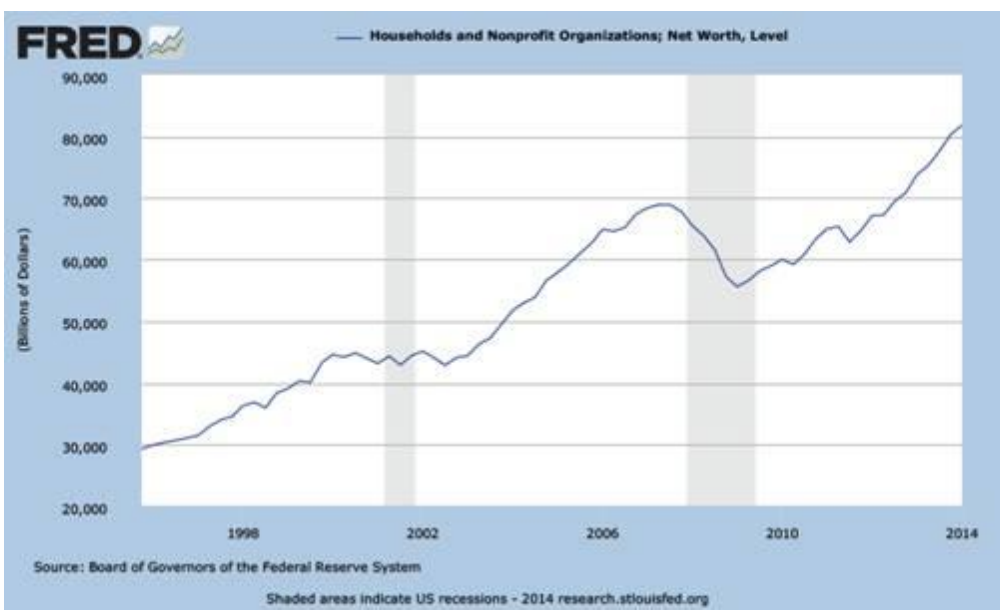
VANDERBILT Ave. ASSET MANAGEMENT

2nd Quarter 2014

We expect a significant rebound in economic growth from the health care sector and from weather induced weakness during the first quarter. The health care sector (one-sixth of the economy) was much weaker than expected in the wake of Obamacare. While Obamacare aims to expand health coverage to millions of Americans without insurance, it also seeks to force the health care system to deliver care in a more cost effective way. Real healthcare spending declined 1.4% (annualized). Under the new law, many previously uninsured people become eligible for federal subsidies when purchasing health insurance. These purchases show up in personal consumption (healthcare) spending. Government surveys showed a delay in the timing of new insurance purchases - meaning the bigger outlays for healthcare are expected to show up in future quarters. Another major factor adversely impacting GDP was the severe winter weather across much of the U.S. Government and businesses were closed for several days in the first quarter due to weather, and the transportation system was significantly impaired. These closings had an impact beyond just those institutions that closed resulting in less revenue and profits for the overall economy. Assuming a return to a normal number of workdays in the second quarter, we expect a significant rebound in GDP. This rebound should occur even without any additional boost in healthcare spending since it is unknown when that will show up in the GDP data.

We forecast real GDP growth to rebound to 4½%-5% for the second half of this year. There are several factors that support our growth outlook. The consumer sector (representing approximately 70% of GDP) is in a significantly improved financial condition to support spending. The consumer's balance sheet and net worth have strengthened due to the stronger stock market and housing sector (see graph below). The debt-to-disposable income ratio has significantly improved as well. Another factor aiding recovery going forward should be improved investment from the business sector. One reason this economic recovery has not matched previous recoveries has been the relative weakness in business investment. Ultimately, business will have to replace plant and equipment, and the corporate sector is in a strong financial position to make these capital investments. Interest coverage and debt leverage ratios are relatively strong for the corporate sector and balance sheets are significantly strengthened versus what they were during the recession. Fiscal policy is another factor that should aid growth. Fiscal policy is no longer contractionary and should provide some modest additional spending. Numerous recent economic indicators support a pickup in economic momentum despite the first quarter data: commercial and industrial loan growth is up 22% (annualized) over the last quarter, aggregate hours worked climbed 3.7% (annualized) through May, jobless claims remain near cyclical lows, consumer confidence is at a cyclical high, industrial production has climbed 5% at an annual rate over the first five months of the year, core capital goods orders are up 5.8% and vehicle sales reached their strongest annualized selling pace for the year.



