INVESTMENT PARTNERS ASSET MANAGEMENT
One Highland Avenue, Metuchen NJ 08840 Tel: 732-205-0391 Fax: 732-205-0395

Excerpts from Quarterly Report written by Investment Partners Asset Management – Q2 2015

"When we wrote to you this time last year, we had made significant progress. Two sectors, Energy and Technology, were big contributors to performance. In the latter half of 2014 and continuing through the first half of 2015 a harsh bear market developed in certain sectors that we tend to favor (Energy, Mining, and Commodities).. One bright spot, however, has been the income we have been able to generate from dividends, interest, distributions…"

ECONOMIC BACKDROP AND EFFECT ON PORTFOLIO PERFORMANCE

"Our investment posture has been and continues to be opportunistic and tactical. Our hesitancy to be fully invested at certain times resulted from the recognition that the fiscal deterioration of the nation, caused by too much spending at all levels funded by debt, would inevitably hurt consumers, investors and the overall economy.

Only more recently have investors woken up to the realization that a debt-ridden world can destabilize countries, trading blocs, and governments. Over time, the job of rectifying the financial imbalances became the responsibility of our Federal Reserve. Once Ben Bernanke decided to enact liberal monetary policies to fight the recessionary and deflationary forces plaguing the system, there was no turning back. The Federal Reserve's solution has been to conduct the biggest economic experiment in history. After the Financial Crises of 2008-2009, the creation of more debt through unprecedented money printing was expected to stabilize the dollar, lower unemployment, and spur inflation.

While inflation stubbornly hasn't emerged yet, the Federal Reserve is no doubt aware that markets tend to anticipate the inflationary impact of a continuation of intervention activities. In spite of that knowledge the experiment continues and the market, until recently, loved it. The Yellen Fed has continued the journey down this path, but more recently seems willing to change policy as the economy improves. It has been nine years since a rate increase but it is no longer a question of whether to raise rates, but when.

Fixed income markets have become one of the most challenging asset classes for investors. Federal Reserve policy of intervention has distorted equity markets as well. Investors have been conditioned to expect that it is safe to assume the risks of owning stocks, and have allocated their portfolios accordingly. This risk-on trade has given rise to speculation and, in our view, a so-called asset bubble in certain biotechnology and social media stocks. The relative safety normally offered to holders of bonds and savers in general has been given secondary priority. With interest rates at historically low levels there is no way for bonds to compete with stocks unless, of course, powerful deflation develops. Since 2007 those that sought safety dumped over $1 trillion into bond funds. Now, with the specter of rising rates, that money is flowing out, particularly in the high-yield space. This has resulted in a widening of yield spreads and a lack of liquidity in the bond market. If this spills over into the Treasury bond market, a rise in the US 10 year Treasury from 2.5% to 3% could cause a decline in a bond's market value of 11%, while a 4% ten-year could result in a 19% decline. Beyond the potential for market-value declines in such an environment, there could also be an increase in defaults by private sector and public sector borrowers.

Meaningful austerity measures and structural reform have not happened stateside, and little can be expected as we lead up to the 2016 Presidential Election. Meanwhile, China has been attempting emergency interventionist methods to prop up its economy and stock market. The Eurozone is grappling

with strategies to save its weakest members from collapse, and on this side of the globe, Puerto Rico seems to be next in the queue for front-page financial crisis. Can New Jersey and Illinois be far behind?

In spite of these macro issues, using traditional analysis tools and applying the theory inherent in value-style investing, we have been able to uncover a number of investment candidates. We often get the feeling, though, that we are alone in assessing their worth. Value investors by nature have to be patient. As we have stated before, value investors as a class share one thing in common: the quest to uncover something misunderstood by Wall Street that, we hope, others will pay more for in the future. A deep-value investor senses a bargain purchase even if the merchandise is, in the eyes of the market, flawed. Sometimes those assets prove to be remarkable finds over the long-term. However, in other instances, the investment is cheap for a reason. The energy space at the moment is a good example where patience and fortitude are necessary."

ENERGY

"In the last six months share prices in the energy sector have been volatile as reality begins to set in: Saudi Arabia has increased production against a backdrop of slower global expansion in an effort to eliminate the threat posed by US exploration and production companies.

In fact, we would go as far as to say that Saudi Arabia has declared economic war on the US energy sector with Washington, at least for now, turning a blind eye. The failure to have an enlightened energy policy for the past fifty years impacts all of us. We send troops to fight and shed their blood in the Mideast, spend trillions of dollars and, sadly, have virtually nothing to show for the effort. Now we compound matters by permitting Saudi and Iranian actions to set back any near-term prospect that the US could become and remain energy independent.

Just as oil prices began to recover this spring, hopes were dashed by the Saudis persistence in defending their marketshare by continuing to flood the market. In recent weeks this trend has accelerated with OPEC exceeding their already-elevated supply target of 30 million barrels per day. Geopolitical events have the US seeking Saudi aid in the Middle East to fight state-sponsored terrorism. The price of that stance, however, seems to be throwing our domestic energy companies under the bus. Ironically, the energy and ancillary industries have been among the only sectors in the past 6 years to create tens if not hundreds of thousands of high-paying American jobs. We're now jeopardizing that robust job growth by sitting by as OPEC dumps oil in an extended price war. Our policy leaders rationalize their actions by suggesting that the American consumer and the developed world are the beneficiaries of lower prices by paying less at the pump. However, the actual economic figures are telling a far different story. It appears that consumers have actually opted to save their money rather than spend it as oil prices have receded. (Maybe the anticipated "benefits" of these lower commodity prices are far outweighed by the fear of deflation and the reduction in domestic capital expenditure that they also cause.)

