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By all accounts, 2010 was a good year in the capital markets and for our clients' portfolios. I intend to review the year in this letter by breaking our investments down into three broad asset classes: Equities, Fixed Income, and Alternatives. I'll add color on the capital markets along the way because, while 2010 was excellent for performance, the "wall of worry" stands tall. Given the state of the markets and the aftermath of the financial crisis, we are pleased with our results and have given quite a bit of thought to looming risks. One clear concern lies in our fixed income portfolios, which is discussed later in this letter.

First, it is unusual that we would dedicate an investment commentary to a particular twelve month period. Markets do not run in precise one year time frames that define a specific beginning and ending to an investment strategy. We do not invest your capital with a projection over any period defined by the calendar. Nevertheless, it provides us with a stopping point to reflect on the question, "How did we do?"…a question often posed by outside investors. It is also atypical for us to focus on a calendar year because we are not a "product" shop; we don't have one particular portfolio in which we invest all client capital. It would be a lot easier from my perspective if we did! But we don't, and for good reason. We have aggressive clients, moderate clients, different preferences among clients, and different risk tolerances. This is why it is easiest to review last year in terms of asset classes. I obviously cannot dissect one particular allocation in an investment letter, but I can address the underlying asset classes. Regardless of the portfolio, our general themes for the year permeated throughout our equity and fixed income allocations. The allocation to alternatives is a little trickier to speak to broadly because there are several different types of alternatives, and several clients with varying exposures…but I will do my best.

Lastly, I will discuss a very popular investment topic, gold, and give you our themes as we head into 2011.

Equity

It is fair to say that most clients' equity allocation returned in the neighborhood of +16%, net of all fees, in 2010. This compares favorably to the S&P 500 Index and other global benchmarks. In addition, these results were achieved with less risk (measured by standard deviation) than the S&P 500 Index.

Index/ETF	Style	2010 Return
True North Equity Portfolio*	**Diversified**	**16.5%**
MSCI All Cap World Index	Global Equity	12.8%
S&P 500 Index SPDR	Large Caps	15.0%
iShares MSCI EAFE	International	8.3%
iShares Russell 2000	Small Caps	26.9%
iShares MSCI EM	Emerging Markets	16.5%

**Based on model calculation for entire calendar year.*

I can say this with some degree of certainty for two reasons: First, we run internal model portfolios that are used as guidelines for all client equity portfolios. Client exposures vary, and our Wealth Managers customize around these guidelines, but our major themes are well represented across most of our portfolios. When we calculate the performance of this guideline/model allocation for 2010, the return comes to +16.5%. I also looked at the returns across our entire client base for everything labeled equity in our performance reporting engine, including any one-off equity positions we hold for clients, large or small. The return for the entire client equity book in 2010 was +15.9%.

Our largest move in the equity portion of the portfolio occurred in the last quarter of 2009 and/or early 2010. This was due to increased allocations with two managers in particular, acting on two convictions we held at the time. Our first thought was risk reduction. The manager with whom we chose to increase our exposure has consistently demonstrated the ability to hold up on the downside. We felt that after the run-up in 2009, it was a perfect time to increase allocation to this manager given their price-conscious, value investment style. We also chose to increase our exposure to global managers who had the ability to search the world for value. Secondly, we increased exposure to high quality U.S. equities. The equity market run-up in 2009 clearly exhibited classic junk rally characteristics (meaning lower quality companies were the best performers). We felt a reversion was eminent. The manager we targeted was a contrarian bet, due to their underperformance in 2009. They trailed their peers and their benchmark by wide margins. In fact, Morningstar placed their mutual fund in the bottom 1% of managers in their category for 2009. Most advisors wouldn't highlight these results, and would most likely terminate the manager for underperformance. Instead, we increased our exposure with them because we knew their strategy well. We believed that their process would lead to our desired exposure in higher quality companies. In a nutshell, we added money to one of the worst performing domestic growth managers of 2009.

I am proud of this decision for one main reason: Adding to underperformers is hard to do. It is talked about often, but rarely acted upon. I spoke with this manager recently. Among their hundreds of clients, guess how many were adding to their strategy one year ago? Three. We were one of them, and we were rewarded by their outperformance in 2010. Our global value manager returned +17.6% in 2010 and the high quality growth manager returned +18.7%. Both outperformed peers and benchmarks and were the largest contributors to our equity portfolios outperformance.

