November 2015

SOL CAPITAL MANAGEMENT COMPANY

Client Investment Letter

Financial Markets Performance

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The third quarter of 2015 was a volatile period for the world's financial markets; see Appendix A. Signs of slowing economic growth in China, coupled with uncertainty about US monetary policy, triggered a global selloff in stocks and higher-yielding bonds. The S&P 500 Index dropped 12.4% from May 21st through August 25th, entering correction territory for the first time since the 2011 European debt crisis.[1] The index recouped a portion of its declines in the final weeks of the period, but finished the quarter down 6.4%; see Exhibit 1.

Exhibit 1

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

	3rd Quarter	Year to Date	
	6/30/15 to 9/30/15	*through 9/30/15*	*through 10/31/15*
Major Equity Indices	%	%	%
S&P 500 Index	(6.4)	(5.3)	2.7
Russell 3000 Index (Total US market)	(7.3)	(5.5)	2.0
Russell 2000 Index	(11.9)	(7.7)	(2.5)
MSCI All Country Ex-US Index (Net)	(9.5)	(7.0)	(1.8)
MSCI EAFE International Index (Net)	(10.2)	(5.3)	2.1
MSCI Emerging Markets (Net)	(17.9)	(15.5)	(9.5)
Source: Bloomberg, MSCI			
Major Fixed Income and Hedge Fund Indices	%	%	%
Barclays Capital US Aggregate Bond Index	1.2	1.1	1.1
Barclays Capital US Government/Credit Index	1.2	0.9	0.9
Merrill Lynch 1-3 year U.S. Broad Market	0.3	1.0	0.9
Merrill Lynch US High Yield BB-B Bond Index	(4.3)	(1.7)	1.2
JPMorgan Non-US Global Bond Index (GBI) Hedged	2.1	1.1	1.5
JP Morgan EMBI Global Index in USD (Emerging markets)	(2.0)	(0.3)	2.8
HFRX Equal Weighted Strategies Index (Hedge Funds)	(2.4)	(0.9)	1.2

Source: Bloomberg, MSCI, PIMCO, HFRI

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

[1] A correction is defined as a price decline of 10% or more from a previous peak.

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Financial Markets Performance Cont.

Volatility always feels uncomfortable, and even more so on the heels of the unusually docile market environment to which we have grown accustomed. Since the 2011 correction, the four-year period of relative calm was the third-longest stretch of time without a correction since 1965. More frequent bouts of volatility are the norm. For instance, the S&P 500 Index has suffered a correction in 19 of the last 35 years and a pullback of 5% or more in 33 out of the last 35 years.[2]

While unsettling, dramatic changes in security prices are actually an indication that markets are functioning properly, and are reflecting new developments as quickly as possible. It is also important to note that periods of elevated volatility tend to be short lived. In October, the S&P 500 rebounded strongly, erasing most of the third quarter's decline. Returns for the S&P 500 Index have been positive in 27 of the last 35 years, despite experiencing an average intra-year drop of 14.2%; see Appendix B.

We do not believe the recent correction in equities is a sign that a more severe market downturn is on the horizon. Unlike the financial crisis and recession of 2008-2009, the US banking system is strong, corporations are flush with cash, and consumers have relatively low levels of debt relative to their incomes. In addition, US economic indicators are generally pointing upward. While there is always room for the unexpected, we view the recent correction not as a precursor to a steeper selloff, but rather as an opportunity to buy quality assets at more attractive prices.

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Equities

Global stocks registered declines in the third quarter in response to worries about China's economy and uncertainty about the timing of an interest-rate hike from the Federal Reserve. Data coming out of China and a surprise mid-August devaluation of the Chinese renminbi confirmed the inevitable: the world's second-largest economy was experiencing slower—albeit still solid—growth (see Appendix C) as it transitions from an investment and export-led economy to a more consumer-driven economy. Largely driven by China's slowdown and its implications for global growth, the Fed decided not to raise short-term interest rates at its September policy meeting.

