

Ferguson Wellman Capital Management 2013 Annual Report

A Foundation For The Future



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About this Report

Throughout this century, there are many success stories of architects and designers leveraging the best of what the past has to offer and repurposing those attributes to be even more valuable to the future. What has managed to persevere over the years earns its rightful place of being preserved so that the next generation can enjoy and appreciate it.

A wonderful example of these efforts is the transformation of the First Regiment Armory Annex, built in 1891, into the Gerding Theater, home of Portland Center Stage. Completed in 2006 by development firm Gerding Edlen, this \$28 million sustainability project has been honored with a range of designations—from the National Register of Historic Places to one of the greenest buildings in America according to *Forbes Magazine*. As a cultural jewel of the city, the Theater exemplifies the notion that building a future on a solid foundation can yield growth and opportunities for many years to come.

The Gerding Theater serves as the backdrop for our annual report photos this year. With many new initiatives and growth for the firm this year, it goes without saying that building on our foundation has fostered a bright future—a suitable theme for this year's report to our clients. We look forward to highlighting both our foundation and future with you.



GERDING EDLEN

**Ferguson Wellman
Board of Directors**

Dean Dordevic
Mark Kralj
Jim Rudd
Steve Holwerda, CFA
George Hosfield, CFA



**It was our founders,
Joe Ferguson and
Norb Wellman,**

who forged the
foundation of our
firm nearly 40 years

ago. We have expanded on their vision and as we have grown—the world has changed and capital markets have evolved. But at our core are cornerstones that define who we are. First, we believe in the power of employee ownership to foster continuity and stability for our clients. Second, we tailor portfolios to meet the individual needs of each client by using individual securities. Third, we remain client centric by carefully managing our growth, and last we remain true to our mission: investment excellence; lifelong relationships.

We found ourselves touching on each of our cornerstone tenants in 2013. We welcomed four new employee shareholders bringing our ownership to 80 percent of our total employees. We are proud that Scott Christianson, Becky Horvat, Chad Long and Julie Mark are now Ferguson Wellman shareholders.

At the end of 2013, we decided to raise our minimum from \$2 million to \$3 million. We believe that having a higher minimum is critical to controlling our growth and thereby serving our clients. The last time we increased our minimum was 1998, and we believe that decision was significant in our client retention and steady growth over the last 15 years.

We formed a new division in July of 2013, called West Bearing Investments, which leverages our core wealth management


strengths. We have hired two talented investment professionals, Josh Frankel and Jorge Chavarria, who are leading this division and will work directly with all new clients at West Bearing. This division utilizes our investment strategies, research, trading and portfolio management systems to deliver personalized management to clients with \$750,000 and above.

Lastly, we continue to reinvest in people and technology to keep our company vibrant. We added new positions in client service, trading and marketing last year and welcomed Brad Houle, Anne Holmstrom, Lauren Krygier, Liz Olsen, Erin Rosenblatt to our firm. Also, we invested significantly in technology to enhance our client service capabilities and improve our network management.

Last year was a phenomenal year for the capital markets, and it was also a very good year for our firm. Although we do not expect the capital markets to be as robust in 2014, we will always reinvest part of our success into our company to make sure that we provide the best service and investment stewardship possible for our clients.

As always, thank you for your trust and confidence.

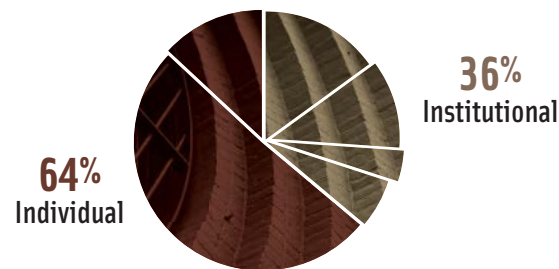

James H. Rudd
Chief Executive Officer


Steven J. Holwerda, CFA
Chief Operating Officer

2013 Financial Highlights

Clients

Broad Client Base by assets



Individual

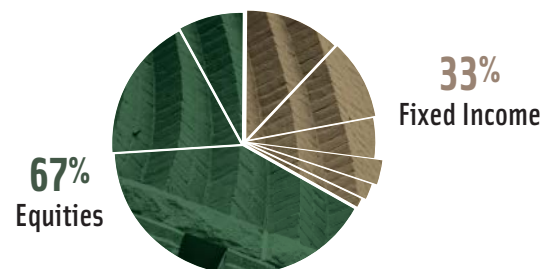
- 51% Individuals and Families
- 13% IRAs

