

THE FOG OF WAR, MONETARY POLICY EDITION



JAMES F. KEEGAN
Chairman and
Chief Investment Officer



PERRY TROISI
Senior Portfolio Manager
U.S. Government/Securitized

ABOUT THE BOUTIQUE SEIX INVESTMENT ADVISORS LLC



Seix Investment Advisors LLC (Seix) is a fundamental, credit-driven fixed income boutique specializing in both investment grade bond and high yield bond/leveraged loan management. Seix has applied its bottom-up, research-oriented approach to fixed income management for more than 20 years. The firm's success can be attributed to a deep and talented group of veteran investment professionals, a clearly defined investment approach and a performance-oriented culture that is focused on delivering superior, risk-adjusted investment performance for our clients.

REVIEW OF SECOND QUARTER 2016

This has been an unusual year thus far in many respects. From the economy, to domestic politics (Republican and Democrat primaries and the presidential campaign), to geopolitics, to further monetary policy experimentation and finally to the dramatic performance of both risk assets and high quality assets we have witnessed some unique occurrences. Interesting times would be an understatement of the current environment.

The feel-good environment that permeated risk assets over the second half of the first quarter carried over for most of the second quarter, at least until the unexpected outcome of the United Kingdom (UK) referendum, where British voters formally declared their desire to exit the European Union (EU) (Brexit). The Federal Open Market Committee's dovish shift at the end of the first quarter was largely ratified in the second quarter by a weak May employment report (released on June 3rd) initially, only to be followed by the Brexit vote. Central banks used Brexit as a "call to arms" to signal to markets that financial conditions were not going to be allowed to tighten at all. Almost immediately following the vote, the fear-mongering campaign characterized by the narrative of the impending doom that the global economy will inevitably face as a result of the surprise Brexit outcome became operational. If the term Brexit is new to you, get used to it as it is likely to be blamed for any headwinds the global economy faces over the next few quarters, or at least until another convenient scapegoat appears to shoulder some of the load.

Central banks used Brexit as a 'call to arms' to signal to markets that financial conditions were not going to be allowed to tighten at all.

The second quarter was far less tumultuous (pre-Brexit vote) compared to the first quarter. The Treasury market traded in a relatively tight 20-25 basis point (bps) range with most benchmark rates little changed during the quarter through the close of business on June 23rd. The results of the Brexit vote were released on the morning of June 24th and this served as the catalyst for a move considerably lower in Treasury yields, with the longer end of the yield curve enjoying the largest declines across the curve. For the quarter, the front end of the yield curve (2- and 3-year) saw yields decline about 15 bps while the 5/10/30 year yields declined by 21/30/33 bps, respectively. The 10-year Treasury yield ended the second quarter at 1.47% while the 30-year Treasury yield closed the quarter at 2.29%, both very close to all time record lows (spoiler alert – both benchmarks traded to new all-time low yields in early July).

Corporate bonds performed well during the quarter generating 99 bps of excess return, with April turning in an exceptional month followed by weaker (negative excess) performances in both May and June. The securitized sectors were mixed, with residential mortgage-backed securities (RMBS) essentially flat versus Treasuries (only 3 bps of excess return), the commercial mortgage-backed securities (CMBS) market modestly outperforming with 33 bps of excess return, and the asset-backed securities (ABS) market performing the best within the securitized sector generating 50 bps of excess return. The securitized sectors realized positive excess returns in both April and May, but the Treasury market rally and risk-off sentiment engendered by the Brexit surprise saw June's excess returns turn negative as the quarter came to a close.

The "plus sectors" (high yield and emerging markets) had stellar quarters as the search for yield had many investors taking on more and more risk with each passing quarter as Federal Reserve Board (Fed) rate hikes get pushed further and further out. High yield produced 411 bps of excess return over the quarter, the bulk of which was earned in April (394 bps) while emerging market debt delivered 266 bps of excess return. Considering the pain and volatility experienced in the high yield market during the first half of the first quarter, this performance was a bit surprising in the face of challenging fundamentals. Institutional memories, however, have proven to be shorter and shorter over the weakest recovery in the post-war period, and the willingness of investors to look past this recent period of dramatic

Institutional memories, however, have proven to be shorter and shorter over the weakest recovery in the post-war period, and the willingness of investors to look past this recent period of dramatic underperformance can only be interpreted as the market's belief that central banks will remain overly accommodative.

