

SIPCO



SIPCO is an emerging investment management firm headquartered in San Antonio, Texas. Our equity product specialty is large cap growth and value. 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 UPDATE

JANUARY 2012

U.S. GROWTH LEADERS PORTFOLIO



Structured to Serve

- 100% employee owned
- \$35.2 million in total AUM
- \$8.1 million in LCG product



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®).

GROSS PERFORMANCE

The **U.S. Growth Leaders Portfolio** returned 8.25% for the fourth quarter of 2011. This was below the return of the Russell 1000 Growth Index, which rose 10.6%. On a year-to-date basis, our growth portfolio returned a negative -3.59% versus 2.64% for the benchmark.

Our Quarterly Performance Highlights

Our U.S. Growth Leaders portfolio had a difficult year as several of our themes did not materialize. This included a rebound in financial shares, medical device, and deep water drilling firms. Our financial sector holdings, as a group, were the worst performers in 2011. Goldman Sachs, Franklin Resources, Northern Trust, Bank of NY, and Nomura all fell by 20% or more during the past twelve months. We repositioned the portfolio within the financial sector during the last three months of the year, selling Goldman Sachs and buying Charles Schwab. We were concerned with Goldman's future ability to produce outsized earnings with the new Dodd Frank legislation. Schwab has a better profile and more stable earnings and trades at a significant discount to our fair value. Our energy holdings also had difficulty during the year. Transocean dropped 60 % in value over the past twelve months as earnings were hit by increased spending in the Gulf to modernize their drilling fleet. We have so much confidence in the future of the firm and the long term prospects for deep water drilling companies, we added to our position at

**TOP TEN HOLDINGS
GROWTH PORTFOLIO
December 31, 2011**

| HOLDING | % |
|--------------------|------|
| Exxon Mobil | 5.19 |
| Roche | 5.04 |
| Pepsi | 4.73 |
| Northern Trust | 4.60 |
| Gilead Science | 4.56 |
| Starbucks | 4.51 |
| Franklin Resources | 4.44 |
| Altera | 4.23 |
| Merck | 4.17 |
| Xilinx | 4.03 |

**PERFORMANCE
FOURTH QUARTER 2011**

BIGGEST CONTRIBUTORS

| |
|-------------|
| Merck |
| Exxon Mobil |
| Roche ADR |
| Starbucks |
| Apple |

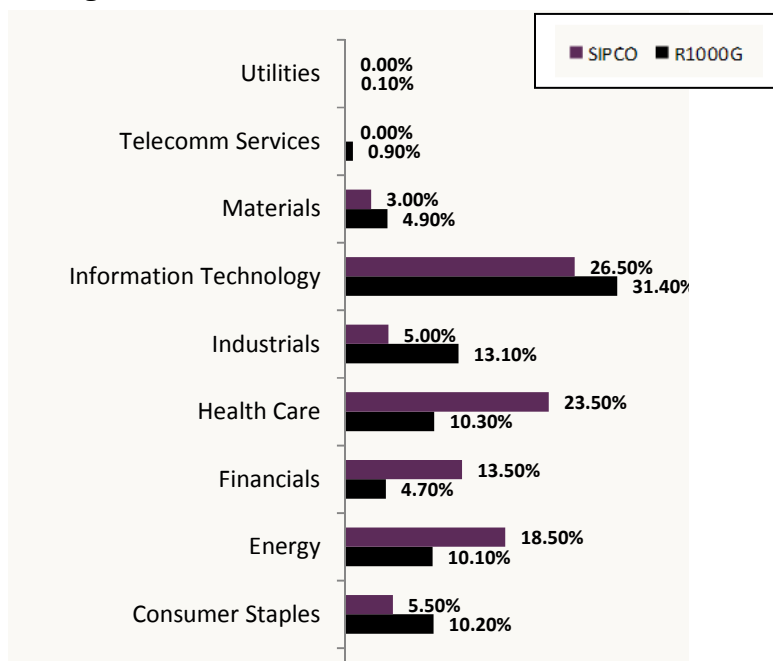
BIGGEST DETRACTORS

| |
|--------------------|
| Transocean |
| Northern Trust |
| Nomura |
| Devon |
| Franklin Resources |

Continued...

