Heather Ettinger: Hello everyone, this is Heather Ettinger, Managing Partner at Fairport Asset Management. I want to welcome you, our clients and friends, to Fairport in Fifteen and wish you a happy spring! As always, we'll use this quarterly update to identify a few of the specific trends that will most affect our clients and their investments and address changes and tactics that we are implementing to help manage risk and return. We appreciate your feedback and hope that you will keep letting us know how we can strengthen our communication.

I am delighted to introduce my friend and colleague J. T. Mullen who will be today's moderator. J.T. has recently joined Fairport as Chief Investment Strategist. He has a stellar reputation in the investment community both locally and nationally and is known as a creative problem solver, superb listener and effective leader. He has been a friend of the firms for many years. For those of you who don't know J.T., he previously served as Chief Financial Officer of The Cleveland Foundation, the second largest community foundation in the country. During his 23 year tenure, the Foundation's endowment grew from $400 million to $1.8 billion. As Chief Investment Strategist at Fairport, J.T. will provide leadership and strategic oversight to Fairport's investment committee. For more on J.T., please check out this week's article in *Crain's Cleveland Business*.

J.T. Mullen: Thanks Heather, I'm excited about taking on this new role and bringing my experience and expertise to the strong investment team already in place. I look forward to contributing to the strategic investment planning process as we collectively work to address the current and future needs of Fairport's clients.

Our objective today is to inform you of the events of the last quarter, their impact on the markets and how we are positioning ourselves to take advantage of the opportunities before us. It has been an interesting first quarter with a number of events that were quite unexpected. In addition to the continuing challenges still facing the markets from the "Great Recession of 2008" we have seen historical events taking place in the Arab world, tragedy in Japan, gasoline prices skyrocketing and the prospect of our government shutting down. How do we respond? Over the next 15 minutes we will share our thoughts on how we plan to address these challenges moving forward and identify the opportunities that current market conditions will provide.

Joining me today is John Silvis, Director of Investments, who manages the research of the investment team and oversees the implementation of the firm's Global and Large Cap model portfolios as well as Rick D'Amico, Manager of Investments, who oversees the implementation of the firm's fixed income models and is responsible for the review and oversight of Fairport's alternative investments and strategies.

John, let's get started. After all of the headlines during the quarter, how did the equity markets do?

John Silvis: Thanks J.T. and welcome to Fairport. We look forward to working with you on the investment team.

The equity markets, led by the benchmark S&P 500 Index, again showed its resiliency in the face of geopolitical events over the first three months of 2011 returning 5.9% (represented by the green box on the current slide). Building off the strong finish from the end of 2010, the S&P 500 Index has registered a total return of 17.3% over the last two quarters. The unfolding events led by the rising unrest in the Middle East, the tragic earthquake in Japan and the ongoing debt crisis in Europe proved too much for the markets as the quarter unfolded. The rising uncertainty led the equity markets to recalibrate and decline (a correction was long overdue) nearly 7% in the middle of the quarter, only to rebound and finish with the best first quarter since 1998. The international markets, defined by the MSCI EAFE Index, again underperformed the domestic markets but still returned a positive 3.5% for the quarter (represented by the brown box on the slide).

J.T. Mullen: What are your thoughts on the economy?

John Silvis: The economy continues to press forward with the final revisions of fourth quarter Gross Domestic Product (GDP) growing at an annual pace of 3.1% as noted on the current slide, further solidifying the ongoing expansion of the economy. It's becoming more apparent that the economy is becoming self-sustaining as productivity increases, manufacturing improves as measured by the Purchasing Manufacturing Index and leading indicators all point to improving fundamentals. Job creation is finally taking hold after several false starts over the last few quarters, with the month of March's non-farm payroll number coming in at 216,000 with private sector job growth leading the way while government jobs fell for the month.

J.T. Mullen: One of the most frequently asked client questions is concerning inflation. Have we changed our view since the last webinar?

John Silvis: Inflation here in the U.S. remains in check with the most recent reading of CPI, or the Consumer Price Index, at 2.1% annualized which is below the long term historical average. One of the drivers holding down higher prices has been the subdued labor costs in the U.S., with Unit Labor Costs remaining steady versus rising costs overseas. Even with the current economic environment, the domestic economy remains more than 5% below potential, as measured by Ned Davis Research on the current chart, indicating that inflation should not be a threat.

