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Q2 2015 INTERMEDIATE MUNI QUARTERLY COMMENTARY

STATE SPECIFIC COMPOSITE CHARACTERISTICS

AS OF: 6/30/2015

Duration: 4.52yrs
Yield-to-Worst: 1.98%
Yield-to-Maturity: 2.27%
Maturity: 6.26yrs

Strategic Overview

Macro: The second quarter of 2015 was marked by significant interest rate volatility and a move to generally higher yields as market participants weighed domestic policy outlook influenced by international events. Over the period, the 10 Year US Treasury yield climbed approximately 50 basis points (.50%) as the Federal Reserve continued to lay the groundwork for what could be their first rate increase in nearly a decade. The Central Bank's shift to data dependency, which occurred late in the first quarter, was a key volatility driver and kept traders hyper-sensitive to each economic release and its impact on potential Fed action. Domestic growth indicators began to show some signs of improvement from a lackluster display earlier in the year, with perhaps the most notable being a small but important uptick in wage growth. Wage growth has been what many consider the missing link to future Fed action, and it may provide Chair Yellen and her colleagues a justification to tighten despite inflation remaining persistently below current targets. Overseas, an unwinding of what had become an unsustainable rally in European sovereigns saw German Bund yields rise from near zero to almost 1.00% by mid-June. This seemingly technical correction out of Europe put significant upward pressure on domestic yields simultaneously as relative value trades were adjusted accordingly. Looking forward we continue to see heightened volatility likely as the market moves closer to a potential Fed "lift-off" date and the Eurozone remains unstable.

Market Dynamics: Municipal issuance was again a primary market driver in the second quarter as still near-historically low yields enticed issuers to seek financing before an anticipated Federal Reserve rate increase. Over the quarter, more than $100 billion of new deals came to market, bringing total issuance for the first half of the year to approximately $210 billion and representing a more than 50% increase over the same time in 2014. From a credit standpoint, investors including Caprin saw a decisive ruling from the US Supreme Court late in the quarter that upheld the payment of Federal subsidies under ACA. Despite differing political opinions on the Act, the announcement further solidified a program that has helped many non-profit hospitals thrive in the current environment, and the ruling should remain a credit positive for the foreseeable future. Puerto Rico headlines continued to intensify driven by a series of looming debt payments. More recent announcements from the Commonwealth indicate an inability to meet future debt service as it stands now, and we continue to avoid the debt in client accounts given a weak long term outlook for the island economy.

Caprin Performance Notes: Yield curve positioning was the key performance driver over the quarter with our neutral position over much of the period generally returning results in-line with benchmarks. As interest rate volatility increased and the likelihood of Federal Reserve rate action later this year escalated, we lowered yield curve and duration targets to position accounts more defensively. Our outlook remains intact for a generally flatter yield curve by year-end with short maturities likely experiencing the greatest volatility. Longer term yields may continue to rise and test trading ranges, but they are still unlikely to move significantly higher given the fairly flat near-term trajectory of future tightening. However, with the increased volatility and a longer term view that economic conditions will be supportive of at least an initial Fed increase within the next several quarters, we think a duration target slightly short of neutral remains prudent at this time.

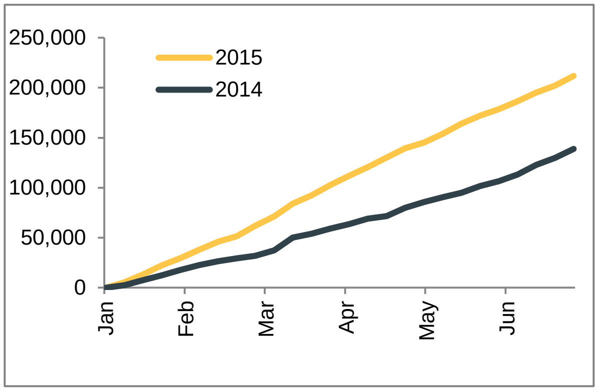

Figure 1: Total US Muni Issuance 2014 vs. 2015 ($mlns)
Source: Bloomberg

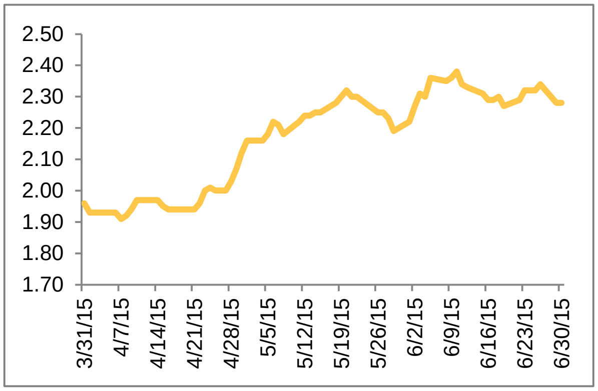

Figure 2: 10-Year MMD AAA Muni Yield
Source: MMD

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