GIA PARTNERS

2nd Quarter 2015

Highlights

- During the second quarter, interest rates rose, but higher yielding credit outperformed. Our portfolios benefited on a relative basis, even though absolute returns in core markets were negative;
- We expect the U.S. economy to perform reasonably well in the third and fourth quarters. We do not believe Greece and China will have a significant impact;
- Labor markets have continued to improve during 2015 and no longer appear to represent a big enough drag to justify extraordinary monetary stimulus. We expect the Fed to raise rates in September.

Markets

		Returns (%)	
GIA*	Average Quality	2Q15	12 Months
Core Plus Composite	(A)	-0.74	0.26
Global Credit Plus	(BBB+)	-0.92	-2.00
Global High Yield Composite	(B+)	1.83	-4.37
Emerging Market Debt Composite†	(BB)	2.40	-2.83

**Returns are net of fees*

Benchmark Bonds			
Barclay's U.S. Aggregate Index	(AA+)	-1.68	1.86
Treasury	(AAA)	-1.58	2.31
Credit	(A)	-2.88	0.93
Mortgage	(AAA)	-0.75	2.29
Government/Credit	(AA)	-2.10	1.69
BoA Merrill U.S. Corps & Yankees	(A)	-2.39	1.12
BoA Merrill Corporate Master	(A-)	-2.66	1.02
BoA Merrill High Yield	(B+)	-0.04	-0.53
BoA Merrill EM Corporate Plus	(BBB)	1.29	0.78
JPM Emerging Markets EMBI+	(BBB-)	-0.87	-2.08
JPM CEMBI Broad	(BBB)	1.56	1.43
JPM GBI-EM Global Diversified	(BBB+)	-0.96	-15.39
Citi Non-U.S. World Govt. Bonds	(AA-)	-1.54	-13.49

Benchmark Equities			
S&P 500	NA	-0.23	5.25
Nasdaq Composite	NA	1.75	13.13
Russell 2000	NA	0.09	6.49
MSCI EAFE	NA	-0.37	-6.57
Europe	NA	-0.91	-9.95
Japan	NA	2.93	6.58
MSCI Emerging Markets Equity	NA	-0.24	-7.47

Markets

The second quarter of 2015 ended with U.S. investors again fixated on foreign events. The quarter started with a weak employment report that suggested economic forecasts were too optimistic. Markets did not react negatively. In fact, equity markets and interest rates both rose in April. May's economic data supported those market moves, but June's reports came in below expectations. However, the focal points became Greece and China. Greece's possible Euro exit dominated the conversation and China's wild equity market raised concerns about the global growth picture. All along, the debate on the Fed's rate intensions continued to guide trading. By quarter end the S&P 500 gave up its gains, returning -0.23%, European stocks retreated on Greece with the DAX down 8.5%, but emerging market stocks managed to gain 3.7%. U.S. bond prices declined as rates rose on Fed hike expectations, with treasuries returning -1.84% and high yield bonds -0.04%.

The investment grade corporate bond index, the Bank of America Merrill Lynch U.S. Corporate Index (C0A0), was down 2.66% on the back of higher interest rates and modest spread widening. Corporate bonds underperformed U.S. treasuries, which returned -1.84% due to the treasury index's shorter duration and modest widening. Investment grade corporate spreads widened by 11 b.p. to 147 b.p., and the yield to worst of the index increased from 2.94% to 3.31%. Issuance for the quarter remained elevated at $377.8 billion as borrowers rushed to sell ahead of rising rates. Year to date investment grade issuers raised $758.6 billion, well on pace for another annual record.

High yield bonds suffered a reversal in June after relatively good performance in April and May. Investors withdrew funds during the quarter on concerns over rising interest rates. The Bank of America Merrill Lynch High Yield Cash Pay Index (J0A0) was down 0.04% for the quarter after a -1.53% performance in June. Spreads narrowed from 488 b.p. to 484 b.p., but the yield to worst increased from 6.16% to 6.46%. Mutual fund investors withdrew $5.0 billion from high yield funds during the second quarter after adding $9.1 billion in the first. The default rate decreased to 1.88% in June compared to 3.0% in March, but the number was higher than forecast because of an increase in energy related defaults. During the quarter new issues totaled $95.6 billion, which essentially matched issuance over the first quarter. Year to date new issue volume totaled $191.2 billion, slightly less than last year's $209.5 billion.

Emerging markets corporate debt had a relatively strong quarter as investor flows returned and Russian bonds continued to perform well. Even though Brazil continued to underperform as the corruption scandal broadened and economic activity failed to improve, dollar denominated bonds performed relatively well, while local currency markets suffered from an appreciating U.S. currency. The JPM Emerging Markets Bond Index Plus (EMBI+), a dollar denominated sovereign index, was down 0.87% for the quarter, the JPM Corporate Emerging Markets Broad Index (CEMBI Broad) returned 1.56% for the quarter, and the JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, returned -0.96%. Year to date the benchmarks returned 0.98%, 4.04% and -4.88% respectively.

