A.H. Williams

Spinnaker Report

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AHW &Co Quarterly Commentary
2014 year end

Happy Holidays!!!

We anticipated 2014 to be a good year, especially coming off the whipsaw that the taper tantrum and the Puerto Rico/Detroit credit concerns created during the summer of 2013. Unexpected was the virtually unabated decline in interest rates from the start of the year until the end which defied market practitioner projections. To be sure, the global reach for yield and US Dollar denominated securities played a key role, but demand for tax advantaged municipal bonds propelled the investment class to the top of the list in performance. Although tax rate increases were already in effect last year, many taxpayers only began to address future investment strategies when they filed their returns on April 15th.

Municipal bonds have enjoyed a spectacular year. Year to date fund inflows have been over $20 billion. The market has experienced a negative supply period in which the amount of new issues has not kept up with the amount of bonds being redeemed and the interest income received from outstanding securities. This situation is not likely to change in 2015 with projections of approximately $320-$340 billion in new bonds being issued. Conversely, close to $400 billion of available cash will become available through bonds maturing, being called and interest payments received. This amounts to roughly $50 billion in additional demand in 2015. We envision the decline in rates to slow or plateau, leaving the market to address the cyclical pressures unique to tax exempt bonds like the “January” and “July” effects when supply decreases and demand is forecast, but also bulges in supply when demand is low such as the March/April and September/October periods. With tax free bonds at historically cheap valuations versus US Treasuries on a percentage basis, we feel that any increase in interest rates will allow municipal bonds to outperform. We continue to favor bonds that are “triple tax exempt” meaning that they are tax free from all Federal, State and local taxes regardless of the residency. These securities have universal appeal and permit us to create core portfolio holdings across our entire client spectrum. Puerto Rico debt historically has been the vehicle that managers utilized for this purpose. Although it negatively impacted our performance, we made a decision in later 2013 to significantly reduce our exposure to PR credits and replace those holdings with issues of insured Virgin Island and Guam. This has proven highly successful during 2014.

As previously expressed, our management strategy has been one of caution considering the low interest rate environment, and has favored more short term trading during seasonally historical weak periods. This has worked extremely well and we are happy to report all of our programs have enjoyed above average returns in 2014.

In July, we launched a new website which features our product overviews and provides performance information. Additionally, both Morningstar and Barclay Hedge have been provided our monthly return data which has generated some nice surprises since we are always interested in how we perform versus our peers. We are pleased to announce that our investment programs have been ranked in the top 2% of all US dollar denominated global fixed income products compiled in the Morningstar universe on an inception to date basis. According to Barclay Hedge, our Advantage, Charter, Enhanced Income and Nexxt Level Total Return fund all have been ranked in the top of their investment category for 2014. Enclosed in this newsletter are detailed charts and explanations of the various investment performance observations and criteria.

What is in store for 2015? There is very little doubt the Federal Reserve will play a key role this year. It would be a mistake to unnecessarily link projected short term rate increases to a generalized anticipation that all fixed income markets will be under pressure. Much will be read into upcoming FOMC policy discussions. There has been a significant flattening of the yield curve with longer dated bonds outperforming short maturities. We expect this trend to continue in 2015. Although the US economy appears to be improving, inflation expectations have not materialized. As we have experienced, the more important consideration is what is occurring globally. Recent weakness in Europe and China has led to abnormal yield spreads in sovereign debt versus cheaper US Treasury securities. Even at 2.17% for 10 yr and 2.75% for 30 yr, as of 12/31/14, US debt is significantly higher yielding than any alternatives thus producing continued demand from overseas investors. The yield difference between 10-year Treasuries and their German counterparts rose to 1.7 percentage points on December 24th, the most since 1990 as the European Central Bank is poised to add monetary stimulus. This situation is unlikely to change in the near future and any increases in interest rates should produce a stronger US Dollar which further exacerbates this situation. Fundamentally, a case can be made for more of the same in the foreseeable future. Event driven considerations are always the most difficult to anticipate. Oil has been a focal point over the last 6 months and the debate has been one of weighing the positives of cheaper gasoline providing the US consumer with additional purchasing power against the negatives involving the stresses on the oil producers. This has yet to play out but certainly reduces inflationary expectations.

Our active trading strategy has served us well and we will continue to seek out and exploit relative value trades as they become available. It is with great pride that we manage your municipal bond assets.

We wish all of our clients a happy and healthy 2015.

Bond Market Convinced Fed Inflation Goal Elusive This Decade (3)

2014-10-14 13:09:29.805 GMT

By Daniel Kruger and Cordell Eddings

Oct. 14 (Bloomberg) -- When it comes to spurring inflation in the U.S. economy, the bond market is becoming convinced that the Federal Reserve has almost no chance of achieving its 2 percent target before the end of the decade.

