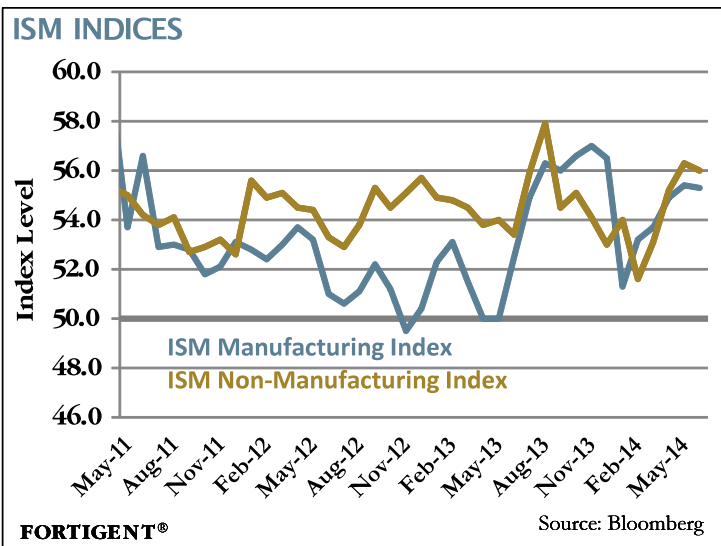
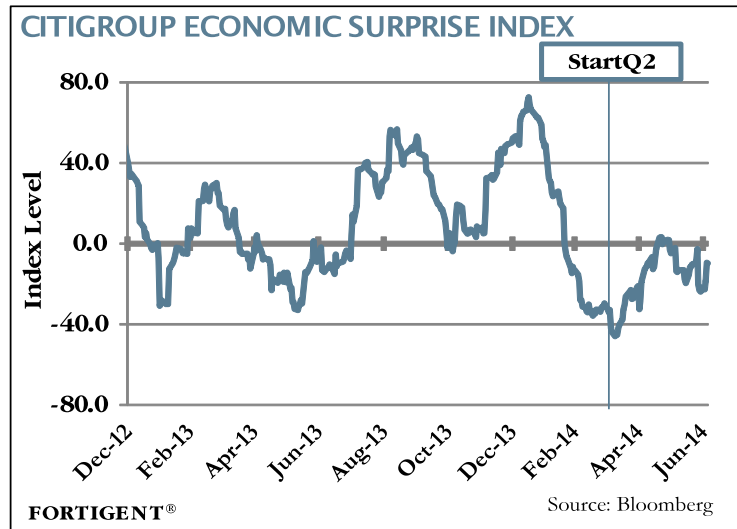


Second Quarter Flash Report – July 7, 2014 (Quarter Ending June 30, 2014)

ECON: JOBS, JOBS, JOBS

Economic Data: Despite equity markets' trend upwards, economic data came in below expectations for much of the quarter. The Citigroup Economic Surprise Index trended in negative territory for the majority of the quarter as housing and retail data fell shy of expectations.

Markets did receive upbeat news pertaining to labor markets to end the quarter as the unemployment rate for June dropped to 6.1%. Nonfarm payrolls increased by 288,000 jobs in June while data for April and May were revised up by 29,000 jobs. Even more important was the labor force participation rate which held steady at 62.8%. US stocks and the dollar advanced following the report. Job growth averaged 231,000 per month in the first six months of the year marking the best start since 2006.



Despite falling short of expectations, ISM data has been positive following the harsh winter months earlier in the year. Both manufacturing and service indices took a dip in the earlier months of the year but recovered in the second quarter. The ISM Manufacturing Index touched 51.3 in January but has snapped back to 55.3 in June. The ISM Non-Manufacturing Index followed suit, bottoming at 51.6 in February before jumping to 56 in June. Despite the winter weather negatively impacting manufacturing and service output, neither dipped into contractionary territory (below 50), a positive sign that the US economy is on strong footing.

