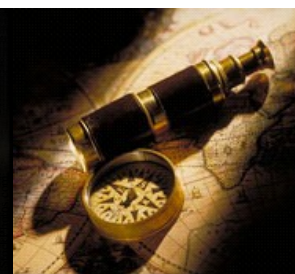




Quarterly Update



2nd Quarter 2011

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FROM THE PORTFOLIO MANAGER

After reaching the nadir of the “Great Recession” more than two years ago, global stocks and bonds have had a tremendous recovery. Despite this major turnaround in the markets, there continue to be many significant risks and lasting headwinds that may impede the trajectory of several major economies around the world. Many clients have expressed concern over the recent headlines surrounding the U.S. debt ceiling, the European debt crisis, and turmoil in the Middle East to name a few. Below, we will attempt to keep you focused on what we think is important and how the current “noise” can be used to our advantage.

While not the exact same problems, the U.S. and much of Western Europe are suffering from years of excessive spending and overly generous future promises/entitlements. In order for us to get through this difficult time, everyone is going to have to make some painful sacrifices. When looking at the many policy actions being undertaken today, few if any, are likely to promote growth over the near term. In fact, economic contraction is much more likely due to all of the austerity measures being enacted. Just as in the U.S., the developed European markets are likely to struggle to maintain their economic footing as well. Much of this uncertainty may result in choppy markets and uneven growth for the foreseeable future.

In the emerging economies, it’s quite a different story. Rather than emergency policies being used to stimulate growth and restructure debt, worries over inflation and strengthening currencies have resulted in interest rates being pushed higher in an attempt to slow things down. Many emerging economies/countries appear to have much healthier financial conditions than their developed market counterparts, while also exhibiting much loftier Real Gross Domestic Product (GDP) growth prospects.

Take a look at the following chart compiled from data obtained from the International Monetary Fund, World Economic Outlook

Database, April 2011...Of the ten largest economies in the world based on 2010 GDP, only three [Brazil, China, and India] are expected to generate Real GDP growth in excess of 3% in 2016. What these three countries also share in common is they exhibit the lowest amount of government indebtedness relative to their GDP. When you think of all the investment possibilities around the world, why would anyone want to keep a majority of their “eggs” overly exposed to highly leveraged, slower growing places like the U.S. and/or Western Europe? Even when you factor in sovereign, political, taxation, reporting, and currency risks, we continue to find higher yielding, financially stronger, more attractively discounted businesses elsewhere.

Country	2010 GDP in \$ Billions	2010 Gross Government Debt to GDP%	2016 Estimated Real GDP Growth %
United States	14,657.80	91.6	2.7
China	5,878.26	17.7	9.5
Japan	5,458.87	220.3	1.2
Germany	3,315.64	80.0	1.3
France	2,582.53	84.3	2.1
United Kingdom	2,247.46	77.2	2.6
Brazil	2,090.31	66.1	4.2
Italy	2,055.11	119.0	1.4
Canada	1,574.05	84.0	1.9
India	1,537.97	69.2	8.1

Now the above is not meant to infer that higher economic growth necessarily equates to higher investment returns. This is certainly not the case and can readily be seen by the fact that many of the faster growing emerging markets have significantly *underperformed* their developed peers over the past nine to twelve months. From our perspective, it always comes down to properly aligning each client’s Investment Policy Statement [IPS] with their unique cash flow needs, diversified portfolio construction, and trying to take advantage of headline risk to further these investment objectives. We are constantly trying to acquire undervalued, entrenched businesses [with price upside], combined with attractive, growing income streams [dividends]. Despite all the global uncertainty, we feel strongly that this total return strategy should lead to investment success over the long run..

Jeffrey I. Kerstine, CFA

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SECOND QUARTER ACTIVITY

Alphabetical listing of all equity block buys and sells in the quarter with a summary of the largest (by block trade value) buy and sell.

BUYS:

Cheng Kong Holdings ADR (add)
Cenovus Energy (add)
Republic Services Group
Teva Pharmaceuticals ADR (add)
Wells Fargo (add)

SELLS:

Bank of America (trim)
Fairholme Fund
Teva Pharmaceuticals ADR (tax loss)

BUY:

Republic Services, Inc. (RSG)

Republic Services, based in Fort Lauderdale, FL, is the second largest domestic non-hazardous solid waste company in the U.S. It provides waste disposal and recycling services for commercial, industrial, municipal, and residential clients through a network of 376 collection companies in 40 states plus Puerto Rico. The company is focused on providing environmentally sound and cost effective services to all its customers, including 73 alternative energy projects at its landfills nationwide.

Our decision to invest specifically in Republic Services is based on the following...

1. The Company operates in an oligopoly where RSG and Waste Management (RSG's major competitor) control around 70% of waste disposal capacity in the U.S.

2. Republic Services has a strong footprint in the fast growing, Sun Belt region with solid demographics [including Florida, Texas, Arizona, Nevada, and California].

3. This investment offers inflation protection, as around 50% of RSG's business is tied to a CPI price adjustment.

4. The Company pays a nice dividend [\$.20 per quarter] and has a \$400 million share buyback plan currently in place which management expects to complete by the end of 2011.

5. We bought the shares at what appears to be an attractive discount to our estimate of intrinsic value.

SELL:

Fairholme Fund

We decided to exit the position after unanticipated changes in several of the fund's larger holdings. The introduction of two new funds, combined with a more promotional style, made us feel less comfortable with fund management's level of focus. We used this capital to buy Republic Services and to add to several existing, undervalued holdings.



PLEASE NOTE:

- The link to our latest 13F filing can be found on our website. This quarterly filing reflects all equity holdings in discretionary accounts.
- **Investment Objectives. Please let us know if you have any changes.**
- Proxy Voting—If you would like a copy of how we voted your proxies and/or our guideline, please send us a written request.



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