November 2013

SOL CAPITAL MANAGEMENT COMPANY

CLIENT INVESTMENT LETTER

Global Economic and Financial Markets Summary

Inside this issue:

It was a strong quarter for global equities and a positive quarter for fixed income, as continued easy monetary policy and improving economic fundamentals worldwide lifted markets higher. The quarter was characterized by healthy US corporate profits, signs of economic progress in Europe and Japan, and a gradual strengthening of emerging market currencies. These positive factors overshadowed political brinkmanship in Washington, DC and unrest in the Middle East.

The third quarter's gains were broad-based; however, performance has been varied year to date. US equities have shown strength throughout, while developed international stock markets posted only mild increases in the first half of 2013, followed by a strong third quarter. Emerging market equities also had a strong third quarter, but the positive returns were unable to erase losses from earlier in the year. High-yield bonds added to gains from the first half of 2013, but most other sectors of the US bond market are still in negative territory year to date, as is emerging market debt. The fact that 2013 is shaping up to be a difficult year for fixed income is not unexpected, since it would be unrealistic to think that interest rates could remain at historically low levels indefinitely (Bond prices move inversely with interest rates). Given the strong performance of US equities this year, valuations suggest that any additional near-term gains could be more muted.

As we write this letter, Congress has passed a bill to reopen the US Government until January 15th (following the October 1st shutdown) and increase the debt ceiling until February 7th. We are encouraged that lawmakers reached a temporary agreement. That said, we are disappointed that excessive conflict, instead of compromise, continues to take center stage in the negotiations.

The US deficit has fallen from approximately 10% of GDP in 2009 to an estimated 3.9% in 2013 and is projected to continue to decline over the next several years; see Appendix A. This important improvement received little attention from all sides during the debate. Instead a crisis environment was generated including a possible US debt default. This resulted in greater economic and financial uncertainty that could affect consumption and investments and lower the level of economic growth.

Specifically, we are disappointed that Congress and the Administration have not been focusing on the 70% of the budget spent on defense and entitlement programs like Social

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SOL CAPITAL MANAGEMENT

Global Economic and Financial Markets Summary Cont.

(Continued from page 1)

Security and Medicare; see Appendix B. While defense spending is likely to stay flat or decrease over the coming years, growth in entitlement spending is expected to skyrocket. Important structural changes are needed in entitlements, as well as reforms in the tax code to prevent serious problems in the future and to create incentives for higher growth.

There are ways to make meaningful cuts. However, some politicians are unwilling to curtail entitlements, and others to reduce defense spending. This results in a stalemate that has serious implications for the economy and financial markets. It is imperative that compromise replaces excessive conflict and that the issues of entitlements and tax reform take center stage.

Financial Markets Performance

"The vast majority of the world's equity markets posted strong gains in the third quarter, buoyed by the Fed's accommodative stance, mild but steady US economic growth, and economic recoveries in Europe and Asia."

Expectations that the Federal Reserve would start tapering its bond-buying program in September, combined with the threat of US military action in Syria, kept the financial markets volatile during the summer months. In September, the Fed surprised the market when it announced that it would delay the beginning of tapering—a decision most people attributed to the impending US budget and debt-ceiling discussions, which were expected to be bitter. The Fed's decision to hold policy steady, combined with easing tensions in Syria and a political breakthrough in US-Iran relations, fueled a September rally. The rally paused near the end of the quarter, as all eyes turned to Washington.

Equities

The vast majority of the world's equity markets posted strong gains in the third quarter (see Exhibit 1), buoyed by the Fed's accommodative stance, mild but steady US economic growth, and economic recoveries in Europe and Asia. Volatility was surprisingly low given the events that were taking place around the world.

In the United States, large-cap stocks performed well, but small- and mid-cap stocks outpaced large caps as the Fed's continued support boosted risk appetites. Outside the United States, developed markets were the clear winners. Strength in European equities reflected the economic turnaround that is slowly emerging across the continent. In Japan, equities continued to enjoy investors' positive reception of "Abenomics"—the aggressive economic stimulus policies initiated by Prime Minister Shinzo Abe, who took office last December. In emerging markets, concerns about slower economic growth in China and the direction of US monetary policy continued to create stock market volatility. Nonetheless, the MSCI Emerging Markets Index finished the quarter with a healthy gain.

Financial Markets Performance Cont.

