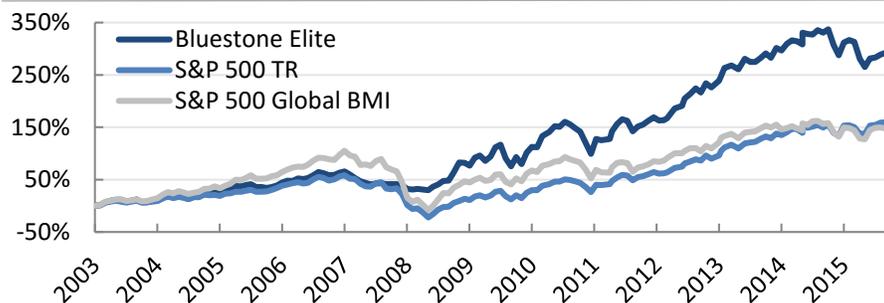


## Bluestone Elite – 3<sup>rd</sup> Quarter Commentary 2016

**Portfolio Managers:** Brian C. Shevland  
Lee A. Calfo

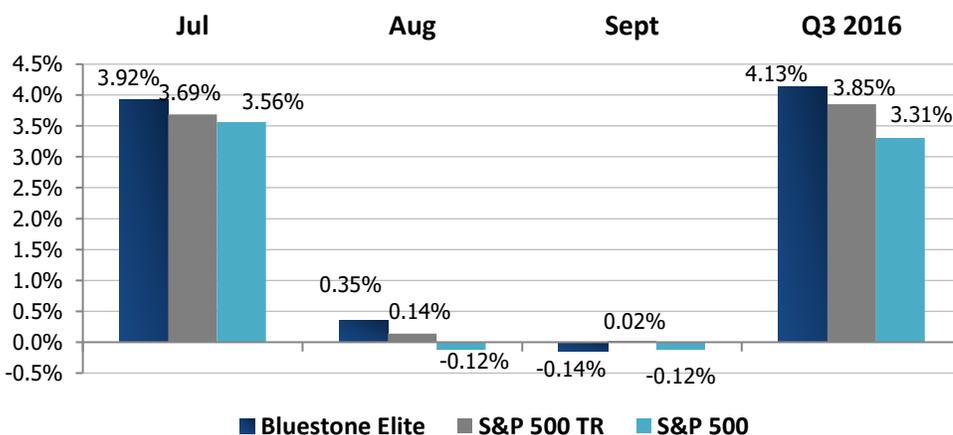


### Key Statistics (Since Inception)

|                   | Elite   | S&P 500 |
|-------------------|---------|---------|
| Cumulative Return | 292.16% | 159.59% |
| Annualized Return | 11.39%  | 7.82%   |
| Alpha             | 4.69%   | -       |
| Beta              | 0.85    | -       |
| Sharp Ratio       | 0.71    | 0.47    |
| Sortino Ratio     | 1.37    | 0.82    |

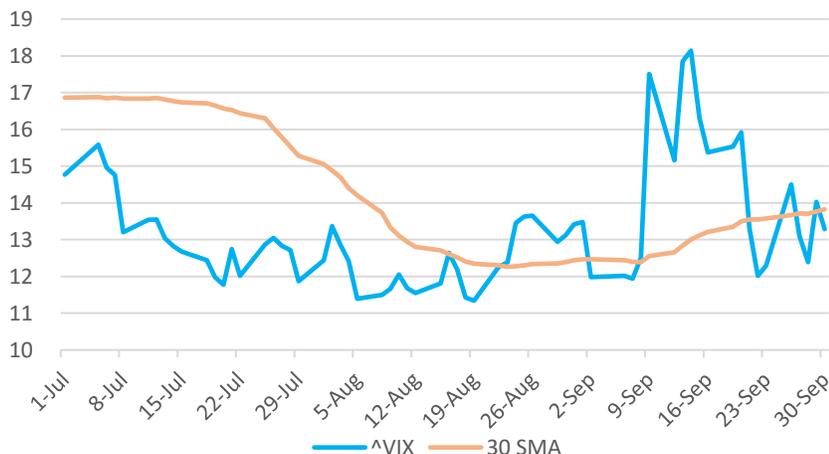
### Portfolio Overview:

The third quarter of 2016 is complete and the Bluestone Elite strategy generated solid performance for investors. The strategy was able to capitalize on the low volatility environment and constantly changing macro headwinds to post a net quarterly return of 4.13%. This compares favorably to the strategy benchmark's return of 3.85% for the S&P 500 Total Return index. Equally as important, we were able to accomplish this outperformance for the quarter with approximately 16% less risk. Given the challenging investment environment of late, we are pleased with the strategy's performance for the third quarter.



