AMGLOBAL

FAMILY INVESTMENT OFFICE

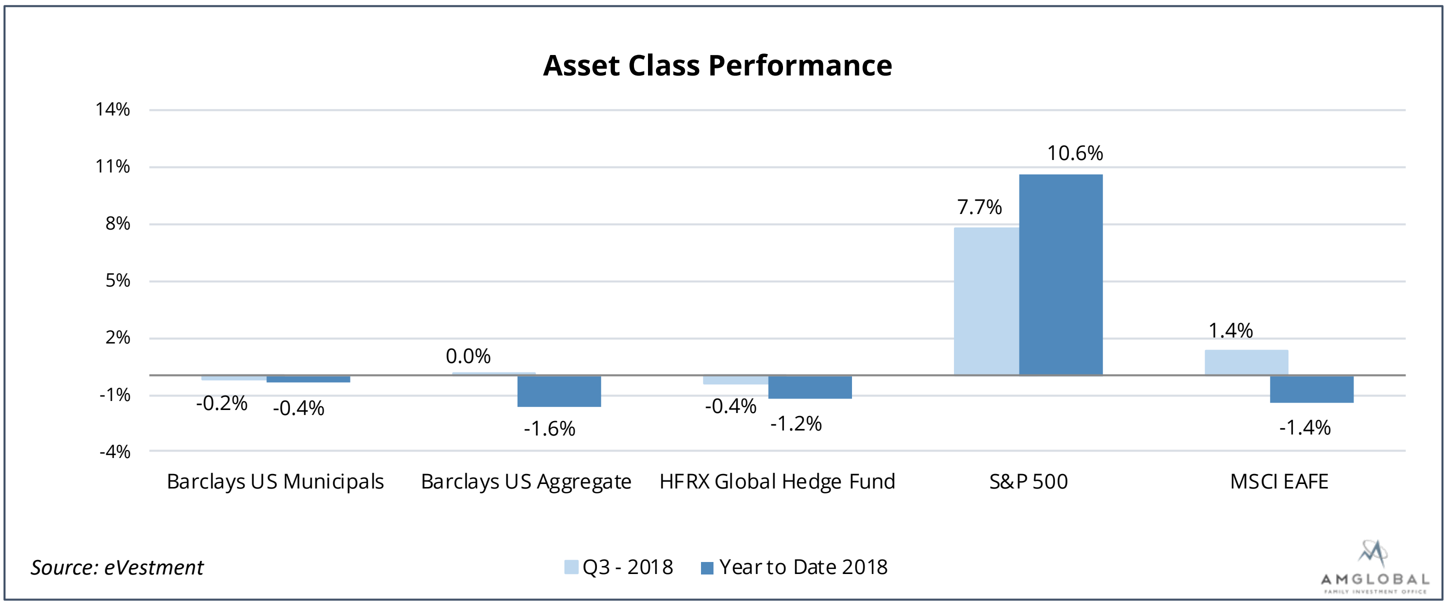
QUARTERLY REVIEW AND OUTLOOK
OCTOBER 2018

- Investor attention is on strong US growth in corporate earnings, employment, and the overall economy
- Given the favorable economic backdrop, US equity markets turned in one of the best quarters in years finishing up +7.7% (S&P 500)
- International equites (MSCI EAFE up +1.4%) could not keep pace with US markets and Emerging markets fell (MSCI EM down -1.1%) as trade concerns weighed on global markets
- Bonds finished the quarter flat (Barclays US Aggregate +0.0%) as interest rates continued to drift higher on the back of strong economic numbers
- Marketable alternatives, represented by the AM Global Core Fund (Class B), finished the quarter in positive territory (up +2.9%) helping to buffer declines in bonds and international equities
- While the US economy continues its impressive growth, the rest of the world appears to be showing signs of slowing economic growth

Market Commentary

After starting the year with muted returns across most asset classes, US equity markets had a record breaking 3rd quarter finishing up +7.7% and are now up just over +10.5% for the year (S&P 500). Investors have seen economic conditions continue to support robust earnings growth for US companies. In addition, monetary policy tightening (higher interest rates) and interest rate guidance by the Federal Reserve has so far contained inflation expectations. While inflation has picked up this year, most notably wage growth, it is not increasing at a pace likely to cause a major change in expectations in the near term. In fact, many economists believe the current level of inflation is a net positive for the overall health of the US economy and consumer. However, with all this good news on the economy comes a likely scenario of continued measured increases in interest rates by the Federal Reserve. This will eventually (our guess is late 2019 or early 2020) curtail economic growth and equity market valuations will need to adjust downward in response.