Central Banks: Central bank headlines were dominated by the European Central Banks (ECB) this quarter as the bank dropped its main refinancing rate from 0.25% to a record low 0.15% while also lowering the interest rate on overnight bank deposits to -0.10% from 0.00%. Mario Draghi also stated that the ECB could implement a large-scale asset purchasing program similar to those currently employed by the US Federal Reserve and Bank of England. ECB policymaker Benoit Coeure confirmed the bank's dovish monetary stance at a recent economic conference in France stating that "interest rates

will remain very low, very close to zero, for a long time, whatever the developments in the rest of the world.” The region that undertook austerity measures at the onset of the sovereign debt crisis has now gone the Keynesian route. Coeure also reiterated that euro zone governments must do their part to promote growth stating that “the only way out is by investing.” Given that separate fiscal unions operate under one monetary umbrella, fiscal policy amongst each individual country will be heavily dissected going forward.

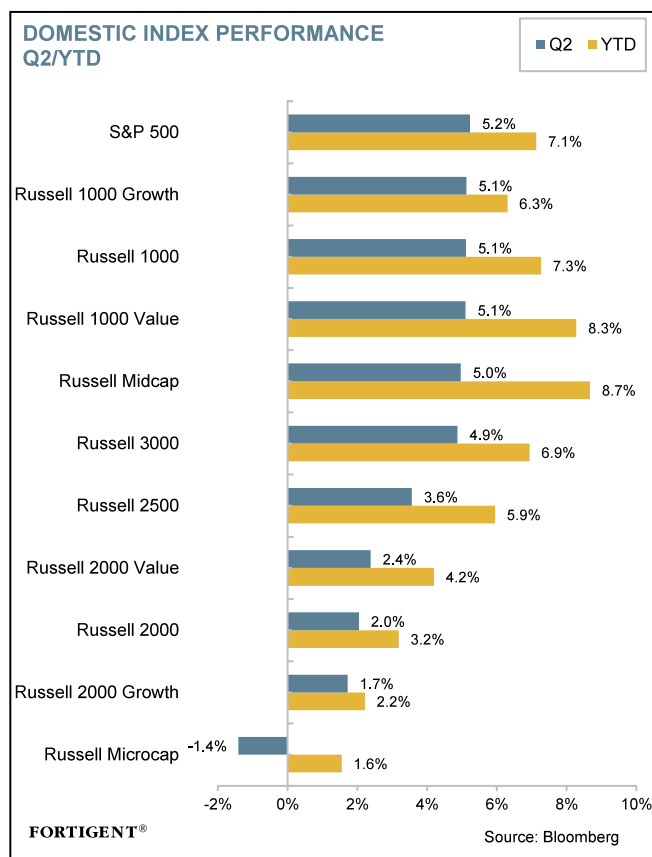
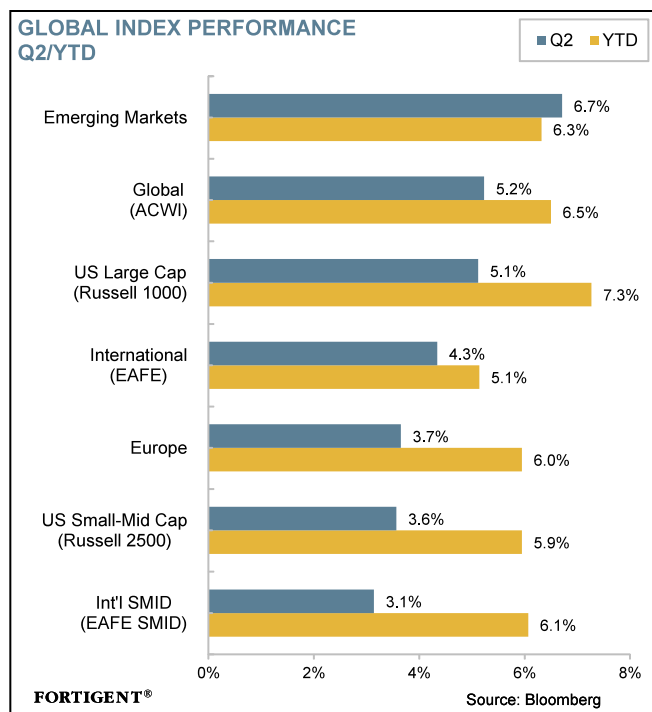
Source: CentralBankNews.info, ADP Employment, Bloomberg, Reuters

