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

## QUARTERLY HIGHLIGHTS

- ***The Opportunistic Growth Model Strategy performed strongly during the quarter, as most equities and fixed income strategies rose***
- ***The strategy model slightly lagged its benchmark, a weighted average combination of the Barclays Aggregate Bond, MSCI ACWI, and HFRX Global Hedge Fund indices, mainly due to its underweight U.S. equity and value equity allocations***
- ***The strategy's systematic, technology, and quality equity allocations were the strongest contributors to 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

- Systematic equity, technology, and quality equities were the main drivers of positive performance during the quarter.
- Allocations to European and emerging market equities were also positive contributors. Being underweight non-U.S. equities relative to the benchmark was a relative drag on 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 its objectives over time. Before fees, the strategy model has modestly outperformed its benchmark for three years; since inception in mid-2013, the strategy model has modestly underperformed its weighted average benchmark, albeit with lower risk as measured by standard deviation.

## 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.
- We reduced or eliminated exposure to a U.S. equity overweight, quality, technology, and value equities, while increasing exposure to non-U.S. equities, non-U.S. multi-factor equity strategies, and introducing a basket of innovation related equities that includes biotech, online retail, cloud computing, and clean tech.

## Strategy Summary

**The Opportunistic Growth Strategy, on a long-term basis, seeks:**

- To maximize capital appreciation through significant equity exposure
- Similar beta relative to global equities (~ 1.0)
- Superior risk-adjusted return: (Sharpe ratio > 1.0)
- To diversify the portfolio's long-only equity and other sources of risk
- Exposure to different sources of return than just traditional stocks

**The Opportunistic Growth Strategy is:**

- Actively managed by an experienced team of investment professionals, with daily liquidity
- Implemented at lower cost than many multi-asset class portfolios
- Invested in ETFs and mutual funds focused on multiple asset classes, including alternative strategies
- Typically appropriate as a portion of a more aggressive investor's total portfolio, with a long term investment time horizon and a high tolerance for risk.

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## 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

Disclosures: The performance returns discussed represent the results of a model portfolio of the investment strategy only and do not represent the results of actual trading of investor assets. The model performance has inherent limitations. Palladiem maintains the model and calculates the model performance discussed, but it does not represent actual assets. Thus, the performance discussed does not reflect the impact that material economic and market factors had or might have had on decision making if actual investor money had been managed. While model performance may have performed better than the benchmark for some or all of the periods shown, the performance during any other period may not have, and there is no assurance that model performance will perform better than the benchmark in the future. An investor's actual account is managed by the investor or by an advisor based on the model portfolio, but the actual composition and performance of the account may differ from those of the model portfolio due to differences in the timing and prices of trades, and the identity and weightings of securities holdings. Portfolio performance assumes reinvestment of dividends and capital gains and is net of standard advisory fees payable to Palladiem LLC (0.55%) but does not include any other expenses not covered by the advisory fee, which will reduce a client's return. Direct investment in an index is not possible. Index returns assume the reinvestment of dividends and capital gains. Past performance is no guarantee of future results.

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