VANDERBILT Ave.
ASSET MANAGEMENT

1st Quarter 2015

The economy continued to grow as it entered 2015, with stimulus from lower energy prices and continued low interest rates. Fourth quarter real GDP rose 2.2%. The economy was led by the consumer (up 4.4%) and business investment (up 4.7%) sectors. However, reflecting the strength of the dollar, imports rose 10.4% reducing the quarterly growth rate by 1.6%. Until last month the labor market had gained traction. For example, the economy added 3.3 million jobs in the 12 months through February, the most since 2000. March saw just 126,000 workers added, however, with downward revisions to the previous two months. The deceleration reflects a harsh winter across the Northeast and Midwest- suggesting that the weakness in the recent data might be temporary. Also employment growth was negatively affected by the West Coast port strikes and lower energy prices. The negative impact on economic growth derived from fiscal policy will be reduced. The budget deficit estimate is improving- fiscal budget deficit for 2014 was 2.8% of GDP, the lowest the deficit has been under the Obama Administration. Fiscal expenditures increased by $44 billion in 2014 and will increase by another $20 billion for fiscal year 2015. In terms of monetary policy, the Federal Reserve faces a quandary as economic growth has persisted and unemployment has declined. However, inflation is below their target, wage gains have not significantly picked up and the strong U.S. dollar will prove a headwind to economic growth and inflation. We anticipate a gradual and slight increase in interest rates in September.

The economy has not performed well during the first six months of every year over the last five years. Over this time period first quarter growth has averaged +0.6% on an annualized basis. In three of the last five years, growth during the first quarter of each year was the slowest for the year (2010, 2011, 2014) and during 2013 it was the second weakest. Compare this to a second half of the year +2.9% growth rate and a pattern has developed that suggests the economy could pick up momentum going forward this year.

Existing anomalies will lead to increased uncertainty and volatility. Oil prices could stay low for a prolonged period. Saudi Arabia will not moderate production which will continue to hurt Iran and Russia. OPEC and non-OPEC countries would benefit from a Saudi reduction in production. These countries would gain market share at a higher oil price. However, the Saudis have indicated they will protect their market share regardless of what happens to oil prices. Another anomaly is the relative yield levels in Southern Europe, which are lower than in the U.S. despite Southern European countries having greater perceived risk. In addition, German yields are significantly lower than in the U.S., even though Germany has a similar risk profile as the U.S. The table below outlines these relative yield levels:

	2-year	10-year
United States	0.56%	1.97%
Germany	-0.28%	0.16%
Italy	0.15%	1.27%
Spain	0.02%	1.24%
Portugal	0.00%	1.62%

An explanation for these discrepancies is that Germany and the rest of the eurozone countries continue to have slow economic growth and low inflation expectations. In addition, European Central Bank monetary policy vis-à-vis U.S. Fed policy is moving in an opposite direction. ECB quantitative easing, while significant in the short-term, does not address long-term issues. Implications for the U.S. are a stronger dollar, lower inflation and a Fed policy that will be patient and on hold.

During the quarter the yield curve flattened as interest rates declined more for relatively longer maturities versus shorter maturities. The yield curve is as follows:

	31-Dec	31-Mar	Change
3-monthTreasury Bills	0.04%	0.02%	-0.02%
6-month Treasury Bills	0.12%	0.14%	0.02%
2-year Treasury Note	0.67%	0.56%	-0.11%
5-year Treasury Note	1.65%	1.37%	-0.28%
10-year Treasury Note	2.17%	1.92%	-0.25%
30-year Treasury Bond	2.75%	2.54%	-0.21%
10-year vs. 2-year	150	136	-14

Corporate Securities

The first quarter of the year saw corporate bonds rebound modestly from their disappointing performance at the end of 2014. The overall Credit Index saw spreads over comparable U.S. Treasury yields fall just 0.01% to 1.24% at quarter end. The higher yield of the sector was critical to the 0.17% excess return provided by the sector. Shorter corporate bonds had an even better relative performance as the combination of approximately 0.10% of spread tightening, to a 0.78% option adjusted spread, and the higher income provided a total return of 0.83% during the quarter and 0.27% of excess return. Our overweight exposure to the sector had a positive impact on the overall portfolio performance.

Our investments in the sector are expected to be maintained during the coming quarter. Positive U.S. growth, stable spreads and relatively solid financial fundamentals provide a solid foundation to the sector. For instance, 75% of S&P 500 companies reported earnings that exceeded or were in line with market expectations for earnings released during the quarter. On a cautious note, the strong U.S. dollar and weather disruptions in parts of the country may have adversely impacted earnings during the first quarter, which could move spreads modestly higher. BAML Lighthouse quantitative screens for U.S. corporate securities, which incorporate equity prices, equity volatility and debt levels to arrive at a theoretical risk spread, is currently at a modest 0.13% over observed credit default spreads in the market. Any weakness in spreads, however, is expected to be offset by the attractive spreads versus other asset classes. For instance, the 0.78% of spread in the 1-3 year Corporate Index is 0.28% wider than during the last economic expansion that ended in 2008. Barring a significant slowdown in the economy, spreads have room to tighten further.

