



FAYEZ SAROFIM & CO.

Investment Counsellors

A Consistent Discipline for Fifty Years

4TH QUARTER 2009

ECONOMIC COMMENT*

2009 was an extraordinary year— not only for how rapidly economic output and equity prices fell in its opening weeks but also for how quickly officials mounted a massive policy response to avert disaster. The Great Recession was met worldwide with the biggest, broadest and fastest government response in history. Aggressive policy actions stemmed the freefall within months. Leading economic indicators bottomed in the first quarter. Emerging Asian economies, many of which had only stalled, accelerated first and fastest. China achieved annualized growth of some 17% in the second quarter. By mid-year, activity had also begun to turn up in most developed nations. US economic growth resumed in the third quarter at a modest annualized rate of 2.2%. The global economic recovery continued to gain momentum in the fourth quarter.

In 2010, investors will focus more intently on a company's ability to deliver on embedded earnings expectations. Differentiating risk

Globally coordinated policy interventions succeeded in rescuing the financial system from near collapse but could not halt the spread of collateral damage. In the US, the unemployment rate breached a 26-year high reaching 10.2% in October. As joblessness increased, mortgage delinquencies accelerated and spread beyond the subprime sector, exacerbating an already weak housing market and pressuring home prices. Nearly one quarter of homeowners with mortgages had negative equity in their homes. While encouraging trends in unemployment claims, temporary employment and hours worked suggest hiring is poised to resume in early 2010, it will take years of job creation to offset the more than seven million positions lost in this downturn. Small businesses, which have

accounted for the majority of net job creation in the US over the past 15 years, continue to be hobbled by extremely restrictive credit markets. Small businesses have traditionally depended for credit on smaller regional banks, which are now suffering the greatest exposure to losses from commercial real estate. Two other common sources of financing for both small businesses and consumers—home equity loans and credit cards— have become less viable.

While economic prospects have vastly improved over the past year, the recovery is still fragile, and policymakers continue to face daunting challenges. The unprecedented size of policy stimulus heightens the uncertainty as central bankers now unwind emergency measures and begin to plan for raising interest rates. With the speed and strength of the recovery differing so considerably from region to region and across sectors, there can be no synchronized exit strategy. The monetary stance appropriate for the US domestic economy is likely to aggravate problems facing the emerging world. In countries like the US and UK, where extraordinary rescue measures have resulted in huge budget deficits, officials will come under increased pressure to outline credible plans for fiscal improvement. Furthermore, officials will have to navigate a more difficult political environment with increased public antagonism towards bankers and bailed-out managements and increased public support for protectionist measures. By stabilizing financial markets, policy actions have bought time for a self-reinforcing recovery to develop. However, policy measures have not yet addressed the underlying causes of financial instability or tackled the necessary reforms. US households remain heavily indebted, and troubling global imbalances persist.

The course of recovery in 2010 is difficult to predict and potentially volatile. Perhaps the most favorable scenario for equity investors is that the recovery continues to develop at a steady but subpar pace so that inflation expectations remain well contained and policy support can be withdrawn gradually. Equity markets have already risen dramatically in anticipation of a sustainable economic expansion. The conviction of market participants will be tested in the months ahead as the impact of stimulus begins to fade and interest rates rise. Additional market gains will likely be more moderate and more dependent on company-specific fundamentals and earnings prospects.

During 2009, corporate profits rebounded much faster than the overall economy as companies slashed payrolls and drew down inventories. Even as revenues remained under pressure in the second half, earnings generally exceeded expectations, and forward earnings estimates were revised upward. In 2010, operating costs are projected to stay fairly well contained but expected to begin to rise more nearly in line with accelerating revenue growth. Investors will focus more intently on a company's ability to deliver on embedded earnings expectations. With growth abroad projected to outpace the subpar recovery expected for the US, companies with globally recognized brands and growing international customer bases are well positioned to sustain superior growth in both earnings and dividends. These dominant multinationals, which are central to our strategy, are already enjoying greater pricing power than most domestically focused firms and are experiencing fewer constraints from restrictive credit conditions than many smaller competitors. Not only do these high quality industry leaders have the fundamental strengths that we believe will be required to drive the market higher from current levels, but they are also attractively valued relative to lower quality, riskier issues. During most of the 2009 market rebound, valuation distinctions among higher and lower quality issues were compressed. Going forward, risk differentiation should again be important. We believe the high quality companies in our portfolios are poised to reclaim a premium valuation and resume market leadership. The portfolio's outperformance in the fourth quarter may be early evidence that this anticipated rotation in market leadership is underway.

