Morris Capital Advisors, LLC

Investment Commentary
September 30, 2013

"Never Mind"

The late Gilda Radner was one of the original cast members of the "Not Ready For Prime-Time Players" on Saturday Night Live. She played a number of characters and is probably best known for the obnoxious personal advice expert Roseanne Roseannadanna. She also played Emily Litella, an elderly hearing-impaired woman who gave misinformed editorial replies on SNL's "Weekend Update". Her rants were eventually interrupted by Chevy Chase as the news anchor, and when informed of her misconception, would simply say "never mind".

We seem to be experiencing more than our fair share of "Emily Litellas" these days. I haven't heard anyone sheepishly utter the words "never mind", but it would almost be appropriate. More concerning, however, is that we are starting to run the risk of damaging our credibility at a critical time for our economic and geopolitical standing.

In May of this year Ben Bernanke signaled the intent of the Federal Reserve to begin to "taper" the Fed's purchase of $85 billion per month of US Treasury and mortgage backed securities. It was a move that economists knew had to begin sometime. The Fed had already dramatically expanded its balance sheet, accumulated a significant portion of outstanding securities, and faced the possibility of shrinking supply due to a decline in originations. The markets reacted somewhat as expected, with yields and stocks rising based on the belief that the Fed believed that the economy could withstand the reduction in liquidity flows.

Over the next several months Larry Summers, former Treasury Secretary under Bill Clinton and Director of the National Economic Council for Barack Obama, emerged as the administration's choice to become Fed Chairman when Ben Bernanke retires early next year. The emergence of Summers, considered by some as experienced and pragmatic, seemed to fit with the Fed's tapering strategy.

At the same time, the world faced a critical juncture as the Syrian crises escalated with the use of chemical weapons on a civilian population.

First to say "never mind" was Larry Summers as he withdrew his name from consideration in the face of mounting opposition from members of Obama's own party. The potential alternative, Janet Yellen, is clearly more likely to increase the scope of Fed influence in the economy through continued quantitative easing. Then Ben Bernanke announced after the Open Market Committee meeting in early September that the Fed would not taper their purchase of securities, even by a token amount. And finally, despite a clear crossing of the "red line" in Syria, President Obama opted not to intervene, leaving allies there on the ground and around the world wondering about American leadership.

Unfortunately this pattern reflects an unwillingness to make the difficult decisions in times of uncertainty that is a necessity for real leadership, a pattern that is clearly apparent as we confront the very difficult negotiations over spending restraint and the debt ceiling.

Through it all, the markets have been remarkably resilient. Stocks rose during the quarter and have posted solid double digit returns for the year-to-date. Yields have risen, but are off of their recent highs and remain well below historical averages. Gold is also lower, but the dollar has steadily declined relative to the Euro and other currencies. As we approach earnings season in the midst of a government shutdown and contentious debate in Washington, many expect that risks of a decline in the stock market are higher. Historically, the financial markets do not like uncertainty and if we do not have the leadership to confront the issues that we face, the markets could react negatively.

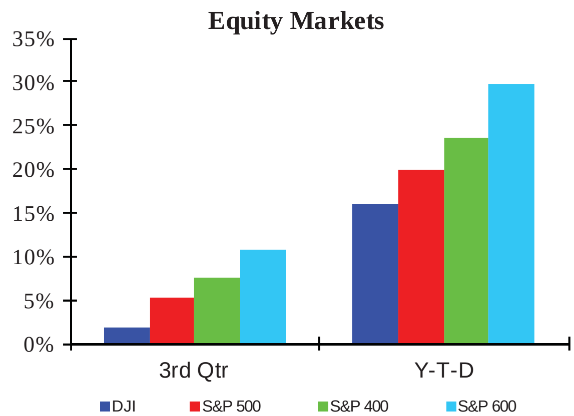
As investment managers so many of these issues are beyond our control. We cannot predict the outcome of events or know how the markets will respond to them. We can only focus clearly on the investment discipline that has guided us successfully through difficulties in the past and execute that discipline to the best of our ability. We believe that company fundamentals matter and that, despite the frequent distractions that confront the markets, an investment strategy built on that belief has the best opportunity for success over the long term. We will not change our mind in the face of difficulties, but will continue to search for companies that demonstrate the potential to grow revenue and earnings, have strong free cash flow, solid balance sheets, and are priced attractively. We believe that this investment approach will give us the best opportunity to deliver consistent, long-term results for our clients and shareholders.

Sincerely,
Daniel A. Morris

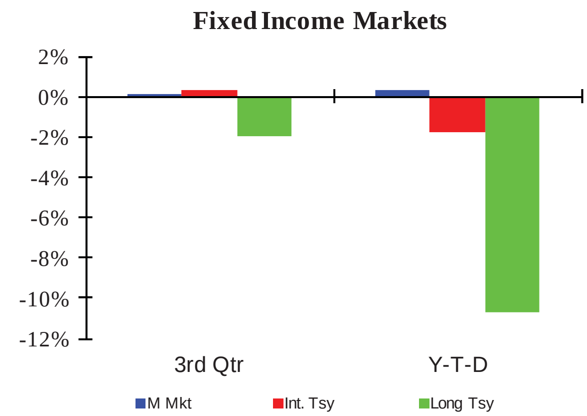
Market summaries on reverse page

Morris Capital Advisors, LLC

Market Summary
September 30, 2013



Stock markets continued to be consumed by the action, or rather inaction, of policymakers in Washington. Equity indices seemed to digest rather well the likelihood of a gradual tapering off of liquidity provisioning by the Federal Reserve, and in fact shares of economically cyclical companies outperformed the more stable sectors, and small company stocks outpaced their larger cap brethren. In mid-September investors celebrated the unexpected news that the Fed decided to postpone its tapering program, leading the indices briefly to mark new highs. By quarter-end, however, markets retreated as the news flow shifted to wrangling over the budget deficit, raising the debt ceiling, and contemplating the odds and consequences of a temporary default on some obligations of the U.S. Government. On balance, equity markets turned in solid a performance, and extended already strong gains for the year.



Treasury securities across the yield curve continued to experience significant price weakness through most of the quarter, as investors fretted over the timing, magnitude and liquidity impact of the impending slowdown of the Federal Reserve's quantitative easing policy. By mid-September, yields in intermediate and longer-dated maturities reached levels last seen in the middle of 2011. On September 18, however, the Fed surprised market participants by announcing they had decided to postpone a decision on tapering their bond-buying policy, as policymakers feared the impact of rising yields in the context of unexpected weakness in the economy. Treasury yields fell across the curve, allowing most maturities to recover their losses from earlier in the quarter