November 2014

SOL CAPITAL MANAGEMENT COMPANY

CLIENT INVESTMENT LETTER

Global Economic and Financial Markets Summary

Inside this issue:

The world's financial markets delivered mixed performance in the third quarter; see Exhibit 1. In the United States, large-cap stocks and Treasuries posted gains, while small-cap stocks and higher-yielding bonds declined. Overseas, returns in individual countries varied significantly, although international stock and bond market indices, as an aggregate, climbed modestly higher in local currencies. However, a concurrent broad appreciation in the US dollar erased those gains and resulted in negative returns for US dollar-based investors.

Slowing growth in Europe and China, as well as uncertainty about the direction of monetary policy in the United States influenced markets throughout the quarter. The Federal Reserve stated it would end its bond-buying program in October, but assured investors that it would hold short-term interest rates near zero for a "considerable time". Positive US economic data fueled speculation that the Fed might start raising rates sooner than mid-2015, as originally expected. The conflict between Russia and Ukraine, US airstrikes against ISIS, and the Ebola outbreak were additional concerns for investors.

Throughout most of the third quarter, the S&P 500 Index continued to reach a series of record highs until volatility increased notably during the last two weeks of September, remaining elevated into October. While some of the volatility was caused by concerns about global growth, geopolitical issues, and the Ebola virus, we believe much of the volatility can be attributed to high-frequency traders and hedge funds looking to lock in gains for the year. We also believe that hedge fund managers may have contributed further to this volatility by selling to cover losses from multiple positions that unexpectedly fell apart. Important to note, both high-frequency trading and hedge fund activities account for a high percentage of total daily market trading.

The month of October continued to experience incremental volatility. The S&P 500 Index declined 5.6% during the first two weeks and subsequently increased 8.4% through October 31, ending the month with a net positive return of 2.3%.

While volatility can be unnerving, it is a normal part of the investment experience. Historically, it is typical for the equity market to have three corrections per year that are greater than 5%, one correction per year that is greater than 10%, and one correction every three years that is greater than 20%. In the current bull market, investors have enjoyed very low volatility, with October 3, 2014 marking the three-year anniversary of the last 10% correction.[1] That being said, despite geopolitical risks and economic uncertainties around the world, the US economy is growing steadily, global monetary policy is supportive of economic growth, and we do not believe equities are in bubble territory.

[1] Source: Fidelity Investments

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Exhibit 1

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

	Third Quarter (6/30/14 to 9/30/14)	Year to Date (12/31/13 to 9/30/14)
Major Equity Indices	%	%
S&P 500 Index	1.1	8.3
Russell 3000 Index (Total US Market)	0.0	6.9
Russell 2000 Index	(7.4)	(4.4)
MSCI All Country Ex-US Index (Net)	(5.3)	0.0
MSCI EAFE International Index (Net)	(5.9)	(1.4)
MSCI Emerging Markets (Net)	(3.5)	2.4
Source: Bloomberg, MSCI		
Major Fixed Income and Hedge Fund Indices	%	%
Barclays Capital US Aggregate Bond Index	0.2	4.1
Barclays Capital U.S. Credit Index	0.0	5.7
Merrill Lynch US High Yield BB-B Bond Index	(1.6)	3.9
JP Morgan Non-US Global Hedged Index	2.1	6.6
JP Morgan EMBI Global Index in USD (Emerging Markets)	(2.1)	7.2
HFRX Equal Weighted Strategies Index (Hedge Funds)	(0.6)	1.3
Source: Bloomberg, MSCI, PIMCO		

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

"The performance of US equities was uneven in the third quarter."

Financial Markets Performance

Equities

The performance of US equities was uneven in the third quarter. The S&P 500 Index, a barometer of large-cap stocks, rose 1.1%. However, the Russell Midcap Index and the small-cap Russell 2000 Index returned –1.7% and –7.4%, respectively. The decline in the Russell 2000 left the Index in negative territory year to date through September 30.

