FIXED INCOME STRATEGY HIGHLIGHTS

JANUARY, 2015

BRIEF OVERVIEW: The U.S. Fixed Income Markets

As December unfolded, weakness in the Energy sector spread through global markets. As the prices continued to fall, the underlying strength in global economic growth resurfaced. This uncertainty coupled with the elections in Greece and the volatility of the Russian financial markets led to a severe decline in riskier assets. Later in the month, investor confidence rebounded following a dovish response by the Federal Open Market Committee (FOMC). The bond market reversed the sell-off and resumed a more bullish response to risk assets. The subsequent GDP report calmed lingering concerns with a 5.0% quarter-over-quarter economic growth in the U.S., marking the strongest growth in 11 years. The 2.6% year-over-year outperformed most developed countries, with the Eurozone and Japan projected to be a paltry GDP growth below 1.0%.

Although the U.S. Dollar has risen 17% since May of 2014, we anticipate support at current levels as global investors continue to seek higher yields. Even with rates below 2%, U.S. sovereign debt is still attractive as compared to other G7 nations such as the U.K., Japan and Germany. Additionally, a strengthening U.S. economy, coupled with improved balance sheets, build a strong case supporting the U.S. as a premier investment alternative.

EXHIBIT I

DXY: Dollar Index Spot Price

Source: Altman Investment Management Research and Bloomberg

Despite the accommodative monetary policies of the European Central Bank (ECB) and the Bank of Japan (BOJ), in light of weaker growth prospects, the U.S. economy appears to be on better footing. During the last month of the year, the fixed income market as measured by the Barclays Aggregate Bond Index rose just .09%.

Interest Rates Continue to Run Counter to Expectations

Despite a late-quarter rise in response to strong economic readings, rates finished 2014 lower than where they began the year. Long-dated government maturities (both in the U.S. and abroad) steadily moved lower, defying consensus expectations. The Barclays Intermediate Aggregate Index (+4.1%) benefitted from falling long-term rates. A flattening yield curve (in which longer-dated yields fall relative to shorter-dated) suggests that markets expect the Federal Reserve to tighten policy in coming meetings. Under this scenario, short-term rate hikes would raise near-dated yields while low inflation expectations, a strong U.S. dollar, and sluggish global growth provide downward pressure on long-dated maturities.

Federal Reserve Maintains Accommodative Policy, While Signaling Possible 2015 Rate Hike

During the December Federal Reserve Open Market Committee (FOMC) meeting, Chair Yellen cited numerous positives to support her implicit suggestion of a 2015 interest rate hike, including the 'net positive' of declining oil prices and improving labor metrics used to gauge the underlying health of employment trends. Fed commentary and forward guidance, as with previous iterations, was carefully worded to stress that monetary policy will likely remain accommodative, with Yellen adding that the Fed can be 'patient in beginning to normalize the stance of monetary policy' dependent upon the path of future inflation readings. The continuation of a 'lower for longer' rate expectation has seemed to reassure investors, and future FOMC meetings will certainly be watched intently for signals that monetary policy will begin to normalize.

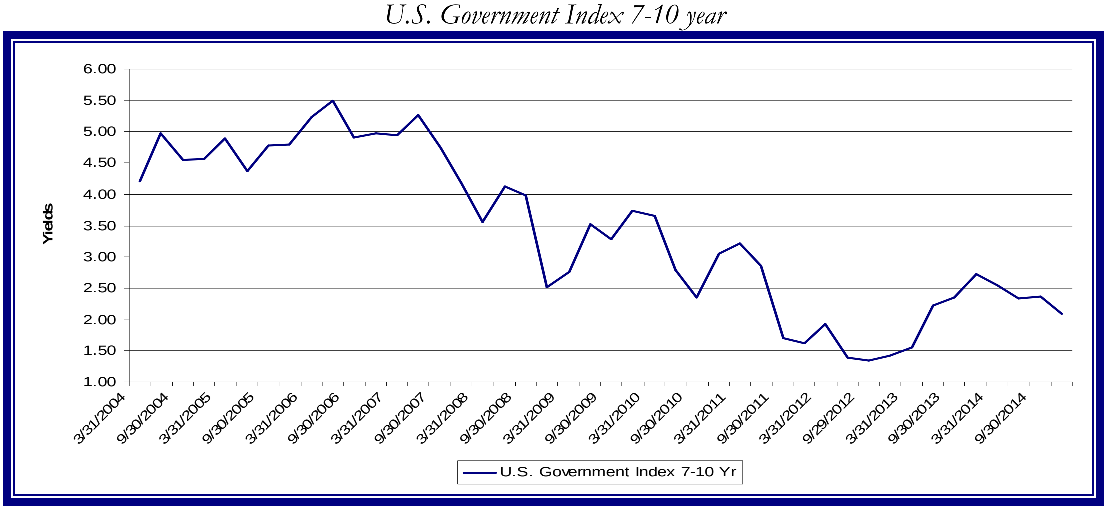
Within fixed income markets, high yield bonds moved lower (-1.6 %), due in part to the sell-off in energy holdings that make up a higher percentage of high yield issuance. Inflation-protected bonds (-0.9%) declined alongside commodity prices, and December five-year breakeven inflation expectations fell to levels not seen since 2010. Short-term bonds (-0.1%) underperformed as a flattening yield curve benefitted longer-dated securities.

