

An Update for Our Clients During this Volatile Market



*"When you come to the end of your rope,
tie a knot and hang on."*

-Franklin D. Roosevelt

**MANNING
& NAPIER**

GROUP OF COMPANIES

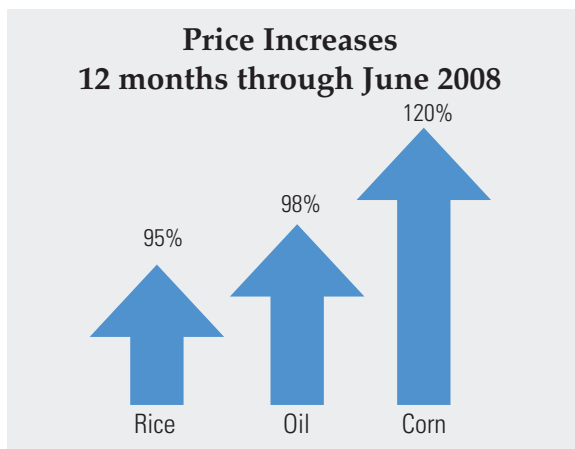
The Wrong Time to Give Up

This is gut-check time. Three quarters into the current market downturn, investors are considering whether they are going to remain committed to their long-term investment strategy, or abandon their current approach in hope of avoiding further volatility. For novice and experienced investors alike, the past nine months have been a bit much to stomach:

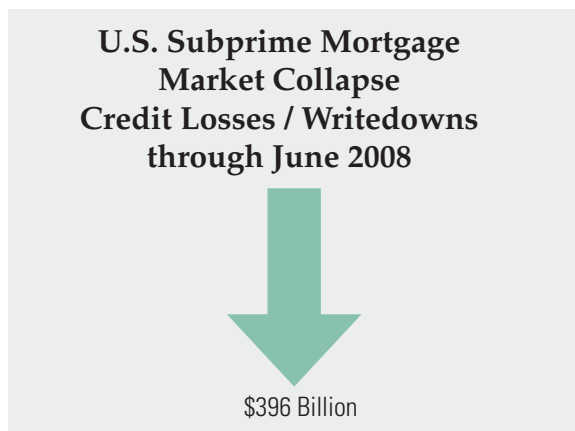
- From October 2007 highs, U.S. equity markets are now down more than 20%, enough to be dubbed a “bear” market by the media.
- Emerging markets, generally the source of strong returns for the past few years, are down as well - in many cases (i.e., China, India) more than U.S. markets.
- Economic news is not much better, with slowing global growth, food and energy inflation concerns, and continued fallout from the credit crisis hanging over the economy.

Clients of Manning & Napier may feel they have another reason to be concerned. While our approach has historically provided protection during sustained market downturns, we have unfortunately participated in this downturn.

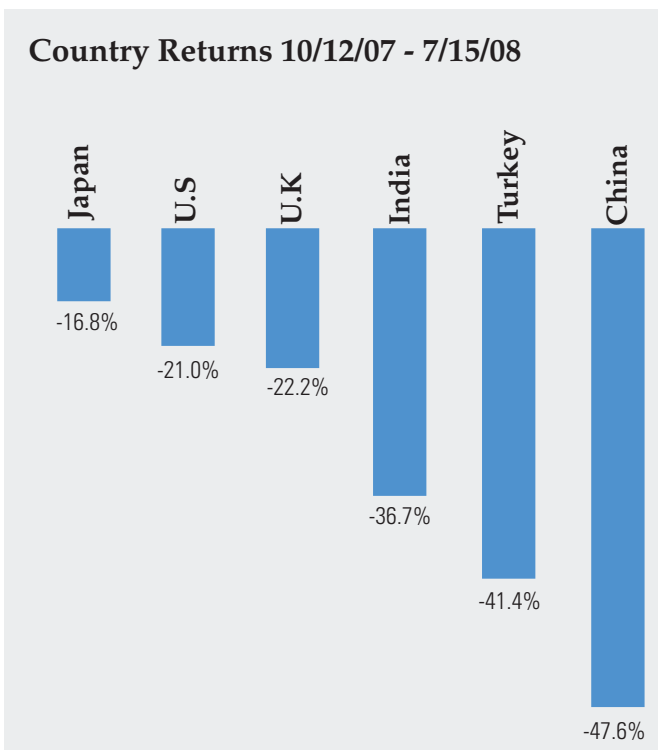
There is good reason for this. In fact, the factors driving our recent performance are the same factors behind our view that **now is exactly the wrong time to give in to the volatility and change your long-term investment strategy.**



