Smith Group
ASSET MANAGEMENT

MARKET PERSPECTIVES

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Managing Risk

STEPHEN SMITH, CFA

Smith Group's growth-oriented investment strategies are focused on earnings, meaning we invest in companies primarily because of the earnings growth that we see on the horizon. Our portfolio companies usually experience earnings growth at a rate that exceeds that of the growth-stock benchmarks. We are able to accomplish this because we focus on finding companies that will have rising earnings expectations, followed by positive earnings surprises. Because share prices are typically set based on the level and rate of change of the company's earnings, finding this undiscovered earnings growth gives our portfolios a definite investment performance advantage.

The benefit of the growth style of investing is that investment managers who are skilled at finding unexpected growth usually have a solid reason for expecting above-average performance in their portfolios. One of the disadvantages of this investment style is that high-growth companies often also have higher-than-average risk associated with their share price. This extra risk is one reason that many investors shy away from this style, favoring a more value-biased investment approach.

Ever since I began professionally managing portfolios over thirty years ago, I have been aware of the need to dampen portfolio risk in order to counter the negative feelings many investment management clients have toward growth-style investing. As we have sailed through the storms of the past few years, my sensitivity to and awareness of the different

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Water, Water, Everywhere

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The fourth quarter brought a welcome reversal from the downdraft of the prior five months for equity markets. For the quarter the S&P 500 index rose 12% and the small cap Russell 2000 index fared even better rising more than 16%. Yet, most equity market participants have only managed to tread water for the year, for that matter for the past thirteen years. At Smith Group our clients have fared better as markets have rewarded our strategies focused on reasonably valued, high quality companies that are producing attractive earnings growth rates.

In the epic poem *Rime of the Ancient Mariner* by Samuel Taylor Coleridge, the narrator tells of days lost in listless waters,

> "Day after day, day after day, We stuck, nor breath nor motion; As idle as a painted

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The Earnings Quality Edge

CHRIS ZOGG, CFA

Investors have grown increasingly skeptical of engineered earnings surprises and appear to be taking to heart the need for companies to truly surprise them with high quality, sustainable growth. In this analysis we will show the performance pattern associated with ''surprising investors'' is highly dependent on the quality of the companies' reported financials, as well as the magnitude of the earnings beat.

By quality we mean the reported financials of a company must be derived using conservative accounting principles and assumptions. This is important because it gives investors confidence that what they are seeing on the books is likely true and won't have to be reversed sometime in the future. There is a long list of examples of the inevitable reversal in both financial statements and stock price performance over the past decade for companies with poor earnings quality. WorldCom, Adelphia Communications and Tyco are prime examples of the destruction of shareholder value associated with restatements. We like to think of earnings quality as a differentiator between those companies with actual improving business prospects vs. those that are using accounting tricks to meet expectations. One is sustainable, the other is not.

For purposes of this analysis we will use the Smith Group proprietary earnings quality (EQ) model as the basis for what we will consider as a good versus bad earnings quality report. Specifically, the top 10% of the investment universe according to our EQ model is considered 'good' versus the bottom 10% as 'bad'. A simplified way to characterize our earnings quality analysis is to define it as the difference between cash flows and

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Risk

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types of risk have increased. This has resulted in some new ways of thinking about risk that are incorporated into our clients' portfolios.

To help me communicate this concept, first I'll define "portfolio risk". For many people, portfolio risk is defined as the likelihood of losing money (maybe significant money) and/or unexpected variability, usually negative, in the pattern of returns.

"...reducing volatility can lead to benchmark under-performance..."

Others define portfolio risk as negative performance relative to some stock market benchmark, like the S&P 500 index.

Prior to the last four years, at Smith Group we managed all of our client portfolios doing the best we could to minimize the collective risk associated with both types of risk defined above. What we found is there are times when reducing volatility or protecting client asset values can lead to a higher possibility of under-performing the performance benchmark. This typically happens when the benchmark experiences a sudden, large upsurge, as we saw in the spring and summer of 2009, as well as some earlier periods.

Equipped with sophisticated risk management tools and the knowledge gained from the experience of the last few years, we are better prepared to deal with conflicting types of risk. Using the same stock selection inputs and portfolio construction rules as in the past, we continue to build portfolios with companies that have earnings exceeding expectations. However, we are more focused than ever on balancing risk and reward, especially during periods of market stress. Given the current market environment we expect risk management is top of mind with many of you, as it is with us. Our goal is to ensure that we fully understand every client's view of risk, and to manage their portfolio based on their individual risk framework.

