

Portfolio and Economic Commentary

2nd Quarter 2017





MARKET AND ECONOMIC OUTLOOK

Market Review

The second quarter proved to be another strong period for global stocks. Larger-cap U.S. stocks (Vanguard 500 Index) gained 3.1% and developed international stocks (Vanguard Developed Markets ETF) rose 6.4%. In a reversal of May’s sector trends, U.S. financial stocks rallied in June on strong results from the Federal Reserve’s “stress tests” plus more positive sentiment given rising interest rates, while technology shares declined. Commodities prices and energy stocks remain a weak spot amid a global rally in risky assets. Oil prices fell 14% during the quarter and nearly 20% for the first half of 2017 on fears that production will continue to outstrip demand.

Core bonds (Vanguard Total Bond Market Index) also delivered solid returns, rising 1.5% for the quarter. The yield curve “flattened” considerably, with the difference between the 10-year and 2-year Treasury yields ending the quarter at close to a post-2008 low.

Yet, the calm, as manifested in low measures of volatility across global markets, was briefly interrupted during the last few days of June. Global stock and bond investors were rattled by comments from the heads of the European Central Bank and the Bank of England suggesting they may be considering the potential end to bond buying policies designed to stimulate markets and a move to raise interest rates, respectively. They were further jolted by Fed Chair Janet Yellen’s statement that “by standard metrics, some asset valuations look high.” In response, bond yields quickly spiked higher, while currency markets saw large swings. Nevertheless, at quarter-end, the S&P 500 was only about 1% below its all-time high.

Economic and corporate fundamentals largely still look solid. Consequently, we continue to view exogenous risks—from central banks and geopolitics—as posing the most likely near-term threats to markets.

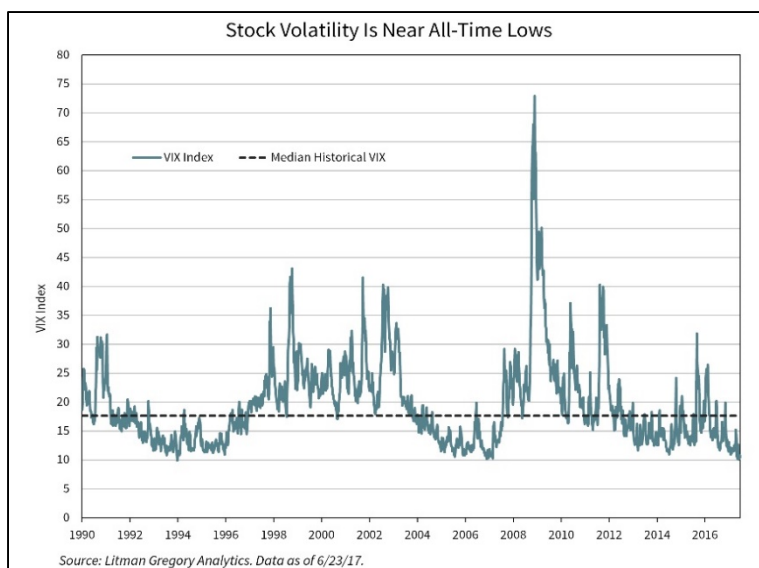
Investment Environment

As we look back over the past quarter and first half of the year, a few things stand out:

- 1.) Overall stock market volatility remained extremely low, despite significant domestic political uncertainty and unsettling global and geopolitical events.
- 2.) Both risky assets (stocks) and defensive assets (core bonds) performed well.
- 3.) The period was marked by some significant market trend reversals from the previous year.

The widely followed VIX index—an indicator of the S&P 500’s expected 30-day volatility, fell to a 23-year low in early May. It remained at its lowest ever recorded percentile as the second quarter drew to a close. What’s more, the S&P 500’s *actual* realized volatility has fallen to among its lowest levels in the past *fifty* years, according to a recent Goldman Sachs report, while the S&P 500 Index continued to hit all-time highs this year.

The U.S. stock market’s calm ascendance seems to fly in the face of ongoing political uncertainty and geopolitical tumult, including tensions with North Korea, the ongoing crisis in Syria, terrorist attacks in Europe, cyberattacks in the United States and widening





MARKET AND ECONOMIC OUTLOOK CONT.

investigations of President Trump as well as members of his administration and election campaign staff. Each day seems to bring a new headline concerning something else to worry about.

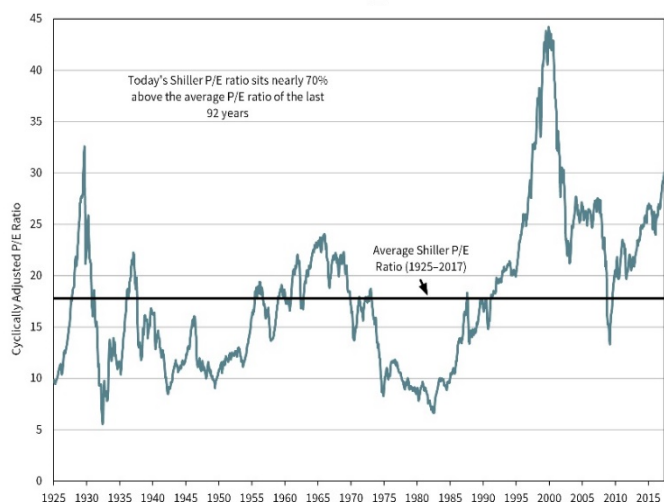
Why are the financial markets so calm and why do stocks continue to go up? Do markets reflect a dangerous complacency in the face of so many risks and unknowns? We have two responses. First, yes, U.S. stock investors probably are too complacent now. We see this reflected not just in the extremely low market volatility, but also in high stock market valuations (i.e. price-to-earnings multiples), which implicitly discount a very rosy economic scenario. Based on our analysis of valuations and longer-term earnings fundamentals—even putting aside any near-term political/geopolitical risks—U.S. stocks present only modest expected returns over our five-year tactical investment horizon, evaluated across the macroeconomic scenarios we think are most likely to play out. In that sense, we think the high level of complacency leaves stocks particularly vulnerable to a negative surprise. Valuation risk is high and offers no margin of safety in the event the optimistic scenario currently baked into valuations doesn't play out.

