

Taxable Fixed Income Strategies

April 2016



Overview

➤ 1 st Quarter Positioning	1
➤ Sector Spotlight	2
➤ Corporate Credit	3
➤ Outlook	4

1st Quarter 2016 Positioning

Fiera Capital's Taxable Fixed Income strategies outperformed their benchmarks for the first quarter. We entered 2016 with an up-in-quality bias as we had reduced exposure to corporates and increased our Treasury exposure in the later months of 2015. This rotation towards Treasuries served us well as gloom pervaded the markets in the first days of the year. Slumping energy prices, fears of financial havoc caused by defaulting energy loans, and panic regarding a stall in Chinese growth, all contributed to a wave of risk-off, with equities falling around the globe and corporate spreads widening to crisis levels. But, grounded by our longer-term investment process, we concluded that the markets were overreacting and responded accordingly.

1. As inflation expectations fell towards new lows for this cycle, we added to our TIPS positions. We believe that Fed policy aims to bring inflation towards 2% and that TIPS are particularly attractive when break-evens are significantly lower. Furthermore, it remains our view that the major central banks of the world intend to expand accommodative policies, creating an even friendlier inflation environment.
2. We reduced our exposure to Treasuries, which we viewed as overvalued by the middle of the quarter, and increased our exposures to spread sectors. Given how well-capitalized US banks are today, we perceived the panic at the beginning of the year as an extreme overreaction and added to our bank sector exposure.
3. Given our sector reallocation, our contribution to duration shifted away from Treasuries and towards spread sectors. Throughout the quarter we maintained strategy durations slightly longer than the benchmark to benefit from the enhanced returns possible when roll-down calculations are embedded in the strategy's key rate duration structure.

Our macroeconomic analysis heavily informed our strategy, particularly during the market turmoil at the beginning of the quarter. Despite the volatility, our research showed that the US economy remained on a growth trajectory, the jobs market was quite strong, and wages (while disappointing to some) were nonetheless trending gently upward. We observed that individual Americans, whose spending habits generally drive

Market and Strategy Returns

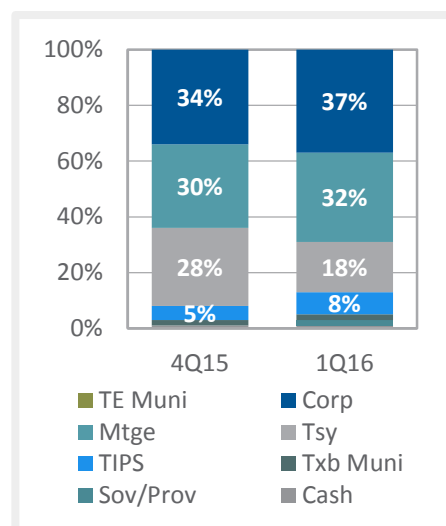
		1Q16
HGST	Gross	1.09%
	Net*	1.01%
BC US Gov/Cred 1-3Y		0.98%
Ex BBB		0.94%
HGCI	Gross	2.53%
	Net*	2.45%
BC Int. Agg		2.31%
Ex. BBB/CMBS/ABS		2.20%
Int Gov	Gross	2.42%
	Net*	2.33%
BC Int Gov		2.28%
Corp 1-5	Gross	2.02%
	Net*	1.93%
BC 1-5 Corp		0.98%
BC Int. Treasury		2.35%
BC Int. TIPS		3.60%
BC U.S. MBS		1.98%
BC Int. Corp		2.76%
Industrials		3.28%
Financials		1.90%
BC Muni 5 Year		1.15%
ML High Yield		3.23%
S&P 500		1.35%

*Please see important disclosures at the end of this commentary.

Sources: Barclays (BC), Bloomberg 3/31/16

Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

HGCI Sector Rotation



the economy, seemed hopeful, as highlighted by consumer confidence levels. Our internal research indicates that spread sectors generally perform well when the consumer outlook is positive.

Our positive macroeconomic view was further supported by expansionary global monetary policy - as all major central banks enhanced their accommodative policies. The European Central Bank delivered on its commitment to catalyze growth in Europe, announcing an expansion of quantitative easing that included corporate bond purchases, and the Bank of Japan pushed rates further below zero. Domestically, the Fed maintained a looser monetary policy and pushed expectations of a rate hike further into the future.

Sector Spotlight

Corporate spreads reached post-crisis wides in mid-February. These levels were last seen in 2011 and 2009, when the domestic economy faced increasingly powerful headwinds and fundamental data was more fragile. Energy and commodity sector spreads were particular hard hit during the first quarter of 2016, well exceeding any post-crisis levels, as oil fell dramatically to \$26.

