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First Quarter Review
March 2014

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management
For Individuals and Institutions

Arcataur Capital Management LLC
826 N. Plankinton,
Suite 300
Milwaukee, WI 53203
414.225.8200

Ignatius L. Smetek
President
ISmetek@arcataur.com
414-225-8201

Cindy L. Jackson
Vice President—Investments
CJackson@arcataur.com
414-225-8204

Helmut W. Hampel
Vice President—Operations
HHampel@arcataur.com
414-225-8205

William C. Weber
Vice President—Investments
WWeber@arcataur.com
414-225-8203

Nancy M. Smetek
Vice President
NSmetek@arcataur.com
414-225-8202

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A Balanced Approach

Polar Vortex and No New Cold War

Modest increases in broad U.S. domestic stock averages for the quarter were not a surprise after the strong appreciation in 2013. Weaker economic data, along with increased tensions in Ukraine and Russia, did not trigger a sustainable setback. The weaker economic data has been interpreted as a weather-induced delay in economic activity versus a major shift in direction. This will be confirmed or refuted in the coming months. Initially the soft economic data produced nearly a 6% correction in stock prices in late January and early February; however, those declines were erased in less than four weeks of trading.

The Russian tensions increase the potential risk for investors as that region serves as a primary energy supplier for continental Europe. The disagreement over the Russian geopolitical activity is not expected to produce a new version of the Cold War, but future dealings between nations could escalate tensions around other areas of disagreement in Iran, the Middle East, and China, that are at critical stages of negotiations.

Currently, investors expect that economics will play a critical role in defusing the tensions on the recent Russian activity. Europe is attempting to emerge from a protracted recession. Any dislocation in energy supplies could short-circuit the nascent recovery, while a double-dip recession in Europe would surely impact GDP of Russia's largest revenue source, energy production.

Increased economic growth in Europe would support better global growth for U.S. multinational companies as well as the emerging market economies. The E.U. Central bank has remained on the sidelines regarding a more aggressive form of quantitative easing to stimulate growth; however, recent commentary indicates a need to combat deflation in the region.

For the domestic economy, the most severe winter in the last 35 years produced delayed business and consumer activity. The potential snapback in demand, along with an emerging multi-year capital spending cycle, should provide proof that the recent weakness was truly weather related. Continued rising corporate cash levels could provide the fuel for a new capital spending cycle.

Unemployment trends hit a post recession low of 6.7%; however, the recent job creation statistics have been underwhelming when compared to past cycles. The lack of new incremental demand for goods and services and a declining labor participation rate have been the primary reasons for the lackluster job data. The uncertainty of the Affordable Care Act on healthcare cost for employers providing insurance is an additional cited reason for delayed hiring.

In March, Janet Yellen presided over her first Federal Reserve meeting as Chairperson. The ensuing press conference created some volatility as investors misinterpreted her commentary regarding future monetary action. The market reaction initially was caused by investors surprised that a more restrictive policy could be considered sooner than originally expected. However, subsequent analysis revealed that there was no major shift in outlook or stance by the Fed. Bond investors are still expecting an end to quantitative easing in late 2014, with the potential of the first hike in the federal funds rate to be in mid to late 2015. A significant acceleration in economic growth or inflation could cause the Fed to move sooner, while slowing growth or inflation could delay it further.

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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%).

Polar Vortex and No New Cold War (continued)

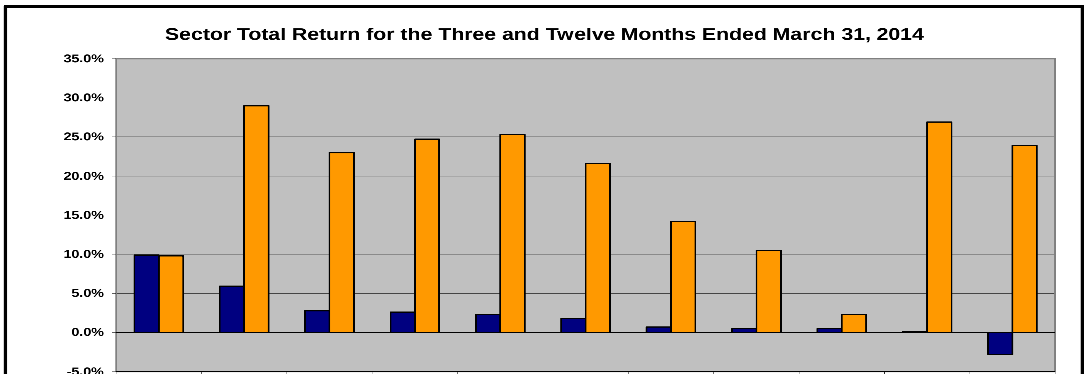
With domestic stock prices reaching all-time highs recently, the primary risk of a dislocation from unforeseen events relates to geopolitical risks such as Russia, Iran and the Middle East, along with economic risks in Europe and China. The efforts by the European Central Bank thus far and the potential to do more if required have investors generally less concerned. However, the lack of transparency to the Chinese economy and financial system creates a constant concern for global investors. The overbuilt real estate market and questionable banking system are fodder for an increased risk premium to the world's second largest economy.

