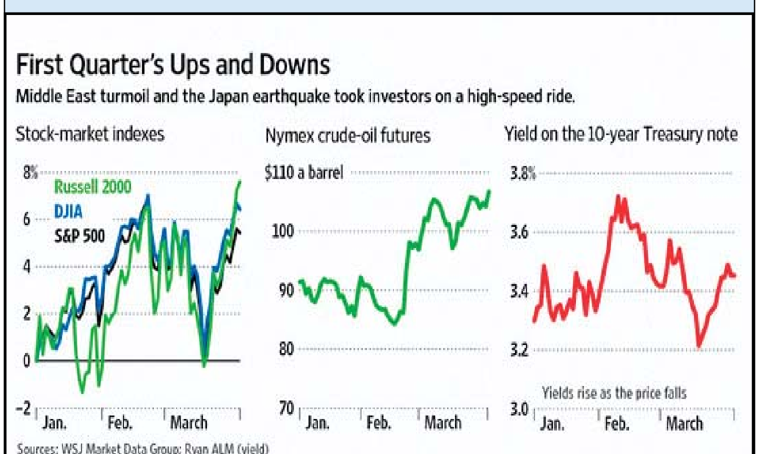
Covenant Asset Management, LLC

Quarterly Letter to Investors: *April 2011*

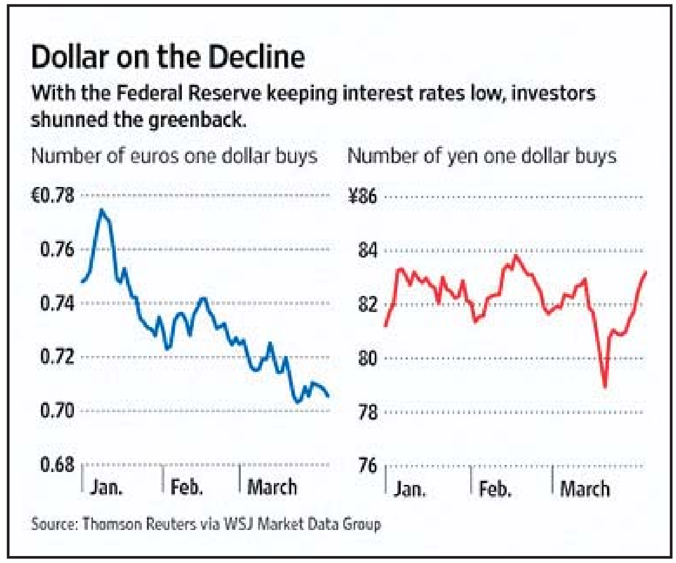
First Quarter Review

Global financial markets continued their resurgence amidst growing optimism that the recovery from the financial crisis has become self-sustaining. U.S. stock indexes realized their best first quarterly gains since 1998, even overcoming political turmoil in North Africa and the Middle East as well as the devastating earthquake and nuclear crisis in Japan. While all ten S&P 500 economic sectors produced gains in the first-quarter, only two sectors – Energy and Industrials - exceeded the 5.9% gain of the broad S&P 500 Index. Fighting in Libya awakened investors to the risk that key oil supplies could be cut off and drove oil prices to a 16.8% gain during the quarter. Gold prices ended the quarter at a record $1,439, up 1.3%, and the Dow Jones-UBS Commodity Index rose 4.4%. Persistent low interest rates and profligate deficit spending continued to weigh on the U.S dollar as it fell 3.8% against a broad basket of foreign currencies. Interest rates remained near historic lows in the first quarter as the Fed held short-term interest rates near zero and kept a lid on longer-term rates with QE2, it's stimulus program to buy U.S. treasury securities. The ten-year U.S. Treasury note ended the quarter yielding 3.45% versus 3.30% at the beginning of the quarter.