Inflation expectations have plummeted in the past three months, with yields of Treasuries implying consumer prices will rise an average 1.5 percent annually through the third quarter of 2019. In the past decade, those predictions have come within 0.1 percentage point of the actual rate of price increases in the following five years, data compiled by Bloomberg show. Even after the Fed inundated the economy with more than $3.5 trillion since 2008, bond traders are showing little fear of inflation. That may help influence U.S. monetary policy and make it harder for Fed officials to raise interest rates from close to zero as global growth weakens and the International Monetary Fund points to disinflation as a more imminent concern. “The longer inflation rates stay below their targets, the longer the Fed’s going to stay on hold,” Gregory Whiteley, a money manager at Los Angeles-based DoubleLine Capital LP, which oversees $56 billion, said by telephone yesterday. “The burden of proof is more on the hawks and the people arguing for a rise in rates. They’re the people who have to make the case.” As the Fed winds down the most-aggressive stimulus measures in its 100-year history, the debate has intensified over how soon the central bank needs to raise rates and whether the shift will herald the long-awaited bear market in bonds.

Predictive Power

While Dallas Fed President Richard Fisher and Philadelphia Fed’s Charles Plosser dissented at the bank’s last meeting and have both warned that keeping rates too low for too long may trigger excessive inflation, the bond market’s predictive power helps to explain why U.S. government debt remains in demand. Instead of falling, as just about every Wall Street prognosticator predicted at the start of the year, Treasuries have returned 5.1 percent in 2014. The gains have outstripped U.S. stocks, gold and commodities this year. Yields on the 10-year note, the benchmark for trillions of dollars of debt, have plummeted 0.83 percentage point this year to 2.20 percent at 9:07 a.m. in New York. The 30-year bond yield fell below 3 percent for the first time since May 2013. The rally has accelerated this month as a string of developments from lackluster wage growth to potential deflation in Europe cast doubt on the notion that price pressures will prompt the Fed to raise rates sooner rather than later.

‘Fundamental Worry’

After the annual inflation rate rose to a two-year high of 2.1 percent in May, consumer-price increases have since slowed for three straight months to 1.7 percent in August. “There’s a fundamental worry that inflation won’t be forthcoming,” Wan-Chong Kung, a money manager at Nuveen Asset Management, which oversees $225 billion, said by telephone from Minneapolis on Oct. 8. Kung said she sold her holdings of five-year Treasury Inflation-Protected Securities, or TIPS, which unlike fixed-rate bonds increase in value to compensate for rising living costs. One of the biggest reasons inflation remains muted is because consistent wage increases that spur consumer spending and demand have yet to materialize. Hourly earnings for U.S. workers, whose spending accounts for 70 percent of the economy, were unchanged last month. They have been flat or increased just 0.1 percent in four of the past seven months. Weakening global growth has also emerged as a threat. Last week, the Washington-based IMF lowered its growth outlook for next year to 3.8 percent from a July forecast of 4 percent and pointed to the increasing risk of falling prices in Europe.

Global Drag

Fed Vice Chairman Stanley Fischer said on Oct. 11 at the IMF’s annual meetings that if overseas growth is weaker than anticipated, “the consequences for the U.S. economy could lead the Fed to remove accommodation more slowly than otherwise.” His comments echoed those of a number of Fed officials who said the expansion “might be slower than they expected if foreign economic growth came in weaker than anticipated,”

minutes from the Sept. 16-17 meeting released last week showed. “The Fed wants to raise rates, but you’re not seeing the kind of global growth that would suggest interest rates have to go up any time soon,” Jim Kochan, the chief fixed-income strategist at Wells Fargo Funds Management LLC, which oversees $221 billion, said by telephone from Menomonee Falls, Wisconsin. The consequences for inflation are already being priced into the bond market.

Continued on next page

Collective Wisdom

Based on the gap between yields of government notes and TIPS, traders have scaled back estimates for average inflation through 2019 by a half-percentage point since June to 1.52 percent, Fed data compiled by Bloomberg show. That decline has significance for policy makers because yields have historically been accurate in predicting the future pace of annual cost-of-living increases. The market's five-year forecast has understated actual inflation based on the U.S. consumer price index by a median of just 0.04 percentage point since the data began in 2003. With the Fed's preferred measure averaging 0.34 percentage point less than CPI in that span, traders are signaling prices based on that gauge may rise as little as 1.18 percent. Through August, the personal consumption expenditures deflator has fallen short of the Fed's 2 percent goal for 28 straight months. Fed officials "need to be paying attention to that because there's a collective wisdom element to the TIPS market," Mitchell Stapley, the chief investment officer for Cincinnati- based ClearArc Capital, which manages $7 billion, said in an Oct. 8 telephone interview.