Investors are expecting a extremely quiet period from Washington until late summer when the mid-term elections will be a primary focus. Most of the fiscal disagreements of the past few years have been deferred through the end of the year and no meaningful agenda items are expected to be considered prior to November. The one exception is the proposed restructuring of the government sponsored mortgage guarantee companies, Fannie Mae and Freddie Mac. The proposed legislation has gained bipartisan interest, but time is running out for such an important change before legislators' attention turns to the elections.

Based upon the severe weather for most of the country the first quarter corporate earnings reports are expected to be weak. The first quarter reports due in mid-April are anticipated to break the trend of steady growth; however, for certain industries, there could be higher than normal volatility if actual results do not meet lowered expectations. Forward-looking guidance will be more critical than usual based upon the circumstances.

The first quarter produced a meaningful correction, but the market recovered in late February and March to close at or near new highs for many broad domestic averages. The S&P 500 (total return) was up 1.8% in the quarter. The smaller capitalization (illustrated by the S&P 600 Small Cap Index) issues increased by 1.1% for the quarter, while the NASDAQ Composite rose by 0.8%, and the Dow Jones Industrial Average was down 0.6%. International markets continued to lag as developed international markets were unchanged and emerging markets fell by 0.84% in the quarter.

Interest sensitive and defensive sectors (utilities, financials and healthcare) benefited from lower interest rates and somewhat of a defensive rotation. Economically sensitive areas (industrial and consumer discretionary) lagged with the slower pace of economic growth and weather-delayed sales activity. These areas will be a critical gauge of the ability to snap back as normal spring weather arrives. Multinational blue chip companies were favored in many sectors during March. The chart below illustrates how all the sectors performed in the quarter and for the trailing twelve months.



	Utilities	Healthcare	Materials	Financials	Info.Tech	S&P 500	Energy	Consumer Staples	Telecom	Industrials	Consumer Discretion
3 Months	9.9%	5.9%	2.8%	2.6%	2.3%	1.8%	0.7%	0.5%	0.5%	0.1%	-2.8%
12 Months	9.8%	29.0%	23.0%	24.7%	25.3%	21.6%	14.2%	10.5%	2.3%	26.9%	23.9%

Source: Baseline

Keep Calm and Taper On

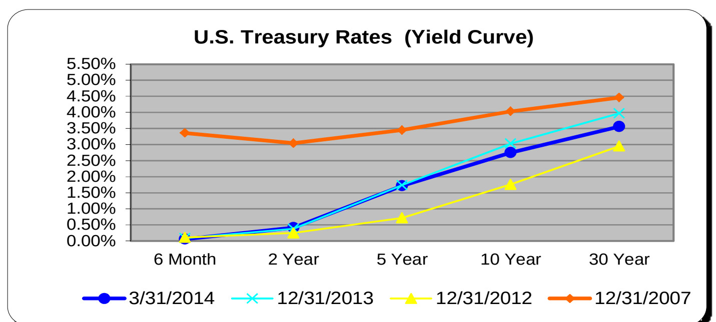
The new Federal Reserve Chairperson, Janet Yellen, signaled there will not be major changes in Fed policy from the Bernanke years. The Federal Open Market Committee (FOMC) voted to continue to taper (reduce) its monthly purchases of Treasury bonds and mortgage-backed securities by $10 billion at each of its first two meetings this year, cutting the amount to $55 billion from the peak of $85 billion. Improving economic data is the primary rationale to continue reducing these asset purchases. Sustainable longer-term growth is expected by Fed officials, despite the weather-induced softness of the first quarter. Ms. Yellen concluded her first meeting with a press conference stating the Fed plans to end its asset purchases by next fall, rather than December as previously expected. She also said it would take a "significant change" in the economy's prospects for the Fed to alter this plan. Further, she indicated, that when these purchases are done, the Fed intends to keep the federal funds rate near zero, as it has been for over 5 years, for a "considerable" time before it begins to raise them gradually. However, when pressed on what that time period could be, she surprised both the stock and bond markets by saying it could be six months. She did not mention a six-month window in a subsequent speech, stating that the U.S. economy still has slack and will need Fed stimulus for longer, which eased investor concerns.

