

Equity Market Commentary and Strategy Review

Fourth Quarter 2011



2011: ANOTHER ROLLER COASTER YEAR FOR EQUITIES

Not unlike 2010, equity prices were extremely volatile throughout 2011. The first quarter and the fourth quarter generated positive equity returns. However, the second and third quarters were very challenging for both the economy and equity prices. Overall, the year finished about where it started with the S&P 500 Index up 2.11%. Growth (as measured by the Russell 1000 Growth Index) gained 2.64% for the year and outperformed value (as measured by the Russell 1000 Value Index), which returned 0.39%, due to continued weakness in the financial sector which constitutes a large portion of the value index. Small stocks, as measured by the Russell 2000 Index, and emerging-market stocks, as measured by the MSCI Emerging Markets Index, declined 4.18% and 18.42%, respectively, in 2011 due to global recession fears triggered by the European Sovereign Debt Crisis. Similar to 2008, U.S. Treasury bonds were the best performing asset class in 2011 (the Citigroup 30-Year Treasury Bond Index was up 35.45% for the year) despite the downgrade of U.S. debt as global slowdown fears intensified throughout the year. Although not as strong as the return of U.S. Treasuries, the Barclays Capital U.S. Aggregate Bond Index also had a positive year with a 7.84% return for the period [See Figure 1: Index Returns].

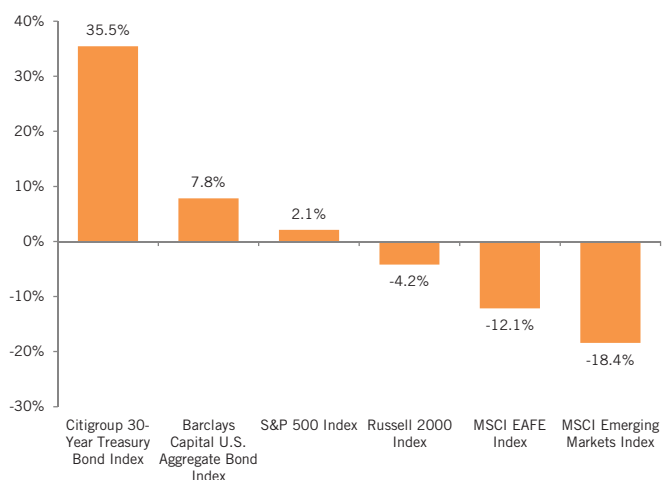
Ironically, a strong consensus among professional investors coming into 2011 was that rising input costs from overseas labor and rapidly rising commodity prices would cause significant inflation. Therefore, common advice was that investors should avoid Treasury bond and fixed-income vehicles as yields would surely rise from their low levels. Additionally, the European debt crisis seemed well contained to Portugal, Ireland, and Greece. Through the end of the first quarter, this scenario seemed to be playing out in financial markets. Yet, by the end of the first quarter, cracks started to appear in the global growth/inflation story.

As the second quarter unfolded, Japan's tragic tsunami created short-term demand dislocations, spreads in Italian and Spanish debt started to widen, high oil prices started to negatively affect consumer confidence, and Purchasing Manager's data started to rapidly decline from the low 60s to the low 50s. Ten-year bond yields fell materially from 3.74% to 3.16% by the end of the second quarter in response to these slowdown signs.

During the third quarter, the global growth/inflation thesis was debunked. Equities declined globally and Italian and Spanish ten-year bond yields skyrocketed, putting even more downward pressure on European banks' balance sheets. Investors began to discount a full blown European recession not just as a possibility but as a virtual certainty. Risks of a "Lehman-type moment" increased significantly along with global contagion fears. In the U.S., the inability of both political parties to make any material progress on our own deficit issues did little to improve waning investor confidence.

