Economic and Market

Overview

Second Quarter
2013

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UMB Investment Management appreciates this opportunity to present our information to you.

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Economics

The winds of change swirled late in the second quarter as the Federal Reserve (Fed) attempted to clarify its asset purchase exit plan. This temporarily shook the financial markets as the announcement was interpreted as negative, sending equity and bond prices lower. The Fed is optimistic regarding the outlook for employment and economic growth in the second half of 2013. We find it interesting that the Fed anticipates 3% real GDP growth in the second half of 2013 while Q1 real GDP was revised lower to 1.8% and estimates on Q2 GDP are being adjusted lower, with the consensus growth at a paltry 1.6%. The Fed's exit plan begins with tapering its monthly bond purchases; we expect this will begin in the late fall and continue into 2014.

The Fed's decision will be data dependent. Given the Fed's dual mandate of controlling inflation and maximizing employment, influential variables will be the unemployment rate and job growth. Payroll growth in the first half of the year averaged 202,000 per month and the unemployment rate has come down from 7.9% in January to 7.6% in June. While 200,000 per month is a healthy payroll number, we continue to have concerns over the quality of jobs, given that all of the job growth in June was attributable to part-time work.

Housing comprises a mere 2.7% of GDP; however, housing starts will be a major contributor to GDP in 2013, perhaps adding 1.0% to GDP growth this year. Robust housing starts support an improving employment landscape. In addition, increasing housing prices are expected to bolster consumer confidence - as of May, home prices are up 12% over the last 12 months. Additionally, we anticipate housing prices will increase 10% in calendar year 2013. Rising mortgage rates may cool, but not shutter, housing starts in the second half of the year.

The global economy continues to be supported by accommodative monetary policy. China's slowing economy continues to threaten global growth and other emerging markets continue to struggle to maintain their historic growth rates. Europe's recession has been deeper and longer than most had expected.

Our economic theme "Policy Basin" remains intact, where we expect to experience positive economic growth in the 2.0% - 2.5% range, similar to growth in 2012. First-half economic growth has been subdued due to a drag on government spending. We anticipate more economic activity in the second half as confidence increases. Moderate economic growth in the U.S. most likely will support double-digit returns in the stock market.

The table below summarizes our 2013 forecasts:

	2013 Year-End Target
U.S. Real GDP Growth Rate	2.00% – 2.50%
Global Real GDP Growth Rate	2.80%
S&P 500 Price Target	1700
S&P 500 Operating EPS Growth	6.00% - 8.00%
Projected 10-Year Treasury Rate	2.50%

Equity Markets

The stock market rallied the first five months of the year as a result of decent earnings growth and continued accommodative Fed policy. In June, however, stocks retreated as uncertainty prevailed after the Fed attempted to clarify its exit plan. We think this presents a win-win situation for the equity markets. If the Fed tapers, that would indicate a robust economy and would be positive for equities. If the Fed continues to stimulate, this should continue to be supportive for equities. We are becoming more concerned that the earnings backdrop could become more challenging as revenue growth is softening and an increased number of companies are providing negative outlooks.

With the recent market pullback, we believe that risk/reward is becoming more favorable. For example, towards the end of May, we calculated that downside risk was 10% while the reward to the upside was only 3% based on our applied earnings and valuation targets. Our year-end price target on the S&P 500 is 1700, representing a 10% upward move from current levels. We believe downside risk is 9% from current levels – resulting in a somewhat attractive risk/reward profile. We continue to be opportunistic as the risk/reward ratios evolve throughout the global markets.

As always, there are risks in the market. Concerns overseas, premature Fed action and weak corporate earnings growth could tarnish the shine on equities. Emerging Market and European economic woes may have a negative impact on U.S. equity markets. The European central bank has since eased its somewhat aggressive stance, but it is imperative for investors to monitor these developments. At this time, we think these risks remain in check.

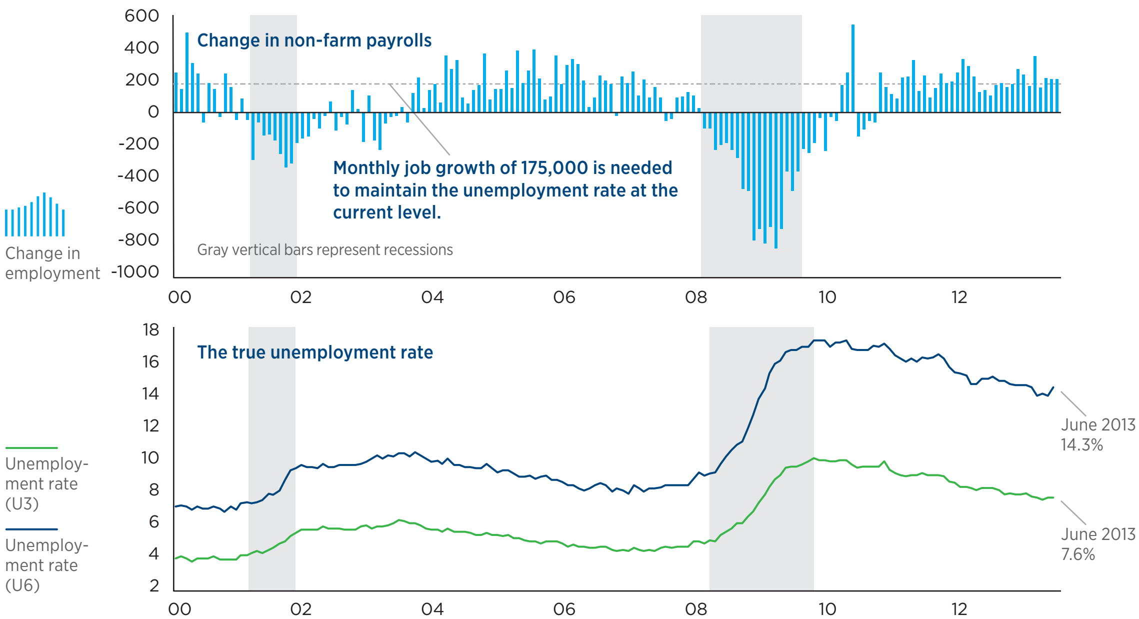
In conclusion, while valuations (PE Ratios) were at a 12.9x at the start of the year and now stand at 14.6x, we still believe equities are attractive at the current levels, given the risks and outlooks for other sectors (most notably the Fixed Income markets).