The selloff in equities was indiscriminant across countries, sectors, and market capitalizations. In the United States, the 6.4% 3Q drop in the S&P 500 Index turned a modest gain from the first half of 2015 into a 5.3% year-to-date decline, as of 9/30/2015. However,

[2] The source of the data in this and the preceding sentence is the J.P. Morgan Weekly Market Recap (August 31,2015), covering the calendar years 1980-2014.

Financial Markets Performance Cont.

with risk appetites declining, the S&P 500 was more resilient than the small-cap Russell 2000 Index, which fell 11.9% during the third quarter, and the Russell Midcap Index, which lost 8.0%.

Within the S&P 500, sector performance varied considerably. Energy and materials were the worst performers, dropping 17.4% and 16.9%, respectively, as China's slowdown pushed commodities prices sharply lower. The defensive utilities sector was the only positive performer, gaining 5.4%. Consumer-based sectors also did relatively well, bolstered by low gasoline prices and improvement in the labor market. Despite the S&P 500's negative third quarter performance, longer-term results remain strong. For the three-, five-, and ten-year periods ending September 30th, the S&P 500 Index generated average annual gains of 12.4%, 13.3%, and 6.8%, respectively.

Overseas, the weak euro, signs of a pickup in economic growth, and accommodative monetary policy from the European Central Bank (ECB) restrained the MSCI Europe's quarterly decline to 8.7%. The MSCI Japan Index suffered a larger 11.7% decline as investors worried that slowing global growth would hurt the country's exporters. Emerging markets registered the steepest declines of the quarter, pressured by a number of factors, including plunging commodity prices and depreciating currencies relative to the US dollar. Some currencies were so weak that declines in local terms were more than doubled when converted into US dollars; see Exhibit 2.

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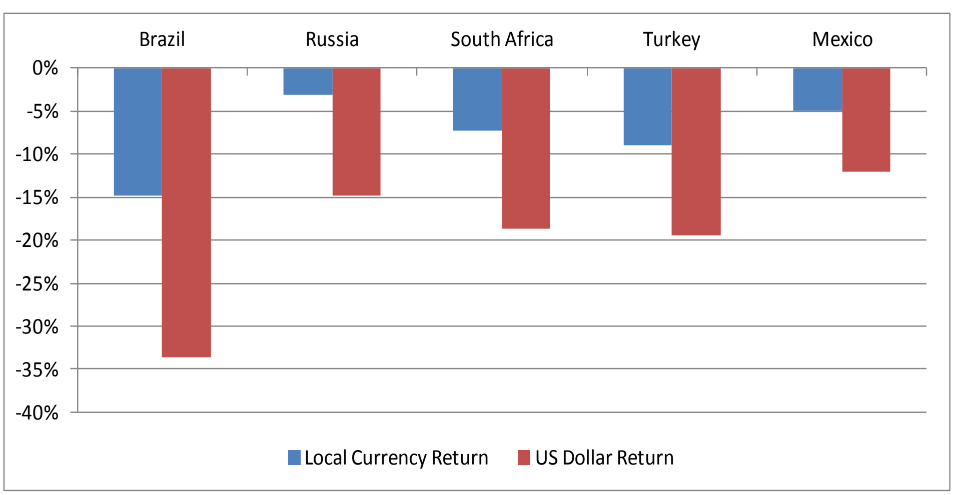
Exhibit 2

Third Quarter Total Return* for Selected Emerging Equity Markets



Source: MSCI

** Includes price appreciation plus dividends.*

Financial Markets Performance Cont.

"Longer-dated government securities within developed markets generated gains, while riskier assets like emerging market debt and high yield bonds recorded declines."

Fixed Income

The volatile market conditions also had a material effect on fixed income instruments during the quarter. Longer-dated government securities within developed markets generated gains, while riskier assets like emerging market debt and high yield bonds recorded declines.

The Barclays Capital US Aggregate Bond Index rose 1.2% for the quarter, helped by falling yields on long-term US Treasury securities due to a "flight to quality." Yields on shorter-dated Treasuries were mostly unchanged as they are sensitive to Fed policy and held steady given the widely-held view that a rate hike is still imminent. Investment-grade US corporate bonds generally posted gains, with the energy sector being a notable exception.

