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Fourth Quarter Review
December 2013

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management
For Individuals and Institutions

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A Balanced Approach

Stocks rise while fear subsides

For 2013, broad U.S. domestic stock averages produced the highest annual returns since 1997, while bond indices endured their worst year since 1995. Precious metals also had a dramatic decline for the year, down more than 30%. The confluence of events that drove these significant shifts in returns was not derived from the classic economic data that investors would expect. The reduced fear of an economic or political calamity worldwide is likely the best explanation of financial market returns during the year. While the fourth quarter marked the five-year anniversary of the credit crisis and subsequent recession, the economic recovery in the U.S. has been gradual over the preceding four years, and has just started in continental Europe and the emerging markets over the last year.

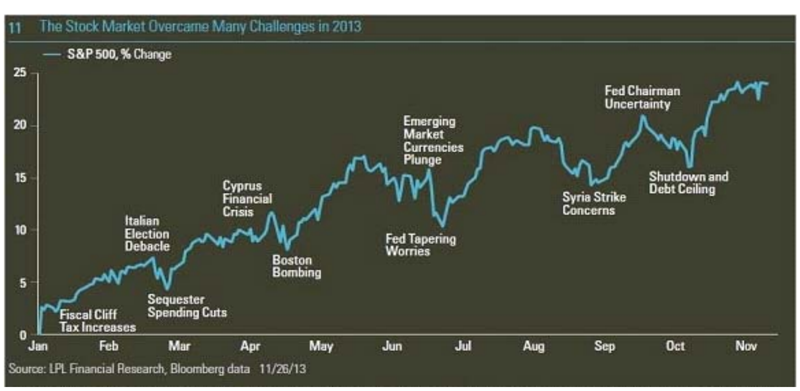
International economies and financial markets have lagged the U.S., but a sustainable recovery in these economies could be the incremental growth driver in the coming years.

In the U.S., we were not without challenges or risks, but investors primarily looked through these challenges. The domestic stock market did not fall below the December 31st 2012 level and did not produce a 10% correction the entire year.

This reduced volatility was unusual compared to the previous four years, especially with the challenges at hand. The chart highlights potentially destabilizing events during the year and the subsequent recoveries in domestic stock prices as concerns ebbed.

The lack of more significant improvement in employment trends has been the sticking point to the recovery from 2009 through 2012. The modest acceleration in hiring and a 36-year low in labor participation has allowed unemployment to fall to 6.7% (the lowest level in five years) and was one of the factors that allowed the Federal Reserve to announce a reduction in their bond buying program, quantitative easing (QE), starting in January. QE allowed for longer-term interest rates to remain low in order to spur economic growth and a recovery in the housing market. The mere discussion of "tapering" or reducing QE in May caused a violent reaction in the bond market as intermediate and longer-term interest rates rose. The actual announcement of the taper in December caused less reaction by investors, and was viewed as a positive step in completing the recovery from the 2008 credit crisis.

The troubled rollout of the Affordable Care Act (ACA) website and the continued political dysfunction of Washington had limited impact on investor psyche, but the debt limit debate and the future impact of the ACA will surely be important issues to monitor in 2014. Faster and sustainable economic growth would go a long way to help employment trends, budget deficits, improved consumer confidence and business investment.



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Arcataur Large Capitalization Equity Portfolio - This portfolio offers investors a separately managed account consisting of high quality, blue chip stocks. Our strategy focuses on maximizing expected return through constructing diverse portfolios covering most major industry sectors. On average, this portfolio could hold 55 stocks; however, the largest 15 could account for as much as 45% of the portfolio.

Arcataur Investment Grade Fixed Income Portfolio - This portfolio offers investors a separately managed account focusing on Treasuries, Agencies, corporate bonds and municipal bonds, with an average portfolio credit rating of A or better. Our approach is to actively manage interest rate risk and credit risk while minimizing liquidity risk to generate conservative risk-adjusted total return.

Arcataur Managed Balance Portfolio - This portfolio offers investors a separately managed account which seeks to preserve capital during difficult market periods while allowing growth opportunity in good market conditions. Arcataur has developed a model that assists us in determining the relative attractiveness of stocks versus bonds. When our models and fundamental analysis indicate stocks are more attractive, we will be near our upper end of the range for stocks (75%). Conversely, when bonds are favored, we will be near the lower end of the stated range for stocks (45%).

