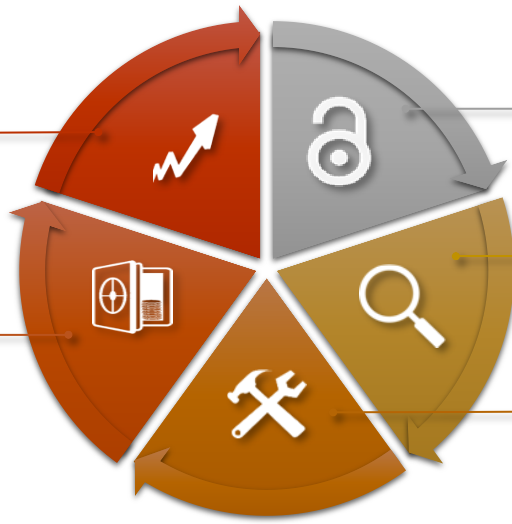
KbC Core Fundamentals



2016 in Review

As we look back on 2016 there is much to consider in what seemed a tale of two halves. During the first part of the year headlines were dominated by several points of concern such as slower global growth, oil prices, interest rates and the announced exit of the U.K. from the European Union. The back half was dominated by the November elections here in the U.S. As always it is important to place these events in the context of a well-diversified portfolio as a larger function of your overall financial plan. Let's take a look…

Equity & Fixed Income Markets

Exchange Traded Fund Equity Indexes	Performance through December 31, 2016				
Index ETF	**Ticker**	**Year to Date**	**1 Year**	**3 Years**	**5 Years**
Vanguard Total Stock Market	VTI	12.83%	12.83%	8.39%	14.63%
iShares MSCI EAFE	EFA	1.37%	1.37%	-1.69%	6.43%
Vanguard FTSE Emerging Markets	VWO	12.21%	12.21%	-1.64%	1.45%
Exchange Traded Fund Fixed Income Indexes	**Performance through December 31, 2016**				
Index	**Ticker**	**Year to Date**	**1 Year**	**3 Years**	**5 Years**
iShares Core U.S. Aggregate Bond	AGG	2.41%	2.41%	3.00%	2.15%
SPDR Barclays High Yield Bond	JNK	14.43%	14.43%	2.50%	5.45%

Source: Morningstar

Asset Allocation Portfolios:

Exchange Traded Fund Allocation Indexes	Performance through December 31, 2016				
Index ETF	**Ticker**	**Year to Date**	**1 Year**	**3 Years**	**5 Years**
iShares Core Aggressive Allocation	AOA	7.77%	7.77%	4.15%	9.75%
iShares Core Growth Allocation	AOR	6.68%	6.68%	3.87%	7.67%
iShares core Moderate Allocation	AOM	5.71%	5.71%	2.94%	5.50%
iShares Core Conservative Allocation	AOK	5.04%	5.04%	2.61%	4.18%

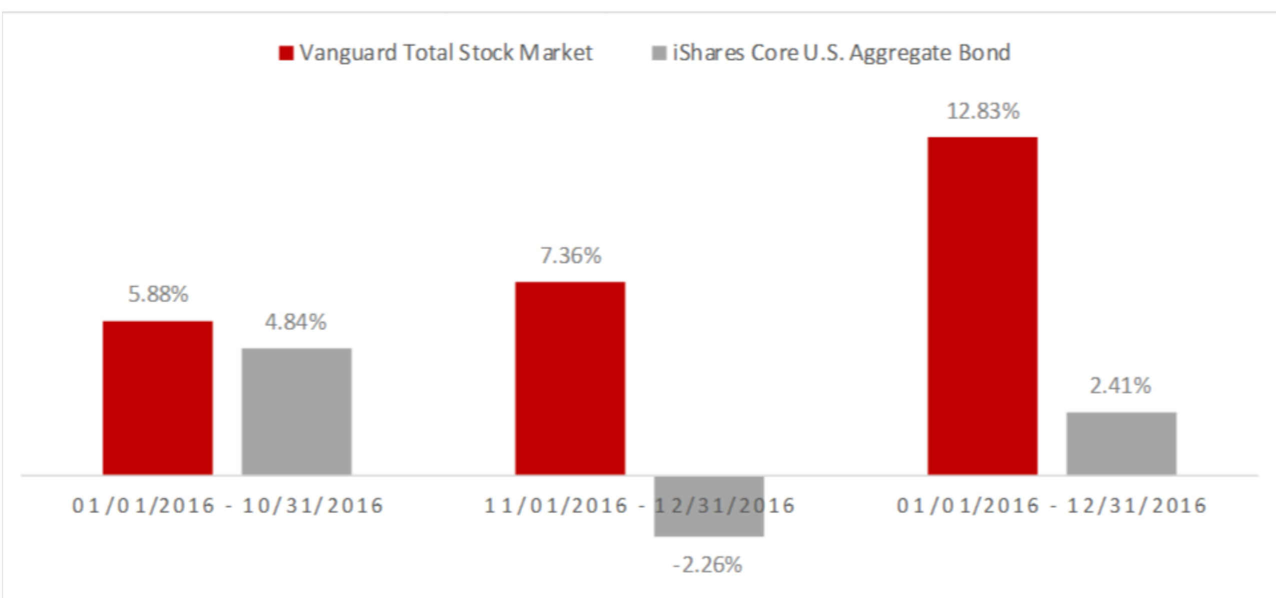
Source: Morningstar

After selling off dramatically in late 2015 and early 2016, credit markets were robust for most of 2016 providing strong returns with limited volatility. That changed November 8th. During the weeks following the November elections a brisk increase in interest rates ushered in significant volatility to the credit markets, in some cases eroding a significant portion of the gains from the previous 10 months.

