

QUARTERLY HIGHLIGHTS

- *The Focused Income Strategy model rose modestly for the quarter, as most fixed income and dividend-paying equities appreciated*
- *During the quarter, the strategy model slightly underperformed its benchmark, a weighted average combination of the Barclays Aggregate, High Yield, and MSCI ACWI indices, primarily due to its underweight in high yield and bank loan allocations*
- *Backed by strong market conditions, all strategy model allocations were in positive territory, but mortgage-backed bonds and bank loan allocations were lesser contributors*

MARKET CONTEXT | OUTLOOK

Market results for Q2-2017 were once again strong, with non-U.S. equities and emerging markets outpacing U.S. equities, while bonds moved higher led by credit and high yield. Growth outpaced value handily in the U.S. during the quarter, and overseas equities were led by Europe and Asia ex-Japan. Commodities continued to struggle and declined for the quarter; the U.S. dollar weakened further and has given up all of its post-election appreciation. Hedging and lower correlation strategies continued to post modest returns, as a lack of trends and low levels of volatility persisted through much of the quarter, although technology-related stocks ended the quarter with some volatility pickup.

The Trump administration continues to struggle to find its sea legs, whether looking at the pace of executive branch appointments, the advance of significant legislation, or the ability to stay on message. Meanwhile, the Republican controlled Congress drifts rather aimlessly. Valuations are stretched, but not to extreme levels, and earnings have recovered from a multi-quarter negative run. We believe opportunities exist overseas in both developed and emerging markets that have attractive valuations and perhaps better near-term growth prospects. We believe the unnatural calm many markets have experienced recently will be succeeded by more customary levels of volatility. Investors should be prepared by structuring diversified portfolios with an eye toward significant risks that may manifest suddenly.

STRATEGY KEY CONTRIBUTORS | DETRACTORS

- Allocations in closed end funds, multi-asset income, and global dividends were the strongest contributors to the strategy's quarterly results.
- Mortgage-backed and bank loan allocations, while still positive, were smaller contributors.
- The strategy is actively managed with a long-term perspective, so it is reasonable to expect there will be periods when the strategy's results differ from the benchmark in pursuit of its objectives over time. Although fairly new, the strategy model (before fees) has outperformed its benchmark since inception.

PORTFOLIO CHANGES

- Equity valuations by most measures are rich, especially in the U.S., although they have not approached the extreme levels of 2000. Interest rates and inflation remain at low levels despite central banks' efforts to raise them.
- Earnings have rebounded, led largely by energy companies. In the eighth year of a mediocre economic expansion, and after years of corporate expense management, share buybacks and other manipulations, the question becomes: how sustainable is the earnings picture?
- A number of market observers and participants are puzzled by the Fed's apparent intent to continue to hike interest rates, despite lackluster economic growth and quiescent inflation.
- We remain comfortable with the portfolio's positioning, and therefore made no changes during the quarter.

Strategy Summary

The Focused Income Strategy, on a long-term basis, seeks to provide:

- Maximum yield while sustaining principal
- Some protection of capital and diversification of traditional interest rate risks
- An alternative to typical benchmark sensitive, long-only bond funds
- A somewhat concentrated portfolio of assets including a range of investment grade and high yield bonds, as well as dividend-paying equities
- A strategy that can supplement or replace a traditional fixed income allocation

The Focused Income Strategy is:

- Actively managed by an experienced team of investment professionals, with daily liquidity
- Implemented at lower cost than many strategic income and unconstrained bond funds
- Invested in ETFs and mutual funds focused on income generation, with a keen eye towards risk
- This strategy is typically appropriate for an investor seeking to fulfill or supplement need for current income with a moderate tolerance for risk.

ABOUT OUR FIRM

Palladium LLC is an independent, employee owned asset management firm that manages global, multi-asset class investment strategies, with an emphasis on alternative investments and active risk management. Palladium's investment team has 30+ years experience working with high profile institutional clients in the public and corporate pension fund markets, as well as high-net-worth individuals.

The cornerstone of Palladium's investment process was developed nearly 30 years ago. Refined and revised over time, this process has been implemented at both a major wire-house and managed account provider.

PORTFOLIO MANAGEMENT TEAM

Donald Robinson
CEO & Co-CIO

33 years industry experience

David Feldman
President & Co-CIO

32 years industry experience

Joseph J. Scavetti, Jr.
Chief Operating Officer

24 years industry experience

Jacqueline Dewey
Director Managed Account Services

23 years industry experience

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For more information contact us:

Palladium, LLC | 7 Great Valley Parkway, Suite 295 | Malvern, PA 19355

888-886-4122 | info@palladium.com | www.palladium.com