DANN ASSET ADVISORS, LLC

First Quarter 2014 Update

April 11, 2014

1Q14 Highlights

- U.S. growth moderates, largely we believe due to weather and inventory reduction
- Fed continues tapering bond purchases while broadening criteria for hiking rates
- U.S. stock market increases modestly, international markets continue to lag
- Longer term interest rates decline

The table below summarizes the performance of some key indices during the first quarter:

Index	Market Performance % Ch. 1Q14
S&P 500	1.8
MSCI Developed Markets (excl US)	0.7
MSCI Emerging Markets	-0.4
MSCI All Country World	1.1
US Aggregate Bond (1)	1.8
Liquid High Yield (1)	2.7
US Dollar Emerging Markets Bond (1)	3.9

(1) Barclays indices

Equities. While the 1.8% return of the U.S. market (as measured by the large cap S&P 500 index) was small, it represented the fifth straight quarterly gain. The market dipped modestly early in the quarter, possibly in reaction to what we view as primarily a weather induced slowdown in the economy. The market also continued to react to comments from the Federal Reserve, falling when it appeared the Fed might raise short term interest rates earlier than expected and then rising when Janet Yellen, the new Federal Reserve chairman, clarified that rates would remain extremely low for “some time”.

At the end of the quarter the S&P 500 was trading at 17.6x trailing 12 months’ earnings and 16.0x projected 2014 earnings – not inexpensive based on historical multiples. Late in the quarter and into the second quarter, certain sectors of the market that had done very well over the prior year (internet and biotechnology stocks, in particular) began declining. We of course don’t know whether these sectors are a harbinger of a broader market decline, but as mentioned in our last update we do expect 2014 to be more volatile than 2013. Despite overvaluations in certain sectors, we believe there still are good opportunities at reasonable valuations in other market sectors and individual stocks.

Similar to 2013, international markets generally trailed in the first quarter. Emerging markets continued to be weakest, with the Chinese market down 6% on concerns about the economy and the health of its financial system. Developed markets were somewhat split. After leading developed markets in 2013 the Japanese market also declined 6%, probably due to a strengthening Yen and the introduction of a new sales tax that likely will slow that economy at least temporarily. As a group, European developed markets rose despite the Russian intervention in Ukraine. In part reflecting lagging performance, international markets on the whole continue to be less expensive than the U.S.

Fixed Income. While just a modest gain in the U.S. stock market following the 32% advance of 2013 is not a huge surprise, the decline in interest rates during the first quarter was a surprise to us. In our opinion, the decline is temporary and a reaction to slower first quarter growth. The 1.8% gain for the Barclays U.S. Aggregate Bond index was its strongest return since the second quarter of 2012. High yield continued to generate positive returns reflecting, we believe, the benign credit environment and lower rates. Local currency emerging market debt also did well, in part due to the long duration of the Barclays product referenced in the table and possibly due to investors searching for higher yields abroad as U.S. rates fell.

Portfolio Positioning

The fixed income component of most diversified (fixed income and equity) portfolios remains generally consistent with prior quarters – most are more than 80% in investment grade bonds with a duration under 2.5 years, the substantial majority of this being in corporate and municipal bond funds. During the quarter we sold the last of a small position in a global bond fund. While this fund's long term record is strong, we're concerned that it may have a difficult period if the U.S. dollar and interest rates rise – both of which we judge have a good chance of occurring through 2014.

We continue to believe that the likelihood of reduced bond purchases by the Fed combined with improvement in the economy will put upward pressure on longer term interest rates. While we expect the increase in rates generally to be gradual, we judge that there's a chance that the rate spike of last spring could be repeated if the economy makes a strong rebound from weather-related weakness during the winter. Accordingly, we believe now is an especially good time to keep durations short.

With respect to equities, the best performing broad U.S. market sectors during the first quarter were REITs, utilities and healthcare. The first two were among the worst performing groups in 2013; being sensitive to interest rates their rebound in the first quarter likely stemmed from lower bond yields. Healthcare had a good quarter overall, led early in the quarter by a very strong biotechnology sector that had begun correcting by quarter's end.

The worst performing sector was consumer cyclicals (retail, restaurants, etc.). These stocks had led the market in 2013 and may have lagged in the quarter due to the slowdown in consumer spending (which would have been even weaker absent higher spending on utilities/heating). The industrial sector, while generating a positive return, was the second weakest group due, we believe, to the U.S. economy weakening and concerns over China. Consumer staples rounded out the worst performing groups, probably also in reaction to slower consumer spending.

After a relatively quiet last quarter of 2013 we were more active in the just ended first quarter. For most clients, we reduced exposure to dividend focused strategies by selling two high dividend yield exchange traded funds (ETFs). We also sold an energy sector ETF (primarily due to our lack of optimism over the prospects of the two largest stocks in the ETF, which together made up 33% of ETF value) and the stock of a drilling company (contract rates in its markets appeared to be peaking).

Purchases during the quarter included an indexed ETF and an actively managed mutual fund – both focused on developed non-U.S. markets, which we believe offer reasonable value relative to the U.S. We also bought an ETF focused on financials, believing that: a) the most onerous of new regulations for financial companies already are in place; b) these regulations in fact make the

companies less risky; and c) on the whole this sector also represents decent value. Finally, we also purchased a small position in a U.S. railroad company.

Economy

The U.S. economy grew at a 2.6% pace in the fourth quarter, bringing full year 2013 growth to 1.9%. This compares with annual growth of 1.8% and 2.8%, in 2011 and 2012, respectively, and projections in the 3.0% range for 2014. Initial expectations for 2014 were higher, with poor weather across all but the western U.S. negatively impacting the first quarter by an estimated 1%. Inventory drawdown (which had helped fourth quarter growth) also likely will restrain the first quarter, with the consensus projection for the quarter now having dropped to the 1.5%-2.0% range.

Despite the potential poor first quarter GDP number, recent statistics for industrial production and purchasing managers show the economy already rebounding from the winter. However, the key, in our opinion, will be retail sales and housing numbers over the next couple of months as these will indicate whether consumer spending (accounting for roughly 70% of the U.S. economy) will be strong enough to drive a meaningful rebound following the first quarter. The fact that several retailers have reported good sales where/when weather has been favorable is encouraging.

Finally, the Fed in late March made it clear (again) that it will continue to do everything it can to generate further improvement in the economy and employment. We don't know whether low rates are materially helping the economy at this point, but we do believe that absent any significant unforeseeable event, Fed policies will act as a backstop to prevent the economy from weakening substantially.

With respect to other economies, Europe as a whole is likely to show gradual, continued improvement from 2013, and the European Central bank seems as committed as the Fed to making sure growth remains positive. Japan is likely to have a more uneven 2014 as the recently increased sales tax likely slows growth near term. Chinese growth and its impact on the rest of the world continues to be much discussed.

Given that China is the second largest economy in the world, we agree that it's very important. But we also believe it's not that useful to focus on whether China grows 7.0% or 7.5% per year, as the law of large numbers means Chinese growth almost has to continue decelerating. The key, in our opinion, is whether the government will be able to guide the economy successfully to one driven less by exports and more by consumer consumption. While there likely will be hiccups along the way, we believe that over time this will occur and that the U.S. and other economies will benefit from the process.

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