Exhibit 1

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

	3rd Quarter *(6/30/13 to 9/30/13)*	**Year to Date** *(12/31/12 to 9/30/13)*
Major Equity Indices	%	%
S&P 500 Index	5.2	19.8
Russell 3000 Index (Total US market)	6.4	21.3
Russell 2000 Index	10.2	27.7
MSCI All Country Ex-US Index (Net)	10.1	10.0
MSCI EAFE International Index (Net)	11.6	16.1
MSCI Emerging Markets (Net)	5.8	-4.4
Source: Bloomberg, MSCI		
Major Fixed Income and Hedge Fund Indices	%	%
Barclays Capital US Aggregate Bond Index	0.6	-1.9
Barclays Capital U.S. Credit Index	0.4	-2.3
Merrill Lynch US High Yield BB-B Bond Index	2.1	2.9
JPMorgan Non-US Global Hedged Index	1.1	1.0
JP Morgan EMBI Global Index in USD (Emerging markets)	0.9	-7.4
HFRX Equal Weighted Strategies Index (Hedge Funds)	1.0	4.4
Source: Bloomberg, MSCI, PIMCO		

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

"Interest rates continued to climb higher throughout much of the third quarter, but peaked in early September to finish the period not far from where they had started."

Fixed Income

The fixed-income markets delivered positive results, following a difficult second quarter in which expectations of Fed tapering caused interest rates to spike. Interest rates continued to climb higher throughout much of the third quarter, but peaked in early September to finish the period not far from where they had started. Higher-risk sectors within the fixed-income markets led the gains, including high-yield securities, floating-rate loans, and emerging market debt. High-yield securities benefited from a tightening in credit spreads (i.e., a narrowing in the yield difference between high-yield issues and comparable-maturity Treasuries). Concerns that the interest rate cycle was turning, fueled strong demand for floating-rate loans, which are less sensitive to interest rate changes than fixed-rate bonds. Emerging market debt gained ground as many emerging market currencies strengthened relative to the US dollar.

Global Economic Outlook

United States

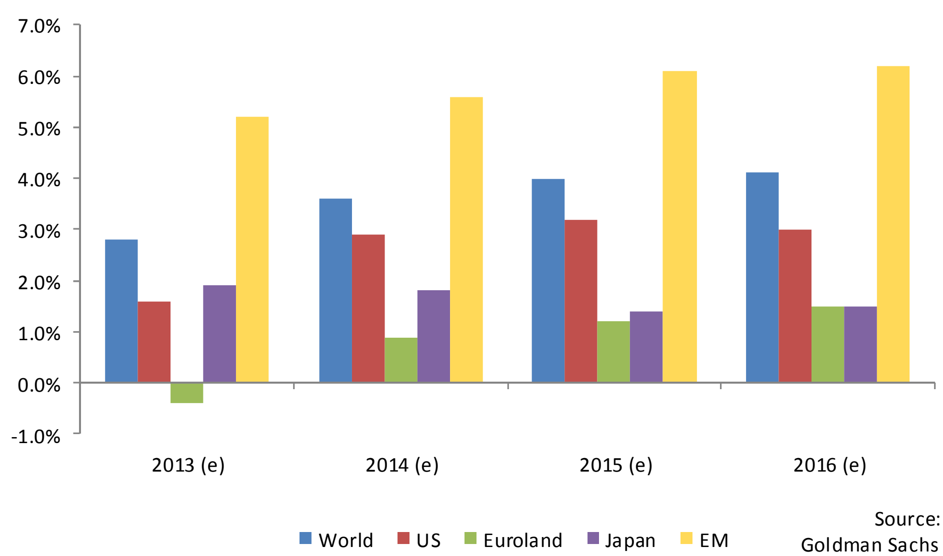
Prior to the October 1st government shutdown, the US economy was expected to grow between 2-3% in the fourth quarter and 1-2% for the full year; see Exhibit 2. According to some estimates, the 16-day shutdown is expected to have trimmed about 0.15% per week from GDP due to lost spending on government services and contractor wages. In addition to these direct costs, consumers and businesses are likely to adopt a "wait and see" attitude toward spending until there is more clarity on fiscal policy. Goldman Sachs estimates that the direct and indirect impact of the shutdown could shave 0.25-0.50% from fourth quarter GDP, although we doubt the entire loss would be permanent. If lawmakers reach a longer-term budget solution before the next set of deadlines draws near, first quarter 2014 GDP could receive a boost from pent-up demand.

