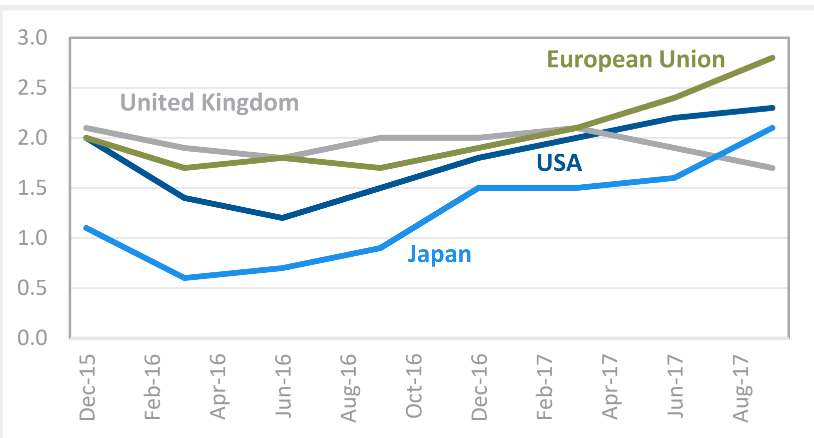
Taxable Fixed Income Strategies

January 23, 2017

2017 was a banner year for capital markets. Stocks made fresh highs, commodities advanced and bonds provided positive total returns. Markets cheered firming economic data, easy financial conditions and newly passed fiscal stimulus in the United States. Our strategies benefited from the continued recovery in the global economy.

The economic picture brightened as the year progressed. In the US, falling unemployment, rising corporate profits, and positive sentiment among consumers and businesses all bode well for continued expansion. GDP growth is higher year over year, not just in the US, but also in nearly every other industrialized country. Global central bank policy settings are easy. The US is one of the few central banks raising its target rate, albeit gradually and from a low base.

GLOBAL ECONOMIC EXPANSION (GDP GROWTH YOY%)



Source: Bloomberg, as of January 19, 2018.

In December, Congress passed the largest revamp of the tax code in 30 years. The centerpiece of the legislation is lower corporate tax rates which legislators hope will encourage companies to increase investment, wages and hiring. It is unusual to add fiscal stimulus in a period of economic growth, making it difficult to gauge the effects. The tax plan is not offset with an equal amount of spending cuts so should provide a tailwind to growth.

Jerome Powell is expected to become the next Fed Chair in February. He has been on the Board of Governors since 2012 and, based on his speeches and voting history, is likely to follow the Fed post-crisis playbook. At his Senate confirmation hearing, Powell told lawmakers "we'll have to be guided by the data as they come in. That's what will dictate the path of our policy." We believe this is a sensible view as inflation

Brian Meaney, CFA
Vice President, Portfolio Manager
Fixed Income Investments

Market and Strategy Returns*

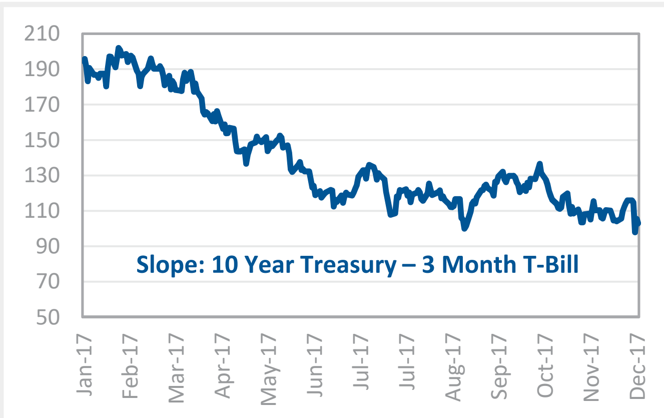
		4Q17	YTD
HGST	**Gross**	**-0.09%**	**1.09%**
	Net	-0.17%	0.73%
BBC US Gov/Cred 1-3Y		-0.21%	0.84%
Ex BBB		-0.23%	0.68%
HGCI	**Gross**	**-0.04%**	**2.39%**
	Net	-0.12%	2.03%
BBC Int. Agg		-0.07%	2.27%
Ex. BBB/CMBS/ABS		-0.13%	1.94%
Int Gov	**Gross**	**-0.25%**	**1.68%**
	Net	-0.33%	1.32%
BBC Int Gov		-0.40%	1.14%
Corp 1-5	**Gross**	**-0.11%**	**2.27%**
	Net	-0.17%	2.01%
BBC 1-5 Corp		-0.09%	2.56%
BBC Int. Treasury		-0.41%	1.41%
BBC TIPS 1-10Y		0.53%	1.90%
BBC U.S. MBS		0.15%	2.47%
BBC Int. Corp		0.17%	3.92%
Industrials		0.08%	3.81%
Financials		0.29%	4.15%
BBC Muni 5 Year		-0.70%	3.14%
ML High Yield		0.39%	7.47%
S&P 500		6.64%	21.83%

*Please see important disclosures at the end of this commentary for strategy and market definitions.
Sources: Bloomberg Barclays (BBC), Bloomberg as of December 30, 2017.

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

has been slow to reach the Fed's 2% target and they will want to see how the fiscal stimulus impacts growth. Balance sheet normalization began in the fourth quarter and should continue gradually over time.

FLATTENING YIELD CURVE (BPS)



Source: Bloomberg as of 1/19/18

The Federal Reserve raised its target rate 3 times this year while the 10 year Treasury yield was basically unchanged. This "flattening" of the yield curve (shrinking of the yield difference between long maturities and short maturities) has raised alarm bells from investors. Inverted yield curves tend to predict recessions as monetary policy is becoming too restrictive. We don't believe the curve will invert this year. Inflation lags economic growth and should return to trend with growth solidifying and labor market conditions becoming tight. It's conceivable that the unemployment rate moves to mid 3% this year. Declining labor slack may place upward pressure on inflation and longer maturity yields as a result. Another argument for long maturity yields rising is the Treasury will be issuing additional bonds to make up for revenue shortfall as a result of the tax plan.

