Second Quarter 2018 Bond Market Review and Outlook

CAM
Cincinnati Asset Management, Inc.
Investment Grade & High Yield Bond Specialists

Our Broad Market Strategic Income Fund: CAMBX

"The American Economy has picked up speed and is now on course to expand this year at the fastest rate in more than a decade… Economists have raised their growth estimates for the second quarter to an annualized rate of nearly 5 percent." (NY Times 6/20/18)

"[One] bank sees the 10-year Treasury yields at 2.75% by year end and 2.50% by mid-2019." (Bloomberg 7/11/18)

The economy picked up momentum over the second quarter as the impact of the Trump tax cuts and regulatory relief took effect. Above, the NY Times observes that GDP growth projections are much higher than at any time over the past ten years. Another observation reports that "In a stunning turnaround sparked by the improving economy and last December's tax cuts, over 95% of manufacturers have turned bullish about their future, an all time record." (Washington Examiner 6/20/18).

Other metrics confirm the wide breadth and strong depth of the economic expansion. The unemployment rate was at a 49-year low of 3.8% in May and increased to 4% in June as the labor participation rate grew (BLS). Retail sales increased 0.5% in June from May and May's 0.8% increase was revised up to a very strong 1.3% WSJ (7/16/18).

However, there are no signs of wage growth acceleration, as hourly earnings grew 2.7% from last June, below economists' consensus estimates of 2.8% (BLS 7/6/18). We noted above the increase in the labor participation rate. Its continuation, as a strong economy draws more people into the workforce, holds down wages. Other factors cited by economists were low productivity growth, demographic changes, foreign competition and globalization and hidden slack in the labor market (WSJ 4/12/18).

Annual Relative Total Return Ranking - USD Multi-Asset Class

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
S&P 500 33.3%	CCMP 40.2%	CCMP 86.1%	REITs 26.4%	REITs 13.9%	EM Sov 13.7%	EM Equity 55.8%	REITs 31.6%	EM Equity 34.3%	REITs 35.1%	EM Equity 39.7%
Mid Cap 32.2%	S&P 500 28.5%	EM Equity 66.5%	Mid Cap 17.5%	High Grade 10.7%	US Gov't 11.6%	CCMP 50.8%	EM Equity 26.0%	Mid Cap 12.6%	EM Equity 32.5%	CCMP 10.7%
Russell 2000 22.4%	Mid Cap 19.1%	Conv 36.0%	Munis 17.1%	Prefs 9.8%	Munis 10.7%	Russell 2000 47.3%	Russell 2000 18.3%	REITs 12.2%	Russell 2000 18.3%	US Gov't 9.1%
CCMP 22.2%	Conv 12.2%	EM Sov 23.6%	Prefs 16.2%	Mtges 8.1%	High Grade 10.2%	REITs 37.1%	Mid Cap 16.5%	EM Sov 12.0%	S&P 500 15.8%	Mid Cap 8.0%
REITs 20.3%	US Gov't 10.0%	Russell 2000 21.3%	EM Sov 14.7%	EM Corp 7.0%	EM Corp 9.4%	Mid Cap 35.6%	EM Sov 11.8%	EM Corp 5.7%	Conv 12.0%	Mtges 7.0%
Conv 15.5%	High Grade 8.7%	S&P 500 21.0%	US Gov't 13.4%	US Gov't 6.7%	Mtges 9.4%	S&P 500 28.7%	S&P 500 10.9%	Loans 5.3%	High Yield 11.8%	EM Sov 6.4%
EM Sov 15.1%	Mtges 7.2%	Mid Cap 14.7%	Mtges 11.3%	EM Sov 4.8%	Prefs 7.7%	High Yield 28.1%	High Yield 10.9%	S&P 500 4.9%	CCMP 10.9%	S&P 500 5.6%
High Yield 13.3%	Munis 7.1%	EM Corp 14.5%	EM Corp 9.8%	High Yield 4.5%	REITs 3.8%	EM Sov 27.6%	CCMP 10.3%	Russell 2000 4.5%	EM Sov 10.6%	Cash 4.8%
Munis 10.9%	Prefs 6.7%	Cash 4.7%	High Grade 9.1%	Munis 4.5%	Loans 2.6%	Conv 23.0%	EM Corp 8.9%	Munis 3.9%	Mid Cap 10.3%	High Grade 4.6%
High Grade 10.4%	Loans 5.6%	Loans 4.1%	Cash 6.0%	Cash 4.1%	Cash 1.7%	EM Corp 14.5%	Conv 8.3%	Cash 3.0%	Prefs 8.1%	EM Corp 4.4%
Prefs 10.0%	Cash 5.1%	High Yield 2.5%	Loans 5.1%	Loans 3.3%	High Yield -1.9%	Loans 9.8%	Munis 5.5%	US Gov't 2.8%	Loans 6.9%	Conv 3.9%
US Gov't 9.6%	High Yield 3.0%	Mtges 1.6%	Russell 2000 -3.1%	Russell 2000 2.5%	Conv -3.1%	Prefs 9.4%	High Grade 5.4%	High Yield 2.7%	EM Corp 6.6%	Munis 3.3%
Mtges 9.3%	Russell 2000 -2.5%	High Grade -1.9%	High Yield -5.1%	Mid Cap -0.6%	EM Equity -5.9%	High Grade 8.3%	Loans 5.3%	Mtges 2.6%	Mtges 5.3%	High Yield 2.2%
Loans 7.5%	EM Sov -15.3%	US Gov't -2.4%	Conv -7.5%	EM Equity -2.4%	Mid Cap -14.5%	Munis 6.2%	Prefs 5.1%	CCMP 2.1%	Munis 5.0%	Loans 2.0%
Cash 5.3%	REITs -17.5%	Prefs -4.4%	S&P 500 -9.1%	Conv -2.9%	Russell 2000 -20.5%	Mtges 3.3%	Mtges 4.7%	High Grade 2.0%	Cash 4.8%	Russell 2000 -1.6%
EM Equity -12.3%	EM Equity -26.0%	REITs -4.6%	EM Equity -30.7%	S&P 500 -11.9%	S&P 500 -22.1%	US Gov't 2.3%	US Gov't 3.5%	Prefs 1.0%	High Grade 4.4%	Prefs -11.3%
EM Corp na	EM Corp na	Munis -6.3%	CCMP -39.2%	CCMP -20.8%	CCMP -31.2%	Cash 1.1%	Cash 1.3%	Conv -0.2%	US Gov't 3.1%	REITs -15.7%