Within international equity markets, returns by country varied considerably. Russia was down sharply, pressured by falling oil prices and additional sanctions from the West over its involvement in the Ukrainian conflict. In Japan, robust corporate earnings contributed to strong equity gains, but the appreciation in the US Dollar reduced returns for US dollar-based investors. As an aggregate, the MSCI EAFE International Index and the MSCI Emerging Markets Index returned –5.9% and –3.5%, respectively in dollar terms.

The dollar's climb reflected the relative strength of the US economy and the

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Financial Markets Performance Cont.

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likelihood that US interest rates would rise much sooner than rates in Europe and Japan. Among major currencies during the quarter, the dollar gained more than 5% against the pound, more than 7% against the euro, and more than 8% against the yen.

Fixed Income

Similar to the equity markets, the diverging path of the world's economies was also a theme in fixed income. With respect to monetary policy, interest rates, currency and credit market performance, the United States was on a different path than continental Europe, Japan, Latin America, and China, where economic growth has recently been disappointing.

Volatility in the US Treasury market remained low during the quarter, and the market rose just slightly as investors waited for direction from the Fed on the timing of future interest-rate increases. Returns of US investment-grade corporate bonds were also flat, while their European counterparts rallied in local currencies in response to monetary easing from the European Central Bank (ECB). The volatility in equities negatively impacted US high-yield returns, as did the sector's relatively short duration, as longer-duration securities performed better. (Duration is a measure of a bond's sensitivity to changes in interest rates.) Globally, government bond markets rallied, led by strength in European sovereign debt markets.

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Global Economic Outlook

United States

The US economy rebounded from weather-related weakness in the beginning of the year, growing at a 4.6% annual rate in the second quarter—its fastest pace since 2011. The economy's strength continued into the third quarter with initial numbers reporting 3.5% annualized growth, ahead of economists' forecasts. Unemployment continues to decline (see Appendix A), wages are beginning to rise, and the housing market is improving. While earnings growth may be slowing, it is still positive, and we believe the fundamental strength of the US economy bodes well for corporate profits. As of October 24, earnings for the S&P 500 companies were showing 9.1% year-over-year growth[2]; see also Appendix B.

The federal budget deficit narrowed to 2.8% of GDP for the fiscal year ended September 30, the lowest deficit-to-GDP ratio since 2008. This

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2— Source: JPMorgan Weekly Economic Update for the week of October 27, 2014

Global Economic Outlook

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narrowing put the government ahead of its 3% deficit reduction timetable, originally targeted for 2016. The sharp reduction in fiscal drag and lower oil prices generated additional tailwinds for the US economy.

On the oil front, the price per barrel of Brent Crude slid more than 15% during the quarter. Although partly driven by lower demand from China and Europe, much of the decline was due to increasing global supplies, especially in the United States. The drop in oil prices will translate into lower gas prices at the pump, leaving consumers with more disposable income, just in time for the holiday shopping season.

The downward trend in oil prices also helped contain consumer price inflation, which rose a modest 1.7% in September from one year earlier. The strong dollar and lack of inflationary pressure give the Fed ample room to maneuver should it decide to postpone further monetary tightening. With its bond purchases ending in October, the central bank will turn to the process of normalizing short-term interest rates, which have been near zero for the last five years. Many investors are worried about how tighter monetary policy will affect the financial markets. It is important to remember that even if Fed tightening leads to temporary volatility in the equity and fixed income markets, the reason the Fed is unwinding stimulus is because the economy is doing well and is expected to accelerate next year.

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Europe

The Euro Eurozone GDP grew at a disappointing 0.2% annual rate in the second quarter, restrained primarily by declines in business investment and inventories. Many analyses point to the recent sanctions on Russia and the prospects of retaliation as a major underlying reason for the slowdown. However, in our view, the sanctions will not take as major a toll on the European economy as previously feared. With oil prices well below $100 per barrel, and considering the breakeven price of $105 per barrel that the government needs to balance its national budget, it might not be prudent for Russia to put undue economic pressure on Europe; see Appendix D.

