Highlights

- After a dismal start to 2016, financial markets recovered in February to end the quarter higher. The reversal in risk aversion also propelled credit markets. Our portfolios outperformed in the quarter;
- The factors that pushed markets lower forced another round of central bank policy accommodation. We think the Fed will postpone further rate hikes and economic growth will likely be muted;
- Brazil has been in the spotlight. The country hosted the World Cup in 2014 and will host the Olympics this year, but a corruption scandal is rocking the country. We believe Brazil will emerge stronger.

Markets

		Returns (%)	
GIA*	Average Quality	1Q16	12 Months
Core Plus Composite	(A)	3.26	0.70
Global Credit Plus Composite	(BBB+)	3.36	0.80
Global High Yield Composite	(B+)	3.56	-3.44
Emerging Market Debt Composite†	(BB+)	4.69	1.06

**Returns are net of fees*

Benchmark Bonds			
Barclay's U.S. Aggregate Index	(AA+)	3.03	1.96
Treasury	(AAA)	3.20	2.39
Credit	(A)	3.92	0.94
Mortgage	(AAA)	1.98	2.44
Government/Credit	(AA)	3.47	1.75
BoA Merrill U.S. Corps & Yankees	(A)	3.79	1.11
BoA Merrill Corporate Master	(A-)	3.92	0.98
BoA Merrill High Yield	(B+)	3.23	-3.90
BoA Merrill EM Corporate Plus	(BBB)	4.04	3.17
JPM Emerging Markets EMBI+	(BB+)	5.94	5.88
JPM CEMBI Broad	(BBB-)	4.26	2.97
JPM GBI-EM Global Diversified	(BBB)	11.02	-1.65
Citi Non-U.S. World Govt. Bonds	(AA-)	9.10	7.74

Benchmark Equities			
S&P 500	NA	0.77	-0.39
Nasdaq Composite	NA	-2.75	-0.63
Russell 2000	NA	-1.92	-11.07
MSCI EAFE	NA	-3.74	-10.67
Europe	NA	-3.18	-10.87
Japan	NA	-7.32	-8.77
MSCI Emerging Markets Equity	NA	5.37	-14.14

Markets

The first quarter brought many firsts in financial markets. To start, global equity markets began 2016 in freefall. On the first trading day of the year, China's equity market declined 6.9% and set the stage for about 45 days of extreme global economic pessimism. The S&P 500 declined 6% in the first week and was down 10.5% by early February. Concerted European and Japanese central bank action brought negative yields to many government bonds, and the Japanese placed 10-year bonds at negative yields for the first time. In U.S. bonds, treasuries rallied in a flight to quality, and high yield bonds suffered a nearly 6% drop through mid-February. Commodities also sagged, although oil prices appeared to relinquish their hold on the direction of equity prices. Sentiment improved measurably after February 11 as fears of global recession waned, and higher risk investments recovered most of their losses by the end of March. Measured point to point, the quarter looked uneventful. For investors it was anything but that.

High yield bonds staged a stunning recovery that began in mid-February. Before the reversal, high yield bonds had declined in seven of the previous eight months for a cumulative fall of 13.01%. From the low, the high yield market returned 8.83% by the end of the quarter, a recovery that J.P. Morgan termed "historic." For the quarter, the Bank of America Merrill Lynch High Yield Cash Pay Index (J0A0) ended up 3.23%, reversing three quarters of declines. Over the last twelve months, the index declined (3.90%). Spreads narrowed from 693 b.p. to 690 b.p., while the yield to worst decreased from 8.70% to 8.23%. Mutual fund investors added $8.0 billion to high yield funds during the first quarter helping fuel the recovery after a $4.2 billion withdrawal in January. The default rate increased to 3.22% in March from 1.82% in December as more energy and commodity related entities were forced to restructure. Strategists continue to forecast high default rates in energy, but modest insolvencies in other industries. New issue activity was subdued as market jitters effectively sidelined borrowers in January. With a solid recovery in late February and March, volume totaled $51.2 billion for the quarter compared to $95.6 billion in the first quarter of 2015.

