GRIMM
CAPITAL MANAGEMENT LLC

Investment Review and Outlook
1st Quarter 2009

April 1, 2009

Summary

~ The market, as reflected in the performance of the S&P 500 Index, declined year to date through Mar 9 by a frightening -24.6% before rebounding sharply and ending the quarter down only -11.0%. The market was initially reacting to very depressing economic statistics. But then, we finally reached a point where negative sentiment and expectations got to such an extreme, that it took only reported activity that was not worse than expected to rally the market.

~ Although we rarely know for sure but in retrospect, there is reason to believe that we that we have now seen the lows in this extended bear market. Without question, there is still amble reason to be concerned, and the trends are still negative. However, deteriorating conditions have set expectations at a very low level, and suddenly economic activity seems to be declining at a lesser rate. Also, the Federal Reserve and the Treasury have been adding considerable liquidity, and the Obama stimulus program should eventually give us a boost. While conditions at this stage don't seem to support an extended rally, we believe that the probabilities do in fact favor a higher market by year-end as we start to discount the stabilization/recovery in 2010.

~ Large cap growth stocks as a category did relatively well in the quarter, which was reflected in the Russell 1000 Growth Index declining only -4.1% versus -11.0% for the S&P 500. Our portfolios, which are on balance focused on large cap growth, also did relatively well, declining only -2.4% before fees. For a long time, from early 2000 until early 2007, large cap growth stocks struggled relative to other categories before finally bottoming out and beginning to outperform. They experienced a setback in the second half of 2008 as the financial crisis erupted, but in this quarter have resumed their relative gains.

Investment Review and Outlook

The S&P 500 Index rebounded over +20% from its March 9 low through March 26, which percentage-wise would normally classify the surge as a bull market, and possibly as an indication of better times ahead. Yet, at this stage most market observers still find it difficult calling it more than just a temporary rally in an ongoing bear market. And of course, we also know that periods of optimism in a long bear market are not uncommon. In the early 1930s the Dow Jones Industrial Average staged five bear market rallies of greater than 20% before hitting its ultimate bottom in 1932.

The current rally started from a point of very low expectations and considerable gloom, and it took merely a positive comment from a bank executive, subsequently better than expected reports on durable goods, home sales, and retail sales, and then an announcement of a more aggressive bank stabilization program by the Treasury to get it going. Admittedly, economic

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activity falling at a lesser rate doesn't mean that activity is no longer declining, but it does raise the odds that we might be getting closer to that point when activity can actually stabilize and begin to grow.

We had initially thought that the market had reached its low point in November, but that looked like horribly misplaced optimism as we went through the painful falloff in the recent quarter. Yet, when we look back and go through the numbers, it appears that that thought was probably not that far off target. Roughly 40% of the market actually stayed above its November lows in the latest downturn, meaning that 40% of the market had already seen its lows, and that despite the latest decline, we have actually been in a bottoming process since last November. Evidence of this emerging pattern is probably best seen in a few cyclically sensitive, bellwether stocks such as Goldman Sachs in Financials, Best Buys in retailing, and Apple in Technology.

Markets generally start to recover around six months before the economy starts to recover and sometimes even sooner. There are some economists who believe that because of the massive stimulus program, we will start to stabilize in the second half of this year, and others who believe it will not happen until the first part of next year because the economy is still in a phase of massive de-leveraging that is going to take some time. Most seem to believe that when growth does occur, it will likely be sub par and perhaps even leave us feeling that despite growth, we are still in a lengthy recession similar to what the Japanese experienced in the '90s.

Putting it all together, it seems logical to believe that by at least year end, we should be starting to discount a recovery, which should be starting at its latest in the first half of 2010. Also, with the market still off by about 45% from peak levels, we are starting from price levels that gives us plenty of room for discounting an upside. Many companies are still generating significant free cash, and on a free cash flow basis, their stocks are yielding anywhere from 5% to 10%, reflecting valuations that appear extremely attractive.

This does not negate the fact that there is still a lot to be concerned about and reason to be cautious on how we approach participating in a market recovery. The global economies are still in a downward trend of unknown duration, and we are still faced with massive de-leveraging that could last perhaps for years. We believe we still have to go through a phase of recapitalizing the banks. Home ownership at 68% is likely still excessively high and may have to come back to what it has normally been at around 61%-62%. Home prices, using the Schiller Index adjusted for inflation, are still above a century long mean despite the significant declines that have already occurred; and with inventories still excessive, prices are likely to decline further. The consumer's saving rate, which is very sensitive to perceptions of wealth, with housing being the biggest component, has still not returned to the averages of the '80s and '90s despite having increased in recent times. A higher savings rate, of course, translates into more sluggish spending.

