

PERFORMANCE

	FMR Performance		MLP Weighted Benchmark*	Russell 1000 Value	Dow Jones Industrial	S&P 500 Dividends**
	Taxable	Retirement				
2016 Q1	0.01%	2.91%	-0.09%	1.64%	0.36%	1.34%
2016 Q2	9.19%	5.93%	9.01%	3.91%	1.38%	2.45%
2016 Q3	-0.91%	-0.29%	2.77%	2.32%	2.11%	3.85%
2016 9M	8.21%	8.70%	11.93%	8.06%	3.89%	7.82%

The first two summer months of the third quarter were uneventful for the market as the S&P 500 did not move up or down even 1% for sixty days. September, however, brought back some of the “macro event” volatility that we have come to expect over the past year. Renewed concern that the Federal Reserve would raise short-term rates was a contributing factor. This would be just the second rate increase since the Great Recession ended eight years ago. The FED is now expected to *bravely* make the second raise of ¼% in its federal funds rate in December after the elections.

The FED did not raise this key rate, as most expected from Federal Reserve Chair Janet Yellen’s comments earlier this spring. She and the FED Board of Governors are far behind the curve in normalizing interest rates that they are now both caught up in a political cycle, and what economists call a “liquidity trap.” A liquidity trap forms when record low interest rates send a signal that monetary authorities are worried about fragile economic growth (such as the 1% to 2% meager growth of the U.S. economy), resulting in low business capital investment, and a consumer who spends cautiously and saves. While there have been concrete benefits from the Federal Reserve’s many “easing” experiments, in the absence of strong fiscal policy changes (less regulation or lower taxes), the economy is unlikely to improve from the current anemic economic path.

When the FED left the federal fund rates alone in their September meeting, the stock market rallied and closed the quarter up +3.85%, with the year to date S&P 500 at +7.82% through September 30, 2016. The S&P set a new record high of 2169 on September 30th, surpassing the previous all-time high of 2130 on May 21, 2015, and is in the range of the Five Mile River (FMR) full year forecast for the S&P 500 to rise between +6% and +8%. Positive news at the end of the third quarter of a significant oil production cut by OPEC helped to buoy the market. This came almost two years after the Saudi’s misguided unilateral decision to maintain their market share by not supporting what was assumed to be a \$90 floor price for oil.

This news from OPEC counterbalanced the negative news of liquidity concerns at Germany's Deutsche Bank.

FMR taxable and qualified retirement accounts' year-to-date performance have benefited from FMR's focus on dividend growth companies, real estate investment trusts (REITs), and the continued rebound in our pipeline and energy exploration and production investments.

Dividends and dividend growth stocks are and have been a critical anchor to FMR's investment approach. Clients' invested capital generates growing and consistent real income from dividends that are reinvested for appreciation, or provides income for current needs in retirement or otherwise. This emphasis has lessened the portfolio volatility, and FMR's dividend "growers" are one of the most reliable drivers of capital appreciation particularly in a slow-growth, negative-to-low interest rate environment.

Dividend Growth, Yield and "There Is No Alternative" or TINA

The trendy new stock market acronym TINA, simplified, means that the ultra-loose monetary policy by the FED and other central banks in Europe and Asia have forced investors to buy stocks, and better yet, dividend paying stocks as many investors believe that there is really no alternative. Negative interest rates in the European and Japanese credit markets have also encouraged overseas money to flow into both U.S. debt and equity markets. However, negative and low interest rates create a powerful incentive for investors to underestimate credit risk. Additionally, ultra-low interest rates can potentially create corporate pension underfunding, and a host of other risks to fiduciaries that also depend on normalized bond income.

Since mid-2014, aggregate corporate earnings growth has slowed and flattened, while the stock market has risen to new highs. This disconnect led us to say in the summer of 2014 that the market was fairly valued, and in 2015 we noted that more speculative market sectors were overvalued on a price to earnings basis (P/E). The correlation between corporate earnings and stock prices has never been perfectly tight over short-term time frames, but this disconnect has grown as TINA has made stocks more important to a large swath of dissimilar investors seeking some way to earn a real return on their assets.

To recap our thinking, cash earns essentially no income and we are not playing the short-term, market-timing calls by moving large amounts of portfolio holdings back and forth between dividend growth stocks and cash. We and other academic researchers have documented the difficulty of this short-term strategy some call "a losers game." Rather than engaging in market timing, FMR's investment strategy is specifically designed to be risk averse, addressing the very reasons why many want market protection from the inevitable corrections characteristic of any bull market advance. Specifically, each portfolio has industry and company diversification across multiple non-correlated businesses. FMR actively manages the weightings of each holding in relation to what we believe is a fair, or fully valued market price. FMR's stock selection process emphasizes a value approach to investing, as we seek attractive businesses that are miss-priced, and in addition we insist on higher than average dividend yields to cushion portfolio volatility. FMR portfolios are comprised of a mix of quality stocks that provide high current dividend income that will continue to increase annually! Dividends are, and always have been, an important means for achieving both growth in income and capital appreciation. FMR has, and will

continue, to adjust position weighting sizes within portfolios as individual investment objectives require active management of position sizes. This re-weighting can also be triggered when we see a new stock that offers the prospect of a significantly better return, or a safer dividend.

In both FMR qualified retirement accounts and FMR taxable accounts, the average annual growth in dividend income has been in **excess of 10% per year over the past five years**. In FMR taxable accounts, approximately half of the income generated is tax deferred from investments in FMR's energy Master Limited Partnerships. FMR's average current portfolio yield is almost double the 2% yield provided by the S&P 500. We make company investments where FMR sees the potential for a company to increase dividends at least 7% to 8% per year. Fortunately, FMR's company selection process has resulted in dividend growth of over 10% year over year for the last five years. These results compare to the expected S&P 500 dividend growth of less than 5%! **This can be a significant advantage for FMR clients, and is why we speak about steady, non-volatile performance growth.**

The search for companies with free cash flow business models (important criteria for increasing dividend payout) is the fundamental analysis variable that FMR has control over in our research. This is quite different from the media's attention to a company's short-term market price change, a variable we CANNOT control. FMR has executed this research strategy successfully in meeting the objective of

Questions or comments regarding FMR's dividend growth strategy are always welcome. Do not hesitate to contact us if you would like to set up a conference call with Todd and Lee to discuss Five Mile River's strategy and investment style.

Sincerely,

Lee

Todd

Martha

**Five Mile River's investment strategy for taxable accounts, with its emphasis on value investing which includes MLPs, is best compared with a blend of a value style index, the Russell 1000 Value Index (weighted 70%) and the Alerian MLP ETF Index (weighted 30%). Comparing FMR's performance in taxable accounts with this blended index, the MLP Weighted Benchmark, provides a more accurate benchmark.*

***The S&P 500 Index is a market capitalized weighted index of 500 companies. It is a growth-biased index because the larger the capitalization of a company, the larger the weight it contributes to the S&P 500 Index performance. The index referenced includes the dividends issued by these 500 companies.*

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