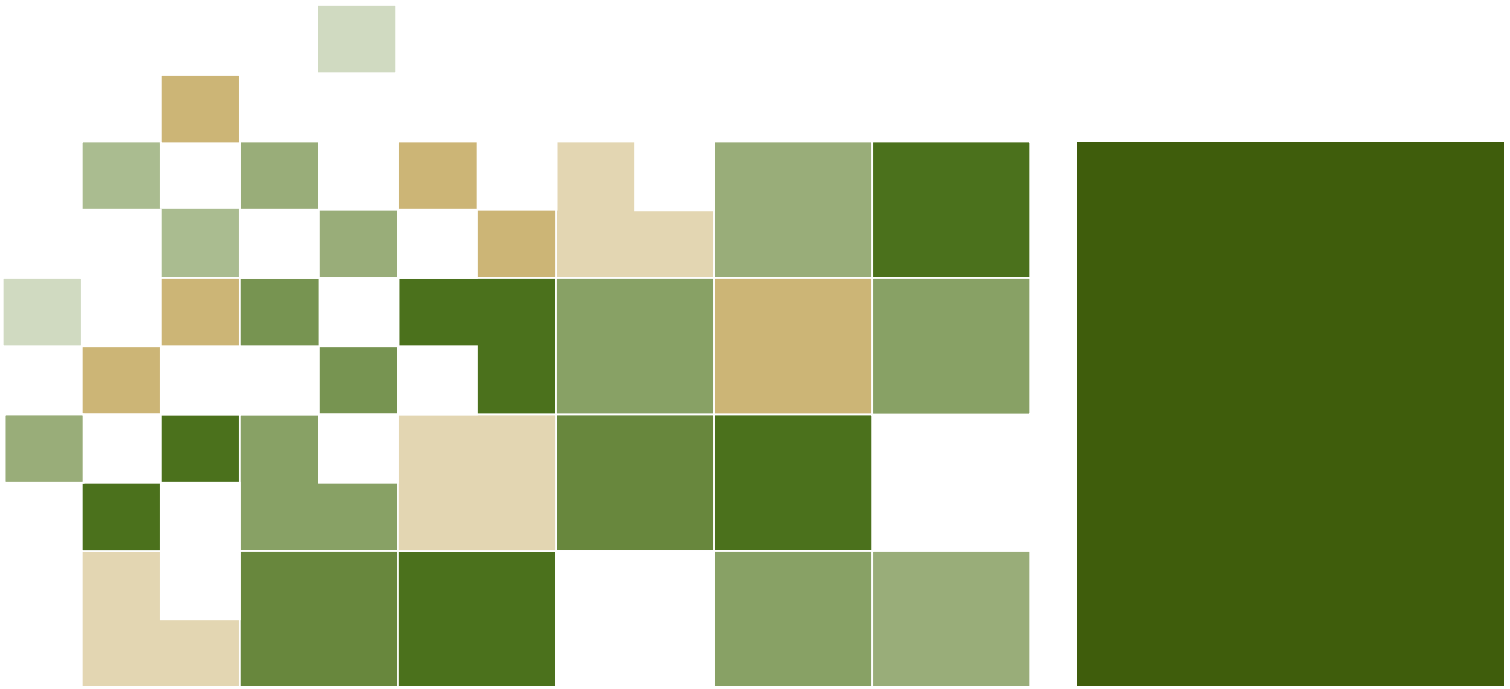


Mesirow Financial's Sixth Annual Investment Outlook

The Good, the Bad and the Ugly

Opportunities, Challenges and...



Full Business Outlooks on 2010
From Mesirow Financial's Business Leaders

 **Mesirow Financial**[®]

Independent Minds.
Innovative Solutions.



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U.S. Value Equity



Punished Markets Go Back for More

At the start of 2009, equity markets still sat cowering in the corner, showing no signs of recovery from the most severe double whammy they had faced since the Great Depression: the liquidity crisis set off by the failure of Lehman Brothers, followed by a severe recession. By the beginning of March, the S&P 500 was down 25% for the year.

Then, like a toddler who emerges from a time-out and plunges right back into play, the market seemingly forgot its troubles and rebounded. Over the six months from March 9 to September 30, the S&P 500 jumped nearly 56% in a full-scale pursuit of risk. Financials, which were at the root of the crisis, were the best performers, rebounding an astounding 140%. High-beta stocks outperformed lower-beta stocks and small caps outperformed large caps to ring up large gains. It was as if the market learned nothing from the time-out imposed by the financial crisis.

The fourth quarter so far has been extremely volatile. A sharp correction in October was followed by new highs in November. While today's valuations have not reached the extremes of the bubble peaks, they are still stretched. The economy is still not fully out of the woods. Economic improvements have been slow and labored and the market is searching for direction.

Good, Bad and Ugly in the Coming Year

We see some bright spots that should help the equity markets in 2010.

- Financial markets and the economy have stabilized somewhat. As a result, uncertainty, which is always bad for the market, is slowly ebbing. That reduced uncertainty should cause a tailwind for 2010 performance.
- Year-over-year earnings comparisons will remain favorable throughout most of 2010, as figures are weighed against last year's recessionary levels.
- Rebuilding inventories, which are at relatively low levels in many industries, should help to sustain earnings.

Some unknowns remain.

- Health care reform is looming over the health care sector. Until the final structure has been determined and the market sifts out winners and losers, health care stocks will face continued challenges.
- Weak commercial real estate and commercial lending remain a significant concern for the banking sector. The potential scope of the weakness and resulting write-offs are not fully reflected in bank balance sheets.

And real dangers persist.

- Weak consumer credit and consumer demand will most likely continue, threatening operating performance of consumer stocks.
- Housing inventories remain high. Starting in 2010, we will begin to see a wave of option mortgage resets to higher interest rates, potentially leading to another wave of foreclosures and a surge in housing inventory. Until that supply declines to normal levels, housing and housing related stocks will remain under pressure.

U.S. Value Equity, *continued*

- Profit margins and productivity have provided some of the only bright news for stocks through the recession and its aftermath. However, it will be difficult to sustain profit margins at the current levels and we expect modest declines in 2010.
- Management at public companies have been selling their holdings of company stock at a greater rate. This trend signals that the equity rebound lifted expectations for equities to unrealistic levels. Valuations are stretched and may come under pressure.

Small Gains Expected for 2010

We expect the S&P 500 to gain 5%-8% in 2010. Small cap stocks may perform similarly to large cap stocks, perhaps up 4%-6%, but are considerably riskier, given their recent strong relative performance. Earnings are likely to grow marginally in 2010, but probably without a boost from productivity gains. In fact, we expect margins to face some pressure and possibly to shrink from current 6+% levels into the high-5% range. Finally, we expect P/E multiples to revert to more normal levels throughout the course of the year. We anticipate that those shrinking multiples will put a cap on market appreciation, even as earnings growth resumes.