Regardless of what the precise impact on the US economy might be, the economy should continue to expand at a moderate pace. Higher tax revenues from GDP growth and the January 2013 tax increases, combined with the government spending cuts known as the "sequester," continue to chip away at the deficit. As a result, the United States is now in a stronger financial position than it was several years ago. The US consumer is also in a stronger position. Low housing inventories are causing home prices to rise rapidly, increasing household net worth and sustaining consumer spending; see Appendices C and D. At the same time,

"Regardless of what the precise impact (of the government shutdown) on the US economy might be, the economy should continue to expand at a moderate pace."

Exhibit 2

Real GDP Growth Estimates



Source: Goldman Sachs

Global Economic Outlook Cont.

growth in workers' average hourly earnings is moving higher; see Appendix E. These improvements are likely to put pressure on the Fed to start tapering monetary stimulus. However, lower-than-expected job growth in September and inaction by Congress on important budget issues could lead the Central Bank to wait until 2014.

On October 9th, President Obama nominated Janet Yellen to lead the Federal Reserve after Ben Bernanke's term ends in January. Her nomination was well received by the financial markets given her background and track record. Ms. Yellen is an experienced economist and the current vice chairperson of the Fed. She was a chief architect of the central bank's unprecedented bond-buying programs and is viewed as more of a policy "dove" (i.e., more accommodative) than Mr. Bernanke. Assuming Ms. Yellen is confirmed, she would be the first woman to hold the position in the central bank's 100-year history.

Europe

Economic fundamentals are improving in Europe and GDP growth is expected to increase from slightly negative in 2013 to slightly positive in 2014. One tailwind for euro zone economies is the waning drag of government austerity measures, which should fall from 3.3% of GDP for the years 2010 to 2013 to 1.1% of GDP from 2013 to 2016; see Appendix F. In addition, sovereign borrowing costs have dropped substantially, reducing the risk of another financial crisis. The decline in borrowing costs has been driven by the actions of the European Central Bank (ECB), which has stood behind the bonds of the most heavily indebted governments. The ECB's support has effectively recapitalized the region's banks, which are large holders of these bonds.

There is evidence of the emerging recovery in the euro zone. The region's trade surplus is growing, consumer sentiment is rising, and retail sales are increasing—all signs that consumers are starting to release pent-up demand. Furthermore, the Purchasing Managers Index (PMI), a key gauge of manufacturing activity, recently reached its highest level in two years. While the data for the euro zone as a whole is encouraging, it is important to remember that there are "two Europes." To the north are countries whose economies are solid, such as Germany, Finland, and the Netherlands. To the south are countries like Spain and Italy that are showing economic improvement but still face serious structural issues. The divergence in economic performance is a source of continued risk for the region.

Japan

In Japan, Prime Minister Abe is taking a "three-arrow approach" to growing the economy and tackling the government's massive debt: fiscal stimulus, monetary stimulus, and structural reform. The first two arrows in his quiver appear to be working and, with respect to the third arrow, changes are underway. On October 1st, Japan formally announced plans to increase the country's sales tax, which is charged on nearly all consumer purchases, from 5-8% in April 2014. The

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Global Economic Outlook Cont.

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government also unveiled the outline of an economic package designed to dampen the potential drag of the sales tax increase on the economy. The package includes a reduction in the corporate tax rate, tax breaks on capital expenditures, and cash payments to low-income earners, among other measures. Some forecasts of 2014 Japanese GDP are rising in response to the economic stimulus package. However, it remains to be seen whether consumption will remain firm and capital spending will rise.

"The upturn in China's manufacturing sector positively impacted manufacturing activity in other countries;..."

Emerging Markets

China's economy accelerated in the third quarter, with GDP increasing to 7.8% from a year earlier compared to 7.5% growth in the second quarter. Credit creation rose at its fastest pace in more than a year, as policymakers eased efforts to curb "shadow-banking"—financing provided by informal lenders that are subject to limited regulatory oversight. In addition, manufacturing activity picked up. Looking forward, as China reaches higher levels of per capita income, productivity will naturally decline as the population starts to consume more labor-intensive services like health care and education (i.e., more labor will be required per unit of output). However, growth in China will most likely remain robust even as the economy matures.