GLOBAL EQUITIES: GLOBAL GROWTH GETTING BACK ON TRACK

After getting off to a slow start in 2014, global equity markets shifted back into gear in Q2 amid growing optimism that global economic momentum is beginning to accelerate. For the first time in several quarters, emerging markets was the top performing category. EM strength was driven by large gains in India, Taiwan, and Brazil, which rallied on improved sentiment and economic optimism. Russian equities rebounded strongly as fears about the political crisis in Ukraine eased, while Japanese stocks surged late in the quarter as positive economic data increased expectations that “Abenomics” reforms are successfully supporting an economic rebound. Developed market equities most exposed to emerging markets enjoyed the strongest participation in the global rally, while areas most exposed to developed market economies lagged considerably. Most notably, small and mid-cap US stocks continued to lag as investors awaited clarity that the US economy was improving after an unusually harsh winter, while European stocks underperformed as investors grappled with uncertainty that recent actions from the ECB will diffuse the growing threat of deflation.

US:

Positive earnings results, optimism for improving global economic growth, and continued support from the Federal Reserve pushed US stocks higher for a sixth straight quarter. After struggling with renewed volatility at the end of Q1, the S&P 500



rallied 5.2% in the second quarter. Implied volatility plummeted throughout the quarter to its lowest levels since before the financial crisis, with the VIX falling 16.6% to 11.6. Most of the outperformance in Q2 was concentrated in large cap stocks, especially those most leveraged to improved global economic growth. Small cap stocks on the other hand, which are typically more sensitive to moves in the domestic economy, continued to lag amid lackluster economic momentum coming out of the harsh winter in Q1.

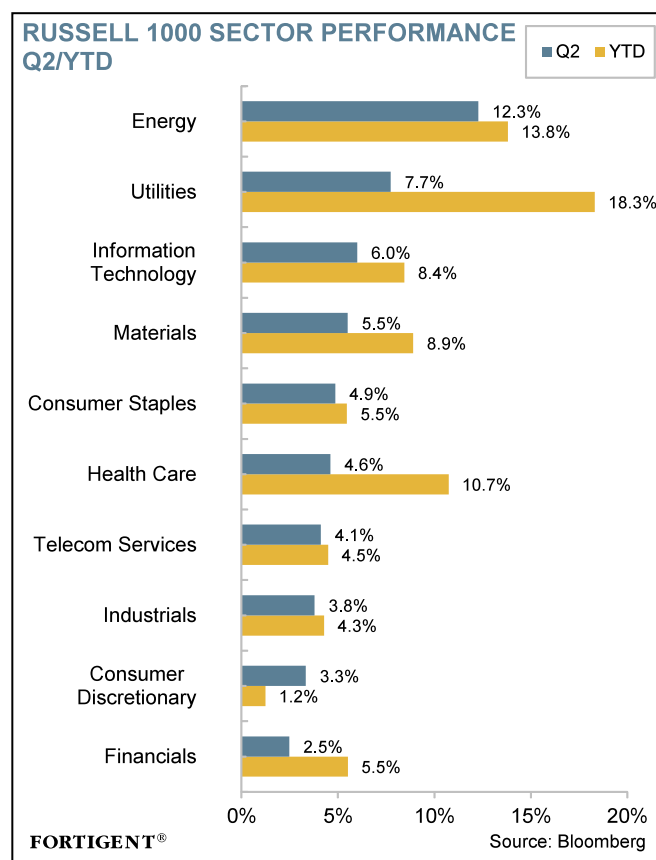
Sector leadership trends evolved in a pattern consistent with the changing global economic outlook. On one hand, bifurcated leadership from energy (cyclical), materials (cyclical), and utilities (defensive) continued to suggest the current bull market is near the end of its cycle. Underperformance from the domestically-sensitive consumer discretionary and financial sectors painted a similar picture; both sectors were leaders of last year's bullish advance whose recent underperformance remains a headwind for the broader markets. One positive sign can be gleaned from building relative strength in technology, likely reflecting accelerating business investment amid expectations for a rebound in the global economy. While market cap leadership favored large cap over small cap, style leadership was less consistent. Growth outperformed value by an extremely narrow margin in large cap, while value outperformed significantly in small cap. This most likely reflects improved optimism surrounding international economic growth, where large cap stocks have a much larger share of non-US revenue.