underperformance can only be interpreted as the market's belief that central banks will remain overly accommodative. Exhibit 1 below offers all the detail on total and excess return for the quarter and trailing year. While the "Seix Perspective" typically focuses on the most recent quarterly performance metrics, it is worth pointing out the dichotomy illustrated by the excess returns in high yield over the last quarter versus the last year. This dichotomy serves as a vivid reminder of the fluid nature of excess returns within this lower quality sector and the reality that market psychology/sentiment and therefore performance can turn on a dime. It may be a warning worth heeding, particularly in light of the fact that this global environment of zero, near zero and even negative policy rates has pushed many investors to take on risk that is beyond their historical tolerance levels. Caveat emptor, the Latin expression for "let the buyer beware" seems particularly fitting.

EXHIBIT 1: LOWER QUALITY PRODUCES BETTER EXCESS RETURNS IN Q2

	Q2 TOTAL RETURN	Q2 EXCESS RETURN	1-YEAR TOTAL RETURN	1-YEAR EXCESS RETURN*
Aggregate	2.21	0.31	6.00	0.02
Treasury	2.10	n/a	6.22	n/a
Agency	1.73	0.36	3.19	-0.95
RMBS	1.11	0.03	4.34	0.06
ABS	1.17	0.50	2.72	0.75
CMBS	2.24	0.37	6.22	0.63
Corporate	3.57	0.99	7.94	0.14
High Yield	5.52	4.11	1.62	-2.99
HY – Ba/B	4.15	2.69	1.82	-2.97
HY – Ba	3.60	2.03	4.11	-1.00
HY – B	4.83	3.49	-0.65	-5.07
HY – Caa	11.83	10.69	-0.51	-4.21
HY – Ca-D	33.20	32.13	-22.52	-25.31
HY – Loans	3.06	n/a	1.05	n/a
S&P 500 Index	2.46	n/a	3.98	n/a

*As of 6/30/16

Sources: Barclays, Bloomberg, data pulled 7/1/16

Past performance is not indicative of future results.

BREXIT IN SHORT

The British people voted to leave (Brexit) the EU on June 23rd. The result came as a surprise to markets, the bookmakers and most pollsters, which were confident that the British people were not going to

However, few analysts mention the potential upside that Brexit could present for the UK over the medium term as it frees itself from the heavily bureaucratic and regulated system/super state that the EU has become.

"undermine" their economic future by exiting the country's largest trade market. Polls indicated that frustration over immigration policies was perhaps the most critical issue that shifted voters towards exiting the EU. However, few analysts mention the potential upside that Brexit could present for the UK over the medium

term as it frees itself from the heavily bureaucratic and regulated system/super state that the EU has become. While the UK never adopted the euro as its currency, it has been a full member of the EU, effectively handing over many important economic decisions such as global trade deal negotiations to Brussels. Furthermore, the fiscal impact of contributions to European bank bailouts and the lack of political will on the continent to implement key economic reforms, posed constraints on the UK economy. The UK has

the opportunity to become the most innovative and dynamic economy in Europe, in our view.

While the medium term presents opportunities, the near term poses some risks to the UK. Uncertainty toward negotiations with the EU regarding the UK's access to the single market may negatively impact investment and consumption in coming quarters. This is natural, since some restrictions to trade of goods and services are likely to follow, and it will likely take time for authorities in the UK to find new markets. However, we do not think that Brexit means a protracted recession is looming for the UK economy. On the contrary, our base case is that beyond these short-term headwinds, the medium term outlook for the UK will improve significantly. First, the sharp weakening of the British Pound (nearly a 12% depreciation YTD) should accelerate an improvement of the UK's large current account deficit. This is already a positive outcome since the UK's large current account deficit was becoming an increasing cause of concern. Second, the UK can start negotiating its own bilateral or multilateral trade deals, which can begin to reduce some of

The UK has the opportunity to become the most innovative and dynamic economy in Europe, in our view.

the short-term uncertainty in the business community. Commonwealth countries like Canada and Australia are the first candidates for trade negotiations, with the U.S., a very close ally, also in the offing. It is worth noting that the proportion of UK total trade to the EU has been declining since 1999, when it was as high as 54%. By 2014, trade with Europe had already declined to 44% of total, as growth with non-EU markets accelerated as the EU economy stagnated. The quality of the British business class and the country's strong institutions will help the UK transition towards new markets, as it has done successfully for hundreds of years.

