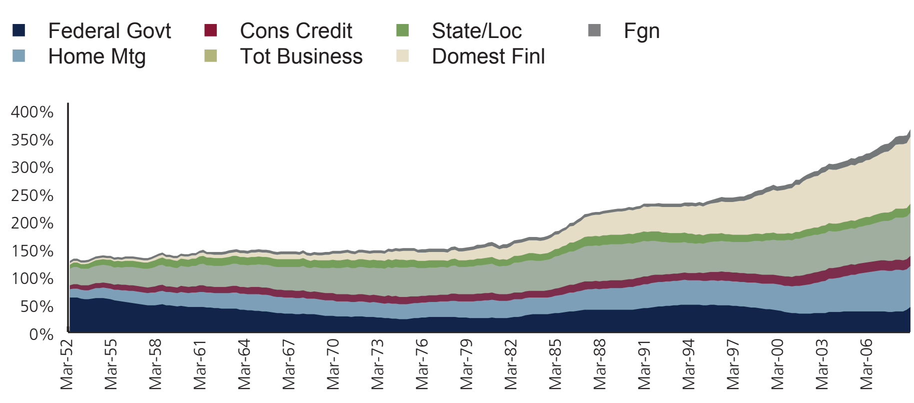
Since 1955, the U.S. economy has been on a steady diet of rapidly increasing debt – total credit market debt as a percentage of GDP went from 140 percent in 1955 to 370 percent by December 2008, with a very significant increase beginning in the late 1990s. Leverage, financial innovation and the expansion of the mortgage market were key, although "artificial," drivers in the growth of the financial sector. When cheap and plentiful, debt was an important component of growth and profitability at all levels of the economy. Credit is the grease that keeps the economy running, but the era of explosive consumer and corporate debt expansion has come to an abrupt end.

The artificial growth based on this plentiful and easy credit is now coming unwound, resulting in a painful process of balance sheet shrinkage in the sectors that benefited most from the massive expansion of debt during the better part of three decades. Financial firms have been forced to write down assets supported by excess debt, and it is no secret that the sector has suffered enormous damage during the last two years.

As banks and brokers retract capital, reduce loan growth and sell assets, the economic implications broaden out well beyond the financial sector. Without willing lenders, borrowers are forced into difficult situations: the cost of rolling over existing debt or finding new ways to finance homes for individuals or capital spending for businesses is extremely high. Consumers suffer the doubled-edged sword of weak job growth and expensive debt.

To date, deleveraging is taking the form of debt transfer, rather than debt elimination – the debt taken off the balance sheets of financial firms is being transferred to the balance sheet of the government. This shift will likely result in higher taxes, if not this year, then during the next several years, leading to a re-thinking of wealth management strategies for individuals and families. And while the government's "bridge" will allow markets to resume functioning, eventually the public sector will experience its own deleveraging. It likely won't happen this decade, perhaps not for many years, but "pay back" time will come in the future.

Debt as a % of GDP



Source: Federal Reserve

What opportunities do we see in an environment of deleveraging?

Equities

- Companies with healthy balance sheets, those that have the ability to survive and prosper in an economy that's rationing debt, will be attractive investments.
- The year 2009 will provide more sector-specific opportunities, including consumer staples, health care, pharmaceuticals and technology not tied to discretionary spending by consumers.

Bonds

- As with equities, debt issuers with healthy balance sheets will be the focus. The ability to fund operations from internally generated cash flow will be an important shock absorber for corporate CFOs.
- Conversely, strategies relying on the safety of Treasury debt will realize the risk of supply as Government deficits expand to offset the deleveraging private sector.
- Our active portfolio management strategy provides the ability to monitor and carefully choose quality equities and bonds from the more attractive areas of the market, which should enable us to outperform broader benchmarks.

