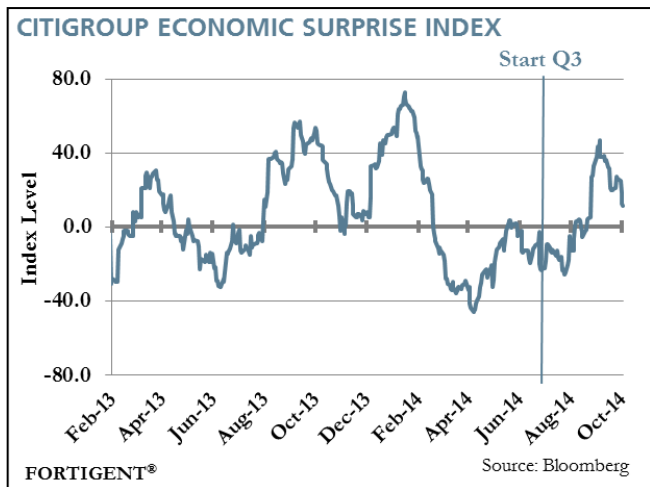


Third Quarter Flash Report – October 6, 2014 (Quarter Ending September 30, 2014)

ECON: HESITATION IN THE HOUSING MARKET

Economic Data: The Citigroup Economic Surprise Index trended sharply into positive territory throughout August as economic data on the whole surpassed expectations. The positive trend reversed during September but remains in positive territory, painting a mixed picture of the overall housing market.

The third and final estimate for second quarter GDP was revised to 4.6% from an initial estimate of 4.2%. Based on the latest data, the third quarter represented the strongest period of expansion in nearly three years. Underlying trends were strong in a number of areas, including business investment, residential investment, and consumer spending. It is important to remember that weather-related discrepancies likely played a role in the magnitude of this rebound, and that is a phenomenon that may not continue into the third quarter.



While housing prices continue to rise, the year-over-year change in prices continues to slow. The S&P/Case-Shiller 20-city index gained just 6.7% in July from a year earlier, marking the smallest year-over-year increase since November 2012. Monthly gains were also smaller in July for 17 cities with even San Francisco falling 0.4%. The index is still more than 16% below its 2006 peak.

Pending home sales disappointed, falling 1.0% in August as contracts signed declined in all regions, less the West. Despite the August reading failing to meet economists' expectations of just a 0.1% decline, pending home sales were still at the second highest level of the year as sales in July rose 3.2%. Existing homes sales declined 1.8% in August to a 5.05 million seasonally adjusted annual rate. Despite being the first decrease in four months, the pace of sales was still the second highest on the year. New home sales, on the other hand, surged in August to a six year high as purchases increased 18% to a 504,000 annualized pace. This also marked the largest one month increase since January 1992. Continued improvement in the job market will be needed to propel the housing market forward as wage growth remains stagnant and credit conditions tighten.

Central Banks: Central bank news throughout the quarter was centered on the European Central Bank (ECB). In August, the ECB made the decision to lower interest rates and announced new stimulus measures. In an unexpected move, the ECB lowered its refinancing rate from 0.15% to 0.05% and deposit rate from -0.1% to -0.2%. The deposit rate, which is the rate the ECB charges banks to place funds at the central bank, dropped further into negative territory as the ECB looks to spur lending throughout the region.

In the latest meeting on October 2nd, the ECB took no new action despite growing concerns over deflation. The central bank maintained its refinancing rate at 0.05% and confirmed its commitment to

use unconventional instruments if necessary. Details of its latest asset purchase program were also announced. The ECB's purchases of asset-backed securities and euro-denominated covered bonds will last at least two years in order to stimulate credit provision and, as a result, help return inflation closer to its 2.0% target. Asset purchases are to begin in the fourth quarter of this year.

