Perspectives

Morris Capital Advisors, LLC

March, 2014 Volume 14 Issue 1

Round Up the (Un)usual Suspects

If you are a fan of financial whodunits and conspiracy theories you have been on a roll lately. First came the epic film by Michael Scorsese, "Wolf of Wall Street", chronicling the rise and fall of Jordan Belfort and his firm Stratton Oakmark. It is a classic tale of Wall Street excess, based on a true story. Belfort's firm was a "pump and dump" penny stock brokerage firm driven by a combination of greed, sex, and drugs. It was a riveting movie, but unfortunately, made enough of an impression that a friend of my daughter wondered if that was how we operated. Ah, the milennials, but I certainly hope that anyone reading this knows that our firm and Stratton Oakmark are worlds apart.

Then, at quarter-end, another financial news story gained wide-spread recognition when Michael Lewis published his book, "Flash Boys", about the market influence of High Frequency Trading (HFT). Mr. Lewis is a well respected author of several financial books, and the roll-out marketing blitz tor the book put him on all of the prime media talk shows in rapid succession. The resulting publicity made HFT, an issue that has been simmering below the surface for years, a household term.

HFT refers to the computer driven trading that Lewis claims has "rigged" the markets, putting ordinary investors at a disadvantage. He makes a compelling case, and it is a sentiment that we have heard many times before. Unfortunately, this problem also illustrates how regulatory changes with the best of intentions can create unexpected results. In this case, a change to decimal pricing for stocks and pressure to bypass floor trading and market makers created the opportunity for high frequency traders to fill the void.

We have been concerned for some time about the impact of HFT on the financial markets. The ability to skim substantial profits from trading activity comes from somewhere; in this case it comes from the pockets of investors. The problem is that HFT firms gain their edge by paying exchanges for faster access to pricing information, and then they use that information to create artificial trading activity, while receiving trading rebates from the exchanges. By some estimates, they account for more than 70% of all trading activity on the stock exchanges. They also employ computer driven strategies that generate thousands of quotes per second that will never get executed, a strategy known as "quote stuffing", to influence trading activity. If your trade executions extend to fractional cents, you can see the other side of HFT trading.

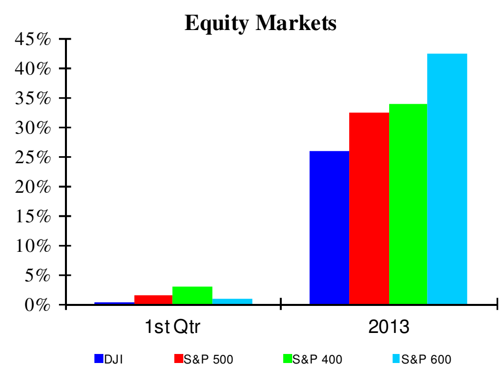
HFT firms and their supporters claim that they create liquidity for the markets with their trading activity, but our concern is that the liquidity they provide is one sided. These HFT strategies tend to be trend following, seeking to jump in front of activity that they see before other participants, or piling on to the trading flow. Our concern is that these trading strategies will contribute to market volatility, especially on the downside. We have actually seen instances where stock prices of major corporations have been driven almost to zero in just a few moments. Over the past few years these risks have been masked by a rising market, but HFT volatility could accelerate a market decline reminiscent of the market crash triggered by program trading in 1987.

We suggest a few simple changes to curb some of the HFT activity that contributes to market volatility. First, end the symbiotic relationship between the exchanges and the HFT firms. Eliminate HFT payments to the exchanges for faster access to trading information (just as the SEC eliminated the exclusive access to analyst information through regulation FD) and end the payments by the exchanges to HFT firms for trading activity. Require price quotations to be active longer to reduce "quote stuffing", and stop "busting trades" for the benefit of HFT firms when their programs wildly distort the market activity in a stock. But, more importantly, let's reverse the focus on short term trading and become investors again. We have watched investment time horizons contract from multi-year market cycles, to calendar years, quarters, days, hours, minutes, and now nanoseconds. All this activity creates lots of noise, but no investment value.