Nothing to Fear but Fear Itself

RICK VILLARS, CFA

When FDR spoke those words he was not naïve enough to believe that the U.S. should not fear the economic issues of the day. Instead, he was referring to the debilitating effects of fear, which is quite indicative of how investors reacted in 2011.

At the beginning of the year, if someone told you; 1) there would be 1.9 million private sector jobs created, 2) aggregate wages would rise 3.4%, 3) trailing S&P 500 operating profits would increase 20%, 4) treasury rates would be cut nearly in half on the 10-year, and yet the stock market would struggle to breakeven, you likely would have considered them a bit daft. But that has been the story of 2011. Clearly, something other than traditional market drivers are at work. With the 2008 financial system lockup fresh in investors' minds, increasing political brinkmanship in Washington and Brussels, coupled with the inherent anxiety always associated with uncertainty, investors are undoubtedly reassessing stock valuations and the price they are willing to pay for the possibility of future return.

As the U.S. economy accelerates at the end of the year, it is actually quite an interesting study in the nature of politics. While the 2011 economic expansion has been far from robust, it has been broadly positive with some segments having shown double digit growth. Alas, with politics being so contentious it has been expedient to paint a disproportionately dour picture. In fact, if the unemployment rate was not still uncomfortably high, it would not be a surprise for sitting politicians to highlight the positives in the economy with some of these favorable numbers. Instead, the economic blame game is in full swing,

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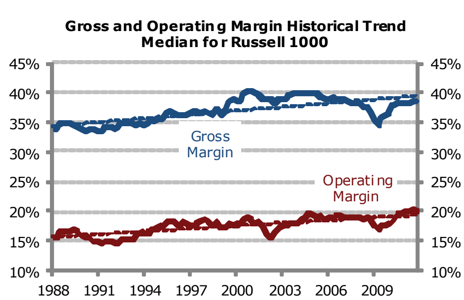
At The Margin

STEPHANIE JONES, CPA

Despite the overall economic gloom which hung over 2011, corporate earnings are expected to grow by 16% for the year. This growth continues a trend that has been in place since the second quarter of 2009. A large proportion of that absolute increase was due to expanding profit margins as opposed to top line growth, as companies benefitted from operating leverage coming out of the recession. Many investors are wondering, how long can this trend continue? Have margins reached a peak?

To put current margin levels in perspective, the chart at right shows both gross (minus direct costs) and operating (minus indirect costs) margins. Net margins are not as useful for comparison due to distortion from differing capital structures and tax rates.

Interestingly, while operating margins are indeed at their peak, gross margins are not. That high water mark (40.3%) was reached in Q3 2000. Financial margins have weighed heavily on this measure in recent years. In addition, many companies have faced headwinds due to rising input costs



and the challenge of passing increases on to customers in the form of higher prices during a recession.

The chart illustrates the extreme pressure companies were under in 2009 as the gap between gross margins and operating margins narrowed to its lowest point over the 25 year period. The fact that gross margins dropped much more sharply than operating margins showed that in general companies were effective at finding ways to squeeze out costs and increase productivity over this time.

Operating margins for a typical Russell 1000 company have increased from around 15% to 20% over the past 25

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Increasing Opportunity

RICK VILLARS, CFA

Last quarterly newsletter we discussed how many companies have truly gone global and are operating beyond borders. For those companies, domicile was simply a place where they were registered or their stock was traded. But that only tells part of the story of managing global portfolios. Going global with your portfolio also increases your opportunity set.

The American economic miracle was built on plentiful resources, capital, and labor, and accelerated by innovation. We are rightly quite proud of the success of our economy. However, we do not have a monopoly on those inputs and business success is not the sole domain of the U.S. Globalization has been an enabler in that respect, especially in capital markets and innovation. Companies around the world are now able to take advantage of global capital markets and technology has advanced the ability for innovation to be created and utilized worldwide. The result is that the top company within many industries could be in the U.S., London, Sydney, Paris, or even Sao Paulo. By segregating portfolios as either domestic or international, the global opportunity available is not fully utilized.

