Quarterly NEWSLETTER

Winter 2016

Commonwealth Bank & Trust Company

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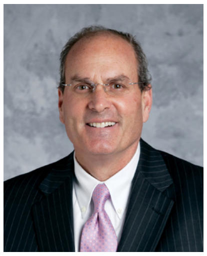

2016 Market Outlook: 75% Bull Continues; 25% Start of Bear Market

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Oil prices and the movement of the Dollar, which were significant economic factors that impacted 2015, are likely to be the most important macro drivers of the market this year. We believe the 5% decline in U.S. equities in January represents a market trying to 1) re-price the expectation that market risk and volatility will be higher in 2016 via lower Price/Earnings multiples for stocks and 2) determine whether current 2016 earnings estimates need to be adjusted downward to reflect a strengthening dollar, falling oil and rising interest rates. We are currently placing a 75% probability that oil, the dollar, and equity markets stabilize in 2016 and the Bull market resumes. We see a 25% probability that oil/dollar concerns push markets another 10%+ lower into Bear market territory (S&P 500 <1708, represents a 20% decline from the May 20 market peak of 2135). In our opinion, current U.S. economic data and the structure of interest rates do not support a bear market scenario this year.

2015 Review

Market anxiety over a Fed rate increase, low oil prices, a high dollar and Chinese markets contributed to making 2015 the most volatile year since 2011. In the third quarter, the S&P 500 fell 12.5% from a record intra-day high of 2135 on May 20. Markets remained volatile in September after the Fed failed to give anxious markets a vote of confidence by launching a program to raise the Fed Funds rate. After Fed Chair Yellen assured investors that the economy was strong and the Fed would raise rates before year end, the S&P 500 rebounded 7.04% in the fourth quarter (after losing -6.43% in 3Q15) to deliver a 1.38% total return to investors for 2015. With the threat of higher rates, fixed income investors were not able to escape volatility or reap reasonable returns as the Barclays Bond Aggregate delivered a 0.55% total return for 2015. Although stock and bond returns were positive in 2015, the price of each index fell below its closing price at 2014 year-end and relied on dividend and interest income to avoid a loss. In addition, 2015 was an unusual year when diversification did not protect traditional portfolios. Most asset classes except domestic large cap stocks and core bonds lost money in 2015.

Quarterly Focus: Liquid Alpha Strategy – Safeguard for Volatile Markets

This quarter we have included an insert to the newsletter about our new in-house alternatives product, the CBandT Liquid Alpha Fund, that produced a positive 2.4% return in January in the face of a market downturn of -5%. The strategy continues to perform well in February. We have always employed broad-based asset allocation and diversification strategies along with a conservative, fundamental, research-based approach to our stock and bond selections. We have also invested in non-correlated "alternative" vehicles that improve returns over full market cycles. Our experience is that the combination of these portfolio construction strategies builds the type of defensive characteristics within portfolios that allows for long term outperformance and the durability to weather the inevitable storms that surface in financial markets.

Chart 1

Q4 2015
Market Performance – Total Returns

	12.31.15 Level	Q4	YTD
Dow Jones	17425	7.00%	-2.23%
S&P 500	2044	7.03%	1.37%
NASDAQ Composite	5007	8.76%	7.11%
Russell 2000	1136	3.59%	-4.41%
S&P Midcap	1399	2.60%	-2.18%
Russell 1000 Growth	1000	7.32%	5.67%
Russell 1000 Value	965	5.64%	-3.83%
MSCI EAFE	1716	4.80%	-0.21%
	Yield	Q4	YTD
Barclays Municipal	2.11%	1.50%	3.30%
Barclays Aggregate	2.59%	-0.57%	0.55%
Barclays High Yield	8.74%	-2.17%	-4.64%

Chart 2

Q4 2015
S&P 500 Sector Performance

	Q4	Year-to-Date
Healthcare	9.22%	6.89%
Information Technology	9.17%	5.92%
Telecommunication	7.61%	3.40%
Financials	5.92%	-1.56%
Consumer Staples	7.64%	6.60%
Consumer Discretionary	5.79%	10.11%
Materials	9.69%	-8.38%
Industrials	7.97%	-2.56%
Utilities	1.07%	-4.84%
Energy	0.20%	-21.12%