The upturn in China's manufacturing sector positively impacted manufacturing activity in other countries; see Appendix G. The revival in China has been particularly helpful to Brazil, a major exporter of iron ore, as China imported record volumes of the commodity in September. Nonetheless, Brazil's economy faces the challenge of tighter monetary policy, as does India's. Central banks in both countries have been raising interest rates to support their currencies and curb inflation. In contrast, the Mexican government is focusing on policies that should improve the country's future growth prospects, including legislation to allow greater private sector participation in energy production.

Investment Strategy

Equities

US equities have generated strong gains since the beginning of the year. Although they do not look expensive, we think that, on average, they are priced at or near fair value. Despite the third quarter rally, valuations still look attractive in developed international markets, especially given the potential for near-term economic growth in Europe and Japan. Stock prices in emerging markets also look attractive relative to these economies' growth prospects.

Fuller valuations in the United States don't necessarily mean that the US stock market won't continue to advance. They simply suggest that any further near-term gains may occur at a more measured pace than the gains we have seen thus far in 2013 and in the last four years. So, we continue to find

Investment Strategy Cont.

opportunities within the US stock market and continue to invest in the broad US market. However, where appropriate, we have been selectively trimming our US equity exposure and reallocating funds to more attractively valued areas, such as international equities and natural resources.

Fixed Income

The Fed's decision to hold monetary policy steady was a big plus for the bond markets this quarter. But when tapering eventually begins, we expect to see a gradual increase in interest rates that will put downward pressure on the prices of fixed-income securities. As a result, we continue to seek opportunistic fixed-income strategies with lower interest rate sensitivity. We are also employing, where appropriate, alternative absolute return strategies that have conservative risk profiles like fixed income, but whose performance is not sensitive to interest rate movements.

Despite the headwinds we anticipate for fixed-income assets, we continue to believe that the relatively low volatility of the asset class and its low correlation with equities more than compensate for the potential drag on performance.

In Closing

As we enter the final months of 2013, a number of factors make us feel optimistic about the investment environment. In the United States, corporate profits are healthy, the deficit continues to shrink, and the housing market and household finances are strengthening. And, as we have written in the past, increased US energy production is fostering a renaissance in domestic manufacturing. Overseas, the euro zone is recovering, Japan is taking bold steps to stimulate GDP, and emerging markets continue to lead the world in economic growth.

While we feel positive about the future, there is always the potential that unforeseen events may inject volatility into the markets. The strategies we employ are designed to soften market extremes; however, we accept and expect periods of volatility. That is why we take a long-term view on investing and maintain well-diversified portfolios. Portfolios are diversified by asset class, geographic market, asset size, and investment style. We also continue to thoughtfully rebalance portfolios, keeping in mind the events taking place in the United States and abroad.

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

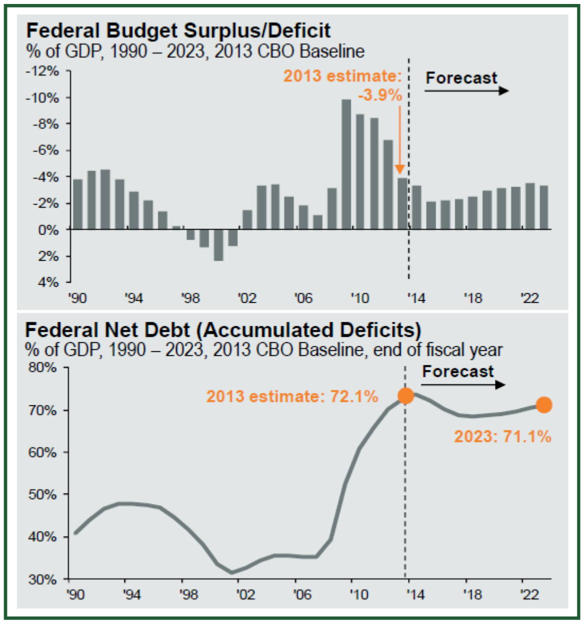
"As always, we remain focused on achieving your long-term investment goals, within your risk profile, and funding your future liquidity requirements."