EXHIBIT II

Ten Year Generic Treasury Yield

EXHIBIT III

U.S. Government Index 7-10 year



Source for both charts above: Altman Investment Management Research and Bloomberg

CLOSE-UP:

➢ Government Bonds

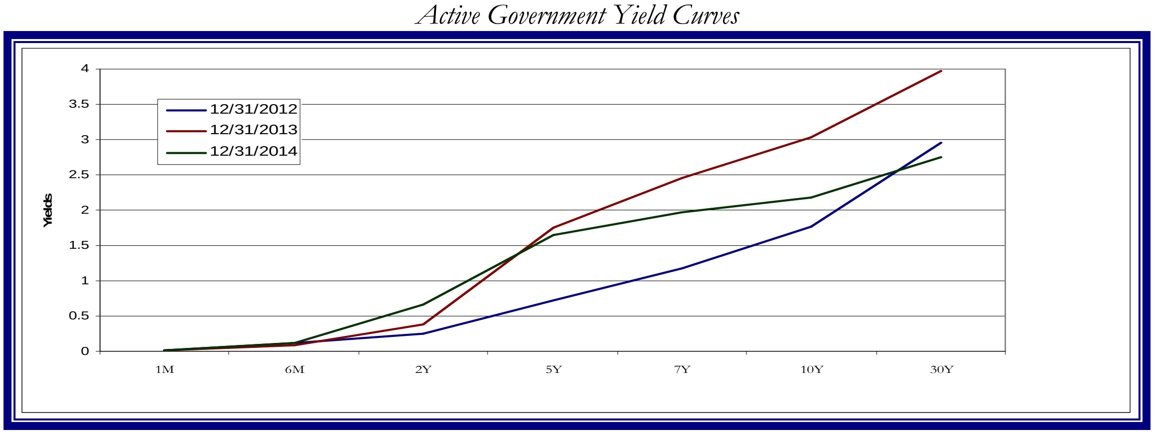
The U.S. Treasury market represented by the Barclays U.S. Treasury Index returned 1.93% during the fourth quarter. The yield curve flattened further from the previous quarter with longer end decreasing and the shorter end increasing. The ten year U.S. Treasury yields declined about 30 basis points while the 2 year yields increased about 12 basis points. The underperformance was largely attributed to the lower duration profile of the mortgage back sector relative to the Treasury exposure. See Table IV below.

➢ Mortgage-Backed Securities (MBS)

Agency MBS have struggled in early 2015, driven by a confluence of factors. A dip in primary mortgage rates has re-introduced refinancing fears, while the Fed no longer adding MBS to its balance sheet has reduced this source of demand. And although the ECB's announcement appears bullish for spread assets, the purchases could pressure U.S. rates, a negative for the agency MBS market. The duration of the Merrill Lynch U.S. Mortgage Backed Index shortened from 5.6 to 4.6 a year ago, whereas the Barclays U.S. Treasury Index ended the quarter with an average duration of 6.0 from 5.5 last year.