FIGURE 1. 2011 INDEX RETURNS

as of December 31, 2011



Source: FactSet

After double-digit declines for equities in the third quarter, equities rebounded sharply in the fourth quarter as fears of an imminent global recession receded. Economic data points in the fourth quarter continued to hold up and even slightly improve overall. Even Europe did not have a meaningful negative impact on U.S. corporate profits yet (but U.S. companies are planning and forecasting weakness in Europe next year). We are by no means confident that policymakers have permanently resolved the European Sovereign Debt Crisis, but the risks seem fairly well known at this point. European banks are clearly undercapitalized and will need to raise more

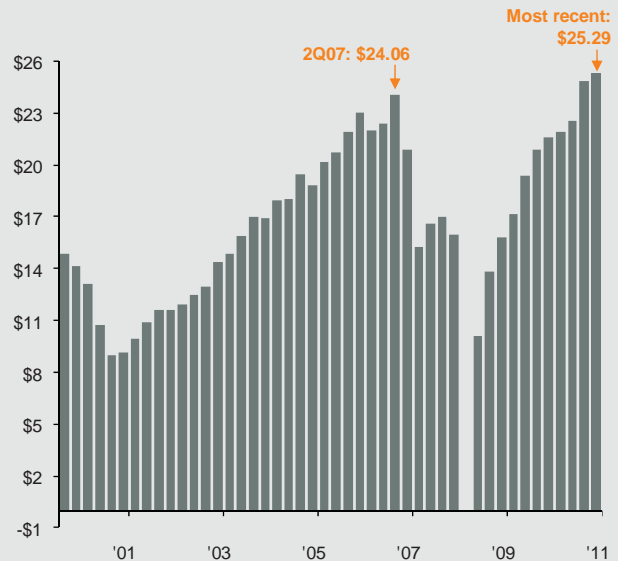
EQUITY MARKET REVIEW (CONT.)

capital in the marketplace, sell assets and shrink balance sheets, or be nationalized in the future. Fiscal discipline and unity in the European Union (EU) seems to be improving, which is a prerequisite for any substantive longer term solution for the EU. The strong rebound in the fourth quarter virtually eliminated prior losses, and the S&P 500 ended slightly positive for the year.

In spite of the dominant influence this year of the European Sovereign Debt Crisis on global financial market prices, domestic businesses continued to perform admirably throughout the year. In fact, S&P 500 companies reported all-time highs for profits in the third quarter (\$25.29 per share), exceeding the prior peak of \$24.06 set in the second quarter of 2007 [See Figure 2: S&P 500 Earnings Per Share]. Cash has continued to pile up on corporate balance sheets and is now exceeding 28% of current assets, another all-time high. Corporate America is in outstanding shape with inventory and headcount levels in very reasonable condition. With all of the crosscurrents evident in the macroeconomic global picture, so far the microeconomic picture in this country continues to be a bright spot.

FIGURE 2. S&P 500 EARNINGS PER SHARE

Operating basis, quarterly



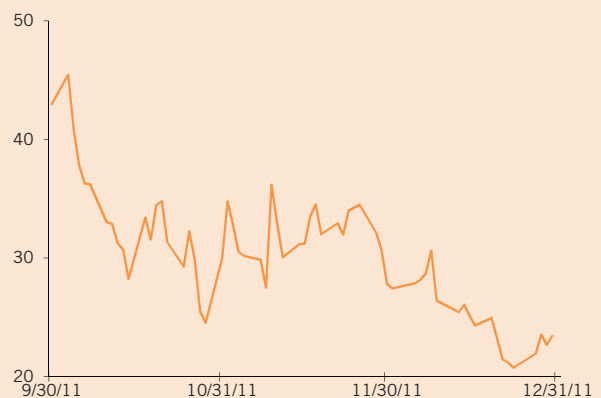
Source: Standard & Poor's, J.P. Morgan Asset Management
 EPS levels based on operating earnings per share.
 Most recently available is a 3Q11 99% complete estimate.
 Data reflect most recently available as of 12/31/11

EQUITY MARKET OUTLOOK

We believe the economy will continue to grow at a below average rate over the next year or two. It will take time to work off excessive government debt in the U.S. and abroad. This sub-par recovery by historical standards seems likely to persist as developed countries around the globe deal with fiscal austerity programs. This process will slow, but not eliminate, global growth and we do not believe a recession triggered by European Sovereign Debt issues is inevitable next year or even highly likely. S&P 500 earnings should continue to grow, albeit at a more modest pace than over the last three years. It is difficult to imagine how U. S. Treasury prices can continue to dramatically outperform other asset classes from current interest rate levels, but many credit-spread based bonds (high yield, emerging market debt) appear moderately attractive. The VIX (Market Volatility Index) has dramatically declined from the low 40s to the low 20s over the last three months, indicating less investor fear as equity prices have recovered sharply [See Figure 3: Market Volatility Index]. Unfortunately,

