# Quarterly NEWSLETTER

Winter 2018

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## Rally Continues for Now...

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In 2017, all 46 OECD economies generated positive GDP growth for the first time in ten years. The robust synchronization of global growth led markets to set new all-time highs. U.S. stock market returns started 2017 off strong on the expectations of deregulation and pro-growth fiscal policies. As the year progressed, EPS estimates for S&P 500 companies with a larger percentage of sales overseas improved, but were largely unchanged for companies with higher domestic sales. The S&P 500 rallied 6.63% in the fourth quarter, posting a 21.80% return for 2017, continuing a rare 14-month streak of positive returns. Most of the gains for the quarter occurred in October and November after positive earnings reports. The markets rallied over 7% in the first few trading weeks of 2018 and are posting new highs, breaking through 2,800 on the S&P 500, 26,000 on the Dow Jones Industrial Average and 7,000 on the NASDAQ. Now that the U.S. tax bill has passed, we expect the market to focus primarily on earnings and secondarily on interest rates and the dollar. The market is looking past the fourth quarter, expecting upward earnings revisions and guidance for 2018 spurred by a permanent reduction in the corporate tax rate from 35% to 21%. After trailing domestic returns for a decade, international and emerging market stocks outperformed U.S. equities (21.8% S&P 500; 25.0% EAFE; 37.3% EM), benefitting from a weak dollar (down 9.9%) in 2017 as well as fundamental strength in developed and emerging market economies.

We believe the current stage of the secular bull market is in its 8th or 9th inning. In the past we might have been a little more cautious, but economic data is stronger and broader than at this point in early 2017. There are several economic trends that are gaining momentum and help explain why the market should continue to rally, perhaps into extra innings. Additionally, there are three key warning signs that usually signal a bear market and/or a recession. Some of these signs have turned from green to yellow, but none are turning red. The current market backdrop sets up for exuberance that leads to higher multiples, which we think will lead to 7% to 10% returns for the S&P 500 in 2018. We suspect the 7% market move in January is a little too far too fast. In most years, the market has a few 5% pullbacks (and usually a 10% pullback). We expect to trim large cap S&P 500 stocks going forward and replace them with relatively better valued mid and small cap domestic stocks, international equities and emerging market equities as well as uncorrelated alternative investments.

*Chart 1*

**Q4 2017 Market Performance – Total Returns**

| | 12.30.17 Level | Q4 | YTD |
|---|---|---|---|
| *Dow Jones* | 24719 | 10.96% | 28.11% |
| *S&P 500* | 2674 | 6.63% | 21.80% |
| *NASDAQ Composite* | 6903 | 6.57% | 29.71% |
| *Russell 2000* | 1536 | 3.34% | 14.65% |
| *S&P Midcap* | 1901 | 6.24% | 16.21% |
| *Russell 1000 Growth* | 1352 | 7.86% | 30.19% |
| *Russell 1000 Value* | 1222 | 5.30% | 13.63% |
| *MSCI EAFE* | 2050 | 4.23% | 25.03% |
| | Yield | Q4 | 1 year |
| *Barclays Municipal* | 2.36 | -0.22% | 3.49% |
| *Barclays Aggregate* | 2.71 | 0.39% | 3.54% |
| *Barclays High Yield* | 5.72 | 0.41% | 7.47% |

*Chart 2*

**Q4 2017 S&P 500 Sector Performance**

| | Q4 | Year-to-Date |
|---|---|---|
| *Healthcare* | 1.47% | 22.06% |
| *Information Technology* | 9.86% | 23.08% |
| *Telecommunication* | 6.49% | 13.49% |
| *Financials* | 8.58% | 22.13% |
| *Consumer Staples* | 3.70% | -1.18% |
| *Consumer Discretionary* | 9.00% | 38.80% |
| *Materials* | 6.92% | 23.82% |
| *Industrials* | 6.02% | -1.00% |
| *Utilities* | 6.02% | 20.98% |
| *Energy* | 0.21% | 12.06% |

