Fourth quarter 2010
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THE ARETE QUARTERLY

Welcome

For years, the mark of an outstanding business has been a "sustainable competitive advantage." Unfortunately, competitive advantages are often bandied about as cavalierly as if they were fashion accessories. "Where did you get that proprietary model? Really? Wow, it looks great on you!"

Needless to say, with our analytical bent, it is not unlike us to be skeptical, curmudgeonly, or even *unfashionable*. As such, we often find ourselves being quite skeptical of the nature, quantity and duration of competitve advantages in the real world.

We are arguably even more skeptical when we evaluate the money management business, and we don't take it any easier on ourselves. Sure we do a lot of modeling and valuation work, for example, but we are not the only ones. Does this really consitute a competitive advantage?

A recent article in the McKinsey Quarterly frames the issues nicely. In *Have you tested your strategy lately*?, Chris Bradley, Martin Hirt, and Sven Smit describe competitive advantages, in one sense, as "distinctive competencies" which consist of things a company does especially well. The authors are careful to note that special capabilities must "be critical to a company's profits and exist in abundance within [the firm] while . . . scare outside."

This helps create an important context for many of the things we do. For example, if the question is, "Is valuation and modeling something Arete does especially well, something that is critical to profits, and something that exists in abundance at the firm?", then our answer is a resounding, "Yes — absolutely!" We have over twenty years of experience in learning, adapting, and refining our approach to valuation. In addition to being crucial to generating superior returns, our valuation work also helps us avoid permanent impairments of capital.

The final part of the test for distinctive competency is the degree to which it is scarce outside of the firm. But what is meant by scarce? Relative to Arete's goal of fuctional excellence, we are the first to admit that there are clearly other examples of very high quality money management firms that do an excellent job of valuation. This, however, defines scarcity too narrowly to be useful.

The measure of a quality active manager is outperformance, after all, and more than one firm qualifies. These managers

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outperform because their skills are scarce relative to all other market participants. Indeed, regarding valuation work, progressively larger proportions of the market don't even attempt to do it. Based on the standard of having skills that are scarce relative to all market participants, it is fair to say that our valuation expertise is extremely scarce, and that it qualifies as a distinctive competency.

Another issue regarding competitive advantage is that one distinctive competency is almost never enough to ensure success in money management. While we do absolutely consider our skills at valuation, fundamental analysis, and managing knowledge as being special advantages, we also view them as individual "ingredients" that alone, are insufficient to ensure Arete's success. The cold, hard truth is that other firms have done the same thing in the past and failed to deliver superior performance or a successful business.

"One distinctive competency is almost never enough to ensure success in money management."

So what is missing? We believe the success of a money management operation is contingent upon demonstrating several dimensions of quality and competitive advantage. Having good "ingredients" is important, but so is having a good "recipe" to combine them in just the right proportions.

An important example of this at Arete is the way we combine our portfolio construction with our marketing strategy. Our portfolio construction is based on creating a relatively diversified, but relatively concentrated portfolio of best ideas. The result is that there can be times when the portfolio does not keep up with the market. Because these are often the times of greatest market inefficiency, and therefore greatest opportunity for future performance, it is critical that our clients understand and embrace these dynamics. Without such an understanding, we would face the risk of losing clients, and clients would risk locking in losses, at exactly the wrong times.

As anyone knows though, having great ingredients and a great recipe still don't ensure having a great meal. Even good recipes require the skill and care of someone who can bring everything together in way that makes for a special experience for the diner.

So it is with money management. We believe that exercising a standard of care is critical to ensure the delivery of superior performance to investors as well as the delivery of a superior overall experience. Arete was founded on the basis of serving investors' needs — specifically, to make their lives better and to help ensure they have adequate funds for retirement. When firms fail to focus on this ultimate purpose, the other components don't mean nearly as much.

Of course it is easier to pursue the end of serving investors' needs when you enjoy it. We, for example, consider ourselves incredibly fortunate to do what we love to do — reading, researching, and analyzing stocks. As a result, we only ask that we get a fair return for our effort. Several other managers, in contrast, believe that with so many skills and so much effort required to manage money well, that they need extraordinary compensation for their "extraordinary" effort. Needless to say, this type of thinking detracts from investment returns.

