Perspectives

Morris Capital Advisors, LLC

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It's The Song That Never Ends

It's the song that never ends/It just goes on and on my friends/Some people started singing it, not knowing what it was/And they'll continue singing it forever just because . . . (repeat ad-nauseum). If you are a parent you have probably been subjected to Lambchop singing that annoying song, and possibly tortured even more when it was stuck in your head for a few days. My youngest daughter, Kathryn, loved it, and my older daughter says that she still carries the psychological baggage to this day. It was many years ago, but it still makes me cringe a bit.

I wonder if that Lambchop song has some parallels to our current Fed monetary policy. It does certainly seem that we are living with the Quantitative Easing that will never end, but when I researched the lyrics I was also struck by the words in that third line. The whole concept of creating money to buy our own recently issued debt may be something our central bankers started doing not knowing what would the ultimate impact might be.

The idea is based on some academic studies that identified a relationship between the "wealth effect" of rising financial assets and improved economic activity. Ben Bernanke stated in his editorial in the Washington Post that he wanted to create liquidity that would find its way into the financial markets and push up stocks, creating the "wealth effect". One of the questions that remain to be answered is if this artificial liquidity can create a "wealth effect" that stimulates economic activity, or if it is improved economic activity really boosts the stock market and creates the "wealth effect". Regardless, Bernanke has taken us down this road, and has seemingly convinced his fellow central bankers to do the same.

Despite my obvious skepticism, and the skepticism of many well-respected economists, the stock market over this most recent quarter seems to be responding just as our Fed Chairman wants. We registered double digit returns in the S&P 500 and the Russell 2000 as the flow of more than $4 billion dollars a day found a place to go. I have heard several commentators say that the stock market is signaling its belief in the Fed policy. That may be the case, but at this point it is only half of the story. The Fed might create stock market wealth by flooding the markets with cash, but if investors are concerned that this wealth is artificial or temporary they will not have the confidence to spend or invest in a way that stimulates underlying economic activity.

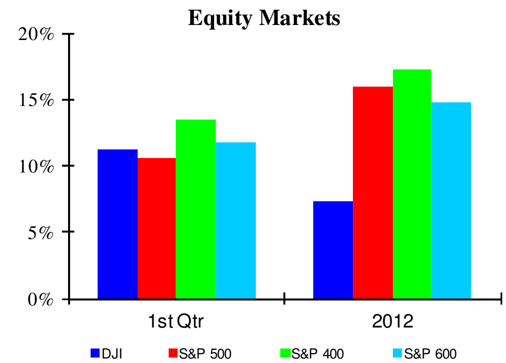
In addition, I wonder what will happen to the markets and economy when the Fed stops the daily cash inflow and actually begins to unwind the $3 trillion of financial assets it has accumulated on its balance sheet. The economic recovery that we have experienced up until now has been weak and uneven, and is not typical of a recovery from a recession as deep as the one that we experienced. The uncertain nature of the recovery is even more striking considering the extent of the fiscal and monetary stimulus that has been applied to the economy over the past several years. Despite talk of exit strategies for the Fed, we might find that the markets have become so reliant on the daily liquidity flow that we might end up with some sort of quantitative easing that never ends.

In a market dominated by macro influences and where fundamentals are ignored as much as this one, it is tempting to shift portfolio management attention to ride that macro wave. While this may be tempting, it is inherently dangerous. First and foremost, it is extremely difficult to predict the turn in macro factors in both timing and magnitude. More importantly, it overrides an underlying philosophy and process that has been a successful investment guide through market cycles before by removing the focus from bottom line fundamentals that drive stock price performance over the long term. The influence of daily Fed liquidity and artificially low interest rates may levitate stock prices but at some point this central bank policy will hit its limits. That is why we continue to focus on our valuation process, while keeping a constant eye on Fed policy actions.

