May 2014

SOL CAPITAL MANAGEMENT COMPANY

CLIENT INVESTMENT LETTER

Global Economic and Financial Markets Summary

Inside this issue:

The new year began with positive returns in key segments of the world's financial markets. In the first quarter of 2014, fixed-income securities performed well on a global basis amid modest unexpected declines in interest rates. US equities posted solid gains, and most developed European stock markets also climbed higher. In emerging markets, equity returns were flat overall, but the performance of individual countries varied considerably. At the extremes were Indonesia, where equities rallied more than 20% on signs of economic improvement, and Russia, where tensions with Ukraine contributed to a nearly 15% drop in the stock market.

The S&P 500 Index repeatedly hit new highs during the first quarter, raising concerns that the US stock market might be poised for a correction. While there could be a correction this year—or at any time, for that matter—we are not seeing overvaluation and/or excessive optimism or speculative behavior in the market that makes it vulnerable to a significant pullback. Returns have obviously been very strong for the past two years, but US stocks are still fairly valued; see Appendix A. There are a few areas where valuations are lofty, (e.g. biotech) and we are not seeing the same opportunities that we enjoyed over the last five years. Still, with valuations near historical averages and companies continuing to grow their earnings, we do not see any glaring reason to substantially underweight US equities. In addition, the subdued rate of growth that has characterized the current US economic expansion has likely extended its length; see Appendix B. A prolonged recovery would be supportive of further stock market gains.

Over the remainder of the year, we see the potential for the US equity market to continue to advance. That said, we do not expect to see a repeat of the exceptional gains stocks delivered in 2013; we expect any gains to be more in line with long-term averages. We also think volatility in the stock market could rise, returning to more normal levels–given geopolitical risks (which are always present) and several headwinds facing the global economy. Nonetheless, there are abundant opportunities overseas and we are comfortable owning US stocks as part of a long-term investment allocation. Moreover, we feel more positive about their prospects relative to various sectors of the fixed-income market that we think are overvalued.

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Financial Markets Performance

Equities

The broad US stock market, as measured by the S&P 500 Index, finished the first quarter with a respectable 1.8% return despite a moderate pullback in January and early February; see Exhibit 1. Concerns about the political turmoil in Ukraine and the economic impact of the unusually cold winter weather limited the gains in stock prices. In addition, new Federal Reserve Chair Janet Yellen made some "hawkish" remarks that suggested the central bank might start raising short-term interest rates sooner than many investors had expected.

The performance of developed international stock markets was mixed. Following a very strong 2013, Japanese equities retreated due to worries that a looming increase in the national consumption tax might derail the economic expansion. In contrast, European stocks delivered a solid gain, lifted by signs of economic recovery, lower borrowing rates in peripheral countries, and a supportive European Central Bank.

Emerging market equities rebounded from a January weakness to finish the quarter in just slightly negative territory. Fears about China's economic slowdown and the outlook for US

"...European stocks delivered a solid gain, lifted by signs of economic recovery, lower borrowing rates in peripheral countries, and a supportive European Central Bank."

Exhibit 1

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

	Year to Date ***(12/31/13 to 3/31/14)***
Major Equity Indices	**%**
S&P 500 Index	1.8
Russell 3000 Index (Total US market)	2.0
Russell 2000 Index	1.1
MSCI All Country Ex-US Index (Net)	0.5
MSCI EAFE International Index (Net)	0.7
MSCI Emerging Markets (Net)	-0.4
Source: Bloomberg, MSCI	
Major Fixed Income and Hedge Fund Indices	**%**
Barclays Capital US Aggregate Bond Index	1.8
Barclays Capital U.S. Credit Index	2.9
Merrill Lynch US High Yield BB-B Bond Index	3.0
JPMorgan Non-US Global Hedged Index	2.4
JP Morgan EMBI Global Index in USD (Emerging markets)	3.5
HFRX Equal Weighted Strategies Index (Hedge Funds)	1.5
Source: Bloomberg, MSCI, PIMCO	

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

Financial Markets Performance Cont.

interest rates dissipated as the period progressed, taking some of the pressure off of emerging stock markets and currencies.