Institutional

- 15% Taft-Hartley Plans
- 11% Foundations and Endowments
- 4% Corporate Retirement Plans
- 6% Corporate Reserves

Assets

Diversified Asset Allocation



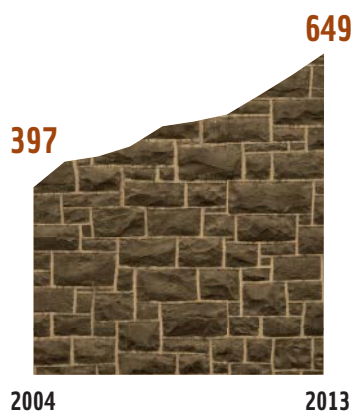
Equities

- 41% Domestic Large Cap Dividend Value
- 18% Domestic Small Cap REITs Tactical Assets
- 8% International

Fixed Income

- 12% Municipal Bonds
- 10% Corporate Bonds
- 5% Cash
- 3% Treasury Bonds
- 2% Agency Bonds
- 1% Mortgage-Backed Securities

Consistent Client Growth



In 2013, we welcomed **52** new clients: **9** institutions and **43** individuals and families

We currently serve clients in **35** states

Asset Growth Through Economic Cycles in millions



88% of our assets are invested in strategies that are created and managed by our 17-person investment team

At Ferguson Wellman,
trust is the foundation upon which
the future can be built.

In everything that we do,
we seek to earn our clients' trust by
serving as advocates, advisors,
communicators, investors,
stewards and strategists.

These are the professionals and
practices of Ferguson Wellman
that have built a foundation
for the future — for our clients
and our company.

“Our team approach is fueled by individual expertise. Together we have a focused purpose and collective reasoning.”

— Marc Fovinci, CFA
Principal



Robin Freeman
Vice President
Administrative Services

Patty Van Dyke
Operations Associate

Don Rainer
Executive Vice President
Relationship Management

Chad Long
Vice President
Information Systems

Beth Brown Craven
Executive Associate

Lauren Krygier
Executive Associate

Marc Fovinci, CFA
Principal
Fixed Income Strategy and
Portfolio Management

Luz Garcia
Executive Associate

Our team holds **52** graduate degrees and designations

Aside from retirements, no investment professional turnover in **24** years

As advocates, we continually seek new ways to serve clients based on their evolving needs. Every aspect of our company – from investment management and trading to communications and client service – benefits from sharing our individual experiences in serving clients.

Advocates Advisors Communicators Investors Stewards Strategists Owners

“One news story can shape the future, not determine it. Every day, we look at world events closely and then step back as we seek to achieve investment excellence.”

— Jim Rudd
Chief Executive Officer



Jim Rudd
Principal
Chief Executive Officer

Jason Norris, CFA
Executive Vice President
Equity Research and Portfolio
Management

Lori Flexer, CFA
Executive Vice President
Portfolio and Wealth
Management

Joe Brooks
Vice President
Fixed Income Trading

Brad Houle, CFA
Executive Vice President
Fixed Income Research and
Portfolio Management

Expanded our investment perspective through **43** conferences,
research partner relationships and data services

As advisors, we invest in knowledge. Through collecting research, meeting with specialists and continually gathering information, we strive to position our client portfolios for opportunity. Historical data and future trends are tools of our practice.

Advocates Advisors Communicators Investors Stewards Strategists Owners

“Trust is the cornerstone of a meaningful client relationship. We believe this is achieved through honesty, advocacy, transparency and communication.”

