A VIEW FROM THE SUMMIT

- SGI 2018 Summary
- SGI Strategies
- Market Commentary
  - Market Volatility Returns
  - The Federal Reserve
  - The Wake of the 4th Quarter
- SGI Outlook

SGI 2018 Summary

2018 was an excellent year for outperformance for the firm, especially for the U.S. Large-cap Low Volatility strategy. Here are some major 2018 highlights for this strategy:

- Outperformed the S&P 500 by 5.52%
- Outperformed the Morningstar Large Blend peer group by 6.45% (1350+ competitors) to finish in the 3rd percentile.
- Outperformed the S&P 500 and Morningstar Large Blend Peer group in all 4 quarters independently, showing remarkable consistency.

SGI equity strategies take a managed risk approach to equity investing. This managed risk focus has historically allowed investors to enjoy **competitive equity performance** while taking **significantly less risk**. For example, historically, our large cap strategy averaged 25-30% less risk than the S&P 500 Index.

SGI Strategies

The market took a corrective turn during the 4th quarter with the S&P 500 Index dropping -13.5%. Active management was particularly challenging across the board, but each SGI strategy outperformed both its Morningstar peer group and its benchmark during the quarter.

SGI Performance	4Q18	1 Yr	3 Yrs	5 Yrs
US Low Volatility Gross	-12.93%	1.13%	9.39%	9.70%
US Low Volatility Net	-13.12%	0.36%	8.66%	8.83%
S&P 500 Total Return	-13.52%	-4.39%	9.25%	8.49%
Small-Cap Low Volatility Gross	-19.61%	-8.80%	9.85%	
Small-Cap Low Volatility Net	-19.77%	-9.43%	9.26%	
Russell 2000 Total Return	-20.21%	-11.03%	7.34%	
Global Low Volatility Gross	-8.79%	-2.15%	9.59%	8.84%
Global Low Volatility Net	-8.94%	-2.79%	9.12%	8.55%
MSCI ACWI Total Return	-12.67%	-8.95%	7.20%	4.85%

Please review our one-page commentaries for each strategy for additional details about portfolio positioning and attribution.

MARKET COMMENTARY

Market Volatility Returns

Volatility returned with a vengeance in the 4th quarter as stocks declined globally. Stock market volatility, as measured by the CBOE VIX Index, skyrocketed from 12.1 at the end of September to a quarter end value of 25.4, representing a gain of 109.7%. This fear index hit an end of day peak of 36.1 on December 24th, delivering an early stocking full of coal to investors.

In the U.S., large-caps (Russell 1000 Index) declined -13.8% while small-caps (Russell 2000 Index) declined -20.2%. International stocks (MSCI EAFE Index) fared a little bit better with a decline of -13.5% and emerging markets (MSCI Emerging Markets Index) dropped just -7.4%.

FAANG stocks were some of the best performers during the bull run over the last decade but were some of the first stocks abandoned during this correction. Facebook declined -20.3%, Apple -29.9%, Amazon -25.0%, Netflix -28.5%, and Google performed the strongest by losing just -13.4%.

Levels	3Q2018	4Q2018	Change
Russell 1000 Index	9146.41	7882.31	-13.82%
Russell 2000 Index	8423.91	6722.15	-20.20%
MSCI EAFE	8054.83	7048.07	-12.50%
MSCI Emerging Markets	2335.38	2162.50	-7.40%
U.S. Aggregate*	3.46%	3.28%	-5.12%
US High Yield 2% Cap*	6.24%	7.96%	27.40%
U.S. Federal Funds Rate**	2.18%	2.40%	10.09%
U.S. 10 Year Treasury**	3.06%	2.69%	-12.31%
U.S. Dollar Index	95.13	96.17	1.09%
WTI Crude Oil Spot	73.25	45.41	-38.01%

* Yield to Worst **Interest Rate

The S&P 500 Energy sector fell -24.4% during the quarter as oil plummeted. Oil, as defined by the WTI Crude Oil spot price, declined 38.0% from $73.25 to $45.41. Oil is driven by supply and demand, and the markets view both drivers as bearish for black gold. Currently oversupply is putting downward pressure on oil whereas the increase

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in a potential economic slowdown has reduced future demand estimates.

The Federal Reserve

Since the first of October it has mostly been all about the Federal Reserve. The Fed commented that interest rates were nowhere near neutral. Raising rates typically signals that the economy is strong, but the rate tone shock turned market sentiment negative. This strong talk took the market by surprise and though the tone has subsided slightly it hasn't been enough, so far.

The Federal Reserve increased the U.S. Federal Funds rate again in December. This was the ninth 0.25% fed funds increase since December 2015, to an upper target of 2.50%. What the Federal Reserve will do throughout 2019 is anyone's guess. The Federal Reserve is projecting 2 increases in 2019, but the market is forecasting a potential for a rate cut! Markets do NOT like uncertainty and unless the Fed proves to be 100% data dependent the market may continue to be volatile.

However, the increase in the short-term interest rate did not cascade through the rest of the yield curve. The U.S. 10 Year Treasury fell from 3.06% to 2.69%. The Yield to Worst for the Barclays U.S. Aggregate Index also fell from 3.46% to 3.28%. This flight to U.S. high quality bonds will typically occur during periods of global economic uncertainty. This economic uncertainty filtered down into the U.S. High Yield Markets as previous low spreads began to widen and returns turned negative.

The Wake of the 4th Quarter

Couple the Fed's tone with a few additional (mainly political) items and markets became skittish at best. When you have economists trying to predict what Trump will do and not what the economy will do it creates uncertainty and volatile markets. With the Secretary of Defense resigning, and the government shutdown, the situation can seem perplexing and certainly perpetuates greater uncertainty.

Due to these measures, some portions of the U.S. yield curve "inverted" during the quarter. An inverted yield curve can often be an early-warning indicator of a future recession. As a leading indicator, an inverted yield curve, on average, has proceeded a recession by 26 months. Extrapolating this out, that would signal that the market is predicting a recession in the Fall of 2020. Though we are not convinced this will be the case.

Because of these events and the subsequent market conditions, our processes resulted in positioning all portfolios to be even more conservative and prudent.

SGI Outlook and Firm Update

- Global GDP growth may take a hit in the wake of trade concerns but will settle back into the 2-3% range.
- The 4th quarter 2018 correction took valuations to very attractive levels.
- The Federal Reserve will become more accommodative by tapering off interest rate increases while reducing its balance sheet.
- Highly indebted companies may experience earnings difficulty with higher interest rates.
- Ongoing trade war will be largely finished in the first half of 2019 and is unlikely to seriously damage the global economy.

We continue to adhere to our disciplined, managed-risk, multi-factor investment process. Over a full market cycle, this approach has historically limited downside risks and allowed for participation in market rallies. We are grateful for the opportunity to help steward your investments.

Sincerely,

Summit Global Investments

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