



ATLANTIC TRUST

PRIVATE WEALTH MANAGEMENT

Economic and Investment Overview
First Quarter 2012

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Politics and policy in the U.S. and Europe a chronic source of market volatility

- U.S. elections and looming budget decisions
- Eurozone sovereign debt and bank woes far from over

Equity investing: Attractive valuations and earnings, challenging macro backdrop

- U.S. profit margins near record highs – revenue growth needed to sustain profit momentum
- Politics may put a cap on equity valuations pending resolution late in year
- Global perspective: U.S. stocks relatively attractive; avoid Europe and Japan
- Emphasize quality large-cap names and income generators
- Emerging markets less timely, but best long-term return potential

Fixed income: Low yields, high uncertainty

- Low Treasury yields may persist for the foreseeable future as global safe haven
- Slow growth and rising tax receipts help municipalities avoid widespread defaults
- Enhanced yield strategies continue to be attractive (e.g., emerging market debt, floating rate debt, high yield)

Synchronized central bank easing will act as counterweight to fiscal woes

- European Central Bank (ECB) has taken a more stimulative path
- China and Brazil have begun to ease
- Fed extremely accommodative and prepared to do more if necessary
- Equities and commodities usually react positively to monetary reflation

Alternative investments: Dampening portfolio volatility should be a valuable asset in 2012

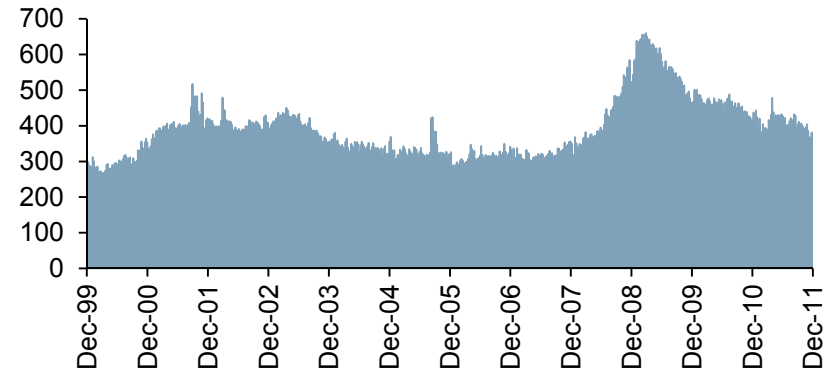
- Non-directional hedged equity and credit strategies attractive
- Outstanding private equity opportunities in the energy sector

U.S. economy ends 2011 on a high note

- After subpar growth in the first three quarters of 2011, the U.S. economy began to percolate in Q4. Employment trends and consumer confidence have improved, the trade deficit is narrowing and even construction activity has picked up. We enter 2012 with something that has been sorely lacking—momentum.
- While this cyclical lift is encouraging, the key question for 2012 will be: Is it sustainable? We think that is unlikely. Rather, we see a continuation of the “muddle along” recovery that has existed since mid-2009. The private sector is going through an elongated process of shedding excessive debt levels. Consumers have begun the process of balance sheet repair, but they have a long way to go. Also, fiscal policy will turn more restrictive and Europe will be a headwind.
- The good news is that the economy is proving less prone to a relapse into recession, reducing the risk of a worst-case outcome. Recently, the domestic economy has strengthened in the face of the European debt fiasco and continued U.S. political dysfunction.
- The outlook for overseas activity is mixed. We anticipate a recession in the eurozone, but some firming in many emerging economies as the year progresses. China will be the bellwether, and as monetary policy eases there, we expect a stronger second half of the year.

