GIA PARTNERS

3rd Quarter 2016

Highlights

- Financial markets rode the central banks' vow of support to strong summer returns. Our portfolios benefited from the good performance in credit markets;
- Brexit did not derail the global economy over the summer. While the effects of Britain's departure may take longer to play out, the major central banks seem to be having second thoughts about their policies;
- Regulatory warfare is expanding across borders and industries, increasing economic inefficiency and popular disaffection. Voters may be revolting.

Markets

		Returns (%)	
GIA*	Average Quality	3Q16	12 Months
Core Plus Composite	(A)	1.76	7.47
Global Credit Plus Composite	(BBB+)	2.54	8.86
Global High Yield Composite	(B+)	6.40	14.22
Emerging Market Debt Composite†	(BB+)	3.44	12.67

**Returns are net of fees*

Benchmark Bonds			
Barclay's U.S. Aggregate Index	(AA+)	0.46	5.19
Treasury	(AAA)	-0.28	4.09
Credit	(A)	1.23	8.30
Mortgage	(AAA)	0.60	3.63
Government/Credit	(AA)	0.40	5.86
BoA Merrill U.S. Corps & Yankees	(A)	1.31	8.06
BoA Merrill Corporate Master	(A-)	1.44	8.50
BoA Merrill High Yield	(B+)	5.50	12.80
BoA Merrill EM Corporate Plus	(BBB)	3.00	12.55
JPM Emerging Markets EMBI+	(BB+)	3.11	17.83
JPM CEMBI Broad	(BBB-)	3.20	12.99
JPM GBI-EM Global Diversified	(BBB)	2.68	17.06
Citi Non-U.S. World Govt. Bonds	(AA-)	0.60	12.61

Benchmark Equities			
S&P 500	NA	3.31	12.93
Nasdaq Composite	NA	9.69	14.97
Russell 2000	NA	8.66	13.71
MSCI EAFE	NA	5.80	3.48
Europe	NA	4.96	-0.56
Japan	NA	7.74	9.98
MSCI Emerging Markets Equity	NA	8.32	14.07

Markets

The central bank summer just ended. The most widely watched measure of equity market volatility, the Chicago Board Options Exchange Volatility Index ("VIX"), saw relatively modest movement in 2016. One brief spike occurred on June 24, the day after the Brexit vote. By July 13 the index posted a new 2016 low and set a 2-year low on August 19, 2016. On June 24, the world's major central banks committed to support their economies in light of Brexit. These central bank "put options" fueled a "flight to risk" that took global equities and higher risk fixed income markets to new highs for the year. By quarter-end, the Barclays Global Treasury Index, with market value of $26.4 trillion, had a yield of only 0.60%, and six countries with market value of $11.7 trillion had negative yields. While some volatility returned in September ahead of the U.S. Federal Reserve meeting, investors did not lose faith in the central bank assist. For the quarter, the S&P 500 returned 3.31%, high yield bonds 5.50%, emerging market corporate bonds 3.20%, investment grade corporate bonds 1.44% and U.S. treasuries -0.28%.

High yield bonds continued the impressive recovery that began in mid-February. Supported by the Fed and improving economic data, the Bank of America Merrill Lynch High Yield Cash Pay Index (J0A0) ended up 5.50%, bringing year-to-date performance to 15.21%. Spreads narrowed from 617 b.p. to 505 b.p., while the yield to worst decreased from 7.21% to 6.17%. The central bank green light induced a $5.2 billion inflow in July, which increased to $6.04 billion for the quarter. Year-to-date mutual funds received $9.6 billion. The default rate decreased to 3.54% in September from 3.56% in June, but defaults declined significantly during the quarter as two stressed industries, energy and commodities, found relief in higher prices. Default rate expectations also came down, as financing conditions remain benign. New issue activity totaled $77.7 billion, lower than the second quarter's $104 billion, but still healthy compared to the twelve months preceding June.

