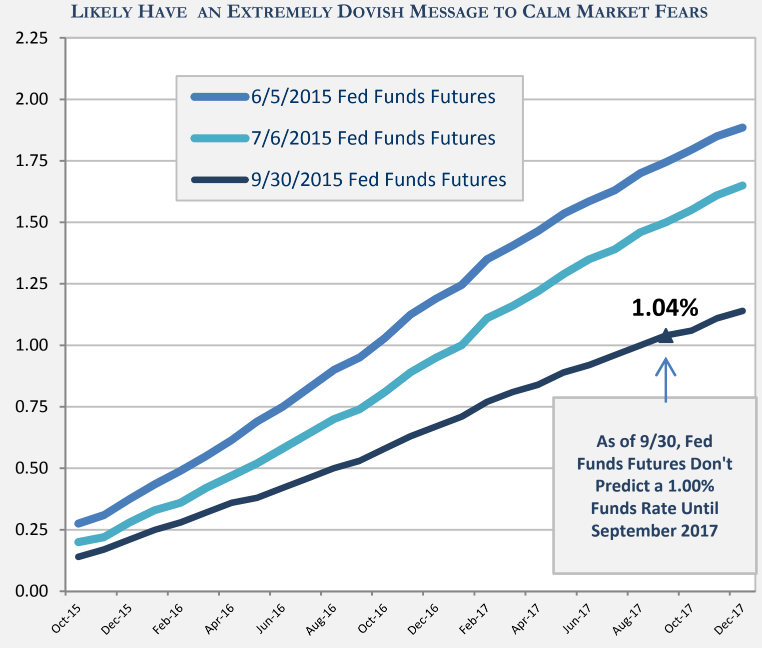
As French critic Alphonse Karr noted, "The more things change, the more they stay the same."

Throughout the third quarter, we saw the continuation of many of the investment themes that were prevalent earlier in the year. The Federal Reserve stood at the forefront with the potential for the first increase in the Federal Funds Rate in nearly 10 years. During the quarter, the Fed "talked the talk" about raising rates; however, when it came to actually "walking the walk," the Fed passed. As the Wall Street Journal noted the Fed "pulled a Lucy" to the hapless, kicking challenged Charlie Brown. While the current low unemployment rate of 5.1% certainly meets one of the Fed's mandates, the high underemployment rate (10+%) coupled with the low-to-non-existent inflation make raising rates problematic. Additionally, as the world economies become more intertwined, the persistent weakness in both Europe and Asia had to be considered in their decision. The last thing the Fed wanted to do was to raise rates only to have to lower them again shortly thereafter. With the Fed's inaction in September, the markets are now pricing the first rate increase to take place in early 2016. This will most likely be done gradually over the short-term, bringing the overnight rate to 1% in mid-2017 – almost 2 years from now (see graph below). With no rate move in clear sight, low domestic inflation and employment growth, and the unremitting global economic weakness, US Treasury bonds rallied late in the quarter. Yields on the 10 year and 30 year benchmark bond declined 32 and 24 basis points, respectively, with the 30 year piercing 3% to close the quarter at 2.9%.

FROM JUNE TO SEPTEMBER OF THIS YEAR, FED FUNDS FUTURES HAVE CONSISTENTLY PREDICTED LOWER AND LOWER FUNDS RATES, PARTICULARLY IN THE OUT-YEARS. THE INITIAL RATE MOVE , WHENEVER IT COMES, WILL LIKELY HAVE AN EXTREMELY DOVISH MESSAGE TO CALM MARKET FEARS



Source: Bloomberg

Ongoing Volatility Speaks to the Value of a Core Fixed Income Allocation

Both the stock and the bond markets have become increasingly volatile, as any economic data surprises or Fed speak continue to drive short-term instability in the market. However, unlike equities, bonds appear to be trading primarily on economic fundamentals. In recent months, whenever equities struggled, the fixed income markets have tended to rally, but the range (1.90%-2.40%) on the 10Yr Treasury has held. Accordingly, high grade fixed income has served as a volatility dampener in investment portfolios during these volatile months. We believe that short-term blips in rate volatility will likely continue to create some challenges, but remaining patient with a long-term view and a focus on market fundamentals will prove to be prudent. Higher quality has outperformed in this market and risk aversion has driven a flight to quality. The US Treasury curve flattened over the quarter, and the intermediate area of the curve continued to be an area of stability, while the short end of the curve remains anchored by the Fed.