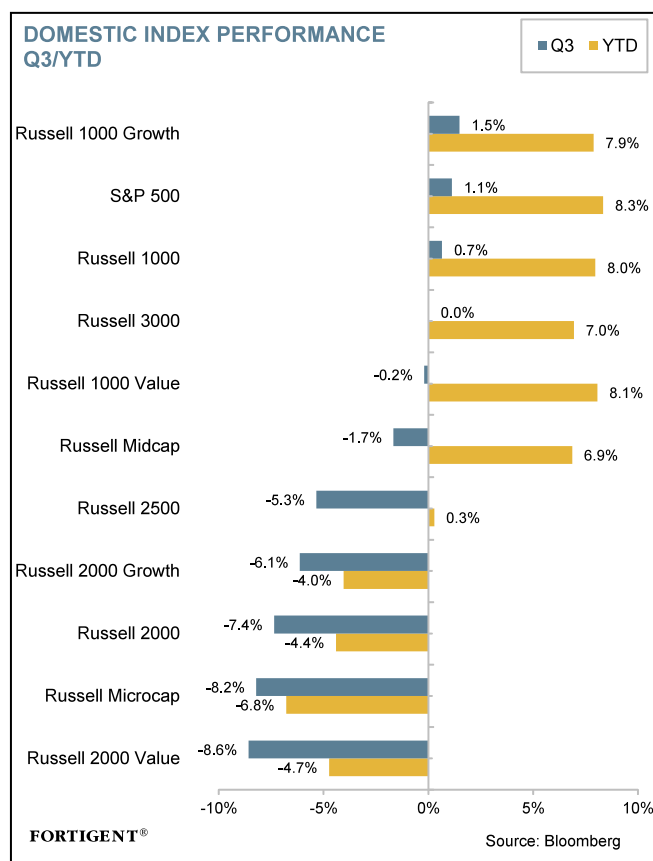
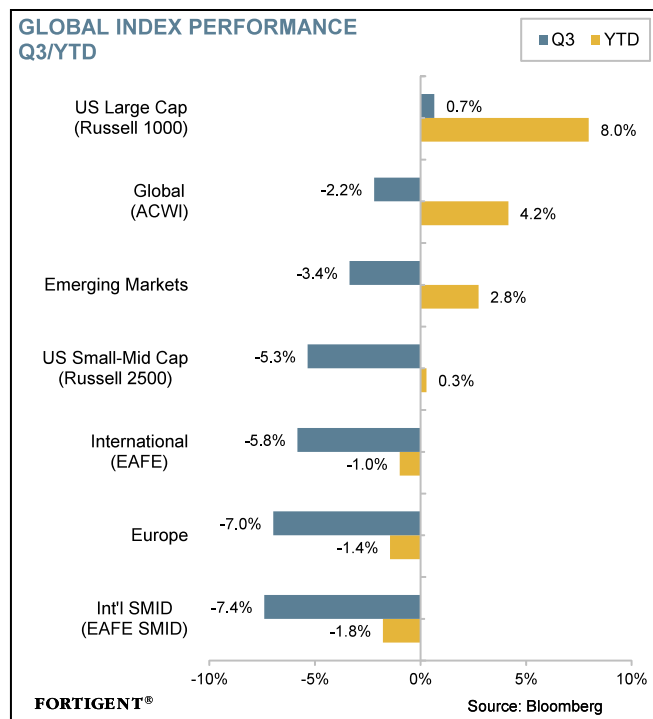
Source: CentralBankNews.info, ADP Employment, USA Today, Reuters, Bloomberg

GLOBAL EQUITIES: MACRO HEADWINDS & DEFLATION FEARS RETURN IN FORCE

Global stocks were stung by renewed geopolitical and global deflationary concerns in Q3, driving the MSCI ACWI index down 2.2%. US stocks fared better than other regions of the globe, benefitting from relative stability in earnings and economic trends amid the renewed flight to safety. European stocks were hit hardest in the Q3 selloff as mounting deflationary pressures threaten to push the Eurozone into its third recession in six years. After an encouraging start to the quarter, emerging market stocks declined sharply in September amid disappointing economic data and risks to financial stability stemming from strength in the US dollar.

US:

US stocks were not immune to the return of volatility and endured significant performance disparity across market cap and styles. Somewhat surprising was the relatively strong performance from large cap stocks, whose earnings are more vulnerable to economic weakness overseas and strength in the US dollar. Conversely, small cap stocks lagged considerably despite greater sensitivity to the relatively strong domestic economy and declining inflationary pressures. Although this divergence has been developing throughout most of 2014, it became particularly pronounced in Q3 as volatility spiked, with the VIX rising 40.9% to 16.3. Concerns regarding the upcoming end to QE and subsequent rate hikes were likely key factors behind this divergence, with volatility causing investors to pull money out of less-liquid small cap stocks in favor of the highly-liquid large cap universe. With the US dollar index climbing 7.7% in Q3, continued large



cap leadership may hinge on guidance regarding the impact of foreign exchange headwinds in the forthcoming earnings season.