Proprietary Performance Results

	4th Quarter	1 Year	3 Year	5 Year	Since Inception
Focused Equity Fund [2]	7.68%	1.95%	14.52%	12.27%	14.86%
Aggressive Growth Fund [1, 3]	6.15%	4.28%	15.49%	14.98%	8.96%
Science/Technology Fund [4]	6.06%	3.77%	16.18%	12.57%	8.07%
S&P 500	7.03%	1.37%	15.12%	12.55%	9.58% , 7.04%, 14.79%
Russell 2000	3.59%	-4.41%	11.65%	9.19%	7.49%, 5.53%, 13.98%
MSCI EAFE	4.80%	-0.21%	5.68%	4.27%	2.48%, 2.87%, 8.53%
Strategic Income Fund [5]	4.64%	-1.67%	7.32%	7.78%	9.87%
60% Russell 3000 Val / 40% Barclay Agg	3.05%	-2.07%	8.26%	8.04%	9.67%

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

As explicitly telegraphed and widely expected, the Federal Reserve finally decided to raise the interest rate range by 0.25% at its FOMC meeting in December to 0.25% - 0.50%. The last increase was nearly a decade ago in 2006. We view the Fed's move as less significant given its "minor" magnitude in context with expectations that future adjustments will be gradual. Market expectations for the funds rate remain below the forecasts of Fed members, though their forecasts have been trending downward. Futures suggest one or two more 0.25% hikes for 2016.

Previously we discussed slower global economic growth expectations. This weaker outlook keeps a lid on longer-term interest rates both here and abroad. Currently, U.S. GDP growth is forecasted at roughly 2.5% in 2016 based on private and official data. While the World Bank recently lowered its global growth forecast for 2016 to 2.9% from a 3.3% projection in June. We suspect GDP may come in lower for the year.

During the quarter, the 10-yr Treasury rose 0.23% to end the year at 2.27%. We believe longer-term rates will be range bound so long as the economic outlook is weak. In addition, deflationary pressures are more prevalent today given the continued decline in energy and commodity prices, and the stronger U.S. dollar. Interest rate forecasts for the 10-yr Treasury ending 2016 at 2.80% seem reasonable, though we would not be surprised if the current range remains intact. This would imply rates between 2.00% to 2.50% for the 10-yr.

For the quarter, broad-based U.S. investment-grade bond indices declined 0.6%. For 2015, investment-grade returns were extremely modest at 0.6%. We have cautioned that returns could be very low given the extremely low yield environment.

During the quarter, U.S. High Yield underperformed yet again as spreads continued to widen. Returns for the quarter and year were -2.1% and -4.5%, respectively. The U.S. speculative-grade default rate remained flat at 2.8% in December, but is expected to rise to 3.3% by September per research by Diane Vazza at S&P. S&P also cited that downgrades continued to outnumber upgrades as 60 companies with total debt of $1.3T were downgraded vs. 18 issuers with $49B upgraded. Finally, the U.S. distress ratio within high yield issuers climbed to 24.5% in December vs. 20.1% in November. A late-2015 sell-off in the high yield market, fueled by headlines that the $789 million Third Avenue Focused Credit Fund halted redemptions, pushed yields to about 9%. Most of the distress and problems in high yield involve companies in the energy, metals, and mining sectors, as oil and commodity prices fell to 10-year lows. We believe the high yield universe can absorb this increase in defaults from energy and mining companies and still return between 4-6% in 2016.

Tax-exempt municipal bonds outpaced again returning 1.5% for the quarter and 3.3% for the year as measured by the Barclays Municipal Index. Longer-term bonds surged 2.4% during the quarter to finish the year up 4.5%. In all, the municipal market is yielding 2.1% vs. 2.3% in September.

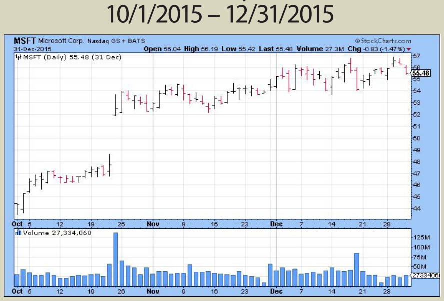
We remain cautious in our outlook for investment-grade & municipal bonds which we consider somewhat overvalued given the low yields. In contrast, we are more positive on high yield discussed above.

In general, we continue to recommend a tactical underweight to core fixed income in favor of dividend paying stocks. We believe core fixed income could return near the lower end of 0%-3% range as it did in 2015. We have also used short duration funds, absolute-return-oriented (multi-sector/non-traditional) and other alternative strategies in portfolios to substitute for core fixed income in light of the risk/reward profile.

Focused Equity

For the fourth quarter and for the calendar year 2015, the strategy returned 7.68% and 1.95%, respectively, versus a 7.04% and 1.38% increase for the S&P 500 Equity Index. The market rebounded in the fourth quarter as the Fed raised the Feds Fund Rate 0.25%, expressing optimism in the strength of the U.S. economy. Since inception, the strategy has narrowly beat the S&P 500's annual return of 14.79% by 0.07% with a gain of 14.86%.