Stocks rise while fear subsides (continued)

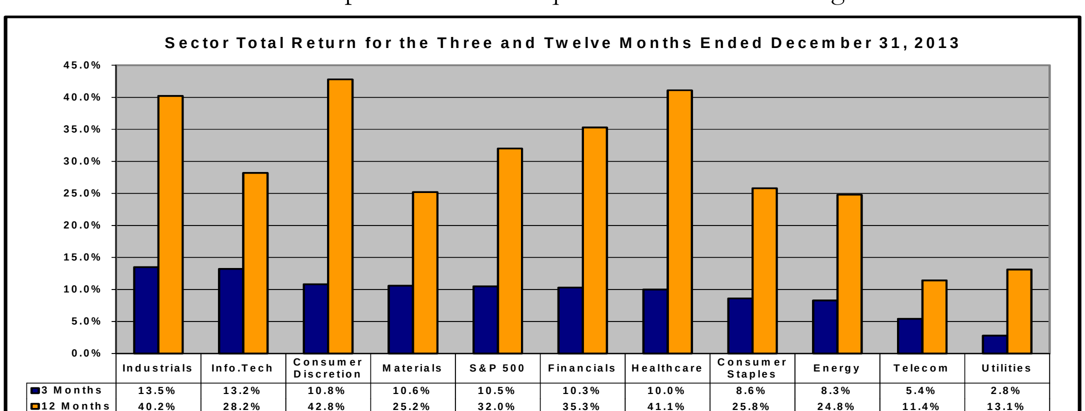
Ben Bernanke completes his term as Chairman of the Federal Reserve in January. Janet Yellen becomes the new Chairperson and brings significant experience to her new role. Investors expect only minor changes in the direction of the Fed under Ms. Yellen. She is viewed as being slightly more dovish (more pro-growth vs. an inflation hawk) and as an advocate for more transparent communications. The increased communication under the Bernanke Fed was credited to Vice Chairperson Yellen. Inflation trends have been significantly subdued in the past five years, but any meaningful pickup could force the hand of the Fed with future policy decisions.

The recent six month test agreement with Iran regarding curtailing uranium enrichment for the prospect of lifting economic sanctions is being met with skepticism based upon the historical dealings between Iran and the rest of the world. A workable and verifiable agreement could provide a meaningful drop to world energy prices (and incremental economic stimulus) as Iran's reserves would be available in the world market and potentially the risk premium to oil prices could also be reduced. A failure of the test agreement could heighten tensions in the Middle East and create an increased threat of destabilizing activity. Investors' expectations of a positive outcome here are currently low.

The third quarter corporate earnings reports continued the trend of solid profitability and measured guidance for the future. The fourth quarter reports due in mid-January are anticipated to maintain the trend; however, for certain industries, there could be higher than normal volatility if actual results do not meet expectations.

The fourth quarter started with the government shutdown, but stock prices powered ahead with better economic data. The S&P 500 (total return) was up 10.51% in the quarter and 32.39% year to date. The smaller capitalization (illustrated by the S&P 600 Small Cap Index) issues increased by 9.83% for the quarter, while the NASDAQ Composite rose by 11.1%, and the Dow Jones Industrial Average was up 10.22%. International markets continued to lag as developed international markets increased 4.34% and emerging markets rose by 1.54% in the quarter.

Interest sensitive and defensive sectors (telecom, utilities and staples) continued to underperform the broader averages. This relates to the rise in interest rates and a move towards more economically sensitive areas of the economy. Industrials, technology and consumer discretionary sectors were the leaders during the quarter and have been some of the stronger segments over the last year. Multinational companies were negatively impacted by a weaker dollar relating to the concerns out of Washington, but could benefit if a more meaningful recovery can materialize in the international economies. The chart below illustrates how all the sectors performed in the quarter and for the trailing twelve months.



