Investment Process:
Global Macroeconomic / Fundamental

Total Firm Assets: $5.46 Billion

LM CAPITAL GROUP
GLOBAL BOND MANAGEMENT

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Choppy Seas

Thus far, 2016 is best classified as a tale of two halves. To start the year, volatility remained elevated and risk aversion was high. As a result, the US Dollar strengthened, commodities fell further, credit spreads widened and equity prices tumbled. In mid-February investor sentiment made an abrupt turn upon Jamie Dimon's "put." Dimon's large open market purchase of JPM stock became a clear catalyst for investors to become more risk tolerant. In addition, US economic data began to surprise to the upside, further suppressing fears of a severe economic slowdown. Finally, the March FOMC statement conveyed a willingness to be patient in rate rises and/or even take further action if needed, which was a significant departure from the December FOMC message. Risk sentiment and risk markets reacted favorably – credit spreads tightened, market volatility measures fell, the dollar weakened and equity indices increased to end the second half of the first quarter. In general, Treasury and Corporate curves have bullishly flattened year to date by a decline in yields across the intermediate to long maturity bands. As a result, the longer dated corporate maturities outperformed while shorter dated and/or negatively convex instruments underperformed the benchmark index. The Emerging Market Debt (+6.36%), Corporate (+5.39%), High Yield (+7.40%) sectors outperformed the broader index's return of +3.43%. The US Government Agency Securities (+2.03%), Treasury (+3.09%) the Agency Mortgage Backed Securities (+2.15%) sectors underperformed the broader index's return.

For the remainder of 2016, LM Capital Group expects US GDP growth to remain in a choppy 1.5% to 2.5% range. The pace of economic activity is likely to remain choppy as inventory and trade data swings the overall GDP prints. The consumption (consumer, final sales) trend should remain stable as job growth continues to expand at a steady pace. We also expect a gradual increase of the Fed's overnight lending rate, with a bias toward the later half of the year regarding an announcement of the rate increase(s). Year-to-date economic performance (better than expected payrolls but weaker than expected Industrial Production and GDP reports) was consistent with our 2016 outlook. The economic performance across Europe should continue to turn the corner where export based economies are reacting nicely to the weaker EUR/USD via ECB quantitative easing. The global economy remains constrained by

Choppy Seas (continued)

deleveraging pressures and continued uncertainty surrounding the potential for exogenous shocks as global fiscal and monetary policy playbooks are fluid, regulatory uncertainties remain and demographics are shifting. As a result, fixed income investors will remain vulnerable to sudden and abrupt swings in interest rates and risk premiums in 2016. Global central banks remain committed to various forms of accommodative monetary policy, albeit at a much less vigorous pace in the US and a more vigorous pace in Europe, Japan and now China (via the steady depreciation of its currency). While monetary policy is supportive of financial risk taking, it will provide little support to real global output at this point. Our strategy continues to call for an overall neutral-to-mild underweight duration portfolio position and continued exposure to the plus sectors. As oil price action is likely to remain volatile at low levels we are monitoring geopolitical pressure points across the Middle East, Russia and Venezuela. The fallout from the debt super cycle of the mid 2000's has and will continue to show up in places like Brazil, Ukraine, Puerto Rico, China and Saudi Arabia and we are closely monitoring the outcomes for possible contagion. We continue to closely monitor the depth and breadth of liquidity within the fixed income markets. Should any of the situations deviate from our baseline scenarios, action in the portfolio may be taken, particularly across the credit (US HY and/or EMD) allocation.

Across the emerging markets we are not only monitoring commodity price trends, but also the political cycle, particularly in Brazil where President Rousseff remains vulnerable to impeachment. While impeachment may cause an uptick in volatility across Brazilian assets, we believe risky assets will rally in Brazil over the medium term under a new administration. In general, we still to favor export oriented companies who benefit from weakened exchange rates and corporate credits where valuations continue to be compelling (higher all in yields and spreads). Careful security selection and market timing will remain critical to performance over the foreseeable future in the emerging markets

2015 – A Record Breaking Year for Renewable Energy

Last year was a big one for energy news. Finally, the US extended the renewable energy tax credits after keeping developers and investors in limbo for almost a year. In the end, 2015 turned out to be the highest year on record for both global investments and installations of renewable energy projects**.** With 64GW of wind and 57GW of solar PV commissioned during the year, it represented an increase of nearly 30% over 2014. Looking at the figures in detail,

2015 – A Record Breaking Year for Renewable Energy (continued)

the biggest piece of the $328.9 billion invested in clean energy in 2015 was asset finance of utility-scale projects such as wind farms, solar parks, biomass, waste-to-energy plants and small hydro-electric schemes. The United States alone was responsible for $56 billion, up 8% on the previous year. Improving cost-efficiencies of solar and wind technologies are increasingly driving the uptake of renewable technologies and will continue to do so at a steady pace. To all those who expected clean energy investment to stall on falling oil & gas prices, increasing global interest rates and subsidy cuts, this trend certainly came as a surprise.

In today's current low-yield environment, the stable cash flows supplied by real assets serve as a great substitute or compliment to traditional fixed income vehicles for institutions looking to meet their regular payment obligations. For any investor, holding renewable energy projects in their portfolio can serve two purposes. As a growth-seeking asset, early-stage investment in renewables can provide potentially double-digit returns. As a structured payment vehicle, they can also provide stable, inflation-linked returns by investing in operational projects in stable regulatory environments. With the flood of capital into the sector, the long-term forecast for renewable energy looks very bright. This presents a very interesting opportunity for investors to extract even more value from these assets. Success will be measured not only by the investor's cost of capital but also their execution track record, and having a seasoned team of technical/engineering personnel conducting the due diligence will be paramount to success. At LM, we are always looking ahead of the trends, researching new sectors and opportunities for our clients. We have been monitoring this sector with great interest and believe further exploration may warrant new product development in the near future.