ENTASIS ASSET MANAGEMENT

QUARTERLY NEWSLETTER

1Q2017

The first quarter was a busy one for our firm as we continued to evolve our business in ways that increase our ability to deliver more portfolio options and information to our clients.

We established our first set of clients on Fidelity's Wealthscape platform. When we launched our firm we always intended to leverage multiple investment custodians. The logic was to provide clients with the flexibility to choose how to work with us. However, we are investors first. We do not want the distractions that come with an operations intensive business. Schwab and Fidelity are industry leaders with large investment platforms that provide us with access to all the options we need to execute our investment strategies for clients in the most optimal way. We may consider one or two more custodians, but we will stop well short of the dozens that are available.

We solidified our institutional service offering. One of our core beliefs is access. We initially started our business working with individuals. We have quickly learned that many individuals are small business owners or directors on small foundation Boards, to name two examples. In many situations, these small institutions are limited in their access to quality asset management at reasonable costs. We are excited for the opportunity to work with some of them.

Finally, we rolled out our individual investment strategies. Our individual investment strategies utilize the research conclusions we use for Investment Planning clients, but package them in strategies designed to be purchased without any additional financial planning. This gives clients additional choices about how to work with us.

We hope you find a portion of this newsletter useful. Thank you for taking the time to read it. If you have any feedback, it is always appreciated.

Bob

Market Performance

Market Notes

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Research Focus

Client Focus

Click on any button to skip to a new section.

Market Performance

Annualized Returns (As of 3/31/17)

Source: Morningstar Direct

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	17.17	10.37	13.30	7.51
Russell 1000 Index	Mid/Large Cap Stocks	17.43	9.99	13.26	7.58
Russell 1000 Growth Index	Growth Stocks	15.76	11.27	13.32	9.13
Russell 1000 Value Index	Value Stocks	19.22	8.67	13.13	5.93
Russell 2000 Index	Small Cap Stocks	26.22	7.22	12.35	7.12
MSCI EAFE Index	Non-U.S. Developed Market Stocks	11.67	0.50	5.83	1.05
MSCI Emerging Markets Index	Emerging Markets Stocks	17.22	1.18	0.81	2.72
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	12.26	2.46	6.68	3.04
BofAML Preferred Stock Fixed Rate Index	Preferred Stocks	5.95	7.47	6.51	3.08
Barclays Municipal Bond Index	U.S. Municipal Bonds	0.15	3.55	3.24	4.33
Barclays Aggregate Bond Index	U.S. Bonds	0.44	2.68	2.34	4.27
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	0.42	2.01	1.88	3.76
BofAML U.S. Treasury Master Index	Treasury Bonds	-1.47	2.32	1.72	3.96
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	0.18	2.67	2.02	4.17
BofAML U.S. Corporate Master Index	Corporate Bonds	3.41	3.69	4.04	5.39
BofAML U.S. High Yield Master II Index	High Yield Bonds	16.87	4.64	6.85	7.43
BofAML Convertible Bonds Index	Convertible Bonds	22.08	7.25	11.02	8.01
BofAML Euro Broad Market Index	European Bonds	-6.63	-4.76	0.18	2.44
BofAML Local Debt Market Plus Index	Emerging Markets Bonds	2.64	-2.28	-0.87	3.19

Calendar Year Returns (QTD as of 3/31/17)

