Perspectives

Morris Capital Advisors, LLC

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Greece is the Word

Our family has a slew of favorite movies. We can quote lines and apply them to any number of situations, much to the chagrin of friends and coworkers. But my girls know that some genres are just too much for me. Prime among them the romantic musicals, like the movie Grease, where boy meets girl, girl changes boy, they sing, they dance, they live happily ever-after. I can suspend reality for entertainment, but I have my limits. The plot line for the Euro-drama in Greece also requires a suspension of belief that is too much for me. Tsipras is no bad-boy turned good John Travolta, and Angela Merkel certainly isn't good girl turned bad Olivia Newton John singing and dancing their way to a happy unified Euro ending. It won't happen, this ain't the movies folks.

The current Greek tragedy is really the extension of a story that goes back more than a couple of months, or even a couple of years. It's a sequel to Greek debt crises in 2010 and 2012 when emergency debt funding was arranged to avoid default in exchange for economic reforms. The term often used back then was "kicking the can down the road" and here we are, down the road. Unfortunately, the process is still the same, and the proposed solution is the same, so I doubt that the outcome can be any different.

While debt restructuring for Greece is getting all the attention, the real underlying problem is an economy that is burdened by weak job growth, persistently high levels of unemployment, excessive regulatory burdens on business, and overly generous pension and welfare benefits. Add to that a complex multilayered tax system and a population that considers tax evasion a survival skill. The net result is a low growth economy in the best of times that is now contracting at an alarming rate. Layering more debt on this overburdened economy is certainly not a solution.

Real problems require real solutions and I am not sure that anyone in Europe is willing, or able, to address the two fundamental flaws inherent to the Euro zone. The first is political, where the nationalist interest of member states far exceeds interest in the Euro zone. While a core group of politicians and bureaucrats are holding things together by force of will, when a crisis arises individual countries will work in their own self interest. Greece has employed a brinkmanship strategy to gain concessions, and if the situation arises other member countries will certainly do the same.

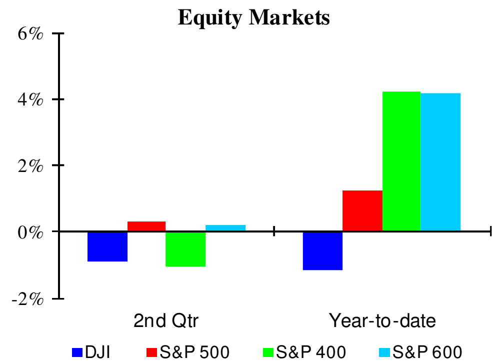
And that brings us to the second problem, economics. Countries throughout the Euro zone have been struggling for years with the same structural issues as Greece. Governmental policies have done little to address slow job growth, high unemployment among youth and immigrant populations, and extensive social welfare programs brought on by generous benefits and an aging population. Government support of inefficient industries while stifling business formation and innovation elsewhere also constrains growth potential. There are numerous Euro zone countries whose annual deficits and accumulated debt burdens violate Euro zone constraints, putting additional pressure on fundamental economic soundness of the regional agreement.

Unfortunately, added debt has been the preferred solution for financial stress in economies around the world. Expanding upon Alan Greenspan's initial forays, Ben Bernanke used successive rounds of debt funded liquidity injections in an attempt to support financial markets and stimulate economic growth in the US. His encouragement of similar policies around the globe accelerated the accumulation of debt as a solution to every fiscal problem. The wisdom of this debt accumulation is doubtful, and as the quarter drew to a close a debt crisis in Puerto Rico provided fresh evidence of the risks inherent in excessive levels of debt financing.

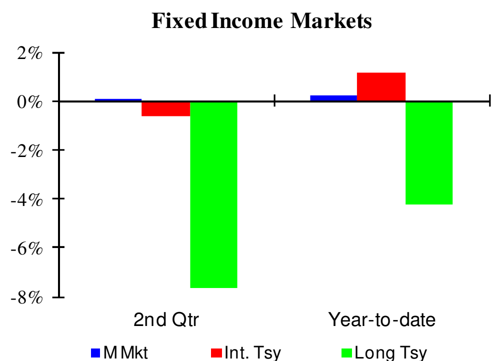
We believe that the same dangers of excessive debt levels for regional economies apply to the corporate world. Over the past several years many companies have levered their balance sheets with added debt, enticed by historically low interest rates, returning in some cases to debt levels not seen since the crisis on 2008. We have always been wary of financial leverage and this trend concerns us because it is becoming more evident in our research. Our analytical discipline seeks to identify companies whose financial structure provides a sound foundation to support growth and stability. We begin with a process to assess the true value of assets on the balance sheet by discounting or eliminating "assets" with little economic or intrinsic value. We net this reconstructed asset value against short and long-term debt to determine the soundness of the corporate balance sheet, which is critical for support in times of stress. We also look at the ability of a company to generate revenue and cash flow growth over time to support both debt service and reinvestment needs. We believe that these types of companies, with a sound financial structure and the potential to grow over time, will prove to be attractive investments. Our goal is to construct a portfolio of stocks that meet these criteria and offer the best opportunity to generate an attractive return, despite the drama surrounding the rest of the financial cast.

