Perspectives

Morris Capital Advisors, LLC

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Admiral McRaven's Advice

It is unfortunate that one of the major stories to unfold during the most recent graduation season was the protest and cancellation of several outstanding speakers who were deemed as "offensive" to the graduating class. At the same time the commencement speech by Admiral William McRaven, a 36 year navy SEAL veteran, provided some memorable advice to those students lucky enough to hear him. My paraphrase of his comments cannot do them justice, so search online for the text or video of his speech. The Admiral's advice is simple, yet profound. Start each day with a task completed (make your bed). Find someone to help you through life. Respect everyone and measure them by the strength of their character. Remember, life is not fair, you will fail often, so you must always take some risks. Step up when times are toughest, face down the bullies, work together to help others, and "never ring the bell" (give up in SEAL training).

The financial markets posted some impressive performance over the past several years, and it almost feels easy, but keep in mind that there are bound to be some tough times ahead. While there can be no comparison between investing and difficulties that the courageous SEALs experience when serving our nation, there might be some interesting parallels. The markets are not always fair, we will fail a lot, so we must take risks to succeed. We need to step up when times are tough, face up to our mistakes, and never give up.

During the quarter stocks rose as investors returned to some of the momentum names that were market leaders last year, bond yields declined, and commodities such as gold and oil fell late in the quarter. Employment statistics reflected improved non-farm payrolls and a declining unemployment rate as the economy showed signs of rebounding from negative GDP growth in the first quarter. The good news, however, belies some inconsistencies. Improving economic activity should put upward pressure on yields and commodity prices, while the employment statistics reflect a shift to part-time workers and a shrinking workforce rather than robust employment growth in a strong economy.

As the second half begins there are other cautionary signs, as well. Volatility measures are low, indicating investor complacency regarding risk. Market analysts anticipate slowing revenue growth for the next quarter and have reduced earnings expectations for the balance of the year. The Fed continues to reduce liquidity injections, trimming its purchases of US Treasury and mortgage-backed securities, while Fed meeting minutes, and public statements from Fed members, indicate that the Fed might hike interest rates sooner than many expect.

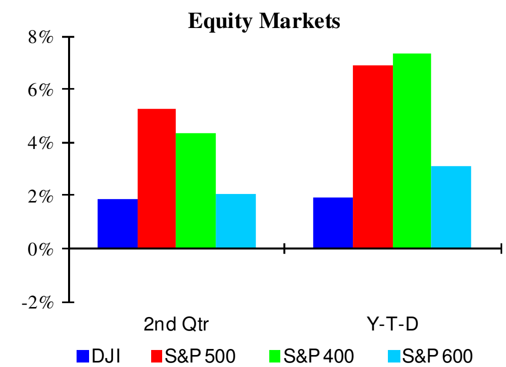
Government policies have also heightened regulatory risks and raised employment costs, while our corporate tax structure puts our global corporations at a competitive disadvantage. Business owners and managers have responded by expanding very cautiously, utilizing part-time employees wherever possible, and initiating merger activity that takes advantage of lower global tax structures. The combined effect is slower domestic economic growth, fewer quality job opportunities, and stagnant income growth for our middle-income workers.

The motto of the SEAL program, "The Only Easy Day Was Yesterday", could well apply to investors, as well. We have been impressed by how well the markets have performed, given the headwinds that confront our domestic and global economies. There is a wide-spread belief that the financial maneuvers by central bankers in the US, Europe, and Japan have backstopped unrealistic economic policies by mispricing capital and risk assets. Some may think that the artificial measures provide a solution, but they are unsustainable in the long-term. To the extent that central bankers have interfered with the normal process that economies need to correct excesses, we could find ourselves, at some point, suffering for the easy days of yesterday.