Hedge Funds

- Hedge funds are a compelling asset class in this environment due to their flexible mandate, which enables managers to dynamically adapt varied strategies to the prevailing market.
- Increased volatility and fundamental market dislocations caused by deleveraging have created a plethora of hedge fund opportunities with significant return potential on an unlevered basis.
- During this period of high market and economic uncertainty, liquid strategies that are less dependent on market direction could significantly outperform the markets in 2009, as fiscal and monetary policies stabilize the financial system.

Emerging Markets

- Emerging markets, where growth is more organic because of lower leverage, may be attractive, as will be developed countries outside the U.S. without a "credit culture."
- We believe that investments in emerging markets should be a meaningful part of client portfolios and have incorporated this into our asset allocation recommendations.

Wealth Strategies

- The shifting of debt to the government will likely result in higher future taxes. Families interested in transferring wealth to younger generations can take advantage of current exclusions and credits as well as low tax rates.
- The income limitation for converting IRAs to Roth IRAs will be eliminated in 2010. Combined with current low capital gains tax rates, this provides an opportunity to convert future taxable distributions to tax-free retirement funds.

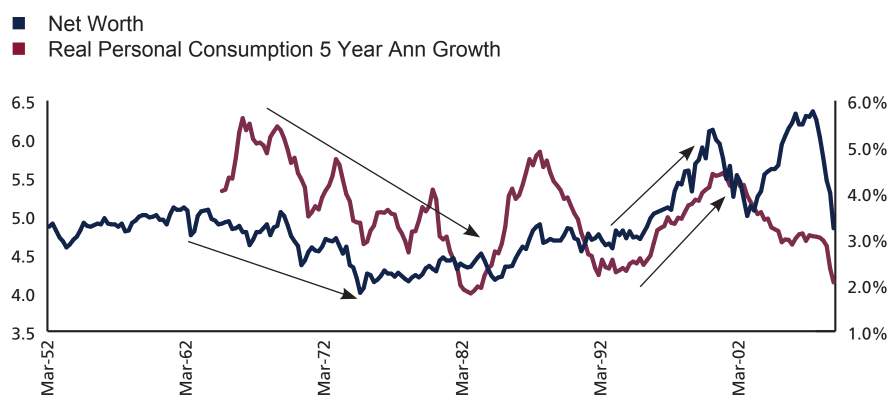
What are the long-term ramifications of a shift from economies fueled by consumption to economies with a new focus on savings?

In the U.S. and other developed countries, consumer confidence is critical to spending and spending is critical to economic recovery. Consumers seem uninterested in spending while policymakers seem convinced that whatever tax rebate or other incentive the government provides will, in fact, be spent – and not saved or used to retire debt. But the American consumer doesn't at the moment have the emotional or financial capacity (including home equity or job security) to spend. In short, consumers are hunkering down, rebuilding their savings and conserving cash in something that resembles the long-dead American practice of thrift.

This "paradox of thrift," as described by the economist John Maynard Keynes, is a classic catch-22. One person's current saving is another's loss of current revenue, but rising savings represent future purchasing power. For the near-term, however, a nation that saves more will mean a nation experiencing constrained growth – as consumption drops, the multiplier effect of money flowing through the economy is diminished.

Less developed economies, with a huge labor pool that previously has been churning out products for U.S. consumers to purchase, are focused on trying to develop their own consumer class. Two billion Chinese and Indians have been around for a long while – now they want access to cars, mortgages and other consumer goods and financial instruments of Western culture.

Consumption vs. Net Worth



Source: Federal Reserve, Bureau of Economic Analysis

What opportunities do we see in a shift from consumption to savings?

Equities

- Higher savings rates sap consumption, but savings create a pool of domestic capital available to feed reindustrialization in concert with infrastructure spending. This reindustrialization will lead to attractive sector-specific opportunities such as those exposed to clean energy initiatives, engineering, efficient manufacturing and construction.

- We believe in the ability of active equity portfolio managers to identify and take advantage of these opportunities.

Bonds

- Pressure on consumption in developed economies limits growth and increases the attractiveness of less volatile fixed income strategies.
- Channeling domestic savings toward infrastructure projects should benefit state and local governments. Greater access to capital for these entities will favor municipal bond strategies as issuers meet the challenges of structural deficits.

