TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

July 2015

Quarterly Insights

EXECUTIVE SUMMARY

Stocks Flat And Bonds Fall In Q2

In the Second Quarter, the domestic S&P 500 Index rose 0.27%, and the rest of the world (excluding China) was also flat. The extremely strong U.S. Dollar fell 2.92% after a First Quarter dramatic ascent of 8.95%. The bond market gave back its First Quarter gains as the Barclay's Aggregate Bond Index fell 1.81% and is now down 0.17% for the year. While the potential Greek default and possible departure from the Euro is getting a lot of attention, the U.S. has its own "Greece" with Puerto Rico municipal bond problems.

Current Style Rotation: A Tale Of Three Regions

We view the investment markets through the prism of Style Rotation. This framework suggests that different "styles" of companies out-perform during different points in the economic cycle. Sir John Templeton echoed the idea of style rotation through his comment: "*Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria*". Right now, we see three major markets that we believe are in very different parts of the market cycle: Europe ("From Pessimism To Skepticism"), the United States ("Maturing On Optimism") and China ("In The Throes Of Euphoria").

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Second Quarter 2015

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Current Style Rotation: A Tale Of Three Regions

We Believe Style Rotation Is A Key Tenet Of Portfolio Management Strategy

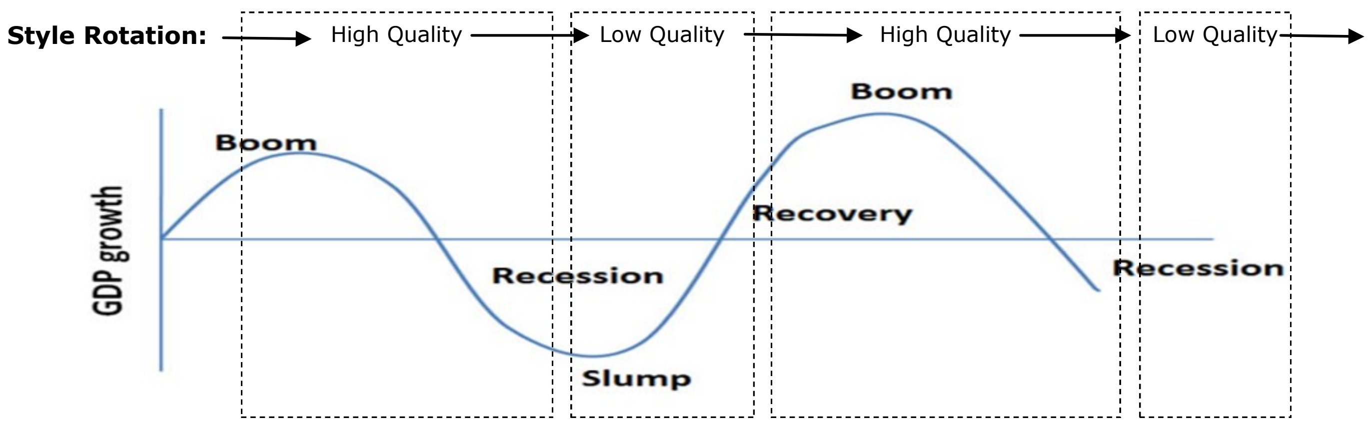
We view the investment markets through the prism of Style Rotation. This framework suggests that different "styles" of companies out-perform during points in the economic cycle. Our goal as your portfolio manager is to adjust accordingly as styles go in and out of favor. This is not a perfect exercise. A complete cycle can last in the range of five years or longer.

After a recession and at the beginning of a new expansion, we believe "low quality" companies with cyclical earnings and leveraged balance sheets (high levels of borrowing) tend to lead. These companies are tied to the economy and often remain cheap due to the large stock price declines during the recession.

As the economic recovery becomes more entrenched and matures, we rotate towards companies with stronger balance sheets (lower levels of borrowing) and more "secular" earnings. These "high quality" companies are less dependent on the economy for their sales growth. In a point of the cycle where it is harder to achieve sales growth, high quality companies tend to lead in a mature market and a downturn.

