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RealLifeFinance

Creating Investment Excellence

The Gerstein Fisher Approach to Managing Fixed Income

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President & Chief Investment Officer, Gerstein Fisher

At Gerstein Fisher, we view fixed income primarily as an anchor to steady the ups and downs of the more historically volatile components of our clients' portfolios. In addition, fixed income is a vital component of total portfolio return whose full potential we look to unlock through a disciplined, research-based investment approach.

Theory and history both confirm that the long-term expected return on equities exceeds the expected return on fixed income. Bonds nonetheless have an important role to play: that of a diversifier that reduces portfolio volatility.

While we see fixed income's most valuable contribution to an overall portfolio as volatility reduction, at Gerstein Fisher we also recognize that thoughtful, disciplined portfolio management can uncover strong risk-adjusted return opportunities in bonds. Through a combination of deep research and analysis, intelligent trading and careful risk management, we are able to capture these opportunities for our clients.

On the pages that follow, we will explore the key tenets of our fixed income investment philosophy, introduce the team behind our process, and shed some light on exactly how we manage bond portfolios – from research, to trading, to monitoring – and how this disciplined process benefits our clients at each step of the way.

The Hallmarks of Our Approach

At Gerstein Fisher, we manage our clients' fixed income investments using a research-based approach built around several key principles. Many of the distinctions of our strategy stem as much from what we do *not* do as from what we do. Below we highlight the key drivers of our bond investing strategy and explain the rationale behind them.

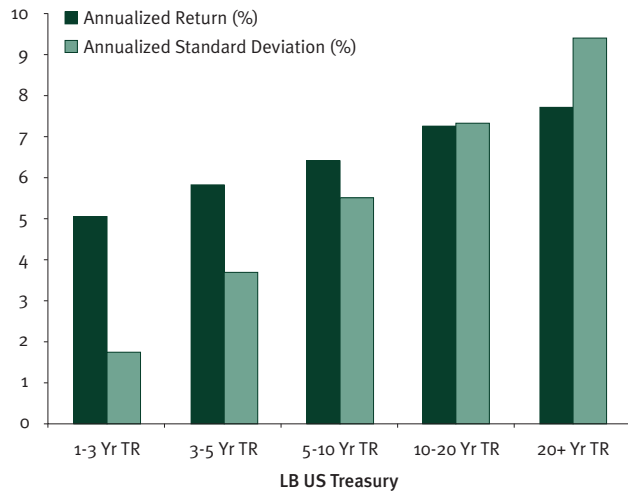
1. Deploy Risk Smartly

Gerstein Fisher's portfolio management approach takes a holistic perspective, meaning we don't look at any asset or asset class in isolation, but rather how it works with the rest of the portfolio. Within this framework we engage in "risk budgeting", or deploying risk in the portfolio in the areas in which we feel our clients will be best compensated for it.

But even *within* the bond portions of our clients' portfolios, there are other risk/return tradeoffs to be assessed. For example, the risk/return profile of a 20 or 30-year Treasury security is substantially different than that of a 1-year T-bill. Our research has shown that the standard deviation (defined as the variability of returns, aka volatility) of Treasury securities rise sharply for maturities beyond 5 years. As the chart on the following page shows, investors owning 1-3 year Treasuries earn approximately 2 units of return for each unit of risk they incur, versus less than 1 unit for maturities of 20+ years.

While this research clearly shows the disproportionate risk that must be incurred to generate additional return, we wanted to look at the data over a longer time horizon, especially since inflation was very low over this entire period. When we examined the data as far back as 80 years, the results told an even better story: longer-term Treasuries do not offer meaningful long-term return advantages for the incremental risk they entail.

