HUSIC CAPITAL MANAGEMENT

INVESTMENT OUTLOOK

Market Decline

For some time our main investment theme has been the Industrialization of the Emerging World. We have described it as the tailwind driving global growth this decade and continued to hold this view even after the onset of the financial crisis. Regrettably, the Federal Reserve and Treasury Department erroneously stayed behind the curve for a year and as a result the world is now headed into a global recession. This puts our theme on hold for an unforeseeable period.

What will happen now? As a result of the global slowdown, we see authorities and central banks around the world responding in a coordinated way to employ any and all fiscal and monetary tools to reverse the recession and reignite growth. We believe they will be successful.

Many have discussed Great Depression analogies. We disagree. The policy response today has been dramatically different. Monetary and fiscal policy has been expansive versus the restrictive policies of the 1930s. Global governments have announced policies to protect investor deposits in money market funds and increased insured deposit levels at the banks. This prevented runs on the banks. Synchronized global interest rate cuts have occurred to lower lending costs. Global fiscal stimulus policies have been implemented as well. Finally, trade barriers have not been introduced, which contrasts sharply with the Smoot-Hawley tariffs of the 1930s. Unfortunately, these policies take effect with a lag, and in the interim we are gripped in a period of panic and fear where fundamentals have been temporarily suspended.

In fact, we have seen tremendous carnage on individual stocks. In the 1929-1932 bear market, the Dow declined 89%. In John Kenneth Galbraith's book *The Great Crash of 1929*, he used the example of U.S. Steel declining 92% over a three-year period. We have just witnessed a similar decline in U.S. Steel in just the past five months (see the table below).

The selling has been indiscriminant across all sectors and market capitalizations. Redemptions and hedge fund liquidations continue to drive investors to sell where they can, which is in the most liquid parts of the equity markets. The following are some examples of price declines:

Company Name	Price Vs. 1-Year Intraday High	Company Name	Price Vs. 1-Year Intraday High
Freeport McMoran	-86%	Starwood Hotels & Resorts	-80%
Nucor Corp.	-69%	Marriott International	-67%
Potash Corp. Saskatchewan	-77%	MGM Mirage	-91%
Monsanto Co.	-55%	Valero Energy Corp.	-80%
Mosaic Company	-86%	Morgan Stanley	-83%
United States Steel Corp.	-89%	Goldman Sachs Group Inc.	-78%
Wynn Resorts Ltd.	-77%	UAL Corp.	-82%
Toll Brothers Inc.	-47%	**AVERAGE**	**-77%**

**Performance measured from the high in the past twelve months through November 20, 2008*

From the hedge funds to the investment banks to the corporations and their CEOs, leverage was employed. Many benefitted on the way up and then were hurt when the margin calls came. The destruction has been so rapid and dramatic that a great deal of the economic downturn is already being discounted by the market. This, in addition to a recent upturn in insider purchases, gives us some optimism.

We think a few examples of some of our recent purchases will help to illustrate our point:

Amerisource Bergen (symbol: ABC) is a U.S.-based drug distributor. Despite showing consistent growth, the stock has been cut in half since June 2007. Recently the company announced a 10% share repurchase. We see 10% share repurchases as the threshold level signifying that the company believes the stock is undervalued and will be purchasing shares alongside the public investors. This is a strong defensive stock that should successfully weather the economic downturn.

Contango Oil and Gas (symbol: MCF) is a U.S.-based oil and gas producer. We met with management to better determine why the stock had fallen over 60% since June. Most of it was due to margin calls at some competitors. Some of it was due to falling energy prices. The company went from considering selling itself to initiating a share repurchase program. They reviewed for us that they could generate handsome returns on equity at nominal oil and gas prices. It is cheaper to buy energy on Wall Street than it is to buy it in the ground.

Central European Media Enterprises Ltd. (symbol: CETV) was founded by Ronald Lauder of the cosmetic family to take advantage of the fall of the Berlin Wall by purchasing television broadcasting licenses in Eastern Europe. The investment thesis is that as Eastern European countries develop, their desire for goods would follow and advertising revenues would grow. Following a very successful move, the stock is down 90% year-to-date. However, the fundamentals remain sound and the stock is selling under two times trailing 12- month revenues and at single digit price-to-earnings multiples.

We continue our bottom-up focus to identify new opportunities.

How Has Husic Recovered From Bear Markets Past?
It is worth noting that, historically, Husic has recovered quite well from bear markets compared to the benchmark.[1]

For example, for the last five bear market periods, on average, Husic's Classic Growth strategy returned more than 14% over the benchmark[2] for the six months following the benchmark's low, 31% over the benchmark for the one-year period and nearly 29% total over the three-year period after the low. The three-year annualized excess return was 6.5% above the 14% return for the benchmark. The Husic Small Cap Growth strategy on average returned 9% over its benchmark[2] for the 6-month period following the benchmark low, 23% for the one-year period and 24% total over the three-year period. The three-year annualized excess return is 5.8% above the 17.3% return for the benchmark.

Forming A Bottom Is A Process
The extraordinary decline in the stock market hasn't been seen since the 1930s and has resulted in extreme oversold levels in the market. At the low on October 10th the Dow was 44% below the all-time record high October 11, 2007. The Dow did not drop 44% from the high in the 1987 crash. The market was 35% below the 200-day moving average, the largest discount since the 1930s. Composite volume on the New York Stock Exchange (NYSE) hit a record 11 billion shares. Bearish investment advisors (a contrarian indicator) reached an extreme level of 53% in the preceding week.

These statistics indicate capitulation by investors. This was a classic high volume flushing out - separating weak investors from their shares. Recent retests of the bottom have experienced lower volumes, fewer new lows and lower Volatility Index (VIX) readings. This is constructive.

The markets are suffering from a crisis of confidence which takes time to mend. Stimulus programs take time to flow through the system and progress, though slow, is being made. The country is excited about President-elect Barack Obama, and faith in leadership is a key component to restoring confidence. We think that the market is in the process of forming a bottom and believe a rally will run into the spring of 2009.

[1]Returns were measured from the month-end in which the benchmark experienced its lowest value, as follows: HCM Classic Growth: 10/31/1990, 10/31/1992, 4/30/1994, 10/31/1998 and 10/31/2002. HCM Small Cap Growth:10/31/1990, 8/31/1992, 6/30/1994, 10/31/1998 and 10/31/2002.
[2]The S&P 500 Index was the benchmark for HCM Classic Growth prior to Jan. 1, 2000; the Russell 3000 Growth Index was the benchmark beginning Jan. 1, 2000. The Russell 2000 Growth Index is the benchmark for HCM Small Cap Growth.
Note: Past performance does not guarantee future results. The returns presented above reflect the reinvestment of dividends and other earnings but are gross returns and do not reflect the deduction of investment advisory fees, which will reduce the overall return. For example, if $1M is invested over a 10-year period and the value of the account gross of fees for the 1-, 3-, 5-, 7- and 10-year periods is $1.04M, $1.20M, $0.78M, $2.0M and $3.53M, the value of the same account over the same period net of fees would be $1.03M, $1.17M, $0.75M, $1.91M and $3.3M. HCM's advisory fees are described in Part II of our Form ADV, which is available upon request.