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Bluestone Elite - Strategy Commentary

June 30, 2015

Portfolio Manager:
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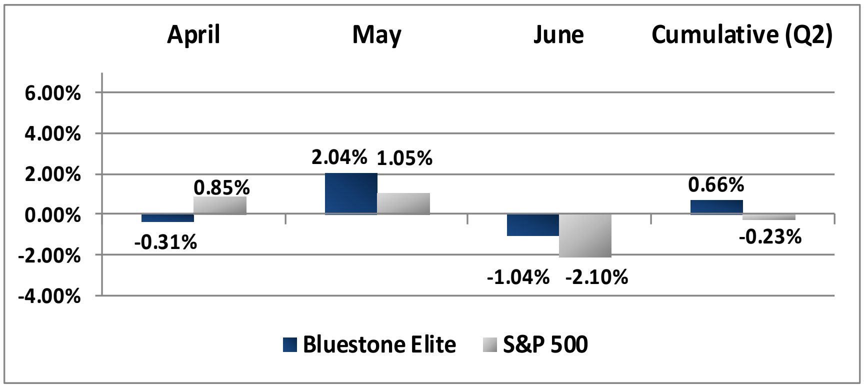
We are very pleased to report back to our investors that we had an excellent 2nd quarter for the Bluestone Elite Strategy on both an absolute and risk-adjusted basis. Last quarter started off quietly with some slightly positive news about corporate earnings growth and talks of an accelerating US economy that ultimately gave way to significant headwinds, particularly out of International markets with the massive sell off in the Chinese stock market and the ongoing Greek debt crisis. In addition, a series of conflicting economic indicators has allowed uncertainty around the timing and magnitude of potential interest rate hikes to remain an ongoing concern for us and the markets as a whole. Against this backdrop of uncertainty, the Elite strategy has certainly performed up to our expectations.

Over the course of the 2nd quarter of 2015, we have managed to return a positive .66% for our investors versus the S&P 500 index return of negative -.23%. This outperformance is broken down month-by-month in the chart shown to the right. April presented some challenges as our decision to maintain our overweight exposure to the healthcare sector was negatively impacted by a small sell off of those companies after several months of outperformance, which led to a loss of .31% versus a market gain of .85%. However, our sector weightings added tremendous upside for the portfolio in both May (2.04% versus 1.05%) and June (-1.04% versus -2.10%). It's important to note here that these returns were generated with approximately 16% less risk than that S&P 500 as measured by our beta of 0.84. We target this reduced level of risk by design, because we seek to reduce beta during more volatile stages of the market cycle in our portfolio construction process.



As is typical for any given quarter, we have made a series of minor portfolio adjustments that reflect our views of the markets, interest rates, and the global economy as a whole. We increased our exposure to the financial sector very slightly during the quarter; we believe that rising net interest margins, loan growth, and trading activity driven by rate hikes will directly translate into positive earnings growth for that sector. We also shifted a portion of our financials exposure from broad based ETF exposure to several individual names that we believe to be well positioned to outperform in the coming months and beyond. We modified our energy exposure to hedge our risk in the event crude oil turns lower again which, at the time of this writing, was a prudent move now that Iran will soon be bringing 500k more barrels per day to market. We slightly trimmed our exposure to the healthcare sector while still maintaining an overweight position as we felt it was

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time to take some profits and rebalance the portfolio. Overall, our allocation continues to perform up to our expectations and we've been able to continue our long track record of tax efficiency and low trading costs by maintaining a trailing twelve month portfolio turnover figure of less than 25%. As you can see in the chart below, which breaks down our holdings by sector, we continue to believe our healthcare allocations will provide improved up capture (more of the market gains) vs. down capture (less of the market losses) which we believe will directly translate into an improvement in risk-adjusted return for the portfolio. As a result of our relatively high weighting to healthcare, you would expect most of our other sector allocations to be underweight compared to the S&P 500, and that is indeed the case. Out of these other sectors, we want to highlight technology in particular for its exceptionally low weight in the portfolio. Technology company valuations have been moving higher over the past few years as a myriad of startups and app companies have been purchased at extremely optimistic valuations. In our view, we are not convinced that these valuations are sustainable and aim to achieve market returns with minimal exposure to areas that we feel are susceptible to major market downturns. At this point in the market cycle with many years of large gains for equities behind us we are less willing to maintain large exposures to the most richly valued sectors of the market. We instead seek better risk-adjusted returns in sectors we identify that still have strong growth prospects but exhibit higher amounts of sustainable earnings at lower relative valuations.