GIA PARTNERS

3rd Quarter 2015

Highlights

- Investor risk aversion spiked as disappointing economic news from China hurt commodity prices, emerging markets currencies and bonds. Our portfolios underperformed due to EM and HY exposures;
- Once again, negative external events appear to have derailed U.S. economic momentum. The impact was enough to keep the Fed from raising rates, and for us to temper our near-term economic optimism;
- Emerging market corporate bonds performed poorly in the third quarter. We believe they are attractive as much of the price decline was due to negative flows and poor liquidity.

Markets

		Returns (%)	
GIA*	Average Quality	3Q15	12 Months
Core Plus Composite	(A)	-0.96	-0.16
Global Credit Plus	(BBB+)	-0.73	-1.49
Global High Yield Composite	(BB-)	-5.78	-7.46
Emerging Market Debt Composite†	(BB)	-5.22	-6.53

**Returns are net of fees*

Benchmark Bonds			
Barclay's U.S. Aggregate Index	(AA+)	1.23	2.94
Treasury	(AAA)	1.76	3.76
Credit	(A)	0.53	1.50
Mortgage	(AAA)	1.31	3.45
Government/Credit	(AA)	1.20	2.73
BoA Merrill U.S. Corps & Yankees	(A)	0.31	1.40
BoA Merrill Corporate Master	(A-)	0.39	1.36
BoA Merrill High Yield	(B+)	-4.88	-3.54
BoA Merrill EM Corporate Plus	(BBB)	-2.92	-1.63
JPM Emerging Markets EMBI+	(BB+)	-0.92	-0.89
JPM CEMBI Broad	(BBB)	-3.55	-1.86
JPM GBI-EM Global Diversified	(BBB+)	-10.54	-19.77
Citi Non-U.S. World Govt. Bonds	(AA-)	1.71	-7.01

Benchmark Equities			
S&P 500	NA	-6.94	-2.65
Nasdaq Composite	NA	-7.35	2.82
Russell 2000	NA	-12.22	-0.09
MSCI EAFE	NA	-10.75	-10.92
Europe	NA	-9.07	-11.60
Japan	NA	-12.40	-3.81
MSCI Emerging Markets Equity	NA	-18.53	-21.21

Markets

The third quarter of 2015 brought heightened market volatility and investor risk aversion. Led by concerns over global economic growth emanating from China, commodity prices collapsed, the U.S. dollar appreciated, equity markets swooned and "flight to quality" followed. Intense focus on the U.S. Federal Reserve's interest rate decision in September ended in disappointment with the Fed postponing a move much of the market came to expect. This, along with China's August currency devaluation, caused equity market volatility to spike and investors to withdraw funds from riskier sectors. Once again, liquidity evaporated at quarter-end leading to large price moves in many securities. For the quarter, the S&P 500 declined -6.94%, European stocks lost -9.45% in dollar terms, and Emerging Market stocks fell -18.53%. U.S. treasuries benefited from the "flight to quality" rising 1.90% for the quarter. Credit markets underperformed, especially in energy and commodities, leading investment grade corporate bonds to a paltry 0.39% return, while high yield and emerging market corporate bonds got walloped, down -4.88% and -3.55% respectively.

High yield bonds continued to suffer outflows as risk aversion intensified and poor liquidity exacerbated price moves. Energy and mining related securities had the worst performance, although even safe industries like healthcare declined at quarter end. The Bank of America Merrill Lynch High Yield Cash Pay Index (J0A0) was down 4.88% for the quarter after a -2.59% performance in September. Spreads widened from 484 b.p. to 658 b.p., and the yield to worst increased from 6.46% to 8.02%. Mutual fund investors withdrew $6.8 billion from high yield funds during the third quarter after withdrawing $9.0 billion in the second and adding $9.1 billion in the first. The default rate increased to 2.27% in September. For 2015 defaults have come primarily from energy and mining, with these industries accounting for over 75% of defaults. New issue activity subsided as investors grew cautious on high yield. During the quarter new issues totaled $60.0 billion, well below the $190.9 billion launched in the first half of the year. Year-to-date new issue volume totaled $250.9 billion, below last year's $285.9 billion nine-month total.

The investment grade corporate bond index, the Bank of America Merrill Lynch U.S. Corporate Index (C0A0), was up 0.39% for the quarter, on the back of lower interest rates, although spreads widened, leading corporate bonds to underperform government bonds and mortgage-backed securities. U.S. treasuries returned 1.90%, despite expectations of Fed rate hikes in September, as risk aversion overwhelmed concerns over the Fed. Investment grade corporate spreads widened by 31 b.p. to 178 b.p., and the yield to worst of the index increased from 3.31% to 3.44%. Issuance for the quarter remained elevated at $307.2 billion, although it was the lightest quarter of the year. Year-to-date, issuance is on pace for another record at $1.07 trillion, following records in each of the last three years.

