

Position Recently Added

General Mills, Inc. (GIS) manufactures and markets branded and unbranded consumer food products to the grocery, foodservice and commercial baking industries. General Mills, founded in 1928 and headquartered in Minneapolis, MN, manufactures its products in 15 countries and markets them in more than 100 countries. Its cereals brands are Cheerios, Chex, Total, Kix and Wheaties. The company also provides flour (Gold Medal), baking mixes (Betty Crocker, Bisquick), dinner mixes (Hamburger Helper, Old El Paso), fruit snacks (Fruit Roll-Ups), grain snacks (Chex Mix, Pop Secret), yogurt (Colombo, Go-Gurt and Yoplait) and ice-cream (Haagen-Daaz). The company's portfolio of products holds the number one or number two market share position across their respective food categories. General Mills is financially strong with an attractive level of cash flow generation. GIS has historically paid an attractive, well-covered and growing dividend. As such, we have added shares of General Mills (GIS), a leading global manufacturer and marketer of consumer foods, to income-oriented portfolios.

Position Recently Eliminated

FedEx Corp. (FDX), the Memphis, TN-based global transportation company, has suffered given recent declines in economic and earnings estimates combined with its cyclical characteristics. FDX recently reported results reflecting impressive results at its Ground and Freight divisions, but also indicated declines in demand for FDX Express, particularly in Asian demand from high-tech customers who are moving goods later this year compared to last year. Package volume declines were more pronounced in certain premium services. FDX indicated that the U.S. and global economies are growing at a slower rate than it anticipated which lead to a reduction in its earnings guidance range. FDX has been raising prices to offset volume weakness, however given the ongoing sovereign debt crisis in Europe, debt reduction issues in the U.S. and an overall lack of confidence, we would expect sluggish growth trends to continue. As a proxy for economic growth, FDX shares are considered a concurrent economic indicator. FDX benefits from an expanding economy, however, in a period of deceleration its results are constrained by the reduction in shipping activity.

Position Recently Eliminated

Hewlett-Packard Co. (HPQ) has suffered from multiple headwinds over the last year in our analysis, including a leadership transition, increased competition from within the technology industry and an apparent lack of strategic vision. In August 2010, then CEO Mark Hurd resigned unexpectedly. The Board announced in October 2010 that Leo Apotheker, former CEO of SAP, would become HPQ's new CEO, and that Ray Lane, former COO of Oracle and a managing director at Kleiner Perkins, would be HPQ's non-executive chairman. In May 2011, the company accelerated its quarterly earnings release which included weak forward looking financial guidance due to increased levels of investment in the services division and the consumer PC unit. Lastly, in August 2011 HPQ announced disappointing full year financial guidance, as well as a strategic transformation which included the \$10 billion purchase of a large European software company, the closure of some businesses related to the Palm acquisition, and the spin-off of its largest business, the global PC manufacturing unit.

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Position Recently Eliminated

Kraft Foods Inc. (KFT) is engaged in manufacturing and marketing packaged food products, including snacks, beverages, cheese, convenient meals and various packaged grocery products. In August, Kraft announced its intent to split into two independent, publicly traded companies: a global snacks business and a North American grocery business. KFT has performed well, with an attractive level of dividend income, for us over the last two-plus years since we began initiating positions. The announced split gives rise to a number of questions regarding operations, capital allocation, and efficiency and raises the risks in our view of successful execution and possible management turnover. While we could revisit the prospects of adding the North American grocery business stock post-spin for income-oriented investors, as it is anticipated to maintain a high dividend payout ratio, we do not want to own the shares during the transition as we believe it increases the level of complexity in an already challenging input cost and consumer spending environment. As such we have exited positions of Kraft Foods.

Position Recently Eliminated

The Materials Select Sector SPDR (XLB) is an exchange traded fund (ETF) that is comprised of companies primarily involved in such industries as chemicals (56%), metals and mining (34%), paper and forest products (5%), and containers and packaging (4%). As of June 30, 2011, there were 30 companies in the Fund, providing diversification across the Basic Materials sector of the economy. In our analysis, the economic 'soft patch' which started in the first half of the year due to higher oil prices and natural disasters in Japan was extended and intensified as a result of European bank contagion from the sovereign debt crisis on that continent and the debt-ceiling and deficit debate in the U.S. As a result, global developed economies are slowing. Moreover, interest rate policy tightening to control inflation, along with slower export growth, are working to slow the pace of economic expansion in emerging economies. Together, the global economic slowdown has created overcapacity in many cyclical materials markets, pressuring the sector's fundamentals. As such, we have elected to remove positions in XLB in order to reduce cyclical exposure in portfolios.