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International Equity

Markets around the world have given us eye-popping returns year to date. For 2009, the MSCI All-Country Index was up 33% through the end of November, with individual markets up considerably more. To name a few, Norway was up 80%, Belgium up 60%, Sweden up 67 %, South Korea up 59 %, Turkey up 66%, India up 96%.*

Current Outlook and Opportunities

As we stated last year, since 1970 the MSCI World Index has returned on average 130% over the five years following the trough of a crisis. Assuming March 2009 was the trough, the MSCI World has rallied 60%. If this rally behaves like other rebounds from past crises, we potentially have at least another 70% to go in the equity markets over the next several years.*

So far most of the rally has been driven by multiple expansion - rising prices reflected in rising price-to-earnings ratios. That is, the price of the market has increased but earnings have not. In fact, earnings in most countries have fallen during the crisis. The multiple expansion is based on the bet that the economy will improve, and that corporate profit growth is just around the corner. Since the beginning of 2009, the price-to-earnings growth in the U.S. has risen from 14x to 27x, Germany from 10x to 28x, Sweden from 9x to 22x, South Korea from 9x to 24x, Brazil from 8x to 16x.

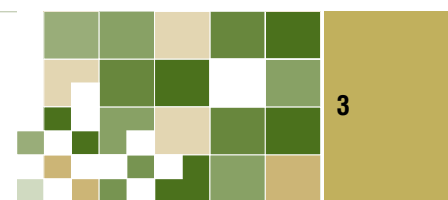
In order for the world markets to continue on their upward trend, corporate profit growth will have to be vigorous and inflation mild. During 2009, any modest earnings growth has been produced by cost-cutting. We expect that some of the profit growth will start in 2010. Analysts are forecasting earnings to grow strongly in 2010. For example, earnings are forecast to grow at 24% for the developed markets and 20% for the emerging markets. (Source: Global I/B/E/S)

Last year we were looking at very many inexpensive markets. Today it is harder to find markets which are inexpensive on an absolute basis. However, there are some markets on a relative as well as absolute basis which look attractive. Some are in the developed markets and some are in the emerging markets. Within the developed markets of Europe, Italy and Spain are trading at a forecasted price-to-earnings ratio of 12x, which on a relative basis is inexpensive. In the emerging markets, some attractively priced markets are Turkey with a forecasted price-to-earnings of 8x and South Korea at 9x. In addition, some of last year's cautionary notes about emerging markets, including credit conditions have improved. Sovereign yields over U.S. treasuries narrowed over the last year from averaging 690 basis points (bps) over U.S. treasuries to now 280 bps over treasuries. Risks, however, remain in the credit markets as witnessed by the suspension of debt payments by Dubai World. Deleveraging will take several years more.

Although we cannot expect that markets will return 30% every year, we believe it is important to remain invested in the markets in order to take advantage of the next leg of the market rally whenever it may come.

In spite of the global financial crisis, much of the equity marketplace continues to expand globally. We believe there are enormous opportunities now. It is a very exciting time to be considering investing in the global markets. We urge you to look seriously at these opportunities in international investing and welcome the opportunity to discuss international investment strategy with you.

** Past performance is not indicative of future results.*



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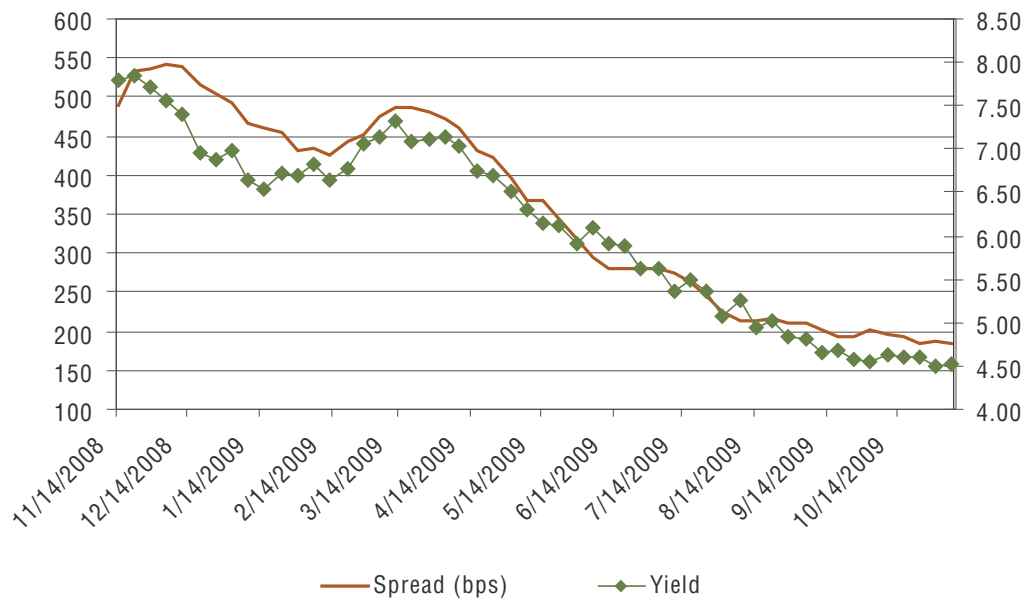
Fixed Income

Confidence Came Back

Fixed income markets performed beyond everyone's expectations during 2009. At the end of last year, investors showed a voracious appetite for the safety of Treasury bonds and little demand for anything else. But then things started to change. Business and consumer confidence increased. Housing prices appeared to stabilize at mid-year. Market liquidity improved as bid-offer spreads significantly contracted. The spread between the London Interbank Offered Rate (LIBOR) and U.S. Treasuries, a measure of investor anxiety, dropped from more than 200 basis points to 20 basis points. Government intervention in the form of sponsored hedge funds or direct purchases loosened up the market for securitized bonds, such as asset-backed and commercial mortgage-backed. Large numbers of buyers for newly issued bonds emerged.

The movement away from risk-aversion to active risk-taking had a profound impact on the fixed income market as a whole. In the Treasury sector, yields on all but the shortest notes increased. Yields and yield spreads on corporate, asset-backed and mortgage-backed bonds plunged, providing substantial returns for investors who underweighted Treasuries. For example, since November 2008 yields on corporate bonds have declined from near 8% to around 4.5% and yield spreads have dropped from close to 550 basis points to below 200 basis points. (See chart below.) The performance of high yield bonds has been even more impressive, returning more than 50% since the end of the year.*

Corporate Bond Yields and Spreads



Source: Barclays

What to expect in 2010

The Fed will likely keep short term rates near zero for most of 2010. Funding the massive deficit will ensure an excessive supply of Treasury debt. As a result, rates on longer Treasury debt should rise and the yield curve should steepen.

Agency-backed residential mortgages have become very overvalued due to government purchases intended to keep mortgage rates low.

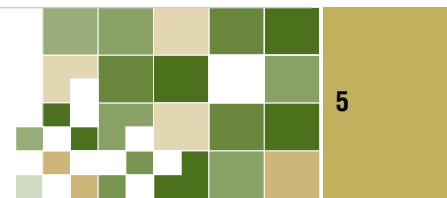
Fixed Income, *continued*

Similarly, the Term Asset-Backed Securities Loan Facility (TALF) has proven to be partially successful. Bonds backed by credit card debt and automobile loans have been bid up to fair value as a result of very attractive government financing. However, spreads on bonds secured by commercial-mortgage-backed loans remain significantly higher than normal. Despite an expected increase in credit losses and decreasing recovery values, well-structured bonds are attractive at yields currently exceeding 7%.

While spreads on corporate bonds have decreased, they are still higher than long-term historical averages. We still find value in high-quality non-cyclical entities with strong balance sheets and financial flexibility, and without near-term financing needs. High-yield bonds are less attractive on a risk-adjusted basis after their spectacular rally earlier this year.