Emerging markets corporate debt was hit by a combination of lower commodity prices, credit concerns related to weaker currencies, rating agency actions, fund outflows, and abysmal liquidity. While a prior underperformer, Russia, held in well, countries like Brazil, Colombia, and Nigeria got flattened. Emerging market currencies experienced their worst quarter in seven years after China decided to devalue its currency on August 11, 2015, and investors fled local bond and equity markets. Furthermore, S&P surprised emerging market investors by downgrading Brazil and various Brazilian corporates earlier than expected. By quarter-end, the JPM Emerging Markets Bond Index Plus (EMBI+), a dollar denominated sovereign index, was down 0.92%, the JPM Corporate Emerging Markets Broad Index (CEMBI Broad) returned -3.55%, and the JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, returned -10.54%. Year-to-date the benchmarks returned 0.05%, 0.35% and -14.91% respectively.

Portfolios

Our *Core Plus Composite* consists of portfolios that can hold up to 30% in securities rated below investment grade. The Composite underperformed the Barclays U.S. Aggregate Index, net of fees, by 219 basis points for the quarter and was behind by 310 basis points over the last twelve months. During the quarter, the portfolio retained exposure to high yield and emerging markets which underperformed meaningfully. The portfolio was also underweight government bonds especially in the long end, which moved higher after the Fed failed to act. The last 12 months capture the two worst

quarters over a twelve month period for emerging markets and high yield since 2008. The portfolio's underperformance was mostly attributable to exposure in those sectors.

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 48 basis points during the quarter, but was behind by 139 basis points over the last twelve months. The portfolios had an allocation of approximately 69.8% U.S. investment grade, 9.5% high yield, and 20.8% emerging markets, of which 17.7% was investment grade rated. During the quarter, the portfolio's investment grade holdings marginally outperformed the benchmark. The combination of high yield and emerging markets in the portfolio outperformed the high yield index because of the preference for investment grade EM, even though those bonds underperformed U.S. high grade bonds. 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 underperformed the Bank of America Merrill High Yield Cash Pay Index by 90 basis points, net of fees, in the quarter and was behind the index by 392 basis points over the last 12 months. During the quarter, the Composite held a meaningful exposure to non-investment grade emerging markets bonds. In what might be described as an unfortunate storm, our commodity and energy exposure was held primarily in emerging markets where price declines exceeded those in U.S. high yield. With poor liquidity ravaging all emerging markets, the portfolio's positioning hurt relative performance. Over the last twelve months, the underperformance is also attributable to the emerging markets exposure, including the damaging effects of the Russia/Ukraine crisis in the fourth quarter 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 underperformed the benchmark by 230 basis points, net of fees and was behind by 490 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 proved devastating as lower rated credits underperformed and Latin America, led by Brazil, was the worst performing region. Over the last twelve months, the summer's setbacks were added to our fourth quarter 2014 underperformance associated with the Russia/Ukraine conflict and the decline in oil and commodity prices.

Economy

The summer of 2015 threw some curveballs at the global economic outlook. China's weaker than expected data (and volatile equity market) triggered a new bout of commodity weakness that put added pressure on emerging markets. With second quarter U.S. GDP ultimately revised up to 3.9%, and the market coming to expect a Fed rate hike in September, the U.S. dollar appreciated. Financial market volatility spiked as investors questioned their economic assumptions and the Fed balked on the rate move. The central bank cited the downward pressure from external factors in its decision to hold rates steady at its September 17 meeting. As a result, our team was divided on the likely path for the U.S. and global economy over the next six months.

To compound the economic quandary, economists in the WSJ Economic Survey lowered their expectations for U.S. economic growth in their August, September and October submissions. On average, their expectations for the third quarter of 2015 went from 3.1% in July to 2.0% in October. The fourth quarter went from 3.0% to 2.7%. It could be argued that the full year may not turn out too distant from the early 2015 forecasts, but the quarterly composition varied. Still, 77% of participants suggested the risks to their forecasts were to the downside, pointing to "global slowdown" as the reason.

Domestically, recent economic data softened in aggregate, with manufacturing gauges and employment coming in below expectations. At the same time, auto sales, housing and consumer confidence remained robust. The services side of the economy continues to be healthy, although below lofty levels achieved in August. It seems the "oil price dividend" is helping the services side of the economy (and autos), but is not yet vast enough to reignite the subdued manufacturing side.