*The views expressed herein are those of Fayez Sarofim & Co.'s investment professionals at the time the comments were made and may not be reflective of their current opinions and are subject to change without prior notice. Neither the information contained herein nor any opinion expressed shall be construed to constitute investment advice or an offer to sell or a solicitation of an offer to buy any securities mentioned herein.

PORTFOLIO COMMENTARY*

4th Quarter Attribution*

After breaking its advance in October, the S&P 500 rallied through year-end, logging a strong fourth quarter and delivering its best annual gain since 2003. The portfolio demonstrated improved relative strength in October and performed ahead of the benchmark for the three months. The biggest contribution to relative results was derived from the very limited and highly selective representation in the troubled financial sector, which was the quarter's weakest performer and the only Index sector to decline. Correct stock selection among consumer discretionary, consumer staples and energy issues also supported relative results. Factors that partially restrained relative performance included the underweighted allocation to technology, the period's strongest sector, and comparative weakness in key holdings in the industrials and materials sectors. For the quarter, the leading stocks in the portfolio included McGraw-Hill, Estee Lauder, Fomento Economico Mexicano, Peabody Energy, Medtronic, American Express and Microsoft. The high quality large caps that are central to our strategy have underperformed riskier, more cyclical issues for most of 2009 but seem poised to resume outperformance as the market enters a more challenging phase. The leading multinationals in the portfolio have the balance sheet strength and sustainable revenue and earnings streams that are expected to characterize market leadership in 2010 as policy support begins to ease.

2009 Attribution

Stocks languished for much of 2004; but thanks to a rally that began in late October, U.S. equity markets finished higher for the second consecutive year after three years of losses. In the fourth quarter, markets shook off a host of worries about Iraq, the election, inflation, interest rates and the dollar and reflected instead solid economic data and better-than-expected aggregate earnings. The portfolio posted a meaningful gain for the year but lagged the benchmark S&P 500, primarily due to our emphasis on the largest capitalization stocks within the Index. Stock selection, reflecting this style bias, was a net drag on relative performance. Key holdings in financials, health care, and technology came under pressure due to negative headlines concerning regulatory and safety issues as well as select earnings disappointments. Correct stock emphasis in the consumer discretionary sector, where we focused on names such as Target, McGraw-Hill, McDonalds, News Corp. and Home Depot, only partially offset this impact. Sector allocations decisions, on balance, had an essentially neutral effect on relative results. The benefit of the portfolio's overweight in energy, the year's strongest sector, and the underweight of technology, which underperformed, was offset by our focus on consumer staples and by our lack of exposure to some of the smaller, more cyclical sectors that did better than the market. In addition to stocks already mentioned, leading portfolio issues included Occidental Petroleum, ConocoPhillips, Freddie Mac, Exxon Mobil, ChevronTexaco and Johnson & Johnson. Despite the handful of disappointing releases in the second half, aggregate earnings and dividends of companies in our diversified portfolio are projected to continue to grow faster than the market with less volatility. The low nominal economic growth that we project over the next several years is expected to highlight the importance of this sustainable earnings power and increasing stream of dividend income. Furthermore, the competitive positioning of the industry-leading multinationals in the portfolio should strengthen in this context of moderating growth, higher interest rates and a weaker dollar.

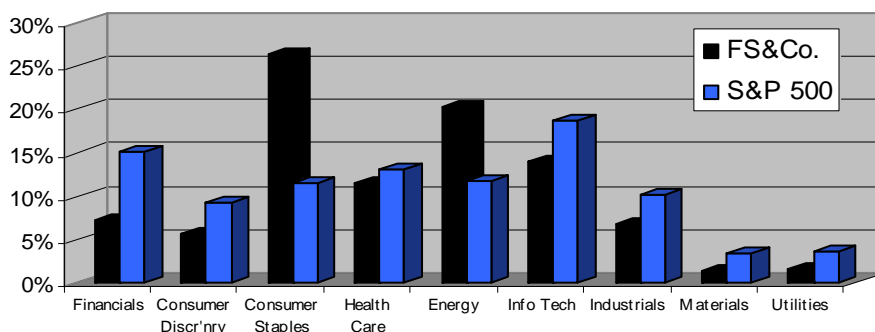
Top Ten Holdings*

Exxon Mobil Corp.
Philip Morris Intl Inc.
Coca-Cola
Johnson & Johnson
Apple Inc.
Procter & Gamble
Microsoft Corp.
Nestle Sponsored ADR
McDonald's
Chevron Corp.