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

Federal Budget Surplus/Deficit

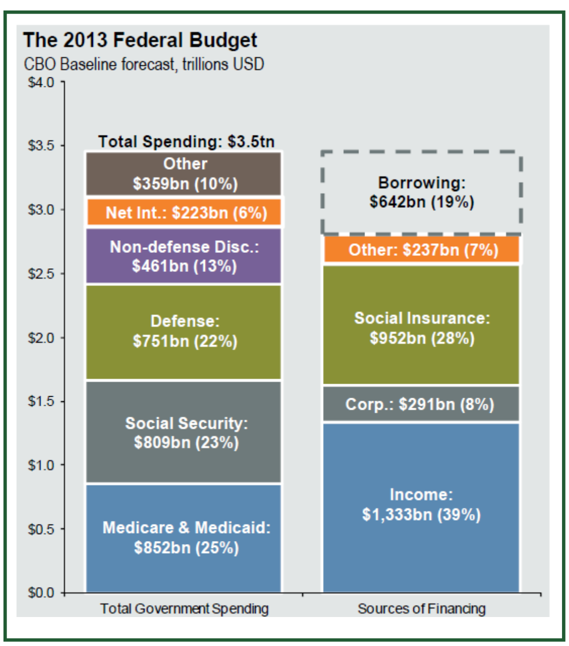


Source: US Treasury, BEA, OMB, CBO, J.P. Morgan Asset Management. 2013 estimate is from J.P. Morgan Asset Management. Years shown are fiscal years (October 1 through September 30).

Source: “Federal Budget Surplus/Deficit,” *Guide to the Markets 4Q 2013*, **J.P. Morgan Asset Management**, page 22

Appendix B

The 2013 Federal Budget



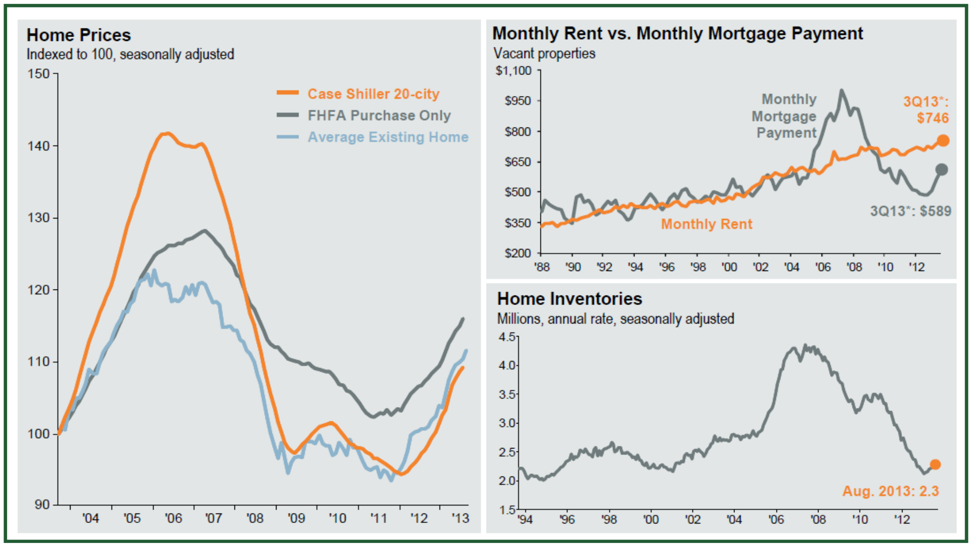
Based on the CBO’s May 2013 Baseline Scenario. Other spending includes, but is not limited to, health insurance subsidies, income security, and federal civilian and military retirement.

Source: “The 2013 Federal Budget,” *Guide to the Markets 4Q 2013*, **J.P. Morgan Asset Management**, page 22

Appendices Cont.

