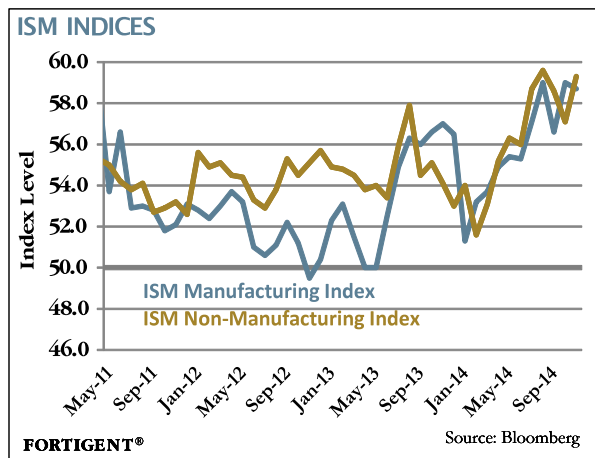
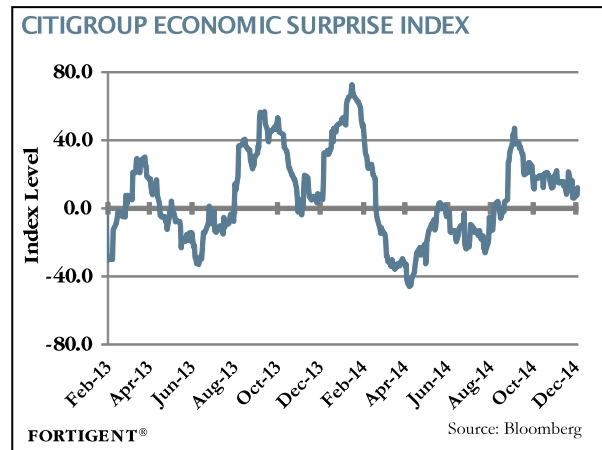


November Flash Report – December 4, 2014 (Month Ending November 30, 2014)

ECON: SERVICE AND MANUFACTURING SECTORS TREND HIGHER

Economic Data: Markets continue to receive positive news on the health of the U.S. economy as economic data on the whole is exceeding expectations. Despite declining from 2014 highs reached in January, which was largely impacted by harsh winter weather, the Citigroup Economic Surprise Index has been hovering in positive territory since late August.

On the manufacturing front, the ISM Manufacturing Index came in at 58.7, surpassing consensus expectations for 57.8. Despite falling from October's 59.0 reading, the index continues to be very strong near recovery highs. New orders increased to 66.0 from October's 65.8 as backlog orders jumped 2.0 points to 55.0. Input prices experienced a substantial contraction, falling from 53.5 in October to 44.5, reflecting the significant decline in oil prices.



On the service front, the ISM Non-Manufacturing Index exceeded consensus expectations for 57.3 coming in at 59.3 for November. This is a 2.2 point increase from October's reading of 57.1. New orders gained 2.3 points to 61.4 as backlog orders were up 4.0 points. This contributed to strength in business activity which rose 4.4 points to 64.4. Looking at industry expansion, retail is at the top and is closely followed by construction.

Housing data (typically a 1-month lag) continues to come in mixed yet mostly positive. The Housing Market Index increased 4 points to 58, exceeding

consensus forecasts for 55. A reading of 58 marks the second highest for the index on the year and recovery, behind September's 59. Housing starts, on the other hand, came in below expectations. After a 7.8% rise in September, housing starts fell 2.8% in October as the multifamily component dropped 15.4%. Although the multifamily component continues to experience large month-to-month swings, the single-family component gained 4.2% in October, following a 4.2% increase in September. Existing home sales continue to rise as sales in October gained 1.5%, following a 2.6% gain in September. The rise in existing home sales continues to rise, albeit slowly, as average month-over-month increases for 2014 stand at roughly 0.8%.