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD
US Gov't 14.0%	EM Equity 78.9%	REITs 27.9%	Munis 11.2%	REITs 19.7%	CCMP 40.2%	REITs 28.0%	Prefs 7.6%	Russell 2000 21.3%	EM Equity 37.8%	CCMP 9.4%
Mtges 8.3%	High Yield 57.5%	Russell 2000 26.8%	US Gov't 9.8%	EM Equity 18.6%	Russell 2000 38.8%	Prefs 15.4%	CCMP 7.1%	Mid Cap 20.7%	CCMP 29.7%	Russell 2000 7.7%
Cash 1.7%	Loans 52.5%	Mid Cap 26.6%	REITs 8.3%	EM Sov 18.3%	Mid Cap 33.5%	CCMP 14.8%	Munis 3.6%	High Yield 17.5%	S&P 500 21.8%	Conv 7.3%
Munis -4.0%	Conv 45.6%	EM Equity 19.2%	EM Sov 8.2%	Mid Cap 17.8%	S&P 500 32.4%	S&P 500 13.7%	REITs 2.8%	S&P 500 12.0%	Mid Cap 16.2%	Mid Cap 3.5%
High Grade -6.8%	CCMP 45.3%	CCMP 18.1%	High Grade 7.5%	CCMP 17.7%	Conv 26.6%	Conv 10.0%	Mtges 1.5%	Conv 11.9%	Conv 16.0%	S&P 500 2.6%
EM Sov -10.2%	EM Corp 38.3%	Conv 15.7%	Mtges 6.1%	Russell 2000 16.4%	High Yield 7.4%	Munis 9.8%	S&P 500 1.4%	EM Equity 11.8%	Russell 2000 14.6%	Loans 2.3%
EM Corp -17.5%	Mid Cap 37.3%	High Yield 15.2%	High Yield 4.4%	S&P 500 16.0%	Loans 5.4%	Mid Cap 9.7%	EM Corp 1.3%	Loans 10.4%	Prefs 10.6%	REITs 1.3%
Prefs -25.2%	REITs 28.0%	S&P 500 15.1%	EM Corp 4.2%	High Yield 15.6%	REITs 2.9%	High Grade 7.5%	US Gov't 0.8%	EM Corp 9.8%	EM Sov 10.0%	Cash 0.8%
High Yield -26.4%	EM Sov 27.2%	Prefs 13.7%	Prefs 4.1%	EM Corp 15.5%	Cash 0.0%	EM Sov 7.3%	EM Sov 0.6%	EM Sov 9.5%	REITs 8.7%	High Yield 0.1%
Loans -29.3%	Russell 2000 27.1%	EM Corp 12.8%	S&P 500 2.1%	Conv 13.6%	EM Corp -1.3%	Mtges 6.1%	Loans 0.1%	CCMP 9.0%	High Yield 7.5%	Prefs 0.0%
Conv -29.4%	S&P 500 26.4%	EM Sov 12.5%	Loans 1.5%	Prefs 13.6%	Mtges -1.4%	US Gov't 6.0%	Cash 0.0%	REITs 8.6%	EM Corp 7.3%	Munis -0.3%
Russell 2000 -33.8%	Prefs 20.1%	Loans 10.4%	Cash 0.1%	High Grade 10.4%	High Grade -1.5%	Russell 2000 4.9%	High Grade -0.6%	High Grade 6.0%	High Grade 6.5%	Mtges -0.9%
Mid Cap -36.2%	High Grade 19.8%	High Grade 9.5%	CCMP -0.8%	Loans 9.8%	EM Equity -2.3%	EM Corp 3.7%	Conv -1.2%	Prefs 2.3%	Munis 5.4%	US Gov't -1.1%
S&P 500 -37.0%	Munis 14.5%	US Gov't 5.9%	Mid Cap -1.7%	Munis 7.3%	Munis -2.9%	High Yield 2.5%	Mid Cap -2.2%	Mtges 1.7%	Loans 4.3%	EM Corp -2.8%
REITs -37.7%	Mtges 5.8%	Mtges 5.7%	Conv -3.8%	Mtges 2.6%	US Gov't -3.3%	Loans 1.8%	Russell 2000 -4.4%	US Gov't 1.1%	Mtges 2.4%	High Grade -3.1%
CCMP -40.0%	Cash 0.1%	Munis 2.3%	Russell 2000 -4.2%	US Gov't 2.2%	Prefs -3.7%	Cash 0.0%	High Yield -4.6%	Munis 0.4%	US Gov't 2.4%	EM Sov -6.0%
EM Equity -53.2%	US Gov't -3.7%	Cash 0.1%	EM Equity -18.2%	Cash 0.1%	EM Sov -5.8%	EM Equity -2.0%	EM Equity -14.6%	Cash 0.2%	Cash 0.8%	EM Equity -6.6%

