Portfolio Shift Commentary: June 19, 2012

For investors, the summer risk sell-off has been an ugly reminder that macro risks remain elevated. It has also felt like a repeat of the last two summer downturns, which both began in April and exceeded double digits. While there are some similarities among these three summer slowdowns, we also see some differences and encouraging signs. Recessionary concerns for the U.S. are low in comparison to last summer, and the economy appears to be on firmer footing with an improved employment picture, stabilizing housing market, and still-contained inflation.

The portfolio changes coincide with our view that risk markets appear more vulnerable to a downturn and are likely to, at best, trade sideways through the summer. Unfortunately, given the high level of uncertainty in Europe, fundamentals will continue to take a backseat in driving market sentiment. As such, we are lowering risk on the equity side of our strategies by exiting our energy position in favor of the utility sector. We think markets will favor safe-haven sectors to protect against economic and political uncertainty, providing an underlying bid to defensive sectors such as utilities.

We continue to insulate our portfolios from the problems in the rest of the world by overweighting the U.S. We believe the U.S. will continue to be the safe-haven equity market for global investors, much like our Treasury market has always been.

As always, we thank you for your continued support.

Sincerely,

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