



*Sands Capital Management
Fourth Quarter 2008 Portfolio Summary
January 1, 2009*

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Letter from the Investment Team

Global Economic Slowdown and Credit Crisis: Assessment, Impact, and Opportunity

The year 2008 was for the history books on a variety of fronts. Between the election, the freezing of the credit markets, the recession, the complete disappearance of certain major companies in the financial sector that were decades old, and the fourth quarter stock market meltdown, it was a dramatic 12 months. The numbers tell an epic story. By December 31, 2008, the dividend yield on the S&P 500 exceeded 10-year Treasury yields for the first time since 1962, yields on three-month t-bills were essentially zero, the U.S. government had felt obliged to purchase stock in over 200 banks, nearly two million U.S. jobs had been lost, and \$6.7 trillion of stock market value had evaporated (as measured by the Dow Jones Wilshire 5000 from its high on October 9, 2007). Meanwhile, the S&P 500 was at nearly the same level as a decade ago.

As a bottom-up investment manager reflecting back on this extraordinary time period, the first thing we look at is the operational performance of our portfolio companies. By that measure, it was a surprisingly good year. On both a relative and an absolute basis, our collection of high-quality growth businesses posted solid operating results.

These results, however, speak to the past. In investing, the past is largely irrelevant. Stock prices reflect the market's assessment of the future prospects of businesses. Additionally, the macro environment today is startlingly different than it was at the time of our last quarterly commentary, a mere three months ago. We are currently in the midst of the worst credit crisis since The Great Depression. The U.S. is experiencing what is shaping up to be a severe and potentially prolonged recession. Due to the increasingly interlinked nature of the global marketplace, it appears the global economy may follow suit. While we remain steadfast to our roots as a bottom-up, company-focused investment manager, it is imperative that we also be cognizant of the potential impact that macroeconomic shocks such as these can have on the businesses we own.

Portfolio Assessment

In addition to the ongoing deep, proprietary research we perform on all of our portfolio holdings, this past quarter we conducted a special, extensive, bottom-up review of each business we own. Our goal with this exercise was to assess the specific impact of the global economic slowdown and credit crisis on each businesses' operating prospects. We stress-tested the future growth potential for each of our businesses against the following assumptions:

- Extended global consumer spending pullback
- Extended global capital spending pullback
- General “belt-tightening” across industries and geographies
- Limited credit access and higher cost of capital

The initial conclusion we drew from this analysis was that each of our businesses will survive, if not thrive, over the long run. In other words, not only did we avoid owning American International Group, Bear Stearns, Countrywide, Fannie Mae, Freddie Mac, Lehman Brothers, and the other now-defunct companies in the first place, but we also believe that none of our current portfolio holdings will become the “next AIG.” The one holding in our portfolio that was priced as if the market had serious going-concern worries, **Las Vegas Sands**, has recently completed a \$2 billion capital raise. This influx of funds will allow Las Vegas Sands to complete the key portions of its current expansion plans in Macau and Singapore. Our exhaustive analysis on this business tells us that the company is now back on track to de-lever via future free-cash flow generation as new properties come online and planned sales of non-core assets occur. With its next material principal repayment of \$950 million not scheduled until 2011, we believe this company is over the critical “hump” (i.e., the point of peak need for cash in the face of one of the worst credit markets of modern time).

In completing this exercise, we also reviewed the strengths, weaknesses, opportunities, and threats for our businesses and their primary competitors. We literally built "T-Accounts" for each holding to ensure a uniform and thorough review. For example, below is a sampling of the "Positives & Negatives" that we collected for **Amazon**. This simple but powerful exercise led us to conclude that Amazon's strengths and opportunities far outweighed its weaknesses and threats.