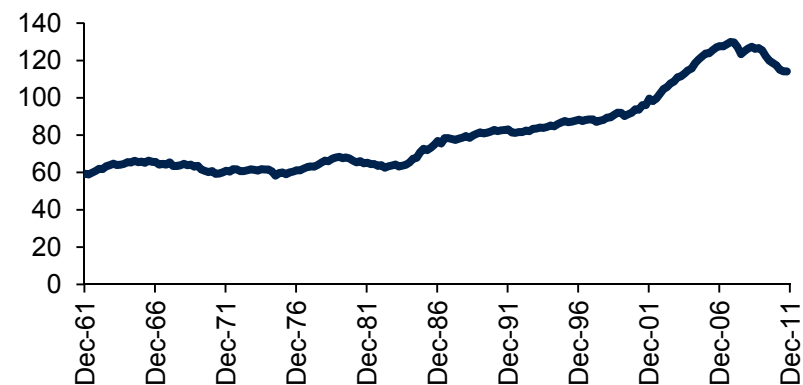
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Unemployment Claims (Thousands)



Source: Bureau of Labor Statistics as of 12/18/2011

Consumer Debt as % of GDP



Source: Federal Reserve, Bureau of Economic Analysis as of 9/30/2011

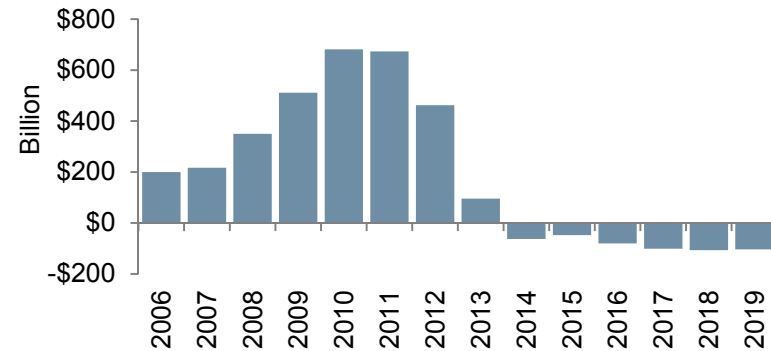
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Fiscal follies and elections

- We believe given the economic and budget challenges in the U.S., 2012 is destined to be a watershed election cycle. The critical issue for markets is less about who is elected president than whether one party or the other has a working majority to address unemployment and the structural budget deficit.
- Hanging over the election is the knowledge that tax rates on income, capital gains, dividends and estates are slated to rise significantly at the beginning of 2013. Also, a total of \$1.2 trillion in spending cuts has been scheduled due to the failed “super committee” negotiations. If allowed to stand, this would represent fiscal contraction and would raise the risk of recession.
- The eurozone debt crisis is stuck in a repeating cycle of hopefulness, followed by a plan, followed by disappointment. After several attempts, politicians appear increasingly incapable of resolving the conflicting interests of rich and poor countries. A true resolution is nowhere on the horizon, and the eurozone is on the cusp of recession as a result.
- The good news in Europe is that the ECB has finally joined the battle. In addition to lowering interest rates, the ECB has enacted a number of moves to improve bank liquidity. This lessens the risk of a near-term funding shortage and a global contagion impact.

