

THE ART OF MAKING DECISIONS

“No trumpets sound when the important decisions of our life are made. Destiny is made known silently.”

AGNES DE MILLE

“The most difficult thing is the decision to act; the rest is merely tenacity.”

AMELIA EARHART

“In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing.”

THEODORE ROOSEVELT

“Quick decisions are unsafe decisions.”

SOPHOCLES

“It is reason, and not passion, which must guide our deliberations, guide our debate, and guide our decision.”

BARBARA JORDON

“It is reason, and not passion, which must guide our deliberations, guide our debate, and guide our decision.”

About This Report

Contents

Letter to Our Clients	1
2011 Financial Highlights	2
From Questions to Decisions	3
The Decisions Behind Every Portfolio	4
Our Investment Strategies	5
Our Investment Services	6
Our Communication and Education	7
Life's Great Lessons	8
Charting the Future	9
An Old-Fashioned Approach	10
A Long-Term Outlook	11
Our Decision Makers	12

Throughout this report you will find QR codes that enable you to access more information about our firm. Using a code reader app on your smartphone, scan the code and you will be directed to a page on our website. If you have questions, contact us at (503) 226-1444 or info@fergwell.com



Our creative inspiration for the “art of making decisions”

No matter who you are or what you do — it’s a safe bet that your day was filled with decision-making.

As noted on the cover of this report, there are many opinions about decisions. General George Patton was known for saying, “A good plan executed today is better than a perfect plan executed at some indefinite point in the future.” Our world seems more complicated today because we have more choices. With many variables playing into our decision-making, we may find ourselves delaying the process in an effort to select the perfect choice.

Without a doubt, how decisions are made has changed, in large part because of technology. With so much data at your fingertips, talking with someone you trust can make you feel comfortable and confident.

This annual report illustrates many aspects of decision-making that occur every day at Ferguson Wellman. We also share ways in which other individuals and institutions make decisions. Their stories reinforce our view that while each path to a decision is unique, a sound decision-making process is based on certain shared fundamentals.

In our creative process, we came across Mark Rothko and Adolf Gottlieb’s, “Manifesto on Art,” which was published in the New York Times in 1943. The statement, “We favor the simple expression of the complex thought,” was a wonderful inspiration for graphically presenting decision-making. Throughout the report are images inspired by various modern and contemporary pieces, reinforcing that we believe there is an art to decision-making.

2011 annual report team: Jim Coats, Mary Faulkner, Deidra Krys-Rusoff, Tracie Maslen, Natalie Miller and Jim Rudd with Martha Gannett (designer), Bija Guttoff (editor), Rick Rappaport (photographer)

Letter to Our Clients

Henry Ford once said, “If everyone is moving forward together, then success takes care of itself.”

As 2011 progressed, we moved forward as a firm – navigating through the uncertainty that impacted the capital markets and adjusting our investment strategies to weather the unprecedented volatility we experienced. Despite the highs and lows of the equity markets, we were able to close the year with more clients than we have seen in our firm’s history.

Below are three examples of how our firm and our clients move forward together to achieve success and uphold our mission of *Investment Excellence; Lifelong Relationships*.

Listening and responding to our clients. Every five years we invest in an extensive client survey. This feedback has resulted in expanded wealth management offerings and resources for institutions, as well as enhanced reporting and website capabilities. *Our clients are our most objective sources of qualitative feedback. Their opinions are of paramount importance to us.*

Advancing and evolving our investment expertise. We operate in an industry of ideas, analytics, rigorous discipline and ongoing decision-making. By investing in advanced analytical software, expanded trading platforms and our people, we develop robust investment strategies designed to meet and exceed the performance expectations of our clients. *We value unfiltered public data that lets us assess the opportunities and risks of a rapidly expanding global economy.*

Attracting and retaining our professionals. Ferguson Wellman celebrates and rewards longevity. We also challenge our employees to continually increase their expertise and help us operate more efficiently and effectively. *We know that it takes years to earn the trust of our clients, and a critical aspect of this process is continuity.*

We’re very proud that more than half our firm has been with us for more than a decade. With the exception of retirement, no one from our investment team has left our firm in 23 years. And more than 77 percent of our employees



are shareholders. We were pleased to announce milestone anniversaries for three portfolio managers in 2011. They included 20 years for George Hosfield and Marc Fovinci as well as 10 years for Jason Norris. We also welcomed two new shareholders: Mary Faulkner, vice president of marketing, and Joe Brooks, trader.