Currency volatility also played a major role in sector leadership, with commodity-cyclicals like energy and materials lagging as the strong US dollar pushed most commodity prices sharply lower. Health care and technology were the top performing sectors in the Russell 1000 index, each benefitting from positive earnings revisions and emerging long-term secular growth tailwinds. While significant performance disparity across the market cap spectrum broadly favored large caps over small caps, stylistic leadership was less extreme. Growth outperformed value in both large and small caps, reflecting a premium for growth in an environment facing renewed deflationary headwinds.

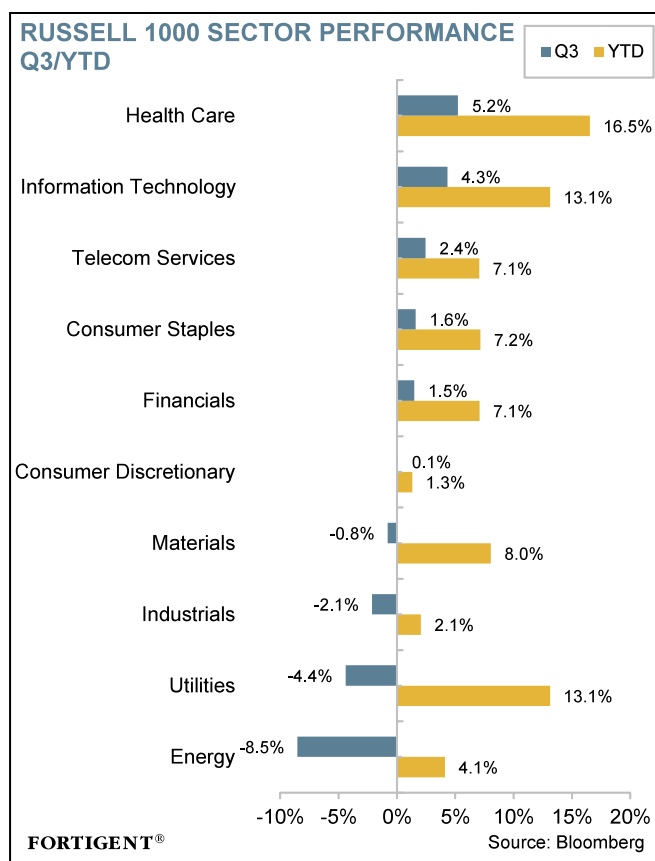
International/Emerging Markets:

European equities suffered a very difficult quarter as most signs point to a stagnating economic recovery in the region. The quarter began rather disconcertingly with the failure of Portuguese lender Banco Espírito Santo, and ended with an underwhelming investor reaction to the ECB's new steps to combat deflation. Despite an interest rate cut and a new plan to purchase asset-backed securities, all major equity markets across Europe fell between 2% and 6% during September.

Japan ended the quarter down 2.2%, and as year to date performance is also negative (-1.4%), many investors are questioning the efficacy of Abenomics. The tax hike instituted in April 2014 does appear to have reduced consumer sentiment and spending. However, there have been signs of improvement as both employment and inflation have ticked higher as a result of the Prime Minister's policies. Further improvements in productivity and wage growth have been limited and remain necessary for sustained success.

Emerging markets reversed course in September and fell dramatically on the back of significant dollar strength and weak Chinese economic data. The index exhibited strength in July and August for a number of reasons, but the downturn since then has been somewhat reminiscent of the taper tantrum period during the summer of 2013 as EM currencies have fallen across the board. China (+1.5% for Q3, -6.4% for September) reported slackening loan demand and a big drop in industrial production. The country did however experience an unexpected uptick in PMI at quarter-end. Russia was the hardest hit of the major markets during the quarter (-15.1%) as investors continued moving investments out of the country due to the Ukraine conflict. Brazil fell significantly in September (-19.2%) as the country approaches elections on October 5th and incumbent Dilma Rousseff has managed to reclaim her lead in the polls.