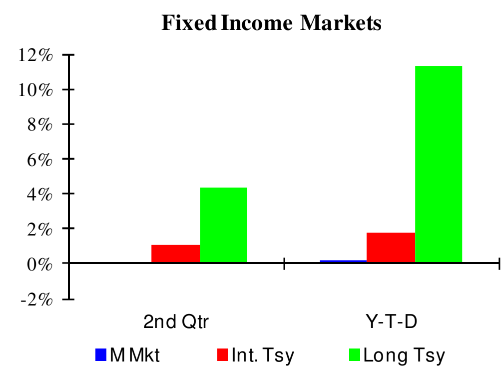
We have discussed these concerns before, and will no doubt discuss them again, but we know that our responsibility is to manage our investment portfolios for our clients to take advantage of current market opportunities. We have no way to know exactly when the markets will re-price the risk that is accumulating, so we will focus on an investment process that we believe can generate the best risk-adjusted returns for clients over time. We will search for great companies that generate strong earnings, have the capability to grow, a strong financial structure built on quality assets and reasonable debt levels. We will invest in companies that are priced attractively and whose operations generate sufficient free cash flow to enable them to reward shareholders by strategically reinvesting in the business, making acquisitions to expand, and paying shareholders in the form of dividends and stock buybacks. We know that the markets can be brutal at times, and that we will have our share of disappointments, but we will remain firm in our belief that the consistent application of our investment process will give our clients the best chance of success over the long-term.

Sincerely,
Daniel A. Morris

Investment Markets



Equity markets enjoyed strong returns in the second quarter of 2014. Large Cap stocks substantially outperformed their smaller cap brethren, and stable, yield-oriented sectors tended to outperform more cyclical and growth-oriented names. To a large degree stocks took their cues from the bond market. Equities were able to shrug off continued mixed signals about the strength of economic activity, and continual news flow from Federal Reserve officials struggling to explain their plans for halting the expansion of the Fed's balance sheet while keeping interest rates low.



Yields on long term US treasury bonds continued to decline in the second quarter, leading to robust total returns. In fact, long-dated bonds have outperformed most equity indices for the year to date. However, yields on shorter maturities rose during the quarter, reflecting an ongoing reassessment of how soon the Federal Reserve is likely to raise money market interest rates from near-zero levels. As a result, the Treasury yield curve flattened considerably.

Portfolio Review and Performance

During the 2nd Quarter of 2014, the Large-Cap Core portfolio was helped by strong performance from Sandisk Corp., AmerisourceBergen, Baker Hughes, Inc., Walt Disney Company, and National Oilwell Varco. Sandisk, a top performer last quarter, rose steadily throughout the quarter. The company announced revenue and earnings above expectations, gross margins better than expected, and an increase in their quarterly dividend. The shares of AmerisourceBergen, a weak performer last quarter, rallied after the company reported earnings above expectations and raised revenue and earnings guidance for the fiscal year. Baker Hughes continued to move higher continuing a rally that started at the beginning of the year. The company reported revenue growth and earnings above expectations, and also announced an increase in their international rig count later in the quarter. The shares of Walt Disney Company also continued the rally that began late last year. The company reported revenue and earnings above expectations, with strong revenue growth across each of their operating divisions. The Studio Entertainment division recorded especially strong growth during the quarter with the release of Frozen and Thor: The Dark World. The shares of National Oilwell Varco fell initially after the company reported earnings above expectations, but only moderate revenue growth. The stock rallied later in the quarter after the company announced plans to spinoff its distribution business into an independent company.

Notable laggards during the 2nd Quarter include Pentair, PLC, Quanta Services, Inc., Valero Energy Corp., IBM Corp., and JP Morgan Chase. Pentair declined after the company reported earnings in line with expectations but disappointing revenue and lower earnings guidance for the next quarter and fiscal year. Later in the quarter shareholders approved changing the place of incorporation of the company from Switzerland to Ireland, and also approved a 25% increase in the dividend. The shares of Quanta Services, a top performer last quarter, fell after the company reported revenue and earnings above expectations, but reduced earnings guidance for the next quarter. The company reported an increase in its total backlog, but their guidance relied on the realization of several upcoming contract awards. The shares of Valero Energy rose early in the quarter when the company reported earnings above expectations. The stock declined on very heavy volume late in the quarter, however, when a report circulated that the White House would allow exports of lightly refined crude oil by two producers. The weakness in Valero reflected concern that the impact of this policy would reduce refining activity. The shares remained weak even after the White House stated that there was no change in policy. IBM declined throughout the quarter, despite reporting earnings in line with expectations and reaffirming earnings guidance. Much of the decline was due to investor concerns that IBM will struggle as the technology needs of companies shift from centralized processing to cloud-based processing. The shares of JP Morgan fell sharply early in the quarter after the company reported revenue and earnings below expectations. The disappointing results were due to a decrease in net interest income, a higher provision for credit losses, and a sharp decline in mortgage originations.