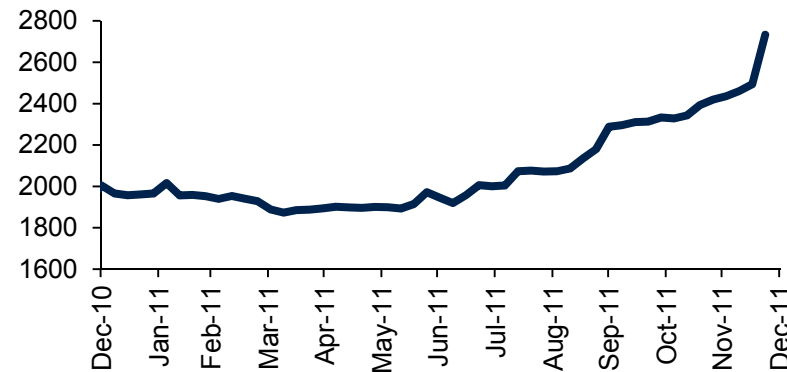
Net Federal Fiscal Stimulus



Source: Strategas as of 12/31/2011; data after 2011 is projected

European Central Bank Balance Sheet

■ ECB Total Assets in Billions of Euro

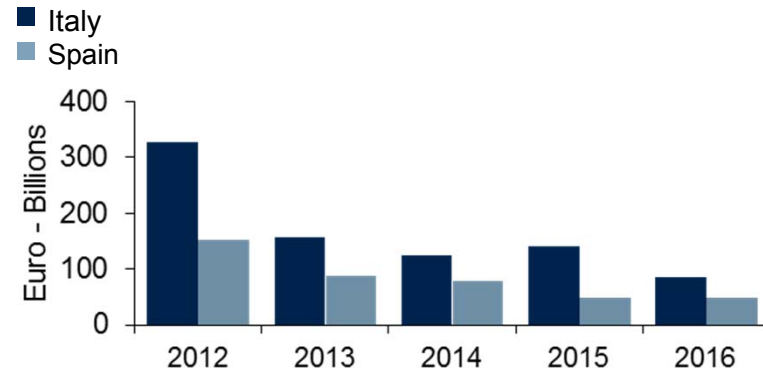


Source: Strategas as of 12/23/2011

Liquidity

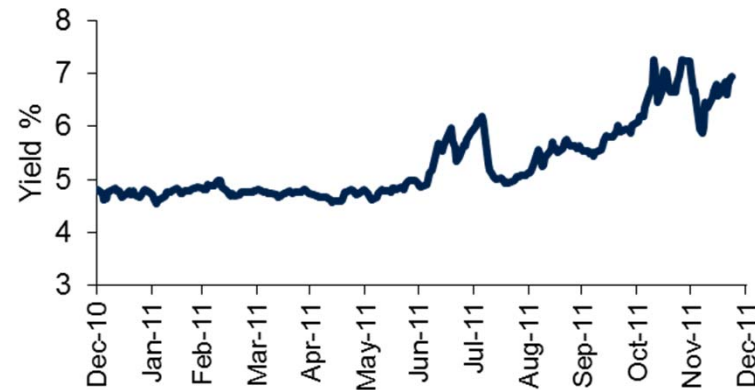
- Federal Reserve and ECB actions of the past few months highlight the importance of preserving liquidity in the current environment. Given the magnitude of maturing sovereign debt, failure to maintain access to funding markets could lead to a repeat of the 2008/2009 market freeze and subsequent spillover into economies around the world.
- The Fed, ECB and four additional central banks arranged to lower the cost of dollar funding for the ECB, which could, in turn, provide funds for member institutions. Foreign financial borrowers in the U.S. money markets have seen a reduction of unsecured loans by over \$120 billion over a six-month span. The Fed's action has replaced over \$60 billion of funding in the two weeks since the lower rate was enacted.
- The euro area continues to stumble toward reform and the ECB has come under heavy criticism for its approach, but the ECB has made some changes to preserve liquidity and could avoid a near-term worst-case scenario as a result. In addition to lowering both rates and the reserve ratio, the ECB allotted nearly 500 billion euro-worth of three-year loans to European banks at very favorable rates. This, of course, does nothing to fix European structural deficiencies, but it does give the banking system some breathing room.

