Blue Current

BLUE CURRENT GLOBAL DIVIDEND

2016 – Q3 Quarterly Letter

Blue Current SMA Strategy

September 30, 2016

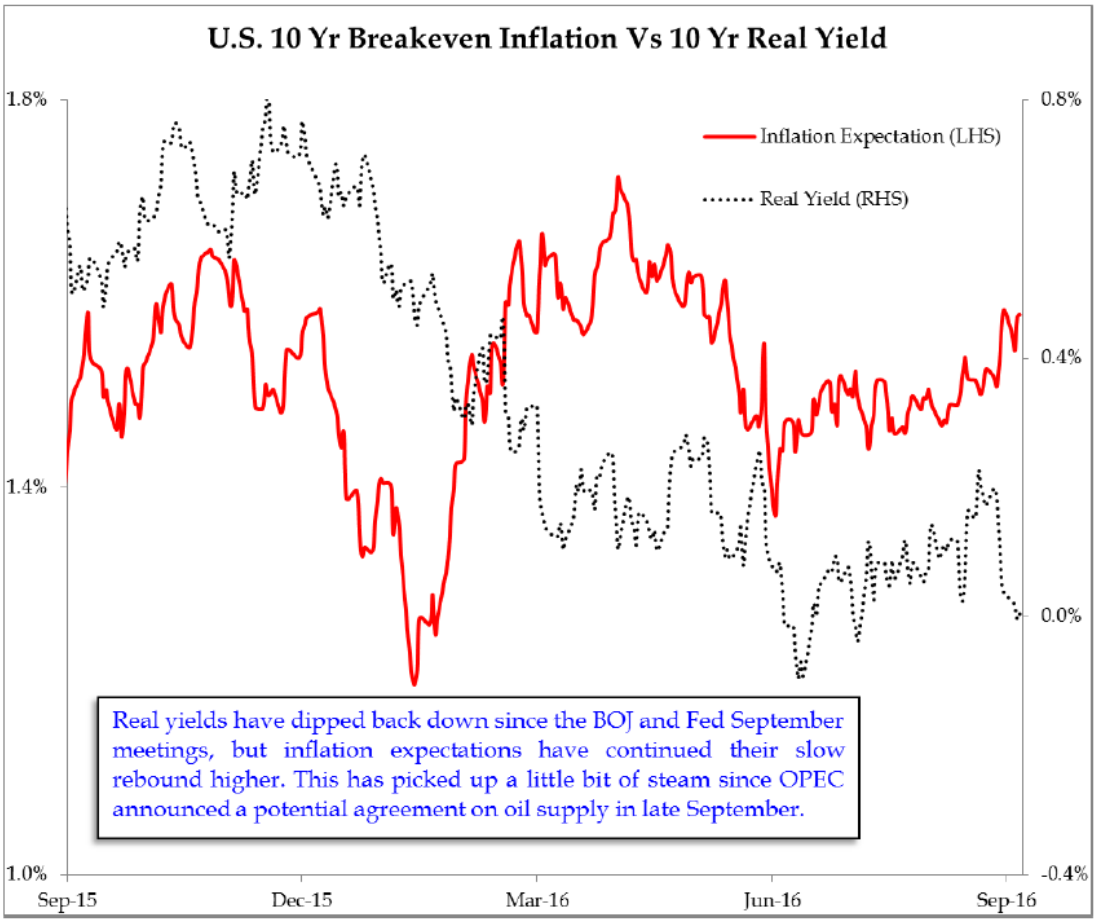
Dear Investors:

The Blue Current Global Dividend Strategy returned +2.6% (net) during the third quarter of 2016, improving year-to-date performance to +7.9% (net). 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 +2.6% and the MSCI World Index returned +4.9% during the quarter. For the year-to-date period, the MSCI World High Dividend Yield Index returned +9.6% and the MSCI World Index returned +5.6%. 2016 marks the eighth year that we have been managing the strategy.

