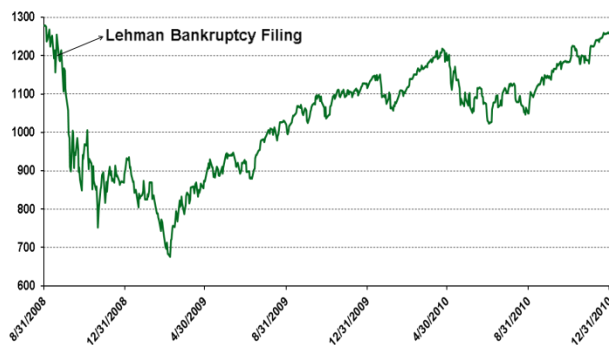




Financial Review

The equity markets ended 2010 on a high note as major indices reported solid gains in the fourth quarter. The U.S. equity markets led the way in the quarter as the S&P 500 rose 10.8%, boosting the full-year total return to 15.1%. U.S. equities finished the year at levels not seen since the financial markets' near collapse in mid-September 2008 and have now advanced more than 85% from the financial crisis lows of March 2009. The most recent advance was driven by additional monetary easing from the Fed, continued improvement in leading economic indicators, better-than-expected third quarter corporate earnings, and a favorable resolution to impending tax legislation changes.

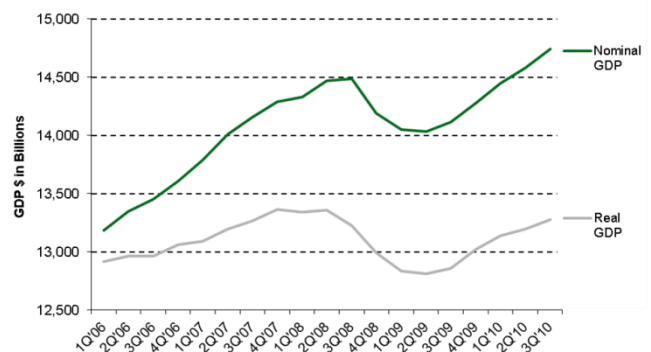
S&P 500 Index



International equity indices lagged the S&P 500 returns during the fourth quarter due to continued fears over Europe's financial contagion and fiscal tightening in a number of emerging markets. That said, the benchmark for International developed markets (MSCI EAFE) and the emerging market index (MSCI EM) both increased more than 6% in the quarter and the indices were up 7.8% and 18.9%, respectively, for the full year.

There is no doubt that economic conditions and the prospects for corporate earnings are stronger today than at this time a year ago. With nominal GDP at an all-time high and real GDP on pace to reach pre-recession highs in early 2011, the U.S. economy is primed to finally exit the recovery stage and move into a period of economic expansion.

U.S. Gross Domestic Product (GDP)



The market's primary concern heading into 2011 is the pace of that economic expansion. Based on the low level of economic growth we've experienced in this recovery relative to past recoveries, as well as some of the structural headwinds that still need to be addressed (i.e., large fiscal deficits), all indications would suggest that the developed world will be in a tempered growth environment for some time to come. Barring greater-than-expected global GDP growth, we should also expect to see corporate earnings and equity returns increase at a more moderate rate. That is not to say earnings and returns will not continue to increase from current levels, but the pace of that improvement is likely to be slower than in past expansionary periods.

One of the more pressing questions surrounding economic expansion and market returns is when the economy will become self-sustaining. Government stimulus has provided an artificial boost to the economy and there are legitimate criticisms suggesting loose monetary policy could already be stoking bubbles in several asset classes. The Fed's stated objective with the latest round of quantitative easing (QE2) was to increase asset prices, boost confidence, and stimulate spending and hiring. The first two of those three objectives appear to have been achieved to some degree and the Fed has hinted that further quantitative easing (i.e., QE3, QE4, etc.) could be used until the labor market exhibits more dramatic improvement. We think it's unlikely that the Fed will prematurely curtail its monetary assistance and threaten the sustainability of this recovery, but eventually the economy will have to stand on its own two feet. In the interim, we run the risk of creating another Fed-induced asset bubble which can do more harm than good over the long run (as was recently demonstrated by the housing market collapse).

There are some encouraging signs that suggest the U.S. economy is indeed moving toward a more self-sustaining level of activity where Fed intervention will no longer be needed. The pace of economic activity has strengthened and is extending beyond just investments and exports. For instance, consumer confidence has now bounced back from the October lows and consumption in the third quarter grew at a higher-than-expected 2.8% as retail sales and auto sales continued to improve. Extension of the Bush-era tax cuts and a reduction in the payroll tax is expected to drive additional consumer spending improvement in 2011. It's assumed that an increase in consumer spending (70% of the U.S. economy) resulting from these policies will provide a

much-needed boost to the economy's growth trajectory over the coming quarters. In all likelihood, upward revisions to 2011 GDP growth forecasts were already baked into the December equity market rally. As a result, we believe it's critical that low interest rates and low tax rates really do drive economic expansion in the coming year for equities to sustain their recent gains and move higher in 2011.