Fixed Income Markets

Bernanke’s hints about the end of QE sent a shock through the bond markets, causing a spike in interest rates of more than 100 bps during the final weeks of the quarter. YTD returns moved deeper into negative territory as rising yields pushed prices downwards. Additionally, the multi-year flow of assets into the “spread sectors” of the bond market (high yield, corporate, mortgage, municipal) finally reversed during Q2, as the “risk based” portions of the bond market traded off in tandem with the equity markets.

The 10-year treasury note breached our year-end target of 2.50%, trading briefly above 2.60%. At quarter end, it had settled down to 2.49%. We continue to believe that 2.50% is a reasonable target for year end, although we are likely to experience a volatile new trading range around that number as the markets speculate about the tapering of QE. The Fed’s outlook for the economy appears overly optimistic, and we believe the Fed could decide to move tapering back to year end. This could set the stage for a near-term downward move in rates, only to be followed by a subsequent rise back to 2.50% as we reach the true “tapering point” later in the year.

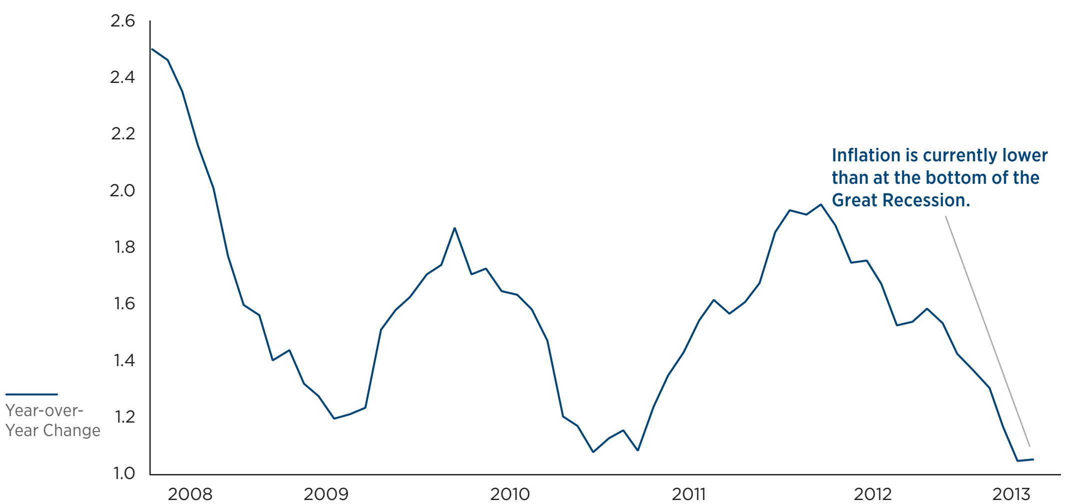
Employment



Source: Thomson Reuters Datastream; UMB Investment Management

- The employment landscape is stabilizing. We anticipate payroll growth will average 200,000 jobs per month in 2013, an increase of 10%.
- First half payroll growth averaged 202,000 per month.
- While the unemployment rate (U3) has been trending downward, the labor force participation rate remains at 63.5%, a 30 year low – this has contributed to the declining unemployment rate.
- The quality of jobs is still in question. The U6 measures unemployed, marginally-employed and part-time workers. It remains at an uncomfortably high level of 14.3%.