Central Banks: Central bank headlines in November were centered on China as the People's Bank of China lowered the one-year deposit rate by 25 basis points to 2.75% while cutting its benchmark

one-year lending rate by 40 basis points to 5.6%. With China's economy continuing to slow, speculation that the central bank would cut rates had been growing in recent months. Gross domestic product grew by 1.9% from the second quarter resulting in the annual growth rate easing to 7.3%. This comes after an annual growth rate of 7.5% in the second quarter and 7.4% in the first quarter. China's government growth target for 2014 is 7.5%, slightly higher than the International Monetary Fund's (IMF) 7.4% estimate. The IMF estimates growth for China in 2015 to be 7.1%.

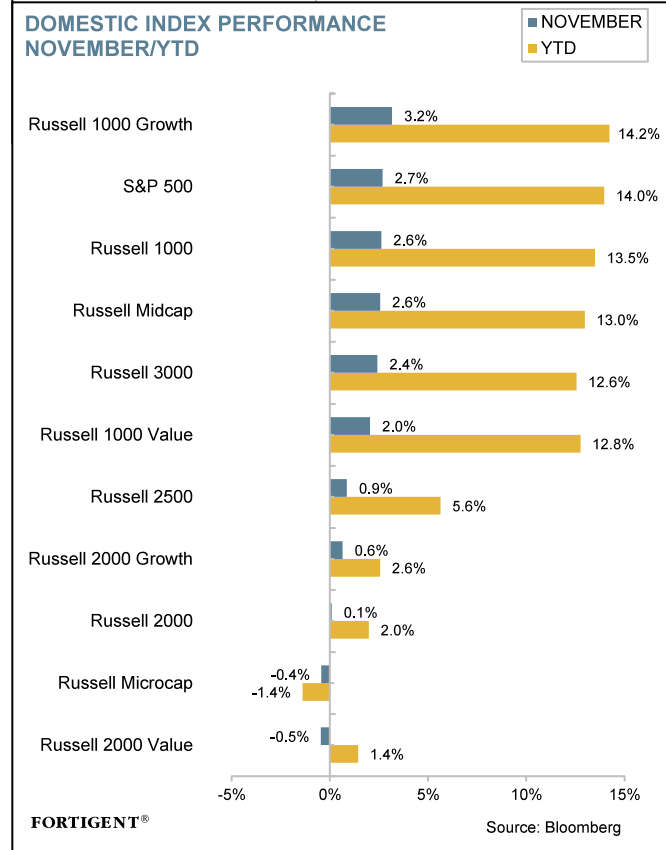
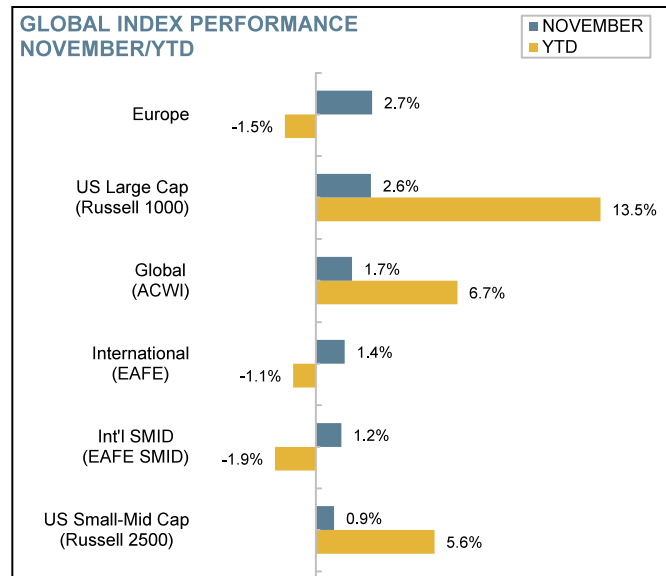
Source: CentralBankNews.info, ADP Employment, Econoday

GLOBAL EQUITIES: BULLISH SEASONALITY AND MORE MONETARY COWBELL

Developed market equities rallied in November as several central banks took action to combat global deflationary pressures, adding liquidity to the global monetary system and driving investors to assume more risk in investment portfolios. Strength was concentrated mainly in Europe and the US, while Japan consolidated recent gains tied to the Bank of Japan's announced stimulus in late October. Emerging markets fell as recent strength in the US dollar and deflating commodity prices began to have a negative impact on local economies. However, downside was limited after China surprised investors by cutting interest rates on November 21.