Looking ahead to December

There were several prominent investment themes during the third quarter, but the rise in bond yields was arguably the most relevant to the market and our strategy. Since the end of the second quarter, most key rates along the Treasury curve have lifted between 25 and 30bps. Not isolated to Treasuries, LIBOR, a key lending interest rate, also continues to increase and is approaching the 1% threshold - a critical floor tied to many floating rate loans. There are technical issues related to money market reform that are accelerating the move, but it does coincide with a broad move higher within government Treasuries. The upward pressure on rates is confirming recent government statistics that suggest inflation could be breaking out from a long hibernation. The Bureau of Labor Statistics' CPI inflation gauge has increased 1.5% over the trailing 12 months, the largest increase since October 2014 – about the time when energy prices peaked. This measurement includes volatile food and energy, the latter of which is starting to increase, not surprisingly, following a significant rise in crude prices off the February lows. As we move into 2017, the energy contribution will accelerate as comparisons become more inflationary within reported statistics. Recent wage growth statistics combined with management commentary across industry sectors also support the idea that inflationary pressure is surfacing – creating a window of opportunity for the Fed to lift interest rates in December.

As expected, the increase in rates is also disrupting yield-sensitive equity securities, specifically within the RUST (REITs, utilities, staples, and telecom) sectors, an area in which we previously warned investors to reduce exposure. During the third quarter, utilities declined 5.9%, REITs detracted 2.2%, and the telecom sector returned -5.6%. These headwinds presented a challenging quarter for many dividend and income-focused strategies. As we highlighted in our investor letter last quarter, we believe that higher interest rates are an underpriced risk in the market as investors have become complacent with the "low growth equals no inflation" opinion. When the crowd leans too far in one direction, even small surprises can have an outsized response.



Source: Strategas

While we highlight the recent increase in expectations and its impacts on financial markets, we do believe there are some limitations and do not subscribe to the idea that the Fed is behind the curve. In fact, there are compelling arguments that we support as to why the Fed should not lift interest rates in December. The increase in LIBOR by itself will raise interest costs and subtract from corporate cash flow and discretionary consumer spending, thereby serving as a tightening mechanism. Our view is that interest rate or inflation risks are increasing, and although the magnitude of the increase is likely contained, the majority of investors continue to be naysayers. It is against this backdrop that we manage the portfolio with a cautious eye on valuations, especially in yield-sensitive companies that are beginning to reprice.

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 to 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

The technology sector was the largest contributor during the quarter, adding 170bps to performance. Entering 2016, approximately 10% of the capital was invested in the technology sector, but given an opportunity to re-enter two prior positions (Apple and Qualcomm), our exposure increased to 14% exiting the quarter. The two new entrants returned 19% and 29%, respectively, during the quarter. After remaining on the sidelines for a year, we re-purchased Qualcomm in April. We patiently monitored the company and its progress toward re-establishing economic relationships with the majority of Chinese OEMs that license Qualcomm's technology. While we watched un-invested, the company's stock price declined due to concerns over share losses to rivals with similar technologies and fears that Qualcomm's highly profitable licensing model was in jeopardy. In April, information that we felt confirmed 2016 as a trough year for business fundamentals and indications that the handset OEMs were again paying royalties were catalysts for Blue Current to initiate a new position. We re-entered QCOM with a forward PE of 12x and a dividend yield of 4%. In recent weeks, speculation that the company will acquire a fast-growing peer that complements Qualcomm's existing businesses has elevated shares further.

Although there is less value today in the sector, technology remains one of the more attractive areas as valuations are below the broad market and the group has significant free cash flow for share repurchases and dividend increases. Because our process stresses dividend growth as a byproduct of revenue and free cash flow, technology stocks have been elevated in our ranking methodology that blends quantitative and fundamental analysis.

Just prior to the close of the quarter, we exited our only REIT in the portfolio, National Health Investors, a company that we wrote about last quarter as one of the few REITs that, despite a significant rally this year, still met our requirements. The company's share price appreciated (again) during the quarter and pushed the valuation discrepancy between the company and its peers to levels that were not justified. NHI was one of the few healthcare REITs that benefited from significant multiple expansion throughout the year. With the sale of NHI, the portfolio has no exposure to REITs or utilities.

In recent months we have fielded many questions concerning the fund's international exposure, specifically to companies domiciled within the UK. The companies in the portfolio that are domiciled outside of the US contributed 1.1% to portfolio performance during the quarter. As we have discussed in recent letters, we are largely invested in exporters and large-cap multinationals that are positioned to benefit from a weaker local currency, including the British pound sterling. WPP, a global advertising firm domiciled in the UK, was our top performing non-US company during the quarter, returning +15% (as measured in USD). WPP yields 3.1% and has a 17% three-year dividend growth rate. Other international companies that performed well during the quarter include Intercontinental Hotels (United Kingdom), LVMH (France), and Danone (France). Until we see further discounts relative to US peers, we have resisted adding exposure to companies that are solely exposed to the local consumer, including retailing and homebuilding. Despite the strong performance this quarter, we are not convinced that the market's optimism will be supported with

improving fundamentals for these sectors. As we exit the quarter, our exposure to companies domiciled outside of the US (including companies that are domiciled for tax purposes) is 42%.