As we continue to grow and evolve, we are always mindful of our core business and how we define success. If you visit just one page in this report, please see our investment strategies on page five. This is the essence of what we do.

Inspired by Mr. Ford’s quote, we look forward to growing with you. And as always, we sincerely appreciate *your* decision to entrust us with your assets and recommend us to others.

James H. Rudd
Chief Executive Officer

Steven J. Holwerda, CFA
Chief Operating Officer

Ferguson Wellman Capital
Management Board of
Directors (from left)
Dean Dordevic, Jim Rudd,
Steve Holwerda, Mark Kralj,
George Hosfield

2011 Financial Highlights

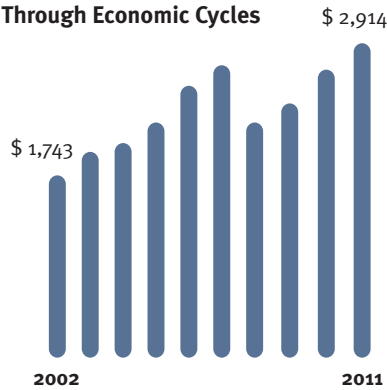
As of December 31, 2011

“To best serve our clients, our founders decided long ago to grow carefully and conservatively. We look for clients who are seeking a firm like Ferguson Wellman, and it is our hope that their decision to work with us becomes a lifelong relationship.”

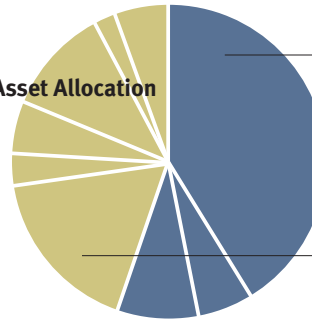
Jim Coats, Senior Vice President

Asset Growth Through Economic Cycles

In millions

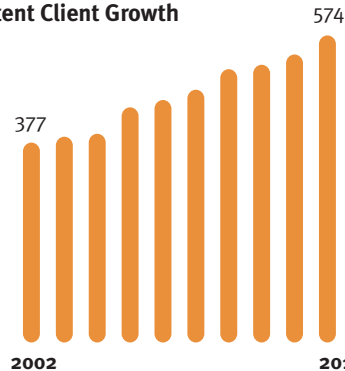


Diversified Asset Allocation



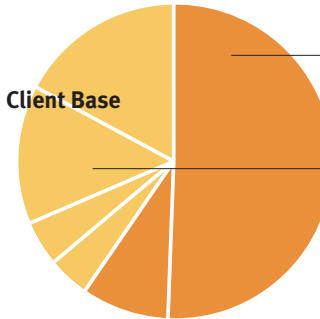
- Equities**
 - 43% Domestic Large Cap
 - 5% International
 - 8% Domestic Small Cap
 - REITs, Strategic Opportunities
 - Tactical Assets
- Fixed Income**
 - 16% Municipal Bonds
 - 3% Agency Bonds
 - 5% Treasury Bonds
 - 12% Corporate Bonds
 - 2% Mortgage-Backed Securities
 - 6% Cash

Consistent Client Growth



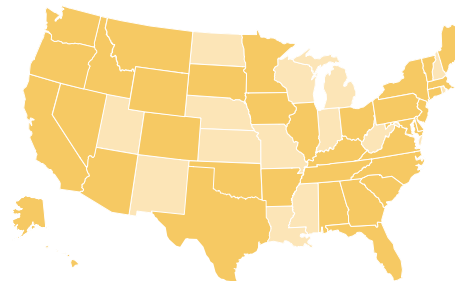
43 percent of our new assets under management in 2011 are from institutions. 57 percent are from individuals and families.

Broad Client Base



- Individual**
 - 51% Individuals and Families
 - 12% IRAs
- Institutional**
 - 16% Taft-Hartley Plans
 - 11% Foundations and Endowments
 - 5% Corporate Reserves
 - 5% Corporate Retirement Plans

More than 80 percent of our new clients in 2011 came through referrals.



In 2011, Ferguson Wellman welcomed 40 new clients in California, Delaware, Idaho, Montana, Ohio, Oregon, Washington and Wyoming. We serve clients in 36 states, the District of Columbia and Puerto Rico.



