Blue Current

BLUE CURRENT GLOBAL DIVIDEND

2015 – Q3 Quarterly Letter

Prepared by:

EDGE ADVISORS

Blue Current SMA Strategy

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Dear Investors:

The Blue Current Global Dividend Strategy returned -7.0% (net)[1] during the third 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 -6.9% and the MSCI World Index returned -8.5% during the quarter. Year-to-date through Q3, the strategy has returned -6.0% (net), which compares to the MSCI World High Dividend Yield Index return of -7.5% and the MSCI World Index return of -6.0%.

A glance across geographies, styles, and sectors indicates there were few places for equity investors to hide during the volatile third quarter. Even Gold, traditionally seen as a safe haven during times of stress, declined 5% during the quarter.

Index	Q3 Perf
S&P 500	-6.4%
Dow Jones Industrials	-7.0%
Nasdaq	-7.1%
Russell 3000 Growth	-6.0%
Russell 3000 Value	-8.6%
MSCI Europe (USD)	-8.7%
MSCI Asia ex-Japan (USD)	-17.0%
Gold	-5.0%

Investors can attribute the highly correlated decline to any number of factors, but we would include the Fed's mixed policy message at or near the top of the list. Regardless of whether rates are headed higher or lower, equity markets can perform well when Fed policy is clear, but unfortunately this does not describe the current environment. Instead of clear policy, investors are deciphering a divided group of Fed presidents with differing views of U.S. economic progress. Which is better for equities: a weaker economy supported by unchanged rates or a strong economy with interest rate increases? The indecisiveness is coming to a critical juncture, which is the next Fed meeting scheduled for mid-December. Because Janet Yellen has all but stated they will lift rates in December, anything to the contrary could quickly erode what remaining confidence exists in the direction of monetary policy (and the economy). Under these conditions, we expect the investment landscape to remain volatile with the risk on/off mentality to persist through year-end.

Note: the sudden "risk-on" sentiment that developed in early October and continued into November has elevated the portfolio into positive territory for the year.

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

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

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.

PORTFOLIO COMMENTARY

Our investments in energy and industrials created the most pressure on the portfolio during the quarter. Specific to energy, we have long exited our direct commodity exposure; however, our combined positions in the shares of Enterprise Products Partners and Magellan Midstream (both are MLPs) have not proven to be as resilient as the underlying business models. The two positions detracted approximately 90bps during the quarter. No investment has created more strife for our PM team then our MLP exposure. We continue to own our core positions and strongly believe our thesis will be validated once short-sellers and technical pressure subsides on the broader MLP universe. In October, Enterprise Products released Q3 results that demonstrated the resiliency of their business model. The company increased its distribution 5.5% and has ample distribution coverage and balance sheet liquidity to maintain its cash flow for the foreseeable future. The company yields 5.6%. Also during the month, Magellan Midstream announced a 12% increase in its quarterly distribution, lifting the forward yield to 4.8%.

Volkswagen was also a significant detractor during the quarter, removing approximately 80bps from portfolio performance. By now, most are familiar with the Volkswagen headlines concerning the cover-up of higher-than-reported diesel emissions across 11 million automobiles in Europe and the U.S. The storyline unfolded over the weekend of September 18 and resulted in a subsequent 40% decline in the stock price over a 48-hour period. The auto industry has seen its fair share of product missteps and recalls; however, the events at VW constitute outright fraud and deception. Needless to say, the inability to forecast both future liabilities and the reputational damage to the VW brand prevented us from remaining in the position. We took our lumps and have redeployed the capital. Despite being only a 2% positon, VW was a painful lesson of the importance of diversification in a portfolio – a reason why we don't have large concentrated positions in Blue Current. Aside from the above detractors, other portfolio positions in the industrial and materials sectors were responsible for approximately 150bps of negative performance during the quarter.

