



Alpine Trust & Asset Management

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Marmot Library Network, Inc.
ATTN: Jimmy Thomas
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Dear Jimmy:

The second quarter of 2013 proved to be volatile one, which was a surprise to few. What did prove to be surprising to virtually everyone was the volatility that jolted the fixed income market.

On June 19, Ben Bernanke delivered a jolt to markets by suggesting the Federal Reserve may consider cooling off or "tapering" the \$85 billion monthly bond purchase program, otherwise known as Quantitative Easing (QE), due to improving economic conditions. This provoked liquidity fears and a subsequent overreaction in both the stock and bond markets. In the weeks after Bernanke's comments, the yield on the 10-year Treasury jumped nearly one percent (which is a startling amount for bonds) and bond prices plummeted as a result. The leading U.S. bond index, Barclays Aggregate, fell 2.3% in the 2nd quarter.

Tapering Talk is "Walked Back"

Almost immediately, the Fed began to walk back their tapering comments in an attempt to calm the markets, with some success. Most recently, on July 31, the Fed pledged to continue purchasing \$85 billion in bonds every month. In addition, they changed their tune regarding the expansion of the economy, saying it expanded at a *modest* pace as opposed to a *moderate* pace, which was their stance earlier in the year. As a result, yields began to retreat from a high of 2.75% reached on July 8, to 2.60% at the time of this writing. The yield on the 10-year treasury in June (before the initial tapering talks) was at 2.19%.

Stock Performance in the Wake of Tapering

The second quarter began with a steady rise in stock prices, continuing a streak of monthly gains by the S&P 500 that started in November 2012. Consumer sentiment improved steadily, buoyed in part by signs of accelerating economic activity and recovering real estate prices, which registered their strongest annual gains since 2006. However, the stock market did not take kindly to the jump in interest rates, with June posting the first losing month of the year. The DOW and the S&P each fell 1.3%, ending the second quarter at a 2.9% positive return.

The Long View

We have known interest rates cannot stay historically low forever. While investors may have expected rates would one day rise, this does not make it any easier to take when market values on fixed-income (bond) portfolios exhibit declining values. While there may be temptation to cash in your bonds, it is important to remember they play an important role in an investment portfolio designed for the long-term, regardless of short-term market movements.

Any QE tapering we see is most likely to be gradual, and the reversal of the Fed's accommodative interest rate policy is even less likely in the near-term. According to PIMCO Investments, "While the Fed has noted that downside risks have diminished somewhat, the economy has yet to achieve escape velocity and unemployment is still stubbornly high." Other experts agree that the Fed's forecasts have consistently overshoot the economy's actual performance. Therefore, even if tapering of QE occurs, it is unlikely the Fed will notch up its policy rates until late 2014 or beyond.

As Always, Time Horizon and Goals are Key

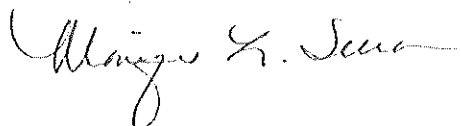
If you are questioning holding bonds and bond funds in your portfolio, it is important to remember why investors own them in the first place. Bonds meet long-term needs such as capital preservation, income, steady growth, and offer relatively low volatility. They also typically have low correlations to stocks, providing diversification and a smoother ride during volatile periods. Properly designed, they can also offer tax benefits such as exemption from federal and state taxes. While we agree interest rates will rise (and cause muted returns for the time being), history tells us fixed-income assets provide consistent, positive returns over the long-term.

Our objective at Alpine Trust & Asset Management is to be our clients' trusted advisor, providing value-added financial counsel to individuals, families, trusts and institutions seeking to preserve and grow their capital. We aim to generate attractive long-term returns, net of fees and taxes for the portfolios we manage, remaining ever mindful of the trade-off between reward and risk. Our philosophy is simple: we believe long-term, tax-efficient investing in a diversified portfolio of equity, fixed income, and alternative securities are the best way to protect and grow your capital.

Despite short-term worries and long-term challenges, we continue to see attractive opportunities for your diversified portfolio. With the benefit of our team-oriented approach and our highly disciplined investment strategy, we believe we continue to be well positioned for a bright future together.

We feel privileged to be working with each of you and thank you again for your continued support.

Sincerely,



Monique L. Serra
Regional President

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This is not a complete analysis of economic conditions or any material facts regarding investment strategy. Any opinions expressed reflect our judgment at the time of this writing and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.