MANAGEMENT & TRUST CO.

QUARTERLY COMMENTARY
First Quarter 2013

Mission's new formularized equity allocation processes, initially introduced in last year's third quarter commentary, have produced increased profits for clients who have chosen to adopt them. In an environment heavily influenced by central bank money printing, yet replete with serious risks to all asset categories, we strongly recommend that all clients consider employing one or the other of the two processes for a portion of your portfolio.

The new processes have been discussed in the last two quarterly commentaries, in my regular blog posts and at small group meetings to which all clients have been invited. The next such meeting is scheduled for May 13. Please contact us if you would like to attend or would like additional descriptive materials sent to you.

To rule out the destructive force of ego and emotion and to enforce consistency, we have long been believers in the value of formularized investment approaches. Mission's formularized traditional equity selection process, inherited from our predecessor firm Marathon Asset Management Co., has produced an annualized 16.9% return, computed on all equities owned since that process's inception January 1, 1986 through December 31, 2012. Over the same period of time, the unmanaged S&P 500 returned an annualized 9.9%. In recent years, however, in which the Fed and other government departments and agencies have become dominant forces in the securities markets, we have found very few securities meeting our traditional value-based selection criteria. Not knowing how long the government will continue to distort free markets, we have worked diligently to produce approaches designed to profit when markets advance yet protect against the risk of major declines, should government efforts fail. While nothing is foolproof, 32 years of back-testing leaves us confident that the new formularized equity allocation processes should produce positive returns in the long run with a reduction in the level of risk normally assumed by equity holders.

Economic conditions throughout most of the world continue to deteriorate. Europe's recession is deepening. Emerging countries that have led the world recovery since 2008's crisis are slowing perceptibly. Japan's economy remains in the doldrums. The U.S. is experiencing its most sluggish recovery since World War II. Sluggishness prevails despite world central bankers pumping far more new money into the banking system than ever before. Despite years of aggressive stimulus, economies are not picking up steam. In fact, recent economic deterioration has provoked central bankers to even more virulent stimulus.

Most of the world's major stock markets have performed poorly this year. The two striking exceptions have been the U.S. and Japan, whose central banks have each committed to unlimited quantitative easing. Aggressive stimulus has not revived their economies but has powered their stock markets. That divergence will not go on indefinitely. The open question is whether the economies will pick up or whether the stock markets will falter. The failure of stimulus

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elsewhere argues against the likelihood of economic revival, but it's not impossible. Multi-century history similarly suggests that it's unlikely that major nations will be able to print their way out of debt crisis without considerable collateral damage. Mission's new equity allocation processes recognize the difficulty that faces the Fed, yet present opportunities to benefit should market strength continue, without assuming the risks that a permanent equity position presents.

The picture is similarly unattractive on the fixed income front. The Fed has directed its stimulus effort toward driving interest rates as close to zero as possible. That endeavor has provided artificially strong bond market returns for years. Rates on most fixed income securities are now at or close to all-time lows. While the Fed continues its commitment to hold rates near rock bottom for the foreseeable future, a growing chorus of critics is arguing that the unintended consequences of the policy will outweigh its benefits. Some of those critics come from the ranks of Fed governors themselves. Virtually all fixed income analysts agree that interest rates will rise from these levels sooner or later, doing damage to prices of all fixed income securities except those with the very shortest maturities. To earn anything more than a minimal interest rate return, rates must decline even further. While that remains possible, despite already historic low yields, the potential losses from rising rates far exceed the potential rewards from declining rates. Slightly rising rates in the first quarter led to losses on longer maturity fixed income instruments. Such losses could become far more severe should rates rise more aggressively.

As a hedge against the long-term inflationary effects of excessive money printing, we have held a small gold position for several quarters. As we have said throughout that holding period, there is no way to compute an "appropriate" gold price based solely on fundamental factors. Gold's price is primarily determined by investor sentiment. We acquired a 3% gold position in late-2011, indicating at that time that we would add to that position only if prices declined further. Prices instead rose. When it appeared that gold prices were unlikely to break to new highs, we scaled back by taking profits on part of that position near gold's 2012 high prices. Declining gold prices took a little out of first quarter performance. We will build a larger position if the current decline continues, especially if prices move significantly lower.

The year ahead will likely present a great many twists and turns. Most critical will be whether or not investors retain the belief that central bankers are capable of overcoming deteriorating economic fundamentals. Governments have been winning that battle over the last few years, but risk levels remain extremely high.

Please let us know if we can provide additional information about your portfolio or our investment thinking.

Thomas J. Feeney
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Chief Investment Officer
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