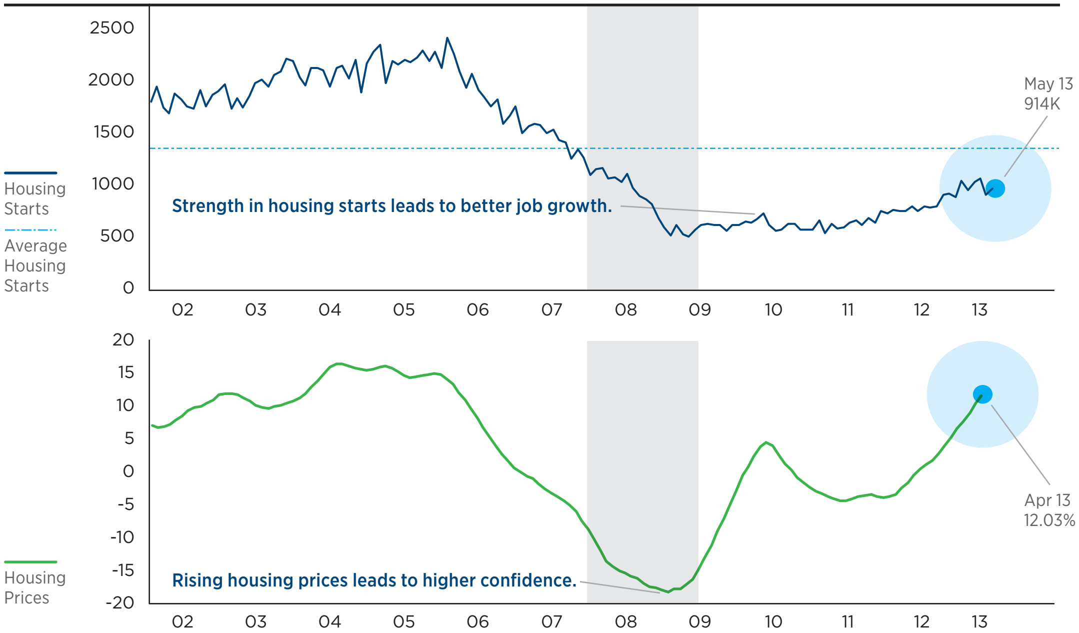
Personal Consumption Expenditure (PCE) Inflation



Source: Thomson Reuters Datastream; UMB Investment Management

- The Fed's measure for Inflation (PCE) is well below their long-term "target" of 2%.
- PCE is in a steady downward trend since the beginning of 2012.
- Inflation is clearly not an imminent threat, leaving plenty of room for continued easing.
- Deflation is a serious risk for economic growth as it stymies activity.

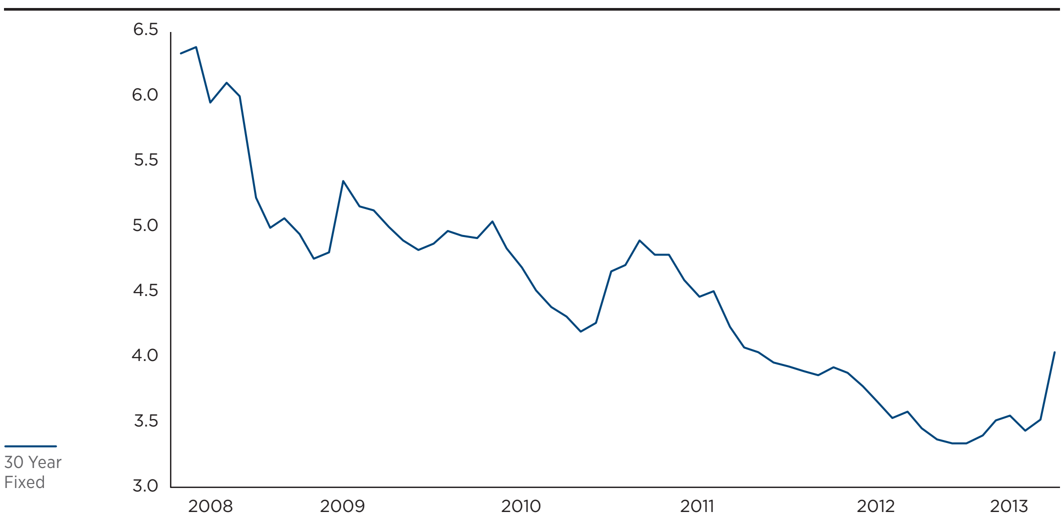
Housing is in Recovery Mode



Source: Thomson Reuters Datastream; UMB Investment Management

- Housing starts lead to job creation. Each new home under construction creates three new jobs. We expect roughly 1,000,000 new home starts in 2013.
- Housing starts have been trending very positively, showing solid recovery from the 2009 bottom.
- Home prices are finally increasing year over year. We anticipate another 10% increase in home prices in 2013. Positive for consumer confidence.
- Rising mortgage rates may cool the housing recovery, yet we remain constructive on housing.