During the quarter we sold Dover Corporation and Wal-Mart Stores, realizing profits on each position. Both were long-term holdings whose rankings had deteriorated as a result of declining earnings and growth expectations. We also sold Knowles Corp., the spinoff from Dover of their electrical component business, realizing a profit on that position, as well. We reinvested the proceeds of these transactions in Borg Warner, and Discover Financial Services. Borg Warner is a global supplier of engineered automotive systems, primarily for powertrain applications. Discover Financial is a direct banking and payment services company. They offer credit cards, loans, and deposit services through their bank subsidiary and they process credit card transactions through the Discover Network.

Net Composite Investment Performance
As of 6/30/2014

	Core Portfolio	Lipper LC Core Funds	S&P 500 Index
2nd Quarter	**5.27 %**	4.47 %	5.24 %
1-Year	**28.75 %**	23.62 %	24.31 %
3-Year Annualized	**15.91 %**	15.38 %	16.47 %
5-Year Annualized	**18.24 %**	17.29 %	18.76 %
10-Year Annualized	**8.81 %**	7.14 %	7.75 %
Annual since Incept. 12/31/1992	**8.21 %**	7.50 %	9.37 %

Performance quoted represents past performance which is no guarantee of future results. Current performance may be lower or higher than what is stated. Investment return and principal value will vary with market conditions. At redemption investment value may be more or less than the original cost.
The S&P 500 Index is an unmanaged index compiled by Standard & Poor's. It includes reinvestment of dividends.
The Lipper Large-Cap Core Index is an unmanaged index compiled by Lipper Analytical. It includes mutual funds holding large company stocks managed with a blend of growth and value.
One cannot invest in an index.

KEY MEASURES
6/30/2014

	Core Portfolio	S&P 500 Index
Average Yield	**1.62 %**	1.99 %
PE on Expected Earnings	**15.54 x**	22.22 x
Expected Growth Rate	**10.66 %**	10.87 %
PEG Ratio	**1.46 x**	2.04 x
Debt to Capital	**34.22 %**	32.69 %
Price to Book	**4.52 x**	4.73 x

Computed from the weighted average of the underlying securities and are not a measure of future performance.
Average Yield: Annual dividends divided by the purchase price, excluding capital gains.
PE on Expected Earnings: Stock price divided by expected earnings-per-share over the next 12 months.
Expected Growth Rate: Compounded annual rate of growth of expected earnings over the next 3-5 years.
PEG Ratio: Ratio of price/earnings to growth that may indicate a stock's potential value. Lower PEG generally means that stock is more undervalued.
Debt to Capital: Debt divided by total capital . An insight into financial strength; a higher ration than the industry average may show weaker financial strength.
Price to Book: Ratio of a stock's capitalization to its book value; compares the market's valuation of a company to that indicated on the company's financial statements. Generally the lower the ration, the "less risky" the investment.

Portfolio Review and Performance

During the 2nd Quarter of 2014 the Large-Cap Growth portfolio was helped by strong performance from Apple, Inc., Gilead Sciences, Inc., Celgene Corp., Hess Corp., and DirecTV Group. The shares of Apple jumped when the company reported revenue and earnings above expectations. The company also reaffirmed revenue and gross margin guidance, partly due to expectations of higher iPhone shipments. The shares continued to rise, supported by a dividend increase, a 7 for 1 stock split, and a substantial increase in the stock buyback program. The shares of Gilead Sciences rebounded after being among the weak performers in the portfolio last quarter when many of the stocks in the biotech industry suffered. The company reported revenue and earnings above expectations, and reiterated guidance for the fiscal year. The rise in the shares was also supported by positive results from a number of clinical studies. The shares of Celgene also rebounded despite reporting earnings that beat expectations but lowering earnings guidance for the fiscal year. The rebound in this name was driven by some positive clinical trials and renewed investor enthusiasm for the biotech sector. The shares of Hess extended a rally stretching back to 2012. The company reported revenue and earnings above expectations, and investors responded positively to ongoing restructuring initiatives, including the sale of the company's retail operations to Marathon Petroleum. DirecTV also extended its rally stretching back to last year. The stock was one of the top performers in the portfolio in 2013, and continued the uptrend after the company reported earnings above expectations. The company also received a bid from AT&T to acquire the company at a substantial premium to the current price. The stock currently trades well below the offer price due to concerns regarding regulatory approval of the combination.