The investment grade corporate bond index, the Bank of America Merrill Lynch U.S. Corporate Index (C0A0), was up 3.92% for the quarter primarily on the back of lower interest rates. Corporate bonds recovered late in the quarter as risk aversion eased in February. The corporate bond index outperformed the treasury index because it has a longer duration and benefited from the decline in interest rates. The U.S. treasury index returned 3.35% for the quarter. During the quarter, investment grade corporate spreads narrowed by 1 b.p. to 172 b.p., while the yield to worst of the index decreased from 3.67% to 3.21%. Issuance for the quarter jumped as rates declined. Total issuance was $395 billion, including $154.5 billion in January, a month in which investors were very cautious.

At year-end many strategists recommended investors stay away from emerging markets. Headwinds like low commodity prices, depreciating currencies and high debt levels did not augur well for the sector. Early in the year emerging markets bonds and equity fell, like other risky assets. However, the decline was not a rout, and areas of particular concern, like currencies, performed reasonably well. When developed markets turned, emerging markets outperformed. Even countries with depressing economic pictures, like Brazil and Russia, did well. For the quarter, the JPM Emerging Markets Bond Index Plus (EMBI+), a dollar denominated sovereign index, was up 5.94%, the JPM Corporate Emerging Markets Broad Index (CEMBI Broad) returned 4.26%, and the JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, returned 11.02%, including a 5.74% contribution from currency.

Portfolios

Our *Core Plus Composite* consists of portfolios that can hold up to 30% in securities rated below investment grade. The Composite outperformed the Barclays U.S. Aggregate Index, net of fees, by 23 basis points for the quarter, but was behind by 126 basis points over the last twelve months. During the quarter, the best performing sectors were investment grade credit and emerging markets. In aggregate, the portfolio had exposure exceeding 42% to these sectors, explaining most of the outperformance. The portfolio was also underweight mortgages, which underperformed, but this was offset by an underweight to government bonds, which held their gains even as risk aversion lessened. Over the last 12 months

the portfolio was held back by the underperformance of credit, primarily investment grade and high yield. Emerging markets performed reasonably well, although Latin America, led by Brazil, underperformed.

Global Credit Plus Composite consists of portfolios holding investment and non-investment grade credit related securities. The Composite is measured against a benchmark consisting 70% of the BofA Merrill Lynch U.S. Corporate Index and 30% of the BofA Merrill Lynch U.S. Cash Pay High Yield Index. The Composite underperformed the benchmark, net of fees, by 34 basis points during the quarter, but was ahead by 127 basis points over the last twelve months. The portfolios had an allocation of approximately 73.9% U.S. investment grade, 9.9% high yield, and 16.2% emerging markets, of which 13.5% was investment grade rated. During the quarter, investment grade corporate bonds delivered strong performance, although it was due mostly to a decline in rates. The portfolio had a 10.3% allocation to Agency notes and 4.9% in cash, both of which underperformed. In addition, the portfolio was modestly shorter in duration than the benchmark, which caused underperformance. Over the last twelve months, the portfolios benefitted from a modest recovery in emerging markets and the underweight to high yield, the worst performing sector.

Our *Global High Yield Composite* consists of portfolios investing primarily in U.S. high yield, higher yielding investment grade credit and emerging markets corporate bonds. The Composite outperformed the Bank of America Merrill High Yield Cash Pay Index by 33 basis points, net of fees, in the quarter, and was ahead of the index by 46 basis points over the last 12 months. During the quarter, the Composite held a meaningful exposure to emerging markets bonds, which recovered in the second half of the quarter and outperformed high yield. Some of the worst performing securities in 2015, experienced significant recoveries as commodity prices stabilized. Over the last twelve months, the outperformance is also attributable primarily to emerging markets, which outperformed high yield, and secondarily to an underweight within high yield to energy and mining.