Offsetting these negatives is a massive stimulus program, both monetary and fiscal, that should help stabilize conditions, and perhaps add, as some economists have suggested, a percentage point of growth offsetting the decline this year and two percentage points next year. It is a reason for some optimism beyond our current problems.

The Positioning of the Portfolio

At this stage our portfolios are reasonably well balanced in terms of sector weightings, that is, close to the S&P 500, although somewhat underweighted in Financials, Industrials, and Energy, and moderately overweighed in Telecom Services, Health Care, and Consumer Staples. We have not yet made any significant sector or theme commitments. We feel that the most rational approach for us at this stage is still simply to stay focused on what we think are solid companies with strong competitive positions, good cash flow characteristics, and an ability to show good earning momentum at some point. Also, we believe that it is a very important to be valuation oriented since coming out of a distressed period, valuation spreads are usually at their maximum and offer unusual opportunities.

We focus on companies we believe can sustain above average growth over an extended period. Our investment process includes a combination of valuation and momentum disciplines, with a heavier emphasis on valuation. Our valuation strategies have almost always worked best at the start of a business cycle when there has been a wide spread in valuations, such as was the case in the 18 months after the market bottomed in early October 2002. That was also the period in which we achieved our best relative gains over the last several years. In mid-cycle, after valuation spreads have closed, momentum strategies have tended to be more important, but valuation is always a factor since the market will often carry individual situations to extremes. At the end of a cycle, such as what we experienced starting in 2000 and then again in 2008, risk avoidance strategies have tended to dominate.

- *Economic Sector Emphasis*. Generally our sector weightings are a result of our emphasis on those companies which we believe have the best prospects for sustaining above average earnings growth and which also meet our valuation, earnings momentum and price momentum criteria. We also try to stay diversified with reasonable breadth and with holdings in most industry sectors.

Sector Weightings
% Assets
As of 3/31/09

	GCM's Equity Composite	S&P 500 Composite
Technology	*17%*	*18%*
Industrials	*3%*	*10%*
Consumer Discretionary	*10%*	*9%*
Energy	*8%*	*13%*
Materials	*2%*	*3%*
Financials	*9%*	*11%*
Health Care	*17%*	*15%*
Consumer Staples	*15%*	*13%*
Telecom Services	*5%*	*4%*
Utilities	--	*4%*
Cash & Equivalents	*15%*	--

- *Our ten largest holdings in order of size as of 3/31/09, accounting for about 49% of our equity portfolio, were as follows:*

% Portfolio	Company	Industry
6.7%	*Teva Pharmaceutical*	*Health Care/Drug Companies*
5.4	*Goldman Sachs*	*Financials/Investment Banking*
5.3	**Apple Inc*	*Technology/Computer Hardware*
5.2	*Google*	*Technology/Internet*
4.9	*China Mobile*	*Telecom Service/Wireless*
4.6	*CVS Caremark*	*Consumer Staples/Drug Retailing*
4.6	*Colgate*	*Consumer Staples/Household Products*
4.4	*Cisco Systems*	*Technology/Telecom Equipment*
4.1	*Staples*	*Consumer Discretionary/ Retailing*
4.1	**Genzyme*	*Health Care/Biotechnology*

* *New to the Top 10 holdings since 12/31/08.*

All information is provided for informational purposes only and should not be deemed as a recommendation to buy the securities mentioned.

A more complete listing of our holdings is as follows.

