Premise Capital
STAY ON THE CURVE™

Premise Capital 4th Quarter Investment Commentary

Premise Investors,

Happy New Year!

	Q4 2018		YTD	
	Return	**Std Dev**	**Return**	**Std Dev**
BBgBarc US Agg Bond TR USD	1.65	3.06	0.01	3.37
BBgBarc US Treasury US TIPS TR USD	-1.24	3.61	-1.26	3.71
BBgBarc US Treasury 20+ Yr TR USD	1.04	10.45	-2.00	11.27
BBgBarcrclays US Corporate High Yield TR I	-2.24	3.95	-2.08	3.53
S&P 500 TR USD	-6.85	21.30	-4.38	20.54
S&P MidCap 400 TR	-14.08	20.53	-11.08	19.38
S&P SmallCap 600 TR USD	-16.34	23.29	-8.48	21.37
MSCI EAFE NR USD	-11.35	15.23	-13.79	14.35
S&P Developed Small NR USD	-15.78	17.03	-13.80	15.43
MSCI EM NR USD	-8.49	20.16	-14.58	18.94
FTSE NAREIT All Equity REITs TR	-5.25	20.28	-4.04	19.27

Not the end to 2018 that most investors would have liked - broader equity markets finished negative and core bond markets flat (high yield bonds had one of worst years ever), increased market volatility, an inverted yield curve, widening credit spreads, new Congress, government shutdown, Fed rates, etc.

The good news however is that we are now in the second longest U.S. economic expansion ever, at 114 months; only behind the 1991-2001 120-month expansion.

From a market perspective, 2018 was very different from 2017. In hindsight, returns seemed to come easy in 2017, and we experienced relatively few portfolio moves; those moves that we did see did not significantly move the overall equity-to-fixed-income ratios. 2018 saw much more market volatility and trade activity, with the Premise portfolios moving from near equity upper limits in the first quarter to steadily moving out of equity classes and culminating in a “risk-off” position in late November.

2018 ended with volatility and drawdowns that we had not seen in quite a long time. As the third quarter ended, Domestic Equities were near all-time highs. US Large Cap continued its move upward while Small and Mid-Cap equities moved slightly lower after having a solid first three quarters. The Premise portfolios entered the 4th quarter slightly below equity-to-fixed-income target levels, as we had been negative on International and Emerging markets since the second quarter. By late November, it was the first time since our 2012 inception that ALL classes (equity and fixed income) used to create our diversified portfolios were negative, so there was nowhere to go to get return!

Going “risk-off” placed our models at the lowest end of their risk profiles. As all equity classes except US Domestic Large Cap were already negatively viewed before the November move, we were already underweight equities relative to strategic weightings. We also tilted toward low duration, short term instruments, reflecting downtrends in the fixed income classes as well. This risk-off move now was a function of the last of the equity classes moving negative, thus the significant jump down and along the efficient frontier from equities to fixed income.

The fears of inflation and rising interest rates almost immediately turned into fears that the Fed would raise rates into a slowing economy that was weighed down by tariffs, reduced earnings estimates, and disappointing manufacturing data. The fear of rate increases saw us reduce fixed income exposure by lowering the duration of our portfolios. In the past, this had meant earning very little income on short term instruments, but the increased rates have made short and intermediate term instruments more attractive. In fact, we have increased our position in intermediate fixed income early in the new year.

Clearly, the largest adjustment to the portfolios was the risk-off move around Thanksgiving. Models moved to their predefined lowest equity-to-fixed-income-ratios for only the third time since our inception in 2012 after the highs in October dramatically reversed by the end of November. The reversal continued through December as it turned into one of the worst closing months in history, and

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markets ended the year much lower than our exit prices.