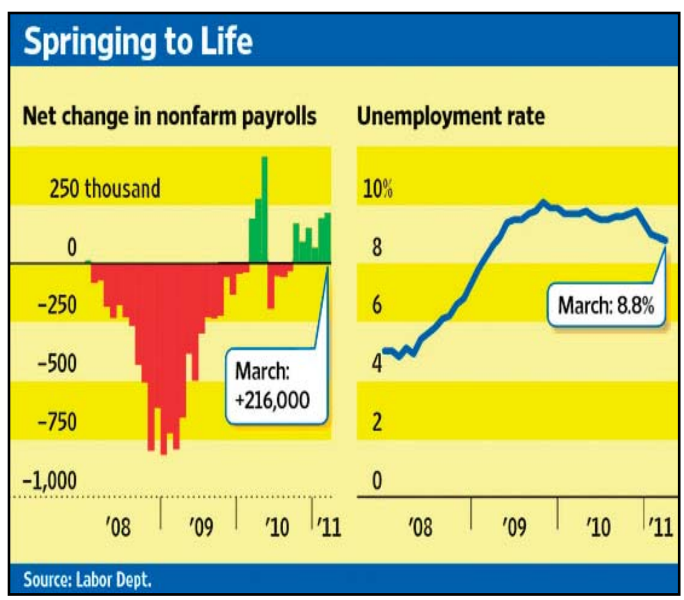


Economic & Financial Market Outlook

Economic data in the quarter are suggestive of a recovery that is gaining traction along with gradual improvement in the labor market and household income. Business conditions remain strong as manufacturers and exporters benefit from a weaker dollar. The housing market continues to struggle although with mortgage rates low and affordability high, prospects may brighten if the employment picture continues to improve. The most significant issue confronting investors in the coming months is the expected termination of the Fed's QE2 program at the end of June.

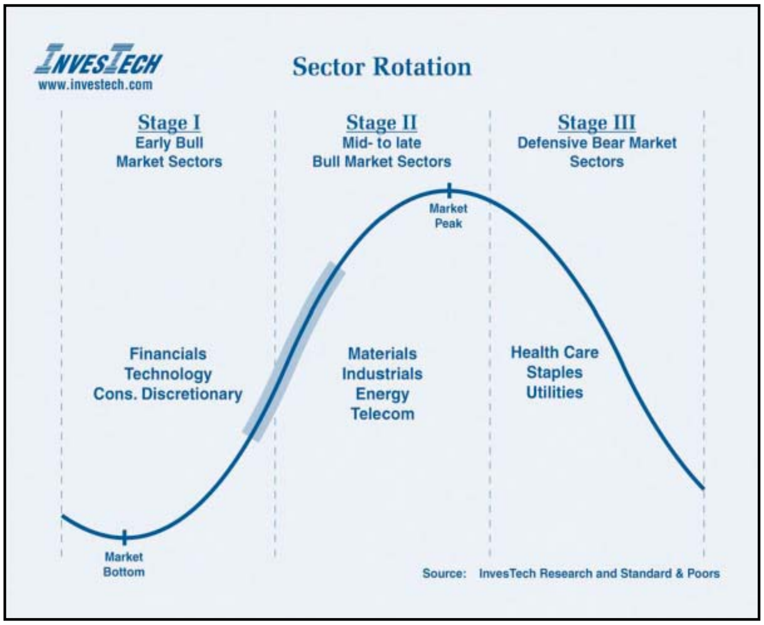


This second round of quantitative easing, where the Fed has been purchasing approximately $75 billion per month of U.S Treasury securities, has been credited with reducing risk spreads and driving stocks and commodities prices higher. In order for this policy to produce more than temporary benefits, we need to experience a successful handoff from public to private credit creation. If the private sector cannot create sufficient low-cost credit and job and economic growth without additional government support, then the two quantitative easing programs engineered by the Fed will be deemed huge failures. That scenario would likely result in further downside to the U.S. dollar, loss of American creditworthiness in the eyes of foreign lenders and investors, and higher borrowing costs for the American government and businesses. By the third quarter of this year, with monetary stimulus (QE2) ending and fiscal stimulus declining significantly, we are becoming concerned that economic growth might begin to slow.