With declining collateral value underlying bank loans in the US energy patch, producers are confronted with decreased cash flows. Logically these companies have cut capital spending while trying to hedge their production and maintain an ability to pay distributions. Without distributions, share prices would likely decline in anticipation that future dilutive stock offerings may be needed for some energy companies to survive."

Not a pretty picture……

"Meanwhile, the belief in the large-cap growth space seems to be that none of the macro developments will have any long lasting effects on global demand. After all we are now in a new world where the "internet of things," social media, entertainment, and biotechnology will somehow indefinitely propel the US economy. These growth engines combined with cheap energy, they rationalize, will overcome the

effects of worldwide debt meltdowns and bailouts. So, for now, the pendulum remains far-flung on one end of the valuation spectrum for certain growth stocks, while ours is stuck in the opposite extreme.

Specifically, the one thing most long-term value investors seek is an environment where emotions overcome rational thinking. Many analysts are so focused on the near term impact of declining earnings that they neglect the reality that the tangible assets underlying these companies have not disappeared. Many have balance sheets that are strong and, if their managements are opportunistic, may be able to purchase long-lasting reserves at fire-sale prices from impaired competitors. Furthermore, many are paying dividends and distributions that, if sustainable, are at yields that are unprecedentedly high."

TECHNOLOGY

"Value investors have traditionally avoided investing in technology driven companies because they can, at times, defy conventional value-oriented analysis. The impact of innovation is rarely predictable. Timing is imprecise and change brought about by the introduction of competitive alternatives can make forecasting future profits difficult. Growth minded investors don't seem concerned about those risks, because the reward is perceived to be so great. As such, growth buyers feel traditional valuation metrics matter less than revenue growth. Timing points of entry are seemingly irrelevant as long as there are other momentum investors willing to pick up on the trend.

Today, there is essentially a bright line that separates companies that compete in the technology sector, regardless of whether they are viewed as device and equipment manufacturers, programming and software providers, media advertisers, or deliverers of communications and/or health services.

Companies are labeled "Old Tech" or "New Tech." Growth minded investors shun Old Tech and embrace New Tech, often paying multiples of the "here-after" for top line revenues with little regard for profits. Old Tech companies are viewed as mature, stodgy, and wed to the past: relics whose businesses are to be disrupted by the new kids on the block. The disparity in valuations is sometimes striking: Old Tech shares typically trade at low multiples of book value and cash per share, conduct share buy-backs and have pristine balance sheets. Value investors find comfort in owning Old Tech particularly when someone comes along that believes that the businesses can be run better."

"(We) have focused on both segments with greater attention being placed on Old Tech, particularly here there can be a change in perception. Value investors long for the chance to buy into a company where a change or transition is underway.

The post crises period has been difficult for value-minded investors who buy stocks at prices below their fundamental value and wait for the market to recognize the potential.

During the first half of 2015, a time of great volatility, the gap between Old Tech and New Tech has widened. Growth stocks have performed while value stocks have languished…."

FINAL THOUGHTS

"Value investors believe that devoting investment dollars to mispriced investments can be a way of offsetting risk. While there is, on balance, a "Margin of Safety" in the value style there can often be so-called "Value Traps". Companies can be cheap for a reason, and stay cheap over a long period of time. If history is a guide, this situation can rectify itself when rational investors perceive that absolute and relative valuations are too compelling to ignore. On a broad scale, the quest for "Fair Value" is made more difficult at times when there are changes in market behavior. We believe that the market's inefficiency can sometimes provide opportunities that can lead to substantial profits.

We remain committed to finding unique securities using “value” style principles and, in some cases, deriving some income to reward our patience. We are hopeful that the latter half of 2015 and early 2016 will begin to see the reemergence of value over growth…We hope to reward your patience with performance as the years go on.

One of the advantages of a small (firm) is your ability as owners to interact with us as managers. If any of you would like to know more about our investment style or have any questions or comments please feel free to contact us.”

DISCLAIMER

Any information contained in this report should not be considered a complete analysis of every material fact with respect to any company, industry, or security. Any and all investments discussed herein may not be suitable for all investors, and may be subject to a high degree of risk. For this and other reasons, Investment Partners Asset Management (“IPAM”) does not recommend that investors buy or sell any of the securities mentioned in this report. Furthermore, there is no certainty, and we make no guarantee, that any views expressed herein or strategy discussed in this report may be executable in an appropriate size or amount and/or at the prices described herein. Moreover, although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed. Investment Partners Group and/or its affiliates (including but not limited to IPAM) may effect transactions, including transactions contrary to any views expressed herein for themselves or their clients (including but not limited to pooled investment vehicles managed by IPAM, and/or their affiliates).

Furthermore, Investment Partners Group and/or its affiliates (including but not limited to IPAM) may have positions in the securities mentioned herein, (or options with respect thereto) and may also have performed investment banking services for the issuers of such securities. In addition, employees of Investment Partners Group and/or its affiliates (including but not limited to IPAM) their families and other affiliated persons, may have positions and effect transactions, including transactions contrary to any views expressed herein, in the securities or options of the issuers mentioned herein and may serve as directors of such issuers.

FORWARD LOOKING STATEMENTS

This discussion and analysis contains certain forward-looking statements and projections that involve a number of risks and uncertainties. Actual events or results may differ materially from the expectations and projections of the Managing Member. Past performance does not guarantee future results. Market and other risks may affect actual results achieved.