Premise Capital
STAY ON THE CURVE™

Premise Capital Investment Commentary

Premise Investors

	Q2 2016		1/1/16 - 7/31/16	
	Return	**Std Dev**	**Return**	**Std Dev**
Barclays US Agg Bond TR USD	2.47	3.88	5.98	3.65
Barclays US Treasury US TIPS TR USD	2.24	5.35	7.16	5.29
Barclays US Treasury 20+ Yr TR USD	9.94	16.37	18.64	15.38
Barclays US Corporate High Yield TR USD	4.29	5.18	12.01	7.60
S&P 500 TR USD	5.82	15.89	7.66	18.37
S&P MidCap 400 TR	7.14	19.55	12.56	21.51
MSCI EAFE NR USD	0.62	28.21	0.42	25.20
MSCI EM NR USD	5.16	19.77	11.77	23.06
FTSE NAREIT All Equity REITs TR	13.65	15.43	18.10	19.76

It seems like every time a quarter ends, there is some unfinished business that takes a few weeks into the next period to see how our decisions play out. The second quarter is no exception, as we end the month of June almost completely rebounding to the pre- Brexit highs. Since it is now a few days into the third quarter, we see that we ended up not only breaking through the prices set before the Brexit sell off, but also going through the all time highs set over one year ago. Our decision to go back into the equity markets at the beginning of the quarter has turned out to be a good one as we have participated in the rally to new highs. We also started the quarter with our models in a decreased equity position and enter the markets after a small down move. That, along with the continued underweight of Developed International and Emerging Markets helped us outperform as the equity markets moved to highs. I would like to use this price action to make a few points about benchmarking and returns, and their relationship to the "active vs. passive" management debate.

I know everyone likes a "win", and it's good to have statistics that show how well you have done versus a benchmark or some other metric through time. The financial advisors and investing public have been conditioned to look at periodic time periods and judge a manager's skill by looking at the performance of the fund versus the benchmark. This paradigm has been reinforced by the "active vs. passive" debate as investors question the cost of paying advisors and advisors look for managers that "beat" benchmarks so they can justify their fees.

The whole system works perfectly to feed itself. Every quarter, the manager of one class might underperform the index or benchmark, and the advisor may replace them with someone who outperformed. There will also be winners that the advisor can present to the clients and justify their position in the fee structure. All the while, the passive managers are trying to sell the investor on the concept of just investing in the index itself and avoiding the "beauty contest" all together.

The main problem with this method of judging asset management is that it spends no time on the most important aspect, asset allocation. No where in the discussion do the active or passive managers talk about why or how much exposure to the classes is needed when creating the portfolio. Active managers try to beat passive benchmarks and passive managers try to match the returns as cheaply as possible. This battle looks like the whole war when you are in a "buy and hold" diversified basket at a given risk tolerance. All the heavy lifting is done at the asset allocation and the little battles of "active and passive" are a side show propped up by the marketing machines of large financial companies.

The reason we started Premise is because we believed that asset allocation was dynamic and needed to include adjustments to the market conditions of each class, and not set in stone unless client risk tolerance changed. We couldn't ignore the whole concept of "expected return" when creating a diversified portfolio and felt the industry abandoned the research in the name of expediency. The next step in passive management was to simply create a diversified basket of index funds and ignore the advisor all together, and that is the exact void filled by the robo-advisor.

There are times when buying and holding are better than tactically changing the portfolio, as we saw at the end of last year, and in the first quarter. Likewise, there are times when adjusting the portfolio has the advantage. As stated in last quarter's update, the asymmetrical distribution of returns and fat left tails have necessitated the diversified tactical style that we employ, as the price action in the last 16 years has shown that drawdowns in static allocations are much greater than anticipated. We believe that managing portfolios with our methodology will be superior over full cycles, and the fact that our style has not been commoditized by robots is a side benefit to advisors using our portfolios.

Thanks again for you continued confidence in Premise Capital.

Jason Rolence CFA