

Global Income Strategy

Portfolio and Economic Commentary – 4th Quarter 2018





GLOBAL INCOME STRATEGY COMMENTARY

Our investment philosophy is predicated on a time-tested, three pronged approach providing solid risk adjusted returns to our investors for over two decades.

- We believe in the importance of getting paid immediately for the risks which are taken and focus on businesses which compensate our clients with **dividends and above average interest**. We believe this income stream, coupled with capital appreciation, is a vital aspect of total return.

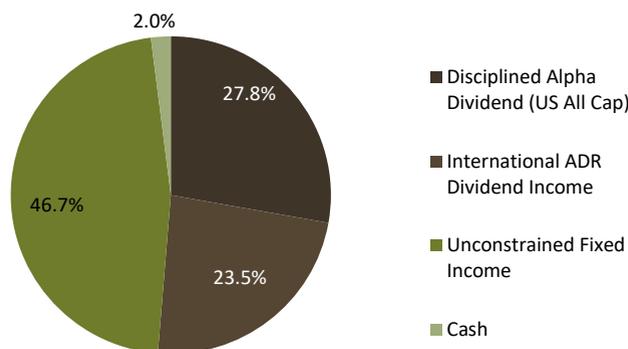
- We dig deep for **value** often viewing crisis as an opportunity. We believe that fundamental research and patience are critical to long term success and that over time, the price of a company will rise to reflect the value of the underlying firm viewing each purchase as if were buying a piece of a business – not simply a stock certificate.
- We believe that **global revenue generation** is a key component to growth and sustainability and invest in companies with global growth opportunities. We are unafraid to take contrarian positions, but remain diligent about the risks of a global economy.

PERFORMANCE COMMENTARY

The Global Income strategy posted a loss of 4.89% during 2018 versus a loss of 4.06% for the blended balanced benchmark. The annualized trailing returns for the strategy since our inception on January 1, 2003 are 6.54% versus 7.01% for the blended benchmark and 5.83% for Morningstar’s US Fund Allocation – 50% to 70% Equity. The twelve month trailing yield for the Global Income strategy stands at 4.98% versus 1.71% for the Vanguard Balanced index fund (VBINX).

We remain underweight to a traditional 60% stock/40% bond portfolio due to the risks which remain and valuation metrics. That said, our portfolio maintains an attractive 10.51 P/E (TTM) which is significantly lower than the broader market indices – most of which currently maintain multiples approximating 18 times trailing earnings. Our focus continues to emphasize the importance of immediate income to our investors particularly in this volatile, low interest rate environment, which we believe will persist for longer than most economists. In the fixed income sector, our emphasis remains on high yield bonds, which we believe more adequately compensates our investors for credit risk, while providing better protection in a potentially rising interest rate environment. The following is an analysis of the independent strategies which comprise our flagship Global Income strategy in percentages indicated above.

Sector Allocation



Top Five Equity Holdings

Company	Weight
Starbucks	1.39%
Merck & Co.	1.28%
Proctor & Gamble	1.21%
Pfizer	1.21%
Kimberly Clark	1.17%

Top Five Fixed Income Holdings

Company	Weight
Treehouse Foods	0.65%
Oppenheimer Holdings	0.63%
Tempur Sealy	0.62%
NCR Corp	0.62%
Ingles Markets	0.60%



DISCIPLINED ALPHA DIVIDEND STRATEGY COMMENTARY

As value investors, we constantly focus on our duty to protect the principal of our investments even as we look for ways to grow them over time as well. As economists, we remain alert to trends taking place in the larger global economy. As analysts, we seek to invest in securities priced with a margin of safety in order to account for their near term volatility and our uncertainty about what the future holds. With this in mind, we look for opportunities in three specific categories: classic value, persistent earners, and distressed or contrarian.

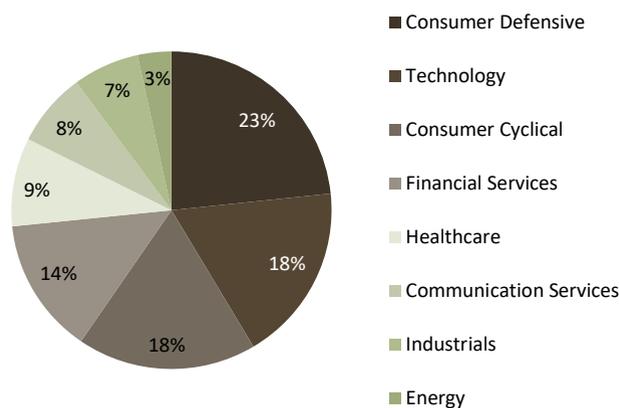
Classic value stocks sell at attractive valuations and provide above-average dividend yields and growth. Persistent earners are companies which have steady and predictable earnings and that are selling below their historic valuation. The distressed/contrarian category refers to stocks that are out of favor due to what we perceive to be temporary factors and are likely to appreciate substantially as the temporarily distressing factor recedes. Typically the distressed category is the smallest in the portfolio.