The effects of the interconnectedness of business can also be seen within U.S. companies as many are run by foreign born executives. For instance, Morgan Stanley is run by an Australian and Pepsi by an Indian. If the corporate boardroom recognizes there are talented executives outside our shores should we not also recognize that fact as investors? This also goes the other direction. Many non-U.S. companies are run by an expat from America. As investors, should we exclude that company from consideration? A global portfolio implicitly recognizes these opportunities and has the ability to seek out the best managed company,

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Fear Itself

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and the idea that companies have figured out how to make more with less is now considered a bad thing.

> *“... slack is akin to early stages of expansion ... “*

Worries about 2012 earnings revolve around a global slowdown and historically high margins. As noted in a companion article on page 3, there is evidence of a secular increase in profit margins due to technology driven productivity. As a result, we are less worried about a dramatic margin squeeze than many of our peers. At the top line, most cited issues revolve around a European contraction and slowing in China. Both of those scenarios are likely to occur. After all, China has always stated their growth target is about 8% (not the 9+% of the last couple of years), and Euro austerity is a foregone conclusion. China has been fairly aggressive in trying to cool the economy, so some slowing is a good thing and allows a more stimulative policy. On the other hand, corporate sales to Europe appear more problematic on the surface. But scratching below the surface the impact on U.S. company earnings is likely to be less significant. Standard & Poor’s estimates that about 13% of S&P 500 sales come from Europe, so a 2% contraction in that market could result in a 0.25% decrease in S&P 500 revenues. This probably understates the impact but does illustrate that a Euro recession is not the end of the world.

Barring financial contagion out of Europe, the global economy and corporate earnings are likely to continue to grow in spite of political upheaval. Economic slack is more akin to the early stages of an expansion than the excesses inherent in the final stages. It would be folly to ignore the risks of unpredictable politics when such complex economic issues are at stake, but successful investors generally look through the headlines to discern the real story. A boom in output or earnings is not in the cards, but if some of the worst investor fears are not realized and fear abates, stock prices could adjust to better reflect rising earnings.

Quality Edge

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earnings. The more closely a company's cash flow matches its reported earnings the better the EQ score they receive. While our model goes well beyond a simple analysis, almost all definitions of earnings quality eventually play out to that relationship on some level.

As the top graph at right displays, companies in the top decile of EQ that report a positive surprise (blue line) actually continue to have increased relative price performance in the days after a positive report. This is in stark contrast to companies who issue a positive report but with poor earnings quality characteristics (red line), which

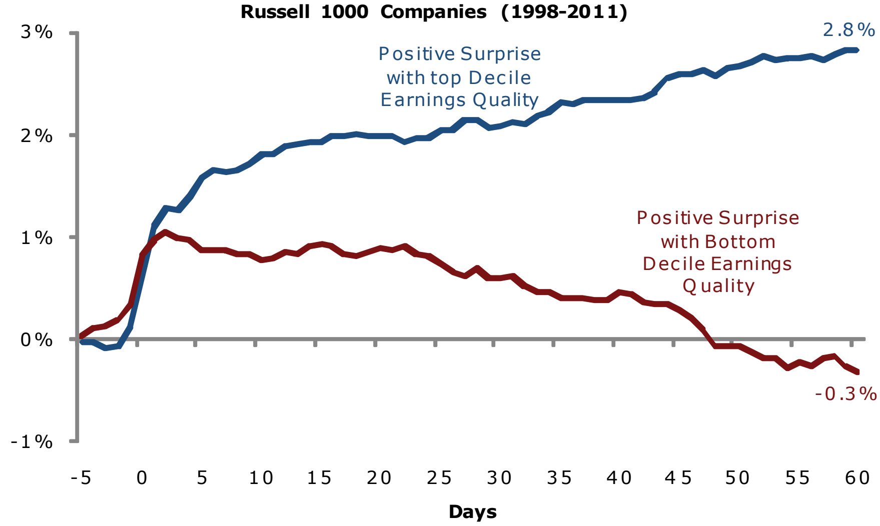
> *"... earnings quality enhances finding growth faster than expectations ..."*

have a consistently negative price response in the days following their earnings reports. The resulting difference in return between the good EQ and bad EQ stocks is more than 3% per quarter. This is a highly significant difference in return when viewed through the lens of a single event. A similar relationship plays out among companies that miss earnings expectations.