Source: CreditSights, ICE BofAML, S&P/LSTA, Bloomberg. EM Equity is USD MSCI Emerging Market Index, Mid Cap is S&P Mid Cap 400 Index, CCMP = NASDAQ EM Sov is USD EM Sovereign <= BBB index, EM Corp is USD EM Corporate Plus Index, Cash = 0-3 US Treasury Bill Index, REITs= FTSE NAREIT equity REIT index data as of Jun 30 2018

(Continues on Page 3)

Yields to Maturity* on 6/30/2018	YTW
CAM Broad Market (corporate core plus) Strategy (7.4 year maturity; 5.9 duration)	4.57%
CAM Investment Grade (100% corporate bonds) Strategy (7.7 year maturity; 6.4 duration)	4.00%
CAM High-Yield Strategy (only BB & B rated purchased) (7.2 year maturity; 5.2 duration)	5.80%
CAM Short Duration Strategy (3.9 year maturity; 3.1 duration, 50% IG & 50% HY)	4.22%
CAM Short Duration Investment Grade Strategy (3.5 year maturity; 3.3 duration)	3.39%
Tax Equivalent Muni GO Bond (7 yr. = 2.35%. Bloomberg Barclays Institutional Index. To right shows after 40% tax equivalency & 3-point retail price mark-up for small buys under $1 M)	2.99%
U.S. Treasury** (10 year maturity)	2.85%
U.S. Treasury** (5 year maturity)	2.73%
U.S. Treasury** (2 year maturity)	2.53%

* yield is to maturity or the "worst" call date, that producing the lower yield. ** Source: Bloomberg Barclays.