That said, maintaining a degree of equanimity is a valuable attribute of successful long-term investors. Global risks *always* exist and unexpected events inevitably happen, causing markets to fall no matter their valuation. The world and financial markets have faced numerous negative shocks over the decades, but the broad economic impacts have ultimately proved transitory. Over the long term, financial assets are priced and valued based on their underlying economic fundamentals—yields, earnings, growth—not on transitory macro events or who occupies the White House. Therefore, we believe it is beneficial for investors not to react to every domestic political development or geopolitical event with the urge to sell their stocks, nor get overly excited and jump into the market on some piece of news they view positively. We don't think refraining from such short-term trades is complacency—if the choice is supported by a sound decision-making framework. Having a disciplined investment process and a focus on the long term are essential to best achieve your financial objectives.

Does it make sense that both stock and core bond prices are higher this year? In light of the very strong returns from U.S. and global stocks this year, it may seem somewhat surprising or contradictory that defensive core bonds have also performed well. For example, the long-duration Treasury bond ETF (TLT) is up more than 6% year to date after plunging 13% in the fourth quarter of 2016. What messages are the stock and bond markets sending, and can they both be right?

Treasury bond prices typically rise when people are worried about the economy or other macro risks and put their money into safe-haven assets. While there are plenty of things to worry about in the world, that doesn't seem to be what is driving core bond prices this year, given the accompanying low volatility and strength of riskier asset classes. Rather than fears of an impending macro shock, it seems the bond market is responding largely to the recent declines in inflation and inflation expectations. For

U.S. Stock Valuations Appear Stretched



Source: Robert J. Shiller. Data as of 6/30/17.



MARKET AND ECONOMIC OUTLOOK CONT.

example, the core Consumer Price Index (CPI) dropped to a year-over-year rate of 1.7% in May, down from 2.3% in January. Inflation is the enemy of bondholders. Thus, in that regard, the drop in bond yields and rising bond prices makes sense.

The equity market, on the other hand, likes neither too little inflation nor too much inflation—just as with Goldilocks and her porridge. As such, stock investors have had plenty of reasons to propel prices higher: Inflation is lower but still in the ballpark of the Fed’s 2% target. The global economic recovery is ongoing and S&P 500 company earnings are rebounding. Further, global central banks, including the Fed, are not seen as becoming too aggressive in tightening monetary policy any time soon.

On a shorter-term basis, both markets may be “right.” However, the current state is not sustainable for very long—something has to give. The Fed holds a big key as to how things might play out: will it tighten too much (hurting stocks but good for core bonds), too little (hurting bonds), or manage it just right (producing a continued Goldilocks scenario for the stock market, but implying higher bond yields/lower bond prices as inflation rises to the Fed’s 2% target)?

Investment Outlook

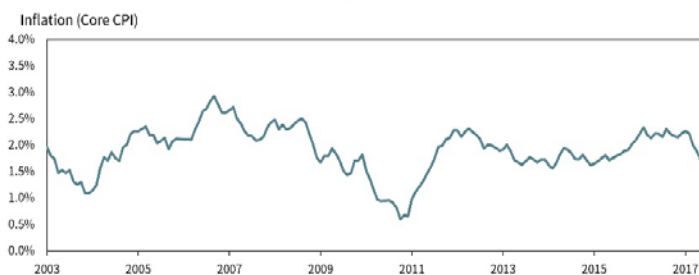
Given core bonds’ paltry yields, and unattractive longer-term (five-year) return prospects, we maintain meaningful exposure to high yield bonds which generally provide some protection against rising interest rates and inflation.

On the equity side of the portfolio, we see unattractive valuations and low expected returns for the U.S. market over the next five years. Therefore, we are underweight, but we don’t see any particular near-term trigger for a sharp market decline. Outside of the United States, we see strong potential for both improving earnings growth *and* higher valuations—leading to relatively attractive longer-term expected returns. As such, we are overweight international stocks. Overall, our portfolios have lower than normal equity risk exposure *and* lower than normal core bond exposure, since we think neither asset class offers absolutely attractive returns relative to their respective risks. Goldilocks has had a nice run, but the bond and/or stock market bears are probably getting hungry.

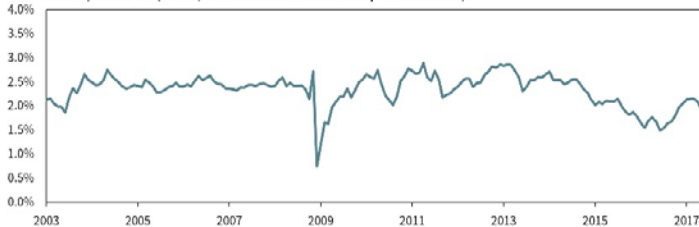
A final observation: *several of the market trends and consensus market views we highlighted in our year-end 2016 commentary have reversed (again) this year.* For example,

- European stocks are beating U.S. stocks by a wide margin;
- the U.S. dollar is down (about 6%), Treasury bond prices are up/yields are down, and the yield curve has flattened;
- oil prices have plunged 20% from their recent highs dragging energy stocks with them;
- growth stock indexes are crushing value indexes; and
- larger-caps are outpacing smaller caps stocks.

Inflation and Inflation Expectations Have Rolled Over



Inflation Expectations (5-Year, 5-Year Forward Inflation Expectation Rate)



Source: Federal Reserve Bank of St. Louis and U.S. Bureau of Labor Statistics. Data as of 5/31/17.



MARKET AND ECONOMIC OUTLOOK CONT.

