



North American Management

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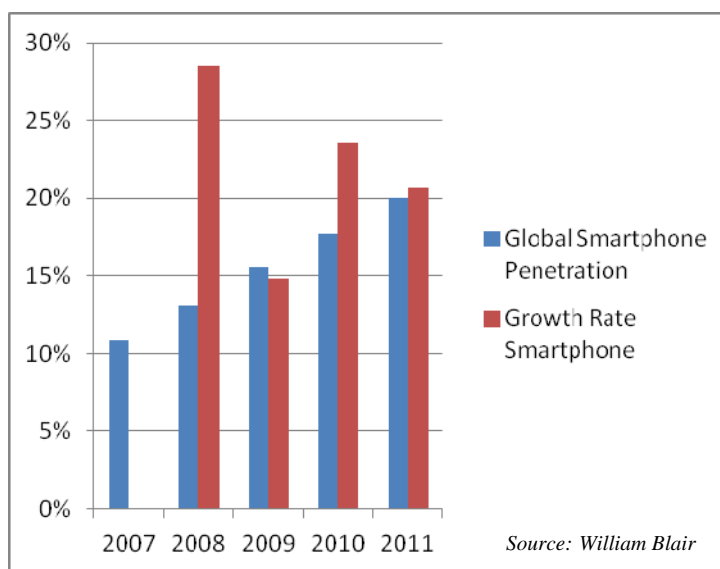
Emerging Technologies August 2010

After a tumultuous and unrewarding second quarter, investors once again embraced risk in July on better than expected second quarter 2010 earnings in the US. There were also encouraging signs of strength among European banking institutions as loan delinquencies fell and the likelihood of additional capitalizations improved. Against this backdrop, however, are negatives - a slowing US economy and the possibility of a dreaded double dip - that continue to pressure the market and make us highly selective in our asset allocation choices.

Despite these challenges to a robust recovery, we are evaluating a number of investment opportunities in the technology sector that may prove to be excellent, transformational growth opportunities.

Secular technology themes gaining momentum include: 1) cloud computing, which allows users to connect to applications at a remote data center (Google) as opposed to applications residing on one's PC operating system; 2) the explosion in demand from social media sites (Facebook, Twitter, and YouTube); and 3) the proliferation of mobile data requiring high speed access to the internet (Netbooks).

The communications, advertising, energy and financial sectors are all beneficiaries of these advances in technology. Companies we are considering for investment in these areas have solid balance sheets with earnings growth of 3-5x GDP, yet they trade at or near their earnings growth rates. We believe this represents a real opportunity to own a number of global growth leaders with cash flow yields at 2-3x the US 10 year Treasury bond yields. Often when the spread in yields has reached these levels it has signaled an attractive entry point.



The consumption of information is rapidly moving to handheld devices, providing a broad array of investment options. The number of devices available is growing at an annual rate of 21%, with global penetration of 20% (see graph above). The evolution from "dumb" to "smart" phones and tablets will continue to transform many business models. For example, Apple's iPad technology has surely transformed the way we consume media content, Amazon recently announced that the sale of e-books has surpassed that of hard copies, and Google expects to generate over \$1 billion in advertising revenues next year from its YouTube platform.

On the financial front, debit cards are now overtaking credit cards, and we expect it will end with a reconfiguration of payments from paper/plastic to electronic platforms. The hand held device seems to be morphing into a transaction enabler known as an e-wallet. This evolution will generate a wide array of new opportunities in the data mining, security and storage sectors, and will create new transaction flows for credit card companies and banks.

One of the greatest surprises has been technology's impact on the energy sector. As little as three years ago, experts were warning of accelerating decline rates and exhaustion of natural gas reserves. Yet, the advent of innovative



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exploration and drilling techniques has radically transformed the outlook for this industry. Reserves of natural gas are now expected to last decades and could perhaps provide the means to become a core energy source for North America.

Although we remain defensively positioned, we are working diligently to identify emerging technologies, and endeavoring to incorporate them into our client's portfolios at attractive valuations.

The information in this discussion is taken from sources that North American Management believes to be reliable. Notwithstanding, North American Management does not guarantee the accuracy of the data.