knowledge preserves wealth

@Caprin_Asset

Q3 2015 INTERMEDIATE TAXABLE QUARTERLY COMMENTARY

Strategic Overview

INTERMEDIATE TAXABLE COMPOSITE CHARACTERISTICS

AS OF: 9/30/2015

Duration: 3.70 yrs
Yield-to-Worst: 1.84%
Yield-to-Maturity: 1.85%
Maturity: 4.18 yrs

Macro: Volatility reigned again in the third quarter of 2015. Greece finally submitted to creditor demands and reached a deal to remain in the Eurozone, calming months of anxiety over the fallout from a "Grexit". However, global growth concerns triggered a flight to quality into U.S. Treasuries. Yields on the benchmark 5-yr, 10-yr and 30-yr Treasury fell 34bps, 38bps, and 35bps, respectively during the quarter. Signs of economic slowdown in China (the world's second largest economy) coupled with sporadic intervention by the Chinese government to stabilize equity markets forced U.S. equities lower. The Dow Jones Industrial Average fell 7.58% during the quarter, headlined by an approximate 1,900 point decline over six days in late August. Emerging markets continued to be plagued by falling commodity prices, a stronger dollar, and the potential for higher U.S. interest rates. Domestically, the U.S. economy continued to progress, although at a sluggish rate. Second quarter GDP ended with a final revision up to 3.9%, after an insignificant 0.6% pace during Q1. Growth was driven largely by personal consumption, business fixed investment and government spending, but not without the caveat of meaningfully higher inventories. On the jobs front a strong positive trend stalled abruptly as the September Nonfarm payroll print came in at 142k, 60k less than estimated, with significant downward revisions to prior months. Commodity softness continued with the price of crude falling 24% during Q3 to trade around $45 barrel, and core PCE (the FOMC's favorite measure of inflation) remained stubbornly below their 2% target. All of this together was enough for the FOMC to delay hiking interest rates during a highly-anticipated September meeting. Although an October hike has been all but taken off the table, we expect heightened volatility during the latter part of Q4 as the FOMC remains vocal about its desire to raise rates by year end.

Market Dynamics: Corporate issuance took a much needed respite during the quarter after seeing historically high supply through the first half of the year. Despite this break, Investment Grade credit spreads continued to widen as global growth concerns, market volatility, and lackluster earnings forecasts weighed on the sector. This pushed the spread on the Barclays US Credit Index to 162 basis points above comparable U.S. Treasuries. The last time corporate spreads were as elevated was August of 2012, when the Eurozone debt crisis was in full effect. We expect that corporates could continue to face pressure into year-end with a return of issuance in the 4th quarter. The issuance looks to be dominated more by non-financial names, suggesting corporate treasurers' last 'chance' to take advantage of extremely low costs of capital. As such, we have been less aggressive in positioning accounts with corporate debt and have tended to favor U.S. Agency or taxable muni options in certain instances. We believe our conservative credit selection within the corporate sector will prove beneficial as higher beta names have and could continue to face significant pressure in the current environment.

Caprin Performance Notes: Given the rally immediately following the FOMC's decision not to raise short term rates, accounts were well positioned across the intermediate portion of the curve to take advantage of what ended as the single best month of performance for the quarter. Despite the continued softness seen in corporate spreads, our conservative name selection and monitoring has helped the strategy avoid the significant performance drags seen across many parts of the corporate bond market over the last six months. Additionally, our allocation to taxable munis continues to provide a component of stability that has been additive during times of volatility, and continues to provide attractive yields versus comparable options with similarly high credit profiles. We continue to believe our neutral duration positioning versus the benchmark is prudent as we do not see significant pressure on intermediate- or longer-term yields in the near term, but we respect the possibility for heightened market volatility if the FOMC becomes more assertive toward year end

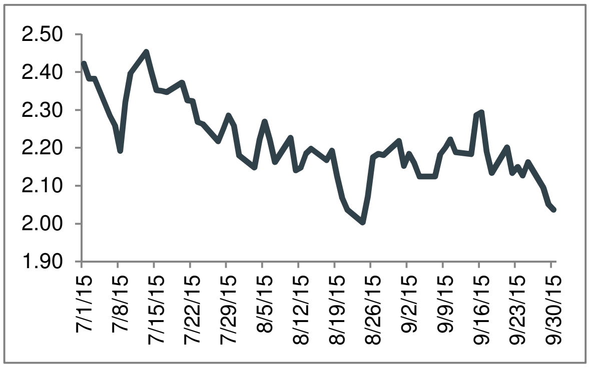

Figure 1: 10-Yr US Treasury Yield
Source: Bloomberg

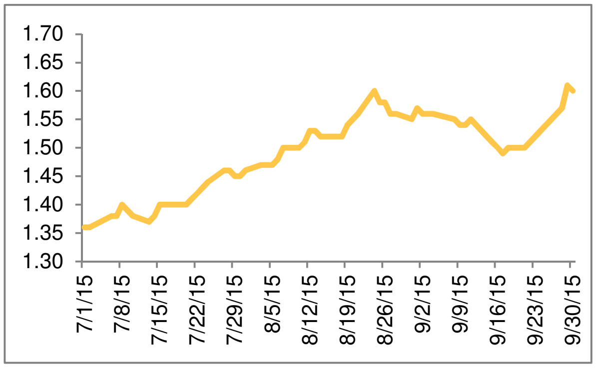

Figure 2: Barclays US Credit Index OAS
Source: Bloomberg

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

Media Contact:
aplotkin@caprinbonds.com

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.