Sovereign Debt Maturities



Source: Bloomberg L.P. as of 12/2011, all data projected

Italian 10-Year Yield



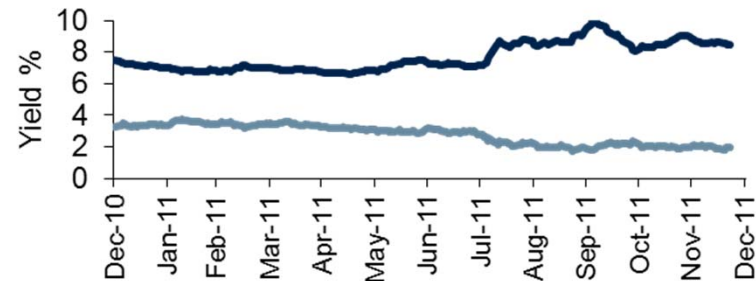
Source: Bloomberg L.P. as of 12/23/2011

Credit

- U.S. Treasuries benefited from the flight to quality in 2011 despite the loss of S&P's "AAA" designation and public sector leverage rivaling European counterparts. Lower Treasury yields raise the relative appeal of corporate and municipal debt as we enter 2012.
- Links for these sectors to developments in Europe remain important due to the implications for continued, albeit slow, growth on public/private sector cash flows.
- A slow-growth environment with diminished risk of liquidity-induced volatility could benefit a corporate and municipal bond position where coupon clipping and yield accrual support total return.
- State and local governments have just completed an encouraging nine-quarter run of revenue growth despite popular projections for widespread defaults. Mid-year 2012 budget processes will face familiar challenges and the margin for error remains narrow.

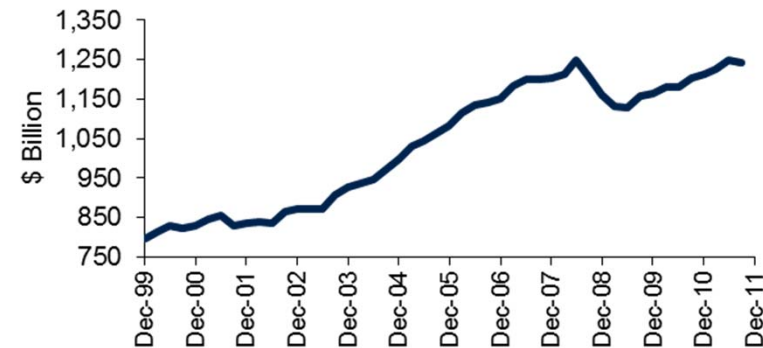
Bond Yields

- High-Yield Corporate Bonds
- 10-Year Treasury Bonds



Source: Barclays Capital, Bloomberg L.P. as of 12/22/2011

Income, Sales and Property Tax Receipts



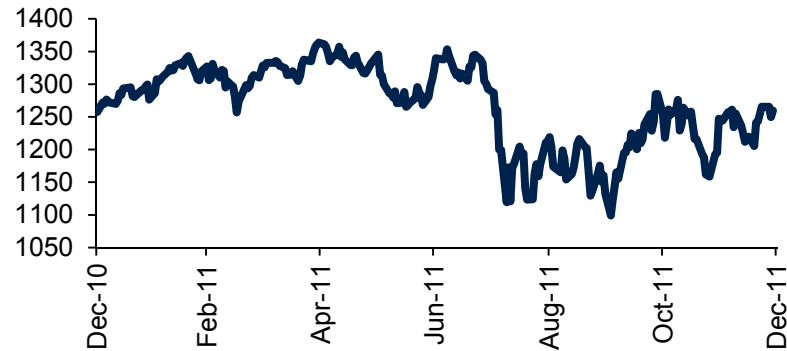
Source: Bureau of Economic Analysis as of 12/31/2011

Policy dictates direction: The new normal

- If the old investment adage stated that the absence of liquidity yields volatility, then perhaps the new adage should be that the presence of policy yields direction. Until recently, lack of policy response to European sovereign debt issues resulted in market capitulation. However, in the fourth quarter, coordinated policy responses by central banks resuscitated equity markets. More aggressive monetary policy, along with clumsy but increasingly serious political coordination, allowed for a solid rebound from the plummet in the third quarter.
- The 11.8% fourth quarter surge allowed the S&P 500 to finish up 2.1% for 2011. Dividend income represents the entirety of the total return, offsetting slight capital depreciation.
- Stubbornly high market volatility masked underlying corporate fundamental strength. Consensus estimates still forecast the S&P 500 profits to rise 6% for 2012, and with a current (forward) P/E multiple of 12.4X and dividend yield of 2.1%, could represent an attractive opportunity for the long-term-minded investor.*