### Proprietary Performance Results

| | 4th Quarter | 1 Year | 3 Year | 5 Year | Since Inception |
|---|---|---|---|---|---|
| Focused Equity Fund[2] | 5.41% | 22.28% | 10.20% | 14.54% | 14.79% |
| Aggressive Growth Fund[1,3] | 6.87% | 33.15% | 13.88% | 16.88% | 9.55%[1] |
| Science/Technology Fund[4] | 5.40% | 35.40% | 13.30% | 17.06% | 9.70% |
| S&P 500 | 6.63% | 21.80% | 11.39% | 15.77% | 15.24%[2], 10.07%[3], 8.63%[4] |
| Russell 2000 | 3.34% | 14.65% | 9.96% | 14.12% | 14.85%[2], 9.25%[3], 7.54%[4] |
| MSCI EAFE | 4.23% | 25.03% | 8.38% | 8.50% | 9.43%[2], 5.28%[3], 4.41%[4] |
| Strategic Income Fund[5] | 4.72% | 13.20% | 6.62% | 8.79% | 10.13% |
| 60% Russell 3000 Val / 40% Barclay Agg | 3.19% | 9.29% | 6.25% | 9.22% | 9.89% |

*There is no assurance that any of these investment strategies will meet its investment objective. Performance results for each strategy are computed on the strategy's overall returns. Each strategy and index includes the reinvestment of dividends. Past performance does not guarantee future results. Current performance may be lower or higher than the performance results quoted. [1] Net of management fees; performance results of SMC Capital and/or its principals as advisor from inception to 2/28/06 and as sub-advisors to CBandT since 3/1/06. [2] Inception date 12/31/2008. [3] Inception date 7/1/1989. [4] Inception date 3/31/2006. [5] Inception date 12/31/2008.*

## *Fixed Income*

In December, the Federal Reserve finished the year with another quarter point increase in the fed funds rate, its third hike of the year. The longer-term funds rate forecast remains unchanged at the lower level of 2.75%. This is basically the level projected by the end of 2019, implying two or three hikes in each of the next two years. We suspect these dynamics will remain largely unchanged with incoming Chairman Jerome "Jay" Powell, who has served on the Fed Board since 2012.

Once again, the yield curve flattened, though it was much more pronounced in the 4th quarter. For example, the 1-year Treasury increased 0.44% while the 30-year fell 0.12%. In all, short-term rates were up nearly 1%, while the widely quoted 10-year Treasury rate was down slightly, trading at 2.4% to end the year. Surprising to some, the longest 30-year Treasury fell 0.33% to 2.74%. There is growing debate of an inverted curve or higher rates from economic activity surrounding tax reform. Broadly speaking, U.S. economic activity is solid as 3rd quarter GDP grew 3.2% and Atlanta's Fed GDP Model is currently forecasting that same 3.2% growth in the 4th quarter.

During the quarter, U.S. investment-grade bonds struggled, returning only 0.4%. Through 2017, returns of 3.5% are decent, given a starting yield of roughly 2.6% and were better than expected. Global bonds fared somewhat better with "hedged" global aggregate bonds returning 0.8% (vs. 1.1% unhedged) in the 4th quarter. However, global "hedged" returns lagged the U.S. slightly on the year at 3.0% (vs. 7.4% unhedged) according to Bloomberg Barclays. The U.S. high yield market also slowed, returning only 0.5% during the quarter. Calendar year performance of 7.5% was reasonably strong, but lags the 17% returns during 2016. With a yield around 5.7% and compressed spreads approaching 3.5%, we remain cautious on high yield.

The Tax-exempt market had an exciting quarter, exacerbated by tax reform and the at risk status of the tax exemption on advance refunding issues and private activity bonds. This sparked record December total issuance of approximately $59 billion. There was initial price weakness in consideration of the expected issuance, but market participants quickly focused on the reduced issuance in the coming year. The individual marginal tax cut to 37% from 39.6% for high earners and the limitation on state & local tax deductions should also translate into reasonable support. A counter consideration is the corporate tax rate reduction to 21% from 35% and its impact on demand from sizeable and growing buyers in recent years. In all, tax-exempts returned 5.5% during 2017 surpassing taxable investment-grade bonds, as we predicted. Quarter returns in municipals of 0.75% were also respectable, given the record supply.

Overall yield is a strong predictor of future returns and the Bloomberg Barclays Aggregate index is currently yielding around 2.7%. That said, we continue to recommend a tactical underweight to core fixed income in favor of high quality dividend paying stocks and alternative strategies.

