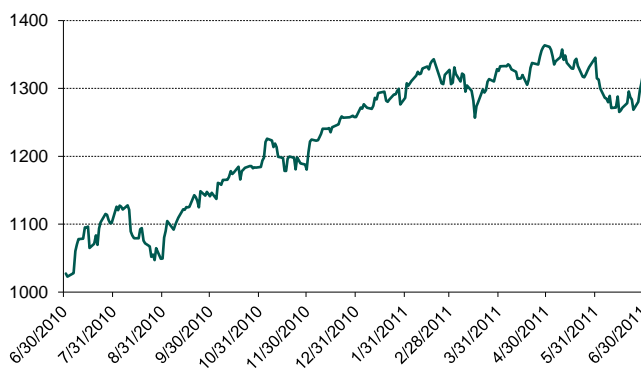




Financial Review

The financial markets looked to sustain an upward trajectory in the second quarter, but the major equity indices ended the period with mixed results as investors struggled to attain an accurate pulse on the global economy. The S&P 500 index ended the volatile quarter relatively flat (up 0.1%), though it was up a respectable 6.0% for the first half of 2011. The international developed market index increased 1.6% in the quarter and was up 5.0% during the first six months of the year. Developing markets continued to lag the advanced economies in 2011, as the emerging market index declined 1.2% in the second quarter, reducing its total return for the first half of the year to 0.9%.

S&P 500 Performance



The global economy hit a “soft patch” during the second quarter, as a number of economic reports registered disappointing results. The weakness in several key economic indicators, coupled with heightened concerns over the European sovereign debt crisis and the impending completion of the Fed’s

quantitative easing program (QE2), injected a renewed sense of uncertainty into the financial markets. This dampened what had previously been an overall bullish tilt to the market.

Several compounding events contributed to this economic pullback during the quarter. Supply chain disruptions from the Japanese earthquake in March had a more severe impact on the global economy than most had anticipated, particularly in the auto and manufacturing sectors. Commodity prices also surged to new post-recession highs during the quarter, putting cost pressures on both corporations and consumers. And inflationary pressures in emerging economies prompted a range of tightening measures by emerging central banks, which could constrain an important source of growth for developed economies.

When coupling these macro headwinds with the fact that unemployment remains stubbornly high at 9.2% (versus a long-term average of 5.6%) and housing continues to search for a bottom, there was a dearth of positive economic catalysts for the markets to grasp onto in the quarter. In fact, the Fed lowered its own 2011 forecast for U.S. economic growth during the June policy meeting to a range of 2.7%-2.9%, down from its April estimate of 3.1%-3.3%. This marked the second cut to the central bank’s GDP forecast this year.

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We acknowledge that there are a several worrisome economic trends that could restrict substantial GDP growth for some time. That said, we still believe GDP will sustain its upward trajectory, even if the rate of growth proves somewhat muted near term. We'd also be remiss not to point out that corporate earnings remain extremely robust. The combined earnings of the S&P 500 companies have increased at a double-digit rate for six consecutive quarters and are expected to reach a record high in 2011 (a 13% increase over 2010). Cost cutting initiatives from the recession helped many companies improve productivity, profitability, and balance sheet strength – all of which appear sustainable. Furthermore, a subdued inflation outlook, low interest rate environment, and slow-but-positively growing economy should be conducive to further corporate earnings expansion.

Overall, we remain constructive on the prospects for the equity markets as two of the three drivers of equity prices could still provide upward momentum. The core components of equity returns are: (1) corporate earnings growth; (2) dividend yield; and (3) valuation multiple expansion. At the end of the quarter, the S&P 500 was trading at 13.9x projected 2011 earnings, versus its 35-year average forward P/E multiple of 13.6x. Thus, we think the market is close to fair value on a P/E multiple basis. However, we believe there is considerable upside opportunity from corporate earnings growth as the economy continues to improve. We don't expect the employment picture or the housing market to turn on a dime, but as both

of these economic overhangs slowly trend back toward normalized levels over the coming years, the economy should advance. And with corporate balance sheets already flush with record levels of cash, we expect companies to return more capital to shareholders in the form of share repurchases and dividend increases, which would provide an additional boost to equity prices.

Core Equity Portfolio

During the quarter, we initiated a position in FedEx and exited our investment in Lockheed Martin.

FedEx (FDX) provides a variety of transport services to more than 220 countries and functions as an integral component of the supply chain operations for small and large businesses worldwide. Similar to our position in UPS, we believe FedEx provides an effective way to invest in the recovery and growth of global trade. Both UPS and FedEx have their own distinct strengths in package delivery and have proven to be rational competitors. Thus, we believe FedEx will complement our existing UPS holding by providing additional exposure to our thematic investment in global commerce expansion.

