Groesbeck Investment Management Corporation

Our Growth of Income Investment Management Process

Groesbeck Investment Management Corp.
12 Route 17 North, Paramus, New Jersey 07652
201-291-7888

Growth of Income Investment Philosophy

"We seek to achieve four objectives:

- *A superior dividend yield*
- *A rapid growth of the income stream*
- *A total return in excess of appropriate benchmarks*
- *A low level of volatility of performance*

Our process not only tends to achieve the stated goals, but also offers an attractive risk-adjusted return.

At Groesbeck Investment Management, you will find us highly client friendly, flexible, and devoted to our investment process."

- Robert P. Groesbeck, CFA

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Corporate Profile

Professional Experience

- Robert P. Groesbeck, CFA, has over 40 years of experience managing assets for taxable and tax-exempt clients. Bob started the firm in 1993.
- Robert P. Dainesi has 26 years of portfolio management and security analysis experience. Bob joined the firm in 1993.
- Theodore M. Groesbeck, CFA, has 19 years investment experience. Ted joined the firm in 1999.
- John D. Mattesich, CFA, has 17 years research experience. John joined the firm in 2006.

Consistency of Approach and Results

- Research driven stock selection disciplines
- Philosophy implemented over the long term
- Above-market risk-adjusted results
- Minimal dependence on market and street forecasts
- Fundamentally driven stock selection and sell methodologies
- Continuity of philosophy and strategy over many market cycles

Corporate Structure

- An employee owned corporation managing $262 million
- A client base including pension plans, endowments, foundations, Taft Hartley, and high net worth individuals.

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Benefits of a Dividend-Paying Stock Selection Strategy

- **REDUCED RISK**

  Dividend-paying stocks are less volatile than the stock market in general. The high-quality stocks that we purchase must increase their dividend on an annual basis. These stocks tend to hold their value much better in a declining market and thus help to preserve wealth. Historically, our portfolios have outperformed during down markets.

- **DIVIDENDS, AND THEIR RE-INVESTMENT, HISTORICALLY COMPRISE OVER 40% OF THE TOTAL RETURN OF THE STOCK MARKET**

  Although capital appreciation is the primary objective of our strategy, we can count on a significant portion of our return from dividends, thus increasing the reliability of our approach. Dividends are paid in cash; they cannot be faked.

- **A DIVIDEND POLICY LEADS TO A STRONG FINANCIAL DISCIPLINE FOR CORPORATIONS**

  A dividend policy sets a priority for a company to pay its shareholders, along with meeting capital expenditure requirements, from its cash flow. We believe it's the ideal method of returning capital to shareholders and is the definition of a shareholder-friendly company. It tends to prevent corporations from wasting money on poor acquisitions and deviating from their business plan.

- **A DIVIDEND INCREASE IS A POSITIVE SIGNAL OF FUTURE FINANCIAL STRENGTH**

  When a company raises its dividend, it sends a positive signal to the stock market that its prospects for earnings growth in the future are strong. Companies with strong dividend increase histories are generally financially superior businesses and tend to make good long-term investments.

- **A DIVIDEND-DRIVEN STRATEGY EXCLUDES MANY HIGH RISK COMPANIES**

  Our criteria exclude companies with poor earnings histories, and/or weak balance sheets, allowing our analysts to focus on a smaller universe of very high-quality companies.

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The First Step: Quantitative Analysis

Groesbeck Investment Management's investment process begins with the search for:

- **Superior Sustainable Earnings Growth** - Growing companies, based on trailing operating earnings, producing earnings growth superior to the S&P 500. Our target is portfolio earnings growth of 10% or more.
- **Attractive Growth of Dividends** - Compared with industry and market benchmarks. We buy companies which have increased their dividends each and every year.
- **Superior Dividend Yield** - Dividends must be attractive relative to the S&P 500 and other alternatives.
- **Superior Revenue Growth** - Positive growth of revenues from sustainable ongoing business operations.
- **Strong Financials** - Ensuring companies purchased have strong balance sheets.
- **Low Dividend Payout Ratio** - Ensuring that management is not paying out in dividends an excessive portion of earnings.
- **High Return on Equity** - Investing in only companies having high return on equity, an important measure of overall corporate profitability.
- **Liquidity** - We actively monitor the trading volume of all qualified stocks in an attempt to reduce market price impact.