During 2009, bond market returns were dominated by falling risk premiums. Today, with the market seemingly split between those looking for deflation and those fearing runaway inflation, Treasury rates could be particularly volatile. Bond market returns in 2010 will be heavily influenced by the direction of interest rates.

**Past performance is not necessarily indicative of future results.*



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Mesirow Financial
2010 OUTLOOK

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Private Equity

By nearly every measure of market activity, 2009 has been a challenging year in the private equity market: Fundraising is down over 60%, investment pace is down 67%, distributions are down 60% and returns are down 20%. Faced with the tremendous public market volatility of the past year, many investors have revised their approach to illiquid private equity assets and will likely place more scrutiny on the quality of their private equity relationships going forward. We believe the fundraising challenges of the past year will persist in 2010 as limited partners continue to drop underperforming managers in favor of proven teams with tangible ability to drive operating improvements in acquired companies. Venture capital and buyout firms with incomplete teams, out of favor strategies and limited track records will be particularly impacted by this ongoing shakeout. While we expect private equity fundraising to rebound from the cyclical lows of 2009, total new commitments are unlikely to reach even half the peak levels set in 2008 and capital will be more concentrated with the most proven firms. This development ultimately portends well for long-term private equity returns and sets the stage for limited partners to secure more investor-friendly terms from general partners.

We expect to see leveraged buyout activity accelerate in 2010 as a more robust leveraged loan market returns and strong new issuance in the high-yield bond market continues. Stabilizing credit markets will also allow buyout firms to begin addressing a key investor concern – the refinancing of massive debts issued in 2006 and 2007 to finance very large leveraged buyouts. Considerable progress has been made on this front as buyout sponsors use an array of tools to chip away at these debts.

With regards to attractive private equity opportunities, in 2010, we believe new leveraged buyouts will feature attractive pricing relative to historical cash flow multiples, but with more conservative debt financing of generally less than 5.0x cash flow. Investors will also have greater ability to influence capital structures to their advantage, including liquidation preference and other structural downside protective features. Given that buyout sponsors were quick to address bloated operating costs at the outset of the downturn, we believe buyout portfolios are generally well positioned for profitable growth in a recovery scenario.

After a decade of underperformance, the shakeout of marginal managers in the venture capital space is well underway. Many venture firms will be unable to raise new funds during 2010 and will begin the long process of exiting the business. Given the scarcity of quality early-stage investment opportunities and the sensitivity of venture capital returns to capital inflows, we believe this is a healthy outcome. However, the low frequency of profitable exits will remain a problem for venture capital as there are few signs that the IPO market will stage a major recovery in 2010. In this environment, we believe some early stage venture capital firms will migrate their focus to later stage companies, effectively taking later stage risk at early stage valuations.

Despite the well-publicized liquidity crises of several large limited partners (particularly certain university endowments and financial institutions), the secondary market opportunity has not materialized as fully as we had expected. However, we believe that the enormous bid-ask spread that kept sellers on the sidelines during 2009 will narrow in 2010 as a handful of secondary specialists look to deploy very large funds. As an opportunistic secondary buyer, we will continue to take advantage of select opportunities to purchase quality assets at deep discounts to fair value.

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Advanced Strategies

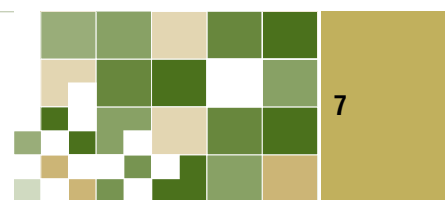
Hedge funds responded in line with other risk assets during 2009 as policy induced asset price re-inflation drove many investors out of low risk assets. While some of the bounce back in prices was a result of depression risk being re-priced out of these assets, a significant component of the revaluation was a result of portfolio shifts from investors being driven from low yielding treasury securities by very accommodative monetary policy. Hedge funds participated actively during this period with many reclaiming their high water marks established in 2008.

The underlying economic environment, while improving, is still fraught with risks. Growth, at best, will likely be well below trend for a significant period of time even as it occurs on a low level of economic activity. Additional shocks to the system could create significantly worse outcomes. Fiscal policy has slowed financial deleveraging by “pulling forward demand” and exchanging household debt for government debt. In the U.S., monetary policy has de facto guaranteed a large portion of financial assets and bank liabilities in the economy. Consequently, financial market performance remains highly dependant on government support. Policy mistakes (or perceptions thereof) can still lead to substantial volatility in markets.

For hedge funds this translates into potential opportunity. Asset price volatility will likely continue to be elevated for some time as natural corrections to market run ups and policy shifts will affect market liquidity. As this occurs, the liquidity-driven, low asset price dispersion environment of 2009 will give way to more fundamental value opportunities allowing security selection to drive performance on both the long and short sides of portfolios.

We believe that potential opportunities in the near term continue to lay in credit-oriented strategies, especially those focused neutral to short high yield and long distressed credits. Relative value strategies, which arbitrage market participant disagreements over asset prices, offer potentially attractive return opportunities that generally have low correlation to traditional asset markets. Most macro-oriented and commodity-oriented strategies offer higher risk but also potential opportunities for attractive rewards should the economy falter. As the year progresses, security selection strategies in hedged equity and long/short credit should provide improving opportunities as valuations rationalize between issuers in these markets.

It is our opinion that the key to success in hedge fund investing today is to diversify across a broad set of hedge fund strategies and maintain a balanced long-short approach. Focus for 2010 should be toward those that do not require directional views of either the equity or credit markets but rather offer low correlation. Directional strategies should be offset with short strategies in order to isolate uncorrelated sources of return. This balance will help to mitigate negative performance should the economy falter yet provide return through security selection in most other situations.



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Currency

The currency markets of 2009 were less volatile than those of 2008, but equally as interesting. The year began with a strong US dollar as financial turmoil encouraged a flight to higher quality assets. This phase ended in March, and as the equity markets rebounded the US dollar began its slide. The fall of the dollar was exacerbated by fears of inflation brought about by massive government borrowing. For the year, the Euro and Yen rose by over 5%, while commodity currencies such as the Australian dollar were much stronger, rising over 25%, and emerging market currencies such as the Brazilian real were the top performers, appreciating over 30%. Measured from the market lows of March, the gains were even more pronounced with the Euro up over 15%, the Australian dollar up over 40% and the Brazilian real up over 35%.

One of the most interesting aspects of currencies in 2009 was the atypically high correlation to equity markets. In the past, currencies have displayed modest correlation with the markets – averaging less than 20% between 2004 and 2006. However, the dominant financial market theme throughout the year has been the cycle of risk aversion followed by risk seeking. This cycle has played out simultaneously through many financial markets including equities, currencies and commodities, specifically metals. As a result, since the market bottom in March, the daily correlation between the equity market and the US Dollar Index has been over 95%.

Looking forward to 2010, there are several major themes to consider. First, the high correlation referenced above has a negative impact on US based international equity investments. When equity prices fall, so does the currency component that is imbedded in these international equity portfolios. In past environments, the currency might have been viewed as a risk diversifier, but today it clearly increases the risk in international portfolios. Although the high correlation is not expected to last forever, it is expected to persist for some time. In light of this, forward thinking investors will be examining currency risk as a critical aspect of their portfolio management decision.

