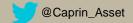


knowledge preserves wealth



Q4 2015 INTERMEDIATE TAXABLE QUARTERLY COMMENTARY

INTERMEDIATE
TAXABLE COMPOSITE
CHARACTERISTICS

AS OF: 12/31/2015

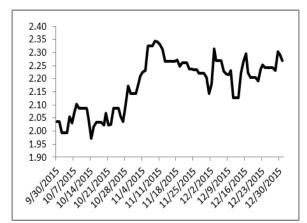
Duration: 3.67 yrs Yield-to-Worst: 2.04% Yield-to-Maturity: 2.05% Maturity: 4.31 yrs

Strategic Overview

Macro: The last three months of 2015 will be remembered as the quarter that produced the first interest rate hike from the FOMC in almost a decade. Stronger than expected Nonfarm payroll numbers in October and November provided additional leverage to a Federal Reserve already anxious to raise rates after foregoing their chance in September. Markets largely dismissed the move as U.S. Treasuries rallied post-hike, implying the Fed achieved its goal in telegraphing its intent, perhaps learning from the 2013 "taper tantrum". The move was well-priced into the market as evidenced by benchmark rates rising across the curve during the quarter. The increases were led by the front-end where 2-yr and 5-yr Treasury rates rose 42 and 40 basis points respectively, while 10-yr and 30-yr Treasury rates rose only 23 and 16 basis points. Looking into 2016, we maintain our view that the front-end of the curve will be driven by Fed policy while the longer-end of the curve should ultimately be supported by 1) lackluster domestic growth and inflation trends, and 2) economic instability abroad. Looking at inflation, the "transitory" headwinds that the Fed has convinced itself will eventually subside, still persist. PCE (Personal Consumption Expenditures) remained depressed at 1.32%, well below the Fed's 2% target, and the price of oil fell an additional 18% during the quarter, ending the year at \$37/barrel (a 7-year low). The Fed has stressed future, "gradual" rate hikes as the economy improves, with their estimates calling for four separate 0.25% increases in the coming year and another four 0.25% increases in 2017. Time will tell, but for a Fed that sat on 0.00% for almost a decade, we wonder if the "gradual" estimates will be difficult to achieve while domestic and global headwinds abound.

Market Dynamics: After a muted Q3, corporate issuance ramped up in the quarter with final 2015 numbers showing an approximate 9% YoY increase in the investment grade space. Issuance was however front loaded in October and November in anticipation of the December FOMC meeting. Higher grade cash bond credit spreads (measured by the Barclays US Credit Index) saw a meaningful tightening through November, but finished the year only modestly lower as late year concerns over energy, equities, and an FOMC decision emerged. From a sector standpoint financials generally outperformed versus industrial and utility names on the theory that a rising rate environment would benefit institutions in the form of higher net interest margins and revenues. We remain cautious of where we might be in the overall credit cycle and continue to see a theme of more equity-friendly corporate actions in the coming year. As such, the corporate component of the strategy remains higher quality and selective.

Caprin Performance Notes: Yield curve positioning and an overweight to a selective list of higher quality corporate issuers were principal performance drivers. Against the adverse nature of a FOMC rate hike and a volatile credit landscape, the strategies performed well relative to their respective benchmarks. Looking ahead, our outlook remains consistent for a modestly flatter yield curve in 2016 led by shorter dated bonds. Interest rate markets are likely destined for another year of increased price volatility as market participants will once again be expected to interpret how the Fed is judging incoming data. Although there will likely be bouts of volatility, intermediate and longer-end rates should stay relatively anchored by a lack of fundamental stimulus for growth and inflation.



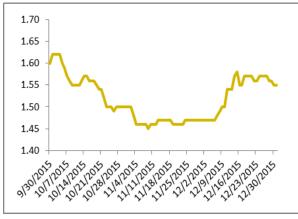


Figure 1: 10-Yr US Treasury Yield

Source: Bloomberg

Figure 2: Barclays US Credit Index OAS

Source: Bloomberg

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