Hancock Horizon Growth Fund Quarterly Review

As of March 31, 2012

Ticker: HHRAX **Inception Date: January 31, 2001**

Management Experience/Tenure: Since its inception, David Lundgren, CFA and John Portwood, CFA, have served as portfolio managers.

Each quarter before I write my commentary, I review the news of the quarter, economic statistics, market returns, etc. One thing that really caught my eye this quarter was the daily price chart of the S&P 500. As a lifelong observer of market activity, I can't remember a chart so near perfection. Basically a straight line pointed in the right direction – up. It doesn't get much better than this for market participants. Enjoy it while you can.

For the 1st quarter the S&P 500 was up 12.6%. This marks the second consecutive quarter of double digit returns after an impressive 11.8% return in the 4th quarter of 2011. Unlike the 4th quarter however, the 1st quarter lacked much of the volatility that plagued the market for most of 2011. Amazingly, there was only one day where the S&P 500 was down more than 1% (On March 6th the S&P 500 was down 1.5%). And it wasn't just the large cap stocks that enjoyed a solid quarter. Midcaps (S&P 400), small caps (S&P 600), and international stocks (MSCI EAFE) all participated as well, up 13.5%, 12.0%, and 11.9% respectively.

Back to my earlier comment, 'Enjoy it while you can'. At first glance, one might assume I was implying some sort of major sell off is around the corner. But the intent wasn't a forbearing of doom and gloom but rather an acknowledgement that what was experienced in the 1st quarter isn't normal market behavior. So what was the great news that resulted in this steady climb upward? I'm still searching, but I think the 'great news' was simply that there wasn't any bad news.

Here in the U.S., the economy continues to move along, but the pace is tepid. We believe below trend line growth of 2-3% still remains the more likely scenario with odds of a recession slim. Fortunately, the employment numbers continue to improve, led by unemployment claims reaching 357,000 on March 30th. This is the lowest reading in almost 4 years for both the weekly number and the 4 week average which dropped below 370,000 during the quarter. A better employment picture has helped boost consumer confidence and as a result nominal consumer spending continues to climb despite rising gasoline prices. Along the lines of no bad news is good news is housing. It does seem as though the worst is over for the housing sector. The above average warm weather experienced by much of the country may have given housing an artificial boost, but housing starts and home sales saw modest gains. The hope for the economy is that better employment and stronger housing will stabilize the growth picture for the foreseeable picture. Stability and possibly even modest price strength in housing is important to prolonged healthy economic growth. Improvement in housing by itself doesn't provide a major boost. It's the activity associated with it… more construction jobs, increased spending on consumer durables and greater consumer confidence all are generally associated benefits that accompany stronger housing.

Last quarter, we discussed that if Europe remains just an ongoing chronic problem, the likelihood of attractive stock returns in the near future was probable. So far, that turned out to be an accurate prediction as several months of negotiations resulted in a debt deal between Greece and debt holders. In speaking with many clients, we grow more and more concerned that the sentiment of many in regards to Europe is 'glad that one's behind us'. But the reality is that the structural problems of many European countries remain unresolved and it is still a very fragile situation. The Greek debt resolution will help in the short term but political pressures as the left gains strength and continued unrest over austerity programs could result in the unraveling of the Eurozone as it exists today. Of the known risks facing the market, this one ranks high as far as possibly unraveling the sixth month rally that has propelled the S&P 500 over 25.9%.

Another concern we are monitoring pertains to taxes. There are 41 separate tax provisions set to expire at the end of 2012 with the most notable being the Bush-era tax cuts. The tax on dividends will change from a flat 15% tax to a tax as ordinary income which equates to 39.6% for top income earners. The tax on capital gains is also set to increase from 15% to 20%. This could be quite unsettling to investors if Congress doesn't take action. And the need for Congress to take action is why we're concerned.

The discussions in our firm's strategy meetings have changed over the years following the financial crisis of 2008. As many would expect, for the years before the crisis in determining strategy, we would discuss what we felt was the most attractive asset class in which to invest client's monies. More and more, the discussion now seems to be about what's not attractive and where we shouldn't invest. Sounds like semantics, but it's really not. With 10 year U.S. Treasuries trading in a tight range around 2%, We believe, investors, after adjusting for inflation, will more than likely earn a negative return for 10 years. Money market yields and other short term cash equivalent products are paying near 0% and based on recent comments from the Federal Reserve could remain in that range until 2014. So that leaves us with risk based assets including equities. Despite some of the risks outlined above amongst others, our outlook for stocks based on current valuations is mid single digits after adjusting for inflation for the next 3 – 5 years. Mid single digits is not overly attractive, but it's all relative and compared to prospective returns from other classes it represents an attractive outcome in a low return world.

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As of March 31, 2012

Ticker: HHRAX **Inception Date: December 31, 2001**

Fundamentals

	Fund	Russell 1000 Growth
P/E Ratio	16.7	17.6
P/B Ratio	3.2	4.2
Dividend Yield	1.0%	1.5%
SEC 30 Day Yield	0.0%	
Avg Cap*	$39,946.1	$17,241.8
Weighted Avg Cap*	$41,122.0	$119,233.0
Up Capture Ratio^	100.0%	N/A
Down Capture Ratio^	93.5%	N/A
*In millions		
^Since inception		

Quarterly Attribution Analysis

	Allocation Effect	Selection Effect	Active Return
Consumer Discretionary	0.26	1.06	1.31
Consumer Staples	0.74	0.08	0.83
Energy	0.53	0.57	1.09
Financials	0.01	0.15	0.16
Health Care	-0.03	-0.88	-0.91
Industrials	-0.11	-0.26	-0.37
Information Technology	-1.07	-0.44	-1.51
Materials	-0.03	0.52	0.49
Telecommunication Services	0.08	0.00	0.08
Utilities	0.01	0.00	0.01
Attribution Total	0.39	0.80	1.18
Total			

Stock selection in Consumer Discretionary and an underweight position in Consumer Staples were positive contributors to performance last quarter. Stock selection in Health Care and an underweight position in Information Technology were detriments to performance.

Top 3 Contributors (% at Quarter End)

Holdings	
Apple, Inc.	2.4
Ralph Lauren Corp	2.5
TJX Companies	2.3

Top 3 Detractors (% at Quarter End)

Holdings	
Bristol-Myers Squibb Company	0.9
Gardner Denver, Inc.	0.9
Clean Harbors, Inc.	0.3

Holdings are subject to change.

Performance (as of March 31, 2012)

	Last Quarter	YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
Hancock Horizon Growth A	15.1	15.1	6.5	21.1	0.1	4.5	3.0
with Load	9.1	9.1	1.0	19.0	-1.0	3.9	1.8
Russell 1000 Growth	14.7	14.7	11.0	25.3	5.1	4.3	0.9

***Annualized. Performance quoted represents past performance and is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. For performance data current to the most recent month end, please visit www.hancockhorizonfunds.com. Fund returns include change in share value and reinvestment of distributions, unless otherwise indicated. Total expense ratio is 1.36%. Maximum sales charge is 5.25%.** Up Capture Ratio is a statistical measure used to evaluate how well or poorly a manager performs relative to an index during periods when the index has risen. Down Capture is used to evaluate relative performance during periods when the index has dropped. Allocation effect refers to sector allocation decisions and selection effect refers to stock selection decisions.

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