Quarterly NEWSLETTER

FALL 2015

Commonwealth
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Fed Balks ... Global Growth Stalls

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The S&P 500 has made a round trip since year end 2014 when it closed at 2058, compared to its October 23, 2015 close at 2075. The market correction in the third quarter ended 10 consecutive quarters of gains for major U.S. indices. The S&P 500 fell 12.5% from a record intra-day high of 2135 on May 20 to an intra-day low of 1867 on August 24. As mentioned in our late August investor email, our belief was that the downturn represented a "market correction", which is characterized by a decline of 10% or more, as opposed to a bear market, when declines exceed 20%. Since the 2008 downturn, markets have essentially recovered in full and seem poised to grind higher despite a multitude of headwinds. Perhaps most surprising during the quarter was that the Fed did not raise rates as US and global growth have proven weaker than expected despite massive quantitative easing in the EU and Japan, as well as fiscal stimulus in China. The Fed stalling on rate hikes has challenged relative performance of most fixed income portfolios over the past year, but this situation should quickly reverse itself once the Fed initiates liftoff. The S&P 500 finished the quarter down 6.94% (-6.43% total return with dividends) falling from the 2063 level on June 30 to 1920 on September 30. The S&P 500 rallied 8% during the first three trading weeks of October.

As volatile as U.S. equity markets were during 3Q15, international markets fared worse. The global MSCI EAFE index fell over 10%, while the MSCI Emerging Market (EM) index fell almost 18% during the third quarter. Over the last twelve months, many commodity-based EM currencies fell 30% against the dollar. Plummeting oil and metal prices during August and September heightened concerns that an EM country could face a currency crisis or default. Of significant concern is that a currency crisis in an EM country could start a bear market for the US. We are closely watching commodity-based EM countries that are undergoing significant currency devaluations, while also facing political crises (i.e. Turkey, Brazil, Venezuela). While investors remain concerned relative to global economic slowdown, our view is that markets overestimated problems in China last summer. For more detailed analysis on these topics including our perspectives on the China slowdown, please see our 3Q 2015 Review and Outlook at **www.cbandt.com/wealth_and_trust/resources/commentary**.

Chart 1

Q3 2015
Market Performance – Total Returns

	9/30/15 Level	Q3	YTD
Dow Jones	16285	-7.58%	-8.63%
S&P 500	1920	-6.44%	-5.29%
NASDAQ Composite	4620	-7.09%	-1.52%
Russell 2000	1101	-11.92%	-7.73%
S&P Midcap	1369	-8.50%	-4.66%
Russell 1000 Growth	935	-5.29%	-1.54%
Russell 1000 Value	919	-8.39%	-8.96%
MSCI EAFE	1644	-10.16%	-4.83%
	Yield	Q3	YTD
Barclays Municipal	2.18	1.31%	1.47%
Barclays Aggregate	2.31	1.25%	1.16%
Barclays High Yield	8.04	-4.90%	-2.53%

Chart 2

Q3 2015
S&P 500 Sector Performance

	Q3	Year-to-Date
Healthcare	-10.67%	-2.13%
Consumer Discretionary	-2.56%	4.08%
Consumer Staples	-0.20%	-0.97%
Financials	-6.72%	-7.06%
Telecommunication	-6.85%	-3.91%
Information Technology	-3.70%	-2.97%
Materials	-16.90%	-16.48%
Energy	-17.41%	-21.28%
Industrials	-6.90%	-9.75%
Utilities	5.40%	-5.85%

Proprietary Performance Results

	3rd Quarter	1 Year	3 Year	5 Year	Since Inception
Focused Equity Fund [2]	-5.93%	-0.21%	11.00%	12.43%	14.19%
Aggressive Growth Fund [1,3]	-4.58%	7.94%	13.30%	14.91%	8.83%
Science/Technology Fund [4]	-7.86%	3.58%	12.69%	13.48%	7.62%
S&P 500	-6.43%	-0.62%	12.40%	13.33%	14.24%[2], 9.40%[3], 6.46%[4]
Russell 2000	-11.91%	1.25%	11.01%	11.73%	13.95%[2], 7.43%[3], 5.29%[4]
MSCI EAFE	-10.16%	-8.11%	6.29%	4.64%	8.11%[2], 2.33%[3], 2.43%[4]
Strategic Income Fund [5]	-5.91%	-3.73%	5.62%	7.65%	9.52%
60% Russell 3000 Val / 40% Barclay Agg	-4.72%	-1.27%	7.57%	8.65%	9.56%