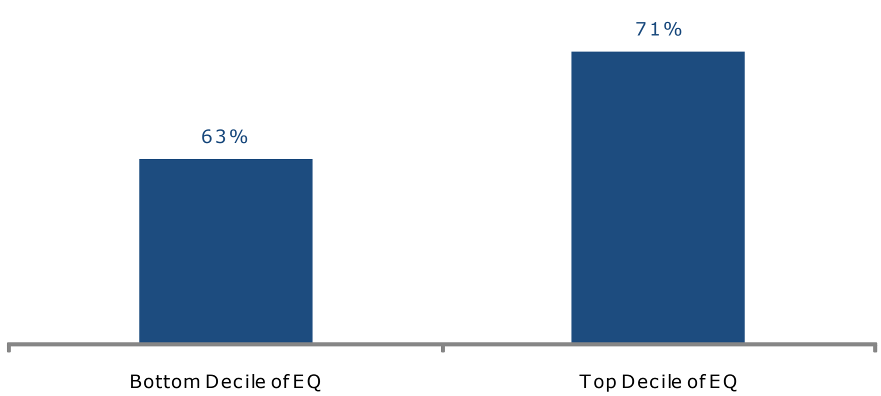
While it may not seem entirely obvious, high earnings quality companies also have a higher likelihood of reporting an earnings beat. This is evident in the bottom chart. On the surface, this is somewhat counter-intuitive given that poor earnings quality companies often 'borrow' future earnings at the expense of later periods to engineer an earnings surprise. However, evidence suggests that borrowing from future earnings is short-lived and has the consequence of making it harder for companies to realize expectations in future quarters. This leads to the overall surprise rate for low earnings quality companies to lag that of high earnings quality companies.

Using earnings quality as a decision tool in stock selection enhances our ability to find companies with earnings growing faster than expectations. It not only enhances the sustainability of positive earnings trends, but also leads to more credibility when earnings are reported. Investors tend to reward that transparency by corporations. In this age of complex accounting and a propensity of some managements to push the limits, earnings quality is gaining in importance.

Relative Stock Price Change After A Positive Earnings Surprise
Russell 1000 Companies (1998-2011)



Proportion of Companies Reporting a Positive Surprise
Russell 1000 (1998-2011)



Water Everywhere

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> ship upon a painted ocean. Water, water, every where, And all the boards did shrink; Water, water, every where, Nor any drop to drink."

This hapless tale could well express the equity markets for the past decade. The S&P 500 index first reached its current level in January 1999[1]. At the time trailing 12-month earnings for the index constituents was $44 per share. Here we are thirteen years later at the same market level, yet it is supported by $95 per share in earnings for the year ended Sep. 30, 2011, an all-time high for trailing 12-month earnings. If corporate profits are abundant and balance sheets are strong, why have investors not been rewarded? The reasons are many but European sovereign debt and a Chinese slowdown, U.S. political impotence (and for that matter every other industrialized nations political system) are the most glaring.

"... slow growth has been good for our process ..."

These concerns must be seriously weighed before ever investing a single dollar on behalf of our clients. However, we believe corporate earnings, and the rate at which those earnings are discounted, ultimately determines stock prices. In a year where corporate earnings reached new all-time highs, portfolios focused on high quality companies delivering attractive earnings in fact have been rewarded. While it is true correlations between individual stocks (and other asset classes) have been high and the market has vacillated between 'risk-on' and 'risk-off' trading days, at the end of the year we find that earnings did matter. Just as earnings mattered in 2010 and have in most time periods.

Over the past thirteen years, a period in which the S&P 500 price index has been flat, an investment in Smith Group's Large Cap Core/Growth equity strategy would have returned 50.0% cumulative net of fees[2]. In our fourth quarter 2010 newsletter we stated,

> "U.S. economic growth during 2011 and 2012 should be strong enough to improve the employment picture but the improvement is not likely of the order that would lead to a "growth is plentiful" scenario. .... higher costs of equity and debt capital will lead to greater advantages for quality, most notably those companies with low levels of debt that are able to generate sustainable earnings growth through strong cash flow generation."

We have not wavered in this belief and our focus on finding investment opportunities matching these characteristics has been rewarded. As we look at the investment landscape for 2012 we are optimistic about what we find. We certainly see a global economy still struggling to find its footing. Developed economies are battling against themselves trying to solve fiscal problems (i.e., too much debt) with monetary solutions (i.e., printing money), while developing economies are transitioning to more domestic consumption away from export dependence. Yet corporate balance sheets are strong and earnings are growing. GROWTH in all its facets is still challenging to find, therefore, will attract a premium valuation for businesses able to generate sustainably growing earnings streams. It is just these types of attractively valued, high quality streams that we find on behalf of our clients. Historically, this slow growth environment has proven to be a very good condition for our process.

