TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

January 2015

Quarterly Insights

EXECUTIVE SUMMARY

In 2014, U.S. Stocks Dominate And Bonds Are Decent

In 2014, the domestic S&P 500 Index was up 13.69% and led global performance by a wide margin. In fact, the U.S. was the only major region not in the red. The European Monetary Union was down 8.39%, Japan fell 4.02%, and Emerging Markets dropped 2.19%. Most managers (thankfully not us) lagged the S&P 500 Index in 2014 (many quite considerably). Bond performance was decent. The Barclay's bond index returned 1.80% in the Fourth Quarter and finished the year up 6.04%. Longer duration (high risk) bonds fared much better than the index.

We Believe The S&P 500 Index Will Rise 14%-18% In 2015

We are bullish for 2015 and believe the S&P 500 Index will rise 14% to 18%. Five factors should drive up the stock market: a healthy U.S. economy, accommodative Fed policy, low energy prices, reasonable stock valuations, and quantitative easing in Europe.

We believe inflation is coming but not in 2015. We cannot foresee consequential shorter term movements in U.S. interest rates or inflation. Given that bond returns are strongly impacted by changes in interest rates and inflation, the bond market should be tame.

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Fourth Quarter 2014

In This Issue

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2014 - The Year In Review

2014 U.S. Performance Was Pleasing To Us - But Not Surprising

We reflect on 2014 as a year where most things went our way in terms of portfolio strategy. The S&P 500 Index rose 13.69%, significantly out-performing other major indices. This did not surprise us. We predicted a 12% to 15% rise (see Quarterly Insights January 2014). The four factors we thought would drive up the U.S. stock market in 2014 - fiscal certainty, accelerating GDP growth, continued accommodative Fed policy, and higher capacity for corporate spending - all played out. We continued to emphasize large cap U.S. stocks, a strategy we have maintained with high success for over three years (see Quarterly Insights July 2011, U.S. Blue Chip Stocks: Unloved And Attractive). The key to managing well in 2014 was to "avoid the noise" from mid-September to mid-October (there was a 7.4% market pullback) and maintain a disciplined investment strategy (the market subsequently recovered 11.8% by December 5). In addition, decisions involving regional emphasis and sector weights were critical.

1. Huge Regional Performance Disparity

The U.S. led regional performance by a huge margin in 2014. In fact, the U.S. was the only major region not in the red. A major factor was U.S. Dollar strength. The U.S. Dollar Index rose 12.55% in 2014. Regional emphasis largely determined portfolio success (or failure).

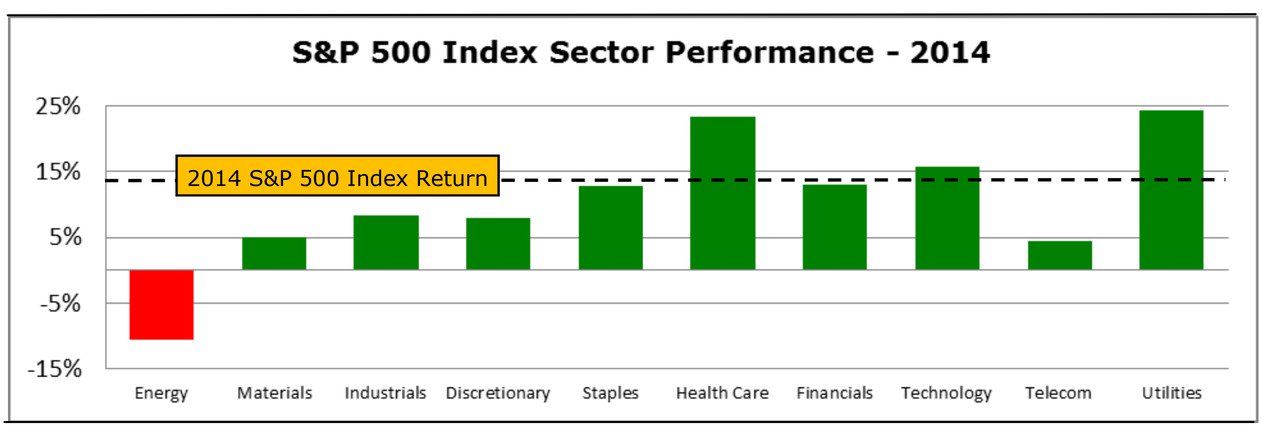
Equity Index Performance

Index	2014
S&P 500 (Domestic)	**13.69%**
MSCI EAFE (Foreign) *	**(4.90%)**
MSCI Emerging Markets	**(2.19%)**
MSCI EMU (European Monetary Union)	**(8.39%)**
MSCI Japan	**(4.02%)**

