COMMENTARY FROM THE INVESTMENT COMMITTEE OF CORAL GABLES TRUST COMPANY

3RD QUARTER 2014

Q3 – 2014 OVERVIEW

The third quarter proved shaky for financial markets as conflicting data and world events led to geopolitical tensions driving much more volatility in Q3 as opposed to Q2. Geopolitical tensions and stagnation in the Eurozone were in focus for the period. However, data released throughout the quarter pointed to continued growth in the U.S. and the U.S. dollar index surged higher on the back of this strength. The unemployment rate continued its drop in September falling to 5.9% which was the lowest since July 2008. This followed a drop to 6.1% in August. All employment figures during Q3 were revised higher, further supporting jobs growth in the U.S. The consumer confidence indicator came in at 84.6 for September, the highest point in 14 months and the second highest point in the past seven years. The S&P 500 Index returned +1.13% for the third quarter despite a loss in September while the Dow Jones Industrial Index produced a modest gain of +1.87% and the NASDAQ index led the way with a +2.24% gain. The FED continues to project an end to QE in October, however, the dialogue coming out of recent FED meetings suggests plenty of monetary accommodation and any interest rate increases in 2015 will be purely data dependent. Overseas the ECB made recent announcements to cut interest rates to near-zero and institute negative yields to encourage lending and spur growth. As we write, the ECB is pondering additional stimulus through bond purchases to expand the ECB balance sheet. Developed equity markets, as measured by the MSCI EAFE Index, returned -5.88% during Q3 while the MSCI Emerging Markets Index returned -3.50%.

The bond market took on an interesting narrative as developments unfolded between global tensions and various central bank policies. The 10-year treasury essentially started and ended the quarter at 2.52%, despite reaching a low of 2.34% during August. The Barclays U.S. Aggregate Index returned +0.17% during Q3 reinforcing the sideways movement in U.S. fixed income. Risk-averse investors sent high-yield bonds down -1.87% as tracked by the Barclays U.S. Corporate High-Yield Bond Index. As of the current moment, the ECB has pledged to rebuild their balance sheet to 2012 levels despite particular figures on the size of asset purchases which may further affect international credit markets. The German 10-year rate fell to 0.94% to finish the quarter following the ECB's accommodative monetary policy announcements. Developing markets underperformed producing a return of -0.90% for Q3 as measured by the JPMorgan Emerging Markets Bond Index which compares to +5.81% for the prior quarter. We will be watching the diverging monetary paths of the ECB and U.S. in the coming months to better gauge the impact on our portfolios. We still believe that interest rates could nudge higher over time if geopolitical tensions ease and investors revert back to focusing on worldwide economic growth.

ASSET ALLOCATION SUMMARY

During its July through September 2014 meetings, the CGTC Investment Committee reaffirmed its asset allocation for balanced model portfolios as 55% Equities, 40% Fixed Income and 5% Cash. The Committee decided to increase Large-Cap and decrease Mid and Small-Cap based on stretched valuations in Mid to Small capitalization companies. Within Large-Cap, the Committee decided to reduce Large-Cap Growth in favor of adding a Large-Cap Value manager to the allocation for deeper diversification. Finally, the Committee decided to increase international equities slightly due to more favorable valuations vs. the U.S. As geopolitical issues continue around the world and QE comes to an end in October we could experience market turbulence as risk assets adjust to less accommodation. As we write, the markets experienced a minor correction that was fairly significant but didn't close on the 10% correction that the industry has been expecting.

NOTABLE MANAGER PERFORMANCE

Based upon year-to-date performance as of September 30, 2014, we are pleased with the results that a number of our managers have been able to deliver.

Doubleline Emerg Mkts Bond	9.08%	US Emerging Mkts Bond	3.46%
Dodge & Cox International	4.97%	Morningstar Foreign Large Blend	-2.04%
BMO Pyford International	2.93%	Morningstar Foreign Large Blend	-2.04%
Vanguard REIT ETF	14.00%	US Real Estate	12.72%
T. Rowe Price Mid-Cap Equity	4.19%	Morningstar Mid-Cap Growth	1.62%
T. Rowe Price Strategic Income	5.26%	US World Bond	2.88%
BlackRock High Yield Bond	4.15%	Morningstar High Yield Bond	2.71%

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.