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The Next Step: Fundamental Analysis

For those companies possibly qualifying for our portfolio, we perform in-depth fundamental analysis:

Dividend Criteria

- Consistent growth of dividends in the future
- Dividend growth exceeding industry and market averages
- Potential for significant growth

Validate Fundamentals

- Underlying sales, earnings, margin trends
- Operating & free cash flows
- Balance sheet strength

Our process avoids deep cyclical companies such as the paper, auto, chemicals, metals, and transportation companies

Evaluate Business

- Market leadership and market share
- Industry outlook
- Factors affecting sustainability of sales and earnings

Valuation Analysis

- P/E multiple on trailing operating earnings, relative to the S&P, its industry, and its history
- P/E relative to growth rate (PEG Ratio); the current PEG Ratio is 1.0x
- Attractiveness of dividend yield

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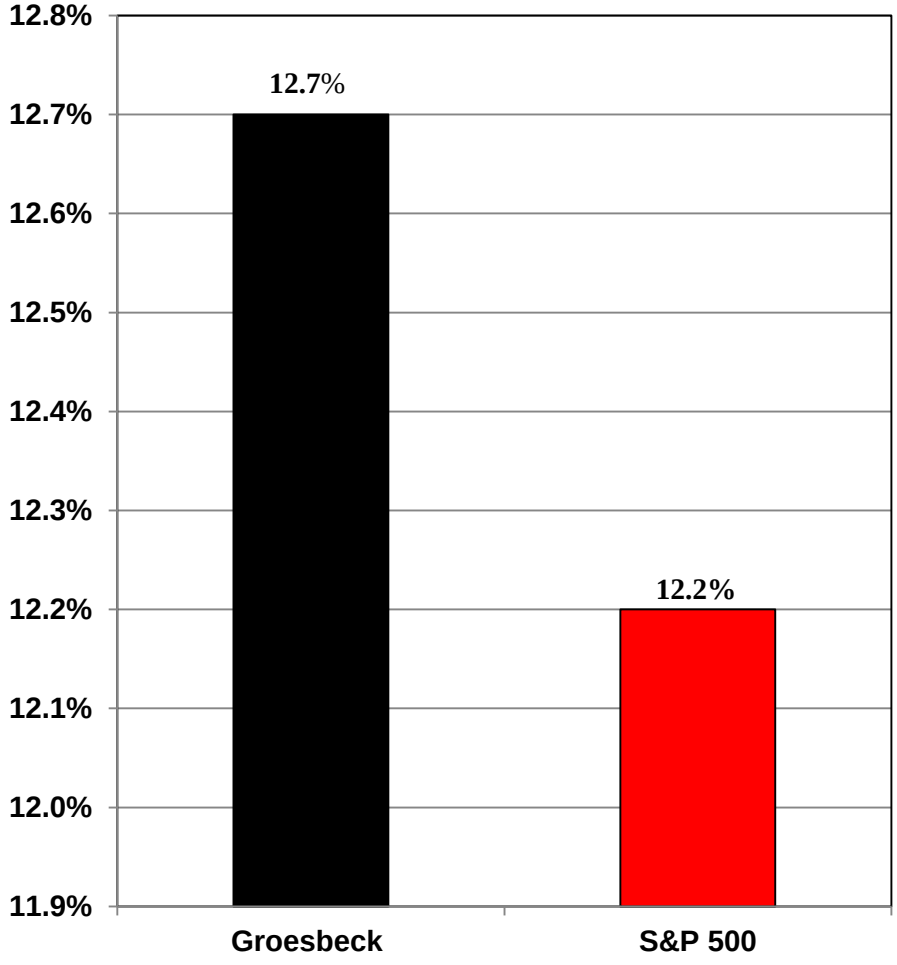
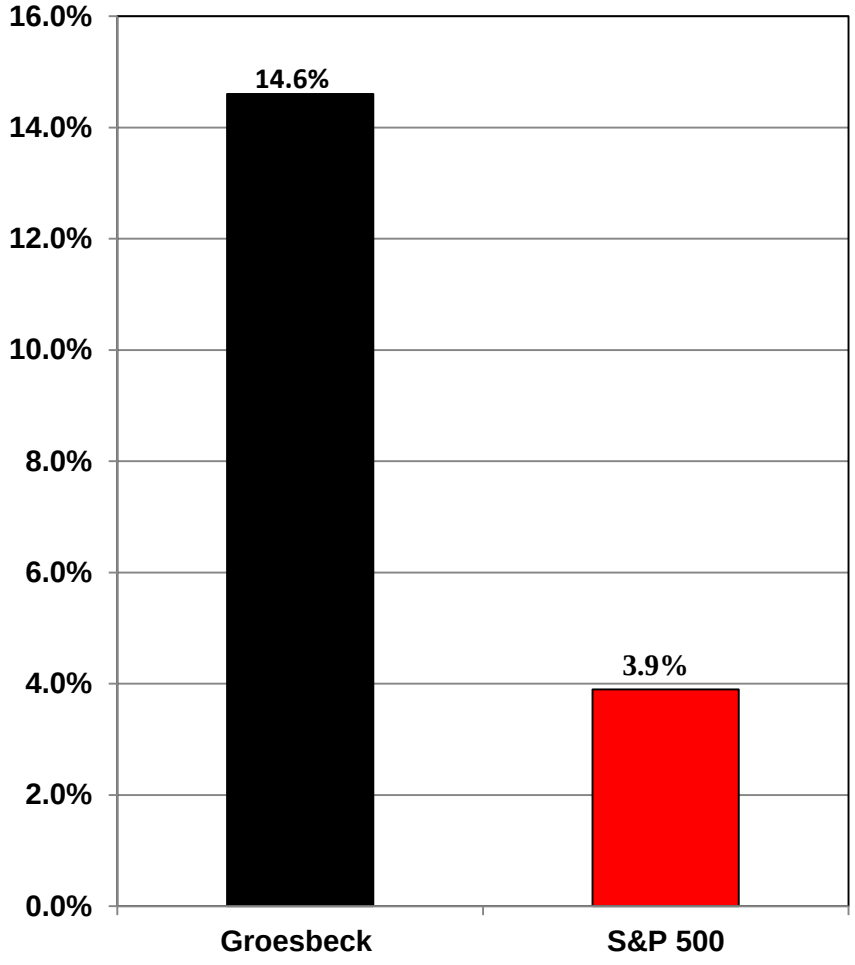
Growth of Income: Relative Earnings and Dividend Growth (12/31/11)

