GREYSTONE

Quarterly Update

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FROM THE PORTFOLIO MANAGER

Worries over European sovereign debt, poor leadership and political bickering across the globe, and concerns over faltering economic growth, have led to a vicious selloff in equity markets around the world. Fear is high, business and consumer confidence is low, and memories of the financial turmoil of late 2008 have investors running scared. While there are many serious issues affecting us for the foreseeable future, uncomfortable times like these may provide some of the best long term investment opportunities.

While we certainly don't like to see our investments lose value either temporarily or permanently, our focus has been on creating a globally diversified portfolio of high quality, dividend paying stocks, combined with attractive fixed income opportunities. As a brief refresher, there are two main components of total return: Price and Income. While the price performance of a security is certainly important overall and usually garners the most attention, it is the income portion of the total return calculation that we wish to focus on first. This is especially vital in light of the volatile, highly correlated, macro driven environment that exists today.

Let's take a look at history to gain some perspective. Much research has been compiled analyzing the impact of dividends on total return. ISI performed one such analysis on the S&P 500 for each of the ten-year periods from January 1930-December 2010.[1] According to their findings, dividends, on average, contributed more than half of the total return for each period. In a related study, Ned Davis Research (NDR) compared annualized returns on the S&P 500 with dividends reinvested versus price changes only.[2] For the period between 1929-2010, S&P 500 annualized returns with dividends reinvested amounted to 9.4% per year versus 5.2% for price return only. NDR has also generated several interesting pieces on the relative performance of dividend paying stocks over the years. We interpret their findings to show, dividend payers, especially dividend raisers, tend to perform better than the markets in general both in good times, but especially during bad times.

So we don't unfairly ignore the price part of the total return equation, Warren Buffett recently announced for the first time in forty years that he was launching a buy-back program of Berkshire Hathaway stock. When a CNBC reporter asked him why he is doing this now, he replied, "Price to value. The only time to do buybacks, in my view, is when you think your stock is selling well below its intrinsic value."[3] Like Buffett, we believe a great majority of our equity holdings are trading at attractive levels of price to value. While the "stock prices" of most of our businesses have suffered during the most recent market selloff, this does not appear to be commensurate with more modest declines in the underlying "business value" caused by concerns over slowing growth and increasing fiscal austerity around the world. In simplest terms, we think more than enough negativity has already been reflected in the prices of many of our holdings. To paraphrase Ben Graham…the market is a voting machine in the short run and a weighing machine in the long run. As value investors, we believe we will be rewarded for our patience as the discount between the price and value of these high-quality businesses begins to narrow. In the meantime, attractive dividends should provide a measure of return stability plus the potential for growth in the years ahead.

Jeffrey I. Kerstine, CFA

[1] Ridgeworth Investments, "Dividend Dynamics: Assessing the Benefits of Dividend- Paying Stocks," First Quarter 2011, Exhibit 1, http://www.ridgeworth.com, accessed 2011.
[2] Ibid., Exhibit 2.
[3] Crippen, Alex, "CNBC Transcript: Warren Buffett Thinks Double-Dip is 'Very, Very Unlikely'", CNBC, September 30, 2011, http://cnbc.com/id/44730157, accessed September 2011.

THIRD 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:

Nestlé ADR (add)
Novartis AG ADR (add)
PepsiCo, Inc.
Republic Services, Inc. (add)

SELLS:

Fanuc Corporation

BUY:

PepsiCo, Inc. (PEP)

PepsiCo is a leading global food, snack, and beverage company owning megabrands such as Pepsi-Cola, Diet Pepsi, Gatorade, Mountain Dew, Fritos, Lay's, Doritos, Tostitos, Quaker, and Tropicana. PepsiCo is a defensive, high-quality company with economies of scale, a dominant snack business, and a distribution system with high barriers to entry.

Our decision to invest specifically in PepsiCo is based on the following:

1. Through its Frito-Lay division, PepsiCo is the world's largest snack food company controlling almost 40% of the U.S. salty snack market and around 30% of the non-U.S. market.
2. PepsiCo's broad and efficient global delivery system provides strong barriers to entry and produces high returns on capital.
3. We bought the shares at an attractive dividend yield greater than 3.25%, and the Company has increased its dividend for 39 consecutive years.
4. The Company generates significant free cash flow and has a strong balance sheet.
5. We bought the stock at what appears to be an attractive discount to our estimate of intrinsic value.

SELL:

Fanuc Corporation

While we think this is a terrific business with great opportunities in emerging markets, we decided to exit our position after the share price had risen to a level that was close to our estimate of intrinsic value.

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.

GREYSTONE

3805 Edwards Road, Suite 180
Cincinnati, OH 45209
Phone: 513.731.8444
Fax: 513.731.7666

Email:
radams@greystoneinvestment.com
shumphrey@greystoneinvestment.com
jkerstine@greystoneinvestment.com
plevin@greystoneinvestment.com
mreed@greystoneinvestment.com
tsawyer@greystoneinvestment.com
svandevelde@greystoneinvestment.com

Visit us at: www.greystoneinvestment.com