

SIPCO

SIPCO is an emerging investment management firm headquartered in San Antonio, Texas. Our equity product specialty is large cap growth. Our unique investment philosophy has 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.

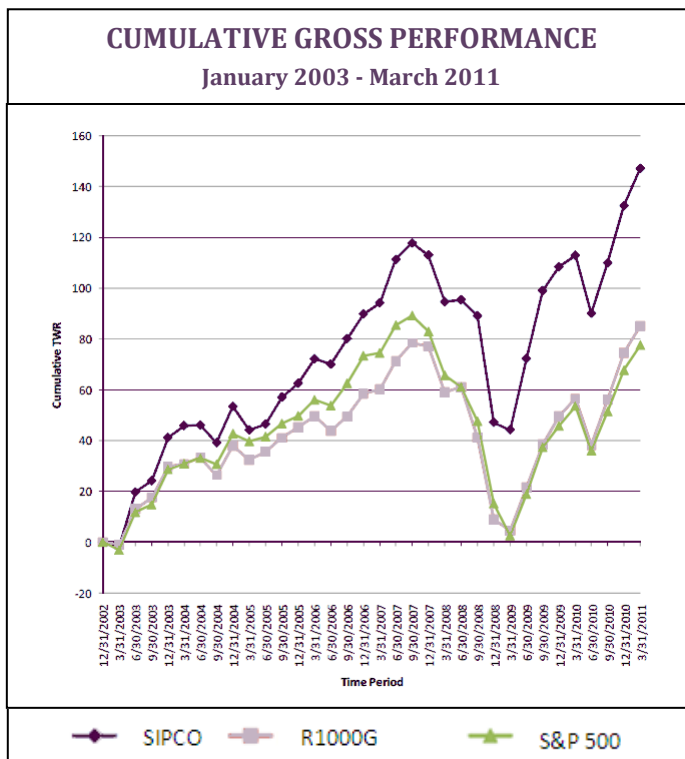


QUARTERLY COMMENTARY - FIRST QUARTER 2011

U.S. GROWTH LEADERS PORTFOLIO

OVERVIEW

Markets were astonishingly resilient at the start of 2011 as investors had the effrontery to expect positive returns despite a series of major geopolitical and economic calamities. The world was first rocked in January when Tunisian president Zine El Abidine Ben Ali resigned in January after widespread protests broke out in the North African country. The unrest spread across the region eventually forcing out Egyptian leader Hosni Mubarak, igniting a rebellion in Libya and destabilizing several other regimes. Then the shock of the earthquake in Japan, which spurred fears of spreading radiation. Notwithstanding all these events, the market not only shrugged but shined. The Dow Jones Industrial Average gained 6.7 percent since the New Year began. That return is nearly four times the average gain of just 1.8 percent for all calendar quarters since the late 1890s, when this benchmark was created — and better than the returns achieved in 71 percent of those individual quarters. Indeed, the Dow's gain over the last three months is equivalent to an annual jump of nearly 30 percent. And it did so on top of an already record-setting bull market run. The S&P 500 stock index marched higher by 6.2 percent in the quarter. At a level of 1325, the index has ascended 98.9 percent in price terms from the lows of the 666 price level set nearly two years ago. This bounceback from the Great Recession lows of 2008 is not only stunning, but record setting. Only once in the past century has the stock market risen so far so fast: 1932.



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GROSS PERFORMANCE

The **U.S. Growth Leaders Portfolio** returned 6.31% for the first quarter of 2011. This was above the return of the Russell 1000 Growth Index, which rose 6.03%.



Structured to Serve

- 100% employee owned
- \$36.7 million in total AUM
- \$10.7 million in LCG product



Growth Contrarian Style

- Pure growth
- Attractively priced
- High conviction
 - Sector focus
 - Low turnover



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Our Top Performers – U.S. Growth Leaders Portfolio