There is no assurance that any of these investment strategies will meet its investment objective. Performance results for each strategy are computed on the strategy's overall returns. Each strategy and index includes the reinvestment of dividends. Past performance does not guarantee future results. Current performance may be lower or higher than the performance results quoted. [1] Net of management fees; performance results of SMC Capital and/or its principals as advisor from inception to 2/28/06 and as sub-advisors to CBandT since 3/1/06. [2] Inception date 12/31/2008. [3] Inception date 7/1/1989. [4] Inception date 3/31/2006. [5] Inception date 12/31/2008.

Fixed Income

Despite market odds of a coin toss, the Federal Reserve decided not to raise interest rates at its FOMC meeting in September. Their concern was that "Recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term". Once again, the FOMC lowered their interest rate projections for coming years. Members' longer run forecasts now range from 3-4% with most responses at 3.25-3.5%. Market expectations of the funds rate indicate a more gradual pace once it begins normalizing rates.

In its October World Economic Outlook entitled "Adjusting to Lower Commodity Prices", the IMF acknowledged "downside risks to the world economy appear more pronounced than they did just a few months ago". The agency cut its 2015 global growth view to 3.1% from 3.3%. They cited weakness in emerging market and developing economies now projected at 4% growth for '15. This was also down 0.2% from its July update.

This slower growth theme and the financial market volatility surrounding these heightened risks led to lower interest rates here and abroad. During the quarter, our 10-yr Treasury fell 0.32% to end September at 2.04%. We continue to believe longer-term rates will be range bound with upside contained by low short-term rates. Once deflationary factors dissipate, we suspect the 10-yr will return to 2.5%, which proved to be a level of support during the summer.

For the quarter, broad-based U.S. bond indices gained 1.2%, improving on the first half results of a zero-sum game. Over the last 12 months, investment-grade bond returns are reasonable at roughly 3%. We have cautioned that returns will be low single digit, basically a reflection of the overall yield levels.

U.S. High Yield underperformed significantly as spreads widened, particularly within energy and materials sectors, given the commodity pressures. This deflationary environment also negatively impacted emerging market and inflation-linked bonds. During the quarter, high yield indices fell 4.9% with 12 month returns of -3.5%. Spreads look compelling in excess of 6% vs. our previous commentary level of 5%, which was basically in line with longer-term averages. During the first week in October, high yield spreads fell by 0.3% to 6.35% as equity markets rebounded.

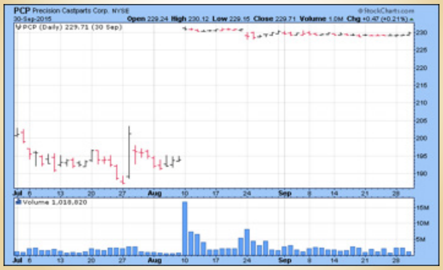
We are somewhat cautious in our outlook for investment-grade & municipal bonds which we consider slightly overvalued given the lower yields. In contrast, we are more positive on high yield, given the spread widening. We also would note that inflation protected securities such as TIPS look relatively attractive.

Tax-exempt municipal bonds returned 1.7% for the quarter and 1.8% this year. For the past 12 months, tax-exempts returned 3.2%, slightly outperforming taxable investment-grade. We were glad to see solid returns throughout the curve. Longer-term bonds have accounted for much of the performance in recent years. In all, the municipal market is yielding roughly 2.3% according to the broad-based indices.

In general, we continue to recommend a tactical underweight to core fixed income in favor of dividend paying stocks. Short duration funds, absolute-return-oriented (multi-sector/non-traditional) and other alternative strategies are also utilized in many instances.

Focused Equity

Precision Castparts Corp. (PCP)
7/1/2015 – 9/30/201



For the third quarter, the strategy lost 5.93% versus a 6.43% loss for the S&P 500 Equity Index as the market corrected over concerns that Chinese government officials would mishandle management of their economy and markets, resulting in a significant global slowdown or recession. Since inception, the strategy narrowly trails the benchmark's return of 14.24% by 0.05% with a gain of 14.19%. The loss for the last twelve months of 0.21% beat the 0.62% loss for the S&P 500, benefitting from underweighting materials and telecom, while overweighting staples and healthcare. In October it appears both the Focused Equity strategy and the S&P 500 have recouped the third quarter losses, gaining between 8% and 9% each.

