COMMONWEALTH LIQUID ALPHA FUND

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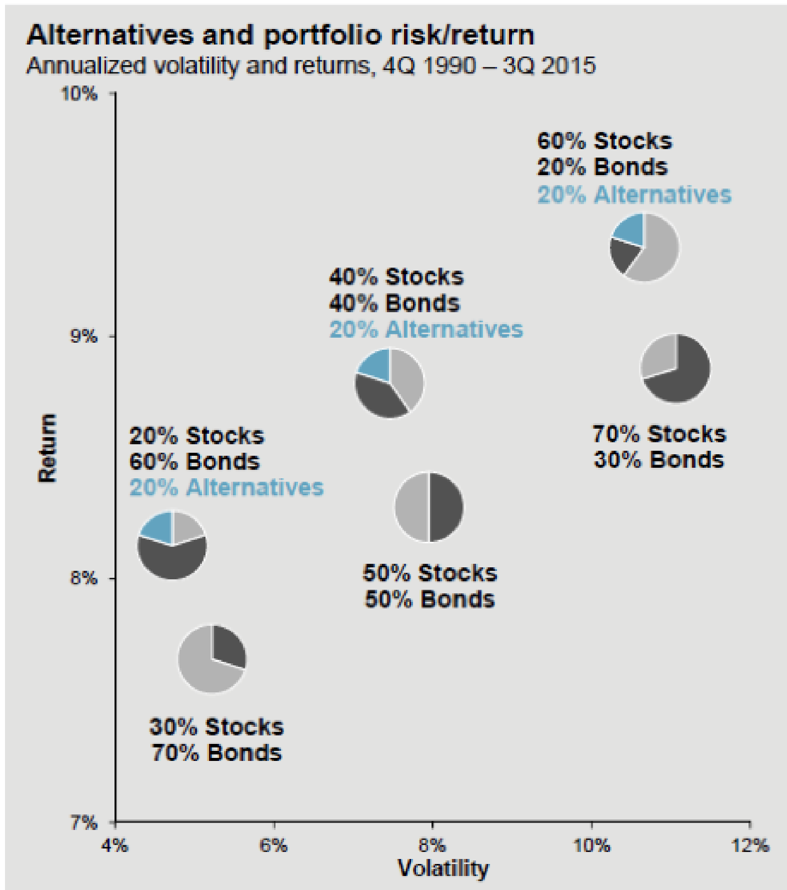
1Q16 MARKET REVIEW

In the aftermath of the 2008/09 Global Financial Crisis (GFC) markets increasingly exhibited "Risk-on / risk-off" (RoRo) behavior. Jittery investors moved, en masse, into risky, potentially high-yielding investments as the economic landscape looked to be stabilizing. Then, at the first sign of trouble, these same capital allocators, shell-shocked from the pain of 2008/09, rapidly moved back into perceived safe havens. This stop-and-go investor behavior gave rise to markets characterized by high correlations (all "risky" assets moving together). Around 2013, as the memory of the crisis began to fade and the U.S. stock market made new all-time highs, correlations began to drift lower and this dynamic eased. However, following the first Fed rate hike since 2007, the first quarter of 2016 was a tale of two diametrically opposed market environments: "risk-off" from January 4 to February 11, and "risk-on" from February 12 through quarter-end. In the first half of the quarter, equities and economically sensitive commodities were sold off indiscriminately, while bonds and gold benefited from a flight to quality. After February 11, equally indiscriminate buying occurred in risky assets, with "low quality" equities and natural resource-related assets rallying sharply.

Figure 1



Source: JPM Asset Management, Cambridge Assoc. HFRI

What drove this abrupt return to the RoRo environment? As has been the case since the GFC, it's convenient, but also likely true, to point a finger in the direction of the central banks. An experienced global investor recently commented that at no time in his career has the Fed been more skittish and reactive to stock market movements, and rather than acting as a "price maker" (setting the price of money and causing global currency and interest rate markets to respond accordingly) the Fed is now acting as a "price taker"

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(setting the price of money in response to stock market gyrations and "animal spirits"). This behavior risks creating a feedback loop of uncertainty, rather than stability, a dynamic that was certainly on display in the market volatility of 1Q16.

In the end, stock and bond markets finished higher on the quarter, and patient investors were not hurt. But this bout of volatility perhaps foreshadows market action once the economy slows or if/when the Fed makes a policy mistake. Moreover, the valuations and broader economic backdrop are not conducive to massive upside in either stock or bond markets. Bond yields have been steadily falling since 1982 in the United States, and the 10-year Treasury yield has been below 2% for most of this year. In Europe and parts of Asia yields are below 1%. While the Europeans have shown us that bond yields can indeed fall below zero, we do not believe it is economically feasible for them to move far below zero. Timing the end of 35-year bond bull market with any precision seems a fool's errand, and it may well be that U.S. yields must trade to zero or close to it, as they have in much of the world, before beginning a secular move higher. Be that as it may, we can say with confidence that the expected returns for bonds over the next decade are well below the realized returns over the past one, and poor in absolute terms. Yields remain so suppressed that the U.S. 10- year yield is now persistently below the S&P 500 dividend yield for the first time since the late 1950s (1.77% versus 1.91% as of quarter-end). So does this mean equities are a great value with high relative yields? Our house view is that the equity bull market is likely to persist until at least later this year but, at approximately 16x forward earnings, the S&P 500 appears fully valued. While pockets of value and growth at reasonable prices exist, the broad market is by no means a bargain. As a result, traditional long-only portfolios do not currently offer compelling risk/reward relative to history. In a recent paper, Cliff Asness and Antti Ilmanen of AQR Capital Management calculate the prospective real yield of a traditional 60/40 stock/bond portfolio since the late 1800s. They estimate that the prospective real yield on such a portfolio is just 2.4%, the lowest level in 112 years.