Earnings per Share Growth (5 Year Average)

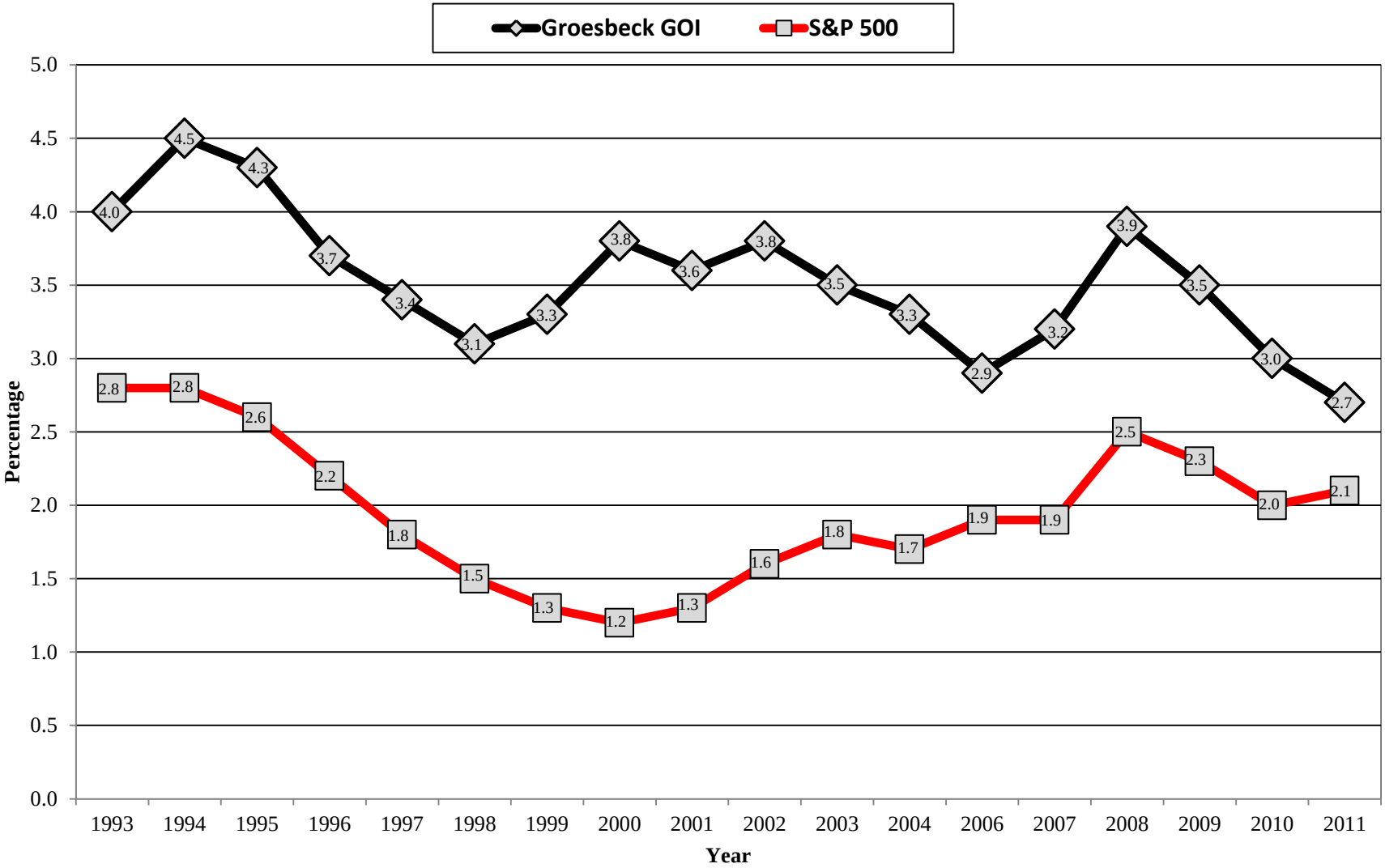


Dividend Growth (5 Year Average)



The Standard and Poor's 500 Stock Index (S&P 500®) is widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. It is compiled and maintained by the Standard & Poor's Inc. division of the McGraw-Hill Companies, Inc. and includes 500 leading companies in leading industries of the U.S. economy. "Standard & Poor's", and "S&P" are trade-marks of The McGraw-Hill Companies, Inc. The products or services of Groesbeck Investment Management Corp. are not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's Inc. does not make any representation, warranty, or condition regarding the advisability of utilizing Groesbeck's services. Note that indexes are un-managed and investors cannot invest directly into an index. Past performance is not a guarantee of future results.

Average Dividend Yield (1993-2011)



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Portfolio Statistics as of 12/31/11

	Groesbeck	S&P 500
EPS growth - 5 year average	12.7%	12.2%
Dividend Growth - 5 year average	14.6%	3.9%
Dividend Yield	2.6%	2.2%
Trailing P/E (1 year weighted average)	13.9x	13.3x
Average Return on Equity - 1 year	27.7%	20.2%
Weighted Average Market Capitalization	$65.5 Billion	$95.9 Billion
Average S&P Quality Rank	A	B+