	Industrials	Info.Tech	Consumer Discretion	Materials	S&P 500	Financials	Healthcare	Consumer Staples	Energy	Telecom	Utilities
3 Months	13.5%	13.2%	10.8%	10.6%	10.5%	10.3%	10.0%	8.6%	8.3%	5.4%	2.8%
12 Months	40.2%	28.2%	42.8%	25.2%	32.0%	35.3%	41.1%	25.8%	24.8%	11.4%	13.1%

Source: Baseline

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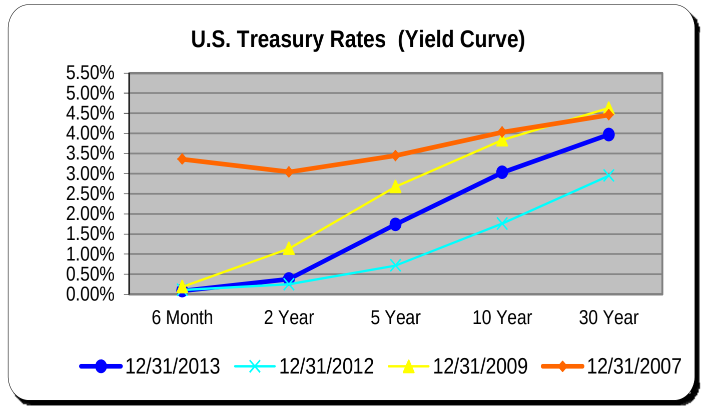
Let the taper begin

After the December Federal Open Market Committee (FOMC) meeting, the Fed announced that it would begin to taper, or scale back, its open-ended asset purchase program by $10 billion each month, to $75 billion. The Fed will now buy $40 billion in Treasury bonds and $35 billion of mortgage-backed securities a month, a reduction of $5 billion for each type of security. This tapering announcement had been looming over the fixed income market since it had been first hinted in May by the Fed Chairman, Ben Bernanke. The reaction to the announcement in December was fairly muted, in contrast with the sharp rise in rates that occurred in May through early September, when interest rates rose nearly 140 basis points (1.4%) to 2.98% for the benchmark 10-year Treasury bond. The 10-year bond closed the year at 3.03%, up 127 basis points from the end of 2012. Yields move inversely to prices in the fixed income market.

In an effort to clarify tapering versus tightening (raising short-term interest rates), the Fed also announced an enhancement to its "forward guidance" about interest rate policy and the federal funds rate, which has been near zero for 5 years. It said it now expects to keep the fed funds rate (the overnight rate charged to banks) in the current 0-.25% range well past the time that the unemployment rate falls below 6.5% (now 6.7%), especially if inflation stays below its 2.0% target. A lower unemployment threshold would mean the Fed's monetary policy would remain extremely accommodative by keeping short-term interest rates low for longer than they would otherwise be under conventional policy. It is now expected that the Fed will not raise the fed funds rate (also known as tightening monetary policy) until late 2015 or the first quarter of 2016.



Source: Baseline

Looking to 2014, we expect to see a gradual rise in interest rates for several reasons, including a continued steadily improving economy and bottoming inflation; however, a stubbornly high unemployment rate due to a low work force participation rate should prevent a more vigorous spike in interest rates. We see the yield on the 10-year Treasury trading in the 3.0% to 3.5% range. The lion's share of the rise in interest rates due to the tapering process has already been realized by the fixed income market with the steep rise in interest rates since May. In the longer term, yields could move back to the 4% level or higher, but this is not expected in the coming months without a meaningful increase in economic growth, inflation and hiring.

While rising interest rates would mean lower bond prices and imply negative market value returns for bond portfolios, it doesn't necessarily mean investors will incur material losses. It is important to realize that part of these losses will be offset by reinvesting the proceeds from maturing bonds and income in securities that will have higher coupons, resulting in higher interest income. This rising income acts as a buffer to the price declines. We have been keeping duration, a measure of bond sensitivity to interest rate changes, on the shorter side which will help to minimize losses. In addition, cash in our fixed income portfolio remains higher than normal because interest rates are relatively low and the inventory of attractive corporate bonds to invest in is limited. This gives us the flexibility to invest in bonds with higher coupons as interest rates rise.

Arcataur continues to focus on high quality bonds and the overall quality rating of the fixed income portfolio is mid-single A. We do not invest in mortgage-backed securities, high yield bonds or asset-backed bonds.