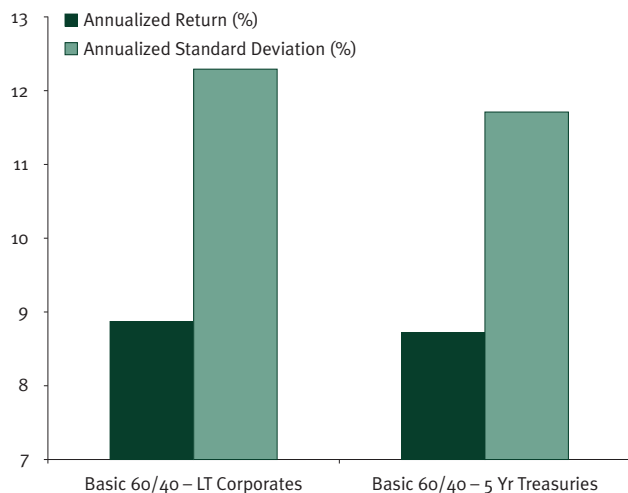
Risk and Return Characteristics of Selected US Treasury Securities – June 1993-May 2008



Source: Gerstein Fisher Research; data from Morningstar Database

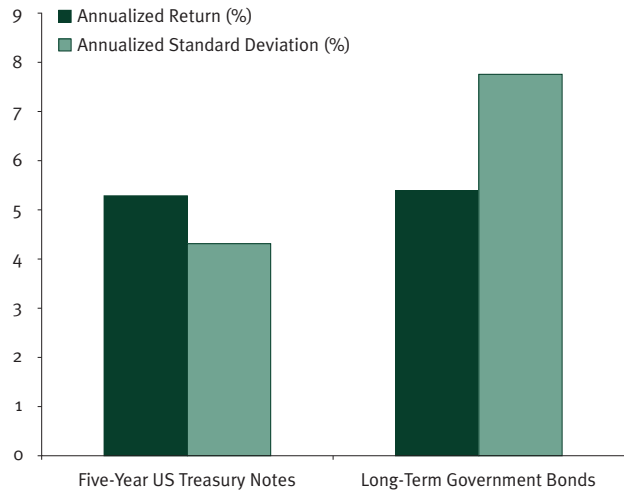
Securities with maturities of less than 5 years historically have exhibited not only less volatility than their longer-dated counterparts, but also lower correlations with equities. The chart below shows how moving away from long-term corporate bonds toward shorter maturity Treasuries within a 60/40 equity/bond portfolio decreases the duration (or interest rate sensitivity) and enhances the credit quality of the portfolio and leads to better risk-adjusted returns.

Risk and Return Characteristics of 60/40 Equity/Bond Portfolios – January 1926-March 2008



Source: Gerstein Fisher Research; data from Standard & Poor's Index Services Group, Ibbotson, Ibbotson & Sinquefeld

Risk and Return Characteristics of Selected US Treasury Securities – January 1926-March 2008



Source: Gerstein Fisher Research; data from Ibbotson, Ibbotson & Sinquefeld

These findings support our strategic decision to generally limit the maturity of the securities in which we invest to 5 years or less. Other measures we take to manage our fixed income risk exposures include:

- Buying quality:** Gerstein Fisher only invests in high credit quality issues. We look beneath the surface of ratings to ensure that underlying securities have strong credit qualities and make good common sense. Our research confirms that the incremental risk attached to owning lesser-quality bonds outweighs the rewards the majority of the time.
- Avoiding corporates:** In our view, an investment in a corporate bond requires the same level of confidence in, and understanding of, a business that is required for purchasing equity in that same company. So why not invest in the equity and seek a better expected return to compensate you for the risk you are taking? We would rather demonstrate conviction in a company by way of an equity investment, as we feel the risk and return are better aligned.
- Avoiding callable bonds:** Bonds with call provisions entail unpredictable cash flows and also exposure to reinvestment risk. The issuer will likely call the bond when interest rates are lower, so an investor's cash proceeds would need to be re-invested in this same low-rate environment. Conversely, if rates increase, the bond will not be called. In essence, callable bonds entail all of the risks of non-callable bonds when rates

move higher, but limit an investor’s upside potential when rates move lower. The call provision is for the benefit of the issuer, not the borrower. For this reason, we do not hold them in our client portfolios.

By paring back on certain types of fixed income risk, we have more risk to “spend” in other segments of the portfolio where it makes sense from an expected risk/return perspective. The end result is a more efficient portfolio.