Source: Morningstar Direct

	QTD	2016	2015	2014	2013	2012
S&P 500 Index	6.07	11.96	1.38	13.69	32.39	16.00
Russell 1000 Index	6.03	12.05	0.92	13.24	33.11	16.42
Russell 1000 Growth Index	8.91	7.08	5.67	13.05	33.48	15.26
Russell 1000 Value Index	3.27	17.34	-3.83	13.45	32.53	17.51
Russell 2000 Index	2.47	21.31	-4.41	4.89	38.82	16.35
MSCI EAFE Index	7.25	1.00	-0.81	-4.90	22.78	17.32
MSCI Emerging Markets Index	11.45	11.19	-14.92	-2.19	-2.60	18.22
MSCI ACWI Ex USA Small Cap Index	8.78	3.91	2.60	-4.03	19.73	18.52
BofAML Preferred Stock Fixed Rate Index	5.21	2.32	7.58	15.44	-3.65	13.59
Barclays Municipal Bond Index	1.58	0.25	3.30	9.05	-2.55	6.78
Barclays Aggregate Bond Index	0.82	2.65	0.55	5.97	-2.02	4.21
Barclays Intermediate U.S. Gov/Credit Index	0.78	2.08	1.07	3.13	-0.86	3.89
BofAML U.S. Treasury Master Index	0.68	1.14	0.83	6.02	-3.35	2.16
BofAML U.S. Mortgage Backed Securities Index	0.46	1.67	1.46	6.07	-1.39	2.59
BofAML U.S. Corporate Master Index	1.42	5.96	-0.63	7.51	-1.46	10.37
BofAML U.S. High Yield Master II Index	2.71	17.49	-4.61	2.51	7.41	15.55
BofAML Convertible Bonds Index	5.75	11.94	-1.15	9.97	26.60	13.63
BofAML Euro Broad Market Index	0.44	0.37	-9.30	-2.48	6.89	12.95
BofAML Local Debt Market Plus Index	5.90	6.53	-12.02	-4.50	-5.75	13.87

How should you use the information provided in the table?

- The returns are not projections. They are historical. Future returns will vary.
- Annualized returns can generally be used to understand historical return trends.
- Calendar returns provide a general understanding of year-by-year return volatility.

Global Market Drivers

There were several notable headlines in the first quarter, but by and large, markets took them in stride. The failure to repeal the Affordable Care Act (ACA) was the primary topic discussed ad nauseam by financial and cable news networks during the period. However, uncertainty regarding tax and regulatory reform and the upcoming elections in several European countries were also at the top of investors' minds. While we do not base our investment decisions on daily headlines or political uncertainty, we monitor developments among a small group of market drivers that may have a longer-term impact on business or economic conditions.

The Economy

At the start of 2017, consumers and businesses were excited by the prospects for an aggressive, pro-growth fiscal agenda coming from Washington. Optimism was tempered by a mix of potential impediments to future growth expectations, which included the possibility of decreased earnings from tightening labor markets and rising wages, from large multi-national U.S. businesses if the U.S. dollar resumes its trend higher and from tighter monetary conditions (increase in interest rates) if growth and inflation accelerate more than anticipated.

U.S. Tax and Regulatory Reform

- With the failure to "repeal and replace" the ACA, some believe that tax and regulatory reform will not progress as quickly as previously expected.
- The positive case is that this proves to only be a temporary stumble. The administration refocuses its efforts on tax and regulatory reform, and the Republican-controlled Congress works through their internal differences to cut U.S. corporate taxes. This results in improved business confidence, hiring and growth initiatives.
- The negative case is that this causes the administration to refocus its efforts on populist issues such as immigration and trade deals. The lack of tax cuts and regulatory reform causes business confidence to wane, which translates to less hiring (and wage growth) and lower levels of investment in growth initiatives.

