SIPCO

SIPCO is an emerging investment management firm headquartered in San Antonio, Texas. Our equity product capabilities span different equity styles including large-cap growth and large-cap value. 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
THIRD QUARTER 2010

U.S. GROWTH LEADERS PORTFOLIO

U.S. VALUE LEADERS PORTFOLIO

The Dow Jones Industrial Average rallied to a level of 10788 at the end of the third quarter. While that was good news for stock investors, the rally served only to reverse losses suffered in the Dow during the second quarter. The Dow finished September 70 points shy of where it stood six months earlier and is now up 3.5% for the year. For the quarter, the Dow rose 10.7% while the broader S&P 500 gained 11.2%, with both scoring their best September in 71 years. The Nasdaq Composite jumped 12% for the month, its best September since 1998. Not only did the highly anticipated September swoon never come to fruition, but the stock market surged by historic proportions. In recent years, the only better months came when stocks rose 9.4 per cent in April 2009 and 9.7 per cent in March 2000. Gold, typically the preferred lair for stock bears, rose nearly 10% in the same quarter. Silver rode the coattails of gold, spending most of the month of September at 30-year highs. Silver was up 12% in September and 14% for the third quarter. In common, they had the weakness of the U.S. dollar, whose periods of past depreciation had boosted stocks and commodities. The dollar index, which compares the U.S. currency to a basket of six major currencies, lost more than 5% in September. The benchmark dollar though is down 8.4% in the third quarter, its worst quarter since the April-June period in 2002. The ability of stocks to rally—even though small investors headed for the exits—came as a growing chorus of bulls noted that a double dip in the U.S. economy looks very unlikely.

Gross Performance

The **U.S. Growth Leaders Portfolio** returned 10.5% for the third quarter of 2010. This was below the return of the Russell 1000 Growth Index, which rose 13.0%

Our U.S. Value Leaders Portfolio had a quarterly return of 12.6% versus the Russell 1000 Value Index quarterly gain of 10.1%.

Our Top Performers – U.S. Growth Leaders Portfolio

Our largest sector weights for the year have been in the healthcare and energy sectors. These two sectors have been the worst performers in 2010. However, as valuations are compelling, we are anticipating these two sectors will rebound strongly over the next few months. For the last three months our strongest stock performers were Motorola (up 31%), Oracle (up 28%), and Google (up 19%). Our largest position, Apple, gained 14% as investors were pleased with the new IPad tablet readers that were recently launched. We originally purchased Apple during the financial meltdown at only $93 a share. The stock now trades above $280 a share. Our target is $320. The healthcare sector was a laggard in the quarter. However, several stocks we own within the sector shined. Novartis advanced by 20%, Abbott Labs rose 22% and Carefusion climbed 10%. Our new purchase in the quarter, MedcoHealth rose from our initial purchase price of $45 to $52. Selected energy stocks were positive, with Hess rising 15%, Exxon Mobil advancing by 10%, and Schlumberger going up by 9%. Our energy stake is now up 16% of the portfolio, nearly double from last year.

Our Top Disappointments – U.S. Growth Leaders Portfolio

On the losing side, medical device firms led the way. Medtronic cascaded by 16%, Zimmer fell by 5%, and Roche dropped 2%. The medical device industry had a very difficult quarter with many companies missing earnings estimates. We feel confident that firms like Medtronic, Zimmer, and Carefusion can all navigate the political storm surrounding the industry. Outside of our major sector weights, Time Warner Cable was a poor performer as well, falling by 4%.

Our Top Performers – U.S. Value Leaders Portfolio

As for the third quarter, performance was spread between all of the various sectors. Our healthcare stocks in this portfolio bucked the general trend. Our two HMO stocks, Wellpoint and UnitedHealth both advanced by over 20% in the third quarter. Other strong healthcare performers included Pfizer (up 22% on cost containment gains), GlaxoSmithKline (up 15%), and Bristol Myers (up 14%). Within the energy sector, all our energy holdings advanced. Chevron, ConocoPhilips, and Total SA had double digit gains. Chevron was one of the best performing energy stocks in the sector with a 25% positive return. In the industrial sector, Dow Chemical rose by 18% while 3M advanced by 12% as the post-it-note company raised earnings expectations for the coming year. Ford Motors was also a standout, rising by 24% as the company continues to turn the corner for profits. Our utility holding Southern Company rose by 16% and in the financial sector, Barclays rose by nearly 30%.