In summary, we absolutely agree that competitive advantage is an extremely important concept for business. Regarding the money management business however, compeitive advantage is neither simple nor one-dimensional. Instead, it requires the quality ingredients of distinctive competencies, a good recipe that combines strategic and operational elements in a useful way, and the care and skill to prepare and assemble everything into something special. We believe we have done this with Arete and hope you enjoy the results.

Bon Apppetit!

Business Update

In the course of talking to people at various events and gatherings, I often get asked the question of what it's like to run my own business. I can honestly say that the first word that always pops into my mind is "liberating."

This is not to say that running Arete does not take enormous amounts of my time. And there is no doubt that I spend a lot of time doing things like reconciling accounts and typing up contact notes that in and of themselves are not the highest and best use of my time.

However, the vast majority of the decisions people make involve tradeoffs. The way in which we lean when we make these tradeoffs is what is important. My freedom to lean towards doing what I believe to be right and towards doing what is right for clients is the key aspect of my "liberation."

I've been in the money management business long enough now to be aware of most of these dynamics and to have thoughtfully considered the implications of each. It is fair to say that Arete arose from my conclusion that I could improve upon almost every single aspect of the business relative to standard industry practice and to what I saw many firms doing.

I think the most important benefit I have at Arete is the luxury of being able to focus on portfolio decisions solely for their investment merits. This sounds like such and obvious situation, but it just isn't. I have worked where we got a call every day asking for an explanation of relative performance for that day. Anyone who has studied the markets knows that performance on such a short time frame is essentially random. Nonetheless, our jobs were on the line to come up with answers.

I have also heard institutional investors reject investments on the basis of short-term bonuses rather than long-term investment merits. If a manager's bonus is paid quarterly, and his/her performance-to-date merits a substantial bonus, there is often a disincentive to buy a poor-performing stock, regardless of long-term potential.

The unfortunate truth is that there are myriad practices in the business that force transactions up and holding periods down. Ultimately, it makes Arete's pure focus on investment merits feel like quite a luxury. While I keep plenty busy, it doesn't feel like work when I don't have to worry about all of the extracurricular activities that pervade the business at the expense of improving end results to clients.

Another extremely important feature I enjoy about Arete is that the marketing strategy is wholly integrated with the portfolio strategy. I began the exercise of founding Arete by asking what investors want and need. This was fairly easy since I am an investor too and need to manage my own investments. As a professional investor, I want the best possible investment performance at the lowest possible price. I figured this investment *value* would also appeal to a great many other savvy investors.

For most investment products, however, marketing costs constitute a huge portion of total costs. Advertising, marketing, and distribution can cost a lot of money, but what do these functions really do to help investors? Distribution, for example, can make purchase more convenient. But how much should one pay for convenience in regards to a long-term investment?

We take our cue from other industries that have vastly reduced marketing expenses in order to provide a greater value to consumers. Amazon is a well-known example of such a business model. With large, centralized warehouses and automated fulfillments systems, Amazon has leveraged technology to makes books, and lots of other things, available to consumers at prices that are much lower than those found in stores. As much as I like bookstores, buying a book there is like buying a mutual fund from a broker. You get it right away, but you pay a lot more than buying direct.

As part of my mission to provide investment value at Arete, I want to provide the same types of advantages to investors. I provide interested investors with a great deal of information on Arete's website and through our newsletters which are delivered by email. In this way, people can learn a great deal about Arete for free which means we don't have to charge expensive marketing fees like many mutual funds do.

In addition to investment focus and marketing strategy, I also hugely appreciate Arete's unique focus on avoiding conflicts of interest. When I began my career as an analyst, I thought there were so many market inefficiencies because there were a lot of dumb people in the market. Since then, I have grown to appreciate the powerful influence that organizational structure has on individual decisions.

> "Knowledge workers cannot be controlled, they must be motivated."

Perhaps no person has been more thoughtful or had more influence describing the context surrounding organizations as Peter Drucker. In a November 2009 article for the *Harvard Business Review* entitled, "What Would Peter Say?" Rosabeth Moss Kanter describes, "Drucker rarely named or blamed individuals; he saw root causes in the design of organizations — in their structures, processes, norms, and routines. He would remind us that it is the responsibility of executives to challenge that design while being mindful of their companies' ultimate purpose."