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CAM's Key Strategic Elements

- Bottom-up credit analysis determines value and risk.
- Primary objective is preservation of capital.
- Larger, more liquid issues preferred.
- Target is always intermediate maturity.
- No interest rate forecasting.
- All clients benefit from institutional trading platform & multi-firm competitive bids & offers.

CAM returns are after CAM's average management fee & all transaction costs but before any broker, custody or consulting fees.	Total Return (%)	Annualized Returns (%)			
	2Q '18	1-YEAR	3-YEARS	5-YEARS	10-YEARS
CAM Broad Market Strategy—Net 1/3 high yield, 2/3 investment grade	-0.41	-1.00	1.67	2.82	4.95
CAM High Yield "Upper Tier" Strategy—Net only purchase BB & B no purchases of CCC & lower	-0.28	0.05	0.92	2.15	4.86
Lipper High Yield Mutual Funds Average	0.51	1.89	4.06	4.18	6.26
CAM Investment Grade Strategy—Net 100% corporate bonds	-0.51	-1.50	1.97	3.06	4.92
Lipper A-rated Bond Funds Average	-0.61	-0.23	2.79	3.47	4.53
CAM Short Duration Strategy—Net 1/2 investment grade, 1/2 high yield	0.27	0.28	0.49	1.39	3.48
CAM Short Duration Investment Grade Strategy—Net 100% corporate bonds	0.08	-0.57	1.26	1.89	7-YEARS 2.67

Performance Review 6/30/2018

Our **Investment Grade Strategy** (**IG**) outperformed the Bloomberg Barclays U.S. Corporate Index for 2Q2018 (-0.45% vs. -0.97%) and trailed for the 12 months ended June 30 (-1.27% vs. -0.83%). IG's 3-month performance benefitted from a focus on intermediate-term corporate bonds especially relative to the Index's long-term constituents. The twelve-month performance trailed because IG restricts "BBB" bonds to no more than 30% of portfolios compared to more than 50% in the Index, and "BBB" bonds outperformed the overall Index. IG's performance lagged the Index for 3-Years and 5-Years and outperformed the Index over 10-Years and since inception. IG includes only corporate bonds which contributed to our net performance after CAM's fees being in the bottom quartile of the General Bond Intermediate Term peer group (Morningstar data, NY Times, July 15, 2018) for the quarter and the 12-month period, and in the top quartile for over 5 years.

The **High Yield Strategy** (**HY**) trailed the Bloomberg Barclays High Yield Index during 2Q2018 (-0.20% vs. 1.03%) and for the 12-months (0.39% vs. 2.62%). HY's 3-month performance trailed because of outperformance in "CCC" and lower credit subsectors of the Index. HY is always underweight these low credit subsectors believing their credit profiles and price volatility are inappropriate for many investors. Similarly, HY trailed in the twelve-month period because of the outperformance of these weaker credit subsectors. HY's net performance after CAM's fees ranked in the bottom quartile of the High Yield Bond Funds for the quarter, in the bottom quartile for the 12-months, and in the bottom quartile for the 5-year period (Morningstar).

Our **Broad Market Strategy** offers a corporate core plus blend of IG and HY. Performance trailed the Weighted Bloomberg Barclays Corporate benchmark for 2Q2018 (-0.34% vs. -0.31%) and for the 12-months (-0.72% vs. 0.31%). These and longer period performance shortfalls relative to the Weighted Benchmark arose when the lowest rated components in both the high yield and investment grade sectors outperformed their respective indices over multi-year periods. The Broad Market Strategy's net performance after CAM's fees ranked in the bottom quartile of the General Bond Intermediate Term peer group for 3-months and 12-months and in the top quartile for 5 years (Morningstar).

The **Short Duration Strategy** (**SD**) blends shorter maturity IG and HY positions. Performance in 2Q2018 slightly trailed its Bloomberg Barclays Weighted Intermediate Corporate benchmark (0.35 vs. 0.68%). Twelve-month performance lagged the benchmark (0.62% vs. 1.36%). The Benchmark generally derived superior performance from the weakest credits of the underlying indices. Please see IG and HY comments (above) for additional details. SD performance in 3-year and longer periods was similarly affected. Relative to Morningstar's Short-Term Bond Funds' data, SD's net performance after CAM's fees ranked above the median for 2Q2018, in the bottom quartile for 12-months, and above the median for 5-years (Morningstar).