## *Focused Equity*

For the fourth quarter and the twelve months ending December 31, the strategy returned 5.41% and 22.28%, respectively, versus a 6.63% and 21.80% increase for the S&P 500 Equity Index. Since inception, the strategy has narrowly trailed the S&P 500's annual return of 15.24% by -0.45% with an annualized gain of 14.79%. However, the fund has achieved these results taking on meaningfully less risk than the S&P 500 with a beta of 0.87 and capturing only 89% of the index's annualized standard deviation, thus producing annualized alpha (the amount of risk-adjusted performance greater than the benchmark) of 1.38% since inception (12/31/2008).

**Leaders:** Utilities (+10.0%), Technology (+9.92%) and Industrials (+9.03%) lead the strategy during the fourth quarter. Additionally, Consumer Discretionary (+7.94%) would have lead Focused Equity during Q4 with the exclusion of Newell Brands (NWL -28.19%). High quality growth stocks gained favor as investors rotated out of the "Trump trade." Microsoft (MSFT +15.40%), Amazon.com (AMZN +21.65%), Home Depot (HD +16.44%), PayPal (PYPL +14.98%), and Apple (AAPL+10.21%) made the largest contributions to the strategy's total return during the quarter. Kroger (KR +37.51%) led Focused Equity in terms of absolute return during the quarter as their positive Q3 report turned investor sentiment following a large decline in the face of a growing competitive landscape. Large overweight positions relative to the S&P 500 in American Water Works (AWK +13.59%), Stryker (SYK +9.33%), and Boeing (BA +16.62%) were the strategy's best active selections relative to the index as these names outperformed their S&P sectors by 13.38%, 7.86%, and 10.60% respectively. Boeing, PayPal, and Facebook (FB) were the strongest performers during calendar year 2017, generating 94.48%, 86.52%, and 53.38% returns, respectively.

**Laggards:** Healthcare (-7.82%) holdings, including Celgene (CELG –28.42%), Henry Schein (HSIC –14.31%), and Merck (MRK -11.44%), were among the leading detractors on the fund's results during the fourth quarter. Celgene, Newell Brands (NWL -28.19%), and Walgreens Boots Alliance (WBA -5.43%) were the most significant negative active selections in the quarter, underperforming their sectors by -29.89%, -38.05%, and -11.92% respectively. Newell reported disappointing results, noting that their integration progress was muted by "retailer inventory rebalancing" in relation to a lackluster back-to-school season. A Celgene drug in development missed its endpoint in a trial during the quarter, but the company has the most active pipeline with the most scheduled announcements of any drug company. Walgreens faced a significant decline in late October on the rumor that Amazon may enter the pharmacy business. Newell Brands, Diamondback Energy (FANG), and Pioneer Natural Resources (PXD), were the weakest performers during calendar year 2017, returning -36.56%, -14.99%, and -12.54%, respectively. We eliminated these positions to offset capital gains during the quarter. We expect to add back Pioneer and Diamondback after earnings are released.

## *Strategic Income Builder*

Amazon (AMZN)
10/1/2017 – 12/30/2017

For the quarter, the strategy (SIB) returned 4.72%, soundly ahead of its blended benchmark return of 3.19%, which is comprised of a 60% Russell 3000 Value weighting & 40% to the Barclay's US Aggregate. For the full calendar year, SIB finished nearly 4% ahead of its benchmark (13.20% vs. 9.29%). Since inception (1/1/09), the SIB strategy has returned an annualized 10.13%, slightly ahead of the benchmark return of 9.89%. The yield generated from the strategy has consistently exceeded that of its benchmark. On a risk-adjusted basis, the strategy has generated a positive alpha of 1.25% annualized with a beta of 0.89. The success of the portfolio is the result of an attractive mix of income producing securities, exposure to global markets and tactical allocation.