So we ask, if the ultimate purpose of a money manager is to serve its investors, why would it grow funds so large as to impede performance? Why would it create conflicts of interest between advisory and broker-dealer operations? Why would executives pay themselves 30 - 50% more than they would make in any other industry? I think the answer is that the design of these organizations has not been adequately challenged to ensure investors are well served.

Drucker also said that, "Knowledge workers cannot be controlled; they must be motivated." And so it is with me at Arete. Because of Arete's ability to focus on investment merits, the vision of its marketing strategy, and its structural aversion to conflicts of interest, I am proud to be part of this effort and am happy to dedicate myself to it. If I didn't enjoy the work and if I didn't truly believe in Arete's mission, it probably would be too hard for me to run Arete. But then, I guess that's why so many businesses fail.

In the meantime, if you have any suggestions for how Arete can more effectively serve you or other investors, please let me know — that's how it keeps getting better.

Thanks and take care!

David Robertson, CFA
CEO, Portfolio Manager

Portfolio Characteristics – Arete Mid Cap Core

A key proposition for Arete's Mid Cap Core strategy is that it is a truly representative mid cap portfolio. In general, this suggests that over time, you can expect to see the aggregate characteristics and sector exposures of the strategy migrate to those of the Russell Midcap Index. During intervening periods, however, sector exposures and other characteristics will reflect the opportunities we find in the market at that point in time.

We believe maintaining a truly representative mid cap portfolio is important for two reasons. First, a truly mid cap portfolio faithfully plays its role in a broader asset allocation scheme. Second, it allows for accurate assessment of performance. Without an appropriate benchmark it is difficult if not impossible to judge whether performance differentials are due to skill or luck, and are sustainable or transient.

For example, many fund managers attempt to beat their benchmark by timing the market and/or migrating style. These tactics rarely generate sustainble out-performance. To us, such activities usually just serve to obfuscate the underlying inability of the manager to add value through a coherent and disciplined investment process.

Portfolio characteristics for the quarter confirm our claim that AMCC is a very representative mid cap portfolio. Market caps remain a little bit higher for AMCC than for the mid cap index and most valuation metrics remain modestly lower.

Sector exposures did not change much from last quarter and for the most part, remained well within our general guidelines of 50% - 150% of benchmark sector weights. The Materials and Processing sector remained slightly above the guideline maximum of 150% and Consumer Discretionary was very close. No sectors were below the guideline minimum.

Portfolio Characteristics (12/31/10)

	Arete MCC*	Midcap Index**
Size		
Average Market Cap ($ mil.)	6,069	5,435
Median Market Cap ($ mil.)	4,519	4,152
Minimum Market Cap ($ mil.)	229	251
Maximum Market Cap ($ mil.)	19,854	21,761
Number of holdings	50	785
Valuation		
P/E current year	16.5	22.0
P/E forecast Y1	19.9	20.0
P/B	2.6	2.9
P/S	0.9	1.4
Yield (%)	0.9	2.3
Valuation drivers		
ROE (%)	12.3	19.6
LT eps growth forecast (%)	11.2	12.1

Source: The Applied Finance Group™
**Note:* Excludes ASCMA allocation resulting from DISCA corporate action.
***Note*: Arete currently does not subscribe to the Russell Indexes and therefore the statistics presented here represent approximations of the Russell Midcap® Index.

Sector exposure (percent of assets on 12/31/10)

Economic sector	Arete MCC*	Midcap Index**	Percentage Comparison
Consumer Discretionary	23.7	16.2	146.7%
Consumer Staples	3.3	5.4	61.3%
Energy	7.1	8.9	80.1%
Financial Services	19.8	20.3	97.6%
Health Care	8.6	8.4	102.4%
Materials & Processing	11.3	6.7	168.0%
Producer Durables	12.8	14.1	90.8%
Technology	6.9	12.0	57.3%
Utilities	6.1	8.1	75.7%
Equity exposure	99.6	100.0	
Cash and equivalent	0.4	0.0	

Source: The Applied Finance Group™
**Note*: Arete Mid Cap Core is represented by the aggregate of all assets in the composite at the given date.
***Note*: Arete currently does not subscribe to the Russell Indexes and therefore the sector weights presented here represent approximations of the Russell Midcap® Index.