Our Top Disappointments – U.S. Value Leaders Portfolio

On the negative side of the ledger, we only had two losing equity holdings. The New York Times Co. dropped by 10% as circulation numbers continued to fall. Hershey also was fractionally down, as the price of cocoa continued to rise. Investors fear these will negatively impact 4th quarter margins. We are optimistic that the Times Co. can navigate the tempest through a tight rein on expenses

---

Portfolio Addition Spotlight - Third Quarter 2010

1. **MedcoHealth Solutions (MHS),** was added to the growth portfolio on August 26, 2010 at an average cost of $45.15 a share. Medco Health Solutions, is a healthcare company that provides clinically driven pharmacy services for private and public employers, health plans, labor unions, government agencies, and individuals in the United States and internationally. The company's products and services include clinical management that comprises coverage management and utilization management programs; and RationalMed service, which analyzes patients' available prescriptions, inpatient and outpatient medical and laboratory claim records, and engages physicians, pharmacists, and patients in making changes, as well as provides benefit plan designs. It also offers pharmacy management products and services, such as the Medco Pharmacy, a mail-order service and Medco Therapeutic Resource centers, which conduct therapy management programs to treat certain chronic conditions.

Why Purchase:

- Medco is a dominant player in its industry. The firm is the nation's largest pharmacy benefit manager. Through its mail-order pharmacy and network of retail pharmacies, Medco administered nearly 900 million prescriptions in 2009.
- Medco stands to benefit from several favorable trends in the coming years, including health-care cost-containment efforts, a wave of pharmaceutical patent expirations, the aging population, and the increasing popularity of mail-order pharmacy delivery.
- Medco has experienced a high level of consistent growth, with earnings per share increasing at a 36% compound annual rate during the past three years. Our team projects 18% compound annual earnings per share growth during the next five years in our base-case scenario.
- The firm trades at near 13 times expected 2011 earnings, a low historic multiple. The company generates a free-cash-flow yield of nearly 10%.

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
RON OLDENKAMP

TOP TEN HOLDINGS - GROWTH PORTFOLIO

HOLDING	%
1) Apple	5.18
2) Oracle	4.68
3) Coca Cola	4.05
4) Merck	4.02
5) Exxon Mobil	3.87
6) Abbott Labs	3.81
7) Roche	3.88
8) Novartis	3.72
9) Gilead Sciences	3.70
10) Xilinx	3.45

TOP TEN HOLDINGS – VALUE PORTFOLIO

HOLDING	%
1) Pfizer	4.53
2) Verizon	4.41
3) Total SA	4.02
4) Hershey	3.68
5) The Gap	3.56
6) Ford Motors	3.52
7) Chevron	3.49
8) Duke Energy	3.48
9) Amgen	3.36
10) Bristol Myers	3.36

Fourth Quarter Outlook

Our market direction call for 2010 has been spot on. 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 gains of the previous largess advance. Although none of these years offered investors large declines, the stock markets simply stagnated for most of the year. The stock market remained in a tight range for most of the year, bottoming in late August. September offered investors a nice surprise, with a near double digit stock market gain. The S&P 500 stock index has now risen by 3.8% for the first three quarters of the year. With the strong September advance, investors have now embraced the rally very quickly. The sentiment indicators now indicate that the bulls has now risen to a level of 52 on the *Investors Intelligence Survey*. This is the largest number of bulls since early January of this year. Individual investors also are demonstrating capriciousness. They have increased their holdings of stocks in September to the highest allocation since April, according to the American Association of Individual Investors. Investors held 55.2% of assets in stocks and stock funds, up from 52.7% in August.

It is also critical to review September's strong advance on a historical basis. Of the 64 Septembers that there have been since World War II, 24 have seen the stock market rise. In 13 of the Octobers following those winning Septembers, the S&P 500 also rose. That works out to a 54.2% success rate for a rising September forecasting a rising October. This gives investors a near even odds chance for a gain in October. Looking at the entire fourth quarter, however, gives investors much better odds. *The Stock Traders' Almanac* data reveals that since 1950, an up September in a mid-term election year has been followed by an up fourth quarter for the S&P 500 in seven out of seven cases, and the median gain was 10.3%. Thus the odds, at least historically, are quite constructive for a fourth quarter advance. In examining these seven years more closely, intra-quarter declines were also rare. The worst intra-quarter decline during the fourth quarter in these seven years was only 7%. We think that considering September's strong advance and sentiment at a higher than normal condition, a pullback of some degree is most likely. But we feel any pullback will be muted, at 2-5%. Overall, we continue to believe that our original forecast of a 5-10% gain in the markets for 2010 is still valid. We will be looking for opportunities to put our small cash positions in our large cap portfolios to work within the energy and technology sectors.

SIPCO - Strategic Investment Partners
6100 Bandera Road, Suite 715
San Antonio, TX 78238
(210) 745-2700

MARKETING CONTACT:
Ron Oldenkamp, President
Genesis Marketing Group
630-887-1414
mkt@genesis2020.com