

Crystal Diversified Income

Why We Own What We Own

We incorporate our best ideas into portfolios, so that they reflect our most up-to-date approaches for the short and long term. An intensive, team-based approach enables us to generate ideas, drawing on our long experience and newest insights. All of this supplies you with a ready source for intelligent, useful solutions.

DOMESTIC EQUITY

Huntington Bancshares (HBAN)

- Regional bank based in Columbus, OH

What we like

- 2.2% yield is moderate but with solid growth potential as the company is poised for gains in positive operating leverage after several years of investment
- Moderate exposure to interest rates, which could produce earnings upside to the extent the Fed hikes interest rates

Outfront Media (OUT)

- One of the largest owners of advertising billboards in the U.S.
- Spun out from CBS Media in 2014

What we like

- Pays a stable 5% dividend yield with potential for modest growth to the extent of rebound in advertising from US economic growth

ProShares S&P Inverse ETF (SH)

- ETF hedges against risk of equity declines as measured by the small cap S&P 600 Index

What we like

- Hedge used in place of RWM for tax efficiency (e.g. no wash sales)

INTERNATIONAL EQUITY

ING ADR (ING)

- Based in the Netherlands
- European financial conglomerate that is simplifying its structure to become a pure bank

What we like

- ING has a yield of over 3% with potential for growth from strong internal capital generation and extraordinary dividends from selling down its stakes in insurance companies

Zurich Insurance ADR (ZURVY)

- Global insurer based in Switzerland
- Property and casualty and life operations in Europe, the US and a growing share in Latin America and Asia

What we like

- By virtue of paying a significant 6% yield, it demonstrates the robustness of cash flows and capital discipline for a cheap name with decent returns on capital

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FIXED INCOME

Doubleline Total Return (DBLTX)

- Core fixed income mandate with barbell approach of long duration Treasuries and shorter duration non-agency Mortgage Backed Securities with current portfolio duration of roughly 3 years

What we like

- Yield of roughly 4% is meaningful
- Lead portfolio manager Jeff Gundlach and team generated superior risk-adjusted returns at prior employer for 15+ years (now they own their own investment firm)
- Emphasis on yield and capital preservation make attractive component for income-oriented portfolio

RiverPark Short-Term High Yield (RPHYX)

- After fee yield of nearly 4%
- Overall duration of less than 1 year

What we like

- Long tenured manager with conservative stance on credit risk and minimizing fluctuations in principal

RiverPark Strategic Income Fund (RSIIX)

- Stable yield of around 5% post expense ratio
- Moderate duration of less than 3 years

What we like

- Manager David Sherman managed around preservation fo NAV through investing in higher quality end of high-yield companies

AllianceBernstein Income Fund (ACG)

- Closed-end fixed income fund
- Invested in mainly mid to long duration US Treasuries

What we like

- Discount of -10% to NAV has potential to close as major shareholder activists lobby the manager to unlock value for shareholders

ABSOLUTE RETURN

Driehaus Active Income (LCMAX)

- Opportunistic long/short credit manager with the goal of delivering a return greater than the LIBOR + 300 basis points with less risk than traditional fixed income

What we like

- Driehaus will actively manage interest rate risk and tends to be duration neutral
- Returns generated through a combination of income and principal appreciation

REAL ASSETS

Starwood Property Trust (STWD)

- Commercial mortgage REIT
- Originates and services mortgages on commercial properties including office, lodging, multifamily and retail
- Owns the largest commercial mortgage servicer in the US

What we like

- Yield of 7.6% is healthy and sustainable given transparent cash flows on secured high-quality real estate

Northstar Realty Finance (NRF)

- Conglomerate REIT transforming from a commercial mortgage REIT into an underlying owner of real estate equity assets

What we like

- NRF is seeking to narrow the discount between current share price and underlying assets through asset spinoffs - last year it spun off its third party asset management business and in 2015 it will spin off its European property business
- Current yield of 9% might have modest growth potential this year

REAL ASSETS (CON'T)

Colony Financial (CLNY)

- Externally managed REIT of Colony Capital that invests in distressed real estate (both commercial and residential)
- Recently the manager secured shareholder approval to merge the REIT with its third party asset management business

What we like

- Experienced senior management generates from buying distressed properties in aftermath of RTC/US Savings and Loan crisis
- Attractive yield with growth potential if collateral appreciates in value

Forward Select Income Fund (KIFYX)

- Invests primarily in preferred stock of high quality REITs (class A and B properties)

What we like

- Meaningful current yield of nearly 6% sustainable (particularly as certain issuers renew dividend payments they had previously suspended in recession)
- Yield spread to Treasury nearly 200bps above historical average, suggesting cushion against higher rates

ProShares Short Real Estate ETF (REK)

What we like

- ETF hedges against risk of equity market declines as measured by the MSCI EAFE Index

WisdomTree Japan Hedge Real Estate (DXJR)

- ETF of Japanese real estate companies that could benefit from further extension of Quantitative Easing by Bank of Japan along with investments in preparation for the Tokyo Olympics in 2018

What we like

- Many local markets have supply constraints that are benefiting rent increases

JP Morgan Alerian MLP ETN (AMJ)

- MLPs in a diversified basket (Alerian ETN) offer mid-single digit yield plus potential growth from increases in US energy infrastructure

What we like

- Most cash flows are based on tariffs tied to Producer Price Inflation (not directly to commodity prices)
- Outperformance of oil versus natural gas prices does produce extra margin opportunity for a certain part of the universe
- Cash flows in the industry have been historically less sensitive to the economic cycle

PRIVATE EQUITY

Red Rocks Listed Private Equity (LPEFX)

- Asset class offers investors the opportunity to buy holdings in companies with improving cash flow at a discount to market

What we like

- Distributions appear sustainable and might even increase over the next couple of years as certain funds enter cash harvesting phase
- 40% international exposure provides both opportunity and volatility. Listed private equity companies are an emerging asset class even post 08' selloff

Ares Capital Corporation (ARCC)

- Part of a Business Development Company (BDC) that lends to middle market companies in a variety of industries
- These companies have some form of private equity sponsorship in the US
- Banks have reduced lending to the space due to higher capital requirements

What we like

- ARCC also has a joint venture with General Electric in lending on senior loans

Hercules Growth Technology Company (HTGC)

- Business Development Company (BDC) that lends to middle market companies in early, mid and late stage businesses often backed by venture capital
- These companies range from technology to life sciences
- Banks have reduced lending to the space due to higher capital requirements

What we like

- Yield is high and sustainable with potential growth in 2016 depending on when it reaps returns on the expanded scale of its business