Our overweight in the first quarter in the energy sector was one of the reasons for a solid quarterly return. Our strongest performers within the energy sector for the past three months were EOG Resources (up 30 percent), Diamond Offshore (up 18 percent), Devon Energy (up 17 percent), and Exxon Mobil (up 15 percent). The energy sector was the top performing sector for early 2011, based primarily upon favorable quarterly earnings and the acceleration in the price of oil over \$100 a barrel. We currently have a 19 percent weight in the portfolio within the energy sector. This weighting is substantially above the 12% weight of energy in the Russell 1000 Growth index. We are of the opinion that the price of oil will continue to advance in price as worldwide growth continues to accelerate. This will benefit most the producers and drillers for oil. We are especially keen on the deep water oil companies. We currently own the two largest in the world, Diamond Offshore and Transocean. Combined, the companies own over 200 deep water drilling platforms worldwide. We expect these firms to be the future leaders in the energy sector. Outside of energy, our technology selections also shined. German firm SAP advanced by 21 percent in the quarter as the firm reported above-average earnings in March. Other strong performers included Xilinx, Applied Materials, and Apple. These stocks advanced by 14 percent, 11 percent, and 8 percent respectively. Within the healthcare sector, our standout stock was Gilead Sciences. Gilead has been a poor performer for the past eighteen months. However, the firm started out 2011 with a bang, jumping by 22 percent in the past three months. Gilead is a large biotechnology firm that specializes in HIV drugs. The firm is now diversifying its product mix. The acquisition of cancer drug developer Calistoga Pharmaceuticals for up to \$600m in February follows hot on the heels of the Arresto Biosciences and CGI pharmaceuticals buys last year, clearly highlighting a new direction for the HIV specialist. Gilead also got good news from the FDA in March. The regulatory agency lifted a liver warning from a drug used for the treatment of clinical worsening in pulmonary arterial hypertension. Other advancers within healthcare were Zimmer, which advanced 13 percent, and Carefusion which rose 11 percent. We are still maintaining our overweight in healthcare, as the valuations are still very attractive while earnings releases have been positive. As for the financial sector, our largest gain was from Franklin Resources, which gained 12 percent.

Our Top Disappointments – U.S. Growth Leaders Portfolio

**TOP TEN HOLDINGS
GROWTH PORTFOLIO**

HOLDING	%
Oracle	4.98
Exxon Mobil	4.82
Medtronic	4.73
Novartis ADR	4.37
Time Warner	4.30
Starbucks	4.05
Gilead Sciences	3.88
EOG Resources	3.71
Goldman Sachs	3.66
Xilinx	3.62

The financial sector delivered the worst stock performer in the quarter, our ADR holding Nomura. Nomura, the Japanese brokerage firm, cascaded by nearly 20 percent after the earthquake in Japan. Goldman Sachs also was a poor performer within the sector, falling by 7 percent. Other notable losers in the last three months included healthcare firms Merck, MedcoHealth, and Novartis. All fell by single digit margins. We took advantage of the price declines and added to our position in Novartis, making the firm one of the top ten holdings of the fund. Novartis is a large diversified healthcare firm. With the addition of eyecare company Alcon last year, it has become a strong competitor in four diverse markets; branded pharmaceuticals, generic pharmaceuticals, vaccines, and eyecare. Its generic pharmaceutical business is now the second largest in the world. The generic segment offers exposure to the billions of dollars in branded pharmaceuticals going off-patent during the next several years. In branded pharmaceuticals, Novartis differentiates itself from the pack because of the sheer number of potential blockbuster launches, including Lucentis for eye disease, Aclasta for osteoporosis, and Exforge and Tekturna for hypertension. The company currently trades at only 10 times expected earnings, a large discount to the overall stock market. We expect Novartis can generate consistent double-digit earnings growth for the next five years. Currently priced at \$54 a share, we anticipate Novartis stock can rise by 50 percent over the next eighteen months.

PERFORMANCE Q1

BIGGEST CONTRIBUTORS

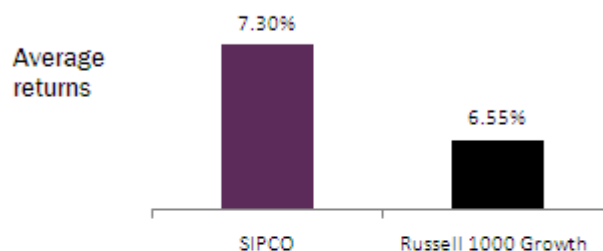
EOG Resources
Exxon Mobil
Gilead Sciences
Starbucks
Xilinx