The one wild card is the direction of oil prices. Crude oil prices rose over 16% during the first quarter ending at $106 per barrel. Most analyst blame the rise in oil primarily on the political events unfolding in the Middle East. A prominent energy analyst that we follow believes “demand destruction,” or the point where consumers change their spending habits in reaction to higher prices, lies somewhere near $130 per barrel or $4.75 per gallon for gasoline. This has given many economists pause, with some revising first quarter estimates to reflect the higher energy costs and the effect it has on the economy. Still the consensus still lies above 3% GDP growth for both the quarter and the year. Should the conflicts escalate or growth drive energy prices higher, further revisions could be made.

J.T. Mullen: Do we still think equities are attractive? What sectors do we like?

John Silvis: As we mentioned at the beginning of the year, it was our belief that equities were poised to continue their strong performance from the end of last year based on strong fundamentals, positive seasonal trends and this being the third and best year in the presidential cycle. Corporate profits for the reported fourth quarter were again strong, rising 30% from the same period last year. Improving cash balances have driven the demand for more mergers and acquisitions like the $39 billion cash purchase of T-Mobile by AT&T. Revenues have also continued to rise with many of the multinational corporations with sales overseas benefiting from the weaker dollar. Share buybacks and dividends have also been on the rise as companies look to return profits to shareholders.

The Energy and Industrial sectors were the only two sectors to outperform the broad index for the quarter, driven by rising global demand. We continue to like the cyclical sectors such as Technology, Industrials and Energy versus the defensive sectors like Utilities and Telecom. We believe the cyclical names within our Large Cap Model, like Peabody Energy and John Deere, should continue to benefit from the sustained global expansion which is still in its early stages. We still believe Large Caps present one of the best values and should build on the performance in the first quarter. As we look further out into the second half of this year, rising input cost and harder comparables could prove difficult.

J.T. Mullen: What about Small and Mid Cap stocks?

John Silvis: In spite of the all the pundits who declared Small Cap's reign would end in 2011, the Russell 2000 Index again outperformed the S&P 500 returning 7.9%. The index has eclipsed its previous highs from back in 2007 and should see further strength due to increased productivity, stable labor costs and looser credit. Mid Caps also fared well during the quarter reaching new highs for the year. Over the last ten years, Mid Caps have outperformed both the Small and Large Cap indices by 31% and 106%, respectively. We continue to add to our positions in Small and Mid Caps believing they are closely levered to the expanding domestic economy.

J.T. Mullen: With all the activities around the globe, how did the international equity markets do?

John Silvis: The global tragedy in Japan and the unfolding events at their crippled nuclear plant sent the Japanese Nikkei Index sharply lower as the quarter came to an end. The ongoing debt crisis in the peripheral European countries also served as an overhang for the first three months of the year. We closed out our overweight position in the U.K. during the quarter, shifting back to neutral versus the benchmark, as concerns mount that their economy may be heading back to negative growth. We continue to favor those countries or regions within the international Developed Markets that have strengthening or growing economies. We continue to like Canada and Australia while moving to an overweight position in Germany versus the benchmark. With the recent news that Portugal has requested assistance from the E.U., the hope is that the short term funding crisis may be ending and the focus can now shift to the more difficult structural issues plaguing the region. Any meaningful agreement would be welcomed news to the region's capital markets and would benefit Germany, their biggest economy in the region. In the wake of the crisis in Japan, the government has been quick to react by adding liquidity to the monetary system. This should add a boost to the economy in the second half of the year as the country shifts the focus to the rebuilding efforts. We remain underweight Japan while acknowledging that there could be a short term case for investing due to the massive investments in infrastructure needed to rebuild. However, the longer term structural issues of debt and demographics are still cause for concern.

J.T. Mullen: And the emerging markets? Are they becoming a bigger player on the global stage?