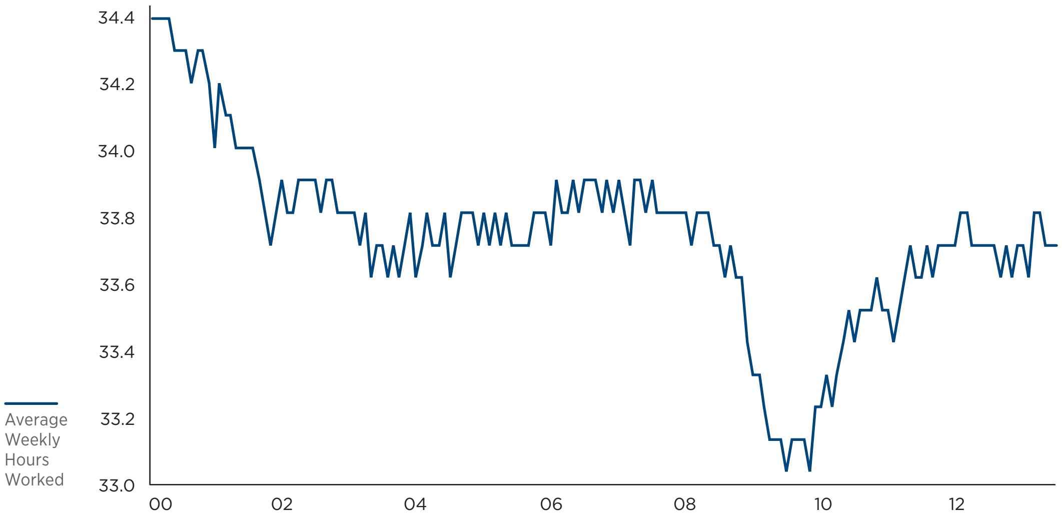
Mortgage Rate



Source: Thomson Reuters Datastream; UMB Investment Management

- Mortgage rates have risen sharply of late due to Fed tapering expectations.
- Higher rates pose a threat to the still somewhat nascent housing recovery as affordability is reduced.
- On the other hand, continued improvements in the labor markets could positively impact affordability as incomes rise.

Average Weekly Hours – Total Private Nonfarm

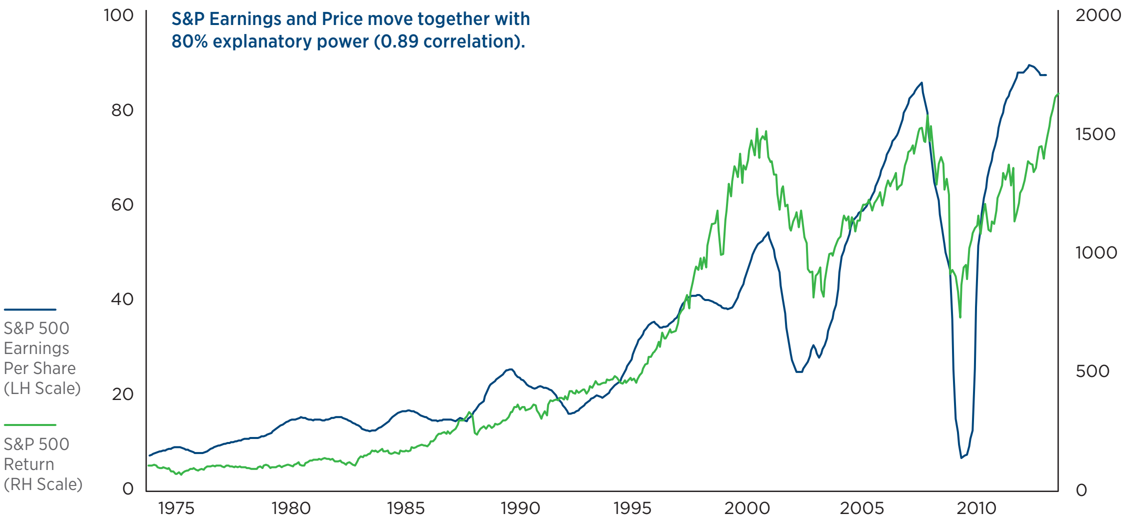


Source: Thomson Reuters Datastream; UMB Investment Management

- Budget cuts will pare job growth, but perhaps have a more severe impact on hours worked due to government furloughs.
- The Affordable Care Act is likely negatively impacting hours worked as hours are reduced and part-time employment increases. The Act has been delayed a year, yet the uncertainty exists.
- Average hours worked has been stable over the past few years, no prevalent upward trend. Data supports moderate economic growth.