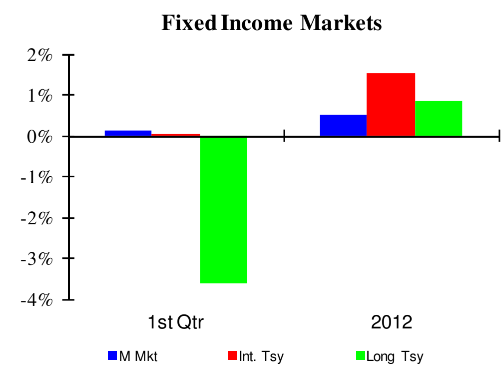
For us this means constant attention to corporate fundamentals such as top line revenue and growth, the translation of that revenue into earnings growth, and ongoing capital reinvestment in the business. Those things, together with the financial assets and liabilities on the balance sheet, contribute to the ability of any company to generate free cash flow that becomes the means to invest in new projects, make acquisitions, or distribute to shareholders in the form of dividends and stock buybacks. We believe that companies that are priced attractively based on these fundamentals will be sound long-term investments through passing market cycles and macro influences. Our focus on this underlying process will enable us to shine when attention returns, once again, to this most important determent of stock valuation.

Sincerely,
Daniel A. Morris

Investment Markets



Stock markets around the world enjoyed a very strong quarter, as sustained and in some cases accelerated monetary easing overcame increasing concerns about underlying economic conditions. In the U.S., investors were relieved that Washington was able to come to a short-term agreement on taxes and spending without risking default or government shutdown. Europe seemed to muddle through yet another banking crisis, and Japanese authorities promised to become much more aggressive in their own implementation of quantitative easing. U.S. equity indices set new all-time highs.



Short and intermediate Treasury securities were barely positive during the quarter, while the value of long term bonds fell. Several economic indicators pointed to a slowing economy, in particular a very weak employment report issued as the quarter came to a close. Even though Federal Reserve policy makers are more openly discussing slowing down or halting bond purchases, any such move was viewed as unlikely by market participants in the face of such weak economic data. Therefore investors bid up the prices of Treasury Securities, safe in the knowledge that the Federal Reserve would continue to support asset prices.

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Portfolio Review and Performance

During the 1st Quarter of 2013, the Large-Cap Core Portfolio was helped by strong performance from Valero Energy, AmerisourceBergen, Norfolk Southern, and Amphenol Corp. Three of those top performers, AmerisourceBergen, Amphenol, and BE Aerospace, were also among the top performers last quarter. Valero Energy, an independent oil producer and refiner, gapped higher after reporting revenue and earnings much better than expected. Results were helped by higher refining throughput margins and lower operating expenses. AmerisourceBergen rose steadily throughout the quarter. The pharmaceutical benefits manager reported revenue and earnings above expectations and announced a strategic, long-term relationship agreement with Walgreens that is expected to be significantly accretive to earnings. Norfolk Southern also rose steadily throughout the quarter. The company announced earnings better than expected, with declining coal shipments offset by increased volumes in its chemicals, auto, and housing segments. Amphenol Corporation, a manufacturer of electronic cables and connectors, also rose steadily throughout the quarter despite reporting earnings below expectations, and reducing revenue guidance for the next quarter. Analysts remained positive on the ability of the company to maintain their attractive margins, use acquisitions to augment organic growth, and improve operating results as the year progresses.

Notable laggards during the 1st Quarter include Newmont Mining, Agilent Technologies, Diamond Offshore, and Occidental Petroleum. Shares of Newmont Mining declined steadily throughout the quarter despite reporting earnings that were better than expectations. The shares of this gold and copper miner are well below the peak set late last year, consistent with the price moves of other companies in the industry. Shares of Agilent declined sharply after the company reported earnings below expectations. The company, which provides bio-analytical and electronic measurement solutions to the communications, life sciences and chemical analysis industries, also reduced earnings expectations for the quarter and fiscal year. Shares of Diamond Offshore declined in mid-quarter, despite reporting revenue and earnings that were better than expectations. The decline in the shares could be related to safety concerns on offshore rigs using bolts manufactured by GE. Shares of most drilling contractors declined on the news, and Diamond did, as well, despite the fact that the company had already announced their plan to replace the bolts that were the source of concern. Shares of Occidental Petroleum rose early in the quarter after reporting revenue and earnings above expectations, and announcing an increase in the annual dividend. Weakness in the shares later in the quarter could be related to the retirement of the current CEO or analyst concerns about slowing earnings growth if the global economy stagnates.