STYLE ROTATION: No Style Performs Best All The Time

Through a complete economic cycle, more time is dedicated to "high quality" company emphasis.



Asset Class	Style Rotation Considerations
Stocks	Global Weighting, Sector/Industry Weighting, Market Cap Focus (Size), Beta (Risk)
Bonds	Duration, Credit Quality, Yield Curve Placement, Liquidity/Spread

The Life Cycle Of A Bull Market According To Sir John Templeton

Sir John Templeton (a noted mutual fund pioneer) echoed the idea of style rotation through his comment: ***"Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria".***

Globalization has been a factor in markets moving more in step with each other over the past decade. However, right now we see three major markets - Europe, the United States, and China - that we believe are in very different parts of the market cycle. This has driven our portfolio strategy decisions.

We will explain our views on these three markets in the context of Sir John Templeton's framework.

Europe - "From Pessimism To Skepticism"

Europe has been a mess. They have suffered from anemic growth bordering on recession, and are currently facing a possible Greek debt default and/or exit of Greece from the European Union (EU). Unemployment is still significantly higher than pre-crisis levels. Because Europe was late to embrace the critical actions taken in the U.S. in 2008 to stabilize the economy and recapitalize the banks (quantitative easing), their economic recovery was much slower than the U.S. recovery. The S&P 500 Index has out-performed the European markets by nearly 50% in the last five years.

Current Economic Data

Region	Gross Domestic Product (GDP)	Current Account Balance (% GDP)	Unemployment
United States	2.9%	(2.4%)	5.5%
Euro Area	1.0%	2.3%	11.1%

Source: The Economist

Equity Index Performance

Index	2014	2015 Through June 30
S&P 500 (Domestic)	13.69%	1.23%
MSCI EMU (European Monetary Union)	(8.39%)	3.89%

Source: Telemet

Taking Greece attention aside, there are three reasons why we see "light at the end of the tunnel" for Europe:

1. Lower oil prices are reducing costs. Europe is a substantial importer of energy products and benefits more from declining energy prices than does the United States.
2. A weak Euro tends to stimulate the economy by making exports more competitive. The measure of "current account balance as a percentage of GDP" is an indicator of net exports (exports less imports). Note that Europe has positive net exports and the United States has negative net exports (see chart above). European exports rose 4.2% last quarter (the highest growth in four years) as the Euro fell 11% last year.
3. The European Central Bank (ECB) has a lone mandate to aim for an inflation rate of below but close to 2% over the medium term. Right now, inflation is 0.3% (source: The Economist). The ECB has started to pursue a big program of quantitative easing (QE) - creating money to buy financial assets - in order to lift the low level of inflation. QE is the same strategy Ben Bernanke implemented so successfully starting in late 2008 to stimulate the economy in the U.S. The consensus opinion is the U.S. QE efforts were a major catalyst for driving up the U.S. stock market. Early indication is that European QE has bolstered European stocks - they have relatively out-performed the S&P 500 Index through the first half of 2015.

WHERE WE VIEW EUROPE ON THE TEMPLETON BULL MARKET LIFE CYCLE

"Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria".

EUROPE

Portfolio Strategy Implications

Over the last six months, we have increased our European stock portfolio weighting from 9% to 14% and may continue to raise exposure in the future.

United States: "Maturing On Optimism"

Despite perhaps the greatest bull market for stocks in our lifetime (the S&P 500 Index is up over 250% since March 2009), only recently has optimism returned. The chart below shows that it took until the First Quarter 2015 for the Consumer Confidence Index to rise above 100, a level last seen in 2007.

Consumer Confidence Index (Source: Conference Board)				
Year	**March**	**June**	**September**	**December**
2007	**108.2**	**105.3**	99.5	90.6
2008	76.4	50.4	61.4	**38.6**
2009	**26.9**	49.3	53.4	53.6
2010	52.3	54.3	48.6	63.4
2011	63.8	57.6	46.4	64.8
2012	69.5	62.7	70.3	64.6
2013	61.9	82.1	80.2	77.5
2014	83.9	86.4	89.0	93.1
2015	**101.4**			

The legacy of the Great Recession was that confidence was devastated for years as evidenced by cash on the sidelines despite rising corporate profits and substantially repaired balance sheets. The Fed now feels confident enough in the recovery to begin hiking interest rates (we believe this is coming soon). A maturing market is the longest phase in the business cycle. We see this phase lasting longer than most people think.