As of 3/31/09

Technology

Semiconductors (2%)
Broadcom

Computer Hardware (5%)
Apple

Telecom Equipment (4%)
Cisco Systems

Internet Commerce (5%)
Google

Industrials

Services (3%)
Paychex

Energy

Energy Service (4%)
Schlumberger
Smith International

Oil & Gas (4%)
Chesapeake Energy
Petrohawk Energy

Materials

Chemicals (2%)
Monsanto

Consumer Discretionary

Retail (4%)
Staples

Media (6%)
News Corp
Activision Blizzard

Financial

Invest/Broker (7%)
Goldman Sachs
Intercontinental Exchange

Banks (2%)
HDFC Bank Ltd

Health Care

Biotechnology (8%)
Celgene
Genzyme

Medical Devices (2%)
Stryker

Drug Companies (7%)
Teva Pharmaceuticals

Consumer Staples

Household Products (5%)
Procter & Gamble
Colgate Palmolive

Beverage (4%)
Pepsico

Food & Drug Retailing (5%)
CVS Caremark

Tobacco (2%)
Philip Morris International

Telecom Services

Wireless (5%)
China Mobil

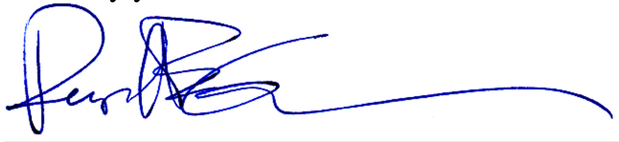
All information is provided for informational purposes only and should not be deemed as a recommendation to buy the securities mentioned. The above information represents all of the holdings of the Growth Equities strategy as of 3/31/09. Each quarter, Grimm Capital Management LLC uses this same objective, non-performance based criteria to report the securities held in the Growth Equities model.

- Changes in our Holdings during the Quarter.

We made only a few changes in the portfolio this quarter with turnover at 11%. We eliminated Aflac because of a perception of heightened risks to their balance sheet. We replaced Eastman Chemical (a major restructuring program that was a significant disappointment) with Monsanto. We eliminated Research-In-Motion because of what we perceived as declining profitability in an increasingly competitive industry segment. We also feared that their Apple look-a-like product ("Storm"), despite selling well, was a vastly inferior product, which in time would have a negative impact on them.

I hope this report has been helpful in explaining investment results for the quarter. Please do not hesitate to call me at (415) 544-0368 or contact me at rgrimm@grimmcm.com if you have any questions. (Website – www.grimmcm.com).

Sincerely yours,



Rupert E. Grimm

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CAPITAL MANAGEMENT LLC

DISCLOSURE

Grimm Capital Management LLC ("GCM") is a registered investment adviser. Grimm Capital Management LLC was established on July 1, 2005. The performance presented represents the returns of accounts in the GCM Growth Equities composite invested in GCM's Growth Equities strategy. GCM's Growth Equities strategy focuses on identifying industry leading large cap companies with long-term sustainable earnings growth.

The performance numbers prior to July 1, 2005 were those of the same manager, Rupert E. Grimm, managing with full discretion some of the same accounts in the same large cap growth style while at Berkeley Capital Management LLC. The performance numbers are believed to be accurate and reliable.

Investment returns are presented gross of investment management fees and other appropriate fees (i.e., custodial fees, etc.), but net of brokerage commissions. A client's actual realized return would be after management fees and any other expenses that may be incurred in the management of the account. For example, an account that has returned 10% annually over 1, 3 and 5 years would have increased by 10%, 33% and 61% over those periods. Assuming a maximum investment management fee of 1%, those returns will be reduced to 9%, 30%, and 54% over the indicated periods. GCM's investment advisory fees are further described in Part II of its Form ADV as required by the United States Securities and Exchange Commission and is available to clients at no charge. The performance results reflect all income, gains and losses and the reinvestment of interest and other income.
The returns are compared to the following indices:

- The Russell 1000 Growth Index contains those Russell 1000 companies that have lower book-to-price ratios, and thus a higher-than-average growth orientation, than the remaining companies in the Russell 1000 Index that encompass the Russell 1000 Value Index.
- The S&P 500 Index is a market-capitalization weighted index containing the 500 most widely held companies (400 industrial, 20 transportation, 40 utility and 40 financial companies) chosen with respect to market size, liquidity, and industry. The index is calculated on a total return basis with dividends reinvested.

The volatilities of the indices may be materially different from that of the Growth Equities strategy. In addition, the holdings in the Growth Equities strategy may differ significantly from the securities that comprise the indices. The indices have not been selected to represent appropriate benchmarks to compare the performance of the Growth Equities strategy, but rather are disclosed to allow for comparison of Growth Equities performances to those of well-known and widely recognized indices. The performance results relate to accounts with assets under management exceeding $1,000,000 ($300,000 since 6/30/07) and whose investment objectives warrant investment the Growth Equities strategy. GCM has determined that this objective account inclusion criteria has no material effect on the results portrayed. Past performance is not indicative of future results.

All information is provided for informational purposes only and should not be deemed as a recommendation to buy the specific securities mentioned above. The opinions expressed are those of Grimm Capital Management and based upon sources deemed reliable. GCM shall not be held liable for inaccurate information obtained from these sources, from which GCM could normally, reasonably depend on as accurate.