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Bluestone Elite – 2nd Quarter Commentary 2016

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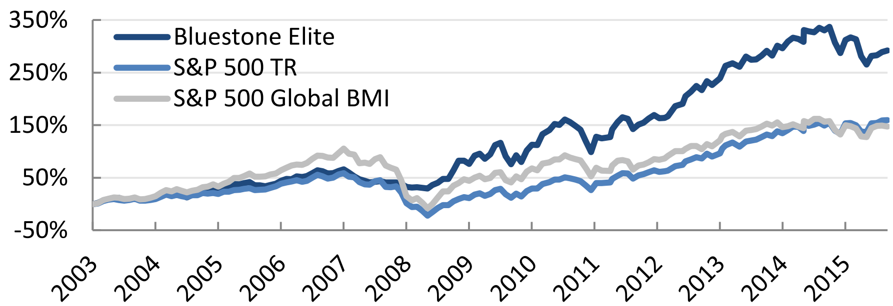
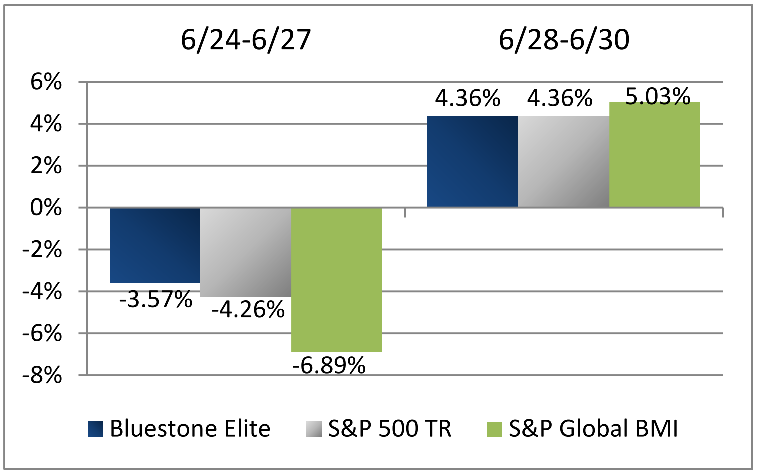


Key Statistics (Since Inception)

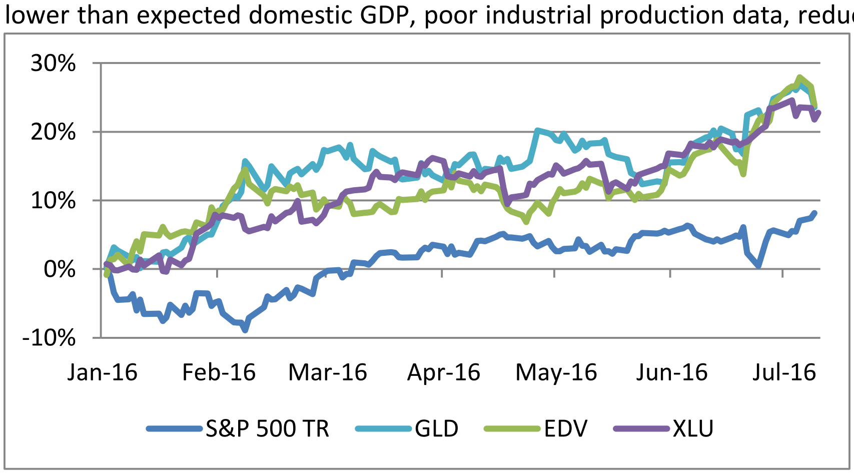
	Elite	S&P 500
Cumulative Return	292.16%	159.59%
Annualized Return	11.39%	7.82%
Alpha	4.69%	-
Beta	0.85	-
Sharp Ratio	0.71	0.47
Sortino Ratio	1.37	0.82

Portfolio Overview:

The 2nd Quarter of 2016 was an excellent quarter for the Bluestone Elite Strategy. We generated positive returns of +2.76% which outperformed the S&P 500 (+2.46%) and the S&P Global BMI (+1.23%). Most importantly, our outperformance was achieved with approximately 20% less risk than the benchmark through utilizing increased cash positions, as well as defensive (hedged) positions including gold, utilities, and U.S. Treasuries. This portfolio positioning helped to dramatically reduce the volatility around the Brexit vote as you can see in this chart. During the first 2 days after the surprise Brexit vote, the days where the majority of the carnage was experienced, the Elite strategy only experienced 83% of the downside of the S&P 500 (-3.57% vs. -4.26%) and only 52% of the downside of the S&P Global BMI (-3.57% vs. -6.89%). However, on the 3 positive days after the Brexit drawdown, the Elite strategy was able to capture 100% of the upside of the S&P 500 (+4.36% vs. +4.36%) and 87% of the upside of the S&P Global BMI (+4.36% vs. +5.03%). This is a perfect example of our value proposition as a manager with the ability to play defense when we feel it is appropriate.



