

COMMENTARY FROM THE TRUST INVESTMENT COMMITTEE
OF CORAL GABLES TRUST COMPANY

1ST QUARTER 2013

Q1 – 2013 OVERVIEW

First quarter global capital markets were most affected by continued accommodative monetary policy, improved market sentiment and an inflow into equities from cash and money market holdings. These factors led to strong performance in risk assets as global equities realized strong first quarter returns. The S&P500 Index realized a 10.7% return, the Dow Jones Industrial Index produced an 11.9% return, and the NASDAQ saw a 8.5% increase over the quarter. Overall, US equities were supported by continued improvement in the macroeconomic landscape:

- US employment continues to strengthen, as the jobless rate fell to 7.7% (lowest since December 2008) and initial jobless claims continue to decrease. The US economy added 230,000 jobs in February and has added approximately 1,100,000 in the past 6 months.
- The ISM Index remains positive which indicates continued manufacturing expansion.
- The housing sector continues to improve as year over year pricing is increasing.

International equities generally also realized attractive returns during the first quarter. The broad global equity market measured by the MSCI World, ex US Index realized 4.8%, the MSCI EAFE Index realized 5.3%, while the MSCI Emerging Markets Index did lag during this period producing only 1.8%. Key drivers of international equity performance may be outlined as follows:

- The Cyprus bank scare did create intra-quarter volatility; however, officials within the country and European banking officials resolved to a bailout that was approved.
- European equities did realize positive returns despite the continued recessionary headwinds.
- Japanese markets have been buffeted by massive monetary stimulus measures, new government spending plans, and the announcement by the BoJ of a 2% inflation target.

Fixed income markets were characterized by material headwinds as risk assets, primarily equities as discussed above, were favored globally by market participants. High yield led the segments of fixed income with gains of 2.9% during the first quarter. Returns across most other segments of US fixed income were slightly positive as the Barclays US Aggregate Index returned 0.12% during the period. Emerging markets bonds realized a relatively stronger quarter in producing an aggregate 1.5% return as investors benefited from higher spreads to US Treasuries and slight currency gains as well.

ASSET ALLOCATION SUMMARY

During its April 2013 meeting, the Trust Investment Committee of Coral Gables Trust Company has reaffirmed its current asset allocation for Balanced Model Portfolios as 55% Equities, 40% Fixed Income and 5% Cash. Highlighting the discussion was considerable assessment of the relative attractiveness of risk assets in the context of the strong first quarter. It is important to stress the discipline of long term strategic asset allocation versus shorter term attempts to “trade” the market given relative outperformance of certain asset classes. Our investment philosophy is built upon a foundation of long term, capital preservation which dictates strict adherence to the fundamentals of asset allocation. Hence, we are not prescribing changes in asset allocation at the model level given the run we have realized in equities year to date. However, if there are material changes in the risk/return objectives and/or holding periods of client level portfolios, then we of course want to engage you the client in a thoughtful review of your current asset allocation. Lastly, we maintain our cautious views on equities more broadly, see long term value opportunities in European equities and believe that the diversification benefits of a global bond portfolio remain very compelling.

NOTABLE MANAGER PERFORMANCE

The first quarter witnessed outperformance of many of our managers versus their respective benchmarks; below we summarize just a few notable instances of outperformance:

JPM Alerian MLP Index ETN	20.3%	US ETF Equity Energy Index	10.3%
DoubleLine Total Return Bond	1.3%	US Barclays Agg	0.1%
PIMCO Investment Grade Bond	1.2%	US Barclays Agg	0.1%
SPDR S&P Dividend ETF	14.2%	US S&P500	10.7%
T. Rowe Price Mid Cap Growth	11.9%	Morningstar Mid Cap Growth	10.7%
Templeton Global Bond	1.4%	Morningstar World Bond	-1.1%
BlackRock High Yield	3.2%	Barclays US High Yield	2.9%
Seix Ridgeworth High Yield	3.1%	Barclays US High Yield	2.9%
IVA Worldwide	6.2%	Morningstar World Allocation	3.2%

We look forward to speaking with all of our clients regarding our views and the performance of their respective portfolios, and we thank you for your continued confidence in our team and our firm.

Trust Investment Committee of the Coral Gables Trust Company