First Quarter 2014 Investment Outlook

The strong stock returns in 2013 were welcomed by domestic equity investors. What does this mean for 2014? Equity valuations are definitely higher than twelve months ago, but based upon historical parameters, stocks are not overvalued. Also, based upon history, a year after a 25% or greater advance, the U.S. stock market is up the following year 77% of the time, albeit mostly less than the previous year. The one historical tendency that is less favorable is that the second year of the four-year Presidential cycle tends to be the weakest on average. While these historical considerations are interesting, the important factors of corporate earnings growth, employment, inflation and how interest rates normalize will be the key to determine what kind of year is in store for investors.

Our expectations are for a gradual rise in interest rates reflecting improved economic growth and a continued return to normalcy. Any dynamic shift (sudden change in inflation trends or other unexpected events) in the status quo could cause a more dramatic rise in interest rates. This unlikely scenario would unnerve stock and bond investors.

The rapid growth of corporate profits has been the central driver of stock prices. Excess cash flow and record profits have fueled massive share repurchases and dividend increases.

A shift towards capital investment and hiring will only come when end demand and economic growth warrant a change in capital allocation. Based upon the current circumstances, we do not expect an earnings shift that would negatively impact stock prices in the near-term. At current levels domestic stocks are not cheap or expensive, but could be susceptible in the event of shift in expectations.

For investors, the potential opportunity for domestic investment has less margin for error versus other developed countries globally and the emerging markets, due to the significant outperformance of the U.S. stock market. This does not mean that the U.S. market cannot continue its leadership position; however, history would caution against ignoring the potential and pent up demand of global laggards. Japan has initiated steps to address 25 years of financial malaise, while the Eurozone arguably is showing signs of bottoming.

Corporate profitability outside of North America is generally near trough levels. Any sustainable economic growth in international economies could make foreign investments relatively more attractive in the not too distant future.

While the U.S. stock market was one of the best places to be invested last year, and international equities offer potentially better long-term valuation, there is still positive opportunity domestically. We would not be surprised to see a 5 to 10% correction, and actually would view this positively for future growth. Continued growth and a quicker rise in interest rates could be the catalyst for such a correction.

As mentioned earlier, an unexpected conflict in the Middle East, rapid increase in healthcare cost or policy mistakes by the government could cause a dislocation that would surely be discounted in financial asset prices quickly. The upcoming mid-term elections in November will be a factor as well, especially during the summer and fall.

Within our large capitalization direct portfolios, we utilized recent strength to pare some stock holdings and reposition overall exposure where appropriate.

Our high quality fixed income portfolio is maintaining a defensive and liquid position. The current environment offers more challenges to find value and yield. Owning bonds in a rising rate environment is tricky, but maintaining a shorter duration should minimize the market value risk.

Our Managed Balance portfolios continue to maintain an above average exposure to stocks, as valuations and relative attractiveness favor equities over bonds.

Historical Market Performance for the Period Ended 12/31/13

		Total Return (%)		Annualized Total Return (%)		
	Close	Quarter-to-Date	One Year	Three Year	Five Year	Ten Year
Dow Jones Industrials	16576.66	10.22	29.65	15.71	16.74	7.44
S&P 500	1848.36	10.51	32.39	16.18	17.94	7.41
S&P MidCap 400	1342.53	8.33	33.50	15.64	21.89	10.36
S&P SmallCap 600	665.54	9.83	41.31	18.42	21.37	10.65
NASDAQ Composite	4176.59	11.10	38.32	16.33	21.51	7.62
Russell 2000	1163.64	8.72	38.82	15.67	20.08	9.07
MSCI EAFE	1915.603	4.34	19.43	4.93	9.13	4.04
MSCI Emerging Markets	979.49	1.54	(5.03)	(4.50)	12.03	11.17
Barclays US Aggregate		(0.14)	(2.02)	3.26	4.44	4.55
Barclays 1-3 yr US Treasury		0.06	0.36	0.78	1.11	2.57
Barclays Intermediate Gov/Credit		(0.06)	(0.86)	2.91	3.96	4.09

