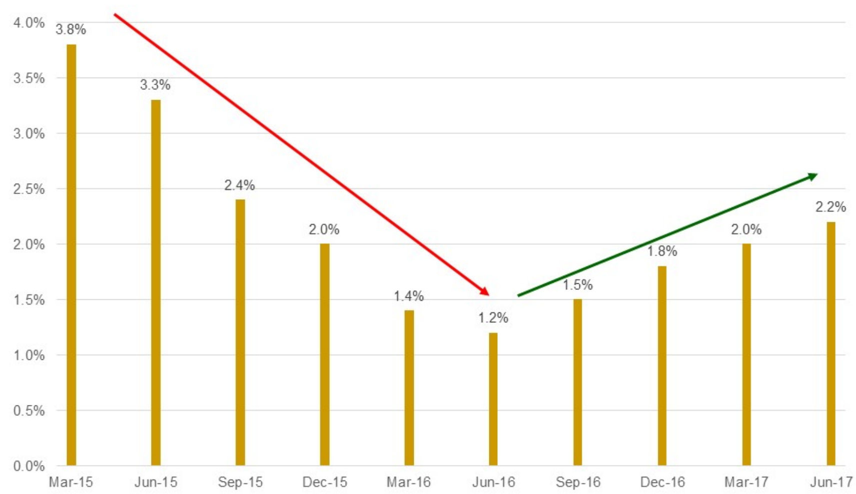
3rd Quarter

Real GDP growth accelerated during the second quarter in line with VAAM's forecast. Growth rose 3.1%, led by the consumer sector up 3.3% and business investment increased 3.2%. This was the quickest pace in more than two years. Economic growth on a year-over-year basis is also accelerating with a 2.2% gain through June versus a 1.2% gain in June 2016.

Real GDP - YoY



Growth should be sustained by a strong consumer helped by continuing strength in the labor market, wage gains, and an improved balance sheet. Also, tax reform and tax reduction, increased government spending at the federal level and a potential infrastructure program should serve as stimulants to further growth. Exports grew 3.5% during the second quarter reflecting the benefits of a weaker U.S. dollar (USD). The USD has declined approximately 9% on a trade-weighted basis so far this year. The USD is at its lowest level in approximately 2 ½ years. The weaker USD makes U.S. exports cheaper abroad and increases the value of overseas profits for multinational corporations when their foreign currencies are converted back to USD. In addition, the weaker USD should help the Fed's higher inflation objective by making imports more costly.

The remaining two quarters of 2017 should exhibit robust growth after adjusting for the impact of the Texas and Florida hurricanes. Capital spending should get a boost from a reduced corporate tax rate, faster write-offs for tax purposes and the repatriation of overseas profits via a tax holiday. At least some of these repatriated funds should be earmarked for capital investment. The continued strong labor market should serve as a prop for economic growth. Unemployment at 4.2% is the lowest since February 2001. While the most recent labor data showed a decline in monthly job gains, this is viewed as temporary and largely due to the Texas and Florida hurricanes. Historically the economic dislocations caused by hurricanes in affected regions have been brief. The impact from the hurricanes should be felt in three phases. The first phase will be one of increased unemployment and contraction. The next phase will be an overshoot and reflect a rebound as dollars flow into rebuilding and repair. This would include cleanup crews to clear debris, reconstruction of homes and infrastructure repairs which could include upgrades and/or replaced infrastructure. Finally the local economies where these hurricanes were felt should return to their long-term fundamentals. Studies have shown that disasters can produce a form of creative destruction that leads to stronger firms and improved infrastructure. Of course for the individuals involved the effect is long lasting and horrific.