Less Confident

Bond traders who are shunning TIPS are underestimating the risk that inflation will pick up as the U.S. economy strengthens and workers are hired at the fastest pace since 1999, according to Pacific Investment Management Co.'s Mirih Worah. Even as the rest of the world slows, the IMF boosted its forecast for U.S. growth next year to 3.1 percent, which would be the fastest in a decade. In July, the fund predicted the world's largest economy would expand 3 percent in 2015. "For the next 12 months, headline inflation will be 1.5 percent, but not for the next five years," Worah, one of the co-managers who succeeded Bill Gross in overseeing Pimco's $201 billion Total Return Fund, said by telephone Oct. 9 from Newport Beach, California. "It's overdone." Worah said he's been buying five-year TIPS as prices of the securities declined. In September, TIPS of all maturities lost 2.7 percent in the biggest monthly decline since June 2013. Futures traders are signaling their skepticism over accelerating inflation by pushing back projections for the Fed's first rate increase since 2006.

'Disinflationary Cycle'

For the first time in at least six months, they're pricing in the likelihood the Fed won't raise its target rate until after next September, data compiled by Bloomberg show. When it comes to a rate boost in October 2015, odds based on futures trading have fallen to little more than a coin flip. Lower commodity prices, coupled with the dollar's strength as traders anticipate looser monetary policy in Europe and Japan, also suggest inflation will remain in check and give the Fed room to maneuver as the U.S. economy grows. Crude oil prices have fallen 20 percent from a nine-month high in June, entering a bear market last week after closing at $86 a barrel. The Bloomberg Commodity Index, which measures 22 commodities from corn to zinc, tumbled 11.8 percent last quarter in the biggest slump since the financial crisis in 2008. Most commodities are priced in dollars, which has helped reduce costs for American businesses and consumers as the U.S. currency rallied to a four-year high this month. "It's becoming increasingly more difficult to be a hawk given what's going on with inflation," Kevin Giddis, the Memphis, Tennessee-based head of fixed-income capital markets at Raymond James & Associates Inc., said in a telephone interview on Oct. 10. "We are in a longer-term disinflationary cycle that is likely to keep rates low for some time."

Munis Approach Cheapest Level of 2014 Relative to Treasury Debt

2014-12-16 15:35:11.162 GMT

By Brian Chappatta

(Bloomberg) -- Prices in the $3.6 trillion municipal bond market are close to the cheapest relative to Treasuries this year as investors snap up U.S. government debt as a haven from financial turmoil.

Benchmark 10-year munis yield 2.1 percent, about the same rate as the start of the week, compared with 2.05 percent on similar-maturity Treasuries, data compiled by Bloomberg show.

The ratio of the interest rates is a measure of relative value between the asset classes. At about 102 percent, it's close to the highest in a year, signaling that tax-free bonds have weakened relative to their federal counterparts.

Ten-year Treasury yields plunged 0.07 percentage point today as falling crude oil prices damp inflation and growing financial turmoil in Russia fuels demand for haven assets from Germany to Japan. Russia's ruble tumbled even as the central bank increased its key rate to 17 percent from 10.5 percent.

"Geopolitical events like we're seeing today don't always affect munis as strongly as they do Treasuries, and this would be a case in point," said David Manges, muni trading manager at BNY Mellon Capital Markets LLC in Pittsburgh. "Treasury riptides have their own dynamic."

Munis have earned 0.5 percent this month through Dec. 15, on pace for an unprecedented 12 straight months of gains in 2014, Bank of America Merrill Lynch data show. Individuals added $695 million to muni mutual funds last week, the most in two months, Lipper US Fund Flows data show. The increased demand coincides with dwindling supply: States and cities have set $5.4 billion of sales for this week, down from $14 billion in the prior two periods, Bloomberg data show.