The **Short Duration Investment Grade Strategy** (**SD-IG**) trailed the Bloomberg Barclays U.S. Credit Intermediate 1-5 Yr Index for 2Q2018 (0.14% vs. 0.27%) and for the 12-month period (-0.32% vs. 0.12%). SD-IG outperformed its benchmark Index in longer periods, 3-Years, 5-Years, 7-Years, and since inception. SD-IG's net performance after CAM's fees ranked in the bottom quartile of the Short-Term Bond Funds for 3-months and 12-months and in the top quartile for 5-years (Morningstar).

Bloomberg Barclays Bond Indices Returns vs. CAM Gross (annualized %)

Periods ending 6/30/2018	10-yrs	20-yrs
U.S. Aggregate	3.72	4.70
U.S. Corporate	5.39	5.42
CAM Investment Grade Strategy	5.19	5.46

Better Asset Allocation Might Result from More Exacting Analysis

The chart to the right shows that BB rated bonds returned approximately 40% of S&P 500 stocks for the 5-year period, almost 80% over 10 years, and exceeded the returns of the S&P 500 over the last 20-years. Lower rated CCC bonds have consistently underperformed the S&P 500, while the lowest rated (CC & D) have produced negative returns. Both BB and B rated bonds outperformed the Bloomberg Barclays US Aggregate Index for all periods.

The chart also indicates that CCC rated securities underperformed BB rated and B rated bonds for the 20-year period. For shorter 5-year and 10-year periods the lower credit CCC cohort outperformed. Not shown in the table is the pronounced and extreme volatility that has characterized the CCC sector. For example, during 2008, when the High Yield Index was down 26%, CCC rated bonds were down 44%, and during 2009, the Index was up 58% while CCC bonds were up 91%. In each calendar year since 1997, CCC rated bonds ranked either best or worst in Annual Excess Return Rankings for US corporate credit tiers, a trend that continued in 2Q2018. The CCC longer term results were achieved with significantly volatility than the Index.

Finally, not only have BB rated bonds approximated the S&P 500 for the 10- and 20-year periods, but they have done so with about half the volatility of that Index (Ibbotson), suggesting that better credit quality high yield bonds deserve consideration as a core holding in an investor's portfolio allocation.

Performance of High-Yield Bonds by Credit Quality

(periods ending 6/30/2018) Source: Credit Suisse First Boston **(annualized %)**

High-Yield Bond Sectors	5-years	10-years	20-years
BB-rated bonds	5.32	7.84	7.50
B-rated bonds	4.72	6.62	6.26
CCC-rated bonds	6.34	8.31	5.25
CC & D-rated bonds	-8.76	-4.24	-6.97
Performance of Other Asset Classes (periods ending 6/30/2018) Source: Bloomberg Barclays & Lipper			
S & P 500 Stocks	13.42	10.12	6.45
Bloomberg Barclays U.S. Aggregate	2.27	3.72	4.70

Yield Spreads Over U.S. Treasuries:

Absolute spreads for all credit subsectors remain below the long-term averages, but have risen from the lows of 1Q2018. Spreads ended June 2018 above year-end 2017 levels. These wider/widening spreads enhance the compelling value of corporate bonds versus U.S. Treasuries. The 10-year U.S. Treasury ended the quarter at 2.85% compared to 2.45% (2016) and 2.41% (2017) at previous year-ends. With the U.S. Treasury yield curve flatter as the Federal Reserve removes monetary policy accommodation, active corporate bond managers may find opportunistic values with credit spreads wider than just a few months ago.