Fixed Income

Around the world, interest rates trended lower in the first quarter, driving broad gains in fixed-income securities. The decline in US rates was largely a function of concerns about the harsh US winter and global geopolitical events.

The US Treasury market advanced, with 10- and 30-year securities rising 3.4% and 8.1%, respectively. These gains came despite the fact that Fed Chair Yellen outlined a potential plan to end the central bank's bond purchases in 2014 and possibly start raising short-term interest rates in mid-2015. While Treasuries performed well, Spanish and Italian debt led the gains in the global government bond market amid the slow, yet seemingly sustainable, economic recovery in Europe. In emerging markets, sovereign debt issued in both local currencies and US dollars registered positive results. Globally, investment-grade and high-yield corporate bonds produced strong returns, and investors were generally well rewarded for assuming credit and interest rate risk.

"Around the world, interest rates trended lower in the first quarter, driving broad gains in fixed-income securities."

Global Economic Outlook

United States

The US economy grew at an anemic 0.1% annual rate in the first quarter following 2.6% growth in the fourth quarter of 2013 and 1.9% for the full year. The first-quarter slowdown was partially related to an inventory correction; with high levels of inventory heading into the year, businesses placed fewer orders with manufacturers as they worked off stockpiles of unsold goods. Bad weather also played a role, and industries that are especially sensitive to weather suffered the most, such as homebuilding, automotive, and "bricks and mortar" retail (versus Internet and catalogue retail). The housing and auto industries also faced challenges unrelated to weather. Many consumers are still feeling the effects of the recession in terms of lower incomes, and banks have continued with tight lending standards, making it more difficult for people with lower credit scores to get financing for homes and cars. Additionally, much of the pent-up demand for these big-ticket items (that we saw coming out of the recession) is substantially lower.

We expect GDP growth to accelerate over the next few quarters, resulting in just under 3% annualized growth for the period; see Exhibit 2. In

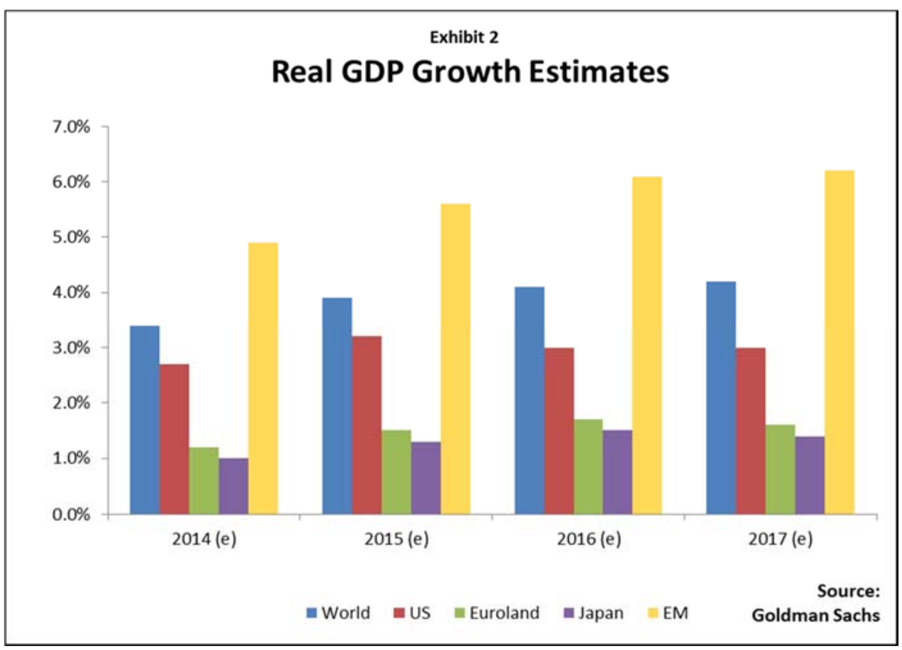
Global Economic Outlook

(Continued from page 3)

