

COMMENTARY FROM THE INVESTMENT COMMITTEE
OF CORAL GABLES TRUST COMPANY

1ST QUARTER 2014

Q1 – 2014 OVERVIEW

The first quarter of 2014 started off on a different note compared to an uneventful 2013 that delivered impressive results for equity investors. A persistent slowdown in China, harsh winter weather and geopolitical concerns over Russia and Ukraine kept investors at bay entering 2014. On the economic front the March labor report came in at 192,000 which hasn't deviated much from the current trend over the last several months and suggests the FED will not discontinue tapering its \$10 billion a month exit from QE. Any soft economic data during the quarter was blamed on the winter weather and any corresponding sell-off was met with buyers. The S&P500 Index returned a modest 1.80% for the first quarter courtesy of a strong February performance. The Dow Jones Industrial Index produced a modest loss of -0.15% and the technology-heavy NASDAQ index finished the quarter with a 0.54% gain. As we enter 2014 FED tapering continues and unless the U.S. and global economies unravel we expect the FED to end their tapering process by year-end 2014. It is important to point out that tapering is not tightening and global central banks remain extremely accommodative around the globe. Across the pond, International equities produce mixed results among developed and emerging markets. Developed equity markets, as measured by the MSCI EAFE Index, returned 0.66% during Q1 while the MSCI Emerging Markets Index turned in a slight loss of -0.43%.

In the bond market, concerns about U.S. economic growth and a flight to quality in the wake of the emerging market volatility in January helped drive yields lower in Treasuries. The 10-year treasury ended 2013 at around 3.00% and contrary to expectations finished the quarter at 2.73%. The Barclays US Aggregate Index returned 1.84% during Q1 which was right in line with the S&P 500. High-yield continues to be an attractive area for investors seeking yield. The Barclays U.S. Corporate High-Yield Bond Index returned 2.98% for the quarter. Emerging Markets Debt as measured by the JP Morgan EMBI Global Index was a strong performer returning approximately 3.50%.

The municipal bond market found buyers as the Barclays Municipal Bond Index returned 3.30% bringing the 12-month return into positive territory. Continued volatility and uncertainty globally could keep pressure on yields in the coming months as markets digest information related to the economy and economic growth.

ASSET ALLOCATION SUMMARY

During its February and March 2014 meetings, the CGTC Investment Committee reaffirmed its asset allocation for Balanced Model Portfolios as 55% Equities, 40% Fixed Income and 5% Cash. The discussions focused on the current opportunity set of global equities given the market melt-up experienced during 2013 and current valuations among the U.S. and abroad. The members of the Committee agree that while valuations in the US equity markets are at, or near, full valuation there may be more modest upside to be had based on the opportunity set investors face. The Committee has spent significant time on our fixed income allocations and underlying active managers. The Committee's recent efforts have revolved around a fixed income portfolio consisting of our best ideas among asset classes geared towards rising interest rates. We feel interest rates will rise modestly over time as the economic recovery gains traction. We expect to have conversations with you in the coming months to discuss how we are positioned on both equities and fixed income.

NOTABLE MANAGER PERFORMANCE

Based upon year-to-date performance as of March 31, 2014, we are very happy with the realized outperformance of many of our managers versus their respective benchmarks:

DoubleLine Total Return Bond	2.40%	Morningstar Intermediate-Term Bd	1.95%
Loomis Sales Investment Grade	3.43%	Morningstar Intermediate-Term Bd.	1.95%
Doubleline Emerg Mkts Bond	3.93%	US Emerging Mkts Bond	2.02%
Dodge & Cox International Fund	2.76%	Morningstar Foreign Large Blend	0.11%
Vanguard REIT ETF	9.89%	US Real Estate ETF	9.56%
T. Rowe Price Mid-Cap Fund	2.84%	Morningstar Mid-Cap Growth	1.30%
BlackRock High Yield Bond	3.10%	Morningstar High Yield Bond	2.63%
IVA Worldwide	2.47%	Morningstar World Allocation	1.59%

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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