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Third Quarter Review
September 2013

Arcataur Capital Management LLC
A Registered Investment Advisor

High Quality Investment Management
For Individuals and Institutions

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Inside This Issue:

A Balanced Approach

Resiliency

Financial markets have faced numerous headwinds recently; however, stocks continue to be near all-time highs and interest rates have stabilized at elevated levels, albeit still historically low. Investors have remained relatively complacent in the face of increased Middle East tensions, the potential shift in direction by the Federal Reserve and the Washington trifecta of shutdown, debt limit and budget discussion stalemates. These potentially destabilizing events have been offset by improving domestic consumer demand, stable corporate profits and cash flow, signs of economic improvement in Continental Europe and emerging growth from Japan. The continued growth of energy production in North America is an emerging trend that could lead to lower cost and less dependence on the Middle East, which could have a significant impact on the domestic economy for the future.

While the recent headlines out of Washington have garnered the most attention, the news relating to the Fed has caused the most investor caution. The initial discussion of potentially scaling back its bond buying program (quantitative easing) in early May caused a jump in interest rates as investors quickly assumed this would start as soon as September. The potential of the Fed changing direction was compounded by the unusual public debate on a successor to Chairman Bernanke in August. That public debate led Dr. Summers to pull his name from consideration as investors and politicians viewed him as being potentially polarizing and destabilizing to the entire financial system. The surprise of no changes to the Fed bond buying in September caused investors to sigh in relief and allowed interest rates to consolidate recently.

Employment trends in the U.S. have shown a slow and steady improvement, but not at a level that would create inflation concerns. The most recently reported unemployment rate was 7.3%. A more significant improvement has been elusive with macro uncertainty and below trend demand worldwide.

The healthcare insurance exchanges relating to the Affordable Care Act were launched on October 1st. The political focus on this important and large segment of the economy will continue to be scrutinized by consumers, businesses, politicians and investors in the months ahead. The sheer uncertainty and magnitude of this change are an oft-cited reasons for deferred hiring. More clarity will hopefully be gained as we move into 2014.

With the Syrian situation being addressed diplomatically versus through military action, potential conflict appears to be avoided for now. The more recent communication with Iran also holds the potential for diplomacy. The worldwide sanctions on Iran have crippled its domestic economy and have isolated it from normal worldwide trade. Oil prices continue to carry a premium for the potential of Middle Eastern conflict. Any real changes in the region, especially Iran, could provide for lower energy cost. The increased production of energy in North America and a lower Middle Eastern risk premium in crude have the potential to provide a boost to slower growth world economies by providing lower input, heating and transportation costs.

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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%).

Resiliency (continued)

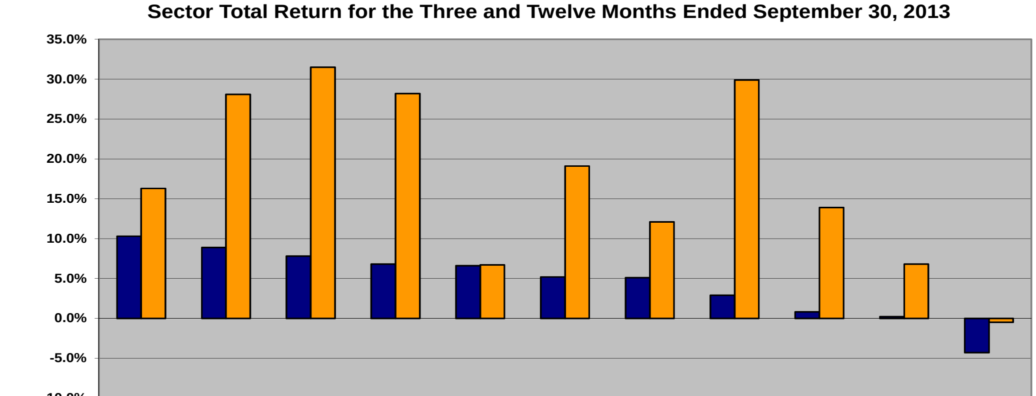
The U.S. auto and housing industries continued to show signs of a steady recovery. The decision by the Fed to delay reduced bond buying appears to be directly related to the rise in mortgage rates after the mere discussion of slowing quantitative easing. The fear is that rising mortgage rates would blunt the budding recovery in housing. While the statistics have not borne this out yet, the Fed was not willing to risk hurting the nascent improvement. In August, automobiles sold at an annual rate not seen since 2007 (pre-credit crisis and recession). Lower interest rates, as well as improving consumer confidence and employment trends, have supported auto and home sales.

