FIXED INCOME COMMENTARY

July 10, 2015

KEY TAKEAWAYS

The fixed income markets were weaker in June as interest rates rose and credit spreads widened in anticipation of the Federal Reserve's plan to raise the federal funds rate in 2015 or early 2016. Higher volatility is increasingly common in both the credit and equity markets.

Key Rates	Dec 31 2014	May 31 2015	Jun 31 2015
Treasury Yields			
2 Year	0.66	0.61	0.64
5 Year	1.65	1.49	1.65
10 Year	2.17	2.12	2.35
30 Year	2.75	2.88	3.12
Credit Yields			
BBB Industrial 10 Year	3.42	3.54	3.86
Muni Yields			
AAA Ten Year	2.10	2.31	2.37
Mortgage Backed Securities			
30 Year FNMA Current Coupon	2.83	2.83	3.10

JUNE IN REVIEW

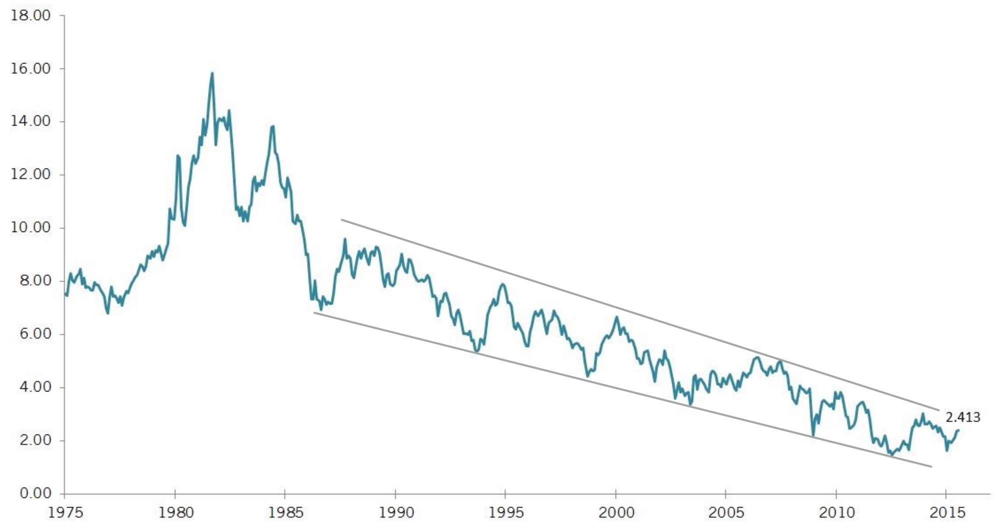
- Volatility continued in the month of June.
- Ten-year Treasury rates rose 23 bps, generating price declines for many fixed income securities.
- Credit spreads widened modestly, continuing the trend of the past year.
- Higher quality municipals widened less than Treasuries and MBS tracked Treasuries.

Volatility Rises

The level of volatility in global fixed income markets continues to rise. Greece's potential exit from the Eurozone, China's stock market free fall, Puerto Rico's admission that the island can't pay its debts and the threat of the Fed raising short-term rates all contributed to the uncertainty in the bond market. The increasing probability of a hike in the Fed funds rate this year has been of particular concern. Stronger economic data and comments by Fed officials indicate at least one rate hike will be forthcoming in 2015.

Interest rates rose and corporate credit spreads were also wider in June. Highly-rated municipal bonds sounded a rare bright note as prices for these securities fell less than Treasuries. Most fixed income benchmarks sustained minor losses in the month, but benchmarks are still positive for the year.