These were not even the top performers though. Small-mid cap managers and our direct Emerging Markets holdings had the best results of the year. In hindsight, we should have taken these positions higher. We increased small-mid cap in the summer of 2009 because of the historic precedent of small cap outperformance during a recovery. Our average small-mid cap manager returned 22.2% in 2010, and two of them exceeded +26%. Our target allocation to small-mid caps stood at 12% of equities for the entire calendar year. I should add that we have no interest in taking up this exposure at this point in time. The exception would be if found a manager where we felt their stock picking skills outweighed our concern in increasing exposure to the small cap space. Our broad equity allocation targets are detailed below. Note: Several managers in this table have overlapping styles. For example, many global equity managers have significant exposure to emerging markets.

Equity Style	%
Domestic Equity - Large Cap	38.0%
Domestic Equity - Small-Mid Cap	12.0%
International Equity	17.5%
Emerging Markets	2.5%
Global Equity	30.0%

Fixed Income

Our fixed income portfolios returned roughly +6.0% in 2010. Factors such as whether a client held municipal bonds or taxable bonds impacted returns, because munis lagged the broader taxable bond holdings. Regardless, nearly all portfolios incorporated two particular managers that fit our main theme of being defensive: FPA New Income and Pimco Developing Local Markets. FPA had another solid year in 2010 and returned +3.2%. This underperforms broader bond benchmarks, but that does not concern us. Their stated priority is to never lose money and they have proven to be quite successful at achieving that goal. FPA's calendar year returns for 2007 to 2010 are as followed: +6.2%, +4.3%, +2.9% and 3.2%. Oh, and there was a severe financial crisis *somewhere* in there! In fact, over this period the fund only had four months with negative returns and only one quarter with negative results. Needless to say, we are quite confident in this manager and, therefore, they are a sizeable allocation in our fixed income portfolios.

The other position I will highlight is Pimco Developing Local Markets. This fund returned +7.9% in 2010 and represents our dollar hedge. Because it is tied to a basket of Emerging Market currencies, we expect more volatility as compared to a standard intermediate bond fund, but we view it as trading one risk for another. We are willing to take on the currency risk and increased volatility in return for a hedge on an asset where we have concern - the dollar. We believe we have it sized appropriately at 15% of our fixed income portfolios. It also gives us exposure to the fastest growing economies in the world. As stated in one of my previous presentations, the IMF estimates that by 2014, Emerging Market countries will surpass developed economies in terms of total output (GDP). Allocating capital to their currencies through this fund makes a lot of sense to us.

While we were positioned defensively in fixed income throughout 2010, we also felt the need to take further action. Last December, our IPC voted on an allocation change within fixed income that will further increase our defensive positioning. First, it may prove useful if we provide an overview of the issues at hand. I will be brief, but here is our list of concerns in the bond market:

- Massive flows into bond funds.
- The yield curve is being artificially manipulated by the Fed (see our Fall Investment Commentary, available at www.truenorthadvisors.com).
- Real (inflation adjusted) yields are negative. Longer term inflation concerns would suggest higher interest rates.
- Opportunity Costs are low. Another way to say this is that bonds are expensive.

Our allocation to fixed income was probably one of the most heavily discussed topics in our office over the last year. As we've said before, money has poured into the space. One source we follow states the flows into Taxable and Municipal bonds exceeded $650 billion from the beginning of 2009 through November 2010. Given that these flows coincide with the manipulation of the yield curve by the Fed (QE1 and

QE2), we have concerns. One could argue that without the Fed's actions, interest rates would be higher – maybe significantly. Higher interest rates equal lower bond prices, which would lead to losses. Would money be pouring into the space if there were losses (or a fear of impending losses)? Doubtful. Given the unprecedented nature of the situation, we are pulling back.

Our decision was to reduce what we consider to be our "Core Fixed" allocation. Core Fixed can be defined as high quality intermediate bonds. In some cases we have allocated to cash. In others, we have allocated a higher amount to short duration fixed income. We mentioned that opportunity costs are low. Think of this another way: Say the 10-year bond yields 3.4% and you give that up to go to cash because you think that yield is too low (i.e. bonds are expensive). What are you giving up? Cash yields nothing, so essentially you are giving up the 3.4% on an annual basis. Given the unprecedented actions by the Fed, the flows in the bond market, inflation concerns, etc., we believe there will be a good opportunity to redeploy that cash at a later date at more attractive prices. We have identified several areas of interest to reinvest such proceeds and these options span the risk spectrum. Either way, going into short term bonds or cash should preserve capital while we wait for an opportunity to redeploy that money later. Credit goes to our Sr. Analyst, Chris Haarstick for pushing our IPC to make this decision sooner rather than later.

