Portfolio and Economic Commentary

3rd Quarter 2016

ALTRIUS
CAPITAL MANAGEMENT

Market and Economic Outlook

The broader stock market (S&P 500) rose by nearly 4% during a quarter that witnessed populism gain ground in Europe, the installation of a new government in the United Kingdom after the Brexit vote, an unsuccessful coup attempt in Turkey, and a U.S. presidential campaign that continued to unfold as the most unconventional in recent memory. Markets handled these uncertainties with aplomb as stock market volatility remained at extremely low levels through July and August. However, September seemed to usher in a change in tone. During the month, stock investors registered high anxiety, with stocks rising and falling sharply in response to any oil-related headlines and any suggestion of interest rate hikes by central banks.

Yields on U.S. 10-year Treasury bonds ended the quarter at 1.60%, up from 1.49% as of July 1st, as investors braced for an interest rate hike by the Federal Reserve that didn't come. However, those looking only at starting and ending levels would have missed the big mid-September move. Yields briefly rose to 1.73% on worries over central bank policies. The Fed's decision not to raise interest rates in September soothed markets; however, a December rise is potentially still on the table and financial markets remain keenly attuned to this possibility. For now, flows into investment grade (core) bonds are strong, the buyer base is broad, and central banks across the developed world remain hesitant to either spook the markets or hinder a still fragile economic recovery by doing more than just paying lip service to a move away from their easy monetary policies. The core bond index (Barclays US Aggregate Bond Index) gained just under 0.5% for the quarter.

Perception versus Reality: Managing Risk

Though we spend time analyzing each of our individual positions and holdings, the whole is very much more than simply the sum of its parts when it comes to portfolio management (Harry Markowitz won a Nobel Prize in 1990 for this insight). By definition, a well-diversified portfolio of assets will contain some laggards during any given measurement period, particularly over shorter-term periods. However, it's at least as important to focus on the overall portfolio and how the pieces fit together to complement one another.

Successfully managing portfolios requires the discipline to resist trading based on emotion (fear and greed), rather than on long-term return drivers such as valuations, yield, and earnings growth. Even in an advanced economy like the United States, the stock market has had at least a 10% decline every 16 months on average since 1950. Bear markets (20% or greater declines) in the United States have happened about every seven years, on average. The catch is that in most cases you can't predict what the exact cause of the volatility will be or exactly when it will hit. Even if you did successfully call the bear market, you'd need to also successfully time your re-entry so as not to miss out on the subsequent gains. Further, you'd need to do this consistently and repeatedly over an investment lifetime. That is simply not realistic, which is why our tactical investment approach is based on a range of potential outcomes and a longer-term time frame. As the examples we discuss illustrate, in our view, making investment decisions based on short-term market forecasts (guesses) is a losing game. We have no confidence that this approach can be executed successfully over time.

The Brexit Vote

In the run-up to the vote, polls suggested the outcome could be close but would most likely result in the United Kingdom remaining in the European Union. Financial markets were clearly surprised by the opposite result. Global stocks sold off in the two days following the vote. The Vanguard 500 dropped 5.3%, emerging-market stocks fell 6.7%, and European stocks plunged 13.6%. In contrast, the core bond index gained more than 1%.

In the vote's immediate aftermath, and after careful consideration, we decided not to make any changes to

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our portfolios. We were actively inactive (Note: see Brexit Schmexit blog on our website at http://info.altrius-capital.com/blog/brexit-schmexit). We believed the vote increased the nearer-term risk of recession in the United Kingdom and Europe, and potentially globally. We also acknowledged the potential for increased shorter-term downside risk in our European stocks in particular. However, in our assessment, Brexit did not materially impact our longer-term five-year outlook and assumptions for European corporate earnings growth and valuations. Therefore, we held our positions at a time when many investors were fleeing to traditional safe-haven assets. That decision proved beneficial for our portfolios' performance in the third quarter, as European stocks rebounded 14% from their Brexit low while core bonds gained just 0.5% over the same period.

The U.S. Presidential Election

Each time a U.S. presidential election approaches, we receive questions from clients about our view and the impact on our investment outlook and portfolio positioning. Given the atypical background and behavior of the Republican nominee, we are being asked about the election even more than usual this year. Here is a quick review of how we think about elections in general within the context of our overall investment approach.

While the specific circumstances of any given election are always unique, our approach remains the same. First, to the extent a particular result is widely expected, current asset prices will reflect the market consensus (i.e. market is currently pricing a Clinton victory with continued Congressional gridlock as Republicans hold the House with an effectively evenly divided Senate). In order for us to believe there is a tactical investment opportunity stemming from a particular election outcome, we'd need to believe (1) we have an edge in assessing the outcome better than the market does and (2) our view would have to be materially different from the consensus.

There is too much uncertainty and too many "non-election" variables that impact investment outcomes for us to likely see any value in positioning our portfolio for a particular result. Even if we had a higher degree of certainty as to both the outcome *and* the policies that would be implemented, the ultimate economic effects and outcomes would still be highly uncertain. Macroeconomics is far from a hard science, and there are a multitude of other factors and variables that impact economic and financial market outcomes beyond U.S. fiscal and monetary policy.

In sum: (1) we are not willing to bet on a particular election result relative to the "odds" already embedded in current market prices, (2) there is a wide range of potential macro outcomes around either result, and (3) there are a multitude of other variables and factors unrelated to the election results and out of U.S. politicians' control that are likely to have at least as meaningful an impact on the course of the global economy and financial markets over the next five years.

Instead of betting on election results, we stick to our longer-term analytical framework, in which we consider and weigh multiple macro scenarios, and assess the potential risks and returns for numerous asset classes and investments in each scenario. As investors, we expect to experience market price volatility and shorter-term downside risk at times (the degree will depend on the client's risk tolerance and the corresponding risk exposure of the portfolio). Stock market history makes this clear: Volatility comes with the territory and investors must accept as much to potentially achieve higher returns.

