April 9, 2014

Dear Clients and Friends of Grisanti Capital Management:

High Income Equity Portfolio First Quarter 2014 Letter to Investors

	For the Period Ending March 31, 2014			
	Year To Date	Since Inception 2/28/2010	Current Yield	Current Beta
Grisanti Capital Management LLC High Income Equity Portfolio[1]	***+2.1%***	***+54.0%***	***3.4%***	***0.8***

As opposed to last year's soaring market, downside volatility returned in the first quarter of 2014, and your portfolio was prepared for it. In our year end letter we highlighted the principles of the Grisanti Capital Management High Income Equity Portfolio (the HIEP): First, to protect your capital in turbulent markets, second, to give you the potential for capital appreciation with a degree of stability, and finally to provide better than average current income. We believe your portfolio fulfilled each of these goals during the first quarter.

The HIEP ended the first quarter up 2.1%. Although our goal is to deliver a steady return and not necessarily to beat the market, the HIEP slightly outperformed the S&P 500 Index, which was up 1.8%. More importantly, from January 1st to March 31st, the S&P 500 had 26 trading days when the index lost value (it's most volatile period since 2012); your portfolio outperformed the index on 85% of those days. At the low point for the year so far (February 3rd, the S&P 500 was down nearly 6%), your portfolio was down 34% less than the market. Finally, the HIEP currently carries a dividend yield of 3.4%, which is more than 70% higher than the S&P 500.

We are pleased with the portfolio's performance in the quarter and want to share with you some more detail regarding how we construct the portfolio in order to achieve the HIEP's mandate. Conceptually, the HIEP is constructed as a three-legged stool, with a leg designed for each of the objectives outlined above: income, appreciation, and safety.

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[1] Performance for the High Income Equity Composite is shown before deducting advisory fees and transaction costs, if any. GCM's advisory fees are described in Part II of its Form ADV. The HIEP Composite includes all accounts that are fully discretionary, managed in the HIEP strategy and over $200,000 in total assets. Past performance is no guarantee of future results. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. We use Beta, a widely recognized measure, to assess volatility. The Beta of the HIEP is 0.8, compared to the market's Beta of 1.0. All other things being equal, a portfolio with a Beta of 0.8 will fall (or rise) 20% less than the market. Of course, all other things are rarely equal and Beta is a measure of past volatility, which may or may not hold true in the future.

In the **income** leg, we look for securities that offer current yields that are greater than twice the yield of the S&P 500 and have the potential to grow faster than the rate of inflation. High yields alone are not sufficient to qualify for inclusion in the portfolio. We also look for solid businesses with defensible franchises and prefer to invest with trusted management teams with long histories of returning cash to shareholders through dividends or buybacks. We remain mindful of the risks to income-producing securities of all kinds in a rising rate

environment and have purposefully selected securities for this leg that benefit from economic growth and have minimal sensitivity to general interest rate risk. Representative holdings include **Verizon**, **AstraZeneca**, and **Ares Capital**.

The leg of the stool designed for **capital appreciation** shares many of the same qualifications as the leg designed for income. Solid underlying fundamentals, strong management and undemanding valuation are all important. However, in this group we are specifically searching for situations where we believe the stock price has become disconnected from the underlying value of the business, resulting in an opportunity for outsized capital appreciation. The sources of these opportunities are varied and constantly changing, but generally come down to investor fear or misunderstanding of some issue the company or industry is facing. We expect that the securities in this bucket will be more volatile than the portfolio overall, but mixing them with the more stable parts of the HIEP portfolio (**income** and **safety**) we believe the risk is mitigated (though not eliminated). A few of our current holdings include **Valero**, **General Motors**, **IBM**, and **Microchip**.

The last leg of our stool focuses on **safety**. We look for securities that can provide the portfolio with the stabilizing influence of cash without the full opportunity cost of having a large portion of your assets in a zero return instrument. Ideally these securities have a Beta of less than 0.8 (less than 80% of the market's volatility) or have exhibited minimal (or even inverse) correlation to the S&P 500. Companies that qualify for inclusion in the safety portion of the portfolio must exhibit a market leading position, stable and durable excess returns, superior management, and relative insensitivity to sharp market movements. Examples of our safety investments include **Nestle**, **Brookfield**, and **Baxter**.
We made significant changes to each leg of the portfolio in the second half of 2013 and continued to make refinements throughout the just completed quarter (detailed below). **We are particularly pleased that each leg of the stool added to performance in the volatile first quarter** and we hope to achieve similar results for the remainder of the year.

	Portfolio Weighting	**Contribution to Performance**	**Weighted Annual Yield**
Income	16.6%	35%	7.0%
Safety	42.2%	14%	3.8%
Appreciation	41.2%	51%	2.1%
Total	100%	100%	3.4%

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The portion of the portfolio designed for appreciation contributed more than half of the gains this quarter, led by double digit percentage gains in **DirecTV**, **Target** (new position), **Wells Fargo**, and **Eaton** (new position). The income portion of the portfolio was a strong performer this quarter helped by significant outperformance from **AstraZeneca** (+12% for the quarter) and **TriplePoint Venture Partners** (new position, +8%). Six of the

seven securities in this leg were positive contributors in the quarter. Our positions dedicated to preservation of capital did that and more this quarter, contributing positively to performance. **Baxter**, **Covidien**, and **Nestle** all performed better than the market.

We continue to believe that the U.S. economy will grow at a moderate pace in 2014. While we expect decent but not spectacular earnings growth, we also think stock prices will continue to rise faster than earnings. Why? Because, after seven years of outflows, the U.S. equity market is attractive to a broad cross-section of investors, both in terms of its asset class (stocks more attractive than bonds) and its geography (United States seen as a better investment than emerging markets, Japan or Europe). This trend of slow earnings growth but faster market appreciation is not unprecedented. It prevailed from 1995 to 1999, and it certainly carried the day last year, as earnings grew 8% but the market rose 31%. Successive years of such asymmetrical growth increase valuations and therefore risk, but this trend can last for several years and is not yet overblown. At its extreme, this trend led to the market peaking in 1999 at almost 29 times earnings, but today it sells at 16.5 times, just slightly above the 100-year average.

So far, 2014 has been a good backdrop for concentrated stock selection and we're off to a good start, with the HIEP providing incremental performance above the S&P 500 while taking significantly less risk. With cash currently at 7% of assets, and at least a few truly outstanding franchises looking more reasonably priced than in several years, we plan to take advantage of any extended market decline to continue to upgrade the quality and stability of your portfolio.

We said in last quarter's letter that sooner or later risk will return, in ways that are unpredictable and intimidating. We got a taste of that in the first quarter. We don't know if this is the start of a more turbulent market or just a pause on the way to new record highs, but either way your portfolio remains conservatively positioned for a less certain environment.

Very truly yours,

Christopher C. Grisanti