Fourth Quarter 2018 *Key Takeaways*

What stands out about 2018 is the *breadth* of negative returns across almost every asset class and financial market. It was a very challenging year for our globally diversified active portfolios, driven by sharp declines in international stock markets and underperformance from most of our active foreign equity managers.

But as students of financial market history, we know the headwinds our portfolios have faced over the past few years will eventually turn to tailwinds. Sticking to our process may feel uncomfortable at times, but it's exactly what's necessary to achieve long-term success and avoid the pitfalls of performance chasing and emotionally driven investing.

Our portfolios are positioned to perform well over the medium to long term and to be resilient across a range of potential scenarios. We are optimistic about their potential for strong performance in the years ahead as the headwinds and trends shift.

Over the short term, if the current recession fears are overdone, we expect to generate strong overall and relative returns. Outperformance should come from our foreign equity positions, active managers, and flexible bond funds.

On the other hand, if U.S. stocks slide into a full-fledged bear market, our portfolios have allocations to lower-risk fixed-income and alternative strategies that should hold up much better than stocks. Our new allocation to real assets and overweight to cash will dampen losses. We can then put this capital to work more aggressively at lower prices that imply much higher expected returns. We would also expect managed futures & market neutral funds to widen the margin of outperformance over equities they exhibited in the fourth quarter and contribute positive returns to our balanced portfolios.

However, throughout the history of ClearPath, we've emphasized the importance of having a long-term perspective. As your time horizon lengthens, the range of reasonable expected outcomes narrows, the shorter-term cyclical spikes and dips are smoothed out, and the underlying fundamental/economic drivers of financial asset returns play out. Over the long term, we are highly confident of the benefits from owning a globally diversified portfolio.

Successful investing is a process of consistently making sound, well-reasoned decisions over time, and across market and economic cycles. We believe our diversified, fundamental, valuation-based investment approach meets this definition. As long as we continue to execute our approach with discipline and remain patient during the inevitable periods when it is out of favor, we have no doubt we will continue to achieve successful and rewarding long-term results for our clients.

Fourth Quarter 2018 Investment Letter

Market Recap

From a return perspective, 2018 could largely be considered *the year that wasn't.* Despite a few half-hearted rallies leading into the closing day, global financial markets ended December with the worst annual returns since the great financial crisis. Large-cap U.S. stocks fell nearly 14% in the fourth quarter, wiping out year-to-date gains and ending down 4.5%. Smaller-cap stocks fared worse, falling 20% in the quarter and 11% for the year. Foreign stocks suffered through most of the year, with mid-double-digit year-end losses for both European and emerging-market stocks (despite their relative outperformance versus U.S. stocks in the fourth quarter).

In addition to the equity market declines, what stands out about 2018 is the *breadth* of negative returns across almost every type of asset class and financial market, whether bonds, equities, or commodities. Even core investment-grade bonds were in the red until the final weeks. It was extremely difficult to make money in the financial markets last year.

The lackluster performance of so many asset classes, culminating with the fourth quarter's dramatic U.S. equity decline, is largely due to the uncertainty that prevailed throughout much of 2018. As the year wore on, early positive market indicators such as still-solid U.S. economic growth and declining unemployment numbers were swamped by investors' fears surrounding ongoing U.S.-China trade tensions, political uncertainties in Europe, and continued Fed tightening, among others.

It was a challenging year for our globally diversified active portfolios, driven by sharp declines in international and emerging stock markets and subsequent underperformance from most of our active foreign equity managers. In absolute terms, most investments were negative for the year.

Our fourth quarter portfolio performance also demonstrated the potential risk-management and diversification benefits of our lower-risk alternative strategies and our positions in trend-following managed futures and market neutral funds, as they outperformed U.S. stocks.

