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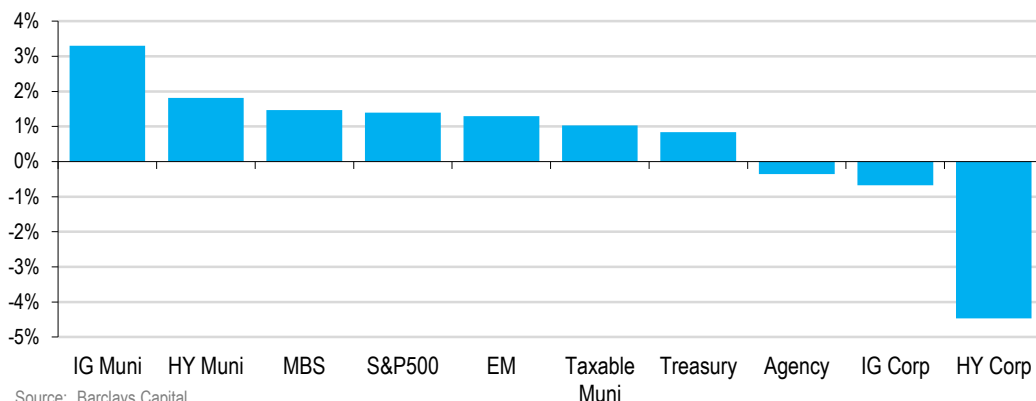
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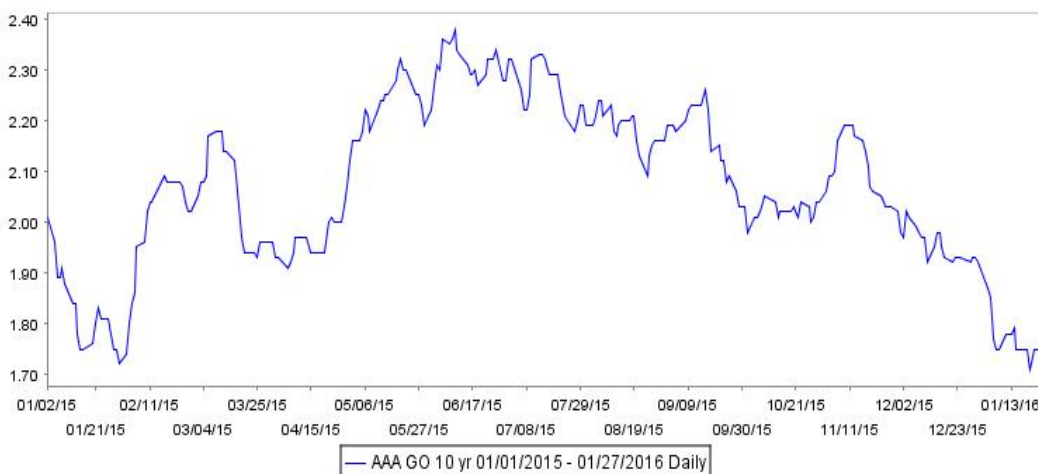
Municipal bonds had a solid 2015 returning 3.30%, and finishing the year as the top-performing major asset class (see Exhibit 1 below). While it was an eventful year, with significant market volatility and the Federal Reserve Bank (Fed) raising the benchmark rate last month, munis remained buoyed by positive bond fund flows, negative net supply, and higher tax rates. This year has begun much like 2015 finished with strong demand resulting in the 10 year AAA yield declining to 1.71%, the lowest since pre-taper tantrum lows of 2013. While U.S. interest rates are low, they remain attractive compared to global fixed income rates, and we expect 2016 to be similar to last year with solid technical factors, coupled with improving fundamentals, leading to positive returns for tax exempt bonds.

**Exhibit 1: Total Returns by Asset Class in 2015**



Source: Barclays Capital

**Exhibit 2: 10-Year MMD AAA Yield Curve**

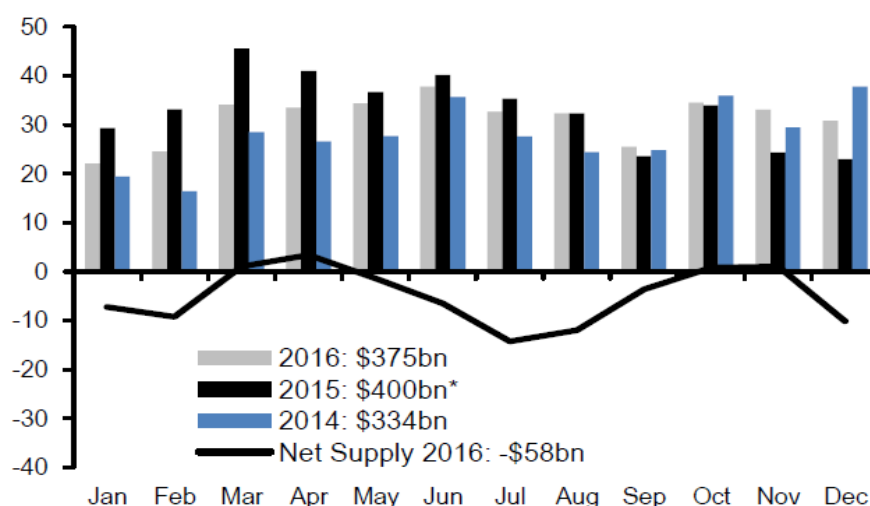


Source: The Municipal Market Monitor (TM3)