Microsoft Corp. (MSFT)
10/1/2015 – 12/31/2015



Large cap technology stocks maintained their leadership in the fourth quarter. However, consumer stocks came in ahead of technology for the year. Overweight positions in Microsoft (MSFT, +26%), Alphabet (GOOGL, +22%) and Facebook (FB, +16%) were significant technology contributors during the quarter as positive earnings results in cloud enterprise offerings, mobile search and mobile advertising, respectively, propelled the stocks. While industrial and materials stocks were among the worst performing sectors throughout 2015, General Electric (GE +24%) and DuPont (DD +39%) rallied on separate restructuring events announced in October. DuPont returns were further aided by the December announcement of a proposed merger with Dow Chemical (DOW). Alphabet, Facebook and Microsoft were also top contributors for annual 2015 results. Only Starbucks (SBUX +48%) outperformed these tech giants. Starbucks shares split 2:1 early in the year reflecting significant expected growth for the next five years through 1) mobile sales and pay increasing throughput, 2) a pick-up in food sales (15% annual growth), 3) doubling footprint in China, and 4) the potential to double tea sales.

Conversely, other large technology stocks, Apple (AAPL, -4%) and Qualcomm (QCOM, -6%), were among the biggest detractors during the quarter. Both companies were hit by concerns that growth in smartphone sales has peaked and future growth will rely on pricing and market share gains. Drug maker Novartis (NVS) fell 6% in the quarter as the company approaches the patent expiration of Gleevac, its blockbuster cancer drug. We have been accumulating NVS shares on the decline and are moving the position from equal weight to overweight. We do not think the market is giving Novartis credit for its new cardiac drug, Entresto, which we believe will become a blockbuster and replace lost Gleevac revenues. Apple and Qualcomm were also large detractors from the strategy's annual performance, down 15% and 31%, respectively. Our largest energy holding, Spectra Energy (SE), an oil and gas distribution company, was the biggest detractor, falling 33% over the course of the year as oil markets fell to new lows during the quarter. We trimmed the position as SE rebounded in October, avoiding a deeper fall in natural gas prices later in the quarter over concerns that El Nino weather patterns will result in a mild winter and lower natural gas usage in the Winter 2015-2016 season.

Strategic Income Builder

For the quarter, the strategy returned 4.64%, significantly ahead of its blended benchmark (60% Russell 3000 Value / 40% Barclay's Aggregate) return of 3.05%. For the year, the fund was also ahead of its benchmark (-1.67% vs. -2.07%). We were pleased with our relative returns, though returns remained negative overall.

For 2015, our equities returned -1.96% vs. -4.13% for the Russell 3000 Value. Value stocks underperformed growth stocks for much of the year. Fixed income results were somewhat of a drag coming in at -0.13% vs. 0.55% for the Barclays Aggregate. Given the low bond yields, we maintained an overweight position in equities approaching a 70% allocation. We recently reduced the equity allocation down to 65% given the volatile start to 2016.

Since inception (1/1/09), the strategy has returned an annualized 9.87% (slightly ahead of its benchmark return of 9.67%), generated a positive alpha of 1.25%, while maintaining a below-market beta of 0.88. The yield generated from the strategy has consistently exceeded that of its benchmark. The success of the fund is the result of an attractive mix of income producing securities, exposure to global markets and tactical allocation.

Fourth quarter equity returns of +6.61% compares to +5.40% for the Russell 3000 Value. From an equity attribution standpoint, both security selection and allocation were beneficial. Security selection added 0.4%, while allocation added 0.8%. Security selections in Consumer Staples (+10.9% return) and Consumer Discretionary (+8.3%) were especially strong. Energy (-4.7%) and Healthcare (-6.2%) positions were most costly.

Anheuser-Busch InBev (BUD +19.3%), which lagged in 3Q, rebounded, as it announced on Oct. 13th that it had agreed to acquire SABMiller PLC. The acquisition is motivated by the expansion into China and emerging markets, as well as cost cutting. General Motors (GM +14.5%) helped quarterly results and rose 5.8% on Oct. 21st from its earnings report. GM surprised investors with better-than-expected profits despite paying large penalties to resolve litigation over its handling of defective ignition switches. GM earnings were driven by a nearly 12% operating profit margin in North America on pretax operating income of $3.3 billion (up from $2.5 billion a year ago). Sanofi (SNY -10.2%) shares fell over 12% in November as investors focused on the French pharmaceutical company's forecast for sluggish earnings growth in coming years, rather than CEO Olivier Brandicourt's plans to slim down the company and rejuvenate sales over the long term. We continue to hold the position as we believe investors will ultimately be rewarded by efforts to transform the company.