* Europe, Australia and the Far East

2. Wide Range Of Sector Performance

Only three out of 10 sectors out-performed the S&P 500 Index: Technology (+16%), Health Care (+23%), and Utilities (+24%). Four sectors were significant laggards yet positive: Industrials (+8%), Discretionary (+8%), Materials (+5%), and Telecom (+4%). The Energy sector, the only sector in the red, was a disaster (-10.6%).



TriVant Model Portfolio Attribution Analysis - Fourth Quarter 2014

Our performance benchmark for stocks is the S&P 500 Index. We try to exceed this benchmark (net of fees and expenses) using proper parameters for risk control. Relative performance depends on two decisions:

a) Sector Decisions: How did we weight the 10 sectors in the S&P 500 Index versus their index weight?
b) Stock Decisions: How did our stocks perform relative to their sector? How did we weight the stocks?

Performance is "attributable" to our sector decisions (allocation effect) and stock decisions (selection effect).

Performance Impact =	Allocation Effect +	Selection Effect
	(Sector Decisions)	(Stock Decisions)

Through the first three quarters of 2014, we kept pace with the S&P 500 Index. By year-end, we beat the index because we had a great Fourth Quarter. Let's look at our Q4 Attribution Analysis to see why we prospered.

TriVant Model Portfolio Attribution Analysis - Fourth Quarter 2014

S&P 500	**4.4%**						
	Market Weight	Sector Return	TriVant Weight	TriVant Return	Allocation Effect	Selection Effect	Performance Impact *
Discretionary	11.7%	8.2%	15.4%	11.1%	0.14%	0.45%	0.59%
Energy	**9.7%**	**(12.6%)**	**5.1%**	**(10.1%)**	**0.78%**	**0.13%**	**0.91%**
Financials	16.3%	6.7%	19.1%	10.8%	0.07%	0.77%	0.84%
Healthcare	13.9%	7.0%	14.1%	7.2%	0.01%	0.04%	0.04%
Industrials	10.3%	6.5%	12.7%	6.5%	0.05%	0.01%	0.06%
Materials	3.5%	(2.0%)	0.0%	0.0%	0.22%	0.00%	0.22%
Staples	9.5%	7.5%	8.6%	0.0%	(0.03%)	(0.65%)	(0.68%)
Technology	19.7%	3.6%	23.5%	7.0%	(0.03%)	0.79%	0.76%
Telecom	2.4%	4.4%	0.0%	0.0%	0.00%	0.00%	0.00%
Utilities	3.0%	12.2%	1.5%	12.5%	(0.12%)	0.00%	(0.11%)
TOTAL	**100%**		**100%**		**1.09%**	**1.54%**	**2.63%**

* Performance Impact does not take into consideration: dividends, cash, transaction costs, fees

Our total "Performance Impact" in Q4 was +2.63%*. This is the amount we exceeded the S&P 500 Index (which was +4.4% for Q4). This catapulted us to an excellent 2014 benchmark out-performance. Our success (+2.63%) was cumulatively attributable to a +1.09% "Allocation Effect" (good sector decisions) and a +1.54% "Selection Effect" (good stock decisions).

It may surprise you that the biggest sector contributor to our positive performance impact was Energy (by far the lagging sector). Performance impact (+0.91%) had much more to do with our under-weighting the Energy sector (+0.78% attribution) than the Energy stocks we selected (+0.13% attribution).