particular, several trends could support a pickup in consumer spending, including rising wages (see Appendix C), which is a function of the shrinking pool of qualified job candidates, and low levels of consumer price inflation. We also think that the muted nature of the recovery might extend its length beyond historical averages, as previously noted. A number of data points support this view, including continued productivity gains and generally healthy corporate balance sheets. Profit margins are near historical highs, and although they may not grow at the same pace as previous years, we have yet to see any significant downward pressure on margins.

"...the muted nature of the recovery might extend its length beyond historical averages,..."

In terms of monetary policy, the Fed continued to taper its bond purchases during the first quarter and appears on track to wrap up its bond-buying program by the end of the year. The central bank is projecting that it will begin raising short-term interest rates in 2015, proceeding gradually with annual increases of approximately 100 basis points (1.0%). At their March meeting, Fed officials removed 6.5% unemployment as the threshold for starting to raise rates[1], opting to base future decisions on a broad range of indicators. This has clouded the outlook for Fed policy and could make investors more sensitive to economic data going forward.



1— March Unemployment Rate: 6.7% , Preliminary Estimated April Unemployment Rate: 6.3%, Bureau of Labor Statistics, May 2014, http://www.bls.gov/news.release/pdf/empsit.pdf.

Global Economic Outlook Cont.

Europe

The Euro Zone economy came out of recession in 2013 and is expected to grow in 2014, albeit at a modest pace. The region continues to face risks, such as the potential for renewed stress in its banking system and the spread of deflation beyond Greece. Furthermore, because European companies generate a large percentage of their profits from emerging markets, they are vulnerable to any additional weakness in emerging economies. That said, forward-looking sentiment indicators have improved substantially across developed Europe—and not just in the growth “engines” of the United Kingdom and Germany, but also in France and peripheral countries; see Appendix D. Other positives for Europe include falling Spanish and Irish unemployment and the possibility that the more stable economic environment will unleash pent-up demand for durable goods, such as cars and appliances.

Japan

Japan’s economy got a boost in the first quarter, as consumers rushed to make purchases ahead of an April 1st increase in the national sales tax. With the higher tax rate now in effect, GDP growth will likely decline in the second quarter. The Japanese government plans to increase fiscal spending to help offset the drag of the tax hike. However, there are concerns that the fiscal stimulus may not be large or timely enough, especially if the tax increase significantly undermines consumer confidence. Consumer spending accounts for about 60% of economic activity in Japan, and the latest reading on consumer confidence suggests that spending may slump more than policymakers are expecting. Japan also continues to struggle with its massive public debt, which has become harder to finance internally now that the country has started posting current account deficits following decades of surpluses.

Emerging Markets

China's economy grew at an annual rate of 7.4% in the first quarter, its slowest pace in 18 months. However, the economy appears to have stabilized, and forecasts indicate that second-quarter and full-year growth will come in just shy of the government's 7.5% target.

Chinese officials are trying to navigate the delicate balancing act of curbing credit expansion while maintaining high levels of growth. Investors seem to be convinced that they are taking the right steps to control "shadow banking" (i.e., financing provided by informal lenders that are subject to limited regulatory oversight), and overall lending in the economy has slowed

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“...(China’s) economy appears to have stabilized, and forecasts indicate that second-quarter and full-year growth will come in just shy of the government's 7.5% target.”

Global Economic Outlook Cont.

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following a period of monetary tightening. Now, however, policymakers appear to have shifted their focus toward growth. China's central bank has been allowing the cost of short-term loans between banks to fall, and the government announced a new spending package in April.

These recent policy actions, along with improvement in the US, European, and South Korean economies, should bolster growth in China. However, other dynamics are less supportive. For example, China's current-account surplus (i.e., the excess of its income from foreign sources relative to payments on foreign expenditures) has dropped dramatically since 2007, and the country's total outstanding credit is no longer low.