International/Emerging Markets:

The emerging markets index (+6.7%) led major indices for the quarter, helped in large part by strength in Indian (+12.7%) and Russian (+10.8%) stocks. India continues to enjoy support from positive political sentiment, as the pro-business BJP led by Narendra Modi won a clear majority in the recently concluded election. Russian stocks rebounded strongly as the fear trade surrounding the conflict with Ukraine appears to have subsided and news reports have all but disappeared from the front pages. Instead, investors have been greeted with reports of renewed conflict in Iraq and its impact on energy prices, which have been a positive for oil producers in emerging markets and elsewhere. Other EM contributors included Taiwan (+10.4%) which has experienced strong export growth, and Brazil (+7.7%) which has been driven by improved performance in the materials sector.

Japanese stocks continued to gain in June, ending the quarter up 6.7%. In May, Bank of Japan Gov. Kuroda stated that monetary easing was having its desired effect and that he was confident that the bank would meet its 2% annual inflation target.

This was later confirmed with the May CPI print of 3.7% YoY, a 23-year high, which was helped by the 3% sales tax increase on April 1. In Europe, the ECB had an eventful meeting on June 5th in which Mario Draghi cut the base interest rate from 0.25% to 0.15%, introduced a negative deposit rate at -0.1% to encourage bank lending, and opened the door to quantitative easing, all in an effort to spur growth in the Eurozone and fight the risk of deflation. While these are certainly significant moves in the course of



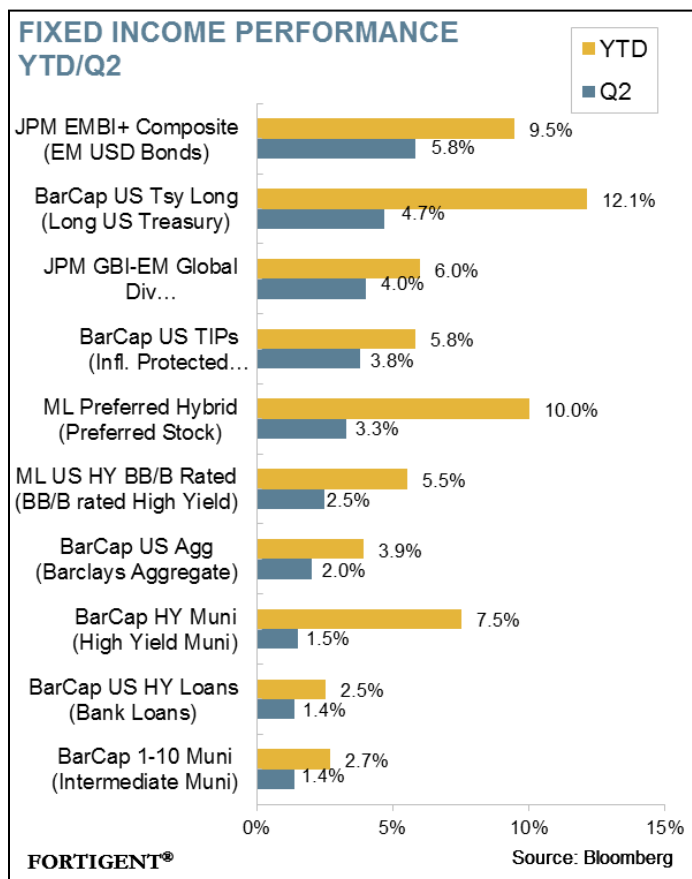
easy monetary policy, investors may have had even greater expectations as European equities ended June flat, but up 3.7% for the quarter.