Source: Factset



Source: Bloomberg



Source: Bloomberg

On the next few pages, we will discuss the reasons behind our current portfolio positioning and our recent results. These discussion points include:

1. The fundamentals argue for staying invested. For clients who grant us asset allocation discretion, we were overweight to stocks going into the current downturn and have remained invested throughout this turmoil. While this has hurt returns in the short-run, we believe that **valuations for many U.S. stocks make the long-term return potential simply too attractive to pass up.**
2. Chasing performance always ends badly. Commodities continue to experience gains as most areas of the market have seen meaningful declines. While this may seem like an “easy money” strategy during an otherwise difficult time, the speculative nature of this area of the market warrants caution. **Our focus on price has kept us out of speculative areas of the market.** This has also hurt returns in the short-term, but we believe it will pay off when speculation turns to reason.
3. Quantitative indicators confirm our fundamental findings. History shows us that **when the news is bad all over, future returns are strong.** Currently, sentiment, valuations, and investor behavior are as negative as it gets. We do not believe this is the time to sell stocks, but rather the time to be seeking out deep discounts in the market.
4. **We’ve been here before** and our experience tells us to stick with it. The current downturn has been caused by a series of unexpected events rather than an over-heated market. While no manager can consistently protect against surprise shocks, we can commit to remaining focused on long-term objectives. We did this in 1990, when similar shocks roiled the markets, and **our clients benefited from our willingness to stay invested.**

Short-term underperformance is par for the course for any manager investing in the equity markets. It takes a disciplined manager to stick with long-term strategy through near-term disruptions. For investors with long-term investment goals, what matters most is that a manager can add value over a full stock market cycle, including good and bad times. Manning & Napier has done just this for over 35 years, with a process that is disciplined and repeatable.

We understand that communication is important, especially during difficult times. We hope the following pages provide you with greater insight into our actions over the past few quarters and confidence that we are staying the course in pursuit of your long-term objectives.

Fundamentals Argue for Staying Invested

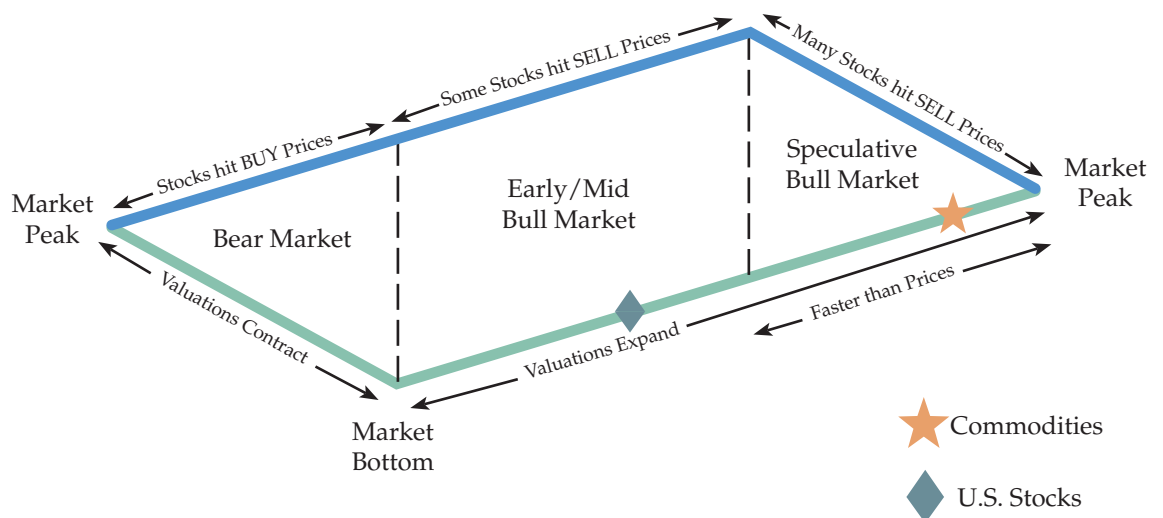
Stock prices fall for one of two reasons:

- (1) to return to fair market value after a period of overvaluation, or
- (2) because market shocks cause temporary undervaluation.

