

July 15, 2012

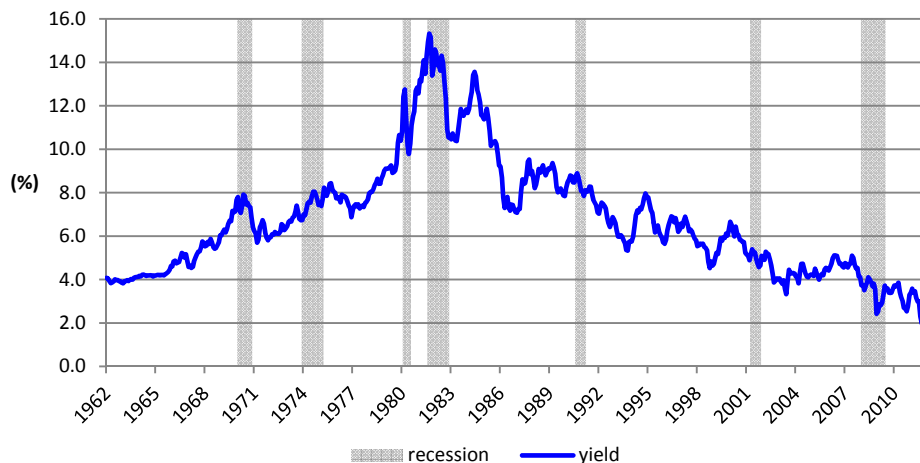
Dear Client:

What an interesting quarter financial markets have gone through! In contrast to its movement during the first quarter, the Standard and Poor's 500 Index was in a downward slope for most of the second quarter. The overall index had declined 5.6% before the final day of the quarter when the index suddenly jumped back 2.5% following the EU summit agreement on tackling the debt crisis of Spain and Italy.

The stock market was swinging between an economically uncertain environment on one end and a cheap capital environment (due to low interest rates) on the other. As we have stated in recent quarters, the risk levels of financial markets have risen substantially following one crisis after another. Nevertheless, low interest rates have caused such cheap capital that Keynes' "animal spirits"¹ push investors to keep their money on the table.

As shown in Chart 1, interest rates have been declining for three decades and continue on this downward slope. Further, since global economy remains uncertain, many fixed-income investors worldwide consider Treasuries to be a safe harbor and continue to fight for whatever yields they can get. This has pushed 10-year rates even lower to the current rate of 1.6%.

Chart 1: 10-Year Treasury Constant Maturity Rates

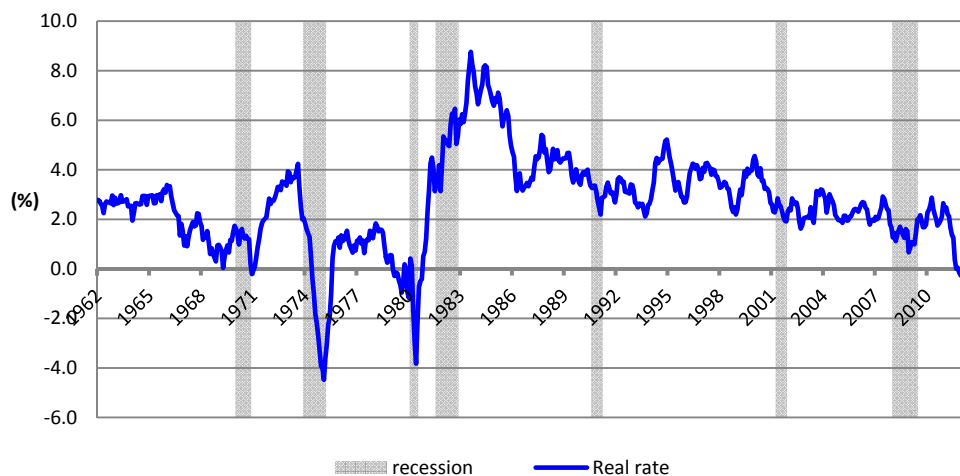


Source: Board of Governors of the Federal Reserve System

¹ Animal spirits is a term used in John Maynard Keynes's book *The General Theory of Employment, Interest and Money*. It describes emotions that influence human behavior.