Current quarterly financial highlights throughout 2012

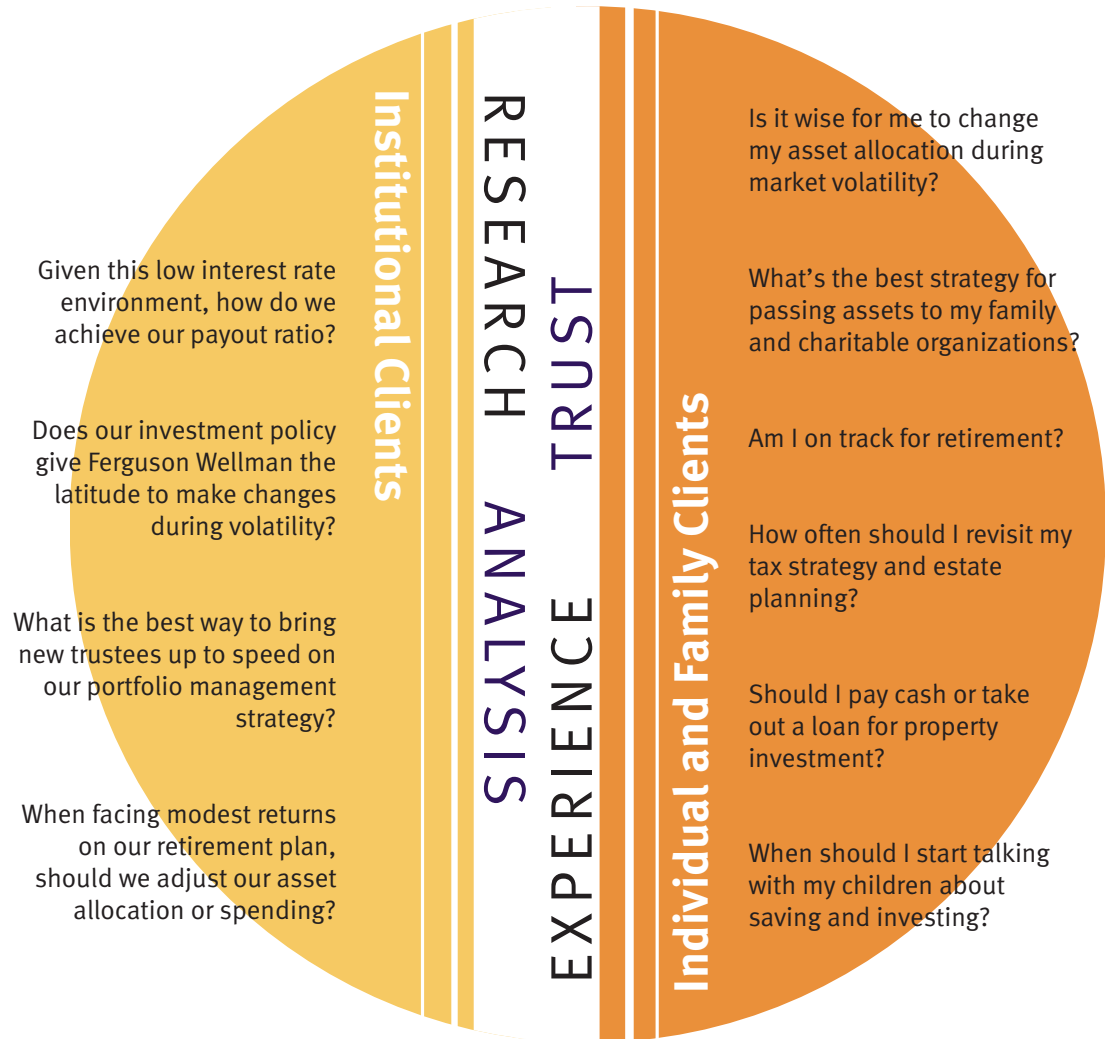
From Questions to Decisions

Your decision to hire Ferguson Wellman is the beginning of a relationship – and a partnership. We start by identifying your immediate and long-term goals to establish the guidelines of your investment policy. Over the years, our discussions about your portfolio may expand into inquiries about other decisions you need to make – for yourself, your family or the institution you lead or serve.

We provide the research and analysis on which you can base your decisions. With three decades of experience addressing a wide range of issues, we can serve as your trusted resource – no matter how significant, or how small, your decision may be.

“We work to provide our clients with important data and information when they are making milestone decisions. This allows them to focus on appropriate and sustainable strategies, which often reduces anxiety and creates a clear path to the future they desire.”

Lori Flexer, Senior Vice President



The Decisions Behind Every Portfolio

The intersection of global investment opportunities and your specific needs is the heart of our decision-making process. Our Investment Policy Committee works with the rest of our 17-member investment team to determine the range of investments that match your risk and return parameters.