The investment grade corporate bond index, the Bank of America Merrill Lynch U.S. Corporate Index (C0A0), was up 1.44% for the quarter and 9.11% year-to-date. The decline in U.S. interest rates ended during the quarter, but the reversal was modest leading the BAML U.S. treasury index to return -0.33% for the quarter and 5.31% year-to-date. Corporate bonds received a lift from European and Japanese investors as they favored U.S. credit over negative rates in their regions. During the quarter corporate spreads narrowed by 14 b.p. to 142 b.p., while the yield to worst of the index decreased from 2.87% to 2.83%. Issuance for the quarter continued at a healthy clip as rates declined. Total issuance was $391.6 billion, including $155.3 billion in September, the second largest monthly sum this year. Year-to-date companies raised $1.19 trillion, well on pace for a fifth consecutive annual record.

Like other high risk sectors, emerging markets enjoyed the benefits of favorable sentiment and fund inflows during the summer. As investors' biggest concerns, weak commodity prices and a strengthening U.S. dollar, subsided, money flowed back into emerging market stocks and bonds. For the quarter, the JPM Emerging Markets Bond Index Plus (EMBI+), a dollar denominated sovereign index, was up 3.11%, the JPM Corporate Emerging Markets Broad Index (CEMBI Broad) returned 3.20%, and the JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, returned 2.68%. The year-to-date returns for each of these respectively were: 15.78%, 12.07%, and 17.07%.

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 130 basis points for the quarter, and was ahead by 2.28 basis points over the last twelve months. During the quarter, the best performing sectors were high yield and emerging markets debt. In aggregate, the Composite had exposure exceeding 22.5% to these sectors, with exposure to non-investment grade rated securities approaching 16.4%. These exposures explain most of the outperformance. The portfolio was underweight mortgages and government bonds, which underperformed as interest

rates rose modestly. Over the last 12 months the portfolio also benefited from high yield and emerging markets. EM was particularly impactful as countries like Brazil and Russia recovered along with commodity prices and investor sentiment.

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 11 basis points during the quarter, and was behind by 95 basis points over the last twelve months. The portfolios had an allocation of approximately 70.0% U.S. investment grade, 9.8% high yield, and 16.5% emerging markets, of which 13.6% was investment grade rated. In the third quarter, U.S. high yield delivered the best performance in fixed income, while investment grade credit was held back by a slight increase in interest rates. For the quarter, the underweight in high yield was mostly offset by good performance in emerging markets. Over the last twelve months, high yield and emerging markets both outperformed, although non-investment grade carried much of the EM index's performance. The portfolio was underweight U.S. high yield without enough of an offset from EM high yield to match (or beat) the benchmark's performance.

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 90 basis points, net of fees, in the quarter, and was ahead of the index by 142 basis points over the last 12 months. During the quarter, the Composite held a meaningful exposure to non-investment grade emerging markets bonds, including meaningful exposure to high quality Brazilian corporate bonds. The recovery that began in both high yield and emerging markets in February, continued during the summer, helping the Composite outperform. Over the last twelve months, the outperformance was attributable primarily to emerging markets, which outperformed the high yield index.

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 44 basis points, net of fees, and was ahead by 12 basis points over the last twelve months. During the quarter and over the last twelve months non-investment grade outperformed investment grade and Latin America outperformed Asia. The portfolio's overweight positions in Latin America, primarily Brazil, and in non-investment grade credit generated the bulk of the outperformance. Asian exposure in the emerging markets corporate indexes tends to be high quality and subject to movements in interest rates. Asia underperformed as rate declines appeared to end after the Brexit vote in June.

Economy

Brexit did not have the expected impact on financial markets or economic activity, at least not yet. The reason appears to be the central banks' quick vow of support. However, lifted by central bank stimulus, financial market valuations may be reflecting the monetary policy subsidy rather than robust economic underpinnings. As the U.S. prepares for elections and the Fed builds the case for a December rate hike, questions about the path of economy abound.

As anticipated last quarter, housing, autos, services and consumption carried the U.S. economy to the strongest quarter of the year. Few believe the pace is sustainable as auto sales seem to be peaking and wage improvements have leveled off. In addition, the oil price recovery is not yet entrenched enough to induce new investment. For now, efficiency improvements are helping corporate profitability, but the lack of growth fuels concern. Overseas, European data have improved lifted by strong auto sales and other household consumption. In China, authorities arrested a first quarter

swoon by loosening credit and managing the currency's decline. Overall, the sluggish pace of growth that has permeated the U.S. and other major economies for the past few years appears to be intact as we begin the last quarter of 2016.