PERFORMANCE COMMENTARY

The Disciplined Alpha Dividend strategy was lower by 3.48% during 2018 outperforming the Russell 3000 Value and Dow Jones US Select Dividend indices which lost 8.58% and 5.94% respectively. The strategy has produced alpha and sound ten-year risk adjusted returns besting the Russell 3000 Value index and its large value peer group for the past 1-year, 3-year, 5-year, 10-year, 15-year and since inception periods. The trailing annualized ten year returns were 12.38% for the strategy and 11.12% for the Russell 3000 Value index. Since inception on January 1, 2003, the strategy has returned 8.56% versus 8.40% for the Russell 3000 Value index and 9.00% for the Dow Jones US Select Dividend index.

Our sector allocation weighting and security selection both enabled active return contributing to relative performance for the year against the Russell 3000 Value index. The healthcare, consumer defensive and energy sectors have been our largest contributors to active return, while the utilities, consumer cyclical and industrials were the largest detractors. The top performers for the year have been DineEquity (50.2%), Merck (39.9%), Starbucks (24.1%), Proctor & Gamble (30.5%) and Pfizer (24.6%). The bottom performers for the year have been Pitney Bowes (-42.4%), Hanebrands (-38.5%), Principal Financial (-35.0%), Ford Motor Company (-34.5%) and International Paper (-27.7%).

Sector Allocation (Morningstar)



Top Ten Holdings

Weight

Starbucks	4.96%
Merck & Co.	4.57%
Proctor & Gamble	4.30%
Pfizer	4.30%
Kimberly Clark	4.17%
Verizon	4.15%
Cisco Systems	3.85%
PepsiCo	3.85%
Intel	3.80%
B&G Foods	3.77%



DISCIPLINED ALPHA DIVIDEND STRATEGY COMMENTARY

As one may recognize from the below chart, our firm has consistently provided a steady stream of income to our clients in the form of dividends. It is our assertion that this income stream has not only reduced the risk of our portfolio, but also provided a large part of the total return thereby leading to our performance success over this past tumultuous decade plus.

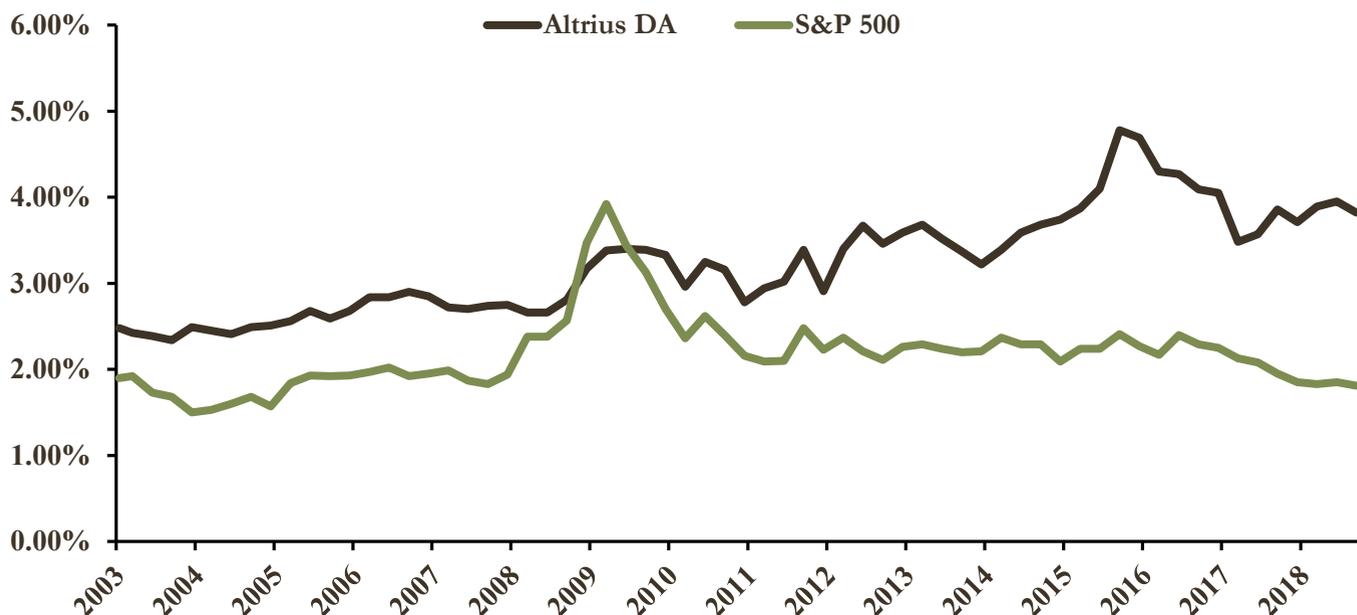
We believe that dividends allow our investors to “get paid to wait” while patiently working through volatile business and market cycles. This strategy provides emotional support during difficult cycles and enables investors to weather turbulent periods by utilizing dividend income for personal needs or to reinvest cash at lower valuations. Our strategy is not only grounded in psychological and behavioral finance concepts, but is also supported by empirical evidence outperforming in both negative and full market cycles.

