Highlights

- Early in the quarter, financial markets reacted negatively to poor weather and news from emerging economies. By quarter-end, equity markets recovered and long-term interest rates were lower;
- The U.S. economy suffered a weather related setback during the first quarter, but most economists believe lost output will be made up later in the year;
- Once again emerging markets are in the eye of the storm. The Ukraine/Russia crisis was the latest in a series of events effecting emerging economies. We believe investors may be getting too pessimistic.

Markets

		Returns (%)	
GIA*	Average Quality	1Q14	12 Months
Global High Yield Composite	(BB-)	2.50	5.70
Global Credit Plus	(BBB-)	2.96	3.14
Core Plus Composite	(A)	2.13	1.40

**Returns are net of fees*

Benchmark Bonds			
Barclay's U.S. Aggregate Index	(AA+)	1.84	-0.10
Treasury	(AAA)	1.34	-1.26
Credit	(A)	2.91	1.02
Mortgage	(AAA)	1.60	0.18
Government/Credit	(AA)	1.98	-0.26
BoA Merrill U.S. Corps & Yankees	(A-)	2.77	1.08
BoA Merrill Corporate Master	(A-)	2.97	1.42
BoA Merrill High Yield	(B+)	2.99	7.51
JPM Emerging Markets EMBI+	(BBB-)	3.45	-1.92
JPM CEMBI Broad	(BBB)	2.36	0.52
JPM GBI-EM Global Diversified	(BBB+)	1.90	-7.14
Citi Non-U.S. World Govt. Bonds	(AA-)	3.22	2.43

Benchmark Equities			
S&P 500	NA	1.30	19.32
Nasdaq Composite	NA	0.54	28.51
Russell 2000	NA	0.81	23.28
MSCI EAFE	NA	0.00	14.42
Europe	NA	1.52	21.04
Japan	NA	-6.35	5.66
MSCI Emerging Markets Equity	NA	-0.80	-3.89

Markets

On the heels of record setting stock index closes for 2013, the first quarter of 2014 started with enthusiasm over the U.S. economy. In the camp of 'it is never as good as it seems,' emerging markets and poor weather interrupted the party. Early in the quarter, Argentina (and Venezuela) devalued its currency by more than expected leading to another bout of worries over emerging economies and how the spill-over would impact global growth. In late February and March a simmering dispute between Ukraine and Russia broke open, pitting western nations against Russia in a geopolitical battle for the future of Ukraine. Separately, two polar vortexes, abundant snow, and freezing temperatures paralyzed much of the U.S. for days. Early in the quarter, equity markets reacted by selling off, long term interest rates declined and economic data in January and February disappointed. Better data in March improved sentiment, leading equity markets to erase losses and interest rates to rise slightly.

High yield bonds continued their string of solid performance matching or outperforming other fixed income markets. Fundamentals remained robust with low defaults, solid cash flow generation, multiple refinancing options and positive fund flows. The Bank of America Merrill Lynch High Yield Cash Pay Index (J0A0) was up 2.99% for the quarter. Spreads narrowed from 404 b.p. to 379 b.p., and the yield to worst declined from 5.51% to 5.14%. Mutual fund investors added $3.4 billion to high yield funds during the quarter, reversing withdrawals in December 2013 and January of this year. The default rate declined to 0.61%, even though defaults increased in March and are expected to increase in April with the anticipated default of the former Texas Utilities. During the quarter, new issues totaled $89 billion, which was lower than the $121 billion issued in the first quarter of 2013.

The Bank of America Merrill Lynch U.S. Corporate Index (C0A0) delivered strong results for the quarter, driven primarily by a move lower in longer-term interest rates as investors grew cautious over economic activity and the emerging markets crises. The Index was up 2.97%% for the quarter, while the Bank of America Merrill Lynch U.S. Treasury Index was up 1.63%. Investment grade corporate spreads narrowed by 10 b.p. to 117 b.p., and the yield to worst of the index decreased from 3.33% to 3.13%. Issuance for the quarter continued at a robust pace reaching $342.3 billion, which exceeded last year's first quarter by $ 34.6 billion.

Emerging markets debt had a volatile quarter, although by the end of March investors began to distinguish between countries and regions. After a poor 2013, hard currency sovereign bonds staged a strong recovery and delivered excellent performance, corporate bonds underperformed and local markets were mixed as currency concerns impacted performance. Fund flows remained negative, but at a slower pace, suggesting dedicated investors had enough liquidity to take advantage of the market's mid-quarter dislocations. The J.P. Morgan Emerging Markets Bond Index Plus (EMBI+), a dollar denominated sovereign index was up 3.45% for the quarter, the JPM Corporate Emerging Markets Broad Index (CEMBI Broad) returned 2.36% for the quarter, and the JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, returned 1.90%. During the quarter, mutual fund investors continued to pull money out of emerging markets leading to a $13 billion withdrawal for the quarter.