Smith Group greatly appreciates the confidence and loyalty that our clients have shown over these past few years and we look forward to a furtherance of the rewards that are now being afforded our sound time-tested investment process.

[1] Based on the S&P 500 price index value. A gross of fees and transaction costs investment in the S&P 500 index for the period Jan. 1, 1999 – Dec. 27, 2011 would have returned 30.04% cumulative including reinvested dividends.

[2] Please see performance and firm disclosures. Performance is net of the maximum stated fee schedule of 1% per annum.

Opportunity

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no matter where it happens to be traded.

Growth opportunities can also be enhanced in a global portfolio in some sectors that are not considered growth in the U.S. While growth is difficult to find in U.S. utility and telecom companies, there is considerable growth in those sectors in countries where there is still a wealth of first time users of telecom services or infrastructure is expanding for delivering utilities. In those markets, industries we consider defensive or stagnant are often a dynamic growth story.

"A global portfolio ... has the ability to seek out the best managed company. "

Interest in global continues to grow and our commitment to continuously search out opportunities for our clients has precipitated expansion of our capabilities in this area. We welcome any questions you may have about globalization.

Margin

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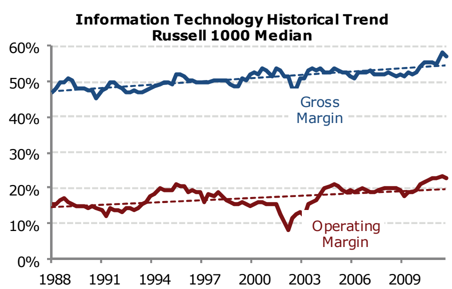
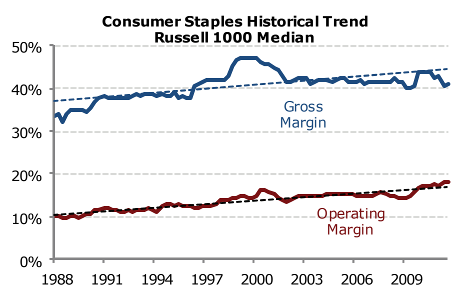
years with dips, as one would expect, in 1990/1991, 2001/2002 and 2008/2009.

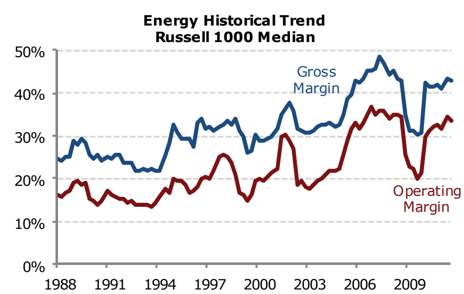
Has the increase in margins been broad based or driven by a few sectors? As illustrated below, sectors with less cyclical businesses such as Information Technology and Staples, have generally realized steadily increasing margins, while margins for cyclical sectors such as Energy have been highly volatile. In the case of Information Technology, innovation drives both the top and bottom lines, with new product concepts like the iPad demanding premium pricing while costs are controlled using technological advances. Similarly, Staples companies are tapping into automation and innovation to manage costs lower.

On the other end of the spectrum, Energy companies are saddled with volatile commodity prices at the top line and high fixed costs from a capital intensive business model. And while there certainly have been technological innovations (e.g., 3-D seismic, enhanced recovery techniques) these have not been enough to counteract the cyclical nature of margins in this commodity sensitive sector.

So will margins in 2012 prove secular or cyclical? Most likely, it will be a bit of both. Cyclical sectors are apt to see some rollover in margins depending largely on selling prices, which in turn are sensitive to economic strength. But innovation continues to provide opportunities for new, higher margin products and more productive ways to make or deliver them. If you look beneath the aggregates, you find a wealth of businesses that are not in as precarious a situation as the margin bears would have us believe. With current expectations having moderated so dramatically, we may even see an upside surprise.