The recent market shifts only reinforce the point we made then. We don't think anyone can consistently and accurately time short-term swings in markets or inflection points in market cycles. The false belief that they can be timed often leads to performance-chasing, whipsawing in and out of markets (selling low and buying high), and ultimately disappointing investment results. What's more, it is often when "the experts" are overwhelmingly aligned on one side of a trade and the consensus is strongest that a trend will continue, that it actually has the most potential to reverse.

At a high level, most of the market reversals we've seen this year are consistent with, if not driven by, an unwinding of the so-called Trump trade. This is shorthand for the markets' almost knee-jerk reaction (which soon became consensus) that Trump's election and the Republican sweep of Congress would herald a period of inflationary, pro-growth fiscal, tax, and regulatory policies, unleashing the U.S. economy's animal spirits. Instead, as the Trump administration has gotten bogged down in a myriad of other issues, with little progress on the economic front, confidence in that scenario has diminished.

In general, we agree with Warren Buffett who recently said, "If you mix your politics with your investment decisions, you're making a big mistake." We made no changes to our portfolio positioning when Trump was elected, and we highlighted the significant uncertainty around potential Trump policies. That's not to mention the highly uncertain *timing, implementation, and magnitude* of their *ultimate economic and financial market impacts*. Therefore, the unwinding of that narrative this year hasn't led us to make any portfolio changes.

Portfolio Performance and Recent Market Trends

Just as our portfolios' performance was impacted to varying degrees by the markets' reaction to Trump's victory last year, they've experienced differing impacts so far this year. Most significantly, given our

overweighting to foreign stock markets, our portfolios have benefited from the strong year-to-date outperformance of international versus U.S. stocks. These positions have also benefited from the depreciation of the U.S. dollar against the Euro, boosting the return to dollar-based investors like us who have not hedged their currency exposure.

Our fixed income positions in unconstrained, high yield issues have performed well this year and again added value versus the core bond index. The reversal of last year's very strong value outperformance versus growth has been detrimental to our U.S. performance in aggregate though by its nature, value investing entails bearing through periods of inevitable underperformance. Therefore, maintaining conviction in the *longer-term* payoff is essential. That conviction is a function of our intensive research and ongoing due diligence.

Portfolio Positioning and Outlook

Our positioning is driven by our ongoing assessment of nearer-term (12-month) downside risks, balanced against our longer-term (five-year) expected returns analysis for various asset classes and strategies, evaluated across a range of scenarios and assumptions. Given the lack of market volatility, our portfolio positioning has not changed this year.

From a big picture perspective, we think the odds favor a continuation of the ongoing mild global economic recovery we've witnessed so far this year. That should be broadly supportive of riskier assets, such as stocks and corporate credit. In particular, we believe there is still more room to run regarding the outperformance of foreign stocks given their superior valuations and earnings growth potential versus the U.S. market. Even with their strong performance so far this year, our longer-term return expectations still materially favor international developed markets compared to the United States.

Our base case scenario should also be beneficial for our high yield, unconstrained fixed income issues. That



MARKET AND ECONOMIC OUTLOOK CONT.

doesn't mean there won't be market volatility in response to day-to-day news flow and unexpected events whether negative or positive. Central bank policy, as usual, could trigger volatility. European and Japanese central banks seem set to retain their highly accommodative monetary policies. However, in the United States, the Fed is signaling it intends to continue gradually hiking rates—once more this year and three times next year. That contrasts with market expectations, as reflected in the federal funds futures market, for just one or two more rate hikes over that period.

Will the Fed inject unexpected volatility into markets? In past years, the Fed's actions have repeatedly converged to meet market expectations, with a less aggressive rate hiking path than it originally forecast for itself. The Fed is likely more hawkish at this point in the economic cycle with unemployment down to 4.3% coupled with its expectation that wage, and ultimately, inflationary pressures will emerge. This creates uncertainty and the risk that the Fed will tighten more than the economy and markets can handle. Economist David Rosenberg writes, "If the Fed does what it says it's going to do, the yield curve will invert sometime next year, with a recession all but an inevitability." An inverted Treasury yield curve has preceded all seven previous U.S. recessions. However, with global central bank bond purchases still depressing longer-maturity bond yields, this cycle may be different from prior ones.

Conclusion

We don't expect a recession in the near term, but we remain alert to and positioned to meet the high level of uncertainty that characterizes both global financial markets and the current geopolitical environment. We remain confident in our positioning and in our investment process, both of which allow us to look past periods of uncertainty and keep our focus where it should be: on prudently managing our diversified portfolios to achieve sound long-term, risk-adjusted returns.

As always, we appreciate your confidence. Please do not hesitate to contact us with any questions.



GLOBAL INCOME STRATEGY COMMENTARY

Our investment philosophy is predicated on a time-tested, three pronged approach providing solid risk adjusted returns to our investors for over two decades.

- We believe in the importance of getting paid immediately for the risks which are taken and focus on businesses which compensate our clients with **dividends and above average interest**. We believe this income stream, coupled with capital appreciation, is a vital aspect of total return.

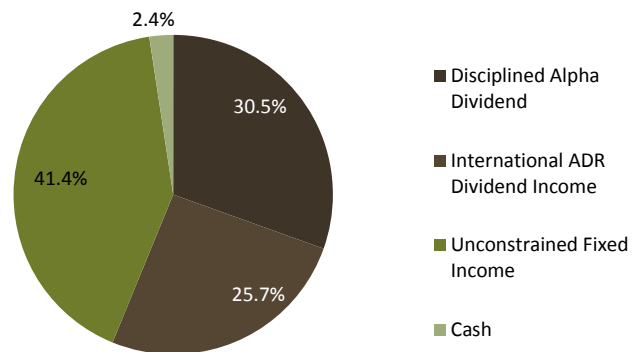
- We dig deep for **value** often viewing crisis as an opportunity. We believe that fundamental research and patience are critical to long term success and that over time, the price of a company will rise to reflect the value of the underlying firm viewing each purchase as if we were buying a piece of a business – not simply a stock certificate.
- We believe that **global revenue generation** is a key component to growth and sustainability and invest in companies with global growth opportunities. We are unafraid to take contrarian positions, but remain diligent about the risks of a global economy.