A return to fair market value is a sustained decline, where investors stand to lose capital because the securities they hold were never worth the price that was paid. In contrast, undervaluation, like overvaluation, is a temporary condition, and should be viewed as an opportunity to buy good companies at a discount to fair market value.

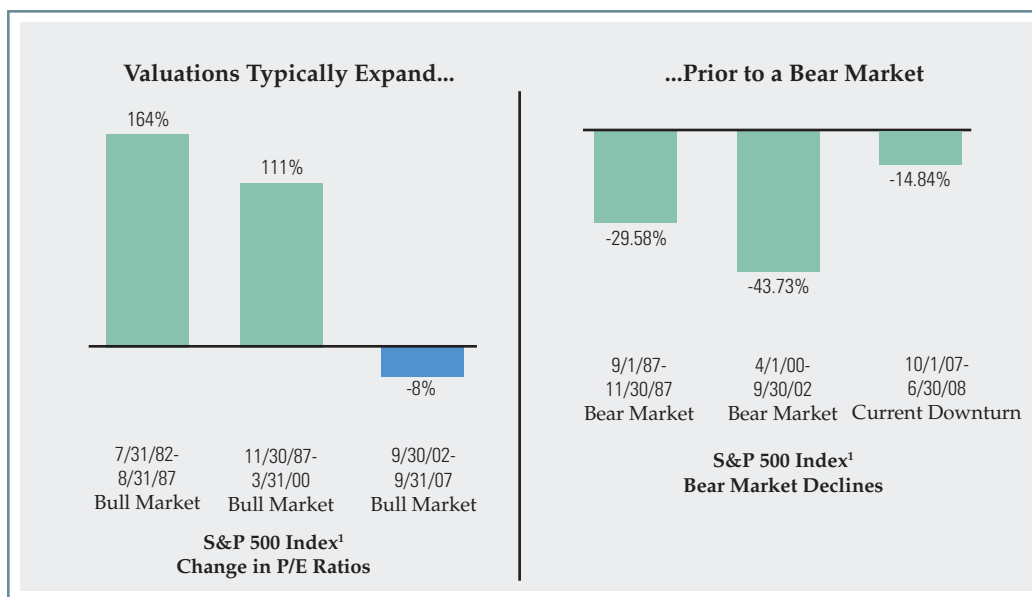
Historically speaking, significant and sustained downturns have been preceded by a period of speculative overvaluation – “irrational exuberance” as Alan Greenspan called it in the late 1990s. A “this time it’s different” mentality drives stock prices higher regardless of underlying fundamentals. The downturn comes when investors collectively realize that there is nothing different this time, and that prices have risen to unjustified levels.

Market Cycles: Price and Valuation Characteristics



Continued

Since the 1960s, every sustained bear market has been preceded by an expansion in price-to-earnings multiples, where prices rise faster than earnings. In contrast, **price-to-earnings multiples have actually contracted since the bottom of the last bear market in September of 2002**, meaning that earnings have risen faster than prices. For the majority of U.S. stocks, the current downturn is not a return to fair market value, but likely a short-term disruption.



Source: FactSet, Standard & Poors, International Strategy & Investment (ISI)

Our bottom-up research confirms this. We continue to find well-positioned growth companies in areas such as Health Care and Information Technology that are trading at 30%-40% discounts from our assessment of fair market value.

In addition, high-quality bonds are yielding only 2.5% to 4.5%, meaning that stocks trading at such attractive discounts offer better long-term return potential. For this reason, we have been - and continue to be - overweight in equities in accounts where clients grant us asset allocation discretion.

Chasing Performance

Always Ends Badly

In a time of broad-based market turmoil, the dramatic gains in commodities (e.g., energy, materials) seem like a bright spot. With oil prices reaching new highs every few days, and the price of raw materials skyrocketing from developing country demand, the S&P Goldman Sachs Commodities Index² has defied gravity in the current environment, rising 73% in the past twelve months.

Managers who have been able to out-perform over the past few quarters have generally done so because of their exposure to commodities. For investors looking to jump on that bandwagon, it becomes a tale of "Buyer Beware".

The allocation to Energy stocks within the S&P 500¹ has more than doubled from approximately 7% at the end of 2004 to more than 16% as of June 2008. Assets in funds that invest in commodities have more than tripled in the past three years, from \$70 billion to \$220 billion. This sounds an awful lot like the technology sector boom in the late 1990s. What investors need to remember is that the last person to jump on the technology bandwagon in early 2000 lost nearly 75% over the next few years.

