

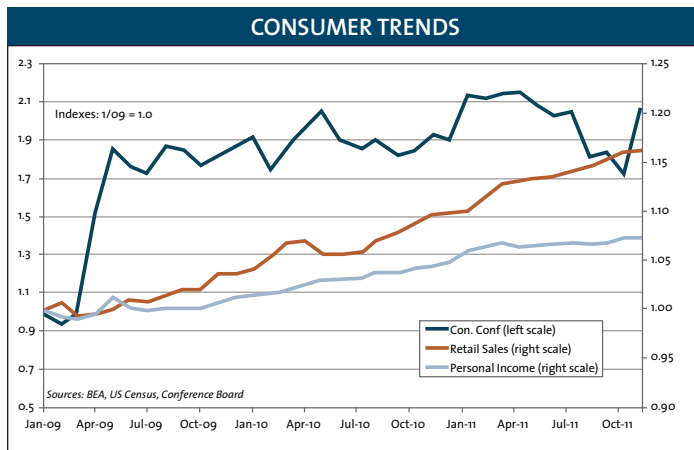
ECONOMIC REVIEW & OUTLOOK

December 31, 2011

KEY ECONOMIC RELEASES

EMPLOYMENT	As of	Expected	Actual	Prior Period	12 Months Ago
Unit Labor Costs (3rd Quarter)	NOV	-2.1%	-2.5%	2.8%	-0.1%
Unemployment Rate	DEC	8.7%	8.5%	8.7%	9.4%
Change in Non-Farm Payrolls	DEC	155K	200K	100K	103K
INFLATION (year over year)	As of	Expected	Actual	Prior Period	12 Months Ago
Consumer Price Index	NOV	3.5%	3.4%	3.5%	1.1%
CPI Ex Food & Energy	NOV	2.1%	2.2%	2.1%	0.8%
Producer Price Index	NOV	5.8%	5.7%	5.9%	3.5%
HOME PRICES (year over year)	As of	Expected	Actual	Prior Period	12 Months Ago
S&P/Case Shiller Top 20 Mkts.	OCT	-3.2%	-3.4%	-3.5%	-0.8%
MANUFACTURING ACTIVITY	As of	Expected	Actual	Prior Period	12 Months Ago
Capacity Utilization	NOV	77.8%	77.8%	78.0%	75.2%
Leading Indicators	NOV	0.3%	0.5%	0.9%	1.1%
GDP Annualized (3rd Quarter)	DEC	2.0%	1.8%	1.4%	2.6%

Source: Bloomberg



Source: Argus

At Perkins Coie Trust Company, we believe it is a priority to have a current financial plan, maintain a strategic asset allocation strategy, and employ tax awareness in the investment process. We also believe investors must focus on fundamentals and diversify their portfolios by asset class, style, size and geography to manage market risk. We invite you to contact us to learn how we can help you achieve your financial goals. **For more information regarding our trust, investment and planning services, please contact us toll free at 888.720.8382 or locally at 206.359.8407.**

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Perkins Coie Trust Company is a Washington state-chartered trust company.

Welcome 2012! We hope this year brings health, happiness and prosperity to you and your family. And we bid adieu to 2011, a tumultuous year in which the equity markets seemed a sentiment-driven voting machine, moving up with strong corporate profits but quickly capitulating to the downside with the continued onslaught of fast-changing macro events. Although there was modest improvement toward year-end, domestic factors of continued high unemployment, deterioration in housing prices, and the stalemate among policymakers were material negatives. Issues abroad, such as the Eurozone crisis, supply shocks caused by the earthquake and tsunami in Japan as well as the floods in Thailand, and worries about a hard landing in China served to magnify the swings in the stock markets. These global concerns have made the United States the “best house on a bad block,” driving up our currency and adding to the adverse impact on U.S.-based multinational companies’ export volumes caused by deterioration in Europe. Indeed, nationalism (aka protectionism) may be on the rise with a number of multinationals bringing their operations back to U.S. territory. Domestic investments may continue to be a safer haven in 2012.