Hedge Funds

- Equity long/short and credit long/short managers have the flexibility to sell short companies in industries that will be negatively impacted by decreasing consumption and buy companies that can benefit from increased savings. This can be accomplished without having to take on leverage or net market exposure.

Wealth Strategies

- As savings rebuild family wealth, proper planning can spread the wealth into multiple generations with less erosion from taxes.
- Planning need not be as complex as in the past. Through the use of annual exclusions, intra-family loans and the gift tax exclusion, families can shift significant potential wealth to later generations without gift or estate tax. As wealth rebuilds, families will benefit from this structured but less complex way to ensure legacy goals.
- Larger pools of family wealth will result in increased opportunities for the first generation to help following generations with personal goals.

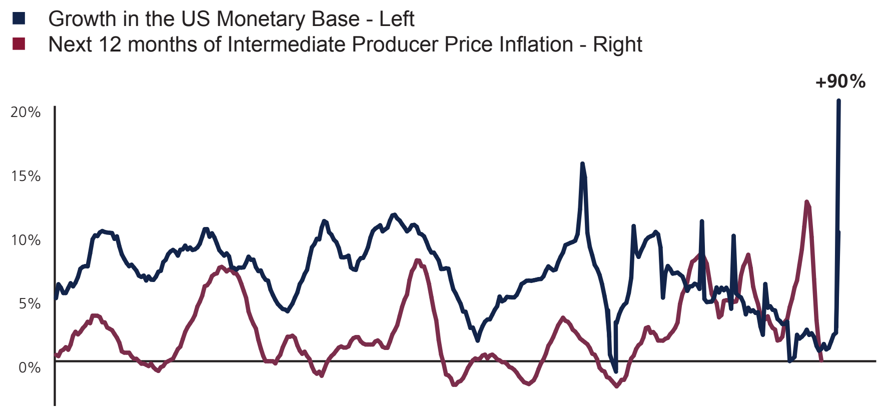
Should we be concerned about reflation in the aftermath of the massive fiscal and monetary stimulus measures that are being taken?

The current reduction in credit, economic growth and confidence removed inflation from the radar screen for the near term and dramatically raised concern over an outright reduction in prices, or deflation. Given our thoughts on further deleveraging and consumer retrenchment in developed markets, deflation fighting should remain near the top of the Federal Reserve's agenda for a while longer. So why is reflation on our minds?

Because the government has met this crisis with massive fiscal and monetary stimulus measures, classic economic theory tells us that we might expect a period of rapidly rising prices. Or, as Nobel Prize-winning monetary economist Milton Friedman put it: "Inflation is always and everywhere a monetary phenomenon." In our current environment, however, the government's stimulus plan – the concept of filling in holes – is designed more specifically to reverse large job losses and offset the steep drop in credit availability. In that sense, it is less "new money" than "replacement money" for what evaporated from the economy in 2007 and 2008.

While one could argue that the stimulus plan may fail to stimulate the economy directly, its passage likely will at least begin to stimulate confidence that the environment may not worsen. Still, fear and retrenchment will likely pervade throughout the economy in 2009, prolonging the deflationary phase, as only a return of confidence and spending will lift prices. In this unprecedented environment, we have less concern over inflation in the short term; long-term, however, it is something to monitor closely. Employment, spending and subsequent reflation of prices and asset valuations are lagged effects of a recovery from recession.

Reflation



Source: Federal Reserve, Bureau of Labor Statistics

What opportunities do we see in a reflationary environment?

Equities

- A reflationary environment, when it comes, creates the opportunity for growth, which typically favors equities.
- Atlantic Trust is closely monitoring stocks that tend to take off early in a recovery phase, such as healthy mid-cap growth companies, early cyclicals, materials and industrials.

