GIA PARTNERS

2nd Quarter 2013

Highlights

- **During the second quarter the Fed alerted markets it might begin tapering QE. This spooked fixed income investors causing yields to rise precipitously and returns to sour.**
- **Economic performance in 2013 has been disappointing, but we think the U.S. economy will likely improve during the second half of the year.**
- **Emerging markets debt was the worst performing sector during the quarter and year-to-date. Despite many negative events, we believe these markets still present compelling investment opportunities.**

Markets

		Returns (%)	
GIA*	Average Quality	2Q13	12 Months
Global High Yield Composite	**(BB-)**	**-2.32**	**9.57**
Global Credit Plus	**(BBB)**	**-3.45**	**4.23**
Core Plus Composite	**(A)**	**-2.62**	**2.83**
Core Composite	**(A)**	**-3.14**	**1.45**
**Returns are net of fees*			
Benchmark Bonds			
Barclay's U.S. Aggregate Index	(AA+)	-2.32	-0.69
Treasury	(AAA)	-1.92	-1.64
Credit	(A)	-3.44	0.84
Mortgage	(AAA)	-1.99	-1.14
Government/Credit	(AA)	-2.51	-0.62
BoA Merrill U.S. Corps & Yankees	(A)	-3.31	1.41
BoA Merrill Corporate Master	(A-)	-3.36	1.76
BoA Merrill High Yield	(B+)	-1.37	9.44
JPM Emerging Markets EMBI+	(BB+)	-6.26	0.08
JPM CEMBI Broad	(BBB)	-4.74	3.35
JPM GBI-EM Global Diversified	(BBB+)	-7.04	1.32
Citi Non-U.S. World Govt. Bonds	(AA)	-3.44	-5.72
Benchmark Equities			
S&P 500	NA	2.36	17.92
Nasdaq Composite	NA	4.15	15.95
Russell 2000	NA	2.73	22.42
MSCI EAFE	NA	-2.11	15.14
Europe	NA	-2.01	15.30
Japan	NA	4.23	19.70
MSCI Emerging Markets Equity	NA	-9.14	0.32

Markets

The second quarter of 2013 was about the Fed, or perhaps its future absence. After a strong first quarter in equity and other financial markets, in early May the Fed made comments suggesting quantitative easing could be tapered. Those comments were followed by more direct statements after the June 19 FOMC meeting read by the market to presage the end of QE. Between May 2, 2013 and June 28, 2013 the 10-year U.S. treasury yield went from 1.63% to 2.49%. In price, the 10 year security lost 7.2% in less than 2 months. The sudden and precipitous increase in U.S. yields affected fixed income markets globally as investors were forced to reassess the relative value of their securities. Surprisingly, equity markets did not react until the Fed's mid-June announcement, which promptly led to a 5% correction in the S&P 500 Index and a global decline in equity markets. Investment grade, high yield, and emerging market bonds all declined in price leading to negative returns for the month and quarter for fixed income investors.

High yield bonds outperformed investment grade credit throughout most of the quarter, but got hit in the last two weeks of June. The market had held in despite significant outflows. The Bank of America Merrill Lynch High Yield Cash Pay Index (J0A0) was down -1.37% for the quarter, but remained +1.46% year-to-date. Spreads widened from 471 b.p. to 507 b.p., and the yield to worst increased from 5.53% to 6.46%. Perhaps the most salient aspect of the high yield market was the sharp and significant reversal in flows. High yield funds reported a $9.5 billion withdrawal in June, the largest monthly outflow on record, leading to $10.5 billion in outflows year-to-date. The default rate declined slightly to 1.09%, well below the historical average of 4.0%. New issuance for the quarter was $99 billion, lower than the record $121 billion in the first quarter, but still a healthy amount given the drags from negative flows and rising interest rates.

The Bank of America Merrill Lynch U.S. Corporate Index (C0A0) was hit by the dual effect of rising interest rates and negative fund flows. The Index was down -3.36% for the quarter and -3.31% year-to-date. By comparison the U.S. Treasury Index was down -2.23% for the quarter and -2.48% year-to-date. All investment grade bonds suffered from the sharp move higher in rates as the 10-year U.S. treasury went from 1.85% to 2.49% during the quarter. Investment grade corporate spreads widened by 18 b.p. to 167 b.p., while the yield to worst of the index rose from 2.77% to 3.40%. Issuance moderated in June as rates rose, but still totaled $256.9 billion, about $38 billion less than the first quarter of 2013.

