Unconstrained Fixed Income Strategy

Portfolio and Economic Commentary – 3rd Quarter 2018

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Unconstrained Fixed Income Strategy Commentary

Based on our macroeconomic outlook over a three to five year period and our cyclical views from quarter to quarter, we employ top-down strategies that focus on yield curve positioning, volatility, and sector rotation. We then utilize bottom-up analysis to drive our security selection process and facilitate the identification of undervalued securities with the potential for above average income. We invest in securities that operate across diversified sectors in the fixed income markets of the United States, primarily those in U.S. dollar denominated high yield and investment grade bonds, including government securities, corporate bonds, and mortgage- and asset-backed. Sources of added value:

Credit Analysis - We emphasize independent analysis and do not rely on credit agencies.

Duration Risk - We avoid long, extreme duration shifts generally operating within a moderate duration range typically between two and four years.

High Income - Our research attempts to identify issues paying above average income.

Risk Premium Management - We seek to attain an attractive yield/spread in relation to a five-year treasury within acceptable levels of portfolio risk.

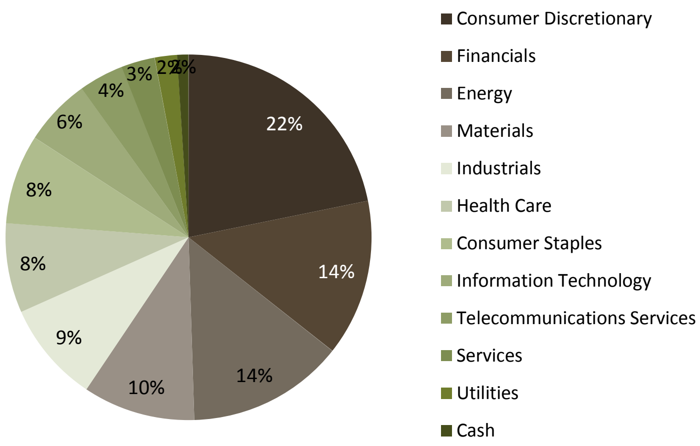
Performance Commentary

Market Overview

The broad based US fixed income market remained relatively flat during the third quarter of 2018 with the Barclays US Aggregate Bond index recording a mere +0.02% gain for the quarter. Corporate bonds, both investment grade and high yield, were the only segments of the US fixed income market to generate gains, with the latter outpacing the former by approximately 140bps by quarter-end. Year-to-date, the high yield corporate bond segment is the only area of the US taxable fixed income market in positive territory with the ICE Bank of America Merrill Lynch High Yield Total Return index up +2.52% on the year, outperforming mortgage-backed securities, the second best performing segment YTD which is down -1.02% as represented by the ICE Bank of America Merrill Lynch Total Return index.

In their September meeting the Federal Reserve raised its benchmark interest rate by 0.25% increasing the federal funds rate to a range of between 2.00% and 2.25%. This move marked the third rate increase to occur in 2018 and the eighth since late 2015. Citing low unemployment, rising wages, and inflation remaining in check at a level of approximately 2% as reasons justifying the hike, the Fed also removed the word ‘accommodative’ from its policy statement providing further validation that a fourth rate increase will most likely occur in December.

Sector Allocation



Top Ten Holdings	Weight
Tempur Sealy	1.28%
Centurylink	1.27%
Treehouse Foods	1.26%
Infor	1.25%
Quad/Graphics	1.25%
Oppenheimer	1.24%
Lifepoint Health	1.24%
Avis Budget	1.24%
Transocean	1.22%
AMC Entertainment	1.21%

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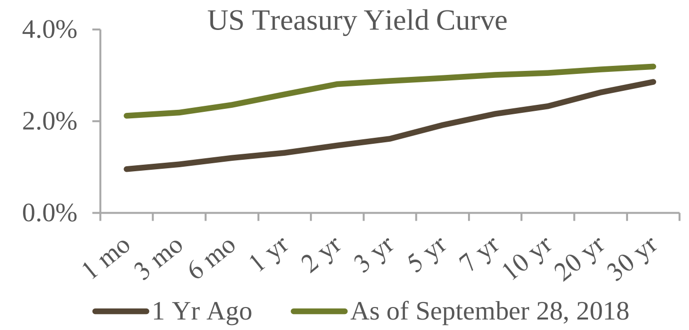
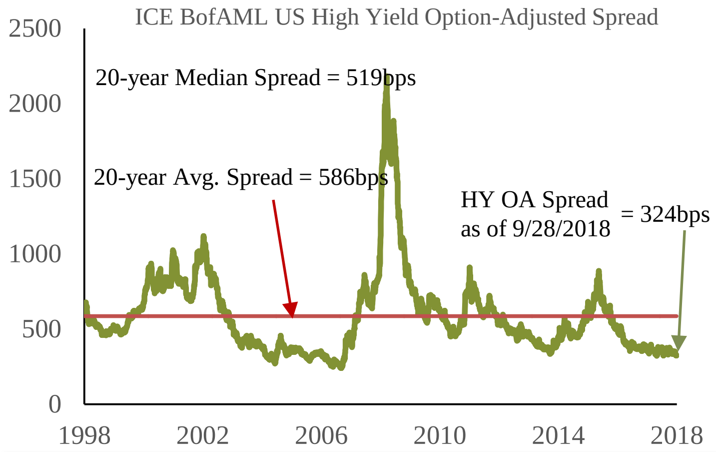
With the Federal Reserve signaling its conviction to maintaining the course on its planned gradual rate hike path, the US Treasury curve continued to flatten during the third quarter with yields rising across all maturities and the spread between the 2-year and 10-year compressing 9bps from Q2's final level to a differential of 24bps by quarter end. The yield on the 10-year, which started the year off at 2.46% and briefly rose above 3.00% in mid-May, expanded to a sustained level of 3.05% by the end of the quarter.