— Steve Holwerda, CFA
Chief Operating Officer



Jim Coats
Executive Vice President
Relationship Management

Jeanene Wine
Operations Associate

Kathi Kimes
Front Office Coordinator

Liz Olsen
Vice President
Marketing and Communications

Amy Woods
Executive Associate

Lori Ferraro
Administrative Associate

Steve Holwerda, CFA
Principal
Chief Operating Officer

Sandy Fendall
Executive Associate

Produced **110** publications, blog postings, videos and updates in 2013

Work directly with **593** accountants and attorneys to
strategically and collaboratively serve our clients' needs

15-to-1 client-to-employee ratio

As communicators, we are positioned to respond swiftly to planned and unanticipated client needs. We have developed a practice that enables clients to have direct access to every professional who impacts their investments. Through our communication resources, we encourage dialogue and a shared understanding of our work on behalf of our clients.

Advocates Advisors Communicators Investors Stewards Strategists Owners

“Throughout the ebb and flow of economic market cycles, we continually strive to navigate our clients’ investments toward preservation and growth.” – George Hosfield, CFA
Chief Investment Officer



Scott Christianson, CFP®
Vice President
Equity Trading and Wealth
Management

George Hosfield, CFA
Principal
Chief Investment Officer

Ralph Cole, CFA
Executive Vice President
Equity Research and Portfolio
Management

Deidra Kryz-Rusoff
Senior Vice President
Tax-Exempt Trading and Portfolio
Management

Shawn Narancich, CFA
Executive Vice President
Equity Research and Portfolio
Management

Executed **3,173** municipal bond buys from **823** different issuers in 2013

45% increase in private equity and real estate investments since 2012

As investors, our equity, fixed income and alternative asset teams work collaboratively to position portfolios in anticipation of global market events and trends. By using individual securities, client portfolios are tailored to each client's investment goals, income needs, spending requirements or tax situations.

Advocates Advisors Communicators Investors Stewards Strategists Owners

“Responsibility, accountability and commitment form the underpinnings of lifelong relationships.” – Mark Kralj
Principal



Nathan Ayotte, CFP®
Executive Vice President
Portfolio and Wealth
Management

Mark Kralj
Principal
Portfolio and Wealth
Management

Erin Rosenblatt
Executive Associate

Julie Mark
Executive Associate

Kerrie Young
Chief Compliance Officer

Anne Holmstrom
Trading Associate

Mary Faulkner
Senior Vice President
Branding and Communications

Lynelle Tarter
Marketing and Sales Associate

Our investment team averages **22** years industry experience

Through CEOs surveyed across Oregon, Ferguson Wellman ranked **18** out of **451** in the
Portland Business Journal Most Admired Companies across all industries in 2013

As stewards, we have a fiduciary responsibility to provide unbiased recommendations. Our fee-based structure removes any conflicts of interest. Every action and interaction is focused on exceeding client expectations.

Advocates Advisors Communicators Investors Stewards Strategists Owners

“Our success is based on exploring new ideas and vetting them through our longstanding traditions and discipline.”

– Dean Dordevic
Principal



Jorge Chavarria
Executive Associate

Josh Frankel, CRPC®
Senior Vice President
Portfolio and Wealth
Management

Tim Carkin, CAIA, CMT
Senior Vice President
Equity Trading and Alternative
Assets

Helena Lankton
Executive Vice President
Portfolio and Wealth
Management

Dean Dordevic
Principal
Portfolio Management and
Alternative Assets

Becky Horvat, CPA
Vice President and Controller

Our **12** investment strategies are a direct result of the evolving investment needs of our clients

As strategists, we take a methodical approach to decision making. Through internal evaluation and external research, we arrive at solutions that best reflect our company culture and client goals.

In July of 2013, West Bearing Investments was created, leveraging the expertise and experience of Ferguson Wellman to serve a new market segment starting at \$750,000.

Advocates Advisors Communicators Investors Stewards Strategists Owners

Building Our Relationships

Our mission is to seek investment excellence and earn lifelong relationships. It's an endeavor that requires us to utilize our expertise and experience to arrive at the best course of action for our clients.