2. Trust the Yield Curve

Unlike many economic indicators, the yield curve is not produced by a government agency or private group. Instead, it is a reflection of the collective wisdom of investors on the likely direction of the economy and inflation. This is consistent with Gerstein Fisher’s belief that the markets are at least a good estimate of securities’ fair values given that they represent the aggregate “vote” of all investors. And unlike economic indicators that are published only every week, month, or even quarter, Treasury yields are available throughout the course of each trading day, providing investors with real-time economic insights on a continual basis.

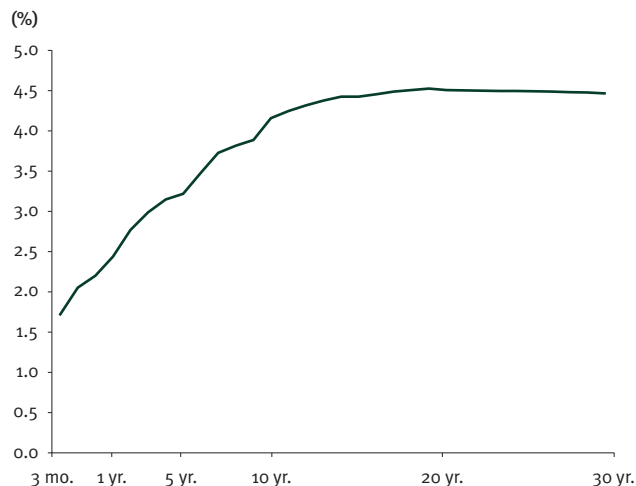
So what exactly is the yield curve, and how does it signal market sentiment on inflation and interest rates? The yield curve plots the relationship between the interest rates and time to maturity of the entire spectrum of US Treasury securities. **A normal yield curve** slopes gently upward, depicting a gradual increase in interest rates as maturities lengthen out.

In a **steep yield curve** environment, yields climb much more rapidly than normal. This can occur when the economy is starting to pick up speed and investors become concerned about near-term inflation, selling longer-term Treasury securities. This, in turn, depresses long-term bond prices and drives their yields higher. (It’s interesting to note that if investors feel that the Fed is responding quickly and aggressively to the threat of inflation, they may look to *purchase* long-term Treasuries to lock in high yields while prices are still relatively cheap, in which case a steep yield curve will not materialize.)

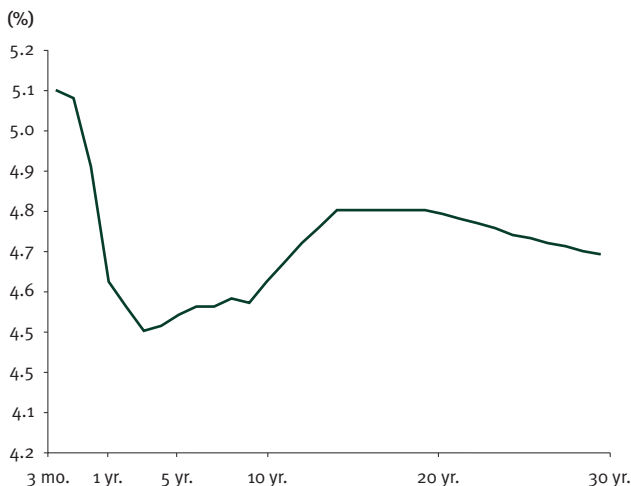
A flat yield curve exists when the yields on both short-and long-term securities are nearly identical. This is often an early warning sign that the economy is in danger of moving into a recession. With their inflation fears quelled by the threat of recession, investors will often buy long-term bonds to capture their higher yields. This buying activity causes the prices of these bonds to appreciate and their yields to move down closer to short-term rates. The result is a flattened yield curve.

An **inverted yield curve** exists when short-term rates are significantly higher than long-term rates, and is often seen as a harbinger of recession. It reflects investors’ beliefs that the Fed is keeping short-term rates too high, squeezing the money supply and increasing the inevitability of an economic downturn.

Steep Yield Curve – July 2008



Inverted Yield Curve – February 2007



Source: Bloomberg

Why Not TIPS?