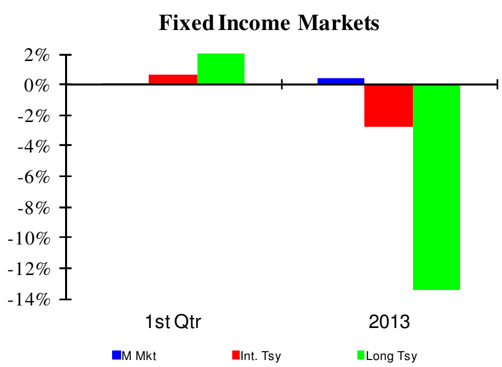
The attention from the investing public and regulatory agencies could bring welcome change for market participants, but in the meantime we will continue to invest using the same philosophy that has guided us successfully for so many years. We will search for good companies with strong earnings, the capability to grow, a sound financial structure to support that growth, and strong free cash flow. We will invest in companies whose share price is attractive relative to valuation and hold those stocks with a long term time horizon. These investment fundamentals never go out of style and have survived the test of time in both bull and bear markets. While market participants like HFT firms may have changed the day-to-day market activity, our steady, long-term fundamental approach enables us to look beyond short-term market volatility to generate true investment returns for our clients.

Sincerely,
Daniel A. Morris

Investment Markets



Equity markets posted subdued returns in Q1, 2014, as compared to 2013, but there was a fair amount of volatility under the surface. The markets experienced a sharp selloff during the first few weeks of the year, reflecting economic concerns as extreme cold interrupted activity in many parts of the country. The Federal Reserve added to the confusion when Fed comments raised uncertainty about interest rate policy. By quarter's end the averages had recovered to all-time highs, but several market sectors were selling off sharply, notably biotech and social media stocks.



Yields on short-term US Treasuries were volatile throughout the quarter, as investors debated the meaning of comments made during Chairperson Yellen's inaugural press conference. Bond market participants were particularly vexed by suggestions that the Fed might begin raising interest rates as early as April 2015. As the quarter wore on, the Fed took pains to reassure markets that short-term rates were unlikely to rise anytime soon. The confusion did not prevent longer paper from enjoying steady price appreciation, leading to solid total returns for the quarter.

Morris Capital Advisors, LLC

15 CHESTER COMMONS MALVERN, PA 19355 ▾ 610-722-0900 800-787-3334 ▾ www.morriscapitaladvisors.com

EXPERT MONEY MANAGEMENT ~ DISTINCTIVE SERVICE

Morris Capital Advisors, LLC

Large-Cap Core Portfolio

As of 3/31/2014

Portfolio Review and Performance

During the 1st Quarter of 2014, the Large-Cap Core portfolio was helped by strong performance from Actavis, PLC, SanDisk Corp., Quanta Services, Inc., PNC Financial Services., and Microsoft Corporation. The shares of Actavis, a top performer last quarter, jumped higher with a substantial increase in share volume after the company announced its intention to acquire Forest Labs, another generic and proprietary pharmaceutical producer. The shares rose again when the company reported revenue and earnings above expectations, and reaffirmed guidance. The stock was also supported throughout the quarter by a series of favorable rulings regarding the rollout of new products. SanDisk rose during the latter part of the quarter after the company reported revenue and earnings above expectations. The company also announced a substantial increase in gross margins, and cash flow from operations that set quarterly and annual records. Quanta Services, a provider of specialty contracting services for the electric power and energy pipeline industries, jumped after the company reported revenue and earnings above expectations. The company also increased revenue and earnings guidance somewhat. The shares of PNC Financial spiked higher early in the quarter after the company reported revenue and earnings above expectations. The shares drifted downward when the market declined, but were supported later in the quarter when the company announced an increase in their dividend and stock repurchase program after the company successfully completed the "stress tests" by the Federal Reserve. Microsoft performed in line with the market for much of the quarter, despite reporting revenue and earnings above expectations. The shares jumped over the last two weeks when the company announced their intention to make their Office suite of software products available on the Apple iPad. Investors viewed this new initiative by recently appointed CEO Satya Nadella as a way to expand the market for the Office products to a wider range of mobile devices.