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

FIXED INCOME: MORE OF THE SAME, A RALLY BUT WAITING FOR THE TIDE TO TURN

For the second quarter and much of the first half of 2014 market, pundits shunned core fixed income in anticipation of yields rising and prices falling. Their expectations were unmet as the fixed income market rallied and yields fell globally. This market reaction presented a bit of a conundrum. With the Dow and S&P 500 reaching new highs and the US economic slowdown in the first quarter seemingly a short term aberration, Treasury yields should have risen and prices fallen. However other factors weighed on investors' minds likely forcing yields lower. Noteworthy influences include continued monetary easing efforts by the European Central Bank and Bank of Japan as global economic activity continued to surprise to the downside. There was also institutional investor reallocation as long term investors around the globe preferred the additional yield available from US Treasuries. In June some of this activity seemed to reverse, putting upward pressure on US Treasury rates. However, the resulting change was only minor. The Treasury yield curve continued to flatten in the quarter. The 10 year US Treasury reached its nadir near the end of May at 2.48% only to slightly rise by quarter end. During the second quarter any long maturity asset did well, especially Long Term US Treasuries and dollar denominated emerging market bonds.

Municipal bonds followed US Treasury yields lower resulting in a relatively solid performance for the muni market; a rather unusual occurrence as the second quarter is typically marked by investors' selling to meet tax liabilities. In reality May was the strongest monthly gain in the market since



US Treasury Yields

Security	12/31/2013	6/30/2014	Δ Yield
90 Day	0.05	0.03	-0.02
2 Year	0.38	0.46	0.08
5 Year	1.74	1.63	-0.11
10 Year	3.03	2.53	-0.50
30 Year	3.97	3.36	-0.61

SOURCE: BLOOMBERG

AAA Municipal Yields

Security	12/31/2013	6/30/2014	Δ Yield
2 Year	0.52	0.45	-0.07
5 Year	1.49	1.29	-0.20
10 Year	2.97	2.51	-0.46
20 Year	4.58	3.90	-0.68
30 Year	5.18	4.51	-0.67

SOURCE: BLOOMBERG

January and the third strongest monthly May performance since 1998. June returns were essentially zero as yields moved a bit higher reflecting some indigestion in the market by retail investors. For most of the quarter, though, retail fund inflows remained strong with taxable investors recognizing strong relative value compared to high quality taxable instruments. In terms of performance, mirroring the treasury market long-term munis proved the best investment for the quarter. During the quarter, the additional yield offered for lower quality muni credit collapsed as well, highlighting the thirst for safe yield and income. One notable event - a Puerto Rico court decision granting the potential for bankruptcy protection to some municipal issuers - tempered enthusiasm for muni credit as the quarter closed.

Sources: Barclay's Capital, Bloomberg LP, J.P. Morgan, Municipal Market Advisors

ALTERNATIVES: ALTERNATIVE MUTUAL FUNDS OUTSHINE

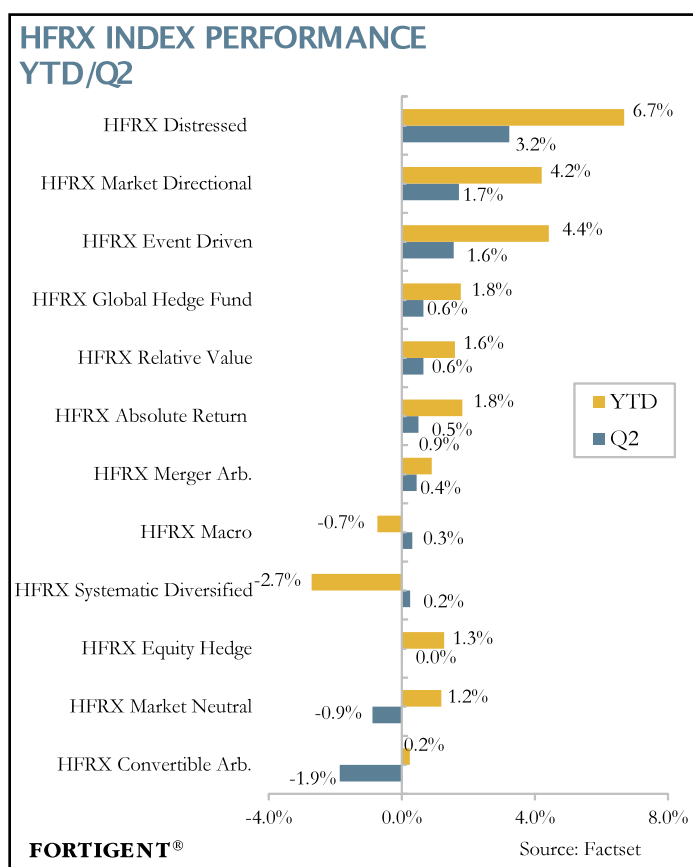
Hedge Funds: Hedge fund performance on the quarter was mostly positive with the exception of market neutral and convertible arbitrage strategies.