The second theme involves the continued devaluation of the US dollar. While most market participants expect a lower dollar going forward, there are considerable risks of sharp reversals. The world economy and financial markets have not seen the end of crisis. As shocks sporadically develop, there will be a flight to the relative safety of the dollar. So, while the overall trend may be lower, large counter-trend movements are very likely. This environment provides an expanded opportunity set for investors that look to currency as an efficient and highly liquid source of alpha, in both developed and emerging markets.

Finally, there are two markers to look for in 2010 as they relate to currency. The first is how China will respond to increasing demands for a floating currency. Accommodation and dialogue will result in relative stability while a more combative posture will lead to widely fluctuating currency markets. The second marker is the likelihood of a change in interest rate policy in the US. If the Federal Reserve begins raising interest rates because growth has returned, the dollar will rally. However, the dollar will fall if rates rise because the US needs to pay a higher return on its debt in order to attract investors. The outcome of this tension should provide for another interesting year, filled with opportunity in the currency markets.

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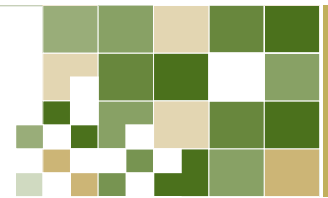
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Institutional Real Estate, Direct Investments



In 2009, the U.S. institutional real estate market continued to experience increasing cap rates and weak property fundamentals (higher vacancy rates, increased tenant concessions and lower rental rates) across all property sectors with multifamily experiencing the most stable conditions on a relative basis. In 2009, investment activity was down significantly (89%) from peak levels seen in the second quarter of 2007 and off 71% from the same period in 2008. We believe current valuations have declined on average 30-35% from the peak in 2007 in all property sectors and with vintage, quality and location affecting this ranges, plus or minus. This low level of investment activity certainly makes it difficult to ascertain valuation parameters especially with the debt markets offering few options.

In 2009, the performance of the National Association of Real Estate Investment Trusts (NAREIT) and National Council of Real Estate investment Fiduciaries (NCREIF) indices continued to show differing results much like in 2008 performances. In 2008, the NAREIT index, which is an indicator of public real estate performance, was a negative <37.34> % while NCREIF, an indicator of private real estate performance, was a negative <6.5> %. From January through the end of September, the NAREIT index was a positive 17.74% forecasting a recovery in the commercial real estate markets while NCREIF was a negative <15.85> %. We believe that the re-pricing of assets within commercial real estate will continue into 2010 along with an increase in transactions as the bid/ask gap continues to narrow between buyers and sellers.

Debt Availability Like last year, 2009 continued to be a difficult year for owners to access debt for commercial real estate assets (for acquisitions or refinancing) with the lone bright spot being the government-sponsored enterprises (GSEs)—Fannie Mae and Freddie Mac—for the multifamily market. Lenders continue to be selective on asset type, asset quality and sponsorship while at the same time decreasing loan-to-value ratios, increasing debt coverage ratios and going back to traditional underwriting standards not seen since the 1990s. We believe that until new debt sources are made available to fill the void left by the collapse of the Commercial Mortgage Backed Securities (CMBS) market, there cannot be a true recovery in commercial real estate (with the exception of the multifamily market).

U.S. Real Estate Fundamentals The U.S. economy has continued to suffer in 2009, particularly on the jobs front. The outlook on job losses is improving but there remains much uncertainty as to whether it can turn positive and ultimately be sustained into 2010 and beyond. Not surprisingly, through the nine months ended September 30, 2009, all property sectors have seen an erosion in fundamentals, with the weak retail market resulting in a national vacancy rate for the U.S. neighborhood and community shopping centers of 10.3 %. We are also experiencing similarly weak conditions in the office market, with the national vacancy rate at 16.5 %, up from 12.5 % two years ago and the industrial market where vacancy rates have increased significantly to 10.4% from 7.8% several years ago. Finally, although the multifamily market has held up better than other sectors, the national vacancy rate is still up to 7.8% up from 5.8% several years ago. The multifamily market is benefiting from the decline in home ownership resulting from the credit crisis as well as from an increase in demand due to positive demographic trends. Similar to last year, the silver lining on the U.S. commercial real estate market overall is that new supply is currently very limited in all property sectors due to the lack of construction financing.

The Opportunity We believe that there are some good opportunities for investment today, particularly in the multifamily sector, and we expect that to continue into 2010. The opportunity to buy assets well below replacement cost either through debt or equity exist today. With that said, current cash flow is what is driving valuations and the lending com-

Institutional Real Estate, Direct Investments, *continued*

munity. Going forward, investors will need to rely on investment managers' operating acumen to drive incremental cash flow growth, and not rely on high leverage or cap rate compression to drive appreciation returns.

Source:

1. National Association of Real Estate Investment Trusts
2. National Council of Real Estate Fiduciaries
3. Reis, Inc.

Past performance is not indicative of future results.

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Institutional Real Estate, Multi-Manager Strategies

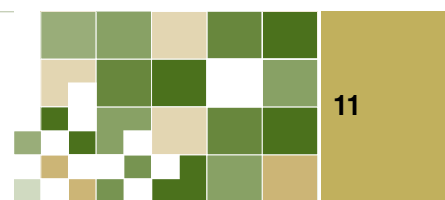
What a year for commercial real estate. At the end of the Q309, the trailing four quarter return for the National Council of Real Estate Investment Fiduciaries (NCREIF) property index was -22.1%, the lowest one year return in its 31-year history. NCREIF was not alone,- the MIT Transaction-based index was down 36.5% and Moodys/REAL CPPI was down 40.6%, both from their peaks.

However, we are starting to see signs of (at least) a recovery of confidence. In the first half of the year, as the real estate risk premium required by both investors and lenders soared, global transaction volumes dried up, down 57% from the first half of 2008. However, global transaction volumes increased 40% in Q309 versus Q209. Equity capital is returning to London to buy yielding assets at supposedly deep discounts, and China is on fire; with 17 markets having seen more than \$1 billion in new acquisitions and more than 100 Chinese companies having done \$100 million+ deals. Even the struggling U.S. posted its first transaction volume increase in two years (albeit total U.S. volume represents only 11% of global transactions). Additionally, after two straight years of rising, global cap rates actually fell 15 basis points in Q309.

Although the market is showing some early signs of improvement from a transaction standpoint, we still see weak fundamentals. Demand is still soft and rents will continue to fall and vacancies continue to rise in 2010. While global central banks have injected the financial system with massive quantitative easing, this will not heal sick real estate deals. The only remedy is rapid recovery or restructuring and default. We expect to see more of the latter before we see the former.

In the U.S., we have over \$1 trillion in commercial real estate debt coming due in the next three years. The European NPL market is estimated to exceed \$750 billion. These are awe-inspiring figures and with values in decline and lenders continually tightening criteria, there is more pain to be felt before we can have a sustained recovery in pricing. To date the “extend and pretend” attitudes of lending institutions has been mostly accepted by regulators, but, we believe that the banks are hoarding capital in preparation to take their write downs and shed assets in 2010 and 2011. Expect to see continually more volume in the first half of 2010.