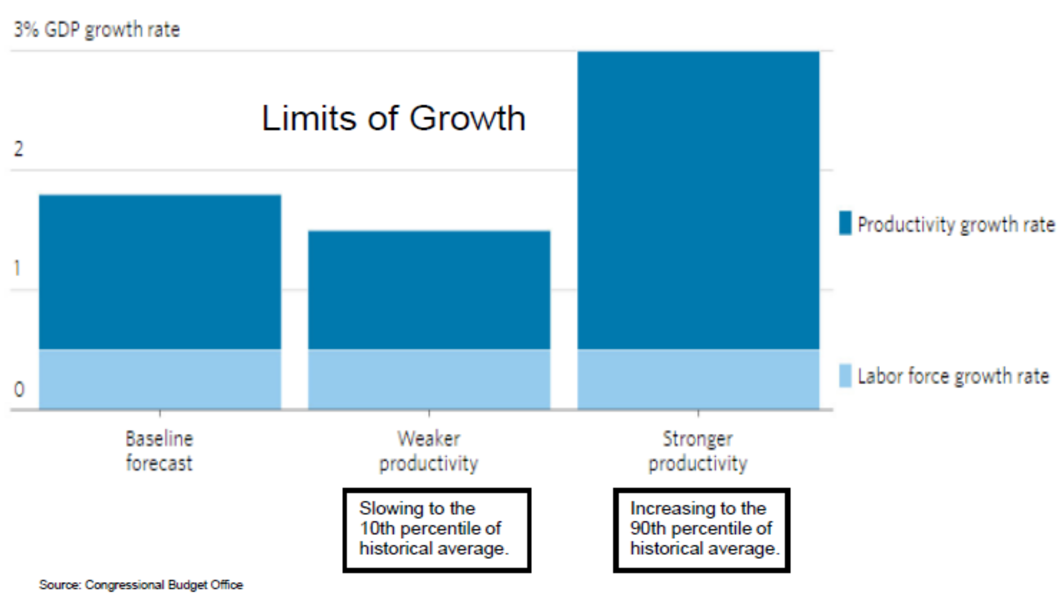
A global backdrop of a synchronized economic expansion is constructive and this phase of the cycle should continue. Solid earnings growth and positive surprises have emerged across both industries and geography adding to evidence the world's major economies are increasingly in lockstep. Earnings growth is the strongest it has been in sometime. 2017 is on track to be the first year since 2010 when all major regions should be posting solid earnings growth. A synchronized expansion means the global economy doesn't need to rely as much on the U.S. for growth and should provide a boost to U.S. growth. Reflecting this synchronized growth, for the first time in years three of the world's major central banks (Federal Reserve, European Central Bank and the Bank of England) are moving in sync toward ending the post-crisis era of quantitative easing.

We have been surprised by the tame inflation data. Core personal consumption expenditures (the Fed's preferred gauge for monitoring inflation) has risen 1.3% year-over-year. This is the smallest year-over-year increase since November 2015. This measure has consistently been below the Fed's objective of 2%. The Fed's dilemma has been how to respond to a growing job market and low unemployment vis-à-vis subdued inflation. One ramification of this inflation picture has been an even more gradual pace of interest rate increases by the Fed than originally planned. The Fed has indicated they will continue on the path of gradual interest rate increases and will commence in October with the reduction of their balance sheet. While wage growth has been stuck at 2.5%, it is stronger than it appears due to continued low inflation and resultant real wage gains. In fact, the most recent monthly labor survey showed wage growth on a year-over-year basis accelerating to 2.9%. This is the largest gain since last December. In the past decade, real wage growth has been stronger than during the economic cycles of the 1980s, 1990s and 2000s. Median wages for full-time workers are rising at a pace last achieved at the end of the Clinton administration. Part of the reason for the modest nominal wage data is due to the decline in unionization and the resultant loss of negotiating leverage, increased foreign competition and the reluctance of workers to relocate for higher paying jobs.