Distressed strategies were the top performers amongst all hedge fund strategies as the HFRX Distressed Index was up 2.3% in June. Contributions came from restructurings across communications, financials, energy, and consumer sectors in the US. The HFRX Event Driven Index, which includes the HFRX Distressed Index, ended the quarter up 1.6% on the back of positive gains from distressed and special situations strategies.

On the losing side, the HFRX Convertible Arbitrage Index shed 1.9% on the quarter with negative prints in every month of the quarter. The HFRX Market Neutral Index lost 0.9% on the quarter. The index fell 1.8% in May as growth stocks significantly outperformed value stocks.

Liquid Alternatives: Alternative mutual funds were positive across the board in the second quarter, with long/short equity and managed futures as the best performers. Returns were generally higher in the 40 Act space relative to their hedge fund counterparts.

Long/short equity returned 2.5% for the quarter, participating in the 5.2% rally that occurred in domestic equities. Performance for long/short equity managers was roughly in line with the overall beta profile of the category, suggesting little positive or negative alpha. Mutual funds were able to outperform comparable hedge fund indices, as the HFRX Equity Hedge Index was flat.



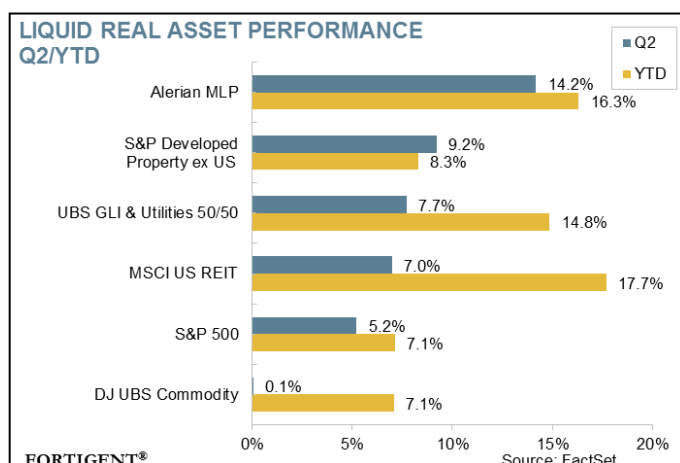
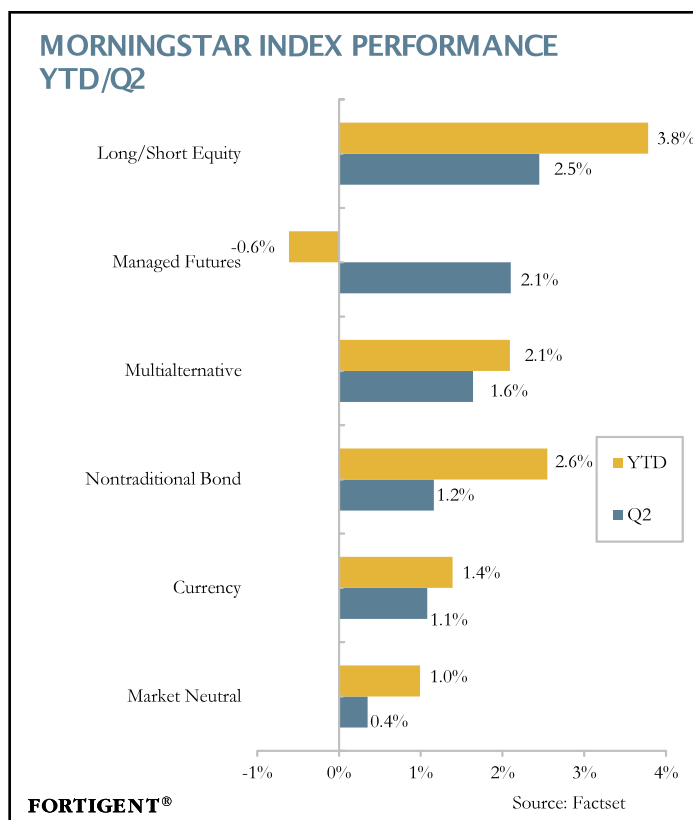
Notable performance came from managed futures as the category as a whole was up 2.1% on the quarter. This comes as no surprise as trend following managers were able to capture steady downtrends in rates and stable uptrends in equities.