Notable laggards during the 1st Quarter include AmerisourceBergen, Johnson Controls, Chubb Corporation, Dover Corporation, and Franklin Resources. It is interesting to note that both AmerisourceBergen and Johnson Controls, two top performers last quarter, declined despite reporting revenue and earnings above expectations. Some of the weakness in Amerisource may have been due to the acquisition of a minority interest in a Brazilian pharmaceutical distributor late in the quarter. The shares of Johnson Controls dropped late in the quarter after a competitor reduced earnings expectations. Investors in Johnson Controls sold down the stock on concerns that the problems at this competitor signaled industry-wide weakness. The shares of Chubb fell steadily throughout the month of January up to the earnings announcement from the company. The shares rebounded after the company announced earnings better than expected and a new stock repurchase plan, but the rebound was not enough to compensate for the early decline. The shares of Dover Corporation also fell sharply early in the quarter as investors took gains from a stock that outperformed significantly last year. The stock reversed after the company reported earnings in line with expectations and the spinoff of Knowles Corporation, a supplier of specialized components for mobile communication, electronics, and medical technology applications. Shares of Franklin Resources also declined on profit taking early in the quarter, but then rebounded when the company reported earnings better than expected. Once again, the rebound was not enough to offset the decline from early in the quarter.

During the quarter we trimmed our position in Actavis to take profits and reduce the overweight in this successful holding, and sold our position in Diamond Offshore Drilling due to reduced earnings and growth expectations. We reinvested the proceeds in Baker Hughes, a supplier of products and services for the oilfield, refining and pipeline industries.

Net Composite Investment Performance As of 3/31/2014

	Core Portfolio	Lipper LC Core Funds	S&P 500 Index
1st Quarter	**3.48 %**	1.99 %	1.55 %
1-Year	**26.85 %**	21.59 %	21.56 %
3-Year Annualized	**14.90 %**	13.76 %	14.54 %
5-Year Annualized	**20.06 %**	19.89 %	21.08 %
10-Year Annualized	**8.19 %**	6.80 %	7.38 %
Annual since Incept. 12/31/1992	**8.05 %**	7.37 %	9.22 %

Performance quoted represents past performance which is no guarantee of future results. Current performance may be lower or higher than what is stated. Investment return and principal value will vary with market conditions. At redemption investment value may be more or less than the original cost.

The S&P 500 Index is an unmanaged index compiled by Standard & Poor's. It includes reinvestment of dividends.

The Lipper Large-Cap Core Index is an unmanaged index compiled by Lipper Analytical. It includes mutual funds holding large company stocks managed with a blend of growth and value.

One cannot invest in an index.

KEY MEASURES 3/31/2014

	Core Portfolio	S&P 500 Index
Average Yield	**1.65 %**	1.97 %
PE on Expected Earnings	**15.32 x**	15.49 x
Expected Growth Rate	**10.79 %**	11.08 %
PEG Ratio	**1.42 x**	1.40 x
Debt to Capital	**33.42 %**	31.83 %
Price to Book	**3.88 x**	4.43 x

Computed from the weighted average of the underlying securities and are not a measure of future performance.

Average Yield: Annual dividends divided by the purchase price, excluding capital gains.

PE on Expected Earnings: Stock price divided by expected earnings-per-share over the next 12 months.

Expected Growth Rate: Compounded annual rate of growth of expected earnings over the next 3-5 years.

PEG Ratio: Ratio of price/earnings to growth that may indicate a stock's potential value. Lower PEG generally means that stock is more undervalued.