*1981-2017 Average for A and BBB

Credit Rating	1987–2017 average spread	6/30/2018	12/31/2017	12/31/2016	12/31/2015	Tightest this decade
A*	1.20%	1.01%	0.73%	1.01%	1.22%	N/A
BBB*	1.87%	1.57%	1.24%	1.60%	2.24%	N/A
BB	3.56%	2.53%	2.11%	2.70%	4.17%	1.30%
B	5.35%	3.72%	3.43%	3.82%	6.54%	2.28%
CCC	10.26%	5.98%	6.15%	8.07%	13.51%	3.78%

Annual Excess Return Rankings - USD Corporate Credit Ratings Tiers

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD
US CCC 13.6%	US AA -10%	US CCC 8.4%	US AAA -14%	US A 3.5%	US AA 0.5%	US CCC 58.5%	US CCC 13.2%	US B 17%	US CCC 15.2%	US AAA -2.3%	US AAA -9.3%	US CCC 97.4%	US CCC 13.2%	US AAA -2.2%	US CCC 18.7%	US CCC 14.4%	US BB 0.7%	US AAA 0.0%	US CCC 35.2%	US CCC 9.6%	US CCC 4.4%
US B 6.3%	US A -14%	US B 6.7%	US AA -2.4%	US BBB 3.4%	US AAA 0.1%	High Yield 25.6%	High Yield 7.9%	US BB 0.8%	High Yield 8.3%	US AA -4.4%	US AA -14.0%	High Yield 58.7%	High Yield 9.8%	US BB -2.5%	High Yield 13.6%	High Yield 9.5%	US A 0.0%	US AA 0.0%	High Yield 16.2%	High Yield 6.1%	US B 17%
High Yield 5.8%	US AAA -15%	High Yield 6.1%	US A -4.2%	High Grade 3.4%	US A -0.1%	US B 23.5%	US B 7.5%	High Yield 0.6%	US B 7.8%	High Grade -5.0%	High Grade -21.3%	US B 48.7%	US B 9.0%	US B -2.6%	US B 13.2%	US B 9.2%	High Grade 0.0%	US A -0.3%	US B 15.7%	US BB 5.6%	High Yield 0.8%
US BB 3.9%	High Grade -2.2%	US BB 4.4%	High Grade -4.7%	US BB 3.2%	High Grade -2.5%	US BB 16.9%	US BB 6.0%	US AA 0.1%	US BB 6.5%	US BBB -5.4%	US A -22.4%	US BB 46.8%	US BB 8.9%	High Yield -3.3%	US BB 12.2%	US BB 7.8%	US AA -0.1%	High Grade -16%	US BB 11.9%	US B 5.4%	US BB -0.9%
US BBB 0.3%	US BB -3.1%	US BBB 2.7%	US BBB -6.7%	US AA 3.0%	US BBB -5.9%	US BBB 9.1%	US BBB 2.3%	US AAA 0.1%	US BBB 16%	US A -5.5%	US BBB -25.6%	US BBB 35.0%	US BBB 4.0%	US AA -3.6%	US BBB 9.4%	US BBB 3.3%	US BBB -0.1%	US BB -2.4%	US BBB 6.9%	US BBB 4.6%	US AA -1.1%
US AA 0.0%	US BBB -4.2%	High Grade 14%	US BB -10.6%	US AAA 2.2%	US B -10.6%	High Grade 5.9%	High Grade 17%	US A -0.2%	High Grade 13%	US B -6.4%	US BB -31.5%	High Grade 23.5%	High Grade 2.8%	High Grade -4.1%	High Grade 7.9%	High Grade 2.8%	US AAA -0.4%	US BBB -3.2%	High Grade 4.7%	High Grade 3.8%	US AAA -1.1%
High Grade -0.3%	High Yield -5.0%	US A 0.8%	High Yield -15.3%	High Yield -3.3%	High Yield -13.4%	US A 3.6%	US A 14%	High Grade -0.8%	US A 12%	US BB -7.3%	High Yield -38.1%	US A 20.0%	US A 2.3%	US BBB -4.3%	US A 7.5%	US A 2.2%	High Yield -13%	High Yield -5.9%	US A 3.2%	US AAA 3.3%	High Grade -16%
US AAA -0.3%	US B -5.6%	US AA 0.4%	US B -17.2%	US B -6.9%	US BB -15.0%	US AAA 2.6%	US AAA 11%	US BBB -2.0%	US AAA 11%	High Yield -7.3%	US B -39.6%	US AA 12.4%	US AA 15%	US A -4.3%	US AA 5.3%	US AA 19%	US B -2.0%	US B -6.3%	US AA 2.4%	US A 3.1%	US A -17%
US A -0.8%	US CCC -9.5%	US AAA 0.1%	US CCC -21.7%	US CCC -8.6%	US CCC -16.2%	US AA 2.0%	US AA 10%	US CCC -2.4%	US AA 10%	US CCC -9.2%	US CCC -48.7%	US AAA 4.1%	US AAA 13%	US CCC -7.6%	US AAA 2.1%	US AAA 10%	US CCC -5.2%	US CCC -16.2%	US AAA 2.3%	US AA 2.4%	US BBB -17%