Amazon - Positives	Amazon - Negatives
<ul style="list-style-type: none"> • Growing 30% year-over-year (i.e., at 5x the rate of eCommerce) and taking share as a result of “every day low pricing,” fast delivery, and selection 	<ul style="list-style-type: none"> • Economic conditions may result in prolonged slowdown in consumer spending
<ul style="list-style-type: none"> • Media, electronics, and general merchandise sales accelerating both year-over-year and sequentially 	<ul style="list-style-type: none"> • Pressure from states to withhold taxes
<ul style="list-style-type: none"> • Showing strong growth in active accounts (84 million, +17% year-over-year) and spending per active user (\$216, +18% year-over-year) 	<ul style="list-style-type: none"> • >50% of sales still from media
<ul style="list-style-type: none"> • eBay still struggling to become “more like Amazon,” resulting in sellers migrating and shifting focus to Amazon 	<ul style="list-style-type: none"> • Strong U.S. dollar
<ul style="list-style-type: none"> • Kindle sales estimated at >250,000 units to date; more than 200,000 titles available for Kindle today. 	<ul style="list-style-type: none"> • No direct presence in Latin America

Concurrently, we re-evaluated the leadership positions as well as the balance sheet strength and cash flow capabilities of each company we own. For example, with **National Oilwell Varco** we reviewed not only its financials but also assessed the financial strength of each of the companies that currently have rig

equipment orders in National Oilwell Varco's \$12 billion backlog. This detailed level of analysis helped us clarify how much "risk" we believe there is to the company's backlog at a truly granular level. Our conclusion was that less than 10% of National Oilwell Varco's \$12 billion backlog is at risk. By contrast, looking at the company's valuation, the market appears to be assigning a far higher risk level.

Finally, we quantified likely revenue and earnings-per-share (EPS) impacts for each business we own, specific to the current environment. Even though we are not proponents of relying on static price targets, we then calculated hypothetical stock price returns from this point forward. Interestingly, we had several cases where both our expected EPS growth rates and future P/E assumptions came down relative to three months ago, yet the expected return increased because stock prices have become so washed-out relative to long-term fundamentals.

We also concluded that the market appears to be pricing in a far more draconian impact on each business than our research suggests will be the case. Confident that our businesses will survive and continue to grow at above-market rates over the near-term, we next turned our focus to fleshing out the various impacts that the global slowdown and credit crisis might have on the longer-term investment cases of the businesses in our portfolio.

Portfolio Impact

Reflecting on our internal research work, three powerful themes jump out at us. The first is that our six clearly articulated investment criteria led us to purchase companies that by the nature of their unique business models are better positioned than most to weather severe downturns and shocks. In fact, we see parallels here to the "tech depression" of 2000–2002. During that time period a number of our then portfolio holdings had tremendous financial strength, offered productivity-enhancing products, and had significant competitive advantages. As a result, they emerged from that tumultuous period as stronger businesses, and their stocks were rewarded accordingly, while many of their competitors went out of business. We believe a similar dynamic will occur with many of our current holdings. Similar to our technology holdings of 2000–2002, our current portfolio holdings also display tremendous collective financial strength. Our portfolio companies remain profitable and cash-flow positive, with most of the businesses having little or no debt.

The second key theme that emerged from our event-specific research work is that the businesses we own continue to demonstrate secular—as opposed to cyclical—growth. Many of our companies are "innovative disruptors." By this we mean they are creating large, new markets for their products/services, or they are bringing about a fundamental change in the way consumers or businesses do things. These companies frequently have little competition and generally can charge higher prices, often resulting in higher returns on equity. Examples include:

- **Apple (AAPL)** benefiting from the twin forces of industry-leading innovation in portable computing (Mac and iPod) and the global rollout and adoption of smartphones (iPhone).
- **Amazon (AMZN)** benefiting from a change in behavior of consumers as they shift more of their purchasing online to gain access to better selection, prices, and improved convenience.
- **Google (GOOG)** benefiting from the fundamental shift of advertising from traditional outlets to online and paid search. High return on advertising dollars may accelerate this shift.
- **IntercontinentalExchange (ICE)** benefiting from recent financial market turmoil as the importance of counterparty risk spurs shift from bilateral over-the-counter ("OTC") derivatives to centrally cleared exchange-traded derivatives.