Earnings and Spending Drive the Stock Market

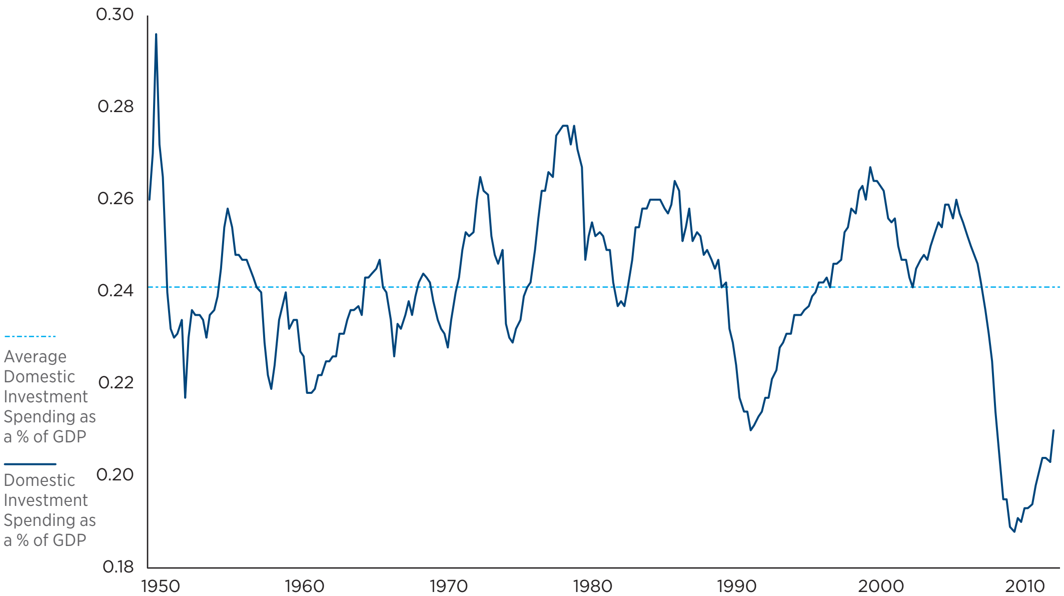
S&P 500 Earnings vs S&P 500 Returns



Source: Thomson Reuters Datastream; UMB Investment Management

- Over the long term, the direction of earnings is highly correlated with the movement of stock prices.
- We experienced low-single digit earnings growth in 2012 and expect mid-single digit earnings growth in 2013, even in a sluggish GDP environment.
- We are witnessing “yellow flags” that corporate earnings growth may slow as revenue growth has been weak and many companies have issued negative outlooks.
- We don’t expect Fed “tapering” to negatively impact corporate earnings.

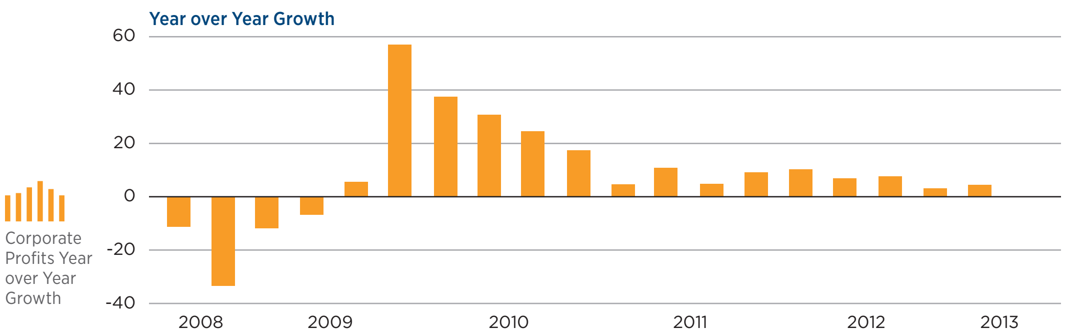
Capital Expenditures as a % of GDP



Source: Thomson Reuters Datastream; UMB Investment Management

- We anticipate a recovery in capital expenditures in the second half of 2013.
- Historically, rising capital outlays translate into higher stock market returns.
- Growth in capital spending is driven by improving aggregate demand, CEO confidence and record corporate earnings, and exacerbated by low interest rates.

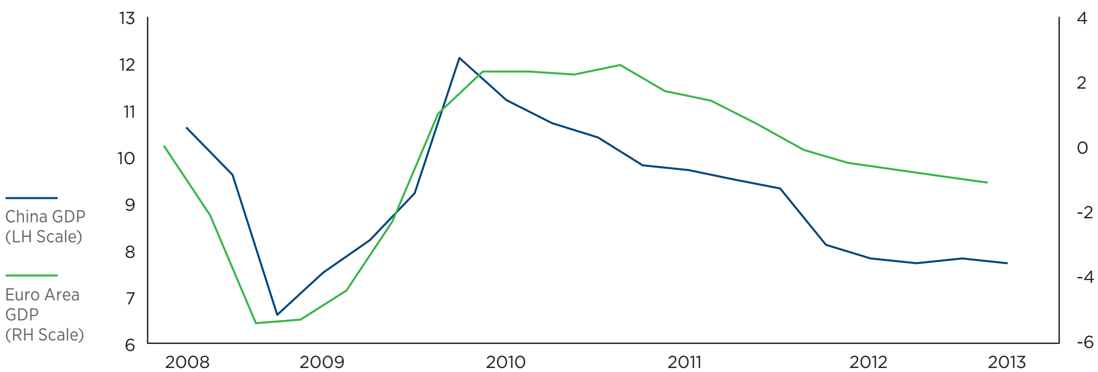
Corporate Profits



Source: Thomson Reuters Datastream; UMB Investment Management

- International economic growth is slowing.
- While tail risks have been reduced in Europe due to accommodative monetary policy, China's banking system is worth monitoring.
- As many U.S. companies derive a significant portion of their earnings from international markets, decelerating economic growth represents a potential risk to earnings.