THE MATH: Q4 2014 ENERGY SECTOR ATTRIBUTION ANALYSIS FOR TRIVANT (TOTAL PERFORMANCE IMPACT = 0.91%)

Allocation Effect = (Market Weight - TriVant Weight) * (Market Return - Sector Return) = (9.7% - 5.1%) * (4.4% - -12.6%) = **0.78%**

Selection Effect = TriVant Weight * (TriVant Return - Sector Return) = 5.1% * (-10.1% - -12.6%) = **0.13%**

2015 - Looking Ahead

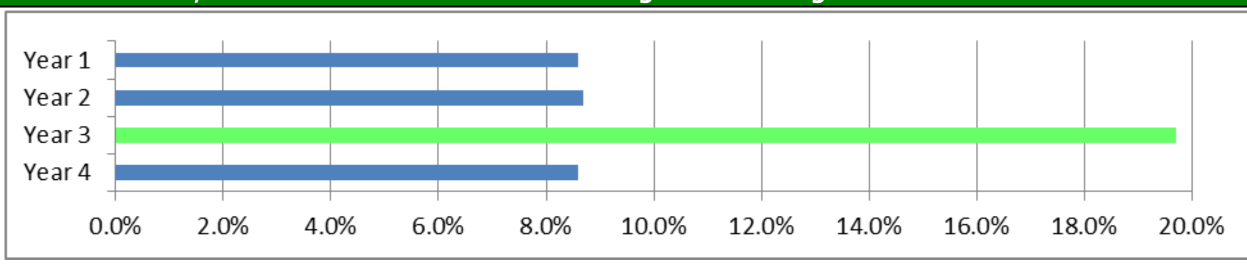
Stock Outlook: We Believe The S&P 500 Index Will Rise 14% to 18% In 2015

We are bullish for 2015 and believe the S&P 500 Index will rise 14% to 18%. Are we crazy? The S&P 500 Index has been positive for six consecutive years, and the last three years have been +13.7%, +32.4%, and +16.0% (2014, 2013, and 2012). Can the S&P 500 Index really continue its meteoric ascension for another year? We think so. This does not mean the ride will be smooth. We expect more volatility in 2015 than in 2014 (where we only encountered one brief pullback of note). Don't fear volatility. A short-term potential market correction does not warrant deviation from your long-term investment strategy.

The Third Year Of A President's Term Is Historically The Best For Stocks

This is the third year of President Obama's final presidential term. Depending on your political views, you may or may not rejoice in this fact. From a stock market standpoint, everyone should rejoice! Since World War II, the S&P 500 Index has never suffered a loss during the third year of the presidential cycle (source: S&P Capital IQ). In fact, the index has increased an average 19.7% during this lucky third year versus gains close to 9% in the other years. Why is the third year so favorable? The party in power wants to stay in power. It will try to stimulate the economy and consumer confidence to position itself well for the upcoming election.

Since World War II, The S&P 500 Index Has Posted Big Gains During The Third Year Of A President's Term



Source: Telemet

We do not view presidential cycle precedent in itself as the reason we believe the stock market should be up 14%-18% in 2015. Rather, history merely shows huge odds favoring a return in this range. Our bullish outlook is primarily based on five factors: a healthy U.S. economy, accommodative Fed policy, low energy prices, reasonable stock valuations, and likely quantitative easing in the European Union.

1. The U.S. Economy Is Healthy

U.S. real GDP (gross domestic product) increased at an annual rate of 5.0% in Q3 2014 and 4.6% in Q2 2014 (source: Bureau of Economic Analysis), putting the U.S. as the GDP growth leader of developed countries by a wide margin. In the last 12 months, the unemployment rate fell from 6.7% (December, 2013) to 5.6% (December, 2014), which is encouraging (source: Bureau of Labor Statistics). Somewhat tempering the jobs growth improvement is that wage growth is stagnant (average hourly pay slipped $0.05 in December). Inflation remains tame at 1.3% (source: Bureau of Labor Statistics).

2. The Fed Remains Accommodative

The fact that jobs growth has not resulted in wage growth presents a conundrum for the Fed, which has a mandate of full employment and a 2% inflation target. On the one hand, the Fed is eager to raise interest rates in order to get off the zero lower bound target rate it has had since December, 2008. On the other hand, there is no threat of 2% inflation until wage growth increases. The Fed should remain accommodative.

3. Energy Prices Are Low And Should Remain That Way

Oil prices have fallen by more than half since June. The global supply glut caused by surging output should keep prices low for quite a while. We believe that lower energy prices is good news for both the U.S. and European economies. It is bad news for emerging markets, as many countries depend on oil revenues for most of their spending. The U.S. consumer (which drives 70% of U.S. GDP) now has more disposable income. The same can be said for European consumers. With lower energy input costs, both U.S. and European companies (the exception being companies in the Energy sector) should become more profitable.