The market certainly has its share of risks, but we think there are still a compelling number of reasons to remain bullish about stocks in 2011. Those reasons include: (1) signs of continued acceleration in GDP growth; (2) continued strength in corporate earnings; (3) strong corporate balance sheets; (4) accommodative monetary policy; (5) reasonable equity valuations; and (6) relatively few attractive investment alternatives in today's low yield environment.

Core Equity Portfolio

We did not remove any of our previous holdings from the portfolio during the fourth quarter. However, we did initiate one new position with the purchase of QLogic Corp.

QLogic designs and supplies network infrastructure hardware. Its products help computer storage and server systems improve the way data is shared and stored, which has become even more important with the adoption of online commerce and increasingly complex computational applications. The company's core competency is developing Fiber Channel (FC) host bus adapters, cards that reside on computer servers and enable the server to connect to storage devices. With 54% market share in FC adapters, QLogic dominates the market for this highly technical

and critical network storage product. Its commanding share in fiber channel devices also positions the company to grab the leading share of an emerging technology in the enterprise storage space called Fiber Channel over Ethernet (FCoE). FCoE allows companies to converge their data (Ethernet) and storage (Fiber Channel) networks, which reduces data center costs by consolidating hardware, power, cooling, and management expenses. We believe exponential increases in data storage needs and growth in server virtualization (i.e., cloud computing) will drive continued demand for QLogic's products and generate healthy returns for investors in the coming years.

Looking back on 2010, we were somewhat disappointed in the performance of our Core Equity strategy for the year, as our holdings lagged the market in the first half of the year. From a broad perspective, some of the underperformance was due to our avoiding some of the more volatile segments of the market – most notably capital-constrained banks as well as retailers. The absence of these companies in our portfolios served us extremely well during the economic downturn (2007-2009), when these stocks declined substantially. However, in a year where some investors sought outsized gains by speculating on some of the riskier, most beaten down segments, our strategy missed out on some relatively strong performers.

Of course, our relative performance was also impacted by a few poor holdings with what we believe are short-term issues. In a couple of cases (for example Nvidia, a maker of graphic processors used in computers, phones and tablets), companies reported disappointing quarterly earnings early in the year, resulting in a punishing decline in share price. Additionally, one of our largest positions, financial service provider Charles Schwab,

underperformed as the persistence of low interest rates continued to adversely impact earnings results. In each case, our analysis suggested the market was overreacting to temporary setbacks, rather than permanent impairments.

With the turning of the calendar, we have already seen a change in market sentiment, both in terms of sector rotation as well as the above mentioned companies. The three largest sectors in Core Portfolios – Technology, Energy and Health Care – are amongst the leading sectors in the market. Our view remains that these segments offer the most attractive combination of growth and valuation characteristics in the market today. With regard to specific companies, just in the first two weeks of the year, Nvidia's share price has risen more than 50% as the company announced several significant product introductions. Although not nearly as dramatic, the stock of Charles Schwab has also risen nicely (over 8%), as the market begins to anticipate stronger earnings in 2011 and beyond due to the expectation that interest rates are likely to rise over the next few years. With the onset of the fourth quarter earnings reporting season upon us, we believe our portfolio holdings are well positioned to capitalize on the dynamic global opportunities today.

As our clients know, the primary goal of Core Equity is to achieve returns in excess of the S&P 500 over a market cycle (usually three to five years). In order to achieve excess returns, we attempt to identify long-term economic trends not adequately reflected in security prices. 2010 marked a year where either we missed a short-term opportunity in some of the most beaten down segments, or the timing for our longer-term investment themes did not pan out during the confines of the calendar year. We are quite optimistic,

December 31, 2010

however, that our portfolio is exceptionally well positioned for the coming quarters, and look forward to a return of favorable sentiment toward undervalued, financially strong, market leading corporations.

Other Equity Strategies

Global Equity investments produced positive returns in 2010, with investments in emerging markets providing a considerable advantage over more developed markets. Our emphasis toward faster growing emerging markets served portfolios well. We remain particularly optimistic regarding Latin America, and recently invested in a small cap emerging market index fund to gain increased exposure to internal demand growth within these economies.