There is also a silver lining. When markets are falling, our instincts tell us that risk is rising, and when markets rise, we feel risk is waning — this is a fallacy for long-term investors. As the asset class has been deleveraged, it also has been de-risked. Today, we are buying real estate at a cheaper price per foot (well below replacement cost), with lower rental assumptions, higher current yields and less leverage. With inflation at bay (for at least the intermediate term) the real cash-on-cash return for acquiring real estate today (which can be double-digits) presents an attractive opportunity to earn current income while waiting for future growth.



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Investment Advisory

Last year, we emphasized the importance of an investment plan. In no year was that ever more important than in 2009, as investors' tolerance for risk has truly been tested. We continue to remind our clients that the best way to weather unforeseen market turmoil is to rely on their personalized investment plan. Well-prepared investment plans are tailor-made to suit each investors' risk tolerance, asset allocation and both short- and long-term investment goals. When faced with shifting market events, our clients can feel comfortable knowing they have a comprehensive plan in place.

As the markets and the economy move closer to "normal," we also believe it is an opportune time for investors to evaluate risk levels to see if changes to their Investment Policy Statements are necessary. Two points should be considered when reevaluating portfolio risk. First, the market fluctuations we experienced this past year will likely happen again; and second, "normal" will look very different going forward. Investors should also focus on how much they can lose in an investment rather than how much they can gain, as well as determine a comfortable level of volatility in their investment strategy and live with it.

The second half of 2009 can be seen as a period for recovery for most investors. Despite the ebbs and flows to the economy and market, we believe certain investment principles remain true. Most notably, investors should focus on their family's financial needs now and during retirement, establish goals that seek to achieve long-term compounding of returns and try to avoid the daily "noise" of actionable trading ideas.

Retirement Plan Advisory

Retirement plan sponsors continue to deal with an increasingly challenging and complicated retirement plan environment. In today's volatile markets, retirement plans attract an increasing amount of attention from Congress, the Department of Labor, the SEC and plaintiff attorneys. Specific areas of concern continue to be employee savings and the dramatic impact markets have had on their account balances, as well as the performance of "target date funds", which ironically, were backed by the DOL in the Pension Protection Act as a "qualified default investment alternative" or QDIA. Also, proposals from the Senate, House and Department of Labor regarding the disclosure of fees and revenue sharing and advice in retirement plans were put on hold by the Obama Administration in order for new appointees to have input into the regulations.

The Pension Protection Act was the most significant reform to retirement plan law since ERISA was enacted in 1973, and it now seems inevitable that retirement plan law will see additional reform in the months and years to come. Because of current law and possible reform, retirement plan fiduciaries face unprecedented liability and require more objective assistance than ever before. Specifically, fiduciaries need help selecting the appropriate investments, understanding and comparing fees, evaluating plan vendors and creating innovative ways to help their employees reach financial security. Not only do we provide these services to our clients, we also accept, in writing, a fiduciary status on clients' behalf as further evidence of assurance. Being an independent, registered investment advisor, we provide comprehensive consulting services that establish and/or maintain an ongoing documented process of prudent oversight and due diligence.

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Investment Strategies

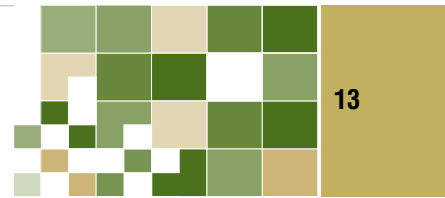
This year proved to be more of a “long term planning” year for large financial institutions that are currently weathering the storm of the financial crisis. In the coming year, we believe that these firms will look to our team’s independent asset allocation, manager selection and due diligence capabilities to enhance their products. Undoubtedly, the recent market turmoil has verified the relevance of having an independent expert assist with these services. The Investment Strategies team sees the largest growth opportunities for 2010 in two main areas – plan sponsor investment consulting/fiduciary partnership services and our retirement income solution.

We have also seen many defined contribution providers in the small retirement plan market making an effort to enhance their product offerings in order to stay competitive, while also working in synch with their distribution structure. These products are primarily distributed in the financial intermediary space, so our team has implemented a flexible, “advisor friendly” program that can help to make their plan sponsors’ duties more manageable with respect to investment option selection and monitoring.

Our team provides two primary services – an added layer of quantitative and qualitative due diligence of the provider’s investment options and an added layer of legal protection to the plan sponsors. As opposed to taking the considerable legal risk in offering such a solution internally, defined contribution providers can look to us for these services and instead focus on expanding their businesses.

Adding to our core services, we recently developed a retirement income solution that optimizes both the product allocation and asset allocation for traditional investment products and advanced retirement income products. With this solution, we have been targeting four types of firms: 401k providers seeking rollover assets and/or offering in-plan guaranteed products, institutional guaranteed product manufacturers and financial advice providers. This solution will offer firms guidance as to “how much” and “when” to allocate to guaranteed products. While some of these products are designed to accrue benefits during accumulation, many only make sense for investors at or near retirement, with the appropriate amount depending on the product details. To account for these considerations, our framework generates easy to understand product and asset allocation solutions that explicitly account for key features of these complex products.

Even though many firms have identified the need for a retirement income solution, only a few seem poised to take a leadership role in implementing one. Because of our team’s business development and collaboration efforts in 2009, however, we believe that we are well positioned to experience growth in this arena next year.



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Real Estate

Although the storm has been raging for some time and appears to be diminishing, we have not quite reached an end. Values continue to fall and cap rates continue to rise across the broader real estate market. Real Estate Research Corporation just reported that cap rates for multifamily rental product have shown the first small decrease since the recession started – a small ray of light through the storm. Real estate values will continue to be discounted, approaching a flat bottom later in 2010 - 2011. As the economy recovers, another cloud approaches: \$3.2 trillion in maturing commercial real estate debt. Much of the debt was lent at the height of the market in 2005-2007. The ability to refinance much of this debt will be hindered by property fundamentals: vacant space, reduced cash flows and diminished valuations. Extend-and-pretend will end, sooner or later. There will be winners and losers during this period. No storm lasts forever. As distressed assets continue to need recapitalization in the future, opportunities appear to acquire good cash-flowing assets well below their intrinsic values. Now is the time to buy “right” so you can sell “well” in the future.

Chicago Office Market

Jones Lang LaSalle reports that class A multi-tenant office vacancy in the Central Business District has reached 15%. Three new Class A buildings are being delivered which will add over 3 million square feet to the market. In addition, there is 4 million square feet of sub-lease space now available in the downtown market. Supply is increasing; demand is decreasing, so prices are falling. Gross asking rents have declined 5%. Class A net rent is now around \$25 to \$35 per square foot. Tenant improvement allowances are up in the \$65 to \$85 per square foot range and free rent can be as much as 6 to 11 months, depending upon length of lease. Total CBD office inventory is about 135 million square feet. 20 million square feet of office space is vacant – a 3 to 4 year supply of inventory in the CBD. The suburban market is seeing greater pains with total vacancy around 25% and net rents down around \$18 to \$24 per square foot with free rent routinely above 6 months.

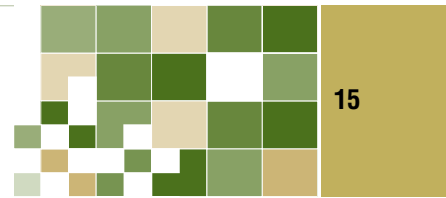
Chicago has a solid well-diversified economy and highly-educated work force. As the recovery approaches, job-creation will overtake lay-offs and office vacancies will diminish. The velocity of recovery is uncertain and will be bumpy, but as the long-term economic outlook for the Chicago economy remains strong, long-term real estate values remain solid. Discounted asset purchases today will be rewarded by attractive investment returns tomorrow.

