

First Quarter 2011 Investment Review and Outlook Conservative Growth Institutional Investors

Overcoming a pair of major shocks in the first quarter, global stock markets achieved significant gains amid growing optimism that the recovery from the financial crisis had become self-sustaining. Midway through the quarter, markets were shocked by political turmoil in North Africa and the Middle East. That was followed by the devastating earthquake and nuclear crisis in Japan. While the markets staggered, they quickly recovered. They go into the second quarter still having to navigate strong crosscurrents, but with sentiment buttressed by the ability to shake off these twin shocks.

We continue to be optimistic about prospects for the U.S. stock market in 2011. We have been optimistic about equities since last August and the reasons are still valid. We believe the U.S. economy continues to build enough momentum to withstand international events and even rising oil prices. Merger activity has also come alive with recent acquisitions of T-Mobile by AT&T and National Semiconductor by Texas Instruments. Alternatives to equities such as cash, with little return, and bonds, subject to inflation risk, appear unattractive. Corporate profit growth has been a driver in the stock market rebound off the lows in 2009. Overall, corporate profits have surged almost 70% from their low. We expect another strong 15% growth in corporate profits this year and a concurrent increase in equity prices as they follow profit growth.

There has been little change in the portfolio composition in the first quarter. We had a large position in energy stocks and the companies we discussed in the last quarterly letter performed very well. We continued to add to our energy position. We also added to our natural resource position with an iron ore producer. There has been underinvestment in all natural resources for a twenty-year period in the 1980's and 1990's. The substantial population growth in the lesser-developed countries has increased demand for raw materials to support a basic standard of living. Prices for iron ore continue to rise. The substantial flooding this past winter in Australia, a large iron ore producer, has further reduced supply.

Technology is also an important investment sector. Results in technology have been mixed. We are interested in microprocessors companies that operate the networks for mobile devices such as the latest generation of mobile phones and tablets. These new generations of devices consume vastly more network capacity than previous generations.

We recently added a cruise ship company to the portfolio. Since the bottom of the financial crisis two years ago, consumers are feeling better and are taking vacations that have been postponed. Cruises offer good value and as a result, pricing is improving dramatically. Capacity growth over the next several years is limited as the industry postponed building new ships during the financial crisis. So, we look for good unit volume growth, coupled with rising prices, yielding expanding margins and substantial earnings increases.

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In summary, we continue to remain optimistic about the equity market for all the reasons we have enunciated in the past. Stocks are cheap. Corporations have lots of cash and are able to borrow cheaply. They are using this cash to increase dividends, repurchase their own stock, and buy other companies. We expect strong profit growth over the next several years.

We appreciate your continued support.