Smith Group Economic Scorecard

Smith Group
ASSET MANAGEMENT

Economic Concept	Asset, Liability, or Neutral	Key Indicators	Comments
Consumer Spending		Personal Consumption Expeditures, Personal Income, Retail Sales, Consumer Confidence	The weakest consumption indicator is sentiment, but even that has been improving; actions tell a better story; real retail sales are up +3.2% year-over-year; real personal consumption is growing around 2% and is at a new all time high; aggregate wages and salaries growth is above 3%; while not great consumption is a positive contributor
Credit Environment		Loan officer credit conditions survey, Small Business Credit Availability survey, Consumer Credit growth, C & I Credit growth	Credit is once again growing and easier to get; surveys show loosening of credit standards; consumer credit is up 2.4% over the year; C&I loans are 9.8% higher than last year; availability of small business credit is better than a year ago but still tighter than in most expansions.
Emerging economies		GDP, Industrial Production, Retail Sales, Inflation, PMI surveys, Policy Interest Rates	Emerging economies will slow along with Europe; inflation is abating and policy rates have begun to fall; EM generally do not have the same leverage issues that DM economies; EM now makes up more then half of global GDP and is poised to be a larger import destination than developed markets in 2012
Employment		New Jobless Claims, Change in Private Employment, Job Openings, Hires, and Quits, ISM employment indices	Recent employment data is showing some momentum; the private sector has created almost 800,000 jobs in the last six months (close to average for a recovery); new jobless claims has decisively broken below 400,000 (a level seen as expansionary); job openings continue to improve; small business hiring plans are positive and improving; ISM employment surveys indicate expanding employment
Manufacturing		Manufacturing shipments, Inventory-to-sales ratio, Change in Inventories, Level of Inventories	Shipments are 12% higher and new orders 11% higher than a year ago; companies have done a good job of managing inventories; the inventory-to-sales ratio has been pretty flat and is close to all time lows; inventory liquidation was a drag on Q3 GDP, which will likely be reversed
Household Wealth		Household Net Worth, stock prices, house prices	After retracing about half of the peak-to-trough slide household net worth has been stagnant in 2011 as both the stock market and house prices are little changed; while consumers are not feeling wealthier, they are not really feeling worse off either
Oil Prices		WTI, Brent, Oil expenditure divided by economic output	Both WTI and Brent were about $80/barrel a year ago. Brent is now above $100/barrel and WTI is around $100. Gas pump prices have been largely driven by Brent. This would be more negative if we had not had a jump in March of this year so current prices feel like they are down and consumers feel better
Soveriegn Debt Issues		Government Debt to GDP, Budget Shortfall to GDP, Tax Revenue Changes, Government Spending Changes	There are really no solutions to Europe debt woes where a recession is not likely; best case is a deepening of fiscal ties within the union; worst case is potential contagion from a breakdown of monetary union and default
U.S. Debt and Budget		Federal budget deficit, total $ debt, debt-to-GDP, debt service	Popular policy has made compromise politically difficult; while gridlock is normally desirable, current fiscal issues demand solutions; businesses need some certainty about the playing field; it looks like all this will be delayed until later next year

Smith Group Market Scorecard

Smith Group
ASSET MANAGEMENT

Market Concept	Asset, Liability, or Neutral	Key Indicators	Comments
Liquidity		Fed Balance Sheet, Corporate Cash, Household Cash, Global central bank monetary policy	There is lots of cash around in corporate and personal accounts; the FED has indicated loose money for years to come; the ECB is now injecting liquidity; money supply growth has accelerated; emerging markets have begun to loosen policy
Macro		GDP growth, Citi Economic Surprise, ISM Indices	Most economic surprise indicators have turned positive in a reversal of mid summer readings; some acceleration in the 3rd quarter; mix of economic contributors supports probability of further improvement in 4th quarter; ISM new orders survey showing improvement; employment momentum could be a trigger
Sentiment		AAII survey, Fund flows, Institutional investor surveys	Markets rarely peak before all investor classes have embraced them; the skepticism about the longevity of this bull is a good sign it has further to go; shorter term, little conviction either bull or bear
Valuation		Forward P/E, trailing P/E, P/B, risk premium	Cheap or expensive depends on companies' ability to deliver against expectations; consensus earnings expectations for next year have moderated but valuation metrics relative to those expectations are reasonable; a foward P/E less than 12x is reasonable taking into account ~10% growth and <2.5% inflation expectations; P/B does not currently look stretched at less than 2x; relative to bonds stocks expected return is attractive
Earnings		Aggregate earnings growth, earnings estimate revisions. diffusion	There is still some downward pressure on forward earnings; expectations are much more reasonable than 4 months ago, however, S&P 500 earnings are still expected to grow in double digits next year; a moderating economic environment is mostly reflected in earnings; a more dramatic decline would result if lower expectations
Margins		Operating margins, sector specific margins, margins relative to previous peaks	Margin expectations have come in a lot; managements continue to manage costs well in the face of rising, but slowing sales; eventual hiring and investment may drag further but positive secular trend and rising revenues will limit downside
Sales/Revenues		Sales growth, sales estimate revisions, sales diffusion, personal consumption expenditures, exports, capital goods orders	Sales expectations are being revised downward but are still positive with expected forward growth ~4%; sales have continued to surprise on the upside and have been in a growth mode
Asset Flows		Mutual fund flows, institutional allocations, foreign purchases of U.S. securities, ETF flows	The flow out of U.S. equities is at an all time high and has been a significant headwind; long-term this flow could reverse and become a tailwind. There is a lot of buying power sitting on the sidelines or has moved to bonds.
External Macro Shock		LIBOR, News Flow	In spite of a firming economic environment the market is still very sensitive to macro news and the risk-on to risk-off trade is still a factor; daily news flow has an abnormally high impact on prices and volatility

