GIA PARTNERS

1st Quarter 2018

Highlights

- Volatility returned to financial markets as interest rates continued to rise and the specter of trade wars took hold. Credit markets were well-behaved considering some of the moves in equity markets;
- On balance, global economic data came in below expectations in 1Q. While economists lowered 1Q forecasts, expectations for 2018 continue to be healthy;
- GIA is launching ESG focused credit strategies. Socially responsible investment is gaining adherents amongst institutional investors and asset managers.

Markets

		Returns (%)	
GIA*	Average Quality	1Q18	12 Months
Core Plus Composite	**(A)**	**-1.28**	**2.04**
Global Credit Plus Composite	**(BBB+)**	**-1.56**	**1.79**
Emerging Market Debt Composite	**(BB+)**	**-1.22**	**5.42**
**Returns are net of fees*			
Benchmark Bonds			
Bloomberg Barclay's U.S. Agg. Index	(AA+)	-1.46	1.20
Treasury	(AAA)	-1.18	0.43
Credit	(A)	-2.13	2.59
Mortgage	(AAA)	-1.19	0.78
Government/Credit	(AA)	-1.58	1.38
ICE BofAML U.S. Corporate & Yankees	(A-)	-2.05	2.42
ICE BofAML U.S. Corporate	(A-)	-2.20	2.68
ICE BofAML U.S. Cash Pay High Yield	(B+)	-0.94	3.67
ICE BofAML EM Corporate Plus	(BBB)	-1.14	2.99
ICE BofAML Global Gov't ex-US	(AA-)	0.78	1.81
JPM Emerging Markets EMBI+	(BB+)	-2.04	2.23
JPM CEMBI Broad	(BBB-)	-1.05	3.61
JPM GBI-EM Global Diversified	(BBB)	4.42	12.96
Benchmark Equities			
S&P 500	NA	-1.22	11.77
Nasdaq Composite	NA	2.32	19.48
Russell 2000	NA	-0.40	10.35
MSCI EAFE	NA	-2.20	11.86
Europe	NA	-2.57	11.49
Japan	NA	0.01	17.47
MSCI Emerging Markets Equity	NA	1.07	22.17

Markets

2018 started with nearly daily record closings for stocks and steady ticks higher in interest rates. By the end of January, financial markets seemed to be on a glide path to nirvana. However, as February started, unsettling wage data in an employment report changed everything. Probably triggered by an interest rate or inflation variable in algorithmic driven trading, the shift was sudden and violent. The Dow Jones Industrial Average suffered the two largest single day point drops ever on February 5 and 8. Adding to the rupture, the Trump administration imposed tariffs on various imported products provoking fears of trade wars. By quarter end, volatility increased, equity markets reversed January's gains, credit spreads widened, and the yield curve flattened with long rates anchored near 3.0%. Adding to the damage, 2017's darling industry, technology, faced political animosity after concerns with disclosures of customer data surfaced. Oddly, all of this happened in a fully employed economy that continued to post a reasonable growth trajectory. Overseas, developed equity markets experienced similar behavior in 1Q, with a strong January being overrun by negative political developments. With only a few exceptions, global equity markets delivered negative quarterly returns, interest rates moved higher and credit spreads widened.

The investment grade corporate bond index, the ICE BofAML U.S. Corporate Index (C0A0), was down (2.20%) for the quarter. Credit spreads widened during the quarter driven by greater risk aversion as volatility increased. Wider spreads were particularly noticeable in the short end of the curve, likely due to the new tax law, which incented companies to return their foreign cash hoards. During the quarter, the U.S. treasury index returned (1.21%) with further flattening of the yield curve. Corporate option adjusted spreads (OAS) widened by 17 b.p. to 116 b.p., while the yield to worst of the index rose from 3.27% to 3.77%. Issuance for the quarter at $393.8 billion was modest compared to $448.3 in 1Q 2017, but remained sizeable considering borrowers confronted higher rates, widening spreads and declining investor flows.