Despite the deceleration, there are several fundamental factors that could bolster European growth in the coming quarters. The ECB remains highly accommodative, falling government bond yields are lowering public funding costs, and fiscal policy is becoming less of an economic drag; see Appendix C. Additionally, while unemployment remains high, labor markets in peripheral countries are becoming increasingly competitive, lower oil prices are favorable to the average consumer (individual and corporate), and export-oriented companies are benefiting from weakness in the euro.

Easier conditions in credit markets are another potential catalyst for the

Global Economic Outlook Cont.

European economy. Despite the hundreds of billions of euros being pumped into the financial system, bank lending has remained sluggish. We believe much of this is related to the year-long Asset Quality Review (AQR) that the ECB recently completed. Pending the results of the AQR, banks limited their lending, as they lacked guidance on the level of liquidity they needed to maintain. The ECB published its AQR results on October 26, and the clarity this brings may prompt banks to ease lending standards. However, in the near-term, focus will be on those banks (mostly in peripheral countries) that did not pass the AQR.

The United Kingdom continues to post relatively stronger growth numbers. Scotland's decision in September to remain part of the UK removed uncertainty in Britain's equity and currency markets. Furthermore, UK monetary policy is moving in line with the United States, as the Bank of England is expected to raise its main policy rate sometime next year.

Going forward, we expect continued divergence in the performance of individual European markets with Germany, Ireland, and Spain leading the way in the Eurozone.

Japan

Japan's economy contracted at a 7.1% annual rate in the second quarter after rising 6.1% between January and March. The volatility in growth is due mainly to a 3% increase in the national consumption tax, which went into effect April 1st. We expect this volatility to continue over the next few quarters as the economy digests the impact of the tax increase plus another tax hike scheduled for October 2015.

The Japanese economy has added one million new jobs since 2012, and unemployment remains subdued at 3.5%. Despite discouraged workers re-entering the labor force, this is the lowest unemployment figure in seventeen years.[3] Reflecting these tight conditions, wages rose for a third straight month in August, but they are not keeping pace with the recent tax increase.

Emerging Markets

China's economy has slowed from the double-digit rates investors became accustomed to in the years leading up to the financial crisis. However, growth is expected to exceed a healthy 7% in both 2014 and 2015. In addition, the Chinese government seems willing to tolerate lower near-term growth in an effort to implement reforms that will drive more sustainable growth over time.

Rebalancing the economy away from infrastructure investment and

"The Japanese economy has added one million new jobs since 2012, and unemployment remains subdued at 3.5%."

3— Source: Matthews Asia Country Update, for the month ending September 2014

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Global Economic Outlook Cont.

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exports toward domestic consumption is high on the government's agenda. While GDP growth is slowing, officials have shifted from tightening financial regulations to adding targeted stimulus. For example, the central bank recently announced plans to inject more than $30 billion into a group of approximately 20 national and regional banks. These funds are intended to go toward public housing, small business, and other areas the government considers important.

In Latin America, the divergence in GDP growth between Brazil and Mexico is likely to widen given high inflation in Brazil, weakness in its currency, and the relative growth of the two countries' respective trading partners (China for Brazil, the U.S. for Mexico). In other areas, growth in Russia and Eastern Europe is expected to slow, while the South African economy appears poised for modest acceleration.

"Where appropriate, we are also investing in absolute return strategies that have risk characteristics similar to fixed income, but are less sensitive to movements in rates."

Investment Strategy

Equities

We believe US equities are fairly valued and that international stock markets are relatively undervalued, especially emerging markets. However, in portfolios currently at their target international asset allocation, we are (where appropriate) maintaining this level of exposure rather than increasing it, despite our views on valuations.

