MANAGED ASSET PORTFOLIOS

MAP Views
Second Quarter 2014

Welcome to the second quarter edition of MAP Views. We are changing the format this quarter to include interviews with our three portfolio managers: Peter Swan, Karen Culver and myself. We hope you like the new format and find it useful.

On the heels of a stellar market that saw major U.S. stock indices rise 30% last year, first quarter 2014 performance was much more modest. The S&P 500 picked up 1.3%, while the Dow Jones Industrials dipped a percent. Globally, the MSCI All Country World Index added 1.2%. Many of the markets that underperformed last year, such as emerging markets and the problematic countries of Europe, actually posted strong results in the first quarter. On the other hand, many of last year's high flyers such as the social media players, performed poorly. As you may recall that in last quarter's edition of MAP Views we noted that some of the valuation levels of these stocks were reminiscent of the "dot com" bubble of the late 1990's.

Despite mounting tensions between Russia and Ukraine, global displeasure surrounding the Malaysian government's mishandling of the search of the missing jetliner and lingering geopolitical woes in Thailand and South Africa, Emerging Markets began to stabilize and move higher during the quarter, following a dismal performance in 2013. During the quarter, we selectively committed funds to South Africa and Thailand. These marked our first Emerging Market purchases in nearly two years.

We project stock prices will move modestly higher, although volatility will be elevated relative to last year. In short, we think the market's actions in the first three months of the year are an indicator of what to expect for the remainder of the year. We attribute much of last year's strong performance to a combination of the Fed's accommodative stance, favorable corporate earnings, and growing confidence on the part of investors that allowed for funds to exit historically safer havens, such as cash or bonds, into equities in search of greater returns. With the Fed now beginning to taper and improvements on corporate earnings harder to come by, we believe stock market gains will be much more discriminatory. This implies that a greater importance will be placed on individual stock selection, as opposed a passive approach or a portfolio merely mimicking the broader markets.

Pete, can you please explain where MAP is finding value in the emerging markets and why and how our investment profile looks today versus one and two years ago?

> ***"Two years ago we were near the high end of our typical allocation to emerging markets. We did some severe trimming toward the end of 2012, and until the past couple months we were in the single digits in terms of country allocation.***

While in the short term it is certainly difficult to forecast where emerging markets will go, in the long run we feel there are opportunities and efficiencies, including balance sheet flexibility, from a private and public perspective, which the developed markets do not have. For example, the average debt-to-GDP for emerging economies is approximately 157%, while the average debt-to-GDP for developed economies is approximately 347%. Furthermore, we feel the emerging markets, structurally, are in a much better place today than just 10 and even 20+ years ago. They are, however, still subject to "fast money" which we believe we saw last year. We seek to buy emerging names at a discount to developed markets for that reason, hence why we reduced our exposure toward the end of 2012 and have remained patient for valuations to come in."

Karen, one of MAP's long-standing Thematic Filters is the shrinking of the middle class in the US and other developed nations. Recently released economic data continues to indicate that middle income consumers in the US remain challenged. Can you please explain how MAP takes this phenomenon into consideration when crafting its investment portfolios?

"The middle income consumer has seen the value of their dollar shrink significantly. Thus, fewer dollars are available for discretionary expenses. As such we have taken a two-pronged approach to our investment strategy. In the first prong, we have an overweight allocation in the consumer staples sector. Our focus has been on names which benefit from the consumption of items of everyday needs, such as food, beverage, and tobacco companies with attractive valuations.

The second prong of our approach involves an underweight allocation to the consumer discretionary sector rather than a zero allocation. In this aspect, we recognize the middle class is willing to spend their income on discretionary purchases, but are looking to do so in a manner that offers more value for their dollar. To that end, in the past, we have focused on retail names that offered more value to the consumer, such as Wal-Mart. As valuations in this space became rich, we looked for other discretionary names in which to participate. Currently, we have emphasized names in the quick service restaurant space, where the average checks are a little more than $5 compared to a fast casual average check of over $7, as well as middle/family style restaurants where the average check is roughly $10 compared to almost $14 for a full service restaurant."

We are honored and humbled to be recognized again last year by both PSN Informa and Morningstar for our risk adjusted returns on several of our composites. We sincerely appreciate your business or consideration thereof.

Kindest regards,

Michael S Dzialo

Michael S. Dzialo
President and Chief Investment Officer