Bonds

- Treasury Inflation Protected bonds (TIPs) are a good hedge against inflation for fixed income investors because their par value and associated income are tied to the consumer price index. They also offer high liquidity and low credit risk.
- We currently employ TIPs as a portion of our clients' actively managed fixed income portfolios.

Hedge Funds

- Commodity trading advisors, managed futures and global macro hedge funds can capture changes in inflation through strategies focused on commodity price movements, currencies, interest rates and macroeconomic views.
- Hedge fund managers in these strategies have the flexibility to tactically (not constantly) provide inflation hedges when they deem appropriate, therefore reducing our need to time the investments.

Commodities

- Although inflation seems contained for the foreseeable future, current conditions likely will cut supply in commodities and lead to a lift in their prices. Despite a weak economy, consumers in both developed and emerging markets still will demand gasoline and heating oil, utilities will need copper wire and coal, and commercial demand for steel will remain strong.
- Although they can be volatile, commodities' negative correlation to other asset classes supports the case for a modest exposure to a diversified mix of commodities, with investments made at the correct points within the economic cycle and some flexibility maintained. At this time, based on our clients' objectives, we recommend gradually building an allocation to commodities through one of Atlantic Trust's approved funds.

Wealth Strategies

- Current lower interest rates, as well as lower asset valuations, combine to create a positive environment for strategic wealth planning.
- Assets tied to inflation will increase in value and should be incorporated into planning strategies before appreciation minimizes a strategy's effectiveness.
- Timing is critical, and positioning clients now may ensure maximum benefit.

Going Forward

Atlantic Trust's team is focused on how we can use market and economic developments to help achieve your goals for wealth preservation and recovery in 2009 and beyond. Now is the time to look ahead, to restructure investment and wealth planning programs as necessary, to position portfolios to take advantage of opportunities and to hedge against the risks that continue to exist. Your relationship manager will work together with you to:

✓ Reevaluate your long-term financial goals

- How has your wealth picture changed and how does that affect your plans for retirement, transferring wealth to family members and establishing your legacy to the community?

✓ Reassess your cash flow needs

- What spending is essential versus discretionary and where might you need to make adjustments?

✓ Reconsider your tolerance for risk

- What do you want your financial picture to look like in 10 or 20 years, and how much uncertainty can you bear?

✓ Revisit your long-term asset allocation targets

- How can you use this period of extreme valuation change to rebalance your portfolio and position yourself for recovery?

✓ Restructure your wealth plan

- Who do you want to benefit as your wealth is rebuilt in the future?
- How can you take advantage of the low asset valuations and interest rates to move wealth into their hands now—and avoid the estate tax bite later?

We entered 2009 hoping that a change of administration would provide a spark to reverse negative sentiment in the markets; that has not happened. Yet we continue to believe that fiscal and monetary policies will ultimately lift our economy out of recession. We also believe that a framework of disciplined, but flexible, asset allocation can address the issues that we know are on your minds – the need for income and liquidity, the desire for a focus on quality in your portfolio, the flexibility to respond to recovery opportunities and wealth strategies that adapt to current economic and financial issues. We believe that a firm commitment to this philosophy will yield long-term benefits for you and your family.

A scan of both history and the environment indicates positive developments. Credit markets, while still impaired, appear to be gaining stability. Stability is a necessary precursor to a widespread improvement in confidence. The prevailing negative sentiment renews our view that market bottoms are realized during periods of extreme pessimism. Market returns have a clear pattern of reverting to the mean; after extreme conditions in 2008 and early 2009, equity returns are likely to turn positive. Depending upon your objectives, our preparation for the deepening of these developments includes taking advantage of income opportunities in high-quality corporate bonds, a diversified mix of commodities, master limited partnerships and hedge funds that can produce high returns with little leverage. We remain reasonably optimistic regarding the relative attractiveness of equities over the next 12 to 18 months but also recognize that near-term risks may outweigh rewards.

In the coming months, we invite you to look for more detailed discussions in *The Advisor* and other communications on how our investment and wealth strategies respond to these broad themes. ■

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