- **National Oilwell Varco (NOV)** benefiting from the re-tooling and expansion of the worldwide oil and gas drilling rig fleet, particularly the offshore fleet, which is essential for increasingly constrained hydrocarbon supply to meet growing demand globally over the long-term.

The third theme is that several companies are clearly extending their leadership. In some cases it is because the company has few competitors, while in others it is simply because it is building wider competitive moats. **Amazon**, for instance, is seeing strong market share gains while many of its bricks and mortar counterparts are experiencing store closures or bankruptcies. The International Council of Shopping Centers (ICSC) predicts that when the final count is tallied, a total of 148,000 retail stores will have shut down in 2008. That would be the highest number of retail store closings since the recession of 2001, when 151,000 stores closed their doors. The ICSC predicts another 73,000 units could be shuttered in 2009. A reference point that puts these figures in context, in 2002 the U.S. had 1.1 million retail locations. **National Oilwell Varco** has no meaningful competitors for much of the critical drilling rig equipment it designs and sells, and the company continues to innovate and introduce new products to grow the market. **Google** is another interesting example. Realizing Google's superiority, its primary competitor, Yahoo, tried to outsource its search ad placement to Google (at least until a Department of Justice review thwarted that idea). Google is also benefitting from a tough operating environment that is causing advertisers to demand a measurable return on investment. This has created a clear competitive advantage for Internet advertising versus traditional advertising. For instance, in March 2008, General Motors announced that over the next three years it would move half of its \$3 billion advertising budget online. The results of these kinds of shifts are starting to show. In the third quarter of 2008, while Google's U.S. revenues were up 22%, other media companies such as McClatchy saw a -17% decline, the New York Times saw a -9% decline, and CBS saw a modest 3% increase. Meanwhile, as Google continues to attract more users and more usage, circulation numbers for most print media continue to decline, and Tribune has even filed for bankruptcy protection.

Portfolio Opportunity

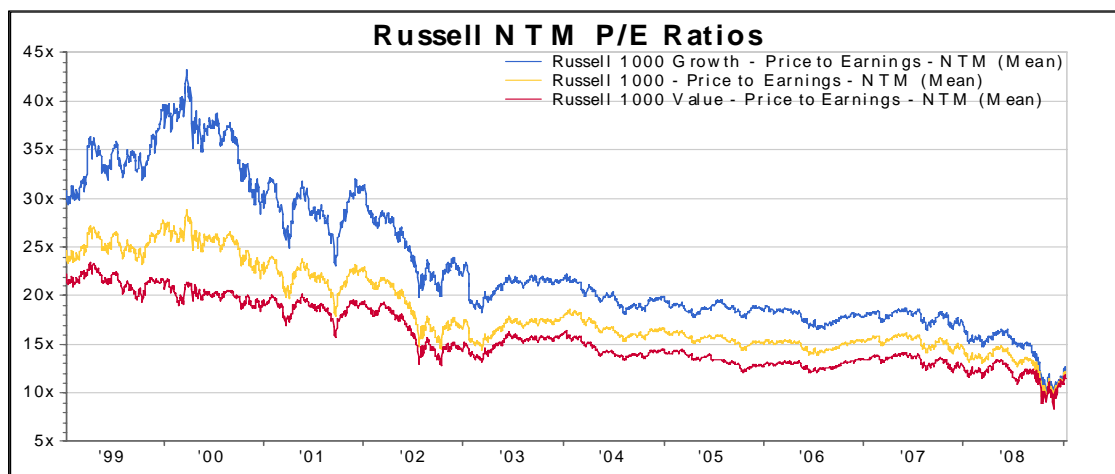
Investing is a forward-looking business. However, the market appears to be neglecting many of the aforementioned examples of businesses actually becoming stronger as a direct result of the economic downturn. Therein lies the opportunity.

This is not to say our portfolio companies are immune to the macro environment.