For-Sale Residential Market

Appraisal Research Counselors indicate that, since 1990, over 48,000 new for-sale units were added to the downtown market – an average of 2,400 units per year. Despite large price discounts over 25%, only about 600 units will be absorbed by the market in 2009, mostly in the \$300 per square foot product sector. Due to job loss, lack of buyer confidence and scarcity of financing, buyers continue to walk away from contracts and their deposits. With over 4,300 unsold units in inventory and an additional 986 units in the pipeline, Chicago easily has a 3-year supply on hand. Developers are trying many means to rid themselves of excess inventory – price cuts, free parking, free upgrades, special financing for home buyers and conversion to rental. The \$8,000 federal tax credit for first-time homebuyers has been extended until June 30, 2010. This will help sales to entry-level market segments. The move-up market will be helped by a new tax credit of up to \$6,500 for some buyers. Nonetheless, absorption of excess inventory will remain difficult until job creation fully recovers.

Multi-Family Rental Market

Demand for class A and B apartments continue to increase in the face of an uncertain job market. Overall, total occupancy has reached 94%. Appraisal Research indicates that class A effective rents are at \$2.10 per square foot, and class B effective rents are at \$1.88 per square foot. Market fundamentals remain attractive which would normally lead to new development in the rental sector. However, financing new construction remains difficult. While Federal capital is available through Fannie and Freddie, equity is shy and costly. In the meantime, rental inventory will increase slightly as the pipeline delivers and unsold condominium units continue to be converted to rental.



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Broker/Dealer and Investment Advisor Services

The clearing industry consolidation that had been evident for the past 10 years continues and has even gained momentum. During the past year, even more long-standing clearing firms disappeared, having been acquired by other firms. Clearing firms are now fewer in number, but larger in size, and that trend will likely continue. As many of the experienced, independent firms leave the industry, the clearing landscape will be made up of a much narrower range of choices, with few that are able to offer high-quality service and personalized attention.

Regulatory Reform is Here to Stay

To no one's surprise, the regulatory framework in the United States is changing and will mandate increased scrutiny of securities sales and protection for the investing public. Beginning in the year 2000, many significant rules have been adopted, including anti-money laundering laws, privacy rules, price transparency requirements, business continuity plans and others. Mesirow Financial is committed to keeping abreast of the myriad of new rules and laws, with significant commitments of capital, research and personnel to ensure compliance with the continuously changing regulatory landscape.

Opportunities in the Upheaval

For many of our broker/dealer and investment advisor clients, the financial industry upheaval has been a double-edge sword. The upheaval has created concern among firms as revenues from previously reliable sources may have shrunk or disappeared. As a result, firms have been forced to monitor costs more closely than ever and to ensure that all costs are strongly tied to revenue sources.

But at the same time, this period of uncertainty can serve as an opportunity for investment firms to attract new clients and new producers, and find alternative products that address clients' heightened desire for safety. By focusing on the evolving needs of their investment clients and rethinking their business models, firms may put themselves in a better position for the future.

In addition, periods of uncertainty offer an opportunity for investment firms to build their businesses by attracting brokers and advisors who are experiencing upheaval. Many such investment professionals are now seeking a stable firm with whom they can establish a long-term relationship in order to best meet their clients' needs.

Clearing Firms: Provide Value-Added Service

More than ever, broker/dealer and investment advisor firms are seeking clearing partners that engender confidence and trust in their stability and financial strength. Although highly-personalized service has always been a defining characteristic of our business model, Mesirow Financial B/D and IA Services has always focused on ensuring that brokers and advisors have the resources they need during difficult markets to build their businesses and differentiate themselves to their clients.

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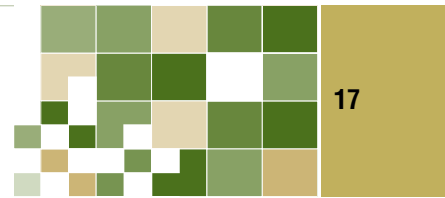
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2009 proved to be a year of extremes for the fixed income markets. Credit spreads began the year widening dramatically in a continuation of the financial crisis of 2008. However, only months later these spreads experienced the largest drop on record as markets adjusted to the new competitive landscape, the unprecedented government aid programs, and the quantitative easing by the Federal Reserve.

The markets should be less extreme in 2010, but they will likely remain relatively volatile as recovery efforts encounter obstacles (real or perceived) and the controversial issue of government involvement in the financial sector continues to be grappled with in the U.S. and around the world.

Corporate Bond Market

As 2009 comes to an end, there seems to be no recollection of the credit crunch. Spreads across the corporate bond market have all tightened to pre-crash levels, new issuance is at record levels, and the cost for corporate borrowers has fallen to unprecedented lows.

Going forward, we will look for most investors to collect their coupons and not expect significant price appreciation. Corporate bonds will track the stock market and stay firm as long as the economy doesn't double dip and the equity market remains stable.

Municipal Bond Market

In 2009, Mesirow Financial was able to expand our product line, adding Build America Bonds (BABs) to compliment traditional tax-exempt municipal bonds.

In 2010, we expect to see continued issuance of BABs, with a concentration of larger issuers with longer-dated paper. We believe more non-traditional buyers will continue to be attracted to this market for a variety of reasons.

We anticipate a continuation of the BAB program beyond 2010, with the government potentially lowering the subsidy for the issuer (to, for example, 25%). Should this happen, we would expect to see a reallocation of new issuances, with tax-exempt outpacing taxable.

Preferred Stock Market

After the severe decline of preferred stocks in early 2009, the market has recovered to a remarkable extent. The utility and other non-financial markets are trading where they were before the crisis hit, and the financial markets have by and large recovered most of the earlier losses.

For 2010, with a recovery likely to continue, we anticipate that the financial markets will perform well, with higher-rated banks able to return to the open market. Also, if rates continue low for the next few quarters, we are likely to see an increasing number of calls on existing Dividends Received Deduction preferred stocks from utilities.

In the long run, when interest rates rise, the prices of preferred stocks will inevitably decline. However, with the current Fed rate so low, the relative value offered by preferred stocks compared to bonds will continue to buoy the market well into 2010.

Mortgage- and Asset-Backed Market

After two years of being at the epicenter of the financial crisis, this market regained some footing and a sense of direction in 2009. Spreads narrowed dramatically and prudent risk-taking was rewarded handsomely.

2010 should see a continued gradual progress, as the economy improves and the housing market continues to work off the excesses of the recent past and becomes a more stable driver of sustainable activity.

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Corporate Investment Banking

Despite greater stability within the banking system and improvement in the overall economic environment, limited credit availability and relatively difficult economic conditions have held M&A transactions at low levels in 2009. The total value of M&A worldwide fell 45% in the first 10 months of the year as a lack of financing and discounted multiples applied to deteriorated earnings have expanded the gap between buyer and seller value expectations. Leveraged buyout activity in the U.S. declined approximately 50% for the 12-month period ending October 31, 2009, relative to the prior 12-month period ending October 31, 2008.

