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September 30, 2017 Quarterly Report

As we enter the fall season, we want to take the time to provide you with both a commentary on the improved market performance, but also update you on the changing landscape of the financial services industry.

To start off, Chrysalis Investment Management has been serving you as a fiduciary, as a Registered Investment Adviser (RIA), since inception. As new rules and regulations are implemented for broker dealers, as well as investment advisers, each one must adjust their business models to accommodate the impending changes. As we see these changes occur, it is important to review existing business relationships, while also reviewing potentially new relationships, so that we can maximize any benefits to you, our client. Thus, we are constantly evaluating associations with all potential broker dealers and custodians, to see which relationships provide us with the necessary tools in order to provide you with the most value-added services.

Also, we want you to know that we are not only legally obligated, but also view it as a value central to Chrysalis, that we serve you in your best interest. Any future recommendations in regards to any relationships will be made with this in mind. While we do not expect anything to change over the short term, we also expect that any recommendation will not materially alter how we have been managing your accounts. We believe it is only proper to inform you well in advance of any potential changes if they occur.

*FOR A MORE DETAILED ANALYSIS OF THE CHANGING FORCES THE FINANCIAL INDUSTRY FACES, PLEASE READ THE ENCLOSED DOCUMENT TITLED "A CHANGING LANDSCAPE"

Market Commentary: Large Cap to Mid/Small Cap Value Shift

As we have discussed in prior letters, the US equity market growth has been defined mainly by large-cap stocks. Most recently lead by Facebook (FB), Apple (AAPL), Amazon (AMZN), Netflix (NFLX), Microsoft (MSFT), Google,

(GOOG), and Johnson & Johnson (JNJ), which are known as the Big Six.

In fact, year-to-date, all these stocks have had double-digit gains. The Big Six alone combine for a market cap of $3.4T, which is more than the total value of the bottom 1,115 stocks in the S&P 1500 (lower large-cap stocks).

With increased attention on passive management and the increased inflows to passive management vehicles that focus on the S&P, this has created an opportunity for value managers concentrating on mid-cap and small-cap names. The last two years have been tough year for small-caps.

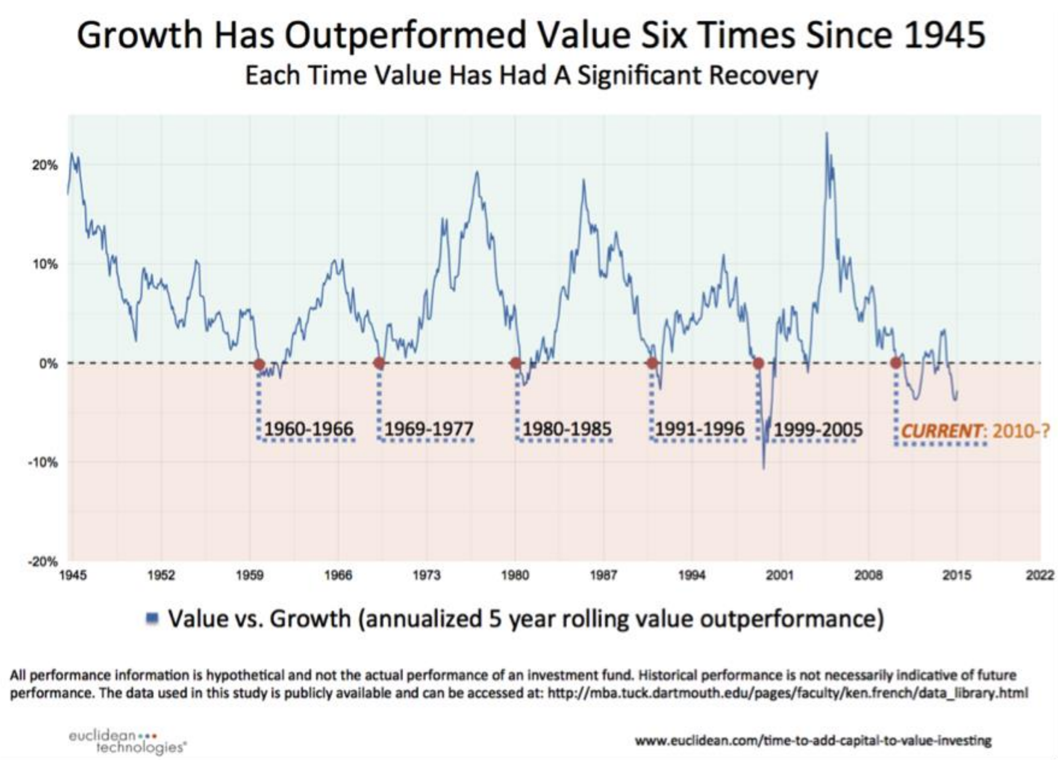
However, at the end of September we have seen a positive development emerging that perhaps signals a shift from Large Cap growth stocks to Small Cap value stocks.

Reflation Trade

With assumption that inflation is poised to rise in the near future, this could also bode well for small-caps. During inflationary periods, small cap stocks have an advantage over large cap in that it is easier for them to pass on inflation costs. Additionally, the logic behind the recent surge in mid-cap and small-cap stocks is that smaller companies tend to derive a large percentage of their overall sales domestically. Therefore, mid & small-cap companies would be beneficiaries to any lower corporate income tax rate.

Underperformance of Value vs. Growth:

Since 1945 after periods where Growth stocks have outperformed Value stocks for more than five years, the Value stocks have had a significant recovery.



What this graph shows is a positive correlation between the length of a growth cycle, and the subsequent length of a value cycle. This means that after a long (or short) growth cycle, a value cycle (long or short) is likely to follow. One could assume that after finishing a significant growth cycle, that there would be a value cycle to follow.

Additionally, Kim Forrest of Fort Pitt Capital Group stated, “For the past eight years we had a low-rate environment in which investors accepted higher multiples and momentum (growth) stocks flourished. But the Fed is telling us that the era of cheap money is over, so a lot of people are adjusting their views.”

With the US having historically low interest rates that were implemented due to the financial crisis, we have seen a boom in growth stocks. As the Fed looks to unwind its balance sheet and stabilize monetary policy by raising interest rates, growth stocks may not flourish as easily as they have in the past.

Index Returns

Index	Q3 2017	Q2 2017	Q1 2017	Q4 2016	5 Year Annualized
*MSCI ACWI ex-US	5.51%	4.80%	7.21%	-1.61%	4.15%
S&P 500	4.48%	3.09%	6.07%	3.82%	14.06%
Russell 2000 Value	5.11%	0.67%	-0.13%	14.07%	13.20%
Barclay’s US Agg	0.85%	1.45%	0.82%	-2.98%	2.05%

Data provided by MorningStar Office
*MSCI ACWI ex-USA PR USD is the Price Return of the Morgan Stanley Capital International Index excluding US based companies

Summary

With the prospects of rising interest rates, reflation and potential tax reform, we have become increasingly more optimistic about our value investment philosophy. We remain concerned about overall Global Growth stock valuations and the associated diminishing prospects for future equity returns. We continue to analyze and scour all available investment choices. Patience rewards those who stick to a philosophy that has been proven to produce results and we intend to remain committed to our investment philosophy.

Should you have any questions please feel free to call me directly at 314-726-5500 or email at bgrunzinger@chrysalisim.com.

Sincerely,

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