CORAL GABLES TRUST

COMMENTARY FROM THE INVESTMENT COMMITTEE OF CORAL GABLES TRUST COMPANY

Q2 – 2015 OVERVIEW

Even though investors endured significant volatility during the second quarter, the market delivered returns that were thankfully better than what seemed to be a never ending roller coaster. China and Greece traded headlines for weeks that inserted plenty of uncertainty into the picture. The S&P 500 returns went up in a puff of Greek smoke as the second quarter ended delivering a +0.28% return for the quarter including dividends. June alone was down -1.94% erasing a fair amount of gains year-to-date. The employment situation continues at a pace in-line with a moderate recovery with the economy creating 223,000, 280,000 and 223,000 jobs in April, May and June respectively. Other economic data like manufacturing, productivity and housing continues to be positive and firm enough that the Fed is toning down their dovish rhetoric. As we enter the second-half of the year, investors have come to grips that a Fed rate hike will take place in either September or December which will begin the long-awaited normalization process. A recent Fed testimony revealed that the volatility of Greece and China was more of a distraction and hasn't swayed the Fed in its forward thinking. Not surprisingly, foreign markets had a tough June given the unrest in Greece and China. However, the MSCI EAFE developed index managed to return +0.62% for the quarter and continues to have a comfortable lead over the S&P 500 for the year. With the reversal in foreign equity markets in June, fund flows tell a different story. According to the Wall Street Journal, in the second quarter there was a net $44 billion inflow to foreign markets while U.S. stocks saw a net $50 billion in outflows. Better valuations and monetary accommodation abroad continue to drive funds towards foreign markets. Emerging markets have performed well this year, however, China's 30% plunge over a rapid period in June tempered the gains for the year in the region. The MSCI Emerging Markets index finished +2.95% for the year as of quarter end.

Returns in fixed income have been much more modest. The U.S. 10-year treasury started the year at 2.17% and finished Q1 at 1.93%. Yields rebounded in Q2 with the 10-year finishing at 2.335%. The Barclays US Aggregate index returned -1.68% for the quarter and is flat for the year at -0.10%. In percentage terms, the German 10-year bund saw extraordinary moves climbing to 0.74% from a rock bottom 0.18%. Investors reversed course as yields became compressed and Mario Draghi warned of further volatility in fixed income. Pockets of fixed income performed better with the Barclays U.S. Corporate High Yield Index returning +2.53% for the first half of 2015. Given the disparity between the Barclays Aggregate and Barclays High Yield returns, investors are still gravitating towards the riskier segments of the market. The CGT fixed income model returned -0.65% in Q2 outpacing the Barclays Aggregate of -1.68% due to a more modest duration posture of less than four years and a built-in rising rates theme.

ACTIVE VS. PASSIVE MANAGEMENT

The range-bound returns that investors have experienced so far in the first half of 2015 seem frustrating but we have to be mindful of where we have come from. The S&P 500 has more than tripled off its financial crisis lows. This current rally is the third longest without a 10% correction in over 70 years. The bulk of this rally has been led by "low quality" attributes which are defined as high beta, low return on equity, low yield and growth focused names. It's important to note that investment correlations during the first few years of this current bull market were more elevated than usual. In this environment blindly investing in a passive investment vehicle has yielded better results than the average active approach. However, the tide has turned and correlations have retreated to more normal levels. Stock selection will become more important this late in the cycle as valuations signify a more fully valued market. Skilled active managers should start to be rewarded as their biases start to be recognized by the market. Coral Gables Trust and our research partners at Foliodynamix are committed to selecting highly skilled and consistent investment managers within their respective mandates that have proven to add value above their benchmarks over a textbook market cycle. The performance isn't due to our managers being fantastic market timers but because they are not swayed by current events and always focus on downside protection. In other words, their investment process is statistically repeatable. Listed below are 10-year annualized returns along with certain upside/downside capture ratios for some of our current managers to illustrate this point. In an ideal world successful managers should capture most or all of the upside in up markets while capturing less than 100% of the downside in market sell offs.

*NOTABLE MANAGER PERFORMANCE AND CAPTURE RATIOS (PERFORMANCE IS ANNUALIZED)

Manager	***10 Yr. Return vs. Benchmark***	***Upside/Downside Capture***
AMI Large Cap Growth	11.37%	86% / 60% (10 Year)
Russell 1000 Growth	*9.36%*	
Dana Large Cap Core	9.06%	103% / 79% (1999 inception)
S&P 500	*7.89%*	
Congress Mid-Cap Growth	11.59%	93% / 65% (1999 inception)
Russell Mid-Cap Growth	*9.69%*	
Gratry International Equity	7.78%	103% / 87% (10 Year)
MSCI EAFE	*5.12%*	

***Manager returns are composite returns. Past performance is not indicative of future results. Investments may lose value**

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.

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