While private equity sponsors in the middle market are realizing the impact from the current volatility, conditions in the middle market are more stable. Deals are still being executed in the middle market, albeit with higher debt pricing, reduced leverage and more in-depth due diligence. Private equity fund raising declined precipitously in 2009, with \$57 billion in funds raised as of year-to-date 11/16/09, compared to \$264 billion raised in 2008. However, there is still over \$500 billion of committed private equity capital looking for a home and private equity firms are aggressively pursuing high-quality middle market acquisition targets.

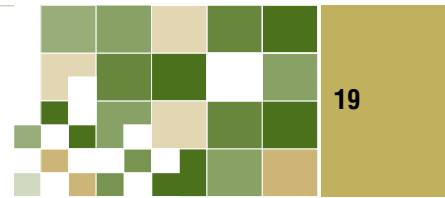
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Corporate Investment Banking, *continued*

While 2009 has been a slow year for mergers and acquisitions, there are several signs that point to an impending uptick in transaction volume. Anecdotal evidence suggests that corporate dialogue regarding M&A has picked up as there is a perception that financial system risk has fallen to a low level. Additionally, many companies have completed substantial work to shore up balance sheets and restore financial liquidity. Managers now need to determine how to expand their businesses in an economy that continues to be lackluster at best. Buying growth from the outside, rather than generating it organically, may be the easiest option. With the debt markets open for creditworthy companies, there is likely to be more momentum for M&A into 2010.

Private Equity Funds Raised

2007. Whereas previously high purchase prices were bolstered by readily available leverage and high-leverage multiples, lenders will continue to be much more conservative in how they deploy their capital. Strategic buyers have regained the edge they lost to financial buyers in the 2005 – 2007 period, when leverage multiples were at record highs. Debt that is available is no longer “covenant light” and is likely to be forthcoming only for the buyers (private equity or otherwise) who are willing to pay a large component of the purchase price with their own equity. Equity components representing 40%–50% of the total capitalization have become the norm in this environment.



Mesirow Financial
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Sale-Leaseback Capital

The dollar volume of sale-leaseback financing in 2010 should be similar to 2009, which was the lowest level of activity over the last 20 years. This diminished volume is directly attributable to the lack of availability of commercial real estate debt for “new” transactions. Although a number of lenders announced new lending platforms during the year, the pricing for this new capital increased the “risk premium” to as high as 500-600 basis point level above Treasuries, exacerbated by lower loan-to-value percentages and increased minimum credit standards. As a result, capitalization rates for single-tenant sale-leasebacks have risen past 8% for all credit and property types, an increase of more than 100 basis points from the end of 2008. Interest rates have been steady to down slightly from levels a year ago, thus offering some mitigation to the additional 100-200 basis point increase in “risk premium” required by active commercial real estate lenders.

Projected Volume

2010 volume will remain down dramatically with only investment-grade companies who are willing to enter into 20-year primary term leases being assured of completing transactions. Given the interest cost associated with commercial real estate debt, the only financing that will provide acceptable pricing will be CTL financing from insurance companies whose pricing is tied to the corporate bond market “spreads”—which have compressed significantly since the end of 2008. Build-to-Suit development for investment-grade companies will also be severely constrained by the lack of availability of capital (including CTL financing) as well as generally more stringent underwriting. Deals over \$60 million and/or that take longer than 12-18 months to construct will be almost impossible to accomplish.

Current Pricing

Only corporations with solid balance sheets will be able to consider completing a sale-leaseback transaction in 2010. Pricing will be at least 100 basis points above 2009 levels, where going-in capitalization rates on completed deals exceeded 8%. Many “lesser credits” will find it difficult to complete a sale-leaseback transaction, at any price during 2009.

Return Expectations

Equity yields continue to move up, further constraining the ability to complete a sale-leaseback transaction. In addition, the percentage of equity required in a leveraged transaction now ranges from 35-50%, up from 20-25% at the end of 2008. Given the tighter real estate debt underwriting standards, as well as the wider “risk premium” for new loans, equity yields could increase by an additional 100-200 basis points during 2010.

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Insurance Services



Property and Casualty

The Property/Casualty Insurance market has been surprisingly level throughout 2009 in spite of predictions that decline in investment revenue would cause insurers to increase rates in order to improve underwriting results. Instead competition kept pricing down and only a couple areas experienced rate increases.

In the first two quarters of 2009 insurance rates hardened in the financial institution world across professional liability lines. Some publicly traded corporations saw price increases and coverage restrictions on their directors' & officers' liability and employment practices liability coverages. By mid year even these changes were starting to level off.

Not unexpected was the huge impact the recession had on employment levels and revenue. With exposures reduced, companies saw further reductions in their premiums. As a result, carriers tried to gain market share on new business and pushed for rate decreases on renewals. Early in the year underwriters attempted to get slight rate increases, but ultimately gave in to retain business.

According to a market survey by the Council of Insurance Agents and Brokers (CIAB), rates on an average have declined 6 percent during the third quarter of the year compared with 5 percent in the second quarter. General Liability, Property, Inland Marine, Umbrella and Employment Practices Liability rates were down even more in October than in September. This marked the reversal of a moderating trend of rate declines starting back in December, 2007 when a 16% decline was reported. By industry class, the most aggressive rate reductions were experienced by manufacturing accounts, down 6%, while large accounts remained the most competitive.

For 2010, we expect the market to remain level. Improved investment income has helped insurers' bottom lines and the small amount of catastrophe/storm damage in the US in 2009 has helped underwriting results. Financial institutions may still find that underwriters require more underwriting information, but renewals will not be seeing such drastic rate increases.

In the coming year it will be interesting to follow industry debates on global warming. We do not expect to see rate increases in 2010 unless driven by individual loss experience. We will have to wait and see what happens next year during hurricane season but if we do experience severe losses it will likely impact 2011 renewals.

Employee Benefits

The issue on everyone's mind all year has been (and continues to be) whether or not Congress will pass a health care reform bill. It appears likely that some sort of health care reform will pass relatively soon. It is also likely that the most heated debate between the Democratic-controlled House and Senate is whether or not the health care reform bill will contain a government-backed public option or non-for-profit benefit exchanges. Even if health care reform does pass, however, any effect on medical costs likely won't be felt until at least 2012.

While the discussions about major health care reform rage on, numerous other legislation — both federal and state — have been added to the tangle of laws affecting employers and employee benefits:

- COBRA 65% subsidy
- HIPAA compliance and security expansion

Insurance Services, *continued*

- Dependent age limit extensions
- Mental Health Parity Act expansion

In 2009, employers saw an average increase of approximately 10% in the cost of health insurance premiums for both single and family coverage¹.

In addition to being responsible for paying more of the health care tab, employees are also being asked to become healthier people and better health care consumers. In an effort to improve employee health, wellness programs continue to be a focus for insurance companies and employers. As a starting point, almost all insurance providers are offering online health risk assessments, and more and more employers are making routine physical exams a requirement for medical coverage eligibility. To help employees become better health care consumers, tools and services that allow employees to “shop” for the best price for prescriptions and common medical procedures are cropping up via carrier Web sites and wellness support services.

Our predictions for 2010 include the likelihood of health care cost increases — which may be slightly dampened by the struggling economy — hanging around the 8-10% mark. We expect that cost-shifting to the employee base will continue into 2010 through increased employee contributions as well as higher deductibles, co-pays and out-of-pocket expenses. Furthermore, if health care reform is, in fact, pushed through, FSAs, HSAs and insurance company wellness programs will more than likely become casualties. One thing is certain: we are in for a year of uncertainty in employee benefits.