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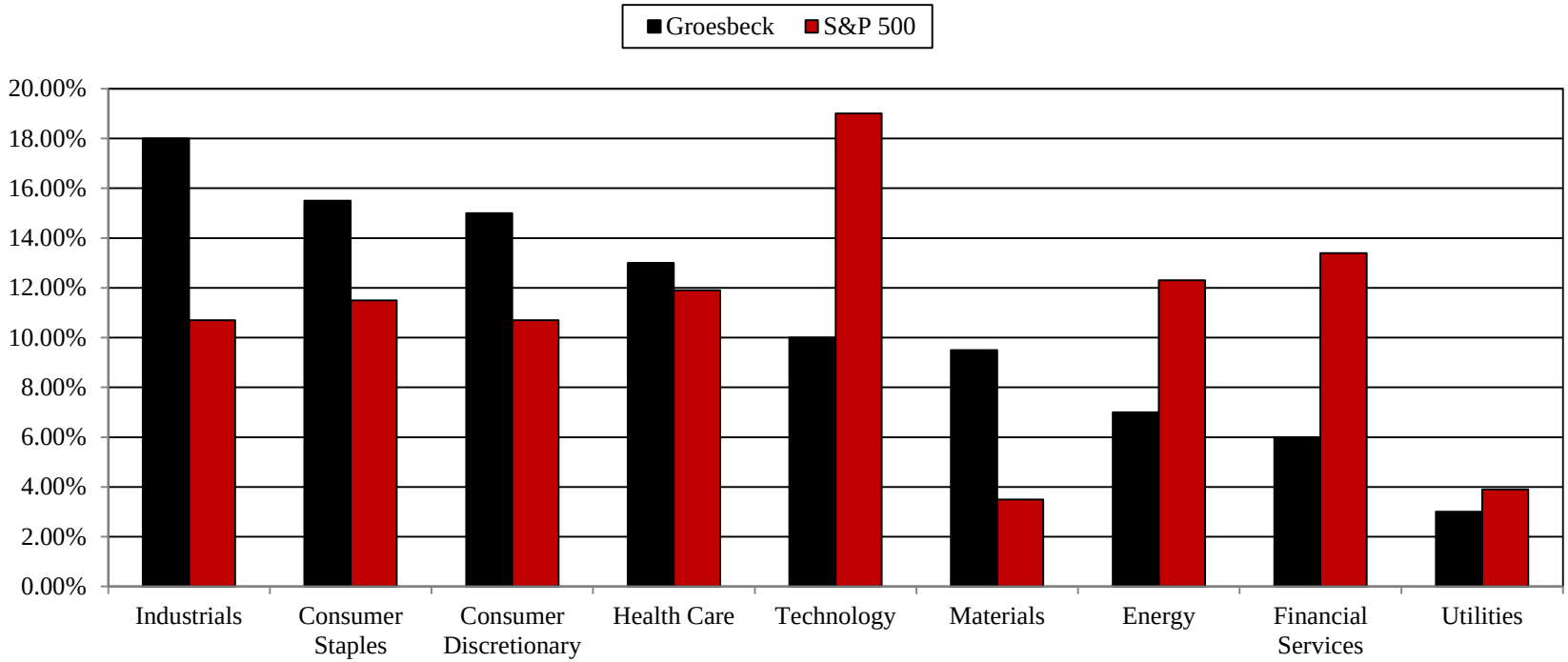
Portfolio Construction: Growth of Income Process

- Construction of a Diversified Portfolio
- Fully Invested At All Times
- 30-40 companies
- Over 15 industries

Portfolio Sector Weights (12/31/11)



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Representative Holdings (12/31/11)

The Growth of Income portfolio holds companies with strong balance sheets that achieve above-average earnings and dividend growth and high profitability.

	Current Yield	Most Recent Dividend Increase	5 Year Annualized Growth EPS	5 Year Annualized Growth Dividend	S&P Rank
Becton Dickinson	2.4%	9.8%	11.1%	13.5%	A
Abbott Labs	3.4	9.1	12.3	10.2	A
United Technologies	2.6	12.9	8.6	12.9	A+
Praxair	1.9	11.1	13.5	14.9	A+
PepsiCo., Inc.	3.1	7.2	8.0	11.8	A+
Chevron	3.0	12.5	10.9	9.0	A
Procter & Gamble	3.1	9.0	8.0	11.2	A+
Illinois Tool Works	3.1	5.9	4.6	13.3	A
McDonalds	2.8	14.8	17.8	20.4	A
Intl. Business Machines	1.6	15.4	16.9	21.4	A+

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Sell Disciplines

Our reasons for selling:

- **Weakening Revenues and Earnings Trends**

  We want to own companies producing growing revenues and earnings.

