

Macro Overview

U.S Treasury rates were on the rise to begin the 3rd quarter but quickly reverted on weaker than expected data. By August, elevated geopolitical tensions, lower inflation, and a more dovish tilt from the Federal Reserve sent yields across much of the curve to YTD lows. Hurricane Harvey, the first of three major hurricanes to hit the US mainland and its territories this season, wreaked havoc on Houston and surrounding areas, and will play a significant factor in upcoming economic readings. Treasury yields began to recover in September on the heels of rising Chinese inflation, stronger commodity prices, and the Fed's apparent desire to raise rates once more in '17. In a long anticipated move, the central bank also announced its plan to reduce balance sheet assets beginning in October.

- The Fed wants balance sheet reduction to run quietly in the background, which we believe will be the case near-term.
- News headlines come and go, but the underlying issues do not. Geopolitical tensions surrounding North Korea (among others) will not simply vanish; they remain market moving events.
- Initial excitement surrounding tax reform appears to be fading, and markets will take notice of another policy setback for the Trump administration.

**Short Muni-
Composite Characteristics**

Duration: 1.36 yrs
Yield-to-Worst: 1.20%
Yield-to-Maturity: 1.22%
Maturity: 1.47 yrs

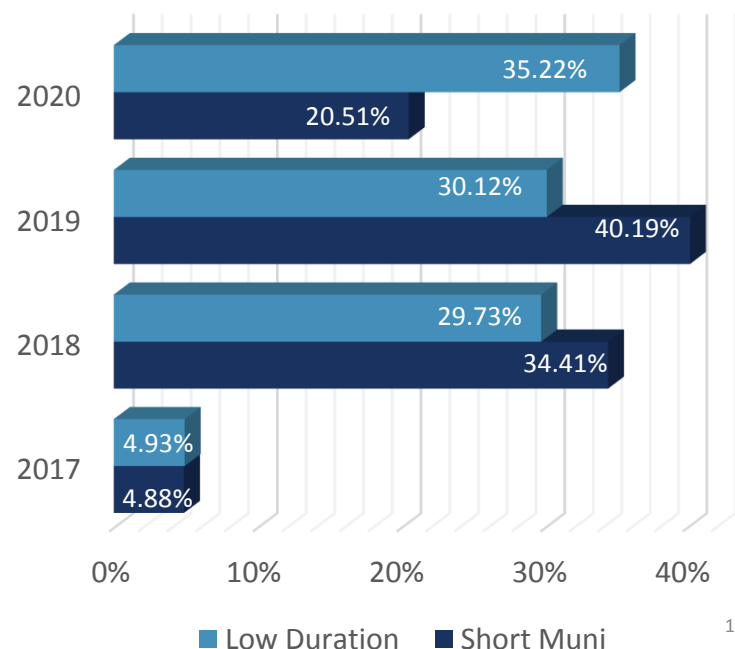
**Low Duration-
Composite Characteristics**

Duration: 1.48 yrs
Yield-to-Worst: 1.60%
Yield-to-Maturity: 1.66%
Maturity: 1.53 yrs

Market Dynamics

Front-end yields spent much of the quarter in a downward trend as expectations of future FOMC rate increases showed little conviction. However, as we entered September, short rates headed higher following better than expected economic releases from abroad, a more refined tax reform plan, and reports of the administration meeting with a noted "hawk" for Chair Yellen's replacement. Helping reinforce this move was September's FOMC meeting, where Governors reiterated their forecasts for an additional Fed Funds increase in December and three in 2018. While we continue to see challenges for the Fed as they look to further tighten policy, we recognize a scenario where continued gains in the job market and strong risk asset prices may allow them to operate without meaningful market disruption. Accordingly, we respect the path they have laid out as we position strategies across the front-end of the yield curve.