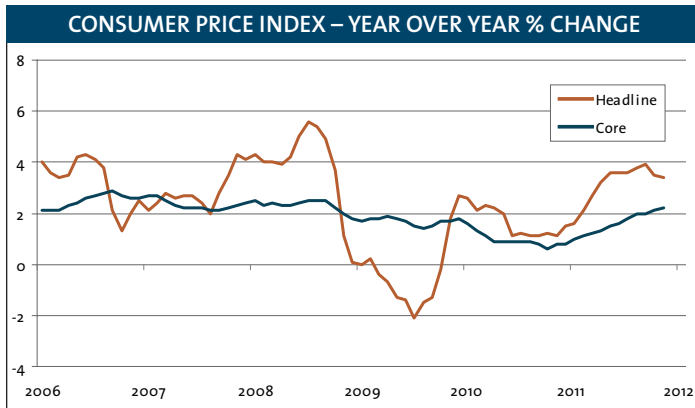
Consumer confidence is beginning to rebound. Consumer confidence took a beating mid-year following the U.S. credit rating downgrade and uncertainty created by the financial crisis in Europe. In recent months, however, low interest rates and a rise in employment growth have recharged the U.S. consumer. The Consumer Confidence Index jumped in December to 64.5 from 55.2 the previous month. Also, the Department of Commerce Retail Sales Index surged at an 8.7% rate in the November quarter, and Black Friday sales were up 10% year-over-year — primarily due to heavy discounting. One concern in the consumer sector is the ratio of household debt to income. This ratio is still high by historical standards, and it is difficult to pay down debt when incomes are not growing very fast. The consumer sector makes up about 71% of GDP and is becoming even more important due to weakness in the federal, state, and local government sectors. Consumers are ending the year in a somewhat more upbeat mood, but it is too soon to tell if this is a rebound from earlier declines or a sustainable shift in attitudes.

Employment trend is positive. The recently released December payroll report was a continuation of the positive trend in the job market that began in the summer. The private sector added over 200,000 jobs in the month,

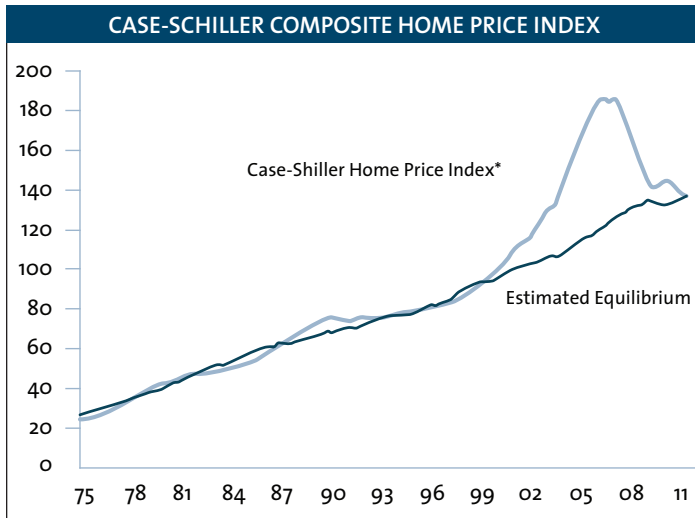
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ECONOMIC REVIEW & OUTLOOK

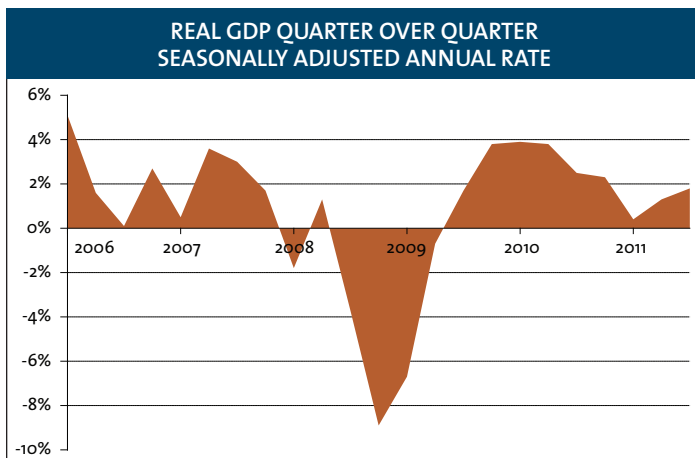
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Source: Bloomberg



Source: Goldman Sachs



Source: Bloomberg

pushing the unemployment rate down to 8.5%, the lowest level in nearly three years. Uncertainty in the regulatory and policy environment during the U.S. election season should impede hiring for most of 2012, especially in the critical small business sector.