Debt to Capital: Debt divided by total capital . An insight into financial strength; a higher ration than the industry average may show weaker financial strength.

Price to Book: Ratio of a stock's capitalization to its book value; compares the market's valuation of a company to that indicated on the company's financial statements. Generally the lower the ration, the "less risky" the investment.

Composites include all fully discretionary separate accounts over $100,000 and all commingled accounts over $500,000 managed by Morris Capital Advisors, LLC. for a full quarter. Portfolios are invested solely in US securities. Returns are net total return including dividends, interest, realized and unrealized capital gains and losses, reduced by all costs and advisory fees. Morris Capital Advisors claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Morris Capital Advisors has not been independently verified. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request.

Morris Capital Advisors, LLC

Large-Cap Growth Portfolio

As of 3/31/2014

Portfolio Review and Performance

During the 1st Quarter of 2014 the Large-Cap Growth portfolio was helped by strong performance from Constellation Brands, Xilinx, Inc., Michael Kors, Walgreen Corporation, and DirecTV Group. The shares of Constellation Brands, a top performer last year, jumped early in the quarter after the company reported revenue and earnings above expectations. The stock continued to perform well, resisting the trend of profit taking among the stocks of many of last year's top performers. The shares of Xilinx, a manufacturer of field-programmable computer chips and integrated circuits used primarily in communication equipment, declined initially after the company reported mixed earnings and revenues. The stock rallied later in the quarter on expectations of improved earnings potential as the company unveiled a line of more powerful chips that consume less power for use in mobile devices. The shares of Michal Kors, a recent addition to the portfolio, jumped after the company reported revenue and earnings above expectations. This fashion retailer also recorded impressive growth in both retail and wholesale net sales. Walgreens rallied from the market bottom in February and continued to rise through the balance of the quarter despite reporting revenue and earnings slightly below expectations. The stock performed well last year and the performance this quarter kept the trend intact. DirecTV continued to rally after a strong finish late last year. The stock rose to new highs when the company reported revenue and earnings well above expectations and announced an increase in its share repurchase program.

Weak holdings during the 1st Quarter of 2014 include LKQ Corporation, Celgene Corp., Bed, Bath, and Beyond, Inc., MasterCard International, and Precision CastParts. The shares of LKQ dropped dramatically when a short seller published a negative report on the company. The management of LKQ issued a statement contradicting specific points in the report, but the effect was muted by news of a lawsuit by Chrysler and a disappointing earnings report later in the quarter. Celgene Corporation, a bio-tech company focusing on cancer treatments declined on profit taking after a very strong showing in 2013. The company reported revenue and earnings in line with previous guidance, and positive results from several clinical trials. Bed, Bath & Beyond fell sharply when the company reported earnings below expectations and reduced earnings guidance. The shares rebounded somewhat after the initial earnings reaction, but were hurt when the company was forced to reduce earnings guidance again later in the quarter. The shares of MasterCard were also subject to profit taking after very strong returns last year. The company reported earnings that missed expectations, despite strong growth in processed transactions and gross dollar volume. Precision CastParts declined after the company reported revenue and earnings below expectations. Company management indicated that much of the shortfall was due to last minute customer schedule shifts that should not continue in the foreseeable future.

Early in the quarter we trimmed our position in MasterCard to take profits and reduce the overweighting of this successful holding. We used the proceeds to buy Southwest Airlines a highly regarded airline with stable earnings and a strong balance sheet. The shift also allowed us to add some sector and industry diversification to the portfolio.