Reprinted from the Wall Street Journal

U.S. Muni-Bond Market Is on a Tear

The Tax-Favored Debt Has Outperformed Corporate Bonds,Treasurys in 2014

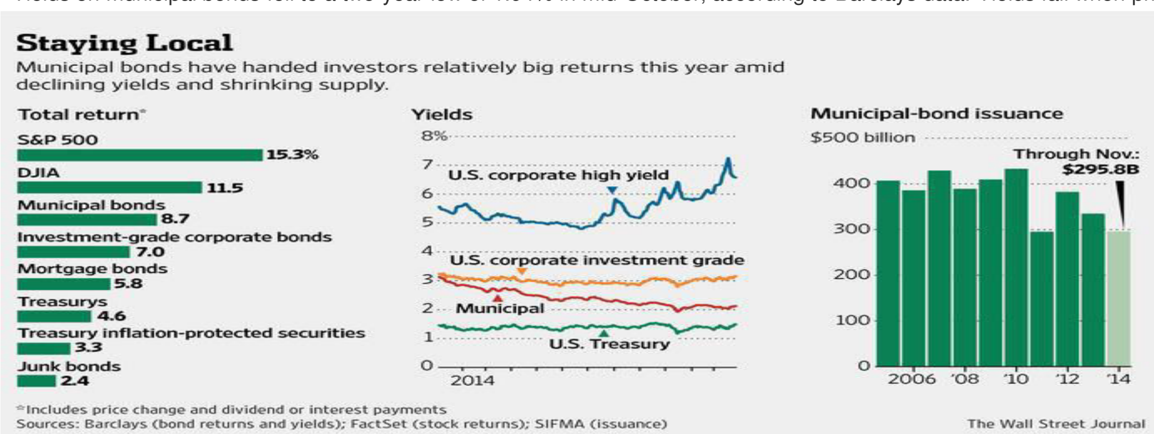
By Aaron Kuriloff - The Wall Street Journal Dec. 28, 2014 4:32 p.m. ET

Municipal bonds are on a winning streak that many investors bet will run into the new year. The debt issued by U.S. cities, states and local entities such as sewer systems has posted its longest string of monthly gains in more than two decades in 2014, outpacing gains in corporate bonds and U.S. government debt, according to datafrom Barclays PLC.

Investors are flocking to the $3.6 trillion municipal-bond market at a time of low interest rates, uneven global growth and concern that the nearly uninterrupted rise in many stocks and bonds since the financial crisis will come to an end. The debt is especially attractive because interest payments typically don't generate federal taxes and, in some cases, aren'tsubject to state taxes. That foundation, along with forecasts for relatively flat issuance of new bonds, is expected to support the rally in 2015 despite concerns about the impact of an increase in short-term interest rates by the Federal Reserve, which many economists and investors expect in the middle of next year. The fiscal woes of state and local governments are also a lingering worry.

"The U.S. muni market lurches between extended periods of tranquility and abrupt interludes of instability," said Thomas McLoughlin, co-head of fundamental research at UBS Wealth Management Americas. "And the story of 2014 is this hasbeen an extended period of relative tranquility." The gains in every month of 2014 have more than reversed the sector's pullback last year, amid Detroit's record bankruptcy, Puerto Rico's financial straits and concerns about higher interest rates. Some observers warned that municipal bonds were vulnerable to an investor exodus, echoing a sentiment that pervaded the market after the 2008 financial crisis.

Instead, municipal bonds have returned 8.71% this year through Friday, including price gains and interest payments, according to Barclays. That compares with a total return of 15.3% for the S&P 500, 6.97% for highly rated corporate debt and 4.6% for U.S. Treasury debt. The broad debt-market rally that upended Wall Street bets on rising interest rates in 2014 also fueled a surge of investor funds into municipal bonds, many of which are considered as safe as Treasurys because they are backed by tax revenue. Yields on municipal bonds fell to a two-year low of 1.94% in mid-October, according to Barclays data. Yields fall when prices rise.



Investors, led by individuals purchasing the debt through mutual funds, have poured $23.9 billion into municipal-bond funds through mid-December, according to Lipper. They withdrew $63.5 billion last year.

Low overall borrowing by belt-tightening public officials in cities and states through the first three quarters of the year reduced the supply of new bonds, while higher tax rates increased the relative attractiveness of tax-exempt debt, said Daniel Solender, director of municipal-bond management at Lord Abbett & Co., which oversees about $16 billion.

Despite a late-year increase in bond issuance and the prospect of the Fed raising rates, yields on municipal debt still look attractive, he said. In the first quarter of the year, cities and states borrowed about one-quarter less than they did in the same period of 2013, according to data from the Securities Industry and Financial Markets Association. Municipal-bond issuance totaled $295.8 billion through November, about 4% less than in the same period last year. "When you look at supply, which picked up for us in the fourth quarter, there are still more bonds being called out of the market than being issued, so that creates some demand," Mr. Solender said.

The supply of bonds isn't likely to surge in 2015. A SIFMA survey of municipal-bond underwriters and dealers this month predicted issuance will reach $357.5 billion, compared with a total of $348.1 billion forecast for 2014. At the same time, demand from individual investors, mutual funds and banks and insurance companies has remained robust, said Ashton Goodfield, co-head of the municipal-bond department at Deutsche Asset & Wealth Management, a unit of Deutsche Bank AG . That has helped investors overcome last year's fears about losses from Detroit or Puerto Rico. The U.S. commonwealth passed a law in June allowing some public agencies to restructure their finances.

