GIA PARTNERS

3rd Quarter 2014

Highlights

- Seemingly resilient U.S. markets sold-off at quarter-end as external events raised concerns over global growth and liquidity dried up. Our portfolios suffered as credit markets underperformed;
- Worries about economic slowdowns in Europe and China took center stage in September, yet economists continue to expect reasonably good activity in the U.S.;
- Markets became consumed with fear over external events and the possibility the Fed would raise rates. We believe the associated market sell-offs were overdone.

Markets

		Returns (%)	
GIA*	Average Quality	3Q14	12 Months
Global High Yield Composite	(B+)	-2.63	7.11
Global Credit Plus	(BBB-)	-1.18	7.84
Core Plus Composite	(A)	-0.54	5.49
Emerging Market Debt Composite†	(BB)	-1.47	N/A

**Returns are net of fees*

Benchmark Bonds			
Barclay's U.S. Aggregate Index	(AA+)	0.17	3.96
Treasury	(AAA)	0.34	2.28
Credit	(A)	-0.03	6.64
Mortgage	(AAA)	0.18	3.81
Government/Credit	(AA)	0.17	4.08
BoA Merrill U.S. Corps & Yankees	(A)	0.03	6.59
BoA Merrill Corporate Master	(A-)	0.05	7.08
BoA Merrill High Yield	(B+)	-1.91	7.14
BoA Merrill EM Corporate Plus	(BBB)	-0.55	7.65
JPM Emerging Markets EMBI+	(BBB-)	-2.11	7.84
JPM CEMBI Broad	(BBB)	-0.31	7.69
JPM GBI-EM Global Diversified	(BBB+)	-5.66	-1.54
Citi Non-U.S. World Govt. Bonds	(AA-)	-5.38	-0.99

Benchmark Equities			
S&P 500	NA	0.62	17.29
Nasdaq Composite	NA	1.93	19.14
Russell 2000	NA	-7.65	2.60
MSCI EAFE	NA	-6.39	1.53
Europe	NA	-7.37	3.04
Japan	NA	-2.94	-1.13
MSCI Emerging Markets Equity	NA	-4.33	1.81

Markets

The third quarter of 2014 was more about events outside than inside the U.S. Financial markets experienced reasonable volatility during the quarter, but ultimately posted only modest change. Equity markets hit record highs in early July on the heels of robust economic data and earnings optimism. Then a Malaysian airliner was downed over Ukraine's conflict area, Russia escalated its offensive, Israel and Hamas had a costly fight, and the ISIS threat brought the U.S. back into battle in the Middle East. U.S corporate 2Q earnings were better than expected, but European growth faltered. After racing to new equity market highs in August and mid- September, global geopolitical fears took the market back down at quarter end. Interest rates experienced a similar roller coaster, with the curve flattening modestly. Perhaps the most noticeable changes were an appreciation of the U.S. dollar and a decline in commodity prices. By the end of the quarter, the S&P 500 returned 0.62%, U.S. treasuries returned 0.34%, investment grade corporate bonds returned 0.05% and high yield was down 1.9%. Developed country equities (non-U.S.) were down 6.39% in U.S. dollars, all of which was attributable to currency, and a well-followed commodities index (TR/CC CRB Excess Return Index) was down 9.63%.

High yield bonds suffered a set-back during the quarter on the back of sizeable fund outflows. There was no evidence of deteriorating creditworthiness, but liquidity deteriorated at quarter-end leading to wider spreads and higher yields. The Bank of America Merrill Lynch High Yield Cash Pay Index (J0A0) was down 1.91% for the quarter. Spreads widened from 363 b.p. to 442 b.p., and the yield to worst increased from 4.89% to 6.01%. Mutual fund investors withdrew $18.1 billion from high yield funds during the quarter for a year-to-date outflow of $13.4 billion, a record outflow for the sector over the first three quarters of the year. The default rate declined in September to 1.86% compared to 2.06% at the end of June. Notably, excluding the default of Energy Future Holdings Corp. (the former Texas Utilities) in April the default rate was 0.53%, the lowest rate since December 2007 at 0.38%. During the quarter new issues totaled $76.4 billion, which brought year-to-date volume to $285.9 billion, a bit under last year's $313.8 billion volume through September.

The investment grade index, the Bank of America Merrill Lynch U.S. Corporate Index (C0A0), managed to eek out a positive return on the back of a decline in longer term rates, although the only positive return month of the quarter was July. The Index was up 0.05% for the quarter, while the Bank of America Merrill Lynch U.S. Treasury Index was up 0.43%. Investment grade corporate spreads widened by 12 b.p. to 113 b.p., and the yield to worst of the index increased from 2.94% to 3.12%. Issuance for the quarter eased a bit reaching $233.5 billion, bringing the year-to-date total to $892.1 billion. This compares to $900.0 billion for the same period last year. Total investment grade issuance in 2013 was a record $1.1 trillion.