The most recent meeting of the FOMC produced no major changes in monetary policy. The Fed will continue to taper their purchases of government securities and cease all purchases by this coming October. We believe tapering concerns have been overblown, with foreign investors having bought more government securities thereby replacing the Fed. The Fed has indicated that they will maintain the current fed funds rate level for a considerable time after the asset purchase program has ended. They said economic conditions may, for some time, warrant keeping the fed funds rate below levels the Committee views as normal in the longer run.

While some recent inflation data has increased, we do not view inflation as problematic. The core price index for personal consumption expenditures (excludes food and fuel), the Fed's preferred gauge, is up 1.5% for the 12 months ending May 2014. This is below the Fed's 2% target. The main reason we view inflation as being under control is the significant amount of economic slack in the economy (both plant capacity and the labor market). However, inflation will have to be monitored closely. Housing, representing 20% of CPI, could be a problem in the future, and food prices could feel upward pressure as well.

During the second quarter, the yield curve experienced a "bull flattener" as relatively longer maturities declined more in yield than shorter maturities:

	Mar 31	Jun 30	Change
3-monthTreasury Bills	0.03	0.02	-0.01
6-month Treasury Bills	0.06	0.06	0.00
2-year Treasury Note	0.42	0.46	0.04
5-year Treasury Note	1.72	1.63	-0.09
10-year Treasury Note	2.72	2.53	-0.19
30-year Treasury Bond	3.56	3.36	-0.20
10-year vs. 2-year	230	207	-23

Corporate Sector

The corporate bond market continued its recent strong performance on both a absolute and relative basis. For instance, three-year and shorter maturity bonds had a total return of 0.66% during the quarter, with 0.36% of excess return over comparable U.S. Treasury issues, and intermediate corporate bonds provided a 1.84% return, with 0.66% of incremental return. Higher income and modest credit spread tightening drove the outperformance. Our portfolios' overweighting in the sector was critical to its return during the quarter. Credit spreads have now reached 0.96% over comparable U.S. Treasuries, the tightest since 2007.

Our portfolios' corporate bond exposure is based on solid financial fundamentals and reasonable valuations in light of an expanding U.S. economy. Corporate earnings were strong during the first-quarter as 75% of reporting companies had earnings that exceeded or were in line with market expectations. Our cash flow indicators remained stable during the quarter for investment grade issuers. For instance, gross leverage (debt/EBITDA) at 2.58x, net leverage (debt-cash/EBITDA) at 2.00x and interest coverage (EBITDA/interest expense) at 9.40x were all stable and relatively high on an absolute basis for the last earnings period. Despite significant new debt issuance over the past several years driven by the low level of interest rates, interest expense to sales is a manageable 3%. Our BAML Lighthouse quantitative screen still calculates that the corporate bond universe is only modestly richer than at the beginning of the quarter as the excess credit spread over the calculated credit risk is now 0.24% versus 0.26% on March 31st. The calculated credit risk improved in line with the tightening of CDS spreads. The primary near-term risk to the sector is shareholder-friendly activity such as debt financed M&A activity, increases in dividends and stock buybacks that increase leverage. While these are in fact picking up, less than 50% of investment grade investors increased gross leverage during the past quarter, and the previously mentioned low cost of new debt issuance has enabled companies to better "afford" these shareholder activities. Moving forward, financial fundamentals are unlikely to show any significant improvement and incremental return of the sector is likely to be driven by the higher yield spreads versus U.S. Treasury issues, not further spread tightening.

During the second quarter, the major sectors of the corporate bond market delivered similar returns with utilities having the best relative performance. Industrial firms, which outperformed in the first quarter, had the worst second quarter performance. Year-to-date, industrial companies had slightly better returns than the utility sector, while financial firms have trailed. Our portfolios benefited from exposure to mining companies such as Freeport McMoran and Newmont Mining. This subsector was a standout performer during both the quarter and the year-to-date.