The second quarter corporate earnings reports continued the trend of solid profitability and measured guidance for the future. The third quarter reports due in mid-October are anticipated to maintain the trend; however, for certain industries expectations could provide higher than normal volatility if actual results do not meet expectations. While low interest rates have stimulated consumer spending in the U.S., business capital spending and industrial production have not experienced the same recovery. The record corporate profit margins and rising cash flow have resulted in stronger financial positioning (increased cash and reduced debt) and increasing capital returned to shareholders (dividends and share repurchases).

The third quarter stock market volatility increased (up in July and September, but down in August) but still produced positive returns for the entire quarter. The S&P 500 (total return) was up 5.79% in the quarter and 19.13% year to date. The smaller capitalization (illustrated by the S&P 600 Small Cap Index) issues increased by 10.96% for the quarter, while the NASDAQ Composite rose by 11.1%, and the Dow Jones Industrial Average was up 1.9%. International markets also rose with the improved expectations for economic stability. Developed international markets increased 10.52% and emerging markets rose by 5.01% in the quarter.

Dividend focused sectors (telecom, utilities and staples) continued to underperform the broader averages. This relates to the shift in interest rates and move towards more economically sensitive areas of the economy. Materials, industrials 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 and continued accommodative Fed. The chart below illustrates how all the sectors performed in the quarter and for the trailing twelve months.

Sector Total Return for the Three and Twelve Months Ended September 30, 2013



	Materials	Industrials	Consumer Discretion	Healthcare	Info.Tech	S&P 500	Energy	Financials	Consumer Staples	Utilities	Telecom
3 Months	10.3%	8.9%	7.8%	6.8%	6.6%	5.2%	5.1%	2.9%	0.8%	0.2%	-4.3%
12 Months	16.3%	28.1%	31.5%	28.2%	6.7%	19.1%	12.1%	29.9%	13.9%	6.8%	-0.5%

Source: Baseline

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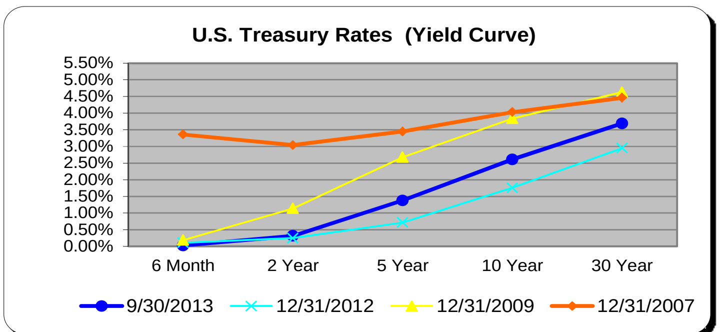
Quell Surprise!

The Fed surprised the markets at its mid-September meeting by deciding not to make any changes to the current quantitative easing (QE) program, which entails purchasing $45 billion of Treasury bonds and $40 billion of mortgage-backed securities (MBS) each month. The market was expecting the Fed to begin the tapering process by reducing its bond-buying program by $10 to $15 billion a month. Reaction in the U.S. markets to this announcement was positive, with both stocks and bonds rallying strongly. The yield on the 10-year Treasury dropped from 2.89% before the news to 2.73% shortly thereafter. That yield continued to decline (prices rise) for the rest of the month and ended the quarter at 2.61%.