Appendix C

Home Inventories and Home Prices

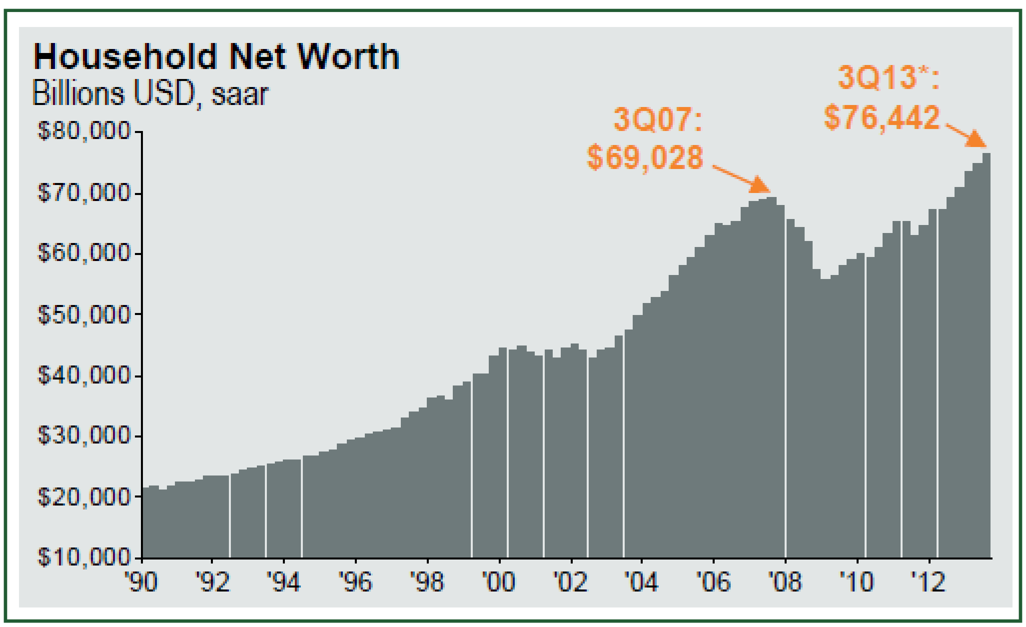


Source: (Left) Census Bureau, National Association of Realtors, J.P. Morgan Asset Management. (Right) National Association of Realtors, Standard & Poor's, FHFA, FactSet, J.P. Morgan Asset Management. Data are as of 9/30/13.

Source: "Home Inventories" and "Home Prices," *Guide to the Markets 4Q 2013*, **J.P. Morgan Asset Management**, page 20

Appendix D

Household Net Worth



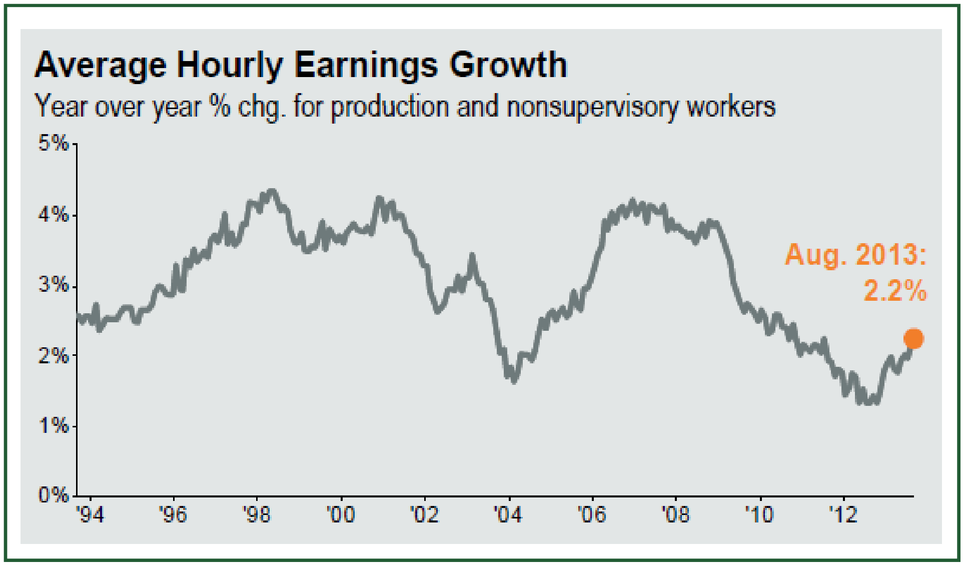
Source: BEA, FRB, J.P. Morgan Asset Management. 3Q 13 household net worth is a J.P. Morgan Asset Management estimate.

Source: "Household Net Worth," *Guide to the Markets 4Q 2013*, **J.P. Morgan Asset Management**, page 21