Evidence of the drag from abroad has been abundant through the behavior of commodity prices and disappointing economic data from countries like China, Brazil and Russia. Most multinational corporations have suffered the negative effects of the stronger dollar and weaker overseas demand. What has not surfaced yet is the benefit to emerging economies of lower energy prices and depreciated currencies. While these effects may be slow to materialize, they can be impactful on economies that encourage manufacturing and exports. These transitions will eventually alter expectations, especially for countries that have been negatively affected by lower commodity prices.

On balance, events during the third quarter dampened our optimism for U.S. economic growth over the next six months. Our conviction on the growth outlook has been tempered, and we are divided on the near term risk to our outlook. However, we continue to believe there are many supportive factors for a favorable longer term outlook. Importantly, for the U.S., consumer debt remains manageable, employment continues to improve and wages have risen. Overseas, economies like China are transitioning from investment and export led to consumer driven, which takes time but ultimately yields a more sustainable economic framework. And Europe appears to be emerging from the periphery's debt drag with the aid of the central bank.

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 4Q 2015 and 1Q 2016. We believe the U.S. economy is on generally sound footing with employment approaching levels considered near "full employment" by economists and cheap energy helping consumers. The services segment of the economy should remain robust, although the decline in manufacturing and net exports could be a temporary drag on growth. Some businesses will likely postpone investment. Inflation should remain well-behaved giving the Fed more flexibility on the timing of rate moves. PROBABILITY 60%

2. A second scenario has the economy recovering to above-trend growth of 3.5% to 4.0% over the next six months. The services side of the economy remains strong and housing related activity could accelerate with better employment and wages. In addition, low commodity prices may have accelerated disinvestment already, 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. PROBABILITY 20%

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 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 this scenario emerging economies sink further, due to mediocre Chinese growth, and recessions in Brazil and Russia. PROBABILITY 20%

Market Outlook

The economic narrative that gained traction over the summer expecting a strong U.S. dollar, weaker commodity prices, slower global growth and ongoing central bank accommodation drove prices in financial markets during the quarter. Poor liquidity exacerbated price moves in fixed income. While some price changes reflected deteriorating economic reports in a few countries, we believe, at quarter-end, most prices discounted worse outcomes than are likely, especially in emerging economies. Low energy prices, devalued currencies and monetary accommodation will likely help many economies back onto a growth path. Countries like Japan, China, India, and Brazil are energy importers that will benefit from low oil prices. Furthermore, Europe has begun to show signs of economic improvement, and the U.S. continues to perform reasonably well.

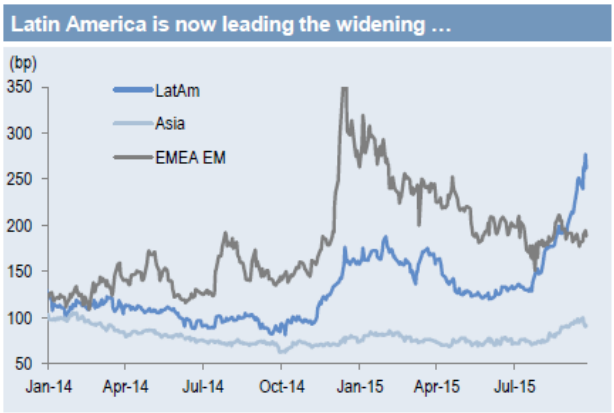
We believe spreads discount excessive credit deterioration across investment grade, high yield and emerging market debt. While we believe interest rates may increase slightly through year-end, we also believe investor flows will stabilize stemming the selling pressure.

Commentary – EM Corporate Bonds – Cheap Again

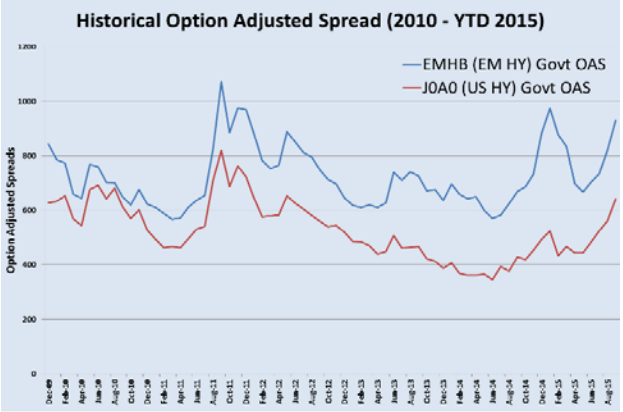
As of September 30, 2015, the yield of non-investment grade corporate emerging market bonds was 9.4%, and the spread over treasuries was 790 basis points. The spread of the JPM Corporate Emerging Markets Bond Index Broad (CEMBI Broad), a dollar denominated index that is nearly 70% investment grade rated, widened by about 161 basis points to 485 basis points over the last five months. Neither of these are records, although they are above historical averages. Spreads nearly reached five-year highs in December 2014 as Russian, Ukrainian, and energy producing borrowers sold off in reaction to oil prices and the armed conflict. Though Russia recovered, this summer, the punching bag became Brazil, with special ire focused on Petrobras, the nation's largest corporation and the emerging markets largest corporate borrower.