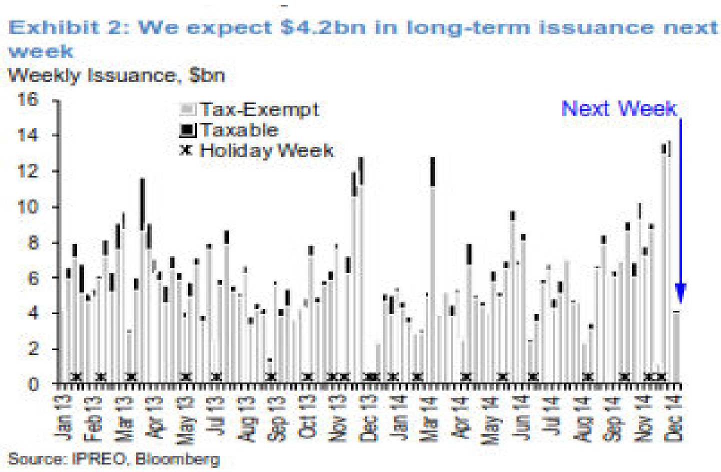
"I think people are understanding that there's not going to be a rash of bankruptcies in the market," Ms. Goodfield said. "It's a confirmation that municipal credits are generally solid." Some analysts said hedge funds and other distressed-debt investors have assumed much of the risk from Puerto Rico, which has about $73 billion in total debt. Hedge funds were the primary buyers in a March $3.5 billion bond sale. Puerto Rico's cash-strapped electric-power authority owes about $9 billion and appointed a chief restructuring officer in September. Investor concerns over municipal pension obligations, however, may become more apparent in the new year, leading some to avoid states with large funding gaps such as Illinois, said Tim McGregor, director of municipal fixed income at Northern Trust in Chicago, which manages about $30 billion.

"Many places have done good work on pension reform, but those that are lagging will continue to be under the microscope," Mr. McGregor said. "I expect the market will begin differentiating a little more."

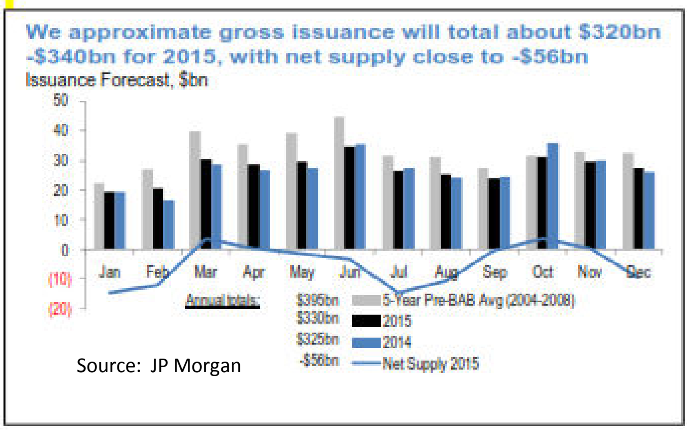
An unexpected jump in interest rates could also slow the rally in 2015, said Chris Mauro, head of U.S. municipal strategy at RBC Capital Markets. A new Congress could also take up tax reform, introducing unforeseen changes to the municipal sector, breaking through a widespread perception of Washington gridlock.

"As we learned in 1986, large-scale tax reform is extremely unpredictable," he said.

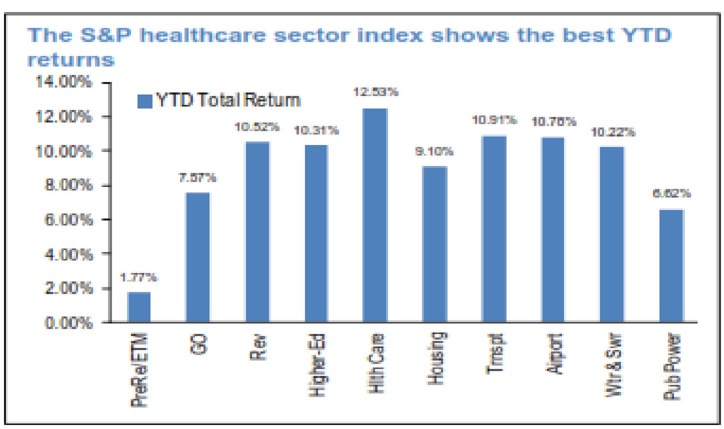
As discussed in our commentary, intensification of supply and demand cyclical factors should provide a boost to Municipal Bond prices in early 2015.