Cameron International debt was purchased for our portfolios during the quarter. Cameron is a manufacturer of oil and gas drilling equipment and other energy-related products. The investment was based on solid financials such as its 14 times EBITDA to interest expense, 0.7 times net debt to EBITDA and modest short-term debt levels. In addition, Cameron had a significant positive earnings surprise. Their bonds trade 26 basis points cheap based on our quantitative screen. Eaton Corp. was also purchased. They are a manufacturer of hydraulic products, fluid connectors, drive train systems and other controls. A positive earnings surprise and financial fundamentals including 11.1 times EBITDA to interest expense and 2.5 times net debt to EBITDA support the investment. Thermo Fisher Scientific, another purchase, is a manufacturer of scientific instruments and consumables for the healthcare industry. The firm had a significant positive earnings surprise, 8.5 times EBITDA to interest expense and 1.7 net debt to EBITDA for the first quarter. JPMorgan Chase debt was sold after they reported a significant negative earnings surprise.

Mortgage-Backed Sector

Mortgage-Backed Securities (MBS) outperformed comparable U.S. Treasuries during the second quarter. MBS yields tightened significantly during the period, ending the quarter down 32 basis points from March 31.

LUMSYW Index (Barclays US MBS Index Yield To Worst)

We reduced exposure to MBS even further during the second quarter, as the once-attractive yields afforded by this asset class fell to recent lows. Currently, the MBS allocation within our portfolios represents only a modest exposure to this asset class. Our portfolios include both FNMA & FHLMC securities with 15- & 30- year maturities.

With the economic recovery gaining momentum, the resultant higher interest rate environment will put pressure on MBS prices. Accordingly, we maintain a cautious stance on this asset class. We continue to monitor market trends and may adjust our position if conditions warrant such a change.

Asset-Backed Sector

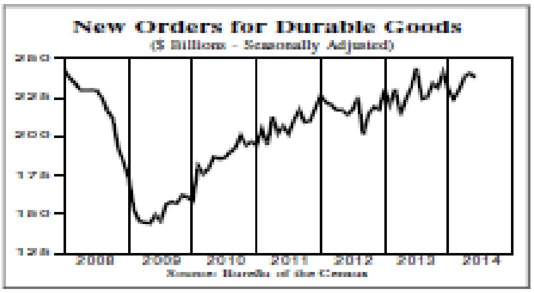
Asset-Backed Securities (ABS) modestly outperformed comparable U.S. Treasuries during the second quarter. Fixed rate ABS have traded in a very tight range over the past three months, with option-adjusted spreads (OAS) averaging approximately 49 basis points.

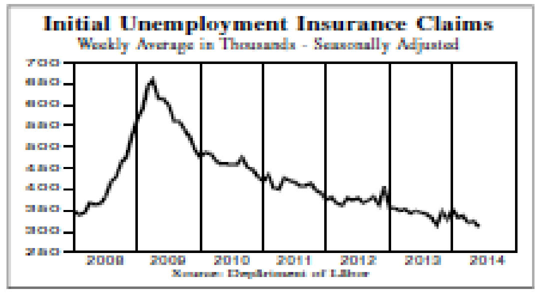
LUABOAS Index (Barclays US Agg ABS Avg OAS)

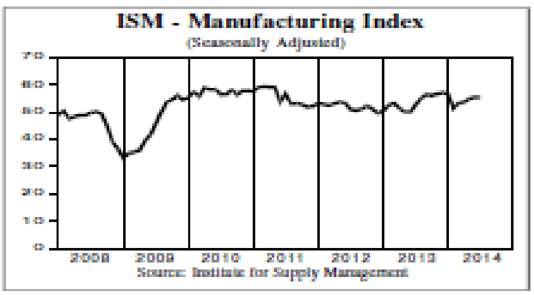
The ABS included in our portfolios are high quality (i.e. AAA rated), stable, liquid securities. They include credit card receivables, auto loan/lease receivables and dealer floor plans, as well as equipment leasing transactions. We use these securities as a cash substitute, with relatively attractive yields versus U. S. Treasury and Agency bonds.

