COMMONWEALTH LIQUID ALPHA FUND

Commonwealth Bank & Trust Company

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2Q17 PERFORMANCE REVIEW

Commonwealth Liquid Alpha Fund ("Liquid Alpha") returned -3.22% in 2Q17 and -1.79% YTD through June 30, net of all fees. Major drags on performance during the quarter were long positions in global fixed income markets and short positions in commodities, both of which underwent sharp reversals in the closing days of the quarter. These were partially offset by tactical trading in equity indices and relative value strategies in global bond markets. We made no substantive changes to the portfolio in 2Q though, as discussed last quarter, we anticipate adding an additional tactical trading strategy in 2H17.

PERFORMANCE TABLE

	1Q 2017	2Q 2017	1 Year	YTD 2017	Since Inception	Sharpe Ratio (ITD)
Liquid Alpha	1.43%	-3.22%	-0.74%	-1.79%	-2.79%	-0.27
SG CTA Index	0.07%	-3.52%	-9.97%	-3.45%	-6.22%	-0.46
S&P 500	6.06%	3.09%	17.87%	9.33%	22.38%	1.55
Barclays Aggregate	0.82%	1.45%	-0.31%	2.27%	4.98%	0.92
50 / 30 / 20 Stock / Bond / Alts	3.24%	1.01%	7.33%	4.25%	10.55%	1.60

Performance is shown net of all fees and expenses. Benchmark indices are not investable.

On an absolute basis, 2Q was a very frustrating quarter: performance was in positive territory through mid-June and remained only fractionally negative until the final few trading days of the quarter. A back-up in global interest rates, as well as reversals in energy and grain markets, all of which took place over the course of about one week, drove the entire quarter's loss. The poor absolute performance of managed futures and macro strategies (including Liquid Alpha) this quarter can be explained by the same factors that have created headwinds since last Spring: historically low and falling cross-market volatility, along with lack of sustained market trends. Market volatility remains anomalously low. The VIX Index, which measures US stock market volatility, began the quarter at 11.5% and ended the quarter at 11.1%. This compares to a long-term average of roughly 20% from 1990 to 2012. During the quarter, there was only one trading day when the S&P 500 moved by 1% or more from close-to-close, whereas the long-term average over the past decade is 18 such days per quarter. These structural factors present headwinds for strategies that seek to exploit price momentum and tend to rely on large market movements to generate returns.

As a direct result, the benchmark SG CTA Index currently sits in the deepest peak-to-trough drawdown since it was constituted in 2000 (though similar indices that track manager performance back to the 1980s have seen substantially larger drawdowns). By some measures, the industry as a whole was on pace (through June 30) for its

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worst year since 1987. While not fun to live through, these types of drawdowns have occurred in the past and will occur again in the future. We are long-term investors and take some comfort in market history. While Liquid Alpha investment strategies are diversified, many have some element of trend capture at their core. And in each decade since 1880, trend following (meaning long positioning in markets with recent positive returns and short positioning in those with negative returns) has delivered strong positive returns with low correlations to traditional asset classes. While "past performance is no guarantee of future returns," we also know that markets are cyclical, and remain confident that the 135 years of market history from 1880-2015 are more indicative of the future than the past 12-18 months.[1]

From a relative standpoint, the fund outperformed its most relevant benchmark, the SG CTA Index, by over 70bps in June, 30 bps in 2Q, over 100bps year-to-date, and almost 1000bps over the trailing 12 months. While the current peak-to-trough drawdown for the benchmark is around 16%, Liquid Alpha is less than 6% away from a new equity high. The 1 year performance number is particularly significant, because July 2016 marks an important date for the strategy. That's the month that the portfolio fully migrated from legacy mutual fund investments entirely to private fund strategies. The total shift from retail products to a set of differentiated private managers resulted in sustained relative outperformance over the ensuing year.

Is this large (and likely unsustainable) outperformance a fluke, or related somehow to our process and portfolio construction? We think the answer is decidedly the latter. The benchmark SG CTA Index is made up of the equal-weighted performance of the 20 largest managed futures hedge funds currently open for new investment. As discussed in prior letters, Liquid Alpha's key differentiators are:

- Lower fees,
- Niche focus, and
- Broad diversification.

While we certainly believe that our portfolio is comprised of better-than-average managers, we believe with even greater certainty that Liquid Alpha's relative outperformance is a direct consequence of these elements of structural alpha. Lower fees are self-explanatory in terms of generating outperformance. But even more critical is allocating to small- to medium-sized managers who are more nimble than their massive competitors, and able to access capacity-constrained strategies that the biggest managers cannot. We avoid large, late life-cycle managers and focus strictly on managers whose first priority is performance for their investors, not asset gathering.