Alternatives

As previously mentioned, our alternatives allocation is harder to define across our client base. One common allocation that I will discuss is commodities. Our commodities manager returned +24.1% in 2010. We increased this allocation across our client base in 2009, with the intent to increase further during a pullback. Our manager has returned over 51% since our IPC added them in mid-2009, leaving few opportunities to add to the position.

While gold has been a well-publicized investment topic, metals that really shone were silver and nickel. They returned +80% and +36% in 2010, respectively. Food sources such as corn and wheat returned +40% and +27% on the year as well. Given our concerns regarding long term inflation, allocating to commodities such as food sources, energy sources, and metals makes a lot of sense to us. As discussed later in this letter, we prefer this broad exposure as opposed to a singular bet on gold.

Our clients' investments in "Fund of Funds" had moderate results on the year. We have investments with three "Fund of Funds," and each is very different. Two of the three reported in the +5-6% range in 2010. The third has yet to finalize its performance, but we suspect it will be slightly higher. One common factor over the year was that broad hedge fund allocations had muted results. This leads some investors to question their usefulness in asset allocation. We respectfully disagree. Many hedge fund managers were skeptical of the rally in capital markets and maintained low net exposure to the market. As markets surged, managers in the alternative space languished because of their low net exposures. This is an over simplified example, but think of a stock picker that employs a long/short strategy. Say the manager plans to buy (long) 30 stocks and sell (short) 25 stocks all in equal amounts (shorting a stock is a bet that it will decline in value). Then assume that *all* the stocks go up in value. The results will be muted because while the manager benefited from stocks he bought, they lost money betting that 25 of those stocks would decline in value. These strategies may not have worked well in 2010, but we suspect the tide will turn and the market will soon begin to separate good businesses from bad ones.

Gold

Beyond the fixed income topic, gold was probably the next most discussed investment topic in the office this year. I don't recall a particular investment that has divided so many well respected investors. The biggest issue I see with gold is that it has no commercial value; it has no cash flow. If you buy gold, you are betting that someone else will pay more for it at some point in the future. This is only acceptable because the metal has been viewed (rightfully so) as a store of value for thousands of years. The broad sentiment is that the government is monetizing U.S. debt by "printing money" and, therefore, debasing the U.S. dollar. Gold, being viewed as a store of value, is an obvious hedge. This is why gold has increased from $400/ounce in 2005 to over $1,300/ounce today. Where were all the gold commercials in 2005?! Here's what Warren Buffet said on the subject recently:

> *"You could take all the gold that's ever been mined, and it would fill a cube 67 feet in each direction. For what that's worth at current gold prices, you could buy all of the farmland in the United States. Plus, you could buy 10 Exxon Mobils, plus have $1 trillion of walking-around money. Or you could have a big cube of metal. Which would you take? Which is going to produce more value?"*

With that said, our commodity allocation and several of our equity managers have exposure to gold. I prefer exposure to a broader basket of commodities that have commercial uses and where demographic trends favor increasing demand to consumable items like wheat, corn, oil, copper, and natural gas. Gold is in the mix, and we do have exposure, but we are not willing to make a large bet on gold at this time - outside of what our existing managers are already doing.

Outlook

While we are pleased with performance in 2010 we continue to re-examine our managers and our allocations. Our current themes can be briefly summarized as followed:

Equity: We favor global strategies and high quality global businesses. We have a bias to owning large caps over small-mid cap companies in the U.S.

Fixed Income: We maintain below market duration. We favor our dollar hedge using a broad basket of emerging market currencies. We are wary of interest rate risks and the large flows into bond funds.

Alternatives: We maintain exposure to a broad basket of commodities and wide range of hedge funds. We expect that correlations in the market will decline, and/or volatility will spike, providing opportunity for managers in the hedge fund space.

I would love to expand further into the asset classes and other managers/investments that there is not room enough to cover in this letter. It is always difficult to narrow down our investment ideas and actions into such a short commentary. If you would like to discuss any topic covered (or not covered) in this Commentary, please feel free to email me at mfitzsimmons@truenorthadvisors.com. I would be happy to share more detail and my thoughts. Thank you for entrusting me, and the rest of the True North team, with the stewardship of your capital. I look forward to writing you again in the Spring Commentary.