Net Composite Investment Performance
As of 3/31/2013

	Core Portfolio	Lipper LC Core Funds	S&P 500 Index
1st Quarter	**12.60 %**	10.55 %	10.61 %
1-Year	**12.16 %**	13.99 %	13.95 %
3-Year Annualized	**11.11 %**	11.08 %	12.66 %
5-Year Annualized	**5.46 %**	5.07 %	5.81 %
10-Year Annualized	**9.23 %**	7.52 %	8.52 %
Annual since Incept. 12/31/1992	**7.20 %**	6.72 %	8.64 %

Performance quoted represents past performance which is no guarantee of future results. Current performance may be lower or higher than what is stated. Investment return and principal value will vary with market conditions. At redemption investment value may be more or less than the original cost.

The S&P 500 Index is an unmanaged index compiled by Standard & Poor's. It includes reinvestment of dividends.

The Lipper Large-Cap Core Index is an unmanaged index compiled by Lipper Analytical. It includes mutual funds holding large company stocks managed with a blend of growth and value.

One cannot invest in an index.

KEY MEASURES
3/31/2013

	Core Portfolio	S&P 500 Index
Average Yield	**1.84 %**	2.09 %
PE on Expected Earnings	**13.78 x**	24.29 x
Expected Growth Rate	**10.57 %**	10.17 %
PEG Ratio	**1.30 x**	2.39 x
Debt to Capital	**34.45 %**	32.14 %
Price to Book	**4.03 x**	6.10 x

Computed from the weighted average of the underlying securities and are not a measure of future performance.

Average Yield: Annual dividends divided by the purchase price, excluding capital gains.

PE on Expected Earnings: Stock price divided by expect4ed earnings-per-share over the next 12 months.

Expected Growth Rate: Compounded annual rate of growth of expected earnings over the next 3-5 years.

PEG Ratio: Ratio of price/earnings to growth that may indicate a stock's potential value. Lower PEG generally means that stock is more undervalued.

Debt to Capital: Debt divided by total capital . An insight into financial strength; a higher ration than the industry average may show weaker financial strength.

Price to Book: Ratio of a stock's capitalization to its book value; compares the market's valuation of a company to that indicated on the company's financial statements. Generally the lower the ration, the "less risky" the investment.

Composites include all fully discretionary separate accounts over $100,000 and all commingled accounts over $500,000 managed by Morris Capital Advisors, LLC. for a full quarter. Portfolios are invested solely in US securities. Returns are net total return including dividends, interest, realized and unrealized capital gains and losses, reduced by all costs and advisory fees. Morris Capital Advisors claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Morris Capital Advisors has not been independently verified. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request.

Portfolio Review and Performance

During the 1st Quarter of 2013 the Large-Cap Growth Portfolio was helped by gains in Constellation Brands, Inc., Celgene Corp., Gilead Sciences, Inc., and Hess Corporation. Constellation Brands continued to climb steadily throughout most of the quarter. The rise in the shares reflects optimism about the benefits of the acquisition of Crown Imports distribution and manufacturing rights for Corona beer. The acquisition is due to the spinoff of these operations by InBev in order to gain DOJ approval for its merger with Modelo. The shares of Constellation dropped sharply at one point when the DOJ moved to block the InBev merger, but the stock recovered when InBev moved to increase Constellation's interest in the end transaction, satisfying much of the DOJ's concerns. Shares of Celgene jumped sharply early in the quarter when the company announced successful results of a Phase 3 trial for its treatment for psoriasis. Shares rose again later in the quarter when the company announced the full findings of the Phase 3 study. The company also announced positive results for other treatment initiatives during the quarter. Shares of Gilead Sciences, another bio-tech pharmaceutical company, rose steadily throughout the quarter as the company announced successful results from several trials of its treatments for infectious diseases. Gilead also announced revenue and earnings above expectations, and continues to grow its business with strategic acquisitions. Shares of Hess jumped sharply after the company reported revenue and earnings above expectations. The spike in the shares was also attributable the acquisition of a significant stake in Hess by Elliott Associates, an activist investor group. Elliot announced its intention to continue to accumulate shares and to push for a restructuring of Hess to unlock additional shareholder value.

