

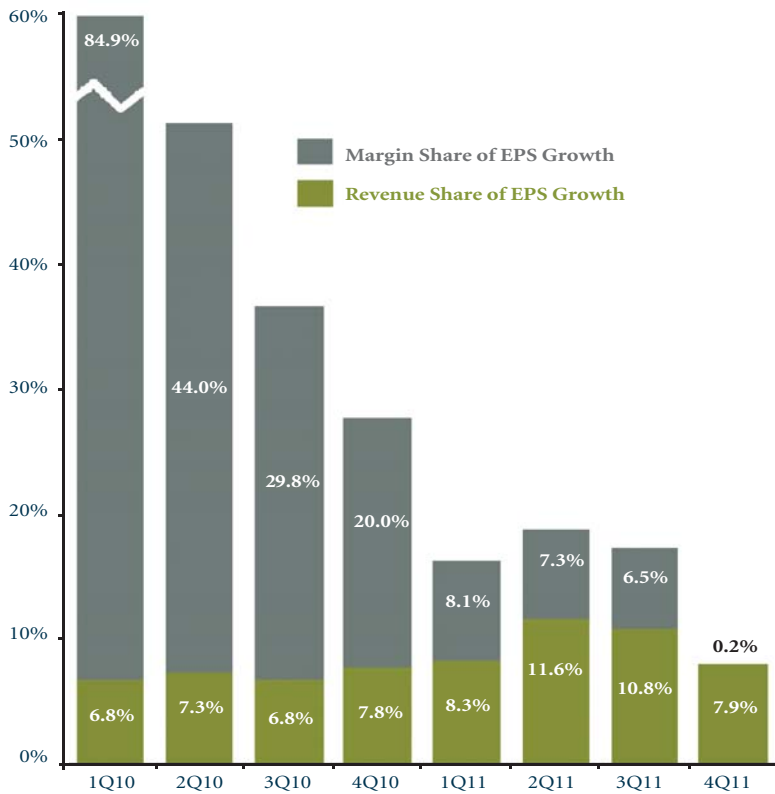


The year of 2012 started out very strong for the equity markets with stocks posting their best first quarter in 14 years. The S&P 500 Index returned 12.59%, the Russell Midcap Index appreciated 12.94%, the Russell 2000 Index increased 12.44%, and the MSCI Emerging Markets Index rose sharply with a return of 14.08%. We believe this strong performance was the result of stock prices “catching up” with the earnings growth that occurred in 2011 but was not rewarded as indicated by the flattish equity returns last year. Bonds, however, failed to keep pace with the equity markets during the first quarter with the Barclays Capital U.S. Aggregate Bond Index returning a mere 0.30%. Emerging-market debt and high yield were the best performers within fixed income with returns of 5.51% for the Barclays Capital Emerging Markets Bond Index and 5.15% for the Bank of America Merrill Lynch U.S. High Yield Index. It clearly was a “risk on” quarter in both the equity and fixed-income markets.

After a strong rally in the fourth quarter of 2011 and the first quarter of this year, investors who have been reinvesting dividends in the S&P 500 Index are now within one percent of the October 2007 high. Without dividend reinvestment, investors need another +13% price return to equal the October 2007 high. By the third quarter of 2011, earnings for the S&P 500 Index had already exceeded previous highs. Corporate earnings growth has really been the story of this stock market recovery and is now being largely driven by revenue growth. The cost cutting and margin improvement is behind us (See chart: *Year-Over-Year EPS Growth*). The growth rate of earnings will surely slow over the next couple of years as the recovery matures, but we expect S&P 500 profits to make an all-time high this year at approximately \$105 per share.