John Silvis: Inflation is the guiding concern in the international Emerging Market economies. Central banks, led by China and Brazil, have embarked on the beginning of a global tightening cycle with both raising short term interest rates during the quarter. Food prices rose throughout the Developing world, driving higher wages along with them. This has forced some large multinational companies to rethink their commitment to the region in the face of higher labor costs. The MSCI Emerging Market Index rose just over 2% for the quarter as equity markets are adapting to the realities of higher interest rates and slower economic growth going forward. We continue to like the producers versus the consumers in light of rising commodity prices. Going forward, over half of nominal global growth will now be driven by Emerging Markets. This will force many to rethink their exposure to the asset class and could drive returns for many years to come.

J.T. Mullen: Housing seems to still be a problem. How if any does that affect the REITs in client accounts?

John Silvis: The ongoing declines in housing prices remain a headwind to the current economic expansion. As reported by the Case-Shiller Index, property values fell 3.1% in January versus last year and seem destined to fall below the previous bottom set in 2009. Home ownership, which was at historic highs a few years ago, continues to decline while renting remains on the rise. As this mean reversion continues, it should set up a better demand dynamic in the near future. Commercial properties are beginning to fare better. A better job environment, rising manufacturing and seasonality all point to REITs performing well in the coming months. These factors have led us to add to our REITs positions within client accounts.

J.T. Mullen: Let's turn to Rick now. There seems to be a lot of talk about the Fed raising rates. Any thoughts on the how this will affect interest rates going forward?

Rick D'Amico: The Federal Reserve in all likelihood will end their current quantitative easing in June of this year, after pumping an additional $600 billion of stimulus into the monetary system. It seems unlikely at this point any additional stimulus will be enacted as the FOMC, the Fed's governing body, is anxious to see if the expansion is self-sustaining. We believe interest rates, determined by the benchmark 10 Year Treasury, will remain range bound for the year with 4.0% being the upper end. We continue to be short the benchmark duration within client portfolios and look to capture yield in high quality corporate bonds versus government obligations. As you can see on the current slide, the risk/reward in high yield bonds still looks attractive in the face of improving corporate balance sheets.

J.T. Mullen: What changes did we make in municipal bond portfolios?

Rick D'Amico: During the quarter, we shortened the duration of our tax-exempt fixed income model to less than 5 years. We felt this was an opportune time to shorten duration as limited municipal supply provided some much needed support to the market. For example, $46.4 billion of municipal debt was issued in the first quarter, representing the slowest pace in over 10 years. This compares to $136.8 billion in the fourth quarter, the busiest on record. The sharp decline in municipal bond offerings is represented by the red line on the bottom chart.

Should new issuance return to more normal levels, significant upward pressure could be placed on long-term yields and prices, as this maturity range lacks a natural buyer. According to Citigroup municipal research strategist George Friedlander, with the expiration of the Build America Bond program, the base support for the long-term tax-exempt market is as narrow as any time in recent history. By shortening the overall duration, we significantly limited our exposure to issues in the *20 to 30 Year* and *Over 30 Year* maturity ranges.

Finally, the decision was made to invest in a National versus Ohio specific fund for the following reasons:

1) As state and local municipalities continue to face headwinds, it makes sense to diversify geographically to a greater degree than in the past.

2) Budgetary stress has created a wide disparity in yields across states. In normal times, the differences in yields between states have been minimal. According to Barron's, the average yield on a municipal bond in the Barclay's Capital Municipal Bond Index is approximately 3.8%. However, yields range from 2.75% in Connecticut to 5.62% in Wyoming. This disparity presents a unique buying opportunity for actively managed national bond funds.

J.T. Mullen: So John, what are your closing thoughts?

John Silvis: As we look toward the rest of the year: the economy continues to improve, corporate profits continue to rise and equity fundamentals remain attractive. History indicates that equity markets should be poised for further gains when following a first quarter return of 5% or more. It is our belief that inflation should remain contained throughout the rest of the year. However, our longer term view is that interest rates will likely rise in the coming years leading to a shift in the way investors look at their fixed income allocations. So if brown is the new black, is an allocation of 80% stocks and 20% bonds the new 60/40?

J.T. Mullen: John and Rick, thanks for that overview. I sincerely look forward to working with you both on behalf of Fairport's clients.

Clients and friends, thank you for your time and interest. We appreciate being your partner who can give objective and unbiased financial advice.

Please feel free to give us feedback on our webinar and importantly, let us know if we did not answer any specific concerns or questions. If you have a friend or family member who needs a trusted financial advisor, please call a member of the Fairport team.