PERFORMANCE COMMENTARY

The Global Income strategy has posted sound gains for the year garnering a 5.19% return versus a gain of 6.66% for the blended balanced benchmark. The annualized trailing returns for the strategy since our inception on January 1, 2003 are 7.08% versus 7.57% for the blended benchmark and 6.43% for Morningstar’s US Fund Allocation – 50% to 70% Equity. The twelve month trailing yield for the Global Income strategy stands at 5.17% versus 1.71% for the Vanguard Balanced index fund (VBINX).

We remain slightly underweight to a traditional 60% stock/40% bond portfolio due to the risks which remain and valuation metrics. That said, our portfolio maintains a reasonable 17.16 P/E (TTM), and 13.8 forward P/E, which is significantly lower than the broader market indices – most of which currently maintain multiples in excess of 20 times trailing earnings. Our focus continues to emphasize the importance of immediate income to our investors particularly in this volatile, low interest rate environment, which we believe will persist for longer than most economists. In the fixed income sector, our emphasis remains on high yield bonds, which we believe more adequately compensate our investors for credit risk, while providing better protection in a potentially rising interest rate environment. The following is an analysis of the independent strategies which comprise our flagship Global Income strategy in percentages indicated above.

Sector Allocation



Top Five Equity Holdings

Weight

Hanesbrands	1.12%
HSBC Holdings	1.10%
Caterpillar	1.09%
McDonalds	1.09%
Abbvie	1.06%

Top Five Fixed Income Holdings

Weight

American Axle & Manufacturing	0.62%
Centurylink	0.60%
Blue Cube Spinco	0.60%
Credit Acceptance Corp.	0.59%
Icahn Enterprises	0.58%



DISCIPLINED ALPHA DIVIDEND STRATEGY COMMENTARY

As value investors, we constantly focus on our duty to protect the principal of our investments even as we look for ways to grow them over time as well. As economists, we remain alert to trends taking place in the larger global economy. As analysts, we seek to invest in securities priced with a margin of safety in order to account for their near term volatility and our uncertainty about what the future holds. With this in mind, we look for opportunities in three specific categories: classic value, persistent earners, and distressed or contrarian.

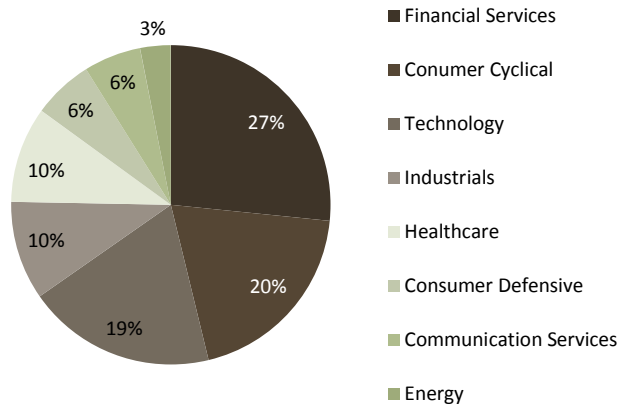
Classic value stocks sell at attractive valuations and provide above-average dividend yields and growth. Persistent earners are companies which have steady and predictable earnings and that are selling below their historic valuation. The distressed/contrarian category refers to stocks that are out of favor due to what we perceive to be temporary factors and are likely to appreciate substantially as the temporarily distressing factor recedes. Typically the distressed category is the smallest in the portfolio.

PERFORMANCE COMMENTARY

The Disciplined Alpha Dividend strategy has gained 4.06% while the Russell 1000 Value index has returned 4.66% for the year. The strategy has produced outstanding ten-year risk adjusted returns roundly besting its indices and peer group for the period earning a Morningstar 4-star overall rating. The trailing annualized ten year returns were 7.93% for the strategy, 5.57% for the Russell 1000 Value index and 6.91% for the Dow Jones US Select Dividend index.

Our sector allocation weighting has added to relative performance by approximately a ¼% for the year; however, our stock selection has detracted slightly from relative performance leading to a small net negative active return against the Russell 1000 Value index year-to-date. The energy, industrials and consumer defensive sectors have been our largest attributors to active return, while the healthcare, communication services and technology sectors were the largest detractors to relative performance. Though maintaining a focus on dividends and above average income generation, we believe the utility and real estate sectors remain overvalued and will perform poorly in a potentially rising interest rate environment. The top performers for the year have been McDonald's (27.5%), Apple (25.4%), KKR & Co. (23.1%), Caterpillar (17.8%) and Norfolk Southern (13.8%). The bottom performers have been Mattel (-19.3%), New York Community Bancorp (-15.5%), Verizon (-14.4%), AT&T (-9.2%) and Western Union (-8.8%) .

Sector Allocation (Morningstar)



Top Ten Holdings

Weight

Hanesbrands	3.65%
Caterpillar	3.55%
McDonalds	3.53%
Abbvie	3.47%
Microsoft	3.46%
JPMorgan Chase & Co.	3.44%
International Paper	3.44%
Apple	3.42%
Norfolk Southern	3.40%
Principal Financial	3.38%