Appendices

Appendix E

Average Hourly Earnings Growth

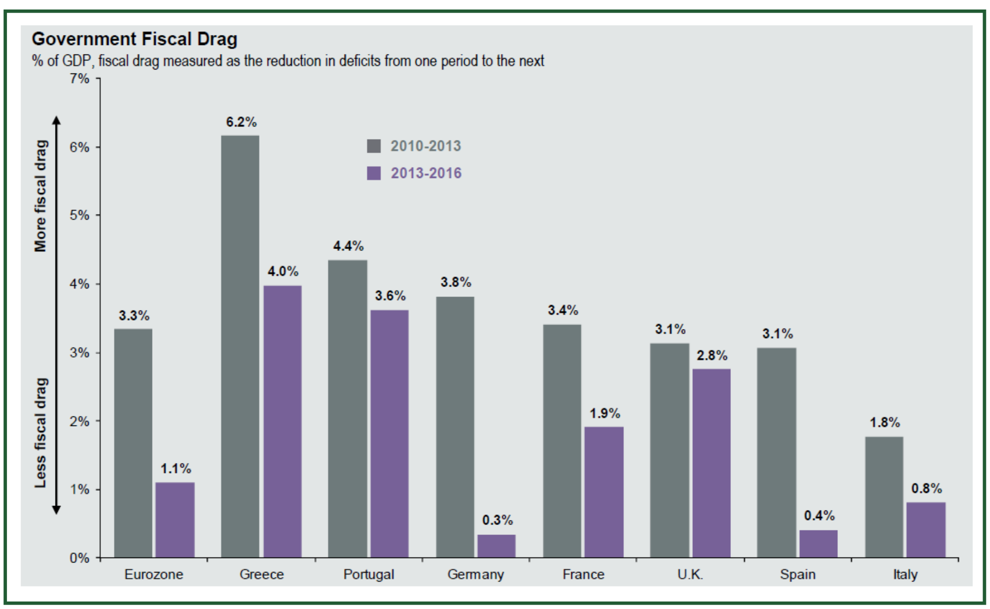


Source: BLS, FactSet, J.P. Morgan Asset Management.

Source: "Average Hourly Earnings Growth," *Guide to the Markets 4Q 2013*, **J.P. Morgan Asset Management,** page 24

Appendix F

Europe: Austerity



Source: IMF, J.P. Morgan Asset Management. Government Deficits are calculated by the IMF as general government net lending/ borrowing (revenue minus total expenditure). Data are based on the April 2013 World Economic Outlook, "Guide to the Markets—U.S.". Data are as of 9/30/13.

Source: "Europe: Austerity," *Guide to the Markets 4Q 2013*, **J.P. Morgan Asset Management**, page 49

Appendices Cont.

Appendix G

Manufacturing Momentum

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This chart illustrates trends in manufacturing activity around the world, as measured by the Purchasing Managers Index. A value of 50 or higher indicates that the manufacturing sector is expanding; a value of less than 50 indicates that the manufacturing sector is contracting.