WHERE WE VIEW THE UNITED STATES ON THE TEMPLETON BULL MARKET LIFE CYCLE

"Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria".

U.S.A.

Portfolio Strategy Implications

Although we remain bullish on U.S. stocks, we reduced our U.S.A. weighting to increase European weighing.

China: "In The Throes Of Euphoria"

The Chinese stock markets have more than doubled in 12 months...sort of. There are two exchanges in China:

1. The Shanghai local market is up over 100% (source: Bloomberg), but is not available to foreign investors.
2. The Hang Seng foreign market, available to foreign investors, is up 17% (source: Bloomberg).

Each index is highly volatile. The Shanghai composite has fallen 22% since mid June. The Hang Seng composite is down 9% in the last 60 days. According to Oxford Economics, Chinese stocks may have to fall another 35% or so to bring them in line with long-term averages.

Lack of transparency doesn't seem to bother investors as tens of millions of brokerage accounts were opened last year. The number of margin accounts (allowing investors to borrow money) more than doubled and the amount of funds borrowed went up five times. We saw this phenomenon in the U.S.A. during the 1920s and the dot.com bubble in the late 1990s. The risks of investing in China right now are substantial.

WHERE WE VIEW CHINA ON THE TEMPLETON BULL MARKET LIFE CYCLE

"Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria".

CHINA

Portfolio Strategy Implications

We have not had direct exposure to China for a few years, and do not plan to buy China in the near future.

Stock Market Spotlight

Stocks Were Roughly Flat In Q2

In the Second Quarter, the domestic S&P 500 Index barely increased, as was the case for most foreign markets. Europe slightly lagged after coming out of the gate strong in the First Quarter. The US Dollar strength slightly subsided in the Second Quarter after rising 8.95% in the First Quarter.

Equity Index Performance

Index	Q2 2015	YTD 2015
S&P 500 (Domestic)	0.27%	1.23%
The US Dollar Index*	(2.92%)	5.77%
MSCI EAFE (Foreign)**	0.62%	5.52%
MSCI Emerging Markets	0.69%	2.95%
MSCI EMU (European Monetary Union)	(1.37%)	3.89%
MSCI Japan	3.09%	13.62%

* Source: Telemet

** Europe, Australia and the Far East

The U.S. Navigated Recovery From The Great Recession Quite Well - Europe Did Not

While market correlations between the U.S. and Europe have risen over the last couple decades due to globalization (U.S. S&P 500 companies currently average 45% of their sales from abroad), this trend ended at the start of the Great Depression (2008). Why? These two regions approached their respective economic recoveries in opposite ways. The U.S. strategy was successful. The European strategy was not. Consequently, the U.S. led Europe in stock performance by a wide margin from 2008 through 2014.

Governments have two ways in which to control their economies: fiscal policy and monetary policy. Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister policy to monetary policy through which a central bank influences a nation's money supply. The chart below summarizes why the U.S. led Europe for six years (2008-2014).

Economic Recovery Strategies Following The Great Recession (2008-2014): U.S. Versus Europe

Region	Fiscal Policy	Monetary Policy	Stock Market Effect
U.S.	Increase Spending (Expansionary)	Quantitative Easing Lower Interest Rates (Fed Target < E.C.B. Target)	**EXCELLENT**
Europe	Decrease Spending (Austerity)	No Quantitative Easing Lower Interest Rates	**POOR**

We Gain Confidence As Europe Shifts Its Recovery Strategy To That Of The U.S.

Due to economic confidence, the Fed will end quantitative easing (QE) and raise interest rates. Conversely, Europe will try and emulate the U.S. recovery through expansionary fiscal policy and by embarking on their own QE program. We now have greater confidence in Europe and have increased exposure accordingly.