High yield bonds performed relatively well considering retail investors continued to withdraw money and the sector often reacts poorly to increased equity market volatility. The ICE BofAML U.S. Cash Pay High Yield Index (J0A0) declined (0.94%) for the quarter. Spreads to worst widened from 365 b.p. to 385 b.p., while the yield to worst increased from 5.73% to 6.35%. Retail investors withdrew $19.2 billion during the quarter. Adding this amount to withdrawals during 4Q 2017, the sector suffered the largest six month outflow on record (-$29.0 billion). The default rate increased to 2.21% in March from 1.27% in December, as 14 companies defaulted on $28.3 billion in debt. The number was elevated by the long-expected defaults of iHeart Communications ($9.4 billion) and Claire Stores ($1.8 billion). New issuance for the quarter totaled $72.7 billion, 26% below last year's first quarter. The decline was likely triggered by caution over equity market volatility, although, longer term, we expect highly levered companies to favor equity over debt because of the change in the tax law.

Emerging markets bonds had mixed performance with external debt posting negative returns on the back of higher rates and local markets delivering good performance on a weaker dollar. Emerging markets became unsettled as equity markets stumbled in early February, although there were no signs of investor panic. Spreads widened, but were well-behaved given the magnitude of the equity moves and the frequent underperformance of the sector in prior high volatility markets. For the quarter, the JPM Emerging Markets Bond Index Plus (EMBI+), a dollar denominated sovereign index, was down (2.04%), the JPM Corporate Emerging Markets Bond Index Broad (CEMBI Broad) declined (1.05%), and the JPM Government Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, gained 4.44%.

Portfolios

Our *Core Plus Composite* consists of portfolios that can hold securities rated below investment grade, but are managed against a Core fixed income benchmark. The Composite outperformed the Bloomberg Barclays U.S. Aggregate Index, net of fees, by 18 b.p. for the quarter, and was ahead by 84 b.p. over the last twelve months. During the quarter, interest rates continued to rise and the yield curve flattened further leading most fixed income sectors to deliver negative returns. Our underweight to government bonds and mortgages contributed to our outperformance. The portfolios benefited from

credit exposure in general with favorable contributions from high yield and emerging markets. Over the last 12 months, the 2-year treasury rose in yield by about 100 basis points, while the 30-year yield did not change. The yield curve flattening contributed to the outperformance of longer duration sectors, like investment grade credit, and supported higher yielding sectors. The Composite's outperformance came from exposure to high yield and emerging markets with an additional contribution from an underweight to government bonds and mortgages.

Global Credit Plus Composite consists of portfolios holding investment and non-investment grade credit related securities. The Composite is measured against a benchmark consisting 85% of the ICE BofAML U.S. Corporate and Yankees and 15% of the ICE BofAML U.S. Cash Pay High Yield Index. The Composite outperformed the benchmark, net of fees, by 32 b.p. during the quarter, but was behind by 82 b.p. over the last twelve months. The portfolios had an allocation of approximately 75.4% U.S. investment grade, 12.1% high yield, and 12.0% emerging markets, of which 10.9% was investment grade rated. The best performing sectors during the quarter were high yield and emerging markets high yield. The portfolio was underweight both of these, but investment grade EM outperformed, leading to the quarter's outperformance. Over the last twelve months, the portfolio's underweight to below investment grade rated securities was responsible for the underperformance.

Our *Emerging Market Debt Composite* consists of portfolios investing in dollar denominated emerging market credit securities, primarily from corporate issuers. The Composite is measured against the ICE BofAML U.S. Emerging Markets Corporate Plus Index (EMUB). During the quarter the portfolio underperformed the benchmark by 8 b.p., net of fees, but was ahead by 243 b.p. over the last twelve months. During the quarter, emerging markets performed well considering credit spreads widened and volatility increased. While the portfolios were favorably allocated regionally, individual holdings in Brazil, Mexico and Russia underperformed bringing down the portfolios' relative performance. Over the last twelve months, non-investment grade outperformed investment grade and Latin America outperformed Asia. The portfolio's overweight positions in Latin America, primarily Brazil, and in non-investment grade credit generated the bulk of the outperformance.

