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Q1 2015 SHORT MATURITY QUARTERLY COMMENTARY

SHORT MATURITY MUNI COMPOSITE CHARACTERISTICS

AS OF: 3/31/2015

Duration: 1.60yrs
Yield-to-Worst: 0.71%
Yield-to-Maturity: 0.73%
Maturity: 1.71yrs

LOW DURATION TAXABLE COMPOSITE CHARACTERISTICS

AS OF: 3/31/2015

Duration: 1.60yrs
Yield-to-Worst: 0.99%
Yield-to-Maturity: 0.99%
Maturity: 1.66yrs

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.

Market Dynamics: Evolving Fed policy expectations led to an increase in front-end volatility on the quarter as market participants were forced to evaluate economic data and central bank rhetoric that showed mixed signals. Although taking the necessary steps to begin a rate liftoff later this year, the Federal Reserve displayed a more dovish tilt by lowering their own forecasts for inflation and rates. We expect volatility to persist within the front-end as traders try to position themselves around a highly data dependent Fed.

Caprin Performance Notes: Although experiencing volatility that at one point pushed rates above year-end levels, front-end yields finished the quarter moderately lower. Portfolio exposure to 3-4 year maturities helped total return as shorter maturities continued to offer limited yield and remained highly sensitive to Fed expectations. Our overweight to spread oriented sectors continued to help dampen price swings by producing incremental income.

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

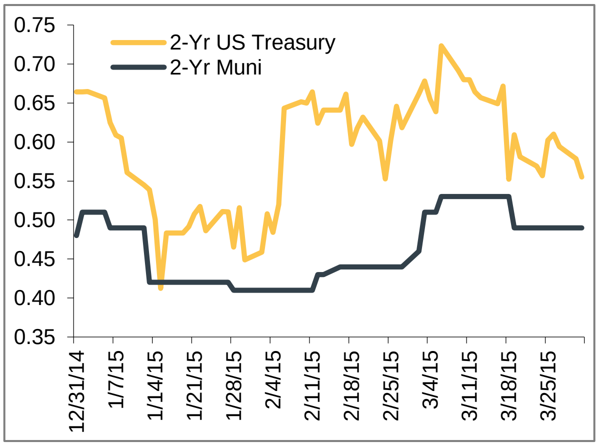

Figure 2: 2-Yr US Treasury Yields vs. 2-Yr Muni Yields
Source: Bloomberg; MMD

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