THE VIEW FROM THE SUMMIT

REBALANCE COMMENTARY

In our most recent rebalance, we executed a de-risking of the portfolio. Prior to the rebalance, our volatility was close to 90% of the volatility of the S&P 500 Index® (SPX). Volatility spiked in February and with the possibility of rising inflation and anti-trade tendencies, we expect additional episodic spikes in volatility in the upcoming quarters. The increase in volatility has resulted in two primary changes during our portfolio construction process. First, the increase in volatility created a greater spread between the minimum volatility portfolio (MVP) and the SPX volatility level, creating more investable options. Second, the risk curve changed. In our construction process we seek to maintain an optimal position on the risk/return curve. To that end, we optimized the portfolio to diversify and reduce risk.

The low volatility of the past year has created a very narrow volatility spread, limiting the ability to reduce risk. However, after this rebalance, our expected volatility is approximately 80-85% of the benchmark. In addition, our model signaled that we could significantly improve our alpha. The rebalance resulted in a higher turnover. As a result, we nearly doubled our alpha expectation while reducing risk.

From a factor exposure standpoint, we made a slight rotation during the rebalance. The rotation follows the theme of reducing risk in the portfolio. We increased our exposure to high quality companies with high profitability, while decreasing our exposure to riskier stocks. We also rotated back in, slightly, to higher yielding value-based stocks. Owning higher growth, momentum, and tech names helped us tremendously over the last few quarters, but in the spirit of risk reduction, we decreased that exposure slightly.

RECENT STOCK ACQUISITIONS

Comcast Corp. (CMCSA, $36.15, 1.72% weight) is a $168B market cap company based in PA that serves 29M customers offering video streaming, television programming, high-speed internet, cable television, and communications services. The company trades at a reasonable valuation of only 14.4x this year's earnings of $2.52/share with a dividend yield of 2.10%. During the past year revenue grew 5.1%, EBITDA grew 6.2%, EPS grew 18.4%, while also generating significant free cash flow of $9.6B. The company is well diversified with broadcast television accounting for 34% of revenues, cable networks 31%, filmed entertainment 20%, and theme parks 15%. The Chairman and CEO, Brian Roberts, has run the company for 14 years. *In addition to a strong quantitative alpha score, a thorough fundamental review of the company displayed no "red flags" regarding litigation risk, business deterioration, industry competition, regulatory risks, management quality, or numerous other idiosyncratic factors.*

Centene Corp. (CNC, $105.24, 1.02% weight) is a $18B market cap company based in Saint Louis, MO that serves 10.4M people as a multi-line managed care organization that provides Medicaid and related programs. Medicaid contracts serving 1,400 hospitals and care facilities in 24 states accounts for 75% of total revenue. The company trades at an attractive, below market valuation of only 14.7x this year's earnings of $7.15/share. The company recently increased its 2018 EPS outlook by +26%, driven by tax savings and higher expected public exchange membership. Chairman and CEO, Michael Neidorff has run the company for the past 14 years. *In addition to a strong quantitative alpha score, a thorough fundamental review of the company displayed no "red flags".*

Quest Diagnostics Inc. (DGX, $104.72, 0.74% weight) is a $14B market cap company based in Secaucus, NJ that operates a national network of full-service diagnostic testing laboratories and over 2,200 patient service centers. The company is the world's leading clinical lab performing diagnostics on over 160M specimens each year. The company trades at an attractive, below market valuation of only 15.9x this year's earnings of $6.60/share with a dividend yield of 1.91%. Revenue of $7.7B is expected this year while EPS growth should exceed 16.4%. Free cash flow generation is likely to exceed $920M in 2018. The Chairman/President/CEO, Stephen Rusckowski has been running the company for over six years. *In addition to a strong quantitative alpha score, a through fundamental review of the company displayed no "red flags".*

RECENT STOCK SELLS

Aetna Inc. (AET, $174.63, Sold, formerly 2.30% weight) is a $57B market cap company based in Hartford, CT that provides healthcare, dental, and related benefits serving group insurance customers. The stock had been a phenomenal success rising over 100% from a 2016 low of $94.31 to a 2018 high of $193.74. Recently, CVS Health announced a friendly definitive merger agreement to acquire all outstanding shares of Aetna for a combination of $145 cash and 0.8378 CVS shares of stock per each Aetna share. The combination would create a behemoth healthcare company. The merger completion date is expected to be December 31, 2018. In the meantime, fundamentally, the shares of Aetna will trade in synchrony with CVS. *Therefore, we sold the shares as quantitative and fundamental analysis of Aetna are completely contingent on CVS Health shares going forward. We thus sold the stock according to our sell discipline.*

Northern Trust Corp. (NTRS, $108.02, Sold, formerly 1.04% weight) is a $24B market cap company based in Chicago, IL that provides investment management, asset and fund administration, fiduciary, and banking services for corporations, institutions, and affluent individuals. The company has nearly $10 Trillion in assets under custody/administration and $1.1 Trillion under direct management. The stock had nearly doubled from a low of $54.50 in 2016 to a high of $110.70 in 2018. *While there were no identifiable fundamental weaknesses in Northern Trust, our rigorous quantitative process generated a less attractive alpha score. Likely, the higher beta, 1.15 versus the S&P 500 Index, and higher valuations made the stock less quantitatively attractive than other candidates. We sold the stock according to our sell discipline.*

Verisign Inc. (VRSN, $126.93, Sold, formerly 0.73% weight) is a $12B market cap company based in Reston, VA that provides domain name and internet security services. The company maintains its exclusive grip on website naming rights under agreement with ICANN and the US Department of Commerce. The stock had been an outstanding performer over the past two years rising from a low of $74.20 in 2016 to a recent high of $126.93. *While there were no identifiable fundamental weaknesses in Verisign, our rigorous quantitative process generated a less attractive alpha score. Likely, the higher than market valuation of 29x this year's earnings made the stock less quantitatively attractive than other technology related candidates. We sold the stock according to our sell discipline.*

While we remain optimistic about this rebalance and the opportunities within the U.S. equity market, we remain focused on monitoring the risk of individual companies and the overall portfolio. During these times of continued uncertainty, we believe the strategy will continue to provide a managed risk approach to equities, seeking the return of equities with significantly lower risk.

Sincerely,

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