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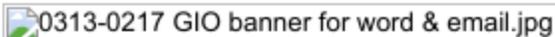
To: "Pil, Anton C" <[REDACTED]>

Subject: GIO: Looking Forward to 2014

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Attachments: GIO_Holiday_Letter_2013.pdf

Inline-Images: image003.png



Happy Holidays 2013

December

As we head into year end, we wanted to take a moment to reflect on 2013 and what a tremendous year it has been. Given our high conviction in equity markets at the beginning of the year, we are very happy to see global equity markets up over 20%* driven by strength in the US and Japan, the two countries we were most confident in. In addition to our macro equity calls, our sector focused themes such as Internet Mobility 2.0 (content), healthcare, and defense contractors also worked well and have generally outperformed the market although some, such as being long Latin American equities in 2Q, did not. Lastly, while we didn't quite get a Great Rotation, US rates still rose as we had called for and we believe this mini-rotation out of cash in 2013 leaves room for more next year.

Where does this leave us for 2014? We believe many of the same trends from 2013 will continue but given fairer valuations, we will be refining our focus to high conviction themes such as the ones highlighted below. Lastly, as we head into yearend we wanted to take a moment to wish everyone a happy holiday season and thank you for your continued partnership and trust in us.

2014 OUTLOOK

Equities over Fixed Income

We continue to favor equities over fixed income but are expecting a more "normal" 10-15% return in developed market equities in 2014 with potential for more from Japan if momentum from reform continues. Our forecast incorporates high single digit earnings growth plus the potential for some multiple expansion (driven by relative value versus fixed income).

Developed Markets over Emerging Markets

Continue to prefer developed markets over emerging markets. Macroeconomic conditions continue to solidify and improve across US and Europe (for now) and while central banks may not be as unified in 2014 with the Federal Reserve tapering in January, we believe central banks will generally remain accommodative with rates. That said, emerging markets (outside some specific economies) are facing headwinds from US tapering and political risks in some countries.

Mixed Rates Outlook

With tapering set to begin in January, we expect long end US rates to rise although with a watchful Fed, it may be more gradual than what we had expected in 2013. No tightening in view. Across the Atlantic, however, there remains room for rates to decline further, particularly in the periphery as the ECB

THEMES UNDER CONSIDERATION FOR 2014

Life Sciences

We believe life science technologies are entering a new cycle with increased uptake of genetic testing given declining testing time and costs. Within medicine, the foundation for better diagnostics and analytics is currently being built and increased collection of data is driving demand for sequencing instruments. There are also growing applications outside medicine especially in fields such as food authenticity and materials testing.

Airplane Replacement

Consolidation among carriers has driven a return of pricing power to the industry which is benefiting not just airlines, but aircraft orders given demand for improved fuel efficiency and cheap funding costs. Additionally, we believe it makes sense to focus on companies exposed to widebody planes which are seeing faster order growth than narrowbody planes.

New China

China is entering the next phase of its multi-decade transition. While many focus on the shift from an export driven economy to an internally driven one, we believe "internalization" extends beyond just a growing middle class and services industry to other agendas such as national identity and potential geographic expansion. We will be focused on investments that will benefit from this shift.

remains accommodative. Lastly, given our concerns about emerging markets headwinds, we will be looking for opportunistic shorts in USD denominated emerging markets debt or buy protection on emerging market bonds.

Continuing Themes from 2013

In Japan, we are sticking with Abenomics given a dedicated BoJ and the likely increase in reform talk. Data proliferation is happening and we continue to focus on companies benefiting from increased investment in internet infrastructure and storage. Lastly, the US energy landscape is undergoing a multi-year transformation towards broad energy independence and we will continue to bring to you our best thinking in this space.

**Happy Holidays,
Anton Pil**

* Based on year to date total return of the MSCI World Index through December 17, 2013.

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