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September 30, 2016 Quarterly Report

We hope you enjoyed your last few months of summer as we enter into the Fall Season. We also are eagerly awaiting a very important earnings season as ultimately, earnings and their associated cash flows are what lead to rising asset values. Additionally, we are happy to announce that we have added a new associate, Aaron Uhl. Prior to joining Chrysalis, Aaron was a Senior Financial Analyst at Alcara. Aaron will be assisting us with portfolio analysis and customer development.

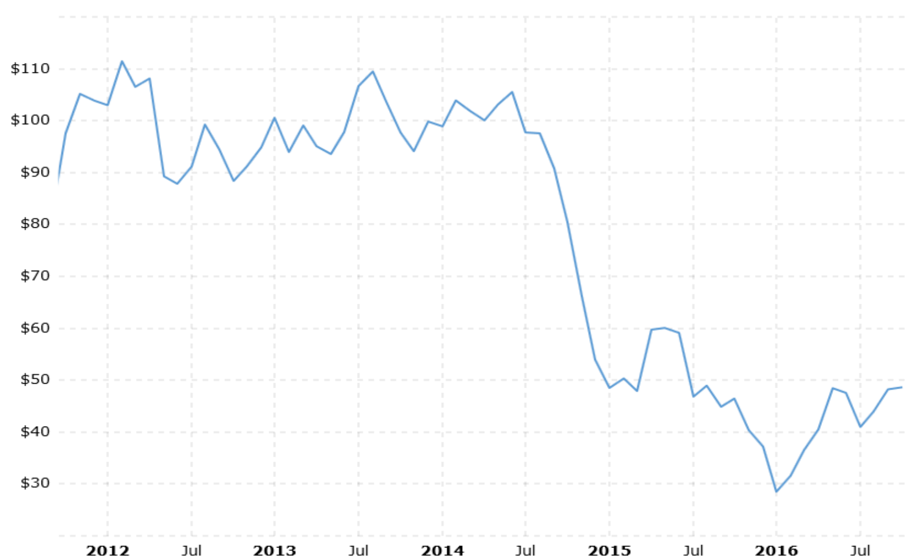
The Fed's Action

We approached the end of the quarter eagerly awaiting a decision whether the Federal Reserve would agree to a rate hike. Even with increasing conversations surrounding raising interest rates, the Federal Open Market Committee decided to keep the current interest rates, though there is an increasing number of dissenting voters. Consequently, this increased the probability of the next Fed rate hike to 60%, which is expected to occur by year end. Market reactions remain mixed, even with Fed policymakers stating that the economy could handle an interest rate increase, and that continued "inaction" could do more harm than good.

OPEC Deal

An agreement was reached in Algiers, Algeria that OPEC's 14 oil producing countries would collectively cut a limited amount of oil production to support the decline of oil prices. Details of the cut will be discussed next quarter, on November 30th in Vienna, with the assumption that production will decrease by roughly 2% (700K barrels) a day. In the short term, this has caused oil to rally during the closing days of the quarter as seen in the chart below. Given the expected oil demand growth, lead by China and India over the next 10 years, we view the recent announcement by OPEC as highly bullish for oil related companies.