From sector weights to the selection of each security, we explore your options and build a customized portfolio suited to your specific goals. Our approach to portfolio management is fully transparent, so you know what you own and can make appropriate changes when needed. Our investment strategies are institutionally tested through the rigorous due diligence of consultants, trustees and executives.

“Every portfolio is the result of myriad decisions we’ve made that are intended to maximize our clients’ investment return while managing their risk. And each of those decisions is supported by robust data, in-depth analysis and the collective best thinking of our entire investment team.”

Jason Norris, Senior Vice President of Research

Asset Allocation

What are our clients’ objectives?

- › Growth expectations
- › Appropriate risk
- › Income or payout needs
- › Non-correlated assets

Investment Themes

Where are the opportunities in a global environment?

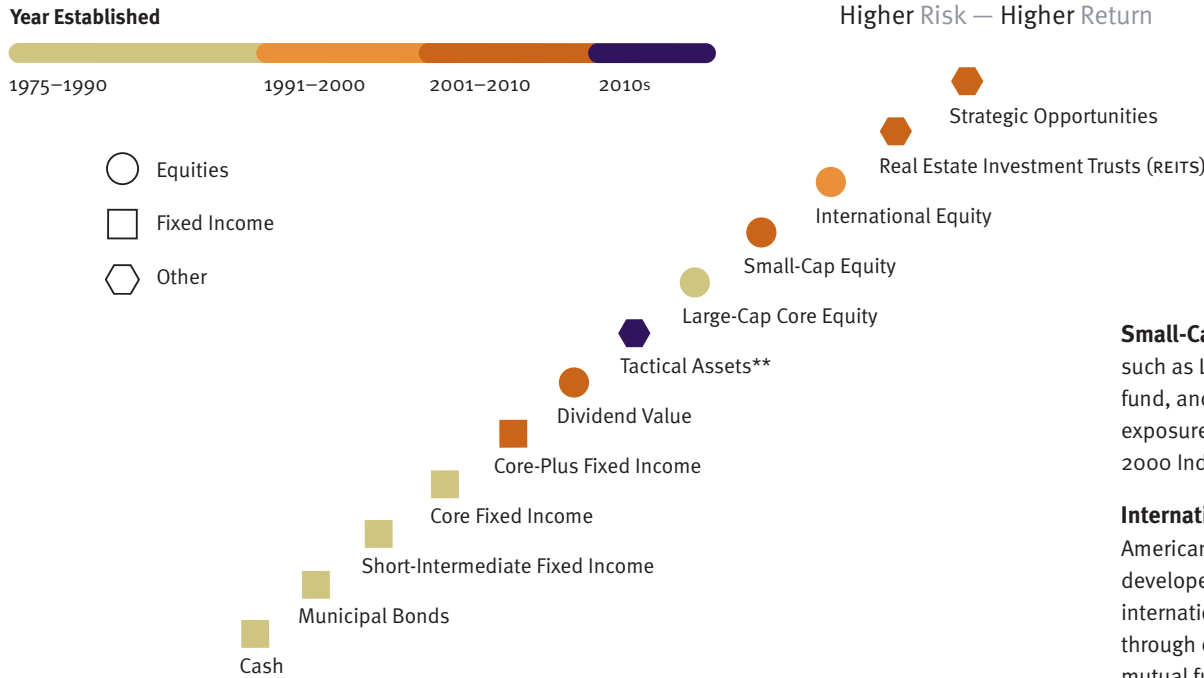
- › Economic trends
- › Business innovation
- › Long-term growth
- › Policy issues

Security Selection

When is the best time to invest?

- › Attractively valued
- › High quality
- › Growth potential
- › Favorable catalysts

Our Investment Strategies



Benchmarks for our Investment Strategies

Cash Funds immediately available and accessible to the investor, and theoretically risk-free.

Municipal Bonds Investment-grade securities issued by local governments to provide stability and tax-free income. Portfolios are customized to take advantage of the client’s home state tax structure.

Short-Intermediate Fixed Income Limits bond maturities to 10 years or less; typical average maturity four to five years.

Core Fixed Income Uses investment-grade bonds to provide the highest possible return while minimizing the risk to principal; typical average maturity seven to eight years.

Core-Plus Fixed Income Designed for bond investors who are willing to tolerate higher risk for higher potential returns; includes bonds rated below investment grade.