Another segment of the economy that could negatively impact employment is the housing market. Not only is construction-related hiring sluggish, but declines in home prices make it more difficult for workers to sell and relocate. With the current rate of employment growth, it will take another seven years to rehire the 8 million workers who lost their jobs in the great recession.

Inflation growth slowed in the second half. As gasoline and commodity prices have eased, some of the inflationary pressures on consumers and producers have abated. Prices paid by consumers have stabilized over the month, including core CPI, which was up 2.1% over the past year. High unemployment has kept a lid on wages. It is difficult to see inflation getting entrenched without wage growth picking up. We believe the world may be more deflationary than inflationary for now. Weak global demand, especially if Europe is in a recession, should limit pricing power.

Moderate economic growth shows global economy not yet out of the woods. Although the tone of the majority of U.S. economic releases has been positive of late, the level of overall activity is moderate. One example of this is the housing market, where the most recent housing starts data showed an impressive 9.3% gain. The increase, however, was from a very low base and was led mainly by multifamily units. Single family starts were down 1.5% year-over-year. Housing continues to bounce along the bottom, facing a lingering overhang of supply and downward price pressure as yet another round of foreclosures hits the market. Another example of moderation is GDP growth. The U.S. Department of Commerce lowered its third and final estimate of Q3 GDP to 1.8% from its original estimate of 2.5%. The overall economy has shown improvement in each quarter of 2011, but the results have been below trend and uneven.

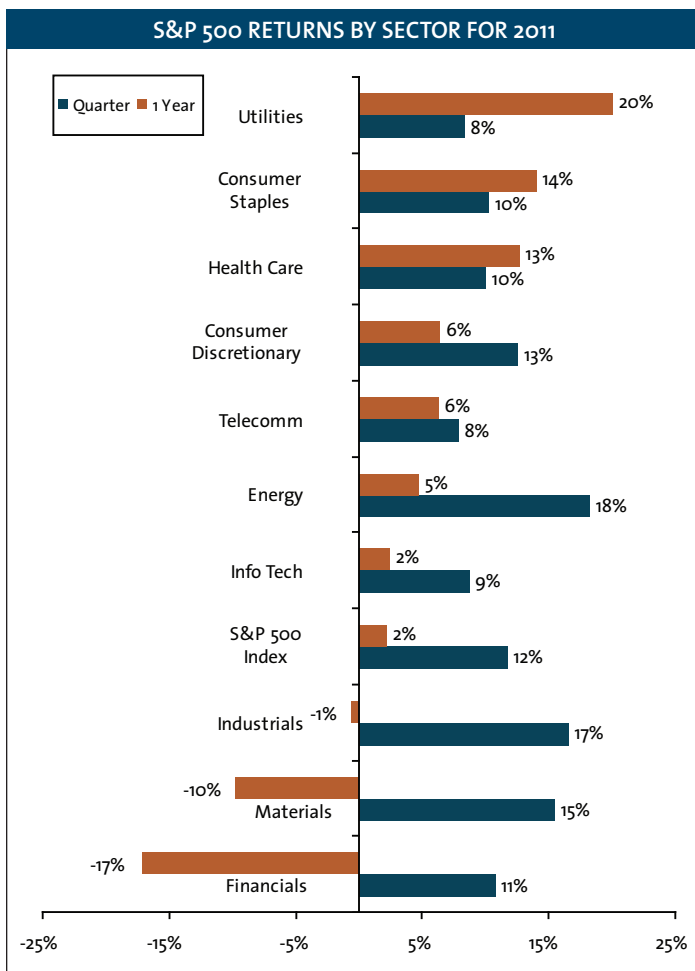
GDP will probably look similar in 2012 to 2011 — somewhere around 2.5%. Risks to this forecast include the ongoing financial and political struggles in Europe and further downward pressure on housing prices in the U.S. We will most likely see a third round of quantitative easing if GDP is much lower than the 2.5% level and inflation falls.