Outside of China, several emerging markets continue to grapple with weakening growth, high inflation, current-account deficits, and political uncertainty. Brazil appears headed for a recession, but the president is unlikely to implement any potentially unpopular economic reforms ahead of her October re-election bid. With elections in August, Turkey is in a similar "policy holding pattern," while labor strikes in South Africa have crippled the output of platinum, a key export. On the plus side, in India, interest-rate hikes and a swap program designed to bring US dollars into the country have reduced its formerly ballooning current-account deficit. Investors are also optimistic about the national election that is underway in India, since the pro-growth party is expected to prevail. Like India, Indonesia has raised rates and decreased its deficit, and both the Indonesian rupiah and Indian rupee strengthened versus the US dollar in the first quarter.

It is important to note that, although growth might be slowing across emerging markets, emerging economies are still on track for much faster growth than developed markets in 2014 and beyond.

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Investment Strategy

Equities

In our opinion, US equities continue to be fairly valued. While a slow-growth economy with low inflation and above-average unemployment is not an especially exciting environment for stocks, we believe the future relative performance of this asset class justifies the underlying risks. We think 2014 could be a year of reasonable positive returns, but we do not expect the strong gains posted in 2013. We also expect to see more normal levels of volatility in the US market following last year's relative calm. Two possible sources of that volatility are China and

Investment Strategy Cont.

Japan, as investors wait to see if policy actions taken by their respective governments will stimulate economic growth. Political turmoil in Ukraine and other countries is also of concern, although geopolitical risks are always present and continually represent a threat to stock market stability.

While we remain positive on US equities, valuations look more attractive overseas. There are some areas that look fully valued, such as the Mexican market and high-quality, growth-oriented multinationals. But, generally speaking, stocks in developed and emerging markets are trading below fair value. We therefore plan to continue to overweight these markets, where appropriate, as we rebalance portfolios.

Emerging market equities have been volatile over the past year, as major economic and political developments in a few key countries have had a significant effect on the entire asset class. Volatility has started to subside, and we are beginning to see a divergence in individual country returns—divergence that should enhance portfolio diversification. Furthermore, the long-term growth outlook for emerging economies creates a positive backdrop for future stock price performance. Because of their return and diversification potential, we believe emerging market equities should be an integral part of a well-diversified portfolio.

Fixed Income

The fixed-income market had a strong start to the year, as falling long-term interest rates pushed bond prices higher. Looking forward, while short-term rates are likely to remain steady, we expect long-term rates to rise as the Fed continues to unwind its bond-buying program and the US economy improves. In addition, with credit spreads (the differences between corporate bond yields and yields on similar-maturity Treasuries) very low, corporate bonds are richly valued. The combination of low credit spreads and the upward trend in long-term rates that we envision does not bode well for prices of government and corporate bonds in the next one or two years.

Because of the headwinds we see for the bond market, we are continuing to emphasize shorter-duration and unconstrained fixed-income strategies. Both are less exposed to changes in long-term interest rates, and unconstrained approaches have the flexibility to avoid overvalued areas of the credit markets. We are also continuing to employ conservative absolute return strategies. These strategies have risk profiles similar to fixed income, but their performance is not as sensitive to interest-rate movements.

It is a challenging environment for fixed-income investing. However, correlations between bonds and stocks remain negative, meaning that

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"...we expect long-term rates to rise as the Fed continues to unwind its bond-buying program and the US economy improves."

Investment Strategy Cont.

(Continued from page 7)

as the value of one rises, the value of the other should fall. Because fixed income increases diversification, it can reduce portfolio volatility. So even when conditions in the bond market are less than optimal, fixed income should still play an important role in an investment portfolio.

"We consider that "staying the course" – by adhering to a well-conceived, strategic asset allocation, is one of the most prudent paths to achieve long-term success in your investment objectives."

