If history is any guide, the capital markets often over-shoot on both the upside and the downside creating exploitable investment opportunities. After a decade of underperformance, we believe large cap, high-quality stocks are poised to outperform. Record low interest rates have disproportionately benefited lower quality stocks in recent years. But these low interest rates are unlikely to persist, in our opinion, as the economic recovery matures and credit market conditions return to normal. It is our view that the quality pendulum in the equity market has likely swung too far in favor of lower quality issues.
After a Decade of Underperformance, We Believe Large Cap, High-Quality Stocks Are Poised to Outperform

Since the 2000 – 2002 bear market, high-quality stocks have trailed low-quality stocks by an unprecedented margin. The duration and magnitude of low-quality dominance is stretched and unsustainable. We believe patience and perseverance combined should result in strong absolute and relative performance for large cap, high-quality investors.

- High-quality stocks lagged low-quality stocks in 11 of the last 30 calendar years, but 7 of these periods occurred in the last decade (gold bars).
- High-quality’s more recent relative underperformance has caused the short-, medium- and long-term excess returns to trail by -12.2%, -3.0% and -4.4%, respectively (line chart).
- In our view the pendulum has swung too far in favor of lower quality issues. We expect high-quality stocks to rebound as the pendulum reverts to the mean.

The Russell 3000 High (Low) Quality Index measures the performance of the high (low) quality segment of the US equity universe. It is a subset of the Russell 3000 Index and includes those companies with Standard & Poor’s Earnings and Dividend Rankings of B+ or Better (B or Below & Not Rated). High (low) quality companies are deemed to have above (below) average consistency and stability in earnings and dividends measured over the most recent 10 year (40 quarter) period. Both are custom benchmarks proprietary to Atlanta Capital. Performance is calculated using a market capitalization-weighted methodology. Past performance does not predict or guarantee future results. Source: Atlanta Capital, Standard & Poor’s, Wilshire Atlas.

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Large Caps Have Superior Fundamentals and Trade at Favorable Valuations

Not only do large caps sport higher profit margins, stronger balance sheets and superior cash flows, they are also priced at a discount relative to small caps. Furthermore, mid- to large-cap benchmarks tend to have greater exposure to higher quality issues than small-cap benchmarks. We expect the higher quality composition of larger cap portfolios to benefit future performance.

Historical Characteristics By Market Cap
Large Caps vs. Small Caps

Benchmark: Russell 1000 Index vs. Russell 2000 Index

Return on Equity
Cash Flow to Sales
P/E to Growth

Quality Composition by Benchmark
% Market Value of Index
12/31/12

S&P Quality Rank: B+ or Better vs. B or Below & Not Rated

Small Cap
Russell 2000 Index

Medium Cap
Russell Mid Cap Index

Large Cap
Russell 1000 Index

The Law of Compounding Remains the Most Powerful Force in Investing

For any percentage loss, it takes an even greater percentage gain to bring a portfolio back to break-even. A study by Crestmont Research found that investors can match the market return over time by capturing a fraction of the gains in up markets if losses during down markets were limited. The line graph below illustrates just how little of the upside is needed to match stock market returns over time.

**The Impact of Losses**
% Gains Required to Make Up for a Loss

![Graph showing the impact of losses and gains required to break even.]

- A 50% loss requires a 100% gain to break-even.

**“Capture”: Less Ups Needed if Avoid Downs**
% Gains Needed to Meet Market Returns: 50 Years 1963-2012

![Graph showing the percentage gains needed to meet market returns.]

- An investor only needs to capture 85% of the upside to match the market return over time if the downside capture is limited to 80%.

Source: Atlanta Capital.

High Quality Select Equity Managed by Atlanta Capital’s Core Equity Team

- An investment process established in the 1990s by Chip Reed and Bill Bell while at the Florida State Board of Administration.
- Based on the belief that overconfidence can lead to substantial losses when investors overestimate their ability to forecast earnings.
- Favors cash-producing businesses capable of earning high returns on invested capital.
- Employs a rigorous price discipline, paying careful attention to valuation.