We sold our position in Lockheed Martin (LMT) during the quarter based on our belief that the defense sector could see substantial funding pressure in the wake of looming deficit reduction initiatives. We have long believed that Lockheed was less exposed to defense spending cuts than the rest of the

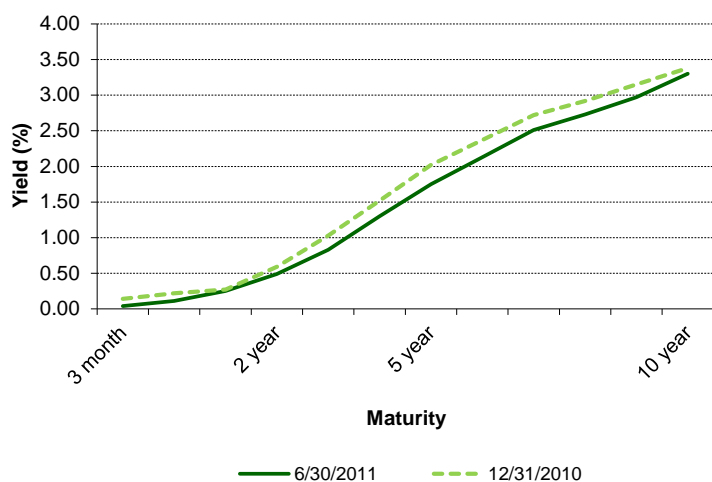
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industry due to the critical importance of its F-35 program to the U.S. military. That said, we now think the prospects for Lockheed Martin (and the defense sector as a whole) could remain range bound over the near term due to uncertainty surrounding the potential magnitude of defense spending cuts.

Fixed Income Markets

After rising in the first quarter, yields on fixed income securities reversed course in the second quarter, ending June at the lowest levels for 2011. A combination of somewhat weaker than expected domestic economic reports, as well as broadening sovereign debt concerns in Europe, resulted in a move back toward risk aversion, as investors sought the relative safety of U.S. backed debt. Yields for the 10-Year U.S. Treasury Bond dropped 27 basis points in the second quarter, to finish the first half at 3.30%.

Treasury Yield Curve



We continue to emphasize new purchases in mid-term maturities (4-7 years). Investment grade corporate bonds, as well as callable agency bonds remain attractive relative to government issues.

Alternative Investments

Capital structure refinancing continues to be the main theme impacting **Event Driven** and **Credit** strategies. Given the low level of interest rates, companies are proactively exchanging floating rate senior loans that mature over the next three years for fixed rate bonds with longer maturities. We anticipate this high level of refinancing activity will continue through the second half of the year.

While corporate earnings were strong and most equity markets increased modestly during the first half of the year, **Equity Long/Short** managers struggled to keep pace. Prices of low quality stocks have increased more than the prices of companies with stronger balance sheets.

Investors continue to chase yield offered by income producing **Real Estate** investments. Banks are willing to originate commercial mortgages, the CMBS market has returned, and as long as the Fed maintains a low interest rate policy, the yield spread between income producing properties and U.S. Treasuries will remain wide. Multifamily housing is the most sought after **Real Estate** sector as tight residential mortgage standards and expectations for a further 5%-10% decline in single family housing favors the rent vs. buy decision.

Final Note

As a reminder, our website (www.cedhill.com) has an “emergency contact” link in the upper right hand corner of the homepage. In the event of an interruption to normal business operations at our office, this link will redirect users to a web page that will provide updates and/or alternative phone numbers for communications with clients and interested parties. In such an event, updates will be provided continuously until operations are fully restored to normal.

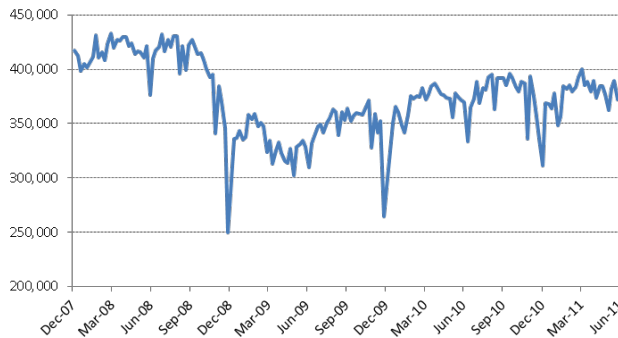
One Year Economic Overview

		Jun 2011	Jun 2010
Stock Market			
S&P 500 Index	▲	1,320.64	1,030.71
Russell 2000 Index	▲	827.43	609.50
Fixed Income Yields			
3-Month Treasuries	▼	0.04%	0.20%
5-Year Treasuries	▼	1.75	1.80
10-Year Treasuries	▲	3.30	2.96
30-Year Treasuries	▲	4.39	3.91
Inflation Monitor			
CPI-Trailing 12-Month Growth	▲	3.6%	1.2%
CPI-(Excluding Food/Energy)	▲	1.6	0.9
Market Expectations*	▲	2.6	1.9
Commodities			
Gold (per ounce)	▲	\$1,500.35	\$1,242.25
Crude Oil (per barrel)	▲	95.42	75.63

*Comparison of yields for 10-Year Treasury and 10-Year TIPS

Economic Barometers

North American Railcar Originations¹



1 A measure of economic activity

Baltic Dry Index (BDI)²



2 A measure of global ocean shipping rates

The U.S. Dollar Index (USDIX)³



3 The USDIX measures the international value of the U.S. Dollar against 6 major world currencies

Baa Corporate Bond Spreads Over 10-Year U.S. Treasuries⁴



4 Measures bond investor's appetite for risk