US:

US stocks continued to climb in November moving into the historically strong holiday season of the calendar year. The S&P 500 rose 2.7% in the month, aided by recent liquidity provided by the Bank of Japan, declining commodity prices (supporting a rebound in domestic consumption), and an increased volume of corporate M&A activity. Stocks also received an additional boost near the end of the month, when notes from the recent Fed meeting indicated that officials were closely watching for signs of decreasing inflation expectations. That sparked optimism that the Fed might step back in with additional QE if deflationary pressures persist. Implied volatility continued to decline as stocks rallied, with the VIX falling 4.9% in the month to 13.4.



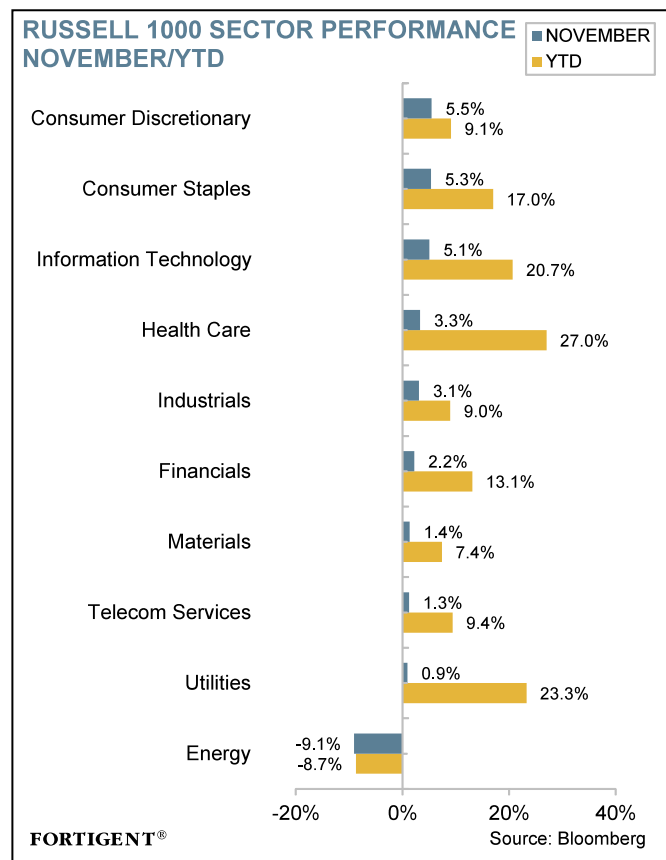
Commodity deflation was the dominant theme behind November’s leadership, particularly in the consumer sectors where investors are expecting the drop in oil prices to boost consumer spending and corporate profit margins in the extremely important holiday shopping season. Energy was the worst performing sector in the Russell 1000, joined by telecom and utilities as investors shunned these higher yielding sectors in favor of areas better leveraged to domestic economic growth. Underperformance in the energy sector was intensified by a decline of more than 6% on the last day of the month after OPEC announced it would not cut oil production in response to global oversupply, sending oil prices spiraling significantly lower. From a market cap perspective, large cap stocks broadly outperformed small caps as net asset flows into the US disproportionately benefitted more liquid securities. Stylistically, growth outperformed value across all market caps. Two key reasons for this dynamic are energy’s larger representation in the value indices, as well as increased investor demand for companies generating superior earnings growth in an investment environment that continues to be plagued by slow global economic growth.

