Gurtin Municipal Bond Management

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Dear Client:

While the dust still swirls from the election, and some grains of sand have begun to settle, the future wind gusts remain unpredictable in their timing and strength. As I stated in my third quarter 2016 investment letter, "I do not have a crystal ball;" however, after over thirty years in the business I have learned to be intellectually honest, and not to see the investment world as I want to it to be, but rather, as it is. In the wake of last week's Election Day surprise, today's investment world is largely one of uncertainty, as illustrated by the post-election surge in the U.S. Daily Economic Policy Uncertainty Index, up 400% since October month-end[1]. In the bond market in particular, interest rates are now quite a bit higher as a result of uncertainty about the future course of inflation and the potential policy implications on the demand for U.S. Treasuries.

As your bond manager, Gurtin Municipal Bond Management is acutely aware and focused on the fact that your bond portfolio represents the ballast of your portfolio, the portion of your asset allocation that remains securely anchored during periods of uncertainty and turbulence. I want to assure you that during the past few years, when many have chased yield by venturing into lower quality bonds, **we have remained true to our strict discipline of only buying and holding bonds of obligors with the highest fundamental credit quality**. I believe this discipline is evidenced by our willingness to suspend opening new accounts in our Opportunistic Value strategy, even when we had approximately 1 billion dollars in our queue to invest, because without breaking our credit discipline and yield objectives, the absolute level of rates was too low to achieve our objectives.

The same level of discipline extends to all facets of our management of client portfolios; as such, during this period of bond market turbulence, our municipal strategies have all performed in-line with expectations.

Our absolute value strategies, Stability and Opportunistic Value, currently maintain durations well below their respective indices, enabling relatively less downside volatility as rates rise. As expected, the Stability strategy has experienced little, if any, negative price volatility, while the most recent quarter-to-date performance of the Opportunistic Value strategy is similar to our performance during the last period of higher rates seen in 2013 when our benchmark index finished the year down 3% and Opportunistic Value finished the year up 1.5%.

[1] Economic Policy Uncertainty Index. "US Daily News Index." November 15. 2016. Retrieved from: http://www.policyuncertainty.com/us_daily.html

Our relative value strategies, Intermediate Value and Laddered, which are expected to generally perform in line with the benchmark with longer durations being accompanied by greater price volatility, are also performing in line with expectations. No better, no worse. For those of you invested in these strategies, **remember the value of your high quality portfolio is only down temporarily**, and the price movement is merely a function of rates having risen given the inverse relationship of price and yield. The good news is that this negative price depreciation will eventually reverse as the portfolio ages and matured bonds are reinvested at higher rates. **The lower "total" returns of today, which take into account these temporary price fluctuations, ultimately are replaced with higher total returns and higher portfolio yields in the future as bonds approach maturity**.

Similarly, aging has benefits in bond management. Having personally been an active participant in managing client bond portfolios for over thirty years, I have navigated rough waters before, from the inflation of the eighties to the bond market crash of 1994, 9/11, the credit crisis, Meredith Whitney, and the taper tantrum in 2013. Please know that with my hands steadily at the wheel of our ship, and surrounded by the best crew I have ever had standing by my side, I believe we are equipped with the wisdom that only experience affords. **I firmly believe the Gurtin ship has been built with the sturdiness to withstand hostile waters. With this knowledge, and the confidence and humility only experience affords, our eyes remain glued to the horizon with the knowledge that the land of "investment" opportunity in bonds will soon be in sight.**

As always, thank you for the trust you place in our firm.

Sincerely,

Bill

William R. Gurtin
CEO, CIO, Managing Partner
Gurtin Municipal Bond Management

Important Disclosures

Gurtin Fixed Income Management, LLC, dba Gurtin Municipal Bond Management ("Gurtin"), is registered with the SEC as an investment adviser. Information is available in its Form ADV. For more information, please visit www.gurtin.com.

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As of July 1, 2016, the Municipal Value Fixed Income Composite has been renamed the "Municipal Opportunistic Value Composite."

Gurtin claims compliance with GIPS® standards and has been verified for the period February 1, 2008 through June 30, 2016 by Ashland Partners & Company LLP. Copies of the verification reports are available upon request and to obtain a complete list and description of our composites and/or a presentation that adheres to the GIPS standards, contact Gurtin at 858.436.2200.

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