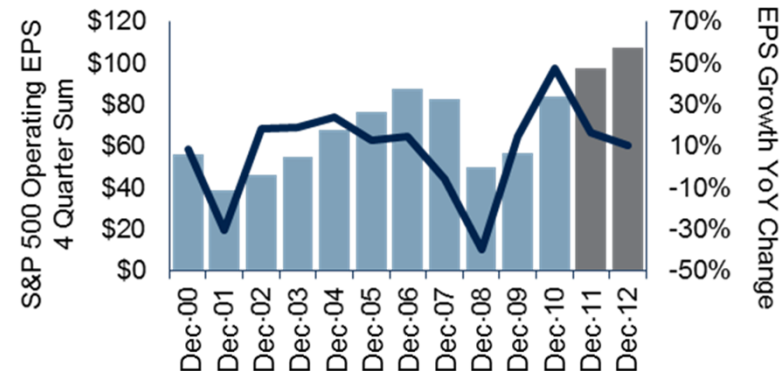
* Thomson Financial, as of 12/31/2011

Market Rebounds Off September Lows



Source: Bloomberg L.P. as of 12/31/2011, S&P 500 Index shown

Growth Moderating Yet Positive

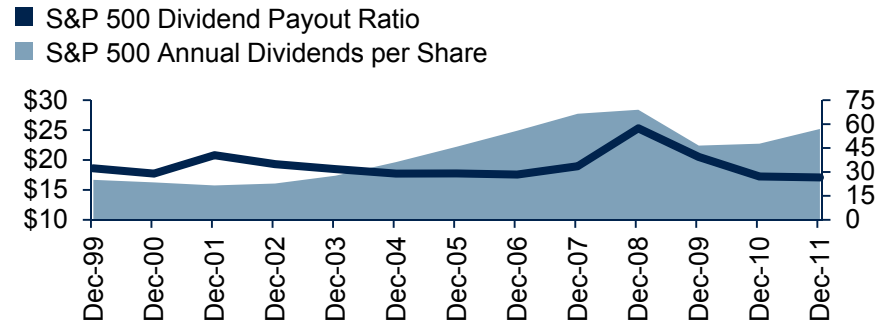


Source: Thomson Financial, Strategas, as of 12/29/2011; gray is projected data

Dividends and quality: Ports in the storm

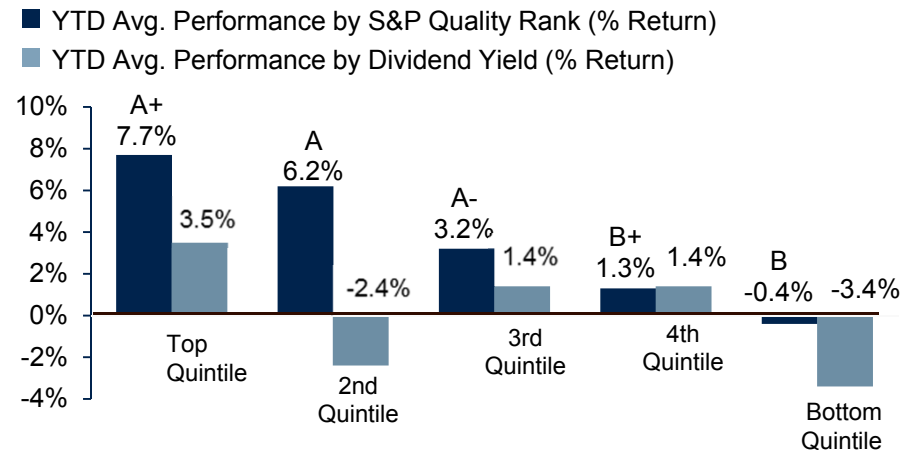
- On average, equity markets have generated little in terms of capital appreciation for investors in 2011. However, focusing on high-quality companies with the ability to return cash to shareholders through healthy dividend payments yielded positive results to investors.
- Structural issues in Europe remain despite improvement in short-term funding stress. Still, the high correlation between European and domestic equities has yielded volatility in global risk assets. Being “paid to wait” by holding high-quality, large-cap stocks that can generate current income could provide a respite to investors in an otherwise range-bound and volatile market.
- Balancing the risks of domestic and European policy with the compelling value in equity markets will be a key focus in the coming year. Opportunistically identifying quality corporate fundamentals could help shift the equity risk/return profile to the investor’s favor going forward.