Dividend Value Large-cap, total-return strategy investing in equities that pay dividends. Has a value basis and higher dividend yield than other Ferguson Wellman investment strategies.

Tactical Assets* Investment strategies that have a low correlation to equities and fixed income. May include commodities, hedge funds, private equity and distressed-debt asset classes.

Large-Cap Core Equity Seeks to consistently generate returns in excess of the S&P 500 while experiencing similar or less risk.

Small-Cap Equity* Consists of “active” solutions, such as Luther King Small Cap Equity Fund, a mutual fund, and the Royce Focus Trust, and “passive” exposure to small caps, such as the iShares Russell 2000 Index Fund.

International Equity Primarily high-quality, large-cap American Depository Receipts (ADRs) from both developed and emerging countries. Also includes international small-cap equity and emerging markets through emerging market ADRs and a small-cap mutual fund.

Real Estate Investment Trusts (REITs) Publicly traded domestic securities that invest in real estate holdings across all major categories, including office, retail, apartments and industrial.

Strategic Opportunities Comparatively aggressive equity growth strategy that includes a dynamic combination of macroeconomic commitments, such as commodities, small-cap spinoffs and special situations. Designed to both manage risk and enhance expected returns.

* Externally managed for Ferguson Wellman clients

** Tactical Assets can appear anywhere on our risk/return chart, depending on the investment vehicles selected. It is plotted on this chart above based on our offerings on 12/31/2011.

Our Investment Services

You've hired us to preserve and grow your assets through your customized investment portfolio.

There are additional ways we can help you. Our proprietary investment services are designed to explore all the scenarios you are considering and "stress test" your options in the event of a change in your assumptions or fluctuations in the economy.

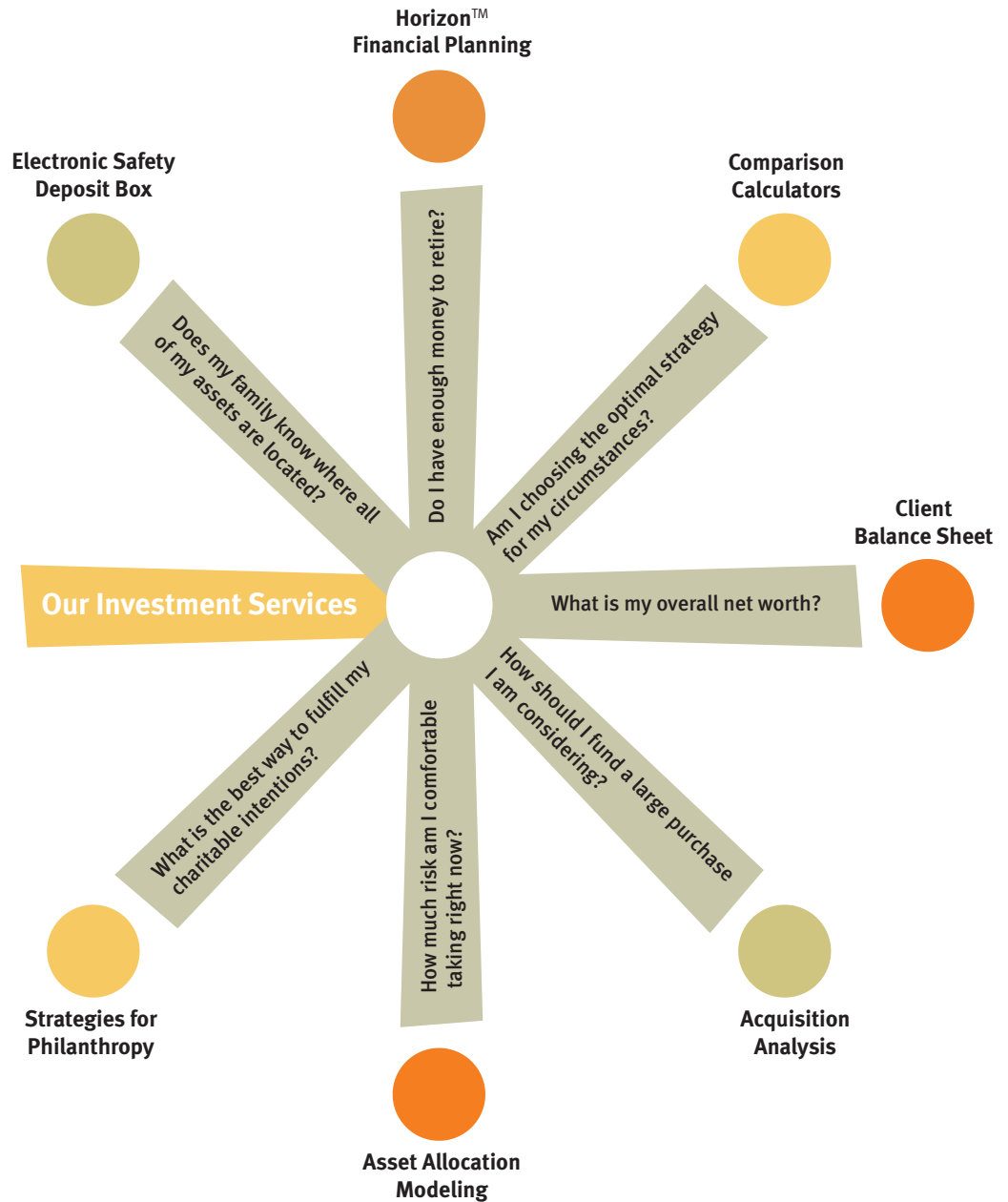
Saving for college, preparing for retirement and transferring your wealth all require long-term planning. Conversely, being ready to make swift decisions – whether responding to a sudden loss or acting on an unexpected opportunity – requires having analytical resources at your fingertips and a trusted professional who can discuss your options with you.