Emerging markets debt suffered a substantial setback as rising rates and fund outflows combined with concern over Chinese growth to derail the sector. The J.P. Morgan Emerging Markets Bond Index Plus (EMBI+), a dollar denominated sovereign index was down -6.28% for the quarter and -9.36% year-to-date. The JPM Corporate Emerging Markets Broad Index (CEMBI Broad) fared slightly better, but was down -4.74% for the quarter and -4.22% year-to-date. The JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, was down -7.04% for the quarter and -7.15% year-to-date. During the quarter, China took policy actions more oriented toward curtailing excess credit than toward fomenting growth. Furthermore, spontaneous riots erupted in Turkey and Brazil making investors cautious on prospects for growth across many emerging market countries. Adding to investor worries, a long period of fund inflows reversed sharply, culminating in outflows of nearly 60% of the money that flowed in during the first four months of the year.

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 95 basis points, net of fees, in the quarter, but was ahead of the index by 13 basis points over the last 12 months. During the second quarter, emerging markets corporate bonds underperformed U.S. high yield. Our composite retained exposure of approximately 35% to emerging markets, which contributed most of the underperformance. Our high yield holdings outperformed the high yield index, but not by enough to offset the negative contribution from emerging markets. The outperformance over the past twelve months came largely from security selection within high yield as our allocations to emerging markets and investment grade credit detracted marginally from performance.

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 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 68 basis points during the quarter, but was ahead by 20 basis points over the last 12 months. The portfolios had an allocation of approximately 44% U.S. investment grade, 23% high yield, and 33% emerging markets. During the quarter emerging markets underperformed both of the indexes that make up the benchmark causing the portfolios to underperform. During the last twelve months outperformance came from the portfolios' holdings in U.S. investment grade securities with the high yield and emerging markets securities delivering largely neutral performance.

Our *Core Plus Composite* consists of portfolios that can hold up to 30% in securities rated below investment grade. The Composite underperformed the Barclays U.S. Aggregate Index, net of fees, by 29 basis points for the quarter, but was ahead by 352 basis points over the last twelve months. Investment grade and high yield credit underperformed U.S. treasuries and mortgages during the quarter. The portfolio remained overweight in credit with a significant allocation to emerging markets debt and exposure of about 15% to the Plus sectors (high yield and emerging markets). Most of the underperformance for the quarter came from the Plus sectors and the underweight in U.S. treasuries. Over the last 12 months, investment grade and high yield credit outperformed. The Composite was overweight credit during all twelve months, leading to the outperformance.

Our *Core Composite* is an investment grade only composite managed against the Barclays Government/Credit Index. The Composite underperformed the benchmark, net of fees, by 63 basis points during the quarter, but was ahead by 207 basis points over the last twelve months. Despite the sharp rise in rates, U.S. treasuries outperformed investment grade credit during the quarter, and the portfolio was overweight credit, with an allocation of 13% to emerging markets. With the portfolio allocated roughly 70% to credit and 30% to government bonds, performance was negatively affected. Over the last 12 months credit outperformed and the portfolio was overweight credit, which contributed to its outperformance.

Economy

On June 26, 2013 the Commerce Department revised first quarter GDP down from 2.4% to 1.8%. Many economists had raised their growth forecasts during the first quarter as data came out culminating in a median expectation of 2.4% growth for the quarter. The final downward revision was attributable to less robust than expected consumer spending. Yet many of the factors supporting an optimistic outlook remain in place. Housing construction, a laggard for years after the 2008

recession has picked up faster than expected, with new home construction exceeding one million units at an annual rate. Similarly, the energy boom remains intact and is helping improve America's manufacturing competitiveness.

Another source of optimism is that banks have been loosening their lending standards and both consumer and industrial loans are expanding at a healthy clip. With banks holding massive excess reserves and quickly restoring their capital, loosening the credit bottle-neck could help boost activity further. On July 5 the Labor Department reported higher-than-expected growth in non-farm payroll employment for June and a revision of +70 thousand workers for the prior two months. Despite the first quarter mark-down, the economy seems to be operating at a healthy pace. In June's WSJ Economic Survey, economists forecast higher growth in both the third and the fourth quarters of 2013, with the average at a relatively strong 2.7% for the fourth quarter. The superior performance of U.S. equity markets through June, suggests global investors adhere to these forecasts.