EXHIBIT IV

Active Government Yield Curves



Source: Altman Investment Management Research and Bloomberg

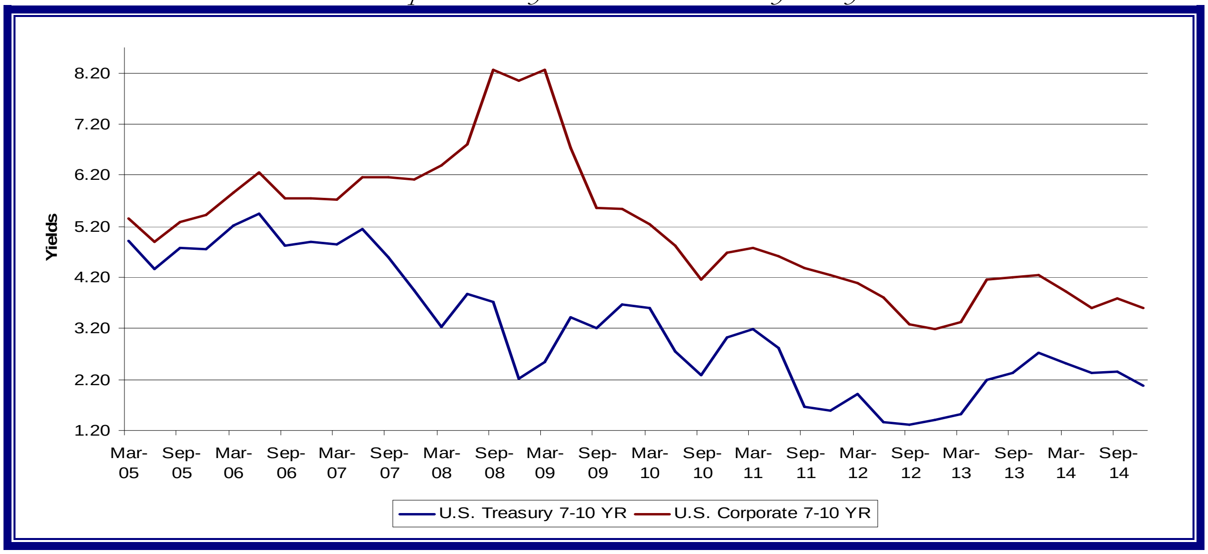
➢ Corporate Bonds

Corporate performance has continued to be weak, though there are tentative signs of stabilization - we remain mildly constructive on the credit markets in 2015. Oil prices appear to be trying to find a bottom, while corporate spreads search for stability; long-dated bonds and energy bonds both have shown signs of life since mid-January. While corporate balance sheets remain healthy and domestically sourced earnings should be strong, international earnings could be negatively impacted by weakness in global growth and strength in the U.S. dollar.

The ECB action, while supportive of spreads, does create a potential negative in that ECB bond buying also will contribute to lower Treasury yields. Any move lower in oil also would pressure corporate fundamentals; while lower oil prices are a general economic positive, corporate bond markets have a disproportionate exposure to the energy industry.

EXHIBIT V

U.S. Corporate 7-10 year versus U.S. Treasury 7-10 year



Source: Altman Investment Management Research and Bloomberg

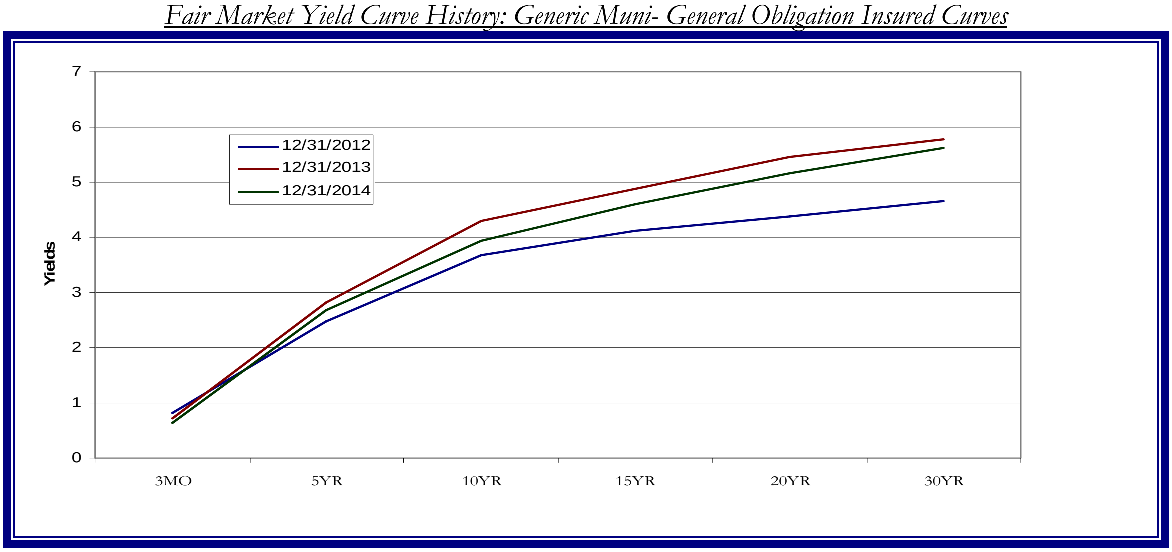
➢ Municipal Bonds

The strong momentum of 2014 carried into the New Year, helping to set a solid beginning for municipals. Performance of high-quality fixed income assets continues to be driven by falling interest rates, global economic uncertainty, easy monetary policies (and comparatively low rates) overseas, weak inflation expectations and an investor need for income. Despite our constructive outlook, investors should be cognizant that 2015 will not be without challenges, as the Fed potentially readies to change interest rate policy and a pick-up in refunding activity has the potential to increase issuance.

