January 30, 2012

First Long Island Investors, LLC

December 31, 2011

"The economy depends about as much on economists as the weather does on weather forecasters." Jean Paul Kauffmann

Investment Perspective

The fourth quarter of 2011 saw equity markets significantly rebound from the sharp downturn experienced in the third quarter. The entire year was a troubling and difficult one for investors as volatility from economic, geopolitical, and natural disasters interfered with rational investing. These factors prevented stock prices from reflecting significantly higher earnings achieved by many companies in the U.S. and around the world. In fact, there was an unusually high correlation between the stock market performance of companies whose businesses performed well and those that didn't. Thus higher earnings from better performing companies were cast aside from a valuation standpoint as fear and uncertainty spread by the media dominated investors. Specifically the uncertainty of the European debt crisis, the Arab Spring, and the horrific natural disaster in Japan from an earthquake and tsunami plagued investors on almost a daily basis. Couple this with dysfunction in Washington and an unprecedented downgrade of U.S. debt, and we found ourselves in an ugly environment with outflows from equity markets and inflows to cash and bonds.

One result from the above factors was the proliferation of dire economic forecasts from many notable economists. Predictions of another Lehman-type financial crisis initiated in Europe, a double-dip recession, and an imminent attack on Iran surfaced on a regular basis adding to the uncertainty and fear of investors. Well, thus far the economists have been wrong to a large extent. The U.S. has not gone into recession, although growth remains painfully slow. Employment has steadily improved, although still leaving millions unemployed and underemployed. Europe continues to kick the can down the road with its efforts to bolster the

Euro and the besieged economies of Greece, Italy and Spain. Despite political paralysis, our government is still functioning and we as a nation have survived our first credit downgrade (it was no shock that France and other European countries were downgraded in January). So, as a global economy, we are doing somewhat better than that which was suggested by many economists just six months ago. Well, their predictions made for some interesting reading, although it sometimes bordered on fiction. Economists weren't able to predict much of what the real economy was. And that is why we focus on the fundamentals and don't listen to weather forecasters as well.

The confluence of these factors led to a tough year for different strategies. Most equity-based hedge funds did quite poorly with negative results as correlations were too high amongst stocks. Longer duration high quality municipal, treasury, and corporate bonds did reasonably well as did our fixed income portfolios. Most traditional equity strategies suffered modest losses, failing to achieve a flat benchmark return. Our defensive equity strategy, dividend growth, had a great year achieving a 12% net return. Other of our traditional equity strategies suffered modest losses. Foreign equity strategies did poorly as the international benchmarks declined from ten to twenty percent, falling in sympathy with the angst in Europe and fears of a hard landing in China. Thus it was a difficult investment environment in which our strategies did alright on balance, led by Dividend Growth.

While it is true that many economists got it wrong last year, we remain optimistic but cautious ahead of continued uncertainty. We take solace in knowing that American domiciled businesses (especially large ones) have solid balance sheets with significant amounts of cash. This is a good position to be in and gives these companies the flexibility to possibly raise dividends, buy back shares, and make opportunistic acquisitions. Interest rates remain incredibly low as mandated by monetary actions taken by the Fed recognizing weaker than desired economic growth, a still declining housing market, and a benign inflation outlook. This will save bond investors for the time being who have extended out too far in maturity, but provides weak yields that in many cases are below the inflation rate. Thus those investors remaining in cash and those holding bonds are getting a negative real return after inflation. Those investors who have stretched maturities to grab yield will be punished if rates start to increase sometime in the future (we believe they will increase in the future).

Equity valuations remain attractive in our opinion. Projected S&P 500 earnings of about $100 for 2012 (a modest growth from 2011) makes the general market seem somewhat undervalued. We believe that, over time, this asset class will generate investor inflows for the first time in years. This could lead to multiple expansion and meaningful appreciation. However, investors should always be choosy in selecting companies to invest in. We see many companies that are reasonably growing and represent real value in our opinion. Others might not fare as well in this more difficult and slow growing economy. Accordingly, we believe that our defensive equity strategies, including Dividend Growth, are key sound strategies for the current uncertain environment. Our dividend growth strategy should benefit from what we believe will be another year where its dividends should grow by 8% or more. This strategy continues to garner investor interest because of its above average yield and steadily growing income stream. Thus we believe these two defensive equity strategies are ideally suited to prosper in the current uncertain economic and geopolitical environment.

Our traditional equity strategies are also seemingly in a good place given both valuation and significant earnings improvement forecasted for 2012. These strategies will particularly benefit if the European debt crisis has some resolution as this has been a major overhang. In any event, the headlines from Europe no longer generate the panic they did last year, and our domestic banks are actually seeing some lending opportunities in Europe. Valuations are reasonably compelling for traditional equities and while earnings growth on average appears modest, less uncertainty than last year should help these strategies appreciate. We also believe that our seasoned managers have identified those companies that can prosper in the growing global economy as well as those capable of making market share gains.

On balance, we remain cautiously optimistic as the forecasted disasters last year didn't materialize and the global economy continues to slowly improve. However, given continuing policy uncertainty both domestically and internationally, we believe that asset allocations for our clients should be biased on the defensive side. Defensive equity strategies make sense while fixed income offers unreasonably low returns. We would not add to them at this time unless one is willing to accept a negative real return on an after tax basis for most quality bond offerings. Finally, for those who can withstand illiquidity, private equity also seems attractive given the need for capital in the small to middle market companies where credit is still hard to come by. We remain committed to the strategy of reasonable diversification.

As always, we stand ready to assist you with your asset allocation in these difficult times. Our goal remains preservation of capital with appreciation above the rate of inflation while minimizing risk through greater emphasis of defensive equity strategies and overall diversification. And yes, we know this will help you sleep at night as well. Please call upon us.

Best regards,

Robert D. Rosenthal	Ralph F. Palleschi
Chairman and	President and
Chief Executive Officer	Chief Operating Officer

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*The forecast provided above is based on the reasonable beliefs of First Long Island Investors, LLC and is not a guarantee of future performance. Actual results may differ materially. Past performance statistics may not be indicative of future results.

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