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 94 basis points for the quarter, but was behind by 160 basis points over the last twelve months. During the quarter, the portfolio retained exposure to high yield and emerging markets, which contributed most of the outperformance. The portfolio was also underweight government bonds especially in the long end, which added to the outperformance. An underweight in mortgages detracted marginally

from performance, but not enough to offset the benefit from credit. Over the last 12 months the underperformance was attributable to high yield and emerging markets as those sectors declined during the second half of 2014 and interest rates fell taking government bond prices higher.

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 outperformed the benchmark, net of fees, by 95 basis points during the quarter, but was behind by 256 basis points over the last twelve months. The portfolios had an allocation of approximately 67.0% U.S. investment grade, 10.5% high yield, and 21.4% emerging markets, of which 16.6% was investment grade rated. During the quarter, both high yield and emerging markets outperformed, even though interest rates rose. Investment grade credit underperformed and experienced modest spread widening. The portfolio benefited from its exposure to the higher yielding sectors. Over the last twelve months, the portfolios' emerging markets exposure caused almost all of the underperformance as the portfolios' investment grade and high yield holdings outperformed their respective benchmarks.

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 187 basis points, net of fees, in the quarter, but was behind the index by 384 basis points over the last 12 months. During the quarter, the Composite held a meaningful exposure to emerging markets. Emerging markets recovered, benefiting from improved flows and cautious optimism on Russia. While oil and commodity related borrowers did not recover, many of their prices stabilized at lower levels. Over the last twelve months, the underperformance is attributable primarily to the emerging markets exposure, which was affected by the Russia/Ukraine crisis and the decline in oil and commodity prices that began in the second half of 2014.

Our *Emerging Markets 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 111 basis points, net of fees, but was behind by 361 over the last twelve months. During the quarter the portfolio benefited from a further recovery in Russia and outperformance in China and Brazil. While Brazil underperformed the sector, our holdings benefited from good entry levels. Over the last twelve months, the portfolio was overweight to both Russia and Ukraine, which performed poorly as a result of their conflict and the decline in oil and commodity prices.

Economy

Despite excessive global attention to Greece's Eurozone status and China's equity market, the most notable observations during our quarterly economic discussions related to the apparent stability of the U.S. economy. In fact, this will be the 6th consecutive quarter in which our central forecast is for a 2.5 to 3.0% growth rate over the next two quarters. Over those six quarters actual quarterly growth rates were volatile, especially in the first quarter of each year. However, the weakness in the first quarter of 2014 was made up during the next two quarters, and it appears the same pattern may be developing again in 2015.

In the June 2015 WSJ Economic Survey economists lowered their average second quarter growth forecast from 2.8% to 2.6%, but kept the third and fourth quarters at 3.1% and 3.0% respectively. If these materialize, annual growth will still exceed 2.0% after the first quarter's -0.2% performance.

During the last twelve months the U.S. employment picture has improved decisively. Little by little many of the lagging statistics began to improve. The unemployment rate declined from 6.1% last June to 5.3% at the end of June 2015, and the economy added 2.9 million jobs over the last year. In addition, the data suggests that compensation has improved and workers are enjoying real wage gains. Noticeably, the conversation has shifted from the economic impact of the absence of jobs, to the deficiency of skilled labor and compensation pressure. It could be argued that the "recession remnants" have been conquered, and the economy is less susceptible to shocks. Which leads to the question investors have focused on keenly since last year, "will they or won't they," and "when?" in relation to the Fed's decision to raise the Fed Funds Rate.

Perhaps the biggest disappointment has been the not yet visible oil price "dividend." U.S consumption was adjusted higher in the final 1Q GDP revision, but has still come out below expectations. It may still take time for the price benefit to filter through. Also, for large beneficiaries like China and India lower energy prices have not yet lifted retail demand. Also, we have not yet seen meaningful changes in energy consumption, although that is likely happening.

Regarding the topical subjects of Greece and China, we do not believe either will have a meaningful impact on U.S. or global GDP. In Greece, we do not believe the economy is large enough to drag down the Eurozone, even though the ultimate solution may have longer term implications for the single currency construct. In China, we believe the equity market volatility has been technically driven by retail investors and large doses of leverage. The government has taken an active role in controlling the magnitude of the price correction.