Portfolio Characteristics*

Avg. # of Holdings: 50-70
Avg. Mkt. Cap: \$113 B
Median Mkt. Cap: \$49 B
5-Yr. EPS Growth: 10.7%
Dividend Yield: 2.5%
P/E (2010E): 13.7x
ROE: 28.5%
Debt to Total Cap: 27.4%

Sector Weightings



*Based on a target model portfolio. The specific securities identified and described herein do not represent all of the securities purchased, sold or recommended for the portfolio, and it should not be assumed that investments in the securities identified were or will be profitable. We will, upon request, furnish a listing of all investments made during the prior one-year period. Data as December 31, 2009.

For over 50 years, Fayez Sarofim & Co. has been building wealth for our clients by investing in a portfolio of high quality businesses. This strategy has produced superior returns with a lower degree of risk. However, in 2009 investors preferred high beta, cyclical stocks as the US economy came out of the worst recession and financial crisis since the 1930's. Massive government stimulus and subsequent economic recovery gave financial, industrial and consumer discretionary companies, suffering from damaged balance sheets, liquidity issues and plummeting earnings a new lease on life and allowed many them to avoid bankruptcy. High quality stocks, as defined by S&P (see Exhibit A-Quality Performance Chart on the following page), lagged the market in this environment as their already strong balance sheets and relatively stable businesses had less to gain from government bailouts, fiscal stimulus and the avoidance of a protracted recession. However, as this new decade unfolds, we believe the investment backdrop augurs for a different market leadership than we saw in 2009. The initial euphoria of recovery is behind us, and the new year will almost certainly place more emphasis on strong fundamentals and solid growth prospects. With the Sarofim approach having always valued strong fundamentals, such as industry leadership, geographically diversified earnings, low debt, high return on equity, dividend and free cash flow growth, we believe our portfolio is uniquely positioned to capitalize on a market driven by solid earnings growth and attractive valuations.

At Fayez Sarofim & Co., we believe the next decade will present both challenges to avoid and opportunities to capitalize upon. We see a market environment well suited for active management which can avoid pitfalls, yet identify and leverage select opportunities for growth. The US economic recovery will likely be characterized by high unemployment, a deleveraging consumer and a constrained credit environment. Global competition and overcapacity create an environment of weak pricing power and emphasis on cost cutting. The specter of higher taxes and increased regulation act as further headwinds to growth and investment going forward. With economic slack and high levels of debt on one side and extreme government stimulus on the other, prospects for both deflation or inflation are concerning. However, on the positive side, globalization provides US-domiciled multinationals access to higher growth outside our borders. Financially strong companies not dependent on credit markets will enjoy first mover advantages to make acquisitions or fund R&D or expand globally. Skilled management teams with a shareholder orientation can guide cash back to investors to optimize total return in a lower growth environment. In 2010, we expect to see returns driven by proven performance as opposed to hopeful expectations of "better times."

The companies in our portfolio possess critical advantages in this challenging environment. They source over 60% of profits outside the US, leveraging faster growth when it is available outside our country's borders. With a debt/total capitalization ratio nearly half that of the S&P 500, our portfolio possesses the financial strength to grow without relying on the whims of bankers and capital markets. Our firm's heritage of in-depth fundamental research leads to stock selection of companies with pricing power, sustained competitive advantages and strong management teams. Our sector positioning, which emphasizes consumer staples, health care and energy, has a less cyclical profile with more consistent and predictable growth characteristics. Consumer staples companies historically have been able to maintain pricing power in an inflationary environment due to the value-added characteristics of their products and their ability to pass through commodity price increases. Combined with a focus on the energy industry, our portfolio ought to protect against future inflationary pressures. Income characteristics of the portfolio remain strong with a compound annual dividend growth rate of 11.4% over the past 5 years, a rate almost 5x that of the S&P 500, and a yield of 2.5% commensurate with a 5-year treasury bond. With the portfolio's payout ratio around 34%, we maintain a high level of confidence in our companies' ability to continue growing dividends at attractive rates.

In addition to the attributes listed above, the valuation of the Fayez Sarofim & Co. portfolio remains attractive, if not compelling, trading at a discount to the S&P 500, while at the same time offering exposure to high growth, financially strong, quality companies that also offer liquidity and attractive income characteristics. As the market enters an environment where quality is likely to be more highly valued, we believe the Fayez Sarofim & Co. portfolio is well positioned to lead the market in a continued advance while also providing downside protection in the event of a market setback.

