INVESTMENT MANAGEMENT, LLC

2016 Year End Letter

As we look back at 2016, geo-political events and wild swings in commodity prices contributed to a rocky start to the year and led to additional bouts of volatility throughout. Despite the worst start in market history, SIM client portfolios ended the year with impressive returns. Importantly, these returns were achieved while maintaining our portfolio management team's disciplined risk management approach: tactically managing a widely diversified stock and bond allocation.

We remain grateful to our long term clients for the trust they have placed with our firm and welcome the many new clients who have recently joined us. We are especially grateful to our clients and business partners who have introduced our firm to their friends, family and professional contacts.

At the outset of the year, we were presented with significant market volatility resulting from the precipitous decline in oil prices to the mid $20's per barrel by mid-February. This selloff, combined with concerns over China's economy, drove investors to sell stocks indiscriminately across sectors and geographies. It was during this time that we made several of our best investments for the year: U.S. bank stocks, high yield bonds, floating rate bonds, and Master Limited Partnerships (MLPs).

Banks: Early 2016 Sell-Off Overdone

The previously mentioned fallout in oil prices led investors to unreasonably fear a collapse in the energy sector. Energy stocks were the first under selling pressure, followed by sectors with balance sheet exposure to the industry such as banks. International banks, with their less than transparent balance sheets and high leverage, were hit hard initially. U.S. banks followed with losses approaching 30% over the first two months of 2016. Based on our research of the U.S. banking sector, we were confident that domestic banks were extremely well capitalized and did not have anywhere near the risk the market was pricing in at the time. Our team identified a unique investment within the U.S. banking sector, a closed-end fund trading at a discount to the already oversold sector. Our fund rebounded throughout the course of the year and took a further leg higher after the elections with expectations of an improved regulatory environment and greater certainty of rising interest rates.

> *"In 2016 SIM continued our commitment to delivering the highest level of client experience for all our investors with the hiring of Shannen Smith."*
>
> *Frank Sloan,*
> *Managing Partner*

Bonds: Fundamental to our Strategy

Similar to bank stocks, high yield and floating rate bonds sold off along with energy stocks presenting us with an opportunity to add to our existing allocations. We have since exited our high yield position in the 4th quarter as the thesis has run its course. We maintain our floating rate bond position, which allows us to not only shorten duration within fixed income but also benefit from rising interest rates moving forward.

MLPs: Remain an Attractive Opportunity

Master Limited Partnerships were another highlight for our clients' portfolios. As many of you will remember from last year's letter, we initiated a position in this sector at the end of 2015. Midstream MLPs provide the critical storage and transportation infrastructure for the energy sector and operate in a toll road business model. As MLPs sold off with most other commodities in 1Q16, our team had the opportunity and conviction to build on our existing position. MLPs recovered significantly over the remainder of the year, ending 2016 as one of the best performing asset classes. We have maintained our exposure going into 2017 and remain excited about the opportunity in the space.

Global Demographic Phenomenon

McKinsey & Co. projects the ‘global middle class’ to grow to 4.9 billion people by 2030, more than double current levels. This global demographic phenomenon continues to spur economic growth and stability among developed and emerging nations. This phenomenon is here to stay. As this exploding consumer class gets a taste of a better life, the thirst for more will only grow as human nature has it. This opportunity is set for decades to come and companies are positioning themselves accordingly. Domestically, nearly half of the revenue of the S&P 500 companies is generated overseas and growing by the year.

While international stocks lagged U.S. stocks last year, we are maintaining exposure in our clients’ portfolios going into 2017. Many of the themes that we have been following in the international markets are still intact:

- Discounted Valuations
- Accommodative Fiscal Policies
- Benefit of a Weaker Currency to Export Driven Economies
- Broad Based Strengthening in Manufacturing

New Administration

At SIM, we do not spend much time dwelling on politics, but if there is one thing that was proven in 2016, it is that politics can have a profound impact on financial markets (and that the polls are often wrong). While some aspects of the Trump presidency remain unclear, one thing that is certain is that the new administration has a pro-business, pro-growth agenda. Some of the post-election market themes we are following:

- Tax Reform
- Infrastructure Spending
- Repatriation of Overseas Cash
- Pro-Business Regulatory Environment

The positive economic impact of these themes could be meaningful in the coming years. A reduction in corporate tax rates will have an immediate positive impact on earnings, potentially up to 10%. Moving forward, the increase in earnings provides support to current valuations and could lead to upward revisions. Infrastructure spending will have a positive impact on jobs, safety and efficiency while boosting GDP. U.S. companies are hoarding more than $2.5 trillion in cash overseas, nearly 14% of total annual U.S. GDP. Repatriation of some of those funds could fuel an increase in corporate investment, mergers and acquisitions, dividend increases and stock buyback activity. A pro-business regulatory environment will reduce over-regulation and red tape which has been a burden to many U.S. corporations. Some economists predict that these initiatives alone could add a full percentage point to U.S. GDP.

Where do we go from here?

With consumer and business confidence on the rise, will investor sentiment follow suit? Despite our solid returns this decade, investor data suggests many individuals still remain skeptical of the market and have not participated. At some point, hesitant investors will be ready to move on from the pain they felt in 2008 and seek growth out of their portfolios. As we continue to remind our clients, global market volatility is here to stay. As 2016 proved, it is important to not let short term volatility derail investing for the long term. The current long term opportunity could be very exciting for those that adhere to a proven and disciplined investment strategy.

As we close the books on 2016, we wish you and your family peace and happiness in 2017.

The Sloan Investment Management Portfolio Management Team

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