Premise Capital 4th Quarter Investment Commentary

Premise Investors,

2017 turned out to be quite a year for the equity markets.

Just a short year ago, 2016 closed with unsteadiness and anxiety stemming from election concerns and "overvalued" equity markets. Consider that on Dec 31st, 2014, the S&P 500 closed at 2058.90. Almost two years later, on Nov. 4th of 2016, the SP 500 closed at 2085.18. That is about a 1.3% return over almost two years, and that was the best performing equity asset class we use in our broad-based risk tolerance models. Then just some 14 months later, the S&P closed the 2017 calendar year at 2673.61 - an increase of 28.2%!

It is important to remember that we do not "manufacture" gains when the market is going nowhere, but rather, we attempt to take the most out of the general market up moves when they occur, as they did in 2017, while keeping an eye out for potential downtrends. It is also important to remember that we employ a mathematical approach to investing to remove emotions from the decision-making process, and while

	Q4 2017		2017	
	Return	Std Dev	Return	Std Dev
BBgBarc US Agg Bond TR USD	0.39	2.87	3.54	3.37
BBgBarc US Treasury US TIPS TR USD	1.26	3.39	3.01	4.08
BBgBarc US Treasury 20+ Yr TR USD	2.55	11.43	8.98	11.51
BBgBarcrclays US Corporate High Yield TR	0.47	2.17	7.50	2.33
S&P 500 TR USD	6.64	6.70	21.83	8.04
S&P MidCap 400 TR	6.25	8.89	16.24	11.57
S&P SmallCap 600 TR USD	3.96	13.27	13.23	15.11
MSCI EAFE NR USD	4.23	7.30	25.03	9.06
S&P Developed Small NR USD	5.47	7.47	23.31	8.77
MSCI EM NR USD	7.44	11.92	37.28	11.25
FTSE NAREIT All Equity REITs TR	2.48	10.02	8.67	11.55

we don't think our methodology makes the perfect call in all environments, we feel that having a systematic plan can benefit investors over time.

While we did not make many moves in 2017, the ones we made were very beneficial, as staying invested in equities remained the right call no matter how high the market seemed to go. We noticed the strength of the international markets at the end of 2016, and in the first few weeks of 2017 we increased developed international large cap, international small cap, and emerging markets equities in all our models. As the return table shows, we finally broke the multi-year trend of domestic large cap equities outperforming all other equity classes as all three international classes outperformed domestic markets for the year. As mentioned in the

last quarterly update, this is a more normal long-term pattern as classes that have historically provided higher return and risk than domestic large cap equities fell back into line. The models would have done better if not for the lag in small and midcap domestic equities and real estate, but as we have said in the past, these classes are included because we believe there are long-term benefits of remaining in a diversified portfolio along the efficient frontier, and tactically moving in a measured way along that frontier.

This brings up a point I would like to discuss in a little more detail. We speak about using tactical as an overlay to the strategic portfolio as opposed to an alternative asset class, and I would like to add some color to that statement. If we

were purely "tactical" as most people understand and use the term, it could be logical to think the portfolio would make larger moves based on the trend indications of each class. You might wonder why we didn't move more aggressively to international equities, or sell off mid cap or real estate entirely. The answer lies in our definition of Diversified Tactical™. We see tactical as

a purposeful adjustment of the core strategic classes at each risk tolerance level - not as a process of chasing returns by focusing on which classes would outperform others.

We use the term "overlay" because we want to make measured decisions to over and underweight classes in relation to their position in the diversified portfolio using the same mathematics that were used to formulate those weights to begin with. A diversified portfolio is not concerned with which classes beat the others, but is tasked with creating the best return for each level of risk taken by the entire portfolio. While it may be a fun exercise to look back and wonder what would happen if you made an extreme move and put the whole basket in say emerging markets over the last year, we believe that sort of "timing" is exactly the thing you should avoid, as it adds tremendous con-centration risk to the investor and requires a level of preciseness that is not obtainable nor repeat-able over time.

Overlaying a tactical tilt to the strategic diversified portfolio is meant to perform more closely to a 'buy and hold' portfolio when that style is in favor and that is exactly what happened in 2017. In a year when everything shows positive results and defies all negative sentiment, the best thing to do was sit tight and ride it up. If you thought 2500 for the S&P 500 at the end of July was too high and sold, where did you get back in? Are you sitting in cash waiting for the pullback? So, while our portfolios employ techniques meant to mitigate prolonged down moves, in the year 2017 we were able to successfully fulfill our other objective as our models remained close to their 'buy and hold' counterparts. That objective is to take the bulk of the up move while still keeping to the systematic downward protection policies we believe are needed in today's market environment.

There is a saying – "Don't fight the tape". Case in point, 2017. A year that started with so much un-certainty, ended as one of the more unusual success stories in market history.

As always, we will continue to monitor the markets and make updates when necessary. We thank you for your continued confidence in Premise Capital and look forward to a great 2018.

Jason Rolence
Partner