International/Emerging Markets:

European equities rallied in November as Germany (+6.4%), France (+3.5%), and Spain (+3.0%) led all major indexes. Comments from ECB President Mario Draghi raised expectations that the bank would expand its asset purchase program. Economic data in Europe continues to be weak, leading to increased pressure on the ECB to take more aggressive action.

Japan officially entered recession, with a Q3 GDP contraction of 1.6% following a 7.3% contraction in Q2. Prime Minister Shinzo Abe responded by postponing the country’s next sales tax increase by 18 months. Also, in an effort to consolidate political power the PM called for a snap election in December. The MSCI Japan index ended the month slightly positive (+0.3%).

Emerging markets were broadly negative, driven primarily by commodity producing nations Russia (-10.8%) and Brazil (-4.7%) which were hit by rapidly declining oil prices. Brazilian equities showed some strength earlier in the month due to hopes that President Rousseff would appoint a new market-friendly finance minister. This did not happen until the end of the month when she appointed Joaquim Levy, who is known as more of a fiscal hawk than his predecessor. China was a positive outlier (+1.6%) as markets reacted positively to the People’s Bank of China’s first benchmark interest rate cut in over 2 years. Rather than helping to boost flagging growth, however, the goal of the move may instead be debt service relief for corporate bank loans. Whatever the reason, the consensus appears to reflect further easing.



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

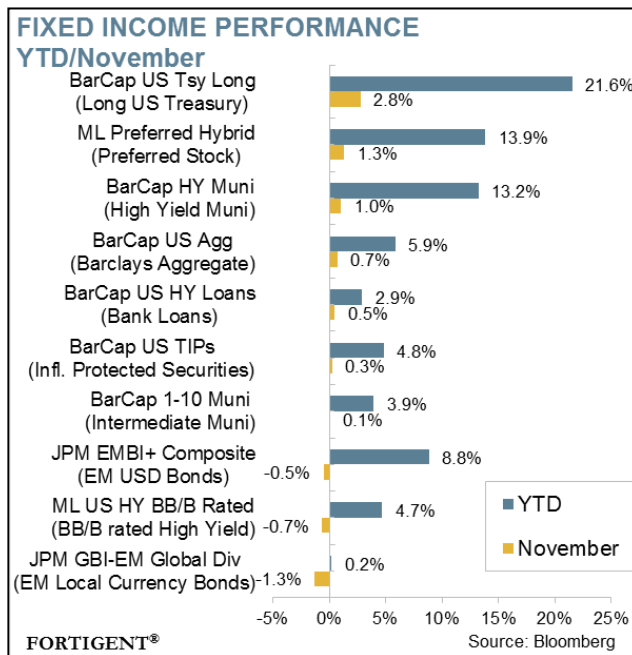
FIXED INCOME:

JAPAN DERAILED AND ENERGY SURPRISE GIVES RATES A BOOST

Rate volatility continued to subside through the first couple weeks of November suggesting an overall calm return to the Fixed Income markets as October closed. Likewise Treasury yields held near month end October levels. There was little economic data to reverse this trend. While the US Economic Surprise index, as reported by Bloomberg, showed continued positive momentum, inflation levels remained benign suggesting little need for rates to inch higher.

