SIPCO

SIPCO is an emerging investment management firm headquartered in San Antonio, Texas. Our equity product capabilities span different equity styles, large-cap growth, large-cap value, & absolute equity management. Each product, although separate, is tied together by a common sector focus and discipline. Our unique strategies have been designed to provide our investors with above market performance over time with a sharp focus on downside risk. The regimented and fundamentally driven investment strategies offered at SIPCO are well suited for the institutional marketplace.

QUARTERLY COMMENTARY - EQUITY PORTFOLIOS

FIRST QUARTER 2010

U.S. GROWTH LEADERS PORTFOLIO

U.S. VALUE LEADERS PORTFOLIO

Don't be lulled by the indolent tranquility that has settled over Wall Street the past several weeks. The stock market is on a roll. Stocks are coming off their best first-quarter performance in a dozen years, up 5.2 percent year-to-date. And, it's the fourth consecutive up quarter, the market's best streak since the five-quarter run that ended after the third quarter of 2007. The quarter's gains might not seem like much considering the jumps during the past three quarters as stocks roared back from bear market lows. Remember, though, that halfway through this quarter the market was on the verge of its first correction – *a harried 9 percent fall* - since the bull market began. But since the February drop, the market continued to trend higher. Industrial and financial stocks paced strong first quarter gains, and are now moving ahead of last year's winners. Since the beginning of the year, the industrial sector is the leading group, up 12.9 percent, followed by financial and consumer discretionary companies, rising 11.5 percent and 10.9 percent, respectively. This quarter, investors have seen a reversal of capital inflows from last year's levels amongst the major S&P 500 sectors. Technology and basic material stocks, for example, which emerged as the leaders in 2009, are now up the least. On average, S&P 500 stocks outperformed the overall gains for the NASDAQ 100 components and Dow 30 companies by one and two and a half percent, respectively. So far this year, companies in the S&P index posted an average gain of 8.1 percent with a median gain of 6.5 percent. Of the major economic sectors, the fact that technology has fallen behind is remarkable. Technology stocks make up the biggest chunk, or 19%, of the S&P 500. Thus, the growth style of investing has fallen behind value during 2010. We expect a reversal of fortune in the second quarter.

Gross Performance

The SIPCO **U.S. Growth Leaders Portfolio** returned 2.14% for the first quarter of 2010. This was below the return of the Russell 1000 Growth Index, which rose 4.65%

Our U.S. Value Leaders Portfolio had a quarterly return of 3.51% versus the Russell 1000 Value Index quarterly gain of 6.78%.

Our Top Performers – U.S. Growth Leaders Portfolio

The largest gainers in the first quarter came from the consumer sector, with Las Vegas Sands advancing 40% and the Gap rising 11%. Technology stocks also rose, with our selections doing well including Time Warner Cable (up 28%), Apple (up 10%), and AOL (up 10%). Two financial stocks did well in the quarter, Bank of New York and PNC Bank. These stocks both advanced by 10%. Within healthcare, Cardinal Health rose 12%, while our two biotechnology holdings Gilead and Genzyme advanced by 5% each. Our lone advancer in the energy sector was Hess Oil, which gained 3%. During the quarter, we made one primary change. We sold Accenture and purchased Coca-Cola. Accenture had reached our price target after advancing by 35% in the past twelve months. Coca-Cola has only appreciated by half as much during the past year. We feel Coca Cola is worth $70 a share within eighteen months, fifteen dollars higher than the current quote.

Our Top Disappointments – U.S. Growth Leaders Portfolio

On the negative side, our energy stocks followed the sector with poor returns. Devon Energy cascaded 12%, Exxon Mobil dropped 3%, and Schlumberger fell 2%. Within financials, National Bank of Greece fell 18%. Abbott Labs dropped 3% while Roche dropped 5% in the quarter. Roche had a poor analyst day. Instead Roche remained silent on diabetes devices. The lack of information was seen as sending a very clear message; Roche has no idea what to do with this unit. We are awaiting clarification from the management team as it will impact our valuation projections. Google was our poor performer in tech, as the companies' decision to pull out of China had negative impact on share price.

Our Top Performers – U.S. Value Leaders Portfolio

On the winning side, our consumer names did very well. Ford Motors led the pack with a strong 35% advance. Hershey Foods rose by nearly 20% as rumours of a takeover by Nestle continued to be a hot topic. Within the healthcare sector, we had several winners including Wellpoint (up 10%), UnitedHealth (up 8%), Bristol Myers (up 7%), and Merck (up 4%). We are optimistic about the healthcare sector in general, as we believe the up to date bill passed by Congress will increase overall spending in the sector. Although the sector cut deals with our politicians in concern to cuts, the addition of 35 million uninsured to the system will results in higher spending for hospitals, drugs, and medical supplies. We remain committed to a higher than average exposure to healthcare. Our small financial stock position had two large gainers; Wells Fargo and Barclays. These stocks advanced by 24% and 15% respectively.

Our Top Disappointments – U.S. Value Leaders Portfolio

As with the growth portfolio, the value had a large percentage of money devoted to energy stocks. Thus performance was behind the average as the energy stocks had a difficult quarter. Value holdings Total SA fell by 9%, ConocoPhilips dropped 6%, while Chevron was down by 3%. We still feel very positive about the energy sector, as we feel that the price of oil will continue upwards towards $100 a barrel by year end. These firms also pay hefty cash dividend yields, some as high as 6%. Verizon was our other big price loser, dropping over 5% in the quarter.