YEAR-OVER-YEAR EPS GROWTH

S&P 500®, QUARTERLY, BROKEN INTO REVENUE GROWTH AND MARGIN EXPRESSION

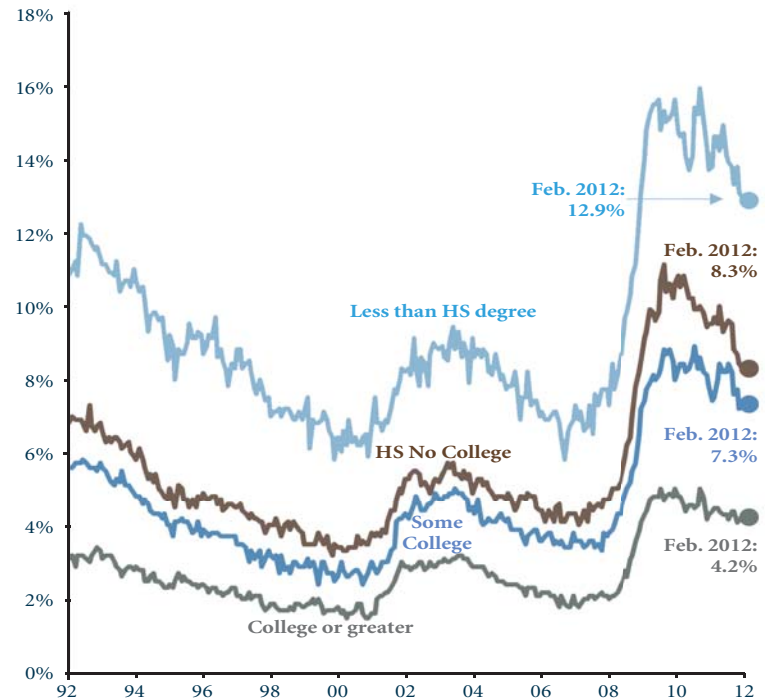


Source: FactSet Research Systems, Standard & Poor's, Compustat, BEA, J.P. Morgan Asset Management
Data is assumed to be reliable. Past performance is no guarantee of future results.

Despite the strong performance of the past two quarters, there are still numerous macroeconomic headwinds that investors will continue to face:

- Unemployment, while slowly improving, is still too high and is adversely affecting consumer confidence. As illustrated in the chart, *Unemployment Rate by Education Level*, the sustained high unemployment rate is primarily driven by those without a college degree. Typically this includes individuals involved in housing and construction so any improvement in this sector will help the unemployment figures improve rapidly.

UNEMPLOYMENT RATE BY EDUCATION LEVEL

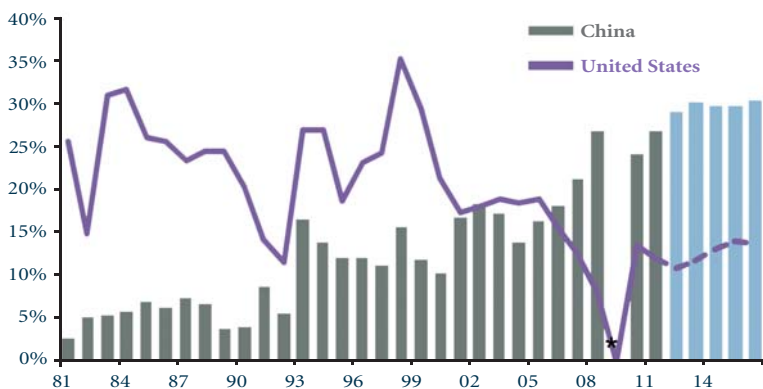


Source: BLS, FactSet Research Systems, J.P. Morgan Asset Management
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- Housing prices, which seem to at least have found a floor, are still weak enough to put many homeowners in a negative equity situation.
- Even though the European Long Term Refunding Operation (“LTRO”) has been successful in stabilizing the European banking system short term, we do not believe the debt crisis in Europe is over.
- China is clearly slowing and it has been an engine of global growth for many years (See Chart: *China and U.S. Contribution to Global GDP Growth*).