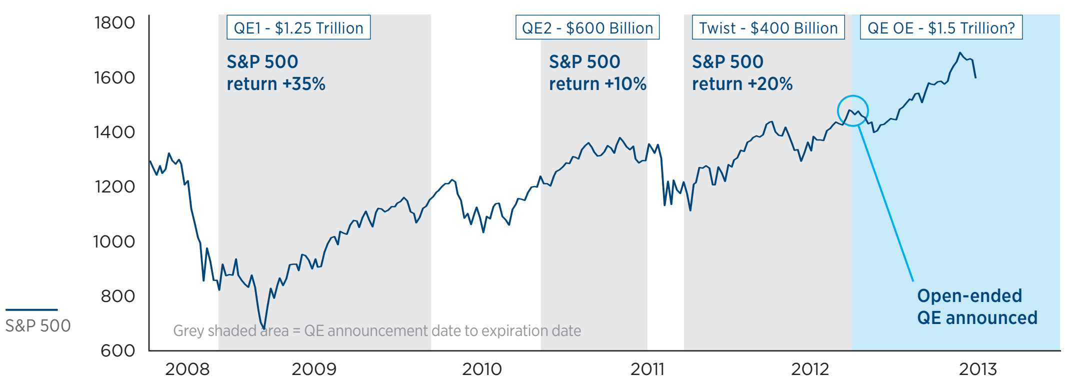
International Economies Slowing



Source: Thomson Reuters Datastream; UMB Investment Management

- Consensus earnings growth is anticipating double digit earnings growth in 2H13 which could be aggressive due to the slowdown in international markets.
- We anticipate 6-8% earnings growth for 2013.

S&P 500 Performance After Quantitative Easing (QE)



Source: Thomson Reuters Datastream; UMB Investment Management

- Unconventional monetary policy such as QE has helped drive stock prices over the past five years.
- QE is driving down longer-term interest rates which, in turn, supports the prices of higher risk assets.
- When QE has stopped, the market has reacted negatively, potentially setting the stage for a volatile back half of the year.

U.S. Equity Sector Performance and Weightings

S&P 500 Year-to-Date Return

	Total Return % as of 6/30/13					
Index followed by sectors	1 Month	3 Month	YTD	1 Year	3 Year	5 Year
S&P 500	-1.33	2.92	13.83	20.70	18.50	7.05
Health Care	-0.72	3.83	20.26	27.75	21.69	11.69
Consumer Discretionary	0.87	6.81	19.79	31.65	27.04	16.94
Financials	-1.65	7.25	19.50	35.48	14.17	1.34
Consumer Staples	-0.25	0.50	15.15	17.82	19.72	11.86
Industrials	-1.26	2.81	13.78	22.28	18.58	6.83
Telecommunications	1.92	1.00	10.55	12.26	21.74	8.65
Utilities	0.96	-2.73	9.93	6.23	14.88	2.85
Energy	-1.98	-0.37	9.77	17.62	18.15	-0.27
Information Technology	-3.61	1.69	6.36	7.75	15.51	7.83
Materials	-4.06	-1.59	3.12	11.53	14.68	0.95

Source: Bloomberg

- A majority of the S&P 500 YTD return of 13.83% was captured in the first five months of the year as investors were confident in QE. More recently, equities have sold off due to a potential unwinding of QE.
- Sectors with high dividend yields have corrected as interest rates have risen. Rising interest rates make bonds more attractive relative to income equities due to a bond's lower-risk profile.
- Specifically, utilities and telecom underperformed the markets over the past three months at the same time that 10 Year Treasury Yields rose nearly 0.7%.

S&P 500 Average Monthly Returns Since 1900 - 2012

Jan	Feb	Mar	Apr	May	Jun
1.63	0.29	0.35	0.76	0.21	0.13

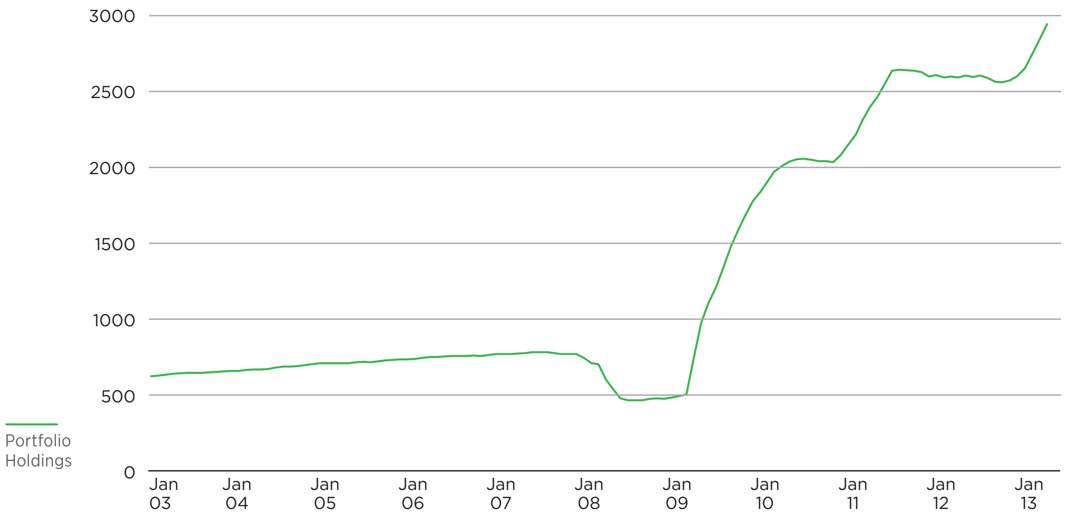
Jul	Aug	Sep	Oct	Nov	Dec
1.00	0.82	0.10	-0.30	0.35	0.64

Source: Bloomberg

- While we do not time seasonal fluctuations in the market, we are aware that May and June are typically challenging times to own equities. This May, equities rallied 2.3% and did much better than past seasonal returns. However, June was a struggle for equities and declined 1.3%.
- Over the last three years, the economy and the market have witnessed pauses during the summer time period.
- If a summer slowdown appears to be happening again, we would view this as a good opportunity to add equity exposure.