Scenarios

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

1. Our most likely case has the economy growing 2.5% to 3.0% in 3Q and 4Q 2015. We believe the U.S. economy is on generally sound footing with employment approaching pre-recession levels and cheap energy helping consumers. We believe external events are mostly distractions with limited impact on the U.S. Inflation should remain well-behaved, and the Fed should be in position to raise rates by September to commence the long overdue rate normalization process. The strong dollar will likely continue to restrain exports, but it should also encourage capital inflows and investment. PROBABILITY 70%

2. A second scenario has the economy recovering to above-trend growth of 3.5% to 4.0% over the next six months. We experienced two quarters like this in 2014, and this year was looking like a replay. In addition, Europe may perform better than expected after the Greek matter is resolved because the region enjoys help from a weaker currency, cheap energy and an improving banking sector. PROBABILITY 15%

3. A third scenario has the economy declining to a 0.5% to 1.5% growth rate due to economic drags from net exports, worse than expected fallout in China, and inaction by consumers on lower energy prices. 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 this scenario emerging economies sink further, led by Chinese growth fears, and government policy fails to stimulate consumption. PROBABILITY 15%

Market Outlook

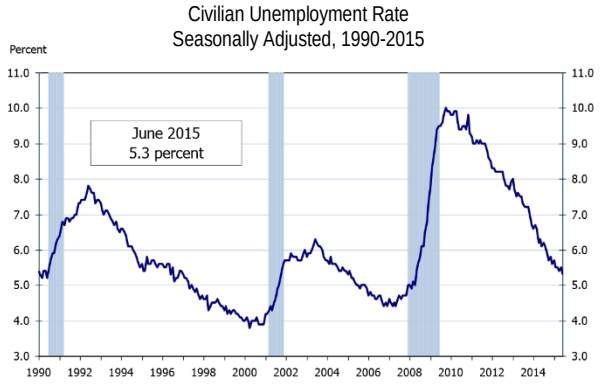
As we begin the third quarter of 2015, U.S. investors are again analyzing the implications of external events. The quarter closed with Greece on the brink of expulsion from the Eurozone and Chinese equities in free fall after an explosive second quarter rise. These events led investors to take a cautious "risk-off" position, although few markets suffered fear related sell-offs.

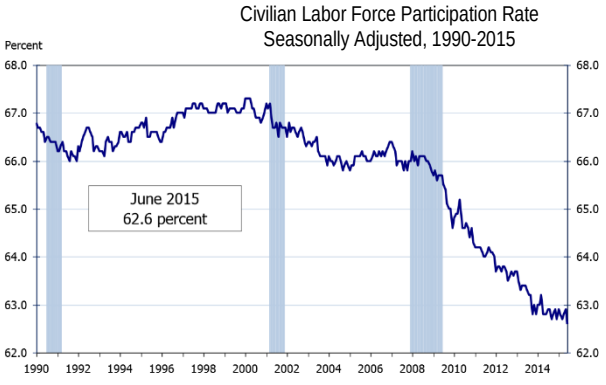
Over the near term, we believe market disruptions emanating from Greece and China are investment opportunities. We believe the most important event for the U.S. will be the Fed's decision to raise short term rates. Until recently, a September hike was widely expected. We still expect the Fed to act in September as normalization of interest rates will be healthy for the economy over the long run. This widely discussed policy shift can occur without widespread market disruption, provided the moves are indeed intended to normalize rates, not restrain the economy.

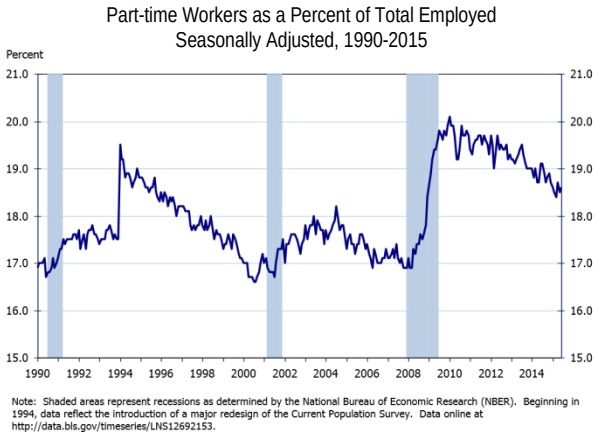
Commentary – Back to Normal?

