

Premise Capital 3rd Quarter Investment Commentary

Premise Investors,

The third quarter ended with a small sell-off in an otherwise strong trend beginning from the Christmas lows reached in the 2018 year-end sell-off. The S&P 500 charged from below 2400 at year-end to above 3000 at the beginning of the 3rd quarter. These gains did not occur without pain as various news stories (fed rate decisions, geopolitical moves, etc.) caused multiple large drawdowns during

	YTD		Q3 2019	
	Return	Std Dev	Return	Std Dev
BBgBarc US Agg Bond TR USD	8.52	3.97	2.27	4.89
BBgBarc US Treasury US TIPS TR USD	7.58	4.74	1.35	5.04
BBgBarc US Treasury 20+ Yr TR USD	20.20	13.74	8.15	18.13
BBgBarc US Corporate High Yield TR USD	11.41	3.50	1.33	3.10
S&P 500 TR USD	20.55	16.09	1.70	17.87
S&P MidCap 400 TR	17.87	18.57	-0.09	20.59
S&P SmallCap 600 TR USD	13.46	20.84	-0.20	22.30
MSCI EAFE NR USD	12.80	11.12	-1.07	11.07
S&P Developed Small TR USD	14.90	14.32	-1.50	14.36
MSCI EM NR USD	5.89	14.68	-4.25	15.08
FTSE Nareit All Equity REITs TR USD	28.49	15.28	7.73	15.27

Investment Growth

Time Period: 8/1/2018 to 9/30/2019



— S&P 500 TR USD

the year. As the S&P chart shows, there was one large retraction at the end of the second quarter, and two smaller drawdowns during the third quarter. Each rally seems to stall out at the 3000 level for large domestic equities. We are watching this level very closely, as a strong round number can be either a *resistance top* or a *solid breakthrough level* as old resistance becomes new support.



Premise Capital 3rd Quarter Continued

As the domestic markets have run to highs, not all markets have seen the same success. International, Emerging markets, and Small Cap have all increased but have moved up slower than other equity classes. As a result, our portfolios have been underweight those classes relative to the other equity classes. Overall, our portfolios are only slightly under their maximum equity to fixed income ratios as we've seen markets moving toward all time highs.

The more conservative models have seen good returns this year as fixed income classes have again bucked the "rates have to go up and bonds will sell off" thinking that has plagued the bond markets for the last few years.

In reference to the return table above, one thing that we would like to note is that our YTD numbers seem to be below the approximate "average" of the model classes. While this is apparent in the YTD numbers and will continue for the rest of 2019, *you must remember that we exited the markets during the sell-off in November and December of 2018 and did not participate in the rally at the beginning of this year.* The effect of the risk-off move enabled us to side step the drawdown and re-enter the markets near where we had previously exited. So, most models remain close to the overall numbers experienced had we not decreased our equity positions. With the calendar year falling in the middle of our risk reduction allocation, our results show us trailing since January 1st. However, we did not take the large drawdowns at the end of 2018, so the net effect is that we ended up in the same place.

While returns are close to where they would be had we not exited, we cannot understate the importance of protecting on the downside and smoothing the return path, i.e. the investor's experience. Reducing risk when there is a heightened potential for a life changing market sell-off is a key part of our philosophy. Reducing the 'cost' of making the exit trades is what our strategy is trying to achieve. So, while the YTD numbers seem to imply underperformance, the returns from last November until now tell the true story of the benefit of our tactical system. Not taking the full brunt of the risk, while keeping near the return of the 'buy and hold' model is exactly how we are managing the models. No one can tell when the next sell-off will continue downward into a 2000 or 2008 type of drop, but we believe our methodology is the best way approach this uncertainty.

The Diversified Tactical approach is essentially a risk mitigation strategy. We believe that if investors own our models over a full market cycle, both Bulls *and* Bears, they will capture enough of the upside and protect enough of the downside to have a chance at producing excess returns over their benchmark to meet their goals.

Thank you again for your continued support in Premise Capital.

The Premise Team.