DISCIPLINED ALPHA DIVIDEND STRATEGY COMMENTARY

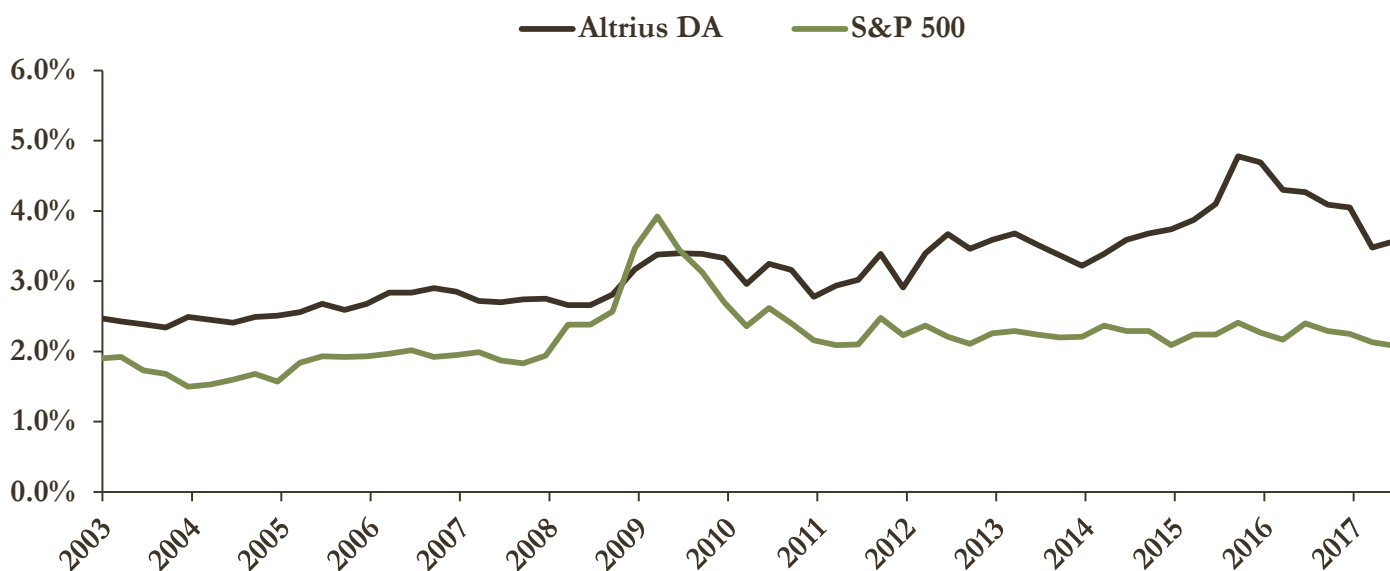
As one may recognize from the below chart, our firm has consistently provided a steady stream of income to our clients in the form of dividends. It is our assertion that this income stream has not only reduced the risk of our portfolio, but also provided a large part of the total return thereby leading to our performance success over this past tumultuous decade plus.

We believe that dividends allow our investors to “get paid to wait” while patiently working through volatile business and market cycles. This strategy provides emotional support during difficult cycles enabling investors to weather turbulent periods utilizing dividend income for personal needs or to reinvest cash at lower valuations. Our strategy is not only grounded in psychological and behavioral finance concepts, but is also supported by empirical evidence outperforming in both negative and full market cycles.

Dividends also act to align the interests of corporations and shareholders in helping to eliminate the agency effect. Corporate boards have recognized the value of dividends in stabilizing their stock price and encouraging investment during both high and lower tax regimes. In supporting and increasing dividends over time, managers are compelled to maintain a reliable stream of cash flows to shareholders rather than waste capital on those expenses adding little to corporate revenue including executive perks, pet projects, and ill-timed, unwise acquisitions. It appears a paradox; however, our experience and academic studies have displayed that sufficient investment for a good business can still occur in conjunction with dividends as managers are forced to invest cash flow more prudently and only in those capital investments in which they have the highest conviction in adding to corporate revenue particularly since stocks buybacks are often ill-timed.

ALTRIOUS: A STORY OF CONSISTENT DIVIDENDS OVER THE YEARS

The strategy has consistently delivered an above average dividend yield versus the S&P 500 since its inception.



Source: Morningstar



INTERNATIONAL ADR DIVIDEND INCOME STRATEGY COMMENTARY

As value investors, we constantly focus on our duty to protect the principal of our investments even as we look for ways to grow them over time as well. As economists, we remain alert to trends taking place in the larger global economy. As analysts, we seek to invest in securities priced with a margin of safety in order to account for their near term volatility and our uncertainty about what the future holds. With this in mind, we look for opportunities in three specific categories: classic value, persistent earners, and distressed or contrarian.

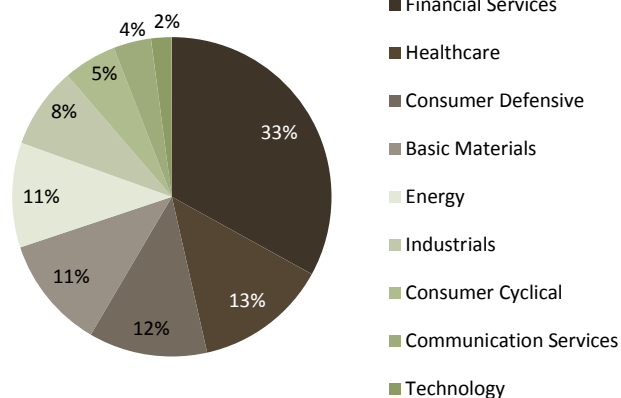
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PERFORMANCE COMMENTARY

The International ADR Dividend Income strategy has had both positive absolute and relative performance returning 11.46% for the year. The MSCI EAFE Value index was higher by 11.12% while the S&P Int'l Dividend Opportunities index has gained 10.95%. Since its inception on June 1, 2010, the strategy has produced annualized returns of 5.96% versus 4.54% for the S&P Int'l Dividend Opportunities and 6.76% for the MSCI EAFE Value indices respectively. Since its inception, the strategy has produced alpha against the MSCI EAFE Value index due to its significantly lower beta.