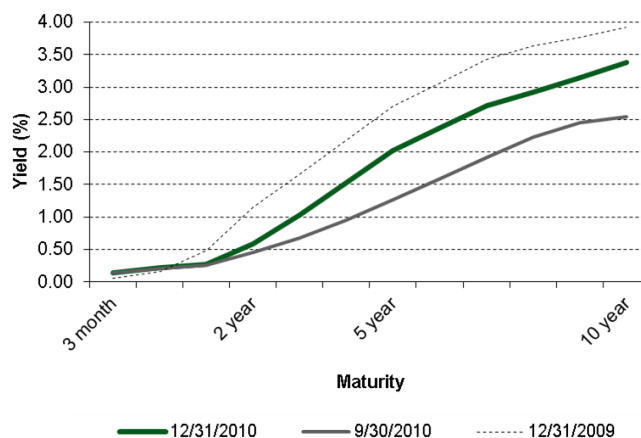
Equity Income investments provided very strong returns for the year, both through appreciation and dividend income. Investments in Master Limited Partnerships (MLPS) enjoyed a second consecutive year of strong returns, due mainly to relatively attractive yields compared with other income oriented investments, as well as the expectation that distribution rates will increase in 2011. For 2011, we believe the strategy will likely perform more in line to historical returns, rather than the outsized return over the last two years.

Fixed Income Markets

Fixed income markets reversed course in the fourth quarter with yields climbing across the treasury yield curve. The reversal was largely due to expectations that the economic recovery is continuing to gain momentum, with some observers believing that more “normal” economic growth may occur in

2011. The yield on the benchmark 10-year United States treasury increased over 80 basis points in the final quarter of the year, with the yield ending 2010 at 3.38%.

Treasury Yield Curve



Despite the recent upward shift in interest rates, yields still finished the year at lower levels than the end of 2009, indicating that there are still several factors (i.e., high unemployment, European debt worries, etc.) preventing the economy from reaching its potential.

Corporate bond spreads tightened modestly in the quarter, as yields on corporate bonds rose at a slower pace than comparable treasuries. Yields for municipal bonds remained relatively high when compared to treasuries, with the tax-free 10-year AAA bond yielding a few basis points more than the comparable treasury. Concerns over state and local government finances continue to weigh on the sector, although some of the more problematic states (California, Illinois, New Jersey) have recently enacted either spending cuts or tax increases. Should this trend continue, we believe municipal yield spreads will trend toward more normal levels. Importantly, we remain resolute in focusing our portfolio position in high quality credits within the tax free market.

We continue to emphasize new purchases in mid-term maturities (4-6 years), although with the backup in yields, selective longer term (8-10) year bonds may be sought.

Alternative Investments

Most **Hedge Fund** managers produced solid absolute performance for 2010, although the rapid ascent in the equity markets in the 4th quarter made relative returns look slightly less favorable. Managers were successful in navigating exceptionally volatile markets – the S&P 500 Index generated monthly gains or losses of greater than 3% in all but two months last year. Despite the dramatic reversals during the year, managers provided quite consistent returns.

The year seemed to be split between “risk off” environments (January and summer months) where markets declined sharply and “risk on” periods (winter/spring and fall/winter) of steady market growth. During the “risk off” periods, managers did a good job of protecting capital, yet were also able to post consistently positive marks during market rallies. It is this combination of strong performance and moderate volatility that makes **Hedge Funds** an attractive asset class.

Improving economic conditions helped stabilize a battered **Real Estate** market following two consecutive years of deteriorating property fundamentals and precipitous value declines. During 2010, market participants focused on “core properties” that produce steady current income as a result of being well leased and in desired locations. Properties that are undergoing distress due to low vacancy levels, a need for additional capital to complete deferred maintenance, or lack of revenue to cover debt service continue to struggle.

We expect a full recovery in property fundamentals to lag economic and employment growth.

Private Equity deal activity picked up during the course of the year. The most significant factor contributing to this improvement is that financing markets opened. While leverage is not back to prior levels, few sponsors are complaining about not being able to receive attractive financing terms given the low level of interest rates. A considerable amount of capital remains uncommitted from funds raised in 2006/2007. As these commitment periods are coming to an end, a “use it or lose it” mentality, along with a healthy amount of cash sitting on corporate balance sheets, will likely result in a number of public to private leveraged buyout transactions.

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 re-direct 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

		Dec 2010	Dec 2009
Stock Market			
S&P 500 Index	▲	1,257.64	1115.10
Russell 2000 Index	▲	783.65	625.39
Fixed Income Yields			
3-Month Treasuries	▲	0.14%	0.05%
5-Year Treasuries	▼	2.02	2.71
10-Year Treasuries	▼	3.38	3.84
30-Year Treasuries	▼	4.32	4.63

		Dec 2010	Dec 2009
Inflation Monitor			
CPI-Trailing 12-Month Growth	▼	1.3%	2.8%
CPI-(Excluding Food/Energy)	▼	0.8	1.8
Market Expectations*	≡	2.4	2.4
Gold (per ounce)	▲	\$1,420.78	\$1096.78
Crude Oil (per barrel)	▲	91.38	79.36

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

Economic Barometers