However, digging a bit deeper into the various sectors of the market, it was clear some investors found worries in the first half of the month. Credit spreads for investment grade corporate debt and junk bonds, as measured by BarCap indices, gradually increased into the final weeks of the month. In addition, leveraged loan pricing felt some pressure with the Credit Suisse leveraged loan index inching towards par. These sectors may once again have been the ‘canary in the cool mine’ as the news in the last two weeks of the month was less than stellar. Intermediate to long-term US Treasury yields fell in the latter half of the month as global news weighed on markets. First, the Japanese economic experiment dubbed “Abe-nomics” stumbled a bit with the country falling into recession in the third quarter of 2014. This announcement drove global sovereign debt yields lower, and US Treasuries started to follow the trend prior to the Thanksgiving holiday. As the month closed, a flight to quality ensued. The late November commitment by OPEC nations to maintain oil production at current levels placed additional pressure on corporate credit, high yield bonds and leveraged loan valuations and facilitated a rally in US Treasuries. In the end core taxable bonds as represented by the BarCap Aggregate generated 70 basis points of return for the month. Long-term bonds, as measured by the BarCap Long-Term Treasury index were the true winner, generating 2.8%.

The municipal bond market was fairly quiet this past month compared to happenings in the taxable fixed income markets. Intermediate to long-term high quality bond yields increased between 5 and 15 basis points as investors seemingly prepared for the traditional influx of new supply that occurs as the year’s end. Despite the backup in yields, fund flows continued to remain healthy. Year-to-date, ending 11/28/2014, the tax exempt universe experienced \$17.7 billion of inflows based on JP Morgan data. Credit related concerns were minimal in the month



US Treasury Yields

Security	12/31/2013	11/30/2014	Δ Yield
90 Day	0.05	0.02	-0.03
2 Year	0.38	0.47	0.09
5 Year	1.74	1.48	-0.26
10 Year	3.03	2.16	-0.86
30 Year	3.97	2.89	-1.08

SOURCE: BLOOMBERG

AAA Municipal Yields

Security	12/31/2013	11/30/2014	Δ Yield
2 Year	0.52	0.45	-0.07
5 Year	1.49	1.22	-0.27
10 Year	2.97	2.35	-0.62
20 Year	4.58	3.69	-0.89
30 Year	5.18	4.31	-0.87

SOURCE: BLOOMBERG

and once again High Yield munis bested all muni sectors, up 1% based on the BarCap High Yield muni index performance. Core municipal bonds were up just 10 basis points as measured by the BarCap 1-10 year muni index.

