Brinker Capital

Crystal Diversified Income

PORTFOLIO REVIEW
MARCH 2015

Much has been written about the low interest rate environment since the start of the 2008/2009 Financial Crisis. The former Federal Reserve Chairman Ben Bernanke, now employed with the Brookings Institute, was the latest to throw his hat in the ring discussing seemingly perpetually low rates. Whereas many, if not most market pundits would suggest low rates are a function of Federal Reserve policy, former Chairman Bernanke argues that the economy and it's many factors are the true driver of interest rates. Yet, from an investors perspective, the "Why?" matters less than the "Now What?" Over the past few years, investors have flocked to a variety of higher yielding alternatives. The TINA ("There Is No Alternative") mentality has chased traditionally low risk savers into more volatile equities and bond-alternatives. However, in the dash for yield, investors have often times failed to distinguish between the sources and quality of cash flow only to realize their higher yield may have come at the cost of negative total returns.

To illustrate the point, let's use last year as an example. Let's assume that as a contrarian, unlike virtually every economist on Wall Street, you expected interest rates to fall in 2014 as growth continued to sputter and inflation expectations fell. Along with investing in traditional bonds, let's assume you also invested in three more volatile, yet higher yielding, strategies as well: High Yield Bonds, Master Limited Partnerships (MLPs), and Business Development Corporations (BDCs).

In 2014, bond yields indeed fell, and fixed income did benefit. Unfortunately, the allocation to investments with higher yield and closer similarity to equities would not have fared nearly as well. See the table below.

Indeed, High Yield, MLPs, and BDCs in 2014 suffered large drawdowns, higher volatility, and low or even negative returns.

What lessons can we learn?

• Higher yields do not mean better returns, or even positive ones for that matter.

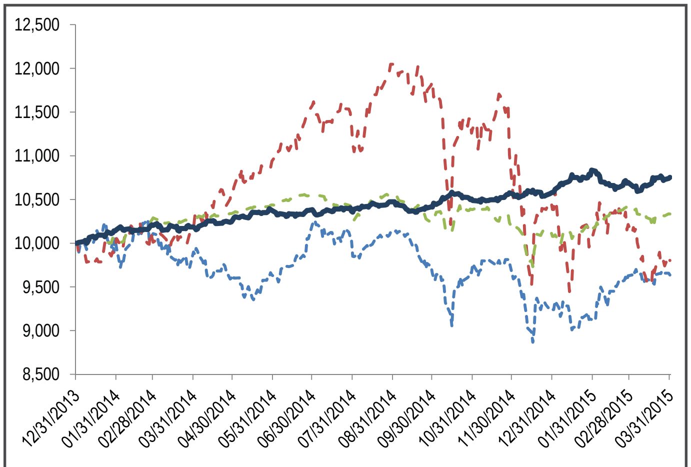
• Understand what you own; asset prices are driven by far more than just one factor (yield).

• Higher risk and more speculative investments can serve a role in a portfolio; but they should serve as one piece of an overall diversified portfolio.

• ***When*** you own something can be just as, if not more important than, ***what*** you own.

• When everyone is lined up on one side of a trade, chances are the market has fully reflected the optimism within the current price.

	12/31/13 Yield	Max Drawdown	Standard Deviation
Market Vectors BDC Income ETF (BIZD)	5.45%	-13.67%	11.83%
JP Morgan Alerian MLP ETN (AMJ)	4.72%	-21.59%	19.71%
SPDR Barclays High Yield ETF (JNK)	6.05%	-7.86%	5.28%
Vanguard Total Bond Market ETF (BND)	2.78%	-2.26%	2.95%