Source: MSCI, Bloomberg, WSJ, The Economist, Morgan Stanley, Bespoke, FactSet, Russell, Reuters, J.P. Morgan, Barclays Capital, Financial Times, Goldman Sachs



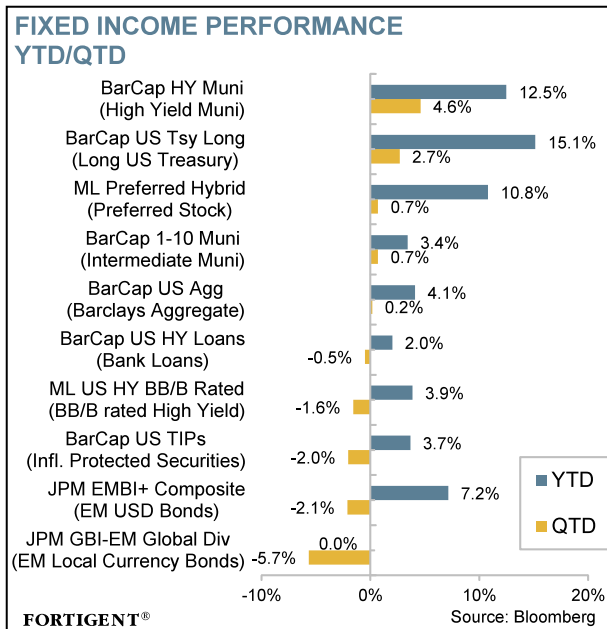
FIXED INCOME: GRADUAL YIELD CURVE FLATTENING REFLECTS GLOBAL THEMES

The US Treasury yield curve gently flattened during the quarter with long term rates falling between 5 and 15 basis points and intermediate term rates increasing 10 to 15 basis points. Despite the twist in the curve, the yield curve remains steep with the 10 year treasury yield near 2.5% at quarter end; 1.9% higher than two year Treasuries. From a historical standpoint, on average the spread between the two is 0.95%. The quarter's curve activity, while relatively minor, provides a glimpse into the macro concerns facing the world. The themes of multi speed global economic growth, varying central bank activity, and geopolitical concerns, all served as the back story to the quarter's US Treasury yield curve activity.

Not surprisingly, longer maturity securities bested most fixed income sectors as the positive price performance generated by falling rates drove total return. High yield munis, which have the characteristics of being longer duration and higher income, outdid most fixed income investments with a return of 4.6%. Not far behind were long maturity US Treasuries, up 2.7% for the quarter. Core taxable bonds, as represented by the BarCap Aggregate, was up just 20 basis points. While the benchmark benefited from the long bonds gaining value, this was more than offset by rising short rates and increased yields for credit based bonds as the yield premium afforded credit investors increased in the quarter.

The municipal yield curve flattened as well, however the shape was impacted mostly by a drop in long term rates. During the quarter, yields for muni bonds maturing between twenty and thirty years fell between twenty and thirty basis points while yields for bonds due between two and five years were essentially unchanged. This ultimately led to core muni bonds, as measured by the BarCap 1-10 year muni index, generating 70 basis points in the quarter.

Credit quality among municipal issuers remained solid, but there were signs the picture is gradually changing, which is fairly common as the economic cycle matures. During the quarter, the Nelson A. Rockefeller Institute of Government reported that overall state tax revenues declined by 0.3% during the first quarter of 2014, and a preliminary reading for the second quarter 2014 shows tax revenues are on track to decline by 0.8%. A drop in personal income taxes drove declines while sales taxes and corporate income taxes, the two other major drivers of state tax revenue, continued to increase.



US Treasury Yields

Security	12/31/2013	9/30/2014	Δ Yield
90 Day	0.05	0.01	-0.04
2 Year	0.38	0.57	0.19
5 Year	1.74	1.76	0.02
10 Year	3.03	2.49	-0.54
30 Year	3.97	3.20	-0.77

SOURCE: BLOOMBERG

AAA Municipal Yields

Security	12/31/2013	9/30/2014	Δ Yield
2 Year	0.52	0.44	-0.08
5 Year	1.49	1.25	-0.24
10 Year	2.97	2.43	-0.54
20 Year	4.58	3.80	-0.78
30 Year	5.18	4.38	-0.80

SOURCE: BLOOMBERG

A spike in tax collections in 2013, following an increase in tax rates, is the main driver of slowing personal income taxes as it makes year-over-year comparisons more challenging.