Sincerely,
Daniel A. Morris

Investment Markets



Equity markets posted uninspiring returns during 2015's second quarter, closing close to unchanged, plus or minus a percentage point depending on the benchmark. In hindsight, this is a rather remarkable outcome, given the news flow. For much of the quarter, investors dealt with a worsening situation in the Euro zone, as Greece teetered on the brink of bankruptcy. Chinese equities roared to bubbly highs, then just as quickly unwound as the quarter came to an end. In the US, investors absorbed a steady increase in treasury yields, as the Federal Reserve seemed to indicate increasing resolve to raise interest rates as early as September. Yield-oriented stocks, however, significantly underperformed growth stocks.



Treasury yields rose steadily throughout the quarter, reflecting an economy that apparently regained its footing after a very weak start to the year. The Federal Reserve has consistently signaled its intention to raise interest rates later this year, possibly as early as September. This would be the first change in Fed interest rate policy in more than six years. As a result, bond prices fell, especially for longer-dated securities. Yields have now returned to levels achieved at the close of 2014, and the yield curve remains fairly flat.

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Morris Capital Advisors, LLC

Large-Cap Core Portfolio

As of 6/30/2015

Portfolio Review and Performance

During the 2nd Quarter of 2015, the Large-Cap Core portfolio was helped by strong performance from Walt Disney Company, Avery Dennison Corporation, MetLife Inc., JPMorgan Chase, and Skyworks Solutions. The shares of Walt Disney climbed steadily throughout the quarter. Disney reported revenue and earnings above expectations, and raised their dividend. Revenue for the Consumer Products and the Parks and Resorts divisions rose substantially, offsetting declines in the Media and Studio divisions. Avery Dennison jumped after the company reported revenue and earnings above expectations and raised guidance for the next fiscal year. The stock continued to move higher over much of the balance of the quarter. The shares of MetLife rallied later in the quarter after the company reported earnings above expectations and higher return on equity. The stock has shown marked improvement this year after a very choppy performance in 2014. The shares of JPMorgan have risen steadily through much of the year. During the quarter the company reported earnings above expectations and a rise in revenues. The results reflected strong performance in the Corporate & Investment Bank group, in Markets & Investment Banking, as well as increased fee revenue in Asset Management and Mortgage Banking. The shares of Skyworks Solutions have also risen steadily since late last year. During the quarter the company reported revenue and earnings above expectations and raised guidance for the next quarter. The company also raised their quarterly dividend 100%.

Notable laggards during the 2nd Quarter of 2015 include BE Aerospace, Applied Materials, Mallinckrodt PLC, AmerisourceBergen, and Sandisk Corporation. The shares of BE Aerospace were weak for much of the quarter. The company beat earnings expectations but missed revenue estimates and lowered guidance for the fiscal year due to weakness in Russia and defense related markets, and the negative impact from Euro-denominated sales. The weaker results are consistent with other companies in the aerospace supply industry. The shares of Applied Materials fell sharply after the company and Tokyo Electron agreed to terminate their business combination agreement. The decision was made after the US Department of Justice advised the companies that their remedy proposal would not offset competitive concerns raised by regulators. The shares of Mallinckrodt were weak despite reporting quarterly revenue and earnings above expectations and raising guidance for the fiscal year. In some respects the weakness was more reflective of consolidating gains after a recent rally in the stock of this global specialty pharmaceutical company pushed shares to an all-time high just as the previous quarter ended. The shares of AmerisourceBergen followed a similar pattern. The stock traded weaker, retracing its recent rally, despite the fact that the company reported revenue and earnings above expectations and raised guidance for the fiscal year. The shares of Sandisk fell late in the quarter on continued concern about weakness in the company's end markets. This followed earlier weakness in the stock when the company warned of weaker results and lowered guidance, and then announced results weaker than the lowered guidance.

During the quarter we sold BorgWarner and used the proceeds to purchase FedEx Corporation. The earnings and growth expectations for Borg Warner declined, reducing the potential for further gains in the stock. The purchase of FedEx provided us an opportunity to invest in a well managed company that is a leader in its industry. FedEx should also benefit from any additional pickup in economic activity.