Investment Strategy

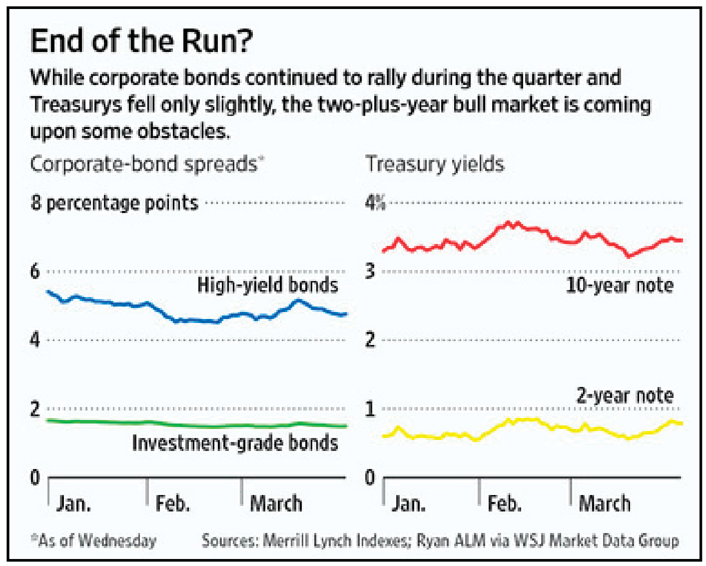
Stock prices have more than doubled from their bear market bottom a little more than two years ago. That said, it is now a good time to assess where we are in the market cycle. Sector leadership can change meaningfully depending on market and economic conditions. The chart below shows a diagram developed by InvesTech Research based upon studies by Ned Davis Research and Standard & Poor's. It shows the three stages of a stock market cycle, along with the sectors that have historically outperformed during each stage.



Since we are now about two years into the current bull market, it is likely we have progressed into Stage II on the graph (the shaded portion of the line) suggesting a possible shift from early bull market sector leadership to later stage sectors. In addition, defensive sectors such as consumer staples and healthcare have been acting better in recent weeks. These factors provide additional evidence that investors are beginning to consider the potential slowdown in economic growth as the two pillars of stimulus are removed in the second half. Acknowledging these conditions, we have already begun the process of incorporating more balance in our U.S. equity portfolio sector weights to reflect the maturing of the stock market cycle and will likely increase exposure to the more defensive sectors in the months ahead. In addition, we continue to recommend higher exposure to non-U.S. dollar-denominated assets given current global economic trends.

With U.S. interest rates near record low levels and federal deficits and debt soaring, we remain committed to a policy focused on short-term high quality bonds. We prefer to invest in alternatives such as high yield bond funds, REITs, high yield common stocks and energy related master limited partnerships when current income is needed.

We found the recent comments by Bill Gross, the founder and long time chief investment officer of PIMCO to be right on the mark when he wrote the following: "If I were sitting before Congress – at a safe olfactory distance – and giving testimony on our current debt crisis, I would pithily say something like this: I sit before you as a representative of a $1.2 trillion money manager, historically bond oriented, that has been selling Treasuries because they have little value within the context of a $75 trillion total debt burden. Unless entitlements are substantially reformed, I am confident that this country will default on its debt; not in conventional ways, but by picking the pocket of savers via a combination of less observable, yet historically verifiable policies – inflation, currency devaluation and low to negative real interest rates. Our clients, who represent unions, cities, U.S. and global pension funds, foundations, as well as Main Street citizens, do not want to be shortchanged nor have their pockets picked. It is incumbent, therefore, in order to preserve the integrity of the U.S. Treasury market along with its favorable global interest rates, and to promote a stable U.S. economy, that entitlement spending be reduced, and that future liabilities be addressed in terms of healthcare and Social Security cost containment. You must attack entitlements and make 'debt' a four-letter word."



These sentiments are not only a commentary on current public economic policy, but also have real implications for U.S and global financial markets. We will be monitoring the debate in Washington as well as other risk factors which may derail the global economic expansion. These include the European sovereign debt crisis, rapidly rising oil prices and any escalation of tensions in North Africa and the Middle East.

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