Weak holdings during the 1st Quarter of 2013 include Apple, Inc., VeriFone Systems, Inc., Edwards Lifesciences, and Coach, Inc. Apple continued its decline from its peak last year in the midst of "Apple mania". Apple holdings in hedge funds and traditional investment portfolios had grown so dominate that the reduction of many of these leveraged positions was bound to contribute to weakness in the stock, just as the accumulation of those positions had driven it upward. During the quarter the company again reported strong revenue growth and earnings that exceeded expectations, despite increased competition. The shares of Apple continue to be attractively valued relative to its revenue and earnings growth, and a balance sheet with substantial cash and no long-term debt. Shares of VeriFone fell after the company, once again, reported disappointing results. The processor of consumer electronic transactions struggled with poor execution of new product upgrades and the integration of recent acquisitions. Edwards Lifesciences, develops technologies that treat heart disease, specifically artificial heart valves. Its shares fell after the company reported operating results and earnings guidance that were in line with expectations. Investors had hoped for an acceleration of top and bottom line results. Shares of Coach, Inc. fell sharply after the company reported revenue and earnings below estimates, and weaker margins. Weakness in the results was due to operations in North America, which generally have been overshadowed by global growth opportunities.

Net Composite Investment Performance
As of 3/31/2013

	Growth Portfolio	Lipper LC Growth Funds	Russell 1000 Growth Index
1st Quarter	**8.75 %**	8.11 %	10.61 %
1-Year	**8.56 %**	6.66 %	13.95 %
3-Year Annualized	**12.12 %**	10.21 %	12.66 %
5-Year Annualized	**7.08 %**	5.00 %	5.81 %
10-Year Annualized	**8.76 %**	7.35 %	8.52 %
Annual since Incept. 6/30/93	**11.83 %**	5.22 %	8.61 %

Performance quoted represents past performance which is no guarantee of future results. Current performance may be lower or higher than what is stated. Investment return and principal value will vary with market conditions. At redemption investment value may be more or less than the original cost.

The Russell 1000 Growth Index is an unmanaged index compiled by Russell Analytics. It includes reinvestment of dividends.

The Lipper Large-Cap Core Index is an unmanaged index compiled by Lipper Analytical. It includes mutual funds holding large company stocks managed for growth.

One cannot invest in an index.

KEY MEASURES
3/31/2013

	Growth Portfolio	Russell 1000 Growth Index
Average Yield	**1.02 %**	1.74 %
PE on Expected Earnings	**16.17 x**	18.84 x
Expected Growth Rate	**13.44 %**	13.50 %
PEG Ratio	**1.20 x**	1.40 %
Debt to Capital	**27.35 %**	34.08 %
Price to Book	**4.18 x**	4.47 x

Computed from the weighted average of the underlying securities and are not a measure of future performance.

Average Yield: Annual dividends divided by the purchase price, excluding capital gains.

PE on Expected Earnings: Stock price divided by expect4ed earnings-per-share over the next 12 months.

Expected Growth Rate: Compounded annual rate of growth of expected earnings over the next 3-5 years.

PEG Ratio: Ratio of price/earnings to growth that may indicate a stock's potential value. Lower PEG generally means that stock is more undervalued.

Debt to Capital: Debt divided by total capital . An insight into financial strength; a higher ration than the industry average may show weaker financial strength.

Price to Book: Ratio of a stock's capitalization to its book value; compares the market's valuation of a company to that indicated on the company's financial statements. Generally the lower the ration, the "less risky" the investment.