Most members of the S&P 500 experienced losses in the third quarter downturn. The companies that posted gains during the quarter were the few companies with positive announcements or catalysts and those with little exposure to China or energy. Leadership in the quarter shifted from consumer stocks to large cap technology stocks. An overweight position in Google (GOOGL) soared 18% as the company announced a new operating structure and renamed the company Alphabet. Google, YouTube and Android will remain key Alphabet brands, while experimental start-up businesses will be grouped separately to give investors greater transparency on these "R&D" companies. Facebook (FB), gained 5% during the quarter as it continues to dominate growth in mobile advertising. Starbucks (SBUX) increased another 6% in the quarter after splitting 2:1 in early April, driving 20% year-to-date gains. Starbucks is firing on all cylinders and should enjoy significant growth for the next five years with mobile sales and payment strategies that increase throughput, a pick-up in food sales (15% annual growth), doubling its footprint in China in next five years and the potential to double tea sales in five years.

Shares of drug distributor, McKesson (MCK –18%), and biopharma companies, Abbvie (ABBV -18%) and Biogen (BIIB –28%) took a hit during September as Hillary Clinton threatened government intervention into drug pricing. After quarter end, we selectively cut holdings of Biogen, where pricing was outpacing demand for their products. Our research refutes the implication of Ms. Clinton's claims indicating that drug pricing has trailed demand and is below relative pricing levels during the 1990s, when Bill Clinton was in office. Meanwhile, drug R&D spending is increasing. Our largest energy holding, Spectra Energy (SE), an oil and gas distribution company, fell 18% as oil prices retested lows during the quarter. While SE has rebounded in the October, we are considering trimming the position as natural gas prices fall on concerns there will be a warm winter based on El Nino weather patterns.

Strategic Income Builder

For the quarter, the strategy declined 5.91%, somewhat behind its blended benchmark return of -4.72%. For the last 12 months, it was also below benchmark (-3.73% vs. -1.27%) which can be attributed to two key issues. First, our fixed income has lagged the Barclays Aggregate (0.03% vs. 2.94%), due primarily to the 1/3 weighting of long bonds contained within the benchmark. For income purposes, we hold both high yield and international bond allocations. These struggled during the recent volatility with 1 yr returns of -2.5% and -4.5% respectively, though both outperformed their asset classes. Second, given the low bond yields, we have chosen to overweight equities with an allocation approaching 70%. Our equity returns were relatively in line at -4.62% vs. -4.23% for the Russell 3000 Value Index.

Since inception, the SIB strategy has returned an annualized 9.52%, in line with its benchmark return of 9.56%. The yield generated from the strategy has consistently exceeded that of its benchmark, which is comprised of a 60% weighting to the Russell 3000 Value Index and 40% to the Barclay's Aggregate Index. The success of the fund is the result of an attractive mix of income producing securities, exposure to global markets and tactical allocation. Since its inception (1/1/09), the strategy has generated a positive alpha of 1.12% annualized with a beta of 0.86.

Quarterly equity performance of -7.74% compares to -8.58% for the Russell 3000 Value. Sysco Corp. (SYY +8.8%) rose 7.4% on Aug. 14th after activist Trian Fund Management disclosed a 7.1% stake in the company. Trian, co-founded by billionaire Nelson Peltz, has held talks with Sysco's Chief Executive Officer William Delaney and Chairman Jackie Ward about operations, capital structure, capital allocation, corporate governance and potential board seats, according to a 13D regulatory filing. In June SYY terminated its planned $3.5

billion takeover of US Foods after a federal judge blocked the combination, and added $3 billion to its stock-buyback program. Trian has a fondness for food and beverage giants, having earlier tussled with PepsiCo, Mondelez International, Kraft Foods, H.J. Heinz and Wendy's. Altria Group (MO +12.4%) was also beneficial while Anheuser-Busch InBev (BUD -11.9%) negatively affected quarterly results. Anheuser-Busch has approached SABMiller's board about a potential takeover. Altria has a 27% stake in SABMiller and holds three board seats, so it will be a key stakeholder in any deal. Altria will push to maintain at least part of its SABMiller stake in BUD, as Altria faces a hefty tax bill if it closes its SAB stake in cash. The stake was held on the balance sheet at approximately $6.2 billion in '14 and could be worth nearly $24 billion.