So, short of going to cash or hoarding physical gold, what are investors to do? We believe the answer lies in constructing robust portfolios containing assets that author Nassim Taleb has termed "antifragile." We believe our value-oriented, tax-efficient stock and bond selections are resilient, meaning they have the ability to recover from failure (i.e. market downturns). But, building truly robust portfolios (i.e. those that have the ability to resist failure) means complementing those traditional portfolios with allocations to alternative investments that have the ability to perform well in extreme markets. While gold or cash might come close to fitting this bill, and Treasury bonds have in the past, managed futures funds are a specific and little-understood area that has historically shown little correlation with traditional asset classes, and has tended to provide some offset during equity bear markets.

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1Q16 PERFORMANCE REVIEW

This brings us to the 1Q16 performance of Commonwealth Liquid Alpha Fund ("Liquid Alpha"). Liquid Alpha is comprised of investments in just these types of counter- correlated investment strategies. As such, the fund thrived in January and February, when volatility was high, gaining close to 5% from YE2015 to the stock market low on February 11. On that same day, the S&P 500 was down over 10% on the year. From February 11 through quarter-end equities rallied smartly, and Liquid Alpha struggled in late February and early March. Then, in late March as new trends emerged and markets became more orderly, the fund was modestly profitable, finishing the quarter +1.53% net of all fees.

	Jan	Feb	Through Feb 11	Mar	YTD (1Q16)
Liquid Alpha	2.39%	1.03%	4.75%	-1.84%	1.53%
Stocks (S&P 500)	-4.96%	-0.13%	-10.27%	6.78%	1.35%
Bonds (Barclays Agg)	1.38%	0.71%	2.25%	0.92%	3.03%
SG CTA Index	4.18%	2.97%	8.94%	-3.01%	4.05%

Liquid Alpha lagged relevant benchmarks, such as the SG CTA Index, which gained nearly 4% in 1Q. This was entirely due to this being a new fund and beginning the year underinvested. Allocation to these types of strategies requires gradually and methodically scaling into desired exposures following a diligent process, and as a result, the fund was most underinvested in January, which turned out to be the best month for this benchmark. In addition, we have been careful to establish relationships with only best-in-class service providers, and the establishment of these relationships and onboarding process can be a lengthy one. We are heartened that our current holdings performed well: had Liquid Alpha held the same investments on December 31, 2015 as it did on March 31, 2016, and made no changes during the quarter, performance would have been well over 5%.

We believe 1Q represents a strong proof of concept for Liquid Alpha. In January, when the fund launched, we described to clients that these strategies have the capability to add returns to traditional portfolios while at the same time reducing risk. This is precisely what occurred in1Q. Liquid Alpha slightly outperformed the S&P 500 but, more importantly, the path taken to arrive at that ending point was almost the exact inverse. While evidence shows that these types of strategies will add to absolute portfolio returns over time, there is significant value to the return-smoothing impact they have, irrespective of absolute return. A portfolio with a smoother equity curve and shallower, shorter drawdowns is a more stable portfolio, and a portfolio whose owner will accordingly be less inclined to

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liquidate or de-risk at an inopportune time. The strategies contained in Liquid Alpha have, over history, accomplished this result.

In terms of portfolio construction, as of quarter-end we had meaningful exposure to four macro/managed futures strategies and one market neutral equity manager. Exposures are broadly diversified across multiple asset classes: global equity indices, global fixed income and rates, G-10 and EM currencies, and global commodities. The four quantitative macro managers are employing approximately 15 discrete trading strategies among them, capturing market effects such as momentum, value, and carry, among others. We believe that at least four of these strategies offer truly unique alpha sources, while the rest capture persistent market anomalies uncorrelated to equity and bond beta. Our market neutral equity manager employs a long/short approach across almost 2000 single name equities, and his return stream is uncorrelated to both the stock market and our core exposures in managed futures. While the various methodologies within the fund are diversified across timeframes and holding periods, they tend to be medium- to long-term in nature, with average holding periods ranging from a few weeks to over a year.

Liquid Alpha YTD Performance

Looking ahead, we believe the portfolio is well-positioned for the rest of the year and particularly for extreme market conditions. Based on current exposures within the fund, we believe that most market scenario which would result in a meaningful drawdown for the fund would likely also result in strong performance for the larger, traditional investments within client portfolios. In short, we expect continued non-correlation. We look forward to adding a handful more of best-in-breed managers that other investors may have overlooked, or may not have access to, in 2Q. Please do not hesitate to contact us with any questions.