Source: DJ, S&P, Nasdaq, MSCI, and ishares

Arcataur Composite Investment Performance for the 3 Months, 12 Months, 3 Years and 5 Years Ended December 31, 2013

Arcataur Composite Portfolio	Total Return 12/31/2013			
	3 months	*12 months*	*3 yr. annualized*	*5 yr. annualized*
Large Cap Equity	10.56%	31.71%	15.18%	16.69%
Benchmarks				
Lipper Large Cap Core	9.90%	31.40%	14.50%	16.90%
S&P 500	10.51%	32.39%	16.18%	17.94%
S&P 100	10.76%	30.39%	16.01%	16.52%

Arcataur Composite Portfolio	Total Return 12/31/2013			
	3 months	*12 months*	*3 yr. annualized*	*5 yr. annualized*
Fixed Income	-0.54%	-3.16%	2.16%	4.00%
Benchmarks				
Citi BIG 1-5 (T/G/C)	0.20%	0.37%	1.91%	2.89%
Citi BIG (T/G/C)	0.01%	-2.26%	3.66%	4.44%
Lipper Bond MF Avg.	0.80%	0.10%	4.00%	7.40%

Arcataur Composite Portfolio	Total Return 12/31/2013			
	3 months	*12 months*	*3 yr. annualized*	*5 yr. annualized*
Small Cap Equity	9.54%	40.55%	17.68%	20.80%
International Equity	4.62%	10.63%	3.54%	10.09%
Total Equity*	9.41%	30.77%	14.11%	16.88%
Benchmarks				
Lipper Small Cap Core	8.90%	36.80%	14.90%	20.30%
S&P 600	9.83%	41.31%	18.42%	21.37%
EAFE	4.34%	19.43%	4.93%	9.13%
S&P 500	10.51%	32.39%	16.18%	17.94%

Arcataur Composite Portfolio	Total Return 12/31/2013			
	3 months	*12 months*	*3 yr. annualized*	*5 yr. annualized*
Managed Balance	6.71%	20.51%	10.66%	12.81%
Benchmark				
Lipper Balanced	5.20%	15.40%	7.80%	12.10%
60/40 Custom Index	5.42%	16.98%	9.42%	11.14%

*Total Equity is not an actual composite portfolio; rather, Total Equity represents a weighted average return of the Large Cap, Small Cap and International composites, and is only shown as an indication of potential overall equity performance. Total Equity does not represent any actual portfolio because it is made up of a weighted average return of all equity classes.

Appendix: Disclosure Information Regarding Composite Performance

General

Arcataur Capital Management LLC is a registered/licensed investment adviser. Arcataur has prepared this report. The information in this report has been developed internally and/or obtained from sources which Arcataur believes are reliable; however, Arcataur does not guarantee the accuracy, adequacy or completeness of such information nor do we guarantee the appropriateness of any strategy referred to for any particular investor. Index information has been taken from public sources. Past performance is not indicative of future results, as investment returns will vary from time to time depending upon market conditions and the composition of the composite portfolio. Returns for individual investors will vary based on factors such as the account type, market value, cash flows and fees.

Calculation Methodology

Arcataur has generally prepared these composites in substantial compliance with the Global Investment Performance Standards (GIPS) of the CFA Institute in the calculation and presentation of investment performance composites, with one notable exception relating to the treatment of cash: cash is not included in the performance calculations for the Arcataur Large Capitalization Equity Portfolio Composite or the Arcataur Investment Grade Fixed Income Composite; Arcataur also does not allocate cash in the Arcataur Managed Balance Portfolio Composite to the equity or fixed income components when calculating performance for those components. Cash is, however, included in the overall performance calculation for the Arcataur Managed Balance Portfolio Composite. The CFA Institute has not been involved in the preparation or review of this report. Arcataur is not claiming GIPS compliance.