Credit markets in aggregate were flat (0.0%) for the quarter and remain slightly down year-to-date when looking at the Barclays US Aggregate Bond index. The combination of expected further Fed rate hikes and the need for more Treasury (notes and bond) issuance to finance growing budget deficits could also push yields higher, suggesting caution around long maturities and lower credit quality bonds.



Outside the US, equity markets decoupled from the US market as trade concerns and a stronger US Dollar negatively impacted international equities, particularly emerging markets. These issues, combined with indications that both the European and Chinese economies are slowing, led investors to be less bullish on developed international countries and bearish on emerging market equities. While developed international equity markets were up (MSCI EAFE +1.4%) for the quarter they continue to be in negative territory year-to-date. Emerging markets were more negatively impacted falling -1.1% for the quarter (MSCI EM) and are now down -7.7% year-to-date.

Given the disparity in global credit and global equity markets, marketable alternatives played a positive role as a diversifier to equity and bond portfolios. Marketable alternatives, as represented by the AM Global Core Fund (Class B), finished the quarter up +2.9%, outperforming bonds and international equities, and is now up +3.4% for the year.

What Worked and What Didn't

In our second quarter letter, we acknowledged some heightened market and economic risk factors but encouraged our clients to maintain their equity exposure until further weakness became more apparent. Many of the factors that we discussed became more evident during the third quarter even as US equity markets continued to march higher. For example, we enter the fourth quarter with the 2-year Treasury yield at 2.8% while the S&P 500 dividend yield is1.7% (source: yCharts), a much wider spread than in the second quarter. As this spread differential widens, fund flows will begin to favor credit markets over equities. For now though, the S&P 500 index advancing +7.7% during the third quarter certainly helped lift our portfolios, but we continue to be very mindful and cautious to these looming valuation and market risk factors while also managing tax consequences on portfolio changes. Outside of equities, our overweight marketable alternatives and underweight fixed income proved to be a valuable decision again during the third quarter and year to date.

Equity Strategies

US Equity

US equities and primarily large cap US equities led major capital markets during the third quarter. Many of the leaders within the S&P 500 during the quarter were healthcare and information and technology ("IT") stocks to which our mutual fund managers lacked exposure. As a result, our mutual fund managers slightly underperformed the index. However, Echo Street Good Co Select was able to outperform partly due to its heavy IT exposure. Heading into the fourth quarter, we have seen material outperformance by our core US Equity managers.

Manager	**Performance** (Q3 - 2018)	**Performance** (YTD)
Saratoga Quality Focus Composite*	11.0%	11.3%
Echo Street Good Co	8.9%	20.5%
Fidelity ContraFund	6.7%	16.8%
AKRE Focus US Equity	6.1%	15.1%
S&P 500 Index	*7.7%*	*10.6%*

**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

The Alerian MLP index and the energy sector has made a tremendous turnaround this year. While MLPs suffered heightened volatility and losses in the first half of the year, the Alerian MLP index was up +6.6% in the third quarter and now positive for the year, up +5.9%. This has been helpful to the individual MLPs that we own in portfolios as well as for our manager in the sector, Atlas Point Energy Infrastructure Fund, which was up +7.1% during the quarter and is now up +13.8% YTD. The manager has been able to use this year's volatility to their advantage and as a result outperform the sector index. We continue to think MLPs offer a more attractive risk adjusted total return and yield relative to other publicly traded cash flow generating investments.