Information Technology (+15.3%) and Financials (+10.0%) were the best performing sectors while Industrials (-3.2%) followed by Healthcare (+0.5%) performed the worst. Qualcomm Inc. (QCOM +24.6%) was our biggest mover within the tech sector during the quarter. Roughly half of that gain came in early November on reports that Broadcom was considering a bid. On November 6th, Broadcom submitted a proposal to acquire the company and a week later, Qualcomm's Board unanimously rejected the offer. In early December, Broadcom announced its intention to nominate 11 members to Qualcomm's board in a hostile takeover attempt. Synchrony Financial (SYF +24.9%) posted the largest gain within Financials. While many of Synchrony's retail partners are struggling, almost 25% of sales on their retailer-branded cards come from online channels. Recently, Synchrony expanded their partnership with PayPal by purchasing roughly $5.8 billion of its consumer loans. General Electric (GE -27.3%) was our worst performing stock within Industrials during the quarter. In October, GE's stock fell to its lowest level since 2013 as investors cast doubt on the dividend after weak earnings. In November, those concerns were realized as GE cut its quarterly dividend in half to 12 cents. Despite the cut, it remains an above market yield given its dramatic price decline. We will be watching this turnaround story closely.

Quarterly fixed income performance of 0.52% compared favorably to the Bloomberg Barclays Aggregate Bond return of 0.39%. During 2017, fixed income results were outstanding at 5.23% vs. 3.54%. Our tactical position within high yield contributed again, however, returned only 0.9% for the quarter. Fixed income allocation finished the quarter at 25%. Our international bond funds performed in line with benchmark, returning 0.35%. This international allocation is roughly 9.0% of our fixed allocation and is currently dedicated entirely to emerging market bonds. In October, we exited are remaining tax-free positions on our belief that relative outperformance is behind us. Projected yield on the fixed income portfolio is currently 3.6% which compares to 2.7% for the Bloomberg Barclays Aggregate at year end.

Our alternatives allocations returned 2.4% during the quarter, which compares favorably to the fixed income benchmark. Portfolio allocation remained stable at just over 4%. In general, we believe we can reduce portfolio volatility and enhance returns over time utilizing alternatives. While income generation is possible, it is difficult to predict in these strategies. In December, income/gains payouts ranged from 3.4% to 3.9% and these were the only payments during the year.

## Science & Technology Strategy

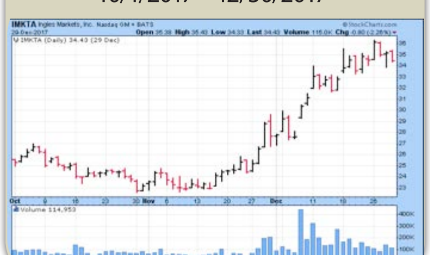
Editas Medicine, Inc. (EDIT)
10/1/2017 – 12/30/2017

The Science & Technology strategy (SciTech) returned 5.40% for the fourth quarter vs. the Nasdaq 100 (7.26%), the broader Nasdaq Composite (6.57%) and the Lipper Science & Tech Fund Index (6.31%). For 2017 SciTech returned 35.40% vs. 32.92% for the Nasdaq 100, 29.71% for the Nasdaq Composite and 37.13% for the Lipper Science & Technology index. Over the long-run the strategy is beating the Lipper SciTech index on a risk adjusted basis, has a Sharpe Ratio of 1.42, and runs a 0.84 beta to the index, indicating higher risk-adjusted returns.

**Leaders:** Some of the smaller cap positions were the biggest contributors during the quarter. After falling over 22.52% in 3Q17, Energous (WATT), a maker of wireless distant recharging technologies, rallied 54% in the last week of December when the FCC announced that WATT's technology was safe and effective approving it for use in phones. Editas (EDIT), a pioneer in the field of CRISPR gene editing technology, gained 27.99% during the quarter and 68.37% during 2017. Align Technology (ALGN) was one of the best performing stocks for the fund, up 19.28% or the quarter and 131.01% since the beginning of the year. The strength in ALGN continues to come from overseas sales (up 35%), as routine dental work becomes a part of standard healthcare after studies have demonstrated links between good dental health and overall health. Facebook (FB), Apple (AAPL), Netflix (NFLX), and Amazon (AMZN) contributed a significant portion of the performance to the fund during the year, as each one was up over 50%. These names continue to outperform and they have among the highest and most consistent growth rates in technology.

**Laggards**: Only a few stocks posted losses during the quarter and most were healthcare names. Celgene (CELG) lost 28.43% in value during the quarter after they halted their PHIII RESOLVE trial in Crohn's disease. This trial represented ~$750M of their 2020 revenues (~3.5%). We believe that the large negative reaction to this news and to management lowering their 2020 revenue guidance by 7% was overdone. We believe Celgene will continue to outperform as management's updated 2020 guidance indicates a 15% revenue CAGR and a 20% earnings CAGR. Allergan (AGN) lost 19.86% during the quarter after losing their patent for Restasis (~9% of revs) mid-October. We believe their pipeline is currently underappreciated and AGN is uniquely positioned relative to their peers as they earn a meaningful amount of their revenues from their "Aesthetics" business (botox, plastic surgery supplies). This source of revenue is immune to drug pricing concerns as these are typically out of pocket expenses that are paid directly from the patient.