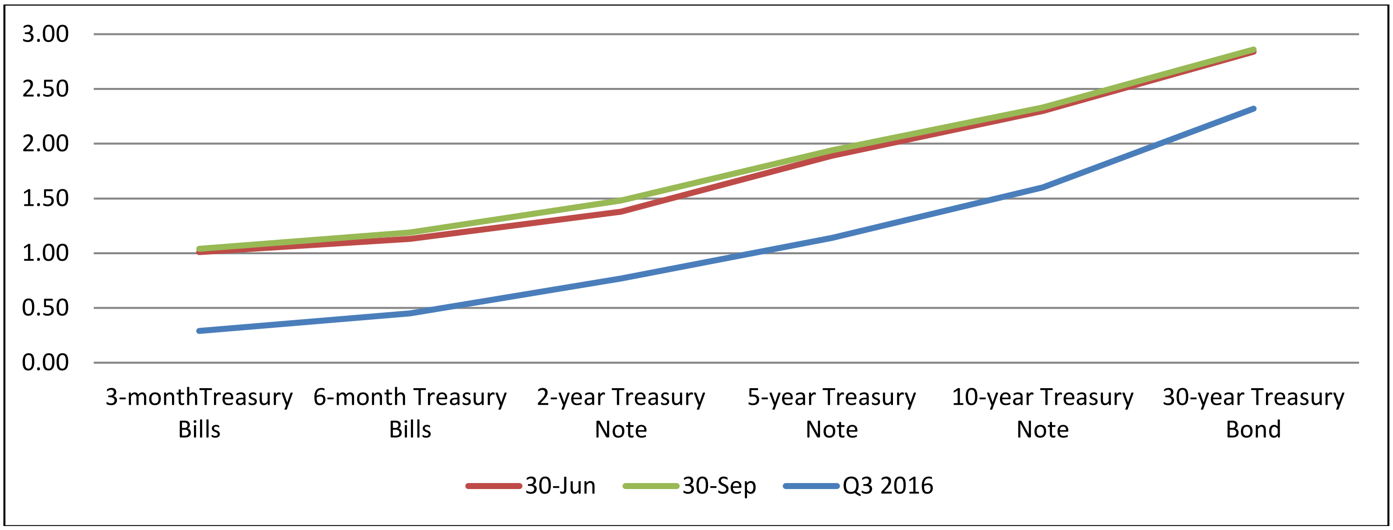
Notwithstanding our faster than consensus growth forecast for the next several quarters, the economy faces serious long-term impediments to growth. There are two primary obstacles:

(1) The work force is not producing enough workers.
(2) Productivity is not growing fast enough.

In the long term, an economy cannot expand faster than the combined growth rates of its working population and their output per hour. Over the past decade, the population aged 25-34 (the heart of the workforce) has been growing 0.1% annually. When the U.S. had consistent 3% growth in the 1980s, the rate was 2.2%. Immigration restrictions add to difficulties in growing the labor force. Without faster growth in workers, the labor force would have to be much more productive to grow at 3% over an extended period. However, the productivity trend has also been significantly slowing. Output per hour in the nonfarm business sector has been only 0.7% per year since 2010. Sluggish productivity growth may be one reason wage gains have been slow to rise despite a stronger labor market. The CBO's baseline forecast for GDP growth highlights the difficulty of achieving a 3% extended growth objective. The CBO's forecast of 1.8% growth is derived from the U.S. workforce growing at 0.5% plus productivity growth of 1.3%. However, productivity has the potential to accelerate. Trump administration proposals for tax reform and reduction, the possibility of immediate write-offs for capital expenditures, a tax holiday for the repatriation of overseas profits and an infrastructure program could all spur increased capital spending thereby enhancing productivity. In addition, technological innovations are still to be fully realized. Two examples are robotics and artificial intelligence.