International Equity Strategies

Portfolio diversification outside the US and investing in public markets overseas has been a challenging proposition this year. Our guidance has been neutral on international and emerging market indices. While the valuations in these markets are more attractive, they are rightfully so given the more challenging business climates and slower economic growth. Therefore, we have refrained from adding more capital to these markets despite the better valuations and this has been a good decision thus far. Additionally, we have seen wide dispersion in performance within our manager selection.

Manager	**Performance** (Q3 - 2018)	**Performance** (YTD)
Artisan International Value	1.3%	-4.5%
DFA International Small Cap Value	-1.0%	-6.6%
MSCI EAFE (Int'l Equity)	1.4%	-1.4%
Matthews Emerging Asia	-4.2%	-14.6%
DFA Emerging Market Small Cap	-4.5%	-12.6%
MSCI EM (Emerging Markets Equity)	-1.1%	-7.7%

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 up 4.0% (VC I) and up 4.7% (VC II) in Q3 2018.[1]

While trade policy has driven a large amount of noise in overseas markets, the threat of weakening economic growth in some of the largest foreign economies and a strengthening US Dollar has put a great amount of pressure on stocks listed outside the US. As a result, we have remained neutral on investing overseas. While international equities have been suffering, we also have experienced material underperformance this year by our mutual fund managers investing in these markets. The one exception has been the Catalyst Fund II, which is helping to offset the negative performance of our mutual fund managers with a 9.8% positive return year-to-date.[1]

[1]*Performance for the Catalyst funds utilize a September estimate for the GBP share class.*

Fixed Income Strategies

Non-taxable Fixed Income

Manager and municipal bond security selection has been important in the tax-free bond sector this year. Our core manager, Wasmer Schroeder High Yield Municipal Bond, was up +0.4% in the quarter and up +0.7% YTD. The Barclays Municipals index was down -0.2% in the quarter and is down -0.4% year to date. Additionally, a short duration high quality fund that we use, Fidelity Conservative Muni Bond Fund, was up +0.3% in the quarter and up +1.0% for the year.

Taxable Fixed Income

We continue to be underweight fixed income investment strategies, but we have been meeting with more managers in the space as interest rate conditions improve for certain strategies. The alternative credit or structured credit investments continue to work well during a negative year for bond indices. While Deer Park STS declined by -1.8% during the quarter, the Fund is still up +2.2% for the year.[2] The more liquid mutual fund Deer Park Total Return Bond, which consists mostly of mortgage backed securities, was up +1.2% during the quarter and is now up +3.7% for the year.

We remain biased to shorter duration investments. For example, the Barclays Aggregate Index has an effective duration of 6.0 years while the fixed income managers we have been recommending, such as FPA New Income, has an effective duration of 1.6 years. The result has been FPA New Income up +0.4% in the quarter and up +1.5% for year, relative to the Barclays Aggregate Bond Index flat (0.0%) during the quarter and negative (-1.6%) for the year.

Our investments in Real Estate Debt continue to perform. The yield and IRR of this investment improves as LIBOR rises. Kayne Anderson Real Estate Debt Fund is earning a LIBOR + 10.7% yield gross of fees and expenses. Since inception, the fund has generated about a11.5% net IRR with about one third of the principal repaid back to investors.

Alternative Investment Strategies

The AM Global Core Fund (Class B) advanced +2.9% during the third quarter and is now up +3.4% for the year. The HFRX Global Hedge Fund index was -0.4% in the quarter and -1.2% for the year. The dispersion in global capital markets, both across equities and credit, has benefitted certain hedge fund strategies and managers. As a result, the first three quarters of the year have illustrated the importance of manager selection in hedge fund investing. Quantitative trading and market neutral strategies provided a strong

[2]*Performance for the Deer Park STS fund utilizes a September estimate for the I share class.*

tailwind to our collective hedge fund performance. We do not expect these types of strategies to be highly correlated to US equity markets, as they trade globally and across various asset classes.