Energy issues, which represent about 10% of the US investment-grade corporate debt market, succumbed to significant selling pressure amid renewed volatility in the sector. The drop in oil prices had a more pronounced effect on the high yield sector of the fixed income market. Overall, high yield energy bonds lost 15.9% in the quarter and were the key driver of the 4.9% decline in the Barclays Capital US High Yield Corporate Index, which has an approximate 13% weighting to energy issues. Prices also fell in most other sectors of the high yield market as investors trimmed holdings of riskier bonds.

Global Economic Outlook

United States

US GDP growth cooled to a 1.5% annual rate in the third quarter, in line with consensus estimates, as companies draw down higher-than-normal inventories; see Exhibit 3. Nonetheless, the Fed has delayed raising interest rates, mainly because of developments overseas. The central bank's decision to hold policy steady has heightened investor concerns that China's slowdown, problems in emerging markets, and low commodity prices will dampen global growth and inflation.

Even with these global headwinds, we believe the fundamentals of the US economy remain supportive of a rate increase. Labor market indicators have generally been robust, with the unemployment rate falling to 5.0% and the number of job

Global Economic Outlook Cont.

openings recently touching a record high. The improving labor market and low gasoline prices have contributed to a steady rise in consumer spending—a prime reason previous GDP figures have been revised upward. The health of the consumer has also lifted the housing market, where inventories are low and prices continue to rise.

That being said, there are a few challenges facing the economy. As mentioned earlier, business inventories are high and are tempering growth temporarily as companies work through the stockpiles. In addition, the strong US dollar means that in 2015, US exports may be lower than they have been in recent years. This will also curb growth, at least in the short run. Despite these issues, domestic fundamentals suggest that the US economy is still in the mid-cycle phase of expansion and that consumer spending—which accounts for more than two-thirds of GDP—will help shield the US from the problems overseas.

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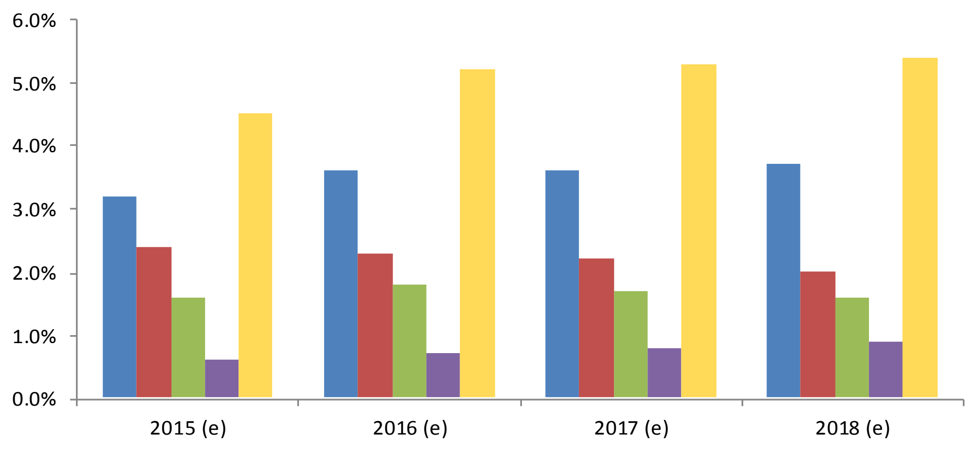
Exhibit 3

Real GDP Growth Estimates



Source: Goldman Sachs

Global Economic Outlook Cont.

Developed International Markets

> **"...approximately two-thirds of eurozone exports go to European Union countries, helping to insulate the region from slowing growth in China and other emerging markets."**

The European economy continues to benefit from the weaker euro, cheaper energy, and the ECB's quantitative easing program. Furthermore, the domestic recovery is resisting the effects of the global slowdown. Falling unemployment is lifting consumer confidence and unlocking pent-up demand, pushing retail sales growth to levels unseen since the financial crisis eight years ago. Credit conditions are improving, loan demand is rising, and government deficits are much less of a fiscal drag on the economy than they were a few years ago; see Appendix D. Furthermore, approximately two-thirds of eurozone exports go to European Union countries, helping to insulate the region from slowing growth in China and other emerging markets. One concern for Europe is the influx of refugees from the Middle East and Africa, which could strain public finances in the months ahead.