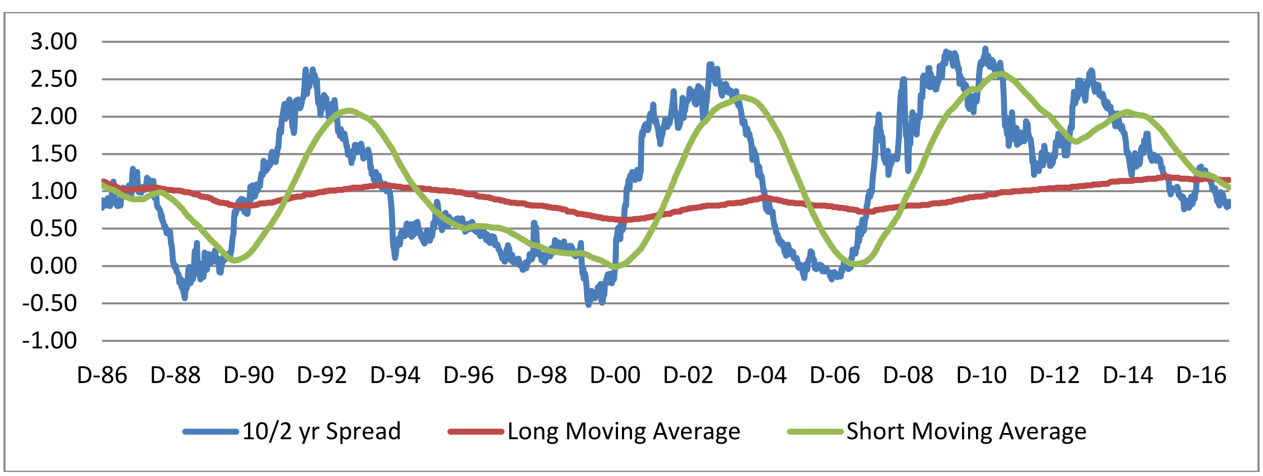


On the short end, the curve shifted upward by an average of 6 basis points with the majority of the change attributed to the rise in the 2 year note. The rise in yields appears to be a continuation of the market internalizing the Fed's tightening of policy in accordance with their preannounced pace. Although the Fed left rates unchanged during their September meeting, subsequent Fed announcements have suggested an additional hike in December along with the initiation of its balance sheet reduction program.



Select US Treasury Yields - Source: Bloomberg

At this juncture, we turn our attention to the slope of the yield curve, a closely watched indicator of expected economic performance. Traditionally, a negative sloping curve is indicative of a looming recession on the horizon. The graph below shows the historical behavior of the yield curve slope, as measured by the spread between 10 and 2 year rates. For added context, the long run and short run average are added for comparison purposes. The slope has recently penetrated its long run mean. While this is not cause for concern, as the slope remains far from negative, it gives us an indication of the momentum of the indicator. Given that the short run average has crossed its long-run average, a continued flattening of the curve should not be surprising in the near term. It is important to note however, that the slope of the curve does not appear to be at abnormal levels. When compared to its long-run average, current levels do not appear terribly out-of-whack.



10 minus 2 year spread - Source: Federal Reserve Economic Data

Corporate Securities

Our overweight to the sector was beneficial to performance for both the quarter and year-to-date. The corporate bond market turned in its eighth straight quarterly outperformance versus comparable U.S. Treasury bonds. As measured by the BofA Merrill Lynch 1-10 US Corporate Index, the sector provided 0.71% of excess returns during the third quarter and 2.19% for the year-to-date. Shorter-term corporate bonds also provided attractive relative returns of 0.38% for the quarter and 1.29% during the year as measured by the BofA Merrill Lynch 1-3 US Corporate Index ("BAML 1-3"). These returns came from both the higher income of the sector as compared to U.S. Treasury bonds and credit spread tightening. Spreads for the overall credit market as measured the Bloomberg Barclays Credit Index at 0.96% are now tighter than the average credit spread on 6/30/2017, which stood at 1.03%. On the shorter end, the spread stands at 0.57% versus 0.65% at the beginning of the quarter for the BAML 1-3 Index.

Synchronized global growth is supporting U.S. corporate financial fundamentals. Our fundamental and quantitative screens are little changed over the past year as shown in the table below.

	3rd Quarter '16	4th Quarter '16	1st Quarter '17	2nd Quarter '17
Interest Coverage*	10.25x	10.32x	10.36x	10.36x
Leverage**	2.38x	2.33x	2.38x	2.44x
Earnings Surprise (Positive/Inline)***	78%	74%	79%	79%
Quantitative Model Credit OAS****	0.24%	0.20%	0.19%	0.18%

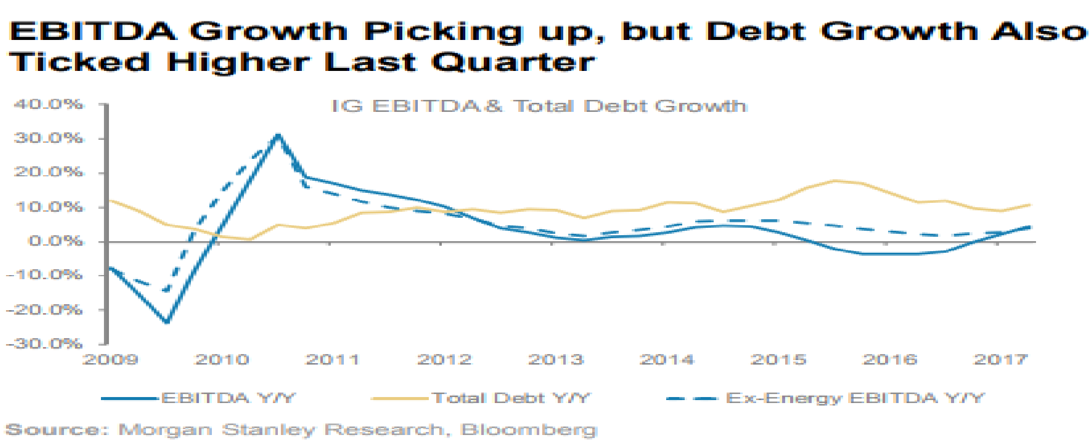
* Interest Coverage from Morgan Stanley Research & Bloomberg (EBITDA/Interest Expense)