Global Purchasing Managers' Index for Manufacturing

	Oct'11	Nov'11	Dec'11	Jan'12	Feb'12	Mar'12	Apr'12	May'12	Jun'12	Jul'12	Aug'12	Sep'12	Oct'12	Nov'12	Dec'12	Jan'13	Feb'13	Mar'13	Apr'13	May'13	Jun'13	Jul'13	Aug'13	Sep'13
Global	50.7	49.6	50.3	51.0	51.2	51.6	51.3	50.3	49.7	48.8	48.7	48.7	48.8	49.6	50.0	51.5	50.9	51.2	50.4	50.6	50.6	50.8	51.6	51.8
U.S.	53.6	53.4	53.9	54.3	53.6	56.0	56.0	54.0	52.5	51.4	51.5	51.1	51.0	52.8	54.0	55.8	54.3	54.6	52.1	52.3	51.9	53.7	53.1	52.8
Canada	53.7	53.3	54.0	50.6	51.8	52.4	53.3	54.7	54.8	53.0	53.0	52.4	51.4	50.4	50.4	50.5	51.7	49.3	50.1	53.2	52.4	52.0	52.1	54.2
U.K.	48.6	47.7	49.1	50.8	51.2	52.0	50.2	46.7	48.8	45.6	49.1	48.3	47.4	48.7	50.8	51.0	48.3	49.3	50.6	52.1	53.0	54.8	57.1	56.7
Euro Area	47.1	46.4	46.9	48.8	49.0	47.7	45.9	45.1	45.1	44.0	45.1	46.1	45.4	46.2	46.1	47.9	47.9	46.8	46.7	48.3	48.8	50.3	51.4	51.1
Germany	49.1	47.9	48.4	51.0	50.2	48.4	46.2	45.2	45.0	43.0	44.7	47.4	46.0	46.8	46.0	49.8	50.3	49.0	48.1	49.4	48.6	50.7	51.8	51.1
France	48.5	47.3	48.9	48.5	50.0	46.7	46.9	44.7	45.2	43.4	46.0	42.7	43.7	44.5	44.6	42.9	43.9	44.0	44.4	46.4	48.4	49.7	49.7	49.8
Italy	43.3	44.0	44.3	46.8	47.8	47.9	43.8	44.8	44.6	44.3	43.6	45.7	45.5	45.1	46.7	47.8	45.8	44.5	45.5	47.3	49.1	50.4	51.3	50.8
Spain	43.9	43.8	43.7	45.1	45.0	44.5	43.5	42.0	41.1	42.3	44.0	44.5	43.5	45.3	44.6	46.1	46.8	44.2	44.7	48.1	50.0	49.8	51.1	50.7
Greece	40.5	40.9	42.0	41.0	37.7	41.3	40.7	43.1	40.1	41.9	42.1	42.2	41.0	41.8	41.4	41.7	43.0	42.1	45.0	45.3	45.4	47.0	48.7	47.5
Ireland	50.1	48.5	48.6	48.3	49.7	51.5	50.1	51.2	53.1	53.9	50.9	51.8	52.1	52.4	51.4	50.3	51.5	48.6	48.0	49.7	50.3	51.0	52.0	52.7
Australia	47.4	47.8	50.2	51.6	51.3	49.5	43.9	42.4	47.2	40.3	45.3	43.0	42.8	44.3	44.3	40.2	45.6	44.4	36.7	43.8	49.6	42.0	46.4	51.7
Japan	50.6	49.1	50.2	50.7	50.5	51.1	50.7	50.7	49.9	47.9	47.7	48.0	46.9	46.5	45.0	47.7	48.5	50.4	51.1	51.5	52.3	50.7	52.2	52.5
Hong Kong	49.0	48.7	49.7	51.9	52.8	52.0	50.3	49.4	49.8	50.3	50.5	49.6	50.5	52.2	51.7	52.5	51.2	50.5	49.9	49.8	48.7	49.7	49.7	-
China	51.0	47.7	48.7	48.8	49.6	48.3	49.3	48.4	48.2	49.3	47.6	47.9	49.5	50.5	51.5	52.3	50.4	51.6	50.4	49.2	48.2	47.7	50.1	50.2
Indonesia	51.6	50.1	48.8	48.5	50.6	50.8	50.5	48.1	50.2	51.4	51.6	50.5	51.9	51.5	50.7	49.7	50.5	51.3	51.7	51.6	51.0	50.7	48.5	50.2
Korea	48.0	47.1	46.4	49.2	50.7	52.0	51.9	51.0	49.4	47.2	47.5	45.7	47.4	48.2	50.1	49.9	50.9	52.0	52.6	51.1	49.4	47.2	47.5	49.7
Taiwan	43.7	43.9	47.1	48.9	52.7	54.1	51.2	50.5	49.2	47.5	46.1	45.6	47.8	47.4	50.6	51.5	50.2	51.2	50.7	47.1	49.5	48.6	50.0	52.0
India	52.0	51.0	54.2	57.5	56.6	54.7	54.9	54.8	55.0	52.9	52.8	52.8	52.9	53.7	54.7	53.2	54.2	52.0	51.0	50.1	50.3	50.1	48.5	49.6
Brazil	46.5	48.7	49.1	50.6	51.4	51.1	49.3	49.3	48.5	48.7	49.3	49.8	50.2	52.2	51.1	53.2	52.5	51.8	50.8	50.4	50.4	48.5	49.4	49.9
Mexico	54.7	53.7	53.1	52.2	53.7	53.8	56.3	55.2	55.9	55.2	55.1	54.4	55.5	55.6	57.1	55.0	53.4	52.2	51.7	51.8	51.3	49.7	50.8	50.0
Russia	50.4	52.6	51.6	50.8	50.7	50.8	52.9	53.2	51.0	52.0	51.0	52.4	52.9	52.2	50.0	52.0	52.0	50.8	50.6	50.4	51.7	49.2	49.4	49.4

Source: Markit, J.P. Morgan Asset Management. Heatmap colors are based on the PMI relative to the 50 level, which indicates expansion or contraction of the sector, for the time period shown.

Source: "Manufacturing Momentum," *Guide to the Markets 4Q 2013*, **J.P. Morgan Asset Management**, page 43

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