When inflation looms, many investors consider allocating all or a portion of their fixed income exposure to TIPS (treasury inflation protected securities). First issued in the United States in 1997, TIPS are government bonds that are structured to be highly correlated with the Consumer Price Index (CPI), a key measure of inflation. The principal paid out on TIPS is adjusted over time based on changes in the CPI such that an investor's income should keep pace with inflation.

While TIPS do offer some protection from inflation, we see several downsides to owning them, especially when compared to hard asset investments like commodities. For one, they do not exhibit the low correlations to traditional asset classes that make commodities such good portfolio diversifiers. Additionally, investors are taxed on the inflation-adjusted principal of a TIPS security, making them a less compelling choice for taxable accounts. Finally, one could argue that

commodity prices are a “truer” measure of inflation than a government-generated statistic like the CPI, making them more effective at preserving real purchasing power than TIPS.

When it comes to portfolio approaches to preserving purchasing power, if you consider a nominal 20-year Treasury bond to represent a single assessment of projected inflation at a point in time (when purchased), TIPS might look more appealing given their ability to keep pace with movements in the CPI over time. But a different strategy might serve investors even better: by purchasing a 1-year nominal Treasury note each year for the next 20 years an investor would essentially get 20 distinct opportunities to estimate future inflation. This approach provides the investor with the flexibility to reevaluate his or her inflation views more frequently and over a shorter time horizon.

When a recession does hit, decreased demand for money and credit often depresses short-term rates. Once the economy starts to perk up, the combination of very low yields on short-term Treasuries and a rebound in yields on 10- and 30-year bonds can result in a steep yield curve again. As discussed earlier, a steep yield curve is often the hallmark of a shift from recession to growth again. Assuming that healthy growth resumes, the Fed will likely start to raise short-term rates to stave off inflation and the yield curve will return to its normal, upward sloping shape.

At Gerstein Fisher, we don't try to predict interest rates – rather, we look at the yield curve for clues as to what direction the market thinks interest rates are headed and, based on that, determine the best segment of the curve to hold. For example, in a rising rate environment, the expected returns of 4 and 5 year bonds would be higher than that of a 1 year note because investors would have to be compensated for their additional perceived risk. (In a flat curve environment, on the other hand, we would prefer 1 year notes, as they would deliver similar yields to their longer-term counterparts with less risk.) When interest rates are expected to rise, bonds with higher-coupon also become relatively more attractive as these periodic income streams can be reinvested at higher rates when they are paid out in the future.

Another consideration when it comes to issue selection is a bond's coupon rate. All other factors constant, the lower the coupon rate, the greater a bond's price sensitivity to changes in interest rates. As just discussed, in a rising rate environment an investor would normally prefer a high coupon bond (holding maturity constant), as this would be less volatile and provide an opportunity to reinvest coupon income at higher interest rates. It is interesting to note that some trades that reduce volatility and increase yield may have no appeal to the traditional ladder manager (and no viability for the index manager) even though they may be very attractive to the diversified investment portfolio – for example, extending maturities from 1 to 5 years when there is an anticipated reward for doing so.

3. Go Global

At Gerstein Fisher, close to 40% of the assets we manage are global or international in nature. A global opportunity set is, by definition, broader and richer than an all-domestic one, allowing us to deepen the level of portfolio diversification across not just sectors and industries, but countries and entire regions.

We add international bonds – in the form of high-grade sovereign securities – for three primary reasons:

- Diversification potential
- Incremental return potential
- Currency diversification

As seen in the following chart, over the long term, currency returns historically have shown very low correlations to both US equity and bond markets, offering the potential to enhance a portfolio's risk-adjusted returns by reducing volatility through different sources of return and risk (diversification). And given the global nature of highly rated debt issuers, international diversification can be accomplished across many developed countries *without* necessarily increasing credit risk.