Dividends also act to align the interests of corporations and shareholders in helping to eliminate the agency effect. Corporate boards have recognized the value of dividends in stabilizing their stock prices and encouraging investment during both high and lower tax regimes. In supporting and increasing dividends over time, managers are compelled to maintain a reliable stream of cash flows to shareholders rather than waste capital on those expenses adding little to corporate revenue including executive perks, pet projects, and ill-timed, unwise acquisitions. It appears a paradox; however, our experience and academic studies have displayed that sufficient investment for a good business can still occur in conjunction with dividends as managers are forced to invest cash flow more prudently and only in those capital investments in which they have the highest conviction in adding to corporate revenue, particularly since stock buybacks are often ill-timed.

ALTRIOUS: A STORY OF CONSISTENT DIVIDENDS OVER THE YEARS

The strategy has consistently delivered an above average dividend yield versus the S&P 500 since its inception.

Altrius Disciplined Alpha Dividend Income vs. S&P 500 Dividend Yield



Source: Morningstar



INTERNATIONAL ADR DIVIDEND INCOME STRATEGY COMMENTARY

As value investors, we constantly focus on our duty to protect the principal of our investments even as we look for ways to grow them over time as well. As economists, we remain alert to trends taking place in the larger global economy. As analysts, we seek to invest in securities priced with a margin of safety in order to account for their near term volatility and our uncertainty about what the future holds. With this in mind, we look for opportunities in three specific categories: classic value, persistent earners, and distressed or contrarian.

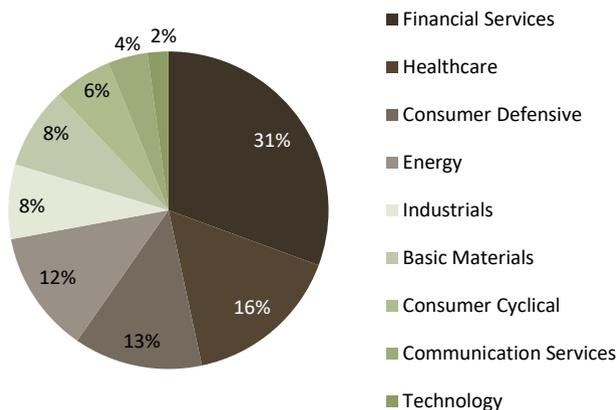
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PERFORMANCE COMMENTARY

The International ADR Dividend Income strategy declined 14.93% during 2018. The MSCI EAFE Value index was lower by 14.78% while the S&P Int'l Dividend Opportunities index lost 10.05%. Since its inception on June 1, 2010, the strategy has produced annualized returns of 4.17% versus 3.45% for the S&P Int'l Dividend Opportunities and 4.67% for the MSCI EAFE Value indices respectively. Since its inception, the strategy has produced alpha against the MSCI EAFE Value index due to its lower beta.