Source: CreditSights, ICE BofAML Indexes data through 06/30/2018

(Excess return = the total return of the asset class minus the total return of a duration matched basket of government securities. Essentially the excess return metrics remove the yield curve piece of the return picture. In its basic form, it is mainly a function of coupon differentials and spread changes).

(Continued from Page 1)

A recent Wall Street journal survey found that just 38% of forecasters said high inflation would result from low unemployment (WSJ 7/12/18). While oil prices have risen over the past few months raising the threat of inflation, recent developments should push prices down. Saudi Arabia said it would increase production in the coming months, U.S. production remains robust and new large exploration finds are increasing future supplies. Exxon Mobil recently reported a significant discovery of 3.2 billion barrels off the South American coast of Guyana (WSJ 6/21/18).

As recently as July 2nd, the IMF is forecasting 2018 and 2019 global GDP growth of 3.9% (IMF 7/2/18). This growth is accompanied by modest inflation. Global inflation is forecasted to be 2.7% in 2018, 2.5% in 2019 and 2.4% over 2020-2024 (PwC Global, July 2018). This is important since national economies are more tied together.

In the U.S.A., Federal Reserve Chairman, Jerome Powell told Congress on 7/17 that "moderate wage growth also tells us that the job market is not causing high inflation" (WSJ 7/17/18).

So the benign outlook for 10-year Treasury yields appears to be generating more investor demand for bonds. A flight to quality arising from trade tension fears is also driving Treasury yields lower. The result is more forecasts of lower yields and a yield curve inversion in late 2018 and extending into 2019. Given this outlook, 5-10 year U.S. corporates appear attractive. Our Investment Grade, High Yield and Broad Market Strategies are worthy of consideration.

But, for investors who fear higher than anticipated inflation and resulting higher bond yields and lower bond prices, CAM's short duration strategy is an appropriate investment. The portfolio's duration of 3.15 is very short and implies a 3.15% change in the portfolio's market value for each 100 basis point move in market yields at its average maturity of 3.94 years. For a comparison of performance by varying maturities in this year through 6/30 over rising longer term rates, the 1-3 year IG Corporate total return was +0.09%, and the 7-10 year IG Corporate return was –0.88% (Credit Sights 7/9/18) (see chart on page one for statistics on all the CAM bond strategies).

(Continues on Page 4)

CAM Investment Grade Strategy 0.94
Bloomberg Barclays U.S. Corp Bonds 0.89

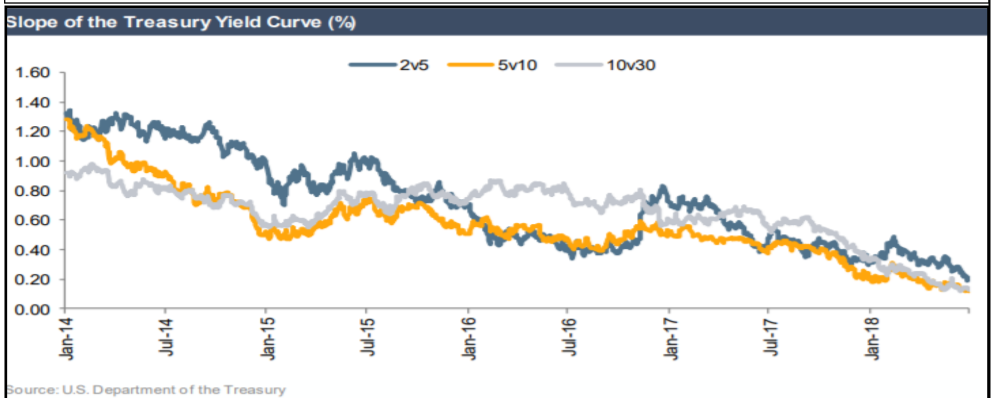
CAM High Yield Strategy 0.54
Bloomberg Barclays High Yield Corp Bonds 0.51