Disclosures

Founded in 1995, Smith Asset Management Group, L.P. ("Smith Group") is a registered investment advisor that specializes in equity investment management services. The firm manages assets for a diverse list of clients, which includes foundations, endowments, corporate pensions, public funds, multi-employer plans and high-net worth individuals. Effective Jan. 1, 2006, the firm was redefined to exclude wrap SMA business. Smith Group claims compliance with the Global Investment Performance Standards (GIPS®). Smith Group has received a firm-wide verification for the period Jan. 1, 1996 - Sep. 30, 2011. To receive a complete list and description of Smith Group's composites and/or a presentation that adheres to the GIPS® standards, contact John Brim, CFA at (214) 880-4608, or write to Smith Group, 100 Crescent Court, Suite 1150, Dallas, TX 75201, or john@smithasset.com. The S&P 500, Russell 1000 Growth, S&P 500 Growth, Russell 1000 Value, Russell 3000, Russell 3000 Growth, Russell 2000, and Russell 2000 Growth indices, are unmanaged indices of the shares of large, mid and small U.S. corporations. All index performance includes capital appreciation and reinvested dividends and is presented gross of fees.

Earnings Surprise: According to many academic studies, earnings surprise has had a positive relationship to relative performance in most time periods and for most companies. However, this does not mean that this relationship exists for all time periods and for all companies. In the recent past, periods coinciding with an inverse relationship between earnings surprise and relative performance have typically been periods in which corporate earnings are not the focus of investors' attention. Additionally, companies, which have had a chronic negative relationship between earnings surprise and relative performance, are typically those companies whose earnings are not product-driven, such as commodity companies. There is no assurance that the historic positive relationship between earnings surprise and relative performance will exist in the future. Nor is there any assurance that the historic ability of Smith Group to forecast a high rate of positive earnings surprise companies will exist in the future.

Large Cap Core/Growth Composite – It is comprised of accounts whose primary objective is growth of principal by investing primarily in stock of large capitalization U.S. companies. Inclusion in this composite requires that accounts are in general not missing in excess of 5% of the firm's recommended portfolio. A portfolio manager will review for appropriateness of inclusion in the composite any account maintaining a cash position greater than 10% or missing in excess of 5% of the firm's recommended portfolio. The primary benchmarks for these accounts should be the S&P 500 Index or Russell 1000 Growth Index. The start date for the composite is Jan. 1, 1992. The creation date for this composite is Jan. 1, 2004. At this time, the composite containing accounts that directed trading was closed, and those accounts were added to the composite containing accounts in which Smith Group has discretionary trading authority, creating a composite of all accounts invested in this particular strategy. Accounts are added to the composite at the beginning of the first calendar quarter after full investment of the account. Accounts are removed from the composite at the month end prior to change in account status.

Past performance is not indicative of future results. As with any investment vehicle, there is always a potential for profit as well as the possibility of loss. Actual results may differ from composite returns, depending on account size, investment guidelines and/or restrictions, inception date and other factors. <u>Nothing contained in this presentation should be construed as a recommendation to buy or sell a security or economic sector.</u>

Investment manager peer rankings are based on the Callan Associates, Inc. Performance Evaluation Universes.

The material is based upon information we consider reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. Opinions included in this material are as of Dec. 31, 2011 and are subject to change without prior notice.

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