GIA PARTNERS

4th Quarter 2013

Highlights

- **The economy shrugged off the government shut down, and financial markets responded positively. Investors returned to higher risk assets, leaving only high grade bonds with negative performance;**
- **The U.S. economy enters 2014 with positive momentum, even the Fed's taper was interpreted as confirmation that activity is more robust;**
- **We believe we are at the beginning of market normalization after the big recession and governmental involvement. Asset valuations should again reflect expected inflation adjust returns.**

Markets

		Returns (%)	
GIA*	Average Quality	4Q13	12 Months
Global High Yield Composite	**(BB-)**	**3.56**	**6.12**
Global Credit Plus	**(BBB-)**	**2.17**	**1.11**
Core Plus Composite	**(A)**	**1.07**	**0.08**

**Returns are net of fees*

Benchmark Bonds			
Barclay's U.S. Aggregate Index	(AA+)	-0.14	-2.02
Treasury	(AAA)	-0.75	-2.75
Credit	(A)	0.92	-2.01
Mortgage	(AAA)	-0.43	-1.45
Government/Credit	(AA)	-0.03	-2.35
BoA Merrill U.S. Corps & Yankees	(A-)	0.87	-1.72
BoA Merrill Corporate Master	(A-)	1.02	-1.46
BoA Merrill High Yield	(B+)	3.48	7.38
JPM Emerging Markets EMBI+	(BBB-)	0.64	-8.31
JPM CEMBI Broad	(BBB)	1.68	-1.25
JPM GBI-EM Global Diversified	(BBB+)	-1.54	-8.98
Citi Non-U.S. World Govt. Bonds	(AA-)	--1.24	-4.56
Benchmark Equities			
S&P 500	NA	9.92	29.60
Nasdaq Composite	NA	10.74	38.32
Russell 2000	NA	8.37	37.00
MSCI EAFE	NA	5.36	19.43
Europe	NA	7.52	21.68
Japan	NA	2.15	24.93
MSCI Emerging Markets Equity	NA	1.54	-4.98

Markets

It could be argued that, despite indicators to the contrary as the quarter began, 4Q 2013 was one of the best quarters since the great recession of 2008/2009. Previously, periods of strong growth were derailed by numerous hurdles, domestic and external, as the global economy adjusted to the effects of the recession. In September the Fed held off on tapering because financial conditions had tightened over the summer and everyone feared the looming government shutdown would become the latest impediment to the recovery. However, the U.S. economy held up well, and investors became more sanguine about global growth prospects in 2014. Even the Fed's taper in December was viewed positively because it signaled the economy was finally robust enough to proceed without as much government assistance.

U.S. equity investors capped a banner year with the S&P 500 closing at a record level after returning nearly 30% for the year and 9.21% for the quarter. Many foreign equity markets also delivered impressive annual performance with the Nikkei – 225 Index up 24.93% in US dollars (a staggering 56.72% in Yen), while the German DAX was up 30.97% in US dollars. In fixed income most high grade investors suffered negative returns for the quarter and all of 2013, while high yield participants enjoyed another year of outperformance. Despite poor results, many fixed income investors applauded the beginning of the taper and the long-awaited process of interest rate normalization.

High yield bonds outperformed other fixed income markets again in 4Q as the sector experienced better flows and strong fundamentals. The Bank of America Merrill Lynch High Yield Cash Pay Index (J0A0) was up 3.48% for the quarter and 7.38% for the year. Spreads narrowed from 468 b.p. to 404 b.p., and the yield to worst declined from 6.04% to 5.51%. Mutual fund investors returned $4.4 billion to the high yield market in 4Q, but still withdrew $4.1 billion over all of 2013. The default rate declined to 0.66%, the lowest level since December 2007 with 4Q defaults slightly ahead of the previous low in 4Q 2007. During the quarter new issues totaled $84.8 billion, which was a modest issuance quarter in a year that saw another record at $398.5 billion.

The Bank of America Merrill Lynch U.S. Corporate Index (C0A0) managed positive returns for the quarter, despite rising rates and negative performance in November and December. The Index was up 1.02% for the quarter, but still down -1.46% for all of 2013. By comparison the Bank of America Merrill Lynch U.S. Treasury Index was down -0.92% for the quarter and -3.35% for the year. Investment grade corporate spreads narrowed by 28 b.p. to 127 b.p., while the yield to worst of the index increased from 3.31% to 3.33%. Issuance for the year reached a record $1.11 trillion with only $206.4 billion in the fourth quarter. The prior annual record was 2012 with $1.09 trillion in supply as corporations took advantage of low rates and ample liquidity to refinance.