Central Banks and Market Distortions

Lastly, global central banks have been a driver of significant market volatility in recent years. Along with the U.S. presidential election, the Fed's policies, remain a key near-term wildcard for financial markets. At its last meeting on September 21st, the Fed remained on hold but signaled it is on course to raise the federal funds rate later this year, likely at the December meeting. The Fed also

Market and Economic Outlook Cont.

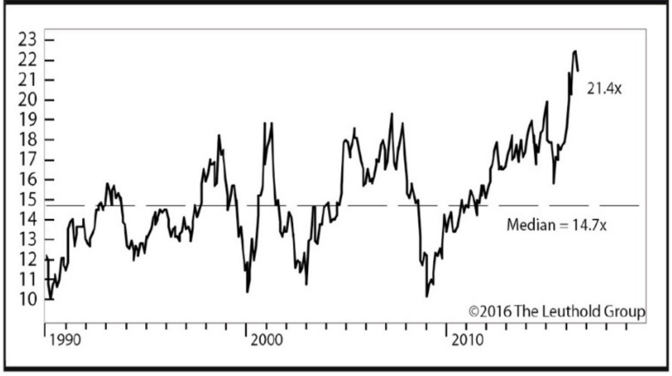
lowered its longer-term forecast of interest rate hikes yet again. It now forecasts just two rate hikes in 2017, down from the three hikes forecasted at the June meeting and the four hikes forecasted at the March meeting. Bond and stock markets responded positively.

The effects of these extraordinary central bank policies can be seen as investors are effectively being forced out of low-risk, extremely low-yielding, core bonds into riskier assets that offer higher current yields. For instance, the traditionally "defensive" yield-oriented sectors of the stock market, such as utilities, telecoms, consumer staples, and REITs, are areas where many investors appear to be "reaching for yield" as well as *perceived* safety, but where we actually see significant risk. As bond yields have been depressed, money has flooded into these sectors. As a result, their valuations have soared. Strong short-term performance has attracted more money, perpetuating the cycle. Ironically, the perception that these are low-risk investments and appropriate "bond-like" substitutes for true fixed-income exposure has made them much riskier due to their high valuations and what looks a lot like speculative short-term money flows rushing into these stocks and ETFs.

Of course, these trades can unwind quickly and the momentum can work in reverse. Market history is replete with examples of investors getting burned by ignoring valuation, reaching for yield, and chasing recent performance. Because investors view these sectors as bond substitutes and a play on continued depressed bond yields, one clear catalyst for a reversal would be a rise in rates.

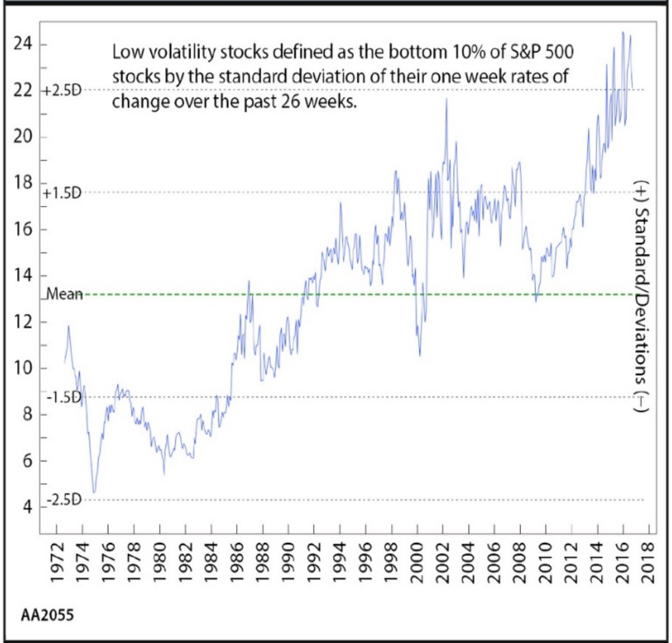
These sectors' performance in August and early September shows they may be riskier than they seem to be. While the overall stock market was flat in August, the utilities and telecom sectors fell roughly 6% and low-volatility ETFs lost around 2%. Then, on September 9th, when a previously dovish Fed governor shocked the markets by indicating he was inclined to raise rates at the next Federal Open Market Committee (FOMC) meeting, the Vanguard 500 dropped 2.5%, while utilities and REITs fell nearly 4%. Low-volatility stocks were anything but as they fell 3% and core bonds dropped approximately 0.5% on the day. Thus, these "defensive' plays are very vulnerable to any hint of interest rate increases and are potentially a higher risk currently than even the broad stock market. As

Median Trailing P/E of Utility Stocks



Source: The Leuthold Group. S&P 500 Utilities, data as of 8/31/16.

Low-Volatility Stock Valuations Near Record High



Source: S&P Capital IQ Compustat, as of 8/31/16.
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such, we continue to avoid these areas maintaining little to no exposures to the sectors.

Conclusion

Our decision-making is anchored in our long-term fundamental and valuation-driven approach. Given our approach, we and our clients need to be psychologically and financially prepared for periods of market stress and able to ride them out on the path to achieving our long-term investment and financial goals. Investors who can't stomach a given level of volatility or downside risk should reallocate into a portfolio with a lower targeted risk level. The time to do that is *before* a period of volatility strikes, not during or right after it when they would be selling their riskier assets at lower prices and buying more defensive or safer assets at higher prices.

We structure our balanced portfolios across a well-diversified mix of investments within the framework of our income-based process remaining diversified enough to reduce risk while concentrated enough to potentially outperform. We expect our portfolios to be resilient and to perform at least reasonably well across a wide range of outcomes, balancing our objective of long-term capital appreciation with shorter-term downside risk management appropriate for each client's risk tolerance.

As always, we appreciate your continued trust and confidence. Should you have questions regarding our outlook, strategy or your personal financial circumstances, please don't hesitate to contact us.