IF YOU CAN'T BEAT THE MARKET… JOIN IT?

As we have communicated to clients since the inception of Liquid Alpha, the fund's goal is not to "beat the market" but rather: (1) make money over a market cycle and (2) do so in a way that is different from, and therefore complementary to, traditional portfolios. The past 12 months, and particularly 2Q17, has presented a challenge for this type of approach because, to put it bluntly, stocks seem to be the only game in town. Passive equity beta has outperformed practically every other asset class or actively managed strategy over the past 12-24 months. Late last year, we heard the US stock market referred to by the acronym "TINA:" There Is No Alternative. Outside of equities, there have been very few market opportunities for investors who rely on sustained market trends during the past few months. In response, we have seen many large managers increase their exposure to the one trend that seems to be "the only game in town," and begin to look increasingly like the stock market. This has resulted in a paradoxical situation where the very investment that investors are looking to provide diversification in the event of an equity market sell-off is actually heavily long the equity market, with little other diversifying exposures. As a result, if we look at the 100-day rolling correlation of the SG CTA Index, it has been persistently above 0.4 since late last year, and was

1 Hurst, Brian, Ooi, Yao Hua, and Pedersen, Lasse H., Fall 2014, "A Century of Evidence on Trend-Following Investing"

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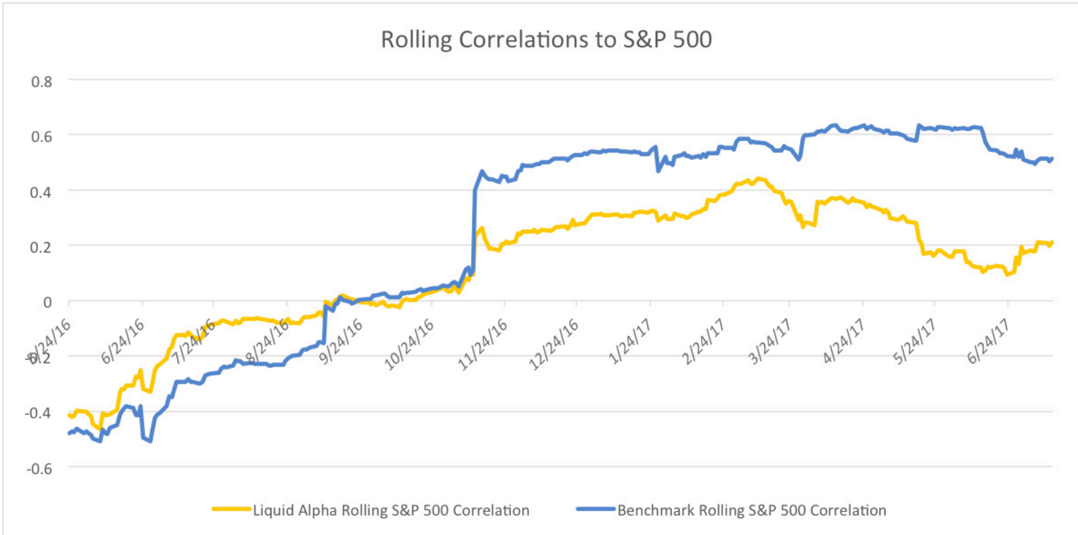

above 0.6 for much of 2Q17. The raises the concern that investors, who are allocating to large managed futures funds for diversification and "crisis alpha," will actually find them to provide little of either in the next market downturn.

By contrast, Liquid Alpha's correlation to the S&P 500 currently sits around 0.2, and is negative overall since fund inception. By focusing on niche managers who are able to maintain broad portfolio diversification, we've been able to largely (though not entirely) avoid this "equity beta paradox." The largest managed futures funds, however (and especially those with the largest retail and RIA participation) are designed to manage $10-20+ billion in assets under management. As a result, they are forced to concentrate their investing in large, ultraliquid, highly correlated markets like the S&P 500 and US Treasuries. Liquid Alpha's managers, who are by and large much more nimble, have the ability to participate in many smaller markets, particularly commodities and currencies, which offer idiosyncratic returns. As a result, Liquid Alpha's correlation to equity markets has been persistently lower than that of the benchmark, and thus the fund has offered greater diversification to traditional portfolios.