Correlations – January 1970-March 2008, Monthly Data

	Foreign Currencies*	S&P 500	5-Year US Treasury Notes
Foreign Currencies*	1.000		
S&P 500	0.004	1.000	
5-Year US Treasury Notes	0.210	0.151	1.000

*Composite of currency returns, equally weighted back to 1970, including Japanese Yen, Hong Kong Dollar, Dutch Guilder, German Mark, Singapore Dollar, Italian Lira, British Pound, Australian Dollar, French Franc, Spanish Peseta, Belgian Franc, and Swiss Franc.

Sources: S&P, Ibbotson, WM/Reuters, PFFC

Global bond investing offers the potential to tap into many other yield curves and to enhance portfolio returns by tilting the portfolio's international exposure in favor of those nations with most attractive current yield environments. By using the same disciplined approach as we do for US Treasuries to analyze the yield curves of other countries, we can identify issues that might add incremental return to the portfolio.

Unhedged foreign bond exposure also brings with it exposure to international currencies – another source of potential portfolio return. While foreign currency is a historically volatile asset class, the low correlations of non-dollar currencies seen above actually serve to reduce portfolio risk and volatility – particularly for investors who have a large proportion of assets denominated in US dollars, earn their income in US dollars and/or have US dollar-based real estate. In addition, non-dollar exposure can insulate portfolios from some of the downside that may occur during times of a declining US dollar.

When it comes to analyzing bonds and currencies, we use a fundamental approach that rests upon the belief that bonds and currencies trade according to the prevailing economic cycle. Yield curves, as we discussed,

are the product of collective market assumptions and predictions about the economic cycle, and the real yields in a country's bond market (nominal bond yields minus expected inflation) can be compared across markets or against their long run averages in each market to identify pockets of value.

One common measure to gauge relative value among currencies is purchasing power parity ("PPP"). PPP theory uses the long-term equilibrium exchange rate of two

Fundamental Economic Factors Analyzed in Country Selection

- Cyclical economic indicators
- Inflation
- Monetary policy
- Fiscal policy
- Debt
- Balance of payments
- Political issues

currencies to equalize their purchasing power. In this way, it can be used to "test" the extent to which market exchange rates reflect economic reality. One popular informal application of PPP is *The Economist* magazine's annual "Big Mac Index", which determines the PPP exchange rate by dividing the price of a McDonalds' Big Mac sandwich in one country (in local currency) by its price in another (in that country's currency). This figure is then compared to the actual market exchange rate to determine whether one currency is over- or undervalued relative to the other. For example, if this index indicated that the price of a Big Mac in US dollars in Argentina were \$2.67 versus a price of \$3.41 in the United States, the Argentine peso would appear to be undervalued versus the dollar by approximately 22%. Since there should be no "free lunch" (pun aside), the idea of buying Big Macs in Argentina, placing them in my suitcase and bringing them to New York and selling them for an immediate profit should not exist over time – or we would all do this – and the arbitrage opportunity would disappear.

Such disparities in global currency rates are yet another argument for the diversification benefits of investing internationally, thereby expanding the opportunity set of potential return sources.

An Integrated Team for an Integrated Approach

We believe that an integrated investment and portfolio management approach such as ours calls for an equally integrated team. Our investment team consists of dedicated professionals with a combined seven decades of experience, working together to manage the various aspects of the design and implementation of our fixed income strategy.

We have not structured our team in functional “silos” because we see great benefit to integrating these disciplines such that any action taken by any team member is done with an understanding of our clients’ overall objectives and our own long-term strategy.

Oversight of our bond management strategy and its implementation rests with Gerstein Fisher’s Investment Policy Committee. This senior, core team is chaired by myself as the firm’s Chief Investment Officer and is responsible for managing our clients’ investment portfolios, including structuring, investment and rebalancing. This holistic portfolio view helps ensure that our fixed income strategies work well within the context of our clients’ other investments.

On a continual basis, our fixed income investment team interfaces with two other key internal groups: the Financial Planning Committee and our Client Advisory Team. The FPC is a team of specialists with deep expertise in core disciplines such as estate

planning, charitable giving, or tax planning who focus on ensuring that our clients’ investments are designed and managed as an integral part of their total financial plan. Our Client Advisors, who serve as our clients’ primary day-to-day contacts, ensure that we stay up to speed with any changes in our clients’ needs or circumstances that might affect their investment or income objectives.