-The Altrius Investment Team

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 well over a decade.

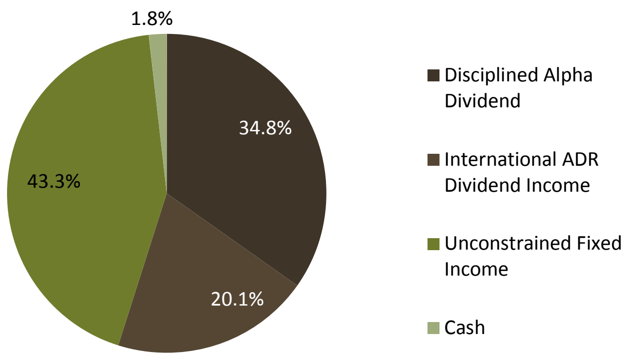
- We believe in the importance of getting paid immediately for the risks which are taken and focus on businesses which compensate our clients with **dividends and above average interest.** We believe this income stream, coupled with capital appreciation, is a vital aspect of total return.
- We dig deep 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 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 yielded strong gains this year garnering a 13.21% return versus a gain of 6.72% for the blended balanced benchmark year-to-date. The trailing 10-year returns for the strategy are 5.72% versus 5.98% for the blended benchmark. The twelve month trailing yield for the Global Income strategy stands at 5.32% versus 1.71% for the Vanguard Balanced index fund (VBINX).

During the quarter, we slightly reduced our exposure to equities remaining underweight to a traditional 60% stock/40% bond portfolio and our balanced benchmark due to the risks which remain and valuation metrics. That said, our portfolio has a more attractive price to earnings ratio of 15.27 which is far less 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 compensates our investors for credit risk, while providing better protection in a potentially rising interest rate environment.

Sector Allocation



Top Five Equity Holdings	Weight
Marathon Oil	1.11%
Caterpillar	1.11%
Intel	1.09%
Principal Financial	1.09%
Cisco	1.08%
Top Five Fixed Income Holdings	**Weight**
Rent-A-Center	0.62%
Icahn Enterprises	0.59%
Anglogold Ashanti	0.59%
Credit Acceptance Corp	0.58%
American Greetings	0.56%

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.

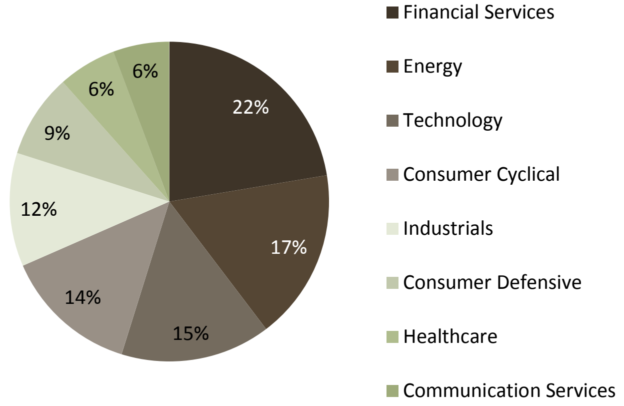
Classic value stocks sell at attractive valuations and provide above-average dividend yields and growth. Persistent earners are companies which have steady and predictable earnings and that are selling below their historic valuation. The distressed/contrarian category refers to stocks that are out of 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 had an outstanding year gaining 11.85% and soundly outpacing the Russell 1000 Value index which has returned 10% year-to-date. The strategy has produced excellent ten-year risk adjusted returns roundly besting its indices and peer group for the period. The trailing annualized ten year returns were 8.01% for the strategy, 5.85% for the Russell 1000 Value index and 7.07% for the Dow Jones US Select Dividend index.

Our stock selection has had a positive effect on absolute and relative performance while our sector allocation weighting has mildly supported relative performance against the Russell 1000 Value index for the year. The communication services, financial services and basic materials sectors have been our largest attributors to relative outperformance, while the utilities, energy and technology sectors were the largest detractors. 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; thus, we do not have any positions in the sectors. The top performers for the year have been Freeport-McMoRan (52.7%), Caterpillar (34.9%), International Paper (31.5%), Marathon Oil (27.3%) and AT&T (22.5%). The bottom performers have been Wells Fargo & Co. (16.6%), New York Community Bancorp (9.8%), Ford Motor Co. (9.5%), Pitney Bowes (9.3%) and MetLife (5.2%).

Sector Allocation (Morningstar)



Top Ten Holdings	Weight
Marathon Oil	3.17%
Caterpillar	3.16%
Intel	3.10%
Principal Financial	3.10%
Cisco	3.08%
International Paper	3.02%
Norfolk Southern	3.01%
Merck & Co.	3.00%
International Business Machines	2.94%
Aflac	2.94%