Portfolios

Our *Global High Yield Composite* consists of portfolios investing primarily in U.S. high yield, higher yielding investment grade credit and emerging markets corporate bonds. The Composite underperformed the Bank of America Merrill High Yield Cash Pay Index by 49 basis points, net of fees, in the quarter, and was behind the index by 181 basis points over the last 12 months. During the quarter and the last 12 months, the Composite held a meaningful exposure to emerging markets based on relative value. Emerging markets corporate bonds underperformed during the quarter and over the last 12 months. During the quarter, the Composite's exposure to Russia and Ukraine detracted from performance, even though security selection within high yield was a positive contributor. Over the last 12 months, our security selection

added to relative performance, but was unable to offset the negative contribution from the underperforming emerging markets allocation.

Our *Global Credit Plus Composite* consists of portfolios holding investment and non-investment grade credit related securities. The Composite is measured against a benchmark consisting of 70% of the BofA Merrill Lynch U.S. Corporate Index and 30% of the BofA Merrill Lynch U.S. Cash Pay High Yield Index. The Composite underperformed the benchmark, net of fees, by 2 basis points during the quarter and was behind by 9 basis points over the last 12 months. The portfolios had an allocation of approximately 36% U.S. investment grade, 26% high yield, and 36% emerging markets, mostly investment grade rated. During the quarter, high yield and investment grade credit delivered similar returns with emerging market corporate bonds slightly behind. Underperformance during the quarter and over the last 12 months is attributable entirely to the emerging markets exposure. During the first quarter, the Composite's exposure to emerging markets, including holdings in Russia and Ukraine, held back performance. High yield and investment grade securities in the portfolios outperformed their respective indexes, but not by enough to offset the negative contribution from emerging markets. During the last 12 months the Composite's investment grade holdings delivered strong relative returns that were offset by the emerging markets exposure. Our high yield holdings outperformed the high yield index, but the sector underweight cancelled out that contribution.

Our *Core Plus Composite* consists of portfolios that can hold up to 30% in securities rated below investment grade. The Composite outperformed the Barclays U.S. Aggregate Index, net of fees, by 29 basis points for the quarter, and was ahead by 150 basis points over the last twelve months. During the quarter, the portfolio was underweight mortgages and treasuries and overweight credit, including high yield and emerging markets. The portfolio's exposure to credit in general and high yield in particular, helped generate excess returns during the first quarter and the last 12 months. Over the last 12 months, the portfolio's underweight to mortgages and treasuries also proved to be helpful as rates increased causing treasuries to deliver negative returns and mortgages to extend in duration, and underperform.

Economy

Economically, the first quarter of 2014 was notable because of lousy weather. Much of the U.S. suffered through days of extreme conditions that caused businesses to shut down and people to stay home. It is hard to measure precisely how much the weather clipped from GDP, but economists have estimated as much as 0.5%. In the WSJ Economic survey, the average forecast for first quarter growth declined from 2.5% in January to 1.9% in March. In exchange, economists raised second quarter forecasts from 2.7% to 2.9%. For all of 2014, the average forecast was 2.7%, not too different from expectations at year-end 2013. On balance, we agree with the average forecast, although we remain of the opinion that performance is more likely to exceed than miss the consensus.

In the U.S. the often-cited positives remain in place. The energy boom, stronger personal and business balance sheets and expanding manufacturing can now add improvements in employment, housing and investment to the list of favorable factors. While few industries are booming, the absence of negative factors serves to bolster confidence.

Conditions in Europe have also improved with modest rays of sunlight for the damaged periphery economies. Along with improving data on manufacturing and services, confidence has returned in many sectors of the economies. Perhaps the most revealing sign comes from the compression of credit spreads for the most distressed countries. Even Greece, which defaulted just a few years ago, issued a five-year Euro denominated bond at a rate of 4.95% on April 10, 2014.

Finally, emerging markets have been a source of pessimism for the global growth picture. China, the most watched country, has been moving decisively to contain excess credit and the "shadow banking system." This process is

invariably noisy, but we think it is a long term positive. It would appear the authorities are trying to engineer a "controlled" 7% to 7.5% growth rate. Circumstances in Brazil and Russia also point toward concern, although the problems suggest an absence of potential growth rather than pending recessions. Other emerging markets are grappling with external competition and weak commodity prices suggesting growth will not reach potential, although it will be positive.

Altogether we believe there is reason to be relatively optimistic on economic performance in the U.S. Equity markets may not rally aggressively because they already discount strong growth after last year's gains. However, we would not be surprised if the economy does better than most expect.