- **Declining Margins**

  A reduction in profit margins is often a warning for not only one stock but possibly several members of a sector.

- **Failure to Increase the Dividend**

  This would cause an automatic sale of the holding.

- **Reduced Growth Rate of Dividend**

  This triggers a review and possible sale.

- **Positions Sold When Fully Valued**

- **Superior Alternatives**

  We monitor other candidates closely, and make portfolio changes which increase the income stream.

- **Positions Trimmed as Prices Advance**

  Stocks exceeding 7% of the portfolio will be trimmed back to 5% or less.

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MANAGED ACCOUNTS GROWTH OF INCOME COMPOSITE

Please see the performance tables on our website at www.groesbeckim.com

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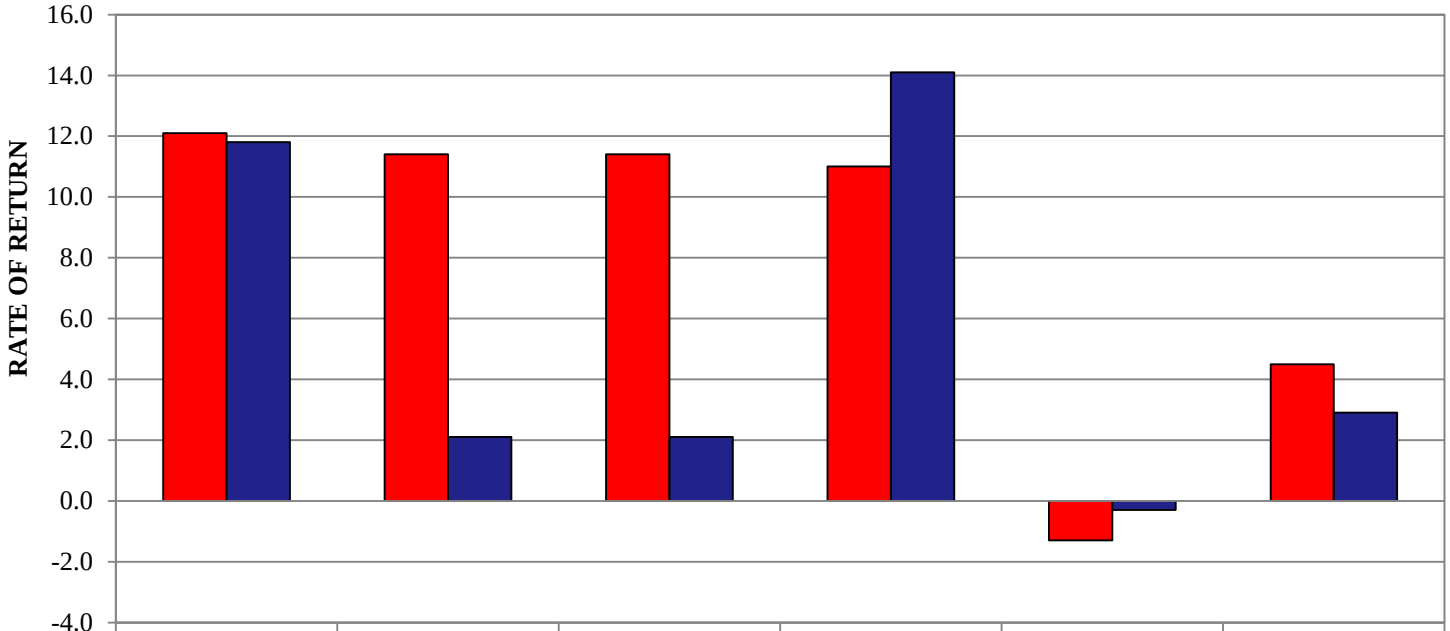
Growth of Income Returns as of 12/31/11



	Latest Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Groesbeck Wrap GOI	12.1	11.4	11.4	11.0	-1.3	4.5
S&P 500	11.8	2.1	2.1	14.1	-0.3	2.9

Risk Analysis*

5 Years	ROR	Std Dev	Alpha	Beta	R-Squared
Groesbeck Wrap GOI	-1.33	19.71	-1.24	0.83	0.79
S & P 500	-0.25	21.14	0.00	1.00	1.00