Fixed Income

Interest rates have fallen this year as geopolitical turmoil and stock market volatility have fueled demand for safe-haven assets like US Treasuries and high-quality bonds. As the Fed has stated its intention to raise its main policy rate next year, we continue to position portfolios to guard against the threat of rising interest rates by investing in a variety of fixed-income strategies, including shorter-duration and unconstrained strategies. (Bond prices and interest rates move in opposite directions.) Where appropriate, we are also investing in absolute return strategies that have risk characteristics similar to fixed income, but are less sensitive to movements in rates.

Many of you have heard that Bill Gross, who was PIMCO's Chief Investment Officer, left the firm at the end of September. When this news was announced, concerns about the future of PIMCO were raised in the

Investment Strategy Cont.

financial media. While Mr. Gross was PIMCO's founder and instrumental in the firm's growth and success, we feel comfortable the company is well positioned to transition to the new management structure.

With approximately $1,900 billion of fixed income and equity assets currently under management, PIMCO has a deep bench of seasoned investment professionals (including a staff of over 2,400 employees around the world and more than 250 portfolio managers), a robust institutional process, and leading-edge research and technology. We will continue to closely monitor the specific PIMCO funds that have been affected by this management change, but remain confident that PIMCO will continue to deliver the management quality consistent with its history and objectives.

In Closing

The global economy appears to have lost some of its momentum over the course of the year, as economists lower their growth estimates for China, Japan, and Europe. That said, China is still posting strong growth, other emerging economies are improving, and the United States is making a significant contribution to global growth. Europe is facing headwinds, and we believe the region's economies—especially Germany—need to become less dependent on exports and more reliant on domestic consumption. However, over the near term, lower oil prices will help Europe, and the ECB has signaled its willingness to add more stimulus, if necessary.

Given diverging performance and outlook across the various assets classes and geographic regions, we continue to stress that diversification is the most prudent way to protect and enhance portfolio returns.

As we enter the final months of the year, we remain focused on meeting your long-term investment goals, within your risk profile, and funding your future liquidity needs. Please call us at 301.881.3727 if you have any questions about your portfolio or current market conditions.

Sincerely,

The SOL Capital Management Team

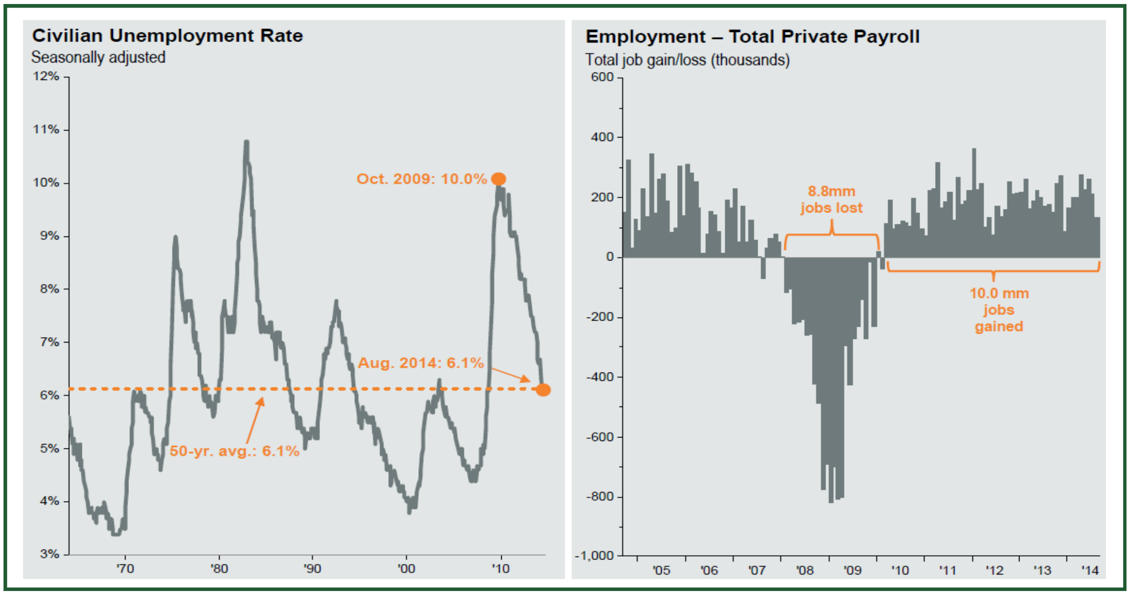
"...we continue to stress that diversification is the most prudent way to protect and enhance portfolio returns."

