Unconstrained Fixed Income Strategy

Portfolio and Economic Commentary – 3rd Quarter 2017

ALTRIUS
CAPITAL MANAGEMENT

Portfolio and Economic Commentary

3rd Quarter 2017

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.

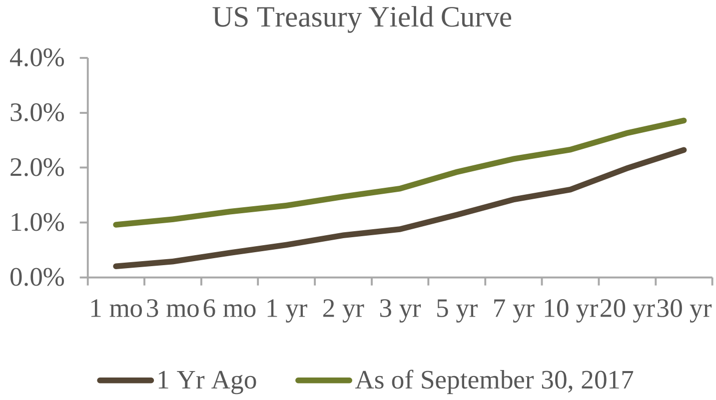
High Income - Our research attempts to identify issues paying above average income.

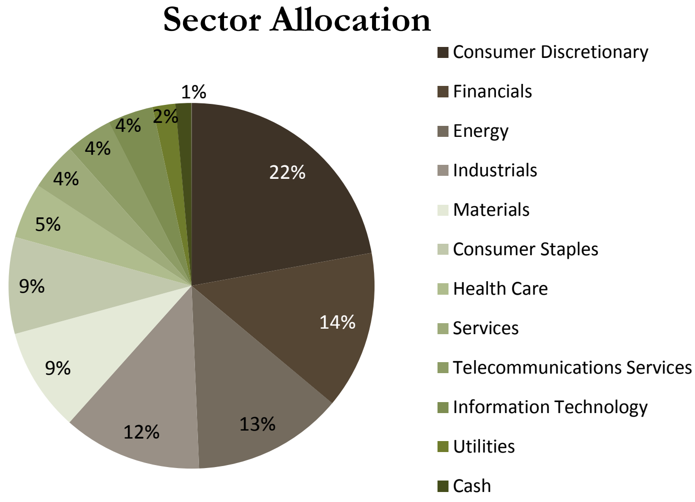
Risk Premium Management - We seek to attain an attractive yield/spread in relation to a five-year treasury within acceptable levels of portfolio risk.

Performance Commentary

Market Overview

High yield and investment grade corporate bonds were the two best performing segments in the broad US fixed income market for the third quarter of 2017 with each returning approximately +2.0% and +1.3% respectively. US Treasuries and US Agencies lagged all other fixed income market segments for the quarter returning +0.4% each. Year-to-date, high yield corporate bonds are the best performing fixed income market segment up approximately +7.0%, followed by investment grade corporates and broad based US Municipal bonds with each up approximately +5.2% and +4.7% respectively. The yield curve remained predominantly unchanged over the third quarter, experiencing only a modest flattening in the middle with the spread differential between the 2-year and 10-year contracting a mere 7bps.





Top Ten Holdings	Weight
American Axle & Manufacturing	1.47%
Blue Cube Spinco	1.46%
Centurylink	1.40%
Western Digital	1.39%
The ADT Corporation	1.36%
Tempur Sealy International	1.35%
Credit Acceptance Corp	1.34%
Icahn Enterprises	1.30%
Gap Inc	1.27%
Anglogold Ashanti	1.26%

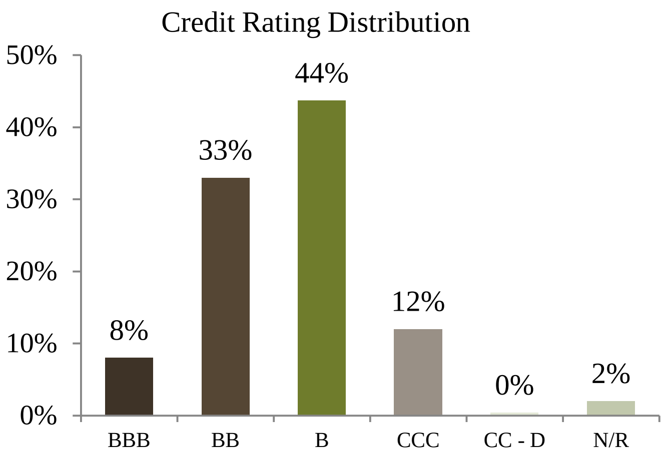
Unconstrained Fixed Income Strategy Commentary

Performance Summary

The Unconstrained Fixed Income strategy produced a gross return of +1.54% for the third quarter of 2017, compared to +1.82% and +0.84% 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 +4.75%, outpacing the Barclays US Aggregate Bond index by 161bps, but trails the Bank of America Merrill Lynch High Yield Bond index by 230bps.