Fed Quantitative Easing resulting in ballooning portfolio — will pressure yields

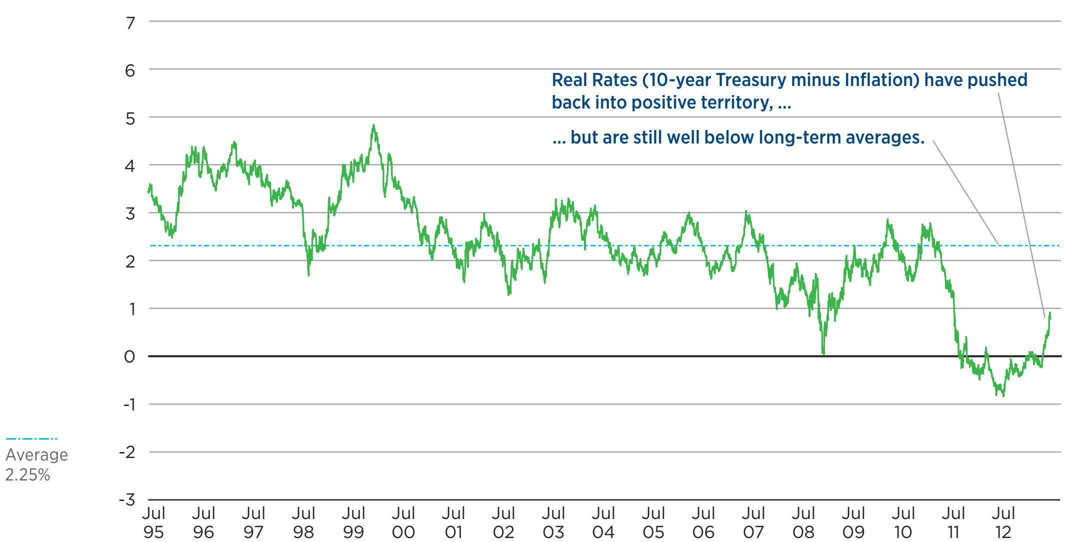
Fed Portfolio Holdings ($Billion)



Source: Thomson Reuters Datastream; UMB Investment Management

- The Fed bond portfolio has reached approximately $3 trillion. Unwinding these holdings will have impacts on the bond market and could push rates upwards more rapidly.
- As the economy moves into stronger territory, the end of QE activities has come into play.
- The discussion of the ending of this multi-trillion dollar purchase program has shifted rates upward, as participants prepare for "normalization" of the Treasury yield curve.

10-year Treasury Yield minus the Inflation Rate – average 2.25%



Source: Thomson Reuters Datastream; UMB Investment Management

- Real Treasury rates are well below fundamental averages, relative to typical benchmarks.
- Now that "tapering" of QE is being discussed, rates have begun to re-trace the path back to "normalized" levels. A year-end 2013 target of 2.50%.
- The Fed will likely succeed in ensuring that the move is somewhat orderly, but ultimately rates will move up to at least 3.50 – 4.00% (nominal).
- Investors must beware of holding long maturities.

U.S. Fixed Income Sector Performance and Weightings

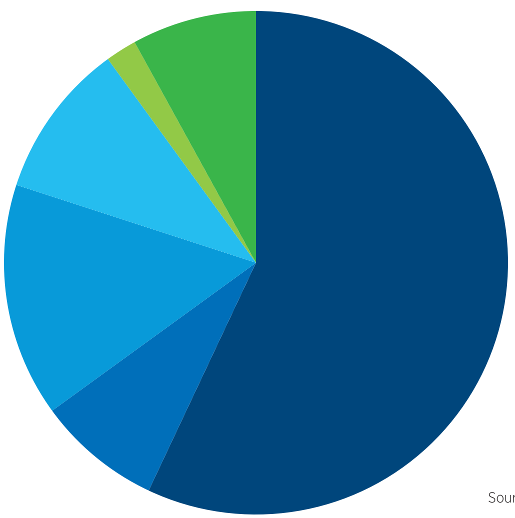
Performance

Index / Sector	MTD Return	YTD Return
Gov 1-3 Year	-0.07	0.02
ABS	-0.57	-0.76
U.S. Agency Intermediate	-0.68	-0.88
U.S. MBS	-0.96	-2.01
U.S. Aaa Credit	-1.05	-2.02
U.S. Aggregate Intermediate Index	-1.12	-1.63
U.S. Gov/Credit Intermediate Index	-1.20	-1.45
U.S. Aggregate	-1.55	-2.44
Credit Intermediate	-1.91	-1.84
U.S. High Yield Intermediate	-2.52	1.43
U.S. High Yield	-2.62	1.42
U.S. Credit	-2.85	-3.60
U.S. Treasury Long	-3.17	-7.83
U.S. Baa Credit	-3.41	-4.01
U.S. Agency Long	-4.77	-7.97
Credit Long	-5.26	-8.01

Source: Thomson Reuters Datastream; UMB Investment Management

- May and June returns were severely negative, due to the rise in treasury rates. This pushed YTD returns into negative territory for all but the High Yield sector.
- Talk of tapering QE put pressure on all spread sectors, with lower credit quality sectors giving back some of the incremental performance they've generated over the last year.
- The Treasury curve steepened, as markets responded to Fed talk of tapering QE.
- The long end of the market suffered. All long indices posted negative returns, severely lagging intermediate/short assets.