Process: From Blueprint to Execution... and Beyond

When discussing process, it’s important to reiterate that we take a total portfolio approach to managing our clients’ assets, and it is in that context that the fixed income portion of any client’s portfolio will be engineered and managed. Considerations such as income requirements, future liabilities, and overall risk and return objectives all factor into the composition, implementation and ongoing management of our bond portfolios.

As discussed, our analysis of the yield curve and the information it conveys about market expectations for interest rates plays into how we position our holdings on the yield curve. Within the 3-month to 5-year section of the curve, we look to add value by fine-tuning our exposure around an overall duration target of typically less than 3.5 years. For example, if the curve is steep, then the market is telling us there

Gerstein Fisher Fixed Income Team Structure

Functional Area	Primary Activities
Research	<ul style="list-style-type: none"> Conduct ongoing long-term research into the management of fixed income, cash and alternative asset classes Review all bonds to be purchased or transferred into client accounts Conduct ongoing credit analysis
Trading	<ul style="list-style-type: none"> Utilize national network of bond dealers and traders to ensure pricing and costs are minimized Access widest possible inventories of bond issues
Portfolio Management	<ul style="list-style-type: none"> Ensure that matured bonds and coupons are reinvested in a timely fashion to maintain target asset allocation and portfolio risk/return profile Analyze yield curve to identify most attractive securities meeting investment criteria (duration, credit quality, maturity, etc.) – no obligation to track an index or adhere to a strict laddered approach Examine and manage fixed income holdings in context of total portfolio (cash flows, duration, income immunization, portfolio allocation and rebalancing, etc.)

are expectations for inflation and higher interest rates in the future. In this kind of environment, we see many investors crowding into the short end of the curve and selling longer term bonds, which makes them relatively more attractive.

We can make an analogy here to value investing in the equity markets, although unlike an active manager looking for mispriced securities, we are seeking value based on market sentiment and how investors behave in certain market environments. As shorter bonds in our clients' portfolios mature, we may take this opportunity to put the resulting cash to work a bit farther out on the curve.

Preserving Value Through Smart Execution

As an independent firm with no inventory, Gerstein Fisher's only objective is to deliver to our clients the bonds with the best yield to maturity and risk and return characteristics for their objectives. This independence insures no conflicts of interest when we go out to the market to obtain pricing. Our use of multiple pricing platforms and an extensive dealer network means we can put dealers in a competitive situation that ultimately results in better pricing – which saves our clients money and translates into better investment results.

This is especially true when we are selling municipal bonds from a specific geographic area, as in the case of a new client whose portfolio we may be reallocating. In the highly negotiated municipal bond marketplace, the relationships we can develop with local dealers who both know the market intimately and have a natural customer base for the securities in question often leads to pricing advantages that have a meaningful impact on our clients' returns.

Tax consequences must also be thoughtfully managed when transitioning a portfolio. This may mean liquidating holdings over time to match gains and losses and otherwise minimize any adverse tax consequences. When muni portfolios are not liquidated thoughtfully, a manager could sacrifice 1-3% of the portfolio's value before even implementing his or her strategy.

When it comes to purchasing municipal bonds, we are also mindful of a fact that few investors recognize: a muni bond purchased at a discount (for example, in a rising rate environment) may be subject to capital

gains taxes when sold. When purchasing municipal bonds in the secondary market, it's important to look not just at the yield to maturity, but also at the price of the bond, to determine whether tax consequences will impact the return.

Gerstein Fisher's focus on careful cost control and tax management permits us to maintain highly competitive fees for fixed income management. Research we conducted using data from the Morningstar database (see table on page 8) yielded some powerful conclusions regarding the impact of expenses on managed bond funds.