At present, earnings growth is occurring in a market environment characterized by severe risk aversion, shortened time horizons, and forced selling due to de-levering and fund redemptions. We'd point out that a number of our portfolio holdings (**Apple**, **Google** and **National Oilwell Varco**) were among the top ten hedge fund holdings as of October, and we think they have been feeling the direct pressure of such de-leveraging. The result is a temporary mismatch between fundamentals and valuations that is as extreme as anything we've experienced in this firm's history. This is very frustrating—to us and to our clients. However, there is nothing we have seen or heard to suggest the underlying tenet of our investment philosophy—a belief that, over the long run, stock price appreciation is driven by earnings growth—is flawed. As long-term investors one thing we know to be true is that extraordinary events can often lead to extraordinary opportunity. We believe that we are in the midst of exactly such a situation.

Regression to the mean is an incredibly strong force in the financial markets. One can debate vigorously what the “right” price/earnings (P/E) multiple should be. What cannot be refuted, however, is the fact that the current multiple is one we have not seen for quite some time. It has been over 20 years since we last saw the Russell 1000 Growth Index trading at its current forward P/E of 10x.

That said, what may be even more meaningful than simply looking at a historical time series is to deconstruct what the market is really implying at current prices. Valuations of growth stocks, and of many of our holdings in particular, are implying essentially an “in-line-with-GDP (gross domestic product) growth scenario” (i.e., very low growth). The chart below from FactSet shows the convergence in the Next Twelve Months (NTM) multiples between the Russell 1000 Index, the Russell 1000 Growth Index, and the Russell 1000 Value Index. All three indices are converging to a forward P/E multiple in the range of 10x, which is significant. It means that the market is valuing classic growth companies as if they were an annuity growing in line with GDP. For this to be true, one would have to have an exceptionally draconian view of global economic growth going forward. This is a very important implication because if one disagrees with it that means there is tremendous upside to owning classic growth businesses at these prices—as long as they deliver the expected growth. For the reasons mentioned above and others, we maintain a very high degree of conviction that the companies held in client portfolios will continue delivering significant above-average growth over the long-term.



Source: FactSet and Russell Index Data

While the future always holds uncertainty, we believe that appropriate, timely, and powerful solutions to the credit crisis will materialize. We point out that banks are in the business of lending money. They have to do this to survive. The coordinated global government response is unprecedented and also very different from the analogy that some observers like to draw—Japan in the 1990s. The other storm, namely the global economic slowdown, will resolve itself in time as well. As a result of population growth, the continued rise of free market economies, the increasing ease with which capital flows across borders, technology-driven innovation, and the never-ending desire to achieve a better standard of living in all parts of the world, the global economy will eventually resume its growth trajectory.

Importantly, history suggests that stock market recoveries occur well before economic recoveries. As we like to say at Sands Capital, you have to “be there,” not “getting there.” In other words, investors need to be positioned in the right companies before the market turns, not after. Having adhered assiduously to our investment philosophy and strategy, we believe our clients are already “there” and uniquely positioned to benefit from this recovery. We also think there is a case to be made that this recovery could be dramatic given the current compelling valuations. While we are not market-timers, we have used the market volatility to take advantage of select opportunities. The market at this moment is gripped by fear, panic, and severe risk aversion. This too shall pass. Looking forward, we believe that persistence will be rewarded — and so too will our concentrated portfolio of high-quality growth businesses.

Sincerely,

THE SANDS CAPITAL MANAGEMENT INVESTMENT TEAM



Sector and Company Highlights for the Fourth Quarter 2008

Financial Services

The fourth quarter saw continued deterioration in the health of the world's capital markets, with the downward spiral accelerating following the September bankruptcy of Lehman Brothers. The failure of Lehman triggered a near complete shut down across all global credit markets with the exception of "risk-free" U.S. Treasuries, which saw a bull market of epic proportions (further demonstrating the sheer level of fear currently gripping global financial markets). At the same time, financial institutions across the globe were intently focused on reducing the size of balance sheets and offloading risky assets. As a consequence, credit availability in all areas continued to contract, affecting everything from the ability of importers to secure letters of credit, consumers' ability to obtain mortgages, businesses' ability to raise capital, and traders' ability to finance positions. Financial services holdings were impacted by the increasing severity of the broadening credit crisis and the general economic slowdown that it has triggered. As we have discussed in this space in the past, however, we remain very comfortable with these holdings given their operating flexibility, low balance sheet intensity, and high free cash generation. Although **IntercontinentalExchange** experienced volume declines in several core products we expect them to deliver operating margins in excess of 40%, with free cash generation approaching or even exceeding reported net income.