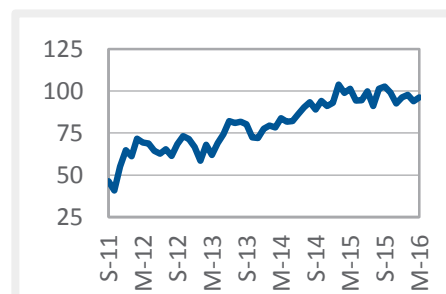
The same risk-off sentiment that impacted corporate bond spreads drove inflation expectations to crisis levels as well. Five year inflation expectations fell below 100bps – meaning that the expected change in inflation over the next five years was less 1.00%. The drop in market expectations for inflation was inconsistent with the actual data, our own expectations, not to mention the Fed’s long-term objective.

Just as we did not believe the inflation markets were reacting to the underlying strength of the economy, we also concluded that the market pricing of risk, as measured by high grade corporate spreads, was inconsistent with the fundamental economic data. We certainly did not see similar risks to the economy as we did in 2009 and 2011, points at which the market was pricing the same level of risk in corporate spreads as it was in mid-February. At these levels, we believed corporate spreads were very attractive and, as noted in our introductory comments, we increased our allocation to corporate bonds.

As the domestic economic data remained relatively consistent, we targeted corporate sectors which had a strong domestic focus, as that could provide some insulation from overseas weakness. We remained cautious on domestic energy sectors, preferring up in quality issuers with balance sheet strength sufficient to withstand further input price volatility.

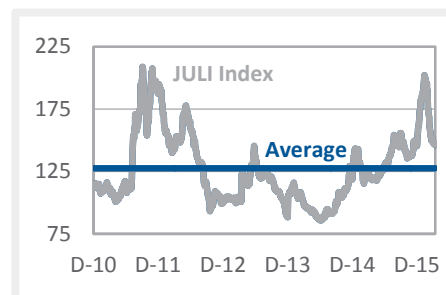
As the charts at right show, our decision to add to corporate exposure was timely, as spreads began a meaningfully rally from late February through the end of the quarter.

Consumer Confidence



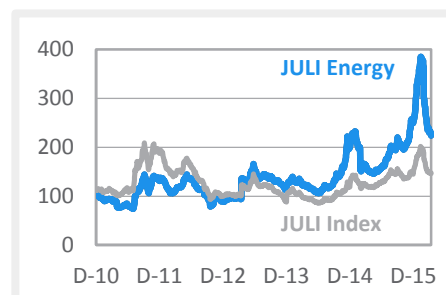
Source: Bloomberg

JULI Data



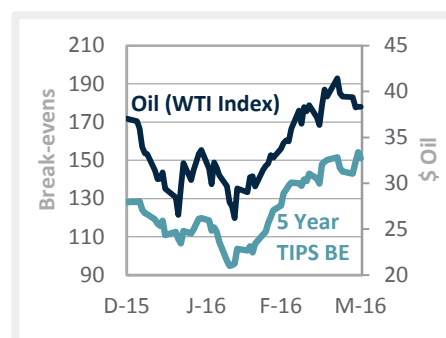
Source: Bloomberg

JULI Energy Index



Source: Bloomberg

Oil and Inflation



Source: Bloomberg

Corporate Credit

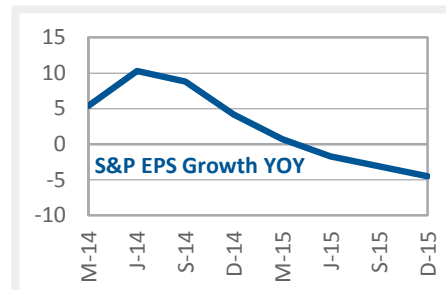
Corporate credit had quite a reversal of fortunes during the 1st quarter of 2016, in line with the volatile trends seen across the markets. In the first days of the year fears of a recession were high. As a result, corporate activity like M&A and share repurchases slowed, resulting in declining new issuance. But as the data momentum from the US remained strong and central bank policies supportive, those market fears began to subside.

Several key credit themes were in focus during the quarter:

1. **Corporate earnings:** the final earnings season of 2015 saw the third consecutive quarter of corporate profit declines, which had not occurred since the end of the recession. The combined drag on profits from oil prices and a stronger dollar negatively impacted foreign earnings. A growing corporate sector reflects positively on a strong domestic market by encouraging labor, wage growth, and capital spending. Driven by this lackluster growth, earnings projections from the first quarter show continuing declines in growth. But stabilizing oil prices and a weakening dollar should provide a bit of a catalyst for the beginning of the second quarter.
2. **Credit cycle concerns:** The corporate credit environment has been marked by increasing leverage, downgrades from high grade to high yield, and rising defaults. The number of global corporate defaults has risen to 40 issuers since the beginning of the year- the highest level since the financial crisis. Fourteen are from the oil and gas sector and eight are from the metals and mining sector. Thirty-four of the defaulting issuers are based in the US, five in emerging markets, and one in the other developed nations.
3. **Increased demand for yield:** We are seeing an increase in foreign demand for corporates in a search for yield in a low-yielding, negative interest rate environment.
4. **Lower levels of issuance:** Issuance stalled in the beginning of the quarter with only the highest quality issuers able to tap the debt markets. Issuance was largely driven by investment grade rated companies, with BB-rated and below virtually shut out of the market for the early part of the year. But with generous new issuance concessions, deals have been well-received by market participants.

