



# U.S. SMALL CAP LOW VOLATILITY EQUITY

## MARKET COMMENTARY

During the second quarter, equity markets were mixed. Domestic markets performed well while international markets were generally weak and volatile. Emerging markets stocks (MSCI Emerging Markets Index<sup>®</sup>) were the worst performers declining 7.86% for the quarter. Non-U.S. large cap stocks (MSCI EAFE Index<sup>®</sup>) were the second worst performing group, dropping 0.97%. U.S. large cap stocks (S&P 500 Index<sup>®</sup>) returned 3.43%, while U.S. small cap stocks (Russell 2000 Index<sup>®</sup>) were the best performers returning 7.75%. Growth stocks, as a style, significantly outperformed value stocks across all market caps.

The Atlanta Fed GDP Now Forecast Index for the United States, forecasts 3.8% annualized growth for the second half of 2018. We do not see significant signs of a recession in the near term. Even after seven rate hikes since December 2015 the Fed Chairman announced two more rate increases are likely in 2018.

Consumers are clearly feeling good with an all-time high total persons employed of 155.5 million, a new high of \$100.8 trillion in household net worth, and the lowest household debt service ratio, 10.3% in the past 30 years. The Consumer Sentiment Index remained near its highest level in 17 years and the Conference Board US Leading Index rose +6.4% from a year ago.

Although equity market valuations are clearly stretched, we're still finding attractively valued companies in which to invest. After over nine years of an equity bull market, we believe it is time for investors to be proactively prudent by lowering equity market risk using our risk managed approach. We're grateful to you for entrusting us with your investments.

Performance	2Q18	YTD	1 Year	3 Years
S&P 500 Total Return	3.43%	2.65%	14.37%	11.92%
MSCI EAFE (USD)	-0.97%	-2.37%	7.37%	5.41%
MSCI EAFE Small-cap (USD)	-1.38%	-1.06%	12.85%	10.48%
MSCI Emerging Markets (USD)	-7.86%	-6.51%	8.59%	5.98%
MSCI ACWI (USD)	0.72%	-0.13%	11.31%	8.77%
MSCI USA SC Min Vol	7.72%	7.82%	14.71%	14.95%
Barclays Aggregate (ETF: AGG)	-0.16%	-1.66%	-0.47%	1.65%
Barclays High Yield 2% Issuer Cap	1.03%	0.16%	2.62%	5.53%
Barclays Global Aggregate ex US	-4.76%	-1.31%	2.78%	3.22%
Gold (ETF: IAU)	-5.60%	-3.67%	0.41%	1.95%
Oil (ETF: USO)	14.70%	24.36%	58.69%	-8.99%
USD Trade Weighted (ETF: UUP)	5.69%	4.05%	0.97%	-0.03%

## PERFORMANCE CONTRIBUTORS

The **small-cap** factor, with a return of 6.74%, had a strong quarter as smaller caps are more insulated from trade concerns.

The **momentum** factor outperformed with a return of 4.15% despite having a poor June.

**Energy** was the best performing sector, partially due to the spike in oil, returning 20.38%.

**XO Group (XOXO)** appreciated 54.22% as Q1 revenue and EPS beat estimates, driven by growth of marketplace development and increasing local vendor count.

**Inogen (INGN)** appreciated 51.69% as the company raised its full year revenue, EBITDA and EPS guidance, driven by direct-to-consumer sales force expansion and B2B growth.

**Ensign Group (ENSG)** appreciated 36.37% as Q1 revenue and EPS beat estimates, driven by improved same store occupancy.

## PERFORMANCE DETRACTORS

The **value** factor continued its cyclical underperformance trailing the reference benchmark by 2.20%.

**Industrials** struggled during the quarter with a return of .15% due to concerns over trade and the economy.

**Larger small caps** that are approaching mid-caps, underperformed as the market rewarded lower cap companies.

**Emergent Biosolutions (EBS)** declined 4.10% as Q1 revenue missed estimates due to delays in timing of its BioThrax vaccine shipments.

**Yelp (YELP)** declined 6.10% as analysts downgraded the stock citing lack of near-term catalysts to drive meaningful upside to estimates.

**Rambus (RMBS)** declined 6.63% owing to the possibility of lower margins as it invests in its transition from an IP licensing company to a diverse product and technology company.

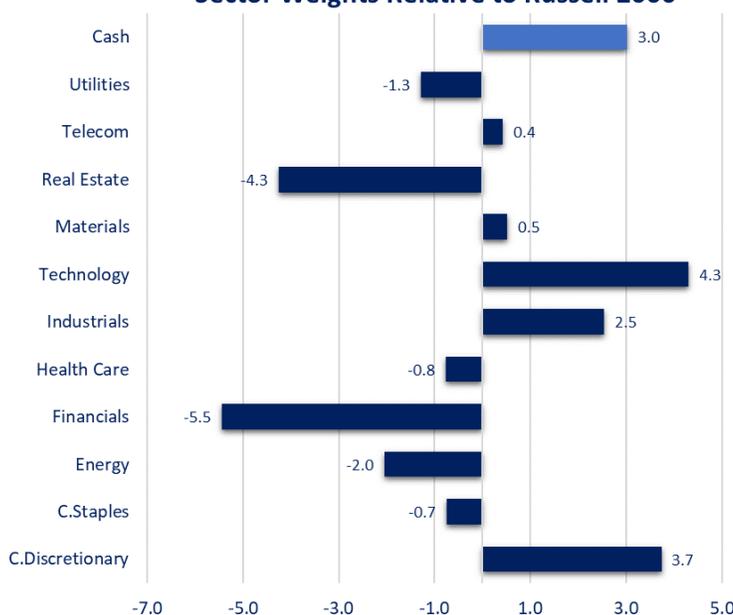


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## MARKET OUTLOOK

U.S. economic growth will remain modest as the probability of a recession remains low. The Federal Reserve will likely increase the Fed Funds rate by 0.25% at least once or possibly twice during the remainder of 2018. Globally, central bank balance sheets will start to decline in aggregate as debt matures, creating a headwind for stocks. Market valuations will remain elevated according to numerous valuation metrics. Total persons employed will remain near all-time highs. After over nine years of an equity bull market, we believe it is time for investors to be proactively prudent by lowering equity market risk using our risk managed approach.

**Sector Weights Relative to Russell 2000**



Characteristics	Portfolio	R2000
# of Holdings	102	2021
Beta(36M)	0.77	1.00
Market Capitalization (\$B)	1.7	2.1
P/E	23.4	19.2
P/CF	18.9	12.7
P/B	3.2	2.4
EV/S	1.9	2.2
Debt/Assets (%)	9.4	22.0
Dividend Yield (%)	0.00	0.15
ROE (%)	11.4	7.7

Top 10 Holdings	Ticker	Position
Carrols Restaurant Group Inc	TAST	1.1%
World Wrestling Entertain-A	WWE	1.1%
Fox Factory Holding Corp	FOXF	1.1%
Ligand Pharmaceuticals	LGND	1.1%
Vonage Holdings Corp	VG	1.1%
Cactus Inc - A	WHD	1.1%
Willdan Group Inc	WLDN	1.1%
Lancaster Colony Corp	LANC	1.1%
Lhc Group Inc	LHCG	1.0%
Enanta Pharmaceuticals Inc	ENTA	1.0%

We believe investing in a low volatility equity portfolio provides more consistent returns with smaller drawdowns along with increased diversification benefits. Prudent disciplined investing is exactly what Summit Global Investments practices. We are honored that you have entrusted us with your investments.

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