Ms. Yellen and the Fed did make a change in policy by dropping the 6.5% unemployment rate threshold to begin to raise the fed funds rate. This was widely expected, and they will now use a broader measure of unemployment to determine Fed policy. Fed officials will parse other measures that show the nuances of the labor market, such as the length of unemployment, the number of under-employed workers, wage growth and the labor-force participation rate (chart below). The Fed has moved to a communication strategy or "forward guidance" as opposed to an explicit unemployment rate strategy regarding interest rate policy.

Source: U.S. Department of Labor: Bureau of Labor Statistics
2014 research.stlouisfed.org

In addition to monitoring the make-up of the labor market, the Fed continues to watch inflation which has remained below its goal of 2% for some time and could give the Fed the flexibility to hold rates lower for longer, if deemed necessary. Thirteen of sixteen Fed officials now expect the fed funds rate to rise by the end of 2015, and the fed funds curve now projects that rate to be 1.0% by then, up from a projection of .75% at year-end. That same curve now sees the fed funds rate at the end of 2016 at 2.25%, up from 1.75%. This is all part of the process of normalizing interest rates after 5 years of massive Fed stimulus. The Fed's balance sheet has ballooned from bond buying to $4.2 trillion versus just under $1 trillion in early 2008.

Surprisingly, Treasury yields ended the first quarter at or below where they started the year (bond yields and prices move in the opposite direction). Investors and economists expected interest rates to slowly rise as the Federal Reserve began to taper its asset purchase program. We attribute the drop to risk aversion due to global events such as slowing economic growth in China, the Russian intervention in Ukraine and weaker U.S. data that may have been impacted by the harsh winter. In times of crisis, the U.S. Treasury market becomes the market of choice in a flight-to-quality situation.



Source: Baseline

We continue to see interest rates rising gradually over the course of this year as the Fed pulls back on its stimulus in a measured fashion. Economic growth remains sluggish, but could bounce back in the second and third quarter. Inflation remains low and there is still slack in the labor market, although it is showing signs of improvement. The yield on the 10-year Treasury should trade in the 3.0-3.5% range as interest rates normalize.

In our fixed income portfolios, we have been keeping duration, which is a measure of bond sensitivity to changes in interest rates, fairly low. During the quarter we repositioned our portfolios by reducing duration in our corporate sector though exchange-traded funds (ETFs) and selectively adding individual bonds with attractive yields. Overall, the yield spread of corporate bonds over similar maturity Treasury bonds is very tight, meaning that the risk/reward for buying most corporate bonds is less attractive today. Our fixed income portfolios are maintaining ample liquidity as we look for interest rates and yield spreads to normalize. 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.

Second Quarter 2014 Investment Outlook

Geopolitics and economic growth concerns did not deter U.S. investors in the first quarter. As spring finally arrives, corporate earnings reports and economic data will help identify if the economic weakness was temporary or more significant issues are on the horizon. Based upon current data, we expect improving economic activity with the change in seasons. There is also the potential for a meaningful correction in stocks (5 to 7%) and rising interest rates.

The first week of trading in the second quarter has produced an initial surge and a rapid pullback. The decline cannot be accredited to a specific event, but has included a defensive repositioning by investors. Even during March, while stock prices rose, larger blue chip multinational and defensive yield-producing stocks were favored. This trend continued during the recent decline of April, as those types of investments declined less than the broader averages.

At this stage of the investment cycle, a 10% correction could provide a cleansing period to set up for future growth. Valuations would improve, assuming reacceleration in corporate profits in the latter half of the year. Based upon historical parameters, a year after a 25% or greater advance, the U.S. stock market is up the following year 77% of the time, albeit usually 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 for stock prices. However, the weakness is typically completed by the third quarter, which set up the strongest period of the four-year cycle a few months prior to mid-term elections and into the following year. While these historical considerations are interesting, the important factors of corporate earnings growth, employment, inflation and how interest rates normalize will be 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 later in the second quarter. 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.