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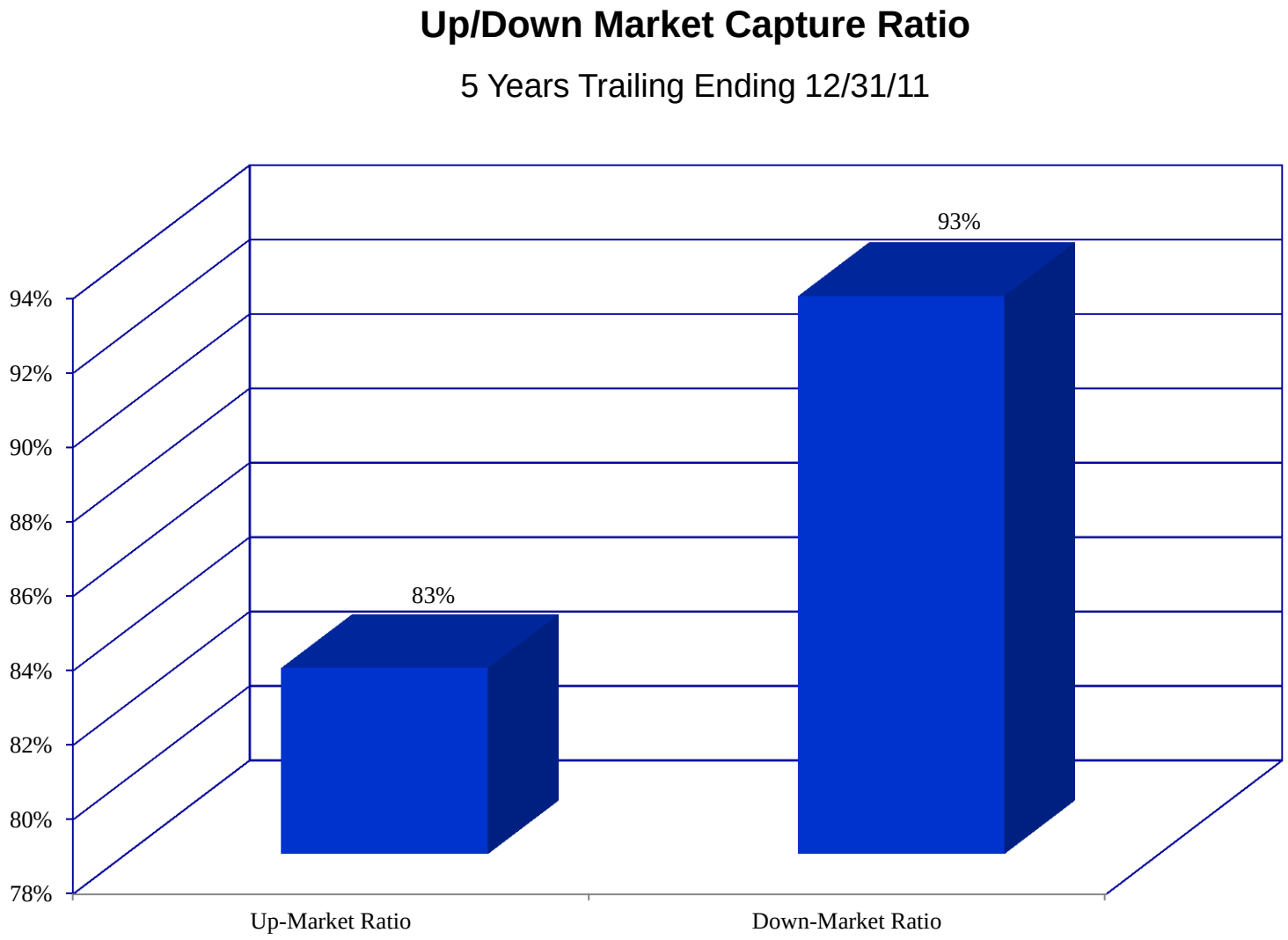
Growth of Income Returns



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Professional Biographies

Robert P. Groesbeck, CFA – President

Mr. Groesbeck is the founder of the firm and a Portfolio Manager. He was formerly a Vice President of Argus Investors' Counsel, where he was responsible for managing assets of $525 million. The largest single account was $200 million. His 49 years of investment experience span economic and investment research, security analysis with concentrations in twelve different industries, and portfolio management for both taxable and tax-exempt assets.