Our sector allocations and stock selection had a positive impact on relative performance during the year versus the EAFE Value index. The consumer defensive, healthcare and communication services attributed the greatest portion to relative outperformance while energy, financial services and basic materials were the largest detractors to active return. Going forward, we believe we will find more value amongst international issues than U.S. companies while expecting the energy and basic materials sectors to be continued benefactors of global economic stabilization. The top performers for the year have been Unilever (36.7%), Banco Santander (31.7%), AstraZeneca (28.9%), Taiwan Semiconductor (25.5%) and British American Tobacco (24.6%) while the bottom performers have been Toyota (-8.8%), Agrium (-8.4%), Statoil (-7.1%), Honda (-6.2%) and Barclays (-5.8%).

Sector Allocation (Morningstar)



Top Ten Holdings

Weight

HSBC Holdings	4.20%
Lloyds Banking Group	3.99%
Barclays	3.67%
Lazard	2.37%
Banco Santander	2.25%
ING Groep	2.17%
BNP Paribas	2.16%
Unilever	2.11%
Taiwan Semiconductor	2.09%
Siemens	2.08%



INTERNATIONAL ADR DIVIDEND INCOME STRATEGY COMMENTARY

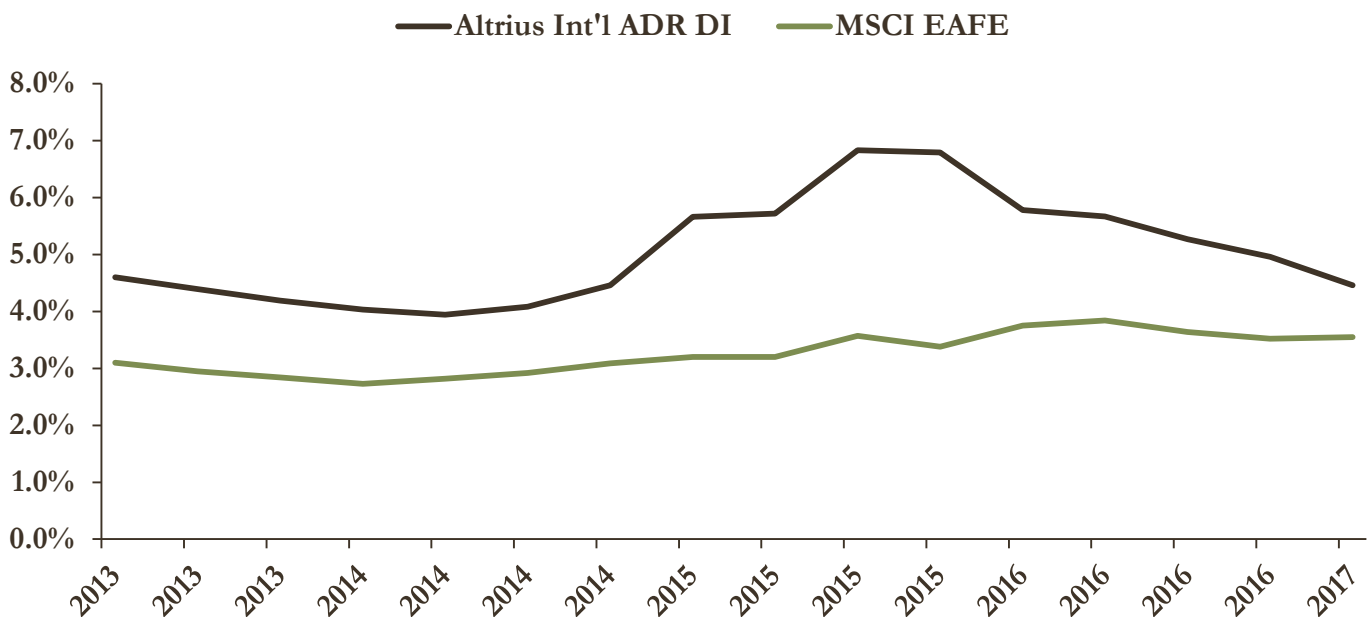
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We believe that dividends allow our investors to “get paid to wait” while patiently working through volatile business and market cycles. This strategy provides emotional support during difficult cycles enabling investors to weather turbulent periods utilizing dividend income for personal needs or to reinvest cash at lower valuations. Our strategy is not only grounded in psychological and behavioral finance concepts, but is also supported by empirical evidence outperforming in both negative and full market cycles.

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ALTRIUS: A STORY OF CONSISTENT DIVIDENDS OVER THE YEARS

The strategy has consistently delivered a higher dividend yield than the MSCI EAFE index since its inception.



Source: Morningstar



UNCONSTRAINED FIXED INCOME STRATEGY COMMENTARY

Based on our macroeconomic outlook over a three to five year period and our cyclical views from quarter to quarter, we employ top-down strategies that focus on yield curve positioning, volatility, and sector rotation. We then utilize bottom-up analysis to drive our security selection process and facilitate the identification of undervalued securities with the potential for above average income. We invest in securities that operate across diversified sectors in the fixed income markets of the United States, primarily those in U.S. dollar denominated high yield and investment grade bonds,

including government securities, corporate bonds, and mortgage- and asset-backed. Sources of added value:

Credit Analysis - We emphasize independent analysis and do not rely on credit agencies.

Duration Risk - We avoid long, extreme duration shifts generally operating within a moderate duration range typically between two and four years.

High Income - Our research attempts to identify issues paying above average income.

Risk Premium Management - We seek to attain an attractive yield/spread in relation to a five-year treasury within acceptable levels of portfolio risk.