We maintain a slightly shorter than market duration, with an emphasis on certain sectors such as state tax-backed and essential-service bonds, particularly in the Southwest, Plains and Southeast region, local governments in lien-status states, school districts and dedicated-tax bonds.

EXHIBIT VI

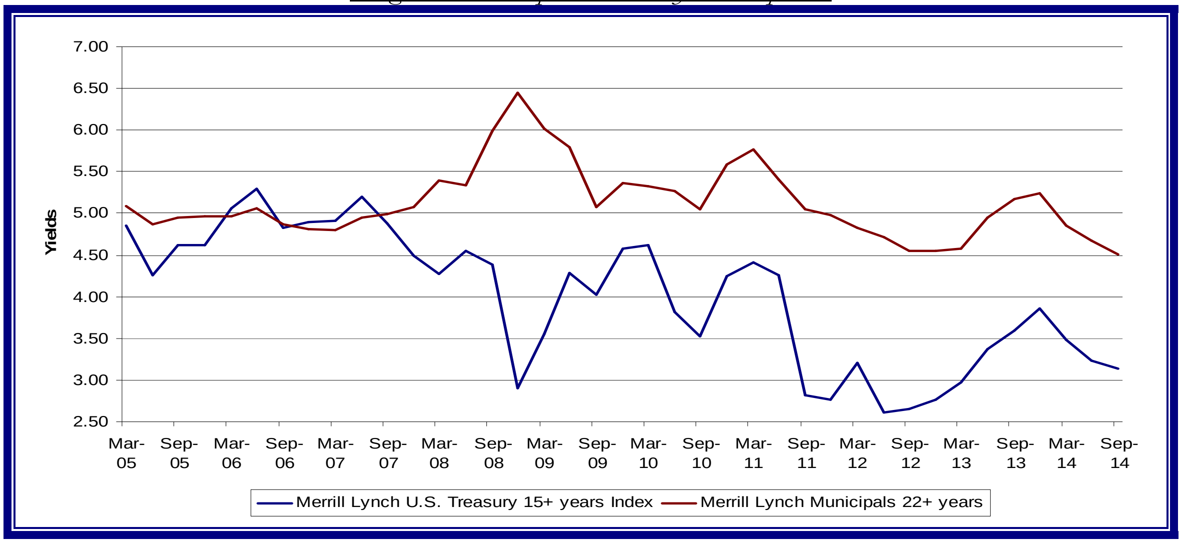
Fair Market Yield Curve History: Generic Muni- General Obligation Insured Curves



Source: Altman Investment Management Research and Bloomberg

EXHIBIT VII

Long Term Municipal to Treasury Yield Spreads



Source: Altman Investment Management Research and Bloomberg

EXHIBIT VIII

Fixed Income Sector Performance – Q4-2014

Fixed Income Sector Performance – 2014 Q4 - Sector	**Rating**	**Maturity**	**Duration Mod Adj**	**Yield**	**Spread**	**Price Spread Avg**	**Trailing 12 Mth Total Return**
Treasury	Aaa/AAA	7.67	5.97	1.52%	N/A	$105.9	6.0%
Agency	Aaa/AA+	5.15	4.02	1.42%	10	$106.9	4.0%
MBS	Aaa/AAA	5.20	4.57	2.30%	78	$106.1	6.1%
Municipal	Aa3/A+	16.20	4.74	2.37%	85	$107.2	11.0%
Corporate	A2/A-	10.24	6.80	3.20%	168	$107.8	7.5%
High Yield	B1/B	6.45	4.06	6.89%	537	$98.9	2.5%

Source: Altman Investment Management Research and Bloomberg

IN SUMMARY:

Can the U.S. continue to grow at a 3% or higher rate, as other major economies slow, their respective central banks ease monetary policy and the dollar continues to strengthen? We believe the U.S. economy can stand on its own, yet still remain cautious of the economy's ability to consistently sustain growth above 3.5%, given the global economic picture and geopolitical uncertainties. We expect the Fed to change interest rate guidance by the third quarter coupled with persistent volatility in the markets. Given the potential headwinds, it remains to be seen just how soon the Fed is willing/able to begin raising short-term interest rates. Our biggest concern is deflationary forces emanating from the Eurozone. However, our long term view of interest rate normalization encourages us to maintain a slightly lower market duration.