Disciplined Alpha Dividend Strategy Commentary

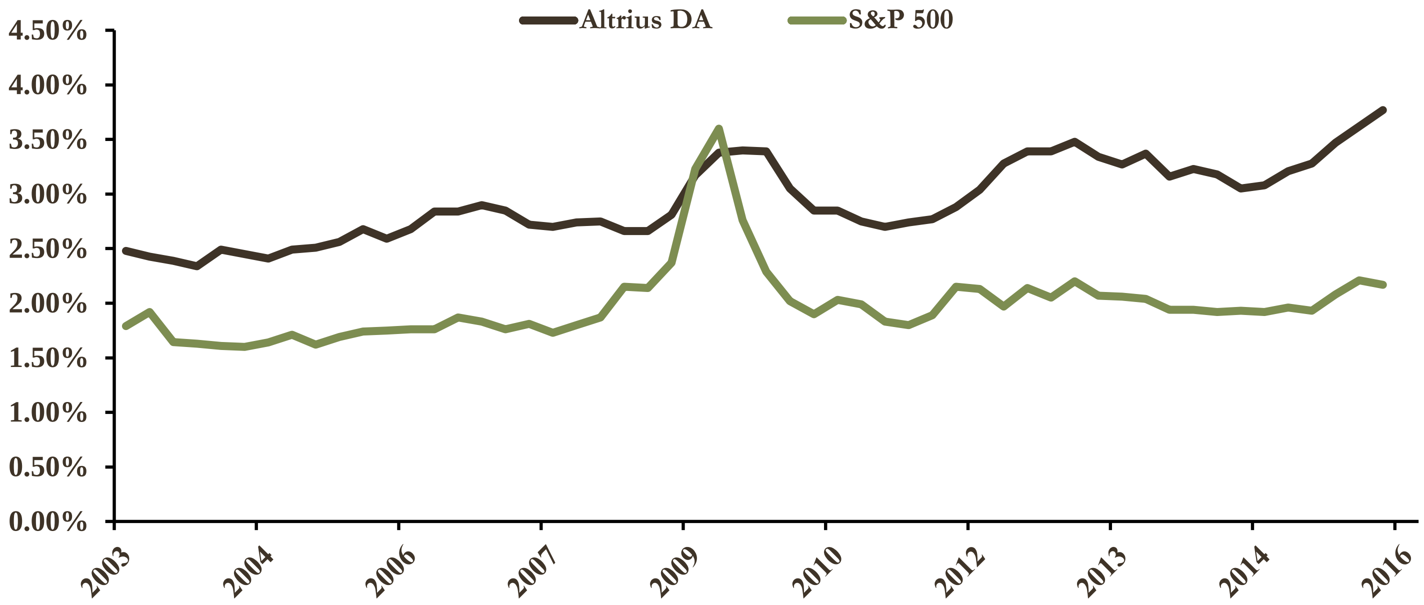
As one may recognize from the below chart, our firm has consistently provided a steady stream of income to our clients in the form of dividends. It is our assertion that this income stream has not only reduced the risk of our portfolio, but also provided a large part of the total return thereby leading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

Altrius: thirteen years of consistent Dividends

The strategy has consistently delivered a higher dividend yield than the S&P 500 since inception.



Source: Standard and Poor's

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.

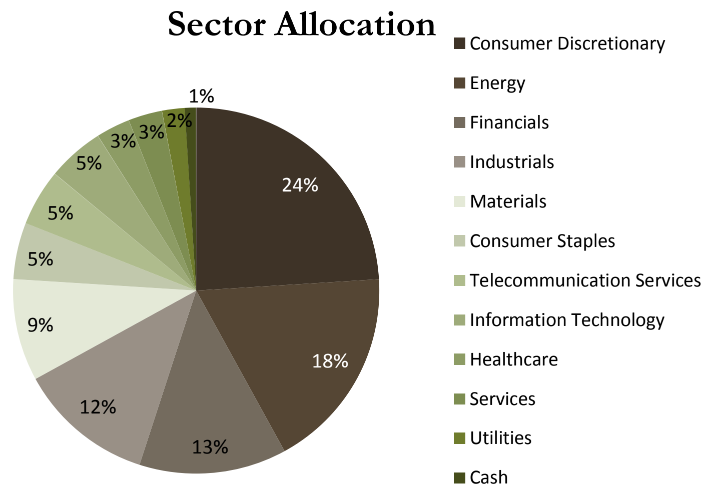
High Income - Our research attempts to identify issues paying above average income.

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

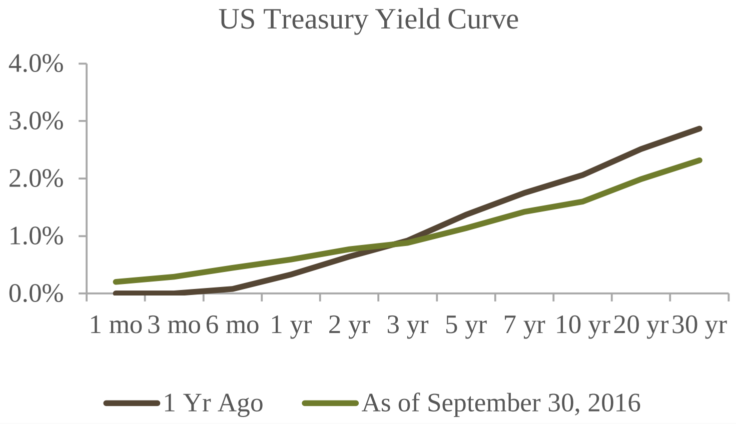
Performance Commentary

Market Overview

U.S. high yield bonds were the best performing fixed income market segment for the third quarter of 2016, with the Bank of America Merrill Lynch US High Yield index posting a +5.49% return, while US Treasuries and municipal bonds each recorded declines of -0.28% and -0.30% respectively. The Fed left rates unchanged in its September meeting. However, the yield on the 10-year Treasury, which began the quarter at 1.46% expanded by 14 bps to end the quarter at 1.60%, as investors viewed a December interest rate hike by the FOMC to be increasing likely, given a strong jobs report in September and inflation approaching the Fed's 2.0% target. The yield curve as a whole remained largely unchanged over levels from Q2 2016, with the 30-year Treasury rising a mere 2 bps from 2.30% to 2.32%.



Top Ten Holdings	Weight
Rent-A-Center	1.43%
AngloGold Ashanti	1.36%
Icahn Enterprises	1.35%
Credit Acceptance Corp	1.31%
The Gap, Inc.	1.29%
American Greetings	1.29%
The ADT Corporation	1.27%
International Game Technology	1.24%
Oppenheimer Holdings	1.18%
AECOM	1.16%



Unconstrained Fixed Income Strategy Commentary

Performance Summary

Building on the gains of the second quarter of the year, the Unconstrained Fixed Income strategy posted a positive gross return of +6.46% for Q3 of 2016, vastly outpacing both the Barclays US Aggregate Bond and Barclays US Corporate BB+ indices, with each producing returns for the quarter of +0.45% and +1.72% respectively. Year-to-date (as of September 30, 2016), the Unconstrained Fixed Income strategy is up +19.02% versus +5.80% for the Barclays US Aggregate Bond and +9.54% for the Barclays US Corporate BB+ indices. Despite maintaining exposure to industry sectors largely in-line with that of the broader high yield market, the Unconstrained Fixed Income strategy generated an excess return of roughly 100 bps over several high yield bond indices for the third quarter of 2016, and year-to-date is outpacing said indices by more than 300 bps.