While oil prices may continue to reach new highs, there are signs that **current prices for commodities are likely unsustainable:**

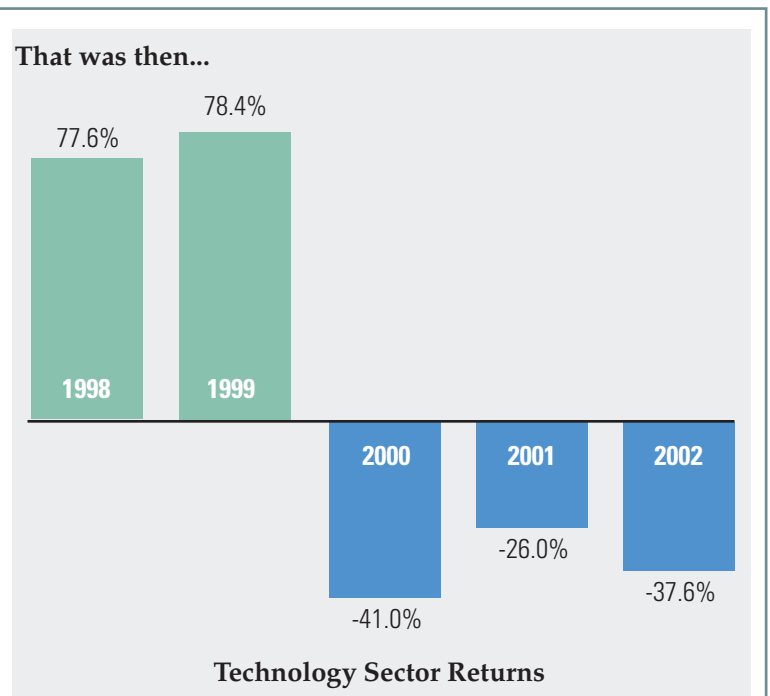
- Governments in developing countries have begun to lower fuel subsidies to reflect the true cost of demand.
- U.S. consumers are driving fewer miles and giving up their SUVs.
- Governments in countries like China and India, where demand for raw materials is greatest, have made attempts to slow growth and inflation by raising interest rates.

Forces driving the commodity boom appear to be easing. At this point, there is a risk of being the last one to jump on the commodity bandwagon.

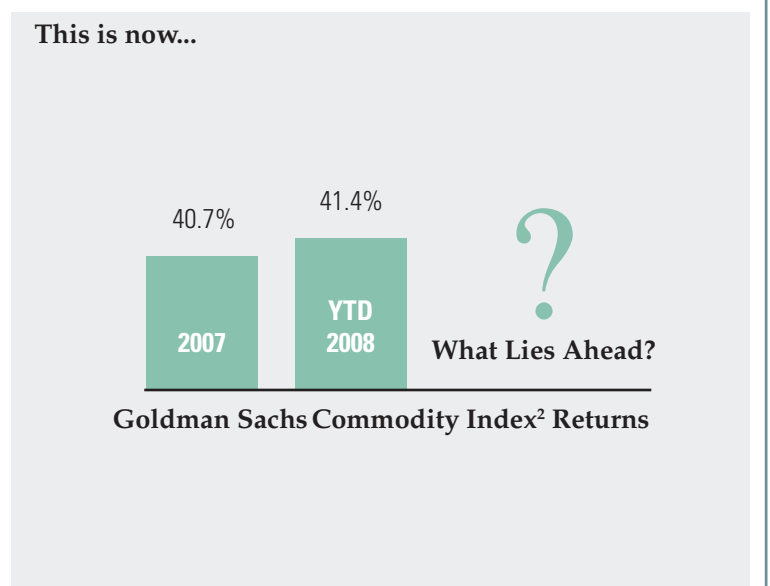
True to our process, Manning & Napier's pricing disciplines have kept us out of more speculative areas of this market environment. We lightened our allocation to Energy stocks in early 2007, and have remained underweight since then. We also resisted the temptation to seek out marginal yield

from lower quality fixed income securities, avoiding the brunt of the sub-prime fallout.

Simply put, we've been willing to appear wrong over the short-term only to be right in the long-run. This focus on price has been the core of our more than 35 years of investment experience.