STOCK MARKET REVIEW

December 31, 2011

STOCK MARKET RETURNS	Latest Quarter	12 Months	Last 3 Years
S&P 500	11.8%	2.1%	14.1%
Russell 1000 Growth	10.6%	2.6%	18.0%
Russell 1000 Value	13.1%	0.4%	11.6%
S&P 400 Midcap	13.0%	-1.7%	19.6%
Russell 2000 Smallcap	15.5%	-4.2%	15.7%
MSCI EAFE International	3.4%	-11.7%	8.2%
MSCI Emerging Markets	4.4%	-18.4%	20.1%
ALTERNATIVE ASSET RETURNS	Latest Quarter	12 Months	Last 3 Years
DJ-UBS Commodity	0.4%	-13.3%	6.4%
MSCI World Real Estate Index	6.6%	-6.5%	15.0%

Source: Bloomberg



Source: Strategas

If anything was certain in 2011, it was that macroeconomic events were prevalent, investors uneasy, and markets extremely volatile. The S&P 500 ended the year up a mere 2.1%, returning virtually only its dividend yield. However, as lackluster as these returns were, they topped most other equity asset classes, including mid-cap stocks, which were down 1.7%, as well as small caps, off 4.2%. Approximately half of active equity managers under performed their benchmarks by an average of 250 basis points for the year. Turmoil in Europe and tightening in China led to negative returns for both the MSCI EAFE International and MSCI Emerging Markets indices, dropping 11.7% and 18.4%, respectively. Among alternative assets, diminishing global demand pushed commodity prices lower, with the index falling 13.3%. The real estate sector suffered as well but to a lesser degree, with the MSCI World Real Estate Index declining 6.5%.

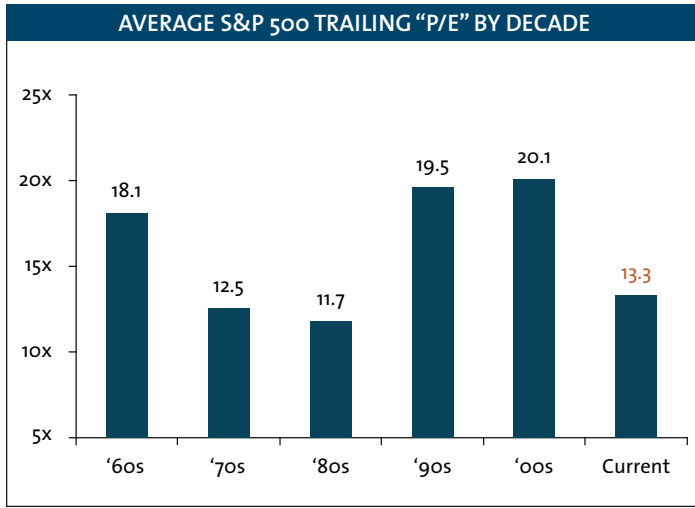
Sector returns varied widely. In contrast to last year, where all sectors had positive returns with Cyclical leading, investors in 2011 fled to the safest sectors, including Utilities, Consumer Staples and Healthcare, which returned 20%, 14% and 13%, respectively. Even after a comeback for Cyclical in the 4th quarter, Financials plummeted 17% for the year due to uncertainty surrounding regulatory reform, a flat yield curve, and a difficult credit environment. The Materials sector lost 10% on fears of waning global demand.

Our predictions proved to be slightly optimistic. As anticipated, corporate profit growth strengthened in a slow but steadily recovering economy, tempered by the struggling housing sector. Our expected mid to high single-digit return for the S&P 500 fell short with its 2.1% finish, after swinging from an 8.4% high in the spring to its fall low, off nearly 13%. Our forecast that stocks of higher quality and dividend-paying companies would outperform smaller, less established companies played out. The top ten highest dividend-yielding stocks of the Dow Jones Industrial Average returned an astounding 16.7%. Emerging Markets, Commodities and Real Estate fared worse than we had predicted as global growth forecasts were pared back, in light of the worsening debt problems in Europe.