Emerging markets debt had a poor quarter after the Ukraine/Russia conflict flared up and concerns arose over elections in Brazil, judicial rulings against Argentina, Ebola in Western Africa, and slower growth in China. Perhaps most impactful, the dollar appreciated against emerging market currencies and commodities fell. Historically, emerging market financial performance gets affected by commodity prices. The J.P. Morgan Emerging Markets Bond Index Plus (EMBI+), a dollar denominated sovereign index was down 2.11% for the quarter, the JPM Corporate Emerging Markets Broad Index (CEMBI Broad) returned -0.31% for the quarter, and the JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index returned -5.66%. Year-to-date those markets returned 7.16%, 5.92%, and -0.01% respectively.

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 72 basis points, net of fees, in the quarter, and was behind the index by 3 basis points over the last 12 months. During the quarter and the last 12 months, the Composite held a meaningful exposure to emerging markets, including holdings in Russia and Ukraine. The conflict between those countries caused their securities to meaningfully underperform, which negatively affected the performance of our Composite. Our high yield holdings

performed in line with the high yield index, but did not offset the drag from our Eastern European holdings. Over the last 12 months, high yield emerging markets underperformed U.S. high yield. Our security selection added enough in relative performance to overcome the drag from the emerging markets allocation and match the benchmark's 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 64 basis points during the quarter, but was ahead by 73 basis points over the last 12 months. The portfolios had an allocation of approximately 39.2% U.S. investment grade, 24.8% high yield, and 35.4% emerging markets, largely investment grade rated. During the quarter, the best performing markets were investment grade credit and investment grade emerging markets, which jointly constituted 56.3% of the portfolio. Most of the remaining exposure was to high yield securities in the U.S. and emerging markets. This combination caused the quarterly underperformance, as high yield underperformed. During the last 12 months the Composite benefited from the portfolio's exposure to high yield and emerging markets, while being underweight investment grade credit. Our security selection was favorable across all sectors.

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 71 basis points for the quarter, and was ahead by 153 basis points over the last twelve months. During the quarter, the portfolio was underweight mortgages and treasuries, which outperformed, and overweight credit, including high yield and emerging markets, which underperformed. The portfolio's exposure to credit in general and emerging markets in particular, caused the underperformance for the quarter. Over the last 12 months, the opposite was true. The portfolio's underweight to mortgages and treasuries, and overweight to credit contributed to the outperformance as credit markets outperformed.

Our *Emerging Markets Debt Composite*[†] consists of portfolios investing in dollar denominated emerging market credit securities, primarily from corporate issuers. The Composite is measured against the BofA Merrill Lynch US Emerging Markets Plus Index (EMUB). The EM Debt Composite only has two quarters of performance. During the quarter, the portfolio underperformed the benchmark by 92 basis points, net of fees. The portfolio had overweight exposures to both Russia and Ukraine, which performed poorly as their conflict escalated in August. In addition, the portfolio had higher exposure to securities rated below investment grade, which underperformed at quarter-end as higher risk assets sold off.

Economy

A brief summary of the fourth quarter U.S. economic outlook discussion comes to: "higher risk of derailment from external factors." During the third quarter, U.S. economic data continued to be relatively strong, second quarter GDP growth was revised up to 4.6%, corporate earnings were better than expected, and stock indexes touched new records. At the same time, weak Eurozone data led the European Central Bank to augment stimulus, and escalation of the Ukraine/Russia conflict led the U.S. and Europe to impose further sanctions. As the quarter ended, the U.S. broadened its air campaign against ISIS, Ebola continued to spread and made it to the U.S., and a democracy demonstration broke out in Hong Kong. All of these potentially destabilizing factors combined to increase U.S. economic risk.

In the WSJ September Economic Survey, economists forecast average growth rates of 3.0% and 2.9% for the fourth quarter of 2014 and first quarter of 2015, respectively. Their answers to two of the survey questions were reflective of what appears to be consensus sentiment amongst market observers. In response to "What are the biggest threats to global growth right now?" the most selected response was "The situation in Ukraine," followed by "Monetary policy misstep." Then, in response to "Is the risk to your 2014 U.S. GDP growth forecast more to the upside or downside?" 65.71% selected upside.