Maturity Profile



Short Maturity Muni and Low Duration Taxable

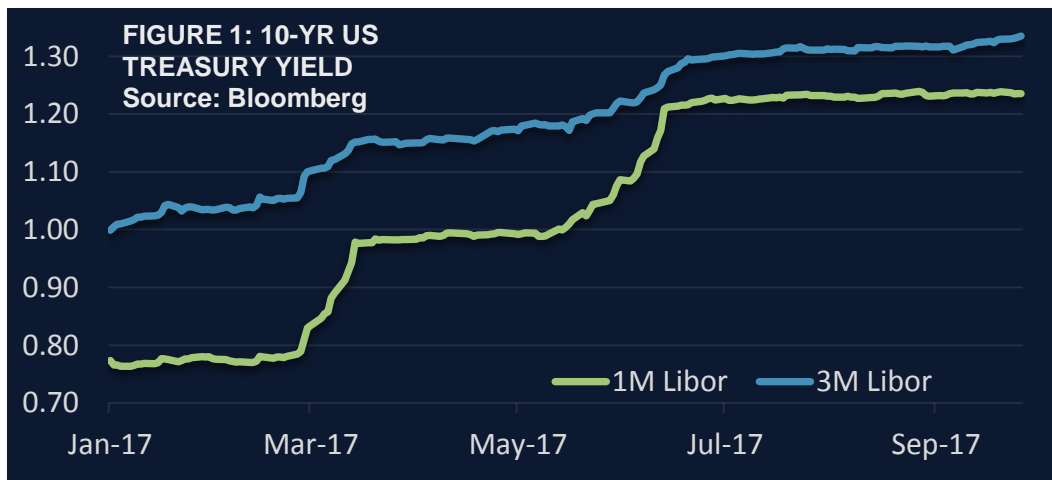
Quarterly Commentary

Third quarter 2017

Performance Notes

Despite a late quarter move to higher rates, short maturity positions still produced positive total returns for the period as yield helped supplement muted price movements. It is difficult to make a case for meaningful spread contraction from here, but heading through year-end and into 2018 we see an environment where investment-grade credit in both the corporate and municipal markets should remain relatively stable. As such,

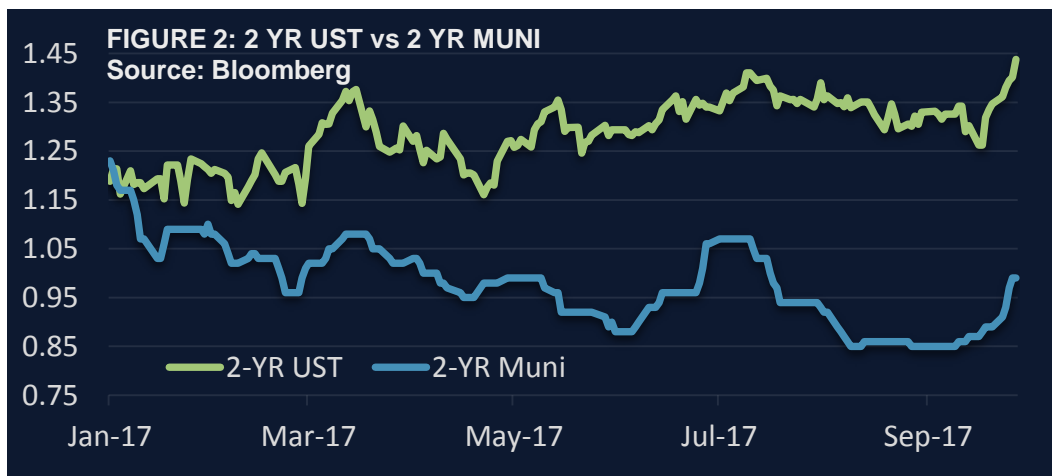
we continue to maintain an overweight to strategic yield sectors that help produce incremental income over and above the benchmarks. Within low duration taxable we continue to favor a modestly shorter position on the curve given higher FOMC forecasted short-term rates, and see the more laddered structure of short maturity muni continuing to benefit from a consistent stream of cash flow.



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