"We enjoy guiding clients through a wide range of decisions. Sometimes they approach us with an issue; other times we bring something to their attention. Through our resources and experiences, we can help them make informed decisions with confidence."

Nathan Ayotte, Vice President



Overview of our Investment Services



Our Communication and Education

How many times have the headlines made you question your decisions? Although following current events is important, it's difficult to sift through the contradictions we encounter in the news every day.

We provide data and analysis — real information that helps you gain a broader perspective on the news of the day. In addition to our investment views and commentary, we offer client education programs and resources that are intended to help you feel confident about your knowledge of the global economy.

Surrounding our communication and education resources are actual headlines from 2011 that seem to speculate rather than report.



“Whether it’s an email, publication, program or video, we give careful thought to what we are communicating and how we are delivering information to our clients. It needs to be relevant, meaningful, useful and accessible.”

Natalie Miller, Marketing and Sales Associate



Descriptions of our Communication and Education

Life's Great Lessons

For the people at **Providence Willamette Falls Medical Foundation**, making decisions is a serious matter.

They consider two fundamental principles: Is it in the best interest of the community we serve? And, will it make life better for our citizens?

It's a tradition that dates back to the institution's founding as a community hospital in 1954 — and one that its current leaders keep firmly in mind today. "To be successful in our efforts to serve our citizens," said Finance Committee Chair Rob Hoover, "our board and staff need to know our community well. We are business professionals and residents of this area, so we contribute a familiarity with the people here that's valuable; in fact, it's just as important as any technical knowledge we have about hospitals or medicine."

Dan Fowler, a local businessman who has served as the foundation's board chair, once asked a mentor how to be effective and successful. "It was early in my career," said Fowler, "and I'll never forget his advice to me. He said, 'Learn how to make a decision.' It's more complicated than it seems, so you have to have a plan."

According to Fowler, decision-making is not a conclusion, but a process in which each step is critical. Making a good decision requires listening, collecting information, analyzing, articulating, gathering support and implementing.

Willamette Falls serves a growing region with seven cities, and its clientele includes what Executive Director Mike Drake calls the 'changing face of the uninsured.'

"Many people today do not have health insurance — and they never imagined three years ago that they would be in this situation," observes Drake. "Our foundation is committed to leading the way to providing more access to healthcare, from prenatal care to hospice."

The leaders of the Providence Willamette Falls Medical Foundation know that the decisions they make will deeply affect the lives of their neighbors. That's why they consider each option with the care their community deserves.

"I believe a community is judged by how its people are cared for. With the high number of uninsured patients we are seeing, each decision we make has greater impact than ever." — Mike Drake



Mike Drake, Dan Fowler, Rob Hoover

Charting the Future

Education Northwest serves students and schools with evidence-based work that develops vibrant learning environments. From training teachers and developing curriculum to restructuring schools and evaluating programs, the organization — with CEO Carol Thomas at the helm and more than 100 employees — makes decisions every day that benefit countless students and communities.