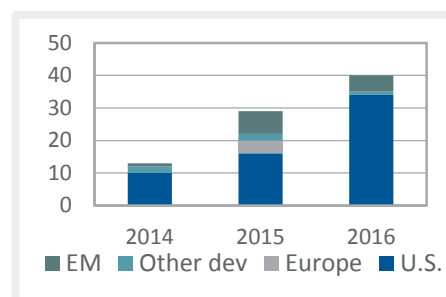
As we increased our allocation to corporates, we targeted high-quality credits with what we believed to be best-in-class positions within their sectors and strong balance sheets that would prove resilient during periods of market uncertainty. We focused on sectors where we felt spreads had widened without corresponding deterioration in fundamentals.

Corporate Earnings (%)



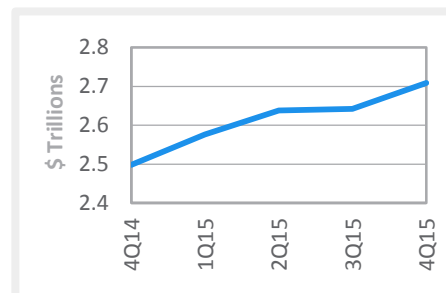
Source: Bloomberg

Rising Corporate Defaults in 2016



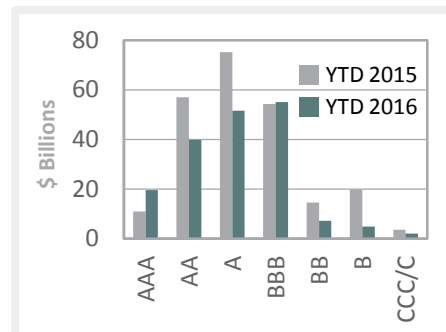
Source: S&P

Foreign Holdings of US Corporates



Source: Federal Reserve

Corporate Bond Issuance



Source: S&P as of 2/29/16

In the energy space, we emphasized companies with strong liquidity, balance sheets that were not over-leveraged and ratings that we felt would remain comfortably in investment grade territory. Many energy credits stretched their balance sheets with debt in order to fund growth during the peak of the cycle and, as prices have decreased, are having more difficulty raising cash and repaying debt.

The banking sector weakened in the earlier part of the quarter as investors became concerned about profitability for banks in a low growth, negative interest rate environment. However, banks are seeking other avenues to remain profitable by increasing fee income and reducing expenses – and should see some benefit from the rate increase in December. We remain concerned about the European banking sector given political uncertainties, restructurings and regulatory rules. We prefer US banking institutions as they have made greater strides in repairing their balance sheets since the financial crisis, have mitigated restructuring and litigation expenses, progressed in rightsizing their businesses, strengthened their balance sheets and have become more profitable. We increased our allocation to regional banks in the quarter as we felt asset quality and profitability concerns provided attractive entry levels. Non-performing asset metrics are still relatively low, capital remains above regulatory requirements, underwriting standards have been conservative and efficiency ratios have seen improvement.

We reduced our allocation to credits that are looking to weaken their balance sheets at this point in the credit cycle. We also reduced names that will have sizable financial requirements in the debt capital markets as we feel large new issue concessions will put pressure on existing secondary levels. Additionally, we have reduced our exposure to companies that have struggled to grow in this environment and whose share price performance has lagged. In sectors like metals and mining, valuations have been attractive and sentiment has improved. But these positives have not been underscored by fundamental improvements and so we have not yet increased our allocation. We maintain an up-in quality bias towards our corporate allocation.

Looking Forward

We have long held that the Fed was unlikely to tighten aggressively. This belief, which we have noted in numerous commentaries, has led us to maintain a fully invested posture – we will maintain that policy. As we have noted in our currency commentaries, we believe that the dollar rally is likely over and we expect the Fed to slowly tighten as financial conditions allow. A weaker dollar promotes inflation, helps corporate profits, stimulates the manufacturing sector, and relieves the pressure for China to devalue its currency. Considering how destabilizing China's devaluation was in the summer of 2015, we expect the Fed to be very focused on relieving pressure on China's policymakers. We expect the Fed to wait for inflation to become securely embedded in the economy before raising rates once more, and as a result anticipate slowly increasing our TIPS exposure. We continue to anticipate that the Fed will be influenced by global uncertainty, fears about deflation, and concerns that a stronger dollar is a destabilizing force in the world economy.