After we went risk-off in our models, the S&P 500 dropped almost 11%, and we were able to catch a glimpse of why our tactical style is a vital component to investing in today's markets. While we currently are in a good position on this trade, this is not yet the type of market movement we aim to minimize - our main goal is to ride along in the markets for as long as we can, while still employing techniques to protect from major, prolonged down moves. It is incredible to think that to match the lows in 2000-02 and in 2008-09, the S&P 500 would still have to drop another 30%. Some trades will go our way, and others will not, but the real value is in avoiding equity exposure when there is an increased potential for large losses. This trade, like all our other decisions are not predictions of the future. We take the stance that the increased chance of a potential large down move outweighs the benefits of remaining invested. This is an investment decision that acknowledges the reality that markets will move up and down, and the down moves in the last 20 years have been at devastatingly life changing levels.

This trade ultimately allowed us to beat diversified 'buy and hold' benchmarks for 2018, but as we have said in the past, that is not the short-term purpose of our strategies. Those strategic benchmarks are to keep an eye on how much return and risk is appropriate at individual risk tolerances for the current market cycle. We try to keep our portfolios pegged to those parameters by achieving similar returns and not taking risks beyond them but incorporate a style that is dramatically different to achieve those results.

While our methodology is the same in up and down markets, it might be good to look back at the core investment philosophy, as perspective may be different after the current down move. We've said this before, but it bears repeating, especially since an almost decade long bull market starts to make investors feel invincible, and this rare market environment required us to remove risk from the portfolios:

Our approach uses forward-looking views on individual asset classes to create diversified portfolios that aim to provide an optimal balance of risk and return. Then we go a step further and adjust the position on the efficient frontier to limit the portfolio's exposure to inadequately compensated risk.

We speak about using tactical as an overlay to the strategic portfolio as opposed to an alternative asset class. 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. These larger moves can happen, as evidenced by our recent risk-off move. However, most of the moves are smaller, measured decisions to overweight and underweight classes in relation to their position in the diversified portfolio. Sometimes, investors might wonder why we didn't, for example, 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.

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 a year period, we believe that sort of "timing" is exactly the thing you should avoid, as it adds tremendous concentration risk to the investor and requires a level of preciseness that is not obtainable nor repeatable 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.

With these goals in mind, we also have the following constraints placed on our decision-making process.