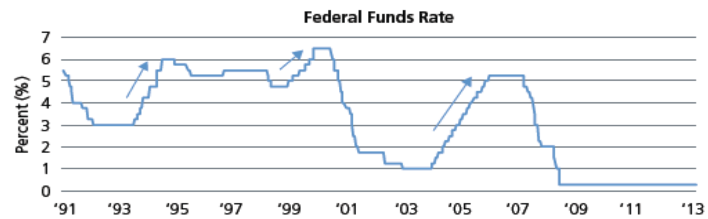


Source: Baseline

By failing to taper in September, the Fed signaled that there are concerns about the strength of the U.S. economic recovery. It cited three reasons it decided to maintain its extremely accommodative monetary policy: 1. Recent economic data has been sluggish. The August employment report was weaker than expected and more people dropped out of the work force. The participation rate dropped to 63.2%, the lowest since August, 1978. The Fed also lowered its guidance for economic growth for 2014 and 2015. 2. Recent tightening of financial conditions. After the Fed brought up the possibility of beginning to taper asset purchases in May, bond investors pushed the yield on the 10-year Treasury up from 1.60% to 3.0% by early September. The rapid rise in interest rates is starting to impact the recovery in the housing market as evidenced by a slowdown in mortgage applications and home sales. 3. Concern over the fiscal tightening begun in 2012 and the impact of upcoming spending cuts from the budget sequestration on economic growth. Other fiscal issues out of Washington were a concern, too, including the government shutdown, the contentious budget debate and debt ceiling debate in Congress potentially impacting the economy.

In discussing its outlook, the Fed clarified its forward guidance. It now sees the federal funds rate at 2% by the end of 2016. This rate has been held at zero for almost 5 years. This implies that short-term rates will remain low for several more years. The Fed reiterated that it will not start to raise the fed funds rate until the unemployment rate falls to 6.5% (7.3% now) and inflation is in the 2.0-2.5% range. Inflation has been running well below the Fed's target of 2%. The actual unemployment rate will be less important going forward than other indicators, such as the participation rate and discouraged workers.

FIGURE 1: IT'S BEEN A WHILE – REMEMBER WHAT A RATE HIKE CYCLE LOOKS LIKE?



Source: Federal Reserve data through September 2013

The bond market faced uncertainty about the timing of tapering and about the nomination of a candidate to replace the Fed Chairman, Ben Bernanke, when he retires in January. Janet Yellen was recently nominated to be the new Fed Chairman. President Obama strongly considered his former advisor Larry Summers, but Dr. Summers bowed out of the running after negative reaction by investors and politicians due to concerns over his aggressive policies. Ms. Yellen is expected to follow a similar philosophy as Chairman Bernanke and prefers to keep interest rates lower for a longer period of time. She will also be the first woman to Chair the Federal Reserve.

Despite the recent rise in interest rates, it's important to note that rates remain historically low. We see the 10-year Treasury note staying in a range between 2.5% and 3.0% until we get more clarity on economic growth and employment trends, along with the standoff in Congress coming to a reasonable conclusion. The Fed's exit from its stimulus programs will be extremely gradual. A good deal of time will pass between when the Fed starts tapering and then ends its bond purchases and the first fed funds rate increase (which is the historical activity of monetary policy under the Fed).

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.

Fourth Quarter 2013 Investment Outlook

The U.S. broad stock market averages moved out to all-time highs in September despite facing potentially destabilizing events. The timing of normalized interest rates was pushed out slightly beyond investors' recent expectations. The need to address government spending and the debt ceiling is a current flashpoint with the federal government shutdown on October 1st. Ironically, that was the same day of rollout of the on-line exchanges which are the centerpiece of the Affordable Care Act. Finally, the prospect of headwinds to corporate earnings has increased with the dysfunction in Washington. All of these concerns have not yet unnerved investors as stocks remain near recent highs and interest rates have remained reasonably stable.

The relative calm could be replaced with increased market volatility if corporate earnings fall significantly short of expectations or if the stalemate in Washington extends much further. A normal 5 to 10% correction in stock prices would not be out of the question and would be welcomed to provide a reasonable opportunity for future growth.

Based upon relatively low interest rates and strong growth of corporate profits over the last four years, domestic stock valuations are no longer as attractive. A normal market correction and incremental demand from stabilizing foreign economies could provide the appreciation opportunity into year end and 2014.

The timing and magnitude of future interest rate rises will also impact economic trends. Based upon current statistics, we see intermediate and longer-term interest rates to be range bound in the 2.5 to 3.0% area for Treasury bond yields, while there is some potential for short-term interest rates to move from abnormally low levels as the world economy continues to recover.