The balance of risks continues to be on the downside and many economists worry conditions are building for an economic decline. Even after forecasting lower growth in 4Q 2016 and lower still in 1Q 2017, 73% of the respondents to the September 2016 WSJ Economic Survey indicated the risk to their forecasts was to the downside. A meaningful consideration is that more people are questioning the merit of central bank policies. Negative yields and huge increases in sovereign indebtedness are not generating desired growth rates. If forced to reconsider, monetary and fiscal authorities have few tools left to rescue their economies.

Scenarios

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

1. Our most likely case has the economy growing between 2.0% and 2.5% in 4Q 2016 and 1Q 2017. We believe the U.S. economy continues to enjoy support from low unemployment, low oil prices, consumer confidence, and low inflation. The period of energy related disinvestment has ended, but faster growth is held back by excessive regulation and weak contribution from abroad. We expect the Fed to raise the Fed Funds Rate in December, but do not expect the move to have a meaningful impact on the economy. PROBABILITY 60%

2. A second scenario has the economy recovering to trend growth of 2.5% to 3.0% over the next six months. Many economic indicators improved during the summer, which could portend a renewed period of stronger growth. Employment and wages remain solid, manufacturing indicators recovered, and housing continues to improve. The end of disinvestment by energy and commodity companies eliminates a drag, and the U.S. dollar ceased its relentless appreciation against emerging market currencies. With slightly better numbers coming out of Europe, conditions could be in place for economic activity to surprise on the upside. PROBABILITY 15%

3. A third scenario has the economy declining to a 0.5% to 1.0% growth rate due to an erosion of confidence and absence of business investment. Some of the economy's tailwinds, like wage and employment growth, and strong auto and housing markets, may be ending, and the elections could add policy uncertainty. Foreign economies remain fragile and without a catalyst may continue to be drags on global growth. Put together, these conditions weigh the U.S. economy down sapping its already meager growth rate. PROBABILITY 25%

Market Outlook

When Brexit did not cause an immediate global financial markets crisis, and, instead, triggered negative government bond yields and elevated asset valuations, many began to question the merits of central bank policies. By quarter-end the Bank of Japan, European Central Bank, and the Federal Reserve publicly acknowledged the limitations of their actions. We have been concerned with the moral hazard associated with subsidized interest rates. Despite challenges, we now expect central banks to end, gradually, their relentless efforts to lower rates, and to search for new forms to boost economic activity. The implication, especially for the U.S., is that higher rates will likely materialize. We expect the Fed to raise the Fed Funds Rate in December, and we expect rates along the yield curve to move modestly higher. We also expect these changes to be slow and methodical, avoiding sharp corrections in equity and credit markets. While we have upgraded creditworthiness in the portfolios for valuation reasons, we continue to believe credit markets outperform through the end of 2016.

Commentary – Unintended Consequences

We live in a regulated world. A paradox of the present is that the vast reach of the information era, with its egalitarian sharing of news, entertainment, and learning, has become a treasure trove for regulators and authorities. For financial markets, the crisis of 2008 brought a deluge of regulations, oversight, lawsuits, fines, and media-triggered popular anger. Bankers became villains and banks became whipping boys treated like criminal enterprises. We believe the Dodd-Frank Act has done tremendous damage to the economy and to the industry. Compliance requirements alone create a cost that drains efficiency and stunts creativity. It should not be a surprise that central bank monetary policies do not get transmitted to the real economy, considering the whipping-boys are the conduit.

We and the media have written extensively about the ineffectiveness of central bank monetary policy. What has gotten less attention is the role regulators have played in choking a vital industry for the economy. After the crisis, regulators unleashed a vast array of actions against individuals and institutions seeking recompense for the damage they caused. The Justice Department pursued many executives, especially those connected to the housing crisis, without obtaining any convictions. Not wanting to be left empty handed, in what looked more like a shake-down than legal due process, the government obtained Federal Housing Finance Administration Settlements and DOJ "Task Force Settlements" of $17.2 billion and $41.0 billion respectively from the largest banks. Surely, these "Settlements" came with a laundry list of rules, oversight and threats which effectively curtailed the mortgage market.