Bond Market Spotlight

GDP Growth Back On Track - Bonds Retreat

The Barclay's Aggregate Bond Index, a broad-based representation of fixed income performance, declined 1.81% in the Second Quarter and is now down 0.17% for the year. Interest rates fell in the First Quarter due to GDP growth concerns - weather issues and strikes had stalled growth completely.

Key U.S. Interest Rates	December 31, 2014	June 30, 2015	Change
Federal Reserve Board Funds Target Rate	0-0.25%	0-0.25%	No change
5-Year Treasury (Constant Maturity)	1.66%	1.66%	No change
10-Year Treasury (Constant Maturity)	2.17%	2.36%	+19 basis points
30-Year Treasury (Constant Maturity)	2.75%	3.13%	+38 basis points

Note: 100 basis points (bp) = 1.00% Source: Telemet

In the Second Quarter, GDP concerns subsided. According to Stanley Fischer, Vice-Chair of the Federal Reserve, initial Q1 growth estimates appear to have been on a 2.5% annual growth rate. Stronger economic data caused bonds to fall.

Chasing Yield In A Low Interest Rate Environment Is Risky

The potential Greek default and possible departure from the Euro is getting a lot of attention at the moment. Greece is technically in violation of its previous rescue deal with the failure to pay IMF financing at the end of June. We believe that Greece will ultimately default in almost all situations. Certainly some European banks will be hurt but Greece is ultimately only 2% of European GDP.

America "has its own Greece" in Puerto Rico, which narrowly avoided a July 1 default but still has a huge debt load to repay over the next months and years. Puerto Rico has issued very popular bonds in the U.S. because they are dollar-denominated and triple tax-free (no local, state, or federal taxes). They generally have high yields. According to Morningstar in 2014, 70% of muni bond funds held Puerto Rican debt. Oppenheimer appears to be the largest investor in these bonds and will certainly pay the price. Oppenheimer has stated that they will be aggressive in pursuing all legal strategies to collect funds owed, but the staggering level of debt ($72 billion) does not bode well for Oppenheimer.

Chasing yield in a low interest rate environment is enticing. However, it carries risk. Moody's says more mid to large cities have filed bankruptcy than any time since 1937. Below are a few of the bigger name defaults in the muni arena in the last few years.

Issuer	Date	Amount/Note
Harrisburg, Pennsylvania	2011	$400 million / barred from bankruptcy filing
Jefferson County, Alabama	2011	$4 billion
Stockton, California	2012	About $2 billion / bondholders get 50%
Detroit, Michigan	2013	$8.4 billion

We maintain our view of holding higher quality bonds with shorter maturities.

Your Portfolio

While the stock and bond markets are relatively flat year to date, by no means was there nothing happening in Q2. We believe Europe is turning a positive corner despite concerns about Greece. We also believe Chinese stocks could implode. The Puerto Rico muni bond problem is a "far from normal" situation that illustrates why we don't like to chase yield in a low interest environment. The theme of our Second Quarter portfolio adjustments was to increase European and Financials exposure.

During the quarter, we bought Amsterdam-headquartered Aercap Holdings (symbol: AER), the global leader in aircraft leasing. The company has one-third of its sales in Europe and one-third of its sales in Asia. We also bought Infineon Technologies AG (symbol: IFNNF), a European-based firm that designs, manufactures and markets semi-conductors and related products. It also has significant regional exposure to Europe. Finally, we bought Synchrony Financial (symbol: SYF), which was formerly General Electric Capital Retail Finance. Providing an array of credit products through programs established with national and regional retailers, SYF will benefit from increased credit use by the middle class in an improving economy.

We sold General Mills (symbol: GIS), a leading manufacturer and marketer of branded consumer foods, because of declining sales and profitability in its U.S. markets. We also sold CH Robinson (symbol: CHRW), the dominant U.S. freight brokerage, because the company did not perform to our expectations. Finally, we sold Praxair (symbol: PX), a leader in atmospheric and process gases, again due to disappointing performance. We trimmed Oracle (symbol: ORCL) to help fund the purchase of Infineon Technologies AG.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT
CUSTOM PORTFOLIO GROUP, LLC

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Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.