Scenarios

We propose three scenarios for the U.S. economy over the next 6 months:

1. Our most likely case has the economy growing 2.5% to 3.0% in 2Q 2014 and 3Q 2014. We believe the rugged winter subtracted between 0.5 and 1.0% from growth in the first quarter, and the economy's underlying strength has not been sapped. Some of the pent-up consumption should return in 2Q and postponed production could flow back over the next two quarters. Recent data on employment confirmed the improving labor market picture and a favorable outlook for personal consumption. Combining a relatively robust outlook for the U.S. with positively shifting outlook for Europe and Japan, provides comfort that the global economy is performing better. PROBABILITY 65%

2. A second scenario has the economy recovering to above-trend growth of 3.5% to 4.0% over the next six months. We believe the U.S. economy enjoys many favorable factors which could support a faster rate of growth if they could be complemented with supportive government policy measures and improvement in global activity. With better results from Europe and Japan, global economic performance could surprise on the upside. PROBABILITY 20%

3. A third scenario has the economy declining to 0.5% to 1.5% growth due to a crack in business and consumer confidence. Anticipated labor cost increases due to the Affordable Care Act could lead some companies to curtail their hiring or even reduce employment. In addition, higher interest rates could have a greater impact than expected on housing and other large ticket purchases. Also, some foreign economies could falter, rather than improve, delaying the foreign growth boost we expect. In this scenario, the economy's momentum could be sapped taking activity back into a lethargic phase. PROBABILITY 15%

Market Outlook

After a quarter where weather threatened to derail the favorable economic narrative for 2014, financial markets closed the period on an optimistic note. Equity markets managed to recover mid-quarter losses, but government bond yields left mixed messages. The yield curve "humped" during the quarter with 3, 5 and 7 year yields changing little while 10 and 30 year yields declined. These shifts suggest the market has begun to expect higher short term rates, but no meaningful inflation. While these curve moves may be in reaction to the Fed's messages, they appear at odds with performance of the equity markets. We believe the U.S. economy remains on firm footing and growth, although not stellar, will be sufficiently strong to permit a normalization of interest rates. By year-end, we expect longer term rates to be higher. Credit markets should continue to outperform, although with tighter spreads, excess returns from credit are likely to be modest.

Commentary – Emerging Markets, Here We Go Again?

Starting in May 2013 the narrative for emerging markets changed dramatically. Before that month, investors were throwing money at emerging markets under the premise that all future global growth would emanate from these countries. Global corporations with significant emerging markets presence were rewarded with higher stock market multiples. Suddenly, the Fed's indications that they planned to withdraw quantitative easing sent investors scurrying. The new narrative became one of caution and fear premised on the future absence of financial resources for emerging economies. During the summer of 2013, protests and violence in countries like Egypt, Turkey and Brazil exacerbated the fear and the Ukraine/Russia crisis of 2014 seemed to settle the notion that emerging markets are fraught with risk and should be avoided right now.

The biggest reversal was probably in currency valuations, although on a relative basis the most effected markets were equity markets. During 2013 sovereign spreads widened significantly with a visible effect on sovereign bond prices. The table below shows the performance of equity markets and credit risk from the beginning of 2013 for the largest emerging economies:

Market Performance

	Equity in USD		Currency Level		Sov Spread (5yr CDS)	
Country	FY 2013	Q1 2014	YE 2012	3/31/2014	YE 2012	3/31/2014
Brazil	-26.8%	2.3%	2.05	2.27	108.1	167.6
Russia	-6.2%	-14.6%	30.56	35.06	132.4	221.5
India	-8.8%	9.2%	54.69	59.88	NA	NA
China	-3.9%	-6.5%	6.23	6.22	79.8	92.3
Mexico	-3.5%	-5.0%	12.85	13.33	93.0	86.7
USA	29.6%	1.3%	NA	NA	29.0	19.2
Germany	31.0%	-0.2%	1.32	1.38	25.0	22.3

Source: Bloomberg

In a previous quarterly letter, we suggested emerging economies were not as healthy as investors believed them to be prior to the back-up. Now we have to jump to the other side of that statement to argue they are not as risky as investors believe them to be now. Perhaps more than other markets, emerging economies are sensitive to capital flows and these have been particularly volatile lately. With banks curtailing their market making activity, asset price volatility has also increased. With the exception of Ukraine and Russia, we believe some of the volatility experienced by many of these markets has been exaggerated because of the reduced participation from major dealers.

We believe the most compelling argument for emerging markets, as a whole, is that many economies have vastly improved economic and debt management policies over the last decade. In many cases the improvements have been institutionalized with actions like central bank independence and budgetary controls. Furthermore, countries that participate in global commerce have professionalized public corporations to improve management and competitiveness. These actions have improved sovereign creditworthiness and investor protections. While not perfect or uniform across all countries, these changes ensure that each country conducts its policies independently and risk analysis should not lump all countries together.