Barclays Intermediate Government/Credit Sector Weights



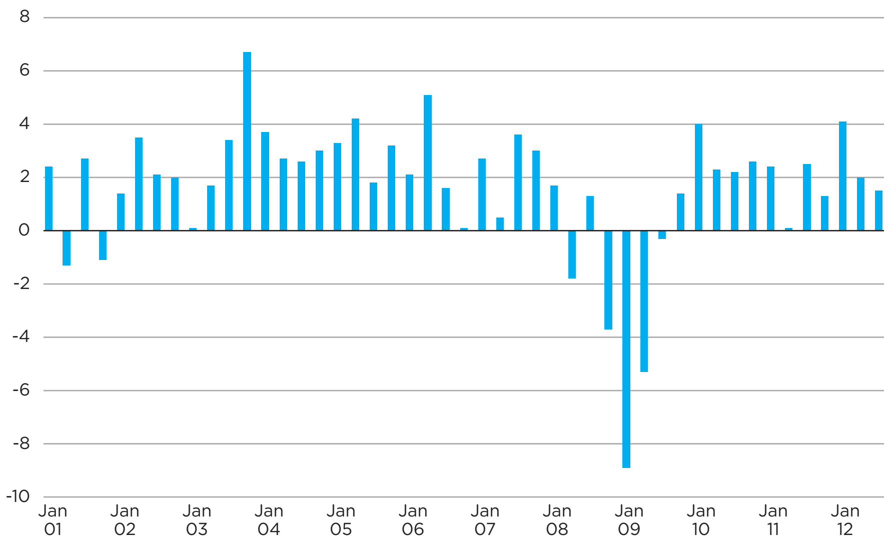
Treasury	57%
Agency	8%
Industrial	15%
Finance	10%
Utility	2%
Other	8%

Source: Thomson Reuters Datastream; UMB Investment Management

- The performance of long-duration Treasuries will dominate the returns of the broad index – damaging returns. Yields are coming off of multi-decade lows, ensuring that this portion of the market has value only as a deflation hedge.
- Given attractive relative yields in portions of the corporate (and high yield) sector, a strong overweight is likely to help bolster incremental returns throughout the upcoming cycle.
- Mortgage-backed securities can be used as a substitute for a portion of the Treasury/agency exposure, helping to enhance yields and dampen volatility.

Real Gross Domestic Product (GDP)

Real GDP Year over Year % Change



Source: Thomson Reuters Datastream; UMB Investment Management

GDP Forecast

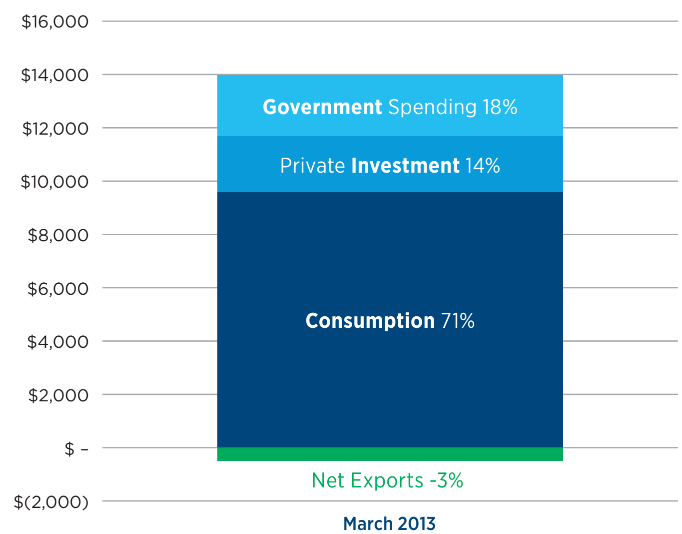
	Q1	Q2	Q3	Q4	Year
2011	0.1 (A)	2.5 (A)	1.3 (A)	4.1 (A)	1.8 (A)
2012	2.0 (A)	1.3 (A)	3.1 (A)	0.4 (A)	2.2 (A)
2013	1.1 (A)	1.5 (E)	2.5 (E)	2.7 (E)	1.8 (E)

% Contribution to GDP by Quarter

Component	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Consumption (C)	1.5	1.7	1.1	1.1	1.3	1.2
Investment (I)	3.7	0.8	0.1	0.9	0.2	1.3
Government (G)	-0.4	-0.6	-0.1	0.7	-1.4	-0.8
Imports (X)	-0.9	-0.5	-0.5	0.1	0.7	-1.5
Exports (X)	0.2	0.6	0.7	0.3	-0.4	0.7
Total	**4.1**	**2.0**	**1.3**	**3.1**	**0.4**	**1.1**

Source: Thomson Reuters Datastream; UMB Investment Management

GDP Components ($Billions)



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