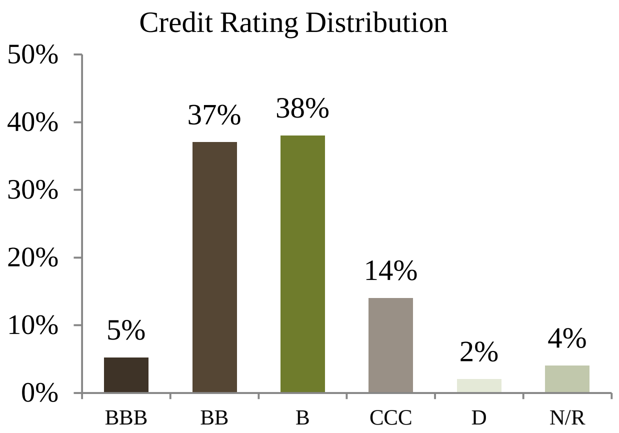
A number of positions in the strategy experienced large upside moves during the third quarter, most notably Navistar International Corp., a truck and engine manufacturer, which reaped a +40% recovery in the face value of its 8.250% senior notes due 2019 on the announcement that Volkswagen would be establishing a near 17% stake in the company in early September. A surge in industrial metal prices, which began in the second quarter of 2016, continued its upward momentum in Q3 positively impacting Thompson Creek Metals (+47% on the 2019 notes and +40% on the 2018 notes) and Cliffs Natural Resources (+16%). The strategy's energy related positions continue to be a mixed bag of results with upside movers including Resolute Energy (+61%), Chesapeake Energy (+33%), and Williams Clayton Energy (+29%); while on the downside Heckmann Corporation looks to be heading toward bankruptcy with its 9.875% senior notes due 2018 dropping in value by roughly 64%.

Strategy Characteristics

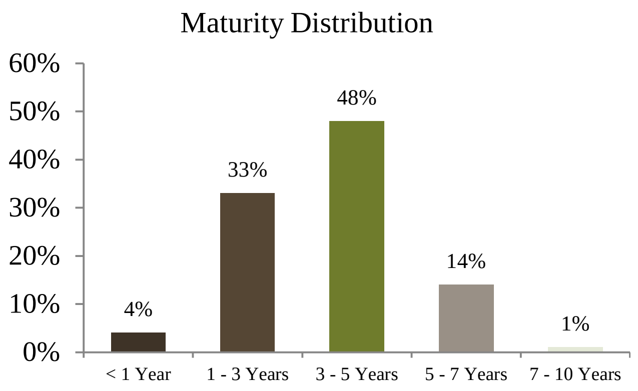
There were no major changes to the strategy's sector exposure over the prior quarter. Consumer discretionary and energy remained the strategy's two most heavily invested sectors, with each accounting for approximately 24% and 18% respectively of dedicated strategy assets.

Investments in companies from the financial, industrial, and materials sectors also makeup a large portion of the strategy's assets, with each accounting for roughly 13%, 12% and 9% respectively.

The strategy's overall credit quality dropped one notch to 'B' from 'B+' over the quarter as a result of calls on higher rated issues and the establishment of several new positions bearing lower credit ratings.



Both the aggregate maturity and effective duration for the strategy continued to modestly contract with each closing out the third quarter of the year at 3.50 years and 2.92 respectively. The longest dated 'non-callable' issue held within the strategy is set to mature in February of 2021.



Unconstrained Fixed Income Strategy Commentary

Strategy Outlook

Call activity in the corporate bond market increased substantially during the third quarter of 2016, much as we anticipated it would, as the Fed left rates unchanged in its September meeting extending the window for companies with improving fundamentals to either partially or fully refinance their outstanding bonds at lower rates and/or longer maturities. We anticipate that call activity will undoubtedly continue to persist in the months leading up to December (at which time the Fed is likely to hike rates by 0.25%), increasing turnover within the strategy. As has been previously stated and expounded upon in prior newsletters, we have found the most compelling fixed income investment opportunities over the past 12 to 18 months, in terms of managing risk and reducing volatility within the strategy, to be in the upper tier of the non-investment grade corporate bond market (companies rated BB- or better). However, as yields have compressed across global fixed income markets, both sovereign and corporate, opportunities at the upper tier of the high yield bond market have become quite scarce. Aggregate spreads of non-investment grade bonds over similar dated US Treasuries continued to contract during the quarter to a level of roughly 480 bps by quarter-end, approximately 110 bps below the long-term historical average of 590 bps. In spite of this fact we view valuations in the US high yield bond market as 'justifiable' given the yield compression that is pervasive across all major fixed income market segments as global rates remain at historically low levels. With that said, all fixed income investors face the choice of extending themselves out further along the yield curve to capture their desired level of yield, or accept less yield in exchange for maintaining a lower duration to be better positioned in the face of historically low interest rates and the mounting anticipation of future rate hikes. We have chosen to employ the latter course of action in strategically identifying and initiating new investments, predominantly focusing on and accepting lower yielding issues of higher credit quality companies with maturities extending no longer than 2023; however, during the most recent quarter we did establish positions in two lower rated credits (B- to CCC+), which are discussed in greater detail in the following section.

As always we remain disciplined in identifying and selecting new investments that meet our fundamental credit criteria, and as we favor no particular industry at the moment, we are currently looking into issues from a broad array of industries including health care, information technology, business services, and manufacturing.