For the majority of the third quarter, we maintained our targeted sector exposures, small defensive positions, and rounded out the relatively quiet summer months with a couple of adjustments and a bit of profit taking. Currently Elite is fully invested with a 1% cash position. Election season is upon us, and while no one can predict the day to day gyrations of the market, we remain cautiously optimistic that better earnings are around the corner in 2017 and equity exposure will pay off over the long term.

### 3rd Quarter VIX



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### Macro Overview:

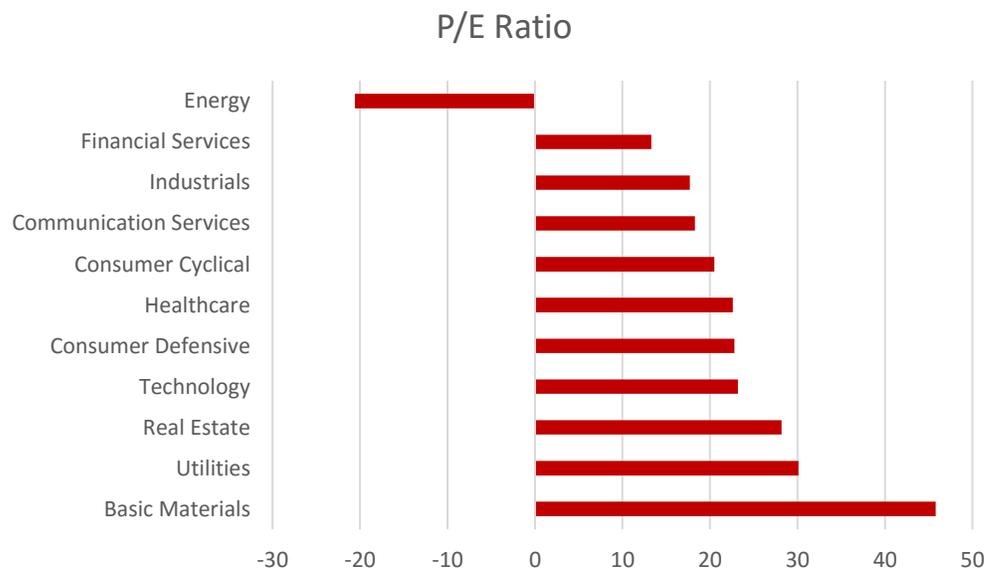
The third quarter of 2016 was a tale of two markets. After a strong July, equity returns fizzled out on conflicting

economic data which led to a September rate hike being taken off the table and volatility declined to historic lows. The VIX, a common measure of fear and volatility in the markets, spent the vast majority of the quarter under its long term average of 15, except for a brief few days in mid-September, and its 30-day simple moving average declined to under 15 for over half of the trading days in the quarter. This sentiment was indicative of a general level of ease that settled onto the markets post-Brexit. Economic indicators, while not necessarily terrific, were still showing positive signs, job growth remained positive and unemployment and new jobless claims remained low. Measures of consumer and business confidence showed few, if any, signs of weakness and a lack of macro fears helped create an environment of calm. While valuations continued to climb, market participants resigned themselves to the fact that these valuations may be appropriate for the current low- yield environment. Overall, notwithstanding a couple of days in September, the third quarter was one of the most relaxed and low volatility quarters on record. With that being said, volatility has a nasty habit lately of spiking rather aggressively and we continue to monitor both the domestic and international economies for signs of distress as well as the election cycle and headlines.

**Taking a longer view:**

The Bluestone Elite strategy is designed with the goal of improving the risk adjusted return of a portfolio over the course of a market cycle, primarily by overweighting and underweighting sectors where we believe we can improve the upcapture/downcapture of the portfolio and drive long term outperformance while protecting when necessary on the downside. This investment philosophy has served us well over the long term, but it is not designed to outperform in every short term time period. In environments like we currently find ourselves in,

finding value and discernable trends is extremely difficult. Most sectors remain well above their historical valuation averages and have oscillated between strength and weakness extremely quickly. Our belief is that our clients are best served by us making prudent and timely investments in sectors and industries that are best poised to



provide returns commensurate with their respective risk. We are closely monitoring the development of several potentially attractive risk/reward opportunities but the election cycle plays a crucial role in identifying the appropriate themes as they emerge. When these opportunities inevitably present themselves, we will be ready and waiting to capitalize on them.