** Earnings Surprise from Bloomberg (Gross Debt/EBITDA)

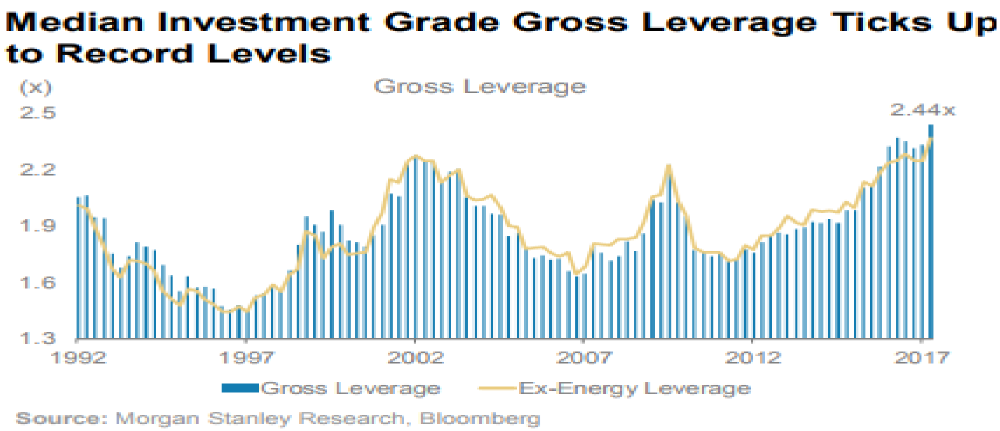
*** Bloomberg Data

**** BAML Lighthouse Quantitative Model (Incorporates Company Equity Value, Company Equity Volatility, and Company Debt to calculate a credit risk that is compared to the Company CDS to arrive at the Credit OAS)

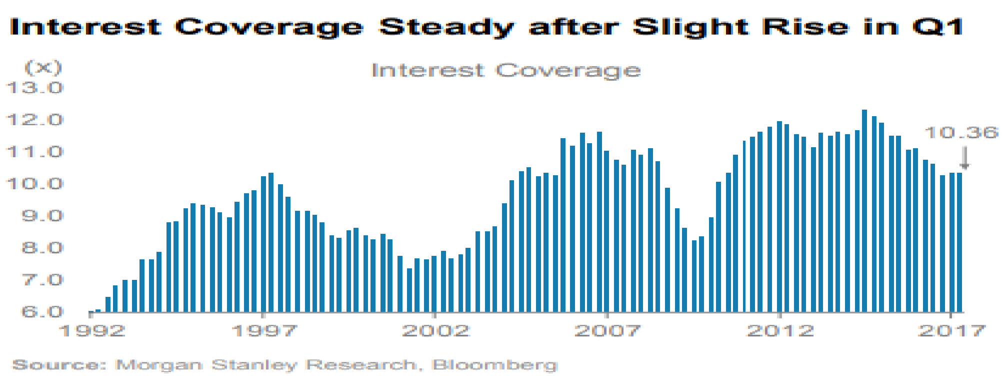
As the second quarter earnings season concluded, U.S. investment grade corporate financial fundamentals were mixed as compared to prior quarters. Corporate cash flow rose by over 4% during the quarter but corporate debt also rose by over 10% as shown in the table below.



The impact of rising debt levels is most pronounced in investment grade gross leverage, which continues to rise and is now at a record 2.44 times EBITDA (See graph below). Up to 26% of debt issuance was used for merger and acquisitions and share buybacks. Excluding this debt issuance, leverage would have risen to a more modest but still significant 2.27x. Net leverage (debt-cash/EBITDA) is at an even lower 1.87 times; however, both ratios exceed their peak level during the last recession level. Both are likely to deteriorate even further during the next recession.



Interest coverage stabilized at 10.36x but is down significantly from the peak in 2014 and remains below the pre-crisis peak. (See chart below) Low Treasury yields and relatively tight spreads have pushed the coupon on the Corporate Investment Grade Index to a record low level. Therefore, the combination of low financing costs and improved EBITDA has allowed corporate interest coverage to remain relatively strong despite the significant rise in debt levels.