In 2011, Education Northwest applied that analysis, evaluation and decision-making toward its own offerings. Its team participated in a strategic-direction session that led to the creation of a new plan to guide its operations for the next three years. During this process, Thomas and her team analyzed three areas that will help them make decisions: lessons learned from the past 45 years, emerging trends in technology and the educational environment their clients will face in the future.

Using a facilitator to guide discussions among board and staff members, participants identified three strategic priorities. Three was the right number, said Chief Financial Officer Joy Bell. “We didn’t want our strategic plan to be too complex. “And we wanted it to be both structured and nimble — so we could stay on one path without missing new opportunities.”

Stability, reliability and predictability should be the goals of any organization in today’s tumultuous economy, according to Thomas. Smart ones will ground their decisions in careful analysis and take advantage of the wisdom of experienced employees. “It’s a delicate balance. We have to be knowledgeable about what has worked in the past — and be open to new solutions for the future.”

Compliance disclaimer: The individuals and institutions on pages eight through eleven have a relationship with our firm through our work or volunteer time. Their inclusion in our annual report does not serve as an endorsement of, or testimonial for, Ferguson Wellman’s investment strategies and services.

“We decided to approach our strategic planning process as a journey — not a destination. Our past gives us great insight to our future.” — Carol Thomas



Joy Bell, Carol Thomas

An Old-Fashioned Approach

“Creating the 72-ounce steak challenge was a popular decision; adding razor clams to the menu seemed to get less traction. No matter how great or small the decision is, you can’t be afraid to try new things.” — Gene Sayler



Dave Sayler, Gene Sayler, Brian Sayler

What’s for dinner? For 65 years, the Sayler family has been answering that question, serving steaks and other hearty meals to their loyal customers. The family’s **Old Country Kitchen** dishes up hundreds of thousands of dinners each year, and in doing so it has become an institution. You could say they have identified a formula that works. But in order to keep working, it had better be a flexible one: the restaurant industry is known for its fickle nature, and each day presents decisions that have short- and long-term implications.

“All our attention is focused on the quality of our dinners and the friendliness of our service,” said owner Gene Sayler, the son of the original founders. “Any decisions we make are grounded in those two principles.” His own two sons help manage the business, and Sayler reflects on the decision to keep it in the family. “I brought my sons in when I thought they had the skills to contribute value,” he said, “and when they were ready to commit to the challenge.”

In this business, no one is a final decision-maker. “I like to have both my sons involved so we can have many perspectives on an issue,” said Sayler. “When everyone has a say, we are more likely to get buy-in and see a successful implementation of each decision.”

There are no formal meetings to discuss business issues. “When we need to discuss something, we gather around a table or grab a barstool and talk it through,” said elder son Dave. “It’s casual and it’s on the spot — a direct and efficient approach that works for us.”

Both loyal and new customers play an important role in decision-making. “Although I see many of the same faces on a Friday night, we are equally pleased when someone comes in for the first time,” said younger son Brian. “And it’s not just the Sayler family who knows our customers — they all know each other. We like it that way.”

A Long-Term Outlook

“Not one decision is taken lightly about Fairmount. Once a family member is under our care, we have that responsibility forever.” — Phil Kuharski



Thomas Newman, Phil Kuharski, Linda Urquhart

“There is no such thing as short-term planning for us,” states Thomas Newman, Chairman of the board of **Fairmount Memorial Association**. “Taking a careful and deliberative approach to our decision-making is critical.”

With 30 board members and employees working together, everyone’s efforts touch the important endeavor of preserving the past and fostering a stable and secure future.

A locally owned nonprofit, Fairmount Memorial Association has a deep history. Its first cemetery was established by pioneers settling in the Spokane area in 1888. “As you wander through our five cemeteries, you notice names of historical significance to our community,” says Board Member Phil Kuharski.

In 1945, families were distressed about the care of Fairmount Cemetery. Privately owned at the time, the families forced the cemetery into receivership and literally begged for donations and support to save the grounds from bankruptcy.

“We are very mindful of the passion and commitment of those families during that most difficult period,” says Board Member Linda Urquhart. “Not wanting to repeat the past, we have identified many effective and creative ways to keep these cemeteries safe and beautiful for our community.”

Through a funeral home, cremation facilities and other business endeavors, Fairmount Memorial Association is successfully meeting the challenge of providing the \$30 million needed to care for the five cemeteries. They also invest in ways to honor every wish — from green burials to Buddhist rituals.

Inspired by cultures around the world and bygone eras when cemeteries were a central gathering place, Fairmount hosts a variety of life-affirming events and experiences in their cemeteries. All these efforts help the community stay connected to the legacy of the people who are laid to rest.