Since the end of the third quarter and into the beginning of the fourth quarter we have a short position in US equities (within the Core Fund) to help mitigate our equity exposure while US stocks hit all-time highs. As of writing this letter, this hedge in the Core Fund is generating strong profits and we will continue to evaluate the duration of this hedge as markets become more volatile.

In more liquid alternative investments, Blackstone Alternative Investment Fund was also positive during the quarter, up +2.5%, and up +1.1% for the year. The objective and exposures of this fund are similar to the AM Global Core Fund but we expect underperformance relative to the Core Fund due to liquidity constraints and manager selection. The manager has outperformed the index and continues to generate positive performance during a challenging year for global investors.

What Should You Expect Going Forward?

AM Global Asset Allocation Review and Guidance

There are several factors that are presenting a challenge (or soon will be) to markets for 2019, including corporate profit growth in the US, an economic slowdown in Europe and Asia, and potentially negative consequences to wage growth and higher interest rates. Simultaneously, the benefits of fiscal stimulus, primarily tax law changes, are waning. In fact, the current monetary policy (higher rates and reduction in Federal Reserve's balance sheet) coupled with an eventual slowdown in the US economy could become the catalyst for a market repricing (down).

There are worrying trends in some parts of the credit markets. In the investment-grade space, nearly 50% of outstanding issuance, or $2.4 trillion of notional exposure, now carries a BBB rating. This is a large segment of the credit market and, when downgrades begin to happen, will have a big impact on the much smaller high yield market. Around 80% of outstanding leveraged loans are covenant-lite, reducing investor protections by giving companies more freedom in managing their balance sheets more aggressively or selling assets. These are factors we have seen before in prior late stage bull markets, most pervasively in the financial crisis in 2008.

Recent volatility in emerging markets coupled with the underperformance has investors wondering if they should allocate there at all. Portfolio management best practices would argue that in a period where one asset class has dramatically outperformed (US equities) and another has underperformed to a bear market level (emerging market equities) a rebalancing from the winner to the loser would be the right course of action. This practice along with supporting fundamental factors that are compelling make this a strong consideration. The long-term growth prospects in emerging markets are too good to ignore. In addition to valuations, economically speaking, there are several ways for any country to compete globally: (1) attractive demographics, (2) productivity growth, (3) low cost of production, or (4) rich natural resources. Many emerging markets have three or even all four, while most developed countries are lucky to have even two (Source: Byron Wien's October 2018 Commentary).

We are identifying portfolios where we believe an increased allocation to emerging markets is warranted. While the direction of the next few months will be difficult to predict, today seems to be a good long-term entry point for portfolios.

AM Global Asset Allocation Guidance
October 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.*

Entering the fourth quarter we continue to hold cash and global equities in a neutral allocation position, fixed income underweight, and marketable alternatives overweight. We are closely monitoring global equity markets for a possible re-balancing to reduce US Equity and add to emerging market equity. While these are the difficult decisions to make – selling a winner and buying a loser – historically and fundamentally it is usually the correct thing to do. This is not a change we expect to make until early 2019.

Given the low likelihood that US equity markets will continue to rally the way they have and the high likelihood of limited returns in credit, we have been actively sourcing investment opportunities that do not need a strong equity or bond market to generate a consistent competitive return after fees and taxes. We have identified two investments that are less liquid, offer current income/yield, and exhibit very little if any correlation to equity markets or bond markets. We are currently completing our diligence process and if we move forward we will determine which portfolios these strategies would fit nicely and complement existing positions.

What's New With AM Global?

Everything is rolling along nicely here at AM Global. It was a very busy summer, mostly on the road visiting clients and investment managers. As you might imagine, most people do not come to South Florida in the summertime – even those that technically live here. Thankfully, summer is over and we think we can feel the weather starting to change. On a personal note, we (Colin) welcomed a new member to the AM Global family, a brand-new yellow Labrador Retriever named "Otis". Colin is already busy training Otis in the art of manager due diligence.

We are looking forward to a very busy fourth quarter and, hopefully, a good closing to a good year.

Best regards,

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- **Barclays US 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 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.