Sources: Barclay's Capital, Bloomberg LP, JPMorgan, New York Times

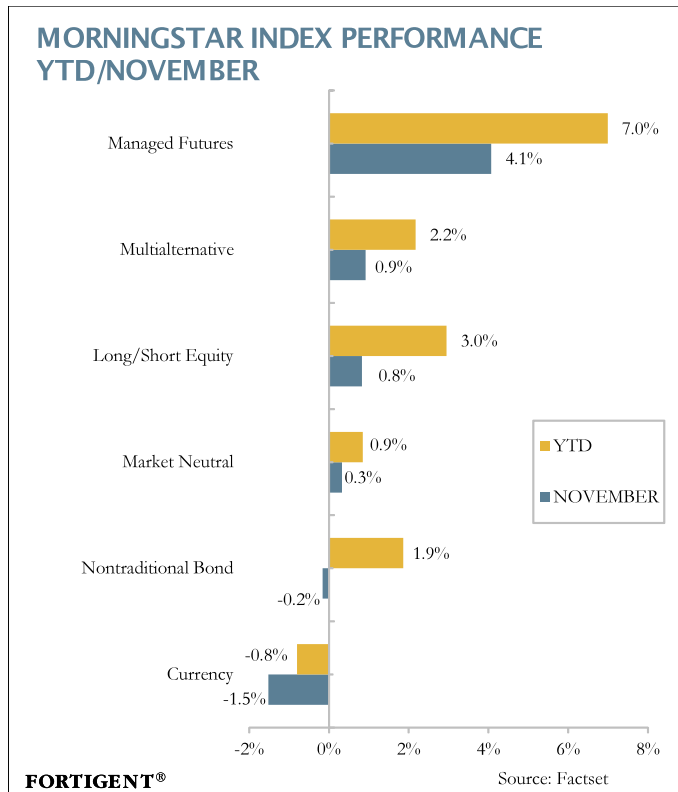
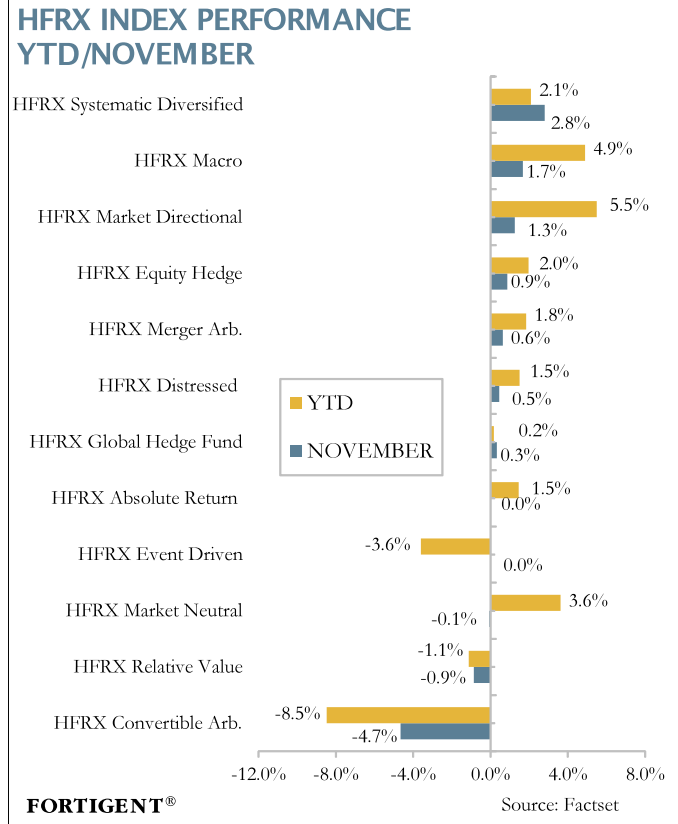
ALTERNATIVES: MACRO REBOUNDS IN NOVEMBER

Hedge funds were flat to positive in November, with macro strategies standing out as robust performers. The rest of the universe was fairly sluggish in the period as equities got back on track and volatility subsided.

Both macro and CTA Funds benefited from the re-establishment of several major trends in November. The single best contract for many managers was crude oil, where short positioning was profitable as crude prices tumbled. Long bond positioning in developed markets, and long dollar exposures versus a variety of currencies (euro, yen, sterling, Aussie dollar) also contributed. CTAs, in particular, experienced a very strong month; index level performance understates the double-digit returns many managers generated. Data from Lyxor suggests November was the best monthly return for CTAs since 2002.

Equity strategies saw muted performance in November, with more beta-laden strategies benefiting from stock market gains. Market neutral continued its on-again, off-again performance profile with slight losses in the month (though their mutual fund counterparts did slightly better).

After a terrible September/October, event driven funds finally started to bounce back in late November. This was not enough to offset a spillover effect in the earlier part of the month, but new announcements such as Actavis/Allergan and Halliburton/Baker Hughes reaffirmed that M&A activity is not yet dead. Positive



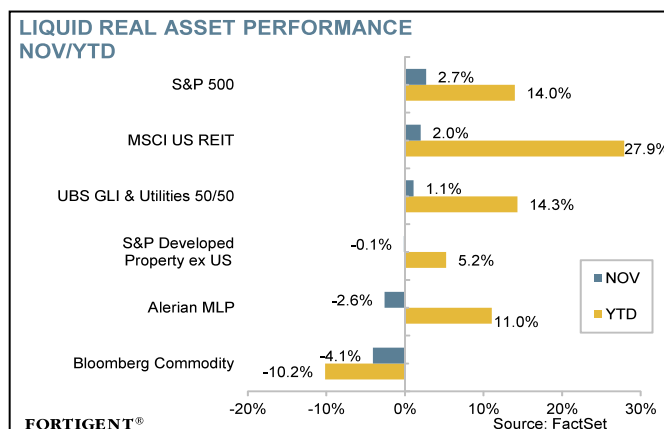
developments in widely-held Hertz was also additive to many special sifs portfolios.

