Ethical American Multi-Strategy Fund

Manager Commentary - Q1 2012

Manning & Napier

Performance

Despite the slow growth headwinds, equity markets surged forward toward the end of last year and particularly in the first quarter of 2012. Given the market environment, the Fund performed well.

Again this quarter, the economy has moved forward in a positive fashion. Large government debt burdens in developed nations like the U.S., Japan, and parts of Europe continue to cast a shadow over global economic growth. Additionally, oil prices are once again increasing, threatening to absorb a larger portion of households' budgets. On balance, economic news and developments have been consistent with our slow growth outlook, and, overall, the quarter could be characterized as having cautiously optimistic, positive traction.

Portfolio Commentary

Over the period, the portfolio manager has increased investments in businesses that adhere to the tenets of the Strategic Profile strategy, with an emphasis on future growth potential and an ability to expand in spite of the slow growth environment. As an example, they added Juniper Networks to the Fund. Juniper competes in the Information Technology sector and is exposed to attractive long-term trends in enterprise networking. Given its competitive advantages and product differentiation, Juniper is able to price its products/ services at a premium to competitors and continue to gain market share. They have also begun to increase the position in Norfolk Southern, which participates in the Industrials sector. Norfolk Southern operates the fourth largest railroad in the U.S. and exhibits strong pricing power in an industry that is characterized by high barriers to entry for new competitors. Meanwhile, they eliminated positions in companies whose share prices achieved their estimate of fair value. For example, they sold State Street Corporation during the first quarter.

In general, the Fund continues to reflect a quality bias, as they believe high-quality companies generating their own organic growth will eventually earn a premium.

In line with these beliefs, the Fund current has a relatively high allocation to the Consumer Discretionary sector. Also, they noticeably added exposure to the Information Technology sector during the first quarter as long-term opportunities were identified. On the other hand, they trimmed exposure to Consumer Staples over the first quarter while maintaining no exposure to the Utilities sector.

For the first quarter of 2012, sector positioning had a positive effect on portfolio performance, while specific stock selections detracted from relative returns. An overweight to Consumer Discretionary modestly aided results relative to the benchmark, as did not owning any stocks in the Utilities or Telecommunications Services sectors. With respect to stock selections, specific holdings in Information Technology (i.e. Google Inc.) and Consumer Discretionary (i.e., Carnival Corp.) negatively impacted relative results for the quarter, whereas selections in Health Care (i.e., Cerner Corp.) aided returns for the first quarter. In contrast, holdings in Health Care and Industrials detracted from relative returns, while certain selections within Information Technology offset some of the negative relative returns.

Outlook

While equity markets have rallied, many of the businesses that are in the best position to grow in spite of broad economic challenges are still not being distinguished from weaker competitors. The underpinnings of the recent rally show that investors remain unconvinced that the latest indications of growth are sustainable over the longer-term. In spite of this, the portfolio manager continues to focus on high quality companies that are capturing the growth that does exist, and/ or businesses that are creating organic growth on their own. In their view, the scarcity of growth across the business landscape is becoming more apparent, and as broad uncertainty and fear abate, this positioning will prove beneficial in the long-run.

The global economy has recovered off recession lows yet faces significant headwinds going forward, including high government and consumer debt in much of the developed world, European sovereign debt issues, and geopolitical events in the Middle East.