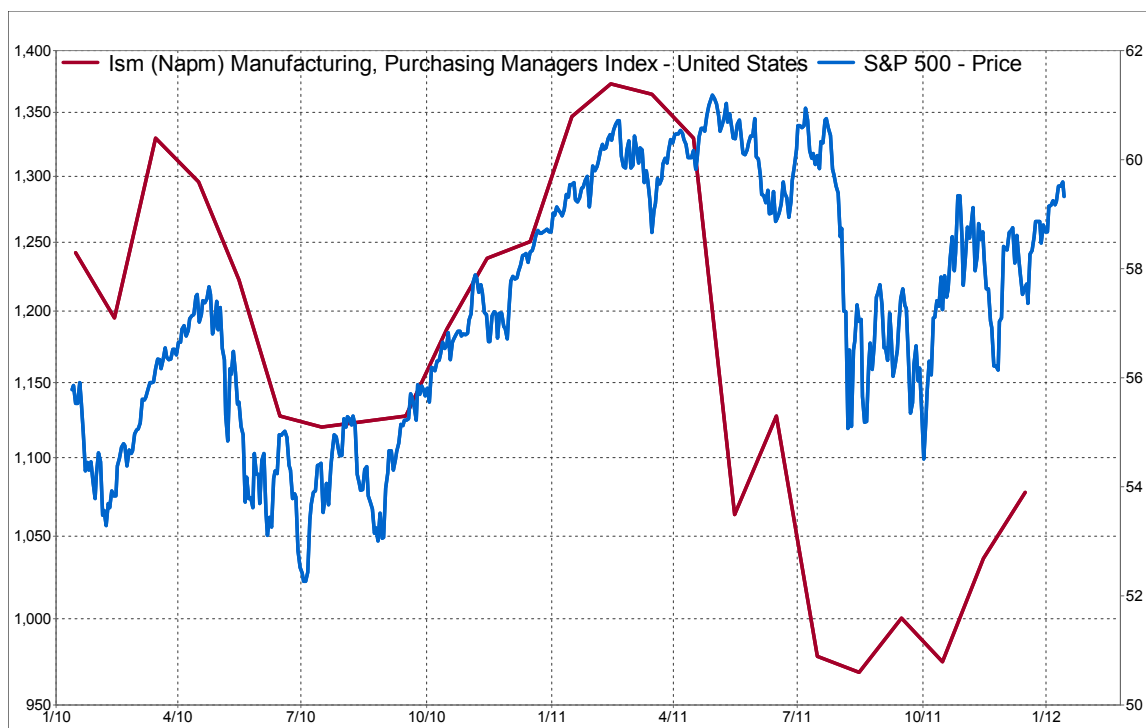




## Large Cap Value Manager's Market Review and Outlook

The U.S. stock market endured some of the wildest volatility in years in 2011 amid concern over surging sovereign debt in the U.S. and Europe. Despite finishing the year on a strong note, the Russell 1000 Value Index ended the year only slightly higher than where it started. Defensive sectors including Utilities, Consumer Staples and Health Care outperformed the broader market for most of the year. However, more cyclical sectors like Energy, Industrials and Materials outperformed in the last quarter of the year, possibly providing an early sign of changes in sector leadership in 2012.



We believe the year-end bounce in U.S. equities reflected a significant change in the direction of leading economic indicators. For most of the 2<sup>nd</sup> and 3<sup>rd</sup> quarters, leading economic indicators around the world generally decelerated, suggesting weaker economic growth ahead. We began to see a positive turn in the majority of the leading indicators we follow in October and they continued to improve through year-end. This shift likely brought about a change in investor's future growth expectations and a shift in preference away from defensive investments and into "risk assets", including stocks.

We believe that 2011's late-year pickup in global economic indicators will continue well into 2012, bringing along with it generally better economic headlines, including modest improvement in real GDP growth, employment, and corporate earnings growth. As long as the forward looking economic data continues to improve, we believe this will provide a favorable back drop for U.S. equities and we expect positive returns for the broader market in 2012. The major risks to this recovery include unexpected intensification of the debt crisis in Europe, instability in the Middle East and disruptions to global oil supply, and of course political gridlock in Washington D.C.

## Portfolio Positioning

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We continued to exit defensive holdings in favor of more economically sensitive stocks during the 4<sup>th</sup> quarter to better position the portfolio for a continuation of this improving macroeconomic environment. The portfolio currently has an overweight position versus the benchmark in cyclical sectors like Energy, Materials, Industrials, and Consumer Discretionary and it is underexposed to more defensive sectors like Utilities, Telecom, Consumer Staples and Healthcare. We believe this is the proper portfolio positioning as investors will likely continue to rotate into sectors with pro-cyclical characteristics and out of defensive sectors. As always, we will continue to monitor the economic environment closely and adjust the portfolio as necessary.

## Recent Portfolio Transactions

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We sold our positions in pharmacy services provider CVS Caremark Corp. (CVS), branded food manufacturer J.M. Smucker & Co. (SJM), and diversified health care manufacturer Abbott Laboratories (ABT) as valuations had become less attractive and our preference had also shifted away from very defensive portfolio holdings. Finally, we sold our position in office products retailer, Office Depot (ODP) as it became less likely that investment catalysts would materialize in the near future.

We reinvested the proceeds from the above sales in more cyclical portfolio holdings, including department store operator Macy's Inc. (M), copper and gold mining company Freeport McMoRan (FCX), construction and mining equipment manufacturer Caterpillar Inc. (CAT), and Raymond James Financial, Inc. (RJF), a full-service wealth management and investment banking firm.

### **Harald Hvideberg, CFA**

*Managing Director & Chief Investment Officer*

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Past performance does not guarantee future results. Market conditions can vary widely over time and can result in a loss of portfolio value.  
In accordance with the rules of the Securities and Exchange Commission, we notify you that a copy of our ADV, Part II filing with the SEC is available to you upon request.