Since the 2008 recession, bouts of positive U.S. economic activity have been derailed by various factors, at times external to the country. During 2010, 2011 and 2012 events in Europe, Japan and the Middle East interfered with a growth trajectory that clearly had a frail foundation. In 2013 the combination of housing, employment, and credit availability should provide firmer footing. We believe the biggest risk for the economy may come from the new health care regulations, which will increase labor costs and place new regulatory burdens on employers. Some equity analysts have expressed caution on the market because corporate margin improvement has come from cost cutting rather than top line growth. Should healthcare clip margins without top line improvement, equity markets could experience a correction that could affect confidence and dampen the recovery.

Other analysts and strategists are cautious because China may be growing slower than expected and other emerging economies may not deliver on already lowered growth expectations. While these are valid concerns, we believe the engine for U.S. growth is domestic and weakness in exports will only dim what would otherwise be a solid rate of growth. Finally, a new concern for the economy has been the spike in interest rates after the Fed indicated QE may be coming to an end. Once again, the withdrawal of QE will only occur if the economy is sufficiently robust to warrant the withdrawal. It would appear after a long five years that the U.S. economy has the strength and staying power to stand on its own.

Scenarios

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

1. Our most likely case has the economy growing 2.2% to 2.7% in 3Q and 4Q 2013. A confluence of favorable factors has built a solid foundation around the U.S. economy. While the energy and manufacturing stories have been discussed, they are now complemented by looser credit conditions and improving labor markets. We believe risks to the economy come primarily from the Affordable Care Act and increasing regulation rather than the external sources that have soured prior recoveries. The ongoing income boost from low energy prices and still-low interest rates should keep consumption strong and encourage investment. Housing should, once again, be a contributor rather than detractor from GDP. PROBABILITY 70%

2. A second scenario has the economy recovering to trend or perhaps above-trend growth of 3.0% to 3.5% over the next six months. Over the last three months non-farm payrolls increased by nearly 200,000 people per month with private payrolls accounting for all of the increase. June's employment report confirmed compensation is outpacing inflation at a time when energy prices have been stable to lower. With these factors

likely to keep confidence high, it is possible that consumption grows faster than expected over the next six months, pushing the economy to a faster growth pace. PROBABILITY 20%

3. A third scenario has the economy declining to 0.0% to 1.0% growth due to a crack in business and consumer confidence. Coming cost increases due to healthcare requirements could lead some companies to curtail their hiring or even reduce employment. In addition, interest rates increased sharply since May and could douse some of the momentum from the housing market. Should these two factors lead to a loss of confidence, consumers might retrench instead of maintaining their consumption patterns. Should this occur, the economy's growth could be snapped taking the economy back into a lethargic phase. PROBABILITY 10%

Market Outlook

Global bond markets delivered poor performance during the second quarter of 2013 as the Fed signaled a possible tapering of its bond purchases. We believe the Fed's withdrawal from the market would be a healthy development for all fixed income markets. Once bond yields are no longer distorted by the Fed's participation, interest rates can be determined by fundamental economic factors. Economic data suggest the U.S. economy is healthy, Europe remains sluggish, and emerging economies are slowing from a robust pace. In the corporate bond market, creditworthiness remains strong and financing is still available for most companies. With yields much higher than three months ago, we believe opportunities exist in many markets to purchase attractively priced securities and improve portfolio characteristics. Though we have experienced an increase in volatility in emerging markets, we expect our exposure to that sector will deliver beneficial relative performance over the remainder of the year.

Commentary – What next for Emerging Markets?

After a healthy five year run emerging markets debt "hit the wall" during the first half of 2013. Emerging market sovereign bonds, as measured by the J.P. Morgan Emerging Market Bond Index Plus declined nearly 10% in the six months through June 2013. Furthermore, many emerging market currencies reversed course after long periods of appreciation leading local markets investors to lose over 7.0%. Even corporate bonds declined by over 4.0% ensuring the entire sector displayed the worst results amongst fixed income sectors. These results came about after years of excess returns powered by favorable economic factors: robust budgetary and debt dynamics, excellent foreign reserve positions, expanding middle classes, and growing foreign direct investment. In fact, six months ago strategists recommended emerging markets over other fixed income investments precisely because of the strong fundamentals.