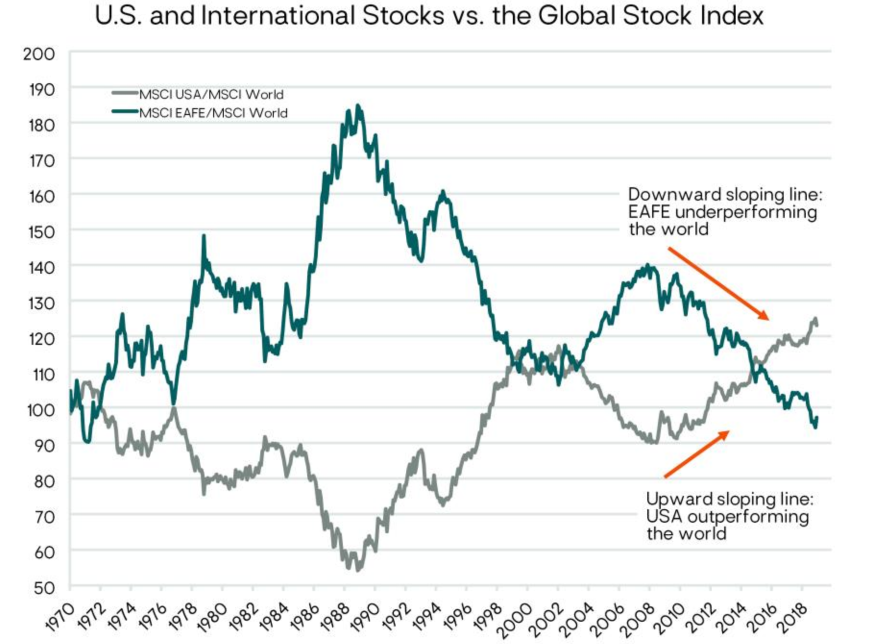
A Consistent Focus

Throughout the history of ClearPath, we've succeeded on behalf of our clients by emphasizing the importance of having a long-term perspective. With a long-term perspective comes the necessity of discipline and patience in sticking to your investment process and executing it consistently over time rather than being subject to swings in investor sentiment and market consensus, which more often than not detracts from returns versus enhancing them.

While today's headlines may be filled with distress signals and warnings of market weakness, it's worth remembering that just one year ago those headlines boasted 20%-plus global equity gains and historically low market volatility. In fact, most investment strategists expected 2018 would bring a continuation of the synchronized global economic recovery. The sharp market pullbacks witnessed this past year only reinforce our view that no one can consistently predict short-term market moves.

Over the next year, the range of potential equity market outcomes is just as wide as it was going into the 2018. Our approach and preparation remain the same. We construct and manage portfolios to meet our clients' longer-term return goals, which means successfully investing through multiple market cycles, not just the next 12 months. Given our current investments, we are confident our portfolios are positioned to perform well over the medium to long term and to be resilient across a range of potential shorter-term scenarios.

If the current recession fears are overdone, we expect to generate strong overall returns with outperformance from our foreign equity positions, active managers, and flexible bond funds. On the other hand, if U.S. stocks slide into a full-fledged bear market, our portfolios have "dry powder" in the form of lower-risk fixed-income and alternative strategies that should hold up much better than stocks. We'd then expect to put this capital to work more aggressively; for example, by increasing our exposure to U.S. stocks at lower prices and valuations implying much higher expected returns over our medium-term horizon.



Source: Morningstar Direct. Data as of 12/31/18.

With regards to U.S. stocks, in the period since the financial crisis, there has seemingly been little need to own anything other than U.S. stocks. But it should be particularly clear after this year (and this past quarter) that isn't a sound long-term approach. The multiyear period of U.S. stock market outperformance versus the rest of world is reaching an extreme relative to history.The results of the past 10 years are not sustainable, and they won't be repeated over the next 10 or 20 years.

Even after their fourth quarter declines, U.S. stocks are still relatively expensive. However, many markets elsewhere are oversold, strengthening their appeal for long-term, value-seeking investors like ourselves. Europe is historically cheap, with a lot of the worries (e.g., Brexit, Italy's political and debt concerns) likely already priced in. And the selloff in Asia has been particularly severe. Here again the market seems to be overreacting to potential risks (e.g., a slowdown in China) rather than reflecting the true value of emerging markets—a vast investment opportunity set that continues to expand at a faster rate compared to developed markets. Despite the risks we see over the short term, we have high conviction that our investments in European and emerging-market stocks will earn significantly higher returns than U.S. stocks over the next five to 10 years.

Our allocations to foreign stocks also provide our portfolios with diversification away from the U.S. dollar. After the dollar's strong performance the past several years, a U.S. budget deficit not seen outside of recessions or war, and the overvaluation we see in U.S. stocks, we believe the U.S. dollar is a risk factor that investors would be prudent to diversify away from.

In Closing

Successful investing is a process of consistently making sound, well-reasoned decisions over time, and across market and economic cycles. Our goal is to provide our clients with the optimal return for the environment we're given and the risk profile of their particular strategy. Given this approach, it is normal, not unusual, for us to go through periods where we will look out of sorts with the broader market. As we continue to execute our approach with discipline and patience during the inevitable periods when it is out of favor, we will continue to achieve successful and rewarding long-term results for our clients, as we have over the life of our firm.

As always, we appreciate your trust in us and welcome questions.