## Small Cap Value



Ingles Markets, Inc. (IMKTA)
10/1/2017 – 12/30/2017

The Small Cap Value Composite returned 3.64% for Q4 versus 2.05% for the Russell 2000 Value index. For the full year, the Small Cap Value stands at 13.45% while the benchmark is at 7.84%.

One top contributing holding in the Portfolio during Q4 was Ingles Markets Inc. (IMKTA, +36%), a regional grocery chain in the Southeast United States with 199 stores. IMKTA reported positive same-store sales of +3.6% in Q4 2017 with EBIT margin expansion of +50 bps despite higher labor costs. These results were ahead of our expectations, and benefited from Hurricane Irma. Another top contributor during the quarter was Murphy USA Inc. (MUSA, +16%), one of the largest convenience store chains in the United States. MUSA reported Q3 earnings ahead of expectations, primarily driven by higher fuel margins. Another positive contributor was Hostess Brands Inc. (Cl A) (TWNK, +31%), the iconic American snack cake brand. The stock sold off when the company announced CEO Bill Toler would retire in early 2018, and River Road initiated a position shortly thereafter. Investor expectations were low ahead of Q3 2017 results due to tough year-over-year comparisons. TWNK posted better-than-expected Q3 2017 results due to strong growth from innovation activity within its core brands.

One bottom contributing holding in the Portfolio during Q4 was Blackhawk Network Holdings Inc. (HAWK, -19%), a prepaid payment network offering gift cards and rewards. Despite reporting Q3 results largely in line with expectations, HAWK shares declined sharply on management's comment that its domestic physical gift card business (~35% of revenue) is facing headwinds from weak foot traffic at some retailers as well as some pricing pressure on contract renewals. Another bottom contributor was Liberty Expedia Holdings Inc. (Cl A) (LEXEA, -16%), which owns a 15.7% equity interest in Expedia (EXPE; 23.1 million shares). Expedia is an online travel company that operates a variety of brands: Expedia, Hotels.com, HomeAway, Orbitz, Travelocity, and Hotwire, and owns a 62% stake in trivago N.V. (TRVG). Expedia reported disappointing results and tempered expectations for 2018. Another weak performer during the quarter was Motorcar Parts of America Inc. (MPAA, -15%), a manufacturer of starters, alternators, and other auto parts. MPAA reported weak Q2 results despite market share gains and lowered FY 2018 guidance on soft demand for replacement parts. Our analysis of the average age of vehicles, miles driven, and historical replacement rates leads us to believe future demand is a 'when' not 'if' story.

## Kentucky Municipals

Quarterly bond issuance by Kentucky municipalities declined to $991 million from $1.12 billion in the previous quarter. Competitively awarded deals were $321 million with negotiated deals of $670 million. Deal size was strong averaging $24 million with 45 new issues in total. Much of the supply in recent years has refinanced (refunded) outstanding debt. Purchasing "refunding" candidates over the years has proven very successful. Unfortunately, as discussed in our fixed income commentary, advance refunding will no longer be available for tax-exempt borrowers. So we suspect our substantial amount of pre-refunded municipals within portfolios will be even more liquid and trade at even tighter spreads.

Bank-qualified (BQ) issuance was $87 million or 9% while non-BQ issuance was the majority, coming in at $682 million or 69%. We tend to utilize non-BQ because yields are usually higher. It will be interesting to see how bank demand unfolds given the effective 21% corporate tax rate or 20% deduction for S-Corp banks. There was sizeable taxable issuance of $222 million or 22% of quarterly issuance. Visible KY supply is reasonable with $325 million on the calendar during January.

Deals of note include $378 million of tax-free and taxable issuance by the Louisville Arena Authority to refinance the existing KFC Yum! Center debt. Despite challenges, the deal was successful and buyers were rewarded as prices quickly moved up in secondary trading. The S&P Municipal Bond Kentucky Total Return Index returned 0.83% vs. 0.75% for the Bloomberg Barclays Municipal Index. For 2017, these returns are 5.35% vs. 5.45% respectively.