Weak holdings during the 2nd Quarter of 2014 include Xilinx, Inc., Bed, Bath & Beyond, Inc., Express Scripts Holdings, Michael Kors Holdings, and Trimble Navigation, Ltd. Xilinx dropped sharply after the company reported earnings that were below expectations despite a double-digit growth in revenues. The stock had rallied sharply during the previous quarter, and was one of the top performers in the portfolio, but the most recent report raised investor concerns about the ability of the company to generate additional revenue growth. The shares of Bed, Bath & Beyond fell early in the quarter on a weak earnings announcement, reflecting investor concerns about weak operating results. The shares of Express Scripts declined when the company reported earnings below expectations and reduced guidance for the next quarter. The company attributed the weakness to slow enrollment in health care public exchanges. The shares of Michael Kors declined despite reported revenue and earnings that were above expectations. The stock was one of the best performers in the portfolio last quarter, and investors took profits on the strong results. The shares of Trimble Navigation fell after the company reported revenue and earnings that were below expectations. The company also lowered revenue and earnings guidance.

Late in the quarter we liquidated the position in Bed, Bath & Beyond, prior to another weak earnings report from the company. We reinvested the proceeds from the transaction in Harmon International, a developer and manufacturer of audio systems for automobile and home entertainment applications.

Net Composite Investment Performance
As of 6/30/2014

	Growth Portfolio	Lipper LC Growth Funds	Russell 1000 Growth Index
2nd Quarter	**4.62 %**	4.19 %	5.12 %
1-Year	**30.48 %**	27.96 %	26.90 %
3-Year Annualized	**15.79 %**	14.52 %	16.24 %
5-Year Annualized	**20.13 %**	17.54 %	19.22 %
10-Year Annualized	**8.09 %**	7.24 %	8.19 %
Annual since Incept. 6/30/93	**12.65 %**	6.23 %	8.68 %

Performance quoted represents past performance which is no guarantee of future results. Current performance may be lower or higher than what is stated. Investment return and principal value will vary with market conditions. At redemption investment value may be more or less than the original cost.
The Russell 1000 Growth Index is an unmanaged index compiled by Russell Analytics. It includes reinvestment of dividends.
The Lipper Large-Cap Core Index is an unmanaged index compiled by Lipper Analytical. It includes mutual funds holding large company stocks managed for growth.
One cannot invest in an index.

KEY MEASURES
6/30/2014

	Growth Portfolio	Russell 1000 Growth Index
Average Yield	**0.87 %**	1.49 %
PE on Expected Earnings	**17.84 x**	21.84 x
Expected Growth Rate	**15.45 %**	13.97 %
PEG Ratio	**1.15 x**	1.56 %
Debt to Capital	**32.41 %**	36.67 %
Price to Book	**4.92 x**	5.22 x

Computed from the weighted average of the underlying securities and are not a measure of future performance.
Average Yield: Annual dividends divided by the purchase price, excluding capital gains.
PE on Expected Earnings: Stock price divided by expected earnings-per-share over the next 12 months.
Expected Growth Rate: Compounded annual rate of growth of expected earnings over the next 3-5 years.
PEG Ratio: Ratio of price/earnings to growth that may indicate a stock's potential value. Lower PEG generally means that stock is more undervalued.
Debt to Capital: Debt divided by total capital . An insight into financial strength; a higher ration than the industry average may show weaker financial strength.
Price to Book: Ratio of a stock's capitalization to its book value; compares the market's valuation of a company to that indicated on the company's financial statements. Generally the lower the ration, the "less risky" the investment.