Achieving our mission with clients requires two continuous efforts that are built upon the same principles. Both require a solid understanding of the clients' history, current situation and goals for the future. Each build upon our knowledge of working collaboratively on behalf of our clients.



FERGUSON WELLMAN
CAPITAL MANAGEMENT



WEST BEARING INVESTMENTS
a division of Ferguson Wellman

For every client we:



> **Assess your current situation** and explore opportunities for better alignment with your goals

> **Identify your risk tolerance** as well as your income or drawdown needs

> **Coordinate with other professional partners** and stakeholders to create seamless strategies to support your plan

> **Develop your investment management strategy** and construct your tailored portfolio

> **Provide ongoing oversight** and reporting through quarterly communication

> **Deliver investment education resources** and updates that are tailored to your information and technology preferences

> **Advise you** regarding planned or unplanned milestones requiring strategic decisions

> **Revisit your plan** periodically to ensure continued alignment with your investment guidelines and goals

Assess Identify Coordinate Develop Provide Deliver Advise Revisit

For every portfolio we:

Examine

Focus

Identify

Target

> **Examine global economic trends** for expansion, consolidation, risk and opportunity

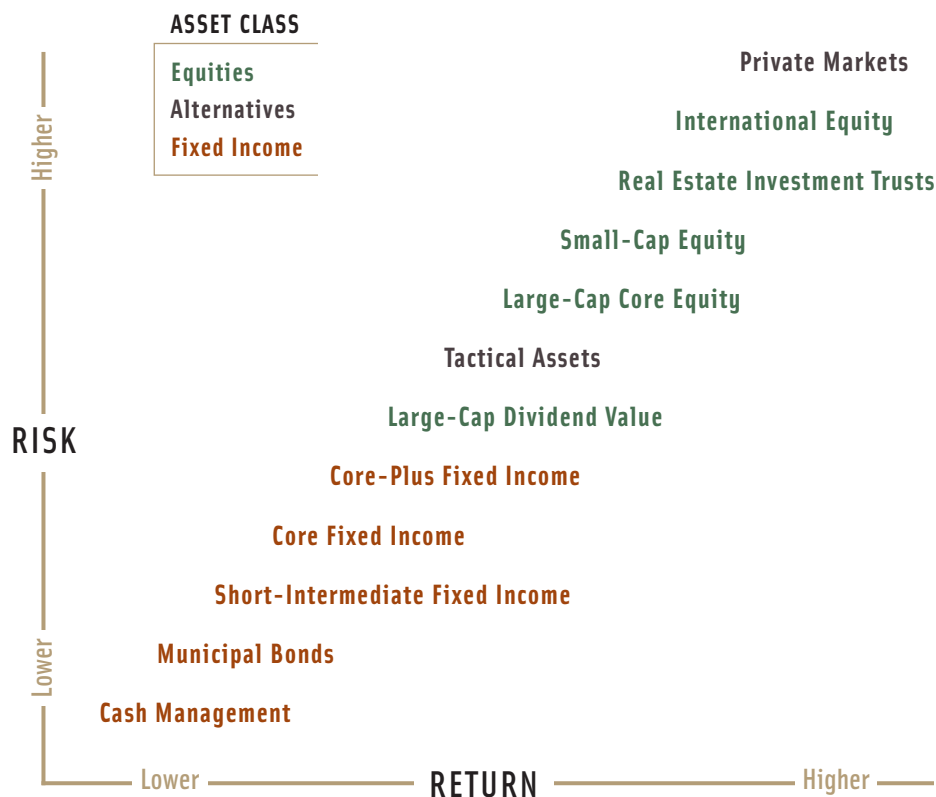
> **Focus on major U.S. economic indicators** to determine which asset classes and market sectors are most likely to generate the best returns

> **Identify investable themes** and sector targets to implement our strategy

> **Target publically traded securities** through our valuation models that have strong fundamentals

> Our complete offering of investment strategies, services, communication and education resources are listed on page 12.

Below are a range of investment strategies we create, manage and employ in our clients' portfolios. *Based on 12/31/13*



Examine Focus Identify Target Assess Identify Coordinate Develop

Our Strategies, Services, and Communication

Investment Strategies

Cash Management employs short-term bonds and money-market instruments to provide stable value, liquidity and income.