In Closing

When market dynamics present opportunities, we make tactical shifts in your portfolio to try to capture those opportunities on your behalf. These shifts may modestly increase your exposure to one asset class and decrease your exposure to another, consistent with the general and specific guidelines established in your portfolio investment policy. Moreover, our fund managers are constantly reevaluating, and changing as appropriate, their positions within their portfolios. In general we favor equity managers with long-term views on company fundamentals, which tend to have lower-than-average turnover. Our fixed income and alternative strategy managers tend to trade more often, especially in a faster-moving market like the one we have experienced recently.

However such moves made either by SOL Capital or the underlying managers do not result in a material departure from your long-term strategic asset allocation, which should remain consistent with your long-term investment objectives. Changes are warranted in your long-term strategic asset allocation when there are changes in your investment objectives, liquidity needs, or tolerance for risk.

We are highlighting the importance of maintaining your strategic asset allocation – not just because of our cautious outlook on the bond market – but because we live in a world of 24/7 global media coverage. The relentless onslaught of news can tempt investors to switch back and forth between stocks, bonds, and other asset classes. We believe it is unwise to react to the "noise" of the daily headlines, as well as the noise of short-term movements in security prices. We consider that "staying the course" – by adhering to a well-conceived, strategic asset allocation – is one of the most prudent paths to achieve long-term success in your investment objectives.

As always, we invite you to call us at 301.881.3727 with any question or concerns about your portfolio.

Sincerely,

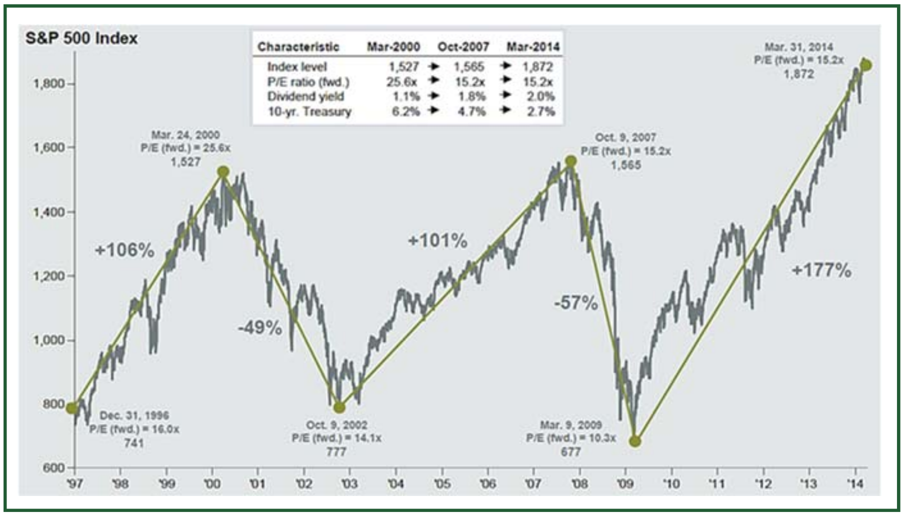
The SOL Capital Management Team

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

S&P 500 Index at Inflection Points

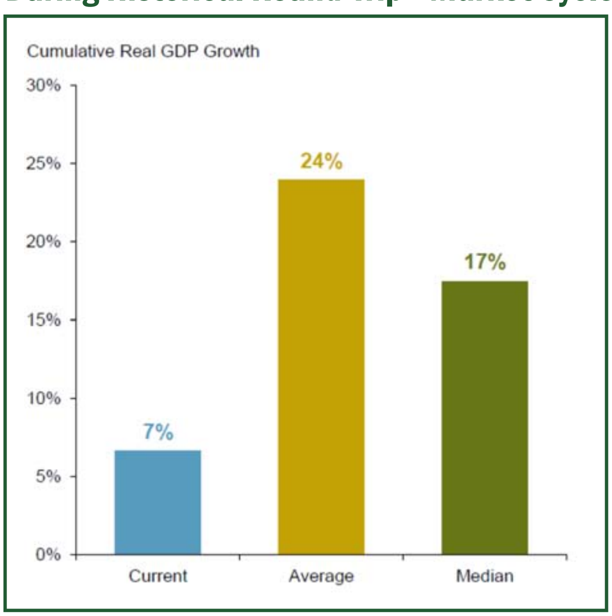


Source: Standard & Poor's, First Call, Compustat, FactSet, J.P. Morgan Asset Management. Dividend yield is calculated as the annualized dividend rate divided by price, as provided by Compustat. Forward Price to Earnings Ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.