Recent discussions of a tax holiday on cash held overseas may provide some near-term relief as a recent survey found 65% of responding companies would use a portion to pay down debt. Share repurchases and M&A are also mentioned by over 40% of responding companies. Second quarter earnings had 79% of S&P 500 companies reporting earnings that exceeded or matched market expectations. This outcome is historically strong, providing support to current equity levels and corporate spreads. Finally, our quantitative model (BAML Lighthouse) calculated a modest 0.20% spread over the calculated risk. This spread is up from 0.18% at the end of the second quarter and is at the lower end of fair value. Based on the above factors, our portfolios remain over-weight to the corporate sector. However, our expectations are that returns will be limited.

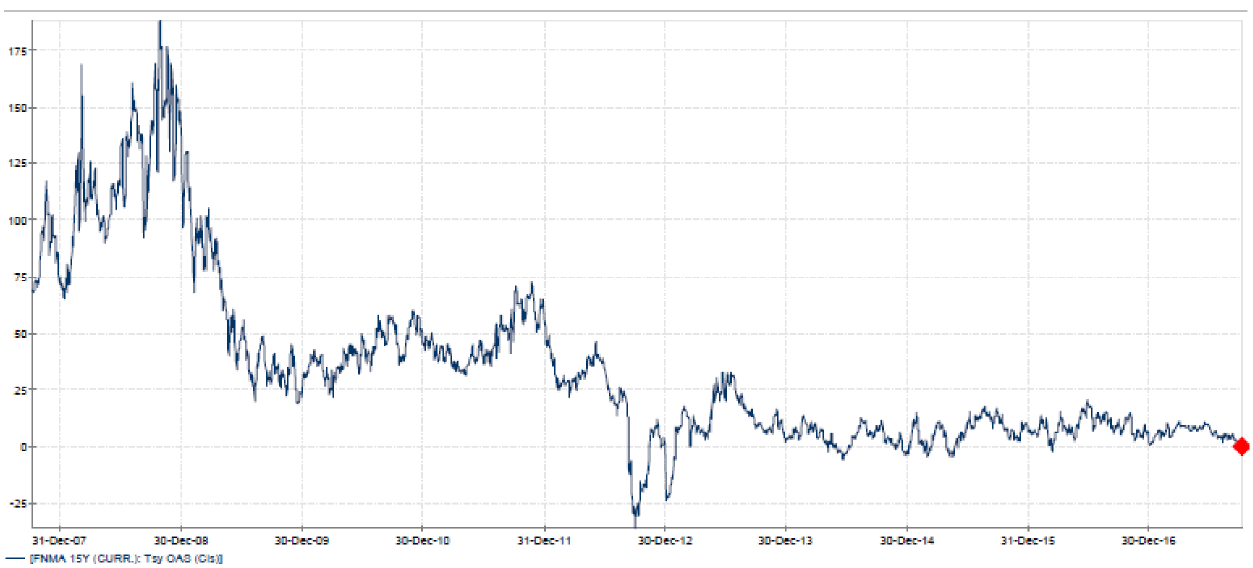
The individual issuers held in the portfolios are focused on higher quality companies with a history of stable cash flow generation. Several examples include technology company, Amphenol Corp., a manufacturer of connectors and cable. They had a significant positive earnings surprise, EBITDA/Interest Coverage of 19.3x and net leverage of 1.3x. Other companies in the sector include Apple, Microsoft and NVIDIA (graphic processors). Each had at least a positive earnings surprise, strong interest coverage and modest net leverage. In fact, each Company had more cash than outstanding debt as of the end of the second quarter. Our portfolios also hold several medical device manufacturers such as Edwards Lifesciences. They are primarily involved in cardiovascular disease. A significant positive earnings surprise, near 50 times interest coverage, and cash equal to outstanding debt highlight its' financial strength. Stryker Corp., another medical device manufacturer, is involved in reconstructive, neurotechnology/spinal, surgical and endoscopy fields. They had a positive earnings surprise, 11.5 times interest coverage and leverage of 1.3 times.

Asset Backed and Mortgage Backed Securities

While interest rates backed up modestly during the third quarter, the ABS sector continued to register strong positive returns. Short ABS returned a total of 0.43%, which translated to an excess return of 0.181% versus similar duration U.S. Treasury issues. Short MBS returned 0.357%, with an excess return of 0.079%. Both sectors offer considerable yield pickup without compromising credit quality, compared to similar Treasuries.

