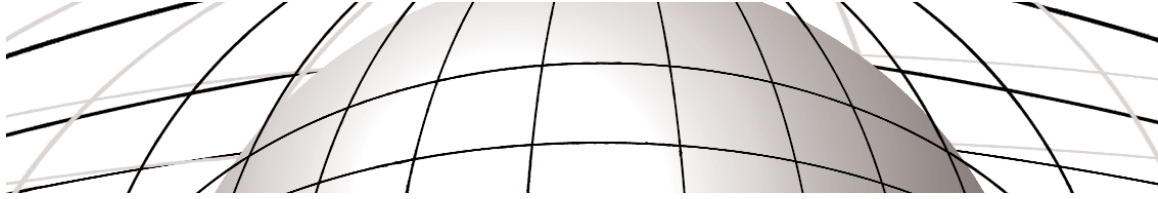


market commentary



Recent Market Volatility

August 10, 2007

Credit Market Concerns

Over the past few months investors have experienced a return to volatility in virtually all markets. The month of July witnessed roughly a 3% retreat in the overall market, with smaller companies—\$2 billion or less in size—falling at double that rate. The major culprit: housing market concerns and anxiety surrounding subprime lending.

Over the last few years, volume into subprime loans, which are loans given to borrowers of less than stellar credit, has mushroomed. With strong home prices, low interest rates, and plenty of liquidity, there was a lot of competition in the industry. As the housing market cooled and the rates went up, so did the number of borrower defaults. Compounding this problem is the fact that so many subprime borrowers took out adjustable rate mortgages, or ARMs, which are now resetting at higher rates. Those who could marginally pay their monthly mortgage bills are watching as their “teaser rates” go up and, in many cases, out of reach.

Beyond the Borrower

The challenge of the subprime market goes beyond the individual borrower. These loans are generally pooled together and sold to investors in bundles, typically known as Asset Backed Securities (ABS). As the number of delinquencies and foreclosures grow, the rating agencies are downgrading these mortgage pools and prices are deteriorating. Traders of these investments are finding fewer and fewer buyers.

What This Means to the Market

Leading up to this credit crunch, the market was in rally mode. The previous six months saw tremendous growth in the overall market, which is coming off of four straight years of solid growth. While we may be facing more weakness in the housing market, and the frenetic pace of refinancing may be over, the markets remain on solid footing.

American corporations, *which are benefiting more and more from their overseas profits*, continue to report solid earnings. Additionally, the market is more fairly valued than it has been in previous downturns, and interest rates are generally lower. In fact, the Federal Reserve has signaled it will do what is necessary to aid liquidity in the capital markets. This may mean the next move we see by the Fed will be a reduction in interest rates—assuming they feel they can do so without stirring inflation.

On the Horizon

While no one can predict the future, it is possible to draw educated conclusions from what we are seeing. Mariner uses a tactical approach to investing—looking forward instead of being fixated on the past. One example of this would be our increased allocation of large growth companies in our fund strategies. This has been an area out of favor for years, but one we see outperforming the overall market as the economy cools. Another would be the recent addition of the First Eagle Global Fund to our strategies. The worldwide economy remains strong, and this was a move to further diversify globally. We will continue to make these moves when we feel they are prudent.

As always, please contact us with any questions you may have about this report or your portfolio.

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