

Premise Capital 2nd Quarter Investment Commentary

Premise Investors,

The first quarter ended with the equity markets testing the lows reached earlier in the year leaving doubt as to whether the 2nd quarter would see new highs or new lows. Throughout the second quarter, we saw a stabilization in domestic equity prices, even as the trade war issues that seemed to cause the initial selloff remained present in the minds of investors. Domestic Large Cap equities rallied off the bottom at the beginning of the quarter but remained under the highs set at the beginning of the year.

During the quarter, we decreased our exposure to Developed International and Emerging Markets. Both markets had been hanging around unchanged for the year but took downward turns during the quarter causing us to exit. During that reallocation, we were fortunate enough to allocate most of the equity exposure to Domestic Small Cap which has continued to show strength and has hit all-time highs making it the strongest class thus far in the year. This is a great example of the way

	Q2 2018		YTD	
	Return	Std Dev	Return	Std Dev
BBgBarc US Agg Bond TR USD	-0.16	3.84	-1.62	3.66
BBgBarc US Treasury US TIPS TR USD	0.77	4.04	-0.02	3.81
BBgBarc US Treasury 20+ Yr TR USD	0.35	12.09	-3.02	12.07
BBgBarcrlays US Corporate High Yield TR U	1.03	2.38	0.16	3.06
S&P 500 TR USD	3.43	15.06	2.65	19.80
S&P MidCap 400 TR	4.29	14.20	3.49	18.13
S&P SmallCap 600 TR USD	8.77	15.63	9.39	19.13
MSCI EAFE NR USD	-1.24	11.22	-2.75	13.43
S&P Developed Small NR USD	2.89	10.57	2.35	13.54
MSCI EM NR USD	-7.96	16.19	-6.66	17.70
FTSE NAREIT All Equity REITs TR	8.50	14.35	1.27	18.27

our portfolio construction methodology takes what is initially a binary “Buy vs Sell” decision and turns it into a multifaceted basket where value can be added throughout the rest of the allocation. Whether the individual trade in Emerging Markets turns out to be correct or not, the return stream of the classes that are increased after the sale play a large part in the overall value of the system. The true value can be seen in the purposeful over and underweighting of classes through time. We attempt to reduce exposure to down trending areas while increasing the allocation to stronger ones.

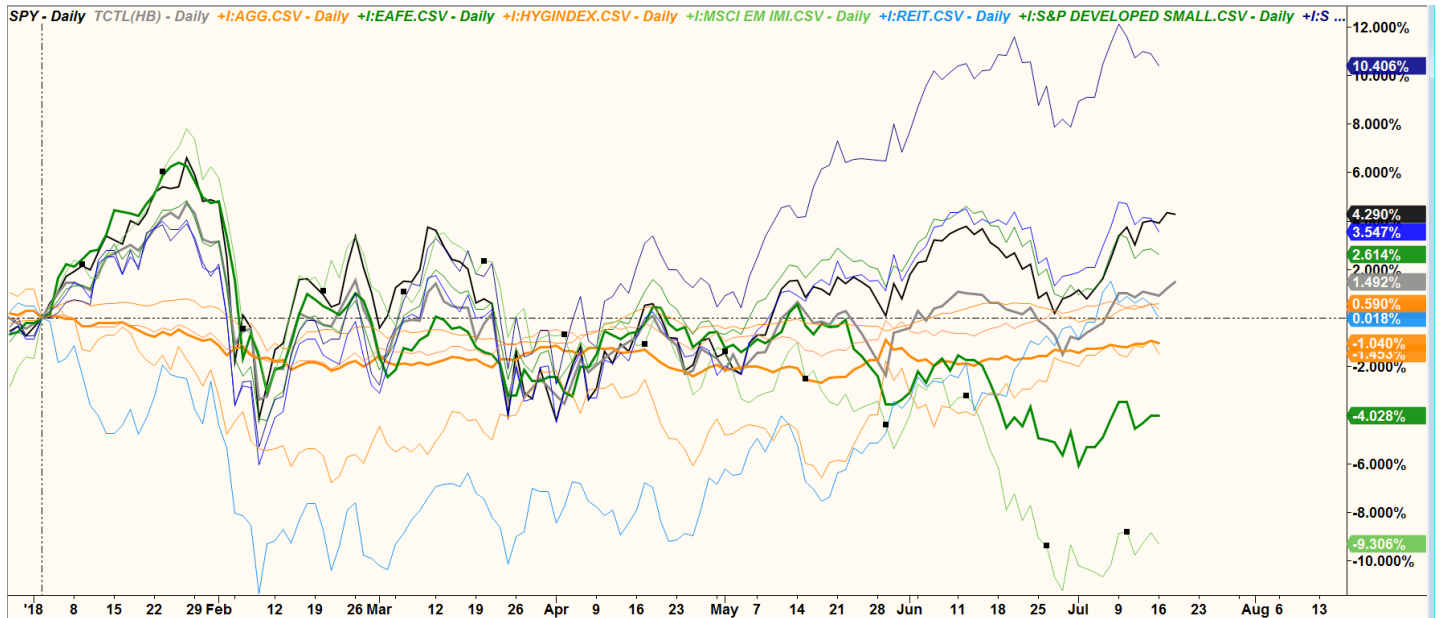
The last quarterly report spent some time on the effect of rising interest rates on our portfolios as the quarter ended with us ex-

iting many of the more interest rate sensitive classes. During the 2nd quarter, we saw some of these classes strengthen, and we added them back to the portfolio. As the accompanying return bug shows, High Yield, Real Estate, and Inflation Protected all showed strength during the quarter. With this strength, negative trends reversed according to our indicators, and we reallocated our strategies back into these classes. As stated in the last update, there is a balancing act that happens in fixed income classes between decreasing prices caused by increased rates with the additional return created by that rate increase. We use the *total return* of these classes in our allocations, which considers both the price change and the interest component, so our



Premise Capital 2nd Quarter Continued

trend analysis acknowledges the balance, and makes decisions accordingly.



We will continue to monitor the fixed income classes, as well as all the classes that make up our diversified tactical portfolios in the future and adjust the portfolio accordingly. Thank you again for your continued confidence in the team at Premise Capital.

Jason Rolence

Partner