While the current volume environment for the exchanges remains constrained, the old saying "from crisis comes opportunity" definitely applies to this industry. The failure of Lehman, a major global counterparty, exposed to the world the very real systemic risk posed by the massive, intertwined web of outstanding derivatives positions between financial institutions. We expect this, combined with the demise of the investment banking business model and pressure from regulators, to drive more bi-lateral OTC (over-the-counter) positions off of bank balance sheets and into the clearinghouses operated by the major exchanges such as CME (Chicago Mercantile Exchange) and ICE (International Currency Exchange). The imminent industry shift towards clearing of Credit Default Swaps has been grabbing many headlines recently. While significant, we believe that this is just the early stages of a much broader secular trend towards clearing, focused on the reduction of systemic risks and improved oversight of the world's financial infrastructure. In the future we would expect to see expanded use of clearing for other products such as interest rate swaps and equity derivatives.

Energy

From a stock price perspective, 2008 was a disappointing year for the energy companies held in client portfolios. The stocks reached all-time highs over the summer and fell to unprecedented valuation lows as the year came to a close. Yet while the stocks and valuations of these businesses fluctuated greatly, their operational performance and execution remained solid. Our conviction in the ability of these businesses to grow and add significant shareholder value over the long term remains unchanged. In aggregate, our energy holdings generated year-over-year revenue and profit growth of 23% and 27%, respectively, in the third quarter. But as the body of our letter states, what matters most to investors is the future, and we therefore enter 2009 with eyes wide open. As with businesses across all sectors, the near-term outlook for our energy holdings is challenged by both the credit crisis and the global economic downturn. However, our extensive analysis suggests the impact will be relatively limited and transitory, and nowhere nearly as bad as some pundits suggest. Meanwhile, the long-term challenge of growing structurally constrained supply in the face of growing demand for energy continues to become more difficult. This specific trend (as opposed to the commodity prices themselves) will continue to underpin above-average growth for the specific businesses we own well into the next decade. We have tempered our near-term expectations to reflect the new business reality for these companies over the next 12 months, yet we continue to expect each to generate profitable growth in the intermediate-term. From their current valuations, however, we believe these businesses will generate compelling returns for shareholders over the long-term.

With a record \$12 billion in backlog as of September 30, visibility into the future revenue and earnings growth of **National Oilwell Varco** remains quite strong. The company's third quarter "headline" results were clouded by charges related to the acquisition of Grant Prideco—a \$7 billion acquisition closed at the end of the first quarter—and a significant impact from the hurricane season on the company's manufacturing operations in Houston, but the underlying growth of the business was impressive nonetheless. Even including these impacts, revenues increased 18% year-over-year (y/y), and operating income grew 28% y/y on top of 70% y/y growth in the year-prior quarter. Pro-forma EPS came in at \$1.35, or \$0.04 above consensus expectations. Furthermore, the company added a record \$2.4 billion to its order book during the quarter while maintaining a book-to-bill in excess of 1.6x. Looking out over the next few quarters, we expect to see a temporary slowdown in orders as National Oilwell Varco's customers (primarily drilling contractors and shipyards) grapple with depressed hydrocarbon prices, a slowing global economy, and limited access to credit. In addition, we expect to see some slowdown across National Oilwell Varco's shorter-cycle businesses, Petroleum Services & Supply and Distribution (which collectively account for 48% of revenues and 43% of profits), since these segments are primarily driven by oilfield activity levels. However, we believe that the impact of a potential slowdown will be offset partially as the company converts revenues and profits from its record backlog while benefiting from a favorable aftermarket and consumables mix shift as offshore (particularly deepwater) rigs roll out of shipyards over the 12 months and beyond. Furthermore, unlike the market's apparent opinion (given the company's extremely depressed valuation), we are convinced the backlog is largely immune from cancellations. The vast majority of orders are from large operators who still desperately need these rigs and have the financial strength to pay for them. The long-term outlook for rig building remains favorable, since the current worldwide rig fleet remains too small, too old, and technologically inadequate to perform the type and amount of drilling that will be required in order to increase hydrocarbon supplies in the years ahead. We expect National Oilwell Varco to generate 17% average annual EPS growth between 2008 and 2013. From its current valuation of five times expected 2009 EPS, National Oilwell Varco should add significant value in client portfolio if this growth unfolds as we think it will.

