Strategy Review | *Data as of 06/30/2017*

QUARTERLY HIGHLIGHTS

- ***The Absolute Return Strategy model rose modestly for the quarter, as most equity and fixed income strategies were positive***
- ***The strategy model modestly outperformed its benchmark, the HFRX Absolute Return Fund Index, primarily due to its merger arbitrage, intermediate-term bond, and global macro allocations***
- ***Exposure to managed futures and long/short equities strategies detracted from performance***

MARKET CONTEXT | OUTLOOK

Market results for Q2-2017 were once again strong, with non-U.S. equities and emerging markets outpacing U.S. equities, while bonds moved higher led by credit and high yield. Growth outpaced value handily in the U.S. during the quarter, and overseas equities were led by Europe and Asia ex-Japan. Commodities continued to struggle and declined for the quarter; the U.S. dollar weakened further and has given up all of its post-election appreciation. Hedging and lower correlation strategies continued to post modest returns, as a lack of trends and low levels of volatility persisted through much of the quarter, although technology-related stocks ended the quarter with some volatility pickup.

The Trump administration continues to struggle to find its sea legs, whether looking at the pace of executive branch appointments, the advance of significant legislation, or the ability to stay on message. Meanwhile, the Republican controlled Congress drifts rather aimlessly. Valuations are stretched, but not to extreme levels, and earnings have recovered from a multi-quarter negative run. We believe opportunities exist overseas in both developed and emerging markets that have attractive valuations and perhaps better near-term growth prospects. We believe the unnatural calm many markets have experienced recently will be succeeded by more customary levels of volatility. Investors should be prepared by structuring diversified portfolios with an eye toward significant risks that may manifest suddenly.

STRATEGY KEY CONTRIBUTORS | DETRACTORS

- Allocations to merger arbitrage and global macro strategies, as well as intermediate-term bonds, were positive contributors to the strategy's quarterly results.
- Exposure to managed futures and long/short equity strategies detracted from performance.
- The strategy is actively managed with a long-term perspective, so it is reasonable to expect there will be periods when the strategy's results differ from the benchmark in pursuit of objectives over time. Although fairly new, since inception, the strategy model has outperformed its benchmark (after fees).

PORTFOLIO CHANGES

- Equity valuations by most measures are rich, especially in the U.S., although they have not approached the extreme levels of 2000. Interest rates and inflation remain at low levels despite central banks' efforts to raise them.
- Earnings have rebounded, led largely by energy companies. In the eighth year of a mediocre economic expansion, and after years of corporate expense management, share buybacks and other manipulations, the question becomes: how sustainable is the earnings picture?
- A number of market observers and participants are puzzled by the Fed's apparent intent to continue to hike interest rates, despite lackluster economic growth and quiescent inflation.
- During the quarter, we added an allocation to unconstrained credit, reduced the strategy's exposure to managed futures, and replaced a long/short equity fund.

Strategy Summary

The Absolute Return Strategy, on a long-term basis, seeks:

- To provide returns independent of traditional equity and fixed income indices, with a focus on low volatility and minimal downside risk.
- Moderate correlation with stocks (< 0.4)
- Superior risk-adjusted return: (Sharpe ratio > 1.0)
- To diversify your total portfolio's long-only equity and other sources of risk
- Exposure to different sources of return than traditional stocks and bonds

The Absolute Return Strategy is:

- Actively managed by an experienced team of investment professionals, with daily liquidity
- Implemented at lower cost than most alternative mutual funds and illiquid hedge funds
- Invested in mutual funds and ETFs, seeking to provide positive returns in flat or declining markets.
- Typically appropriate as part of a total portfolio, for an investor with a short-to-intermediate investment time horizon, and a low tolerance for risk.

ABOUT OUR FIRM

Palladiem LLC is an independent, employee owned asset management firm that manages global, multi-asset class investment strategies, with an emphasis on alternative investments and active risk management. Palladiem's investment team has 30+ years experience working with high profile institutional clients in the public and corporate pension fund markets, as well as high-net-worth individuals.

The cornerstone of Palladiem's investment process was developed nearly 30 years ago. Refined and revised over time, this process has been implemented at both a major wire-house and managed account provider.

PORTFOLIO MANAGEMENT TEAM

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33 years industry experience

David Feldman
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32 years industry experience

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24 years industry experience

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23 years industry experience

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