

COMMENTARY FROM THE INVESTMENT COMMITTEE
OF CORAL GABLES TRUST COMPANY

2ND QUARTER 2013

Q2 – 2013 OVERVIEW

Global equity markets continued to benefit from accommodative central bank policies and generally improving economic data. The S&P500 Index realized a 2.9% return, the Dow Jones Industrial Index produced a 2.8% return, and the NASDAQ saw a 4.5% increase over the quarter. As realized during Q1 2013, US equities benefited from strong corporate balance sheets, continued growth in earnings, a pickup in corporate merger and acquisition activity and low interest rates. US GDP growth for Q1 2013 was 1.8%, an improvement over the 0.4% realized during Q4 2012. The jobs picture in the US does, however, remain slow to recover as it started the quarter at 7.6%, dropped to 7.5% during the month of May but increased back to 7.6% at quarter's end. Initial jobless claims do represent a bright spot given the drop to levels of less than 350,000 for the first time since 2008.

International equities endured headwinds during the quarter and underperformed US equity markets. Broad global equity markets as measured by the MSCI World, ex US Index realized 1.4%, the MSCI EAFE Index realized -0.75%, while the MSCI Emerging Markets Index declined 7.95% during the quarter. Key drivers of international equity performance include:

- The European Central Bank did reduce its benchmark rate to 50 bps and reaffirmed its accommodative stance in an effort to fight the ongoing Euro region recession
- In Japan, Prime Minister Abe introduced additional stimulative plans to spur growth
- Investors renewed concerns regarding Chinese growth, while more broad concerns regarding banking and materials sectors of emerging market countries hit equity markets.

FED Chairman Bernanke's indication of a possible reduction in the pace of current bond buying was the primary source of a broad pullback in global fixed income markets. For example, the yields on US 10 year Treasuries soared from 1.62% in early May to 2.61% in the last week of June producing a -5.4% quarterly return. This sudden spike in interest rates hit the broad indices quite hard: Barclays US Aggregate Index returned -2.32%. High yield endured material investor outflows as the segment realized -1.44% during the second quarter. Economic growth concerns as well as weak local currency returns adversely affected the performance of EM bonds during the quarter. Outflows from this segment were also significant as the asset class returned -5.14%.

ASSET ALLOCATION SUMMARY

During its July 2013 meeting, the Coral Gables Trust Company Investment Committee has reaffirmed its current asset allocation for Balanced Model Portfolios as 55% Equities, 40% Fixed Income and 5% Cash. The discussion focused on the recent move in interest rates, expectations for FED policy and realized equity performance year to date. As we indicated in last quarter's note,

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.

Given that US equities are currently trading at a forward P/E multiple of 14x, and we expect there will be continued interest rate volatility, we do not believe tactical asset allocation changes should be made at this time. As always, if there are material changes in the risk/return objectives and/or holding periods of particular client portfolios, then we of course want to engage you the client in a thoughtful review of your current asset allocation. We continue to maintain our cautious view on US equities and believe there is meaningful long term value in European equities. Lastly, we continue to assess and research global fixed income opportunities.

NOTABLE MANAGER PERFORMANCE

Based upon year to date performance as of June 30, 2013, we are very happy with the realized outperformance of many of our managers versus their respective benchmarks;

JPM Alerian MLP Index ETN	23.6%	US ETF Equity Energy Index	9.4%
DoubleLine Total Return Bond	-0.3%	US Barclays Aggregate	-2.4%
Dodge & Cox International	5.4%	Morningstar Foreign Large	2.4%
BMO Pyrford International	4.8%	Morningstar Foreign Large	2.4%
T. Rowe Price Large Cap Growth	13.2%	Morningstar Large Growth	11.0%
T. Rowe Price Mid Cap Growth	15.0%	Morningstar Mid Cap Growth	13.0%
DFA Small Cap	17.2%	Morningstar Small Blend	15.3%
Templeton Global Bond	1.4%	Morningstar World Bond	-4.7%
IVA Worldwide	6.7%	Morningstar World Allocation	0.1%

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.

The Investment Committee of the Coral Gables Trust Company