2018 Year End Review & Outlook

Market Overview: Volatility and the Return to Normal.

In 2018 volatility was present and notable. We first cautioned investors on the increasing likelihood for heightened volatility in our Q4:2014 Market Recap. After years of abnormally low volatility in equity markets, 2018 was a notable change with two strong sell-offs likely marking the end of the low volatility environment that generally characterized the prior decade (for more information see page 2 and 3 of our 2017: Mid Year Review and Outlook: https://bit.ly/2tqpbkt)

Market consolidations are healthy and should be viewed as more normal (for more information see page 1 of our 2015 Year End Review: https://bit.ly/2TUIs9o)

Divide & Conquer[1]

Aligning your investment strategy by goal can help you take different levels of risk based on varying time horizons and make sure you are saving enough to accomplish all of your goals - not just the ones that occur first.

- JP Morgan, 7 Principles for a Successful Retirement

A reasonable level of volatility should be welcomed as it can present opportunities in both equity and fixed income markets that can prove beneficial to those employing a robust asset allocation policy. In the near-term the return to normal should be beneficial for markets, providing a base to move forward on the foundation of an already robust economy. Give our station in the economic cycle, we feel strongly that investors should be prepared for elevated volatility at more regular intervals. Numerous significant issues need resolution in the forward view which include: foreign and domestic central bank policy direction, divisive governmental politics (foreign and domestic), trade and tariff negotiations and the pace of global growth.

These and other issues are likely to impact confidence and deliver volatility in financial markets through the balance of 2019.

At this stage, investors should exhibit a high level of discipline in their asset allocation policy as well as in their equity valuation framework. We believe the probability of financial markets experiencing turbulence continues to increase as the current economic cycle ages which should benefit companies that are good stewards of capital and well-positioned within their respective industries. Accordingly, we remain highly cognizant of risk and favor companies with strong balance sheets and disciplined capital allocation strategies. The current course of equities moving higher has merit given tailwinds from the robust economy, a favorable regulatory environment and global optimism. As such, our allocation to equities remains neutral, given conflicting points of focus – a solid macroeconomic environment and fair valuation levels versus the domestic and global issues that may impact markets going forward.

Conversely, with fixed income our stance continues to remain cautious as the risk/reward relationship is somewhat less favorable as difficulties remain in the form of the narrowing supply of attractive opportunities and the increased potential for meaningful inflation in the forward view. As always, we believe a properly risk-allocated portfolio is one that is well-diversified across asset classes and cognizant of the risk inherent in these underlying assets.

Equity Markets

Both domestic and international equities realized negative returns in 2018, an occurrence not seen for domestic equities in ten years! Through the end of Q3, with equities firmly positive YTD, many observers thought continued growth through the end of the year was forthcoming.. However, in Q4, equities sold off dramatically as worries around Fed policy direction, mid-term elections, US/China trade concerns and slowing earnings growth, Brexit and LIBOR all weighed on markets both here and abroad. For the quarter, broader equities suffered low double-digit percentage declines with small caps performing worst, falling over 20%. As a result, for the full year equity indices realized mid-single digit percentage declines on average with large caps holding up better than mid or small caps. From a style perspective, growth outperformed value by an average of 6.0%, benefiting from solid earnings and strong fundamentals in a late cycle backdrop. By sector, healthcare, utilities and consumer discretionary performed best while energy, materials, industrials and financials all lagged against broader domestic indices.   From a global standpoint, developed markets outperformed emerging markets, though both trailed domestic indices by significant margins (see exhibit 1).

Thus far in 2019, much of the decline in Q4 has been recaptured and at current, broader domestic equity averages sit within 5-10% of all-time highs. On the international front, emerging markets have sped back the strongest, sitting just fractions from all-time highs while developed markets are approximately 10% below record levels. As worries regarding a dramatic global economic slowdown abated, equities rallied back and now seek confirmation that the global macroeconomic situation remains solid and that the current risk of recession is minor.

Exhibit 1[2]

Exchange Traded Fund Equity Indexes	**Performance through December 31, 2018**					
Index ETF	Ticker	Year to Date	1 Year	3 Years	5 Years	10Years
Vanguard Total Stock Market	VTI	-5.13%	-5.13%	9.00%	7.92%	13.26%
iShares MSCI EAFE	EFA	-13.83%	-13.83%	2.82%	0.45%	6.20%
Vanguard FTSE Emerging Markets	VWO	-14.57%	-14.57%	7.85%	1.33%	7.48%

Fixed Income

Debt markets were difficult through much of 2018 as the rising rate environment applied pressure to traditional fixed coupon debt. Adjustable or floating rate bonds were an exception, provided favorable returns through the end of Q3. That landscape changed in Q4 as a decline in interest rates coupled with a strong shift away from equities altered the landscape by providing buoyancy to the treasury markets and applying pressure to the floating rate market. Consequently, the benchmark US Aggregate Bond Index ended the year relatively unchanged in total return thanks to a significant exposure to Treasuries and mortgage-backed agency securities. Conversely, the high yield category struggled during Q4 shedding nearly 4% and finishing the year down approximately 3% caused by concerns of a slowing macro environment and the deteriorating credit quality of the underlying companies. On the international front, volatility pressured both the emerging market bond and developed market bond categories throughout 2018 as global growth, weakening commodity prices, soft equity markets and a strong dollar all negatively impacted performance.