Sources: Bloomberg LP, Hedge Fund Research, Morningstar Direct, Credit Suisse

HOW LOW CAN RATES GROW?

After underperforming broad and high yielding equities over the past year, MLPs roared back in Q2. REITs and infrastructure also performed well, benefiting from continued declines in global interest rates, while commodities took a breather after a strong Q1.

MLPs & Global Listed Infrastructure: A sequence of positive headlines helped MLPs enjoy one of their stronger quarters on record. April brought several strongly priced IPOs and a notable M&A announcement (at a 40% premium). May ushered in tailwinds from Washington, where a positive report from the Energy Department about LNG exports, coupled with reduced red tape relating to export facilities approval, joined an EPA announcement aimed to reduce emissions (a negative for coal but a positive for natural gas). June topped off festivities with a lot of M&A talk and also a first – Shell, a mega integrated oil & gas company, filed an MLP IPO for Shell Midstream Partners. All of this culminated with a more than 10% rise in MLPs, and a corresponding decline in MLP yields, which finished near an all-time low at 5.2%. Non pipeline infrastructure also performed well, although there were a few hiccups along the way. The quarter started strong with robust earnings and several premium M&A take outs (e.g. Exelon buying PEPCO) driving the universe higher. Then, in May, US utilities got a jolt from the aforementioned EPA emissions announcement which may drive costs substantially higher. The hiccup was short-lived, however, as June brought substantial inflow into utility ETFs. Elsewhere, in infrastructure, road and rail stocks had a very solid quarter, thanks in part to a rebound in Japanese rail stocks after a tough start to the year. Ports continue to be an area of weakness, particularly in Europe where the Russia-Ukraine conflict is a concern.



REITs: REITs domestically and abroad were strongly supported by falling interest rates. REITs tend to display characteristics of positive duration, so when the US 10-year Treasury yield declined below 2.5%, REITs surged. In Europe, where yield compression has been even greater (in some cases rates have declined by half in the past year) REITs fared even better. The strongest performance for the quarter, however, came from Japan, where it was not interest rates, but good old fashioned cap rate compression driving returns. Rental rates along with land prices are on the rise in Japan thanks to scarce new supply. The positive fundamentals helped offset questions surrounding recent tax hikes and the long-term efficacy of Abenomic monetary policy, ultimately helping the Japanese Property index rebound 10.2% in Q2 after a dreadful start to the year.

Commodities: The agriculture complex experienced a sharp sell-off in Q2 due, in part, to normalizing weather patterns. Coffee fell 4.2% post a 75% start to the year, as rains in Brazil eased drought conditions. Wheat (-19.7%) and corn (-16.9%) fell on robust US and Canada planting data. Despite weakness in May and June, natural gas ended the quarter positive (+1.6%) thanks to strong performance in April. WTI Crude and industrial metals provided some reprieve. Crude rose 6.2%, aided by geopolitical uncertainty in Russia and Iraq that placed strain on already tight excess reserves. Industrial metals, particularly zinc (+11.4%) and nickel (+19.3%), rose on growing hopes for fresh economic stimuli in China. In the case of nickel, the Indonesian export ban contributed significantly to the surge in the metal's price.

Sources: MLPHINDSight, MLPDATA.com, S&P, FactSet, Alerian, Barclays, Bloomberg, AP, SNL Financial, WSJ, futuresmag.com, Platts.com, agweb.com, agrimoney.com, Reuters, thehill.com

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