Brexit is clearly a watershed political event for the UK and the EU, rather than a systemic credit event. The process of the UK exiting the EU will take some time, and the decision as to when to trigger Article 50 (formal notification of the intention to withdraw from the EU) will be made by the UK's new Prime Minister Theresa May in conjunction with her recently appointed cabinet in their own time. Prime Minister May assumed office on July 11th following a brief campaign for the leadership of the Conservative Party. All early indications are that the UK leadership is going to proceed slowly and deliberately with an Article 50 declaration sometime in 2017. Rather than the commonly held view of the difficult path the UK is now on, perhaps the greatest risk from the Brexit vote is to the EU itself through a possible "bandwagon" effect. Other political parties and movements throughout Europe may seek to hold referendums regarding their own membership in the EU. There are several political parties throughout the EU that are already campaigning on this theme and developments in the UK, in tandem with several terrorist attacks within the EU, have further empowered these campaigns.

NIRP/ ZIRP/ NEAR ZIRP: MORE THAN JUST COLLATERAL DAMAGE

Conventional wisdom postulates that zero, near zero and even negative interest rates stimulate economic growth as the theory goes that unconventional policy rates encourage households and businesses to borrow and spend, while easing debt service costs. Low interest rates also allow governments to borrow larger and larger amounts of money without blowing obvious holes in their short-term budgets. As an aside, we would be remiss not to mention that the U.S. Treasury thus far has missed an opportunity to take advantage of these record low long-term rates by issuing 50- and 100-year bonds to lock in these rates and significantly reduce the Treasury's refinancing risk. It should

be noted that the duration of 50- and 100-year bonds is not significantly longer than that of 30-year bonds. Developing countries like Mexico and Brazil have issued so called “century bonds”, and considering the demand from pension funds for high quality, long duration assets, it would seem to be a “no-brainer” for the U.S. to issue such securities.

Notice that the economic benefits associated with these unconventional policy rates are almost always presented and articulated through the lens of debtors and the liability side of the balance sheet.... While the liability side of balance sheets benefits by virtue of these low interest rates, the asset side of the balance sheet is penalized as the income generated from savings, bank and money market accounts in particular, suffer from these zero, near zero and negative rates.

Notice that the economic benefits associated with these unconventional policy rates are almost always presented and articulated through the lens of debtors and the liability side of the balance sheet. However, we must remember that there are two sides of a balance sheet, the asset and liability sides.

While the liability side of balance sheets benefits by virtue of these low interest rates, the asset side of the balance sheet is penalized as the income generated from savings, bank and money market accounts in particular, suffer from these zero, near zero and negative rates. As we

have written many times in the past, debt when taken on and used for such purposes as creating new businesses, expanding existing businesses, investing in plant, property and equipment and/or hiring new employees is productive in the sense that these endeavors typically generate an income stream and cash flow over and above the cost of servicing the incremental debt. In this cycle, however, much of the debt issued by the corporate sector has been used for acquisitions or to finance share buybacks rather than for capital investment, which has resulted in reduced business capital investment. Debt issued by the corporate sector to make acquisitions and/or buy back shares is a perfectly legitimate use of proceeds from a corporate finance standpoint, as these activities may benefit those companies and their respective management teams in the short run. But such activities are not stimulative from a macroeconomic perspective, and to the extent that the acquisitions consummated result in redundancies and headcount reductions of the combined entity, acquisitions may even be a net negative to the overall economy as well paying jobs are eliminated. Share buybacks are a tool that managements use to financially engineer earnings per share growth (a key metric in compensation formulas), which is harder to generate in low nominal gross domestic product (GDP) environments. The lower the valuations against which the shares are repurchased, the better the return on investment from a corporate finance standpoint. History will be the judge in due course as to whether these share buybacks were a good use of capital given that they have been transacted at higher and higher valuations as this cycle has extended.

