INVESTMENT COMMENTARY: Q3 2016

October | 2016

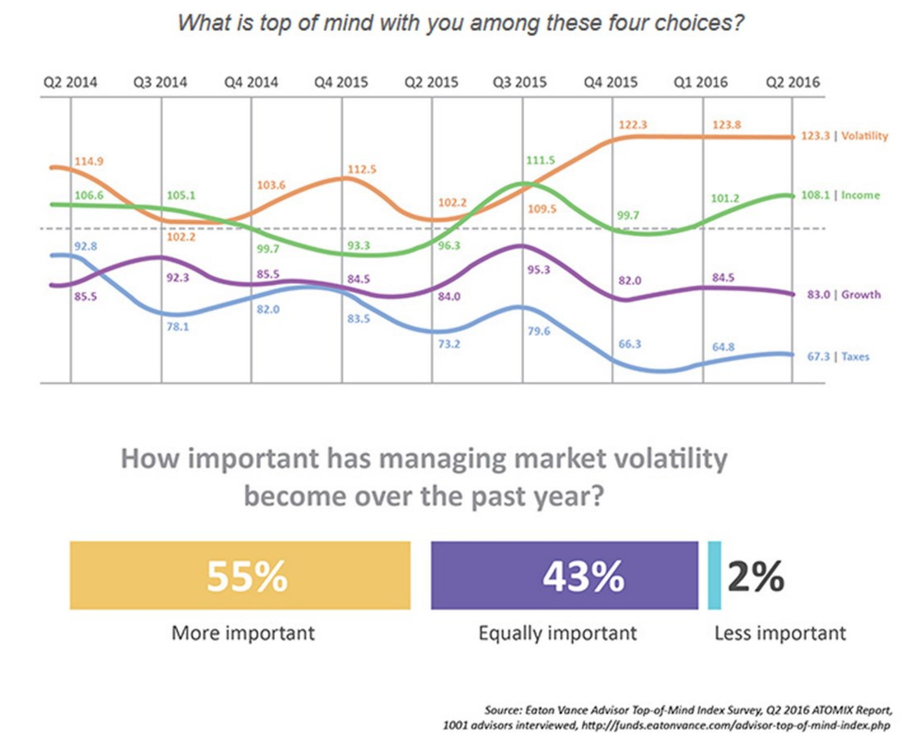
2017 and Beyond: Low Yield and Volatility

We are witnessing a very interesting year. We are faced with geopolitical unrest and one of the most polarizing US presidential elections in history. It's no wonder advisors have concerns. Proactive advisor magazine did a study on the state of mind of financial advisors, with very interesting results.

The number one and two concerns were:

1. Volatility
2. Income

FIGURE 1: TOP FINANCIAL ADVISOR CONCERNS (Q2 2016)

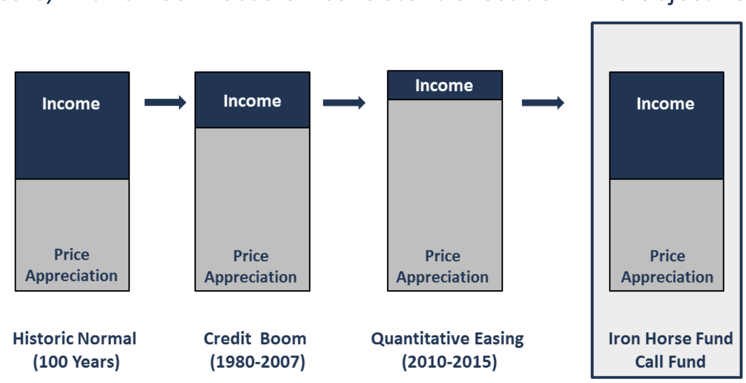


In light of this study, what is the best way to position your portfolio? Many advisors are increasingly using higher weightings to active, risk-managed strategies. Two of the most cited concerns under the broad topic of "portfolio management" facing advisors are (1) risk management and (2) achieving client portfolio growth at levels sufficient to help clients fund future retirement income needs. This is what a covered call in essence does; potentially providing strong risk adjusted performance with incremental income by writing call options. Van Hulzen Asset Management has managed a covered call strategy for almost 15 years.

Risk/Return Profile Is Key

Now that Morningstar, eVestment Alliance and PSN have moved covered calls into its own defined category, more investors are considering a covered call portfolio to diversify their risks. Covered call strategies potentially offer investors income of 6-8% without taking unnecessary credit risk (for example, the average credit rating of our covered call portfolio holdings is single A, compared to single B for most high yield bond funds). Covered call portfolios also potentially carry less market risk than long-only stocks. Please see our website www.vaminstitutional.com for a more detailed look into covered calls in our white paper entitled "Quest for Yield".

We have managed our covered call strategy for almost 15 years, with a keen focus on consistent execution. The objective of the strategy is to generate equal parts income and price appreciation on a high quality underlying equity portfolio.



Van Hulzen Covered Call Strategy in Review and Outlook

After its post BREXIT snap-back, the market has generally moved sideways. Volatility was sucked out of the market and hovers around 12 to 13. Over the last 14 months the equity markets have seen three fairly substantial breakdowns. Each time, markets have rallied back once the Fed made it clear it would hold off on its plans to raise rates. According to our research the 3rd quarter was all about interest rates. 10 Year Treasury yields increased from 1.35% to 1.73%.