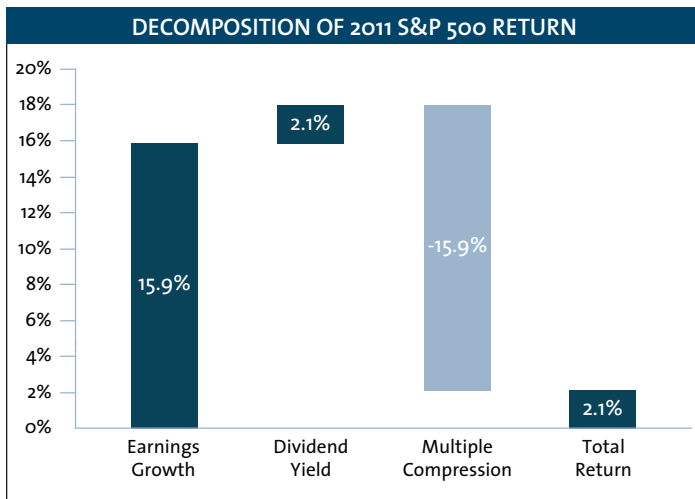
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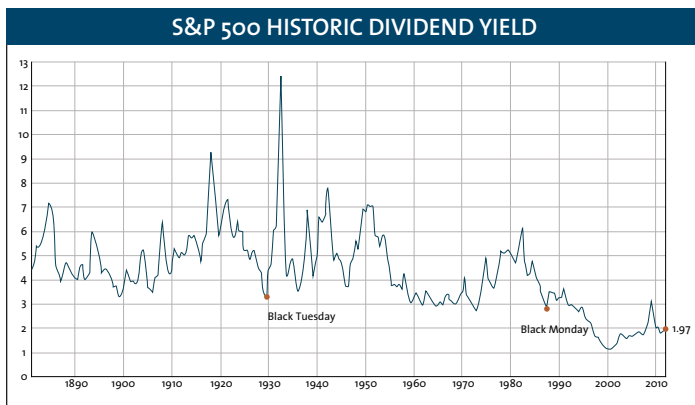
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Source: Strategas



Source: Goldman Sachs



Source: Standard & Poors

Price-to-earnings multiples contracted further. Although U.S. corporate earnings growth continued at a healthy clip, the market did not appreciate at the same pace in 2011, leading to P/E multiple compression. Price-to-earnings measures moved from 14.4x trailing earnings at the start of the year to 13.3x by year-end. Despite healthier relative valuations, we expect multiples may hover in the current range until confidence is restored.

Dividend-paying stocks have gained greater attention. Investors sought higher-yielding assets as well as shelter from volatility, which led to higher returns among dividend-paying stocks this past year. Since the 1930s, over 50% of the total return of the S&P 500 has come from dividend payouts, but in 2011, the dividend yield was the sole component of the S&P 500's return, as shown at left. While dividend payouts as well as dividend increases were on the rise last year, they remain surprisingly low relative to historical levels. Dividend payouts may continue to increase as cash held by U.S. non-financial companies has recently reached a 40-year high of 11.2% of total assets. Many analysts also believe that companies will continue to buy back shares with their excess capital. However, patience may be required as corporations await clarity on the direction of our country's fiscal policies post-election as well as evidence of sustained financial progress in Europe.

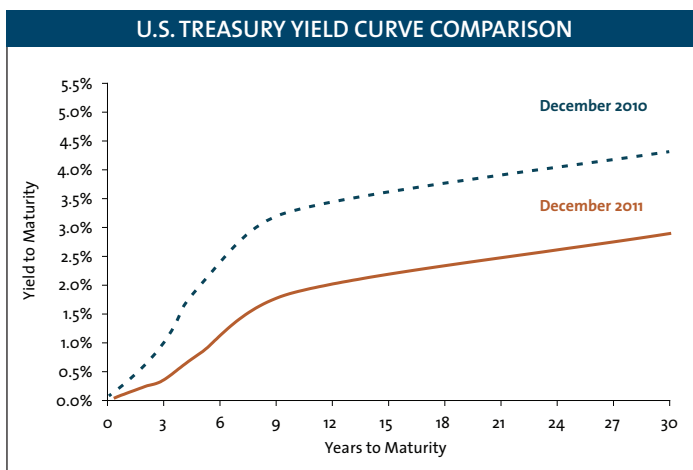
Our outlook for the equity markets remains cautious. With global challenges of 2011 still unresolved, we expect volatility to remain at high levels and result in low to mid single-digit returns for the S&P 500. While companies reported solid earnings growth in the 4th quarter, analysts slashed forecasts for 2012 with the strong likelihood of further earnings cuts to come. This indicates that profit growth is peaking, and we believe that high quality U.S. companies with strong dividend payouts and dividend growth rates will remain in favor. International stocks, already impacted by recession risk for many of the Eurozone countries, could see further downside. Falling demand from Europe will likely affect the developing countries where growth is already decelerating. Forecasts call for GDP growth to fall to 6.5% for the BRIC countries, namely Brazil, Russia, India and China. Companies in these countries face higher wages, interest rates and currency volatility. As the market and economy muddle through 2012, we expect that active management and careful selection of high quality stocks at attractive valuations can add real value in client portfolios.

