Unconstrained Fixed Income Strategy

Portfolio and Economic Commentary – 2nd Quarter 2017

ALTRIUS
CAPITAL MANAGEMENT

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

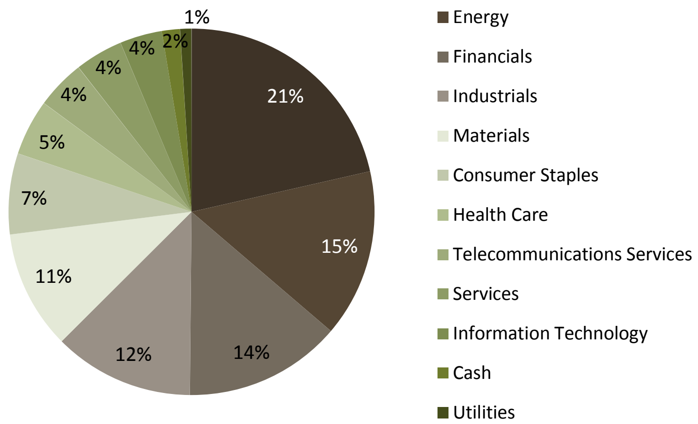
MARKET OVERVIEW

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	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%

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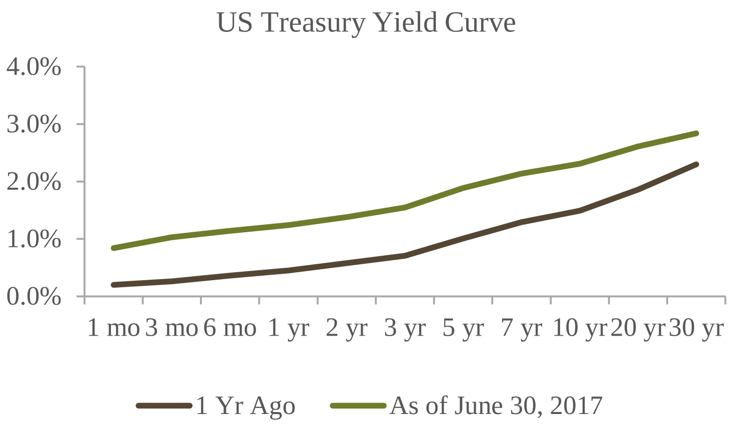
a level of 392bps as of March 31 2017 to 377bps by quarter end; and is currently 206bps below its 20-year historical average of 583bps. As previously mentioned, the yield curve continued to flatten during the second quarter of 2017, with the slope of the 'belly of the curve', the differential between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



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.

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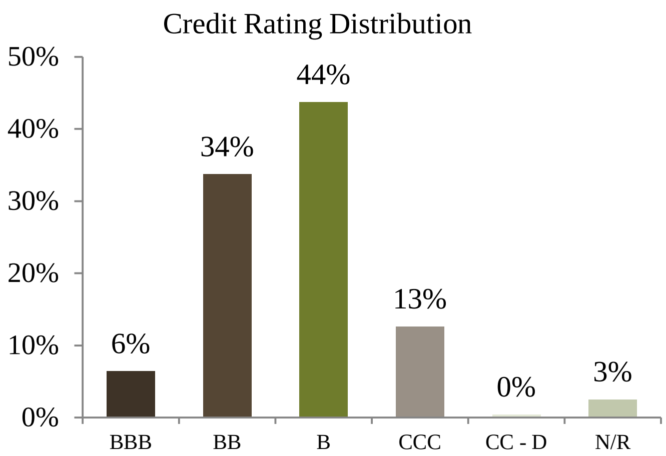
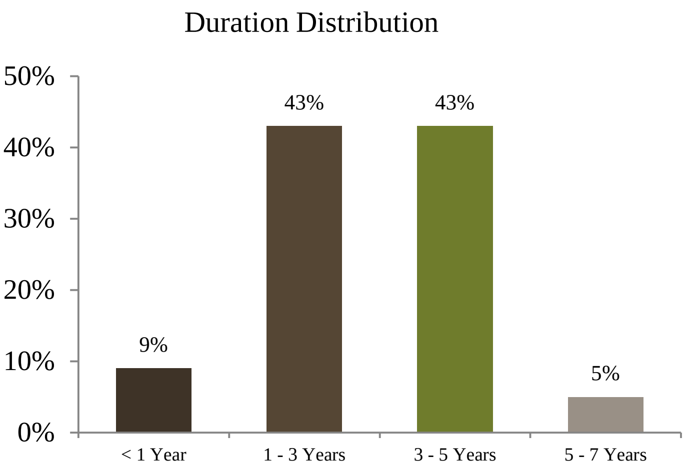
The strategy's overall credit quality improved marginally during the quarter, moving from an aggregate 'B' rating to 'B+'.

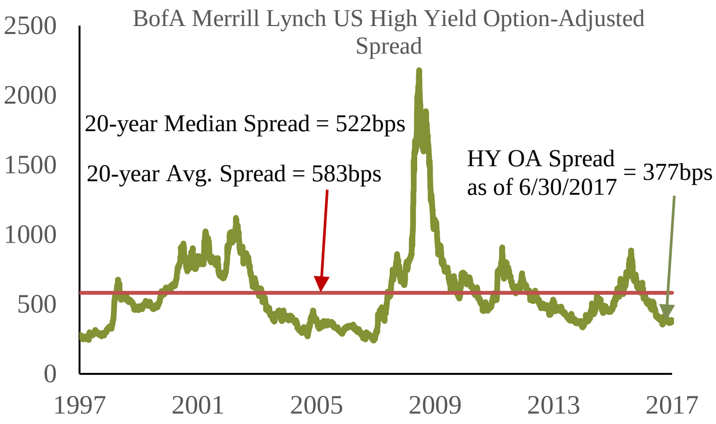


As a result of continued 'call activity' and the establishment of positions in slightly longer dated issues, both the aggregate maturity and effective duration for the strategy increased modestly during the quarter to 3.48 years and 2.96 years, respectively. The majority of new issues established during 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.

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