Diversified Income 1Q 2015 Review

Crystal Diversifi ed Income fi nished the quarter up +1.39, driven by strong performance in the fi rst two months of the year. Partly due to falling interest rates from weakness in economic growth, our positions in Fixed Income and Real Assets (particularly REITS) were the main contributors to performance. Our top contributor to the portfolio was our position in the DoubleLine Total Return Bond Fund (DBLTX, +1.62%) which has served as a source of consistency and yield for some time now. Within Fixed Income, we also benefited from a position in longer-term U.S. Treasuries (EDV, +5.43%) which appreciated sharply in January. Given our concern that the rally in rates may be overdone (and possibly near the latter innings of its secular bull run,) we decided to fully exit the position and lock in our profits. Outside of the Fixed Income, our Real Assets asset class also performed well thanks to our REIT exposure. Specifically, positions in Colony Capital (CLNY, +10.38%), Starwood Property Trust (STWD, +6.68%), NorthStar Realty Finance Corp. (NRF, +5.31%) and the Forward Select Income Fund (KIFYX, +3.04%) all outperformed U.S. equities and contributed to our solid performance. Distinguished mentions also include Zurich Insurance and ING Group within International Equity.

The main detractors for the first quarter are almost exclusively represented by our hedges within the portfolio. The largest of those detractors was our position in the ProShares Short MSCI EAFE ETF (EFZ, -6.04%). While we were quick to exit our EAFE short position once it became apparent to us that the European equity market strength would persist, we were hit by the initial sell-off early on in the rally. Using the proceeds from the EAFE short, we moved much of those proceeds to an Emerging Markets short position (EUM). Although emerging markets significantly underperformed developed markets for the quarter, the larger weighting to the position and slightly positive performance resulted in it being one of the larger detractors in absolute terms. Yet, when viewed as a hedge, we were generally with pleased with our Emerging Market short given the relative outperformance of our long positions. Of note though, we have again begun transitioning our short exposure from Emerging Markets to the United States. While we have concerns with valuations, technicals, and earnings, among other items here in the U.S., we also believe that emerging markets may be oversold and ripe for a rally in the near term. Lastly, our hedge to REITs via the ProShares Short Real Estate ETF (REK, -2.17%) was also a detractor. However, similar to emerging markets in that it was a relative underperformance, we were still able to benefit from the relative outperformance of long REIT positions as mentioned above.

At the end of the quarter, beta for the portfolio stood at 0.10 to the S&P 500.

PORTFOLIO PERFORMANCE
MARCH 2015

	March	3 Months	YTD	1 Year	3 Years	Since Inception	1 Year Std Dev	3 Year Std Dev	Since Inception
Crystal Diversified Income	-0.12%	1.39%	1.39%	3.68%	4.81%	6.28% (11-11)	2.36%	3.12%	3.65%
Major Market Indices									
HFRX	0.33%	2.06%	2.06%	0.36%	2.81%		3.29%	3.08%	3.14%
CPI + 2	0.17%	0.03%	0.03%	1.73%	2.91%		0.93%	0.87%	0.83%

Past performance does not guarantee future results. Returns are based on actual market values and are weighted accordingly. The returns assume reinvestment of dividends or any earnings. Time periods were selected by Brinker Capital and are shown for illustrative purposes only. Returns are calculated gross (before the deduction) of advisory fees payable to Brinker Capital and any other expenses for services not covered by the advisory fee including administrative costs, which would reduce your return. The net effect of the deduction of Brinker Capital's fees on annualized performance, including the compounded effect over time, is determined by the relative size of the fee and the account's investment performance. The chart to the right depicts the effect of a 1% management fee on the growth of one dollar over a ten year period at 10% (9% after fees), 5% (4% after fees) and 3% (2% after fees) assumed rates of return. CS_MONTH_PERF

Year	1	2	3	4	5	6	7	8	9	10
10%	1.10	1.21	1.33	1.46	1.61	1.77	1.95	2.14	2.36	2.59
9%	1.09	1.19	1.30	1.41	1.54	1.68	1.83	1.99	2.17	2.37
5%	1.05	1.10	1.16	1.22	1.28	1.34	1.41	1.48	1.55	1.63
4%	1.04	1.08	1.12	1.17	1.22	1.27	1.32	1.37	1.42	1.48
3%	1.03	1.06	1.09	1.13	1.16	1.19	1.23	1.27	1.30	1.34
2%	1.02	1.04	1.06	1.08	1.10	1.13	1.15	1.17	1.20	1.22