GARCIA HAMILTON & ASSOCIATES, L.P.

5 Houston Center
1401 McKinney, Suite 1600
Houston, TX 77010-4035
Tel: (713) 853-2322
Fax: (713) 853-2308
www.GarciaHamiltonAssociates.com

February 5, 2013

Ms. Lois Towey
City of Ormond Beach
22 South Beach Street
Ormond Beach, FL 32174

Dear Ms. Towey:

We have enclosed performance for your account for the period ending December 31, 2012. Relevant indices have been included for comparison purposes.

Immediately following President Barack Obama's re-election, he was challenged with dealing with the looming "fiscal cliff", the term used to describe the situation the U.S. government faced at the end of 2012 when the Budget Control Act was scheduled to go into effect, and the Bush tax cuts were projected to expire. The markets were held hostage by Washington late in the quarter as Congress struggled to come to an agreement, with headlines causing swings in either direction. At year-end, President Obama announced that a deal was "within sight," providing a boost to risk markets. Meanwhile, the labor market and housing were bright spots in the economic landscape as the unemployment rate dropped to 7.7% and new home purchases continued to rise.

After fluctuating as high as 1.83% and as low as 1.57%, the 10-year Treasury yield ended the quarter at 1.76%, representing an increase of 12 basis points over previous quarter end. The 2-year Treasury yield increased 2 basis point to at 0.25%, while the 30-year Treasury yield increased 12 basis points to 2.95%. These moves caused the 2-30 year yield spread to widen to 270 basis points.

Despite the rise in rates, the bond market delivered modest positive performance with a return on the Barclays Capital Aggregate Index of 0.22% and a return on the Barclays Capital Intermediate Government Credit Index of 0.35%. Spread product performed well as three out of four major sectors delivered positive excess return for the quarter. Corporate bonds were the leader with 121 basis points of excess return, followed by agencies and asset-backed securities with 22 basis points and 19 basis points of excess return, respectively. Mortgage-backed securities were the laggard with a negative excess return of -23 basis points.

We expect the economic recovery to continue and believe treasuries remain overvalued at these levels. Thus, we are maintaining the duration of the portfolio shorter than the benchmark. Although we remain over weighted in corporate bonds with the emphasis on financials, we continue the process of trimming selective corporate positions to reduce the credit risk in the portfolios. Given the sustained low level of rates, we believe rates will rise from here and spreads will continue to contract.

Please do not hesitate to contact us if you have any questions or comments.

Sincerely,

Janna Hamilton

Janna Hamilton
Partner

JH/cfd
Enclosure