The ABS Credit Card and Auto AAA securities in our portfolios are short and AAA-rated with spreads that have remained tight throughout the year. They are backed by strong collateral that has continued to display low delinquency rates with rising credit support levels. Unlike MBS, these bonds are not sensitive to interest rate movements and either pays down with a bullet payment or through a structured payment schedule. We think the yield contribution from these quality securities on the short end of the curve is attractive.

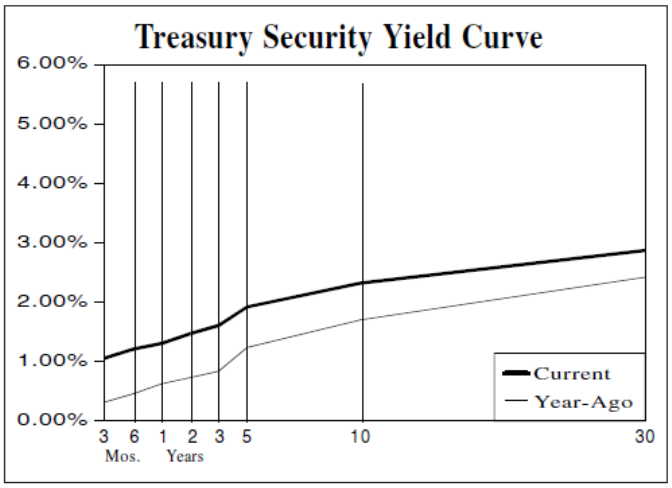
During the third quarter, we ramped up our portfolios with short super seasoned Agency MBS. While MBS option-adjusted spreads ("OAS") remains at zero (see chart below), the OAS of super seasoned securities that we have been purchasing has been 20bps on average. We like this sector within MBS because it affords us the opportunity to take part in the yield pickup of MBS versus other sectors, without giving up on credit quality and without taking on significant prepayment risk. We do not give up credit quality because we only buy Agency securities, which carry a Fannie Mae or Freddie Mac guarantee. In addition, we are not taking on significant prepayment risk because of the nature of the collateral backing these securities. The collateral is comprised of super seasoned loans which have gone through one or more refinancing waves without prepaying. As a result, the securities are registering prepayments that are stable from month to month and result in the securities' high OAS.



One security that we purchased in our portfolios during the third quarter is FNMA 2013-85 AG. This security is collateralized by 15 year mortgages, issued over six years ago. While the mortgage borrowers are paying an above market rate, as their loans have aged, their prepayments have become progressively more stable from month to month. As a result of owning this type of security, our portfolios are able to collect a coupon of 2.5% without taking on significant prepayment risk. These securities present an opportunity for us to participate in the strong performance of MBS without giving up OAS.

Selected Yields

	Recent (10/4/17)	3 Months Ago (7/5/17)	Year Ago (10/5/16)		Recent (10/4/17)	3 Months Ago (7/5/17)	Year Ago (10/5/16)
TAXABLE							
Market Rates				**Mortgage-Backed Securities**			
Discount Rate	1.75	1.75	1.00	GNMA 5.5%	2.38	2.43	1.09
Federal Funds	1.00-1.25	1.00-1.25	0.25-0.50	FHLMC 5.5% (Gold)	2.80	2.69	1.42
Prime Rate	4.25	4.25	3.50	FHLMC 5.5%	2.36	2.49	1.30
30-day CP (A1/P1)	1.19	1.21	0.42	FHLMC ARM	1.89	1.81	1.86
3-month Libor	1.34	1.30	0.86	**Corporate Bonds**			
U.S. Treasury Securities				Financial (10-year) A	3.29	3.41	3.03
3-month	1.06	1.04	0.32	Industrial (25/30-year) A	3.87	3.91	3.71
6-month	1.21	1.14	0.46	Utility (25/30-year) A	3.90	4.01	3.79
1-year	1.31	1.23	0.63	Utility (25/30-year) Baa/BBB	4.21	4.34	4.23
5-year	1.92	1.91	1.24	**Foreign Bonds**			
10-year	2.32	2.32	1.70	Canada	2.12	1.79	1.09
10-year (inflation-protected)	0.50	0.56	0.07	Germany	0.45	0.47	-0.01
30-year	2.87	2.85	2.42	Japan	0.06	0.09	-0.06
30-year Zero	2.96	2.94	2.52	United Kingdom	1.38	1.26	0.82
				Preferred Stocks			
				Utility A	5.78	5.79	5.39
				Financial A	5.78	5.73	5.69
				Financial Adjustable A	5.47	5.47	5.48



Source: Value Line, Inc.