BOND MARKET REVIEW

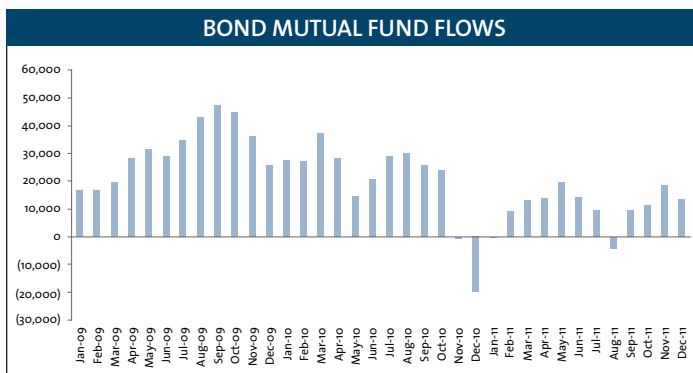
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BOND MARKET RETURNS	Latest Quarter	12 Months	Last 3 Years
Barclays Intermed. Gov/Credit	0.8%	5.8%	5.7%
Merrill Lynch Intermed. Muni	1.8%	7.6%	5.9%
Barclays High Yield	6.5%	5.0%	24.1%
Merrill Lynch 90 Day T-Bill	0%	0.1%	0.15%
Treasury Infl. Protected Sec.	2.6%	13.3%	10.2%

Source: Vanguard, Bloomberg. Vanguard's Inflation-Protected Securities Fund used as a proxy for Treasury Infl. Protected Sec.



Source: Bloomberg



Source: Goldman Sachs

U.S. government bonds surprise to the upside. The broad U.S. bond market, as measured by the Barclays Intermediate Government Credit Bond Index, gained 5.8% in 2011, nearly identical to 2010 and the 12th straight year of gains. Most economists had predicted a rise in interest rates and a drop in bond prices and were surprised by the strong rally. TIPS gained 13% and long-term (20+ year maturities) Treasuries gained an incredible 30% for the year, corresponding to a drop in the 30-year Treasury rate from 4.33% to 2.98%. A flight to quality created primarily by the European debt crisis offset many negative factors in the U.S. including a rating downgrade from AAA to AA+ by Standard & Poor's and the government's inability to agree on a long-term budget or a plan for deficit reduction.

Corporate and high-yield bonds. Corporate and high-yield bonds had fairly modest returns in 2011 compared to other sectors. Junk bonds had actually been in negative territory for the year until a rally in the fourth quarter resulted in a gain of 5%. The default rate for high-yield bonds remained well below its historical average (typically around 4.5%) for the year. Corporations issued slightly more new bonds in 2011 than the previous year, taking advantage of low rates, although banks were the exception as they continued to de-lever following the credit crisis of 2008.

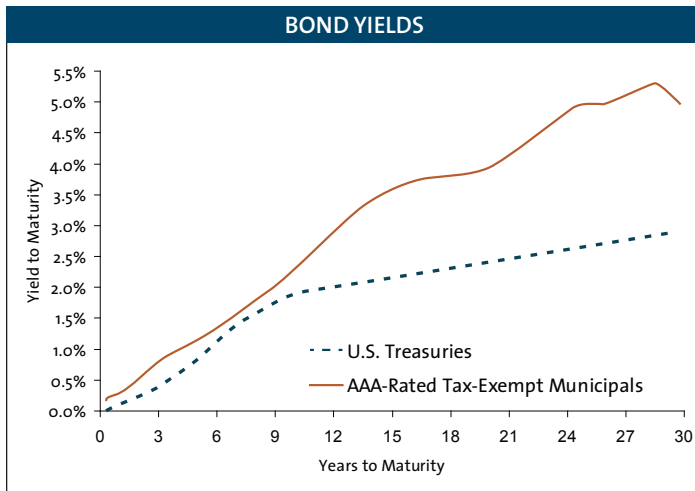
Municipal bonds. A broad sell-off in the municipal bond market in late 2010 led to a strong recovery in 2011. The Merrill Lynch Intermediate Muni index was up 7.6% in 2011 and has gained nearly 6% annually over the past three years. Municipal bonds were in high demand with only a small number of new issues coming to market. There were a number of high-profile defaults during the year including Jefferson County, Alabama and Harrisburg, Pennsylvania. While these two defaults were relatively large, the overall default rate for 2011 was less than for 2010, despite predictions that defaults would increase dramatically.

