Blue Current

BLUE CURRENT GLOBAL DIVIDEND

2015 – Q2 Quarterly Letter

Prepared by:

EDGE ADVISORS

Blue Current SMA Strategy

June 30, 2015

Dear Investors:

The Blue Current Global Dividend Strategy returned +0.1% (net)[1] during the second quarter of 2015. We remind investors that our strategy is not managed to any specific equity index, but instead we focus on identifying companies that will pay a stable and increasing dividend and generate an attractive total return for our investors. For comparison, the MSCI World High Dividend Yield Index returned -0.9% and the MSCI World Index returned +0.3% during the quarter. Year-to-date, the strategy has returned +1.1% (net), which compares to the MSCI World High Dividend Yield Index return of -0.6% and the MSCI World Index return of +2.6%.

The second quarter can best be described as frustrating as a flat return is not indicative of how well we believe the majority of our portfolio companies are performing. Had the quarter ended two weeks earlier, we would have been happy to deliver an attractive return to our clients but global macro concerns once again pressured gains late in the quarter. As they say, timing is everything but we do take comfort in that broadly our companies are performing well and we are confident that the underlying value will be recognized in the quarters ahead. The portfolio continues to yield approximately 3.2% and our dividend growth rate remains soundly in the double-digit range.

BLUE CURRENT PHILOSOPHY & OBJECTIVES

The Blue Current investment team utilizes its expertise in growing cash flow to invest in what we believe is a niche universe of high quality, dividend-paying companies with sustainable business models and dividend policies. The primary objectives are to pay a stable and increasing dividend each quarter and deliver attractive long term capital appreciation to investors.

The portfolio is concentrated and invests in 25 to 50 companies across developed markets that meet our stringent quality requirements. We focus on companies that we believe have a strong history of rewarding shareholders and have the financial ability to continue to increase the dividend over time. We also focus on the future earnings potential of each company and strive to purchase those businesses when they are trading at a discount to their true value.

INVESTMENT ENVIRONMENT & CURRENT EXPOSURE

The second quarter did not lack for headlines and reminded investors (again) how delicate and sensitive financial markets remain to even the smallest hint of systemic risk post the Financial Crisis. Two specific incidents, Greece's threatening of eurozone stability and the collapse of China's local equity markets, created a brief market selloff late in the second quarter that investors have since moved past. Because we are invested in several European companies, we closely monitored Greek headlines and peripheral bond yields for signs of contagion that never surfaced. Our belief has always been that Greece does not represent a systemic risk but rather is an idiosyncratic risk factor that will pass without lasting impact on broad financial markets, even eurozone equities.

The impact of the stock market crash in China has potentially more significance but it remains difficult to quantify and assess its impact on China and the broader region. The majority of Chinese citizens are not

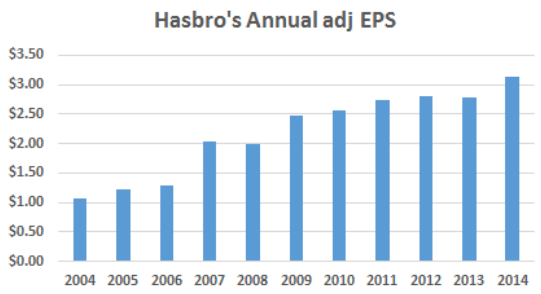
[1] Net of the strategy's highest annualized management fee of 1%

invested in the local equity markets (foreigners represent less than 2% of the market, eliminating broader systemic risk). Our portfolio does not own any stocks domiciled in China or Hong Kong but several of our companies do have material exposure to China and the region and could be at risk should recent events pressure the China consumer further. To err on the side of caution, we exited one position (Las Vegas Sands) and trimmed another (Volkswagen). We believe both companies will weather the environment but ultimately do not believe the near-term return potential outweighs the volatility impact on the portfolio.