Economy

Year 2017 ended with strong momentum and economists lifted 2018 global growth forecasts. After a quarter punctuated by equity market volatility and marginally disappointing data, it appears observers are tempering their enthusiasm. A key source of optimism was December's new tax law, which has yielded some corporate actions, especially on funds held abroad, but has not yet unleashed its longer term benefit, new corporate investment. A concern for economists and markets now involves the outcome of damaging trade rhetoric, which may not yet have a large quantitative effect, but already knocked market confidence and may dilute tax-related benefits.

An early February wage inflation concern that may have triggered the equity market's volatility spike seems to have subsided with tame CPI data in March, and softer wage numbers in the February and March payrolls. However, businesses continue to complain about labor shortages and teachers recently held successful strikes in two states. While wage pressures will not likely explode, the low unemployment rate and ongoing search for workers may increase the inflation risk more than markets are currently expecting. It is interesting to observe that in the March WSJ Economic Survey, economists forecast a lower CPI for year-end 2018 than mid-year, while projecting higher GDP growth in the later part of the year. In the same survey, the unemployment rate is expected to move to 3.7% by year-end from 4.1% currently.

Another indicator we think is worth monitoring relates to responses to the question on upside or downside risks to each participant's forecasts. In the March survey, the upside moved down to 40.8% from 67.9% in December 2017, whereas the downside moved up to 51.0% from 23.2%. An influential component of the year-end analysis included lofty expectations for global growth. These were validly based on robust data from Europe, Japan, China and other regions. A combination of unexpected events produced underwhelming economic results in Europe and China leading many to

question the robustness of the global growth narrative. Combined with more trade banter, conviction has definitely softened.

Meanwhile, corporate earnings continue to be healthy and expectations for the first quarter remain high. Industries enjoy strong order books, relatively good pricing power and sufficient consumer demand. The final revision of 4Q GDP showed consumers spent at a 4% annual rate, the strongest quarterly rate in three years.

Scenarios

We propose three scenarios for the U.S. economy over the next 6 months:

1. Our most likely case has the economy growing between 2.75% and 3.25% in 2Q and 3Q 2018. Consistent with the consensus, our numerical forecast includes delayed growth from weather related set-backs in the first quarter. For now, business and consumer confidence remain elevated with the employment and wage picture looking supportive. While some of the 1Q data underperformed, we believe the economy's underlying strength remains and the long term benefit of lower corporate taxes has not yet materialized. While we accept foreign economies may not perform as well as we forecast one quarter ago, we believe the U.S. leads the current global expansion. PROBABILITY 60%

2. A second scenario has the economy improving to above-trend growth of 3.50% to 3.75% over the next six months. With a likely declining unemployment rate and new tax-driven investment, economic slack should erode quickly, boosting consumption further. We believe poor growth abroad may only be a brief pause that will reignite over the next 6 months providing a supportive boost to the U.S. economy. While wage inflation may be developing, we believe its emergence will be slow and still manageable. PROBABILITY 20%

3. A third scenario has the economy declining to a 1.0% to 1.5% growth rate. The Administration's strategy to use tariffs and trade threats to correct current account imbalances may back fire, leading to an erosion in global trade and a rapid loss of confidence. In such a scenario, business investment may not materialize and the expected lift in wages and employment may disappear. Furthermore, it is possible the factors that sullied foreign economic activity in the first quarter may have more traction than we expect and lead to further underperformance. PROBABILITY 20%

Market Outlook

With the passage of tax cuts in the U.S., a better-than-expected year in China and solid growth in Europe, 2018 began "on fire." In financial markets, the start may have been the exact inverse of 2016. Back then economic conditions were not as bad as they seemed and perhaps now they were not as good. While many of the elements for optimism remain, enthusiasm has been tempered. With more uncertainty and a few self-inflicted policy wounds, we believe expectations for equity and bond markets must be readjusted. In fixed income, we continue to believe the tendency for rates is higher, based primarily on likely wage pressures. At the same time, we believe corporations will continue to perform financially as they enjoy the benefits of lower taxes, strong consumption and good pricing. This suggests creditworthiness may improve leading credit markets to outperform. The spread widening in the first quarter is helpful, although the move may be insufficient to fully offset price erosion from higher rates