Portfolio Additions - First Quarter 2010

1. **Coca Cola (KO),** was added to the growth portfolio on March 29, 2010 at an average cost of $54.15 a share. The Coca-Cola Company manufactures, distributes, and markets nonalcoholic beverage concentrates and syrups worldwide. It principally offers sparkling and still beverages. The company's sparkling beverages include nonalcoholic ready-to-drink beverages with carbonation, such as energy drinks, and carbonated waters and flavored waters. Its still beverages consist of nonalcoholic beverages without carbonation, including noncarbonated waters, flavored waters and enhanced waters, noncarbonated energy drinks, juices and juice drinks, ready-to-drink teas and coffees, and sports drinks. The Coca-Cola Company also offers fountain syrups, syrups, and concentrates, such as flavoring ingredients and sweeteners. It markets its nonalcoholic beverages primarily under the Coca-Cola, Diet Coke, Fanta, and Sprite names

Why Purchase:

- Enjoys a 50% share of the world's carbonated soft drink market and 44% share of the US market.
- The firm has recently agreed to purchase its bottlers, a move that we feel will accelerate earnings. Coke's acquisition should also give it a closer relationship with retailers and prevent PepsiCo from gaining a competitive advantage in a fiercely contested market.
- The company's products represent only around 3% of the estimated 50 billion beverages that are served every day around the world, creating global growth opportunities.
- The company is very financially stable while paying a 3.2% annual dividend yield
- The firm trades at near 13 times expected 2010 earnings, a low historic multiple.

SIPCO Investment Committee

Our investment committee members are a dynamic group of experienced professionals, each with significant financial and management experience. This group includes a former health care financial analyst, european equity manager, accounting firm auditor, and military officer.

Committee Members:

Timothy J. McIntosh – Lead Manager
Margaret M. Coughtrie
Kimberly M. McIntosh
Paul M. Macnamara

TOP TEN HOLDINGS - GROWTH PORTFOLIO

HOLDING	%
Apple	5.98
Exxon Mobil	4.18
Coca Cola	4.05
Oracle	4.02
Abbott Labs	3.87
Zimmer	3.81
Gilead Sciences	3.88
Google	3.72
Xilinx	3.70
Novartis	3.45

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TOP TEN HOLDINGS – VALUE PORTFOLIO

HOLDING	%
Ford	4.53
Walmart	4.11
Hershey	3.92
3M	3.68
Southern Co.	3.56
Intel	3.52
Proctor & Gamble	3.49
Bristol Myers	3.48
Chevron	3.36
Total SA	3.30

SIPCO - Strategic Investment Partners

Corporate HQ
8000 I.H. 10 West, Suite 1510
San Antonio, TX 78230
(210) 745-2700

Service Office
400 NORTH TAMPA STREET, SUITE 1160
Tampa, Florida 33602
(813) 973-1100

Fourth Quarter Outlook

Our market direction call for 2010 has been wrong so far. We speculated that 2010 would be much like the years 2004, 1994, and 1977. In each of these years, the stock markets struggled to add upon largess gains of the previous year. Although none of these years mentioned offered investors large declines, the stock markets simply stagnated for most of the year. We are continually concerned about the viability of the economic recovery, especially housing. We are also cognizant of the global economic concerns including Greece, Ireland, and Eastern Europe. We could easily have an exigent shock to the system from one of these retched states. In addition, U.S. investors have embraced this stock rally too quickly. The ratio of puts to calls on U.S. equities dropped to 0.40 on an intraday basis on March 25, the lowest level since Jan. 11. During the S&P 500's 73 percent rally from a 12-year low in March 2009, the put/call ratio sank below 0.40 on four occasions, all of which were followed by declines ranging from 3 percent to 7.9 percent. Thus, investor sentiment is complacent and is supportive for a pullback. The S&P 500 stock index has gone 24 sessions without as much as a 1% correction -- the longest such streak of this bull market. Nearly 91% of stocks are straining above their 50-day averages. Financial stocks driving the latest leg up are even more overbought, with 96% of the sector above their 50-day averages. On top of that, analysts have upgraded their estimates aggressively ahead of April's earnings confessional, and the crop of Buy ratings relative to Sell has already reached an eight-year high. Expectations are elevated to a high degree. Although we expect first quarter earnings to be very robust, we feel these good earnings are already priced in the stock market.

Although price action in the stock market is one of the most critical factors in technical analysis, overall trading volume also is important as it tells us the conviction of the marketplace. And at present, the conviction of the public to own stocks is lacking. Overall trading volume has been low for several months. This indicates that the average investor is not convinced that owning stocks is a good idea, even after a 70% plus market rally. The more volume, the more widespread the bullish mood and the more orderly the market will be, both as it rises and as it turns. Low volume does not prevent rallies. It does make them riskier. It is another element that give us pause in 2010. On a bottom up basis, our equity screens are producing minimal new equity candidates for purchase. We are thus maintaining a larger than average cash position in our equity portfolios. We continue to overweight the more defensive sectors of the market such as healthcare.