

RIDGEWORTH INSIGHTS: TAX-EXEMPT FIXED INCOME



Collective Strength. Individual Insight.



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RIDGEWORTH FUNDS

Ridgeworth Seix Investment Grade
Tax-Exempt Bond

Ridgeworth Seix High Grade Municipal Bond

Ridgeworth Seix Short-Term Municipal Bond

Ridgeworth Seix Georgia Tax-Exempt Bond

Ridgeworth Seix North Carolina Tax-Exempt
Bond

Ridgeworth Seix Virginia Intermediate
Municipal Bond

EXECUTIVE SUMMARY

- Municipals benefited from the flight to safety that occurred in the immediate aftermath of the late second quarter Brexit vote. But speculation about a rate hike by the Federal Reserve Board (Fed), combined with a spike in issuance, later put upward pressure on yields.
- Inflows remained strong for much of the quarter, but new regulations set to take effect in October resulted in significant outflows from municipal money market funds.
- With budget reserves declining, pension costs rising, and the economy slowing, municipal fundamentals continued to deteriorate.

Returns in the municipal bond market were driven largely by technical factors, with two consecutive months of record supply challenging unrelenting demand. The Bloomberg Barclays Municipal Bond Index returned -0.30% in the third quarter. Municipal to Treasury yield ratios across the curve rose during the last half of September potentially providing investors with an attractive opportunity.

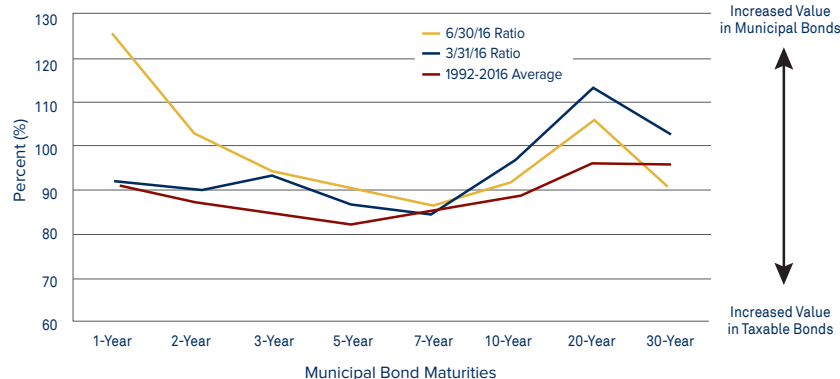
RIDGEWORTH INSIGHTS: TAX-EXEMPT FIXED INCOME**DEMAND LARGELY KEEPS PACE**

The supply of new issues continued to be ample in the third quarter. Year-to-date, new issues totaled approximately \$323.4 billion, according to Thomson Reuters, a nearly 7.4% increase from the same period in 2015. August was a particularly heavy month, with volumes amounting to 41% more than a year earlier, as issuers sought to come to market ahead of the presidential election and a possible Fed rate hike. Estimates for the full year stand at approximately \$400 billion, roughly matching 2015's total.¹

Demand, however, largely continued to absorb this new issuance during the quarter with modest yield concessions. Net new inflows to the municipal market remained strong, as year-to-date inflows to municipal mutual funds amounted to approximately \$50 billion. Including separate accounts would push that figure above \$75 billion and perhaps closer to \$100 billion. Demand was supported by interest from international investors, who continue to find municipals attractive, given that yields on many foreign sovereign issues are near or below zero.¹

Demand waned somewhat toward the end of the quarter, particularly at the short end of the curve, as anticipation of new regulations, set to take effect on October 14, led to outflows from municipal money market funds. The new regulations require a floating net asset value on institutional municipal money market funds.

Yield ratios at the short end of the curve felt the impact of these outflows, with yields on two-year AAA-rated munis climbing to about 108% of those on comparable Treasuries. Elsewhere on the curve, softening demand toward the end of the quarter pushed yields up relative to Treasuries, with 10-year and 30-year AAA-rated munis at 95% and 100%, respectively.

Exhibit 1: Relative Value Ratios Have Increased

Source: Northern Trust Fixed Income

FUNDAMENTALS HAVE PEAKED

Attractive yields and low volatility have helped maintain investor interest in municipal bonds, which continues to be strong despite a deterioration of fundamentals. Falling revenues, combined with rising pension costs and a need for new investment in infrastructure, continue to pressure state and local finances.

In fact, according to a new report from the Pew Charitable Trust, most states' reserves, consisting of so-called "rainy day funds" and end-of-year balances, are lower than before the Great Recession. In 2007, just before the downturn, reserves would have enabled the states to operate, on average, for 41.3 days. But in fiscal 2015, that number declined to 31.6, and for fiscal 2016 it is estimated to be just 29.2.²

The funding status of public pensions has deteriorated as well. Demographic factors and low investment returns have combined to erode the average funding ratio by nearly 30 percentage points since 2001, from 102.1% to just 73.6% in 2015.³ And with investment returns failing to meet performance assumptions of 7-8%, public pensions are likely to continue needing large contributions.