Emerging markets debt continued to recover from the declines the sector experienced in the second quarter, but did not outperform U.S. investment grade and high yield credit. Concerns over rising interest rates, growth prospects and violence in many countries eased, but fund flows remained negative. The J.P. Morgan Emerging Markets Bond Index Plus (EMBI+), a dollar denominated sovereign index was up 0.64% for the quarter, but still down -8.31% for the year. The JPM Corporate Emerging Markets Broad Index (CEMBI Broad) managed modestly positive returns of 1.68% for the quarter, but remained down -1.25% in 2013. The JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, remained depressed as the U.S. dollar moved higher against most emerging markets currencies. The Index was down -1.54% for the quarter and -8.98% for the year. During the quarter, investors continued to pull money out of emerging markets leading to a $14.04 billion withdrawal for the year. This compares to a $38 billion addition in 2012, which helps explain the sector's underperformance in 2013.

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 outperformed the Bank of America Merrill High Yield Cash Pay Index by 8 basis points, net of fees, in the quarter, but was behind the index by 126 basis points over the

last 12 months. During the quarter and all of 2013, the Composite held a meaningful exposure to emerging markets based on relative value. Emerging markets underperformed during the quarter and for all of 2013. During the quarter the outperformance came entirely from security selection, both in high yield and emerging markets. For the full year, our security selection added to relative performance, but was unable to make back 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 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 outperformed the benchmark, net of fees, by 41 basis points during the quarter and was behind by 2 basis points over the last 12 months. The portfolios had an allocation of approximately 41% U.S. investment grade, 25% high yield, and 33% emerging markets, mostly investment grade rated. During the quarter high yield outperformed both emerging markets and investment grade credit and emerging markets outperformed investment grade credit. Despite the underweight to the best performing sector, the portfolio's security selection delivered the excess returns in every sector. During the last twelve months the Composite's investment grade holdings delivered strong relative returns that were mostly offset by the emerging markets exposure. Our high yield holdings outperformed the high yield index and offset the negative contribution from our allocation to emerging markets.

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 121 basis points for the quarter, and was ahead by 210 basis points over the last twelve months. During the quarter the portfolio was underweight mortgages and treasuries and overweight credit, especially high yield and emerging markets. The portfolio's exposure to credit in general and high yield in particular, helped generate excess returns during the last quarter and all of 2013. Emerging markets, which caused underperformance earlier in the year, recovered to assist in the generation of excess returns. 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 have longer duration and more sensitivity to higher rates. Over the last 12 months investment grade credit, high yield and corporate emerging markets all outperformed. The Composite was overweight credit during all twelve months, leading to the excess returns.

Economy

Economic data during the fourth quarter held up surprisingly well, led by manufacturing and employment. We began the fourth quarter with the government shut down and the Affordable Care Act open for enrollment. With the shutdown dragging into October and complications with healthcare enrollment mounting, economists expected a hit to consumer confidence and consumption. Separately, a solid GDP print for the third quarter was revised higher twice, ultimately to 4.1%, but the bulk of the revision was attributable to rising inventories. With this combination economists initially expected a weak fourth quarter, continuing the post-recession pattern of strong quarters followed by weak ones due to sluggish underlying activity.

By quarter end, however, the numbers led many economists to upgrade their expectations for the quarter and early 2014. The figures also prompted the Federal Reserve to initiate the tapering they had so visibly foreshadowed and propelled U.S. equity markets to numerous record closes and an impressive full year performance. Could it be that the recovery is finally achieving sustainability?

We believe there are many reasons for optimism as we enter 2014. Perhaps the biggest is that many obstacles are diminishing. The employment picture, for example, has improved and the unemployment rate has ticked down

consistently, even if there are concerns with labor force participation. In addition, uncertainty regarding taxation and regulatory encumbrance has eased with the economy overcoming the anticipated drag from the sequester. Finally, in a likely paradox, the Fed's withdrawal from the bond market may not cause a contraction because, with bank capitalization improving, excess reserves can be released for more productive lending.