Net Composite Investment Performance
As of 3/31/2014

	Growth Portfolio	Lipper LC Growth Funds	Russell 1000 Growth Index
1st Quarter	**1.98 %**	-0.14 %	1.12 %
1-Year	**28.37 %**	25.15 %	23.21 %
3-Year Annualized	**14.60 %**	13.13 %	14.61 %
5-Year Annualized	**22.48 %**	20.24 %	21.66 %
10-Year Annualized	**7.91 %**	6.90 %	7.86 %
Annual since Incept. 6/30/93	**12.57 %**	6.10 %	8.52 %

Performance quoted represents past performance which is no guarantee of future results. Current performance may be lower or higher than what is stated. Investment return and principal value will vary with market conditions. At redemption investment value may be more or less than the original cost.

The Russell 1000 Growth Index is an unmanaged index compiled by Russell Analytics. It includes reinvestment of dividends.

The Lipper Large-Cap Core Index is an unmanaged index compiled by Lipper Analytical. It includes mutual funds holding large company stocks managed for growth.

One cannot invest in an index.

KEY MEASURES
3/31/2014

	Growth Portfolio	Russell 1000 Growth Index
Average Yield	**0.85 %**	1.63 %
PE on Expected Earnings	**18.10 x**	21.10 x
Expected Growth Rate	**15.12 %**	15.43 %
PEG Ratio	**1.20 x**	1.37 %
Debt to Capital	**29.37 %**	35.95 %
Price to Book	**4.73 x**	4.82 x

Computed from the weighted average of the underlying securities and are not a measure of future performance.

Average Yield: Annual dividends divided by the purchase price, excluding capital gains.

PE on Expected Earnings: Stock price divided by expected earnings-per-share over the next 12 months.

Expected Growth Rate: Compounded annual rate of growth of expected earnings over the next 3-5 years.

PEG Ratio: Ratio of price/earnings to growth that may indicate a stock's potential value. Lower PEG generally means that stock is more undervalued.

Debt to Capital: Debt divided by total capital . An insight into financial strength; a higher ration than the industry average may show weaker financial strength.

Price to Book: Ratio of a stock's capitalization to its book value; compares the market's valuation of a company to that indicated on the company's financial statements. Generally the lower the ration, the "less risky" the investment.

Composites include all fully discretionary separate accounts over $100,000 and all commingled accounts over $500,000 managed by Morris Capital Advisors, LLC. for a full quarter. Portfolios are invested solely in US securities. Returns are net total return including dividends, interest, realized and unrealized capital gains and losses, reduced by all costs and advisory fees. Morris Capital Advisors claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Morris Capital Advisors has not been independently verified. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request.

Portfolio Review and Performance

During the 1st Quarter of 2014 the Small-Cap Growth strategy was helped by gains in MasTec, Inc., Gentherm, Inc., Datalink Corporation, ANN, Inc., and RPC, Inc. MasTec, a construction company for electric utility and energy industries, rose throughout the quarter. The shares continued to rally when the company reported revenue and earnings above expectations, despite reducing guidance for the next quarter. Gentherm, a maker of interior control systems for automobiles, rallied off the market bottom early in the quarter. The shares got an added boost when the company reported revenue and earnings above expectations and raised revenue guidance for the new fiscal year. The shares of Datalink jumped when the company raised revenue and earnings guidance for the current quarter. This company was one of the bottom performers last quarter when investors became concerned about weak operating results. The current rebound, supported by an earnings report above revenue and earnings expectations, brought the shares back above levels of last quarter. ANN, Inc., a clothing retailer for women, jumped after this recent addition to the portfolio reported earnings above expectations but reduced revenue guidance. Investors focused instead on the benefits of a corporate restructuring that was announced at the same time. RPC provides a wide range of oilfield services. The shares rallied after the company reported earnings that were below expectations, but strong revenue growth and an increase in the quarterly dividend.