4. Stock Valuations Remain Reasonable

Entering 2015, the price/earnings (P/E) ratio of the S&P 500 Index is 17 (source: S&P Capital IQ). From a recent historical perspective (2001 to date), this does not indicate an overvalued stock market. Rather, it shows a fairly valued market. This does not mean the S&P 500 Index lacks high upward potential. Rather, it shows that we must pay attention to earnings. Since 2011, earnings growth for the S&P 500 Index has more or less reverted to its 6% - 7% historical mean. However, there are sectors whose current earnings growth are outliers: Energy (-20%), Healthcare (+19%), Technology (+8%), and Industrials (+9%). We view outliers as an increased opportunity to out-perform our benchmark S&P 500 Index (see attribution discussion on page 3).

5. Quantitative Easing Should Benefit The European Union (EU)

The European Central Bank (ECB) has a lone mandate to aim for an inflation rate of below but close to 2% over the medium term. Right now, inflation is 0.3% (source: The Economist). As 2014 drew to a close, the ECB signaled an increasing readiness to pursue a big program of quantitative easing (QE) - creating money to buy financial assets - in order to lift worrying low inflation. QE is the same strategy Ben Bernanke implemented so successfully to stimulate the economy in the U.S. This undertaking would require the purchase of EU sovereign bonds, an unpalatable policy in Germany (the country that in effect underwrites the Euro). Despite German resistance, we believe QE will be initiated when the ECB governing council meets on January 22. Given an impending QE program to stimulate the European Union, and given that European stocks have been beat up pretty badly (they now represent high value), we will likely soon increase European exposure.

Bond Outlook: We Believe That Inflation Is Coming, But Not In 2015

Bond returns are strongly impacted by changes in interest rates and inflation. Higher interest rates and inflation lead to falling bond prices (and vice versa). The higher the bond duration (years), the higher the price fluctuations. Therefore it is important to understand what types of pressures are building in the economy.

INFLATIONARY RISK FACTORS →	Unemployment is down to 5.6%, which is historically low. Disappearing slack in the labor market is a precursor to higher wages. If Europe improves, this will drive further demand for goods and services.
COUNTER INFLATION FACTORS →	The U.S. Dollar Index was up 12.55% in 2014 (this keeps inflation down). The U.S. Fed is cutting back on QE and can hike interest rates when/if needed. Lower oil prices are reducing costs for corporations and consumers alike.

The 2015 U.S. bond market should be tame. We cannot foresee consequential shorter-term movements in U.S. interest rates or inflation. We think inflation risk has been temporarily relieved with falling oil prices, but inflation risk remains down the road. We will be vigilant in guarding against inflation in your portfolio.

Portfolio Strategy - Continued Emphasis On Large Cap US Stocks And Conservative Bonds

For stocks, we will continue to emphasize large cap U.S. stocks, likely increase European exposure, and avoid emerging markets. For bonds, we will remain conservative (short duration corporates, TIPs, and CDs).

Bond Market Spotlight

2014 Was A Decent Year In The Bond Market

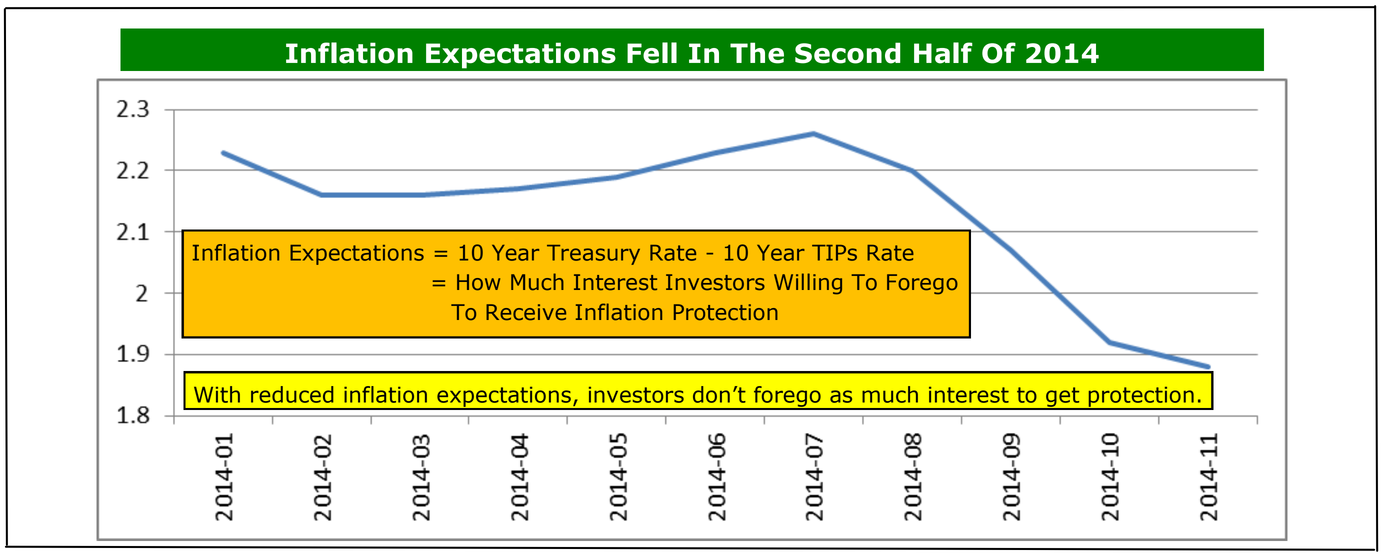
The Barclay's Capital U.S. Aggregate Bond Index, a broad-based representation of bond performance, returned 1.80% in the Fourth Quarter and finished the year up 6.04%. This is a stark contrast to 2013 where the index was down 1.74%. Bear in mind that the index has a bond duration of 5 years, so 2014 performance was primarily driven by the more-interest-sensitive long duration bonds.