EXHIBIT 1: TREASURY YIELDS CONTINUE TO FALL—1981 TO PRESENT



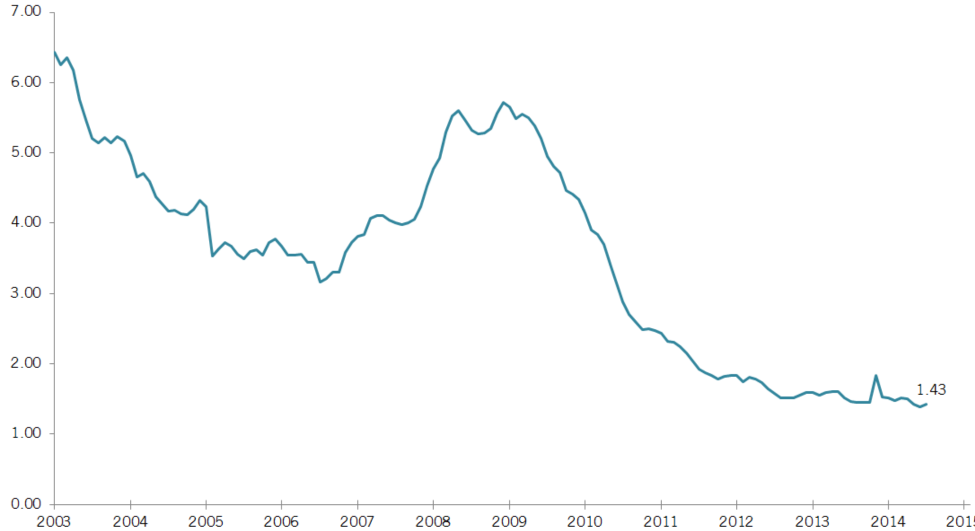
Source: Bloomberg Financial L.P.

It is easy to get spooked with all of this news, but things are rarely as good or bad as they seem. Interest rate fundamentals still look sound. While we believe the Fed will soon begin raising short-term interest rates, the bond rally which begun in 1981 is still alive and may not die without more of a fight. Deflationary trends are still strong and the central banks around the world still have much work to do to reach their inflation goals. We continue to believe interest rates will stay lower for longer than many observers expect.

Widening credit spreads are anticipated as interest rates rise, but we are not seeing the many tell tale signs of weakening consumer or commercial credit quality. For example, consumer credit card delinquencies are at all time lows and are showing no signs of turning up. The included chart shows delinquencies for the consumer credit card issuer Discover, which is a good signpost as the company targets customers who carry balances and are therefore a good measure of consumer creditworthiness.

Outlook and Strategy

EXHIBIT 2: CREDIT CARD DELINQUINCIES ARE VERY LOW AND STABLE



Source: Bloomberg Financial L.P.

We are cautiously repositioning and preparing for higher volatility, and have been doing so for more than a year. Portfolios have generally been structured with shorter duration exposures in anticipation of higher rates in the short end of the curve once the Federal Reserve begins to normalize rates. We have also started to reduce credit risk by shortening the maturities of our credit exposure in portfolios. We are adding higher quality holdings, such as agency mortgage-backed securities and high quality taxable municipal bonds, to portfolios to reduce risk exposure. Fortunately, spreads are still generally compressed across the credit spectrum, so we are giving up very little yield as we strengthen the credit profile of portfolios.

We are becoming increasingly selective on the municipal bond front. We confined recent buys to the higher credit tier of municipal offerings. We believe the pension and benefit problem facing many municipalities is an increasingly important consideration for this market. Chicago was recently downgraded because of this liability and others are sure to follow in the months ahead.

Despite our cautious views on bond quality, we remain positive on the bond market in general. The Fed is likely to raise the Fed funds target later this year, but we expect it to take a very gradual approach in the effort to normalize rates. Moving slowly allows the Fed to cover all bases. By raising rates, the Fed governors can say they are taking the necessary steps to maintain stability while still keeping rates well below levels normally seen when the unemployment rate is at 5.3% and the GDP growth rate stands at 2.5-3% per year.

Furthermore, crises are generally good things for U.S. interest rates. Trouble overseas usually prompts a flight of capital to higher quality holdings such as U.S. Treasury notes, pushing our rates lower. If the crises cause substantive damage to markets, the resulting slower growth will also keep rates in check.

We continue to monitor the markets closely and our strategies will continue to evolve with changes in fundamentals and market data.

As always, please contact us should you have questions.

For further information, please contact Steven Killoran, Vice President Business Development at 1-802-229-2838 or at skilloran@maplecapital.com. For further information about Maple Capital, including a copy of our informational brochure, please visit our website at www.maplecapital.com.

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