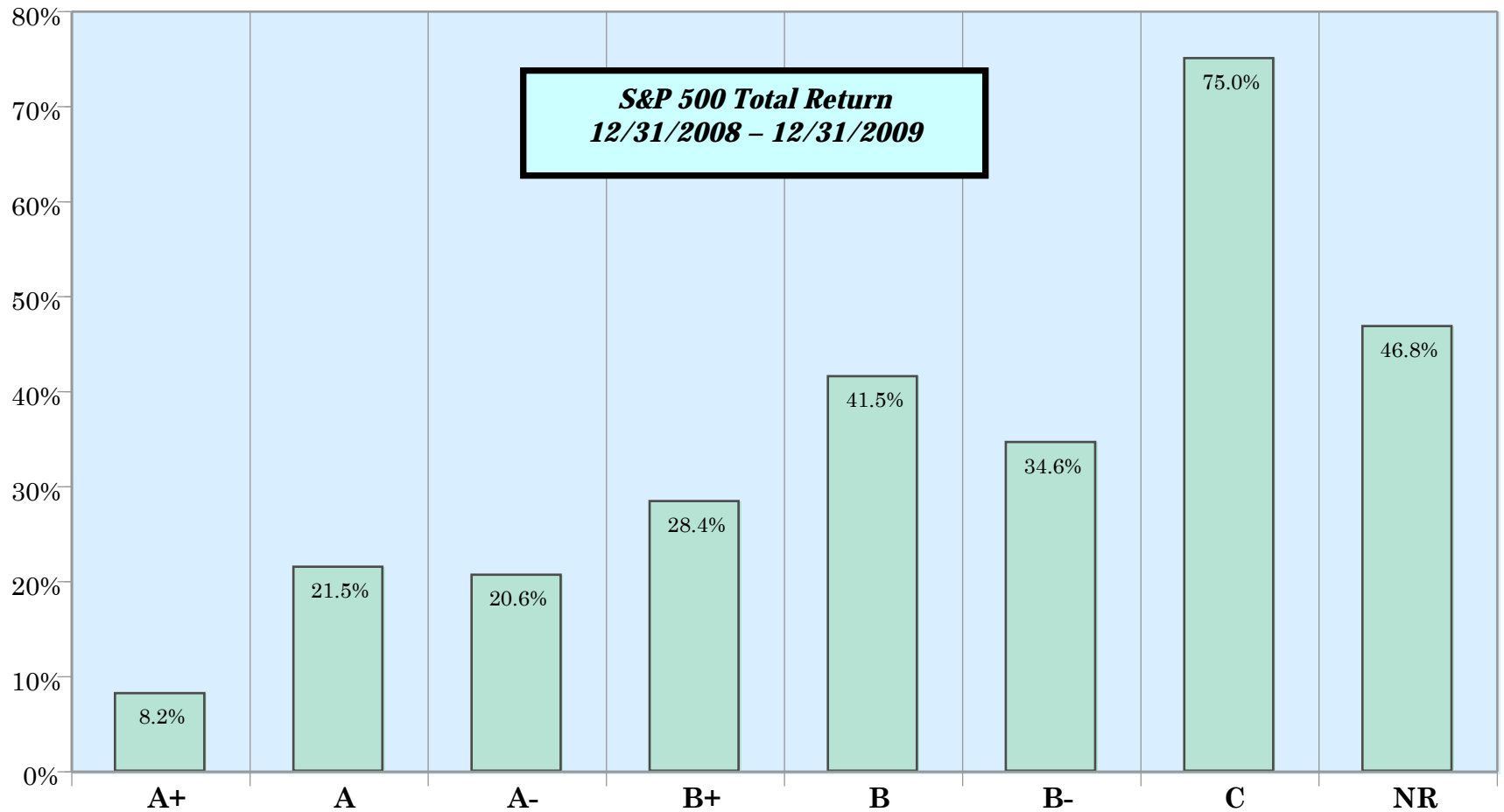
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S&P 500 Average Weight	18.9%	10.8%	13.2%	26.6%	16.1%	4.3%	1.1%	8.9%
% of Equity Portfolio	27.1%	9.3%	17.3%	16.1%	8.5%	0.0%	0.0%	21.7%