Grisanti Capital Management

January 19, 2014

Dear Clients and Friends of Grisanti Capital Management:

High Income Equity Portfolio Fourth Quarter 2013 Letter to Investors

	For the Period Ending December 31, 2013				
	4th Qtr 2013	Year To Date	Since Inception 2/28/2010	Current Yield	Current Beta
Grisanti Capital Management LLC High Income Equity Portfolio[1]	***+9.0%***	***+12.4%***	***+50.9%***	***3.3%***	***0.8***

The High Income Equity Portfolio (the HIEP) was more Clark Kent than Superman in 2013. In a market that produced the strongest returns in almost two decades, there was little call for the HIEPs powers to fight the twin evils of volatility and economic uncertainty, and they remained disguised. Even when those virtues are not immediately rewarded, we maintain the HIEP's focus on risk avoidance, quality and current income. While we are pleased with the HIEP's double-digit results in 2013, things will not always be this peaceful in Metropolis. When trouble inevitably returns, the risk-avoidance capabilities of the HIEP should start to reveal themselves (even without leaping into a phone booth).

The HIEP acted very respectably in 2013, with the portfolio up 12.4%. This was mostly accomplished by delivering a strong fourth quarter, the first full quarter after we repositioned the high-yielding HIEP for the headwind of rising interest rates. For the fourth quarter, the portfolio was up 9.0%, driven by our refining investments (which were up more than 35% in the quarter) and our financial sector holdings. The market environment in the first few weeks of 2014 has been more uneven than 2013, and has been a good test for the reconstructed portfolio. It is still very early, but with the market down slightly, your portfolio is up about 1%. We believe the portfolio enters 2014 well positioned and with positive momentum.

The HIEP has the following priorities (in order of importance): (1) capital preservation, (2) potential for capital appreciation and (3) above-average income. That's not the type of portfolio optimized for the buoyant market of 2013. During the calendar year, the S&P 500 never experienced a decline of more than 6% from its high, an exceptionally low level of volatility. This stands in stark contrast to average years (such as 2012), which experience corrections of at least 10%. As recently as 2011, the market plunged 22% in a five month period.

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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.

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With such shallow market declines and continued support from the Federal Reserve, investors rushed to riskier assets. After several years of outperforming the market, higher-dividend, quality stocks were among 2013's *worst* performers. Of the best 50 performers in the 1000 stock Russell Index, only *one* company (Pitney Bowes) had both an investment grade rating and a dividend yield higher than the market, characteristics that merit inclusion in the HIEP. On the other hand, stocks with riskier balance sheets (rated BB or below) and no dividends comprised the great majority of top performers in 2013. We understand that favoring higher quality, dividend-paying companies hurt the portfolio this year relative to the market, but we believe over the long term, risk avoidance will serve HIEP investors well.

There are two important reasons for the headwinds facing quality dividend stocks: investors are getting more adventurous as the memory of 2008 fades, and interest rates are rising, impacting the relative attractiveness of income-paying securities (whether stocks with high dividends or bonds). In fact, 2013 was a watershed year for the bond market and fixed income securities. Interest rates bottomed in April, ending a 31-year trend of declining rates. As so often happens at major turning points, the change was swift: the interest rate on the 10-year treasury increased over 85% -- from 1.6% to almost 3% -- in just a few months. That leap caused ripple effects across markets. Mortgage rates fared worse than Treasuries (which were down 2.6% for the year, including interest income) and the bellwether Barclay's aggregate bond index suffered its worst loss in over a decade (down 2.0% including interest income). The ripples reached all the way to the preferred stocks we held earlier this year. They quickly became both much more volatile and too correlated to the equity markets to serve as the "safety" side of our barbell. The investments that had imbued the portfolio with income and stability in 2011 and 2012 became volatile and thus unattractive in a rising rate environment.

An essential feature of the HIEP is its "barbell" approach to portfolio construction. High-yielding, low-volatility securities (the "safety" side of the barbell) are combined with securities with a greater potential for capital appreciation (the "growth" side). A thorough analysis of the impact of rising rates on the portfolio led us to take swift action to adjust the composition of the "safety" side of the barbell last summer (see our letter from September 2013). We reduced or eliminated securities with duration and interest rate sensitivity, investing instead in those companies with capacity for significant dividend growth but that still remained less volatile than the market.

We made these changes while staying true to the core principles upon which the HIEP was built: To protect your capital in those moments when the equity market moves up and down in frightening lurches, to give you the potential for capital appreciation with a degree of stability not available in typical stock portfolios, and to provide better than average current income. In 2012, the HIEP returned 19.9% and since inception in March, 2010 is up more than 50% (or 11.3% per annum), all while providing much greater stability and income than the market.

In closing, in an investment world where little is certain, there *are* two things we can say for sure: First, the HIEP's focus on risk-prevention was unneeded during 2013, when there was very little fear present in the market. Second, sooner or later *risk will return*, in ways that are unpredictable and unsettling. Investors in the HIEP should know that our primary goal is to protect your capital upon that inevitable return of downside risk. We think the fourth quarter of 2013, and the early returns in 2014 exemplify what you should expect from us as we seek to fulfill these investment objectives.

We welcome your comments and questions, and look forward to reporting back after the first quarter.

Very truly yours,

Christopher C. Grisanti