Net Composite Investment Performance
As of 6/30/2015

	Core Portfolio	Lipper LC Core Funds	S&P 500 Index
2nd Quarter	**0.91 %**	-0.09 %	0.28 %
1-Year	**5.52 %**	5.46 %	7.43 %
3-Year Annualized	**18.44 %**	16.47 %	17.22 %
5-Year Annualized	**16.16 %**	15.82 %	17.28 %
10-Year Annualized	**8.05 %**	7.20 %	7.86 %
Annual since Incept. 12/31/1992	**8.09 %**	7.41 %	9.28 %

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
6/30/2015

	Core Portfolio	Russell 1000 Index
Average Yield	**1.59 %**	1.99 %
PE on Expected Earnings	**18.70 x**	19.47 x
Expected Growth Rate	**11.14 %**	10.76 %
PEG Ratio	**1.68 x**	1.81 x
Debt to Capital	**36.50 %**	38.74 %
Price to Book	**11.99 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 6/30/2015

Portfolio Review and Performance

During the 2nd Quarter of 2015 the Large-Cap Growth portfolio was helped by strong performance from Gilead Sciences, LKQ Corporation, AbbVie Inc., and MasterCard Inc. It is interesting to note that several of these top performers were in the bottom group last quarter including, LKQ, AbbVie, and Microsoft, demonstrating the benefit of patient investment. The shares of Gilead Sciences rose after the company reported revenue and earnings above expectations, and raised product sales guidance for the fiscal year. The stock continued to move higher, breaking out of a recent trading range, based on new applications for several existing drugs and expanded treatment applications for its Hepatitis C products. LKQ jumped when the company reported strong revenue growth, earnings above expectations, and reaffirmed earnings guidance for the fiscal year. The shares continued to rise, reversing a downtrend that had been in place since last year. The shares of AbbVie bounced off the lows established last quarter when the company announced the acquisition of Pharmacyclics. The rebound started when the company reported revenue and earnings above expectations, received additional support with announcements of positive results and additional approvals for its Hepatitis C treatments, and rose further after announcing clinical trials for blood cancer treatments in conjunction with Pharmacyclics and AstraZeneca. The shares of MasterCard rose steadily throughout the quarter, continuing a trend stretching back to last year. The company reported earnings above expectations, strong increases in both processed transactions , and increases in gross dollar volume of transactions on a local currency basis.

Weak holdings during the 2nd Quarter of 2015 include Southwest Airlines, Michael Kors, Whirlpool Corporation, and Harmon International. The shares of Southwest Airlines rolled over after a strong rally last year. We were able to reduce the impact of the decline due to our sale of a substantial portion of our Southwest holdings last quarter. Weakness in the stock was attributable to concerns about increased capacity in the industry, and the negative impact of a stronger dollar and fuel prices. The shares of Michael Kors fell sharply after the company reported earnings below expectations, despite an increase in retail net sales. Investors were concerned about a decline in comparable store sales, and reduced guidance from the company for the quarter and next fiscal year. The shares of Whirlpool retreated when the company reported revenue and earnings below expectations. The company also issued lowered earnings guidance for the fiscal year due to the impact of unfavorable currency translation and weaker demand in Brazil. The company expects to offset those results with higher margins in Latin America and Europe from price increases and higher productivity during the second half of 2015. The shares of Harman International declined when the company reported revenue and earnings below expectations and reduced guidance for the fiscal year.

During the quarter we sold Abbott Laboratories and Texas Instruments, investing the proceeds in F5 Networks. The Abbott position was small due to its reorganization and spinoff of AbbVie. The ranking of Texas Instruments declined as the growth rate and margins fell at this diversified semiconductor manufacturer. We used the proceeds of these transactions to purchase F5 Networks. This technology company provides a traffic management operating system that helps the rollout and implementation of cloud, data center, and software applications to clients around the globe.