## Kentucky Pension Update

In late December, A group of state workers filed a lawsuit against several private equity companies and the current and former advisers, trustees and officers of the Kentucky Retirement Systems (KRS), saying they breached fiduciary duties by embracing high-risk, high-fee investments. The complaint states that these "risky, toxic" hedge fund investments had poor returns that depleted the system's assets. The overall "absolute return" strategy returned less than 4% annually in the five years through June 2016, according to state pension data. That compares to the 11.8% annual average return during that time for a low-cost S&P 500 fund. The plaintiffs seek to recoup unspecified fees and other payments made to money managers and advisers as well as seeking punitive damages.

## Kentucky Budget/Legislature

For the first time in history, KY Republicans will decide how the government spends more than $20 billion of public money over the next two years. This will be the second year Republicans have controlled both chambers of the state legislature under a GOP governor. Last year, Republicans pushed through bills restricting abortion and labor unions and allowing charter schools in the state for the first time. This year, Republicans must craft a two-year state spending plan. Gov. Matt Bevin has said the budget "won't be pretty" because lawmakers have to find roughly an additional $1 billion to pay toward the state's struggling pension system. According to the Bond Buyer, Kentucky's governor had to order $158 million in spending cuts for FY18. While most agencies will have to cut 1.3% from their budgets by June 30, it doesn't apply to "important governmental activities" including k-12 schools. However, the governor said "Protecting those categories from reductions in the next biennium will be difficult, if not impossible."

# ASSET ALLOCATION OUTLOOK

| LAST QUARTER | | | THIS QUARTER | |
|---|---|---|---|---|
| **WE BELIEVED →** | **ACTIONS TAKEN →** | **RESULTS** | **WE BELIEVE →** | **ACTIONS WE ARE TAKING** |
| DOMESTIC EQUITIES | | | DOMESTIC EQUITIES | |
| Trump policies likely to take longer to pass - 1Q18 at earliest. 3Q17 EPS and GDP are going to be messy due to storms. A little nervous companies can make upwardly revised 4Q17 numbers. | Trimmed U.S. large cap stocks, moved to slightly underweight. Maintained overweight on small/mid cap stocks. | Tax reform legislation was passed in December. 3Q17 earnings were messy and 4Q17 earnings were revised marginally downward, but not as significantly as expected. Large cap stocks up 6.6% in 4Q17 (21.8% 2017); Small and Mid cap stocks did not keep pace in 4Q17 (up 5.1% in 4Q17, 14.7% in 2017). | We think the market rally will continue into 2018 with the potential for another 5%-10% total return for the S&P 500. We remain concerned, however, that the 7% January rally will result in a pullback. We remain optimistic that small & midcap will outperform on tax reform impact. | Trimming U.S. large cap stocks, moving to underweight. Maintaining overweight on small/mid cap stocks. |
| INTERNATIONAL EQUITIES | | | INTERNATIONAL EQUITIES | |
| We believed the dollar should stay lower for a little longer as the Fed remains dovish, U.S. growth remains at or a little below expectations and international growth continues to improve. | We maintained our allocation to emerging markets and developed international stocks at overweight. Additionally we changed the mix of our developed market valuation from value to growth. | The dollar fell another 1% during 4Q17 (-10% for 2017). Emerging markets (+7% 4Q17, 37.3% 2017) outperformed, but developed international stocks (+4%) lagged during the quarter while posting a 25% increase for 2017. | We expect the dollar to remain rangebound in the near term. We expect additional rate increases from the Fed and that U.S. GDP growth will be stronger than most developed markets, which could pressure the dollar higher (2H18?). | We are maintaining our allocation to emerging markets and developed international stocks at overweight. We are watching the dollar and expect it to remain within 3%-5% of current levels. We may cut international/ EM exposure if the dollar rallies sharply. |
| FIXED INCOME | | | FIXED INCOME | |
| We expected a 0.25% Fed Funds rate increase in December and the Fed to remain dovish. | We remained underweight core bonds. We remained overweight credit/high yield bonds. We maintained our allocation to emerging market bonds and did not add to weights due to historically tight spreads. | The Fed raised the Fed Funds rate 0.25% December. Core bonds returned 0.39% in 4Q17, while high yield bonds generated a 0.41% return. International and EM bonds returned 1.08% and 1.88%, respectively, on an unhedged basis; and 0.80% and 0.62%, respectively, with currency hedged. | We expect a 0.25% Fed Funds rate increase in March and the Fed to remain constructive for at least the first half of the year. We are concerned GDP and wage growth could lead to a rise in inflation in 2H18, which could result in more hawkish Fed action. | We remain underweight core bonds. We remain overweight credit/high yield bonds. We are maintaining our allocation to emerging market bonds and are concerned the dollar could create volatility for EM bonds as spreads remain tight. |
| We believed munis were at fair value to a little overvalued. | We maintained an equal weight to munis and were concerned how tax policy would impact muni returns and funds flow. | Munis outperformed core bonds in the quarter (0.75% vs. 0.39%) and for the full year (5.45% vs. 3.54%). | We believe munis are at fair value to slightly undervalued at the beginning of 2018. | We are maintaining an equal weight to munis at this time, but believe certain facets of tax policy are more favorable for certain muni assets than previously thought (e.g. pre-refunded bonds). |
| ALTERNATIVE ASSETS | | | ALTERNATIVE ASSETS | |
| Volatility will remain near record lows, if tax reform legislation still remains stalled and 3Q17 earnings and 4Q17 guidance remains in line with estimates. | We maintained ~8% allocation to alternatives. We continued to watch Gold for a breakout. | Volatility remained subdued, but SG CTA alternatives index rallied 5.26% as alts funds increased weightings to U.S. equities. CB&T's Liquid Alpha alternatives CTF increased 2.22% in 4Q17, because it intentionally has little exposure to U.S. equities. Gold increased 1.79%. | After a record low period, volatility will increase in 2018. We think the trade talks, rate increases and GDP/ Inflation surprises will act as catalysts for higher volatility (2H18?). | We are maintaining ~8% allocation to alternatives. We expect to increase to 10% after equity exposure is reduced in alts models. We continue to watch Gold for a breakout. |