Among the most newsworthy external factors, we believe the two that may portend threats to the U.S. economy and global growth come from Europe's lethargic economy and Hong Kong's sudden democracy demonstrations. While Europe's malaise has a tie-in with Ukraine and sanctions against Russia, the slowdown is particularly discouraging because it is occurring soon after the supposed resolution of the sovereign debt crisis. In Hong Kong's case, the worry relates to the possible mushrooming of discontent in other Chinese provinces with possibly serious implications for that country's economy.

In other regions, emerging markets have shown mixed performance with countries like Brazil, Chile and Argentina deteriorating and India, Mexico, and Colombia improving. During the quarter, the U.S. dollar appreciated against most currencies and commodity prices dropped sharply. Historically, periods of weak commodity prices have coincided with slower growth in emerging economies. Many macro strategists expect a longer period of U.S. dollar strength and commodity weakness, suggesting the contribution to global growth from emerging markets may decline.

While there are many factors to worry about, we remain optimistic on the U.S. economy and continue to believe the factors that have contributed to recent performance remain in place. Though exogenous shocks may temporarily curtail the economy's performance, we believe each external event will be somewhat isolated, and their combined impact on the U.S. economy will prove to be modest.

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 4Q 2014 and 1Q 2015. We believe the economy's underlying sources of strength remain in place and ongoing improvement in employment will keep consumption growing in line with GDP. The Fed's withdrawal of QE is good news for the economy as banks will likely expand their lending. Some areas like housing and investment have been disappointing, but expanded lending and a strong dollar may help these contribute to growth. While we expect limited support from abroad, monetary policy in Europe and Japan remain stimulative, and the strengthening U.S. dollar provides some help to emerging economies. 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. While we expect little help from Europe and Japan, any growth surprise from those regions could help boost U.S. growth. PROBABILITY 15%

3. A third scenario has the economy declining to a 0.5% to 1.5% growth rate due to economic drags from net exports and falling consumer confidence. Higher oil prices may return with expanding Middle Eastern violence, leading to some inflation and moderate growth in consumption. If poor conditions in Europe persist and Hong Kong's protests proliferate, business confidence may deteriorate and employment gains may cease. In this scenario, the economy's momentum could be snapped taking activity back into a lethargic phase. PROBABILITY 20%

Market Outlook

The quarter ended with investors confronting a "wall of worry" related almost entirely to foreign events. On the domestic side, attention was focused on the Fed and the timing of their eventual move to raise short term rates. An interesting dynamic in the rate conversation is the change in the long versus the intermediate sector of the yield curve. During the third quarter long rates declined, while intermediate rates remained reasonably flat. These moves suggest the market

expects higher short term rates with limited or no inflation. The range of expectations for U.S. markets seems reasonably narrow with forecasts for good but unspectacular growth, low inflation and low interest rates. Overseas, however, uncertainty over European growth, Middle Eastern fighting, and social instability appear to be holding U.S. markets in check. Low interest rates should help credit and spread markets perform well. Emerging markets, which are proximate to some of the flash points, may experience more volatility, but should still deliver reasonable returns because few companies have suffered financial deterioration. In general, we envision another quarter of markets gripped by external events, but ultimately exhibiting modest positive returns through year end.

Commentary – About the Economy

We ended the third quarter fretting about a confluence of troublesome external events. The U.S. economy posted quarters of -2.1% and +4.6% annualized real GDP growth in the first two quarters of the year. Economic data during the third quarter was generally good and consistent with a 3% or so growth print for the quarter and similar expectations for the fourth. However, as the quarter closed, many external events took center stage raising doubts about the U.S. economy and the sustainability of growth. In fact, as we write this, the U.S. stock market experienced three consecutive days of over 1% moves, culminating in a decline of nearly 3.0% for the week. Perhaps it is worth reflecting on the main areas of concern to assess their possible impact:

- The European economy slowed down again during the summer and is now widely expected to suffer a third recession in 6 years. In reaction the European central bank announced additional measures in September, which, among other things, helped push the Euro lower, especially against the U.S. dollar;
- The Chinese economy has decelerated and worries abound that the decline will become sharper. Sudden democracy demonstrations in Hong Kong raise the specter of broader social disaffection;
- The Ukraine/Russia conflict intensified during the summer and now appears to be headed to an undesirable resolution;
- The renewed conflict in the Middle East is causing consternation, odd alliances, and concerns about the permanence of the region's balance of power;
- The Ebola virus moved beyond Africa to the U.S. and Spain. Uncertainty about how to deal with the virus is affecting both countries and some sectors of the economy.

