

Market Commentary Third Quarter 2015

Dear Clients,

Worries about the economic slowdown in China and China's own stock market crash, falling oil prices and the specter of higher interest rates sent stock prices on a wild ride in August. Volatility, a measure of investors' nervousness, returned with a vengeance.

At 7Summit Advisors, our portfolios were defensively positioned. Our shorts and hedges, as well as high-quality assets, helped to buffer volatility. And in the cases where we invested in funds, we benefited from the skill of experienced managers.

The accompanying table shows key indices for the 3rd quarter and year to date, and gives the performance net of fees for 7Summit Advisors' three composite portfolios.

As I have mentioned in previous commentaries, I have had a cautious outlook for the financial markets for more than a year. In particular, I have viewed the biotechnology sector with particular alarm. That skepticism was rewarded during the third quarter as U.S. biotechnology stock prices tumbled. From its high July 27, the Nasdaq Biotechnology index has fallen around 27 percent.

But there's one worry I don't share with Wall Street—the fear of significant hikes in interest rates by the Fed. The personal consumption expenditures (PCE) rate of inflation emphasized by the Fed is still well below 2% and heading in a downward trajectory.

The Fed's other goal of full employment remains far off. The official U.S. unemployment rate, labeled U-3, stands at 5.1%. But there are millions more people who are "marginally attached" to the work force. These are people who have stopped looking for work or they work part-time because they can't find full-time jobs. If you add the number of unemployed to the marginally employed (U-6), the number of people out-of-work shoots up to 10% of the workforce. That's hardly a picture of a healthy economy.

Meanwhile, the global economy is weakening, all of which leads us to believe that the Fed will raise rates minimally, if at all. Moreover, there is more than \$1.2 trillion in bond and loan paper that is scheduled to be refinanced between 2018 and 2021. The credit markets cannot be frozen just when corporations need them most. This will put pressure on the Fed to keep rates at low levels.

We have established new positions that reflect our view that rates will remain low. The first is Aberdeen Asia-Pacific Income Fund (FAX) and it's a bullish play on Asia. Traded on the New York Stock Exchange, FAX is a closed-end fund that invests the bulk of its assets in Asian debt securities, Australian debt securities and New Zealand debt securities. It is currently yielding 9.31%.

We had no exposure to master limited partnerships (MLPs) going into the 3rd quarter, which served us well. But given the deep sell-off in MLPs, we added First Trust Energy Income and Growth

Fund (FEN), another closed-end fund. FEN invests in master limited partnerships and related public entities in the energy sector. It is currently yielding 8.51%.

The high yields for these two holdings reflect investors' fears of higher interest rates and lower commodity prices. We believe those fears will diminish as the Fed stays the course on rates and as these yields correct, we will take gains in market prices.

I am also more optimistic than many investors about commodity prices. China is engaged in a massive effort to export its goods efficiently in what's been dubbed "The New Silk Road" development project. By using rail, roads and pipelines to connect China to Europe, China hopes to achieve \$2.5 trillion in additional annual trade over the next 10 years. The New Silk Road will traverse China, Mongolia, Russia, Belarus, Poland, and Germany, extending more than 8,000 miles, creating an economic zone that encompasses an area that 70% of the world's population calls home, that produces 55% of global GDP, and has about 75% of known energy resources, according to the World Economic Forum. Many challenges remain, but the first steps have been taken. In 2015, containers from China traveled by rail to the Port of Rotterdam, shortening the delivery time from 60 days by sea to about 14 days by rail.

Finally, by the time you read this, my family and I will have participated in a fundraiser called Dribble for the Cure at my alma mater, UCLA. Dribble for the Cure brings university and college

basketball programs around the country together in an exciting way to raise money for Pediatric Cancer Research Foundation (PCRF), which funds cutting edge, pediatric cancer research.

We will get to meet basketball players and coaches as we dribble basketballs along a course that snakes through the campus. As many of you know, I support cancer research in memory of my mother and my wife's mother, both of whom died of cancer. Dribble for the Cure is one more way to participate and 7Summit Advisers is proud to be one of its sponsors.

As always, thank you for the trust you have placed in me and in 7Summit Advisers. We work hard to earn that trust each day.

Sincerely yours,

Li Chang