The Syrian threats and the ongoing unrest in the entire region will always add potential risk. The opportunity for diplomacy is extremely attractive, until the next terrorist attack or military action gets in the way. The growth of new domestic energy production utilizing technology has provided a potential game-changing event to the historical dependence on Middle Eastern oil. This economic reality may be the key to future diplomacy attempts with Iran and other oil-producing nations. A thoughtful and broad energy policy in the U.S. and all of North America could shift the balance of power in future negotiations.

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.

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.

Should investors be concerned about the Washington disputes?

The federal government shutdown is the primary concern out of Washington currently; however, the pending issues of hitting the federal borrowing debt ceiling (at $16.7 trillion), the need to establish a fiscal budget and the official rollout of the Affordable Care Act have much more potential to impact financial markets and our economy for years to come. The shutdown and debt ceiling standoff are separate issues, but it appears that they may ultimately be handled as a package. This is the 18th government shutdown since 1976, so this is not an unusual event and pales in comparison to the potential ramifications involved with the debt ceiling issue. The shutdown is difficult for furloughed workers; moreover, it will weaken economic numbers if extended more than a week or two. Typically Congress reaches a deal with the White House, the appropriate budget resolutions are passed and the government reopens. However, the current situation is atypical in that the shutdown is occurring contemporaneously with federal borrowings nearing the current $16.7 trillion debt limit. Without an increase in the debt limit the Treasury cannot borrow new money and theoretically may not be able to make interest (or principal) payments on U.S. government fixed income securities. A bedrock principle of global capital markets is that "the full faith and credit" of the U.S. government stands behind all credit obligations. A violation of this unconditional guarantee could have devastating and enduring negative impacts on all markets. Taxpayers will still be providing the U.S. Treasury with approximately $2.6 trillion in tax revenue in 2014 while federal spending will be in the $3.4-3.6 trillion range. It is this near trillion dollar deficit for which the Treasury needs additional borrowing capacity. Without an increase, the Treasury will have to prioritize its outflows and, although most investors assume bondholders will be first in line, the mere fact that this is an issue will shake investor confidence. The worst case result in the current imbroglio could be very negative for both bond and stock markets. If history is any guide, they may take this dispute right to the brink, but in the end sanity will prevail and a deal will be reached.

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Arcataur Composite Investment Performance for the 3 Months, 12 Months, 3 Years and 5 Years Ended September 30, 2013

Arcataur Composite Portfolio	Total Return 9/30/2013: 3 months	12 months	3 yr. annualized	5 yr. annualized
Large Cap Equity	5.78%	18.92%	15.09%	8.84%
Benchmarks				
Lipper Large Cap Core	5.60%	19.70%	14.60%	9.20%
S&P 500	5.24%	19.34%	16.27%	10.02%
S&P 100	4.42%	15.45%	15.94%	9.16%

Arcataur Composite Portfolio	Total Return 9/30/2013: 3 months	12 months	3 yr. annualized	5 yr. annualized
Small Cap Equity	10.96%	31.20%	20.06%	11.75%
International Equity	10.52%	14.09%	4.26%	4.17%
Total Equity*	7.74%	21.36%	14.71%	8.98%
Benchmarks				
Lipper Small Cap Core	9.30%	28.80%	17.30%	11.40%
S&P 600	10.73%	31.51%	20.68%	12.40%
EAFE	12.01%	21.52%	5.55%	3.40%
S&P 500	5.24%	19.34%	16.27%	10.02%

Arcataur Composite Portfolio	Total Return 9/30/2013: 3 months	12 months	3 yr. annualized	5 yr. annualized
Fixed Income	-1.25%	-1.92%	2.32%	4.39%
Benchmarks				
Citi BIG 1-5 (T/G/C)	0.64%	0.38%	1.64%	3.59%
Citi BIG (T/G/C)	0.38%	-1.86%	2.93%	5.79%
Lipper Bond MF Avg.	0.80%	0.40%	3.70%	6.10%

Arcataur Composite Portfolio	Total Return 9/30/2013: 3 months	12 months	3 yr. annualized	5 yr. annualized
Managed Balance	5.32%	14.50%	11.08%	7.86%
Benchmark				
Lipper Balanced	4.20%	10.90%	9.10%	7.60%
60/40 Custom benchma	4.43%	11.27%	9.69%	7.26%

*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.)

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.

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