Net Composite Investment Performance
As of 6/30/2015

	Growth Portfolio	Lipper LC Growth Funds	Russell 1000 Growth Index
2nd Quarter	**-2.24 %**	0.94 %	0.12 %
1-Year	**8.55 %**	10.79 %	10.54 %
3-Year Annualized	**18.78 %**	18.06 %	17.98 %
5-Year Annualized	**17.06 %**	17.16 %	18.57 %
10-Year Annualized	**8.35 %**	7.94 %	9.10 %
Annual since Incept. 6/30/93	**12.46 %**	6.44 %	8.76 %

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
6/30/2015

	Growth Portfolio	Russell 1000 Growth Index
Average Yield	**0.88 %**	1.51 %
PE on Expected Earnings	**16.53 x**	22.55 x
Expected Growth Rate	**14.78 %**	13.07 %
PEG Ratio	**1.12 x**	1.73 %
Debt to Capital	**30.98 %**	40.03 %
Price to Book	**6.45 x**	5.88 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

Small-Cap Growth Portfolio

As of 6/30/2015

Portfolio Review and Performance

During the 2nd Quarter of 2015 the Small-Cap Growth strategy was helped by gains in Skechers USA, Inc., AMN Healthcare Services, Virtusa Corporation, Align Technology, Inc., and US Physical Therapy. The shares of Skechers jumped when the company reported revenue and earnings above expectations, and reaffirmed guidance. The results were driven by substantial sales growth year-over-year and contributed to a further rise in the stock over the balance of the quarter. The shares of AMN Healthcare continued the steady rise that stretches back through last year. The company reported revenue and earnings above expectations, and strong top-line revenue growth. Virtusa jumped after the company reported strong revenue growth and earnings above expectations. The company also raised revenue and earnings guidance for the quarter and fiscal year, contributing to a continued rise in the stock over the balance of the quarter. The shares of Align Technology rose after the company reported revenue and earnings above expectations, and strong revenue growth. The company also announced that it would accelerate its stock repurchase program. The shares of US Physical Therapy rose despite reporting earnings that missed expectations. Company management indicated that severe winter weather had contributed to cancellations and reduced patient visits. As the weather improved office visits and referrals increased leading to an improved view for the coming quarter.

The portfolio was constrained during the 2nd Quarter of 2015 by poor performance from Datalink Corporation, Greenbrier Company, Lannett, Inc., Belden, Inc., and Xcerra Corporation. The shares of Datalink fell sharply when the company reported revenue and earnings below expectations, a decline in gross margins, and reduced guidance for the next quarter. The disappointing results were due primarily to a rise in lower margin networking equipment and decline in higher margin storage equipment. Concerns about a continuation of this product trend put further pressure on the stock over the balance of the quarter. The shares of Greenbrier fell late in the quarter despite earlier reporting revenue and earnings above expectations, and an increase in revenue and earnings guidance for the fiscal year. The stock decline towards the end of the quarter occurred after a ratings analyst downgraded the stock due to concerns about declining industry demand for this railcar manufacturer. The shares of Lannett fell despite reporting earnings better than expected and reaffirming guidance. Investors were concerned that management outlook on the earnings conference call was not more upbeat for this generic drug manufacturer. The stock improved later in the quarter, but not enough to offset the previous decline. The shares of Belden declined early in the quarter when the company beat earnings expectations, but missed revenue expectations and lowered guidance for the next quarter. Xcerra shares dropped sharply when the company reported earnings above expectations but reduced guidance for the next quarter. Investors considered the lowered guidance for both revenue and earnings to be substantial, raising concerns about future growth for this semiconductor test equipment manufacturer.

During the quarter we reduced our position in Molina Healthcare to take profits, and sold ANN Inc., Monro Muffler, and RPC, Inc. ANN and Monro Muffler struggled to execute in the highly competitive woman's retail and auto service marketplaces, while RPC has suffered from a decline in energy exploration activity as oil prices declined. We used the proceeds from these transactions to purchase Blackhawk Network Holdings, CalAmp Corp., and Malibu Boats, Inc. Blackhawk Network is a prepaid payment network that facilitates consumer rewards programs, CalAmp is a global provider of wireless communications solutions, while Malibu Boats designs and manufactures performance sports boats.

Net Composite Investment Performance
As of 6/30/2015

	Small-Cap Portfolio	Lipper SC Growth Funds	Russell 2000 Growth Index
2nd Quarter	**2.83 %**	1.67 %	1.98 %
1-Year	**13.59 %**	7.69 %	12.34 %
3-Year Annualized	**18.49 %**	16.81 %	20.11 %
5-Year Annualized	**16.11 %**	16.88 %	19.31 %
10-Year Annualized	**6.23 %**	8.03 %	9.85 %
Annual since Incept. 4/30/01	**7.84 %**	6.41 %	7.50 %

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KEY MEASURES
6/30/2015

	Small-Cap Portfolio	Russell 2000 Growth Index
Average Yield	**0.87 %**	0.63 %
PE on Expected Earnings	**18.79 x**	27.94 x
Expected Growth Rate	**15.15 %**	15.85 %
PEG Ratio	**1.24 x**	1.76 x
Debt to Capital	**21.80 %**	26.49 %
Price to Book	**3.63 x**	4.69 x

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