Japan is more susceptible to China's slowdown than other developed markets, as exports to China make up a larger percentage of Japanese GDP. On the plus side, Japan appears to be experiencing some price inflation (excluding food and energy), which has been a goal of "Abenomics"—the stimulus programs of Prime Minister Shinzo Abe. If price increases are the result of the weaker yen, it is likely that inflation will start to decelerate, and that we could see additional monetary easing from the Bank of Japan. However, if prices are rising because of wage growth, then current levels of inflation may hold steady, which would be a positive sign for the country, which has long been fighting deflation.

Emerging Markets

Emerging economies are in the midst of a cyclical slowdown that is affecting both commodity exporters, such as Brazil and Russia, and countries with heavy debt loads. Manufacturing activity is contracting in a number of markets; see Appendix E. In addition, some countries are battling high inflation, creating a policy dilemma for central banks that need to tame inflation while reviving growth. Mexico and India are two bright spots in emerging markets. Mexico is benefiting from strength in the US—its top export destination—as well as its own policy reforms, while robust consumer spending and low commodity prices are boosting growth in India.

As previously noted, China is in the process of rebalancing its economy away from exports and investment spending toward domestic

Global Economic Outlook Cont.

consumption. Growth in new construction and infrastructure has passed its peak, and exports are slumping due to sluggish demand abroad—dynamics that are hurting manufacturing activity. At the same time, domestic consumption is gradually decelerating.

We are not surprised that China's economy is slowing as the rebalancing process plays out. However, several factors should prevent a "hard landing", or a severe slump in growth. The government is clearly focused on maintaining economic stability and has announced numerous stimulus measures. Lower commodity prices are also helping China, and solid income growth will help buffer domestic consumption against the slow down.[3] While China is slowing, it is still expected to grow much faster over the next several years compared to developed economies. The same can be said of emerging markets as a whole, which are in much better shape today than they were in previous cyclical downturns.

"While China is slowing, it is still expected to grow much faster over the next several years compared to developed economies."

Investment Strategy

Equities

US economic prospects remain strong, and GDP growth could beat expectations given the positive effects of rising domestic energy production. The need for companies to put idle cash to work via share buybacks, M&A activity, and dividend increases also supports equities. That said, US stocks look fairly valued after having recouped most of their third quarter declines.

Valuations continue to be more attractive overseas, although fundamentals are mixed. As a result, we are increasing exposure to international equities, where appropriate, but doing so very selectively. In Europe, the ECB's easy monetary policies and the weaker euro are supportive of stocks. China's slowdown is clouding the outlook for the Japanese economy and stock market, despite the tailwinds of the weak yen and demand for equities from Japanese pension funds.

While emerging markets are facing challenges, valuations are compelling, and demographic trends should drive strong economic growth over time. We therefore believe that emerging

"While emerging markets are facing challenges, valuations are compelling, and demographic trends should drive strong economic growth over time."

[3] *Sinology, October 19, 2015*, **Matthews Asia**, *page 3*

Investment Strategy Cont.

> **"...in most client portfolios with fixed income exposure we are keeping a sizable allocation to high-quality, short-duration bond funds—especially for those clients with liquidity needs."**

market equities still look attractive over the medium term, even if they do not rally in the short run. To that end, we took advantage of the recent volatility to rebalance portfolios back to their strategic, long-term allocations to emerging markets.

Fixed Income

We believe volatility in the fixed income market could remain elevated as investors anticipate Fed rate "liftoff".

Consequently, in most client portfolios with fixed income exposure we are keeping a sizable allocation to high-quality, short-duration bond funds—especially for those clients with liquidity needs. Compared to funds that emphasize longer-duration securities, these investments are generally less sensitive to, and are quicker to recover from, changes in interest rates. We will also continue to pursue opportunities in the fixed income market arising from heightened volatility.