Key takeaways from this analysis include the following:

- The average expense ratio of a bond fund in the database is 0.68% (for portfolio management only – no investment advice/guidance)
- Average 5 year performance of all managers was 3.64%
- Investors paying at or above mean expense ratios saw a return of only 3.60% over the same period; those paying less than the mean expense ratio earned 3.97%, so the difference in return between high-fee and low-fee managers equaled approximately 37 basis points
- Roughly 80% of all funds were at or above the mean expense ratio in this data sample

The bottom line of all of this? When it comes to fixed income investing, costs matter – especially over time. Investors who hire active bond managers may end up sacrificing a good amount of return over time to fees and expenses – and also not get the benefit of advice and guidance that comes with working with a financial advisory firm like Gerstein Fisher. Investors who try to go it alone and purchase bonds on their own often face wide spreads and heavy commissions, which can erode yields to the point of making those active management fees start to look attractive. At Gerstein Fisher, we stay focused on expense minimization (while not letting the expense tail “wag the dog”) so that our clients can keep more of the returns they earn.

Adding Value through Ongoing Management

Gerstein Fisher's smart technology platforms enable us to turn ongoing fixed income portfolio management into a distinct competitive advantage. Every day, our trading system aggregates data from all of the custodians that hold our clients' assets, enabling us to place trades across

Bond Fund Universe – Performance and Fees

Fund Category	# of Funds	Net Assets	Weighted Average Expense Ratio	Average 5-Yr Trailing Performance	Average 5-Yr Trailing Performance – At or Above Mean Expense Ratio	Average 5-Yr Trailing Performance – Below Mean Expense Ratio	# of Funds At or Above Average Expense Ratio	# of Funds Below Average Expense Ratio
Bank Loan	37	\$14,528,631,229	1.28%	3.60%	3.42%	3.82%	21	16
Emerging Markets	37	\$11,621,101,189	1.16%	9.69%	13.75%	4.36%	30	7
High Yield	342	\$110,792,115,032	0.90%	5.53%	5.43%	5.85%	271	71
Inflation-Protected	46	\$32,082,547,447	0.57%	5.21%	5.06%	5.79%	37	9
Intermediate Government	273	\$97,459,877,325	0.58%	3.05%	3.00%	3.56%	246	27
Intermediate Term	696	\$512,107,632,879	0.58%	2.90%	2.83%	3.26%	591	105
Long-Term Government	22	\$9,287,557,115	0.50%	4.54%	4.51%	4.70%	19	3
Long-Term	18	\$9,917,285,738	0.33%	3.64%	3.63%	3.70%	15	3
Multi-Sector	104	\$77,621,004,591	1.06%	5.59%	5.29%	6.22%	70	34
Short-Term Government	114	\$21,465,728,343	0.60%	2.68%	2.60%	3.08%	96	18
Short-Term Bond	256	\$80,429,915,818	0.54%	2.21%	2.12%	2.80%	224	32
Ultrashort Bond	78	\$17,583,679,991	0.66%	1.90%	1.99%	1.66%	56	22
World Bond	124	\$63,220,236,696	0.93%	5.45%	5.37%	5.68%	90	34
Totals/Wgtd. Averages	2147	\$1,058,117,313,393	0.68%	3.64%	3.60%	3.97%	1766	381

Source: Gerstein Fisher Research; data from Morningstar database as of 5/27/08

All Fixed Income mutual funds were filtered for:

- Funds with expense ratios over 2.5% were removed
- Funds with performance history of less than 5 years were removed
- Funds with assets under \$15,000 were removed

Total Weighted Averages were calculated from the ratios of Category subtotals and the total assets of all 2147 funds.

Weighted Average Expense Ratios for each Category of fund were calculated from the ratios of each fund assets and the total assets of all funds in the appropriate category.

Average 5-Yr Trailing performances are mean averages of all funds within a category, all funds with expense ratios at or above the weighted average for that category, or all funds with expense ratios below the average for that fund category, as indicated. Performance figures are net of fees.

all accounts (where applicable based on guidelines and risk/return objectives) as though we were trading a single portfolio. This allows us to place trades in a cost- and time-efficient manner for our entire client base, while also incorporating individual tax considerations.