As previously mentioned, high yield corporate bonds, specifically the lowest rated issues within the segment (CCC+ and below), continued to be the best performing area in the US fixed income markets with the ICE Bank of America Merrill Lynch CCC & Lower High Yield index producing a returns of +2.85% for the third quarter and +6.92% YTD. Given rising interest rates associated with the strengthening economy, option-adjusted spreads for high yield bonds contracted approximately 35bps over the prior quarter's level dropping from 359bps at the beginning of the quarter to 324bps by the end of September.



Performance Summary

The Unconstrained Fixed Income strategy produced a gross return of +1.48% during the third quarter of 2018, and is currently up +3.48% YTD. Following two consecutive quarters of declines, the Barclays US Aggregate Bond index was essentially flat during the quarter generating a return of just +0.02%, and remains down -1.60% on the year. The ICE Bank of America Merrill Lynch High Yield Total Return index posted a return of +2.44% for the quarter, driven predominantly by strong returns produced by CCC+ and lower rated corporate issuers in the high yield segment. Through the first three quarters of 2018, the Unconstrained Fixed Income strategy has outpaced both the Barclays US Aggregate Bond and ICE Bank of America Merrill Lynch High Yield Total Return indices by 508bps and 96bps respectively on a gross basis.

Strategy Characteristics

The strategy is primarily invested in the consumer discretionary, financial services, and energy sectors, with each accounting for approximately 22.2%, 13.5%, and 13.5% respectively of total strategy assets as measured by aggregate market value as of 09/28/2018. Exposure to the materials, industrials, and health care sectors is also robust with each accounting for approximately 10.0%, 9.0%, and 7.8% respectively. Despite the seemingly high degree of investment exposure to the aforementioned sectors, the strategy is always invested in an array of unaffiliated companies within each sector in order to provide broad diversification and help mitigate against issue specific credit risk.

Both the aggregate maturity and overall duration of the strategy continued to contract from the previous quarter's levels, ending the third quarter at 3.41 years and 2.94 respectively. Despite initiating a number positions in higher rated issues (B+ to BB) during the quarter, the strategy's overall credit quality remained

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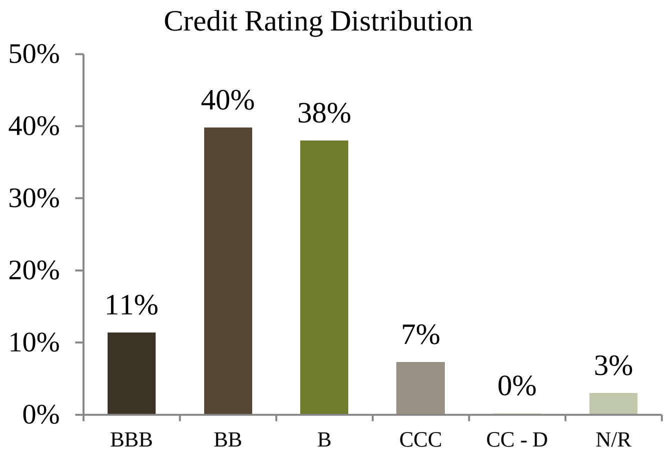
unchanged from the prior quarter, and currently stands at 'B+'. The strategy's overall credit rating distribution is displayed in the following exhibit:



STRATEGY OUTLOOK

With interest rates expected to continue to rise during the fourth quarter of 2018, shorter duration high yield corporate bonds are well positioned to benefit from the strengthening economy. The annual default rate in the high yield market has continued to trend downward over the past year and is currently around 2.0%, approximately 180bps below its 30-year average. Option-adjusted credit spreads of high yield bonds, albeit tight, have not compressed to the historically low levels experienced back in 2006. As we have mentioned in previous commentaries over the past year, call activity in the high yield market will most likely persist even in the face of rising interest rates. Any volatility that may arise in the equity markets will undoubtedly have a tangential impact on the corporate bond market creating buying opportunities for us to establish positions in new companies and increase our holdings of existing issues at more favorable levels. Despite the strong performance of the lowest rated high yield issues (CCC+ and below) over the past 12 – 15 months, we continue to prefer and find the most compelling investment opportunities at the higher end of the credit rating spectrum for non-investment grade corporate bonds (B+ above) as elevated corporate debt levels have led to the credit rating agencies 'downgrading' a number of otherwise 'investment grade' quality companies' bonds to junk status. Given the strong underlying fundamentals of the economy, the strategy's low overall duration exposure and broad issue diversification, should well position it to continue to deliver strong results in the final quarter of 2018 even if periods of episodic volatility arise in either or both the equity and fixed income markets in the final three months of the year.

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