

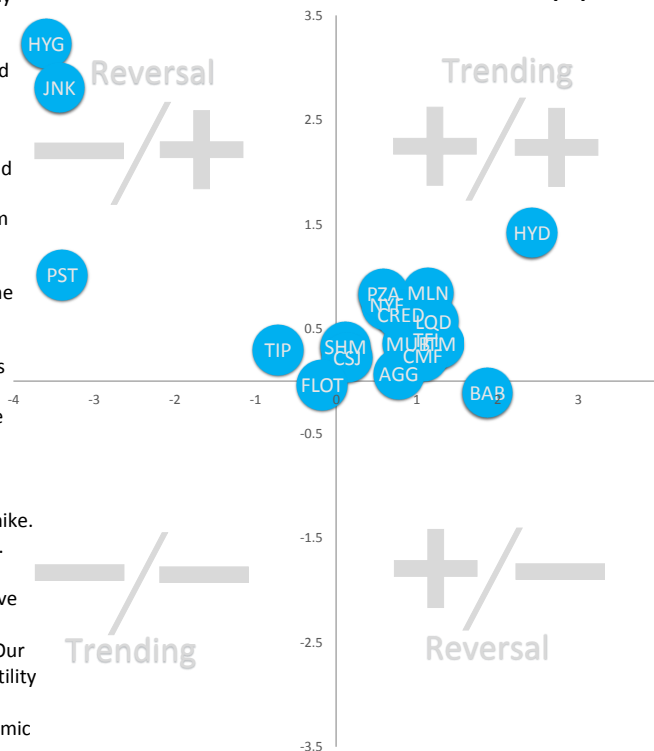
Market Commentary

- Following the initial rally off the September FOMC statement, interest rates traded largely range-bound in October until the end of the month committee meeting. Although no press conference followed the meeting, the official minutes delivered a slightly more hawkish tone, which provided fuel for markets to adjust sharply and push rates higher led by the front end of the yield curve.
- In Taxables, the aggregate bond ETF (AGG) finished in positive territory with a final total return of 0.07%. A major spotlight in the space was again on corporate spreads, which tightened after widening much of September. Both Markit's credit default swap index and Barclays Aggregate bond OAS index track corporate credit spreads, and these have tightened back to levels last seen in August. This tightening led to solid performance from funds such as CSJ, which was able to put up 0.25% in total return for October on tighter spreads as Treasury yields rose.
- While many Taxable fixed products adjusted sharply to the increase in Treasury yields, the move in Muni cash bonds, and subsequently Muni ETFs, was notably muted. The broad market taxable ETF (AGG) fell 73bps in the two trading sessions post Fed meeting, while the intermediate muni ETF (MUB) was off only 19bps, proving resilience in the asset class amongst interest rate volatility. Cash Munis continue to have a very firm bid as dealers, reluctant to cut prices, are being bailed out by cash inflows piling into the asset class. We expect this trend to continue and help prop up Muni ETFs going into year-end. MUB finished up 0.36% for the month of October.

Strategy Commentary

- Our assessments continue to focus on what lies beyond the first, almost sacrificial, rate hike. Contrary to recent rhetoric, the underlying fundamentals that should support robust U.S. economic growth remain elusive, and we remain wary that conditions will materialize to support significantly higher long-term rates. Our base case remains for a flatter yield curve with higher, Fed-driven short-term rates and muted pressure on longer-term rates.
- The Muni sector has been a performance highlight in the Tactical Opportunity strategy. Our overweight to this sector provided incremental returns and contributed to reducing volatility through the recent market turbulence.
- As we approach the end of 2015, we expect markets will remain hypersensitive to economic data and global headlines. The market continues to adjust to recent policy maker statements, and we expect heightened speculation to continue leading up to December's "live" meeting.