1. Remain within the equity/fixed income parameters as defined in each risk-tolerance-based model

2. Always remain in a diversified portfolio without taking concentration risk in any individual equity class

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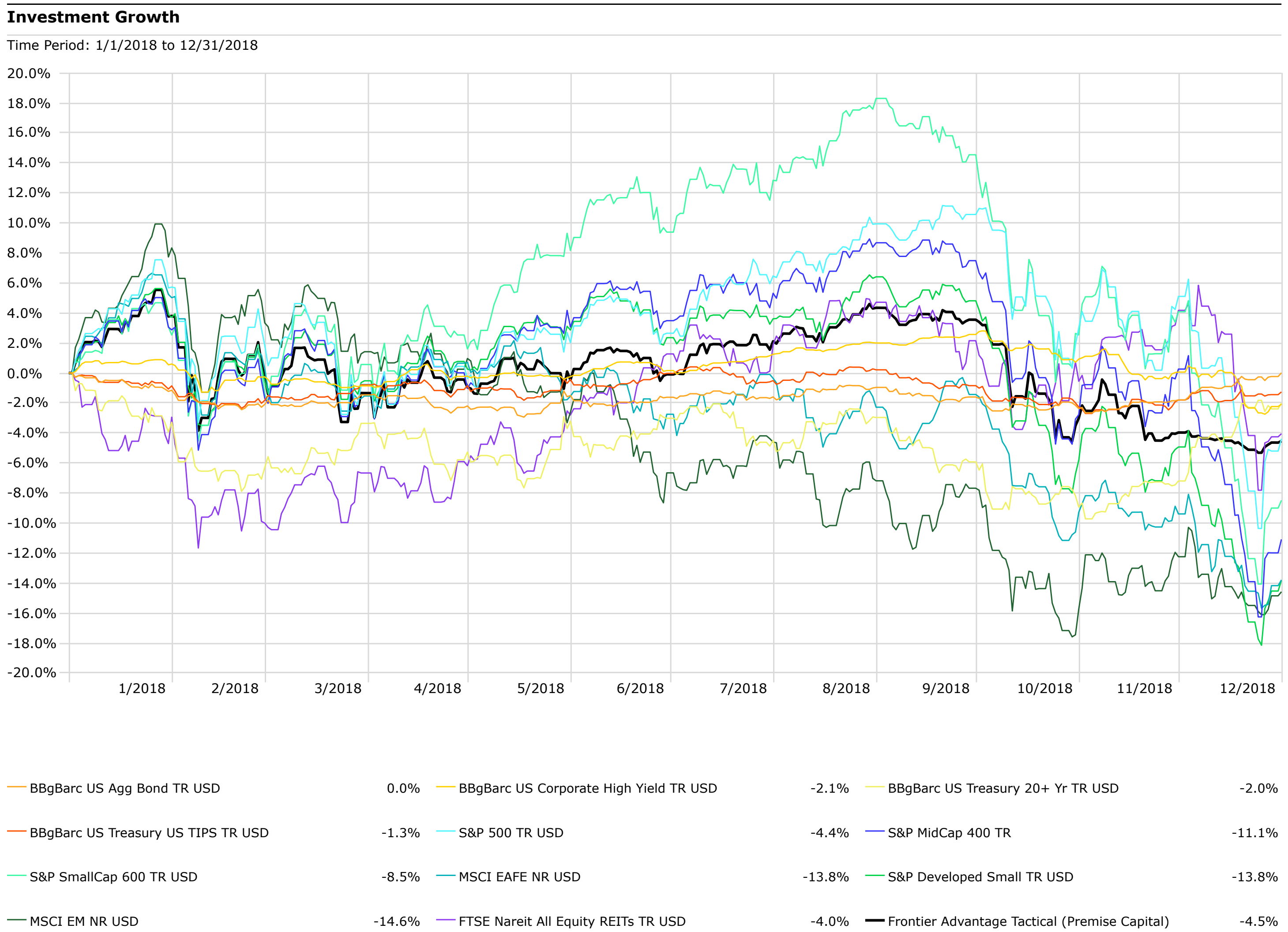
3. Keep as liquid as possible using publicly traded vehicles without leverage, derivative, or short positions

The trades we make and the portfolios that get created from them are carefully designed to achieve these goals under these constraints.

In a year like 2017 when everything shows positive results and defies all negative sentiment, the best thing to do is sit tight and ride it up. So, while our portfolios employ techniques meant to mitigate prolonged down moves, we have also shown the ability to successfully fulfill our other objective – which is to remain close to 'buy and hold' counterparts in broad upward moving markets.

However, in a year like 2018 (see chart below), we see the value of keeping to the systematic downward protection policies that are needed in today's market environment:



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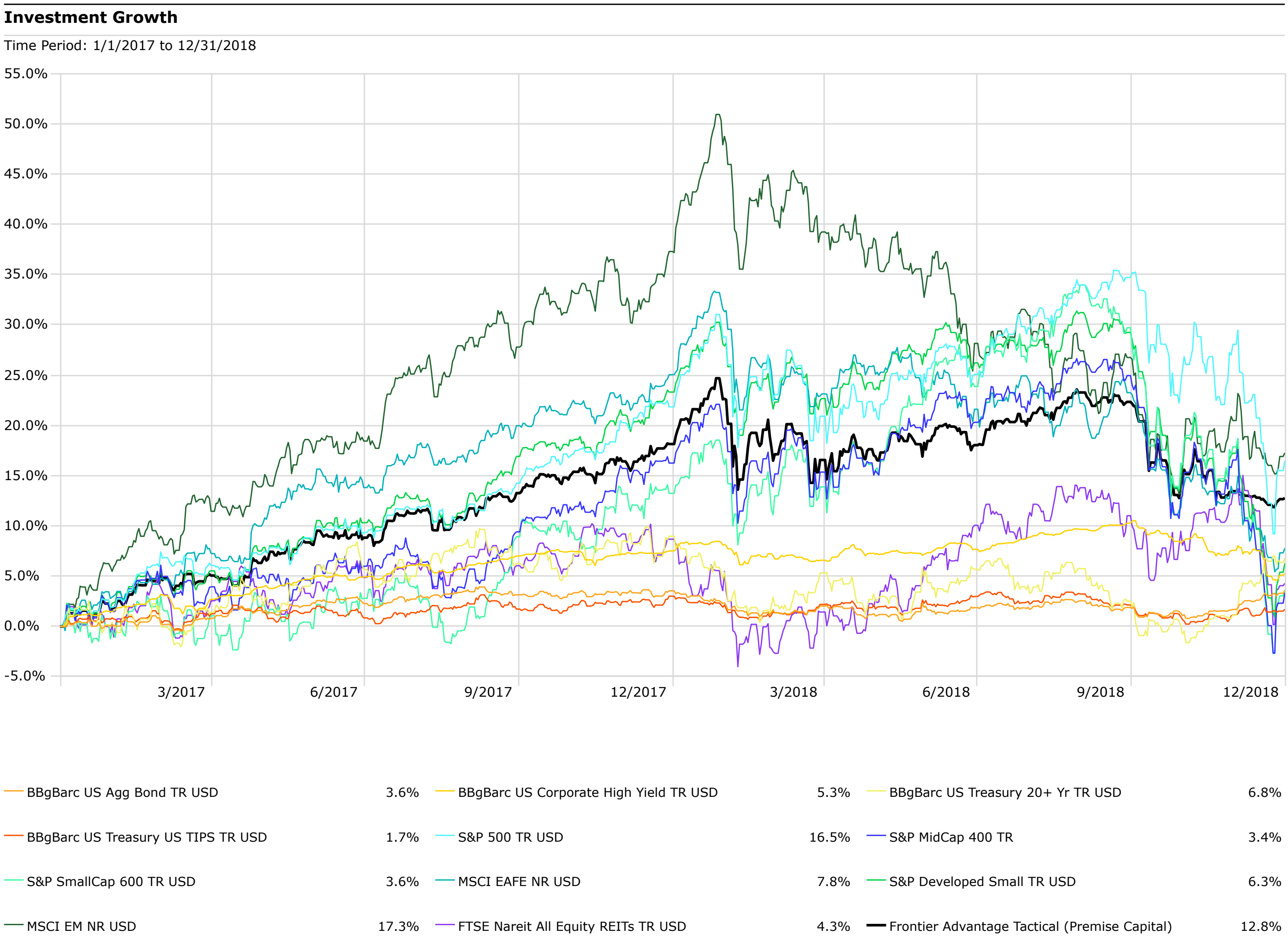
Combining the Premise decisions in 2017 and 2018 (see chart below), you can see the basic "premise":

Attempt to avoid large prolonged market downturns, while providing better long-term risk-adjusted results to an otherwise (buy and hold) strategic portfolio:



Unfortunately for our investment approach, there aren't any good benchmarks to hold us up against. We often use a diversified buy and hold index at a similar risk tolerance, along with the Morningstar US Fund Tactical allocation category, which is a peer group of all managers that describe themselves as tactical. This allows you to see how we perform vs. the 'average' tactical manager while keeping an eye on the comparable strategic basket if you were not utilizing a tactical manager.

To think about this, consider the following two questions when considering a tactical manager.

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In a general market uptrend, does the tactical manager generate a return comparable to a strategic portfolio at a similar risk level? Was the tactical manager positioned more conservatively at an appropriate time when volatility was up and there was a potential downtrend forming?