Our *Emerging Market Debt Composite*[†] consists of portfolios investing in dollar denominated emerging market credit securities, primarily from corporate issuers. The Composite is measured against the BofA Merrill Lynch US Emerging Markets Plus Index (EMUB). During the quarter the portfolio outperformed the benchmark by 65 basis points, net of fees, but was behind by 211 basis points over the last twelve months. The portfolio had an overweight exposure to non-investment grade rated securities and regionally was overweight Latin America and underweight Asia. That combination generated the outperformance as lower rated credits recovered. Over the last twelve months, that same combination caused the underperformance as Latin America, led by Brazil, was the worst performing region, while Asia, a mostly investment grade rated region, benefited from lower interest rates.

Economy

During the first quarter of 2016, the world experienced volatile shifts in sentiment, market prices and policy maker resolve. All of this occurred in an environment of depressing geopolitical events and almost theatrical electoral primaries in the U.S. After the Fed's December rate move, economists expected reasonable U.S. growth and moderately recovering global activity. In the first two weeks of the year these expectations were dashed as global equities cratered and foreign monetary authorities were again forced to come to the rescue. Global stock market anxiety hit the Fed, and one month after their first hike in nine years, they were forced to call a time-out.

By February 2016 most economists had downgraded their growth expectations for both the U.S. and the world. Economists participating in the WSJ Economic Survey downgraded U.S. forecasts by 0.5% for the first quarter and entities like the IMF, World Bank and others brought down their 2016 world growth outlook. Few believe China will achieve its revised growth targets because they involve an ongoing shift to consumption-led versus investment-led growth. The government can manage investment more easily than personal consumption.

In the U.S., growth continues to be modest, although positive. The same economic drivers remain in place, especially now that the Fed has put further rate increases on hold. Employment has improved enough to remove that factor from the Feds policy calculus, while autos, housing and services are all performing reasonably well. During the quarter, the ISM manufacturing index moved back above 50. The deleterious effect of commodity related disinvestment may be largely digested, while the benefits from low energy prices continue. An ongoing disappointment is that these conditions should support an optimistic outlook, yet we are missing a catalyst to launch the economy into a higher growth phase.

In the meantime, foreign conditions continue to look dire. In emerging markets, low commodity prices have sapped investment and drained government coffers. Cheaper currencies provide stimulus to domestic manufacturing, but consumption is strained. During the quarter the IMF downgraded its growth outlook for both China and Brazil and Russia's challenges remain tied to oil prices. These three large economies account for much of the pessimism in the sector. In Europe, conditions appear to be "on hold." Sovereign and banking sector risks appear contained, but there too we do not see the impetus to jump-start growth.

Scenarios

We propose three scenarios for the U.S. economy over the next 6 months:

1. Our most likely case has the economy growing 1.5% to 2.0% in 2Q and 3Q 2016. We believe the U.S. economy has a relatively strong foundation given employment, wage growth and consumer credit metrics. The external environment and strong dollar have created headwinds that appear to be entrenched through 2016. With high government debt levels and limited impetus for investment, we do not see a catalyst to boost growth. The Fed may raise rates once or twice in 2016, but will more likely stay on hold as the economy muddles through. PROBABILITY 60%

2. A second scenario has the economy recovering to trend growth of 2.5% to 3.0% over the next six months. The services side of the economy remains strong and housing related activity could accelerate with strong employment and wages. In addition, disinvestment related to low commodity prices may have run its course, reducing the future economic drag from these industries. Europe may perform better than expected because the region enjoys help from a weaker currency, cheap energy and an improving banking sector. Chinese policy makers may implement more policies targeting consumption, helping halt the economy's perceived decline. PROBABILITY 20%

3. A third scenario has the economy declining to a 0.5% to 1.0% growth rate due to drags from net exports, worse than expected fallout in China, and eventual deterioration in consumer confidence. The improvements we expect abroad from currency devaluations may not materialize, and the U.S. may not have sufficient strength to pull the rest of the world along. In addition, the favorable price effects from lower energy prices will end, likely altering inflation expectations. In this scenario emerging economies sink further, due to mediocre Chinese growth, and recessions in Brazil, Russia and South Africa. PROBABILITY 20%

Market Outlook

In December markets took the Fed's rate increase in stride for two weeks. 2016 started with a vote of no confidence after events in China, Japan and Europe suggested the global economic outlook was precarious. The Fed acknowledged that concern at its January meeting. With mixed economic data and the Fed on hold, we are altering our expectations for the next six months. Most significantly, we believe interest rates will not rise as much as we anticipated. We now believe the 10-year treasury will remain below 2% through June. Consequently, credit markets look more compelling, especially on a relative basis. This also implies, though, that default rates may move higher in both high yield and emerging markets.

