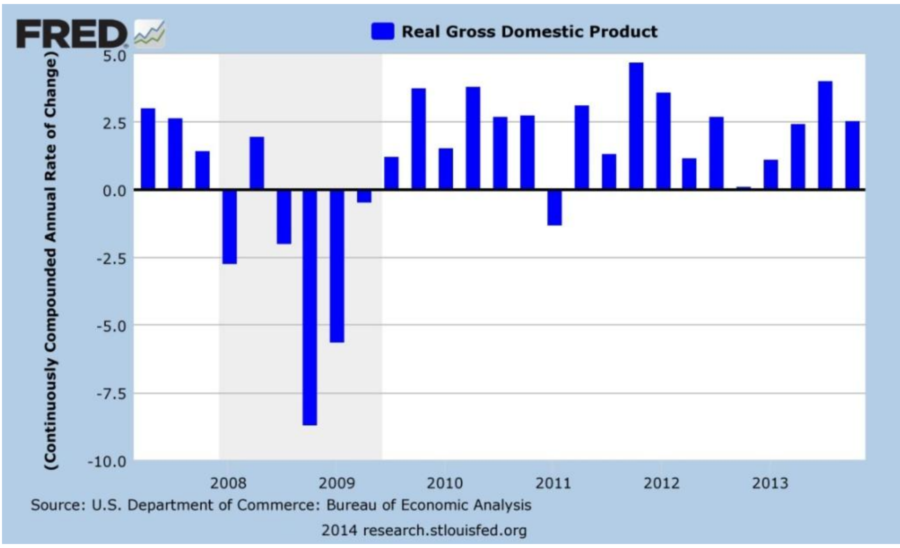
VANDERBILT Ave. ASSET MANAGEMENT

1st Quarter 2014

VAAM maintains a higher than consensus economic growth forecast of 3%-3.5% for 2014. Fundamentals that support this forecast include several factors. The balance sheet for the consumer (70% of overall GDP) has significantly improved since the onset of the Great Recession in 2008. Household debt outstanding hit a peak of $13.9 trillion in the first-quarter of 2008. This was close to 100% of GDP. When the bottom fell out during the recession, consumer debt had reached a remarkable 138% of income-a 35-year peak. Household debt has now fallen back to 105% of income, a ratio near historical norms. Households spent only 9.9% of their after-tax income on debt payments in 2013, the smallest portion since 1980. During 2013, household net worth increased dramatically. Unlike the prior two periods of asset growth, the current environment has seen the household balance sheet strengthen without an increase in leverage primarily due to the stronger housing and stock markets. Consumer purchases advanced at a 3.3% annual rate in the fourth-quarter, the most since the last three months of 2010. This rate of growth was achieved despite a harsh winter that slowed consumer activity.

Business fixed investment (approximately 12% of GDP) has lagged, which is one reason growth has been subpar. However, we believe business investment will increase in the second-half of 2014. Depreciated assets need to be replaced and corporations have the funds to make these investments. Some of the funds that have been deployed to stock buybacks and dividend increases will be reallocated to capital investment. Interest coverage is approaching the strongest levels of the past twenty years and leverage ratios are near recent lows driven by strong cash flow generation and stable debt levels. Business spending increased 5.7% during the fourth-quarter. Fiscal policy promises to be less of a headwind than in previous years.

Fiscal policy uncertainty in 2014 and 2015 will moderate. A comprehensive budget agreement was passed to fund the government through September, 2014, the first of its kind since 2008. Fiscal expenditures will increase by $45 billion in 2014 and by another $20 billion for fiscal year 2015, in contrast to the severe budget tightening that was scheduled to occur under sequestration. The most important aspect of the agreement is that it removes the uncertainty that has been associated with fiscal policy for the past three years, which had given the private sector reason for pause before committing capital for investment thereby hampering growth. Our economic outlook is reinforced with the greater momentum the economy has been generating as depicted in the chart below:



An additional factor that supports our outlook is the continued highly accommodative monetary policy of the Federal Reserve. The Fed said the continuation of this policy is appropriate as they assess progress toward their goals of 2% inflation, as measured by personal consumption expenditures (currently 1.1%), and maximum employment. They further reduced their monthly pace of bond purchases to $55 billion per month and plan to eliminate these purchases by this fall. Even though the rate of bond purchases is being reduced, the important variable for monetary policy is the maintenance of the fed funds rate at near zero until at least the second-quarter of 2015. The Fed is deemphasizing the unemployment rate as a benchmark for the labor market. They believe there is significant slack in the labor market and will look at a variety of variables to gauge its health. Inflation is not a problem and will, therefore, not be a constraint in the Fed's continuation of its accommodative policy. Capacity utilization is below historic norms and unit labor costs are under control. Furthermore, the price of gold, a historic indicator of future inflation, declined 28% in 2013. The Fed said it planned to keep short-term rates below what it sees as appropriate for a normal economy even after unemployment and inflation revert to typical levels.

