



North American Management

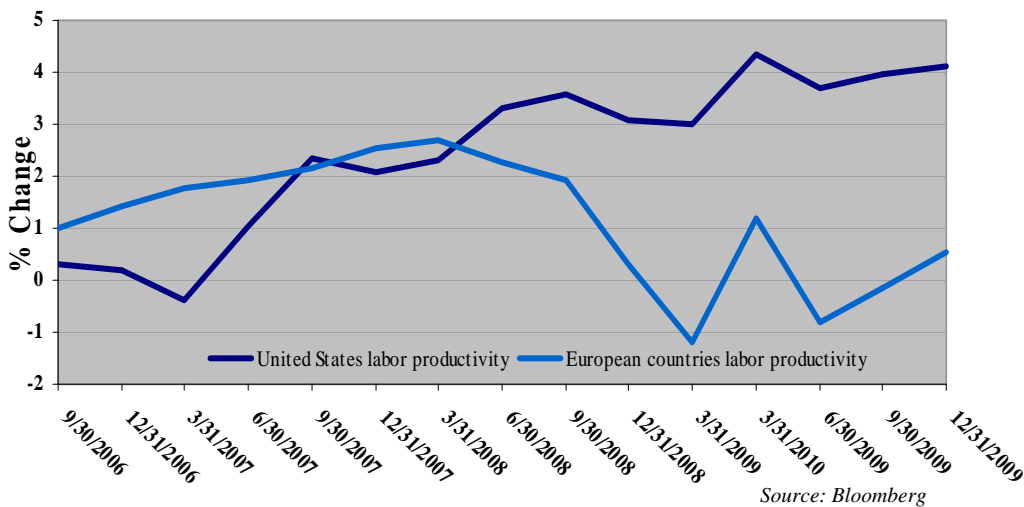
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The global equity markets rose modestly in the first quarter of 2010, grinding higher despite skepticism that 2009's strong performance would continue, with the US outperforming most other regions. After a rocky start, sentiment generally became more favorable as consumer data, including job growth, improved along with corporate earnings.

Most recessions lead to increases in productivity, as labor resources get reallocated, companies manage through inventory surpluses, and eventually raise production from a smaller labor pool. The "Great Recession" is no exception, and we have witnessed a significant leap in US domestic corporate productivity, and surprisingly strong earnings growth amid one of the most significant demand contractions in modern history. What is more, US firms enhanced productivity at nearly four times the rate of their European counterparts (see graph). We believe this productivity differential has been a major contributor to strong domestic equity outperformance year to date and should allow US companies to stay well positioned.



We know that enhanced productivity is a necessary precondition to sustainable earnings growth. This is even more important if we deviate from a classic, robust sales recovery and the deleveraging process creates a long term drag on top line growth. Therefore, in our opinion, companies offering products or services that enhance operational efficiency are especially attractive to own over the next five years. Recent additions to the portfolio include providers of technologies that reduce congested telecommunication networks, industrial firms offering more efficient engines, and others that provide state of the art manufacturing processes or valuable transportation logistics. Record amounts of corporate cash will likely support these and other trends that will be discussed in more detail in future investment letters.

Since the beginning of the year we have been steadily raising our equity exposure, in many cases at the expense of fixed income holdings that may be susceptible to higher interest rates. We also sold some of our gold position, as we suspect there may be more productive ways to profit if inflation pressures materialize. The first quarter 2010 earnings season has begun, the Dow Jones Industrial Average is above 11,000, and the S&P broke 1200 for the first time in eighteen months. We caution that robust second quarter earnings may not necessarily result in the market extending its gains after such a remarkable recovery, so we are retaining some cash as a hedge against the unknown.

We end this letter saddened indeed by the sudden death of David Stone, our Chairman Emeritus and dear friend, on April 12th. At the same time, however, we celebrate his life and our association with him. David played a vital role in shepherding the culture of our firm from the day he first assumed leadership from his father in 1970.



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While his involvement in our activities had been scaled back somewhat of late, his presence was always felt and will be sorely missed. In addition, the greater community will feel his loss as he had been tireless in his efforts for the causes and organizations he championed.

The information in this discussion is taken from sources that North American Management believes to be reliable. Notwithstanding, North American Management does not guarantee the accuracy of the data.