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

Employment

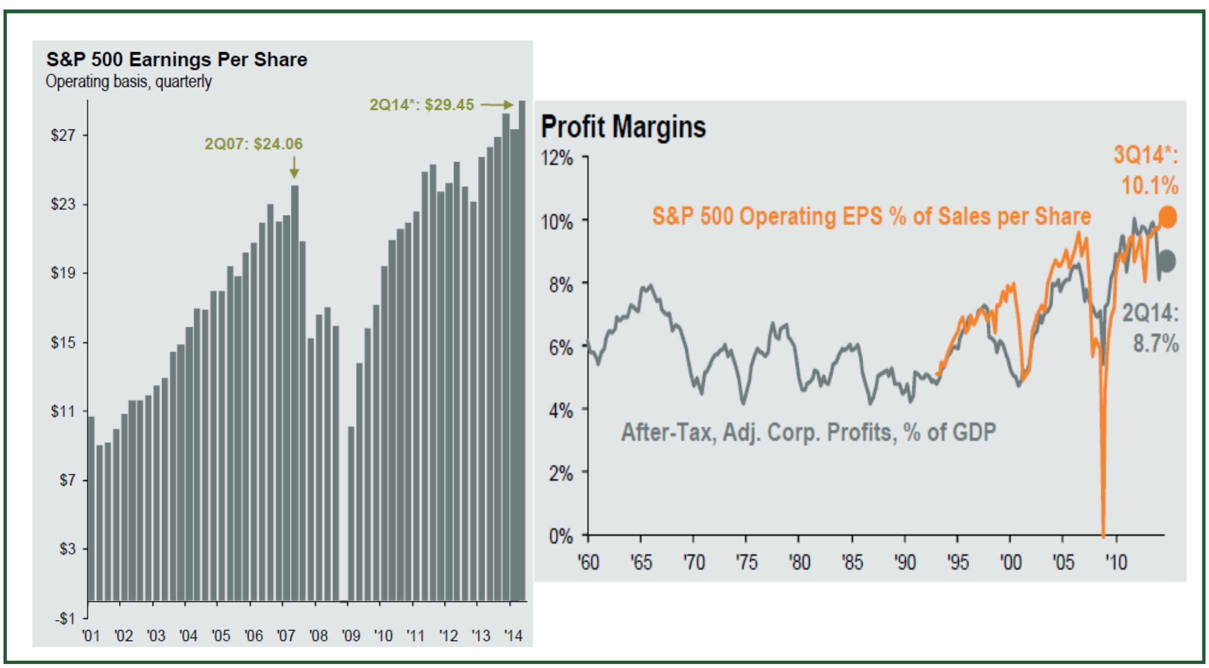


Source: BLS, FactSet, J.P. Morgan Asset Management. Data are as of 9/30/14.

Source: *Guide to the Markets 4Q 2014*, **J.P. Morgan Asset Management**, page 24

