Dear Client,

Spring has finally sprung here in Boston. The last of the piles of snow are melting away. It is always amazing how quickly the hope of spring dulls those frosty memories.

In many ways the New England weather during the first quarter seemed to mimic events in markets. Storms blew, people hunkered down in the quiet hush of snow, and within very little time the next storm hit. As the green sprouts of spring were finally able to push through, equity and bond markets recovered, ending the quarter about where they began.

Companies continued to focus on the deployment of the US $4.1 trillion of cash on their balance sheets. The shifting debates from how to preserve cash to how to best put capital back to work drove substantial merger and acquisition activity during the quarter. Kraft is one of your portfolio holdings that was a significant beneficiary of this trend.

Maintaining Perspective - We Have Come a Long Way

The extent of the move in markets and in stock multiples is notable. Market multiples now stand where they were at the end of 2007. While we remain optimistic about the long term value of stocks, the market does face some new hurdles this year which cause us to approach it with a dose of caution. We are particularly focused on changing liquidity conditions in the market.

In the wake of the financial crisis there were specific regulations designed to help make banks safer. These regulations also mean that there are fewer market participants who are willing and able to provide bids for equities and bonds should the markets get bumpy. This is different than in the past decade. Dodd-Frank’s final implementation deadline is July 2015. The Fed is about to move off of its zero interest rate policy, thereby tightening liquidity. This is different than it has been in the past seven years. Epic swings in both currencies and commodities over the past year give us a glimpse at the potential for increased volatility. The magnitude, rapidity and direction of these moves are different than they have been in the past decade.
While we are not sure how all of this will impact markets we do know that when equities have come this far and so many significant market indicators are changing, it is worth building some protection. Your portfolio may have some cash on the sidelines as well as “insurance” via put options. This insurance remains a relatively inexpensive way to define downside risk on a portion of the portfolio. From a tax perspective this strategy is preferable to reducing equity exposure further as it does not trigger gains and allows portfolios to remain invested should the markets push higher.

Additionally, after more than five years, we have shifted some weight out of U.S. equities and into international equities. Bainco portfolios have benefitted significantly from the nearly 80% outperformance by U.S. markets since 2009. This shift is being approached gradually as data confirms the early signs of an earnings rebound outside of the U.S.

**Mergers and Acquisitions Gaining Steam**

Low interest rates, significant cash on corporate balance sheets and rising credit availability have collided to create a substantial increase in merger and acquisition activity. This has been particularly notable in the healthcare, technology and consumer sectors. Client portfolios at Bainco have significant exposure to these groups.

Your portfolio holding in Kraft was of particular note this quarter as Heinz announced that it had reached agreement to acquire the company at a premium to the market. The stock was up 35% on the announcement and has continued to strengthen since then. The companies have significant synergies which make the transaction attractive.

With a strong balance sheet, quality management, consistent dividend increases and a proven track record of above peer fundamentals, Kraft is precisely the type of name we look for as a core long-term holding. The company also has the level of quality to which acquirers such as Warren Buffet (who owns Heinz) are attracted. We like the synergies of these companies and may hold shares in the combined entity once the deal is closed.

**Bonds Offer More of the Same**

Within your fixed income portfolios we continue to emphasize high quality bonds with a relatively short average maturity. Interest rates around the globe continue to head lower (German 10-year bonds now yield 0.15%) keeping a lid on rates in the U.S. Our plan remains the same; we will be patient and extend the maturity profile on our clients’ bond portfolios only when yields are high enough to compensate for the added risk of this longer commitment.

**Looking Forward**

Your portfolio remains invested in companies which exhibit the solid financial underpinnings and management that define quality. It exhibits a higher return on equity than the market with substantially lower debt. This is driven by factors like higher operating margins and growth. Importantly, we view the management teams in place at these companies as amongst our best resources for assessing real fundamental risk in the economy.

We are looking forward to the next time we meet in person.

With Kind Regards,

Sam Bain  
Chief Executive Officer  
Founder

Susan Dahl  
Chief Investment Officer  
Partner