CORAL GABLES TRUST

COMMENTARY FROM THE INVESTMENT COMMITTEE OF CORAL GABLES TRUST COMPANY

Q4 – 2014 OVERVIEW

The final quarter of 2014 was incredibly eventful for global markets with several themes shaping the stage for the period. The quarter included two notable market pullbacks in October and December; both due to oil as an oversupply and weak demand abroad had investors scrambling to adjust their positions to a precipitous price drop in the commodity. The Federal Reserve officially concluded its asset purchase program known as quantitative easing in October with all eyes looking towards 2015 and the highly anticipated first Fed Funds rate increase. While the U.S. showed strong growth compared to other countries, the Eurozone continues to produce weak inflation and growth numbers while its central bank is expected to initiate a U.S.-style quantitative easing program. This would include purchasing sovereign bonds. Japan also slipped into a textbook recession (two consecutive quarters of economic contraction) as its central bank authorities announced more stimulus in pursuit of the goals of "Abenomics". Despite these differences in economic environments, the U.S. equity markets pulled ahead quite comfortably: The Dow Jones Industrial Average finished the year up 12.95% while the S&P 500 gained 13.7% both including dividends. Unemployment notched down to 5.8%, considerably lower from the previous year, and low prices at the pump are expected to add an extra 0.5% growth to GDP in the coming year. Meanwhile, the foreign developed MSCI EAFE Index fell 4.90% while the MSCI Emerging Markets Index dropped 2.19%. Divergence in central bank policies and economic growth patterns will be the primary themes for 2015, while the world watches oil prices closely. Currencies have had their fair share of volatility of late and we expect this to continue as the U.S. dollar continues to strengthen on perceived tighter monetary policy and worldwide capital flows.

Global fixed income markets will also be subject to the upcoming divergence in monetary policies worldwide. The U.S. 10-year treasury started the year at 3.03% and finished at 2.17% as investors fled to the U.S. bond market which is a relative bargain compared to the rest of the world. The Barclays U.S. Aggregate Index returned 1.79% for Q4 and 5.97% for 2014. The German 10-year bund ended 2014 at 0.54%, falling in tandem with overall rates in the Eurozone as its economy gears up for quantitative easing. While the JPMorgan Emerging Markets Bond Fund lost -0.46% during Q4, it returned +7.60% for the year. We will continue to monitor the international credit market landscape as we get clarity on global monetary policy direction.

ASSET ALLOCATION SUMMARY

During its October through December 2014 meetings, the CGTC Investment Committee kept its asset allocation for balanced model portfolios as 55% Equities, 40% Fixed Income and 5% Cash. The Committee decided to decrease its MLP exposure by half in the equity model while introducing an alternative manger that is defensive in its attributes and will lower the overall correlation of the equity allocation. At about 17x forward earnings the U.S. market, measured by the S&P 500, is slightly higher than recent historical averages. However, with interest rates at historical lows we believe the equity markets present a better value at the moment in the context of a fully diversified portfolio. If equity valuations elevate further above 18x forward earnings, the Committee will have further conversations regarding asset allocation and positioning. The fixed income allocation is another important issue the Committee continues to discuss. We are currently positioned for a rising interest rate environment but other factors like currency movements and monetary policy differences are shaping the current environment. While we do believe interest rate increases are in the near future we will possibly reposition our fixed income allocation slightly until this much anticipated event takes place.

NOTABLE MANAGER PERFORMANCE

Based upon year-to-date performance as of December 31, 2014, we are pleased with the results that a number of our managers have been able to deliver.

Doubleline Emerg Mkts Bond	6.49%	US Emerging Mkts Bond	-0.70%
DFA US Small Cap	4.44%	Morningstar Small-Cap Blend	3.81%
T. Rowe Price Strategic Income	4.32%	Morningstar Aggregate Bond	1.30%
BMO Pyford International	0.57%	Morningstar Foreign Large Blend	-5.16%
Vanguard REIT ETF	30.29%	US Real Estate	26.45%
T. Rowe Price Mid-Cap Equity	13.16%	Morningstar Mid-Cap Growth	6.85%
JPMorgan Alerian MLP ETN	3.16%	US MLP ETF	1.42%
BlackRock High Yield Bond	3.37%	Morningstar High Yield Bond	1.05%

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.

For additional information or questions, please contact Mason Williams, CIO, at 786-497-1214, or mwilliams@cgtrust.com.

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The Investment Committee of the Coral Gables Trust Company