Despite the above detractors, we are pleased with how well several of our core positions performed during the quarter. Of our 41 positions in the portfolio, 10 were positive during the quarter. Two of our largest positions, ACE and Accenture, both generated positive returns (around +2% each) during the quarter. Another core position, Kimberly Clark, returned nearly +4% over the time period. In reviewing the performance, many of our investments performed above our expectations; however, one-off losses in VW and significant valuation contraction across MLPs offset the gains.

We did not sit idly during the selloff and took the opportunity to initiate a few new positions in the portfolio. We initiated a new position in Texas Instruments (ticker: TXN), a company that has ranked highly in our process (quality score of 7.7) for over a year but until Q3 carried a valuation that we felt did

not offer compelling upside. Texas Instruments is a global leader in power management and analog and embedded processing. Unlike many semiconductor companies that are dependent on singular end markets (such as mobile handsets) for the majority of sales, Texas Instruments is well diversified across end markets. Its products tend to have longer life cycles and are at less risk of being designed out when a product refresh occurs. We are also attracted to the increased adoption rate of TI's embedded processors across multiple industrial applications including automobiles. To provide an example, according to a recent report by McKinsey, over the next 10 years the electrification of the automobile drivetrain will be a high-growth market for semiconductor usage in automobiles. The drivetrain currently represents 30% of all automobile semiconductor content and that percentage is expected to rise due to increased sales of hybrids and electronic vehicles. The average gasoline engine drivetrain incorporates approximately $100 in semiconductor content while the average hybrid drivetrain includes over $1,000 in content. Also, increasing semiconductor usage is the innovation occurring within automobile infotainment systems that now includes Wi-Fi and Internet access, among other features. We believe TXN is well positioned to take advantage of these trends and others. We initiated the position at less than 9x EBITDA, a valuation that we believe offers an attractive entry point to an excellent company with a long history of rewarding shareholders. TXN yields 2.7% and has a three-year dividend growth rate of 25%. The company announced a 12% increase in its quarterly dividend in October and is rated AAA in our process. The addition of TXN increases our technology exposure to 10% of the portfolio.

At a 23% weighting, Consumer Discretionary continues to represent our largest sector exposure within Blue Current. As we have written in prior quarterly letters, we believe the U.S. and European consumer continues to benefit from a number of tailwinds including improving unemployment trends, rising wages, and lower fuel expenditures. These macro-economic influences elevated the sector last year, and it continues to garner one of the highest quality scores across all sectors in our universe. With some exceptions, fundamental strength has also lifted valuations broadly across our universe of Consumer Discretionary companies. On the other end of the valuation scale, sectors such as Energy, Materials, and Industrials continue to cheapen due to weakening industrial production trends and commodity price pressure. In recent weeks, we have "dipped our toes" into the more cyclical sectors where we believe there are bargains (Schlumberger is an example); however, we remain reticent to materially increase our exposure at this time.

Since our last quarterly update, the following companies have increased their dividends:

- Accenture announced an 8% increase in its dividend
- Enterprise Products Partners announced a 5.5% increase in its distribution
- Magellan Midstream Partners lifted its distribution by 12%
- Microsoft announced a 16% increase in its dividend
- Stanley Black & Decker announced a 6% increase in its dividend
- Texas Instruments announced a 12% increase in its dividend
- WPP lifted its dividend by 37%

INVESTMENT OUTLOOK

To date, the third-quarter earnings season has provided a nice lift to the share prices of several of our core names. Many of our larger positions including ACE, Kimberly Clark, Abbott, Comcast, and Verizon have traded

higher on better-than-expected earnings reports. These tailwinds along with a renewed interest in equities, have elevated performance through the fourth quarter. The current portfolio yields 3.1% and our dividend growth rate remains near the 10% level.

As we move closer to 2016, Fed policy decisions (or lack thereof) will leave a strong impression on future investor sentiment. We are comforted that heading into December, our portfolio trades at a discount to the broader markets and that our companies have strong balance sheets and shareholder-friendly policies to navigate future volatility.

Note: We are excited to share that during the third quarter, the historical performance of our Blue Current investment strategies (including Global Dividend) was independently verified as GIPS compliant by Ashland.

Sincerely,

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