Unfortunately, investors are pursuing negative real rates and don't realize that they are losing their consumption power. As you can see in Chart 2, negative real rates have only happened three times in the past fifty years, and they all occurred during recessions. Might we be entering yet another recession? Who knows? But it is an alarming signal. In real terms, where inflation is taken into account, the more bonds we purchase, the more losses we garner. Why do investors still believe that bonds are safe? Bonds are creating losses only in real terms for now. Once interest rates start to rise, though no one knows when, it will cause bond prices to fall, and the losses are going to be in absolute terms.

Chart 2: Real Rates on 10-Year Treasury



Source: Board of Governors of the Federal Reserve System

Alternatively, stocks offer more opportunities. Even fixed-income investors may need to choose between a more opportunistic volatility risk or remain with a depressed-yield risk plus potential principal loss. While valuation doesn't seem very expensive yet, the issue is whether or not the fundamentals can get better soon enough to support the current valuation, or even expand it. Because Europe is in a recession and has high debt, both India and China are decelerating, and even the U.S. is weakening, we are not highly confident.

Admittedly, our current situation contrasts with previous experience. In the past, when bull markets were close to the peaks, we chose to sell risky assets to lower the overall risk of our portfolio. Today, we are forced to move from bonds to the relatively more attractive assets with a higher risk, causing the risk level of our portfolio to be higher. This is a serious fundamental issue that investors have to be aware of, especially during a global economic slowdown.

So, where do we stand in response to these issues? Keeping strict discipline in mind, we continue to favor the stocks of top-quality multinational organizations. They are preferably exposed to Emerging Markets, with high earning visibility and low debt. Of course, valuation is a key consideration. We don't intend to time the market and, as always, we are keeping our eyes open for good investment opportunities. We are confident that our portfolios are well positioned in the current cloudy environment.

RECENT PURCHASE

PotashCorp (POT)

PotashCorp is a Canadian company and the world's largest fertilizer producer by capacity. The company is the world's largest potash producer with 20% of world capacity and is the 3rd largest producer of phosphate and nitrogen with 5% and 2% of world capacity, respectively. Potash, phosphate and nitrogen are the three primary crop nutrients used to produce fertilizer.

Driven by population growth, increasing meat consumption in developing countries, and declining per-capita arable land and water resources, demand for food and knowledge in the science of crop production is ever rising. We believe that fertilizer will play a vital role in the production of food to meet greater demand in the long run.

ADDITIONAL NOTE

Every year, I attended the Chartered Financial Analyst (CFA) annual conference in May. While I always enjoy listening to leading academics and practitioners in the investment field and exchanging thoughts with attendees from all over the globe, one theme stood out this year: our profession has undoubtedly lost a lot of good standing and public respect. In a recent CNN poll, more than three quarters of the people surveyed said financiers are greedy and overpaid while two thirds said they are dishonest.

Here at Noesis, we have strived from day one to follow the CFA Institute's best practices. This includes using products with transparent payoffs and costs, focusing on risk as much as on performance, disclosing our educational background, and avoiding conflicts of interest. Most importantly, client interests must come first, and investment actions must be carried out for the sole benefit of the client. Furthermore, we look for high ethical standards in the companies we invest in, as we believe this will translate into more sustainable and more profitable businesses in the long run.

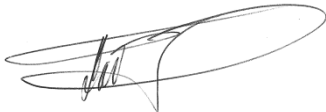
Because of these and other concerns, we recently sold Wal-Mart once we found out about the bribery case at its Mexican subsidiary. Its top senior management was either directly involved or tolerating the behavior. We fear that many lawsuits and legal actions will be piling up on their desks and thus affect their performance in the coming quarters. The discovery will certainly slow down the management's overseas expansion strategy.

Mexico has been the key growth engine of Wal-Mart in recent years. This case will shut down that engine for now, from our viewpoint.

While we are proud of our foundation at Noesis, we want to continue striving for improvement through training and education. We are well aware of the trust you have placed in us.

We greatly appreciate your willingness to recommend our services to your friends, family members and coworkers. Please do not hesitate to contact us if you wish to discuss your portfolio or have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joseph Lai', enclosed within a large, hand-drawn oval shape.

Joseph Lai, CFA
Chief Investment Officer

Our most recent Form ADV, Part II is available upon request