In the liquid alts space, nontraditional bond funds continued their stretch of poor performance by declining for the third straight month (and fourth in five) in November. Like many investors, many unconstrained bond managers have struggled with the surprise rally in Treasuries and other developed market yields, while credit spreads did very little in the month.

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

A LITTLE INDIGESTION

On Thanksgiving Day, OPEC, which holds 80% of global crude reserves and 40% of current supply, announced that despite increased non-OPEC production and waning global demand growth, they would not curb their crude oil output quota for 2015. Any tryptophan-induced rest for market traders was quickly dashed, with oil more than 10% lower in a matter of hours. Risk-off assets rallied on the news, helping duration-sensitive areas of the market outperform.



MLPs & Global Listed Infrastructure: MLPs were on pace to continue a rebound that began in mid-October, only to have it all wiped away on the last day of the month (-5.3%) post the aforementioned OPEC meeting. As discussed last month, the Alerian MLP index is primarily midstream in nature, and thus not directly linked to short-term moves in commodity prices. A corollary sell-off is not unprecedented, but is typically followed by a reversion to fundamentals which for the time being remain solid for MLPs. The lower prices are a concern however, as prolonged (several quarters) price suppression may lead to reduced drilling activity, and subsequently ebbing pipe flow. This would hurt the nearly 30% of the universe that is tied to petroleum transportation, and another 5% tied to exploration and production (E&P). E&P companies were the hardest hit in November, falling more than 20% while midstream petroleum finished flat. On a different note, the much discussed Kinder Morgan megadeal closed last month, ushering in a period of an MLP universe without Richard Kinder (for the time being). Indices such as the Alerian MLP, Alerian Infrastructure, and Cushing 30, which aim to reflect the MLP universe, subsequently removed El Paso and Kinder Morgan and replaced them with appropriate alternatives consistent with index methodologies. The ultimate impact on yield and distribution growth at the index level appears to be negligible for now, but something that will bear watching into 2015. Outside of MLPs, the more cyclical areas of global infrastructure performed well in November with ports (+3.0%) and airports (+2.8%) topping performance with the help of continued economic stimulus outside of the US.

REITs: US REITs benefited from yet another month of rate compression, with duration sensitive sectors (i.e. Healthcare REITs +3.1%) outperforming. Fundamentals remain strong, with 2014 distribution growth expected to be near high single digits and yields averaging 4%. Abroad, Europe rallied more than 3% on anticipation of more aggressive monetary stimulus. Elsewhere performance was mixed, with Japan led lower by office (-4.2%), while China and Hong Kong residential topped 4% on mainland easing measures.

Commodities: The OPEC announcement exacerbated the downtrend in energy prices which began this summer on robust non-OPEC output and expectations for slowing global demand. Crude sold off another 18% in November, bringing the recent peak to trough selloff to near 40%, the worst decline since 2008. Natural gas was resilient during this period (+3.0%), aided by cold weather in the US, and reduced natural gas drilling activity. Grains, on the other hand, posted a second consecutive month of positive returns, driven primarily by wheat (+7.2%) which benefited from a poor weather forecast for Russian winter wheat. Precious metals finished the month flat despite some late month volatility coming from Switzerland, which voted down a referendum to increase central bank gold reserves (a move expected by most market participants). Weakness in industrial metals came from a combination of increased supply (aluminum) and questions of Chinese demand (zinc). The drop in energy prices significantly reduces the cost of aluminum production, making it more profitable for marginal suppliers to produce, despite lower prices.

Sources: MLPDATA.com, FactSet, Alerian, Barclays, Bloomberg, agweb.com, farmfutures.com, eia.gov

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