Energy companies were trading at a discount to the market at the beginning of the year. As oil prices showed signs of stabilizing after the precipitous drop seen during 2014, energy sector bonds responded and provided the best returns within the corporate sector. Names held by our portfolios included Devon Energy, an independent oil and gas exploration company, Buckeye Partners, a petroleum pipeline, and Cameron International, a manufacturer of oil and gas drilling and production. The diversified holdings within the sector continue to provide attractive total return potential. During the first quarter, Morgan Stanley was sold due to a significant negative earnings surprise. Proceeds were reinvested into a Citigroup bond, which had a positive earnings surprise in the fourth quarter. Citigroup has improved its financial position since the financial crisis. Their capital position, reserves, and margins are now above the average for the largest 25 banks in the United States, as shown by Tangible Common Equity as a percentage of Tangible Assets at 9.7% versus the industry's 7.90%, Net Interest Margin of

2.97% as compared to 2.65%, and Reserves as percentage of Non-Performing assets of 2.17% versus 1.43%. Legal costs and settlements should also begin to dissipate during the year, further strengthening their performance. BAML Lighthouse estimated their debt trading 0.26% cheap to their credit risk and 0.13% cheap to the overall market. Zimmer Holdings, a manufacturer of implants, trauma devices and related surgical products, was also added to the portfolio. Zimmer had a positive earnings surprise during the fourth quarter. The company expects to acquire Biomet, an orthopedic medical device company, by the end of April. Our investment was made at the time of the issuance of the long term debt to finance this transaction. The combined entity would become the second largest orthopedic company behind Johnson & Johnson. The financing of the transaction is fairly heavily weighted to debt but the stable cash flow has allowed the spread to tighten by over 10 basis points since its purchase.

Asset-Backed Securities

The first quarter found short asset-backed securities ("ABS") posting a return of 48 basis points, which translated to a positive excess return of 12 basis points over similar duration Treasury issues.

The ABS in our portfolios are all short maturities and AAA-rated. Some have a fixed coupon, while other coupons float at a spread above an index such as 1-month Libor. They are collateralized by credit card receivables, auto loans/leases and equipment loans. These collateral types offer stable cash flows that do not fluctuate with interest rates as securities backed by home mortgage collateral would. They offer attractive yields versus U.S. Treasury and Agency issues, and provide an efficient, liquid investment as an alternative to cash.

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	04/01/15	**03/18/15**	**Change**	**12 Wks.**	**26 Wks.**	**52 Wks.**
Excess Reserves	2592892	2648580	-55688	2530757	2536689	2572825
Borrowed Reserves	27	17	10	40	108	149
Net Free/Borrowed Reserves	2592865	2648563	-55698	2530717	2536581	2572675

MONEY SUPPLY

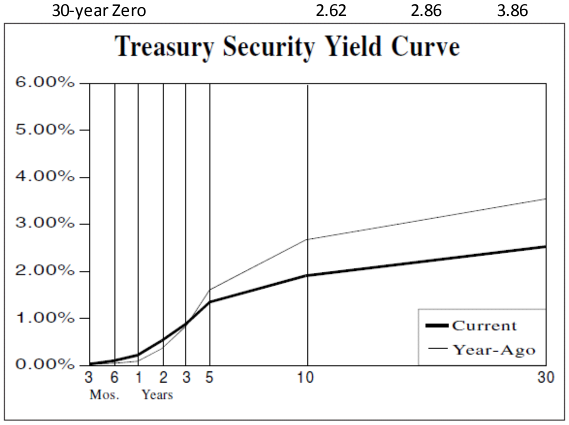
(One-Week Period; in Billions, Not Seasonally Adjusted)

	Recent Levels			Ann'l Growth Rates Over the Last...		
	03/23/15	**03/16/15**	**Change**	**3 Mos.**	**6 Mos.**	**12 Mos.**
M1 (Currency+demand deposits)	2983.1	2985.7	-2.7	11.8%	9.9%	8.7%
M2 (M1+savings+small time deposits)	11837.2	11834.1	3.1	6.9%	6.1%	5.8%

Source: Unites States Federal Reserve Bank

	Recent (3/31/15)	3 Months Ago (12/30/14)	Year Ago (4/2/14)
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)	0.13	0.09	0.11
3-month Libor	0.27	0.26	0.23
Bank CD's			
6-month	0.16	0.26	0.07
1-year	0.27	0.27	0.09
5-year	0.87	0.85	0.58
U.S. Treasury Securities			
3-month	0.02	0.01	0.02
6-month	0.14	0.11	0.05
1-year	0.23	0.20	0.11
5-year	1.37	1.68	1.79
10-year	1.92	2.19	2.80
10-year (inflation-protected)	0.16	0.59	0.57
30-year	2.54	2.76	3.64
30-year Zero	2.62	2.86	3.86

	Recent (3/31/15)	3 Months Ago (12/30/14)	Year Ago (4/2/14)
Mortgage-Backed Securities			
GNMA 5.5%	1.40	1.71	2.11
FHLMC 5.5% (Gold)	1.53	1.51	2.26
FHLMC 5.5%	1.26	1.34	2.06
FHLMC ARM	1.86	1.83	1.87
Corporate Bonds			
Financial (10-year) A	3.15	3.43	3.81
Industrial (25/30-year) A	3.78	3.95	4.52
Utility (25/30-year) A	3.71	3.96	4.59
Utility (25/30-year) Baa/BBB	4.02	4.28	4.75
Foreign Bonds			
Canada	1.36	1.81	2.55
Germany	0.18	0.54	1.62
Japan	0.41	0.33	0.63
United Kingdom	1.58	1.79	2.77
Preferred Stocks			
Utility A	5.97	5.95	5.98
Financial A	6.27	6.56	6.46
Financial Adjustable A	5.48	5.48	5.48



Source: Value Line, Inc.

Tracking the Economy