Transactions review – Arete Mid Cap Core

During the fourth quarter we engaged in only one transaction which was the purchase of Capitol Federal Financial. We made the purchase with excess cash, but it did bring cash levels nearly to zero. Normally we would not cut trades so close, but we will be receiving a significant chunk of cash for Commscope shares soon. That transaction is expected to be completed in the next several weeks.

Capitol Federal Financial was attractive for two primary reasons. Valuation became attractive when the stock got caught in the middle of a second step mutual stock conversion last summer. As a result of this process, its valuation fell in connection with the valuation of regional banks due to renewed credit concerns at the time. The price of the stock broke through tangible book value which we view as extremely attractive given the quality of the business. In short, we got a very nice business cheap.

We also like Capitol Federal Financial as a nice diversifier in the portfolio. Many of our stocks are very sensitive to economic growth, but Capitol Federal Financial should do well regardless. If things get better, it has plenty of capital to grow organically or to return to shareholders. If things get worse, it has extra capital to buy low. Worst case, we will end up with a 3+% dividend yield and significant appreciation potential.

Market Overview

The "narratives" that we talked about the last two quarters continued to play out through the fourth quarter. Perhaps the only difference was the increase in breadth and magnitude of the rally that began with Fed chairman Bernanke's speech in August about quantitative easing. For the last several months it has felt like we were judiciously pacing ourselves for a marathon, but were getting outrun by many stocks making a mad sprint to the finish line of calendar year 2010.

There were some notable characteristics of the rally. First, we had déjà vu all over again as technology stocks, especially internet-related stocks, outperformed almost regardless of what happened. Salesforce.com, a poster child for the phenomenon, posts a trailing PE of 256x and a price/sales ratio greater than 12x. Unlike many internet darlings of the late 1990s, Salesforce is a real business. However, very much like in the past, these are the types of valuations that are rarely sustainable.

A related, but separate, phenomenon was massive outperformance by a number of the larger index contributors. Historically, we have seen this type of activity much later in a cyclical recovery. Given that the Fed felt the need to implement quantitative easing to nudge (or shove?) the economy back into recovery, it is hard to argue that lower risk and a declining cost of capital are the rationale for rising stock prices.

From a very high level, we see the market acting as a pendulum. Every few quarters it swings one way, and then it swings back. Insofar as this is the case, it does give short-term traders opportunities to jump on the swings. We suspect a fair amount of that is happening.

We also are very sensitive to global risks — they haven't gone away. In our opinion, the many risks the market faces are far more severe than the market is discounting. Further, we also believe the risks have increased by virtue of the fact that none of the really serious problems have been dealt with. At home, we have a big housing problem that we have yet to work through. We are also facing structural employment problems and municipal debt is a problem like it never has been before.

Further abroad, but still extremely important, there are very severe sovereign debt problems. Europe's banks have not been cleaned up and are getting more costly to do so by the day. The emerging market growth story is being challenged by inflation and exchange rates. It is unrealistic to expect emerging markets to continue fueling global growth when that growth comes at the expense of crippling their own economies.

Where does all of this leave us? Importantly, we do not see these risks as devastating or apocalyptic. We do see them as underappreciated and underpriced by the market right now. The primary caveat is investment horizon. For those with a shorter time horizon, we believe some caution is warranted. Returns are a function of original purchase price and there are clear indications that current prices for many stocks are not cheap.

Longer term, we are still extremely optimistic about US markets and about mid caps in particular. We remain fully invested and bullish about the prospects for our companies. Finally, due to our extensive financial analysis, we believe our stocks are largely protected against permanent impairments of capital should a market correction occur for some period during the interim.

Performance review – Arete Mid Cap Core

The Arete Mid Cap Core product is designed with the flexibility to invest in the most attractive mid cap stocks, regardless of any particular "style" designation. With that context, the primary criterion for selecting a stock in the Mid Cap Core strategy is that market value is significantly less than our estimate of intrinsic value. In other words, we try to find situations in which our research generates expectations for a company's growth and profitability that justify substantially greater valuations than what the market discounts.