Our sector allocation was neutral while our stock selection had a slight negative impact on active return versus the MSCI EAFE Value index for the year. The healthcare, energy and basic materials sectors contributed the greatest portion to active return while the financial services, utilities and communication services were the largest detractors. Going forward, we believe we will find more value amongst international issues than U.S. companies while expecting the financial services, energy and basic materials sectors to be continued benefactors of global economic reflation. The top performers for the year were Statoil (28.0%), Teva Pharmaceuticals (26.6%), AstraZeneca (13.8%), GlaxoSmithKline (13.5%) and BHP Billiton (10.4%) while the bottom performers were British American Tobacco (-49.9%), Bayer (-41.2%), ING Groep (-39.7%), Anheuser Busch (-39.6%) and Credit Suisse (-38.4%).

Sector Allocation (Morningstar)



Top Ten Holdings

Weight

Astrazeneca	4.79%
HSBC Holdings	4.03%
Barclays	3.94%
Lloyds Banking Group	3.92%
BHP Billiton	2.36%
Novartis	2.36%
Roche Holdings	2.33%
Sanofi	2.32%
Diageo	2.32%
Nestle	2.23%



INTERNATIONAL ADR DIVIDEND INCOME STRATEGY COMMENTARY

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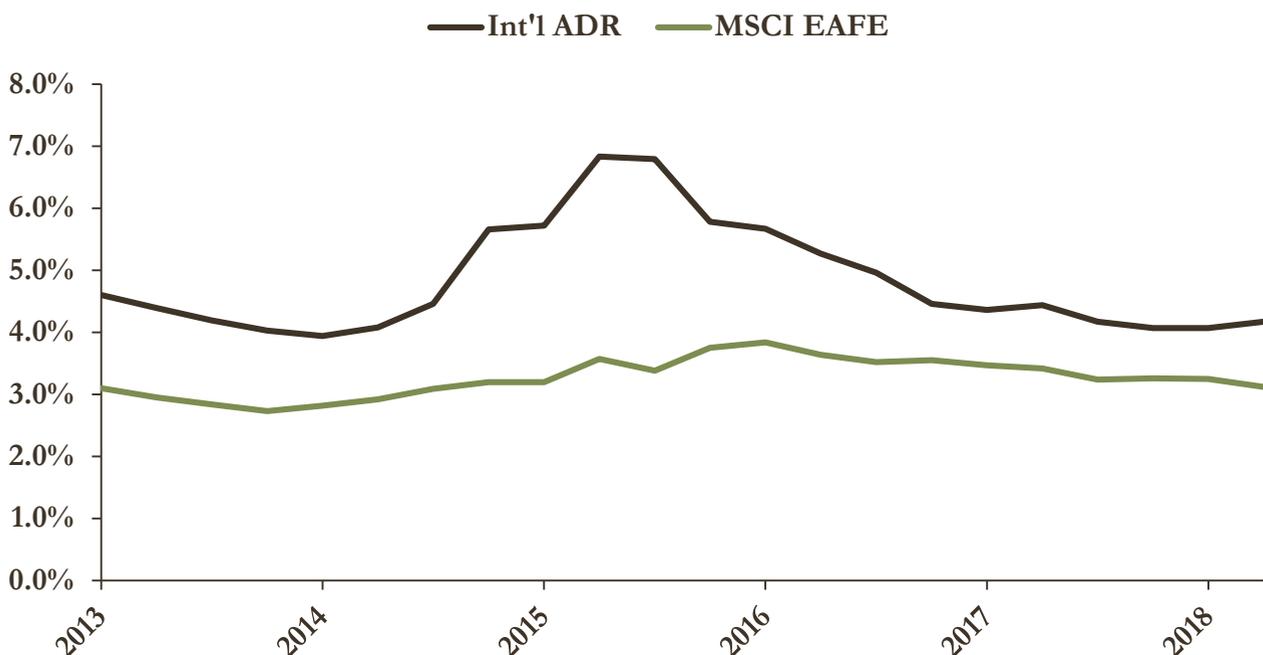
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ALTRIOUS: A STORY OF CONSISTENT DIVIDENDS OVER THE YEARS

The strategy has consistently delivered a higher dividend yield than the MSCI EAFE index since its inception.

International ADR Dividend Income vs. MSCI EAFE Dividend Yield



Source: Morningstar



UNCONSTRAINED FIXED INCOME STRATEGY COMMENTARY

Based on our macroeconomic outlook over a three to five year period and our cyclical views from quarter to quarter, we employ top-down strategies that focus on yield curve positioning, volatility, and sector rotation. We then utilize bottom-up analysis to drive our security selection process and facilitate the identification of undervalued securities with the potential for above average income. We invest in securities that operate across diversified sectors in the fixed income markets of the United States, primarily those in U.S. dollar denominated high yield and investment grade bonds,

including government securities, corporate bonds, and mortgage- and asset-backed. Sources of added value:

Credit Analysis - We emphasize independent analysis and do not rely on credit agencies.