FIGURE 3. MARKET VOLATILITY INDEX (VIX)

September 30, 2011 to December 31, 2011

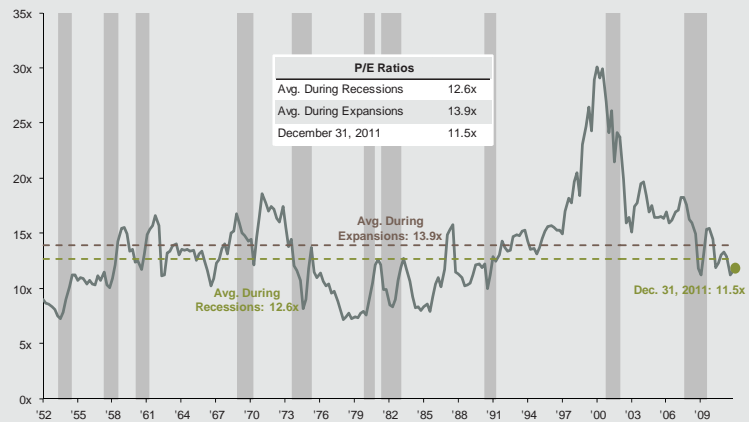


Source: Bloomberg

EQUITY MARKET OUTLOOK (CONT.)

volatility will likely persist well into 2012 as investors continue to grapple with an uncertain macroeconomic environment. This tug of war between robust company fundamentals and weak macroeconomic trends (housing, excessive fiscal debt, and unemployment) seems likely to continue over the next year. Valuation support for the S&P 500 continues to be favorable as earnings have continued to grow while stock prices have gone sideways [See Figure 4: Lagged P/E Ratio – All U.S. Corporations].

FIGURE 4. LAGGED P/E RATIO - ALL U.S. CORPORATIONS
Ratio of Market Value of All U.S. Corporations to Adjusted After-Tax Corporate Profits for Prior Four Quarters



Source: BEA, Federal Reserve Board, Wilshire Associates, J.P. Morgan Asset Management

Data are as of 12/31/11



Douglas Foreman,
Director of Equities and Senior Portfolio Manager at Kayne Anderson Rudnick

WELCOME NEWFLEET CLIENTS TO KAYNE ANDERSON RUDNICK

Happy 2012! We are pleased to introduce you to your first quarterly equity market review (the final for Newfleet) authored by **Douglas Foreman**, Director of Equities and Senior Portfolio Manager at Kayne Anderson Rudnick. Mr. Foreman is now responsible for day-to-day management of your growth equity portfolio.

Mr. Foreman, CFA, has 26 years of investment experience specializing in growth equities. Before joining Kayne in 2011, he was Director of Equities at HighMark Capital Management; Chief Investment Officer of U.S. equities at Trust Company of the West; and Portfolio Manager and Research Analyst at Putnam Investments.

The growth investment team also includes Gregory Toppe, Co-Portfolio Manager for Large Cap Growth and All Cap Growth, along with Jon Christensen and Todd Beiley, Co-Portfolio Managers of Small Cap Growth. The team is also supported by eight additional investment professionals.

Kayne Anderson Rudnick's equity investment approach is to focus on specific company fundamentals and a long-term investment horizon. In 2011 in an environment where investors had difficulty navigating markets and were easily whipsawed by the tremendous volatility, Kayne's quality orientation and microeconomic analysis resulted in strong equity investment returns relative to each strategy's respective benchmark. Beginning the first quarter 2012, future Kayne Anderson Rudnick market commentaries will be posted online together with your statements.

We appreciate your trust and confidence in these volatile markets and look forward to 2012 and a productive investment environment with our new partners at Kayne Anderson Rudnick.

KAYNE ANDERSON RUDNICK

WEALTH ADVISORS