Since the financial crisis of 2008-2009, the Euro area economy has experienced two recessionary years and may be facing a third. The first occurred in 2009 along with the rest of the industrialized world, the next in 2012 during the height of the sovereign debt crisis. The third is feared to be occurring now. However, upon review, it seems the situation in Europe is not one of a declining economy, but appears to be one of slower than desired growth. Germany recently reported poor manufacturing data, which was disappointing for one of Europe's stronger economies. Less discussed was a slight increase in the country's services Purchasing Managers Index (PMI) and the Euro area's 1.4% increase in retail volume in August versus July. In 2014 the Euro area has not experienced negative GDP growth, and fears about the third quarter are being met with central bank accommodation, a weakening currency and lower oil prices. While the region continues to have many structural weaknesses, we believe the recent monetary actions and market moves will likely prevent a recession. Furthermore, given the region's modest growth rate before the recent bout of fears, it is hard to see the Euro economy becoming anything more than a marginal drag on the U.S.

We have argued in the past that China's moves to reign in excess credit are good for the economy. The country's actions over the last few months appear to be "fine-tuning" the economy's growth pace after the credit euphoria. Achieving such precision in a huge economy is virtually impossible. We believe the authorities do not want a precipitous slowdown and would loosen some of the constraints should the economy show further signs of weakness. Perhaps more challenging for the authorities is the recent outbreak of demonstrations in Hong Kong. Thus far, the demonstrations have been peaceful and contained. Our worry is their possible spread to other mainland cities. We have more confidence in the government's ability to maintain the economy's growth rate near their target than to deal with a flurry of pro-democracy

demonstrations. For now, concerns that China may drag down the global economy appear premature, but civilian unrest could become a meaningful future concern.

Vladimir Putin surprised the world and his biggest advocates in Europe when he launched a new offensive against Ukraine in August after the downing of a civilian airliner earned him worldwide condemnation. Even additional sanctions did not deter him. Now, after gaining an upper hand in negotiations, Putin appears to be ready to discuss terms with Ukraine's president. The unfortunate reality would suggest Putin has succeeded in weakening another neighbor and in carving out a large territory that will retain elements of Russian dependence. We believe the direct impact on the U.S. from this outcome is limited. However, as Europe and U.S. are forced to maintain sanctions, the economic impact on Europe may be more noticeable. We might add here that Putin may be succeeding in the short-term, but Russia's economy will likely suffer from a combination of sanctions, low oil prices and a weak Ruble. With a weakening economy, we doubt he can sustain the domestic approval that encourages some of his behavior.

The Middle East has been a conflict region for years. Historically, the most significant economic effect has been transmitted through higher oil prices. The recent belligerence from ISIS has not affected oil prices because the conflict has not threatened major oil producing areas, and the Middle East's significance to global oil production has declined. However, the new conflict has potentially important repercussions as new alliances form to battle a formerly non-existent foe. While gruesome videos make noisy headlines, their near term economic effect is limited. Longer term there could be a ray of optimism because, if nations and groups that have been enemies can come together in opposition to a worse threat, then maybe grounds exist for more peaceful coexistence in the future.

The last worry item, the Ebola virus, also receives big headlines and causes personal angst, but, for now, generates limited economic impact. Shares of companies in hospitality and travel have been hit with news of domestic infections, but a broader economic effect remains unlikely, because as scary as the illness is, the numbers of infected people remain small. There is still much to learn about the virus, but the U.S. experience, where there has been no contagion among the victim's U.S. relatives, suggests that quarantine and treatment efforts will likely keep the disease from spreading out of control. The severity of the virus has focused the world on its containment, and efforts to assist the most afflicted African nations will likely be expanded. As much as the Ebola breakout is cause for humanitarian concern, the numbers still do not warrant a meaningful adjustment to global economic activity. In the U.S. we believe the ultimate impact will be limited, and the effect on the economy will be negligible.

In summary, we believe the markets' reaction to possible threats from external events has been excessive and has been exacerbated by a reduction in liquidity. As noted above in our Economy section, economists expect growth rates of 3.0% and 2.9% for the U.S. over the next two quarters. Historically, exports have constituted between 12% and 13% of U.S. GDP (13% in 2Q 2014). Assuming exports dropped 5% over the next few quarters, the annualized effect would be -0.65%; impactful but not a disaster. The U.S. might not be an island of health in a lethargic world, but it can be an engine that helps the global economy heal from an unhealthy state. We believe many of the policy actions and market adjustments will provide stimulus to global economic activity. Ultimately, growth should remain positive, even if unspectacular. If markets begin to discount recession, we believe investors should move to the other side of that trade.

October 13, 2014

† Please note net returns for the Emerging Markets Debt Composite have been recalculated from February 2014 to September 2014 to reflect management fees at 0.75 percent.

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

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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 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.