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Q1 2015 INTERMEDIATE TAXABLE QUARTERLY COMMENTARY

INTERMEDIATE TAXABLE COMPOSITE CHARACTERISTICS

AS OF: 3/31/2015

Duration: 3.99yrs
Yield-to-Worst: 1.74%
Yield-to-Maturity: 1.75%
Maturity: 4.52yrs

Strategic Overview

Macro: The beginning of 2015 saw strong cross-currents spur volatility as investors assessed the implications of further monetary policy divergence between the U.S. and other G-7 nations. With the implementation of the European Central Bank's own version of quantitative easing, sovereign yield levels plunged to historic lows while our own Federal Reserve moved ever closer to increasing its benchmark rate for the first time in over a decade. The notable byproduct of this disparity in global rates continued to be a pervasive rally in the U.S. dollar that further weighed on U.S. export strength as the quarter progressed. Domestic growth measures again showed an economy that remains on a relatively flat trajectory despite notable gains seen in the job market in the quarter. The Federal Reserve continued to take the necessary steps to have the flexibility to increase rates later this year but at every opportunity reminded market participants that they were still in no rush to do so. The clear lack of inflation both domestically and abroad continued to muddy the waters for both investors and the Central Bank, and a steep decline in energy prices only added to the dilemma. The ongoing themes of low inflation and even lower sovereign yields once again proved to be the prevailing factors that saw yet another quarter with generally positive price performance for fixed income.

Sector Notes: Corporate spreads experienced increased volatility on the quarter as risk assets in both the fixed income and equity spaces dealt with soft commodity prices, geopolitical events, and evolving central bank policies. Despite the swings, investment grade corporate spreads, as measured by the Markit CDX Investment Grade Index, finished slightly tighter than where they began the year. Our corporate overweight continued to provide incremental income versus the benchmark and helped to dampen some of the volatility experienced over the quarter. Exposure to better performing sectors such as finance, technology, and utilities was also additive to total return.

Caprin Performance Notes: We maintained a duration position at the longer end of our neutral range through the quarter as our thesis for continued low interest rates remained intact. Yield curve positioning was a large component of total return for the first three months of the year as longer maturities continued to benefit from a flattening trend brought on by the factors mentioned above. Exposure to the 8-10 year portion of the curve helped portfolios capture incremental income without taking on the undo interest rate risk inherent in longer positions. Our overweight to spread products like high quality corporates and taxable munis continued to help enhance portfolio yield.

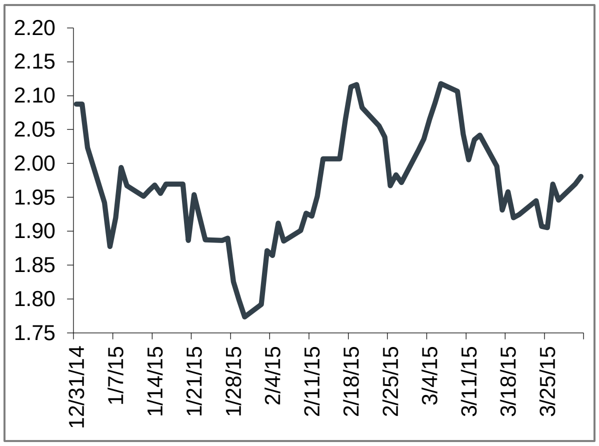

Figure 1: Spread Between 2-Yr and 30-Yr US Treasury Yields
Source: Bloomberg

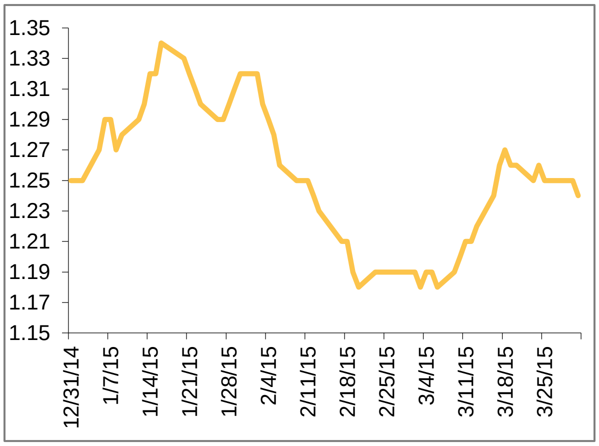

Figure 2: Barclays US Credit Index OAS
Source: Bloomberg

1802 Bayberry Court, Suite 202
Richmond, Virginia 23226
804] 648-3333
CAPRINBONDS.COM

Media Contact:
aplotkin@caprinbonds.com