Technology also plays an important role in the ongoing monitoring and management of our clients' portfolios. Our proprietary systems track the coupon payment schedules, maturities, yields, and other attributes of all of our clients' bond holdings and is pre-programmed to generate notifications to the appropriate members of our teams based on events such as:

- Bonds maturing within the next 15 business days
- Receipt of coupon payments
- Tax loss harvesting opportunities
- Trading opportunities resulting from yield curve shifts

As maturity reports come in, the investment team will review portfolios flagged with maturing bonds to identify the appropriate use of the proceeds based on such things as whether the bond was purchased to match a specific liability or to be allocated to other assets – and position us to take action as quickly as possible when the bond matures to put that capital to work.

The approach we take to managing coupon payments is equally proactive, making for fewer missed opportunities for our clients. For example, if cash from coupon payments sits in a low-yielding money market account for months before being reinvested, a client gives up the return potential of staying invested. In a rising rate environment, this opportunity cost only increases.

Not all cash from coupon payments is reinvested in bonds. We have found that using coupon income for rebalancing can be a smart, tax efficient strategy: for example, if a certain asset class in the portfolio falls below its target weighting, rather than selling securities to generate cash (and potentially incurring gains), we can use coupon income as a funding source to bring asset class weightings back in line with their targets.

We also use coupons and maturing bonds to produce income to meet clients' projected liabilities. As with rebalancing, this strategy provides good insurance against having to sell equities to meet cash flow requirements in a down market or in the face of adverse tax consequences. For example, suppose an investor has a \$1 million portfolio and an income need of \$50,000 per year. If he had 60% of that portfolio, or \$600,000 invested in fixed income, structured in such a way that approximately \$50,000 worth of bonds would mature each year, he would not have to resort to selling stocks in the event of an equity market downturn for approximately 10-12 years. (To keep this example simple, we have assumed the investor's interest rate and inflation are equal.) In this type of scenario, we are using the client's bond holdings to immunize the portfolio against market volatility.

Conclusion: The Gerstein Fisher Advantage

When it comes to hiring an investment advisor or portfolio manager, investors have many choices. When contemplating this decision, "what sets you apart from the rest?" is a fair and an important question to ask any manager. We would summarize the distinctions and advantages of the Gerstein Fisher approach to managing fixed income as follows:

An approach grounded in time-tested research: While we don't drive while looking in the rearview mirror, we do believe that history has much to teach us about relationships among asset classes and securities that can be helpful as we look to the future. Our strategic decisions to stay on the short end of the yield curve and maintain a high credit quality portfolio, for example, are supported by decades worth of data from a number of trusted sources – both academic and industry-based. This

academic knowledge is enhanced by the fundamental understanding of bond markets that comes from our daily presence in the market pricing, buying and selling securities and interfacing with our broad and deep network of securities dealers and other industry contacts.

A disciplined and repeatable process, applied consistently: In our view, a manager's process should not change with the prevailing market environment. Unfortunately it is not uncommon to see many bond managers pursue a flight to quality when risk premiums increase and "reach for yield" when they decrease, purchasing securities they normally would not. We have put a tremendous amount of thought and research into our approach to fixed income management and are committed to applying it on a consistent basis. Our risk oversight process is strong and continues to be enhanced. It's important to us that our clients know what they sign up for with us – and can be confident that this is not going to change. Only if our major fundamental research views were to change would we consider deviating from the strategy behind which we put our conviction every day.

Scale and agility: Gerstein Fisher's asset base, plus the technologies that allow us to pool securities orders afford us the kind of scale that translates into real cost savings for our clients. Yet we are not too big so as to lose the agility required to move quickly and capture near-term market opportunities. Our strong network of dealers and custodians provides us with the buying power of much larger institutions, while at the same time, our independence and lack of inventory ensures no conflicts of interests when selecting securities for purchase or sale. For our clients, it's the best of both worlds.

At Gerstein Fisher we recognize the dynamic nature both of markets and of our clients' lives and have created a structure and a process around this reality. Our fixed income approach balances discipline and flexibility, using time-tested academic research as a framework and incorporating real time market and client insights and the lever of smart technology to capture opportunity in ways that make a real difference for our clients.

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