The High Grade Core Intermediate portfolio's duration and yield curve positioning is roughly in line with the benchmark's, preferring to add value by rotating between sectors. We still see opportunities among the investment grade sectors, but there may be chances in the coming months to vary our maturity distribution to take advantage of the flat yield curve. The flattening over the past 3 months gives too much credence to the possibility of the Fed tightening causing a recession. If market consensus changes, the yield curve should steepen and intermediate maturities may outperform short/longer maturities.

Treasury Inflation Protected securities are the portfolio's largest out of benchmark allocation. TIPS are utilized tactically when market implied inflation expectations are low relative to our forecast. Our view is not that inflation will surge in 2018, but rather that it should start moving toward the Fed's 2% target. It is important to note that inflation is a lagging indicator, so if GDP is growing above trend, inflation should pick up as well. Forward looking indicators such as manufacturing surveys and commodities support the view that inflation has likely bottomed.

Corporate bonds performed well in 2017 and are off to a fast start this year. Corporation fundamentals are in fine form with balance sheets and earnings fully recovered from the Great Recession. We think corporates will outperform government bonds again this year, justifying our continued overweight. Though spreads are the tightest in 10 years, further outperformance is possible as the new tax legislation is friendly to issuers in the areas of taxes, capital spending and oversea profits. My colleague Miriam Legrand published a separate piece on the legislations effect on individual industry sectors.

We retain our slow growth outlook benefitting spread sectors over government bonds. Spreads have returned to pre-crisis levels so excess returns should be more muted. Monetary and fiscal policy settings are supportive but we are positioning portfolios in the event volatility returns. For example, adding municipals and non-corporate credit are ways to increase diversification without sacrificing quality in a lower spread environment.

IMPORTANT DISCLOSURES

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

This document is not intended as investment advice or a recommendation of any security or investment strategy for a specific recipient. Investments or strategies described herein are provided as general market commentary, and there may be no account or fund managed by Fiera Capital Inc. for which investments or strategies described herein are suitable due to the various types of accounts or funds that are managed by Fiera Capital Inc. Nothing herein constitutes an offer to sell, or a solicitation of an offer to purchase, any securities, nor does it constitute an endorsement with respect to any investment area or vehicle. This material is confidential and not to be reproduced or redistributed without the prior written consent of Fiera Capital Inc.

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.

The information provided is proprietary to Fiera Capital Inc. and it reflects Fiera Capital Inc.'s views as of the date of this document. Such views are subject to change at any point without notice. Some of the information provided herein is from third party sources and/or compiled internally based on internal and/or external sources and are believed to be reliable at the time of production but such information is not guaranteed for accuracy or completeness and was not independently verified. Fiera Capital Inc. is not responsible for any errors arising in connection with the preparation of the data provided herein. No representation, warranty, or undertaking, express or implied, is given as to the accuracy or completeness of such information by Fiera Capital Inc. or any other person; no reliance may be placed for any purpose on such information; and no liability is accepted by any person for the accuracy and completeness of any such information.

Any charts, graphs, and descriptions of investment and market history and performance contained herein are not a representation that such history or performance will continue in the future or that any investment scenario or performance will even be similar to such chart, graph or description. Any charts and graphs contained herein are provided as illustrations only and are not intended to be used to assist the recipient in determining which securities to buy or sell, or when to buy or sell securities. Any investment described herein is an example only and is not a representation that the same or even similar investment scenario will arise in the future, or that investments made will be as profitable as such examples or will not result in a loss to any such investment vehicles. All returns are purely historical and are no indication of future performance.

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

Strategy Definitions:

- High Grade Short Term (HGST) – utilizes the same investment themes and sector rotation methodology as the Core Intermediate strategy but focuses on shorter maturities, limiting the interest rate risk.
- Intermediate Government (Int Gov) – emphasizes government quality bonds, but in a diversified approach that looks beyond Treasuries to include to pre-refunded municipals, Treasury Inflation-Protected Securities and U.S. dollar denominated sovereign-supported issuers.
- High Grade Core Intermediate (HGCI) – relative return focused versus the Barclays Capital Intermediate Aggregate Index, which offers diversification benefits comparable to the Aggregate Index, but with what we believe to be favorable risk/return metrics.
- Corporate Index Replication (Corp 1-5) -seeks to provide the return and risk profile of a selected benchmark with fewer securities through a separately managed account. Designed for clients interested in a specific asset class, but wishing to avoid the premium/discount issues of exchanged traded funds.

Index Definitions:

It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the cost of fees and expenses that will reduce returns.

Bloomberg 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. **Bloomberg Barclays Intermediate Aggregate Index** is the intermediate component of the US Aggregate Index. The Bloomberg 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. 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 Bloomberg Barclays 1-5 Corporate Index** is the 1-5 year component of the Corporate Index. **The Bloomberg Barclays Intermediate Corporate Index** is the Intermediate component of the Corporate Index. **Bloomberg 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. **Bloomberg 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. **Bloomberg Barclays 5 Year Municipal Index** is the 5 Year component of the Municipal Bond Index. The Bloomberg 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 due 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. **Bloomberg 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. **The US Intermediate Treasury Index** represent the intermediate securities 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 Bloomberg Barclays Intermediate TIPS Index** consists of securities in the intermediate maturity range of the Inflation-Protection securities issued by the U.S. Treasury.