INVESTMENT OUTLOOK

While recent financial and economic evidence suggests that inflation is beginning to accelerate in the US, European markets, including the UK, continue to struggle with deflationary forces, especially in the retail sector. To offset these pressures, consensus suggests that the US Federal Reserve will act in December with the potential for one or two additional interest rate increases in 2017. At the same time, the ECB continues to keep rates depressed (mostly negative) in hopes of transitioning the local economies to where the US is today. These varying behaviors around the globe combined with political uncertainty in the US in November, Italy in December, and several prominent European elections in 2017 with major implications, imply that volatility will accelerate, placing significant pressure on region and sector selectivity in 2017.

For these reasons, we are positioning the portfolio for what we believe is the ideal balance of earnings growth and valuation. As long as valuations are extended, we remain underweight yield-sensitive sectors in the US, and continue to lean on international staples, positioned to benefit from a weaker local currency, as natural rate and currency hedges in the portfolio. We continue to like technology due to the balance of growth, valuation, and leverage, and remain extremely selective to the consumer, both in the US and abroad. The result of these decisions is a portfolio with a price/earnings ratio of 15.5x and a dividend yield of 3.0% (gross). In our eight years of managing the Blue Current strategy, the portfolio has, on average, been valued at a one to two-point valuation discount relative to the S&P 500. Today, the discount is closer to three points (15.5 PE versus 18.5 PE for the S&P 500) – reflecting our cautious view on the path ahead.

For more information on our strategy, please visit www.bluecurrentportfolios.com.

Sincerely,

Henry "Harry" M. T. Jones
Co-Portfolio Manager
Blue Current Global Dividend

Dennis Sabo, CFA
Co-Portfolio Manager
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EQUITY PERFORMANCE				
	Blue Current Equity Composite (net of 1% manager fee)	Cumulative	MSCI World High Dividend Yield Index (no transaction costs or fees)	Cumulative
2009	15.0	115.0	32.9	132.9
2010	12.7	129.6	6.3	141.3
2011	8.6	140.8	3.9	146.8
2012	11.4	156.8	12.2	164.7
2013	28.9	202.1	21.9	200.8
2014	3.4	209.0	2.5	205.8
2015	-2.0	204.8	-3.2	199.2
2016-YTD	7.9	221.0	9.6	218.3
CAGR (since inception)	**10.8**		**10.6**	
CAGR (trailing 3 years)	**5.5**		**5.0**	
CAGR (trailing 7 years)	**10.7**		**8.1**	

Source: Blue Current Investment Management. 2016 performance has not been verified by our independent verification service provider, Ashland Partners & Company. See GIPS disclosure at the end of this report.

BLUE CURRENT INVESTMENT MANAGEMENT

EQUITY ONLY COMPOSITE

Annual Disclosure Presentation

1/1/2009 to 12/31/2015

Year	Blue Current Gross Return	Blue Current Net Return	MSCI World High Div Yield Net Index Return	MSCI World Net Index Return	Blue Current Standard Deviation	MSCI World High Div Yield Net Standard Deviation	MSCI World Index Net Standard Deviation	Internal Dispersion	Number of Portfolios	End of Period Assets	End of Period Firm Assets
2009	16.11%	14.97%	32.48%	29.99%	NA 2	24.23%	21.70%	NA 1	< 6	$1,565,376	$10,970,324
2010	13.85%	12.71%	6.29%	11.76%	NA 2	25.89%	24.05%	NA 1	< 6	$2,363,654	$32,789,983
2011	9.67%	8.58%	3.89%	-5.54%	14.98%	21.81%	20.44%	NA 1	< 6	$19,499,442	$77,655,266
2012	12.50%	11.40%	12.24%	15.83%	12.58%	15.33%	16.98%	0.49%	16	$30,917,548	$190,942,763
2013	30.14%	28.88%	21.91%	26.68%	10.53%	11.88%	13.73%	0.29%	46	$71,025,142	$267,812,275
2014	4.40%	3.35%	2.48%	4.94%	8.84%	10.44%	10.37%	0.31%	57	$115,318,155	$337,317,537
2015	-1.04%	-2.03%	-3.20%	-0.87%	10.37%	11.16%	10.80%	0.64%	58	$122,654,070	$325,139,286

N.A.1 - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
N.A.2 - The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The three-year annualized standard deviation is not presented for periods with less than 36 months of data.