Let's focus now on the asset side of the balance sheet and the consequences of zero, near zero and negative interest rates. While not entirely ignored by central bankers during their policy deliberations (according to policymakers), it appears that not much more than lip service is actually paid to the consequences of such unconventional policies on the asset side of the balance sheet. The impact on savers in particular, is often referenced in “collateral damage” terms. Low, zero or negative interest rates are spun by central bankers in the context of these unconventional policies being pursued “for the greater good” of the overall economy. To put the consequences of these policy rates in some context, let's look at some numbers. According to the most recent

Fed “Flow of Funds” report (1Q16), the household sector's fixed income assets of around \$27.5 trillion, including deposits of \$10.9 trillion, are almost double the household sector's liabilities of around \$14.4 trillion. As such, and all other things being equal, interest rates would seem to matter more to the asset side than the liability side of the household sector's aggregate balance sheet given the fact that fixed income assets are greater than liabilities. The almost \$11 trillion in deposits is a massive amount of money that is effectively being sacrificed in the central bank's concerted effort to force these risk averse people out the risk curve in their quest to put the “Humpty Dumpty” debt financed consumption/ financed based economy back together again. But it is obvious that the Fed continues to ignore/dismiss the structural issues of excessive debt, aging demographics, excess capacity and low productivity, which are not solved by, but rather potentially exacerbated by unconventional policy.

Debt taken on by the household sector for consumption purposes is generally not productive as it simply pulls demand forward, serving to borrow growth from the future and keeping the household sector overleveraged, particularly when viewed through the prism of the aging demographics of the country. This recovery has been the weakest on record with many reasons for this being the case, but the interest rate policy (zero interest-rate policy (ZIRP)/Near ZIRP) of the Fed has been a major contributing factor because it has directly reduced the level of income in our economy, thereby denying the economy of the multiplier effect associated with the spending of a significant amount of that additional income. These unconventional policies, in addition to reducing income in the overall economy, create the paradox of thrift as people increase their savings in response to earning less income on their current savings as they approach retirement.

It is time for central banks to accept and acknowledge the limitations of monetary policy in general and these unconventional policies in particular. Zero, near zero and negative rates are counterproductive from the household sector's perspective, while the corporate sector is not even taking advantage of low rates to productively invest and expand their businesses.

It is obvious that the Fed continues to ignore/ dismiss the structural issues of excessive debt, aging demographics, excess capacity and low productivity, which are not solved by, but rather potentially exacerbated by unconventional policy.

JAPAN, AN UNSUCCESSFUL POLICY EXPERIMENT

There have been several signposts recently that may mark a potential turning point regarding the repeated efforts of central banks providing endless monetary accommodation under the guise of supporting economic growth. Considerable ink has been spilled over the years in writing these “Perspectives,” where we have respectfully pushed back on the efficacy of these efforts, given the overwhelming lack of credible evidence that such policies actually produce any genuine economic stimulus. In reality, the only consistent outcome over the many years and iterations of ZIRP, quantitative easing (QE) programs and negative interest rate policies (NIRP) has been asset price inflation. Central banks have, more often than not, harkened back to using the redundant counterfactual of “but what if we had done nothing” in defense of these varied unconventional policies. The prevailing assumption underlying that counterfactual defense is that absent such unconventional policies, the economic backdrop would resemble something akin to the Great Depression. Again, we respectfully disagree.

When Japan shifted to its most recent iteration of QE it was framed by some economists as the final experiment that was going to prove the efficacy of such unconventional monetary policy, hence expectations called for an outcome unlike all prior iterations of QE. A common refrain typically proffered by QE's most ardent supporters has been that QE was never actually done to the magnitude required for it to be successful. When the Kuroda-led Bank of Japan (BoJ) announced its renewed QE efforts back in the spring of 2014, the policy dosage was undeniably enormous, whereby the monthly bond purchase rate was on par with the Fed's most recent program that ended in the fourth quarter of 2014. Given the fact that the Japanese economy is approximately one-third the size of the U.S. economy, Japan's latest QE program size was in effect three times as large as the Fed's most recent QE program (on an apples to apples basis), allowing economists far and wide to celebrate (prematurely) the program's inevitable success.

Two plus years of enormous additional reserve creation and debt monetization, yet little to show on the currency and inflation fronts. Indeed a defining moment for the QE experiment to end all QE experiments.

Fast forward to the summer of 2016 and the silence is deafening regarding Japan's progress from these same economic pundits. It is as if this extraordinary experiment never happened. Instead, the BoJ has broadened the QE effort into additional asset classes such as exchange-traded funds rather than a simple government bond buying program. Moreover, the BoJ