The portfolio was constrained during the 1st Quarter of 2014 by poor performance from Tractor Supply, Geospace Technologies, Chart Industries, Tupperware Brands, and Virtusa Corporation. Both Tractor Supply and Tupperware Brands were removed from the portfolio because these two successful companies had grown to be larger than a small-cap company parameters. The portfolio performance reflects the fact that these positions were sold as the markets declined early in the quarter. Geospace Technologies manufactures equipment used to analyze seismic data in the energy exploration business. Shares of the company declined, despite an earnings report that beat revenue and earnings expectations. The weakness was due to the postponement of a previously announced order when the customer lost some of its capital investment funding. Chart Industries manufactures equipment used in the global liquid natural gas industry. The shares declined when the company reported revenue and earnings below expectations, and reduced revenue and earnings guidance for the fiscal year. Virtusa Corporation is a global IT consulting company primarily for the financial services industry. The shares declined despite an earnings report that was in line with revenue and earnings expectations. Investors were disappointed that the company was not able to demonstrate an acceleration in operating performance.

During the quarter we sold several long term successful positions including Tupperware Brands, Tractor Supply, and Santarus, Inc., as well as LeapFrog, IXYS and PLX Technologies. We reinvested the proceeds in fashion retailer ANN, Inc., Culp, Inc., a manufacturer of fabric for mattresses and furniture, Steelcase, a manufacturer of office furniture, Analogic Corp., a technology company in the medical imaging and security industries, and HB Fuller, a manufacturer of adhesives, sealants, and specialty chemicals.

Net Composite Investment Performance
As of 3/31/2014

	Small-Cap Portfolio	**Lipper SC Growth Funds**	**Russell 2000 Growth Index**
1st Quarter	**-2.06 %**	-0.56 %	0.48 %
1-Year	**18.80 %**	25.42 %	27.19 %
3-Year Annualized	**10.37 %**	12.53 %	13.60 %
5-Year Annualized	**21.57 %**	23.52 %	25.22 %
10-Year Annualized	**6.03 %**	7.79 %	8.86 %
Annual since Incept. 4/30/01	**7.47 %**	6.40 %	7.14 %

Performance quoted represents past performance which is no guarantee of future results. Current performance may be lower or higher than what is stated. Investment return and principal value will vary with market conditions. At redemption investment value may be more or less than the original cost.
The Russell 2000 Growth Index is an unmanaged index compiled by Russell Analytics. It includes reinvestment of dividends.
The Lipper Small-Cap Growth Index is an unmanaged index compiled by Lipper Analytical. It includes mutual funds holding small company stocks managed for growth.
One cannot invest in an index.

KEY MEASURES
3/31/2014

	Small-Cap Portfolio	**Russell 2000 Growth Index**
Average Yield	**0.62 %**	0.61 %
PE on Expected Earnings	**18.30 x**	26.77 x
Expected Growth Rate	**15.77 %**	14.77 %
PEG Ratio	**1.16 x**	1.81 x
Debt to Capital	**19.48 %**	24.21 %
Price to Book	**3.30 x**	4.16 x

Computed from the weighted average of the underlying securities and are not a measure of future performance.
Average Yield: Annual dividends divided by the purchase price, excluding capital gains.
PE on Expected Earnings: Stock price divided by expected earnings-per-share over the next 12 months.
Expected Growth Rate: Compounded annual rate of growth of expected earnings over the next 3-5 years.
PEG Ratio: Ratio of price/earnings to growth that may indicate a stock's potential value. Lower PEG generally means that stock is more undervalued.
Debt to Capital: Debt divided by total capital . An insight into financial strength; a higher ration than the industry average may show weaker financial strength.
Price to Book: Ratio of a stock's capitalization to its book value; compares the market's valuation of a company to that indicated on the company's financial statements. Generally the lower the ration, the "less risky" the investment.

Composites include all fully discretionary separate accounts over $100,000 and all commingled accounts over $500,000 managed by Morris Capital Advisors, LLC. for a full quarter. Portfolios are invested solely in US securities. Returns are net total return including dividends, interest, realized and unrealized capital gains and losses, reduced by all costs and advisory fees. Morris Capital Advisors claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Morris Capital Advisors has not been independently verified. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request.