The composites reflect dollar-weighted returns of individual accounts. Arcataur uses the GIPS recommended time-weighted internal rate of return formula (i.e., returns that include reinvested dividends and other income) to calculate performance for the accounts included in the composite. Individual account returns are calculated on a time-weighted basis, linked monthly, and include reinvestment of dividends and other such earnings. Total return (return) is defined as the percentage change in market value (including interest and dividend income) adjusted for any client-directed cash flows. A time-weighted, monthly-linked method is used to calculate composite calendar quarter returns. Quarterly returns, rounded to two decimal places, are geometrically linked to calculate annual, cumulative and annualized returns. No leverage or derivatives have been used. Accounts are added to the composites when at least 70% of the account's value is invested in accordance with the client's investment plan and in accordance with the investment style chosen for the account. Terminated accounts are maintained in composites through the last full month assets are managed. Arcataur uses the accrual basis of accounting for the presentation of performance results, with the exception of the treatment of dividends - dividends are recorded when received. Portfolio return calculations and portfolio valuations are based on trade date settlement. (cont.)

Appendix: Disclosure Information Regarding Composite Performance (cont.)

Composites

The Arcataur Large Capitalization Equity Composite consists of portions of all client accounts invested in accordance with the Arcataur Large Capitalization Equity Portfolio strategy (including ETF's).

The Arcataur Small Capitalization Composite consists of portions of all client accounts invested in small capitalization equity securities (including ETF's).

The Arcataur International Composite consists of portions of all client accounts invested in international securities (including ETF's).

The Arcataur Investment Grade Fixed Income Composite consists of portions of all client accounts invested in accordance with the Arcataur Investment Grade Fixed Income strategy.

The Arcataur Managed Balance Composite consists of portions of all client accounts invested in accordance with the Arcataur Managed Balance strategy.

Mutual fund holdings are not included in composite results. Exchange traded funds are included in composite results. Mutual fund holdings typically are "unmanaged assets" and, therefore, are not included in composite results. Exchange traded funds are designated as "managed assets" and, therefore, are included in the composite results.

Fees

Performance figures that are "net" of fees take into account investment advisory fees and any brokerage fees or commissions that have been deducted from the account. Performance figures that are "gross" of fees do not take into account investment advisory fees or transaction costs. For "gross" performance figures, actual returns will be reduced by expenses that may include management fees and transaction costs. A client's return is reduced by investment advisory fees and commissions, and any other expenses (such as custodial fees) that it incurs relative to its investment advisory account. Performance figures do not take into account federal or state income taxes. Arcataur's investment management fee schedule is included in Part 2 of the Form ADV. The Arcataur Large Cap, the Arcataur Small Cap, the Arcataur International, the Arcataur Investment Grade Fixed Income and the Arcataur Managed composites are net of fees. The S&P 500® Index, S&P 100® Index, S&P 600® Index, the EAFE® index, the Citigroup Broad Investment Grade Index (T/G/C), and the Citigroup Broad Investment Grade Index (T/G/C)(1-5 Years) are gross of fees; the Lipper Large Cap Core, Small Cap Core, Balanced Fund and Bond Fund Averages are net of fees.

Indices and Benchmark Funds

The Indices and Benchmark Funds are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the accounts included in the composites. Arcataur believes that the Indices and Benchmark Funds selected for comparative purposes are appropriate measures given the investment approach. However, the investment portfolios underlying the indices are different from the investment portfolios managed by Arcataur. The Indices and Benchmark Funds shown are unmanaged, and investors may not invest directly in them. The Indices and Benchmark Funds are considered to be generally representative, in terms of risk and exposure, of the various components as follows:

Arcataur Large Capitalization Equity Portfolio - the S&P 500® Index, the S&P 100® Index and Lipper Large-Cap Core Average

Arcataur Investment Grade Fixed Income Portfolio - the Citigroup Broad Investment Grade Index (T/G/C) and (1-5 Years) and the Lipper Bond Mutual Fund Average

Arcataur Managed Balance Portfolio - Lipper Balanced Fund Average

If a client's portfolio contains small cap exposure, the small cap performance is measured against the S&P 600® Index and Lipper Small Cap Core Average. If a client's portfolio contains international exposure, the performance is measured against the EAFE index.

With the exception of the Lipper Balanced Fund Average, the Lipper Large Cap Core Average, the Lipper Bond Mutual Fund Average and the Lipper Small Cap Core Average, indices and benchmark funds shown reflect the reinvestment of dividends and other earnings, but do not include transaction costs, management fees or other expenses of investing. For further information concerning the Index and Fund Benchmarks, ask to see Arcataur's Benchmark Descriptions.