Commentary – Socially Responsible Investment

Investment theory holds that capital flows to assets that generate superior returns with reasonably acceptable levels of risk. Analytically, risk has been interpreted to mean the likelihood of suffering negative returns. To defray risk investors seek diversification, limit their investment arena, provide guidelines to their managers and often prohibit certain investments. Regulators also intervene to protect the quality of investment products and assure the integrity of investment managers. In a world more attuned to matters affecting people's wellbeing, the investment community has begun to focus on a different type of risk. Over the last few years plan sponsors, foundations, high net worth families and other investor groups have begun to pursue investment strategies that attend to social responsibility, sustainability and thoughtful development. These investors want to influence corporate and public sector decision-making in a socially beneficial manner by allocating resources to entities that incorporate social concerns into their processes and work flow. The most commonly watched, and now measured, corporate actions relate to the environment, social practices and responsible governance (ESG). In their broadest dimensions, these three categories capture most of the elements of socially responsible investing.

For years investor groups held that protestations of a few should not be carried over to larger groups when not every member shared the objections. Generally, this was dealt with by the addition of "negative screens" in portfolio guidelines and security selection. Industries like tobacco, which increased the health care costs of employers, were often targeted for exclusion. However, a seminal effort in investor activism took hold in the 1980s with the global adoption of anti-Apartheid divestiture. While this action, widely adopted by pension funds, governments and retail investors, was still a "negative screen," it demonstrated the pressure investors could apply in transforming decision-making. Today, more investors are wielding that influence to direct investments toward companies and countries that incorporate sustainable development and social responsibility into their mindsets and work flow.

We believe institutional investors are moving toward socially responsible investment and are initiating an ESG process that can be applied to all of our strategies. Thus far, the ESG investment focus has been predominantly in equity markets of developed countries. In part, this occurred because corporations with publicly traded stock in developed economies have been pressed on these factors and willingly provided more information on their activities. Public interest led investment managers to develop strategies and research groups to propose measurement methodologies for ESG factors. Entities like index provider MSCI and market data provider Thomson Reuters, have teams of analysts who rate companies based on their ESG practices. While these companies do extensive work, ratings do not often reach many companies in the high yield and emerging markets fixed income space. This occurs, in part, because smaller companies have not adopted ESG policies and because ESG investing has not figured prominently in fixed income.

We believe entities that incorporate ESG practices into their processes and work flow tend to generate compelling financial results and, therefore, should be favored in investment decisions. In an academic research piece entitled Establishing ESG As Risk Premia, Julia L. Pollard, Matthew W. Sherwood and Ryan Grad Klobus cite a supportive study. "Kotsantonis *et al* (2016) also note that ESG factors are not currently well-integrated in investment portfolios, although companies with high ESG scores offer better long-term stock returns due to lower risks, lower cost of capital, superior operating efficiency, and rapid expansion compared to competitors."[1] Furthermore, in a separate study focusing on emerging markets equity, Sherwood and Pollard find, "In excess returns, 10 year returns, and Conditional Value at Risk, MSCI Emerging Market indices with ESG strategy integration provide higher returns at a significantly lower risk than non-ESG MSCI Emerging Market indices."[2] Considered logically, the diligence, conscientiousness and discipline necessary to incorporate elements that may seem secondary to an efficient and cost effective work flow, suggest entities with high

[1] Julia L. Pollard, Matthew W. Sherwood and Ryan Grad Klobus (2018). "Establishing ESG as Risk Premia," *Journal of Investment Management*, Vol 16 No. 1 pp. 1-12.
[2] Matthew W. Sherwood and Julia L. Pollard (2017). "The risk-adjusted return potential of integrating ESG strategies into emerging market equities," *Journal of Sustainable Finance & Investment.*

ESG marks are also effective in their core business. Simply put, companies that possess an ESG culture tend to be better companies.

