AMGLOBAL

FAMILY INVESTMENT OFFICE

QUARTERLY REVIEW AND OUTLOOK
APRIL 2018

- Global equity markets finished down for the quarter despite a record-breaking positive move to start the year in January and solid earnings reports.
- Bond markets struggled during the quarter as the US Federal Reserve continued its path to higher interest rates and investors grew more concerned about credit markets, finishing the quarter in negative territory.
- Marketable alternatives, represented by the AM Global Core Fund, finished the quarter in positive territory with a small gain, as increased market volatility provided a good environment for hedged strategies.
- President Trump's tariffs and other trade maneuvers injected significant uncertainty into markets and reinforced fears of higher interest rates and inflation.

Market Commentary

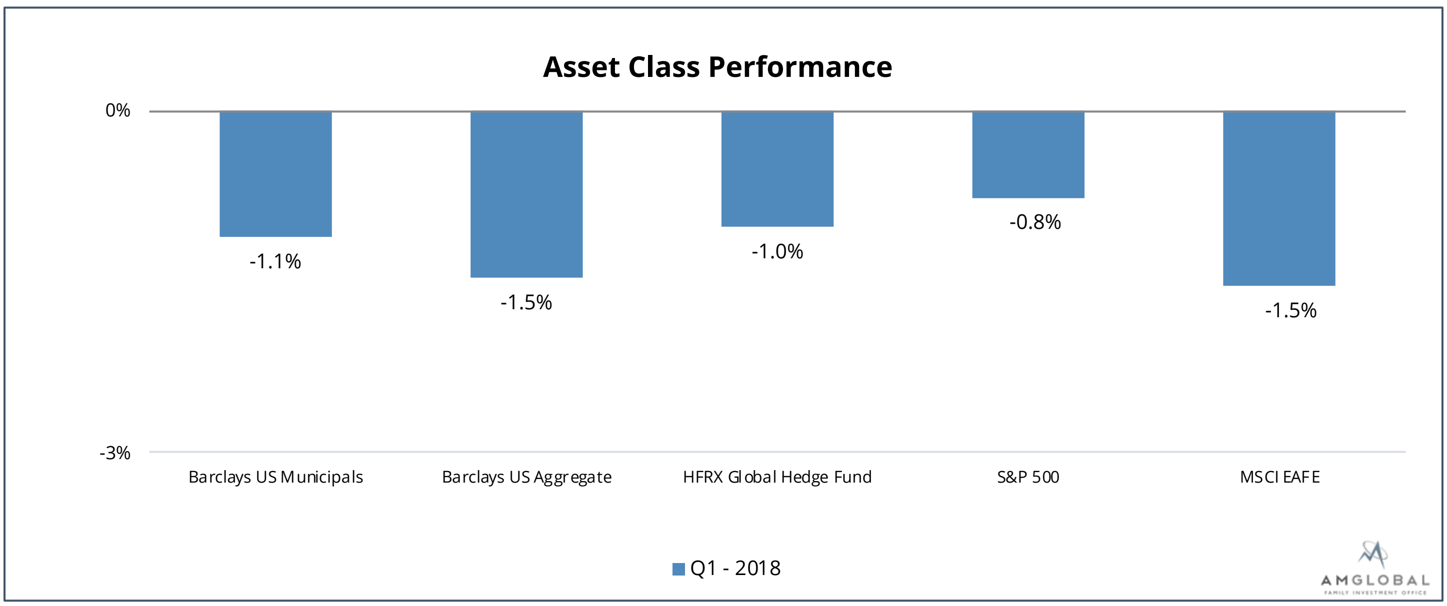
The first quarter began where 2017 ended with happy times for risk-takers. However, just as investor bullishness was peaking at the end of January, credit and equity markets turned to the downside. A combination of factors ranging from trade war fears, higher interest rates, and concerns about a short-term funding crisis (LIBOR – OIS spread widening) all contributed to a very volatile quarter. February and March experienced significant intra-month declines. However, both months recovered substantially from their lows, and the US equity market only finished down -0.8% for the quarter (S&P 500 index).

The dramatic return of volatility in the first quarter was striking as markets were coming off a three-year period in which volatility trended to historically low levels. According to DataTrek Research, the S&P 500 moved more than 1% (up or down) on 23 days in the first quarter, nearly triple the number of such days for all of 2017. Volatility is likely to remain elevated as markets adapt to a changing monetary landscape and geopolitical concerns.

Outside the US, global equity markets followed the US market and finished the quarter down over 1%. While global investors often hope that international markets will decouple from US equity markets when our market falls, that rarely happens. In fact, global equity markets tend to become more highly correlated when the US market falls.