Consumer

For its most recent quarter, **Amazon** reported net revenue of \$4.26 billion, up 31% y/y (up 28% y/y excluding the impact of foreign exchange) and EPS of \$0.27, up 44% y/y. Media, which accounted for 59% of sales, grew 19% y/y, and Electronics & Other General Merchandise, which accounted for 39% of sales, grew 52% y/y. North America segment sales, which include the U.S. and Canada, increased 29% y/y to \$2.3 billion. International segment sales, which include Amazon's UK, German, Japanese, French and Chinese markets, increased 33% y/y to \$1.96 billion. Importantly, active customer count for the quarter increased 17% y/y to 84 million—an amazing statistic that is indicative of Amazon's value proposition. As a result of weaker consumer spending and the recent devaluation of foreign currencies relative to the U.S. dollar, Amazon reduced its 2008 revenue growth guidance to 24–31%, down from 30–35%. While Amazon's business may be impacted in the short-term, we continue to believe that Amazon, with its broad and deepening product categories, will take share from both online and offline competitors and benefit as online retail growth continues to significantly outpace overall retail spending.

Despite a challenging consumer environment in Las Vegas and Macau, **Las Vegas Sands** achieved results in line with our expectations for its most recent quarter. Total revenues increased 67% y/y to \$1.1 billion, and operating profit increased 49% y/y to \$244 million. This growth was driven in large part by new property openings over the last year, including the Venetian Macau, which opened half-way through the third quarter of 2007, and the Four Seasons Macau, which opened at the end of the third quarter of 2008, both on-time and on-budget.

As a result of current conditions in the capital markets and the global economy, Las Vegas Sands has chosen to suspend several of its development projects and focus on projects where it believes it will be able to generate substantial free cash flow and de-lever its balance sheet in the shortest period of time. To finance such projects and repay debt, the company raised \$2.1 billion of capital in November through a public offering of common equity, perpetual preferred equity, and warrants to purchase common equity. CEO Sheldon Adelson also purchased preferred equity as well as warrants to purchase common equity. Additionally, the Adelson family agreed to convert its \$475 million 6.5% convertible senior note due 2013 into shares of common equity at a \$5.50 conversion price.

With that secondary offering we believe Las Vegas Sands' current pipeline of projects is fully funded. Combined with the prospect of non-core assets sales in Macau such as condos and/or the shopping malls over the next two years (even at greatly discounted values), we believe the risk of violating requirements of various credit facilities covenants is greatly reduced. As such, we anticipate that the company will be able to complete existing properties within two years and begin to pay down its debt. The cash-flow-rich nature of the business model means that properties currently operating and/or under construction should deliver around a +21% Earnings Before Interest, Taxes, Depreciation, Amortization and Rent (EBITDAR) Compound Annual Growth Rate (CAGR) through 2012 as well as around a 20%+ Free Cash Flow yield by 2012.

Google once again delivered stronger-than-expected results in its most recent quarter. Net revenue was up 34% y/y, operating earnings were up 32% y/y, and EPS were up 25% y/y. Expenses from the new foreign currency hedging program introduced in the second quarter caused EPS to lag

operating earnings. We believe that this outstanding performance demonstrates the value proposition Google offers advertisers and the strength of its business despite the challenging macro-economic environment. Of particular note was the expense control Google demonstrated. Operating margins increased to the highest level in a year and capital expenditures were the lowest of any quarter in two years. While the economy has impacted Google's growth, its market opportunity, its value proposition to advertisers, and its dominant competitive position have not changed. Therefore, we continue to see strong, long-term growth potential from Google's core search business.