Jonathan Lewis
Chief Investment Officer

Brian Meaney, CFA
Vice President, Fixed Income Investments

Lacey Greenwalt, CFA
Associate Portfolio Manager, Fixed Income Investments

Miriam Legrand
Vice President, Corporate Credit Research

Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

Net returns are net of annual fees and expenses of 0.25%, relevant for accounts with \$10 million in assets. Investors in certain classes may pay a higher fee, which would have the effect of reducing net returns.

This presentation is for informational purposes and should not be considered a solicitation to buy, or an offer to sell, a security.

Certain information contained in this document may constitute "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any strategy or market sector may differ materially from those reflected or contemplated in such forward-looking statements.

Statements regarding current conditions, trends or expectations in connection with the financial markets or the global economy are based on subjective viewpoints and may be incorrect.

This document contains information that has been provided by a number of third party sources not affiliated with Fiera Capital Inc. that, which Fiera Capital Inc. believes to be reliable, but for which Fiera Capital Inc. makes no representation regarding its accuracy or completeness.

Charts, tables and graphs contained in this document are not intended to be used to assist the reader in determining which securities to buy or sell or when to buy or sell securities.

Allocations presented herein are as of the date noted and subject to change.

Index Definitions:

- ▶ Barclays 1-3 Yr Gov/Credit is the 1-3 Yr component of the U.S. Government/Credit Index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.
- ▶ Barclays Intermediate Aggregate Index is the intermediate component of the US 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.
- ▶ Barclays U.S. Corporate Investment Grade Index is a rules-based and market value weighted index of publicly issued U.S. corporate bonds. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Bonds in the Index must have at least one year to final maturity regardless of call features and have at least \$250 million par amount outstanding. Bonds in the Index must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule, must be dollar-denominated and non-convertible and must be publicly issued.
- ▶ The Barclays 1-5 Corporate Index is the 1-5 year component of the index.
- ▶ The Barclays Intermediate Corporate Index is the Intermediate component of the index.
- ▶ Barclays Intermediate Corporate Industrial Index is the Intermediate component of the Investment Grade Industrial Index. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Bonds in the Index must have at least one year to final maturity regardless of call features and have at least \$250 million par amount outstanding. Bonds in the Index must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule, must be dollar-denominated and non-convertible and must be publicly issued. Bonds in the Index must belong to the Industrial sector.
- ▶ Barclays Intermediate Corporate Financial Institutions Index is the Intermediate component of the Investment Grade Financial Institutions Index. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Bonds in the Index must have at least one year to final maturity regardless of call features and have at least \$250 million par amount outstanding. Bonds in the Index must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule, must be dollar-denominated and non-convertible and must be publicly issued. Bonds in the Index must belong to the Finance sector.
- ▶ Barclays 5 Year Municipal Index is the 5 Year component of the Municipal Bond Index. The Barclays Municipal Bond Index is a rules-based and market value weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least \$7 million and be issued as part of transaction of at least \$75 million. The bonds must be fixed rate, have a double date after December 31, 1990, and must be at least one year from maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark.
- ▶ Barclays US MBS is a component of the US Aggregate Index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates. In other words, each aggregate is a proxy for the outstanding pools for a given agency, program, issue year, and coupon. The index maturity and liquidity criteria are then applied to these aggregates to determine which qualify for inclusion in the index. About 600 of these generic aggregates meet the criteria.
- ▶ The aggregates included in the index are priced daily using a matrix pricing routine based on trader price quotations by agency, program, coupon, and degree of seasoning.
- ▶ BofA Merrill Lynch US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of \$100 million. In addition, qualifying securities must have risk exposure to countries that are members of the FX-G10, Western Europe or territories of the US and Western Europe. The FX-G10 includes all Euro members, the US, Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway and Sweden.
- ▶ The US 3-Year, 5-Year, 10-Year, and Intermediate Treasury Indices measure securities in their respective maturity range of the U.S. Treasury Index, which represents public obligations of the U.S. Treasury with a remaining maturity of one year or more.
- ▶ The S&P 500, or the Standard & Poor's 500, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.
- ▶ The Barclays Intermediate TIPS Index consists of securities in the intermediate maturity range of the Inflation-Protection securities issued by the U.S. Treasury.
- ▶ The JPMorgan US Liquid Index, or JULI, provides performance comparisons and valuation metrics across a carefully defined universe of investment grade corporate bonds, tracking individual issuers, sectors and sub-sectors by their various ratings and maturities.
- ▶ Goldman Sachs Commodity Index (GSCI) is a composite index of commodity sector returns which represents a broadly diversified, unleveraged, long-only position in commodity futures.