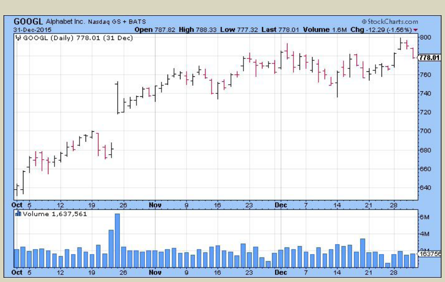
Quarterly fixed income performance of +0.18% compares to -0.57% for the Barclays Aggregate Bond. We were pleased to outperform during the quarter as our fixed income struggled much of the year. Several of our tactical positions including BlackRock High Yield (-1.6%) and Loomis Bond Fund (-1.0%) struggled in the fourth quarter due to credit concerns and non-US dollar allocations. Our tax-free holdings, which are roughly 15% of fixed income, continued to perform well, returning +1.09%. Our international bond fund positions rebounded, returning +2.23%. During the quarter we reduced or eliminated positions in high yield debt and emerging market debt to reduce risk.

Quarterly alternative performance was +0.48% and our allocation remained under 3%. We did reposition our alternatives into a CTA/Managed Futures strategy during the quarter. We believe this type of strategy provides a solid hedge against severe market corrections.

Science & Technology Strategy

During the quarter, the Science & Technology strategy's (SciTech) 6.06% 4Q15 return fell below the Nasdaq 100, the broader Nasdaq Composite and the Lipper Science & Tech Fund Index with returns of 10.02%, 8.76% and 8.84%, respectively. For 2015 SciTech returned 3.77% vs. 9.75% for the Nasdaq 100, 7.11% for the Nasdaq Composite and 4.78% for the Lipper Science & Technology index. We believe the 2015 result was the first calendar year that the SciTech strategy did not beat the Lipper Science & Technology index.

Alphabet Inc. (GOOGL)
10/1/2015– 12/31/2015



Leaders: An overweight position in Alphabet (GOOGL – formerly Google) continued to rise 22% in the fourth quarter after gaining 18% in the third quarter. Investors are rewarding the company for accelerating search growth and its more transparent operating structure announced in the third quarter that gives the company greater optionality for its core businesses (Google, YouTube, Android, etc.). During the quarter, Facebook (FB, +16%) and Microsoft (MSFT, +26%) benefited from strong earnings results attributable to mobile advertising and cloud enterprise offerings, respectively. Alphabet, Facebook and Microsoft were also top contributors for 2015 with returns of 45%, 34% and 23%, respectively.

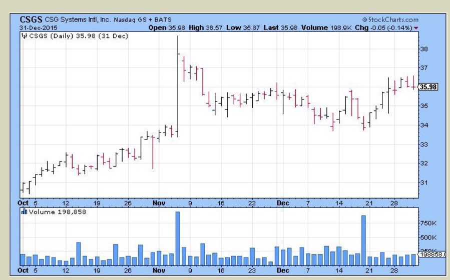
Laggards: Our biggest detractor for the quarter and the year was specialty pharmaceutical manufacturer, Valeant (VRX), which fell 43% during the quarter and 29% for the year, contributing a -0.82% drag on performance for the year below our -0.50% risk threshold. Valeant was a sizable contributor to the portfolio in past years resulting in a net profit on the position. We held the position through our loss threshold to wait for empirical evidence related to short-seller rumors of illegal pricing practices. It does not appear that Valeant's pricing and reimbursement practices were illegal, however, we cut the position before the stock collapsed. Valeant increased the prices of drugs experiencing falling prescription volumes. While not an illegal practice, we think regulators and the press will scrutinize Valeant in detail, penalizing the stock price.

Over the year we cut holdings of Biogen (BIIB -27%) and Qualcomm (QCOM -31%), which hurt results by -0.60% and -0.59%, respectively. Biogen cut its outlook on its portfolio of MS drugs during the year. We will consider repurchasing Biogen ahead of the 2016 data release on its Alzheimer's drug, Aducanamab. Qualcomm is facing stiff competition from Intel and Chinese smartphone chipmakers as the market is peaking. In addition, the company is facing two costly anti-trust regulatory actions in China and South Korea. We held a larger piece of Qualcomm longer than we would have normally, because there was an activist investor involved in the company, which was expected to spin-off part of the business to create more value.