In September, in a display of staggering insensitivity, with Task Force discussions still in process, a leaked report suggested the DOJ was seeking a $14 billion settlement from Deutsche Bank related to its role in the crisis. This leak occurred at a time the bank's entire market capitalization was about $20 billion and the institution was addressing other challenges. Global financial markets spent two weeks fretting over the possibility of another financial crisis triggered by none other than the Task Force charged with punishing the culprits of the last one.

The transmission mechanism of monetary policy via the provision of loans has been thwarted by new capital requirements and risk based measurements that reduce the ability and incentive for banks to expand balance sheets. Banks' withdrawal from trading in capital markets has impaired liquidity and, at times, clogged the free flow of capital. On October 14 a new rule went into effect splitting money market funds into "cash alternative" Government Funds and higher risk Prime Funds. The separation process appears to have proceeded smoothly, so far, although Libor rose significantly relative to short-term government bond rates as money funds prepared for the split. We do not expect any dislocations from the change, but an important source of working capital financing has become scarcer and more expensive.

Finance is not the only industry under regulatory assault. Most industries, even favored ones, are being pursued in the U.S. and abroad. What surprises us is the apparent lack of understanding that excessive regulation has deleterious economic consequences. The U.S. DOJ is looking to fine Volkswagen billions for facilitating faulty emissions tests. There seems to be a need to punish that rogue company for its egregious actions. Never mind that consumers dislike deceitful companies and stop buying the cars, which also, by the way, costs many workers their jobs. On August 30, 2016 the European Commission told Apple it owed $14.5 billion in back taxes to Ireland because of improper "special treatment." In a letter to customers defending its lawful compliance with Irish tax laws during its 26 year presence in the country, Tim Cook wrote, "The European Commission has launched an effort to rewrite Apple's history in Europe, ignore Ireland's tax laws and upend the international tax system in the process. The opinion issued on August 30 alleges that Ireland gave Apple a special deal on our taxes. This claim has no basis in fact or in law. We never asked for, nor did we receive, any special deals. We now find ourselves in the unusual position of being ordered to retroactively pay additional taxes to a government that says we don't owe them any more than we've already paid."

Technology and social media have altered the way people live and communicate. The benefits to society have been vast, but so have new problems catching the attention of regulators and censors. Take new businesses like Airbnb or ride-sharing. For individuals who wish to participate for financial gain, both of these seem innocuous and, arguably, personal endeavors. Yet hoteliers, taxi drivers and other competing travel industry workers require registrations and are generally subject to regulations. Internet age activities will slowly, but surely, face interference because digital footprints make regulators and tax assessors salivate. In free societies this has already caused consternation because rights we hold dear are under assault. In others, underground networks proliferate even if they are under continuous pursuit by censors.

The balance between regulation and freedom is seldom struck in favor of freedom because governments believe they know what is best for society. The challenge is understandable considering, for example, how extreme political, social, and economic positions have gained a megaphone on social networks. Unfortunately, those venues serve to disseminate miss- and disinformation with impunity. If unregulated, unlimited airwaves can serve to feed false, or worse, deliberately distorted information. Still, people oppose incursions into their lives and privacy especially when presented to them as "in their best interest."

The irony of our current path is that as people's lives become more impinged they get unhappier and as companies get more regulated they become less efficient. The U.S. is less than one month away from a presidential election pitting two extremely unpopular candidates against each other. The electorate receives nearly daily revelations about distasteful actions or statements made by each. Ultimately, the country will have as Commander-in-Chief a person disliked by the majority of the population on the first day in office. Recently, people defied expectations and their governments in Britain and Colombia voting against what observers believed to be the preferable choice. We wonder whether this was anger, disaffection or maybe just a vote against excessive government.

October 10, 2016

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

Important Information

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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.