While we continue to believe exposure to those sectors is warranted, tactical trades to improve creditworthiness will likely be rewarded.

Commentary – Brazil – The Future is Finally Bright

For two years Brazil has been enmeshed in a staggering corruption scandal that has derailed businessmen, politicians, bankers, intermediaries, and may soon dethrone the president. Through late last year, investors avoided the country like the plague. In dollar terms the stock market declined nearly 29% between 2012 and 2015, and the currency devalued nearly 94%. The country, often lauded for its economic potential, has not lived up to expectations. In a November 12, 2009 article titled "Brazil Takes Off," The Economist wrote, "Indeed, when it comes to smart social policy and boosting consumption at home, the developing world has much more to learn from Brazil than from China. In short, Brazil suddenly seems to have made an entrance onto the world stage. Its arrival was symbolically marked last month by the award of the 2016 Olympics to Rio de Janeiro. Two years earlier Brazil will host football's World Cup." Subsequent articles from the same publication lamented the country's relapse. The country of the future remained a disappointment in the present.

Historically, observers have pointed to many factors to explain why a country so rich in natural resources, human capital and cultural heritage has underachieved economically. According to the World Bank, in 2014 Brazil was the seventh largest economy in the world. It generated GDP of about $2.4 trillion with a population over 205 million. The country has some of the largest iron ore reserves, uniquely fertile land and a vast coastline. Many industries enjoy world-leading cost positions as the country is home to a young and productive population. In agriculture, Brazil is the largest coffee grower and a global leader in sugar, soybean and protein production. Properly managed, the country could easily join the ranks of wealthy nations within a generation.

As the scandal unfolds, it is worth noting that Brazil has not squandered its wealth, rather it has failed to harness resources optimally. For many years complex governing dynamics, driven by numerous and diverse political parties, were blamed for inconsistent policies, years of hyper-inflation and over-indebtedness. Yet, the government took measures to address these flaws, including granting full independence to the central bank and passing budgetary legislation. Sub-standard education has also been a source of criticism, which the last two administrations have made efforts to address. When Luis Inacio Lula da Silva, leader of the left leaning Workers Party, took power in 2003 financial markets had low expectations. The country's external debt traded at a substantial discount, and many believed Brazil would again descend into economic disarray. Lula surprised everyone, keeping many of the previous administration's more conservative financial technocrats, and promoting investment. With support from his party and many of his opponents, he delivered surprising macro-economic improvement. Many private sector institutions complained, however, that "micro-economic" measures made conditions more burdensome. For small businesses, regulations, permitting, fees, labor restrictions, and other operating minutia became asphyxiating. Not surprisingly, many Brazilians came to believe in (or participate in) various "short-cuts" to get things done.

The widely publicized corruption scandal attained global news status after the 2014 arrests of various prominent political and business figures. In a nutshell, executives at various companies were accused of bribing officials at Brazil's national oil company, Petrobras, to obtain contracts. Business transactions, including construction projects, would occur at inflated prices to generate illicit funds, some of which were subsequently funneled to politicians. The investigation uncovered so many different schemes and secretive business arrangements that a suspect referred to the business environment as "institutionalized corruption."

For now, the scandal has stalled the government and frozen economic activity. The country will likely suffer another year of recession. However, this case has forced Brazilians to examine themselves because, in many ways, the scandal

crystallizes a feature of their livelihood in a bureaucracy-laden society. People are angry with politicians, angry with the business leaders, and angry that such blatant corruption thrived. This anger has been channeled against the president, leading to her likely impeachment. Ironically, the currency, stock market and bond prices are up sharply in 2016 as prospects for President Rousseff's departure grow. Investors believe a new centrist administration may be able to end policy paralysis.

