Strategy Review | *Data as of 09/30/2017*

QUARTERLY HIGHLIGHTS

- ***The Global Macro Strategy model rose nicely during the quarter, as most equity, fixed income, and alternative strategies were positive***
- ***The strategy model outperformed its benchmark, the HFRX Global Hedge Fund Index, primarily due to its technology, European equity, and quality factor allocations***
- ***Exposure to an online retail equity strategy detracted from performance***

MARKET CONTEXT | OUTLOOK

As expected, Jerome Powell, an existing Fed Governor under Chair Janet Yellen, has been highlighted as the White House administration's choice for the new Chair. The expected outcome of this change should be minimal relative to Yellen's current approach to dealing with labor markets and inflation. However, we would expect more favorable deregulation proposals in the bank and finance area. The Philips Curve looks to be dead (the relationship between full employment and wage inflation), with the U.S. labor market at nearly full employment without a commensurate rise in inflation. As we have stated previously, a shifting labor market from manufacturing to services, coupled with a rapid pace of technological innovation and unfavorable demographics (deflationary), should keep a lid on real wage growth.

Our concerns range from elevated financial asset prices to market complacency. The last several years have been marked by a lack of "productive" capital formation. Equity prices have been driven by the search for yield and non-productive use of capital, such as share buybacks and dividend distributions, rather than capital investment. Opportunities exist longer term in those areas of the global economy where productive capital investment is being made in transforming old business models and funding new R&D. These areas include biotech, machine learning ("AI"), cloud computing, e-commerce and clean tech. Much of that will be predicated on the market's view of future growth, inflation, and debt burdens.

STRATEGY KEY CONTRIBUTORS | DETRACTORS

- Allocations to technology stocks, European markets, quality factor, and emerging market equities were the strongest contributors to the strategy's performance during the quarter.
- Allocations to an online retail equity strategy 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. With 2 years of history, 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. Interest rates and inflation remain at low levels despite central banks' efforts to raise them.
- Bonds and other income producing assets are quite possibly more overvalued than stocks, and we observe some signs of frothiness in certain sectors, such as bank loans and real estate.
- During the quarter, we reconfigured the portfolio to reflect current and anticipated risks and opportunities, while also streamlining the number of holdings and modestly reducing internal expenses.
- We reduced or eliminated exposure to managed futures, bank loans, municipal securities, technology, and value equities, while increasing exposure to fallen angel and crossover bonds, along with introducing a basket of innovation related equities that includes biotech, online retail, cloud computing, and clean tech.

Strategy Summary

The Global Macro Strategy, on a long-term basis, seeks:

- To generate return by attempting to capitalize on broad macroeconomic factors such as interest rates, currency, fund flows, or geopolitical events
- Moderate correlation with stocks (< 0.8)
- 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 Global Macro 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 ETFs and mutual funds focused on alternative asset classes and strategies
- Typically appropriate as part of a total portfolio, for an investor with a long investment time horizon, and a high 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

Donald Robinson
CEO & Co-CIO
33 years industry experience

David Feldman
President & Co-CIO
32 years industry experience

Joseph J. Scavetti, Jr.
Chief Operating Officer
24 years industry experience

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