In Closing

The strategies we implement in portfolios are designed to soften market extremes. However, we accept and expect periods of volatility in the equity and fixed income markets. Volatility, while unpleasant, is a normal part of the investment experience.

In navigating turbulent periods, we 'stay the course', one of our core investment principles, by adhering to each client's appropriate asset allocation. Additionally, regular rebalancing allows us to follow the simple market rule of "buy low and sell high". While rebalancing portfolios toward underperforming assets may hurt returns in the short-term if those assets continue to lag, experience tells us that this disciplined investment strategy lays the foundation for attractive returns in the long-term.

In today's dynamic macroeconomic and geopolitical landscape, there is always the possibility for the unexpected to happen. **Therefore, please contact us about any changes in your investment horizon and liquidity needs** so that your portfolio remains appropriately invested. You can reach us at 301.881.3727 to discuss any such changes, or any questions or concerns you might have about your investments.

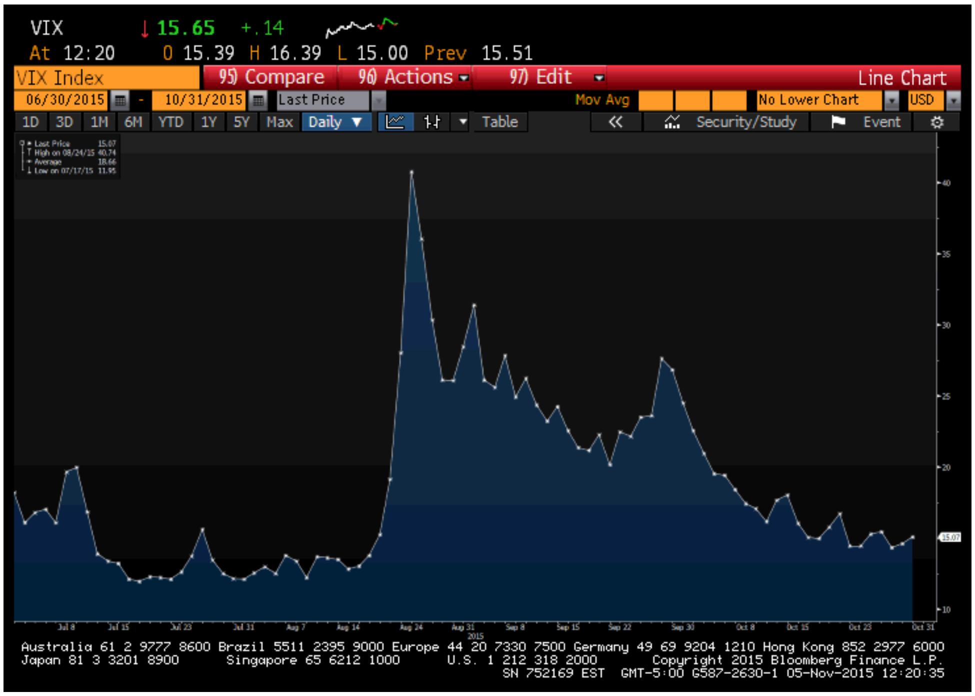
Sincerely,

The SOL Capital Management Team

Appendices

Appendix A

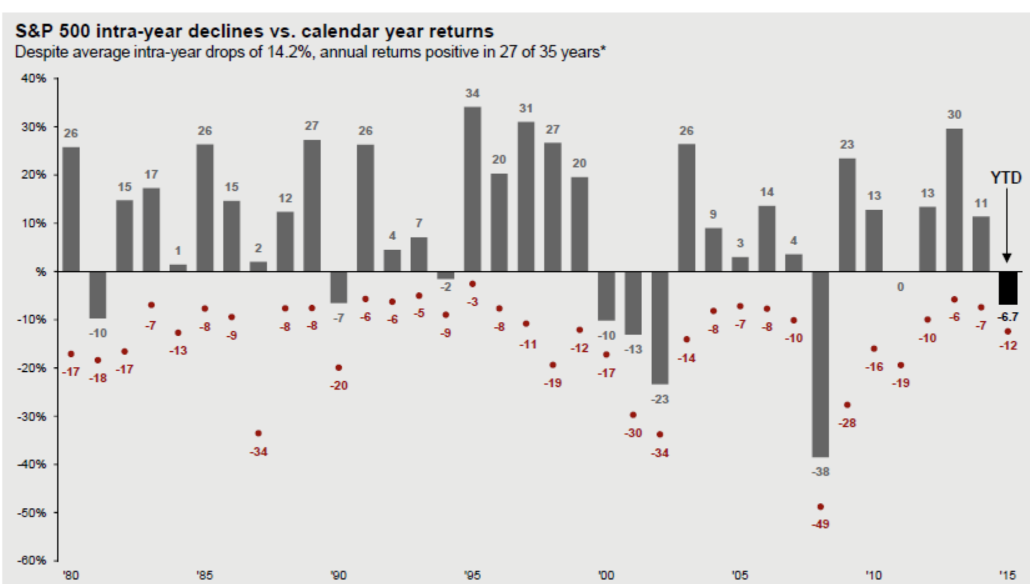
Third Quarter Volatility



Source: CBOE Volatility Index® (VIX), 06/30/2015 – 10/31/2015, Bloomberg

Appendix B

Annual Returns and Intra-Year Declines



Source: ***Guide to the Markets 4Q 2015***, **J.P. Morgan Asset Management**, page 12

"The third quarter of 2015 was a volatile period for the world's financial markets;..."

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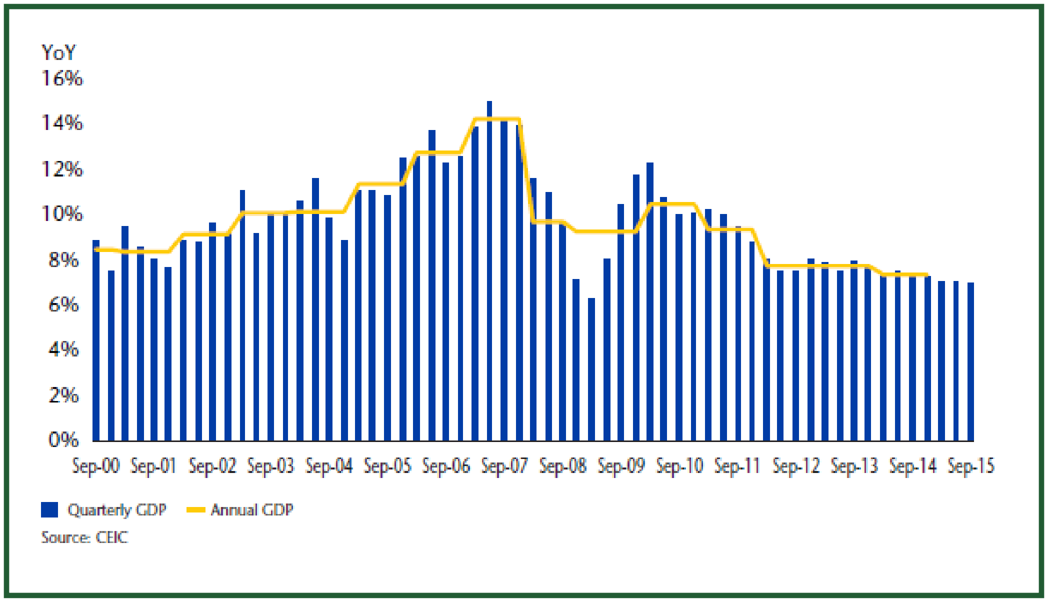
Appendix C