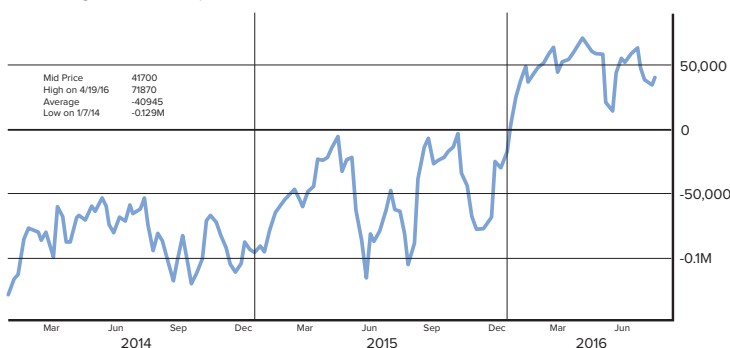
also adopted NIRP, although like many other countries experimenting with this policy, it remains limited in scope and highly selective in its application. NIRP might be talked about in the context of another tool central banks have in their tool chest, but its usage has been very limited due to fear of potentially large and dangerous unintended consequences. Unfortunately, despite all of this unprecedented monetary accommodation, the economic outcome is no different than all other previous efforts—no real growth stimulus, no real inflation, but of course asset price inflation. The ultimate insult to Japanese policy makers is that as time passed, the currency weakness that was triggered by the original announcement and policy enactment has been completely retraced as its failure became apparent. Two-plus years of enormous additional reserve creation and debt monetization, yet little to show on the currency and inflation fronts. Indeed a defining moment for the QE experiment to end all QE experiments.

As financial market participants, we have watched with keen interest as the BoJ reacted to the markets apparent rejection of this policy initiative. The currency's behavior, particularly as we moved into 2016, was difficult to understand on the surface, especially as the currency strengthened so much following the imposition of NIRP. However, as time passed, the message emanating from capital market flows finally began to take hold. Extreme monetary policy via near zero, zero and ultimately negative policy rates has been a fixture in Japan for several decades. One must also remember that the Japanese economy ceased growing for all intents and purposes a long time ago with secular stagnation year after year. Over the past two decades, the policy inputs have had to evolve with the many different governments, bureaucrats and central bank chairs, hence it has progressed and regressed in fits and starts repeatedly over these years. To put this in perspective, nominal GDP remains about where it was in the mid-1990s and the Nikkei Stock Market Index remains nearly 60% below its 1989 peak. It would seem that central bankers should take heed of the poor results of Japan's endless cyclical responses of monetary policy accommodation aimed at resolving entrenched structural problems as excessive debt and aging demographics.

The efficacy of monetary policy is finally being questioned, with the more recent currency strength seen in the Japanese Yen representing the markets/investors' acknowledgement that the endgame is approaching—as the market remains very long Yen. In fact, speculative positioning has shifted to and remains net long Japanese Yen (per Commodity Future Trading Commission speculative positioning data), a distinct vote for monetary policy failure. Exhibit 2 below shows that speculative positioning was net short Yen for all of 2014 and 2015, but shifted to a net long position earlier this year as the policy failure and a central bank out of effective ammunition interpretation entered the market's mindset.

EXHIBIT 2: SPECULATIVE JAPANESE YEN POSITIONING

Bloomberg CFTC CME Japanese Yen Net Non-Commercial Futures Positions



As of 8/2/16
Source: Barclays, data pulled 8/12/16

Past performance is not indicative of future results.

It is this market vote of no confidence and policy failure that is bringing to the surface the need for a shift to fiscal policy rather than the ongoing overreliance on monetary policy. The Japanese experience is really a roadmap that should be acknowledged by the Fed and other central banks to see the futility of an overreliance on monetary policy as the solution to structural problems. Programmers periodically make mistakes in coding such that a computer can enter what is called an "infinite loop" as the conditionality expressed in the code allows for repetition of the same task over and over again. The Japanese experience is Exhibit A for a monetary policy "infinite loop" and it is a path no other central bank should endeavor to emulate.

OUTLOOK & PORTFOLIO POSITIONING

Portfolio sector weightings to the primary spread sectors (RMBS and corporate bonds) were modestly reduced relative to the benchmark over the course of the second quarter. This was largely tactical in nature as overall weightings to these sectors remained close to benchmark weightings, which is essentially where they have oscillated around given sector valuations. The modest reductions represented more opportunistic sales of individual holdings that achieved spread targets as valuations continued to richen during the quarter. As intimated in our last "Perspective," we increased the beta of the corporate portfolio in the first quarter by adding to specific energy credits during the commodity (particularly oil) market selloff. This higher beta exposure was the primary driver of alpha/excess return in the second quarter. Within the corporate sector, valuations were most compelling in energy, basic industry and consumer cyclicals (autos) while electric utilities, consumer non-cyclicals and technology offered the least compelling values. Within the securitized asset sleeve, agency CMBS exposure was sold during the second quarter as spreads achieved our sell targets. This exposure

was held in lieu of current coupon pass-through holdings and has been redeployed back into RMBS exposure that is slightly “up in coupon.” Portfolios remain underweight the current coupon—the most negatively