In the bond market, many fixed income strategies experienced declines similar to equity markets as interest rates and credit spreads moved up during the quarter. After taxes and inflation, most traditional fixed income strategies are unattractive to us. One exception to this view is asset backed securities, which continue to perform well. Our exposure to asset backed securities (ABS), including mortgage backed loans, provided positive returns to client portfolios in the first quarter.

The marketable alternative exposures in client portfolios were aided by the volatile trading environment in the first quarter and generated overall positive returns for the AM Global Core Fund. We continue to overweight marketable alternatives in client portfolios as both credit and equity valuations, while better, are not cheap.



However, we have been taking advantage of short-term investment opportunities as they have been presented and will continue to do so. We expect that the combination of our equity and marketable alternative allocations will continue to support each other in volatile market conditions.

What Worked and What Didn't

"History doesn't repeat itself but it often rhymes" – Mark Twain

For the past few quarters, we have been discussing the record low levels of volatility and suggesting that more normal levels of volatility were imminent. We used 2017 as a year to look for tax-sensitive ways to lower equity risk and reduce positions that generated profits in the low volatility period. In our previous letter to clients, we mentioned that we agree with Paul Singer's quote "the current stability is unstable." Ultimately, we have spent considerable time positioning portfolios in a more cautious way to be prepared for a quarter like the first quarter of 2018. We believe this approach was prudent and will continue to mitigate the risk of substantial losses to disciplined investors.

Equity Strategies

US Equity

US equities experienced severe volatility and drawdowns that have not been experienced in more than five years, but these losses were largely masked by a modest decline of -0.8% for the quarter overall (S&P 500). For example, three of the five worst weeks in the past five years occurred in the first quarter of this year (the weeks ending Feb 2nd, Feb 9th, and March 23rd) for a total cumulative loss of approximately -15%. The modestly negative result for the quarter was the worst quarter for US equities since the fall of 2015.

Our manager and investment selection in US Equity performed well relative to the S&P 500 index aside from a material underperformance by our value-based manager. A hypothetical equal-weighted portfolio of each approved US Equity manager at AM Global would have outperformed the S&P 500, speaking well to our views on active management during more volatile periods. However, we all understand the difficulty to achieve this equal-weighted portfolio every quarter due to taxes and other circumstances. But it is still helpful in order to measure the results of our manager selection and combination process.

Manager	Performance (Q1 - 2018)
AKRE Focus US Equity	4.2%
Echo Street Good Co	4.0%
Saratoga Quality Focus Composite*	-1.2%
Lyrical US Value	-3.4%
S&P 500 Index	*-0.8%*

**Based on performance for the overall composite strategy. Past performance is not indicative of future results. Performance values may be based upon estimates and subject to change.*

Energy / MLPs

While most capital markets were relatively quiet last year, energy markets were not and continue to experience tremendous volatility and uncertainty. The sector suffered in stock price performance despite companies in this sector generating good earnings results. The primary reasons for the poor stock price performance were negative sentiment measured by fund flows in and out of energy stocks and a FERC (Federal Energy Regulatory Commission) ruling that was widely unexpected. This ruling concerning tax treatment for midstream energy businesses registered as MLPs (but not C-Corps) injected significant uncertainty into domestic energy markets. Our primary MLP manager, AP Energy Infrastructure, in this space did not fare as poorly as the index, down -7.4%; however, some of our individual holdings fell further. Given this divergence between prices and fundamentals, our return expectations for MLPs have increased though we expect price volatility to continue.

The individual midstream energy pipelines we own have high single-digit yields and are growing their cash flow and distributions at a high single-digit rate per year. We believe these investments will continue to provide better results than the broader energy market.

International Equity Strategies

Our international equity managers slightly underperformed the MSCI EAFE index while emerging market investments turned in a positive result. While three of four liquid mutual fund managers in international equities underperformed over the three-month period, nothing has changed with these managers that has impacted our confidence in their ability to add value over time. Artisan International Value was largely impacted by its overweight to technology and financials in Europe, and their underperformance is not indicative of any flaw in their process. DFA International Small Cap Value underperformed largely due to its capitalization tilt to small cap equities in developed international markets as larger businesses significantly outperformed smaller ones during the quarter.

Manager	**Performance (Q1 - 2018)**
DFA International Small Cap Value	-2.3%
Artisan International Value	-3.1%
MSCI EAFE (Int'l Equity)	*-1.5%*
DFA Emerging Market Small Cap	1.4%
Matthews Emerging Asia	-0.1%
MSCI EM (Emerging Markets Equity)	*1.4%*

Past performance is not indicative of future results. Performance values may be based upon estimates and subject to change. Excluded from the table are Volantis Catalyst Funds I and II which are approved International equity managers but are relatively illiquid due to their focus on micro-cap equities in the United Kingdom. Because of this, these funds are not considered core International equity strategies. These funds were down -10.1% (VC I) and down -0.2% (VC II) in the first quarter of 2018.