Appendix B

Corporate Profits



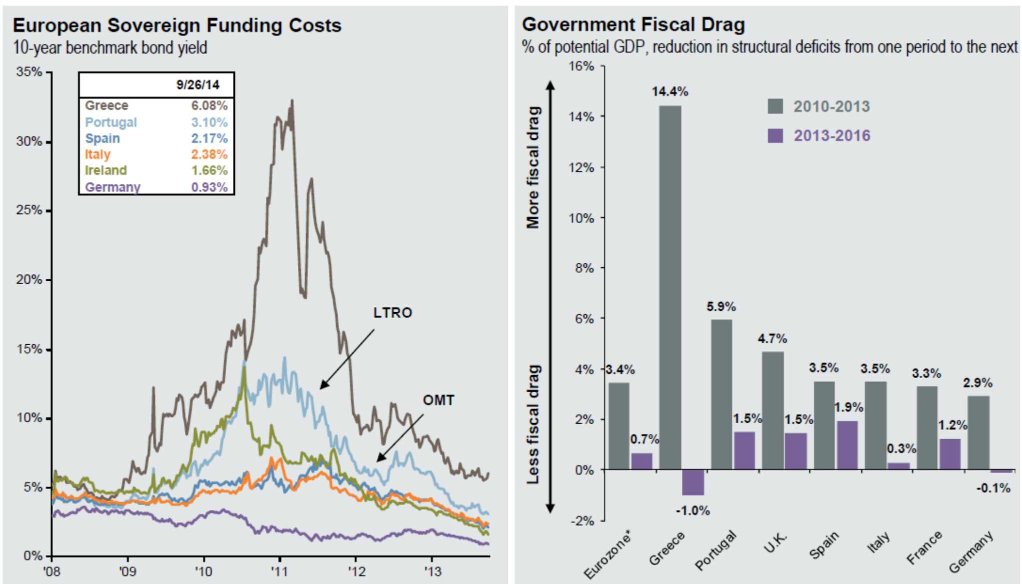
*BEA, Standard & Poor's, Compustat, J.P. Morgan Asset Management. EPS levels are based on operating earnings per share. *Most recently available data is 2Q14 as 3Q2014 is a Standard & Poor's preliminary estimates. Data as of 9/30/14.*

Source: *Guide to the Markets 4Q 2014*, **J.P. Morgan Asset Management**, page 8

Appendices Cont.

Appendix C

Europe: Cyclical Headwinds and Tailwinds



*Source: Tullett Prebon, FactSet, IMF, J.P. Morgan Asset Management. Data are based on the April 2014 World Economic Outlook. Government deficits are calculated by the IMF as the general government structural balance. The structural balance excludes the normal impact of the business cycle, providing a clearer measure of the independent impact of the changes in government spending and taxation on the economy. *Eurozone includes a J.P. Morgan Asset Management estimate for the 2016 structural deficit as a % of GDP. Data are as of 9/30/14.*

Source: *Guide to the Markets 4Q 2014*, **J.P. Morgan Asset Management**, page 47

Appendix D

Breakeven Prices

Budget breakeven prices:

Fiscal break-even price (Brent, USD bbl)

	2006	2007	2008	2009	2010	2011	2012	2013	2014f	2015f
GCC	32.5	43.1	43.8	70.3	68.4	78.8	73.3	83.6	89.0	94.0
Bahrain	57.9	66.9	80.0	82.9	103.9	118.1	127.1	134.4	136.2	138.1
Kuwait	26.4	32.6	42.1	47.0	45.7	47.4	53.6	68.3	75.5	78.4
Oman	80.7	99.3	96.4	69.9	80.2	112.3	112.5	106.5	100.7	110.0
Qatar	43.4	41.8	49.1	27.2	61.7	80.1	65.5	60.5	71.3	76.8
S. Arabia	38.7	52.7	47.0	72.6	70.6	84.5	80.9	93.1	99.2	104.4
UAE	18.3	24.5	43.7	105.7	86.3	94.6	77.3	82.7	80.2	80.8
Nigeria	56.3	75.1	79.9	125.3	105.3	128.5	112.3	141.7	126.2	122.7
Russia	21.4	28.1	59.7	109.5	116.7	102.8	112.0	113.9	100.1	105.2
Venezuela	81.7	76.9	134.2	140.7	194.4	145.7	151.5	149.9	162.0	117.5
Brent price	65.4	72.7	97.7	61.9	79.6	111.0	111.7	108.9	106.5	103.3

Source: Deutsche Bank estimates

Source: *EM oil producers: breakeven pain thresholds,* **Deutsche Bank Research,** Special Report, October 16, 2014

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