ATLANTIC TRUST

PRIVATE WEALTH MANAGEMENT

ASSET ALLOCATION UPDATE

From the Desk of Our Chief Investment Officer

David L. Donabedian, CFA
Chief Investment Officer

Dave Donabedian is chief investment officer of Atlantic Trust, returning to the firm in 2009 after serving as chief investment officer for Ashbridge Investment Management, LLC, from 2006 to 2009. As a leading investment expert in our industry, Dave frequently appears on television networks, such as CNBC, and provides insights in publications, such as *Barron's*. Previously, from 1996 to 2006, Dave worked with Atlantic Trust as managing director and chief economist. Dave received a B.S. in economics and a B.A. with honors from The Wharton School at the University of Pennsylvania. He subsequently earned an M.B.A. from Columbia University Graduate School of Business.

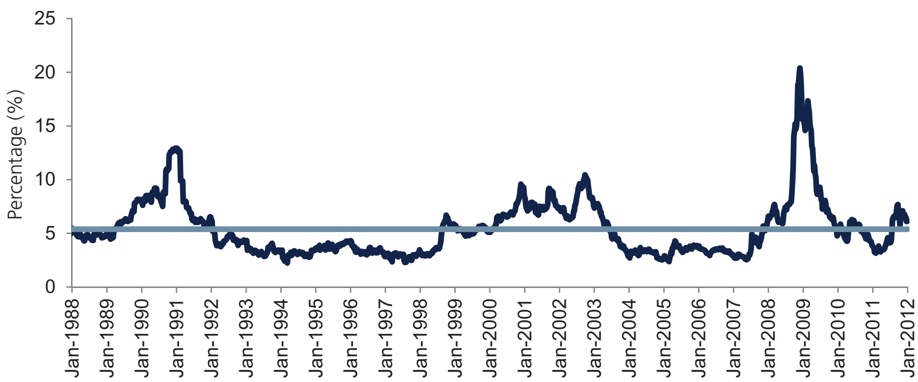
The Atlantic Trust Asset Allocation Committee (AAC) is recommending a position in high-yield fixed income for client portfolios. While we expect another volatile year in the capital markets, cash is a non-income, non-return-producing vehicle, and the AAC believes that some of it should be put to work. That leads to the question of where on the risk spectrum to do so.

Income-generating vehicles make a lot of sense in this environment. Last year, a key part of our message was to focus on yield-oriented strategies, ranging from high-yield equity managers to energy MLPs to floating rate debt and emerging market bonds. We believe that adding to the enhanced yield strategy through a position in non-investment grade (i.e., high-yield) debt may improve risk-adjusted portfolio results in the months ahead.

A recent change in global monetary trends is an important factor in this moderate move out the risk curve. As the European Central Bank bows to the reality of the crisis in Europe, and emerging market central banks adjust to falling inflation and slower growth, there is near universal easing of policy by the world's major central banks. Synchronized global monetary easing lowers the odds of a liquidity crisis that could spark a global contagion (and a repeat of 2008). This lowered probability of a worst-case outcome may help stocks over time, but volatility potential remains high, income generation is increasingly in demand and high-yield looks relatively inexpensive.

Fundamentals and valuation in the high-yield market are attractive. After falling below 7% early last year, the average non-investment grade corporate yield rose above 8% in August of 2011, in a correlated move that eventually touched all risky asset classes. While yields for corporate borrowers were rising, the 10-year Treasury yield fell from 3.5% to 2%, where it stands today. As seen in the top chart on page 2, the spread for high-yield corporates over Treasuries has moved above the long-term average by roughly 0.75%.

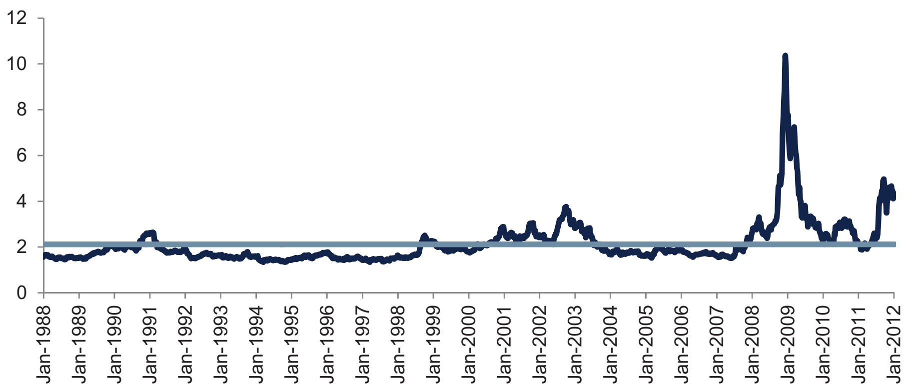
Yield Spread of High-Yield Corporates Over Treasuries