**For more details on CBandT's investment outlook, please visit our Investment Commentary page at: https://cbandt.com/wealth-trust/resources/.**

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## INVESTMENT MANAGEMENT:

Our staff of investment professionals can serve as a full-service investment advisor, establishing investment objectives, developing asset allocation, analyzing risk, constructing portfolios and monitoring and reporting on performance.

## TRUST & ESTATE PLANNING:

Our staff of experts can help develop plans for the effective transfer of assets through wills and trusts. We have extensive expertise serving as trustee or co-trustee for all types of personal and corporate retirement plan trusts, including trusts that have direct investments in private companies, real estate or other less liquid assets. We may also assist with the settlement of estates, serving as executor or personal representative.

## CHARITABLE PLANNING:

Our team is highly experienced in all aspects of charitable planning. We can help you locate worthy charities in your area of interest or help you leverage the value of charitable gifts to your pre-selected organization(s). Our expertise will allow you to maximize your charitable giving for the benefit of you and the recipient.

## TAX, IRA, AND RETIREMENT PLANNING:

Our staff of experienced financial planning professionals can help minimize the burden of estate, inheritance and income tax through careful planning techniques. We can also assist with the creation or rollover of IRA assets.

## CUSTODY SERVICES:

Commonwealth Trust Company's investment management service includes full custody services for all assets. For clients who employ multiple managers or for clients who prefer to self-direct a portion of their assets, we offer stand-alone custody services.

## BANKING AND FAMILY OFFICE SERVICES:

At Commonwealth Trust Company, we provide customized deposit and lending banking services that give you access to your money when and where you need it. Our many services make it convenient for you to handle day-to-day transactions simply and efficiently, whether in person, over the phone or online. Some of the services we offer are: Concierge and Bill Paying, Mortgage Financing, Deposit Services, Business Banking, Secured/Unsecured Loans, Cash Management, and Fraud Prevention.

## BROKERAGE & INSURANCE SERVICES:

Our staff of fully-licensed brokerage professionals can help you buy and sell a large selection of securities at competitive commission rates. We offer a variety of accounts designed to fit your individual investing needs and feature unique services to help you plan and implement your financial strategy. While still offering the strength and resources of a large financial organization, our personalized service will also provide you with a one-on-one approach and convenient local delivery.

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