BIGGEST DETRACTORS

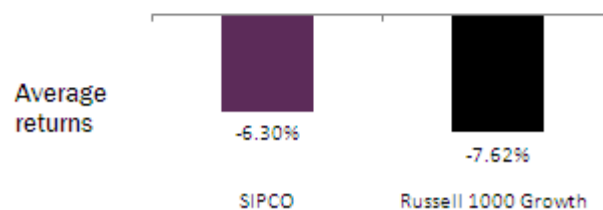
Nomura ADR
Medco Health
Merck
Goldman Sachs
Novartis ADR

October 2007 – December 2010

Rising Market Quarters



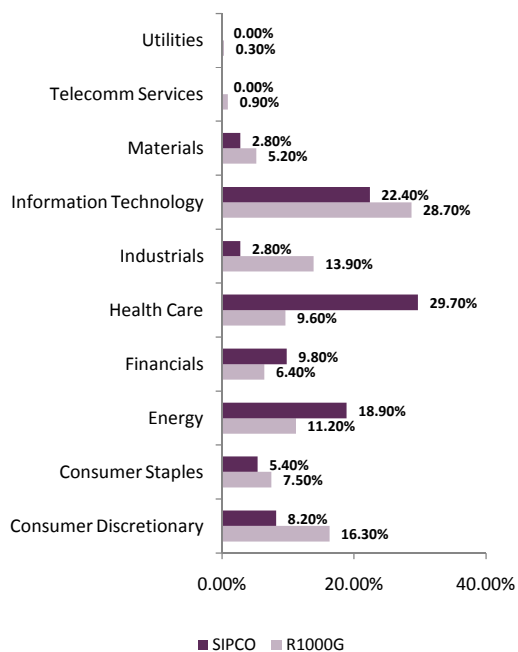
Falling Market Quarters



Portfolio Additions & Deletions:

No new positions were initiated in the first quarter of 2011. We added to our current positions in Novartis and Goldman Sachs on price weakness. We reduced our position in Abbott Laboratories due to an unfavorable earnings report released in January. Our cash position in the portfolio is 6%. Our team is finding a dearth of new equity candidates after a 35% advance in the capital markets since July 2010. Our team is targeting the technology sector for potential new additions in the portfolio for the second quarter.

Sector weights vs. R1000G:



Disclosure:

SIPCO (Strategic Investment Partners LLC), is an independent investment advisory firm headquartered in San Antonio, Texas. SIPCO manages equity, fixed income, and ETF portfolios for both individual and institutional investors. The firm was founded in 1999. SIPCO's Large Cap Growth Equity Composite consists of all fully discretionary large cap equity portfolios with strong earnings and growth characteristics and stock capitalizations over 7.5 billion. The portfolios are concentrated in the healthcare, energy, technology, and financial sectors. The portfolios are typically invested in 30-40 equities chosen primarily from the United States. 15% of the portfolio can be invested in ADR securities from the major developed markets of Europe and Asia. For comparison purposes, the composite is measured against the Russell 1000 Growth Index, which measures the performance of the large-cap growth segment of the U.S. equity universe. The U.S. Dollar is the currency used to express performance of each composite. Returns are presented gross of management fees, and include the reinvestment of all income. The firm maintains a complete list and description of composites, which is available upon request from Timothy J. McIntosh, CIO, at 1-800-805-5309. SIPCO claims compliance with the Global Investment Performance Standards (GIPS®).

Composite Table:

Period	Total Return (gross of fees) (%)	Total Return (net of fees) (%)	Russell 1000 Growth Index Benchmark Return (%)	Number of Portfolios at Period End	Composite Dispersion (Asset-Wtd Std Dev) (%)	Total Composite Assets at Period End (\$millions)	Percent of Total Firm Assets (%)	Total Firm Assets at Period End (\$millions)
2003	41.15	39.80	29.74	8	0	1.1	38%	2.9
2004	8.67	7.23	6.29	14	0.28	1.7	33%	5.1
2005	5.93	4.39	5.26	15	0.49	2.1	31%	6.8
2006	16.83	15.56	9.07	23	0.96	3.5	31%	11.2
2007	12.19	10.85	11.82	30	1.92	3.8	21%	18.4
2008	(30.93)	(31.88)	(38.43)	34	0.89	3.9	22%	18.1
2009	41.66	40.10	37.20	40	1.12	6.2	24%	25.2
2010	11.79	10.49	16.71	45	0.63	7.3	23%	32.7
2011q1	6.31	6.08	6.03	47	--	10.7	29%	36.7

Annualized Performance vs. R1000G:

