May 2013

SOL CAPITAL MANAGEMENT COMPANY

CLIENT INVESTMENT LETTER

Global Economic and Financial Markets Summary

Inside this issue:

US equities had an exceptionally strong start to 2013, with the S&P 500 Index rising 10.6% in the first quarter. The rally started on January 2 after Congress reached a last-minute deal that averted the full impact of the "fiscal cliff" of tax increases and government spending cuts set to go into effect January 1. From there, US equities continued their upward ascent, posting three consecutive months of strong gains.

The magnitude of the market's strength was a pleasant surprise. We were anticipating positive returns but believed they would be more muted because of fiscal tightening. While the economy escaped the full weight of the fiscal cliff, taxes increased and the government spending cuts became effective March 1. We did not expect these measures to push the United States back into a recession, although we thought their impact might make investors pause. That was not the case, and the S&P 500 Index posted its best first quarter since Q1-1998.

International equities, as measured by the MSCI All Country Ex-US Index, gained 3.1% driven by strength in Japan. New leaders in Japan are taking aggressive steps to devalue the yen and reinvigorate the country's export-driven economy. It remains to be seen if their actions will be successful since Japan has been trying to restart its economy for 20 years. So far, investors appear optimistic that these changes could indeed be transformational.

Fixed income securities took a back seat to equities this quarter. The broad US fixed income market, as measured by the Barclays Capital US Aggregate Bond Index, declined 0.1%. However, bonds rallied during the month of April, and the Index is now up nearly 0.7% year to date. For fixed income, that is a healthy gain.

Financial Markets Performance

Equities

US stock prices climbed significantly higher during the first three months of the year, with small cap-stocks leading large caps; see Exhibit 1. During the quarter, investors shrugged off a number of concerns, including the March 1 federal spending cuts and turmoil in Europe, and poured $52 billion into US equity mutual funds and exchange-traded funds. It was the largest quarterly net inflow for these funds since the first quarter of 2004. Several factors contributed to the attractiveness of stocks, including low yields on fixed income securities, declining volatility in the equity market, and signs of improvement in the US economy.

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Financial Markets Performance Cont.

Overseas, stock markets in most developed countries posted gains, resulting in a 5.2% increase in the MSCI EAFE Index. Japanese equities performed especially well, lifted by optimism about the pro-growth policies of a new prime minister and new Bank of Japan chairman. Ironically, efforts to weaken the yen to boost exports contributed to the rally but also eroded returns for US-based investors, as the yen weakened approximately 8% versus the US dollar. European markets generated a healthy gain, despite political instability in Italy and a banking crisis in Cyprus. The euro weakened approximately 3% versus the dollar, lowering returns in dollar terms.

Strength in the dollar was also a headwind for US-based investors in emerging market equities, albeit a more modest one. The MSCI Emerging Markets Index was essentially flat in local currencies but fell 1.8% in dollars. China was one of the weaker markets, impacted by concerns that the acceleration in the economy that began in the second half of 2012 might be losing momentum. Commodity price declines put downward pressure on the equity markets of commodity exporters such as South Africa and Brazil.

"European markets generated a healthy gain, despite political instability in Italy and a banking crisis in Cyprus."

Fixed Income

The safe-haven Treasury market posted a narrow loss in the first quarter (yields rose), as upbeat data on the housing and job markets overshadowed the problems in Europe. Investment-grade corporate bond prices also fell by a modest

Exhibit 1

Total Return* for Selected Equity, Fixed Income, and Hedge Fund Indices

	Year to Date ***(12/31/12 to 03/31/13)***
Major Equity Indices	**%**
S&P 500 Index	10.6
Russell 3000 Index (Total US market)	11.1
Russell 2000 Index	12.4
MSCI All Country Ex-US Index (Net)	3.1
MSCI EAFE International Index (Net)	5.2
MSCI Emerging Markets (Net)	-1.8
Source: Bloomberg, MSCI	
Major Fixed Income and Hedge Fund Indices	**%**
Barclays Capital US Aggregate Bond Index	-0.1
Barclays Capital U.S. Credit Index	-0.2
Merrill Lynch US High Yield BB-B Bond Index	2.4
JPMorgan Non-US Global Hedged Index in USD	1.3
JP Morgan EMBI Global Index in USD (Emerging markets)	-2.3
HFRX Equal Weighted Strategies Index (Hedge Funds)	2.8
Source: Bloomberg, Russell Investments, PIMCO, HFRI	

* *Includes price appreciation plus dividends and/or interest.*

amount, performing broadly in line with Treasuries. In contrast, the Merrill Lynch US High Yield BB-B Bond Index rose 2.4% in response to solid investor demand and healthy corporate fundamentals. During the quarter, the Federal Reserve held interest rates near zero and continued purchasing $85 billion a month in Treasury and mortgage-backed securities. The Fed's bond-buying program lent support to the fixed income market; however, signs that the central bank might start to slow these purchases by year-end started to surface.

Even with the problems in the euro zone, prices of European sovereign bonds continued to move higher, led by gains in some of the most heavily indebted countries, including Portugal and Spain. In emerging countries, returns on US dollar-denominated government debt were generally negative, as investors favored higher-yielding corporate bonds and government issues denominated in local currencies.

Global Economic Outlook

United States

The US economy grew 2.2% in 2012, and we expect a similar rate of growth in 2013; see Exhibit 2. Auto sales and capital goods orders are trending higher, and consumer and corporate balance sheets are strong. While tax increases could have a mildly negative effect on GDP in the coming quarters, we believe the impact of government spending cuts will remain minimal. We also think the negative impact of fiscal tightening will be offset by favorable trends in the private sector, such as the continued recovery in housing and the US energy boom.

Across much of the country, home prices are increasing at an accelerating rate, and market fundamentals suggest that prices will stay on an upward trajectory. Inventories are tight, ultra-low mortgage rates are keeping affordability high in most markets, and banks have modestly eased lending standards. In addition, demand is strong among institutional and individual investors, and the number of young adults living with their parents suggests that a wave of pent-up demand is on the horizon; see Appendix A. The housing recovery is helping many segments of the economy, from the construction industry (see Appendix B) to financial institutions to manufacturers and retailers of household items. Moreover, it can stimulate consumption broadly, since rising home values make consumers feel wealthier and more comfortable spending more.

The positive effects of increasing US energy production are also beginning to ripple through the economy. The energy producers themselves are adding jobs, as are the suppliers and service companies that work with the producers. Furthermore, the surge in US oil production is helping to contain gasoline prices, while low domestic natural gas prices are prompting US manufacturers in energy-intensive industries to relocate plants from overseas and build new plants at home; see Appendix C-1 and C-2 . This not only creates manufacturing jobs, it benefits the companies involved in building these facilities, such as engineering firms and materials suppliers. Lastly, operators of

(Continued on page 4)

"The housing recovery is helping many segments of the economy, from the construction industry to financial institutions to manufacturers and retailers of household items."

Global Economic Outlook Cont.

(Continued from page 3)

commercial fleets are starting to convert their vehicles to natural gas, and consumers could be next. The US energy trade deficit is shrinking rapidly, alleviating a drag on economic growth.

Europe

Ongoing deleveraging by both banks and governments continues to take a toll on the euro zone economy. The unemployment rate recently touched 12%, its highest level since the euro was launched in 1999. In addition, consumer confidence is depressed, the rate of decline in manufacturing activity is accelerating, and tight credit conditions are hurting small- and medium-sized businesses that need capital to grow. Economists are generally calling for negative to flat GDP growth in 2013, forecasts that are less optimistic than the one from Goldman Sachs which appears in Exhibit 2.

Policy measures employed throughout last year, most notably the European Central Bank's announcement of a new bond-buying program, have pushed government bond yields lower in peripheral nations and helped ease the region's debt crisis. In March, euro zone officials agreed to a rescue package to help shore up the banking system in Cyprus that included taxing deposits held at Cypriot banks. While this was unsettling to investors, it was largely viewed as a policy misstep rather than a blueprint for future rescue programs.

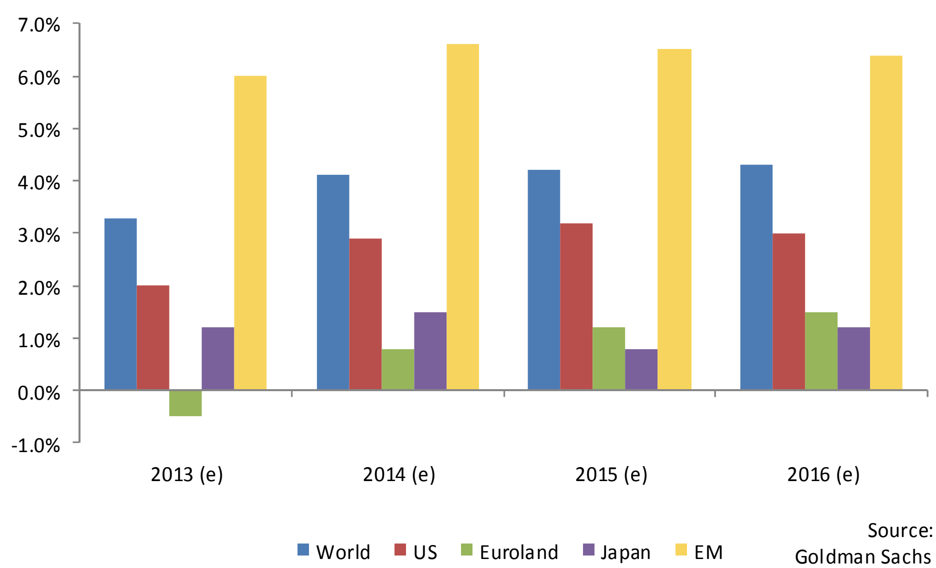
"Policy measures employed throughout last year, most notably the European Central Bank's announcement of a new bond-buying program, have pushed government bond yields lower in peripheral nations and helped ease the region's debt crisis."

Japan

Japan emerged from recession in the fourth quarter of 2012 when GDP grew

Exhibit 2

Real GDP Growth Estimates



Source: Goldman Sachs

Global Economic Outlook Cont.

at an annual rate of 0.2%. The economy is expected to strengthen even further in 2013 due to the aggressive policies of Prime Minister Shinzo Abe, who was elected in December, and Bank of Japan Chairman Haruhiko Kuroda, who was appointed in March. The government unveiled a $116 billion economic stimulus package at the beginning of the year and cut taxes for corporations. In addition, the Bank of Japan recently announced a number of steps designed to boost inflation, including doubling its purchases of Japanese government bonds. At $70 billion a month, the size of the Bank of Japan's bond-buying program is on par with that of the Federal Reserve and exceeds the Fed's as a percent of GDP; see Appendix D. These easing measures are driving the yen lower, which should make Japanese exports more competitive on world markets.

Emerging Markets

Labor costs are increasing in many emerging countries, creating inflationary pressures and a loss of manufacturing jobs to the United States, where wage growth is weak and energy costs are falling; see Appendix E. However, any labor-market slack should be absorbed by rising demand from the consumer sector, and we expect GDP growth to remain strong across emerging countries. China, in particular, is focused on raising the quality of growth in its economy by rebalancing growth toward domestic consumption and away from exports and investment in state-owned enterprises.

"Major US equity indexes, including the S&P 500 and Russell 2000, touched new highs in the first quarter. In our view, these new highs aren't signaling a market "top" and we think stocks could move higher in the months ahead."

Investment Strategy

Equities

Major US equity indexes, including the S&P 500 and Russell 2000, touched new highs in the first quarter. In our view, these new highs aren't signaling a market "top," and we think stocks could move higher in the months ahead. Valuations are not as low as they were a few years ago, but US equities are still reasonably valued compared to historical averages; see Appendix F. Furthermore, the economy is improving, and the Federal Reserve remains highly accommodative. Valuations are also attractive outside the United States, in both developed and emerging markets. Against this backdrop, we are maintaining or increasing our global equity exposure as appropriate for individual portfolios. In addition, we continue to invest in special opportunities, such as technology companies, natural gas companies, and companies that are benefiting from the housing recovery. Having said that, we do expect volatility in the equity markets, and are mindful of our clients' investment and liquidity needs in constructing their portfolios.

Investment Strategy Cont.

Fixed Income

The bond market has performed well over the past several years, but extremely low yields leave minimal room for further price appreciation. Nonetheless, fixed income is still an important part of a balanced portfolio since it can temper downside volatility in the equity market. We think the downside protection gained by holding intermediate to long duration Treasury securities is currently too expensive. We also think high-yield bonds are now fairly valued and have started to cross into overvalued territory as they continue narrowing their credit spreads relative to Treasuries. Consequently, we are tilting our fixed income exposure toward lower durations and opportunistic strategies that, in our view, have relatively more limited downside risk in a rising interest rate environment, yet could reduce equity volatility and still provide liquidity.

"... it is important to always maintain a disciplined investment approach of diversification and rebalancing."

In Closing

It is unusual for US equities—or any asset class—to generate double-digit returns in a single quarter. While equity returns will likely be more subdued in the coming months, we think the global financial markets will provide us with potential additional opportunities to maintain or build on the strong first-quarter gains. Powerful growth catalysts are unfolding in the United States, and policymakers are taking bold steps in Japan. Europe continues to restructure its banks and economy, and emerging economies remain robust. Against this backdrop, we believe corrections and higher volatility are always possible, especially from unexpected factors. In this regard it is important to always maintain a disciplined investment approach of diversification and rebalancing.

We continue to thoughtfully rebalance portfolios, keeping in mind the events taking place in the United States and abroad. We also continue to diversify portfolios by asset class, geographic market, asset size, and investment style. This reflects our belief that broad diversification is one of the most prudent strategies for preserving capital and reducing volatility.

As always, we remain focused on achieving your long-term investment goals within your risk profile, and funding your future liquidity requirements. We invite you to call us at 301.881.3727 if you have any questions or concerns about your portfolio.

Sincerely,

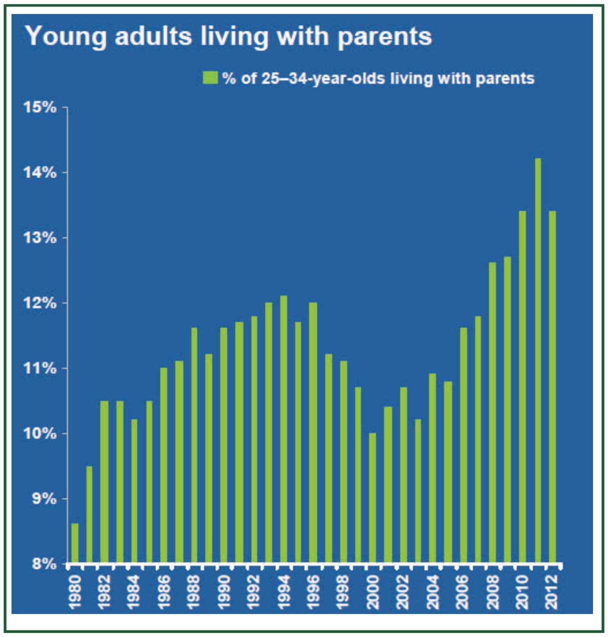
The SOL Capital Management Team

Please note that past performance is neither an indication nor a guarantee of future returns and that diversification does not ensure profits or guarantee against a loss.

Appendices

Appendix A

Supply-demand: Excess worked off, demand pent up

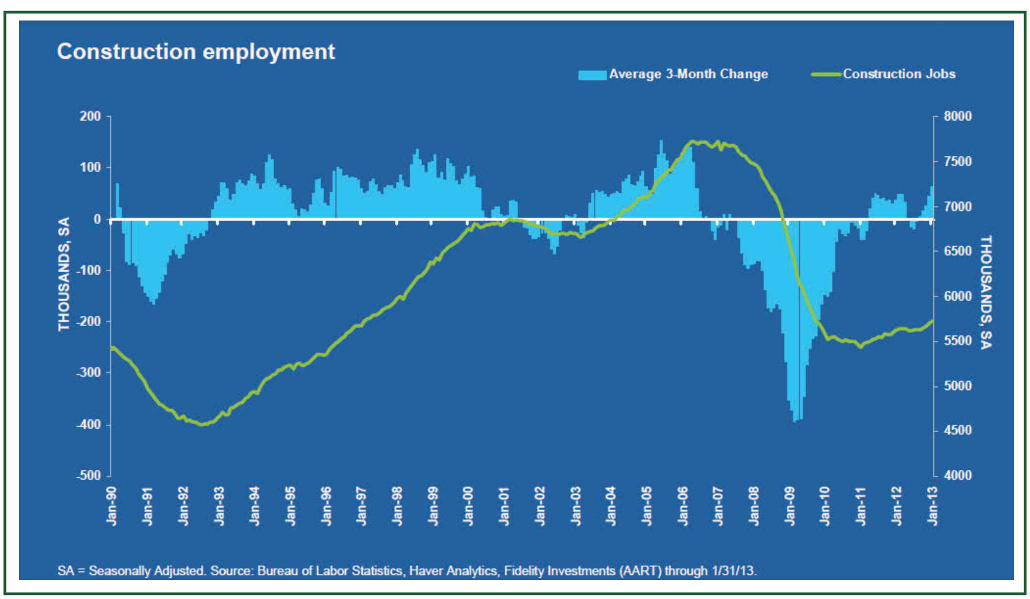


Source: Bureau of Labor Statistics, Census Bureau, Zelman & Associates, Fidelity Investments (AART) through 12/31/12.

Source: "Supply-demand: Excess worked off, demand pent up," *US Housing: Broad Growth Driver*, **Fidelity Investments**, page 4

Appendix B

Construction jobs being created



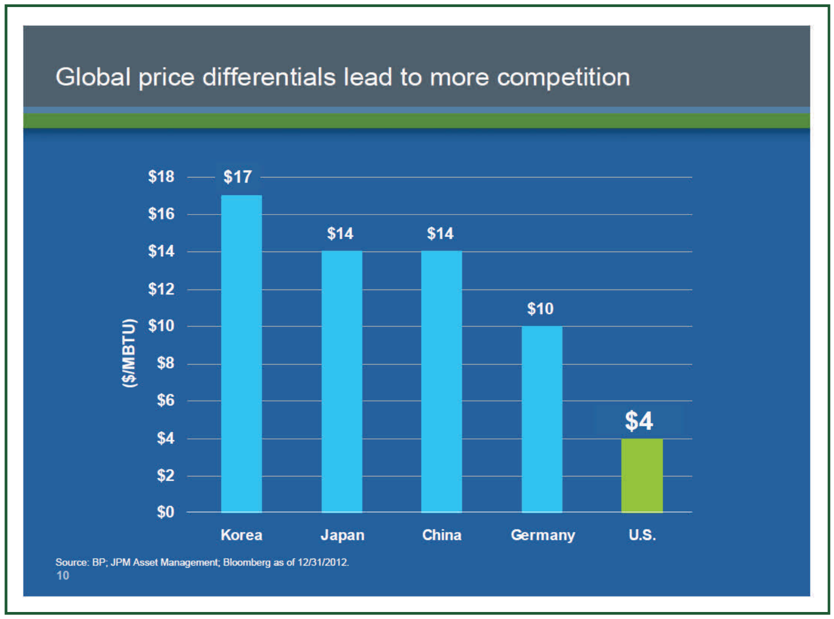
SA = Seasonally Adjusted. Source: Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART) through 1/31/13.

Source: "Construction jobs being created," *US Housing: Broad Growth Driver,* **Fidelity Investments**, page 13

Appendices Cont.

Appendix C-1

Global price differentials lead to more competition

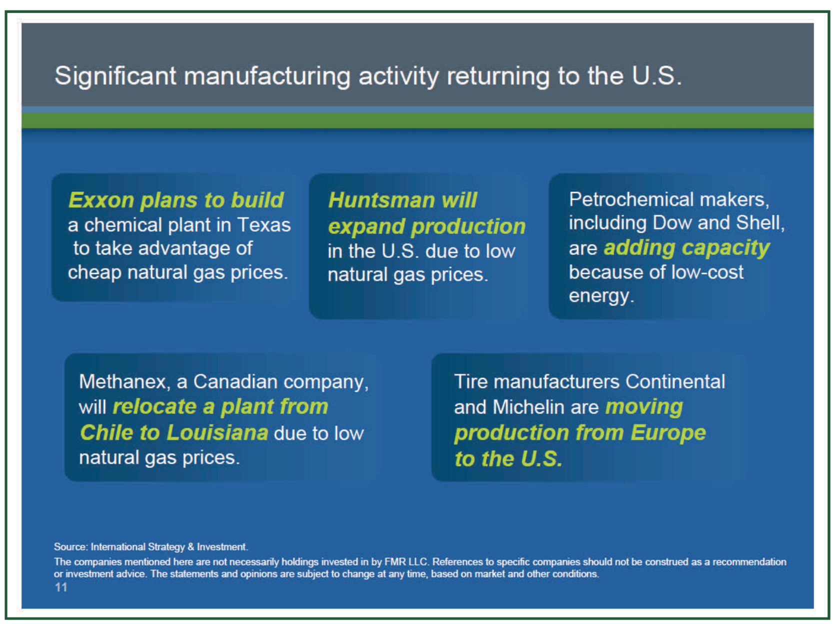


Source: BP, JPM Asset Management, Bloomberg as of 12/31/2012

Source: "What could propel the U.S. stock market?", *U.S. energy: Strong Competitive Advantage*, **Fidelity Investments**, page 10

Appendix C-2

Significant manufacturing activity returning to the U.S.

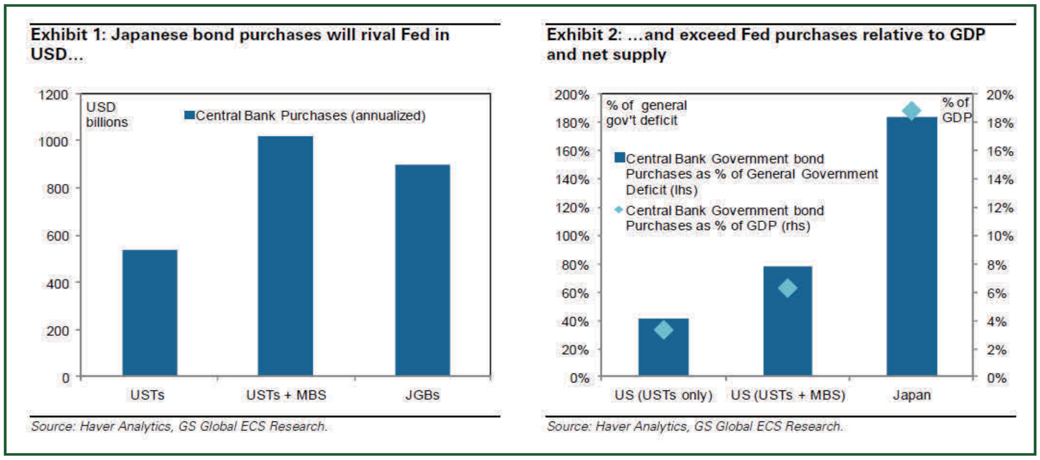


Source: "What could propel the U.S. stock market?", *U.S. energy: Strong Competitive Advantage*, **Fidelity Investments**, page 11

Appendices Cont.

Appendix D

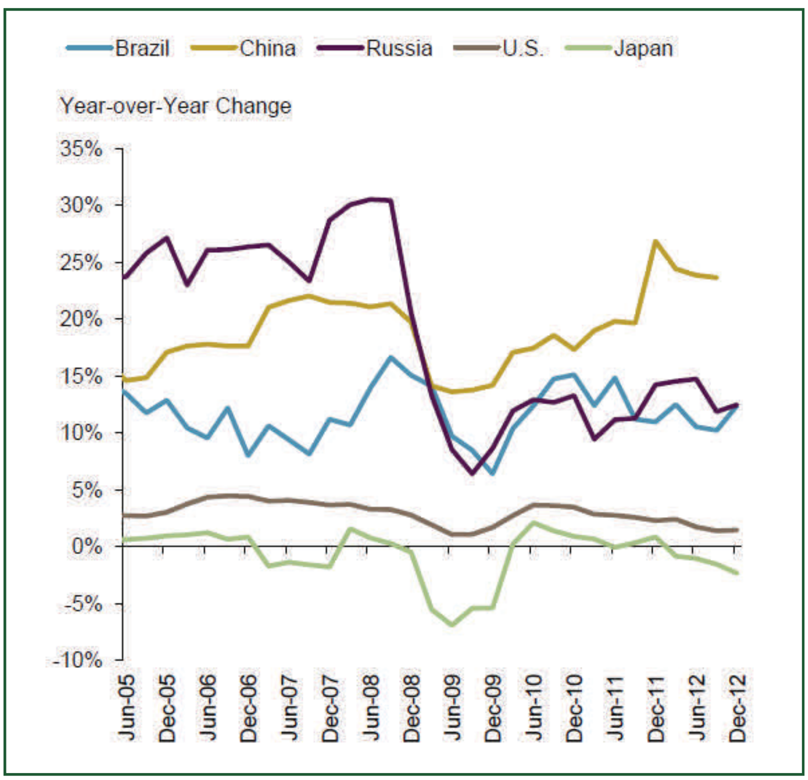
Bond Buying: Bank of Japan Versus Federal Reserve



Source: *Global Economics Weekly*, **Goldman Sachs**, April 10, 2013, page 2

Appendix E

Wage Inflation



Overall earnings data for Brazil, China, Japan, and US. Accrued wages data used for Russia. Source: Country statistical organizations, Haver Analytics, Fidelity Investments (AART) through 12/31/12.

Source: "Wage Inflation," *Second Quarter 2013 Quarterly Market Update*, **Fidelity Investments**, page 20

Appendices Cont.

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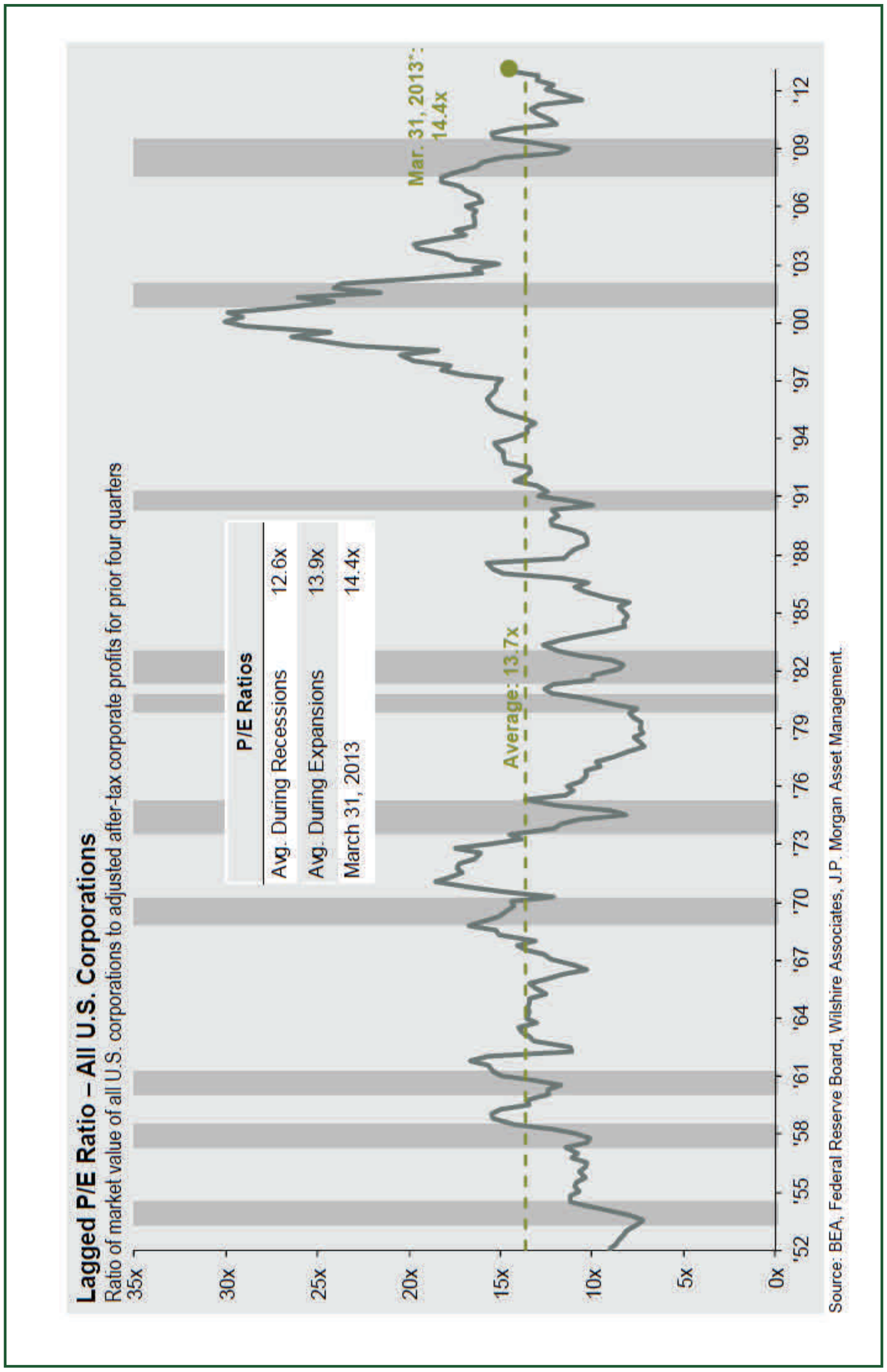
Appendix F

Broad Market Lagged Price to Earnings Ratio



Source: BEA, Federal Reserve Board, Wilshire Associates, J.P. Morgan Asset Management.
* The March 31, 2013 price is a J.P. Morgan Asset Management estimate based on the daily value of the Wilshire 5000 Total Market Index.

Source: "Broad Market Lagged Price to Earnings Ratio," *Guide to the Markets 2Q 2013*, **J.P. Morgan Asset Management**, page 14

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