Bond Fund flows steady in 2011. Municipal bond fund outflows that began in the fourth quarter of last year continued through May but then reversed for most of the remainder of the year. Combined taxable and tax-exempt bond fund flows were below trend in 2011. One high profile bond manager experienced large outflows for the first time after betting against U.S. Treasuries.

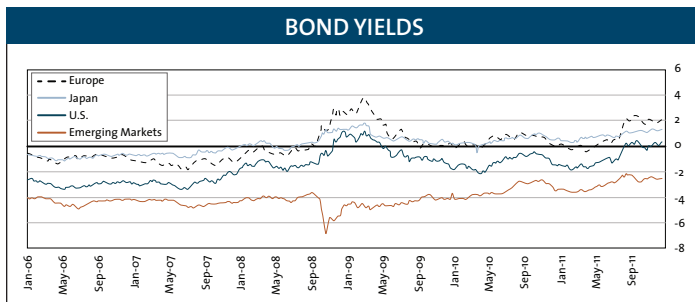
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BOND MARKET OUTLOOK

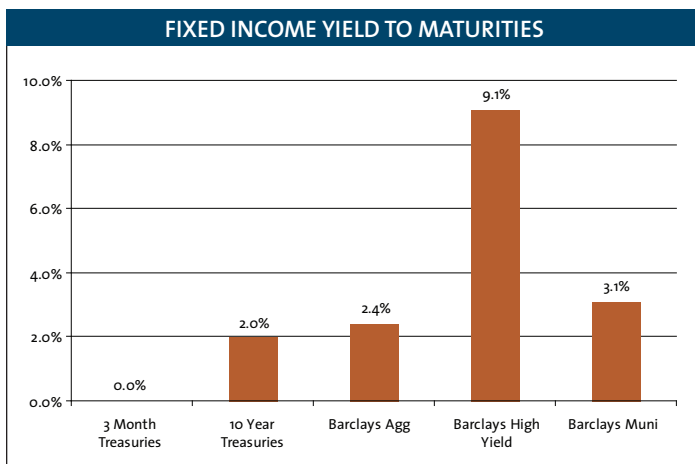
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Source: Bloomberg



Source: Northern Trust



Source: Northern Trust

Forecasters and the Fed stay the course on interest rates and inflation. Just as they did a year ago, forecasters are predicting an increase in interest rates over the next 12 months. This is mainly because we are at a point where short-term interest rates are near zero and cannot go much lower, not because of a forecast of strong economic activity and inflation. We think the consensus view of a moderate increase in rates for the year is the most likely scenario, but other, less likely, outcomes are possible, including (1) the U.S. slips back into a recession and longer-term interest rates decline or (2) years of monetary stimulus finally lead to inflation and rapidly increasing rates. The Federal Reserve recently noted that “inflation has moderated since earlier in the year, and longer-term inflation expectations have remained stable.”

Fixed-income investors should emphasize high-grade municipal bonds, investment-grade corporate bonds, and strategies that provide yield with low volatility. After a decade or so of very low returns and gut-wrenching volatility in the equity markets, investors have been willing to accept historically low yields in the bond markets. Those investors that have some tolerance for risk, however, will increasingly look to dividend-paying stocks in addition to high quality corporate and municipal bonds to find yields that will beat inflation. While yields in both the corporate and tax-free bond sectors are low, they do provide some value compared to Treasuries and money market funds. A purchaser of a AAA rated municipal bond with a 10-year maturity could expect a yield of about 2%, compared to an after-tax yield of only 1.27% for a 10-year Treasury (assuming a 35% tax bracket).

State and local governments have shown remarkable resolve in lowering spending, trimming jobs, cutting retirement benefits, and even raising revenue. The resulting stronger balance sheets as well as the potential of higher tax rates mean that municipal bonds will continue to be the asset of choice for investors in higher tax brackets. We don't expect to see returns nearly as high as they were last year, however, and are maintaining a cautious approach to portfolio duration, a measure of portfolio volatility.