Unconstrained Fixed Income Strategy Overview

New Portfolio Purchases

Laredo Petroleum, Inc.
7.375% 5/1/22 – 6.7% YTM

Laredo Petroleum, Inc. (NYSE: LPI) is an independent energy company focused on the exploration, acquisition, development, and transportation of oil and natural gas from properties primarily located in the Permian Basin of West Texas. Capital expenditures have been exceedingly high in recent years, ranging from close to $600 million to over $1.2 billion, outstripping operating cash flows by a factor of over 2.0x. While close to half of 2015's total $597 million capex outlay was associated with the development of 'proved undeveloped reserves', Laredo's management estimates that the costs associated with future development of 'proved undeveloped reserves' will decline to zero by 2018 and remain so through 2020, with capital outlays anticipated to be $192 million and $74 million for each of 2016 and 2017 respectively. With roughly $1.4 billion of outstanding long-term debt obligations and annual EBITDA production (excluding nonrecurring charges) of approximately $450 million to $530 million, Laredo exhibits a modest degree of financial leverage, which will likely remain unchanged over the foreseeable future even as capital expenditures begin to decline and the recovery in oil prices should prevent Laredo from having to make any additional impairment write-downs on its existing oil inventories. Despite the persistence of negative free cash flows, Laredo's liquidity profile remains adequate with support coming from rising oil prices, a July 2016 equity offering, and access to a $2.0 billion revolving credit facility of which roughly $1.9 billion remains undrawn upon after $130 million was paid down with proceeds from the aforementioned equity offering this past July.

Popular, Inc.
7.000% 7/1/19 – 5.2% YTM

Popular, Inc. (NASDAQ: BPOP) is a diversified, financial holding company operating between two segments: Banco Popular de Puerto Rico which provides retail, mortgage, and commercial banking services on the island of Puerto Rico, and Banco Popular North America which functions as a holding company for Popular's operations in the mainland United States. Puerto Rico's economy has been in recession for the better part of the last ten years, over which time its manufacturing sector (which represents roughly 45% of Puerto Rico's annual GDP) has contracted leading to increasing levels of unemployment and a persistently high and pervasive degree of poverty throughout the island. Furthermore, in July of this year the Puerto Rican government failed to make a payment of close to $800 million on a portion of its outstanding debt obligations; marking the Commonwealth's first-ever official default on any of its constitutionally guaranteed bonds. Despite the persistent economic and financial hardships on the island, Popular has sustained a strong and stable capital position over the prior ten years, maintaining a loan-to-deposit ratio of between 1.0x to 0.8x. While bottom-line net income has traditionally been a bit erratic, although predominantly positive over the years, Popular has produced consistent year-over-year free cash flows and reduced its overall financial leverage from roughly 22.0x in 2008 to just over 7.0x as of the most recent FYE 2015. As a result of reducing its total outstanding debt obligations over the prior five years, Popular has substantially increased its liquidity profile by raising its ratio of earnings to fixed charges (predominantly interest paid on deposits) from a level of 1.4x in 2010 to 2.9x as of FYE 2015. Being the dominant banking franchise on the island of Puerto Rico with growing operations in the mainland United States, we are confident that Popular will continue to maintain both its liquidity and solvency profiles, and given management's conservative operating practices we believe that Popular's capital position will remain stable and likely continue to strengthen in the years ahead.

Hexion Inc.
6.625% 4/15/20 – 10.7% YTM

Hexion Inc. is the world's largest producer of thermosetting resins, thermosets, and adhesive and structural resins and coatings. Through a network of 65 active production sites around the world, Hexion serves over 4,800 customers in approximately 100 countries with annual net sales in excess of $4.0 billion. Hexion LLC, a holding company and wholly owned subsidiary of Hexion Holdings LLC (the ultimate parent entity of Hexion Inc.), is controlled by investment funds managed

Unconstrained Fixed Income Strategy Overview

New Portfolio Purchases

by affiliates of the private equity firm Apollo Management Holdings, L.P. Although operating income has steadily been increasing over the prior four years, rising from around $79 million in 2012 to just over $260 million as of FYE 2015, interest coverage (EBIT/interest expense) remains less than 1.0x, as Hexion's annual interest expense has increased from $263 million to $326 million over the same time period. Free cash flow generation has long been inconsistent for Hexion, but is anticipated to improve in the coming years as the result of lower raw material costs, a reduction in capital expenditure requirements, and growing sales volumes out of the Asian and Latin American markets. With close to $3.7 billion worth of debt on its balance sheet against annual EBITDA in the range of $250 million to $400 million, Hexion's leverage (total debt /EBITDA) is quite high at around 9.5x, and is expected to remain at elevated levels even as EBITDA is expected to rise in the coming years. Despite its elevated levels of debt, Hexion's liquidity profile is adequate, supported by $236 million of cash on its balance sheet and a $320 million untapped asset-based lending facility.