MONTH OVER MONTH RETURN TREND (%)



Name

Target Duration Position

Highlights*

Tactical Opportunity ETF



Neutral Duration, Overweight Munis

Tactical Muni ETF



Neutral Duration, Overweight to CA

Core Plus ETF

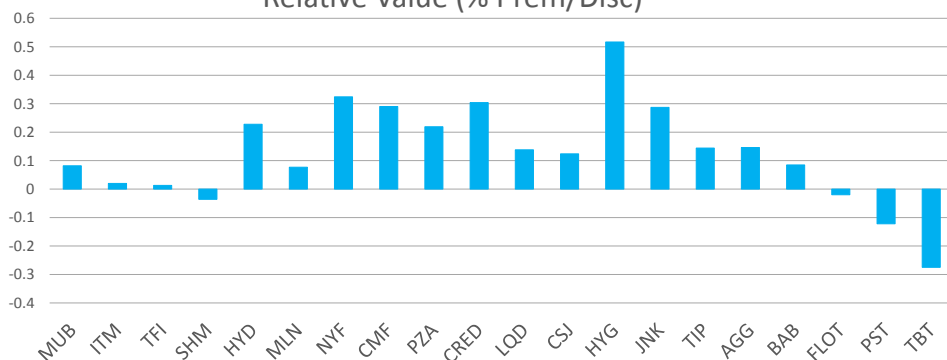


Neutral Duration, Overweight to Treasuries

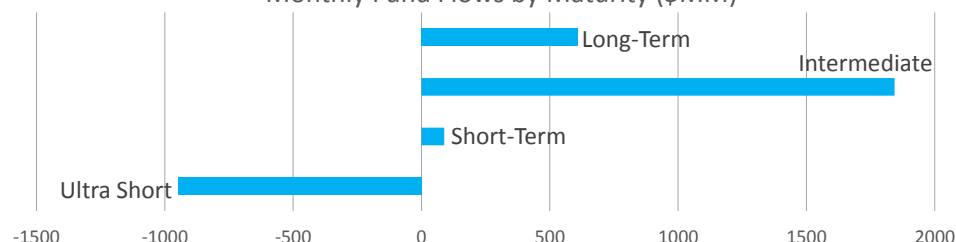
Market Overview

ETF	1M Trend	% 1M Return	Std Dev
MUB		0.36	0.12
ITM		0.36	0.03
TFI		0.40	0.03
SHM		0.33	0.02
HYD		1.42	0.11
MLN		0.85	0.06
NYF		0.73	0.22
CMF		0.24	0.13
PZA		0.84	0.04
CRED		0.64	0.31
LQD		0.57	0.53
CSJ		0.23	0.10
HYG		3.23	1.03
JNK		2.81	0.38
TIP		0.30	0.32
AGG		0.07	0.23
BAB		-0.11	0.09
FLOT		-0.03	0.02
PST		1.02	0.15
TBT		0.46	0.52

Relative Value (% Prem/Disc)



Monthly Fund Flows by Maturity (\$MM)



* Strategy positioning highlights are current as of date shown and subject to change without prior notice.

Sources: ETF return, standard deviation, premium and discount, and fund flow data are obtained through Bloomberg Professional Service. Information obtained from these sources is believed to be reliable but is not guaranteed and is subject to change without notice.

Definitions:

Standard Deviation: A measure of the dispersion of a set of data from its mean. Standard deviation is calculated as the square root of variance.

Duration: A measure of the timing of cash flows (i.e., the interest payments and the principal repayment) to be received from a given fixed income security. Duration is used to assess price volatility for given changes in interest rates, the reinvestment risk associated with a given portfolio or the interest rate risk associated with matching particular interest-rate-sensitive assets and liabilities.

Fund Premium and Discount: A pricing situation that occurs when the share value of an exchange traded fund is trading above or below the net asset value (NAV) of its components.

Net Asset Value (NAV): The value of each share of a fund as determined by the value of its underlying holdings, including any cash in the portfolio. NAV is calculated by dividing a fund's total net assets by its number of shares outstanding.

Month Over Month Return Trend: Fund plots represent returns for a two month period, with the X-axis value being prior month's total return and the y-axis value being the current month total return as of publication.

ETF Information:

[iShares Bond ETF Information \(MUB, NYF, CMF, CRED, LQD, CSJ, HYG, TIP, AGG, BAB, IGOV, FLOT\): iShares Bond ETF Overview Page](#)

[Van Eck Market Vectors Municipal Bond ETF Information \(ITM, HYD, MLN\): Market Vectors Municipal Income ETF Overview Page](#)

[SPDR Fixed Income ETF Information \(TFI, JNK\): SPDR ETF Product Information Page](#)

[Powershares ETF Information \(PZA\): PZA Product Information Page](#)

[ProShares ETF Information \(PST, TBT\): ProShares Leveraged Inverse Treasury Information Page](#)

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