Sources: Barclay's Capital, Bloomberg LP, The Nelson A. Rockefeller Institute of Government

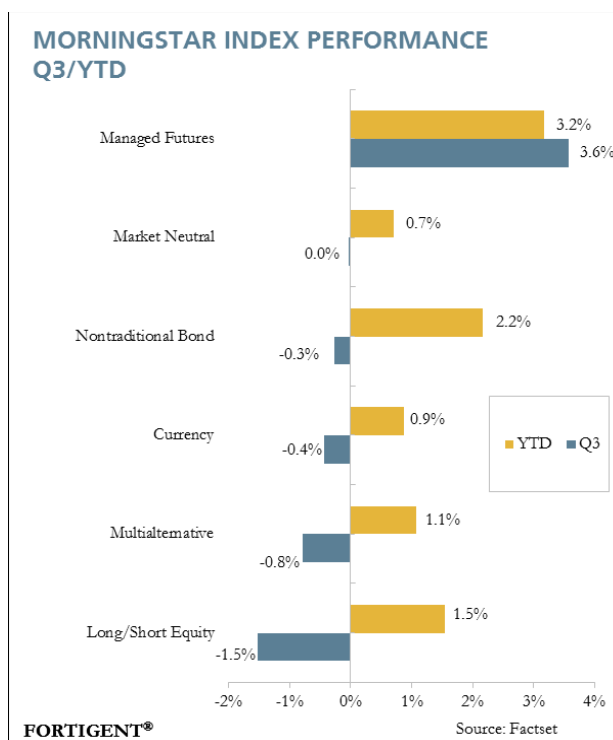
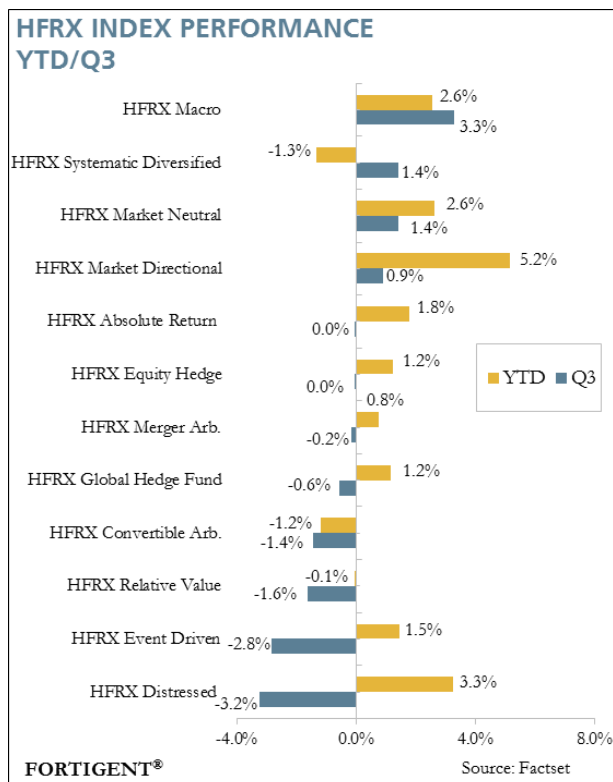
ALTERNATIVES: MACRO REBOUNDS IN THIRD QUARTER

The third quarter was an up and down affair for risk assets, but conditions improved for the much maligned global macro and Commodity Trading Advisors (CTA) space. Currency markets, in particular, were fertile areas for profitable trades – with extended strength for the US dollar against the euro and yen proving to be the most fruitful. Shorts across the commodity complex were also additive. Macro and CTA funds led both hedge fund and liquid alternative performance in the period, with many individual managers posting high single digit/low double digit returns for the quarter.

Within equity markets, market neutral approaches proved to be the most successful. Sluggish stock markets globally provided better price discovery for many names – particularly on the short side – boosting relative value hedge fund strategies. Market neutral mutual funds generally saw flat returns, as a lack of leverage in those Funds resulted in more muted results.

Other hedge fund approaches struggled in the third quarter. Directional long/short equity strategies struggled as managers in the space had broadly lightened their short books in the face of a continued equity market rally earlier this year. Excessive long positioning in procyclical areas such as energy and industrials, as well as in non-US markets, was also a headwind as those areas sold off in the quarter. Losses were more pronounced in the mutual fund universe, while long/short hedge funds were roughly flat.