The net negative supply forecast for 2015 if realized, should produce a backstop allowing tax free bonds to outperform other fixed income counterparts



Generationally low interest rates have driven buyers to seek more yield. Healthcare bonds have been the biggest winners.



Source: Thomson Reuters, Bloomberg, S&P, Pew Center on the States, J.P. Morgan Note: Total return calculated as the percentage change in index levels. S&P Municipal bond total return indices used, please refer to http://us.spindices.com/index-family/fixed-income/municipals

Munis Dominate in Yearlong Advance Wall Street Analysts Missed

2014-12-29 01:00:00.0 GMT

By Brian Chappatta

(Bloomberg) -- Municipal-bond investors who ignored the consensus forecast a year ago that interest rates would rise are proving to be the biggest winners in 2014.

Munis have gained 9.4 percent this year through Dec. 24, the most since 2011 and eclipsing the 6.8 percent return for investment-grade company debt and 5.4 percent for Treasuries, Bank of America Merrill Lynch data show. A 0.22 percent December return puts munis on pace to gain in every month of 2014, an unprecedented streak. Longer-dated munis were the year's best performers -- bonds maturing in at least 22 years have surged 16.5 percent, beating a gain of about 15 percent gain on the Standard & Poor's 500 index of stocks.

The bond rally wasn't expected 12 months ago, when the median forecast in a Bloomberg survey of analysts for the current level of 10-year Treasury yields was about 3.4 percent. Instead, the yield sank to 2.25 percent. Looking to 2015, analysts project another year of muni gains, even as interest rates rise from generational lows. "I'd like to tell you that last December I predicted interest rates were going to go down, but I didn't: I expected rates to go higher, just as almost everyone else did," said Alan Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia. "I was pleasantly surprised by how well the muni market performed," he said in a telephone interview. "I don't expect that kind of return next year, but I do think it will be a positive return, and it'll be based largely on the coupon."

Detroit Cloud

Munis lost 2.9 percent in 2013, the steepest decline in five years. With cash flowing in this year, munis rallied anew, pushing benchmark 10-year yields as low as 1.94 percent in October, from 3 percent at the start the year, data compiled by Bloomberg show. Individuals, the biggest owners of the $3.6 trillion municipal market, returned to tax-exempt debt this year after Detroit's bankruptcy and Puerto Rico's economic struggles prompted them to flee in 2013. Investors have added about $21 billion to muni mutual funds in 2014 after extracting a record $63 billion last year, Lipper US Fund Flows data show.

"Munis cheapened up tremendously when we started to have negative fund flows," said Phil Fischer, head of muni research in New York at Bank of America. "The market is more resilient and more liquid than it's given credit for."

Tax Hit

State and local debt may return about 5 percent next year, with investors earning their coupon payments -- often about 4 percent or 5 percent, Fischer said. The appeal of tax-exempt interest on munis has grown for high earners, who this year faced bills that for the first time included federal tax increases that took effect in 2013: a top marginal rate of 39.6 percent, up from 35 percent; and a 20 percent tax on long-term capital gains and dividends, up from 15 percent. The top bracket is the highest since 2000. Combined with a 3.8 percent tax on the investment income of top earners resulting from the 2010 Patient Protection and Affordable Care Act, the top federal tax rate reaches 43.4 percent. That means the 2.13 percent yield on AAA 10-year munis is equivalent to a taxable rate of 3.76 percent. "High-income individuals can tolerate a great deal of bad information before they should not be in munis," Fischer said.

Considering Losses

Local-debt investors should still brace themselves for subdued returns, and even losses amid rising yields, said Chris Mier, chief municipal strategist at Loop Capital Markets in Chicago. A flat 2015 is "certainly a possibility, and modest negative total returns certainly have to be considered," he said in a telephone interview. "As the year progresses, the odds favor an increase in rates." The median forecast for 10-year Treasury yields at this time next year is about 3 percent, up 0.75 percentage point from now, according to a Bloomberg survey of 74 analysts. That prediction is down from 3.6 percent in August as yields kept falling. Michael Zezas, chief muni strategist in New York at Morgan Stanley, predicts 10-year Treasury yields will climb to 2.85 percent a year from now, according to the most-likely scenario in a Dec. 1 report. The bank expects state and local debt to gain 1.14 percent. A year ago, Zezas was among those who predicted losses in 2014 as interest rates increased. This time around, signs of slowing global growth will keep the lid on Treasury yields, he said in a telephone interview. "We were obviously wrong about interest rates climbing higher," Zezas said. Munis will gain in 2015 "because you're earning the coupon while you're losing just a little bit on the price of the bonds