That has lead to a performance divergence between sectors that traditionally carry a yield (Utilities, Telco, Staples Healthcare) and IT, Energy and Financials. The difference has been huge, performance spreads sometimes reaching almost 20% between sectors. Our overweighs in some of these higher yielding, defensive sectors weighed on Q3's performance. But we fully expect this to normalize once growth and value stocks once again converge.

Again it is worthwhile highlighting the Warren Buffett market valuation model. This model currently projects a 0% total return for the next 10 years (www.gurufocus.com). This is concerning. Plus the market appears to have difficulty standing on its own, with investors seemingly expecting the FED to step in whenever there is economic weakness.

In the 18 months since the Fed discontinued its quantitative easing (QE) programs, the market has churned sideways with no real progress. And while the Fed continues to support this market, we believe downside risk still outweighs upside potential and investors should be cautious with their equity allocations. We believe covered calls are a good way to stay invested in equities while also adding potential incremental yield and downside protection. The CBOE website references several studies about the risk-return dynamics of covered calls. All studies conclude that over the long term, a passive buy-write strategy has a superior risk-return profile versus long-only equities.

Over the last year the Strategy has exactly done that. The volatility was about 25% less than the BXM (covered call index) over this period, and 50% less than the S&P 500. Year to date the performance of the Strategy is +6.3% versus +4.3% for the BXM 7.8% for the S&P 500.

The Van Hulzen Covered Call Strategy investment process is focused on finding undervalued high quality stocks and selling call options to potentially enhance total return on the position. We believe that equity markets are likely to experience heightened volatility in the coming years. As covered call investors, we welcome back this higher volatility since it makes the total return performance less dependent on price appreciation. It is not easy to time the market. By having the proper allocations and right level of cash and liquidity, covered call investors can use market volatility to their advantage. And not worry about market timing.

VAN HULZEN ASSET MANAGEMENT

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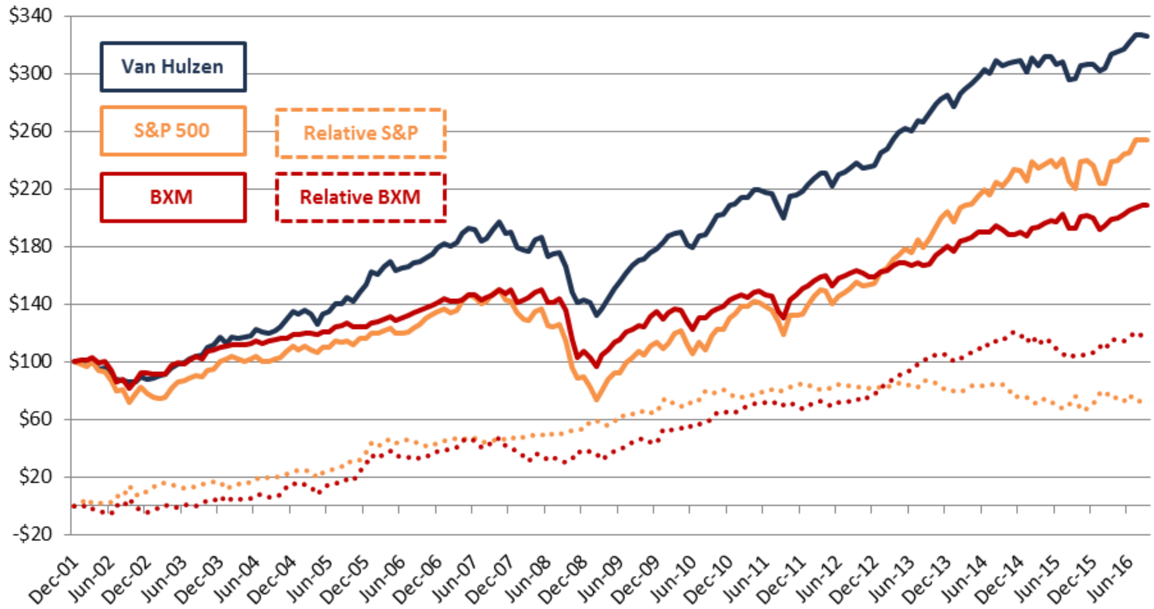
Covered Call Strategy Performance (gross as of 09/30/2016)



Returns (annualized)*	Sep 2016	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	-0.2%	1.3%	3.8%	6.3%	9.8%	6.2%	10.3%	9.7%	6.8%	8.3%
Van Hulzen (Net)	-0.3%	0.8%	2.9%	4.9%	7.9%	4.7%	8.7%	8.2%	5.5%	7.1%
BXM	0.1%	1.8%	5.1%	4.3%	8.5%	7.5%	9.9%	7.6%	4.4%	5.1%
Difference (VAM-BXM)	-0.3%	-0.6%	-1.3%	2.0%	1.3%	-1.3%	0.4%	2.1%	2.4%	3.2%

***Inception date : 12/31/2001. Figures greater than one year are annualized. Van Hulzen returns represent actual returns from composite of accounts**

Note: There is no assurance that the Strategy will achieve its investment objectives. Writing call options can result in an option exercise and may cause shares to be "called away" and sold. The use of covered call strategies does not ensure profits or guarantee against losses. Past performance may not be indicative of future results.

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