As intimated in our last “Perspective,” we increased the beta of the corporate portfolio in the first quarter by adding to specific energy credits during the commodity (particularly oil) market selloff. This higher beta exposure was the primary driver of alpha/ excess return in the second quarter.

convex part of the coupon stack. Modest overweights in private CMBS as well as ABS remain a core component of our safe income at a reasonable price strategy.

Valuations are fair at best and should continue to remain under pressure as the fundamental backdrop continues to deteriorate. At the end of July, the markets were informed that growth over the first half of the year averaged an annualized 1% rate, the weakest

pace since the first quarter of 2011. Hope springs eternal for a second half GDP bounce, but that is predicated on the continued elevated gains in personal consumption as well as a turn in the inventory cycle. Consumption rose at an annualized 4.2% rate in the second quarter, a solid gain over the 1.6% pace of the first quarter. It should be noted that over the course of this seven-year recovery we have witnessed consumption gains above 4% only three times (out of 28 quarters or 11% of the time) and the prior two episodes saw consumption slow considerably in the following quarter. Inventory investment has now been a drag on growth for five consecutive quarters, a highly unusual occurrence outside of a recession; hence the assumption that inventory builds therefore must be forthcoming. While further deterioration is unlikely in the short run, a considerable inventory build also seems like a long shot given a still elevated inventory to sales ratio.

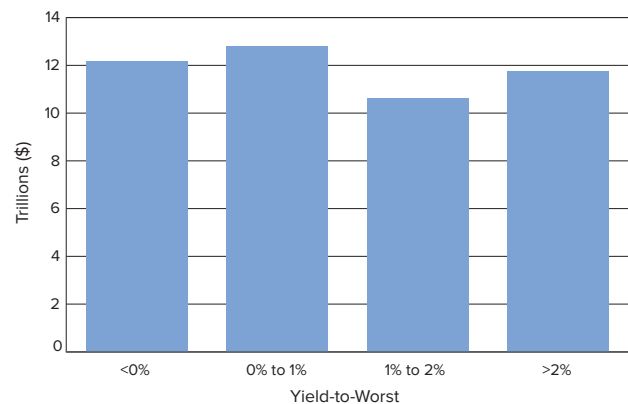
The overall macroeconomic backdrop is hardly conducive to sustained strong gains in either consumption or investment. The Fed, along with the actions of other central banks, has done little to inspire the “animal spirits” of capitalism as monetary accommodation remains the primary driver of risk asset returns. The expansion is now seven years old (above average over the post-war period) and is still under the care of a central bank that seems entirely intolerant of anything that might result in tighter financial conditions. In addition to the traditional asset “put,” the Fed has propagated throughout this recovery as it added or reintroduced monetary stimulus whenever asset markets came under pressure; it seems as if the Fed may have adopted a dollar “ceiling,” whereby the Fed plays “a central bank to the world” role with policy inputs that include a broad basket of foreign exchange rates. There was a time when foreign exchange (or U.S. dollar policy) was the sole purview of the Treasury Department, but the Fed’s post crisis self-appointed role has wandered beyond the regulatory side of things and into Treasury’s mandate. The policy divergence that produced a strengthening U.S. dollar at the end of 2015 and then incited the volatility of early 2016 is an experience that the

Yellen-led Fed has no interest in repeating. This reinforces our base case that this will be the easiest tightening cycle in the history of the Fed, and that the Fed is not going to raise rates any time soon. Our call that the July 2012 low in 10-year U.S. Treasury yield (1.38%) would be breached materialized in July, and it is likely that a 1% or lower yield comes to pass this cycle.