Source: Bloomberg



Source: Bloomberg

Sentiment and Valuation Factors

Exhibit a “Buy” Signal

History tells us that the best time to buy stocks is when the bad news is all over the front page. Beyond the meaningful discounts that we are finding through our company-specific, fundamental research, there are a variety of quantitative factors signaling that now is a good time to be buying stocks:

- The market decline has been significant as well as broad-based.
- Consumer confidence has declined to record lows.
- Year-to-date, equity mutual funds have seen net outflows of more than \$15 billion, compared to inflows of more than \$80 billion during this same time last year.
- The dividend yield on the S&P 500 Index¹ is now higher than the yield on U.S. Treasury Bills.

Over the long-term, stocks have earned an average of 9%-10% per year. However, **when Leading Economic Indicators, the Federal Funds Rate, and stock market prices are all declining year-over-year, the median return for stocks over the following one-year has been more than 20%**. Currently, these conditions are in place, along with the factors bulleted above. The bottom line is that the news is bad, and history tells us that now is the time to expect stronger future returns from stocks.

Return Analysis S&P 500¹ Index

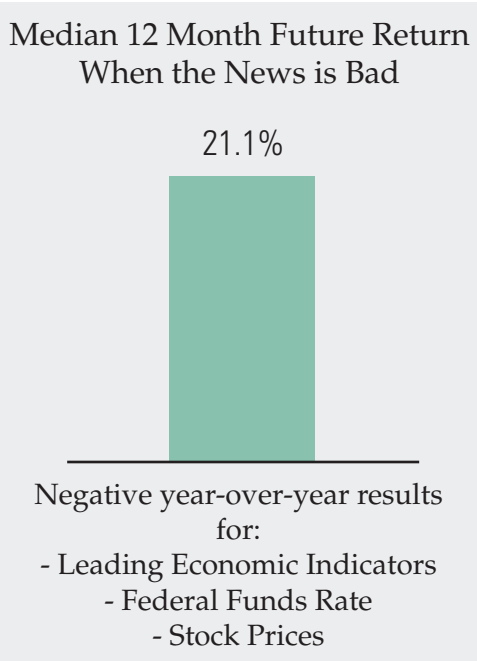
Median 12 Month Return

9.7%



Median 12 Month Future Return When the News is Bad

21.1%



Negative year-over-year results
for:

- Leading Economic Indicators
- Federal Funds Rate
- Stock Prices

Time Period: February 1967-May 2007
Source: FactSet

IF CONDITIONS ARE RIGHT FOR INVESTING IN STOCKS, THEN WHY ARE PEOPLE SELLING?

The selling in today's markets is a result of two things: (1) panic or emotional selling, primarily by individual investors, and (2) liquidity needs of institutions. The first factor is a given in difficult market times. Mutual fund holders and 401(k) participants are exposed to persistent, negative headlines from 24-hour news coverage. They eventually get nervous about the markets and start making changes to their investments, not realizing that conditions are temporary and manageable. On the other hand, many financial institutions that were highly leveraged coming into the credit crisis and subsequent market downturn have a need to sell assets to shore up their balance sheets. Also, the increasingly competitive nature of the hedge fund business has resulted in many entities that are more likely to follow the trends (i.e., buying commodities and selling stocks) than take a contrarian position. Unfortunately, the undisclosed degree of speculation by banks and brokerage firms that shocked the markets has led to dramatic, short-term selling despite attractive valuations and growth potential for many individual companies.

Manning & Napier

Has Been Here Before

Despite the fundamental and quantitative evidence that argues for an investment in stocks in this market environment, riding out the ups and downs of the equity market can be trying. This may be especially so for long-term clients of Manning & Napier, who are used to faring better than the markets when things get tough.

It is true that in our 37 year history, we have a strong track record of protecting client assets in a sustained bear market. It's not because we are lucky, or because we've figured out how to predict the future. Our track record during sustained bear markets is the direct result of our discipline to heed the warning signs that typically precede a bear market – namely overly optimistic sentiment that leads to lofty prices and valuations.