CHINA & U.S. CONTRIBUTION TO GLOBAL GDP GROWTH

SHARE OF YEAR-OVER-YEAR CHANGE IN NOMINAL GLOBAL GDP

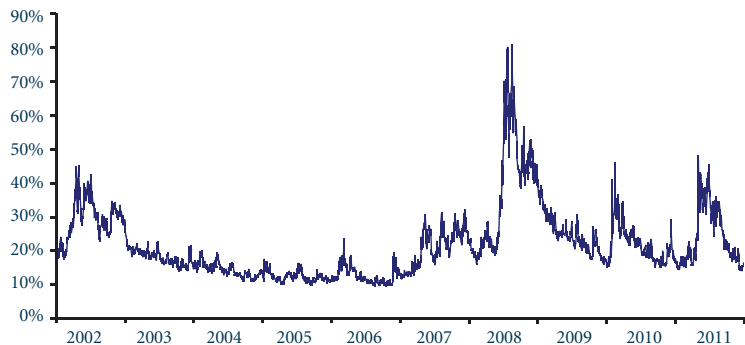


Source: IMF, J.P. Morgan Asset Management
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• Stubbornly high energy prices due to low levels of spare capacity and the potential for Middle East conflict in the Straits of Hormuz have led to higher gasoline prices, which certainly have a negative impact on consumer sentiment and spending.

Increasingly over the last six months, the performance of corporate earnings has started to trump these headwinds. The Volatility Index (VIX), a measure of investor fear, has dropped from above 40 to the teens (See Chart: *Volatility Index*). Stock correlations have been dropping steadily as well. We suspect these headwinds will resurface materially from time to time in the future despite the slow progress that is being made.

VOLATILITY INDEX



Source: FactSet Research Systems
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We believe stock prices will look attractive, particularly relative to fixed-income alternatives, and are still below 15-year averages on numerous valuation ratios, such as price to earnings, price to book, price to cash flow, and price to sales (See Chart: *S&P 500 Index Market Valuation Ratios*).

S&P 500® INDEX VALUATION MEASURES

Valuation Measure	Description	Latest	10-year avg.	15-year avg.
P/E	Price to Earnings	13.0x	14.5x	16.9x
P/B	Price to Book	2.3	2.5	3.1
P/CF	Price to Cash Flow	8.9	9.9	11.1
P/S	Price to Sales	1.3	1.3	1.5
Div. Yied	Dividend Yied	2.1%	2.0%	1.9%

Source: Standard & Poor's, FactSet Research Systems, and J.P. Morgan Asset Management
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Overall, we believe the economy will continue to plod along with modest growth and stock selection will become increasingly important. As always, our strategy continues to be finding high-quality businesses with significant sustainable competitive advantages and purchasing these companies at reasonable valuations.

We thank you for your continued trust and confidence and welcome any questions you may have.



DOUG FOREMAN, CFA
 Director of Equities

Doug Foreman, CFA, is Director of Equities with primary responsibilities for evolving all aspects of the equity investment process and for overseeing product development. He has approximately 26 years of investment experience.

The S&P 500® Index is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. The MSCI® Emerging Markets (EM) Index is a free-float adjusted market capitalization index tracking the equity performance of global emerging markets. The Russell 2000® Index is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Russell Mid Cap® Index is a market-capitalization weighted index of 800 of the smallest companies in the Russell 1000® Index, which comprises the 1,000 largest U.S. companies. The Barclays Capital U.S. Aggregate Bond Index is a market value weighted index that tracks the daily price, coupon, pay downs, and total return performance of fixed-rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least \$250 million par amount outstanding with at least one year to final maturity. The Bank of America Merrill Lynch U.S. High Yield Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The Barclays Capital Emerging Markets Bond Index is an unmanaged index that tracks total returns for external currency-denominated debt instruments of the emerging markets. Performance is calculated on a total return basis with dividends reinvested. The indexes are unmanaged and not available for direct investment.

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