April 6, 2015

High Income Equity Portfolio First Quarter 2015 Letter to Investors

	For the Period Ending March 31, 2015			
	1Q2015	Since Inception 2/28/2010	Current Yield	Current Beta
GCM High Income Equity Portfolio Net of Fees[1]	***+3.1%***	***+64.7%***	***3.6%***	***0.8***

Dear Clients & Friends of Grisanti Capital Management,

Picture the GCM High Income Equity Portfolio as the scales of justice, balancing safety and income on one side with the prospect for capital appreciation on the other. Often our goal of safety will temper our pursuit of appreciation. But not this quarter. We're pleased to report that the high income equity portfolio (the HIEP) performed strongly on both sides of the scale. The portfolio maintained a 3.6% yield, and its volatility was 20% less than the market, but it also delivered market-beating appreciation, up 3.1% (net of fees). That put us ahead of both the S&P 500 Index (up 0.95%), and the average moderate target risk manager (a category of funds measured by Morningstar that we believe most closely resembles the HIEP), who was up 1.8%.[2] Our quarterly performance placed us in the top 5% of such managers as measured by Morningstar, strong performance versus a similarly conservative peer group.

The first quarter of 2015 witnessed a continuation of the volatility that emerged in the late 2014. Though the S&P 500 Index returned 0.95% during the quarter, these essentially flat results mask underlying choppiness; the index declined 3.1% in January before leaping 5.5% in February and falling 1.7% in March. Despite the market fluctuations, the HIEP composite outpaced the market and its peers thanks in part to our focus on undervalued franchises that are throwing off strong free cash flows, have defensible business models and are generally overlooked or misunderstood by the Street.

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[1] Performance for the High Income Equity Composite is shown net of 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.

[2] The performance shown is for the Grisanti Capital Management High Income Equity Composite. The S&P 500 Index performance includes reinvested dividends. The comparison to other moderate target risk managers is made via the Morningstar moderate target risk universe, which includes 927 mutual funds managed in that style. While we are not a mutual fund, we compare our net results (after fees) to those of publicly traded mutual funds with similar styles because we believe it is a fair comparison and the data is publicly available.

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Our conviction in the *American Oil Renaissance* paid big dividends (literally and figuratively) during the quarter just ended. Our biggest winner was independent refiner **Valero Energy**, which rose 26%. Refiners are a primary beneficiary of declining oil prices, and the company experienced dramatically improved business fundamentals during the March quarter. That, combined with its low valuation, made the stock attractive to market participants. Further, we believe that new management at Valero has positioned it to generate strong cash flows regardless of the price of oil, which was reflected in Valero increasing its dividend payout by 45% during the quarter.

While we believe that the U.S. economic growth will remain solid, thanks to low interest rates and a strengthening job market, our concerns lie with the rest of the world, where growth has clearly slowed. We continue to carry a good amount of cash should a market pullback give us the opportunity to buy quality companies at bargain prices. We last deployed some “dry powder” during the brief market swoon in October, buying four companies on our watch list. Values are tougher to find given the six-year bull market run, but not impossible. We believe two recent additions to the portfolio bring both income and the potential for capital appreciation to the portfolio. During the quarter we bought **United Parcel Service** (UPS) and **Macquarie Infrastructure Company** (MIC). You know UPS’s business, but MIC is probably unknown to many. It is a collection of energy-related infrastructure businesses. We especially like MIC’s bulk liquid storage business, in which it stores crude oil, refined products and chemicals. With inventories of crude oil soaring in the U.S., storage is in greater demand and pricing has increased.

Both these companies benefit from favorable industry dynamics and superior economies of scale, which should help to sustain free cash flow growth in most economic environments. In addition, we believe the businesses are inherently defensive and management has proven to be shareholder friendly, which will support valuations during periods of market dislocation. Finally, we believe both businesses offer the potential for upside in the current energy landscape – MIC’s geographically-advantaged liquid storage business will benefit from a worldwide oversupply of oil and record high U.S. storage needs. Further, lower gasoline prices should free up more consumer spending, which brings increased orders for things delivered by UPS. Lower fuel prices also reduce UPS’s vehicle and transportation costs.

As always, our crystal ball is much clearer when we gaze into the future of our portfolio companies than when we speculate about the market as a whole. Having said that, the current investment climate reminds us a lot of the late 1990s, when stocks continued to rise in a strong economy but experienced increased volatility. In 1998 for example, the S&P 500 Index was up 29% for the entire year, even though in a six week period over the summer it fell 19% as Russia defaulted on its debt. While it’s easy to look overseas for possible sources of volatility – Russia, Iran, Greece – we think the most likely culprit will be our own Federal Reserve. Higher interest rates in the form of a higher fed funds rate may add volatility to the market as soon as the current quarter. But we believe that rates will only rise if the economy is on sounder footing, which is a good thing, in the long run, for stocks. And higher rates would only bring them closer to

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historical norms and away from stimulus levels in place since 2009. In fact, we'd be far more afraid of *lower* rates (which might signal a deflationary slowdown). Either way, the HIEP is managed with volatility in mind, and ought to perform relatively well in a more choppy environment.

Your high income equity portfolio is less volatile than the market. It offers more yield. Finally, trading at 13.4 times consensus 2015 earnings, the HIEP is considerably cheaper than the overall market. We believe our investments in undervalued, shareholder-friendly companies continue to offer an attractive risk/reward profile for potentially turbulent markets, and we look forward to updating you on our progress in the coming months.

Very truly yours,

Christopher C. Grisanti