We believe much of the concern over Brazil is justified as the economy has entered recession and will likely experience negative growth into 2016. On Petrobras, S&P downgraded the company's credit rating to BB on September 10, 2015 giving it "junk" status earlier than many investors expected. Selling associated with ETFs, index funds, investment grade funds, and disaffected investors took prices on the company's ten-year bonds from 97.06 at the end of June to 73.00 at the end of September. Petrobras is an indebted company, but it dominates the county's energy sector and still generates annual revenues exceeding $100 billion. At over 11.0% yield investors were equating it to CCC rated companies.

Perhaps more interesting from an investor perspective was the sell-off in other Brazilian and Latin American corporate bonds. For the quarter, Brazilian corporate bonds declined 16.9%, Colombians were down 11.0%, Mexican -3.4%, and Peruvian -3.1. Latin America supplanted Central and Eastern Europe (Russia) as the cheapest region in the emerging market corporate space. (see graph below). In addition, bonds rated below investment grade across all emerging markets reached spreads that are close to record wide over the last six years and cheap relative to U.S. high yield. (see graph)



Source: J.P. Morgan.



Source: Bank of America Merill Lynch

With lots of negative news and deteriorating sentiment around emerging markets related to the financial implications of lower commodity prices, currency devaluations and slower economic growth, might there be any value in those markets? We have repeatedly argued that poor liquidity has exaggerated price moves in many riskier segments of the market. When investors decide to lighten their positions, the absence of liquidity causes prices in many bonds to gap lower. A transition like the one experienced by Petrobras can be particularly painful. This security, held by many investment grade holders, had to be sold when it went to "junk." Petrobras was included in most major indexes, including the Barclays Credit Index, Merrill's corporate indexes and J.P. Morgan's emerging market indexes. The firm constituted 5.71% of the JPM CEMBI Broad Investment grade sub-index (about $28.5 billion of bonds) and became a 9.04% constituent of the high yield sub-index upon transition at month-end. Given the size of the exposures that had to change hands, with no market stabilizing mechanism, the price collapse was understandable. But if Petrobras and many other emerging market corporations are not going to default, then the yields they offer appear to be compelling opportunities.

J.P. Morgan follows emerging market default rates and provides forecasts. Through the third quarter of 2015 the corporate emerging market default rate was 2.5% which was in line with the 2.3% rate for the U.S. high yield market. At mid-year the bank forecast a default rate of 5.4% for 2015, which was lowered to 4.3% as of September 30 because the Eastern European (Ukraine) default experience was lower than expected. While some commodity related companies will likely encounter difficulties, it is unlikely entities with strong export businesses will default. Furthermore, spreads of nearly 800 basis points discount a healthy default rate. JPM offered the following table in a report dated October 5, 2015.

Year-to-date defaults versus forecasts

Default Rate	2010	2011	2012*	2013	2014	2015YTD	2015F
Asia	1.7%	0.0%	2.3%	1.0%	1.4%	2.2%	3.3%
Emerging Europe	1.7%	0.6%	4.7%	1.9%	3.5%	3.7%	6.2%
Latin America	1.8%	0.9%	2.7%	7.9%	4.9%	2.2%	3.9%
ME & Africa	0.4%	0.0%	0.2%	0.0%	4.1%	2.3%	5.1%
Total EM	1.6%	0.5%	2.9%	3.6%	3.3%	2.5%	4.3%

Source: JP Morgan "EM Corporate Strategy" Presentation: Fundamentals remain negative vs. supportive technicals, with Brazil remaining the swing factor - October 5, 2015.
*Excludes US$5,2 bn in BTAS Recovery Notes issued in 2010 restructuring

Emerging markets and other risky sectors suffered fund outflows during the summer. Given the pessimism engendered by lower commodity prices and devaluing currencies, it is not surprising investors grew cautious. We speculate that the selling may have included some sovereign wealth funds, which would explain the magnitude of the moves in some securities. If this is correct, another reason for optimism is that the technical selling pressure after Petrobras' downgrade will likely subside. Late September and early October economic data came in below expectations and many economists believe the Fed may now delay a rate hike into early 2016. With low interest rates, the spread from emerging market corporate bonds offers a compelling carry opportunity.

October 12, 2015

† Please note net returns for the Emerging Markets Debt Composite have been recalculated from February 2014 to September 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.

This material is for information purposes only. It does not constitute an offer to or a recommendation to purchase or sell any shares in any security. Investors should consider the investment objectives, risks and expenses of any strategy or product carefully before investing.

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.