Municipal Bonds are investment-grade securities issued by local governments to provide stability and tax-free income. *Barclays Capital Municipal Short/Intermediate Index*

Short-Intermediate Fixed Income limits bond maturities to 10 years or less. *Barclays Capital U.S. Intermediate Government/Credit Index*

Core Fixed Income uses investment-grade bonds to provide the highest possible return while minimizing the risk to principal. *Barclays Capital U.S. Aggregate Index*

Core-Plus Fixed Income is designed for bond investors who are willing to tolerate higher risk for higher potential returns. *Barclays Capital U.S. Aggregate Index*

Large-Cap Dividend Value is a total-return strategy investing in equities that pay dividends. *Russell 1000® Value Index*

Tactical Assets have a low correlation to other strategies (e.g., commodities, hedge funds, private markets, distressed-debt asset classes). *Independently, these strategies can appear anywhere on our risk/return chart on page 11 depending on investment vehicles selected.*

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

Small-Cap Equity consists of "active" solutions, such as Luther King Small Cap Equity Fund, a mutual fund and "passive" exposure to small caps. *This strategy is externally managed for Ferguson Wellman clients.*

Real Estate can be publicly traded, such as REITs, or privately held domestic securities that invest in real estate holdings across all major categories. *FTSE NAREIT Composite Index*

International Equity consists of high-quality, large-cap American Depository Receipts (ADRs) from both developed and emerging countries. It may include exchange-traded funds (ETFs) or mutual funds. *MSCI ACWI ex-US Index*

Not all strategies may be suitable for every investor. The appropriateness of any investment will depend upon the unique circumstances and objectives of each investor.

Benchmarks for each strategy in italics. Their definitions can be found at www.fergusonwellman.com/benchmarks

Services

Horizon™ Financial Planning is our assessment for analyzing real-world factors to forecast long-term outcomes.

Asset Allocation Modeling helps clients choose appropriate asset allocations that fit their risk-return profiles.

Client Balance Sheet is an aggregate snapshot of current and historical assets, liabilities and net worth.

Electronic Safe Deposit Box provides a safe, convenient way to store critical legal and financial documents.

Strategies on Philanthropy offer guidance on the most effective ways to make charitable gifts and establish private foundations or donor-advised funds.

Acquisition Analysis enables clients to review scenarios for acquisitions – taking into account factors such as interest rates, valuation, borrowing and leveraging options.

Comparison Calculators address conversion of Roth IRAs, plans for college savings, Social Security withdrawals and deferrals and sale of low-basis stock.

Communication and Education

Quarterly Reports give clients comprehensive, transparent reporting on their assets.

Weekly Resources leverages technology to deliver updates, such as postings on our *To Coin a Phrase* blog, which includes our *Friday Weekly Market Makers*, daily Twitter news updates and periodic emails regarding changes from our Investment Policy Committee.

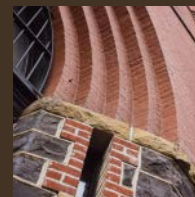
Quarterly Communication encompasses our *Market Letter* publication and *Investment Strategy* videos, which provide analyses of the previous quarter's market activity and actions we have taken to leverage investment opportunities for clients.

Annual Investment Outlooks are forward-looking analyses and commentary that show how the economy and capital markets affect client portfolios. They are delivered through our events and publications.

Client Education Resources include our *Glossary of Investment Terms* and our *Investing Essentials* program to help clients and trustees get more information out of their quarterly reports. We also offer *Retirement: Here or on the Horizon* which provides current information on issues clients need to understand to make well-informed decisions about retirement.

Provide Deliver Advise Revisit Examine Focus Identify Target

Our Professionals



2013 Milestones

Josh Frankel, CRPC®, and Jorge Chavarria were the first two investment professionals hired at Ferguson Wellman's new division, West Bearing Investments. We celebrated this milestone for our firm and as an investment solution for new clients. The need for West Bearing was clear as we welcomed 25 new clients since the division's launch in July of 2013.