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	09/27/17	**09/13/17**	**Change**	**12 Wks.**	**26 Wks.**	**52 Wks.**
Excess Reserves	2121759	2248479	-126720	2156597	2151101	2094216
Borrowed Reserves	19	3	16	12	12	34
Net Free/Borrowed Reserves	2121740	2248476	-126736	2156585	2151088	2094182

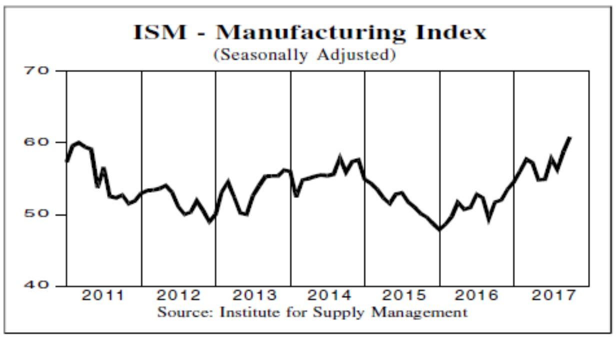
MONEY SUPPLY

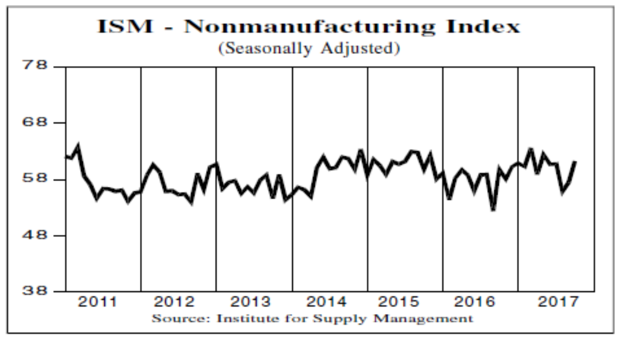
(One-Week Period; in Billions, Not Seasonally Adjusted)

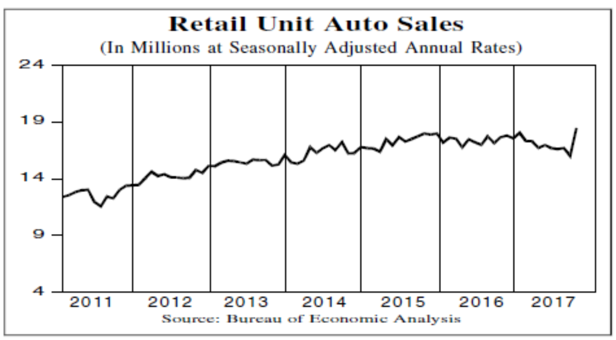
	Recent Levels			Ann'l Growth Rates Over the Last...		
	09/18/17	**09/11/17**	**Change**	**3 Mos.**	**6 Mos.**	**12 Mos.**
M1 (Currency+demand deposits)	3564.5	3583.9	-19.4	9.3%	8.9%	7.3%
M2 (M1+savings+small time deposits)	13680.6	13694.4	-13.8	5.1%	4.3%	5.1%

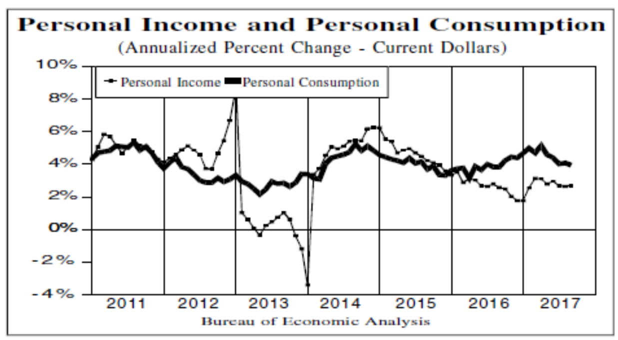
Source: Unites States Federal Reserve Bank

Tracking the Economy









Source: Value Line, Inc.