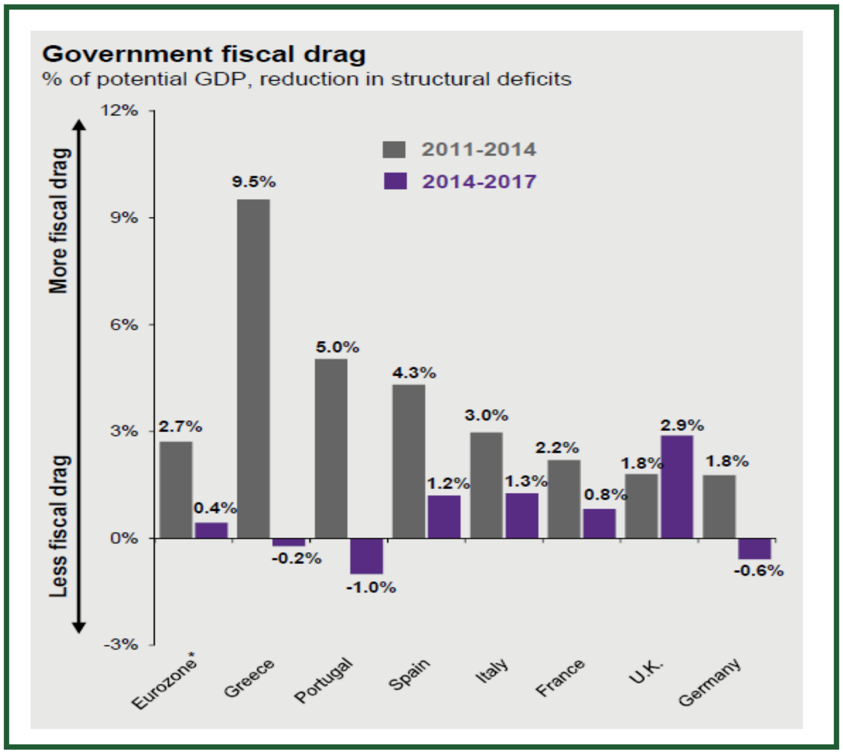
China: Gradual Deceleration in GDP Growth



Source: Sinology, October 19, 2015, **Matthews Asia**, *page 1*

Appendix D

European Fiscal Austerity



Source: Guide to the Markets 4Q 2015, ***J.P. Morgan Asset Management***, *page 46*

Appendices Cont.