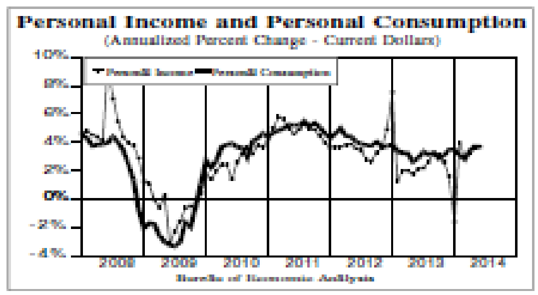
Several new ABS positions were added during the first quarter. Two examples of deals which have been added to our portfolios are: 1) GE Equipment Small Ticket 2014-A1 A3 (GE Capital servicer / Deutsche Bank trustee) and 2) Discover Card Execution Note Trust 2013-A2 A2 (Discover Bank servicer / US Bank trustee). These deals typify the types of ABS deals we prefer, with AAA ratings, high quality collateral and substantial credit enhancement.

Tracking the Economy



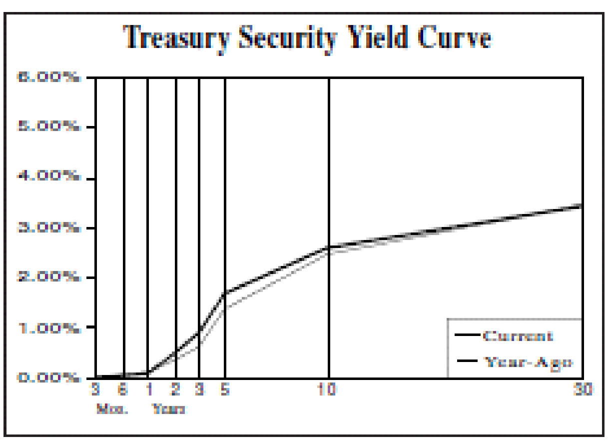






	Recent (7/01/14)	3 Months Ago (4/02/14)	Year Ago (7/02/13)
TAXABLE			
Market Rates			
Discount Rate	0.75	0.75	0.75
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.11	0.11	0.16
3-month Libor	0.23	0.23	0.27
Bank CD's			
6-month	0.05	0.06	0.08
1-year	0.09	0.09	0.10
5-year	0.51	0.53	0.64
U.S. Treasury Securities			
3-month	0.02	0.02	0.03
6-month	0.06	0.05	0.07
1-year	0.10	0.11	0.13
5-year	1.69	1.79	1.38
10-year	2.60	2.80	2.47
10-year (inflation-protected)	0.32	0.57	0.38
30-year	3.44	3.64	3.47
30-year Zero	3.61	3.86	3.68

	Recent (7/01/14)	3 Months Ago (4/02/14)	Year Ago (7/02/13)
Mortgage-Backed Securities			
GNMA 5.5%	1.49	2.11	2.25
FHLMC 5.5% (Gold)	1.70	2.26	2.77
FHLMC 5.5%	1.46	2.06	2.49
FHLMC ARM	1.83	1.87	2.11
Corporate Bonds			
Financial (10-year) A	3.54	3.81	3.91
Industrial (25/30-year) A	4.38	4.52	4.56
Utility (25/30-year) A	4.26	4.59	4.48
Utility (25/30-year) Baa/BBB	4.57	4.75	4.89
Foreign Bonds			
Canada	2.28	2.55	2.41
Germany	1.26	1.62	1.70
Japan	0.56	0.63	0.89
United Kingdom	2.71	2.77	2.37
Preferred Stocks			
Utility A	5.93	5.98	5.88
Financial A	6.40	6.46	6.20
Financial Adjustable A	5.48	5.48	5.48



Source: Value Line, Inc.

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	06/25/14	**06/11/14**	**Change**	**12 Wks.**	**26 Wks.**	**52 Wks.**
Excess Reserves	2589937	2614653	-24716	2568857	2520586	2369227
Borrowed Reserves	186	163	23	137	132	202
Net Free/Borrowed Reserves	2589751	2614490	-24739	2568720	2520454	2369025

MONEY SUPPLY

(One-Week Period; in Billions, Not Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	06/16/14	**06/09/14**	**Change**	**3 Mos.**	**6 Mos.**	**12 Mos.**
M1 (Currency+demand deposits)	2817.8	2803.8	14.0	9.7%	14.7%	11.2%
M2 (M1+savings+small time deposits)	11317.3	11313.0	4.3	5.5%	6.7%	6.5%

Source: Unites States Federal Reserve Bank