Blue Current Global Dividend Composite includes all fully discretionary, fee paying accounts under management following a common investment objective, including those accounts no longer with the firm. The Composite invests primarily in domestic or international securities the portfolio manager feels have the potential to deliver outperformance due to a combination of price appreciation and current income in the form of a dividend. The composite will typically invest in securities with a current dividend yield in excess of the broad equity markets with a history of consistently

increasing the dividend rate and with what we believe to be strong fundamentals at an attractive price (i.e. low use of leverage, operating margins in excess of 5%, free positive cash flow yield, a price to earnings ratio at or below the market average, and earnings growth). The Global Dividend Equity Composite was created on 1 January 2009. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using the highest allowable annual management fee of 1% applied monthly. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
Past performance is not indicative of future results.

The investment management fee schedule for the composite is 1% on the first $5 million, .7% on the next $5 million, 0.65% on the next $10 million, .55% on the next $30 million, .45 on the next $50 million. Fees for assets over $100 million are at a rate customized to the client. Actual investment advisory fees incurred by clients may vary.

The benchmark MSCI World Index includes 1611 stocks located across 24 developed countries and captures approximately 84% of the free float-adjusted market capitalization in each country. MSCI uses the maximum withholding tax rate applicable to institutional investors in calculating MSCI net dividends

The MSCI World High Dividend Yield Index is based on the MSCI World Index, its parent index, and includes large and mid-cap stocks across 23 Developed Markets countries. The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent. The index also applies quality screens and reviews 12-month past performance to omit stocks with potentially deteriorating fundamentals that could force them to cut or reduce dividends. MSCI uses the maximum withholding tax rate applicable to institutional investors in calculating MSCI net dividends

Blue Current claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Blue Current has been independently verified for the periods January, 2009 to June, 2015 by Ashland Partners. & Company. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Blue Current Global Dividend composite has been examined for the periods January, 2009 to June, 2015, by Ashland Partners & Company. The verification and performance examination reports are available upon request. Note: Blue Current firm AUM has been amended.

Blue Current Investments is a subsidiary of Edge Advisors, LLC ("Edge"). Edge is an independent registered investment adviser based in Atlanta, Georgia. Blue Current manages separate account strategies with defined investment objectives styles. Edge's total firm assets of approximately $2.7B (as of July 31, 2015) include the assets manager by the Blue Current division of Edge ($295.98M) as well as those managed by Edge but not by the Blue Current division. All employees who work within the Blue Current division of Edge may also manage assets for Edge outside of the Blue Current division. The firm's list of composite descriptions is available upon request.

Withholding taxes may vary according to the investor's domicile. Composite returns are gross of withholding tax and represent investors domiciled primarily in the United States. The MSCI Indices uses withholding tax rates applicable to GHI Country holding companies.

Disclosure and Risk Summary

The opinions expressed herein are those of Edge Capital Partners, LLC, and the report is not meant as legal, tax, or financial advice. You should consult your own professional advisors as to the legal, tax, financial, or other matters relevant to the suitability of investing. The external data presented in this report have been obtained from independent sources (as noted) and are believed to be accurate, but no independent verification has been made and accuracy is not guaranteed. The information contained in this report is not intended to address the needs of any particular investor.

The information contained in this document does not constitute an offer to sell any securities nor a solicitation to purchase any securities. Index returns reflect the reinvestment of dividends.

PAST PERFORMANCE CANNOT BE CONSTRUED AS AN INDICATOR OF FUTURE RESULTS BECAUSE OF, AMONG OTHER THINGS, POSSIBLE DIFFERENCES IN MARKET CONDITIONS, INVESTMENT STRATEGY, AND REGULATORY CLIMATE. THERE IS NO ASSURANCE THAT THE FUND WILL ACHIEVE ITS INVESTMENT OBJECTIVE. INDEX INFORMATION (I) IS INCLUDED MERELY TO SHOW THE GENERAL TREND IN THE EQUITY MARKETS FOR THE PERIODS INDICATED AND IS NOT INTENDED TO IMPLY THAT THE FUND'S PORTFOLIO WILL BE SIMILAR TO THE INDICES EITHER IN COMPOSITION OR RISK AND (II) HAS BEEN OBTAINED FROM SOURCES BELIEVED TO BE ACCURATE.

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