Our investment process is designed to discover, analyze, and assemble stocks into a diversified portfolio that consistently outperforms its benchmark over time. Specifically, our investment objective is to outperform the benchmark Russell Midcap® Index by 200-400 basis points per year, net of fees, over the course of a market cycle.

Our target of 200-400 basis points of outperformance is based upon our experience with the strategy and upon our judgment of value creation. The primary metric we use to judge value creation is the information ratio. The information ratio compares a portfolio's excess return to its risk as measured by tracking error. Our goal is to outperform by a large enough margin relative to risk to clearly merit the cost in time and resources to evaluate investing with us.

Market performance in the fourth quarter was very strong again in an absolute sense, but failed to keep up with benchmark returns. Arete's Mid Cap Core (AMCC) strategy returned 11.74% (net of fees) for the quarter but modestly trailed the Russell Midcap Index (RMC) return of 13.07% (see pages 9 – 11 for performance and related disclosures). Relative performance was positive in both October and December, but was more than offset by a deficit in November.

Stock performance* (9/30/10 - 12/31/10)

Best performers

Company	Return in quarter (%)
United Rentals	53.3
Foster Wheeler	41.1
Capitalsource	33.0
Ingersoll Rand	31.9
Commscope	31.5

Worst performers

Company	Return in quarter (%)
Constellation Energy	-5.0
NRG Energy	-6.2
Energy Conversion Devices	-8.4
Saint Joe Company	-12.1
Dex One Corp	-39.3

**Note*: Performance includes price changes only, it does not include dividend income in the quarter.

Once again, the best performing stocks in the portfolio probably said at least as much about market conditions as underlying fundamentals. United Rentals posted the best performance for the second consecutive quarter, again posting a 50%+ return. Certainly company performance has improved, but we have no doubt the stock benefited from the tailwinds of improving market sentiment.

Improving market sentiment continued to be an important story across the market in the fourth quarter. The strong performance of Foster Wheeler, Capitalsource, and Ingersoll Rand can each be traced back to Ben Bernanke's speech in August as little changed at any of these companies.

Commscope also benefitted from market trends, albeit indirectly. The company received a buyout offer from the Carlyle Group which was largely facilitated by the availability of extremely cheap debt. While the offer of $31.50 was a 36% premium over the price before discussions, we were not happy as it was based on a trough in demand for networking gear and cables.

The worst performing stocks didn't reveal any more about company performance, but rather reflected the dark underside to otherwise sunny market returns. While the investment thesis for Dex One is predicated on valuation rather than immediate growth prospects, the stock seemed to provide a useful target for those betting against it with short-term trading strategies. We still have every reason to believe it will offer an outstanding value over time.

The Saint Joe Company suffered a similar fate when a well-known hedge fund manager claimed the company substantially overstated some values on its balance sheet. The claim sent the shares reeling and was the only discernible reason for the poor quarterly performance. As with most such claims, there was enough rationale to be credible and therefore to spook those who have not done their homework. We believe the claims are largely irrelevant as the value of the company lies almost exclusively in its land holdings. The value of the land, while hard to specify, can be reasonably approximated by applying familiar probability distributions.

Finally, Energy Conversion Devices, NRG Energy, and Constellation Energy all fell prey to a broader weakness in the market for energy, especially in relation to the low price for natural gas. Undoubtedly, the Marcellus shale gas phenomenon has cast a pall of oversupply over the sector in stark contrast to strength in so many other places. Energy commodities are inherently volatile, however, and if the economy continues to grow strong enough to support valuations in the rest of the market, energy companies will catch up sooner or later.

It is also probably worth mentioning that our underweight in the technology sector hurt performance in the quarter. As noted in the "Market Overview," technology stocks, especially internet stocks, outperformed in the quarter. As a result, our underweight position in technology also impaired our performance relative to the Russell Midcap index.

Investment Philosophy

We firmly believe in the critical importance of a cogent investment philosophy for any investment operation. In order to emphasize this point, and to assist you in understanding how we work, we provide an abbreviated version of our investment philosophy here. The text of our investment philosophy is also provided, in its entirety, in our Form ADV, Part II which is available upon request at any time.