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, investors want some assurances the weakness in the first quarter was transitory and weather-related. The potential weakness in the first quarter reports are somewhat considered by investors, but actual reports will create volatility where companies exceed or miss these muted expectations. At current levels domestic stocks are not cheap or expensive, but could be susceptible in the event of a shift in longer-term 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 for global laggards.

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. During the recent rally in bonds we moved to reduce duration in client portfolios. 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.

Russian relevance

Events in Ukraine, while serious and unsettling, are unlikely to reach a point where they significantly affect global financial markets. Russian leader Vladimir Putin is playing a dangerous game, but so far has not paid a big price as the sanctions imposed by Western countries are not consequential. Putin must still believe the odds are in his favor as major protests, strangely similar to the Crimean protests, erupted in eastern Ukrainian cities April 7. With 50,000 troops massed on the Ukrainian border and Russian special operation units already active, a Russian invasion of Ukraine may be next. Realistically, for reasons of both geography and history, Ukraine is much more important to Russia than it is to the U.S. or even Europe. Europe, especially Germany, has far more economic ties with Russia than does the U.S. Germany is significantly dependent on Russian natural gas, much of which arrives in Germany via pipelines through Ukraine. A number of major German multinational companies have extensive economic links with Russia. After initial tough talk in reaction to Crimea, German Chancellor Angela Merkel has already softened her tone. The U.S. has relatively minor economic dealings with Russia. Many have advocated a dramatic acceleration of the approval process for LNG (liquefied natural gas) export terminals. Although these LNG exports could ultimately substantially reduce E.U. dependence on Russian gas, the reality is that these are at least a decade away. The U.S. could certainly ratchet up the sanctions on individual Russians, but this would not have a big impact on financial markets. So, if Russian adventurism is limited to Ukraine, it's likely not a major issue for financial markets. However, if Putin is emboldened by his recent string of successes and decides to try to annex adjacent NATO members, for example the Baltics, then broader military considerations could change the story. The prospect of a broader conflagration would most assuredly have a major negative affect on global markets.

ARCATAUR CAPITAL

Arcataur Composite Investment Performance for the 3 Months, 12 Months, 3 Years and 5 Years Ended March 31, 2014

Arcataur Composite Portfolio	Total Return 3/31/2014 3 months	12 months	3 yr. annualized	5 yr. annualized
Large Cap Equity	1.85%	22.50%	13.90%	19.70%
Benchmarks				
Lipper Large Cap Core	1.68%	21.17%	13.36%	19.74%
S&P 500	1.81%	21.86%	14.66%	21.16%
S&P 100	1.09%	20.01%	14.18%	19.50%

Arcataur Composite Portfolio	Total Return 3/31/2014 3 months	12 months	3 yr. annualized	5 yr. annualized
Fixed Income	3.32%	-0.86%	2.99%	4.37%
Benchmarks				
Citi BIG 1-5 (T/G/C)	0.37%	0.47%	1.94%	2.84%
Citi BIG (T/G/C)	1.91%	-0.15%	4.24%	5.08%
Lipper Bond MF Avg.	1.71%	0.99%	3.91%	7.43%

Arcataur Composite Portfolio	Total Return 3/31/2014 3 months	12 months	3 yr. annualized	5 yr. annualized
Small Cap Equity	1.25%	27.78%	15.36%	25.74%
International Equity	-0.29%	9.16%	2.53%	13.50%
Total Equity*	1.47%	21.75%	12.59%	20.33%
Benchmarks				
Lipper Small Cap Core	1.46%	23.70%	12.46%	23.91%
S&P 600	1.13%	27.81%	15.95%	26.21%
EAFE	0.00%	14.40%	4.01%	12.65%
S&P 500	1.81%	21.86%	14.66%	21.16%

Arcataur Composite Portfolio	Total Return 3/31/2014 3 months	12 months	3 yr. annualized	5 yr. annualized
Managed Balance	1.69%	15.14%	9.76%	15.00%
Benchmark				
Lipper Balanced	1.57%	11.22%	7.98%	13.76%
60/40 Custom Index	1.06%	11.89%	8.59%	13.26%

*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.)

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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.