Performance comparison of domestic equity and fixed income markets through the end of October, over the last two months of the year and for the full year:

Exchange Traded Index Fund	Performance Data			
Index	**Ticker**	**1/1/2016 - 10/31/2016**	**11/1/2016- 12/31/2016**	**1/1/2016- 12/31/2016**
Vanguard Total Stock Market	VTI	5.88%	7.36%	12.83%
iShares Core U.S. Aggregate Bond	AGG	4.84%	-2.26%	2.41%

Source: Morningstar



Source: Morningstar

As evidenced in the graph, asset allocation is of utmost importance and is usually the difference between success and failure within a portfolio. In most cases, asset allocation is the single biggest determinant of long-term investment performance. For specific reasons, adherence to an asset allocation policy with periodic rebalancing for appropriate risk management delivers better results over time than market timing and/or attempting to overweight specific asset classes to drive incremental outperformance. We view the latter as a fool's game akin to gambling; an opinion supported by an abundance of academic research.

Market Overview

2016 felt like two or three years in one from a financial markets perspective with numerous events impacting both the equity and fixed income universes. First, there was equities selling off significantly over the first six weeks of the year only to rebound fully by the end of Q1. Then the Brexit vote, the decision of the U.K. to leave the EU and the near-term volatility it created during late June. Finally, the election of Donald Trump as the 45th President of the United States, and this being contrary to the view of many market observers who envisioned a dramatic equity sell-off, drove a strong year -end rally in domestic equity markets as well as providing a lift to yields across the interest rate spectrum. Thus, stocks experienced outsized gains versus expectations while bonds modestly trailed predicted levels. Overall, most balanced portfolios experienced mid-single digit percentage returns in 2016, a nice improvement from levels realized a year earlier.

As we move to 2017, expectations are baking in an increased level of optimism, an improved macroeconomic backdrop and a significant shift in broader policy out of Washington, one more exposed to fiscal accommodation as opposed to the monetary accommodation in place over the past several years. While this likely points to continued upward momentum in domestic equities it most likely will not be straight up as numerous potential headwinds are plausible including a too strong dollar that negatively impacts multinational firm earnings, expectations of too much too soon coming from Washington and continued populism sweeping through Europe (ahead of upcoming referendum voted across the continent) and the potential for this to drive increased volatility, amongst other exogenous shocks not even on most market observers' radar at the moment.

Our predisposition is to modestly overweight equities (think +5% to average allocations) while slightly underweighting fixed income (a couple of percentage points lower than normal with a small amount of incremental cash available to take advantage of "new money" interest rate opportunities as they present themselves). Given the outsized move in equities since early November we will admit that we are less optimistic currently as consolidation of the significant move higher needs to be realized. That said, we are optimistic in regards to more getting done in 2017 and 2018 than in the past few congressional cycles and the possibility of this lifting economic growth to levels not seen consistently in over decade. This combined with the bottoming in earnings realized late in 2016 and hopefully lower corporate tax rates (and the potential repatriation of cash from overseas) could drive domestic equities to above average returns this year and next. This justifies our modest overweight to equities, but as always, we believe a properly allocated portfolio is one that is well-diversified across asset classes and is cognizant of the risk inherent in these assets.

Equity

Equity markets performed admirably in 2016, especially given the significant hole dug early in the year (down ~12% on average through the first six weeks). A recovering second half of Q1 driven by the realization that nothing systemic was wrong with the broader economy, followed by an early summer lift (post-Brexit) and optimism around potential pro-growth policies of a newly elected President led to double-digit percentage returns for the full year. An improved macroeconomic environment (across the globe) coupled with modestly higher interest rates may be the recipe for another solid year of domestic equity returns. With easier year-over-year comparisons from an earnings perspective and the potential for favorable fiscal policy, valuations which seem reasonable may not need to expand to move equities higher as earnings growth could do the heavy lifting.

From a size perspective during 2016 much of what was the case at mid-year expanded into year-end with small caps outperforming large caps while mid caps remained squarely in the center. The small to large gap expanded post the election and ended the year at a wide ~1,000 bps. This is due to the market perceiving broader benefits accruing to smaller companies with a more domestic footprint that are likely to be less impacted by a stronger U.S. dollar, potential trade sanctions that may come to fruition as the new administration takes office later this month and a less onerous regulatory environment that has disproportionately impacted these companies. The emerging market category performed well producing ~8% positive returns during 2016, although varying levels of volatility were and are likely to continue to be experienced given current strength in the U.S. dollar, growth expectations and potential trade policy impacts. China lagged, declining mid-single digits percentage during 2016 while India saw slight growth in the low-single digit percentage range and Brazil was the standout, posting positive returns of ~60%. Conversely, developed international markets posted just modestly positive returns during 2016, weighed by slightly negative returns in Europe.