Mr. Groesbeck earned a BS degree in Economics from St. Peter's College and an MBA in Finance from New York University. He holds the Chartered Financial Analyst designation and is a member of the New York Society of Security Analysts. He served continuously from 1971 through 2000 as Chair of the Planning Board for the Borough of Emerson, New Jersey, and was honored in 1993 by Bergen County and 2001 by Emerson for his many years of community service.

Robert P. Dainesi – Executive Vice President

Mr. Dainesi is a portfolio manager and the Director of Research. He joined the firm in November, 1993 and has 26 years of experience as an investment professional. He was a security analyst at Value Line and a portfolio manager with Sturdivant & Co. His security analysis experience includes following several economic sectors and many different industries. He started managing portfolios in 1991. Prior to joining the firm, Mr. Dainesi was a portfolio manager and security analyst with Asiel & Co. Mr. Dainesi earned a BA degree in Economics from Queens College and an MBA in Finance from Bernard M. Baruch College. He is a member of the New York Society of Security Analysts and the CFA Institute.

Theodore M. Groesbeck, CFA – Vice President

Mr. Groesbeck is a portfolio manager and security analyst. He joined the firm in 1999 and has 19 years of investment experience. Prior to joining the firm, he was an analyst at Palisade Capital Management, Standard & Poor's and Gruntal & Co. Mr. Groesbeck's security analysis experience covers a broad number of economic sectors and industries. Mr. Groesbeck earned a BS degree in Finance from the University of Rhode Island. He holds the Chartered Financial Analyst designation and is a member of the New York Society of Security Analysts.

John D. Mattesich, CFA – Equity Analyst

Mr. Mattesich is a security analyst with 17 years of experience. Prior to joining the firm in 2006, he was an analyst at Hayground Cove Asset Management, Bear Stearns & Co., Dresdner Kleinwort Wasserstein, and Credit Lyonnais Securities. Mr. Mattesich earned his B.B.A. degree in accounting from Pace University and an MBA degree in Finance from Indiana University. He holds the Chartered Financial Analyst designation and is a member of the New York Society of Security Analysts. Mr. Mattesich also sits on the Board of Advisors to the Indiana University Reese Investment Fund, an endowment of the university.

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Institutional Clients

	Since
The Margaret L. Wendt Foundation	1972
Episcopal Church Home Foundation	1981
The Ritter Family Fund	1984
Pediatric Associates Profit Sharing Plan	1987
Beyer Employees Profit Sharing Plan	1996
Matthews Panariello PC 401K	1998
Wilmurt Lake Club	2003

The above list of clients includes all institutional relationships with the firm. No individuals or WRAP clients are included in this list. Compilation of this list does not use any performance-based criteria. It is not known whether the listed clients approve or disapprove of Groesbeck Investment Management Corp. or the advisory service provided.

A Summary: Repeatable Factors Contribute to the Success of the Process

- We focus on a process we can control – producing a growing stream of dividend income at a rate higher than the market.
- The relatively high dividend yield of our portfolio gives us an immediate advantage over the S&P 500 return.
- Our buy discipline helps us to avoid over-valued sectors of the market. We will not buy stocks of companies which neither pay a dividend, fail to produce a sustainable growth of earnings, or trade at excessive valuations.
- Our approach concentrates on companies with reliable and consistent revenue and earnings, enabling them to consistently increase dividends. We consider these companies to be "shareholder friendly".
- The search for dividend growth requires us to reallocate capital from stocks having high valuations to more moderately valued issues. As prices increase, dividend yield will frequently decline, leading us to substitute another stock having a higher yield and a lower valuation.
- High-yield and high-quality A-ranked stocks by S&P tend to provide a cushion against market declines.

The Growth of Income strategy has produced a 10-year annualized return that exceeded the S&P 500 by about 2.0%, participating 83% in up markets, but only 70% in down markets.

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