LSB Industries, Inc.
7.750% 8/1/19 – 6.2% YTM

LSB Industries, Inc. (NYSE: LXU), through its subsidiaries, is engaged in the manufacturing and selling of commodity chemical products (Chemical Business), water source and geothermal heat pumps, and air handling products (Climate Control Business) with operations and customers in both the United States and abroad. The Chemical Business typically accounts for over 60% of LSB's annual net sales and over 80% of its operating income, with approximately 50% of the Chemical Business's annual sales coming from agricultural related products (primarily ammonia and nitrogen-based fertilizers). LSB's Chemical Business has encountered a number of significant drawbacks in recent years which included an explosion in one of its nitric acid plants in May of 2012, a pipe rupture in one of its ammonia plants in November of that year, as well as persistent suspensions of production in one of its nitrogen processing plants at multiple times throughout 2012, 2013, and 2014. Given LSB's heavy reliance on both the productivity and resilience of the agricultural products segment of its Chemical Business, LSB initiated a large scale capital investment plan in late 2012 to revitalize and expand one of its primary ammonia processing plants in El Dorado, Arkansas known as the 'El Dorado Expansion'. Originally estimated to cost between $485 million to $520 million with full-scale production from the facility expected to resume sometime during 2015, the project was finally completed in the second quarter of 2016, but estimated costs for the entire project increased drastically and are expected to cost LSB between $835 million to $840 million in total. Traditionally, LSB has retained very modest levels of debt on its balance sheet, but due to declining operating cash flows, the increases in capital spending associated with the El Dorado Expansion project, as well as various other property, plant, and equipment investments initiated over the prior three to four years, LSB issued over $425 million of new senior unsecured notes to finance the aforementioned investments. LSB's leverage is expected to remain relatively high at around the 6.0x (total debt/EBITDA) range even as the company is anticipated to return to profitability as production levels continue to increase from several of LSB's revitalized chemical processing facilities. Currently, LSB's liquidity is adequate, despite the pressure on the company's operating cash flows, with support coming from a $100 million revolving credit facility, of which close to $70 million remains undrawn upon.

Zebra Technologies Corporation
7.250% 10/15/22 – 5.5% YTM

Zebra Technologies Corporation (NASDAQ: ZBRA), along with its subsidiaries, operates as a global leader in the 'Automatic Identification and Data Capture (AIDC) market, and is engaged in the design, manufacturing, sale, and support of direct thermal and thermal transfer label printers, radio frequency identification devices (RFID), barcode printing systems and hardware, mobile computing and advanced data capture technologies, as well as various other automation products and services. End-users of Zebra's products and services include retail, transportation & logistics, manufacturing, health care, hospitality, warehouse & distribution, energy & utilities,

Unconstrained Fixed Income Strategy Overview

New Portfolio Purchases

and education. In October of 2014, Zebra acquired the 'Enterprise' business, an industry leading mobile computing and advanced data capture network, from Motorola Solutions, Inc. for $3.45 billion, which was financed through a combination of $250 million of cash on hand, the sale of an aggregate principal amount of $1.05 billion 7.25% senior notes due in 2022, and a new term loan of $2.2 billion. Already possessing a diverse global customer base and dominant market position in specialized printers used in identification labeling, the Enterprise acquisition, although costly, allowed Zebra to further expand its already broad product portfolio and increase its presence in the retail, transportation & logistics end markets by inheriting Enterprises leading market position in rugged handheld computers and barcode scanners. As a result of the Enterprise acquisition, Zebra now has close to $3.0 billion worth of debt on its balance sheet. However, as full integration of the Enterprise business nears completion and operating synergies begin to take shape, we expect Zebra will begin to rapidly decrease its leverage profile given its historic ability, as well as the new combined entity's potential, to produce sizable and consistent year-over-year free cash flows, with further liquidity provided by an untapped $250 million revolving credit facility.

Central Garden & Pet Company
6.125% 11/15/23 – 5.1% YTM

Central Garden & Pet Company (NASDAQ: CENT), together with its subsidiaries, is a market-leading manufacturer and distributor of branded and third-party products in the pet and lawn & garden supplies industries in the United States. The product and brand portfolio for Central Garden's Pet Products group includes such names as Kaytee wild bird food, Nylabone dog bones and treats, Four Paws supplies for cats and dogs, Farnam equine supplies, Oceanic cat and dog food, and Aqueon and Zilla aquarium and aquatics supplies. The Garden Products group includes such products and brands as Pennington grass seed and wild bird feed, AMDRO fire ant control bait, Rebel grass seed, and the Eliminator private label produced exclusively for Wal-Mart stores. Annual revenues, which are fairly evenly divided between the company's Pet and Garden Products groups, have proven to be extremely stable and consistent, with Central Garden recording approximately $1.6 billion in sales year-over-year going as far back as 2006. Despite producing a broad array of widely recognized products and brands, Central Garden's degree of customer concentration is quite high, with the five largest customers accounting for over 45% of annual net sales, of which Wal-Mart stores (the company's largest customer) accounts for over 15% of annual net sales. Sales have begun to increase over the last couple of years, but it has been reductions in selling and delivery expenses over the prior three years that has allowed Central Garden to increase its operating income at a compound annual rate of over 30% over the aforementioned time span. Further adding to Central Garden's improving liquidity profile has been the company's decision to reduce portions of its outstanding long-term debt obligations, which has lowered its annual interest expense and returned interest coverage (EBIT/interest expense) to levels of around +2.0x. Central Garden's degree of leverage (total debt/EBITDA) remains modest, and has recently decreased to around 3.2x as of FYE 2015 from levels of between 4.0x and 5.0x maintained in prior years as a result of the aforementioned debt repayments and increases in operating income. This is our second time establishing a position in Central Garden's bonds, having had our original position in the company's 8.25% senior notes due 2018 fully called away from us in November 2015, as the company used the proceeds of the current 6.125% senior notes due 2023 to conduct said debt refinancing. We anticipate Central Garden will continue its deleveraging efforts in the coming years as both the company's earnings and free cash flows are expected to rise, which in all likelihood will result in future partial and/or full calls on our existing position in the 6.125% senior notes due 2023.

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.