PERFORMANCE COMMENTARY

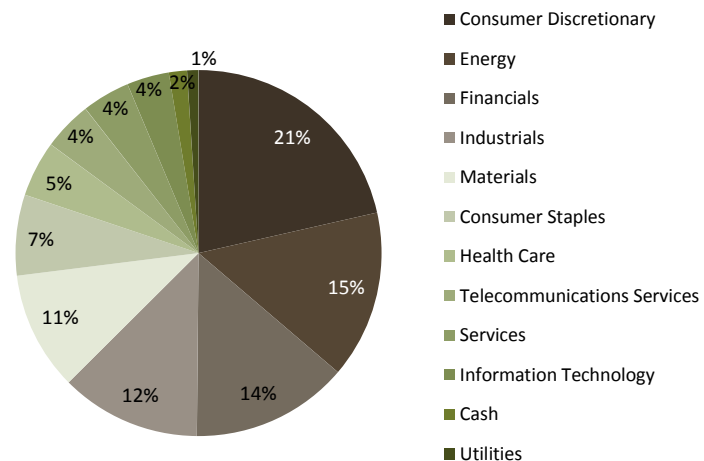
MARKET OVERVIEW

For the second quarter of 2017 investors showed an increased appetite for longer dated US treasury bonds and a slight preference for investment grade corporates over high yield. The 30-year Treasury was the best performing fixed income market segment generating a return of approximately 4.7% for the quarter, which led to a general flattening of the yield curve. Investment grade corporate bonds returned approximately 2.5% for the quarter (depending on the index being referenced), outperforming the 2.1% return generated by high yield corporate bonds.

In its June meeting, the Federal Reserve hiked the federal funds rate by 0.25%, increasing its benchmark borrowing rate to between 1.00% and 1.25%. Despite increasing rates for the second time this year and third time since September of 2008, the Fed acknowledged that forecasted inflation will likely fall well short of its 2.0% target for the year. The 10-year Treasury started the second quarter of 2017 at 2.35% and fell to a low of 2.13% in early June, but ended the quarter largely unchanged returning to a level of 2.31%.

Aggregate yields across most fixed income segments remain compressed at or below historic levels. The ‘option-adjusted spread’ of the high yield market contracted approximately 15bps during the quarter from

Sector Allocation



Top Ten Holdings

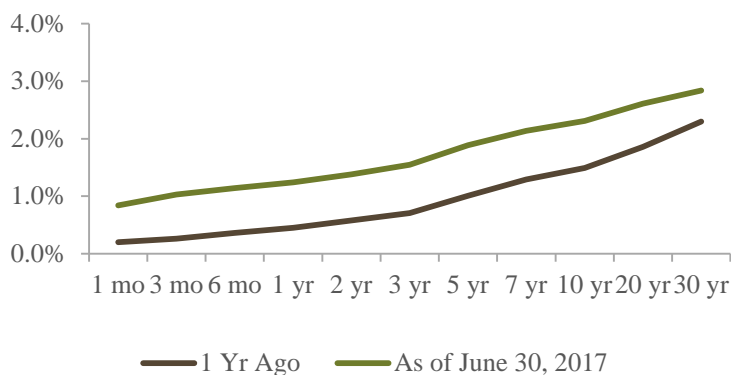
Top Ten Holdings	Weight
American Axle & Manufacturing	1.44%
Blue Cube Spinco	1.41%
Centurylink	1.41%
Credit Acceptance Corporation	1.40%
Icahn Enterprises	1.37%
The ADT Corporation	1.35%
GAP	1.31%
Anglogold Ashanti	1.30%
Rent A Center	1.28%
Dish DBS	1.28%



UNCONSTRAINED FIXED INCOME STRATEGY COMMENTARY

a level of 392bps as of March 31 2017 to 377bps by quarter end; and is currently 206bps below its 20-year historical average of 583bps. As previously mentioned, the yield curve continued to flatten during the second quarter of 2017, with the slope of the ‘belly of the curve’, the differential between the 2-year and 10-year treasury notes, ending the quarter at 89bps (a reduction of 24bps over Q1 2017’s level).

US Treasury Yield Curve



PERFORMANCE SUMMARY

The Unconstrained Fixed Income strategy generated a gross return of 1.02% for the second quarter of 2017, compared to 2.14% and 1.45% for the Bank of America Merrill Lynch High Yield Bond and the Barclays US Aggregate Bond indices, respectively. Year-to-date the Unconstrained Fixed Income strategy is up 3.15%, outpacing the Barclays US Aggregate Bond index by 88bps, but trailing the Bank of America Merrill Lynch High Yield Bond index by 176bps. While exposure to no one individual sector can take sole credit for the strategy’s positive performance as a whole, the health care sector remained resilient over the prior four month period of 2017, contributing significantly to the strategy’s strong results year-to-date. Building upon sizable gains reaped in the latter half of Q1 2017, a number of the strategy’s health care specific positions continued to increase in market value throughout the quarter, most notably the strategy’s positions in: Valeant Pharmaceuticals’ 7.000% 2020 senior notes (+8.10%), IASIS Healthcare’s 8.375% 2019 senior

notes (+4.96%), Kindred Healthcare’s 8.000% 2020 senior notes (+3.33%), and Community Health Systems’ 8.000% 2019 and 7.125% 2020 senior notes (+2.43% and +6.28%, respectively). Also contributing to the positive performance for the quarter were the strategy’s positions in Rent-A-Center’s 6.625% 2020 senior notes (+5.98%), Sears Holdings’ 6.875% 2017 senior notes (+5.51%), and ION Geophysical’s 8.125% 2018 senior notes (+4.84%) to name a few. Some of the actively traded positions in the strategy which experienced sizable declines in market value during the quarter included: Claire’s Stores’ 8.875 2019 senior notes (-37.50%), Clear Channel Communications’ 10.000% 2018 senior notes (-27.71%), and Denbury Resources’ 6.375% 2021 senior notes (-26.83%).