During the last three months Turkey experienced sudden demonstrations nominally aimed at a government plan to dismantle a park, but more broadly critical of creeping authoritarianism by an Islamic-minded administration. A few weeks later spontaneous riots erupted in Brazil over a bus fare hike. Despite a reversal of the hike, people continued to complain about government corruption and inefficiency. Neither Turkish nor Brazilian rioters sought to oust their leaders, but they vociferously expressed grievances about aspects of each administration's form of government. While demonstrations in Turkey and Brazil were mostly peaceful and limited in scope, they were followed by a massive uprising in Egypt where the president was ousted after attempting to impose Islamic fundamentalism on a largely secular population.

Separately, China's new leadership surprised many investors by not proposing new economic stimulus measures and instead moving to quell excesses. Toward the end of June interbank money-market rates rose sharply and were very volatile when the People's Bank of China (PBOC) failed to inject liquidity, as expected by participants. Both equity and bond markets were disappointed by the potential growth (or lack thereof) implications of the policies. We interpreted the Central Bank's moves to be aimed at curtailing a "shadow" banking system that grew very large and operated with impunity outside the regulatory framework of the banks. Shadow banking was responsible for an explosion in credit, part of which generated unproductive leverage in the economy. We believe the moves by the authorities to reign in an excessive and potentially unproductive credit expansion are favorable for the longer-term well-being of the Chinese economy.

These country-specific events combined with the sharp move higher in interest rates during May and June to provoke a stampede out of emerging market bonds. In 2012, $60 billion flowed into EM bond funds, representing approximately 32% of the assets of reporting funds. Through early May 2013 another $23 billion flowed in consistent with a favorable relative value assessment from most market participants. Over the six week period ending July 3, investors withdrew $13.5 billion reversing 59% of this year's inflows. Not coincidentally, the 2013 low for U.S. treasury yields occurred May 2, 2013.

After the dismal quarterly results from emerging markets investments, the narrative shifted dramatically, as follows: If the Fed were to withdraw, the dollar would appreciate, commodity prices would suffer, emerging markets would get less capital and growth would stagnate. This narrative and other variants replaced the prior narrative that EM countries had robust balance sheets, young and educated populations with growing incomes becoming consumers and slowly replacing exports as growth engines for their economies. Does it make sense to shift the narrative because the Fed said they might do something everyone knew they had to do?

We believe EM's dramatic slide during the quarter and year-to-date resulted primarily from technical factors, not a fundamental shift in economic conditions. We fully acknowledge that riots raise concerns, but few economists lowered growth forecasts for Turkey or Brazil as a consequence of these. Some economists did lower growth forecasts for China, but as we mentioned above, we believe prudent growth management will serve the country well. We believe the back-up was severe because the favorable years of 2011 and 2012 brought in many new investors who became nervous when suddenly their investments were underperforming. Similarly, the last two weeks of June shone light on the effects of Dodd-Frank as banks did not provide liquidity to offset the negative fund outflows. Consequently, many securities of creditworthy borrowers experienced price declines that had no relation to changes in their underlying condition.

Emerging markets may not grow at the feverish pace of a few years ago and idiosyncratic events will likely affect many countries. However, after moving away from the days of centrally run economies, perennial deficits, and commercial isolation, emerging economies offer investment opportunities that can be very compelling. For any investment sector or region, when the tail wind ceases, selectivity becomes more important. Bouts of volatility often chase "fast money" away and leave opportunities for those who know where to look. We believe that in the most recent growth phase emerging markets investments found their way into many portfolios helping the sector gain acceptance and respectability, both of which should make the sector an important component of future investment returns.

July15, 2013

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"

Important Information

GIA Partners, LLC ("GIA") is an SEC registered investment adviser.

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Past Performance: The performance data quoted represents past performance. Past performance is not an indication of future performance provides no guarantee for the future and is not constant over time. The value of an investment may fluctuate and may be worth more or less than its original cost when redeemed. Current performance may be lower or higher than the performance data quoted.

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 II. 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.