Composites include all fully discretionary separate accounts over $100,000 and all commingled accounts over $500,000 managed by Morris Capital Advisors, LLC. for a full quarter. Portfolios are invested solely in US securities. Returns are net total return including dividends, interest, realized and unrealized capital gains and losses, reduced by all costs and advisory fees. Morris Capital Advisors claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Morris Capital Advisors has not been independently verified. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request.

Portfolio Review and Performance

During the 1st Quarter of 2013 the Small-Cap Growth Portfolio was helped by gains in Landec Corporation, Datalink Corporation, Virtusa Corporation, Trex Company, and Cash America. Landec Corporation jumped early in the quarter after the company reported revenue and earnings above expectations, and raised guidance for the fiscal year. The shares jumped again late in the quarter when the company again reported revenue and earnings that were above expectations. Shares of Datalink jumped early in the quarter when the company reported revenue and earnings above expectations. The shares rose again later in the quarter when an analyst issued a positive review of the company. Shares of Virtusa rose steadily throughout the quarter after the company reported revenue and earnings above expectations. Shares of Trex Company also rose steadily throughout the quarter after the company reported revenue and earnings above expectations. Cash America jumped after the company reported revenue and earnings above expectations, and raised guidance for the fiscal year.

The portfolio was constrained during the 1st Quarter of 2013 by poor performance from Multi-Fineline Electronics, NetGear Incorporated, Rudolph Technologies, Volterra Semiconductor, and Bio-Reference Labs. Shares of Multi-Fineline dropped after the company lowered revenue expectations and margin guidance. The company reduced production and was forced to absorb the cost of idled labor and production facilities. NetGear fell early in the quarter when the company made an acquisition that was not well received by investors and analysts. Shares fell again later in the quarter when the company announced revenue and earnings that were just in line with expectations. Rudolph Technologies, a maker of process control systems for microelectronics device manufactures, gapped down after the company reported revenue and earnings below expectations. The shares of Volterra Semiconductor continued their decline from last year despite reporting revenue and earnings above expectations. Investors are concerned about weak revenue growth for this maker of power management semiconductors for the computing, storage, networking, and consumer markets. Bio-Reference Labs is a clinical testing laboratory for physicians, clinics, hospitals, and employers. The shares declined on concerns that the impact of hurricane Sandy would depress revenue and earnings. The shares stabilized later in the quarter after the company announced results indicated that the impact of the hurricane would be at the low end of expectations.

During the quarter we sold Volterra Semiconductor, Multi-Fineline, and Almost Family, an in-home healthcare provider. We also trimmed our position in Geospace Technologies to take gains after its substantial run-up. With the proceeds of these transactions we purchased Evercore Partners, an investment banking firm, Francesca's Holdings Corp., a specialty retailer in the US, Omnicell Inc., a provider of automated solutions for hospital medication and supply management, and Santarus, Inc., a specialty biopharmaceutical company focused on acquiring, developing and commercializing products used by physician specialists.

Net Composite Investment Performance
As of 3/31/2013

	Small-Cap Portfolio	Lipper SC Growth Funds	Russell 2000 Growth Index
1st Quarter	**12.48 %**	11.75 %	13.21 %
1-Year	**12.17 %**	12.14 %	14.52 %
3-Year Annualized	**11.27 %**	13.35 %	14.73 %
5-Year Annualized	**4.29 %**	7.68 %	9.04 %
10-Year Annualized	**8.76 %**	10.14 %	11.60 %
Annual since Incept. 4/30/01	**6.58 %**	4.95 %	5.61 %

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KEY MEASURES
3/31/2013

	Small-Cap Portfolio	Russell 2000 Growth Index
Average Yield	**0.44 %**	0.69 %
PE on Expected Earnings	**16.88 x**	21.96 x
Expected Growth Rate	**15.94 %**	15.79 %
PEG Ratio	**1.06 x**	1.39 x
Debt to Capital	**18.19 %**	23.69 %
Price to Book	**3.36 x**	2.57 x

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