

Premise Capital 1st Quarter Investment Commentary

Premise Investors,

Our portfolios have seen some changes since the beginning of the year. The changes result from an increase in interest rates as classes that are inversely related to increasing rates have seen trend indicators turn negative. The trend indicators for all Fixed Income classes we track, as well as for Real Estate, turned down during the quarter, causing portfolio adjustments as we lighten exposure to interest sensitive classes.

Interest rates have been historically low for years, and this is not the first time we have decreased interest rate exposure in our models during this low rate environment. Many investors have inquired about our investment philosophy in response to a rising rate environment, and our response has been unchanged. We will continue to monitor the total return trends in these classes and treat them as we treat all classes in the creation of our portfolios. While we are not trying to time small changes in rates, we are trying to avoid prolonged losses if rates begin the long awaited and sustained

	Q1 2018		1 year	
	Return	Std Dev	Return	Std Dev
BBgBarc US Agg Bond TR USD	-1.46	3.47	1.20	3.18
BBgBarc US Treasury US TIPS TR USD	-0.79	3.57	0.92	3.76
BBgBarc US Treasury 20+ Yr TR USD	-3.36	12.13	3.85	11.36
BBgBarcrlays US Corporate High Yield TR I	-0.86	3.63	3.78	2.46
S&P 500 TR USD	-0.76	23.91	13.99	13.67
S&P MidCap 400 TR	-0.77	21.60	10.97	14.31
S&P SmallCap 600 TR USD	0.57	22.29	12.68	16.57
MSCI EAFE NR USD	-1.53	15.51	14.80	10.74
S&P Developed Small NR USD	-0.52	16.21	16.24	10.82
MSCI EM NR USD	1.42	19.18	24.93	13.61
FTSE NAREIT All Equity REITs TR	-6.66	21.52	-1.09	14.27

upward move. Whether this is the time that everyone who claimed rates were rising are finally proven right remains to be seen, but there has been a noticeable increase in rates with its related downward pressure on price that signaled an exit in all fixed income classes.

We feel that the nimble tactical strategy we employ is just as important on fixed income as it is on equity classes. It may be easy to think of the tactical nature of our portfolios as an equity play with a fixed income holding to buffer the equity exposure, but that is not an accurate description. In times of rising rates, it is good to remember that we treat each class independently and adjust the basket relative to the trend of both fixed income and equity classes.

With the potential for interest rate increases in an economy that seems to be heating up, it is now more important than ever to be nimble in the interest rate sensitive classes. While we may have given up a little in return in the past by only holding plain vanilla liquid ETFs instead of individual bonds, the ability to remain on the sidelines and then reinvest in a higher rate environment should not be overlooked. Purchasing fixed income ladders is a good way to get the average return over time, but it becomes a fixed decision on the first day you put it in place. We believe it is better to make multiple decisions through time and retain the ability to sit on the sidelines in a rising rate environment and repurchase liquid fixed income products at a time when rates are higher, thus attempting to



Premise Capital 1st Quarter Continued

avoid losses on the principal and having more dollars to invest in the better rates in the future.

On the equity side, the low volatility we enjoyed in 2017 seems to have come to an end. We have seen dramatic swings both up and down as the market melted up in January after the passage of the tax bill, only to give it back in February as talk of trade wars and other political risks became apparent. While our indicators have weakened, the previous up move was so steep that we could have a while to go before we will begin to exit equity classes. This is in line with our expectations, as there is an increase in our appetite for market drawdowns following strong up moves. In a trend following system, if you are not willing to give back part of the up move, you risk being wig-gled out multiple times in an uptrend. Another way to say this is that strong up markets are perpetually overbought and look expensive; consequently, there are too many exits in anticipation of the down move which makes you look silly until you are finally correct and the downtrend begins. While mean revision systems can employ that strategy, they can drastically increase turnover and are more suited to active trading than for longer-term investing.

As we look to the future, we have moved from a strong uptrend with all classes, fixed income and equity, being positive, towards increased volatility in equities and questions about the direction of interest rates. Essentially there are some cracks in the markets even as the economy stays strong. The stock market tends to be a leading indicator for the economy but hasn't made a definitive directional move at this point. However, there are some reasons to be concerned, and we believe our nimble approach will be more important going forward as the potential for long term market trends to reverse becomes increasingly likely.

Thank you again for your continued confidence in Premise Capital!

Jason Rolence
Partner