Impeachment should not be a reason for optimism, though. In fact, if it proceeds, impeachment may weaken Brazilian democracy as the precedent could embolden future congresses when an elected person falls out of favor. Although she presided over Petrobras from 2003 to 2005, president Rousseff has not yet been tied to the corruption scandal that felled so many people. Accusations against her relate to a previously used fiscal policy maneuver to get around difficult budgetary rules. Without a smoking gun, impeaching any popularly elected official delegitimizes the democratic process.

The real source of optimism for the country is the successful exposure of the scandal and the prosecution of culpable individuals. As with other processes in Brazil, the fallout will lead to new legislation and likely more bureaucracy. But this may also begin to break down institutionalized corruption because more people will reject it. It is impossible to measure the value of a corruption-free, market based economic system, although there are two identifiable benefits. The first is the added value to the economy from the elimination of graft and the proper pricing of business transactions. The second, more powerful benefit is the credibility boost for all investment activity. It may take Brazil some time to repair the damage from the scandal, but longer-term the benefits may finally permit the country to reach its true economic potential.

April 15, 2016

† Please note net returns for the Emerging Markets Debt Composite have been recalculated from February 2014 to March 2016 to reflect management fees at 0.75 percent.

GIPS requires GIPS Disclosure Statement (please see attached disclosure)
GIPS requires GIA fee schedule disclosure "GIA's fees are (i) .35% annually for standard USA fixed income, (ii) .50% annually for enhanced fixed income and (iii) .75% annually for specialized products"

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Forecasts and Market Outlook: The forecasts and market outlook presented in this material reflect subjective judgments and assumptions of the investment manager and unexpected events may occur. There can be no assurance that developments will transpire as forecasted in this material.

Management Fees, as well as account minimums and other important information are described in GIA's Form ADV - Part IIA. Since management fees are deducted quarterly, the compounding effect will be to increase the impact of such fees by an amount directly related to the account's performance. For example, an account with a 10% gross annual return and a 1% annualized management fee that is deducted quarterly will have a net annual return of about 8.9%.

*Important GIPS disclosures pertaining to composite performance may be found at the back of this letter.

Index Definitions

Barclays 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 US Treasury Index
This index is the U.S. Treasury component of the U.S. Government index. Public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Barclays US Government/Credit Index
The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries and agencies. The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Barclays US Credit Index
This index is the U.S. Credit component of the U.S. Government/Credit index. Publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

Barclays US Mortgage Backed Securities Index
This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Bank of America Merrill Lynch US Corporate & Yankees Index
The Bank of America Merrill Lynch US Corporate & Yankees Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market by US and non-US corporations and non-US quasi-governments.

Bank of America Merrill Lynch US Corporate Index
The Bank of America Merrill Lynch US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

Bank of America Merrill Lynch US High Yield Master Cash Pay Only Index
The US High Yield Master Cash Pay Only Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

JP Morgan Corporate Emerging Markets Bond Index (CEMBI)
The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. Both indices are also available in Diversified versions.

JP Morgan EMBI+ Index
The EMBI+ tracks total returns for U.S-dollar-denominated debt instruments of the emerging markets: Brady bonds, loans, Eurobonds. The EMBI+ currently covers 104 instruments across 15 countries.

JP Morgan Government Bond Index-Emerging Markets (GBI-EM)
The GBI-EM is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. Variations of the index are available to allow investors to select the most appropriate benchmark for their objectives.

Citigroup Non-US World Government Bond Index
The Index is comprised of foreign government bonds with maturities over one year.

S&P 500 Index
An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Nasdaq Composite Index
An index that tracks the change in the total market value of all companies listed on the Nasdaq Stock Market.

Russell 2000 Index
An index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small cap stocks in the United States.

MSCI EAFE Index
The index is a capitalization weighted index that monitors the performance of stocks from Europe, Australasia and the Far East.

MSCI EAFE- Europe Index
The index is a capitalization weighted index that monitors the performance of stocks from Europe.

MSCI EAFE- Japan Index
The index is a capitalization weighted index that monitors the performance of stocks from Japan.

MSCI Emerging Markets Equity
The 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.