Distinguishing Traits

**High-Conviction Portfolio**
- 25 to 40 holdings
- 10% max position sizes

**Flexible Portfolio Construction**
- Mid- to large-cap stocks
- 25% industry constraints

**Risk Defined as ‘Loss of Capital’**
- Limit downside participation
- Capture a reasonable share of the upside

Cumulative Performance
10/1/06 – 12/31/12

<table>
<thead>
<tr>
<th>Fund</th>
<th>10/1/06 – 12/31/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Select Equity</td>
<td>58.9%</td>
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<tr>
<td>Russell 1000 Growth</td>
<td>38.1%</td>
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<tr>
<td>Russell MidCap</td>
<td>35.5%</td>
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<tr>
<td>Russell 2000</td>
<td>27.7%</td>
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<tr>
<td>Russell 1000</td>
<td>24.4%</td>
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<tr>
<td>S&amp;P 500</td>
<td>22.2%</td>
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<tr>
<td>Russell 1000 Value</td>
<td>11.0%</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>4.7%</td>
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Capture Ratios
10/1/06 – 12/31/12

<table>
<thead>
<tr>
<th>Rank</th>
<th>Percentile</th>
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<tr>
<td>38th</td>
<td>102%</td>
</tr>
<tr>
<td>89th</td>
<td>79%</td>
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Performance shown is gross of fees. The cumulative net of fees return for the composite is 52.2%. The strategy is unconstrained by market cap and sector. The benchmarks serve as a broad representation of the investable universe. Past performance does not predict or guarantee future results. Source: eVestment. Capture ratio rankings are relative to the eVestment US large cap equity database and includes 970 managers.
For further information, please contact:

Jim Skesavage  
Director of Marketing  
jim.skesavage@atlcap.com  
404.682.2512

Brian Smith, CFA  
Director of Institutional Services  
brian.smith@atlcap.com  
404.682.2514

Jimmy Stafford, CFA  
Director of Financial Institutions  
james.stafford@atlcap.com  
404.682.2534

John Ullman, CIMA®  
Vice President  
john ullman@atlcap.com  
404.682.2522

Mary Byrom  
Vice President  
mary byrom@atlcap.com  
404.682.2490

<table>
<thead>
<tr>
<th>High Quality Select Equity</th>
<th>One Year</th>
<th>Three Year*</th>
<th>Five Year*</th>
<th>Since Inception*</th>
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</thead>
<tbody>
<tr>
<td>Gross of Fees</td>
<td>21.25</td>
<td>14.77</td>
<td>5.91</td>
<td>7.70</td>
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<tr>
<td>Net of Fees</td>
<td>20.42</td>
<td>13.98</td>
<td>5.17</td>
<td>6.95</td>
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<tr>
<td>Russell 1000 Index</td>
<td>16.42</td>
<td>11.12</td>
<td>1.92</td>
<td>3.55</td>
</tr>
</tbody>
</table>

*Annualized.

Down Market Capture is determined by the index, which has a down-capture ratio of 100% when the index is performing negatively; if a manager captures less than 100% of the declining market it is said to be “defensive”. Up Market Capture is determined by the index, which has an up-capture ratio of 100% when the index is performing positively; if a manager captures more than 100% of the rising market it is said to be “aggressive”.

Composite Strategy: A fundamental core approach that invests in quality mid- to large-cap companies with a demonstrated history of sustainable earnings growth, strong cash flow and high returns on capital determined by fundamental analysis of a company’s financial trends, products and services, and other factors.

Performance reflects reinvestment of all income and capital gains and is shown in US dollars after deduction of transaction costs and foreign withholding taxes. Performance is shown gross and net of investment management fees. Performance during certain periods reflects strong stock market performance that is not typical and may not be repeated. Net of fee performance was calculated using the highest applicable annual management fee of 0.70% applied monthly. Actual investment advisory fees incurred by clients may vary. Advisory fees for all investment styles are described in Part 2 of Atlanta Capital’s ADV, which is available upon request. Total composite assets as of December 31, 2012 were $30 million for the High Quality Select Equity Composite.

The Russell 1000 Index includes the largest 1000 companies in the Russell 3000 and measures the performance of the large cap U.S. equity universe. The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. The Russell Midcap Index includes approximately 800 of the smallest companies in the Russell 1000 and measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index includes the smallest 2000 companies in the Russell 3000 and measures the performance of the small-cap segment of the U.S. equity universe. The Standard & Poor’s 500 Index includes 500 leading companies in leading industries of the U.S. economy and is a measure of large cap U.S. stock market performance. The MSCI EAFE Index is a market-cap weighted measure of the equity markets of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. Indexes are unmanaged and do not incur management fees, transaction costs or other expenses associated with separately managed accounts. It is not possible to directly invest in an index.

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