We are not as bullish on the TIPS sector as we were a year ago due to strong price appreciation. The break-even rate for 10-year TIPS is now 2%, or, in other words, the market expects inflation to average around 2% over the next 10 years. We don't foresee a surge in inflation in the near-term but believe investors should maintain a hedge against long-term inflation with TIPS, equities, commodities, and real estate.

FINANCIAL PLANNING

December 31, 2011

Financial planning in 2012 and beyond. It has been three and a half years since the start of the credit crisis and ensuing economic crisis in 2008, and yet uncertainty ruled 2011 and is likely to continue into 2012. Terms like “muddle through,” “bipolar market” or “directionless” appear to be thematic for this year as well, based on general consensus among economists. The impact of a flat stock market and decline in home values has been far-reaching. So it is even more important for families to take measures to ensure financial security. Budgeting and estimating income and expenses are part of this process. Regardless of income level, everyone should make financial planning a priority. Solid financial planning helps people increase their ability to save and preserve assets for retirement, legacies, and other goals.

In spite of attractive corporate fundamentals and strong profits, continued macroeconomic headwinds are expected to again make the markets behave like a yo-yo in 2012. The demographic factors of aging baby boomers (many of whom are woefully unprepared for retirement), the increase in life expectancy, the trend to more costly lifestyles in retirement, the decline in real interest rates, the potential for higher taxes, and the rising costs of health care add to concerns about the ability to retire or sustain assets in retirement. Even for those retirees who have sufficient income from retirement plans, personal investments and Social Security are dealing with the investment and spending challenges in retirement.

While all of these exogenous factors may seem daunting, financial planning can help those in or approaching retirement with key decisions one can often control. These include how long to continue working, how more assets can be accumulated through increased savings or reduced spending, the age at which to begin taking Social Security, the optimal asset allocation strategy, and the proper withdrawal rate (or “decumulation”) from retirement nest eggs. Combined, these decisions will be significant factors in the amount of income that can be expected in retirement and the sustainability of that income over one’s life expectancy.

Planning strategies for 2012. There are a number of planning strategies that may be appropriate, depending upon your circumstances.

Get started and make or update your financial plan. There are many tools available to do this yourself, or you may wish to engage a professional financial planner.

Save or recoup dollars you will need in retirement. Maximize contributions to retirement plans and stay abreast of

contribution limits. Save as much discretionary income as possible in personal investments. While boosting savings is a positive, it may have marginal benefit if one has only a few years to retirement. Working longer in concert with saving longer leads to better results.

Spend less and cut costs. An annual budget is key to identifying opportunities. These may include refinancing a mortgage, reducing property taxes through reassessment of home value, or evaluating lifestyle expenditures. Debt reduction may also be advantageous.

Be opportunistic about taxes. With the Bush tax cuts set to expire at year-end, it may be time to diversify concentrated investments or business interests while long-term capital gains remain at 15%. Portfolio losses may be harvested through the year to offset gains. Tax diversification through contributions to a Roth 401(k) or a partial or full conversion of traditional IRA assets to a Roth IRA may also be considerations.

Update your estate plan. 2012 is a good year to refresh estate planning documents. The annual personal gift limit remains at \$13,000, but the lifetime exemption has been increased for inflation to \$5,120,000, and this tax benefit is scheduled to sunset at year-end. Extraordinarily low government-approved rates, the Applicable Federal Rates, make family loans and other tax-advantaged strategies such as intentionally defective grantor trusts or grantor retained annuity trusts timely. It is also a good idea to review beneficiaries of retirement accounts, insurance policies, and other assets that pass outside of your will.

Review your asset allocation. With bond yields at all-time lows, dividend averages at roughly half the long-term average of over 4%, and muted growth and volatility making price appreciation an uncertainty, investors have been challenged to meet goals. It is important not to reach for higher-yielding investments without consideration of the incremental risk. You should also consider liquidity requirements and long-term objectives in your asset allocation. It may be important to confer with a professional to update your investment strategy.

Regardless of where you are in your life’s journey, financial planning can play an important role. We invite you to contact us to learn how we can help you achieve your specific financial goals.