Guam Bonds Attain Year’s Best Muni Return as Puerto Rico Falters

2014-12-18 01:00:00.0 GMT By Brian Chappatta

(Bloomberg) -- Bonds from Guam are delivering the best returns in the U.S. municipal market, and may gain again in 2015 as investors seek tax-exempt debt while steering clear of flailing Puerto Rico. Obligations of the Pacific territory have earned 17.2 percent this year, compared with 9.1 percent for all munis, Barclays Plc data show. At this pace, it would be the largest outperformance in at least 13 years. The securities are also set to beat Puerto Rico’s for an unprecedented third straight year. With municipal interest rates close to generational lows, Guam offers extra yield while boasting fiscal gains that separate it from Puerto Rico and the U.S. Virgin Islands. The three territories’ debt is tax-free nationwide. The Pacific island saw its second straight year of economic growth in 2013 and won its highest rating in a decade from Standard & Poor’s, though the rank remains below investment grade. “Guam’s credit fundamentals look like they’re still trending positive,” said John Miller, co-head of fixed income in Chicago at Nuveen Asset Management, which oversees about $100 billion of munis. “Since it’s a good story and it’s tax-exempt across the United States, spreads could continue to narrow.”

Borrowing Contrast

Investors’ enthusiasm about Guam contrasts with their take on Puerto Rico. The Caribbean commonwealth and its agencies are grappling with $73 billion of debt and soaring borrowing costs. The island had its bond ratings cut this year to speculative grade, and its main indicator of economic health is close to the lowest level in two decades. By comparison, Guam’s issuers have about $2.6 billion of debt, and its ratings are increasing, data compiled by Bloomberg show. S&P, while calling the debt burden “extremely high,” raised Guam in October 2013 to BB-, three steps below investment grade. The company upgraded bonds backed by hotel taxes last month to A-, four steps above junk. Guam, with about 160,000 residents, attracted a record 1.3 million tourists in fiscal 2013 and expects the number to keep climbing, budget documents show. The territory may log its third consecutive fiscal year with a fund surplus, S&P said.

‘Exercise Restraint’

“The fact that government finances are better than they’ve been in two decades is cause for celebration,” Governor Eddie Calvo, who won re-election in November, wrote in a forward to the 2015 budget, which took effect Oct. 1. “But, we must exercise restraint through our excitement.” Challenges include reliance on one-time revenue to bolster its finances and dependence on travelers from Japan, according to S&P. Guam’s real gross domestic product grew 0.6 percent in 2013, slowing from 1.7 percent in 2012, U.S. Bureau of Economic Analysis data show. Business spending on construction and equipment boosted growth, surging 34.3 percent on building of the island’s first private hospital, the Guam Regional Medical City, and a luxury hotel, the 419-room Dusit Thani Guam Resort, BEA data show.

Dollar Drag

The strengthening dollar is a drag on tourism, which along with federal outlays account for the biggest contributions to the economy. The island hosts military outposts, including Andersen Air Force Base and Naval Base Guam. Japanese are the most plentiful tourists, according to budget documents. At almost 119 yen, the U.S. currency has gained about 13 percent this year, making the island costlier for voyagers from Japan. The number of Japanese visitors sank 9.5 percent in fiscal 2014, according to S&P. Decreased borrowing is another way Guam is diverging from Puerto Rico. The island and its agencies have sold $162 million of bonds this year, the least since 2008, Bloomberg data show. Puerto Rico’s legislature passed a $2.9 billion borrowing measure last week that would repay money owed to the Government Development Bank and fund public transportation.“Guam hasn’t had to clear the market with any large issues,” said Dan Solender, who helps manage $16 billion as director of munis at Lord Abbett & Co. in Jersey City, New Jersey. “Given that Puerto Rico is struggling, this is another example of a triple tax-exemption that can work in a variety of funds.”

Continued on next page

Record Price

Some Guam bonds with higher interest rates may outperform next year if interest rates climb, Solender said.Ten-year Treasury yields will reach 3.01 percent at this time in 2015, about 0.9 percentage point above current levels, according to the median forecast of 72 analysts in a Bloomberg survey.

Guam general obligations maturing in November 2039 traded Dec. 4 at 117.6 cents on the dollar, for a 3.12 percent yield.

That's the highest price on record, and the yield spread of 1.93 percentage points above benchmark munis is the narrowest yet, Bloomberg data show.

The elevated price cushions holders if interest rates rise, said Solender, who owns some of the securities.