Life and Disability

Sales of individual life insurance products decreased dramatically in the first half of 2009. LIMRA's² survey of individual life sales estimated that sales have decreased by 23% year-over-year. The survey indicated that all four individual life products — term life, universal life, whole life and variable life — experienced declining sales, with variable life (policies backed by insurance-dedicated mutual funds) experiencing the greatest decline³. Given the depth of the recession, these results are not surprising or unexpected.

On the other hand, because of 2001 mortality pricing that recognizes longer life expectancies, life insurance products continue to be priced competitively. Those that offer guarantees to cash values and death benefits were proven to be **predictable** diversification vehicles, especially given the market volatility of the last 12 months. Level term life insurance continues to be a popular product in funding corporate needs such as key person and buy/sell funding, as well as for supplementing group life insurance plans.

Capital has slowly begun to flow back into the life settlement markets, and we are seeing more activity with institutional buyers making offers on unwanted life insurance policies.

The financial stability of our insurance carriers continues to be a major topic of discussion with our clients in the current market. We continually monitor the ratings of our major life and disability insurance companies. As a matter of practice, we provide financial analysis that includes current ratings for all of the life insurance companies we quote for our customers.

Our prediction for 2010 is that carriers may continue to adjust their pricing upwards on products to make up for capital losses, given the market influx over the last 12 months. Also, before 2010, expect announcements on the current federal estate tax situation. The

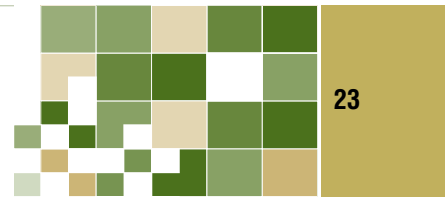
Insurance Services, *continued*

federal estate tax is scheduled to be repealed in 2010 for a period of one year. We anticipate that Congress will keep the current 2009 “at death” exemption levels at \$3,500,000 per person, and a 45% top estate tax rate. With Congress busy on health care reform, it is anyone’s guess as to what’s in store for 2010.

¹ Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009

² LIMRA is an educational and advisory body to the financial services industry

³ Shift in Term Life Insurance, November 2009, Conning Research & Consulting, Inc.



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Bankruptcies Rise as Economy Sinks

Many corporate borrowers are at risk due to the ongoing recession and difficult credit conditions. Bankruptcy filings spiked upwards during 2009, but there are currently mixed signals about the outlook for 2010. Moody's recently predicted that the 12-month default rate on speculative-grade debt would drop to 4.2% in October 2010 after reaching 12.4% in October 2009. However, many companies that defaulted in 2009 have avoided bankruptcy, pending negotiations with creditors. Many of these companies will be forced to file in 2010 as their options run out, possibly leading to a rise in Chapter 11 filings relative to 2009. There were 191 filings for Chapter 11 protection in the first three quarters of 2009 by companies with liabilities greater than \$100 million, compared with 92 for the same period in 2008 and 38 for all of 2007. A notable trend in 2008 and 2009 has been in the direction of prepackaged bankruptcies, involving cooperative arrangements between lenders and debtors that generally shorten the time and expense of the Chapter 11 process.

Liquidity Eases as Recession Continues

The recession has put cash flow pressure on companies that levered their balance sheets when money was easy prior to 2008. Many cash-strapped companies could not roll over debt or obtain new alternative funds during the liquidity crisis of late 2008 and early 2009. The credit crisis resulted in extremely tight conditions in the market for debtor-in-possession (DIP) financing, making it infeasible for many troubled companies to seek protection under Chapter 11. The DIP market has eased considerably in recent months along with credit markets generally, and this trend should ease the process of entering and exiting bankruptcy in 2010.

Widespread Problems in Credit-Sensitive Sectors

Troubled industry groups in 2009 have included financial services, real estate, autos and auto parts, and media. A large number of recent bankruptcies involved leveraged buyouts. Observers expect a number of problems in the commercial real estate and transportation sectors during 2010. Notable large bankruptcies in 2009 have included General Motors and Chrysler (autos), CIT (financial services), General Growth and Thornburg Mortgage (real estate), LyondellBasell (chemicals), and Charter Communications (cable TV).

Warning for Stakeholders

Stakeholders should keep an eye out for potential warning signs of trouble, such as changes in management, continued operating losses, stretching of trade payment terms and problems with liquidity and cash flow. Companies experiencing accounting restatements, dependency on refinancings and weak industry fundamentals should also receive increased scrutiny in the months ahead.

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Compensation and Executive Benefit Strategies

Continued heightened scrutiny of traditional executive compensation poses challenges for companies that strive to offer attractive benefits packages to their most valuable employees. As compensation committees and boards of directors have been forced to justify each pay and bonus decision, concern about shareholder and investor perception of excess keeps many companies from updating existing executive compensation plans or implementing new plans.

Given this environment, companies that offer deferred compensation plans are not only scrutinizing the price and performance of plan funding vehicles, they are thoroughly reevaluating their existing approaches to delivering compensation and benefits to executives. As a result, more firms than ever are seeking advice on approaches to executive compensation. The good news is that new approaches do exist that can help firms achieve their goals while addressing the myriad current challenges.

Fewer Consultants, Less Competition, More Uncertainty

Consolidation of executive benefit consulting firms has meant fewer dedicated providers while at the same time fringe players – such as life insurance and investment professionals that dabbled in executive compensation as a non-core business – have left the industry. Some compensation consultants and administrators are now under the same roof as manufacturers of plan funding vehicles, such as corporate-owned life insurance, resulting in less flexibility and choice for buyers, and causing them to seek objective advice and funding strategies.

In addition, questions about healthcare reform, particularly how it will be paid for, will likely play a significant role in how companies will finance their executive compensation plans in the future. As Congress seeks additional revenue sources, they may look to instruments that today serve as the underlying funding vehicle for many deferred compensation plans.

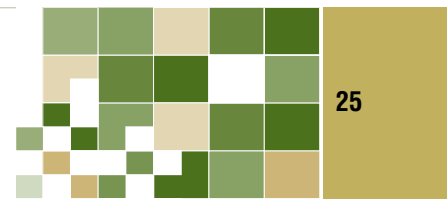
On the positive side, lobbying groups and industry players have had success in helping legislators to understand that deferred compensation is not necessarily excessive compensation. An executive who defers pay for some time in the future could lose that money if the company goes bankrupt in the meantime. Since executives who defer pay put their own money at risk, the arrangement actually aligns their interests with that of shareholders.

Recognizing this risk, many companies have sought out ways to help increase the security of the nonqualified plan benefits they offer to their executives.

Confidence is Up, But Effects Come Later

In contrast to a year ago, today companies are becoming more confident about the future and their potential return to profitability. For the first time in several months, there's talk of "when" bonuses will resume, not "if." Companies are reinstating their 401(k) matching programs and thinking more about how to use benefits packages to attract, retain and motivate key people.

Yet deferred compensation is by definition a lagging indicator. Employees and employers make these decisions to pay or defer this kind of compensation at least a year in advance. At this point, with interest in retirement planning more focused than ever, the need to address the issues of plan design, funding and security of nonqualified plans is particularly acute.



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