Fixed Income Strategies

Non-taxable Fixed Income

Our investment in a high yield municipal bond portfolio fell -0.8% during the first quarter. This compares to the Barclays Municipal Index's return of down -1.1% in the first quarter. The use of higher quality credit securities (over 60% of the portfolio is rated BBB or better) has outperformed the benchmark and other municipal bond mutual fund managers during the first quarter, while investing in higher quality credit risk relative to peers. Early indications of supply and demand suggest that 2018 should set up for a solid year for municipal bond investors.

Taxable Fixed Income

We remain underweight to fixed income investment strategies but, as we have written about previously, our hedged/alternative credit investments are working very well. We remain biased to shorter duration investments and limit our exposure to unhedged credit and interest rate risk. The manager we use in this area of the market, Deer Park, generated substantial gains (net of their hedging costs) in various structured credit markets including commercial mortgage backed securities, Alt-A and subprime loans. The Deer Park STS hedge fund was up over +3% for the first quarter and the more conservatively managed Deer Park Total Return mutual fund was up +0.8% compared to the Barclays US Aggregate Bond Index which was down -1.5%.

Alternative Investment Strategies

The AM Global Core Fund (Class B) advanced +0.2% during the first quarter. This quarter was a good example of how the combination of managers within the fund give us the opportunity to make money while protecting against significant drawdowns. For much of the quarter we maintained a short position in US equity futures as a hedge against market volatility, which helped performance in February and March. This hedge buffered the losses we experienced in more aggressive long-biased managers, such as Glenview (down -7.1%). The Fund's quantitative and market neutral strategies performed very well throughout the quarter with our largest allocation, Echo Street Capital, up +5.0%. Multi-strategy managers also performed very well, with DE Shaw and Elliott up +5.0% and +1.8%, respectively. The Core Fund continues to be concentrated in our highest conviction managers with approximately 60% of capital invested in the top five managers.

During the quarter we also added to Old Peak Asia, a long/short equity manager trading Asian equities. We are optimistic about this new allocation and believe this manager is a good complement to other managers in the fund.

AM Global Asset Allocation Review and Guidance

As we feared, volatility came back with a vengeance in the first quarter and has since stayed at higher levels than we have seen for quite a while. Coming into the year we had already made changes in the portfolio that lowered overall risk exposures to equities. We are currently positioned with an overweight in marketable alternatives, neutral on cash and global equities, including emerging markets, and underweight fixed income. We are pleased to continue to see positive advances in the economy and corporate earnings globally and relatively calm acceptance of higher interest rates at this point in the interest rate cycle.

If this good economic environment continues with *low to moderate inflation,* we would expect equity markets to hold up okay with little risk of significant declines. We are less concerned now, relative to our view last quarter, about overall equity valuations as prices have corrected and earnings have improved.

Entering the second quarter we continue to hold cash and global equities in a neutral allocation position, fixed income underweight, and market alternatives overweight. Our views on fixed income and alternatives have not changed in five years while our international equity and emerging markets has moved from neutral to underweight and back to neutral over that period. Our expectation is that eventually credit will be repriced lower and become much more competitive from an expected return perspective and will then again compete for allocation dollars in our client portfolios. Depending on the market environment when that occurs, we would likely reduce the marketable alternative overweight and/or reduce equity exposure to fund such investments.

AM Global Asset Allocation Guidance
April 2018

Asset Class	Underweight	Neutral	Overweight
Cash		✓	
Taxable Fixed Income	✓		
Non-Taxable Fixed Income	✓		
US Equity		✓	
International Equity		✓	
Emerging Market Equity		✓	
Marketable Alternatives*			✓

**Marketable Alternatives includes alternative investment strategies such as Long/Short Equity, Market Neutral, Event Driven, Distressed, and Global Trading strategies.*

Bitcoin Craze Three Months Later?

Lastly, I mentioned in our year-end letter that, "*Our experience tells us it is time to discuss an investment topic when my kids and their friends text charts and symbols of random investments claiming to be the winning investment. Their only requirement is the company name has the word bitcoin, crypto-currency, or blockchain in the company name or profile.*"

At the height of exuberance in early January the price of Bitcoin was over $16,500; Bitcoin now sits around $6,750 or 60% lower. We bring this back up not to take a “victory lap,” since Bitcoin may very well rise again, but instead to highlight the psychological influences on markets. When everyone is excited that what has worked recently will continue to work with 100% certainty it’s usually time to sell (or at least not buy more). This logic extends to all markets, not just Bitcoin.

What’s New With AM Global?

There is very little that is new around AM Global likely because we have been very busy over the last few months talking with managers and adjusting portfolios to reflect the ever-changing events and risks in global markets. Just in the first quarter alone, we have held more than 50 manager meetings. It is also tax time, as you know, so we have been busy collecting and distributing tax information related to the investments we have made in client portfolios. Finally, we are in the final steps of migrating our investment reporting from Advent to Addepar. This has been a tedious process of ensuring that transactions and performance is consistent across systems, and we are more than 90% of the way there. We expect to begin rolling out new reporting shortly, and then expanded online access for clients to view and download custom reports related to their portfolios.