Source: "S&P 500 Index at Inflection Points ," *Guide to the Markets 2Q 2014*, **J.P. Morgan Asset Management**, page 4

Appendix B

Real GDP Growth During Historical Round-Trip* Market Cycles



** Round trip: The period from the beginning of a bear market to the end of the subsequent bull market. Source: Bloomberg Finance L.P., Bureau of Economic Analysis, Fidelity Investments (AART). Bull (bear) market: a 20% rise (fall) in the S&P 500 Index. Data from 1/1/28 to 12/31/13.*

Source: "Real GDP Growth During Historical Round-Trip Market Cycles," *Second Quarter 2014 Quarterly Market Update*, **Fidelity Investments**, page 9

Appendices Cont.

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Appendix C

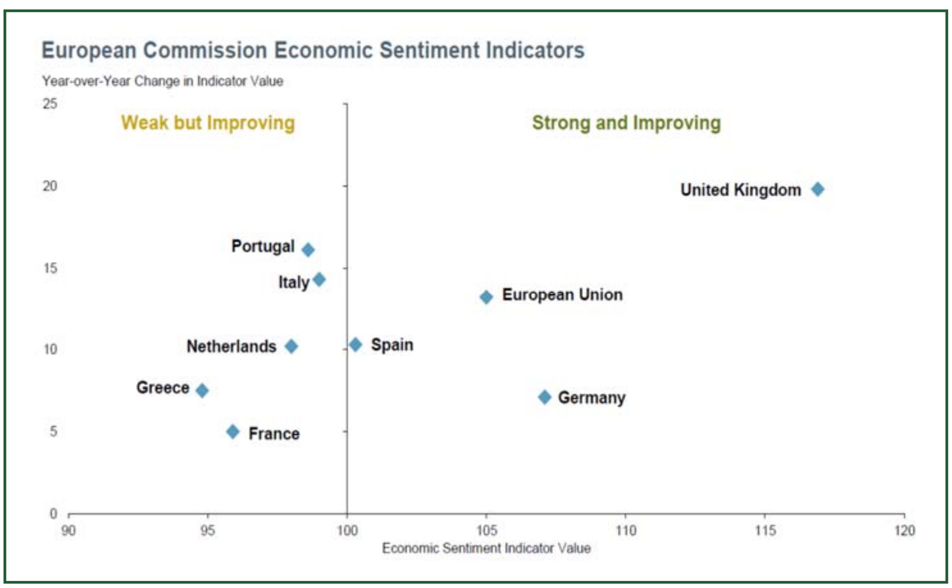
Average Hourly Earnings Growth

Source: BLS, FactSet, J.P. Morgan Asset Management. Data are as of 3/31/14.

Source: "Average Hourly Earnings Growth," *Guide to the Markets 2Q 2014*, **J.P. Morgan Asset Management**, page 25

Appendix D

European Commission Economic Sentiment Indicators



Source: European Commission, Haver Analytics, Fidelity Investments (AART), as of 3/31/14. Values greater than 100 indicate an above-average economic sentiment; values below 100 indicate a below-average economic sentiment. A country's economic sentiment is derived from its industrial (weight 40%), service (weight 30%), consumer (weight 20%), construction (weight 5%), and retail trade (weight 5%) confidence indicators.

Source: "European Commission Economic Sentiment Indicators ," *Second Quarter 2014 Quarterly Market Update*, **Fidelity Investments**, page 15

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