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STATEMENT OF INVESTMENT POLICY

Parsing recently released economic data, we find that following another false recession scare earlier this year, there are a number of reasons to be a bit more sanguine about prospects for US business, the European bank and sovereign debt crises, and the Chinese economy.

- In the US, data released in the past few weeks has given rise to speculation the low point in economic activity for the year may now be behind us. Retail sales, industrial production, consumer sentiment, housing and improved jobless claims have all signaled an uptick in business during the current quarter and possibly beyond. The more positive housing outlook, where volumes have been slowly improving, has enormously favorable implications for the entire economy as any sustained improvement will positively impact both consumer wealth and bank balance sheets.

- For the first time since the Greek implosion in 2009, the outlines of a credible "blueprint" for a bank union in the EU have emerged. Although crucial implementation details are lacking, and huge execution risks exist, it is important to note that all of the major EU players appear to be committed to a European bank plan and are determined to see it through. Further, on August 8th, Mario Draghi floated the idea of a bond buying program which would, in effect, cap sovereign debt rates. Important details of this program remain to be seen.

- Economic growth in China appears to have slowed further in the current quarter as the manufacturing sector contracted at its sharpest pace in nine months in August. Chinese officials have given assurances that actions would be taken prior to the government hand-over this fall to increase growth and to hasten the shift from an export driven economy to one that places greater emphasis on consumption. Reductions in bank reserve requirements and interest rates have already been undertaken. Additional stimulative steps are under way including the injection this week of funds into the financial system – the largest such move in seven months. We believe these measures will help to stabilize the economy and allow it to avoid the meltdown some have feared.

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The US Presidential election and the so-called "fiscal cliff" represent major uncertainties immediately ahead. Nevertheless, these issues are well known and, in our opinion, to a degree have been factored into current stock and bond market valuations. Our forecast for subpar 1.75% to 2.25% real GDP growth for the balance of this year and 2013 assumes the "fiscal cliff" will be avoided and that President Obama will be reelected by a narrow margin. An upset victory by the Romney ticket would be viewed favorably by the financial markets. Control of the US Congress remains a toss up.

Reacting to improving economic data, the possibility of further easing by the Federal Reserve as well as central banks abroad, and improved global credit conditions, US stocks have closed higher for the last six weeks. From its recent low on June 4, the S&P 500 stock index has climbed 11.7% and is now up over 12% year-to-date. Markets abroad have also staged rallies this year as shown below:

Equity Indices	**2012 Year-to-date***
S&P 500	**+12.4%**
Germany	**+18.9%**
India	**+12.1%**
France	**+ 9.5%**
Japan	**+ 8.0%**
Emerging Markets - EEM	**+ 6.5%**
Korea	**+ 5.9%**
Developed Markets - EFA	**+ 5.0%**
China	**+ 2.1%**

***Principal change through 8/22/12**

Given the recent strong stock market performance, upcoming transitory events could be taken as disappointments and markets could retrace their recent gains. Corrections of 5% to 10% are inevitable. In fact, we may be at the start of a pullback now. However, with investors high cash balances returning next-to-nothing, stock valuations well below their median for the past decade and expected returns from stocks well above those of bonds, US equities remain very attractive on both an absolute and relative basis when viewed from a longer term perspective. Client's equity portfolios are, therefore, generally fully invested relative to their maximum target allocations. Interestingly, despite its 125% recovery, the S&P

500 stock index is now two multiples cheaper on a valuation basis then it was when the market reached its low point in Q1 2009.

We continue to favor companies likely to produce above average earnings growth in the moderate economic growth environment we forecast. We have emphasized *growth* over *value* shares. Companies with moderate dividends, which are able to support strong dividend growth, are particularly attractive. Banks, selling at a fraction of their tangible book values, represent the largest exposure among *value* shares held.

Beyond our exposure to US equities, our investment platform includes both developed and emerging market equities, currently weighted more heavily toward the more rapidly growing emerging market segment.

As for fixed income, we remain convinced that as the current expansionary business cycle plays out, bond investors will eventually demand higher yields from US debt instruments as they discount the longer-term inflationary implications of ultra-easy central bank monetary policies and profligate government spending. We have, therefore, avoided US Treasury and agency obligations we view as overvalued. Portfolios remain invested in high quality, shorter term corporate obligations and, where appropriate, municipal bonds laddered out to 3 years, with durations of about 1.7 - - well below the benchmark.

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