On a final note, we were happy to be named “Best Multi-Family Office (Under $2 Billion)” by Private Asset Management Magazine. You may recall that we were named the “Best Newcomer” back in 2014 by the same magazine, so we feel like this award captures the progress we have made over the last four years. We appreciate all of the support and direction we have received from our clients to get us to this point and look forward to the future.

Best regards,

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- **Barclays Aggregate Bond:** Composed of U.S. investment grade fixed rate bond market, including government and credit securities, agency mortgage pass through securities, asset backed securities, and commercial mortgage based securities.

- **Barclays 5 year Municipal Bond:** Composed of state and local general obligation bonds, revenue bonds, and insured bonds.

- **Citigroup SB High Yield:** Covers much of the below investment grade U.S. corporate bond market. To be included in the index, an issue must be rated speculative (BB+/Ba1) by S&P or Moody's. An issue must miss a scheduled interest payment and allow the 30 day grace period to lapse before it is removed from the index.

- **Merrill Lynch 91 Day U.S. Treasury Bill Index:** Is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue. The issue selected at each month-end is then re-balanced and becomes the outstanding Treasury Bill with the longest maturity. To qualify for selection, an issue must have settled on or before the re-balancing (month-end) date.

- **Morgan Stanley Capital International (MSCI) Europe, Australia, and the Far East (EAFE) Equity Index:** MSCI EAFE acts as a benchmark for 23 developed markets stock markets, approximately 1000 publicly traded companies. The average company has a market capitalization of over $3 billion. The index is presented with net dividends in US dollars.

- **S&P 500:** The S&P 500 consists of 500 widely held common stocks, consisting of four broad sectors (industrials, utilities, financial and transportation). It is a market- value weighted index (stock price times shares outstanding), with each stock affecting the index in proportion to its market value. This index is a total return index with dividends reinvested.

- **HFRI Hedge Fund Index:** HFR utilizes an objective, rules-based methodology that includes over 2000 hedge funds across four main strategies, each with multiple sub- strategies. The index seeks to combine and weight these strategies to provide a representation of the composition of the global hedge fund universe.

DEFINITIONS

Standard Deviation: Standard Deviation measures the dispersal or uncertainty in a random variable (in this case, investment returns). It measures the degree of variation of returns around the mean (average) return. The higher the volatility of the investment returns, the higher the standard deviation will be. For this reason, standard deviation is often used as a measure of investment risk.

Drawdown: any losing period during an investment record. It is defined as the percent retrenchment from an equity peak to an equity valley. A Drawdown is in effect from the time an equity retrenchment begins until a new equity high is reached. (i.e. In terms of time, a drawdown encompasses both the period from equity peak to equity valley (Length) and the time from the equity valley to a new equity high (Recovery).

Maximum Drawdown: The largest percentage Drawdown that has occurred in any investment data record.

Correlation: Correlation measures the extent of linear association of two variables. For example, how related the returns are between investments.

Quarterly Returns: Cumulative return for the specified quarter.

Trailing Twelve Month Return: Cumulative return for the latest twelve months.

Master Limited Partnership (MLP): A limited partnership that is publicly traded. MLP's produce income streams from activities related to the partnership and attributed to infrastructure, natural gas, energy, exploration and pipeline activities.

Real Estate Investment Trust (REIT): An exchanged traded security that invests in real estate activities and distributes cash to shareholders in a tax advantageous manner. There are three main types of REITs: Equity REITs, Hybrid REITs, and Mortgage REITS.

International Equity: Investments in public international companies that are non-US firms. International Equities tend to be domiciled in Developed ex-US countries.

Emerging Market: Investments in publicly traded emerging market countries, emerging market economies are economies that are progressing toward becoming advanced. Common examples of emerging market economies include Brazil, South Korea, and, but not limited to, India.

Long/Short Equity: Long exposure in equities and short exposure in equities. The net exposure of long positions minus short positions tends to have a positive bias to equity markets.

Multi-Strategy: Deploys its underlying investments with a variety of strategies and portfolio managers that are part of the same organization with a single layer of fees.

Global Trading: Strategies that include discretionary trading - using the judgment of human influences and systematic trading - using software and computer programs.

Event Driven: Diversified strategies that participate in opportunities in both corporate debt and equity securities, merger activity, and but not limited to debt defaults.

Special Situations: Broad sub strategy of special situations specific to a current theme. Special situations invest across different events and typically focus in equities.

Market Neutral: Typically establish both long and short positions that neutralize equity market risk and beta. Alpha can be targeted through security selection.