Oil Prices Adjusted for Inflation 2012-2016



*Data provided by MacroTrends; prices include adjustment for inflation

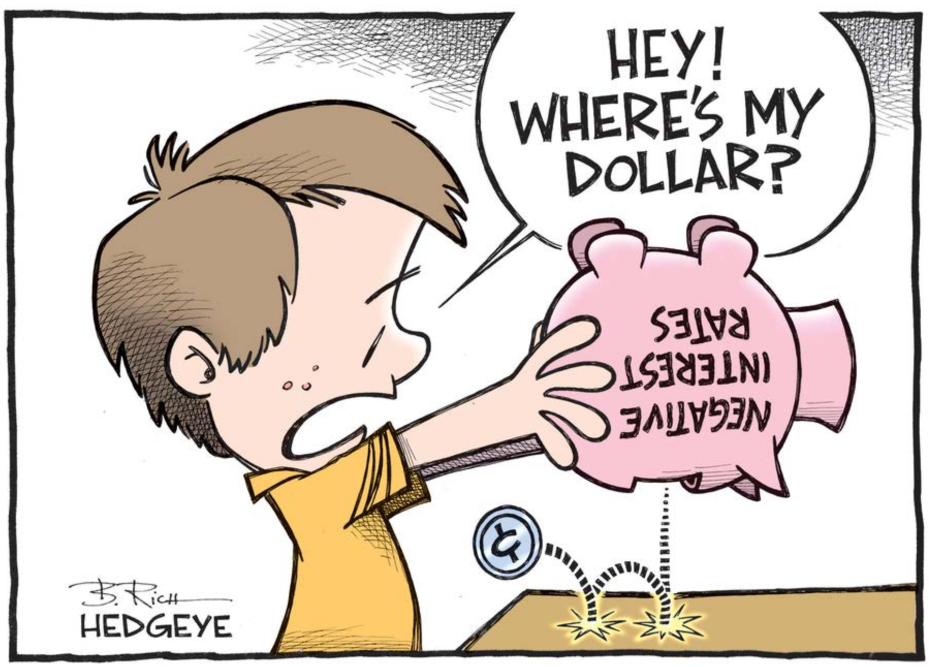
Deutsche Bank Demise

Much has been written about the issues surrounding Deutsche Bank and by extension, the European banking industry. While the German government has yet to exclaim that they would rescue the bank if needed, we believe that the systemic risk to German, European and Global interests would force a "bail-out" of some fashion.

Given that Deutsche Bank has passed the "stress test" set by regulators, we find any parallel to any Lehman type event less than probable as Deutsche Bank and regulators note that they have $234B USD ($200B Euros) in reserves to use if necessary. The problem with Deutsche Bank reflects the problems with Europe in general, the need for a better growth model

Negative Interest Rates

As discussed in prior letters, global interest rates have been falling in Europe and Japan. For these parts of the world, the deposit rate is now the floor. In a Wall Street Journal article in April 2016, it was reported that a Danish couple's interest payment for their home was *negative* 249 Danish kroner. Their mortgage rate stood at negative 0.0562%. While banks are paying borrowers, depositors are paying banks. This Kafkaesque banking scenario is unprecedented.



In the United States, the Fed is indicating that negative interest rates are not a constructive option. Therefore, as noted above, expectations are that they will raise rates at year end to offset concern that central banks are dangerously offering interest rates that are too low.

The experiment by Central Bankers to offer interest rates at or below 0% in the hopes of providing stimulus to the economy cannot last in perpetuity. We believe that the end of the experiment is near and we have positioned our Fixed Income products to shorter durations and believe that certain Financial Service companies stand to benefit from a higher interest rate environment.

Resource Equities

Finally, I would like to discuss a topic that continues to weigh on our minds and our view of current investments. We have been holding on to a number of "underperformers" in the Natural Resources/Basic Materials sector over the last year. These positions obviously did not reach their ultimate bottom at our entry point but we feel comfortable with our current exposure.

We continue to look at investing in a rational light, while also looking for opportunities to capitalize on volatile markets and asset classes. We offer a summary of an excellent piece by Jeremy Grantham, of GMO, who recently wrote about adding natural resource equities to your portfolio. It is cheekily titled "An Investment Only a Mother Could Love" and the most salient points are:

- Resource equities provide diversification relative to the broad equity market, and the diversification benefits increase over longer time horizons.
- While resource equities are volatile and exhibit significant drawdowns in the short term, over longer periods of time, resource equities have actually been remarkably safe investments.
- Resource equities have not only protected against inflation historically, but have actually significantly increased purchasing power in most inflationary periods.
- Public equities are a great way to invest in commodities and allow investors to:
  - Gain commodity exposure in a cheap, liquid manner
  - Harvest the equity risk premium
  - Avoid negative yields associated with rolling some futures contracts

As we have seen over the last 12 months, resource equities have the potential to be susceptible to short-term risk and volatility. However, we cannot emphasize strongly enough that long-term investors are well served by adding these assets to their portfolio. It is not out of stubbornness that we have maintained what have been underperforming positions so far, but it is out of prudence and care to the allocation of your assets.

We are excited about the prospects going forward in the Natural Resource Sector, which for us has traditionally been a strong investment strategy during our career. This sector has been an underperformer for the past 3 years which offers an attractive opportunity for us to invest at reasonable prices.

Thank you for your continued confidence in us.

Should you have any questions please feel free to call me directly at 314-726-550 or email at bgrunzinger@chrysalisim.com.

Sincerely,

Robert J. Grunzinger

Robert J. Grunzinger, CFA CPA (inactive)
President Chrysalis Investment Management, LLC