Performance derives from exploiting mispriced securities.

The key to investment performance is finding and exploiting market inefficiencies in the form of mispriced securities. There are two components to this. One component involves determining the fair price of securities in the form of underlying intrinsic value, which we do primarily through calculating discounted cash flows.

The second component of exploiting mispriced securities is establishing a clear understanding as to the various mechanisms at work that allow mispricing to occur. By understanding the mechanisms and motivations of the marginal buyer and seller, we believe we can more accurately estimate the probabilities and expected values of investment opportunities.

Nobody has perfect information.

Competitive pressure and technological development have conspired over the years to make most data and analysis commodities which no longer provide a meaningful competitive advantage. What can provide an advantage, however, is *how* that information is used and *how* it gets interpreted in making investment decisions.

In order to convert the raw material of information into the useful output of a good investment decision, it is necessary to assimilate and synthesize the information into some meaningful form. We believe the most effective way to accomplish this is to thoughtfully deploy resources available according to the nature of the research tasks at hand.

Research culture and research prioritization are also important in relation to analyzing and synthesizing information. We believe that the best way to leverage the collective knowledge and experience of a research team is to encourage active and open dialogue designed to explore multiple perspectives and to challenge individual assumptions, biases, and beliefs. Only by enduring such scrutiny do the best ideas rise to the top. Further, in order to fully leverage these ideas, we believe research efforts must be dynamic and flexible in allocating resources such that ideas receive attention in proportion to the expected benefit to the portfolio.

Execution is crucial for investment success.

In order to create value, an investment strategy needs to be implemented continuously and comprehensively. Actions speak louder than words. We believe the most effective efforts focus on a few simple, but key concepts that work to ensure proper execution of a firm's investment strategy.

The first key to execution is structural in nature and involves a firm's independence. By maintaining independent ownership, an investment firm eliminates agency effects which can present a conflict of interest between clients and certain of its ownership groups. Independent ownership ensures that client and manager interests are optimally aligned.

The second key to execution is temperament. The best investors tend to have a temperament that provides them the courage and initiative to act, often going against the grain, when opportunities arise. However, the same temperament provides balance such that decision-making is not simply a risk-taking activity, but a very conscious and targeted effort to engage in propositions with high risk-adjusted expected returns.

Finally, another important element of execution is simply doing what you say you do in your investment process. Too often, perfectly acceptable investment processes fail when actual investment activities bear little resemblance to the process described in the marketing presentation. We call this the "marketing gap;" the difference between what is said and what is done. Execution is optimized when the marketing gap is minimized.

Arete Mid Cap Core Composite

Arete Asset Management, LLC
Mid Cap Core Composite*
July 31, 2008 - December 31, 2010

Period	Gross-of-Fees Return (percent)	Net-of-Fees Return (percent)	Russell Midcap® Index Return (percent)	Number of Portfolios***	Internal Dispersion (percent)	Total Composite Assets ($)***	Composite Assets With Bundled Fees ($)	Percentage of Composite Assets With Bundled Fees	Total Firm Assets ($)
2008**	-37.97	-38.16	-35.01	3	NA	207,031	207,031	100%	207,031
2009	48.63	47.83	40.48	3	NA	471,867	471,867	100%	673,806
2010									
January	-0.19	-0.19	-3.34	3	NA	470,985	470,985	100%	673,872
February	2.94	2.69	5.00	3	NA	483,663	483,663	100%	689,224
March	7.68	7.68	7.07	3	NA	520,819	520,819	100%	738,658
April	3.36	3.13	3.76	3	NA	537,099	537,099	100%	759,343
May	-9.66	-9.66	-7.35	3	NA	485,200	485,200	100%	790,766
June	-10.18	-10.18	-6.25	3	NA	435,813	435,813	100%	725,087
July	6.87	6.62	7.19	3	NA	464,682	464,682	100%	762,200
August	-6.30	-6.30	-4.40	3	NA	435,425	435,425	100%	720,103
September	12.29	12.29	10.58	3	NA	488,920	488,920	100%	795,537
October	4.57	4.33	3.87	3	NA	510,076	510,076	100%	823,601
November	-0.54	-0.54	1.82	3	NA	507,318	507,318	100%	819,213
December	7.69	7.69	6.92	3	NA	546,315	546,315	100%	877,368
Q1	10.64	10.37	8.67	3	NA	520,819	520,819	100%	738,658
Q2	-16.13	-16.32	-9.88	3	NA	435,813	435,813	100%	725,087
Q3	12.44	12.19	13.31	3	NA	488,920	488,920	100%	795,537
Q4	12.00	11.74	13.07	3	NA	546,315	546,315	100%	877,368
YTD	16.86	15.78	25.48	3	NA	546,315	546,315	100%	877,368