Issuance in the Investment Grade ("IG") market over the third quarter was mixed and, at times, non-existent. However, the $344.6 billion issued was enough to bring this year's total to $1.21 trillion, which is 11% more than the same time period in 2014.

Although demand was strong, our view is that low rates were the real driver. IG credit spreads tracked towards year-to-date wides during the quarter, as investor appetite for risk was lumpy at times. Investment Grade spreads held in significantly better than High Yield (a sector Carl Icahn notably commented on in a video released towards the end of the quarter), and Treasuries outperformed credit in the third quarter, with global equity volatility driving a flight to quality. In this environment, our Taxable Fixed Income strategy modestly underperformed our strategy benchmark, 1.06% versus 1.14%. While our overweight credit positioning was a detractor, outperformance within the credit sectors, particularly with "A" rated credits, largely mitigated this effect. Curve positioning also impacted performance during the quarter. This was most notable in our underweight exposure to the front end of the curve, as the belly of the curve benefitted from tightening over the quarter. Finally, sector dispersion has increased in recent months, rising sharply in September. In particular, after several months of bruising equity market performance, spreads have begun to aggressively snap back in the Retail and Energy sectors. While the High Yield components of these sectors are still struggling, we find the growing divergence between the High Yield and Investment Grade segments encouraging. Year to date, we remain comfortably ahead of our benchmark, 2.22% vs 2.03%, on the back of a strong first quarter.

M&A Activity and "Event Risk" Remains Elevated

We have discussed throughout the year that "event risk"- that is, an unanticipated corporate event that impacts a company's credit profile- is one of the most significant ongoing risks to corporate bond portfolios. One such event is a debt-funded merger or acquisition ("M&A"). This type of M&A activity has been occurring at torrid pace this year. During the third quarter, Thomson Reuters estimates that there was $867 billion worth of M&A transactions closed globally. This represents a 40% jump from the same period last year and pushes the first nine months of 2015 into the most active three-quarter period of M&A since 2007. At this level of activity, it is unsurprising that our clients' portfolios have been impacted by M&A activity. Nevertheless, we do not always view an acquisition or merger in a negative light here at Appleton. There are a few key questions we evaluate when these events happen:

- Is there a clear strategic rationale for the acquisition? Are there identifiable synergies to the combination?
- What is the management team's track record in M&A activity, and is this transaction similar to other deals the company has done previously?
- How is the transaction funded, and how long will it take to reduce incremental transaction leverage? Is the bondholders' security position being "layered" by new financing?
- What steps is the management team taking to protect creditors during a time of transition (*e.g.* slowing the pace of share buybacks, committing to a leverage target, etc.)?

Often if an M&A transaction has a sound strategic rationale and the leverage used to fund such a transaction is manageable, we are willing to tolerate some short-term volatility in the bond market for what could likely be an improved credit profile over the longer-term.

Expectations Leading into Year-End

Going forward into the next quarter, we expect that rates will remain relatively stable and range bound. The yield curve has maintained its positive slope in 2015, and clients in intermediate duration portfolios are and will be benefitting from the continued roll down in the yield curve, the cash flow from premium coupons, and the overall stability in that part of the curve. Remaining diligent and disciplined within our approach and investment process will serve us well as we take aim at mitigating risk, while maximizing return through security selection, curve positioning, a strong credit process, and a concentrated view on the horizon. In the coming months, volatility, as well as Fed policy and the health of our economy will continue to drive the same sentiment and themes that have dominated the markets so far this year. Although, there may be times in the near future when it seems like change is about to occur, our view is that 2015 will most likely close looking much as it did when it began.

As always, we welcome your comments and questions. Please contact us if there are any changes to your financial situation or investment objectives.* Appleton is also now active on Twitter: *follow us on Twitter at @AppletonPtnrs.

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