Companies Have Ample Room to Raise Dividends



Source: Strategas as of 12/29/2011; 2011 is forecasted total

Income and Quality Leading Returns

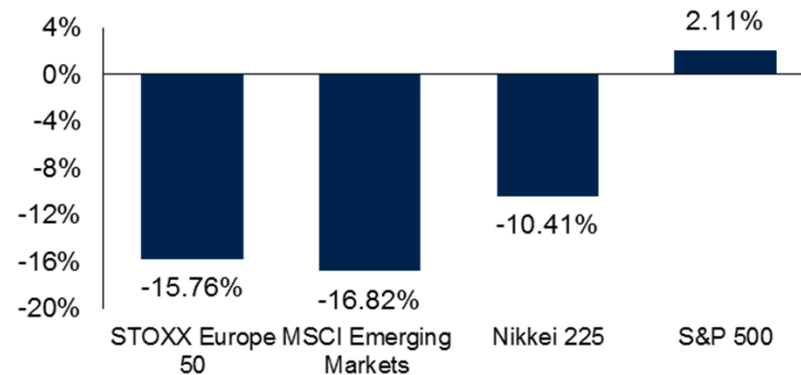


Source: Strategas as of 12/29/2011

Slow progress in Europe

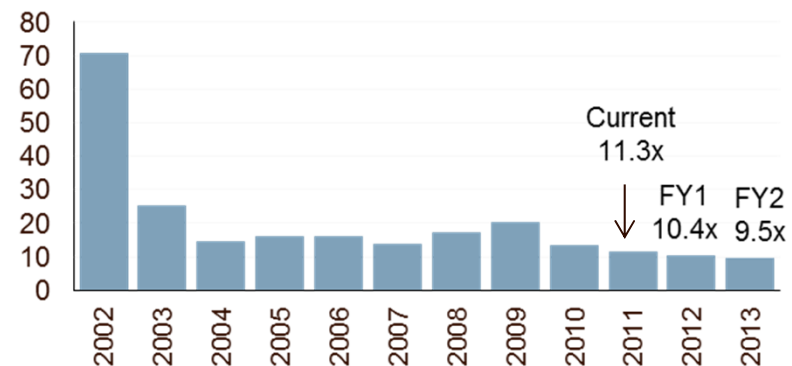
- Although the €1.4 trillion support package for eurozone debt represents important progress, the success of the plan will depend on whether significant fiscal adjustments can be made in the peripheral countries.
- More than 500 banks borrowed a total of €489 billion in three-year loans from the ECB, which is equivalent to approximately 5% of eurozone gross domestic product and the largest amount provided in a single ECB liquidity operation.
- More aggressive policy action to combat the fiscal crisis produced a slight recovery in European markets in the fourth quarter. However, results lagged the emerging markets and especially the U.S.
- Equity valuations across Europe are at decade lows. However, Europe is “cheap for a reason,” as it faces recession and systemic risk stemming from its sovereign debt crisis. The Asset Allocation Committee recommends U.S. and emerging equity markets, while avoiding Europe.

