Large Cap Equity Comments—1st Quarter 2012

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The equity markets continued their strong upward trend, posting double-digit returns for a second consecutive quarter. The Rainier Large Cap Equity portfolio outpaced both the Russell 1000 Index—up 12.9%—and the S&P 500 Index, which rose 12.6%.

Our view at the outset of the year was that equity investors' appetite for mega-capitalization, high dividend yielding stocks that prevailed in 2011 would likely not last into 2012. As more evidence emerged during the quarter that continued to support both the economic expansion in the U.S. and the avoidance of a financial crisis in Europe (at least for the foreseeable future), investors became more comfortable with broadening their exposure within the equity market. In general, the more defensive or perceived "safe-haven" sectors of the market – namely utilities and consumer staples – underperformed during the quarter while sectors such as technology, financial services and consumer discretionary outperformed.

Gains in the portfolio during the quarter emerged from a broad range of industries and sectors, including technology, consumer staples, utilities, health care, financials and consumer discretionary.

Technology stocks had both the best absolute returns within the market and also the largest contribution to relative performance in the portfolio. Leading the way was our largest holding, Apple Inc., which gained 48% in the quarter. It is rather amazing that in three months Apple added nearly $200 billion in market cap to its already large $375 billion base. The company continued to see market share gains in its fast-growing consumer electronic markets. Other strong contributors in the quarter were enterprise storage system provider EMC Corp., semiconductor manufacturer Avago Technologies Ltd. and software company Informatica Corp.

While the consumer staples and utility sectors were laggards on an absolute basis, the portfolio benefited from a combination of being underweight in these sectors and from favorable stock selection. Monster Beverage Corp., maker and distributor of alternative beverages, rose nearly 35% as the company continues to expand its energy drink franchise outside the US. A timely purchase of Philip Morris International Inc. was a benefit to the portfolio. The stock initially lagged during the quarter, which presented an opportune time to initiate a position in this company that continues to see growth outside the U.S. for its products.

Financial services continued to be an area of strength in the portfolio where stock selection was a key contributor. During the quarter, bank stocks rallied upon the completion of the Federal Reserve's second round of stress testing in which 19 of the largest financial institutions were reviewed for capital adequacy. Top contributor in the sector JPMorgan Chase & Co. rose nearly 40% on a passing score from the Fed combined with their announcement that they would be returning some of their excess capital to shareholders through both a dividend boost and more share buybacks. Other key contributors included asset manager Invesco Ltd. and commercial real estate services provider CBRE Group Inc.

Finally, a combination of an increased exposure and select opportunities in consumer discretionary shares aided performance. Handbags and accessory retailer Coach Inc., online travel provider Priceline.com Inc. as well as three new additions during the quarter—retailers Bed Bath and Beyond Inc., Nordstrom Inc. and O'Reilly Automotive Inc.—were all positive contributors.

The U.S. economy is doing better, but economic growth is moderate rather than robust. While we continue to believe there is upside potential for stocks in 2012, we have moderated our exposure to cyclical shares due to weaker international markets. The outlook for Europe is mixed—some countries, such as Spain, have slipped back into recession. Even fast-growing Asian markets have been buffeted by signs that growth has slowed. While we remain confident that emerging markets will continue to experience growth rates that are well above the developed economies, the composition of growth may change, with less demand for raw materials and higher demand for services. As always, we are emphasizing companies with high earnings visibility and favorable estimate revisions. This has led us to shift our emphasis in the portfolio, boosting the exposure to consumer and technology issues while reducing our holdings in energy, materials and producer durables shares.

Equity investors have moved from one extreme to another over the last six months. Our goal is to maintain our investment approach regardless of investor sentiment, recognizing that market extremes, either euphoric or hopeless, often present the best opportunities for investment repositioning.

The underlying growth characteristics of the portfolio are well above the market average for the coming year. This outlook, with high financial strength metrics and management skill, keeps us confident in the ability of the companies in which the portfolio is invested to successfully navigate the challenges ahead.

Gross Expense Ratio for Original Shares is 1.15% and for Institutional Shares is 0.90%.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice.

For a listing of holdings current to the most recent quarter end, please click here. Fund holdings and sector allocations are subject to change at any time and are not a recommendation to buy or sell any security. **Current and future portfolio holdings are subject to risk.**

The Standard & Poor's 500 Index is an unmanaged index composed of 500 industrial, utility, transportation and financial companies of the U.S. markets. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. One cannot directly invest in an index.

Free cash flow is a measure of financial performance calculated as operating cash flow minus capital expenditures.

Mutual fund investing involves risk. Principal loss is possible. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods.

Earnings growth is not a measure of the fund's future performance.

The Funds investment objectives, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectuses contain this and other important information about the investment company, and may be obtained by calling 800.536.4640 or by visiting www.rainierfunds.com. Read carefully before investing.

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