In contrast, we do not believe that any investment process, including our process, will be able to consistently provide protection when the markets are roiled by an external, unexpected shock. Take, for example, the market decline in late 1990. As investors continued to digest the full cost of the Savings & Loan crisis, the U.S. responded to the invasion of Kuwait by Iraqi forces. This unexpected and unpredictable event caused markets to decline nearly 15% over the course of five months and the price of oil to double from \$15 to \$30 per barrel. During this time, Manning & Napier's clients were exposed to the market turmoil. We explained to clients in our January 1991 UPDATE Newsletter that we did not feel the invasion would change conditions over the long-run, so we held on to our equity positions.

"We invest according to long-term fundamentals, and past declines have typically been cases of the market catching up to long-term fundamentals after a period of overvaluation. For this reason, our value disciplines took us out of the market before the decline. In contrast, 1990's decline was a case of short-term events running counter to long-term fundamentals. This decline was not driven by fundamentals, but rather by an unpredictable outside event, i.e., the invasion of Kuwait. Thus, we took part in the decline even though we held a portfolio that was undervalued prior to the invasion. Because we do not feel the invasion will change conditions over the long run, we have held to our position."
-1991 Update Newsletter

We have found that the best course of action when external shocks create market declines is to focus on the fundamentals. **If stock price declines are not warranted, it is better to withstand the short-term losses than risk opportunity cost when the market rebounds.**

When investors wait to re-enter the equity markets until the headlines reflect good news, they often miss a meaningful part of the recovery. Looking back, when markets have declined 15% or more, returns over the next year have been around 35%. On average, over 1/3 of this return was made in the first two months after the market bottom – before the news had turned better.

By investing according to fundamentals in 1990, Manning & Napier clients fully participated in the subsequent market rebound, with clients in our Long-Term Growth strategy (which includes a mix of stocks and bonds) experiencing returns on par with or greater than the stock market over the next three years.

Long-Term Growth Composite ³	
Negative Year	Rank Next 3 Years ⁴
1990	Top 8%
2002	Top 13%

Looking Ahead

The decade of the 2000s has been a difficult one for investors. Starting with the worst bear market in over 25 years, investors have seen returns of only 0.06% per year from the S&P 500 Index¹ from January 2000 through June 2008.

We are pleased to say that this has not been a lost decade for our clients. Our equity returns⁵ have exceeded the S&P 500 Index¹ by more than 6.0% per year. However, we understand the concerns of clients in the current market environment.

While we can't predict just how long the credit crisis will last, or when the next shoe in this crisis will drop, we can tell you that we are confident in our decision to be investing in high-quality stocks with strong fundamentals at this most opportune time.

We can also assure you that **our investment approach has not changed**; our time-tested strategies and pricing disciplines will continue to keep our clients' assets out of speculative areas of the market with a goal of minimizing sustained bear market losses. Unfortunately, there will be market declines that are not driven by fundamentals, and we will do our best to navigate those temporarily painful times to take advantage of the subsequent rebound. Our ultimate goal remains that of providing strong absolute returns over full market cycles.

Lastly, we can tell you that **our team-based approach remains as disciplined as ever**. Our Senior Research Group, whose members average more than 15 years tenure with Manning & Napier, continues to make all investment decisions for your portfolio. Our process audit, conducted by an outside auditor for the past eight years, ensures that we stick to our proprietary strategies and a team-based management structure when applying these management decisions.

In these difficult times, sometimes the most comforting thing is to know you have an experienced, disciplined manager at the helm – someone who can say **"We've been here before, and we know what to do"**. We look forward to filling that role for you well into the future, beyond the current market turmoil and into more prosperous times.

IS THE NEWS ALL BAD?

It's very easy to focus on the negatives in today's environment. Here are a few bright spots to keep in mind:

- Inflation is more a problem for emerging markets than the U.S. With a weakening U.S. labor market and a slower rate of consumption for the U.S. consumer, the conditions for persistent inflation in the U.S. simply don't exist.
- The weak dollar has made U.S. exports very competitive. Exports are up more than 15% year-over-year, improving the trade deficit and adding to overall growth at a time when the U.S. consumer is slowing.
- Productivity is up 3.4% year-over-year, which is unusual in a slowing growth or recessionary environment. Greater productivity for employees means better margins for corporations since labor costs represent roughly 70% of the cost of goods sold in the U.S., and a more productive workforce tends to keep inflation contained.
- Through March, 36 states have registered year-over-year increases in housing prices, with only 14 states seeing continued price declines.
- Despite the pain of the credit crisis, one outcome will be new regulations that curb the use of leverage going forward, which should mean fewer surprises in the future

Definitions

FUNDAMENTAL ANALYSIS - A method of security valuation which involves examining the company's financials and operations, especially sales, earnings, growth potential, assets, debt, management, products, and competition.