As our investors are keenly aware, we are constantly analyzing the best way to provide superior risk-adjusted returns. In early 2016, we decided to make allocations to defensive assets based on several critical fundamental factors including lower than expected domestic GDP, poor industrial production data, reduced confidence metrics, and tepid inflation. These factors drove us to a cautious outlook and we subsequently added Treasuries (EDV), Gold (GLD), and Utilities (XLU) to the portfolio to reduce the market risk of the strategy while hopefully capitalizing on the prevailing "flight-to-quality" trend. These positions were instrumental in our ability to mitigate volatility and downside risk while still maintaining full upside participation throughout the quarter.



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Macro Overview:

In our view, the second quarter of 2016 is best viewed in a pre and post Brexit context. As the markets rebounded from their February lows, investors looked to the Fed to proceed with a fairly well telegraphed June rate hike and they looked forward to seeing Q2 earnings come in stronger than the disappointing Q1. However, the markets are rarely that predictable. Over the last few months, a plethora of weak economic data points and declines in Q/Q earnings and guidance resulted in the Fed electing to not pursue a June rate hike and the markets remained valuation capped as growth failed to materialize. Consequently, in the absence of strong negative or positive catalysts, the markets traded in a tight range with minimal volatility and a slight uptrend for most of the quarter. That is, until the last few trading days of June…

The decision of the British people to leave the European Union sent a shockwave through financial markets. The markets had almost complete confidence that Britain would choose to remain, and were therefore caught unaware when they woke up Friday morning to most equity markets around the globe in various states of disarray and confusion. The British Pound plunged, US bonds and Gold rallied, and equities the world over reacted violently to the prospect that the EU was not as united as it was once thought to be. As investors sought to minimize the damage to their portfolios, the Bluestone Elite strategy's defensive positioning and sizable cash buffer allowed us to mitigate the volatility and navigate the immediate aftermath of the Brexit crisis.

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. Recently, equity markets have been range bound with most sectors and industries oscilating between outperformance and underperformance based on short term appetitie for risk. This is a challenging investment environment that can best be described as a "risk on/risk-off" relationship which can be ideal for traders, but not ideal for strategies like ours that seek to identify long term trends and capitalize on them. In our view, the best opportunities for driving outperformance are still long term cyclical trends of superior profitiabilty and growth which have been hard to find in a market where earning estimates have been continuously revised lower. However, equity markets never remain range bound forever so we are continuing to monitor sectors for preferrable upcapture vs. downcapture in preperation for a breakout; whether it be positive or negative. Part of achieving long term risk-adjusted outperformance is recognizing that investing with a short term bias can be detrimental to your long term financial

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health. Some of the most famous long term investors like Warren Buffet have underperformed over certain time periods while continuously outperforming over the long haul. They're able to achieve this by remaining steadfast in their conviction and process and not falling victim to the short term mentality. We at Bluestone recognize how difficult this is to achieve and how painful losses can be, no matter how short-lived. But we also owe it to our clients to take advantage of opportunities in sectors and industries that we expect to offer superior long term fundamentals, even at the expense of short term price fluctuations.

Looking forward:

As the economic recovery continues at a slow and steady pace at home, the same can't be said of the rest of the world. Interest rates continue to trend lower and the prevalence of negative rates on sovreign debt continues to increase as long term growth expecatations temper. The US economy and the US debt and equity markets have continued to show resiliency in the face of continued pressure and weak earnings. Our expectations for the rest of the year are cautions but optimistic. We continue to believe that international investors will flock to US assets in an effort to protect capital. These inflows are likely to provide support on the downside. We see potential for meaningful earnings growth as consumers start to see wage increases as long as confidence remains strong. We believe it is prudent to maintain our portfolio with a reduced beta versus the market at this time to provide protection against volatility until meaningful earnings growth has been achieved.

GLOBAL CENTRAL BANK SCORECARD

Country/Region:	Rate	Last Action	Date	Action
Current Policy Leaning: Tighter				
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.
Current Policy Leaning: Neutral				
Denmark	(0.65)	+10bps	01/08/16	Raised rates slightly but still negative.
Current Policy Leaning: Accomodative				
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.