Key U.S. Interest Rates	Jan. 1, 2014	Dec. 31, 2014	Change
Federal Reserve Board Funds Target Rate	0-0.25%	0-0.25%	No change
5-Year Treasury (Constant Maturity)	1.75%	1.66%	- 6 basis points
10-Year Treasury (Constant Maturity)	3.04%	2.17%	- 87 basis points
30-Year Treasury (Constant Maturity)	3.96%	2.75%	- 121 basis points

Note: 100 basis points (bp) = 1.00% Source: Telemet

Inflation Fears Did Not Materialize In 2014

Interest rates (bond yields) fell in 2014, so bond prices rose. Inflation expectations also impact bond prices. With higher inflation, bond payments have less purchasing power and prices fall. With lower inflation, the opposite occurs. Inflation expectations fell in the second half of 2014 , which pushed up bond prices.



We Maintain Our Bond Strategy At This Time

Our 2014 expectation that "interest rates are likely to increase 0.25% to 0.50%"(see Quarterly Insights January 2014) did not happen. Our expectation that "there is room to make some money in bonds" did happen, although most money was made in the very-high-risk long duration bonds. The bond component of our portfolio was roughly apportioned 60% corporate bonds, 30% Treasury Inflation Protected Securities (TIPs), and 10% certificates of deposit (CDs). It had short duration (2.5 years). If interest rates rose 1%, we would expect the bond portfolio to fall 2.5%. The Barclay's Bond Index had a duration of 5 years (double ours). Interest rates fell in 2014, and it was no surprise that our relatively conservative bond portfolio lagged the index. Given our outlook (page 5), we maintain our bond strategy at this time.

Your Portfolio

Things could not have gone much better in 2014. Our stock market forecast was dead-on. Your stocks performed above the leading S&P 500 Index benchmark. Given how badly the rest of the world performed, and given that almost all managers lagged the S&P 500 Index in 2014 (many quite considerably), we view your 2014 stock performance as a huge success. Our considerable (85% to 90%) stock emphasis on large cap high quality U.S. stocks was key. We did not deviate from our strategy during the latter year market pullback as many did - recall the communication we sent you on October 15 (the bottom point) urging calm. Sector and stock decisions went in our favor. We are thrilled that you did so well. Thank you for your trust.

With six consecutive years of positive S&P 500 Index performance (2009 - 2014), our longer-term clients have huge unrealized gains in their taxable accounts with little (if any) opportunity to realize losses. When we inevitably make portfolio adjustments, we will try to be as sensitive to taxes (realized gains) as possible. Regarding taxes in general, please let us know if you require any reports to prepare your April tax returns.

Whatever we gave up in 2014 to the relatively conservative bond component of your portfolio, we more than gained with your stock component. High duration bonds have huge risk. We like to err on the side of caution.

We are bullish for 2015. Over the next few months, we anticipate further adjustments to both the stock and bond components of your portfolio. Stay tuned for updates.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

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