QUANTITATIVE ANALYSIS - A financial analysis technique that seeks to understand behavior by using complex mathematical and statistical modeling, measurement and research. By assigning a numerical value to variables, quantitative analysts try to replicate reality mathematically.

PRICE-EARNINGS RATIO (P/E RATIO) - A valuation ratio of a company's current share price compared to its per-share earnings.

LEADING INDICATORS - Measurable economic factors that change before the economy starts to follow a particular pattern or trend.

CONSUMER SENTIMENT - Consumers' attitudes towards the economy.

FEDERAL FUNDS RATE - The interest rate that banks charge each other for the use of Federal funds.

DIVIDEND YIELD - A ratio that shows how much a company pays out in dividends each year relative to its share price.

TREASURY BILL YIELD (T-BILL YIELD) - Treasury Bills are U.S. government backed debt instruments with a maturity of one year or less. They are purchased at a discount to face value, and are redeemed at maturity for face value. A common way to calculate yield on a Treasury Bill is to divide the difference between the purchase price and the face value (i.e., the investor's return) by the purchase price.

¹The S&P 500 Total Return Index ("S&P 500") is an unmanaged capitalization-weighted measure of 500 widely held common stocks listed on the New York Stock Exchange, American Stock Exchange, and the Over-the-Counter market. The Index returns assume daily reinvestment of dividends, and do not reflect any fees or expenses. Index returns provided by Bloomberg.

²The Goldman Sachs Commodity Index ("GSCI") is a world-production weighted index composed of 24 commodity futures contracts. The index is a composite index of commodity sector returns and represents an unleveraged investment through broadly diversified long positions in commodity futures.

³The Manning & Napier Long-Term Growth Composite ("LTG") only includes all separately managed Long-Term Growth accounts greater than \$500,000 and under our discretion as to asset allocation and securities selection for at least one year. Long-Term Growth is a blended investment objective that invests in equities, primarily U.S. with some non-U.S., and fixed income securities. The primary investment objective of accounts in this composite is long-term growth, and the secondary objective is preservation of capital. Accounts in this composite have a pre-specified equity range (as a percentage of account market value) of 30% to 80% with situational adjustments within this range at our discretion. Restrictions on our discretion can have a material effect on performance and/or holdings; accounts coded as having substantive restrictions are excluded. Returns are after brokerage commissions, reinvested income, and advisory fees. Fees used for calculations are firmwide rates prior to 2001 and specific to this composite for 2001 onward. Past performance does not guarantee future results. This composite includes accounts that may have a portion of their assets invested in proprietary mutual funds, which may be declined or may not be permitted through the selection of some custodial programs. To receive our fully compliant Global Investment Performance Standards (GIPS®) presentation, please contact us at info@manning-napier.com or (585) 325-6880. Returns for periods greater than one year are annualized.

⁴Comparison universe provided by eASE Analytics, which is comprised of separate account managers whose products are reported Gross of Fees, grouped in the U.S. Balanced Asset Class, and have represented that their firm is in compliance with the Global Investment Performance Standards. Total number of products in this universe ranged from 92 to 118 for the reported periods. Percentile analysis conducted by Manning & Napier.

⁵The Manning & Napier Core Equity – Unrestricted Composite only includes all separately managed Core Equity – Unrestricted accounts greater than \$500,000 and under our discretion for the entire month. This composite includes accounts invested primarily in the U.S. with some non-U.S. equities. The investment objective of accounts in this composite is to maximize returns over the long term through consistent participation in stocks and other equity instruments. Restrictions on our discretion can have a material effect on performance and/or holdings; accounts coded as having substantive restrictions are excluded. Returns are after brokerage commissions, reinvested income, and advisory fees. Past performance does not guarantee future results. This composite includes accounts that may have a portion of their assets invested in proprietary mutual funds, which may be declined or may not be permitted through the selection of some custodial programs. To receive our fully compliant Global Investment Performance Standards (GIPS®) presentation, please contact us at info@manning-napier.com or (585) 325-6880.

“Most people give up just when they’re about to achieve success. They quit on the one-yard-line. They give up at the last minute of the game, one foot from a winning touchdown.”

- Ross Perot