2011 Returns: U.S. Leads the Way



Source: Bloomberg L.P. as of 12/30/2011

STOXX Europe 600 P/E through 12/27/2011



Source: Bloomberg L.P. as of 12/28/2011; 2012 and 2013 data is projected

Inflation fears take a backseat

- Central banks have begun to place a greater emphasis on growth concerns over inflation.
 - The minutes of the monetary policy committee of the Central Bank of Brazil revealed that further rate cuts are on the way against a backdrop of slowing growth and falling inflation.
 - Inflation has fallen in many emerging market countries including Taiwan, Indonesia, South Korea and China.
 - India's GDP growth decelerated to its slowest pace since 2Q09.
 - China's export growth rate has dipped to the lowest in two years.
- Macro influences are mixed for the emerging markets. Dismal eurozone growth prospects and diminished credit from European banks pose growth threats to emerging markets. On the other hand, global monetary reflation has generally been bullish for emerging market equities. We are cautiously optimistic on the emerging markets outlook.

Slowing Industrial Activity in China



Source: Bloomberg L.P. as of 11/30/2011

Chinese Inflation: YoY % Change (CPI)



Source: Bloomberg L.P. as of 11/30/2011

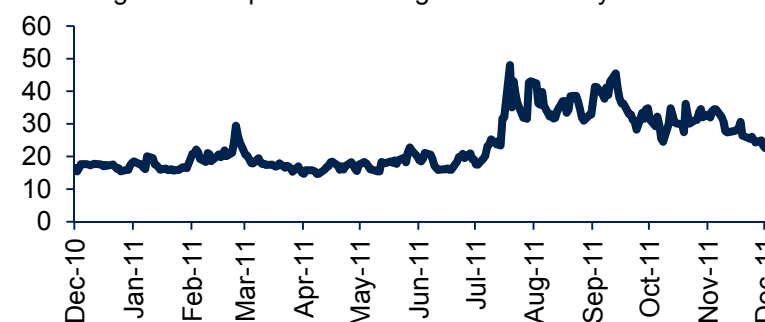
Investors return to U.S. assets

- During 4Q11, U.S. equity markets rose as economic numbers strengthened, whereas Europe and Asian economies remained very weak and volatile.
- Global defensive sectors continued to outperform global cyclical sectors. Stocks with highest hedge fund ownership continued to underperform the market, reflecting a “risk off” position among hedge funds and the impact of possible investor redemptions.
- Ironically, the U.S. dollar and Treasuries strengthened right after S&P lowered the U.S. AAA rating in late second quarter. BRIC FX markets were hurt the most during the fourth quarter, with the Indian rupee, Brazilian real and Russian ruble weakening as investors chased the U.S. dollar.*
- Credit strategies generally outperformed equity strategies with investors looking for safety and yield instruments like mortgage-backed securities. Non-fundamental strategies like Statistical Arbitrage generally outperformed fundamental strategies like equity long/short.
- While volatility, correlations and trading volumes trended lower, most hedge fund managers remained cautious and continued to maintain lower gross and net exposures, reflecting uncertainty in global markets.

* BRIC FX is Brazil, Russia, India and China Foreign Exchange

Volatility Trends Lower

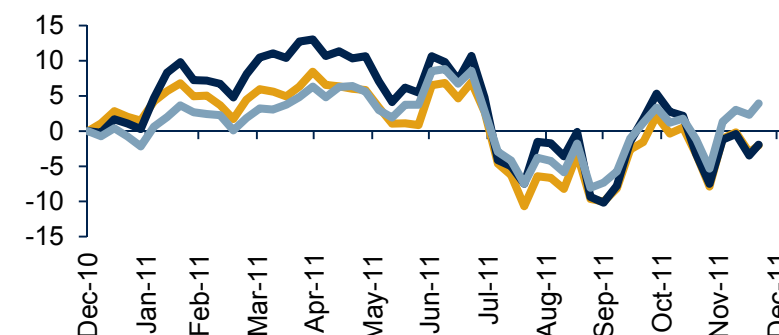
■ Chicago Board Options Exchange SPX Volatility Index



Source: Bloomberg L.P. as of 12/21/2011

Hedge Fund Favorite Stocks Lag

■ High Hedge Fund Concentration ■ S&P 500 Index
■ Low Hedge Fund Concentration



Source: Bloomberg L.P. as of 12/21/2011