Putting macroeconomic events aside, investors should have noted the accelerated pace of merger and acquisition activity that continued throughout the second quarter. Year to date, M&A activity is on a record pace and is likely to best the previous record set in 2007. The insurance sector has been a beneficiary, and two of our portfolio companies, ACE and PartnerRe, are engaged in significant transactions. During the quarter, ACE announced its intention to acquire Chubb, while PartnerRe is engaged in both a friendly merger (with Axis) and what is turning into a hostile defense against Exor. We view the ACE/Chubb combination positively and believe ACE shareholders will benefit from synergies, improved pricing, and greater scale. ACE was a detractor during the quarter but is one of our stronger performers in Q3. The PartnerRe/Axis/Exor saga continues to unfold, and we are fortunate to own PartnerRe while two suitors attempt to outbid one another. Both offers are friendly to shareholders and include significant cash distributions. [2] PartnerRe contributed 45 basis points (bps) to the portfolio during the quarter. Lastly, our investors also benefitted from Monsanto's attempted acquisition of Syngenta, a company we purchased during the second half of 2014. Despite Syngenta's rebuff of Monsanto's latest offer, Syngenta's share price continues to reflect the potential of either a higher Monsanto offer or a secondary strategic buyer. Our view is that Syngenta will remain independent and therefore we took advantage of a strong gain and exited our position. Syngenta contributed 61bps to the portfolio in Q2 and was our largest contributor.

Our second-largest contributor during the quarter (+51bps) was Hasbro, a position that we have owned since mid-2013. Hasbro is probably not at the top of the list when investors think of quality and dividends but we believe it should be. Quietly, Hasbro has been transforming its business mix from simply toys (NERF) and board-games (Monopoly) to include high-margin entertainment licensing revenue from major movie franchises such as *Transformers* and *Star Wars*. Another fact that most investors would not know: Hasbro has been increasing its dividend for 11 consecutive years, thereby rating the company "AAA" in our proprietary dividend ranking process. The company's three-year dividend growth rate is 11%. Despite being in a cyclical industry, Hasbro has also recorded remarkably consistent earnings growth over the past decade, from earning $1.06 in 2004 to earning $3.14 in 2014 – over that period, the stock appreciated 240%!

[2] At the time of this writing, it appears that PartnerRe will accept the recent $137.50 tender offer from Exor. In addition to the premium, PRE shareholders will also receive a special $3 dividend.



Source: Company / Bloomberg

Overall, consumer discretionary remains our largest sector, representing 29% of capital (including Hasbro) at the end of the quarter. The global consumer continues to benefit from several tailwinds that we expect to persist into 2016 including lower energy prices, improving employment trends, and upward momentum in housing prices – all of which are benefitting both the US and European consumer.

Following first-quarter trends, energy, industrials, and transportation stocks extended weakness through the second quarter. Our largest detractors during the quarter were Norfolk Southern, Volkswagen, and Alliance Resource Partners. The trio subtracted 1.1% from performance during the second quarter. In regard to Norfolk Southern, we trimmed the position in April and May preserving some of our profits during the quarter. U.S. rails continue to be challenged due to declining oil surcharges and weaker volumes across major commodity groups such as coal, agriculture, and metals. We reduced our exposure to Alliance during the quarter and trimmed exposure to VW in early July.

In early April we initiated a new position in UPS, a global leader in package delivery, transportation, and logistics. At the time of our purchase, the company was trading at roughly 18x forward earnings with a dividend yield of 2.9%. UPS has been steadily increasing its public dividend since the company's initial public offering in 1999, rating it "AAA" in our investment process. Prior to our purchase, the stock declined 16% from its recent peak for several reasons including recent operational missteps and declining fuel surcharges from falling oil prices. Our review of the company indicated that recent issues pressuring the stock were short-lived, and more importantly, we learned that UPS is engaged in several initiatives aimed at improving productivity and lowering costs throughout its U.S. footprint. Reinvesting in its tier 1 hubs to modernize facilities, reduce product touches, and improve productivity is just one example. The company also has a plan to boost margins within their Business to Consumer package business which has lower margins than traditional Business to Business, including price increases and efficiency improvements for drivers that should shorten routes and reduce fuel costs. Lastly, UPS is also an investment in the improving European economy; with the recent Q2 results, international operating profits increased 17% year-over-year, led by strong intra-Europe shipments. UPS will invest $1 billion in Europe in new facilities and enhancements. We are excited about this investment and believe the company could deliver double-digit annual returns to our investors though earnings growth and dividends.

INVESTMENT OUTLOOK

As we stated earlier, markets remain volatile and energy continues to induce pressure on a broad range of sectors, including transportation, industrials, and materials (including energy). Unfortunately, we do not see the environment improving this year, as lower energy is likely to dampen investment and capital expenditures for 2015 and likely 2016. We have our eye on several companies in the above sectors that are performing well given these headwinds and will initiate an investment when prices and/or expectations are better aligned. In the meantime, we continue to minimize our exposure to these volatile sectors while emphasizing the global consumer through portfolio companies such as Hasbro, Kingfisher, and Target.

Sincerely,

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