**Note*: Composite returns for September 2008 have been corrected for an error that occurred in the calculation of accrued income. The new, new, corrected performance is higher by 10 basis points, which equals our threshold for materiality. The error occurred due to an ex-post post adjustment made by our reporting software. We have identified the source of the problem and have created procedures designed to avoid recurrence.
***Note*: Peformance through 12/31/08 is from inception of composite on 7/31/08.
****Note*: One new and one existing account contributed additional funds which were not at least 90% invested by the end of December. Per our rules for inclusion, these accounts were excluded from the composite and will be added once the funds are fully invested.

Arete Asset Management Mid Cap Core performance composite disclosures follow:

Arete Asset Management Mid Cap Core performance composite disclosures:

Compliance statement
Arete Asset Management has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Definition of the firm
Arete Asset Management, LLC (Arete) was established in 2008 and is registered as an investment adviser in the state of Maryland. Arete is defined as an independent investment management firm and is not affiliated with any parent organization. Arete currently manages one strategy, the U.S. equity mid cap core strategy, which it markets to individual and institutional clients.

Arete Asset Management Mid Cap Core performance composite disclosures continued:

Benchmark
The benchmark is the Russell Midcap® Index and its performance is reported in U.S. dollars.

Calculation methodology
Portfolio valuations are calculated as of calendar month-end and are computed in U.S. dollars and performance is also reported in U.S. dollars. Time-weighted rates of return are used which adjust for external cash flows. Our smaller, retail accounts contain fee structures in which one flat, per-transaction fee is charged for trading expenses and which embeds an implicit charge for custody. Since trading and custody charges cannot be directly segregated in these cases, they constitute "bundled fees". Gross-of-fees performance returns are presented before management and custodial fees when custodial fees can be segregated from trading, but are presented before management fees and after bundled (trading and custodial) expenses for our retail accounts. Net-of-fees returns are presented after management fees, trading expenses, and custodial expenses are deducted or after management fees and bundled (trading and custodial) fees for retail accounts. There are no instances in which management fees are bundled with trading or custodial fees. Returns are presented net of nonreclaimable withholding taxes when applicable. Arete does not use leverage or derivatives in the management of portfolios. Additional information regarding policies for calculating and reporting returns is available upon request.

The composite
This U.S. Equity Mid Cap Core composite was created in August, 2008 and includes all fee-paying, taxable and non-taxable, discretionary, long only, fully invested portfolios benchmarked to the Russell Midcap Index. For purposes of composite construction, "fully invested" is defined as having greater than 90% of portfolio assets invested in equity securities. Every new portfolio is added to the composite in the first complete calendar month that it is "fully invested". A complete list and description of firm composites is available upon request.

Arete Asset Management Mid Cap Core performance composite disclosures:

Fee schedule
The management fee schedule is as follows: 1% of AUM up to $1 million, 0.75% on AUM greater than $1 million, but less than $5 million, and 0.65% on assets greater than $5 million.

Minimum account size
There is no minimum account size for inclusion in the composite. Please note, however, the minimum initial account size accepted is $100,000.
Arete Asset Management Mid Cap Core performance composite disclosures continued:

Dispersion
Internal dispersion is currently not meaningful as there are five or fewer portfolios included in the composite. In the future, we plan to calculate dispersion using the dollar-weighted standard deviation of all portfolios included in the composite for each performance period.

Verification
Arete has not been verified by an independent verifier for its compliance with GIPS.

To receive a copy of the firm's Form ADV Part II, please contact David Robertson at 410/649-0086 x710, by email at droberston@areteam.com, or by mail at the address listed below.