Healthcare

While the healthcare sector traditionally exhibits stability during economic slowdowns, the current extraordinary global slowdown and tight credit environment are finally beginning to have some impact. After strong business results through the third quarter of 2008 for our healthcare holdings the negative effects—such as slower growth in elective surgical procedures and tighter spending on hospital capital equipment—dampened fourth quarter growth for some of the healthcare holdings. The economic slowdown led to hospitals adopting a more restrictive approach in the near-term to capital expenditure, a trend we anticipate will persist through much of 2009, with subsequent improvement as the economy stabilizes. Likewise, patients are delaying certain elective procedures, so as not to miss work, and are being marginally more conservative with filling prescriptions, given the associated co-pays. The one area that has shown the greatest insulation from the recession is biotechnology, an important component of the portfolio over the last year. The biotechnology holdings in 2008 were essentially unaffected by the recession.

Our strategy in healthcare is to invest in the leading companies in segments with attractive long-term growth and market penetration dynamics, supported by continuous product innovation, technological and intellectual property barriers to entry, and in many cases market share gains. While we believe these drivers remain firmly in place for the healthcare holdings, businesses with exposure to the economy will experience slower growth in 2009 than we had expected just a couple of months ago. However, based on in-depth research and scenario analyses, we believe that we own the most attractive businesses to weather this economic storm and emerge on the other side with an attractive above-average growth profile.

Technology

In terms of business results, the technology holdings in client portfolios performed quite well in the third quarter of 2008, given the significant downturn on the macro-economic front. Early data points we have gathered regarding fourth quarter results indicate a further slowing of growth for these companies, as one might expect. Yet, we believe that the tech companies held in client portfolios are better insulated than tech companies at-large given the compelling economic value proposition they offer to their customers and/or their strengthening competitive position—a trend that is likely to accelerate during tough times as weaker players are forced to cut back. Though revenue and EPS growth in 2009 is likely to be less linear and more volatile than it has been in the past several years, we believe all of the tech companies held in client portfolios will emerge from the present downturn in a much stronger competitive position and will be poised for a re-acceleration of growth when the macro-economic environment recovers.

Salesforce.com reported solid quarterly results, with revenue growing 43% y/y and EPS up 68% y/y. One particularly positive piece of news from the quarter was that an increasing proportion of

Salesforce.com's new business is coming from outside the company's flagship sales force automation offering, a key element in continuing the high growth of the company in the long-term. The quarter was marked by Salesforce.com's annual user conference—Dreamforce Expo. The event was very well attended and featured the announcement of new platform partnerships with Amazon Web Services and Facebook. Further, the company announced the launch of a new “Force.com Sites” offering that allows users without Salesforce.com logins to enter data into Salesforce.com applications, a particularly effective way for Salesforce.com customers to generate feedback and commentary from their customers. These initiatives again represent the increasingly real opportunity for Salesforce.com outside of its core sales force automation offering. We believe that with its clear value proposition and much lower upfront cost compared with on-premise software, Salesforce.com is better positioned than other application software vendors in the current economic environment.

Broadcom had a very strong third quarter, with 37% y/y revenue growth and 240% y/y EPS growth. The Enterprise and Broadband segments posted very solid results, up 21% y/y and 27% y/y, respectively, but it was 51% y/y growth in the Mobile/Wireless segment that really exceeded expectations. Continued high-double-digit growth of Broadcom's Bluetooth, WiFi, and GPS offerings drove the wireless segment. Despite the tough economic environment, Broadcom achieved several milestones: It launched several new products that feature multiple functions on a single chip (e.g., WiFi + Bluetooth + FM radio), was awarded its 3000th U.S. patent, and closed its purchase of AMD's Digital TV chip business. Many of Broadcom's competitors did not fare as well, and a few are facing serious financial difficulties that may jeopardize their future existence. Broadcom's balance sheet is pristine, and the cost-cutting initiatives of the new CFO Eric Brandt are starting to bear fruit. In light of the economic downturn, management lowered its guidance for the fourth quarter. However, due to its financial strength and the precarious situation of many of its competitors, we believe that Broadcom will take share during the downturn and emerge even stronger when the economy recovers.