During the fourth-quarter, the yield curve experienced a “bull flattener” as rates declined more for the long-end of the curve versus the short-end. Interest rate levels at the end of the quarter were as follows:

	31-Dec	31-Mar	Change
3-monthTreasury Bills	0.07	0.03	-0.04
6-month Treasury Bills	0.09	0.06	-0.03
2-year Treasury Note	0.38	0.42	0.04
5-year Treasury Note	1.74	1.72	-0.02
10-year Treasury Note	3.03	2.72	-0.31
30-year Treasury Bond	3.97	3.56	-0.41
10-year vs. 2-year	265	230	-35

Corporate securities

The corporate bond market remained the best performing sector within the investment grade fixed income market during the first-quarter of 2014. The rally in credit spreads moderated during the quarter but still contracted by approximately eight basis points versus comparable U.S. Treasury securities. The combination of tighter spreads and the higher yield of the sector led to excess returns in the corporate market as compared to comparable U.S. Treasuries of 0.75% for the broad market and 0.41% in the shorter 1-3 year segment.

Our portfolios’ overweight to the sector was a key contributor to performance. Corporate bond spreads have retraced the widening experienced during the credit crisis of 2008-2009 and are now at a level last reached during the second quarter of 2007.

As shown in the graph above, corporate spreads reached a narrow spread versus comparable U.S. Treasuries during the prior two credit cycles of approximately 0.50% during the '90s and 0.70% in period prior to 2007. Since current spreads are at 1.03% as of quarter end, corporate bonds may tighten modestly if the U.S. economy continues to expand over the coming months. Therefore, our portfolios remain overweight in the sector due to its higher interest income and potential for modest spread tightening.

The major sectors of the corporate bond market provided similar performance during the quarter, with industrial bonds slightly better, and financial firms having the weakest but still solid outperformance versus Treasuries. Within the industrial segment, media companies and mining companies had the best performance in our portfolios. In addition, brokerage firms like Morgan Stanley and Goldman Sachs were some of the best performers as compared to both the overall market as well as other financial companies.

Fundamentals in the corporate sector remain strong. Corporate earnings exceeded or were in line for 74% of reporting companies. Cash flow remains strong. Cash flow coverage of interest and debt remain near their best levels even after record bond issuance and increasing dividend and stock buybacks during 2013. As shown in the table below, even after the strong performance of corporate bonds over the past two years, our BAML Lighthouse quantitative screen show the sector's spreads are still 0.26% cheap to fair value.

	CDS	Credit Risk	Credit OAS
Corporate	0.76%	0.50%	0.26%
Basic Industry	0.99%	0.68%	0.31%
Capital Goods	0.57%	0.36%	0.21%
Telecommunications	0.72%	0.52%	0.20%
Media	0.52%	0.43%	0.09%
Consumer Cyclical	0 .96%	0.57%	0.39%
Consumer Non Cyclical	0.76%	0.42%	0.34%
Energy	0.81%	0.54%	0.27%
Technology	0.70%	0.62%	0.08%
Transportation	0.46%	0.30%	0.16%
Utilities	0.68%	0.45%	0.23%
Finance	0.88%	0.57%	0.31%

The combination of strong financial fundamentals, earnings exceeding market expectations and attractive relative value support our overweight position to the sector.

During the first quarter, Kroger Co. was added to our portfolios. Kroger, a major supermarket chain, had EBITDA/ Interest coverage of 10 times during 2013 and Net Debt-to-EBITDA of 2.46. In the fourth-quarter, they reported earnings that significantly exceeded market expectations. The bonds trade 0.20% cheap to our quantitative screen. Though trading tighter than the sector, the company is attractive due to reasonable spreads for a high quality and stable credit. A short maturity position in Newmont Mining was purchased during the period. Newmont Mining is primarily a gold mining company. It has reasonable EBITDA/Interest coverage of 5.4 times and just 2.45 time Net Debt-to-EBITDA. The company's bond yield exceeds fair value by 0.66% in our quantitative screen. The bond purchased has a maturity of approximately one-year and a spread of 1.00% over similar maturity U.S. Treasuries. Within the financial sector, PNC, a large regional bank, was added to our portfolios. The bank had an above industry return on assets of 1.35%, net interest margin of 3.43%, modest level of charge-offs, strong reserves as compared to non-performing assets and a Risk Based Capital Ratio of 10.50% as of year-end 2013. Their fourth-quarter earnings were significantly positive. PNC bonds are currently trading at 0.30% cheap to their credit risk as calculated by our quantitative screen.

Mortgage-Backed Securities

Mortgage-backed securities (MBS) marginally outperformed comparable U.S. Treasuries during the first-quarter. MBS yields, which had cracked 3% in both January and February, widened somewhat in March, ending the quarter down 15 basis points from year-end.