It is always interesting to compare the market's perception of sovereign risk across countries. Developed economies, for example, experienced sharp growth in debt levels over the last few years, yet investors continue to consider their sovereign risk to be modest. Even Europe's peripheral countries that many feared could default just two years ago, have recovered to trade better than some emerging economies with much lower debt levels. The table below illustrates the phenomenon by showing the trading levels of sovereign Credit Default Swaps (as a measure of the market's perception of sovereign risk) along with the ratio of debt to GDP. While we believe a shift in sentiment was warranted when many emerging markets traded meaningfully through developed economies, we would argue the shift has gone too far for various asset classes.

Sovereign Debt Levels

Country	Debt/GDP Ratio (%)	3/31/14 5yr CDS Spread
Japan	194.9	49.2
United Kingdom	128.9	25.0
Belgium	119.4	44.0
France	99.3	49.3
United States	81.3	19.2
Finland	54.8	23.0
Germany	51.2	22.3
Australia	25.8	45.0
Greece	185.3	1500.0
Italy	144.8	131.2
Ireland	138.1	79.0
Portugal	136.5	184.2
Spain	110.8	105.0
Malaysia	60.4	101.8
Poland	56.1	71.0
Argentina	51.5	1854.5
Mexico	50.6	86.7
Venezuela	49.7	1255.9
South Korea	45.6	61.0
Ukraine	38.6	1245.7
Brazil	36.6	167.6
Chile	33.9	77.7
Indonesia	29.1	175.3
China	20.2	92.3
Russia	10.3	221.5

Sources: Bloomberg; IMF

GIPS requires GIPS Disclosure Statement (please see attached disclosure)
GIPS requires GIA fee schedule disclosure "GIA's fees are (i) .35% annually for standard USA fixed income, (ii) .50% annually for enhanced fixed income and (iii) .75% annually for specialized products"

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Forecasts and Market Outlook: The forecasts and market outlook presented in this material reflect subjective judgments and assumptions of the investment manager and unexpected events may occur. There can be no assurance that developments will transpire as forecasted in this material.

Management Fees, as well as account minimums and other important information are described in GIA's Form ADV - Part IIA. Since management fees are deducted quarterly, the compounding effect will be to increase the impact of such fees by an amount directly related to the account's performance. For example, an account with a 10% gross annual return and a 1% annualized management fee that is deducted quarterly will have a net annual return of about 8.9%.

*Important GIPS disclosures pertaining to composite performance may be found at the back of this letter.

Index Definitions

Barclays US Aggregate Index
The Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Barclays US Treasury Index
This index is the U.S. Treasury component of the U.S. Government index. Public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Barclays US Government/Credit Index
The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries and agencies. The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Barclays US Credit Index
This index is the U.S. Credit component of the U.S. Government/Credit index. Publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

Barclays US Mortgage Backed Securities Index
This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Bank of America Merrill Lynch US Corporate & Yankees Index
The Bank of America Merrill Lynch US Corporate & Yankees Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market by US and non-US corporations and non-US quasi-governments.

Bank of America Merrill Lynch US Corporate Index
The Bank of America Merrill Lynch US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

Bank of America Merrill Lynch US High Yield Master Cash Pay Only Index
The US High Yield Master Cash Pay Only Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

JP Morgan Corporate Emerging Markets Bond Index (CEMBI)
The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. Both indices are also available in Diversified versions.

JP Morgan EMBI+ Index
The EMBI+ tracks total returns for U.S-dollar-denominated debt instruments of the emerging markets: Brady bonds, loans, Eurobonds. The EMBI+ currently covers 104 instruments across 15 countries.

JP Morgan Government Bond Index-Emerging Markets (GBI-EM)
The GBI-EM is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. Variations of the index are available to allow investors to select the most appropriate benchmark for their objectives.

Citigroup Non-US World Government Bond Index
The Index is comprised of foreign government bonds with maturities over one year.

S&P 500 Index
An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Nasdaq Composite Index
An index that tracks the change in the total market value of all companies listed on the Nasdaq Stock Market.

Russell 2000 Index
An index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small cap stocks in the United States.

MSCI EAFE Index
The index is a capitalization weighted index that monitors the performance of stocks from Europe, Australasia and the Far East.

MSCI EAFE- Europe Index
The index is a capitalization weighted index that monitors the performance of stocks from Europe.

MSCI EAFE- Japan Index
The index is a capitalization weighted index that monitors the performance of stocks from Japan.

MSCI Emerging Markets Equity
The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.