

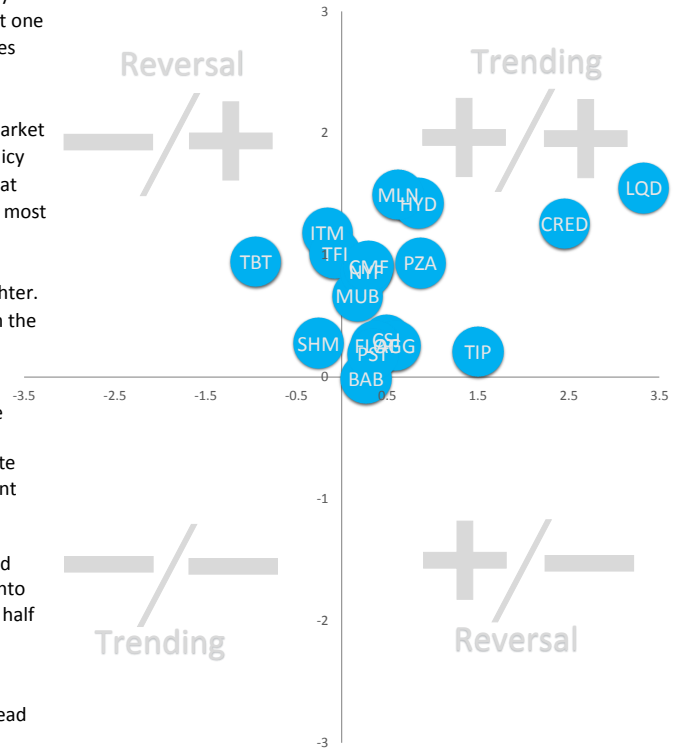
Market Commentary




- By the time the Federal Reserve convened at the end of April financial markets had already decided the brief steep interest rate increase earlier in the month would be short lived. At one point, it appeared traders had shifted focus to the technicals of strengthening energy prices and a selloff in the US dollar, but were again reminded of weak fundamentals (i.e. sub-par earnings and lackluster domestic growth).
- The Federal Reserve statement shed little light onto the situation, other than to remind market participants that the Central Bank would remain highly data dependent in its quest for policy "normalization". With Q1 GDP coming in at a paltry 0.5% it is difficult to make the case that the US economy has a positive trajectory. Of concerning note was the composition of the most recent GDP number, with key components of consumption and business fixed investment driving the soft print.
- With the risk trade remaining "on" in the month, credit spreads continued their march tighter. Equity market strength, and as importantly, the spillover effect into US credit trading from the expansion of the ECB's corporate bond buying program were key drivers.

Strategy Commentary



















- Despite a robust new issue pipeline with average visible supply running near \$11Bn on the month, municipals outperformed their taxable counterparts for the first time in '16. The iShares national muni bond ETF (MUB) posted total return of 0.66% vs the iShares aggregate bond ETF (AGG) at 0.26%. Within the Tactical Muni strategy and the tax-exempt component of Tactical Opportunity, our slightly longer yield curve and duration positioning added to strategy results as the sector rallied.
- We continue to look for strong demand to persist in tax-exempt bonds and ETFs as we head through the year, and believe that some of the supply pressure will dissipate as we move into the summer and into election season. This could certainly result in another supportive 2nd half of the year environment for Munis, similar to what we experienced in '15.
- As mentioned earlier, credit spreads continued to grind tighter on the month and subsequently our slight underweight to long corporates within our Core Plus and Tactical opportunity strategies was a performance detractor. We believe at the currently tight spread levels the risk is to another widening event like we experienced in February, as such we remain patient in our timing and selection of additional credit exposure.

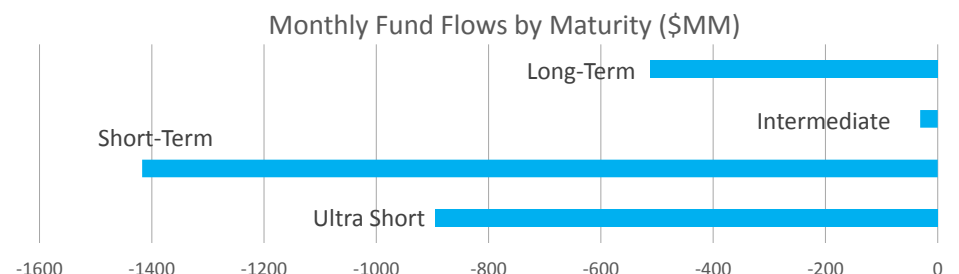
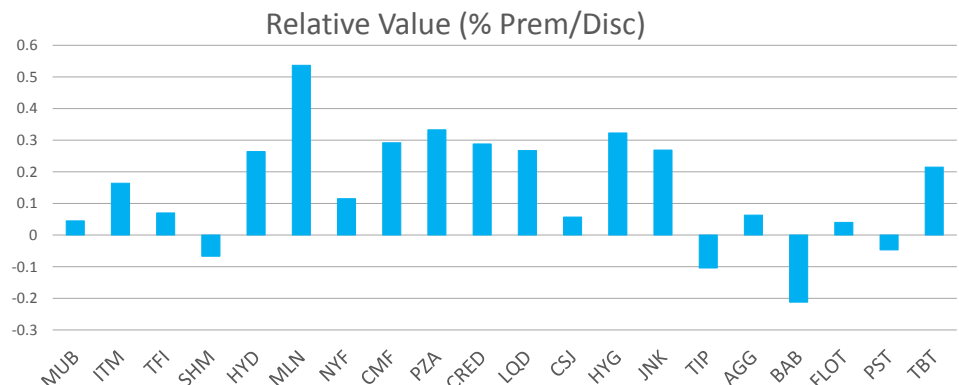
MONTH OVER MONTH RETURN TREND (%)



Name	Target Duration Position	Highlights*
Tactical Opportunity ETF	Min  Max	Neutral Duration, Even Muni/Taxable Ratio
Tactical Muni ETF	Min  Max	Neutral Duration, Overweight to CA
Core Plus ETF	Min  Max	Neutral Duration, Overweight to Treasuries

Market Overview

	1M Trend	% 1M Return	Std Dev
MUB		0.67	0.24
ITM		1.19	0.08
TFI		1.02	0.14
SHM		0.28	0.05
HYD		1.43	0.17
MLN		1.50	0.07
NYF		0.86	0.27
CMF		0.91	0.29
PZA		0.94	0.07
CRED		1.26	0.34
LQD		1.55	0.44
CSJ		0.31	0.11
HYG		3.12	0.98
JNK		3.62	0.47
TIP		0.21	0.45
AGG		0.26	0.19
BAB		-0.01	0.16
FLOT		0.26	0.04
PST		0.19	0.20
TBT		0.95	0.86



* 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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