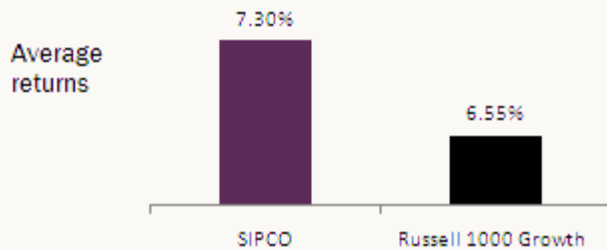
the end of the year. Priced at only \$38 a share, Transocean now discounts a bleak future in oil drilling. This overly pessimistic view is now consensus, and 2012 should offer a remarkable recovery in the share price. Our other energy holdings had mixed performance. Exxon Mobil excelled, rising by 18%. Devon Energy, a firm also tied to exploration, fell by 17%. We earlier this year had raised cash from the energy sector by selling the weakest candidate EOG Resources. We utilized that cash to purchase the aforementioned Baker Hughes. The technology sector was up slightly for the year, but with a divergent picture. Apple (up 14%), Xilinx (up 12%) and Google (up 8%) were our yearly winners. On the negative side of the ledger, Oracle cascaded 17%, Symantec dropped 9%, and summer purchase Broadcom fell 6%. Within the consumer sector, we had two standouts including Starbucks and Time Warner. The stocks advanced by 42% and 18%, respectively. Within healthcare, Cardinal Health, Gilead, and Merck were all single digit winners, while Medco and Zimmer dropped by low double digits. Coca Cola was also a nice winner in 2011, advancing by nearly 20%. We took advantage of the largess gain in this consumer giant and swapped into Pepsi. Pepsi stock has trailed Coca Cola now for two years, and offers a much more compelling valuation as Coca Cola now trades at a 30 % premium to its rival. We like Pepsi's prospects for 2012 along with its higher 3% dividend yield.

Sector Weights vs. R1000G

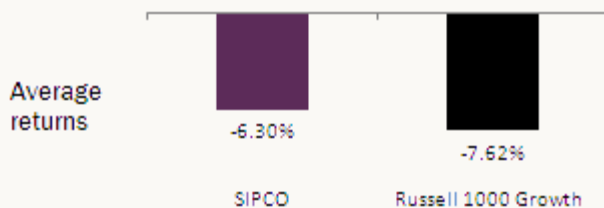


October 2007 – December 2010

Rising Market Quarters



Falling Market Quarters



Marketing Contact

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Growth Contrarian Style

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

First Quarter 2012 Outlook

Our approach this year, and in year's past, has been to realize that we are most likely in this continued cycle of ups and downs. In this type of environment hypothesized by farmer Benner, an investor cannot simply ride the wave, but must make educated decisions upon the markets and asset classes. With that in mind, we think that 2012 will offer much of the same as 2011. The high degree of volatility will continue. Downside risk to the stock markets remains high. However, we feel that with this heightened uncertainty, opportunities should present themselves throughout the year. It is also prudent to have a somewhat contrarian view. Here are our 3 themes for 2012 that go against the grain;

1. Stocks do better than expected:

With a single digit return year passing us, the %age odds of another moderate return scenario is low. The average expected return by the pundits is 8%. We feel stocks are fairly valued at the moment, but a much better value than U.S. Treasury bonds. After a strong start and then a big correction, the market rallies towards year end for a double digit gain.

2. Interest rates rise:

Although interest rates could trend down the first quarter of 2012, rates bottom in April and head up by at least a half a %. Interest rates are artificially low as fear is high, and the U.S. bond market has attracted a sizeable cash inflow. We think this will reverse itself in 2012, albeit moderately. But enough where rates begin the long climb towards normalcy.

3. Dividend stocks continue to excel:

We think we are in the early innings of the dividend reach, where investors seek yield and move money out of money markets. This includes high dividend stocks and also higher yielding bonds. Although the performance discrepancy between high and low dividend stocks will not be as large as 2011, dividend stocks will continue to gather sizeable cash.