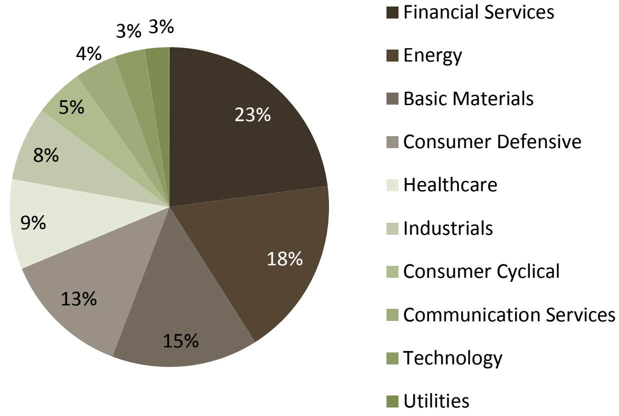
Classic value stocks sell at attractive valuations and provide above-average dividend yields and growth. Persistent earners are companies which have steady and predictable earnings and that are selling below their historic valuation. The distressed/contrarian category refers to stocks that are out of 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 International ADR Dividend Income strategy had both positive absolute and relative performance returning 4.12% year-to-date. The MSCI EAFE Value index was higher by 0.82% while the S&P Int'l Dividend Opportunities index has rallied 13.61% this year. Since its inception on June 1, 2010, the strategy has produced annualized returns of 4.29% versus 3.15% for the S&P Int'l Dividend Opportunities and 5.13% for the MSCI EAFE Value indices respectively.

Our sector allocations have had a significantly positive impact on active return while stock selection has had a negative impact on our relative performance during the year against the EAFE Value index. The consumer defensive, basic materials, technology and financial services sectors attributed the greatest portion to relative performance while the communications sector and our lack of any real estate holdings were detractors. 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 accommodative monetary policy and eventual global economic stabilization. The top performers for the year have been POSCO (45.6%), Taiwan Semiconductor (39.5%), BHP Billiton (37.4%), Eaton Corp (29.9%) and Siemens (27.3%) while the bottom performers have been Ensco (44.6%), Credit Suisse (36.3%), Aegon (27.3%), Mitsubishi Financial (17.3%) and Transocean (13.9%).

Sector Allocation (Morningstar)



Top Ten Holdings	Weight
HSBC	5.09%
Lloyds Banking Group	4.31%
Taiwan Semiconductor	3.00%
BHP Billiton	2.80%
Posco	2.70%
British American Tobacco	2.60%
Siemens	2.59%
Anheuser Busch	2.56%
Diageo	2.53%
Unilever	2.50%

MARKET AND ECONOMIC OUTLOOK

The broader stock market (S&P 500) rose by nearly 4% during a quarter that witnessed populism gain ground in Europe, the installation of a new government in the United Kingdom after the Brexit vote, an unsuccessful coup attempt in Turkey, and a U.S. presidential campaign that continued to unfold as the most unconventional in recent memory. Markets handled these uncertainties with aplomb as stock market volatility remained at extremely low levels through July and August. However, September seemed to usher in a change in tone. During the month, stock investors registered high anxiety, with stocks rising and falling sharply in response to any oil-related headlines and any suggestion of interest rate hikes by central banks.

Yields on U.S. 10-year Treasury bonds ended the quarter at 1.60%, up from 1.49% as of July 1st, as investors braced for an interest rate hike by the Federal Reserve that didn't come. However, those looking only at starting and ending levels would have missed the big mid-September move. Yields briefly rose to 1.73% on worries over central bank policies. The Fed's decision not to raise interest rates in September soothed markets; however, a December rise is potentially still on the table and financial markets remain keenly attuned to this possibility. For now, flows into investment grade (core) bonds are strong, the buyer base is broad, and central banks across the developed world remain hesitant to either spook the markets or hinder a still fragile economic recovery by doing more than just paying lip service to a move away from their easy monetary policies. The core bond index (Barclays US Aggregate Bond Index) gained just under 0.5% for the quarter.

Perception versus Reality: Managing Risk

Though we spend time analyzing each of our individual positions and holdings, the whole is very much more than simply the sum of its parts when it comes to portfolio management (Harry Markowitz won a Nobel Prize in 1990 for this insight). By definition, a well-diversified portfolio of assets will contain some laggards during any given measurement period, particularly over shorter-term periods. However, it's at least as important to focus on the overall portfolio and how the pieces fit together to complement one another.

Successfully managing portfolios requires the discipline to resist trading based on emotion (fear and greed), rather than on long-term return drivers such as valuations, yield, and earnings growth. Even in an advanced economy like the United States, the stock market has had at least a 10% decline every 16 months on average since 1950. Bear markets (20% or greater declines) in the United States have happened about every seven years, on average. The catch is that in most cases you can't predict what the exact cause of the volatility will be or exactly when it will hit. Even if you did successfully call the bear market, you'd need to also successfully time your re-entry so as not to miss out on the subsequent gains. Further, you'd need to do this consistently and repeatedly over an investment lifetime. That is simply not realistic, which is why our tactical investment approach is based on a range of potential outcomes and a longer-term time frame. As the examples we discuss illustrate, in our view, making investment decisions based on short-term market forecasts (guesses) is a losing game. We have no confidence that this approach can be executed successfully over time.

The Brexit Vote

In the run-up to the vote, polls suggested the outcome could be close but would most likely result in the United Kingdom remaining in the European Union. Financial markets were clearly surprised by the opposite result. Global stocks sold off in the two days following the vote. The Vanguard 500 dropped 5.3%, emerging-market stocks fell 6.7%, and European stocks plunged 13.6%. In contrast, the core bond index gained more than 1%.

In the vote's immediate aftermath, and after careful consideration, we decided not to make any changes to

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.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. The S&P 500® Index is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The Index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. The Russell 1000 Value Index is an unmanaged index commonly used as a benchmark to measure value manager performance and characteristics. The Dow Jones U.S. Select Dividend Index is an unmanaged index commonly used as a benchmark to measure dividend manager performance and characteristics. The Russell 2000 Index, the Russell 2000 Growth Index, and the Russell 2000 Value Index are unmanaged indices commonly used as benchmarks to measure small cap manager performance and characteristics. The MSCI EAFE® Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. The Barclays Capital U.S. Aggregate Bond Index and Barclays Corporate BB+ Index are unmanaged indices that are commonly used as benchmarks to measure fixed income performance and characteristics. Index performance returns do not reflect any management fees, transaction costs or expenses. Investments cannot be made directly in an index. **Investments made with Altrius Capital Management, Inc. are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested. Past performance is not a guarantee of future returns.**