Small Cap Value

The Small Cap Value Composite Portfolio modestly outperformed in Q4 on a gross of fees basis, returning +3.07% (+2.86% net) versus +2.88% for the Russell 2000 Value index. For 2015, the Portfolio significantly outperformed, returning +0.05% (-0.73% net) versus -7.47% for the benchmark. Further, the Portfolio maintained its low volatility profile versus the benchmark. M&A within the Portfolio was subdued in 2015, which is a bit surprising given the overall level of activity. However, about half of the activity in our investment universe was confined to just two sectors (Health Care and Information Technology). Deal activity fueled returns for two of our largest contributors in 2015, Remy International Inc. (REMY) and White Mountains Insurance Group Ltd. (WTM). CSG Systems International Inc. (CSGS, +18%), a provider of billing and client service solutions to the cable and satellite TV industry was the largest contributor to performance in Q4 and 2015. In November, CSG reported strong Q3 results with higher than expected margins due to scale benefits from an increased number of customer accounts. Margins should continue to expand over the next several years as CSG migrates additional accounts onto its platform and leverages its fixed costs. Earlier in the year, CSG hiked its dividend more than twice the growth rate of its prior increase. CSG also increased its share repurchase plan to $150 MM, equating to ~20% of the company's market cap at the time. Finally, CSG extended its contract with its fourth-largest client, Charter Communications, for another five years. Cash in the Portfolio was 6.6% versus 9.6% at the end of 2014, as market weakness (primarily in Q3) allowed us to become more fully invested.

CSG Systems Intl. (CSGS)
10/1/2015– 12/31/2015



Kentucky Municipals

Bond issuance by Kentucky municipalities was robust in the fourth quarter of 2015, coming in at $1.3 billion vs. the previous quarter's $801 million. Sizable issuance in 2015 was attributable to many deals refinancing (refunding) existing debt at lower rates. Refunding issues should continue to be a reasonable percentage of issuance in 2016. Competitively awarded deals were $1.0 billion with negotiated deals of $271 million. Deal size averaged $24 million with 54 new issues in total. Non-Bank Qualified (Non-BQ) issuance was $1.15 billion or 89% of total issuance, with Bank-Qualified (BQ) issuance of $109 million or 8% of total issuance. We tend to invest in Non-BQ bonds for our clients because yields are typically higher and they offer a better risk/return trade-off. Taxable Municipal issuance grew slightly to $39 million in the quarter. We currently prefer taxable municipals to corporates as credits are more stable and spreads are generally wider. There were no AMT-subject issuances this quarter. We are purchasing more of these bonds as our typical client is not impacted by the alternative minimum tax (AMT) and yields are higher than other comparable municipal offerings. Visible supply of total Kentucky municipal issues is reasonable with $353 million on the calendar in coming months. Deals of note in the quarter included the Louisville & Jefferson County Metro Sewer District (Aa3/AA: positive outlook) $175 million issuance for improvements to the District's sewer and drainage system. The Louisville Water Works Board (Aaa/AAA) issued $119 million of bonds with proceeds supporting their Construction and Acquisition Fund. Louisville Water and MSD continue to work more closely together since they began the One Water initiative in February 2014. By consolidating jobs and sharing resources the partners expected to save more than $1 million in 2015 to benefit their customers. We have considered this a credit positive for MSD strengthening its profitability and were not surprised by the positive outlook by S&P.

Commonwealth of Kentucky Update

Our previous commentary discussed the Standard & Poor's downgrade of the Commonwealth of Kentucky's credit rating from AA- to A+ in September 2015. The S&P downgrade cited Kentucky's underfunded pension issues, which we have noted frequently. We considered this a relatively insignificant downgrade as any market impact thus far has been minimal to nonexistent. We maintain our opinion regarding this issue as yields continue to decline with the national market. On December 3, Kentucky's public retirement system lowered investment return assumptions to 6.75% from 7.5% on two of its most severely underfunded plans. "The reduction in the return outlook was due to a decision to slash the amount of investment in private equity to 2% of assets in both funds," according to David Peden, chief investment officer of The Kentucky Retirement System (KRS). He also stated, "Those two plans have gotten to a funding status that we no longer feel comfortable having them in certain illiquid asset classes such as private equity." In a sector commentary Moody's noted, "The action is credit positive for Kentucky, even though it increases state contributions, because it decreases the likelihood that plan assets will deplete." In a recent speech, Governor Matt Bevin noted that he will bring pro-business principles to the state and propose an "honest and responsible" budget. His agenda items include job growth, affordable energy and support for Kentucky industries like bourbon and automotive manufacturing. The governor was unequivocal that he would not support borrowing money to shore up the state's troubled pension systems. We will be watching this legislative session very closely and are hopeful that some progress can be made especially on the pension front.

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