Coming back to the U.S., value outperformed growth across the board as a combination of flight to safety (early in year), search for yield (throughout year) and exposure to North America (throughout year but in greater need post-election) were attributes in high demand. Sector performance was mixed with Energy, Financials and Industrials all outperforming by sizeable margins (500 bps or better relative to the broader market), while Consumer Staples, Consumer Discretionary and Real Estate lagged by decent margins (between 300 and 500 bps, respectively on a relative basis). Finally, dividend paying stocks performed in line with broader large caps, unwinding ~300 bps of outperformance in the first half of the year as pressure from rising interest rates and the narrowing of the gap between the average dividend yield and that of the 10-year U.S. Treasury yield came in dramatically.

Fixed Income

The broader fixed income market was a mixed bag during 2016. After starting out strong, pressure late in the year from rising interest rates negatively impacted returns. While standouts across categories included high yield and investment grade, the broader Bloomberg Barclays U.S. Aggregate Bond Index saw just a 2.4% increase for the full year, falling off quite dramatically from mid-year when the index stood at +6%. Given the move in yields, especially since early November this was not a surprise though the magnitude of the sell-off may have been surprising.

For the year, the best performance was seen in high yield, emerging markets and bank loan categories, with increases of 13%, 11% and 9%, respectively. Within the high yield complex weakness across the commodities spectrum seen in late 2015 and early 2016 resulting from slower global growth and a strengthening U.S. Dollar, highlighted by the dramatic selloff in oil prices pressured credit markets early in the year.

Other areas within fixed income saw more muted performance during 2016 including investment grade (+6.5%) and inflation-protected (+4.6%), while government categories performed worst, reversing a strong first half of the year as a rising yield environment pressured prices significantly overwhelming coupon.

Heading into 2017, interest rates are likely to trend higher as broader macroeconomic policy shifts towards more fiscal accommodation versus prior years where monetary accommodation was the central focus. Leading to higher GDP growth and increased inflation (albeit at measured levels), interest rates are likely to rise (driven naturally by market forces as well as from the FOMC's lifting of the Federal Funds Rate). This should be positive for bank loan and high yield areas and as a result predispositions our bias towards these categories. An area of potential concern that needs watching is the strength of the U.S. Dollar and while a strong currency is good policy, there are limits. Stress on multinational firm earnings, trade pressures and weakness in emerging markets are all negatives which could impact fixed income markets.

2016 Performance of Equity Portfolios

2016 provided challenges for performance across KbC's equity portfolios. Dividend strategies performed relatively in line with benchmarks and produced the highest return in absolute terms while the Core and Market strategies lagged their respective benchmarks. In both of latter cases, stock selection negatively impacted results but we believe this had less to do with company fundamentals and was more a result of sector favorability. While having exposure to in-favor sectors may be important in driving performance in the near-term, over longer periods this impacts less and owning the right companies is what creates lasting alpha. Despite what we would consider lackluster performance in both the Core and Market strategies during 2016, our confidence in the underlying quality of companies within the portfolios remains high and we believe the strategies are well positioned heading into 2017 and beyond.

Performance for all six Knightbridge portfolios can be seen in the table below.

KbC Equity Strategy Portfolio Performance

Strategy	2016	Since Inception	Annualized Return
Alpha Beta Core	**2.69**	**20.84**	**6.51**
SPDR S&P 500 (SPY)	11.87	27.84	8.53
+/- Benchmark	*-9.18*	*-7.00*	*-2.02*
Alpha Beta Dividend	**11.70**	**26.34**	**8.11**
Vanguard Dividend Appreciation ETF (VIG)	11.89	22.18	6.91
+/- Benchmark	*-0.19*	*4.16*	*1.20*
Alpha Beta Market	**5.19**	**74.76**	**14.98**
Vanguard Total Stock Market ETF (VTI)	12.69	68.05	13.86
+/- Benchmark	*-7.50*	*6.71*	*1.12*
Select Core	**2.25**	**70.63**	**14.29**
SPDR S&P 500 (SPY)	11.87	68.15	13.87
+/- Benchmark	*-9.62*	*2.48*	*0.42*
Select Dividend	**13.16**	**72.58**	**14.62**
Vanguard Dividend Appreciation ETF (VIG)	11.89	53.13	11.24
+/- Benchmark	*1.27*	*19.45*	*3.38*
Select Mid Cap	**4.65**	**86.87**	**16.92**
SPDR S&P Mid Cap 400 (MDY)	20.04	68.89	14.00
+/- Benchmark	*-15.39*	*17.98*	*2.92*

Performance is gross of management and transaction fees and includes dividends reinvested

Source: Vanguard, State Street and Knightbridge Capital