Quarterly fixed income performance of -0.70% compares to 1.23% for the Barclays Aggregate Bond Index. For the quarter, our tactical positions in high yield (BlackRock High Yield: -4.7%) & bank loans (Fidelity Floating Rate High Income: -2.1%) lowered results. Loomis Bond Fund (-4.1%) also weighed on performance with credit and non-US dollar allocations. Our tax-free holdings, which are roughly 14% of the fixed income allocation, returned 0.99%. Our international fixed income fund holdings, which are roughly 11%, returned -3.84%. We are not surprised to be underperforming in this difficult "risk-off" market.

Quarterly alternative performance was -9.6% with an allocation now under 3%. These alternatives are positioned to do well during periods of inflation and not the current deflationary environment. Over the long term, our goal is that the alternative allocation will reduce overall portfolio volatility and improve upon risk-adjusted returns.

Science & Technology Strategy

The Science & Technology strategy's (SciTech) -7.86% third quarter return underperformed versus the broader NASDAQ Composite with a return of -7.08%. For the 12 months ending 9/30/15, SciTech returned 3.58% vs. 4.15% for the NASDAQ Composite. During the month of October, the SciTech strategy has regained most of the losses experienced in the third quarter.

Leaders: Leadership in the quarter shifted from biotech to large cap technology. An overweight position in Google (GOOGL) soared 18% as the company announced a new operating structure that provides the company with greater optionality for its core businesses (Google, YouTube, Android, etc.) and more transparency into spending on its experimental business units. The parent company and stock has been renamed Alphabet. Facebook (FB, 4.83%), Priceline (PCLN, 7.42%), Microsoft (MSFT, .97%) and Adobe (ADBE, 1.49%) all contributed by posting low-to-mid single digit gains. We have mixed feelings about the gains made by specialty metals manufacturer, Precision Castparts (PCP). Warren Buffett's Berkshire Hathaway announced it would buy PCP, sending shares up 15%. We think Buffett is getting a bargain price for PCP at $235/share, which is almost 20% below recent highs. No one is challenging Berkshire on the price or for the acquisition. For the last 12 months, Google was also a top contributor, gaining roughly 7%. However, Visa (V) was the largest contributor in that period, rising 32%.

Alphabet Inc. (GOOGL)
7/1/2015 – 9/30/2015

Laggards: Our largest position, Apple (AAPL), fell 12% during the third quarter on concerns the Shanghai market correction would slow iPhone sales in China. We researched Shanghai market ownership and concluded that the Chinese consumer would not likely be impacted significantly. In October, Apple announced record iPhone sales in China and shares rebounded 9% since quarter end. Harman (HAR) has benefitted from the cyclical surge in auto sales as a leading manufacturer of entertainment and connectivity products, but concerns over Chinese auto sales and assumptions about increased competition from Google or Apple in the near term have pushed shares lower, falling 19% in the quarter and down 1% over the year. Our research indicates that competition from Apple or Google in the auto space is over 5 years away and may target automakers more than electronics suppliers. Biopharma shares took a hit during September as Hillary Clinton threatened government intervention into drug pricing. We selectively cut holdings of Biogen (BIIB -28%) and Valeant (VRX – 20%), where pricing has outpacing demand for their products. Our research indicates that overall drug pricing has trailed demand and is below relative pricing levels during the 1990s, when the Bill Clinton was in office. Meanwhile, R&D spending is increasing. President Obama made similar criticisms of drug pricing in the early days of the 2008 campaign. By the Democratic Convention, drug companies became his largest campaign contributors by Election Day. Follow the money!

Small Cap Composite

The Small Cap Value Composite returned -8.72% for the third quarter versus a return of -11.92% for the Russell 2000 Index.