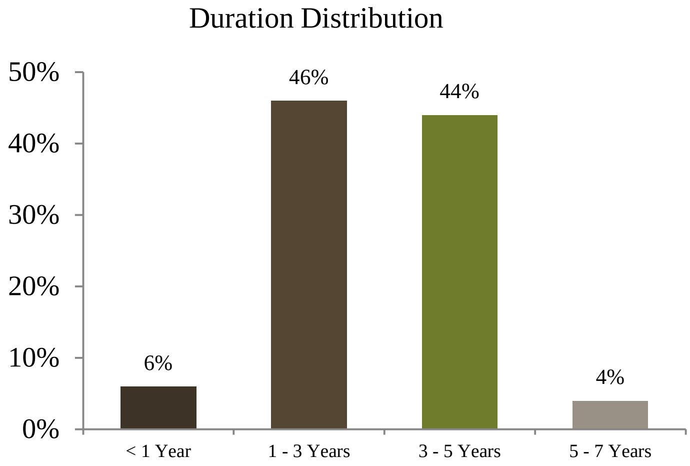
Strategy Characteristics

The strategy is heavily invested in the consumer discretionary, financial services, and energy sectors, with each accounting for approximately 22.0%, 13.9%, and 13.2% respectively of total strategy assets as measured by aggregate market value as of 09/30/2017. Exposure to the industrials, materials, and consumer staples sectors is also robust with each accounting for 12.2%, 9.1%, and 8.5% respectively. 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.



The strategy's overall credit quality remained unchanged over the prior the quarter, and currently stands at 'B +'.

Due to the limited availability of compelling investment opportunities in 'shorter dated' issues (bonds with maturities inside of five years), the strategy's aggregate maturity and duration increased slightly to 3.56 years and 3.01 respectively. We are comfortable with the modest increases in the strategy's aggregate maturity and duration profile; which began to materialize in the second quarter of this year and will likely be a trend that will continue over the next few quarters as we continue to increase the strategy's exposure to 'higher rated' corporate issues that predominantly have maturities reaching out to mid 2024.



Strategy Outlook

Even though aggregate credit spreads continued to contract in the corporate bond market over the course of the third quarter, the most sizable contractions occurred in lower rated investment grade bonds (BBBs) and higher rated high yield bonds (BBs), while the spread contraction of the lowest rated corporate bonds (predominantly CCCs) was much more modest. As previously mentioned, high yield bonds are outperforming all other fixed income market segments thus far in 2017, and have proven to be quite resilient with the 'option-adjusted spread' on the aggregate high yield bond market contracting approximately 21bps during Q3 to a level of 356bps, roughly 228bps below its 20-year historical average*. Despite the persistently rich

UNCONSTRAINED FIXED INCOME STRATEGY COMMENTARY

valuations in in the high yield market, we still believe it presents the best value in the fixed income space. Over the past twelve to eighteen months we found the most compelling investment opportunities predominantly in the higher end of the high yield market (issues rated BB- or higher), a theme which will mostly likely continue as we seek out higher rated and more stable credits to include in the strategy in the final quarter of 2017.

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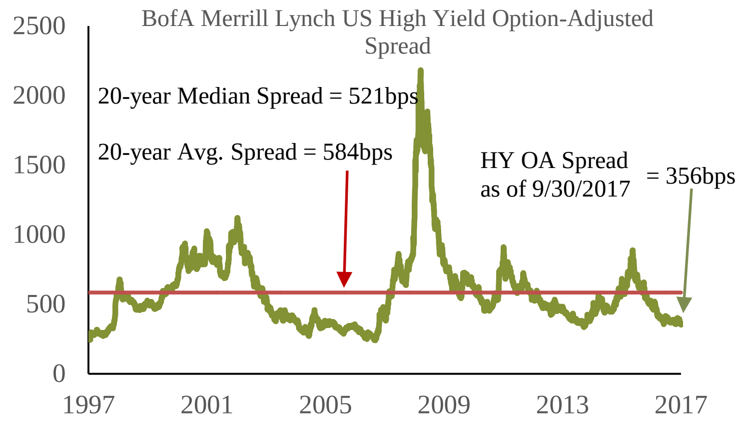

DISCLOSURES

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