ESG, social responsibility and sustainability have existed for years, but their wholehearted adoption has been slow and, at times, motivated by regulation. We believe the most successful companies pursue and internalize ESG because it is the right thing to do for their customers, employees and stakeholders. The challenge for investors is that ESG has many dimensions, is fraught with "judgement," sometimes penalizes companies for matters unrelated to their core activities and is difficult to apply seamlessly across industries. In addition, when investing in emerging markets, for example, decision-makers often face conflicting considerations between environmental purity and economic development.

Despite its challenges, we believe investing for social good has merit and should be pursued. We have used ESG factors in our credit analysis for years, generally as complements to our review of managements, strategy and financials. Over time, as companies and investors attach greater weight to these factors, commercial activity and social responsibility should coexist. Confident ESG offers value to investors, we decided to add ESG focused credit strategies in Global Credit, Global High Yield, High Yield and Emerging Markets Debt to our product offerings. To do this properly, we are initiating an ESG measurement process that will enable us to build globally diversified portfolios invested in fixed income securities of companies and sovereigns that meet minimum ESG qualifications.

In building an ESG investment process and measurement methodology we articulated a guiding philosophy. This philosophy was formulated around two principles that must coexist in the portfolios: return-oriented investments and ESG compliant operations. Currently, our fixed income strategies adhere to client-directed guidelines related to sectors, ratings and other risk factors. ESG portfolios will also conform to investor preferences on both traditional risk factors and ESG factors, including areas of client emphasis such as the environment or social responsibility. Based on these considerations, our ESG focused strategy will be guided by the following philosophical principles:

- To qualify for ESG, every company or sovereign must, on balance, take steps to enhance social wellbeing, promote sustainability and protect the environment through their processes, products, actions or behavior;
- ESG measurements are complementary to our credit analysis and all investments will be selected with an excess/total return mindset;
- Like other GIA strategies, ESG may be customized to fit client preferences.

In time, we expect socially responsible investment will become the norm amongst institutional investors. As early adopters in fixed income, we believe we can help influence a globally desirable outcome.

April 15, 2018

Important Information

GIA Partners, LLC ("GIA") is an SEC registered investment adviser.

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Index Definitions

Bloomberg Barclays U.S. Aggregate Index
The Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Bloomberg Barclays U.S. Treasury Index
This index is the U.S. Treasury component of the U.S. Government index. Public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg Barclays U.S .Government/Credit Index
The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries and agencies. The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg Barclays U.S. Credit Index
This index is the U.S. Credit component of the U.S. Government/Credit index. Publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

Bloomberg Barclays U.S. Mortgage Backed Securities Index
This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

ICE BofAML U.S. Corporate & Yankees Index
The ICE BofAML U.S. Corporate & Yankees Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market by US and non-US corporations and non-US quasi-governments.

ICE BofAML U.S. Corporate Index
The ICE BofAML U.S. Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

ICE BofAML U.S. Cash Pay High Yield Index
The ICE BofAML U.S. Cash Pay High Yield Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

ICE BofAML Global Government Excluding the U.S. Index (N0G1)
The ICE BofAML Global Government Excluding the U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency. N0G1 excludes U.S. government bonds.

JP Morgan Corporate Emerging Markets Bond Index Broad (CEMBI Broad)
The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. Both indices are also available in Diversified versions.

JP Morgan EMBI+ Index
The EMBI+ tracks total returns for U.S-dollar-denominated debt instruments of the emerging markets: Brady bonds, loans, Eurobonds. The EMBI+ currently covers 104 instruments across 15 countries.

JP Morgan Government Bond Index-Emerging Markets (GBI-EM)
The GBI-EM is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. Variations of the index are available to allow investors to select the most appropriate benchmark for their objectives.

S&P 500 Index
An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Nasdaq Composite Index
An index that tracks the change in the total market value of all companies listed on the Nasdaq Stock Market.

Russell 2000 Index
An index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small cap stocks in the United States.

MSCI EAFE Index
The index is a capitalization weighted index that monitors the performance of stocks from Europe, Australasia and the Far East.

MSCI EAFE- Europe Index
The index is a capitalization weighted index that monitors the performance of stocks from Europe.

MSCI EAFE- Japan Index
The index is a capitalization weighted index that monitors the performance of stocks from Japan.

MSCI Emerging Markets Equity
The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.