STONEBRIDGE CAPITAL MANAGEMENT

Market & Investment Commentary

Q1 2010

After a strong calendar 2009, the equity markets retrenched in mid-January as trepidation over the sustainability of the U.S. economic recovery weighed on investors' minds. In particular, the downgrade of Greek government debt sparked fears that a crisis of sovereign credit might spread across the European continent, in particular among the PIIGS. With the arrival of March, the palpable concern in regards to the longevity of the U.S. recovery dissipated as broad-based macroeconomic data signaled improving results. For example, in March, the U.S. notched the largest gain of jobs in over three years. These data points combined with a declining VIX Index indicate that investors are increasingly content with the economic outlook of the U.S. economy for the remainder of 2010.

The investments in our Small Cap Growth Equity and Large Cap Growth Equity Portfolios performed well during the first quarter as a result of our ability to position the portfolios towards fast growing businesses with healthy balance sheets at attractive discounts to our estimation of their fair value. The technology sector drove both relative and absolute performance for the portfolios during the first quarter, and we continue to overweight this sector due to the rapid growth and strong profitability of our specific investments. Further, we continue to believe that the health care sector provides several different opportunities to participate in the rapid growth that should emerge from the Obama Administration's health care reform bill. In excess of 30 million Americans will be assimilated into the health care system and will supplement the strong growth profiles of our health care investments. In concurrence to the passage of the health care legislation late in the first quarter, our consumer discretionary and consumer staples investments in the portfolio performed well, contributing to our absolute performance for the quarter. Newly released data points such as industry-wide same-store-sales growth implied increased year-over-year consumer spending. While consumer spending may have bounced off of recessionary lows, we continue to believe that consumer spending remains challenged; consequently, we remain highly discriminatory towards these discretionary business models. Last, we are confident that the industrial sector will remain a strong beneficiary of an economic recovery. As such, we have positioned the portfolios towards industrial companies with a technological edge and believe these investments will outperform consumer oriented companies as the recovery continues.

In conclusion, our equity portfolios consist of high quality companies that are gaining market share, maintaining healthy balance sheets and are well positioned for future strong earnings growth. We remain focused upon those investments within economic sectors that we believe will retain the best opportunities for future growth and superior performance results.

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