Foreign economies may also be a source of optimism heading into 2014. Here the contribution to higher and more sustainable global growth comes from marginally favorable shifts in many economies, rather than a robust pull from a few large ones. Specifically, Europe will likely deliver modestly positive growth as the troubled periphery economies bounce off the bottom. Japan, will likely improve its growth rate as their stimulus programs bear fruit, and many emerging economies will likely end programs of economic restraint in favor of more stimulus. Some analysts have expressed concern that China's growth rate may slow. This is possible, but the change is likely to be small and more than offset by improvements elsewhere.

As we enter 2014 there do not appear to be many global events that, even if expectations prove wrong, would put the economy's momentum in jeopardy. A new and controversial item is the Affordable Care Act. However, its effect on the economy will likely not be felt for some time while the reallocation of resources and costs flow through the economy.

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 1Q 2014 and 2Q 2014. The economy's solid performance in the face of the government shutdown and ongoing budgetary restraint, suggests the foundation is strengthening. Healthy employment gains along with strength in manufacturing and housing indicate the economy's slack is beginning to lessen. Combining a relatively robust outlook for the U.S. with a more favorable outlook for Europe and Japan, provides comfort that the global economy is on the mend. With the Fed commencing its retreat, but other central banks still committed to providing stimulus we expect the economy to push to a slightly higher growth rate. 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 joined by supportive measures from the government and favorable global activity. With the government seemingly embarked on a budget and a debt reduction plan, private sector activity could surprise on the upside. PROBABILITY 20%

3. A third scenario has the economy declining to 0.5% to 1.5% growth rate due to a crack in business and consumer confidence. Coming 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 snapped, taking activity back into a lethargic phase. PROBABILITY 15%

Market Outlook

For 2014 we believe the economy could surprise on the upside, and the markets are likely to behave more "normally." Equity markets had a banner year in 2013 taking valuations to levels that already discount good earnings growth in 2014. Interest rates rose in reaction to the improved economy and the Fed's taper and are poised to move higher as the Fed continues to withdraw. This rate normalization process should be healthy for the economy, and we believe it will occur in a somewhat orderly manner. If we are correct on the trajectory for rates and the economy, credit markets should

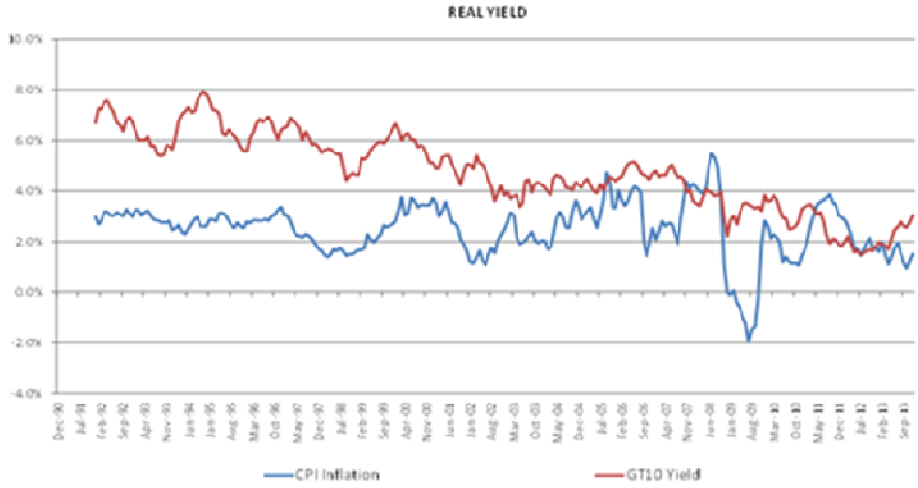
outperform again in 2014 and high yield bonds should outperform investment grade bonds. As we move to more normal rates, the absolute return from fixed income will likely be modest.

Commentary – Becoming Normal

Financial market analysts study the past to understand what happened, to give context to the present, and to gain insights into the future. A review of economic activity and financial market behavior over the last 40 years produces a vast array of economic conditions and market reactions. As we start 2014 and contemplate the past for clues into market behavior this year, the narrative seems to start in 2008, as though prior economic history ended then. Little in prior years compares with what we experienced over the last five years. For financial markets, there was pre-2008, where multiple factors came together to influence prices of stocks and bonds, and then came post-2008 when government authorities were forced into action effectively taking control of markets through unprecedented fiscal and monetary expansions. In their quest for economic revival, central banks around the world attempted to manage interest rates and capital allocation by vastly expanding their balance sheets. Five years later it looks like, to varying degrees, they were successful. So, what happens next?