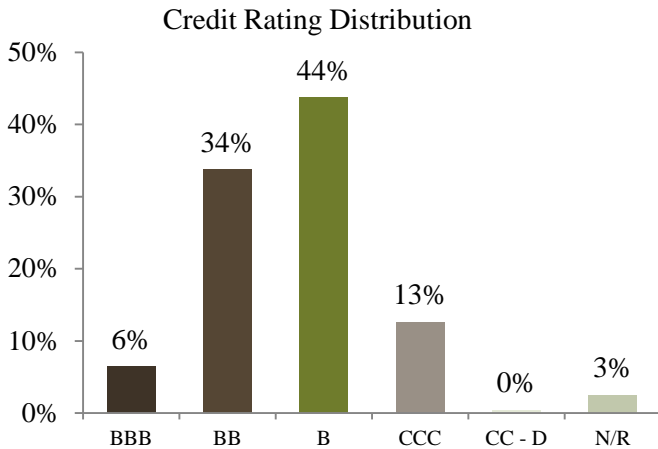
STRATEGY CHARACTERISTICS

The Unconstrained Fixed Income strategy is heavily invested in the consumer discretionary, energy, and financial services sectors, with each accounting for approximately 21.3%, 14.7%, and 13.8%, respectively of total strategy assets as measured by aggregate market value as of 06/30/2017. Exposure to the industrials, materials, and consumer staples sectors is also robust with each accounting for 12.3%, 10.5%, and 7.1%, respectively; with exposure to the consumer staples sector increasing by close to 2.0% over the quarter as a result of establishing sizable positions Safeway’s 4.750% 2021 senior notes, Supervalu’s 7.750% 2022 senior notes, and Rite Aid’s 6.750% 2021 senior notes over the course of the quarter. Sector diversification for the strategy is to a large degree reflective of the sector breakdown of the overall non-investment grade corporate bond market, with year-over-year high yield issuance comprised predominantly of companies operating within the consumer discretionary, energy, and financial services sectors. Despite the seemingly high degree of investment exposure to the aforementioned sectors, the strategy is always invested in an array of unaffiliated companies within each sector in order to provide broad diversification and help mitigate against issue specific credit risk.

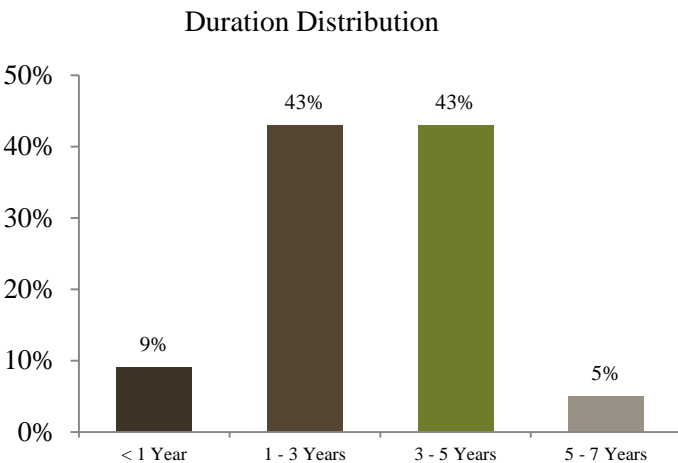


UNCONSTRAINED FIXED INCOME STRATEGY COMMENTARY

The strategy’s overall credit quality improved marginally during the quarter, moving from an aggregate ‘B’ rating to ‘B+’.

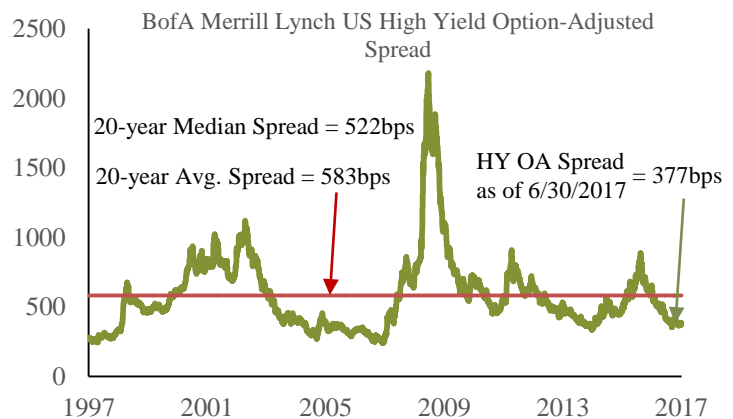


As a result of continued ‘call activity’ and the establishment of positions in slightly longer dated issues, both the aggregate maturity and effective duration for the strategy increased modestly during the quarter to 3.48 years and 2.96 years, respectively. The majority of new issues established during the quarter are callable at various dates prior to their designated maturity dates; however, the strategy’s longest dated ‘non-callable’ issue (L Brands’ 5.625% 2023 senior notes) is currently set to mature in October of 2023.



STRATEGY OUTLOOK

Valuations in the high yield corporate bond market have been a growing source of unease and even bewilderment to most investors since the latter half of 2016. However, given the persistently low rate environment we are currently living in (and likely to remain so for the foreseeable future), the compression in aggregate yields both the Unconstrained Fixed Income strategy and the greater high yield corporate bond market are facing is understandable. While the ‘option-adjusted spread’ on the aggregate high yield bond market is well below its 20-year historical level, the current OAS of 377bps still remains 136bps above levels seen in June of 2007 and 42bps above levels more recently touched in June of 2014.



Despite the relatively rich valuations, we still believe that shorter duration, high yield corporate bonds are attractive and remain the best risk/reward tradeoff opportunity in the fixed income markets for providing above average income and mitigating the effects of interest rate risk. As has been the trend over the past two or three quarters, we have extended the maturity window out as far as mid 2024, as a result of opportunistically establishing positions in higher quality, higher rated issues such as Tempur Sealy and Western Digital, while keeping the aggregate duration of the strategy below 3.0. We anticipate that call activity will continue unabated over the coming months, but we feel confident that compelling investment opportunities will continue to arise, and issue turnover can be accommodated without increasing overall credit risk within the strategy.



DISCLOSURES

This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact. Altrius is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy and approach. Our views and opinions include “forward-looking statements” which may or may not be accurate over the long term. Forward-looking statements can be identified by words like “believe,” “expect,” “anticipate,” or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

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