Source: Barclays Capital and Bloomberg L.P., data as of 1/17/2012

Spread is a useful indicator of the market premium for default risk, but with rates at extremely low levels, it is perhaps more instructive to look at the yield ratio of corporate bonds over Treasuries. A ratio analysis recognizes the greater importance of a change in interest rates when yield is scarce. This method shows that high yield has only been this inexpensive during the 2008/09 recession and has greater relative value now than at any other recessionary peak in the last 25 years (see below).

Yield Ratio of Corporate Bonds Over Treasuries



Source: Barclays Capital and Moody's, data as of 1/17/2012

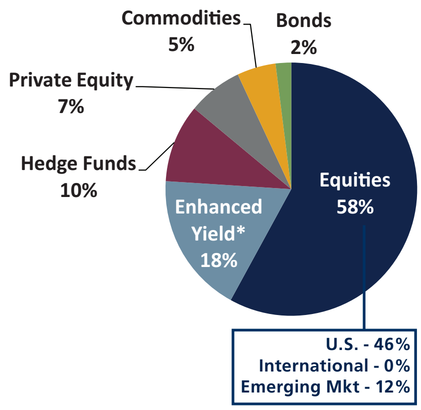
The 2008/09 experience occurred at a time when the high-yield default rate was running near 14% and companies were having difficulty accessing capital. Corporate balance sheets have undergone several years of repair since then; cash balances are relatively high, companies have extended their maturity profiles and the trailing 12-month default rate now stands near 2%.

More generally, we continue to believe that income will comprise a larger portion of total portfolio returns for the foreseeable future. The high-yield market is clearly consistent with this theme.

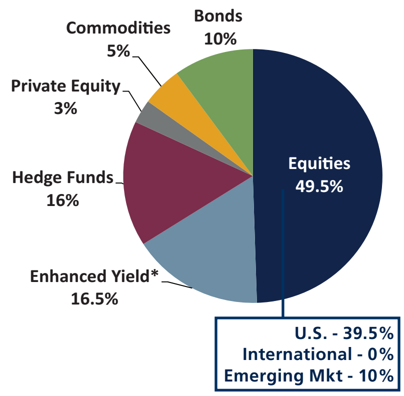
As always, the most important asset allocation discussion is between you and your relationship manager. While the Atlantic Trust AAC works hard to identify general opportunities for return enhancement and risk reduction, every client portfolio is managed to address customized objectives. Therefore, some of the recommendations referenced, as well as the asset allocation models illustrated to the right, may not be appropriate for your specific situation, so please speak with your Atlantic Trust relationship manager.

Asset Allocation Committee Model Recommendations

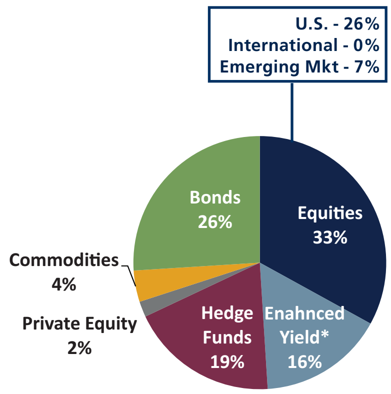
ALL EQUITY



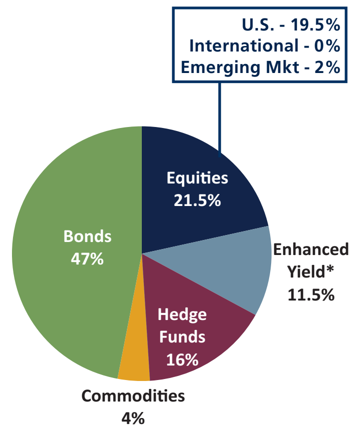
CAPITAL GROWTH



BALANCED



CAPITAL PRESERVATION



*Enhanced yield includes Master Limited Partnerships (MLPs), equity income, high-yield debt, emerging market debt and floating-rate senior debt. Source: Atlantic Trust, 1/17/2012. Percentages may not add to 100% due to rounding.

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