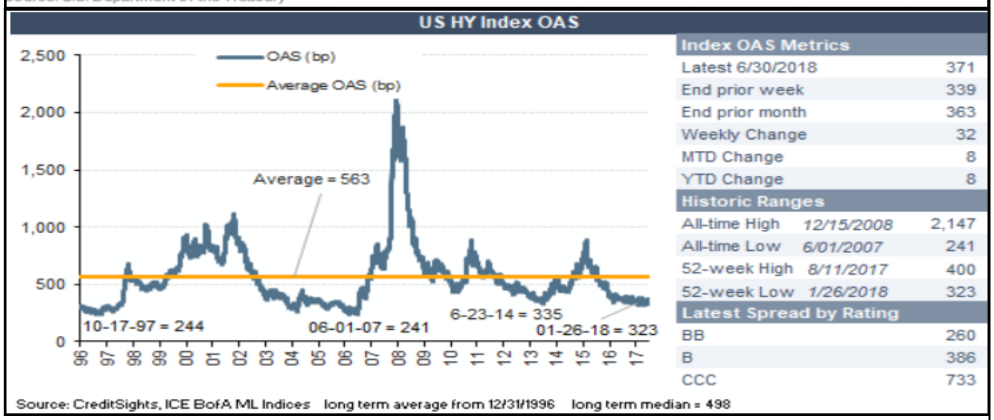
CAM Short Duration 0.50
Bloomberg Barclays Weighted Benchmark
(1/2 Interm. HY & 1/2 U.S. Interm. Credit 1-5) 0.37

CAM Short Duration IG Strategy 0.98
Bloomberg Barclays U.S. Interm. Credit 1-5 Yr 0.95

CAM Broad Market Strategy 0.77
Bloomberg Barclays Weighted Benchmark
(2/3 Corporate and 1/3 High Yield) 0.79

A quantitative indication of our conservative philosophy is the Sharpe Ratio. This metric calculates total return per unit of risk and results from each strategy inception through 6/30/2018 appear on the left. This risk-return metric is as important as, if not more important than, absolute return comparisons. Our constant objective is to deliver superior risk-weighted returns. These relative values measure the performance of our strategies – Investment Grade, High Yield, Broad Market (corporate core plus), and the two Short Duration Strategies – against their respective benchmarks. Sharpe Ratios of the Investment Grade Strategy and High Yield Strategy each exceeded their respective benchmarks by 6%. The Short Duration Strategy's Sharpe Ratio exceeded its benchmark's ratio by 35%, and Short Duration Investment Grade exceeded its benchmark by 3%. The Broad Market Strategy produced a Sharpe Ratio about equivalent to its benchmark.





(Continued from Page 3)

As the chart on page three illustrates, riskier sectors of the bond market continue to provide the best performance. Historically, these sectors provide better performance than the higher quality investment grade sectors in periods of rising interest rates. Notice that in 13 out of 21 years high yield has outperformed the high grade sector. Also, the high grade sector has outperformed the U.S. Government sector in 13 out of 21 years, as the chart on page one illustrates.

The top right graph depicts the flattening of the yield curve since 2014. This trend, the Federal Reserve's well communicated intentions to raise the overnight rate and investor perceptions of moderate inflation accompanying solid growth lead some to forecast an inverted yield curve. The inversion will in part result from declines in yields of longer dated bonds.

The chart above depicts the OAS of the High Yield bond index. The lower OAS is indicative of strong demand by investors. One thesis is that High Yield outperforms Investment Grade Corporates in periods of rising rates and IG outperforms Treasuries.

Additionally, perhaps the potential for declining yields in a curve inversion is leading investors to lock in at today's potentially higher interest rates. An alternative thesis is that Corporates are a better place to safeguard capital given the run up in equities and global trade tensions and geopolitical concerns in the Middle East.

We appreciate your confidence, please contact us anytime we may be of service.

Rating	BB	B	CCC
Avg Spread	354	532	1019
Std. Dev.	150	206	537
6/30/2018	**253**	**372**	**598**
Lowest Spread	130	228	378

Spreads to Treasuries by Credit Rating shows significantly lower risk of BB and B rated bonds. Source: Credit Suisse First Boston Global HY Indicies 01/30/87 to 12/31/96; Bloomberg Barclays Capital 01/31/97 to 6/30/2018)