Apple reported strong results in its latest quarter following the launch of its 3G iPhone on July 11. Apple is now providing non-GAAP (Generally Accepted Accounting Principles) results to account for the fact that iPhone and Apple TV revenue are recognized ratably. Non-GAAP revenue was up 72% y/y, and EPS were up more than 180% (based on our estimates of last year's results). iPhone was the standout, with nearly seven million units sold, 35% higher than consensus estimates. On a cash basis (non-GAAP), iPhone accounted for nearly 40% of Apple's revenue, catapulting Apple to become the third largest handset vendor in the world based on sales, behind Nokia and Samsung. Apple sold more iPhones last quarter than all previous quarters combined. Since the launch of iPhone 1.0 on June 30, 2007, Apple has sold a cumulative 13 million units. On its earnings call, Apple confirmed that it had already exceeded 10 million iPhone units sold this calendar year. Mac unit sales were also strong, up a respectable 21% y/y in a difficult consumer market, and iPod unit growth held steady at 8% y/y. Management provided very conservative guidance for the holiday quarter, stating, “Visibility is low, and forecasting [in the current environment] is challenging.” Still, Apple ended its fiscal year with \$25 billion in cash, nearly 30% of its market cap, and 16 times higher than competitor Research In Motion's cash position. While it is likely that Apple will be impacted by slower consumer spending in the near-term, its long-term prospects to take share of the PC market and the mobile handset market remain very compelling, especially at the current stock price.

QUARTERLY COMMENTARY NOTES

Information in this report is current as of December 31, 2008. The securities referenced in this report were selected based solely on their respective performance and represent only a portion of the portfolio's holdings. There is no assurance that any securities discussed will remain in the portfolio or that securities sold have not been repurchased. The information provided should not be considered a recommendation to purchase or sell any particular security. You should not assume that any of the holdings were or will be profitable, or that the investment decisions we make in the future will be profitable or will equal the performance of the securities referenced. References to the performance of an individual security do not necessarily represent the portfolio's actual performance with respect to that security for the stated period.

Sands Capital Management is an independent registered investment adviser exclusively focused on investing our clients' money in high-quality growth businesses. Sands Capital claims compliance with the Global Investment Performance Standards (GIPS®).

Past performance is not a guarantee of future results.

Must be preceded or accompanied by [prospectus](#). Please refer to the prospectus for important information about the investment company including investment objectives, risks, charges and expenses.

Mutual fund investing involves risk. Principal loss is possible. The Funds may invest in foreign securities, which exposes investors to economic, political and market risks and fluctuations in foreign currencies. The Funds will invest in the securities of small companies, which subjects investors to additional risks, including security price volatility and less liquidity than investing in larger companies. Masters' Select Focused Opportunities Fund is a non-diversified fund, which means that it may concentrate more of its assets in fewer individual holdings than a diversified fund. Though primarily an equity fund, the fund may invest a portion of its assets in securities of distressed companies. Debt obligations of distressed companies typically are unrated, lower rated, in default or close to default and may become worthless.

Visit the website for the most recent portfolio holdings for the Masters' Select [Equity](#) and [Focused Opportunities](#) Funds.

Current and future portfolio holdings are subject to risk.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The **Russell 1000 Index** measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. **The Dow Jones Wilshire 5000 Total Market Index** represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. You cannot invest directly in an index.

Earnings per share (**EPS**) is calculated by taking the total earnings divided by the number of shares outstanding. The Price to Earnings (**P/E**) Ratio is calculated by dividing current price of the stock by the company's trailing 12 months' earnings per share. Free cash flow is measure of financial

performance calculated as operating cash flow minus capital expenditures. Free cash flow (**FCF**) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. **Book-to-bill ratio** is the dollar amount of orders on the books compared to the dollar amount of orders filled. A high ratio indicates a backlog of orders that should produce revenues and profits in future periods.

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