Our Decision Makers

Our team holds 24 graduate degrees and professional designations.



Nathan Ayotte, CFP®*
Vice President



Joe Brooks*
Trader



Tim Carkin, CAIA, CMT*
Senior Equity Trader



Scott Christianson
Equity Trader



Jim Coats*
Senior Vice President



Ralph Cole, CFA*
Senior Vice President of Research



Dean Dordevic*
Principal



Mary Faulkner*
Vice President of Marketing



Sandy Fendall
Executive Assistant



Lori Ferraro*
Executive Assistant



Lori Flexer, CFA*
Senior Vice President

“As controller, I aggregate and present data to our board regarding every aspect of our business, enabling them to make informed decisions that support the stability and growth of our firm.”

Becky Horvat, Controller

“Every day, clients are making decisions about their lives. We are continually working to support them in a thorough and timely manner. We make every effort to lighten the burden of their decisions, whether they are the result of happy occasions or challenging moments.”

Sandy Fendall, Executive Assistant



Marc Fovinci, CFA*
Principal



Robin Freeman*
Vice President of Personnel



Luz Garcia*
Executive Assistant



Helen Hansen
Audit Administrator



Steve Holwerda, CFA*
Chief Operating Officer

“When our Investment Policy Committee decides to increase our bond exposure, our first step in trading is to find the most attractive opportunities in the market. Our next step is to carefully review each portfolio to ensure that, with this new investment, our clients’ assets continue to be well diversified.”

Joe Brooks, Trader



Becky Horvat, CPA
Controller



George Hosfield, CFA*
Chief Investment Officer



Kathi Kimes*
Front Office Coordinator



Mike Knebel, CFA*
Senior Vice President

* Shareholder of the firm

“We are continually evaluating how to capitalize on technology trends as the world moves into the post-PC era. As we explore options to give our clients increased mobility and accessibility, the security of our network services remains our top priority.”

Shawn Swagerty, Director of Information Services



Mark Kralj*
Principal



Deidra Krys-Rusoff*
Portfolio Manager



Helena Lankton*
Senior Vice President



Chad Long
Information Systems Specialist



Julie Mark
Executive Assistant



Ginny Marsh*
Executive Assistant



Tracie Maslen
Executive Assistant



Natalie Miller
Sales and Marketing Associate



Shawn Naranchich, CFA*
Vice President of Research



Jason Norris, CFA*
Senior Vice President of Research

“As a firm we take every step possible to protect the security and confidentiality of our clients. The privacy policies and procedures we have established are some of the most critical decisions we have made.”

Kerrie Young, Chief Compliance Officer

Aside from retirements, we have had no investment team turnover in 23 years.



Don Rainer*
Senior Vice President



Jim Rudd*
Chief Executive Officer



Shawn Swagerty*
Director of Information Systems



Lynelle Tarter
Audit Administrator



Patricia Van Dyke*
Audit Administrator



Jeanene Wine*
Audit Administrator

“Whether it’s the end of the quarter or the beginning of tax season, providing accurate, detailed data regarding our client portfolios is the most important function of our operations team. Our reports help clients and their trusted professionals see the big picture as well as all the necessary information for decisions they need to make in the future.”

Patty Van Dyke, Audit Administrator



Amy Woods*
Executive Assistant



Kerrie Young, IACCP*
Chief Compliance Officer

Not photographed:
Warren Foltz*
Audit Administrator

More than 77 percent of our employees are shareholders.



FERGUSON WELLMAN

CAPITAL MANAGEMENT

888 Southwest Fifth Avenue, Suite 1200, Portland, Oregon 97204
Phone 503 226 1444 800 327 5765 Fax 503 226 3647
www.fergusonwellman.com

Mission

Investment Excellence • Lifelong Relationships

Core values

Our commitment – to our clients, our profession, our community and ourselves – is to:

- > Exceed expectations
- > Act with uncompromising ethics and reliability
- > Advocate innovation and manage change
- > Foster a collegial environment
- > Enjoy the journey

We provide

- > Investment strategies and wealth management services to individuals and families
- > Institutional investment management for foundations, endowments and retirement plans
- > Customized communication and education based on clients' needs and interests

About Ferguson Wellman

Founded in 1975, Ferguson Wellman is a privately owned investment advisory firm established in the Pacific Northwest. The firm manages \$2.91 billion in assets for 574 clients with portfolios of \$2 million or more. (As of 12/31/11)