**Looking forward:**

Global central banks continue to try to stimulate demand through more aggressive monetary policy, but we anticipate that these effects will be muted at best. As we move through election season and a potential rate hike in December, earnings growth will likely return to center stage as the primary driver of a breakout in either the

positive or negative direction. In addition, the yield curve has steepened over the past few weeks while loan origination has crept up as banks are seeing more demand for credit. While we can't be sure that this isn't a head fake, we remain fully invested in our best ideas and are optimistic that they will continue to provide outperformance for the portfolio through the end of this year and into 2017.

| GLOBAL CENTRAL BANK SCORECARD               |        |             |          |  |
|---|--------|-------------|----------|--|
| Country/Region:                             | Rate   | Last Action | Date     | Action   |
| <b>Current Policy Leaning: Tighter</b>      |        |             |          |  |
| US  | 0.50   | +25bps      | 12/16/15 | Raised rates for the first time since June 2006.                           |
| Mexico                                      | 4.25   | +50bps      | 06/30/16 | Raised rates for the third time since December 2015.                       |
| South Africa                                | 7.00   | +25bps      | 03/17/16 | Raised rates for the 6th time since 2014.                                  |
| Brazil                                      | 14.25  | +50bps      | 06/03/15 | Recently paused its rate hikes but rates are up +650 bps since March 2013. |
| <b>Current Policy Leaning: Neutral</b>      |        |             |          |  |
| Denmark                                     | (0.65) | +10bps      | 01/08/16 | Raised rates slightly but still negative.                                  |
| <b>Current Policy Leaning: Accomodative</b> |        |             |          |  |
| Switzerland                                 | (0.75) | -50bps      | 01/15/15 | Cut rates additional -50bps and removed minimum exchange for the euro      |
| Sweden                                      | (0.50) | -15bps      | 03/18/15 | Cut rates further into negative territory                                  |
| ECB/Euro Area                               | -      | -5bps       | 03/10/16 | Cut rates across the board & increased QE program to €80 billion per month |
| Japan                                       | 0.10   | -20bps      | 12/19/08 | 10/31/14- Increased Asset Purchases and talk of increasing again.          |
| Israel                                      | 0.10   | -15bps      | 02/23/15 | Cut rates -15bps, first cut in 7 months.                                   |
| UK  | 0.50   | -50bps      | 03/04/09 | Waiting for BOE to respond to 'Brexit' vote.                               |
| Canada                                      | 0.50   | -25bps      | 07/15/15 | Cut rates for second time this year  |
| Norway                                      | 0.50   | -25bps      | 03/18/16 | Cut rates another -25bps   |
| South Korea                                 | 1.25   | -25bps      | 06/09/16 | Cut rates for the first time in a year.                                    |
| Australia                                   | 1.75   | -25bps      | 05/03/16 | Cut rates another -25 bps to record low                                    |
| New Zealand                                 | 2.25   | -25bps      | 12/10/15 | Cut rates for 4th time in six months (first rate cuts since March 2011)    |
| China                                       | 4.35   | -25bps      | 10/23/15 | Cut rates for 6th time and lowered Reserved Ratio once again               |
| India                                       | 6.50   | -25bps      | 04/06/16 | Cut rates for the fifth time in past two years                             |
| Indonesia                                   | 6.50   | -25bps      | 06/17/16 | Cut rates for 4th time this year   |
| Turkey                                      | 7.50   | -25bps      | 02/24/15 | Cut rates -25 bps after significant decrease in January                    |
| Russia                                      | 10.50  | -50bps      | 06/14/16 | Cut rates for first time in a year.  |

*\*All investments involve risk, including the loss of principal. Past results do not guarantee future performance. Further, the investment return and principal value of an investment will fluctuate; thus an investor's equity, when liquidated, may be worth more or less than the original cost. This document provides only impersonal advice and/or statistical data and is not intended to meet objectives or suitability requirements of any specific individual or account. This report should not be construed as a solicitation to purchase or sell any security. Returns are presented in USD net of all fees shown as well as trading costs. The returns shown are for a composite of accounts assigned to the Bluestone Elite strategy composite managed by Bluestone Capital Management and at firms that the portfolio managers were previously affiliated before the founding of Bluestone in 2011. The Bluestone Elite composite includes all Bluestone Elite strategy accounts not a part of a WRAP program. The Bluestone Elite strategy is an equity replacement strategy which seeks to provide superior risk-adjusted returns over a full market cycle. The S&P 500 is a market capitalization weighted index designed to measure equity performance of US based large capitalization companies while the S&P Global BMI is a rules based index measuring global stock market performance. Prospective clients may obtain a compliant presentation by contacting the firm via the phone or email listed below.*