Given the economy's stop-start experience over the last five years, policy makers actively debated the merits of withdrawing stimulus. In the summer of 2011, the U.S. Congress had a heated debate over the budget and debt ceiling. At the end of that bruising battle, the country's credit rating was lower and a budget compromise made various expenditure cuts obligatory, beginning in 2013. Fast forward to the end of 2012 when two important fiscal policy measures came to a head: the obligatory expenditure cuts, eventually referred to as the "sequester," and the expiration of the payroll tax holiday for individuals. At that time many economists argued the economy was not strong enough to withstand the sharp cuts in fiscal assistance. In fact, most forecast the reduction would cut at least 0.50% from growth in 2013. However, the economy appears to have performed very well despite the cuts.

Similarly, the Fed watched the economy cautiously and began to conclude after the first quarter of 2013 that its unprecedented balance sheet expansion was no longer warranted. The graph below shows the yield of the U.S. treasury 10 year bond compared to trailing 12-month consumer price index (CPI), a reasonable measure of the real return from owning bonds. While yields are forward-looking, it is clear the Fed managed to take longer-term real yields to zero by 2010 with consequent impact on markets like housing, consumer finance, and corporate credit, all of which flourished. In addition, the Fed effectively subsidized the treasury both through lower than market rates and as the effective financier of the deficit.



Source: Bloomberg

The table to the right shows the evolution of the fiscal and monetary policies during the last eight years and the bond and equity market responses. With the economy appearing to be on better footing now, it is reasonable to expect further contraction in the fiscal deficit and an ongoing reduction in the Fed's bond purchases. Early indications are that the process of interest rate "normalization" has begun and will continue through 2014. So, reasonable questions would be: where should the 10-year yield be if the Fed is not buying and underlying economic conditions continue on their current trajectory? And how should financial markets behave?

Year	Fiscal Deficit[1] ($BN)	FED Balance Sheet[2] ($BN)	Real GDP Growth[3] (%)	10 Yr Interest Rate[4] (%)	S&P 500 Return[4] (%)	Barclays Aggregate[4] (%)
2006	248	850	2.7	4.70	13.62	4.33
2007	161	890	1.8	4.03	3.53	6.97
2008	458	2,240	-0.3	2.21	-38.49	5.24
2009	1,413	2,235	-2.8	3.84	23.45	5.93
2010	1,294	2,421	2.5	3.30	12.78	6.54
2011	1,300	2,916	1.8	1.88	-0.03	7.84
2012	1,087	2,907	2.8	1.76	13.41	4.22
2013	680	4,024	2.8	3.03	29.60	-2.02

Source: [1] US Treasury [2] Federal Reserve [3] Bureau of Economic Analysis [4] Bloomberg

In the Wall Street Journal's December Economic Survey the average 2014 year-end forecast for the 10-year yield was 3.47%. Their expectation for 2014 inflation was 2.0%, implying a year-end real yield of 1.47%, approximately the same as 2013. Despite an improving economy, few people expect a significant uptick in inflation. In fact, corporations across various industries have complained about a lack of pricing power. However, there are some indications that factors putting downward pressure on inflation are easing, most prominently slack in the labor market. We would not be surprised to see slightly higher inflation or a higher real yield, leading to a 10-year yield around 3.75% at year-end.

With the caveat that perils may confront the Fed as they extract the unprecedented support they have provided, we believe the normalization process should lead investors to value asset classes based on expectations for inflation-adjusted returns. Events seldom turn out exactly as expected, and markets tend to surprise, but as we move to a world less defined by governmental involvement, we believe U.S. treasuries will again have a modestly negative return year as rates move higher. Higher rates will affect all bond markets, but we expect high yield and emerging markets to outperform with returns slightly lower than 2013. A stronger economy should also support equity markets in 2014, although returns will likely be limited to GDP growth with modest multiple expansion. We further believe that emerging markets will perform better than expected as the structural improvements of the last few years help them take advantage of the better global outlook.

January 13, 2014

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.

This material is for information purposes only. It does not constitute an offer to or a recommendation to purchase or sell any shares in any security. Investors should consider the investment objectives, risks and expenses of any strategy or product carefully before investing.

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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.