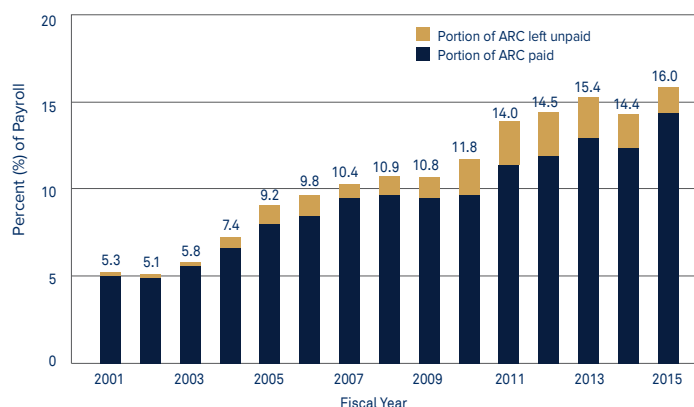
We believe that with these risks and the prospect of a slow-growth economy over the long term, it is likely that municipal credit fundamentals peaked in 2015.



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Exhibit 2: The Annual Required Contribution for Public Employees' Pensions Continues to Rise



OUR OUTLOOK

The coming months could provide investors with an attractive entry point. The supply of new issuance is likely to remain high in the coming quarter, as issuers will continue to come to market ahead of the presidential election and the Fed's December meeting. Inflows, on the other hand, have been waning relative to prior months, so downward pressure on prices could persist.

Credit Ratings noted herein are calculated based on S&P, Moody's and Fitch ratings. Generally, ratings range from AAA, the highest quality rating, to D, the lowest, with BBB and above being called investment grade securities. BB and below are considered below investment grade securities. If the ratings from all three agencies are available, securities will be assigned the median rating based on the numerical equivalents. If the ratings are available from only two of the agencies, the more conservative of the ratings will be assigned to the security. If the rating is available from only one agency, then that rating will be used. Any security not rated by S&P, Moody's, or Fitch is placed in the NR (Not Rated) category. Ratings do not apply to a fund or to a fund's shares. Ratings are subject to change.

Yield Curve is a curve that shows the relationship between yields and maturity dates for a set of similar bonds, usually Treasuries, at any given point in time.

Bloomberg Barclays Municipal Bond Index is a widely recognized index of investment grade tax-exempt bonds. The eight subsets of the Index are market weighted. The Index includes general obligations, revenue bonds, insured bonds, and pre-refunded bonds. Investors cannot invest directly in an index.

Investment Risks:

Bonds offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher-quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a fund's fixed income securities will decrease in value if interest rates rise and vice versa. A fund's income may be subject to certain state and local taxes and, depending on your tax status, the federal alternative minimum tax. The geographical concentration of portfolio holdings in a fund may involve increased risk.

The views expressed herein are as of the quarter-end specified. This information is general in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. It is subject to change without notice as market conditions

Volatility is also likely to increase, given major events on the horizon. These include the November election, the Fed's likely rate hike at the December Federal Open Market Committee meeting and continued concerns in the Eurozone over the European banking sector and sovereign elections. As has been the case on several occasions in the last year, the potential exists for event risk to rekindle a flight to safety bid for high quality fixed income assets that would drag municipal yields lower. In addition, taxes are high and likely to remain so, continuing to give an edge to tax-exempt investments.

¹Thomson Reuters, as of 9/30/16. Date pulled: 10/3/16.

²Pew analysis is based on data from The Fiscal Survey of States, which is published each fall and spring by the National Association of State Budget Officers. Data for fiscal 2000 through 2013 are from "State General Fund, Actual" tables published in fall reports, downloaded June 13, 2014, and Dec. 9, 2014. Data for fiscal 2014 and 2015 are from the spring 2015 report in tables "Fiscal 2014 State General Fund, Actual" and "Fiscal 2015 State General Fund, Estimated," downloaded June 16, 2015.

³Source: PublicPlansData.org.

change, and is not intended to predict the performance of any individual security, market sector, or RidgeWorth Fund. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decision.

Before investing, investors should carefully read the prospectus or summary prospectus and consider the fund's investment objectives, risks, charges and expenses. Please call 888.784.3863 or visit ridgeworth.com to obtain a prospectus or summary prospectus, which contains this and other information about the funds.

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ABOUT RIDGEWORTH INVESTMENTS

RidgeWorth Investments—a global investment management firm headquartered in Atlanta, Georgia, with approximately \$40.1 billion in assets under management as of September 30, 2016—offers investors access to a select group of boutique investment managers and subadvisers. RidgeWorth wholly owns three boutiques: Ceredex Value Advisors LLC, Seix Investment Advisors LLC and Silvant Capital Management LLC, and holds a minority ownership in Zevenbergen Capital Investments LLC. WCM Investment Management and Capital Innovations, LLC serve as subadvisers to the RidgeWorth Funds. Through these six investment managers, RidgeWorth offers a wide variety of fixed income and equity disciplines, providing investment management services to a growing client base that includes institutional, individual and high net worth investors.

For more information about RidgeWorth, its boutiques and its subadvisers, visit ridgeworth.com.



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Seix Investment Advisors, one of RidgeWorth's investment management boutiques, has exclusively focused on managing fixed income assets since 1992. Seix seeks to generate competitive absolute and relative risk-adjusted returns over the full market cycle through a bottom-up focused, top-down aware process. Seix employs multi-dimensional approaches based on strict portfolio construction methodology, sell disciplines and trading strategies with prudent risk management as a cornerstone.

For more information about Seix, visit seixadvisors.com.