GARDNER LEWIS
Asset Management

Core Growth Strategy
1st Quarter 2009

Although it is not clear when looking at market averages, the negative tone with which the market began the year subsided as the quarter progressed. This led to a market reversal in early March, which provided the backdrop for our portfolio to get back into positive territory for the year through the first week of April.

While the market was down when quarterly announcements began, we were encouraged to see not only that a large number of our companies posted solid results, but also that their stock prices began to benefit from their positive news. This was a marked shift from late last year when investor sentiment seemed so negatively biased that fundamentals of growth companies appeared to give way to general market panic. In fact, the vast majority of the companies in our portfolio posted earnings results during the quarter that met or exceeded consensus expectations, and many provided favorable outlooks despite the challenging economic state.

These strong company reports drove relative outperformance in nearly every sector during the quarter. This was the case in negative periods, like January and February, as well as the positive environment in March, which was the market's best month since 2002. This outperformance also came without the benefit of a sustained turnaround among Financials or the reversal of the market capitalization effect we have previously discussed. Information Technology provided the largest positive contribution to portfolio returns during the quarter, while our Industrials posted significant relative gains, as well. Healthcare was the portfolio's largest negative contributor on both an absolute and relative basis.

The stocks that contributed most to portfolio returns during the quarter were Monsanto, Goldman Sachs, and Mastercard. Monsanto again posted better-than-expected earnings gains on strong pricing and increasing demand for their seed and herbicide products, and the company raised 2009 guidance. Goldman Sachs rallied during the quarter as investor confidence increased regarding its capital structure, a rebound in transaction volumes, and Goldman's opportunity as a result. Mastercard also beat earnings estimates on strong pricing and transaction volume growth that is the result of their efforts to capitalize on the continued secular shift to debit and credit usage.

The positions that dragged the portfolio most in the quarter were Bank of America, Humana, and Wynn Resorts. Bank of America was impacted by the nationalization hysteria that spiked in late February before the rhetoric shifted. The stock rebounded sharply in March, as the company confirmed that various parts of its business were, in fact, much stronger than expected and that it has been profitable so far this year. Humana, our leading contributor during the first half of the quarter, struggled after 2010 preliminary governmental reimbursement rates for Medicare Advantage were lower than expected. However, we believe investors underestimate Humana's adaptable model and, therefore, its ability to maintain margins even in the face of a changing reimbursement rate environment. We expect the company to grow earnings this year in excess of 50%.

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While the bulk of our holdings have performed relatively well thus far this year, we continue to monitor the current macroeconomic environment and its potential impact on our portfolio and its risk profile. Although economic data has been weak, recent housing market data and manufacturing production reports have been promising. We are also particularly encouraged by the Fed's aggressive action to boost its balance sheet and provide further liquidity to credit markets, which we believe is paramount to an economic recovery. Additionally, mark-to-market and potential uptick rule changes could provide further, although less significant, positive impact on stocks.

In an environment in which investors seem hesitant and more inwardly focused, we continue to increase the already high volume of contact we have with companies and their customers, competitors, and suppliers to identify strong growth opportunities. We have been proactive in making changes to the portfolio in the past few months to take advantage of this environment and upgrade the quality of our positions. As part of our continuous effort to improve, we have also made two additions to our research team, Amish Desai and Mark Vasquez, who we believe will have a positive impact on our team and our research.

The market and the economy still face significant challenges, but it appears that investors are beginning to differentiate among companies based on news that is more closely tied to their specific fundamentals rather than external influences. While it is impossible to precisely predict when the economy and stock market will make a sustainable turn, we believe this is a positive first step. We cannot recall a time in our recent history when we've had so many ideas that we believe represent such substantial opportunities from current price levels.

Sincerely,

W. Whitfield Gardner   John L. Lewis, IV