Duration Risk - We avoid long, extreme duration shifts generally operating within a moderate duration range typically between two and four years.

High Income - Our research attempts to identify issues paying above average income.

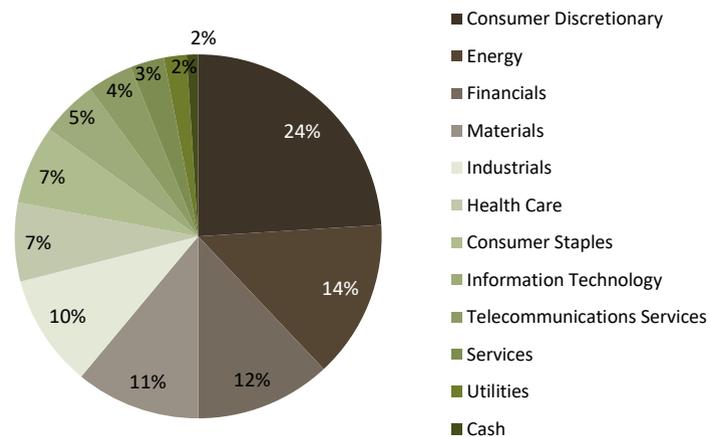
Risk Premium Management - We seek to attain an attractive yield/spread in relation to a five-year treasury within acceptable levels of portfolio risk.

PERFORMANCE COMMENTARY

The Unconstrained Fixed Income strategy declined 3.50%, gross of fees, in the fourth quarter of 2018 outpacing the ICE BofAML US High Yield index by 117 bps, but lagging the Barclays US Aggregate Bond index by 514 bps. The Barclays Aggregate Bond index, which declined 1.60% over the first three quarters of the year, produced a return of +1.64% in the fourth quarter to finish the year essentially flat at +0.01%. US Treasuries were the best performing segment in the US fixed income markets during the fourth quarter of 2018, with the Barclays Aggregate Bond Treasury index ending the quarter up +2.57%.

Despite the widespread volatility in the fixed income markets during the fourth quarter of 2018, the Unconstrained Fixed Income strategy finished the year as a whole down only 0.15%. While marginally lagging the Barclays US Aggregate Bond index for the year, the Unconstrained Fixed Income strategy significantly outperformed the greater high yield bond market in both the fourth quarter and 2018 as a whole with the ICE BofAML US High Yield bond index experiencing losses of 4.67% and 2.26% respectively. This outperformance of the aggregate high yield bond market in the quarter and for the year was due in large part to the strategy's concentration in higher rated non-investment grade corporate bonds with over 68% of strategy assets invested in bonds maintaining credit ratings of B+ or better.

Sector Allocation



Top Ten Holdings **Weight**

Treehouse Foods	1.33%
Oppenheimer Holdings	1.31%
Tempur Sealy	1.30%
Ingles Markets	1.26%
NCR Corp	1.25%
Infor	1.25%
AMC Entertainment	1.25%
Avis Budget	1.24%
CenturyLink	1.23%
Quad/Graphics	1.22%



DISCLOSURES

This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact. Altrius is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy and approach. Our views and opinions include “forward-looking statements” which may or may not be accurate over the long term. Forward-looking statements can be identified by words like “believe,” “expect,” “anticipate,” or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. The S&P 500[®] Index is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The Index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. The Russell 3000 Value Index is an unmanaged index commonly used as a benchmark to measure value manager performance and characteristics. The Dow Jones U.S. Select Dividend Index is an unmanaged index commonly used as a benchmark to measure dividend manager performance and characteristics. The Russell 2000 Index, the Russell 2000 Growth Index, and the Russell 2000 Value Index are unmanaged indices commonly used as benchmarks to measure small cap manager performance and characteristics. The MSCI EAFE[®] Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. The Bloomberg Barclays U.S. Aggregate Bond Index and Bank of America Merrill Lynch US High Yield Master II Total Return Index are unmanaged indices that are commonly used as benchmarks to measure fixed income performance and characteristics. Index performance returns do not reflect any management fees, transaction costs or expenses. Investments cannot be made directly in an index. **Investments made with Altrius Capital Management, Inc. are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested. Past performance is not a guarantee of future returns.**