After being a star performer for most of the past year, event driven was the notable laggard in the third quarter. Several deal breaks in August were troublesome for risk arb, with the dissolution of Time Warner-21st Century Fox and T-Mobile-Sprint deals causing large single day losses for many strategies. Increasing scrutiny over inversion deals was also

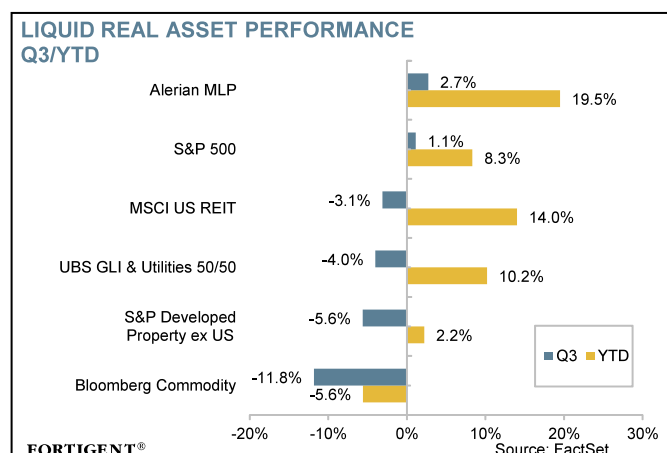


a headwind for the space. Many distressed Funds struggled in the quarter as high yield bonds generally performed poorly.

Sources: Bloomberg LP, Hedge Fund Research, Morningstar Direct

COMMODITIES DROWN IN SUPPLY

MLPs provided the only place to hide during the quarter, as markets punished duration-sensitive US REITs, Europe-exposed property and infrastructure, and fundamentally oversupplied commodities.



MLPs & Global Listed Infrastructure: The MLP quarter should be divided into August post the Kinder Morgan announcements, and everything else. The proposed consolidation of the Kinder Morgan family of companies under one C-Corp umbrella delighted markets in early August with all Kinder Morgan entities rallying more than 15% on the news. The Alerian index rose more than 9% from the announcement date through month end. The deal, which is expected to close in Q4, would effectively take all Kinder Morgan entities away from the MLP construct that they helped champion for nearly two decades. This sent a bit of a shockwave through the ether, since the MLP construct is traditionally tied to low cost of capital, spurring concerns of whether other operators would leave the universe. For now, the industry appears settled on the fact that this transaction was unique to Kinder Morgan, which through its entities and complicated structure seemingly outgrew the advantages associated with the MLP structure.

The rest of the quarter was noticeably weaker, with MLPs down in July post a record Q2 after the Commerce Department suspended condensate export rulings only a few months after approving their first one. September brought mixed results with strong fundamentals offset by significant secondary issuance. MLP yields closed the quarter at 5.25%, although they did touch all-time lows of 5.14% in August. Spreads relative to Treasuries closed at ~270bps, which is slightly below the long-term average, but nowhere near all-time lows (30 bps) seen in 2007. Global Listed Infrastructure was pulled down by a selloff in toll roads (-14.8%) and utilities (-7.0%), and only partially offset by improvements in rail and ports.

REITs: A dramatic September sell-off resulted in negative Q3 returns for the space. In the US, the residential and health care sectors led the way down, as concerns about Fed tightening and rising interest rates punished the duration sensitive sectors. European stocks fared even worse, as weak economic data in spite of accommodative central banks signaled deflation fears. Italian (-27.3%) and French (-13.2%) property benchmarks languished, flattening YTD returns. Strength came from China and Hong Kong where economic stimulus and loosened residential controls spurred a rebound.

Commodities: Commodities experienced its worst quarter since 2008, due in large part to excess supply in select energy and grains sectors. The poor quarter brought YTD performance into negative territory, with nearly half of the weakness attributable to corn (-27.6%), wheat (-25.7%) and soybeans (-14.4%) as improving weather conditions across the Americas resulted in record crop yields. US corn production (40% of global output) is now expected to near 15 billion bushels in 2014, an 8% increase from 2013. In crude, geopolitical headlines from ISIS and Russia failed to overshadow increased

production from non-OPEC countries, robust US reserve data, and reduction in global consumption estimates from the International Energy Agency (IEA). Natural gas fell 9.2% as cooler weather in the US ushered in reduced utility demand. Precious metals were not spared in the quarter, with gold falling 8.4% in USD terms. The theme here was more USD strength than any major fundamental shock, as gold priced in Euro's, for example, only fell 0.7%.

Sources: MLpdata.com, S&P, FactSet, Alerian, Barclays, Bloomberg, WSJ, agweb.com, agrimoney.com, Reuters

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