Our core plus portfolios remain void of a strategic exposure to the non-Investment Grade sector. The reversal in high yield from being down a little over 5% in mid-February to being up around 13% in mid-August is nothing short of amazing, even more so considering the macroeconomic backdrop that has evolved over the same time frame. This move speaks more to the incessant search for yield in a world where risk free rates have been driven to zero and even negative across many developed bond markets. You can see in Exhibit 3 below just how much sovereign debt is trading below 1% or even at negative yields. The environment feels inherently unhealthy and unstable. Consider the following returns as a proxy for the uniqueness of the current investment landscape. For the first half of 2016, the Barclays Long U.S. Treasury Index total return was 15.12% while the CCC component of the Barclays High Yield Index was 16.03%. Never in the history of these indices have these exceptional returns occurred simultaneously. These returns represent countervailing signals and the question to contemplate is which market will ultimately be proven to be more prescient. As we said at the beginning, we live in interesting times.

EXHIBIT 3: PARSING THE BARCLAYS GLOBAL AGGREGATE INDEX BY YIELD

\$12 Trillion of Negative-Yielding Bonds



As of 6/30/16
Source: Barclays, data pulled 7/12/16

Past performance is not indicative of future results.

Alpha is a measure of performance on a risk-adjusted basis.

Asset-Backed Security (ABS) is a financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For investors, asset-backed securities are an alternative to investing in corporate debt.

A Basis Point is equal to 0.01%.

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

Barclays Long U.S. Treasury Index is an unmanaged index that includes all publicly issued U.S. Treasury securities that have a remaining maturity of 10 or more years, are rated investment grade, and have \$250 million or more of outstanding face value.

Barclays High Yield Municipal Bond Index is an unmanaged index considered representative of noninvestment-grade bonds.

Commercial Mortgage-Backed Securities (CMBS) are a type of mortgage-backed security that is secured by the loan on a commercial property. A CMBS can provide liquidity to real estate investors and to commercial lenders.

Convexity is a measure of the curvature in the relationship between bond prices and bond yields that demonstrates how the duration of a bond changes as the interest rate changes.

Coupon is the interest rate stated on a bond when it's issued.

Dow Jones Industrial Average is a price-weighted index of the 30 largest, most widely held stocks traded on the New York Stock Exchange.

Federal Open Market Committee (FOMC) is the Federal Reserve Board that determines the direction of monetary policy.

Gross Domestic Product (GDP) refers to the market value of all final goods and services produced within a country in a given period. GDP per capita is often considered an indicator of a country's standard of living.

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

Negative Interest Rate Policy (NIRP) is an unconventional monetary policy tool whereby nominal target interest rates are set with a negative value, below the theoretical lower bound of zero percent.

Quantitative Easing (QE) is an unconventional monetary policy used by some central banks to stimulate their economies when conventional monetary policy has become ineffective.

Residential Mortgage-Backed Security (RMBS) is a type of security whose cash flows come from residential debt such as mortgages, home-equity loans and subprime mortgages. This is a type of mortgage-backed security that focuses on residential instead of commercial debt.

Standard & Poor's 500 Index is an unmanaged index of 500 selected common large capitalization stocks (most of which are listed on the New York Stock Exchange) that is often used as a measure of the U.S. stock market.

West Texas Intermediate (WTI) is a grade of crude oil used as a benchmark in oil pricing.

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.

Zero Interest-Rate Policy (ZIRP) is a method of stimulating growth while keeping interest rates close to zero.

Investors cannot invest directly in an index.

This information and general market-related projections are based on information available at the time, are subject to change without notice, are for informational purposes only, are not intended as individual or specific advice, may not represent the opinions of the entire firm, and may not be relied upon for individual investing purposes. Information provided is general and educational in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. This information may coincide or conflict with activities of the portfolio managers. It is not intended to be, and should not be construed as investment, legal, estate planning, or tax advice. Seix Investment Advisors LLC does not provide legal, estate planning or tax advice. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decisions.

All investments involve risk. Debt securities (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. There is no guarantee a specific investment strategy will be successful.

Past performance is not indicative of future results. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information about the RidgeWorth Funds can be found in a fund's prospectus. To obtain a prospectus, please call 1-888-784-3863 or visit www.ridgeworth.com. Please read the prospectus carefully before investing.

©2016 RidgeWorth Investments. All rights reserved. RidgeWorth Investments is the trade name for RidgeWorth Capital Management LLC, an investment adviser registered with the SEC and the adviser to the RidgeWorth Funds. RidgeWorth Funds are distributed by RidgeWorth Distributors LLC, which is not affiliated with the adviser. Seix Investment Advisors LLC is a registered investment adviser with the SEC and a member of the RidgeWorth Capital Management LLC network of investment firms. All third party marks are the property of their respective owners.



Collective Strength. Individual Insight.