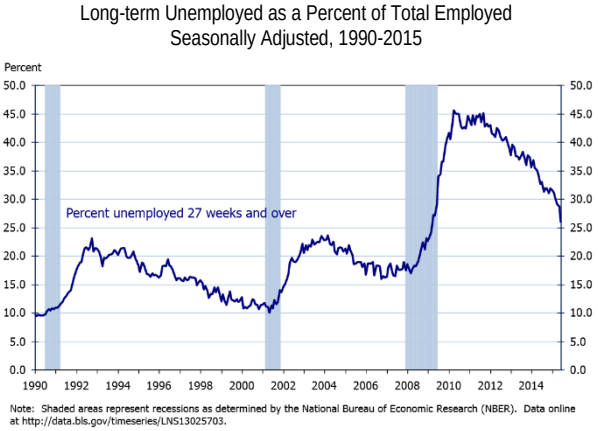
For years the focus of our quarterly economic discussion has been on the inability of the economy to achieve "breakout" momentum. The primary "boogey-man" was the unemployment rate, compounded by weak compensation. Economists and strategists repeatedly blamed the sluggish recovery on the nation's weak employment. Since 2009, the Federal Reserve has pointed to weakness in the country's labor market to justify the extraordinarily accommodative policy it has followed. Yet, the economy has grown 2.35% per annum since the recession of 2009, the unemployment rate went from near 10% in 2009 to 5.3% at the end of June, and the S&P 500 equity index returned 128% (13.5% p.a.) hitting many records on the way. During this time the inflation rate remained well-behaved at approximately 1.7% per year. Although this performance may compare unfavorably to prior post-recession periods, it has sufficed to put the economy on more stable footing.

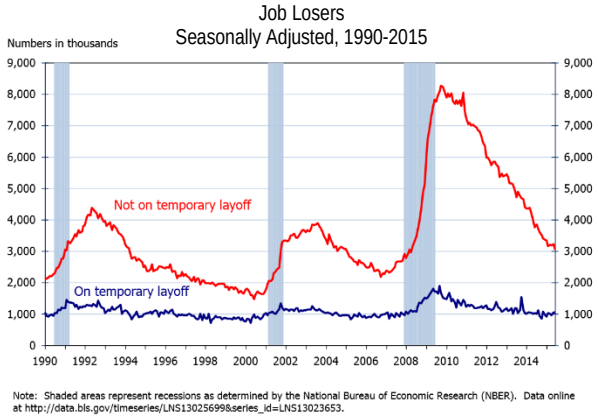
Economists and strategists have focused on many elements of labor markets to justify weakness in consumption and economic growth. The unemployment rate and labor force participation rate have been widely discussed along with significant sub-components like part time workers, long-term unemployment, and the inability of job losers to find a job. By June 2015 the labor market picture looked much better. The graphs below show the improvement that each of these indicators has had over the last five years. In fact, most labor indicators have recovered to levels that existed prior to the 2008-2009 recession, suggesting the economy's foundation has more depth than commonly acknowledged.











Source: Bureau of Labor Statistics, Current Population Survey, July 2, 2015

In our first quarter 2013 Quarterly Letter, we discussed the falling labor force participation rate in relation to the nation's demographic dynamics. Our conclusion was that the participation rate would continue to decline as the "baby boomers" retired. Younger demographic cohorts were not large enough to offset the retiring cohorts. More significantly, from the perspective of today's labor markets, the lightest cohorts were the 35 to 45 year olds traversing their most productive years. Demographic analysis proves useful when reviewing labor markets, and while not comprehensive, it helps to understand weakness in many indicators. Unfortunately, it also suggests the economy's growth rate may not recover to pre-recession levels, regardless of government backed stimulus measures.

Over the last five years we have had many quarters of robust growth followed by decidedly disappointing ones. In 2010 a promising start to the year was truncated by the beginnings of the European debt crisis. In 2011 a dysfunctional U.S. government and ratings downgrade clipped the economy's momentum at the end of the summer, and in both 2014 and 2015 harsh winters interrupted the prior year's momentum. Now external events are again threatening both the U.S. and global economies. It seems, though, given how the last 5 years evolved, that we are actually traversing "normal," and the economy will withstand these and other likely external events over the next few years.

Economists believe the Fed will raise rates at its September meeting, but the handicapping shifted recently with events in Greece and the Shanghai Composite volatility. Federal Reserve Chairwoman Yellen indicated in testimony to Congress that she expects rates could rise in 2015, and the moves would be "gradual." An interesting feature of market psychology is that we expect the Fed (and other central banks) to follow an initial move with many others. A change in direction is

interpreted to either provide stimulus or restraint. But what if the Fed just wants to have interest rates across the yield curve be "neutral," neither stimulative nor restrictive? Surely, the status of the U.S. economy, as unsatisfactory as it might be, does not require zero rate policy. Similarly, the economy is not so weak it cannot withstand a normal, unsubsidized yield curve. We believe the economy is strong enough to start the rate normalization process, and the move will be beneficial for the economy's long term health. Hopefully, the Fed recognizes extraordinary measures are no longer required for what appears like a normally functioning economy.

July 12, 2015

† Please note net returns for the Emerging Markets Debt Composite have been recalculated from February 2014 to June 2015 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"

Important Information

GIA Partners, LLC ("GIA") is an SEC registered investment adviser.

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Past Performance: The performance data quoted represents past performance. Past performance is not an indication of future performance provides no guarantee for the future and is not constant over time. The value of an investment may fluctuate and may be worth more or less than its original cost when redeemed. Current performance may be lower or higher than the performance data quoted.

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.