West Bearing clients represent a variety of backgrounds that include: retirees; physicians; executives; attorneys; entrepreneurs; private foundations and nonprofits. In true Ferguson Wellman form, West Bearing has grown primarily through introductions from our clients and friends of the firm.

Ferguson Wellman Anniversaries

10 years: Tim Carkin

15 years: Don Rainer, Ralph Cole

30 years: Jim Rudd

35 years: Robin Freeman

Retirements

Mike Knebel, CFA, and Ginny Marsh

More than 20 years

Marc F. Fovinci, CFA*

Principal
Fixed Income Strategy and Portfolio Management

Robin L. Freeman*

Vice President
Administrative Services

Steven J. Holwerda, CFA*

Principal
Chief Operating Officer

George W. Hosfield, CFA*

Principal
Chief Investment Officer

Kathi C. Kimes*

Front Office Coordinator

Mark J. Kralj*

Principal
Portfolio and Wealth Management

James H. Rudd*

Principal
Chief Executive Officer

Patricia J. Van Dyke*

Operations Associate

Kerrie D. Young, IACCP*

Chief Compliance Officer

11 to 20 years

Ralph W. Cole IV, CFA*

Executive Vice President
Equity Research and Portfolio Management

Dean M. Dordevic*

Principal
Portfolio Management and Alternative Assets

Lori B. Flexer, CFA*

Executive Vice President
Portfolio and Wealth Management

Warren Foltz*

Operations Associate

Luz Garcia*

Executive Associate

Jason D. Norris, CFA*

Executive Vice President
Equity Research and Portfolio Management

Donald L. Rainer*

Executive Vice President
Relationship Management

Jeanene M. Wine*

Operations Associate

Amy L. Woods*

Executive Associate

6 to 10 years

Joseph O. Brooks*

Vice President
Fixed Income Trading

Timothy D. Carkin, CAIA, CMT*

Senior Vice President
Equity Trading and Alternative Assets

James A. Coats*

Executive Vice President
Relationship Management

Mary A. Faulkner*

Senior Vice President
Branding and Communications

Sandy Fendall*

Executive Associate

Lori A. Ferraro*

Administrative Associate

Helena B. Lankton*

Executive Vice President
Portfolio and Wealth Management

Deidra M. Krys-Rusoff*

Senior Vice President
Tax-Exempt Trading and Portfolio Management

Lynelle I. Tarter*

Marketing and Sales Associate

Up to 5 years

Nathan M. Agotte, CFP*

Executive Vice President
Portfolio and Wealth Management

Jorge Chavarria**

Executive Associate

Scott W. Christianson, CFP*

Vice President
Equity Trading and Wealth Management

Beth Brown Craven

Executive Associate

Josh Frankel, CRPC**

Senior Vice President
Portfolio and Wealth Management

Anne Holmstrom

Trading Associate

Becky Horvat, CPA*

Vice President and Controller

Brad H. Houle, CFA

Executive Vice President
Fixed Income Research and Portfolio Management

Lauren Kryggier

Executive Associate

Chad A. Long*

Vice President
Information Systems

Julie L. Mark*

Executive Associate

Shawn M. Narancich, CFA*

Executive Vice President
Equity Research and Portfolio Management

Elizabeth A. Olsen

Vice President
Marketing and Communications

Erin Rosenblatt

Executive Associate

* Shareholder of the firm

** West Bearing Investments Professional

As owners, we have built a strong, stable company designed to have a long future with current clients and future generations.

At Ferguson Wellman, we celebrate longevity and the ability to become a shareholder as we believe it provides continuity and stability for our clients.

Ferguson Wellman Capital Management

888 Southwest Fifth Avenue, Suite 1200

Portland, Oregon 97204

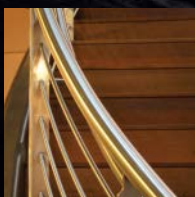
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www.fergusonwellman.com | blog.fergusonwellman.com

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



Architecture starts when you carefully
put two bricks together. There, it begins.

– Ludwig Mies van der Rohe