In the early frames of 2019 an orderly market appears to have taken hold with prices across much of the fixed income complex recovering and the volatility in late 2018 subsiding. Our forward view is that continued pressures from numerous sources will continue, including global central bank actions, inflation threats and increased risks pertaining to expanding corporate balance sheets—all bear watching. With this backdrop, bond selection within the broader fixed income category is likely to become increasingly challenging. To this end, we are exercising caution with respect to term and quality of the inventory being offered with an unwillingness to extend down the credit risk spectrum.

Exhibit 2[3]

Exchange Traded Fund Fixed Income Indexes	Performance through December 31, 2018					
Index	Ticker	YTD	1 Year	3 Years	5 Years	10 Years
iShares Core US Aggregate Bond	AGG	-0.05%	-0.05%	2.00%	2.49%	3.30%
SPDR Barclays High Yield Bond	JNK	-3.18%	-3.18%	5.76%	2.11%	9.24%

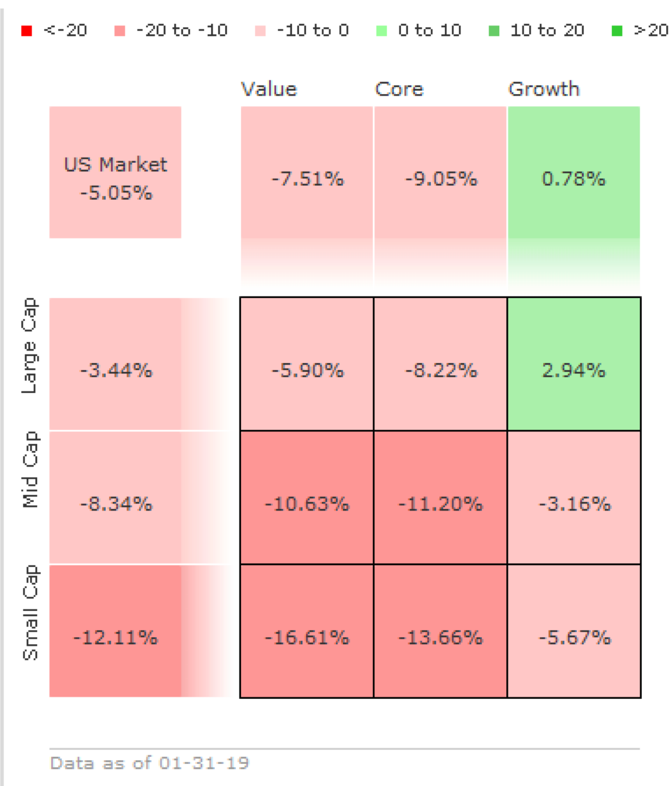
Exhibit 3[4]

Exchange Traded Fund Allocation Indexes	Performance through December 31, 2018					
Index ETF	Ticker	YTD	1 Year	3 Years	5 Years	10 Years
iShares Core Aggressive Allocation	AOA	-7.76%	-7.76%	6.02%	4.58	9.85%
iShares Core Growth Allocation	AOR	-5.84%	-5.84%	5.19%	4.11	7.77%
iShares Core Moderate Allocation	AOM	-3.86%	-3.86%	4.31%	3.21	5.83%
iShares Core Conservative Allocation	AOK	-2.88%	-2.88%	3.83%	2.84	4.79%

KbC Equity Strategy Model Portfolios

Performance across the KbC equity strategies was mixed during 2018 with the Dividend and Market strategies lagging their respective benchmarks. Conversely, the Mid Cap, Alpha Leaders and Alpha Tax/ Qualified strategies outperformed by modestly against respective benchmarks. Thus far in 2019, nearly all strategies have outperformed on a relative basis benefiting from stock selection which is not unusual when volatility picks up and fundamentals increase in importance. We feel strongly that our strategies are well positioned for this environment and welcome this return to normal. In low volatility, high return environments, fundamentals become very blurry with investors indiscriminately chasing any and all performance. We believe that the market environment has changed and that elevated levels of volatility will remain for the foreseeable future given the multitude of domestic and geopolitical issues that need to be resolved in coming years, slowing global growth and the decreased propensity for monetary accommodation going forward.