The sectors with the highest contribution to relative return in the Portfolio during Q3 were Information Technology and Energy. A top contributing holding was Remy International Inc. (REMY), a manufacturer of starters, alternators, and other automotive components. The company accepted a buyout offer from BorgWarner (BWA) for $29.50 per share, which was slightly above our $28 assessed value and represented a +44% premium to the unaffected stock price. Another top contributor was White Mountains Insurance Group Ltd. (WTM, +14%), a specialty commercial and property insurer. In July, WTM announced an agreement to sell its ownership in Sirius Group for $2.2 B, or 1.3x book value, adding ~$65 to White Mountains' book value per share. We maintained our position during the quarter. Another positive contributor during the quarter was Tech Data Corp. (TECD, +19%), the second largest IT distributor in the world. In August, the company announced very strong quarterly results. Adjusted revenues rose +8% and EBITDA margin expanded +20 bps, which is impressive given TECD's low margin, high turnover business model.

Tech Data Corp (TECD)
7/1/2015 – 9/30/2015

The sectors with the lowest contribution to relative return in Q3 were Financials and Utilities. One large negative contributor to performance was PICO Holdings Inc. (PICO), a holding company that owns water rights in the southwestern United States and 58% of publicly-traded home builder UCP Inc. (UCP). In late July, PICO sold its canola oil producer North Star, which eliminated a negative cash flow investment. However, the company later reported Q2 results (ended June 30) that did not contain monetization activity of its water rights or its stake in UCP, which disappointed investors. Another poor performer, Sotheby's (Cl A) (BID, -29%), is one of the world's largest auctioneers of fine art. The company's Q2 results were below analysts' expectations primarily due to both currency headwinds and a large contemporary sale shifting into Q3. Another detractor during the quarter was Soda Stream International Ltd. (SODA, -35%), maker and distributor of home carbonation systems. SODA reported weak Q2 results for what we viewed as a transitional quarter when management began to implement its strategy to reinvigorate the struggling U.S. business (which accounts for about 25% of company revenue).

Kentucky Municipals

Quarterly bond issuance by Kentucky municipalities was relatively normal coming in at $801 million vs. the previous quarter's $810 million. Sizable issuance earlier this year was attributable to many deals refinancing (refunding) existing debt. This could accelerate again given the decline in rates, but continues to be a reasonable percentage of issuance. We watch this very closely, as purchasing refunding candidates is part of our portfolio management. Competitively awarded deals were $314 million with negotiated deals of $487 million. Deal size averaged $16.7 million with 48 new issues in total.

Bank-qualified (BQ) issuance was $88 million or 11% while non-BQ issuance was $701 million or 88%. For our clients, we tend to utilize non-BQ because yields are typically higher. Taxable issuance was again small at $11 million. There was also no alternative minimum tax (AMT)subject issuance again this quarter. We are purchasing more of these bonds as our typical client is not impacted by the AMT and yields are higher. Visible supply is healthy with $409 million on the calendar.

Deals of note included the Kentucky Economic Development Finance Authority's (Next Generation Kentucky Information Highway Project-Baa2) borrowing $232 million for a public–private partnership. There was an additional $58 million privately placed as part of this transaction. The Project will improve internet service at government facilities, public universities, and K-12 schools while also providing the Commonwealth with a material amount of excess high-speed capacity that may be marketed to new third parties.

2015-2016 Market Outlook

We are lowering our 2015 total return range for the S&P 500 from 4%-6% to -1% - +4% (2000 to 2100 by year end). Our Barclays Bond Aggregate total return expectation remains at 2%-3%. Volatility has been above average for a longer period of time than expected this year. The abrupt crash in late August and the sudden drop in oil back to $45/bbl. for a third time left a cloud of bearish sentiment over the market. In our opinion, investors are re-pricing stocks for higher risk. The S&P 500 peaked in May and rallied again in July to the 2135 level, which was 16.4x 2016E consensus EPS of $130. At the 2000 trading level of early October, the 2016E P/E multiple was 15.4x, which is a little below the historical average of 15.6x.

Market Expectations for the Next Few Quarters

We believe investors are looking for signs that global growth is improving for the market to make its next leg upward. The two most important fundamental confirmations for the market will come via improving economic data from China and/or an increase in rates from the Fed, which would confirm the economy is strengthening. These two factors would result in upward revisions to earnings estimates and should result in higher multiples for earnings (as the risk premium is reduced and confidence in fundamental data increases). Secondarily, increases in oil prices and strengthening of other currencies against the dollar would be positive signals for markets. These signals would likely result in upward earnings revisions, but may not increase multiples significantly.

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