### Technicals Are Solid

Technical factors should remain strong and a leading contributor to performance this year. The municipal bond market is poised to contract again as states and cities continue to limit new money capital spending and instead focus on refunding existing debt at lower interest rates. Net issuance for 2016 is expected to total -\$58bn, according to JP Morgan (see Exhibit 3 below). Muni mutual funds have now experienced sixteen straight weeks of strong inflows. Tax exempt demand is likely to remain positive once again this year because of the high level of taxation and munis positive performance despite the global market volatility and losses experienced by equities and other asset classes.

Exhibit 3: Issuance Forecast, \$bn



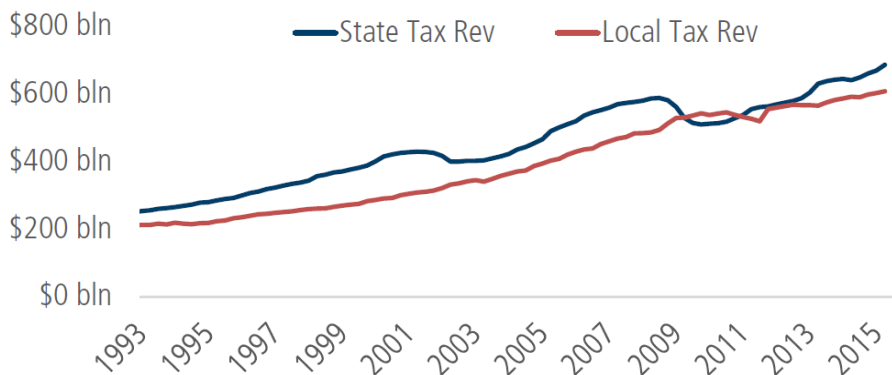
\* Preliminary  
Source: JPMorgan

### Fundamentals Remain Healthy

Overall, we expect continued credit improvement in 2016 resulting from a growing domestic economy, increased property tax revenue, and continued fiscal restraint for most municipalities. The asset class has maintained its high credit quality and low default characteristics, despite the significant impact from the Great Recession. However, there remain a handful of exceptions, even after seven years of economic expansion. Several states and their localities will most likely face additional fiscal strain this year stemming from significant unfunded pension/OPEB liabilities (IL, NJ, CT, PA, PR, KY) or revenue reliance on oil, coal, or natural gas commodity severance taxes (AK, LA, OK, NM, ND, WY).

Issuers that have had the political fortitude and good management skills to build their reserves, refund debt at lower rates, and enact pension reform, will clearly benefit from an improving credit profile and should be prepared if there is any softening in the domestic economy. Those that have kicked the pension can down-the-road should continue to underperform again this year. As a result, we continue to favor revenue sectors over general obligation bonds. Sectors that could outperform in 2016 include transportation, special tax, and utility sectors, in particular, toll roads, airports, sales tax, and water and sewer systems. Among states, we especially like bonds issued by various authorities in California, Florida, and Washington.

**Exhibit 4: State and Local Revenues Have Recovered from Great Recession**



Source: Janney Fixed income Strategy; US Census Bureau

Credit differentiation in the municipal asset class continues to intensify post credit crisis with growing rating divergences and security selection has never been more important, particularly in the current narrow credit spread environment. This year will likely be another challenging environment, but munis could continue to outperform, regardless of any additional actions by the Fed, as we continue to believe long term rates will remain lower for longer, fundamentals are solid and improving, and tax free bonds have historically outperformed taxables in recent periods of Fed tightening.

The assertions in this perspective are Seix Investment Advisors' opinion.

**Barclays Municipal Bond Index** is a widely recognized index of investment grade tax-exempt bonds. The eight subsets of the Index are market weighted. The Index includes general obligations, revenue bonds, insured bonds, and pre-refunded bonds.

**Standard & Poor's 500 Index** is an unmanaged index of 500 selected common large capitalization stocks (most of which are listed on the New York Stock Exchange) that is often used as a measure of the U.S. stock market. Investors cannot invest directly in an index.

**Credit Ratings** noted herein are calculated based on S&P, Moody's and Fitch ratings. Generally, ratings range from AAA, the highest quality rating, to D, the lowest, with BBB and above being called investment grade securities. BB and below are considered below investment grade securities. If the ratings from all three agencies are available, securities will be assigned the median rating based on the numerical equivalents. If the ratings are available from only two of the agencies, the more conservative of the ratings will be assigned to the security. If the rating is available from only one agency, then that rating will be used. Any security not rated by S&P, Moody's, or Fitch is placed in the NR (Not Rated) category. Ratings do not apply to a fund or to a fund's shares. Ratings are subject to change.

**Investment Risks:** All investments involve risk. Debt securities (bonds) offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher-quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a fund's fixed income securities will decrease in value if interest rates rise and vice versa. A fund's income may be subject to certain state and local taxes and, depending on your tax status, the federal alternative minimum tax. There is no guarantee a specific investment strategy will be successful.

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