Looking back on our now over 6-year track record, we firmly believe our overall outcomes have been in line with our goals, despite not seeing the type of dramatic market sell-offs that occurred in 2000 and 2008 and even though we have spent portions of the market cycle that seemed to have the most potential for substantial losses in a risk adverse posture. Despite moving to minimum equity (maximum fixed income) on now 3 occasions during a broader bull market, our models' returns remain very near their diversified buy and hold counterparts over the entire period.

If the markets succumb to a larger sell off, then the current positioning will reward our investors. But whether our positioning becomes just a good trade, or even if the market runs up against us, the 'sleep at night' quotient, which is a portfolio statistic that doesn't show up on benchmark performance reports, has clearly been very high for Premise Investors over the last month of the year.

As always, we thank you for your continued confidence in Premise Capital.

The Premise Team

Disclosure

Overview of Premise Capital and its Model Portfolio Strategies Premise Capital LLC ("Premise") is an investment manager who manages one or more model portfolio strategies as a subadviser or advisor for investors who have selected one or more of Premise's model portfolio strategies. Premise offers the following investment strategy:

§ Tactical – This model can be positioned anywhere along the Efficient Frontier, from the most aggressive, to the most conservative allocation. The portfolio manager can increase and decrease the equity exposure depending on market and economic conditions, with the goal of having a fully diversified portfolio at all times.

Premise began managing portfolios representative of this model on June 1, 2012. All portfolio returns illustrated were calculated using mathematical algorithms. Algorithms do not take into account subjective factors that may influence investment decisions. In addition, mathematical algorithms, attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of algorithms is that historical trends and past performance cannot predict future trends and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry and sector performance.

The returns presented are net of .80% management fees and trading costs.

The value of an investment portfolio depends on the amount of funds added, funds withdrawn, and investment return. In the case of an individual who is no longer adding funds to his portfolio, the relationship between the level of funds withdrawn to the investment return determines the future value of the investment portfolio. If one withdraws more cash out of the portfolio than the return (growth) of the investments, the future value of the portfolio will drop.

Risk and Return:
The portfolios are designed only to provide investors with a reasonable estimate of potential portfolio risk assuming that the portfolios' future risk and return is similar to the portfolios' historical risk and return. Th e returns illustrated do not represent live accounts. The portfolios are composed of an asset allocation of ETFs and Indicies which may include equity, fixed income, and other asset classes. The risk and return characteristics of the ETF and Index Portfolios pass through to the model portfolio which results in the model portfolio having its own risk and return characteristics. Past performance is not necessarily indicative of future performance. While Premise believes that the portfolios' historical returns may be representative of future returns, future returns may be lower. During the historical period, inflation, interest rates, and equity returns may be materially different relative to Premise's future expectations of performance. All investments involve risk. Principal is subject to loss and actual returns will be negative during some time periods. Returns are not guaranteed in any way and may vary widely from year to year.

Asset Class Structure:

Throughout this analysis, dividends are assumed to be reinvested and no funds are withdrawn from the Model Portfolio. All investments are reflective of the actual funds the model invests in. Fees are removed from each of the model portfolios on a pro-rated daily basis. Th e Model Portfolios are rebalanced at the beginning of each calendar year based upon the calendar period year end.

Important Note:
Annual historical model performance and standard deviations are based on historical ETF and Index return data and analysis performed by Premise Capital, LLC. Although Premise believes the data and methods used are accurate, representative, and reliable, no representations can be made about the accuracy of the data, analysis, or conclusions based on the analysis. For further disclosures concerning Premise Capital, LLC, you may request a copy of the Form ADV Part 2A Brochure and Part 2B Brochure Supplement. These documents are filed at Premise Capital, LLC and can be requested by calling our office at (630)596-9911. Additional information about Premise Capital, LLC, is also available on the SEC's website at www.adviserinfo.sec.gov.

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The performance returns shown for periods from June 1, 2012 and later are model based and do not represent actual account performance. All portfolio returns illustrated that are based on market indices subtract fees charged by Premise and customary expenses that may have been experienced by live model strategy portfolios representing each respective market index. Comparative index returns do not have associated fees.