Investment Review as of January 31, 2011

The combined portfolios for the Perpetuation Fund rose 8.0% during 2010 to a value of approximately $6,465,000. The Fund continued to rise in the first month of 2011 to a little more than $6,500,000. As a result, the overall Fund has now increased to approximately its value when transferred to Johnson at the end of 2007, despite cumulative withdrawals of $1,086,164 over this time period. During the time that Johnson has managed these assets, the annualized return is 6.5%, compared to just 2.1% for the Balanced benchmark (60% S&P 500 and 40% Intermediate Bond Index). The equity market return is -2.1% and the bond market return is 5.4% over this same period of time.

The portfolio rate of return during the past calendar year was somewhat behind the 11.4% return of the Balanced Index for two reasons. First, the overall allocation to stocks averaged less than the 60% long-term target. This more conservative posture was a positive for much of the year as stocks declined by 5% through the end of August amidst numerous economic and political risks. The market then rose during the fourth quarter on the hope for a brighter 2011 and following the announcement by the Federal Reserve of a substantial bond purchase program. The second reason for the underperformance was our focus on higher quality stocks in the Perpetuation Fund. The market for low quality stocks has been very strong recently (especially at the end of the year) and riskier investments have far outperformed during the past few years. The Perpetuation Fund is high quality, which has been additive from its inception, but caused some underperformance during the past year. We remain committed to owning high quality investments and believe they will perform better again as investors reassess the risk of the market. The volatility of the Fund, as measured by the standard deviation of returns, is much less than the Balanced Index (9.5% compared to 14.9%).

The attached pages summarize the portfolio and its current characteristics:

The **Investment Performance** page reviews the results from inception. The Fund has returned more than the target Balanced Index from inception and more than $1 million has been withdrawn under the spending policy.

The **Summary of the Investment Policy Statement** reviews the objectives and the guidelines for the portfolio. The return is slightly less than the goal of exceeding the sum of inflation and spending policy, but is well above the index return and well below the index risk level.

The **Portfolio Allocation** page compares the asset allocation to this June. We have reduced the fixed income allocation and increased largecap stocks over this time frame. We also added to international equities and midcap stocks.

The **Equity Diversification** summary shows that we reduced the weight in consumer staples and health care stocks and increased the weight in energy companies and financials. The stock portion of the Fund is still overweight in the materials, energy, and health care sectors and underweighted in financials, consumer discretion, and utility stocks.

The **Fixed Income Characteristics** page shows that the Fund is high quality and well diversified by sector and by maturity. We are focused on good quality corporate bonds with an average maturity of a little more than 5 years.

The second attachment of **economic/market charts** reviews our thoughts on the economy and several aspects of the markets. Interest rates have risen recently, but will not likely rise much higher in the near-term until the Federal Reserve shifts gears to tighten monetary policy. That is not likely until 2012. We are attracted to largecap stocks and high quality companies, both laggards recently and very attractively valued compared to smaller and lower quality names.

As always, we appreciate the opportunity to serve the American Watchmakers-Clockmakers Institute and look forward to meeting with you again this summer. In the interim, please do not hesitate to contact me with any questions.

Sincerely,

Dale H. Coates, CFA