Composites include all fully discretionary separate accounts over $100,000 and all commingled accounts over $500,000 managed by Morris Capital Advisors, LLC. for a full quarter. Portfolios are invested solely in US securities. Returns are net total return including dividends, interest, realized and unrealized capital gains and losses, reduced by all costs and advisory fees. Morris Capital Advisors claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Morris Capital Advisors has not been independently verified. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request.

Portfolio Review and Performance

During the 2nd Quarter of 2014 the Small-Cap Growth strategy was helped by gains in Gentherm, Inc., Core-Mark Holdings, Molina Healthcare, Inc., Centene Corp., and Tennant Company. The shares of Gentherm, a top performer last quarter, rallied throughout the quarter. The company reported substantial growth in revenue and earnings, and also raised revenue guidance for the fiscal year. The shares of Core-Mark rallied despite reporting revenue and earnings below expectations. The rally seemed to gain momentum after the company announced a 2 for 1 stock split. The shares of Molina Healthcare rallied off of a short-term low after the company reported earnings above expectations. The company also reaffirmed guidance for the fiscal year. The shares of Centene, another healthcare company, jumped after the company reported revenue and earnings above expectations. The shares continued to rally throughout the quarter, similar to the price action in Molina and other companies in the health care industry. The shares of Tennant spiked late in the quarter, breaking out of a trading range that persisted since late last year. The move was triggered by an analyst upgrade based on increased momentum in Tennant's core business and a new product that could generate significant sales growth.

The portfolio was constrained during the 2nd Quarter of 2014 by poor performance from Datalink Corporation, Advanced Energy Industries, Extreme Networks, Inc., Trex Company, Inc., and Geospace Technologies. Shares of Datalink Corporation fell sharply after the company reported revenue and earnings below expectations. The company also reduced revenue and earnings guidance sharply for the next quarter. The shares of Advanced Energy also fell after the company reported revenue and earnings below expectations, and reduced guidance for the next quarter. The shares fell again when the CEO of the company decided to step down later in the quarter, triggering an analyst downgrade on the stock. Extreme Networks fell sharply after the company reported revenue and earnings below expectations. The company also announced that the CFO of the company was transitioning out of his position and would leave the company later in the year. The shares of Trex declined after the company reported results that created uncertainty. The company missed revenue estimates and earnings were clouded by an adjustment item. The uncertainty weighed on the stock despite a 2 for 1 stock split and increased guidance for the next quarter. The shares of Geospace Technologies declined steadily throughout the quarter. The company reported earnings below expectations and suffered further weakness due to concerns about the continuation of their Statoil contract, and potential capital financing problems with their largest subsea customer.

During the quarter we took gains in several successful positions, including Trex Company, MasTec, Inc., Gentherm, and Bio-reference Labs. We also sold underperforming assets including Extreme Networks and Geospace Technologies. We reinvested the proceeds in Franklin Covey, Globe Specialty Metals, Manitex International, Winnebago Industries, BGC Partners, and Maiden Holdings.

Net Composite Investment Performance
As of 6/30/2014

	Small-Cap Portfolio	Lipper SC Growth Funds	Russell 2000 Growth Index
2nd Quarter	**1.02 %**	0.40 %	1.72 %
1-Year	**18.36 %**	21.26 %	24.73 %
3-Year Annualized	**10.52 %**	12.59 %	14.48 %
5-Year Annualized	**17.06 %**	19.08 %	20.48 %
10-Year Annualized	**6.12 %**	7.85 %	9.04 %
Annual since Incept. 4/30/01	**7.41 %**	6.31 %	7.14 %

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The Lipper Small-Cap Growth Index is an unmanaged index compiled by Lipper Analytical. It includes mutual funds holding small company stocks managed for growth.
One cannot invest in an index.

KEY MEASURES
6/30/2014

	Small-Cap Portfolio	Russell 2000 Growth Index
Average Yield	**0.86 %**	0.56 %
PE on Expected Earnings	**18.04 x**	27.33 x
Expected Growth Rate	**15.24 %**	16.38 %
PEG Ratio	**1.18 x**	1.67 x
Debt to Capital	**20.48 %**	23.07 %
Price to Book	**3.04 x**	4.31 x

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