

### Manning & Napier



#### Performance

Overall, global equity markets have been largely positive over the quarter and the market environment could be characterized as having a more optimistic tone. Despite the optimism, there has also been some noticeable variability. In looking collectively at the developments over the quarter, the global economy continues to expand, albeit at a slow rate.

#### Portfolio Commentary

The most recent indicators relating to global growth suggest that many international economies continued to decelerate in the first quarter. In particular, Europe has recently showed signs of weakness that appear to be putting the region at risk of a recession in 2012. In emerging markets, policy makers have recently responded to the slowdown by loosening monetary policy measures (i.e. reducing reserve requirements or reducing rates) in an attempt to buoy growth.

During the last quarter, the portfolio manager added or increased investments in businesses that adhere to the tenets of their Strategic Profile strategy with an emphasis on future growth potential. As an example, recently they began adding Health Care company Dr. Reddy's Laboratories to the Fund's portfolio. Dr. Reddy's is gaining market share and enjoys a diverse revenue stream from a variety of foreign markets. They also invested in companies that met their Hurdle Rate strategy criteria. One such company they began purchasing in the quarter was Cameron International Corp. In contrast to these additions to the Fund, they eliminated positions in companies whose share prices achieved their estimate of fair value. For example, they sold Health Care company Getinge AB during the quarter.

In terms of performance, over the period, both sector positioning and specific stock selections were drivers of outperformance relative to the benchmark. A large portion of stock selection outperformance relative to the benchmark was the result of specific investments in the Industrials sector.

Here, shipping and logistics companies TNT Express N.V. and PostNL N.V. rose sharply after United Parcel Service Inc. announced its intention to acquire TNT Express N.V. Also, selections within the Materials sector (i.e., Johnson Matthey PLC) benefitted the portfolio for the period. This strength, however, was offset to a modest extent by relatively weaker performance among select portfolio holdings in the Health Care sector such as Lonza Group AG. With respect to sector allocation, an underweight allocation to Telecommunication Services, as well as no position within the Utilities sector, helped relative returns. Alternatively, a significant underweight allocation to the Financials sector challenged relative performance as Financials were among the top performing sectors within the index during the first quarter.

From a country perspective, the portfolio manager continues to focus on areas with stronger macroeconomic backdrops and maintain little direct exposure to securities in emerging markets. Instead, the manager focuses on companies that can benefit from selling into these regions. Particularly, investments in parts of Europe, such as France and the Netherlands, performed well. In Europe, they continue to seek strong, multinational companies that have sustainable competitive advantages and clear organic growth drivers yet are being pulled down by the ongoing stresses related to the sovereign debt crisis.

#### 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, they believe this positioning will prove beneficial in the long-run.