Exhibit 4[5]



Two new strategies unveiled in 2018: Alpha Leaders and Alpha Tax/Qualified

During 2018, KbC unveiled two new equity strategies focusing on areas we feel will benefit clients significantly in the future. **Alpha Leaders** is a large cap core strategy providing best of sector exposure to leading companies who are well positioned to lead, grow and perform better than like-sized peers. Whether it be scale around technology, a deeper understanding of where their respective market is heading or superior capital dynamics, these companies are those we deem to be the most favorable risk/reward opportunities in their sector. From a trading perspective, activity will be limited as this strategy employs a long-term approach with an aim of benefiting from holding well-positioned companies for many years. During 2018, Alpha Leaders significantly outperformed its benchmark benefiting from a higher mix of growth stocks (which outperformed versus value) as well as its top six positions (Amazon (AMZN), Microsoft (MSFT), Visa (V), Medtronic (MDT), Danaher (DHR) and Netflix (NFLX)) all significantly outperforming the S&P 500. **Alpha Tax/Qualified** is a mega-cap strategy with significant exposure to S&P 100 companies, equally-weighted to mitigate the risk of over exposure. Within the Alpha Qualified strategy, primary trading occurs as the S&P 100 is reconstituted and periodically in order to maintain risk targets. The Alpha Tax strategy is similar in construction but with a higher focus on tax-management. This portfolio is rebalanced in parallel with the annual S&P 100 reconstitution in employ active loss harvesting to offset capital gains and manage the portfolio's broader tax liability. Both strategies have slightly outperformed since their inception against their respective benchmark, iShares S&P 100 ETF.

KbC Dividend Strategies

KbC Dividend Strategies experienced a challenging environment in 2018 as portfolios constructed as core with a slight value bias faced headwinds in 2018 with growth stocks significantly outperforming value (see exhibit 4). We believe strongly that KbC dividend strategies are is well positioned, especially from a risk/reward perspective as markets are likely to experience more frequent volatility reinforcing the benefits of owning both offensive (growth) and defensive (value) positions. Our philosophy towards income producing strategies is to employ a barbell approach—holding both consistent dividend payers and companies that are increasing their dividend at rates faster than the broader market. During 2018 the outsized dividend growers, companies with mostly higher growth profiles, outperformed the consistent dividend payers, companies exhibiting value features and this corroborated growth's outperformance of value throughout the year. Strong performance during 2018 was seen in a host of positions including Microsoft (MSFT), UnitedHealth Group (UNH) and Blackstone Group (BX), all outperforming the broader market. Conversely, the strategy's exposure to the following positions, including Kraft Heinz (KHC), Ford (F) and Ameriprise (AMP) provided headwinds. In the longer view we believe That said, we don't manage our portfolio strategies for the near-term but instead try to identify and hold companies that we feel have a greater success of outperforming over an entire market cycle.

KbC Market Strategies

"The key to successful investing is not predicting the future, but looking at the present with clarity."[6]

-Dr. David Kelly, CFA Chief Global Strategist, JP Morgan

KbC's Market Strategies ended 2018 with the final outcome slightly less than their benchmark. The results stemmed from modest overweights in financial services and consumer staples. Within these two sectors stock selection in Ameriprise (AMP) and Citigroup (C) both experienced challenges at the end of the year from declining interest rates and the general decline across equity markets; in consumer staples, Hain Celestial Group (HAIN), Kraft Heinz (KHC) and JM Smucker (SJM) all revised their outlooks during the back half of the year. HAIN and KHC, were removed from the portfolios as the investment thesis and framework for the holdings weakened and eroded the relative opportunity in both cases. Positive results were driven by four stocks (XL Limited (XL), Ball (BLL), United Healthcare (UNH) and Microsoft (MSFT)) all aided in offsetting the aforementioned challenges with significant outperformance on a relative basis. In the case of XL, the company was purchased by French insurance giant AXA at a large premium highlighting the company's strong position within the hybrid insurance/reinsurance space.

KbC Mid Cap Strategies

KbC's Mid Cap Strategies provided strong relative results versus the respective benchmark during 2018. The portfolios, although core by definition, tilt slightly toward growth and benefited from that construction address during 2018 as growth outperformed value (see exhibit 4). The mid cap space realized a much narrower divergence in growth vs. value than the broader market (see exhibit 4) thereby experiencing less divergence between offensive and defensive positions within the strategies. We believe this divergence will continue to narrow as volatility rises in equity markets. The portfolio benefited in 2018 from strong performance in a number of positions including New Relic (NEWR), IAC Interactive (IAC) and 2U (TWOU) all significantly outperforming the broader market. Additionally, two companies, Validus Re (VR) and XL Group (XL) completed and announced takeovers by larger insurance companies, respectively, which drove material outperformance in their shares. Detractions were felt from following positions: Rite Aid (RAD), Adamas Pharmaceuticals (ADMS), ACADIA Pharmaceuticals (ACAD), JM Smucker (SJM) and Hain Celestial Group (HAIN) with the Hain Celestial being removed from the portfolio.

1: JP Morgan, https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/principles-for-retirement

2: Exhibit 1: Data source Morningstar Office.

3: Exhibit 2: Data source Morningstar Office.

4: Exhibit 3: Data source Morningstar Office.

5: Exhibit 4: Morningstar Market Barometer provides a visualization of the performance of Morningstar Indexes. ©2019 Morningstar

6: http://www.knightbridgecap.com/wp-content/uploads/2018/02/KbC-Year-End-Report-2017v2.pdf