April 30, 2013

First Long Island Investors, LLC

March 31, 2013

"Your ultimate success or failure will depend on your ability to ignore the worries of the world long enough to allow your investments to succeed." Peter Lynch

Summary Review

The first quarter resulted in very substantial gains for domestic equity markets (S&P 500 +11%), treading water in bonds, and a slow but continuing recovery in real estate. This is on top of last year's significant appreciation in equities. Meanwhile, yields on bonds remain low as the Fed continues to buy bonds, unemployment remains stubbornly high and inflation remains low. Investors who have not participated in the record-setting domestic-equity market feel left out and somewhat trapped in their low-yielding bond investments and cash. Prudent asset allocation continues to be the answer for all investors enabling participation in the equity markets while being diversified. Meanwhile, we are pleased to report that we believe all of our clients have appropriate allocations to both defensive and traditional equity holdings and have participated in the escalating equity markets. In particular, our Dividend Growth strategy, one of our defensive equity strategies, led the pack for us in the first quarter appreciating by 14%. (For the three years since inception this strategy has appreciated by 53.3% and has outpaced the S&P 500 which appreciated by 43.1% while still being a defensive equity strategy, in our opinion.)

We believe those investors who have been too skeptical about "stocks" now seem to be finding a way to invest, in part, through buying companies that we own in our Dividend Growth strategy. These stodgy, larger, financially-strong companies that pay generous and growing dividends continue to attract investor interest. However, we believe, based on academic support, that the appreciation for these companies will result from the combination of their higher yields and dividend growth. We also believe that the current market appreciation is not overdone and equities remain a reasonable place to invest as compared to bonds that offer little yield and risk paper-losses if interest rates increase. Corporate earnings continue to grow modestly and price-earnings ratios for large companies (about 15 to 16 on forward twelve month earnings) remain well below that seen in either of the last two market tops in 2000 and 2007 when p/e's were 26 and 20 respectively. Add to that the fact that bond yields were much higher then and thus more attractive versus the financially-repressed low rates of today. In our view, that combination of reasonable p/e's and unattractive interest rates continue to make for an investor-friendly equity environment. This is further bolstered by the fact that money on the sidelines (both individual, institutional and corporate) is at very high levels and some of it appears to be migrating to quality equities.

Having said that, one needs to focus on our quote from Peter Lynch. What stops investors from achieving attractive long-term gains on investments is their understandable distracting focus on the worries of the world. Certainly there are many to be concerned with, including:

- Geopolitical issues resulting in dreadful headlines about both North Korea and the Middle East.
- Worries about U.S. debt and the viability of entitlement programs such as Social Security, Medicare, and Obamacare.
- The continued haggling in Washington over so many unresolved social (gun control, immigration, and same-sex marriage) and economic issues.
- Our inability to meaningfully bring down unemployment and spur better than weak economic growth.

Meanwhile, American business remains financially healthy and is fostering slow but profitable growth in part through efficiency and global demand. And, for the most part, businesses are sitting on a stockpile of cash giving us comfort that they are stable and can weather unforeseen crises that come on unexpectedly, and typically don't last too long. Even our large banks seem to be healing and are subject to new regulations that may somewhat protect us in the future.

So it remains our view that there are opportunities to make reasonable returns over the long term from a prudent and diversified asset allocation among our investment baskets of security, defensive equities, traditional equities and private investments. A customized asset allocation among these baskets hopefully permits you to "ignore" the worries and let your investments work for you over the long term. And even though there will definitely be periods of volatility and market corrections, we can see from past history that those who stay the course for the long term are ultimately rewarded with meaningful appreciation. The key is in the asset allocation that provides the strength to weather the worries of the world. Having exposure to bonds, defensive equity strategies (Dividend Growth and FLI Partners Fund), traditional equities and private investments (private equity and real assets) with a quality and concentrated bias is a prudent formula for all of our clients. Patience remains a critical characteristic of the successful investor.

Please call upon us if we can be of further assistance in making sure you have an asset allocation that gives you the ability to ignore some of the worries and let your money compound for you.

Best regards,

Robert D. Rosenthal
Chairman and
Chief Executive Officer

Ralph F. Palleschi
President and
Chief Operating Officer

*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.

Disclaimer: The views expressed are the views of Robert D. Rosenthal and Ralph F. Palleschi through the period ending March 31, 2013, and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.