We maintained a modest exposure to MBS during the first-quarter, as the relatively attractive yields afforded by this high quality asset class justified their place in the portfolio. Currently, the MBS allocation within our portfolios represents a modest exposure to this asset class. Your portfolio includes both FNMA and FHLMC securities of 15- and 30-year maturities.

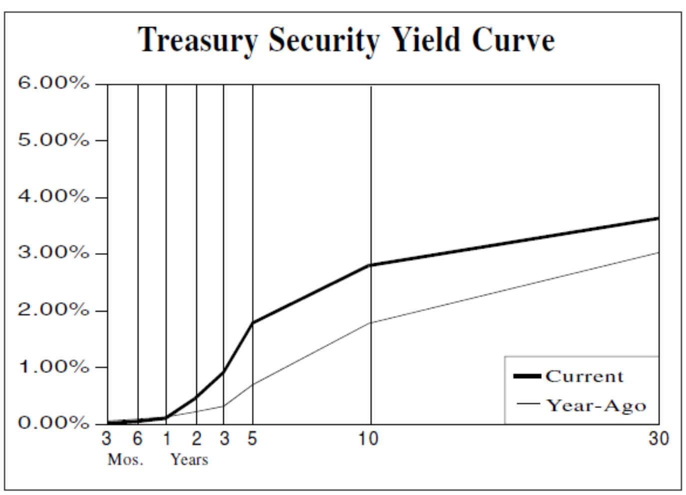
While MBS do provide incremental yield at present, we continue to believe that an improving economy, coupled with further tapering, will put pressure on the mortgage market in the coming months. Accordingly, we maintain a cautious stance on MBS in the near term. We continue to monitor market trends and will adjust our position if the benefits of such a change warrant it.

Asset-Backed Securities

Asset-backed securities (ABS) outperformed comparable U.S. Treasuries during the first-quarter. The ABS included in our portfolios is high quality (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) Chase Issuance Trust 2014-A1 A1 (Chase Bank servicer / Wells Fargo Bank trustee); and 2) Ally Auto Receivables Trust Lease 2014-SN1 A3 (Ally Financial servicer / Citibank trustee). These deals typify the type of ABS paper we prefer, with AAA ratings, high quality collateral and substantial credit enhancement.

	Recent (4/02/14)	*3 Months Ago (12/31/13*	*Year Ago (4/03/13)*		*Recent (4/02/14)*	*3 Months Ago (12/31/13*	*Year Ago (4/03/13)*
TAXABLE							
Market Rates				**Mortgage-Backed Securities**			
Discount Rate	0.75	0.75	0.75	GNMA 5.5%	2.11	2.15	1.90
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25	FHLMC 5.5% (Gold)	2.26	2.20	2.24
Prime Rate	3.25	3.25	3.25	FHLMC 5.5%	2.06	1.99	1.88
30-day CP (A1/P1)	0.11	0.09	0.20	FHLMC ARM	1.87	1.94	2.15
3-month Libor	0.23	0.25	0.28	**Corporate Bonds**			
Bank CD's				Financial (10-year) A	3.81	4.30	2.92
6-month	0.06	0.07	0.10	Industrial (25/30-year) A	4.52	4.82	4.02
1-year	0.09	0.09	0.13	Utility (25/30-year) A	4.59	4.75	4.01
5-year	0.53	0.53	0.68	Utility (25/30-year) Baa/BBB	4.75	5.12	4.35
U.S. Treasury Securities				**Foreign Bonds**			
3-month	0.02	0.06	0.06	Canada	2.55	2.76	1.83
6-month	0.05	0.09	0.09	Germany	1.62	1.93	1.29
1-year	0.11	0.12	0.13	Japan	0.63	0.74	0.56
5-year	1.79	1.75	0.70	United Kingdom	2.77	3.02	1.76
10-year	2.80	3.03	1.78	**Preferred Stocks**			
10-year (inflation-protected)	0.57	0.77	-0.68	Utility A	5.98	6.31	5.37
30-year	3.64	3.96	3.03	Financial A	6.46	6.60	5.82
30-year Zero	3.86	4.24	3.32	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...		
	03/19/14	**03/05/14**	**Change**	**12 Wks.**	**26 Wks.**	**52 Wks.**
Excess Reserves	2574156	2528153	46003	2472314	2398916	2171857
Borrowed Reserves	107	100	7	126	174	268
Net Free/Borrowed Reserves	2574049	2528053	45996	2472188	2398742	2171589

MONEY SUPPLY

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

	Recent Levels			Ann'l Growth Rates Over the Last...		
	03/17/14	**03/10/14**	**Change**	**3 Mos.**	**6 Mos.**	**12 Mos.**
M1 (Currency+demand deposits)	2764.9	2754.4	10.6	20.5%	15.1%	12.1%
M2 (M1+savings+small time deposits)	11149.5	11137.3	12.2	7.5%	7.1%	6.1%

Source: Unites States Federal Reserve Bank

Tracking the Economy