Appendix E

Manufacturing Momentum

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'13	Nov'13	Dec'13	Jan'14	Feb'14	Mar'14	Apr'14	May'14	Jun'14	Jul'14	Aug'14	Sep'14	Oct'14	Nov'14	Dec'14	Jan'15	Feb'15	Mar'15	Apr'15	May'15	Jun'15	Jul'15	Aug'15	Sep'15
Global	51.9	52.8	52.9	52.9	53.1	52.4	51.9	52.1	52.6	52.4	52.5	52.2	52.2	51.8	51.5	51.7	51.9	51.7	51.0	51.3	51.0	51.0	50.7	50.6
Developed Markets	52.7	54.2	54.4	54.6	55.5	54.3	53.2	53.5	54.1	53.2	54.1	53.6	53.5	52.8	52.4	52.3	52.6	52.8	52.0	52.3	51.9	52.3	52.1	52.0
Emerging Markets	50.9	51.1	50.9	50.6	50.0	49.6	49.5	50.1	50.4	51.2	50.5	50.4	50.5	50.6	50.4	50.7	50.9	49.8	49.2	49.4	49.2	48.7	48.2	48.4
U.S.	51.8	54.7	55.0	53.7	57.1	55.5	55.4	56.4	57.3	55.8	57.9	57.5	55.9	54.8	53.9	53.9	55.1	55.7	54.1	54.0	53.6	53.8	53.0	53.1
Canada	55.6	55.3	53.5	51.7	52.9	53.3	52.9	52.2	53.5	54.3	54.8	53.5	55.3	55.3	53.9	51.0	48.7	48.9	49.0	49.8	51.3	50.8	49.4	48.6
U.K.	56.4	57.8	57.3	56.6	55.9	55.2	57.2	56.6	56.8	54.8	53.0	51.5	53.4	53.4	52.8	52.9	53.9	54.1	51.7	51.9	51.4	51.9	51.6	51.5
Euro Area	51.3	51.6	52.7	54.0	53.2	53.0	53.4	52.2	51.8	51.8	50.7	50.3	50.6	50.1	50.6	51.0	51.0	52.2	52.0	52.2	52.5	52.4	52.3	52.0
Germany	51.7	52.7	54.3	56.5	54.8	53.7	54.1	52.3	52.0	52.4	51.4	49.9	51.4	49.5	51.2	50.9	51.1	52.8	52.1	51.1	51.9	51.8	53.3	52.3
France	49.1	48.4	47.0	49.3	49.7	52.1	51.2	49.6	48.2	47.8	46.9	48.8	48.5	48.4	47.5	49.2	47.6	48.8	48.0	49.4	50.7	49.6	48.3	50.6
Italy	50.7	51.4	53.3	53.1	52.3	52.4	54.0	53.2	52.6	51.9	49.8	50.7	49.0	49.0	48.4	49.9	51.9	53.3	53.8	54.8	54.1	55.3	53.8	52.7
Spain	50.9	48.6	50.8	52.2	52.5	52.8	52.7	52.9	54.6	53.9	52.8	52.6	52.6	54.7	53.8	54.7	54.2	54.3	54.2	55.8	54.5	53.6	53.2	51.7
Greece	47.3	49.2	49.6	51.2	51.3	49.7	51.1	51.0	49.4	48.7	50.1	48.4	48.8	49.1	49.4	48.3	48.4	48.9	46.5	48.0	46.9	30.2	39.1	43.3
Ireland	54.9	52.4	53.5	52.8	52.9	55.5	56.1	55.0	55.3	55.4	57.3	55.7	56.6	56.2	56.9	55.1	57.5	56.8	55.8	57.1	54.6	56.7	53.6	53.8
Australia	53.2	47.7	47.6	46.7	48.6	47.9	44.8	49.2	48.9	50.7	47.3	46.5	49.4	50.1	46.9	49.0	45.4	46.3	48.0	52.3	44.2	50.4	51.7	52.1
Japan	54.2	55.1	55.2	56.6	55.5	53.9	49.4	49.9	51.5	50.5	52.2	51.7	52.4	52.0	52.0	52.2	51.6	50.3	49.9	50.9	50.1	51.2	51.7	50.0
China	50.9	50.8	50.5	49.5	48.5	48.0	48.1	49.4	50.7	51.7	50.2	50.2	50.4	50.0	49.6	49.7	50.7	49.6	48.9	49.2	49.4	47.8	47.3	47.2
Indonesia	50.9	50.3	50.9	51.0	50.5	50.1	51.1	52.4	52.7	52.7	49.5	50.7	49.2	48.0	47.6	48.5	47.5	46.4	46.7	47.1	47.8	47.3	48.4	47.4
Korea	50.2	50.4	50.8	50.9	49.8	50.4	50.2	49.5	48.4	49.3	50.3	48.8	48.7	49.0	49.9	51.1	51.1	49.2	48.8	47.8	46.1	47.6	47.9	49.2
Taiwan	53.0	53.4	55.2	55.5	54.7	52.7	52.3	52.4	54.0	55.8	56.1	53.3	52.0	51.4	50.0	51.7	52.1	51.0	49.2	49.3	46.3	47.1	46.1	46.9
India	49.6	51.3	50.7	51.4	52.5	51.3	51.3	51.4	51.5	53.0	52.4	51.0	51.6	53.3	54.5	52.9	51.2	52.1	51.3	52.6	51.3	52.7	52.3	51.2
Brazil	50.2	49.7	50.5	50.8	50.4	50.6	49.3	48.8	48.7	49.1	50.2	49.3	49.1	48.7	50.2	50.7	49.6	46.2	46.0	45.9	46.5	47.2	45.8	47.0
Mexico	50.2	51.9	52.6	54.0	52.0	51.7	51.8	51.9	51.8	51.5	52.1	52.6	53.3	54.3	55.3	56.6	54.4	53.8	53.8	53.3	52.0	52.9	52.4	52.1
Russia	51.8	49.4	48.8	48.0	48.5	48.3	48.5	48.9	49.1	51.0	51.0	50.4	50.3	51.7	48.9	47.6	49.7	48.1	48.9	47.6	48.7	48.3	47.9	49.1

Source: Markit, J.P. Morgan Asset Management. Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. Guide to the Markets – US. Data are as of September 30, 2015.

*Source: Guide to the Markets 4Q 2015, **J.P. Morgan Asset Management**, page 44*

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