Palouse Capital Management, Inc.

INVESTMENT STRATEGY

2Q15

717 West Sprague Avenue, Suite 1166, Spokane WA 99201 (509)624-5591 (800)624-3833 (509)624-7215 fax clientservices@palousecap.com

MARKET OVERVIEW

Greek comedy or Greek tragedy? Both forms of theatre were popular in ancient Greece in the 5th and 6th centuries B.C., and this talent for theatrics is present today as well. The comedy is seen in the newly elected government's attempt to bluff and push its creditors around, and the tragedy is the suffering being endured by the Greek populace.

Greece and its financial ills have been a multi-year problem, and after the markets reacted in a negative fashion in 2011 and 2012, reactions have been more subdued this year. Greece is not an unusual situation (other countries are living beyond their means also) and the European banking system has had time to adjust its risk exposure to Greek debt over the years.

The markets have been assuming that despite the noise and some volatility, some agreement will be reached to patch things over, and if Greece leaves the Eurozone (or at least the monetary union) it would not be a catastrophic event. An additional factor in the favor of stability is the Quantitative Easing program by the European Central Bank, which was not in place when the Greek crisis began, and the pledge of Mario Draghi to "do whatever it takes" to save the Euro.

The aggressive easing of the ECB and the Japanese central bank stand in contrast to the US Federal Reserve, which is signaling an imminent interest rate hike from the zero rate policy of the past nearly 7 years. Although the European situation gains occasional attention, investor interest in the US is more concerned about the eventual rate hike and its potential effect on the stock market.

History has shown that if the economy is doing well during the early stage of the rate cycle stocks can do well. However, the US economy has had an uneven recovery, and since the FED has said they are "data dependent", opinions change often about the timing of the FED's rate hike. In addition, some European leaders have publicly asked the FED not to raise rates given the Greek situation and banking system uncertainties there.

We think the US economy will continue to improve as the year goes on, and that the market will begin to anticipate very gradual interest rate increases, as the FED attempts to normalize rates without causing financial fallout.

With all these cross currents and uncertainties, the US stock market has been range-bound so far this year. This may continue since earnings growth is likely to be modest this year and equity valuations appear somewhat above average. Beyond this year, stock prices may track a resumption of earnings growth. Although the quality of the US economic recovery has been criticized, one positive is that the economic cycle may be stretched out longer in the future since overheated economies often bring about more aggressive FED restraint, which often causes recessions.

STRATEGY FOCUS [1]

Equity & Fixed Income Strategies

The markets took a roller coaster ride during the second quarter of 2015, with directional changes occurring almost on a weekly basis. Even with this volatility, the S&P 500 posted an ever-so-slight gain in both April and May. However, with the aforementioned turmoil in Europe, June pulled the broad index back into negative territory for the quarter. In the end, the S&P 500 Total Return posted a slight gain of .28 percent for the quarter. Of note, is that the drastic decline was experienced primarily on June 29th, with stocks posting their first 2 percent move of 2015.

From a sector standpoint, performance was split, with 5 sectors in positive territory and 5 in negative. Leading the way on the positive side were healthcare, consumer discretionary and financials. Healthcare continues to be the top performer year-to-date. Utilities continued to be the worst performing sector, placing it in correction territory. Industrials also performed poorly during the quarter.

Last quarter we mentioned that mergers and acquisitions had carried over from 2014, and it has actually accelerated in 2Q15. May established a new record with over $240 billion in M&A activity.

Also last quarter we mentioned that our philosophy focuses on identifying mispriced securities. This was again validated during the past quarter. Our Small/Mid Value Strategy posted a positive return in comparison to the Russell 2500 Value's negative 1.27 percent. Our individual stock selections found in financials and consumer discretionary were the main drivers of this out-performance.

Our Large-Cap Value Strategy slightly out-paced its respective index, achieving positive results from individual stock selection in healthcare, financials and consumer staples. As mentioned above, industrials were in negative territory for the quarter, and our portfolios were not immune from this.

With the continued low interest rate environment – although the FED is making noise about an increase this year – our focus for our Diversified Income Strategy has been on dividend paying equities. Within the past 12 months, 90 percent of the holdings in this strategy have raised their dividends. With an objective to provide income from diversified asset classes, we are extremely pleased with this outcome.

[1] PCM obtains all financial/performance data cited herein from Bloomberg, S&P Dow Jones Indices, and Russell Investments, as applicable.

DISCLOSURES

Past performance is not a guarantee of future results and there is no assurance that any predicted results will actually occur; actual events and results may differ materially from those discussed herein. The opinions expressed are those of Palouse Capital Management, Inc. (PCM), and are based upon information available at the time of the printing of this report, and subject to change. Furthermore, these opinions are not the opinions of your custodian or broker. The information provided in this report should not be considered a recommendation to invest in a particular security, strategy or purchase or sell securities in a particular industry or sector. There is no assurance that securities or securities within the sectors mentioned in this report will be in a client's portfolio. Holdings are subject to change. This information is not intended to be used as the primary basis of investment decisions nor should it be construed as advice designed to meet the particular investment needs of any specific investor. Approved for investment professional and client use. Small-cap investing typically carries more risk than investing in well-established large cap companies since smaller companies generally have limited product lines and financial resources and a higher risk of failure. Historically, smaller companies' stocks have experienced a greater degree of market volatility than the average stock. PCM's Small/Mid Value Strategy may not be suitable for everyone. The income generated by the securities held in PCM's Large-Cap Value Total Return and Diversified Income strategies may decline. Generally the prices of fixed income securities decline as interest rates rise. The Diversified Income strategy may include investments in lower quality, higher yielding fixed income securities which may be subject to great price fluctuation than higher quality fixed income securities. Index returns and other historical data were gathered from resources believed to be reliable; PCM does not guarantee their accuracy. The performance of the indices may be materially different from the individual performance attained for a specific client. The S&P 500 is a capitalization-weighted index of the prices of common stock of the 500 leading companies representing the leading industries of the US economy, which are actively traded in the United States on the New York Stock Exchange or the NASDAQ. The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the US equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values. The source for all market data is Bloomberg, S&P Dow Jones Indices, and Russell Investments. Information regarding the services provided by PCM is available in Form ADV Part 2, which is available upon request or on PCM's website at www.palousecap.com.

Approved for investment professional and client use.

Strong Values-High Integrity-Exceptional Service Since 1994

Palouse Capital Management, Inc., a boutique asset management firm, founded in 1994, providing active asset management nationally to high net worth individuals, foundations & endowments, corporations, and public funds. The firm's fundamental "value" philosophy is consistently applied across the core equity strategies; Large-Cap Value, Large-Cap Value Total Return and Small/Mid Value. The firm also offers a Diversified Income Strategy for those clients seeking income from diversified asset classes, which may include fixed income, equities, preferred stock, REITS, and other income producing securities.