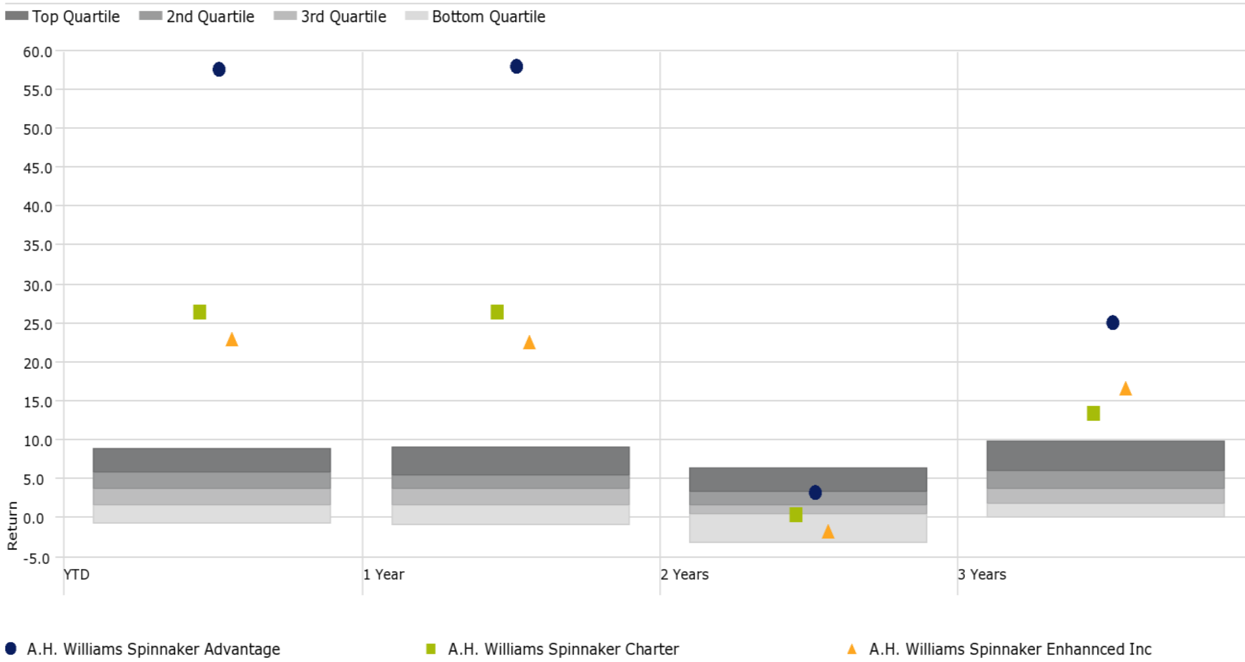
Nuveen is the largest holder of the biggest portions of debt issued by Guam, its waterworks authority and its power agency, Bloomberg data show. The company has some in its Kansas, Louisiana, Nebraska and Wisconsin funds, all of which have beaten at least 80 percent of peers this year.

"We've been cautious about putting too much territorial debt in a state fund, and we've been negative on Puerto Rico's credit trajectory," Miller said. "We're trying to add things where we're positive, and Guam is one that fits."

AH Williams submits monthly performance data to Morningstar. The peer group represents all global fixed income ($US denominated) managers of Separately Managed Accounts (SMA) and mutual funds that participate in supplying data. This representation is as of 11/30/14.
Shaded gray areas and corresponding symbols show AHW programs in relationship to the peer group. The ranking shown is not indicative of the adviser's future performance and may not be representative of any one client's experience because the ranking reflects an average of all, or a sample of all, the experiences of the adviser's clients.

Performance Relative to Peer Group

As of Date: 11/30/2014 Peer Group (5-95%): AH - Global Catagory - Fixed Income SMA and Funds



Trailing Returns

Data Point: Return

	YTD	Peer group percentile	Peer group rank	1 Year	Peer group percentile	Peer group rank	2 Years	Peer group percentile	Peer group rank	3 Years	Peer group percentile	Peer group rank
A.H. Williams Spinnaker Advantage		1	1		1	1		24	561		1	2
A.H. Williams Spinnaker Charter		1	5		1	3		72	1,736		1	11
A.H. Williams Spinnaker Enhannced Inc		1	7		1	5		90	2,165		1	6
Count Peer Group Participants	2,678			2,637			2,407			2,191		

Source: Morningstar Direct

Chart shows the spread relationship between the UST 10 year note vs the German 10 year Bund.
Observation on 12/24/14 shows the US note at 2.28% while the German Bund yields on .58%. This 170 basis point difference is the largest since 1990.
The US dollar continues to strengthen drawing foreign fund flows to dollar denominated assets providing a underlying bid for US Treasuries.

US TREASURY N/B - DBR 1 08/15/24

Bloomberg

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