European Elections

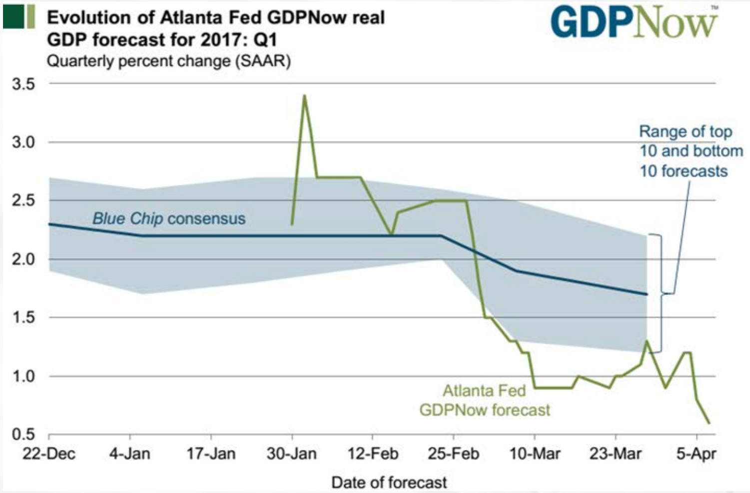
- The "wave of populism" that hit the United Kingdom in the form of "Brexit" (Great Britain's decision to leave the European Union) and the U.S. through the election of Donald Trump, may gain momentum in upcoming elections in France, the Netherlands, Italy and Germany. Based on the outcome of the elections, it may raise the prospect of protectionism and dissolution of the European Union.
- The positive case is that moderate candidates prevail in upcoming European elections, which results in the status quo for the European Union. This allows the European Union to remain intact and short-term economic improvements to continue.
- The negative case is that populist candidates prevail, which leads to protectionism, a dissolution of the European Union and a derailment of short-term economic improvements.

Interest Rates

The consumer and business optimism that dominated first quarter headlines caused market participants to expect an increase in long-term interest rates. Many were calling for the 10-year

Treasury to reach 3.0%. We thought it was more likely longer-term rates would hover near where they ended 2016, or rebound some of their 4th quarter losses. Our view prevailed, as the 10-year ended the quarter at 2.40% - virtually unchanged from year-end.

We didn't disagree with the market's assessment of the impact these policies could have on growth, inflation and long-term interest rates. We disagreed that it would come easily and quickly as most expected. Until there was tangible evidence of new legislation, we anticipated economic growth would likely be in a similar 1.0%-2.0% range as it was prior to the election. We are seeing this dynamic play out in the first quarter when studying the Atlanta Fed GDPNow tracker. It measures the components of quarterly GDP growth as they are reported.



Source: Federal Reserve Bank of Atlanta

Despite the data rolling in on the growth front, the U.S. Federal Reserve (Fed) forged ahead with its plan to normalize interest rates. In March, the Fed increased the federal funds target by 25 basis points and suggested two additional 25 basis points hikes were likely in 2017. With that back drop it's no surprise the yield curve flattened during the quarter.

In the U.S., corporate credit spreads finished the quarter tighter, as signs of improved corporate profitability emerged. Conversely, mortgage spreads widened, as fears the Fed would begin to reduce the size of its balance sheet took hold. Around the globe, a rebound in growth calmed nervous investors, leading to outperformance from non-U.S. credit assets. Yields in the municipal market were extremely stable last quarter. Ten-year tax-free yields traded in a tight 20 basis points range, from 2.15% - 2.35%, during the quarter. The combination of higher yields and lower supply stabilized the market.

Earnings

Corporate earnings and revenue growth continue to show signs of solid improvement, driven by increased confidence among business owners and an overall improvement of business activity around the globe. The S&P 500® Index earnings growth rate for the first quarter is estimated to be +8.9%. If this growth rate materializes (some current growth estimates are more than +12.0% as of the writing of this newsletter), it will be the highest year-over-year earnings growth for the index since the fourth quarter of 2013. Since equity prices generally follow earnings over the long-term, it was not at all surprising to see the market advance in the first quarter.

One negative regarding earnings per share is that earnings can be manipulated through a variety of accounting methods and other means such as share repurchases. Therefore, it is important to see positive developments in other financial metrics, such as revenue growth, to get a better gauge of overall corporate improvement. The good news for investors is that revenue growth has also proven to be strong. S&P 500® estimated revenue growth for the first quarter is projected to be +7.1%, which would be the largest year-over-year revenue growth for the index since the fourth quarter of 2011.

Equity Portfolio Comments

Equity Market Results

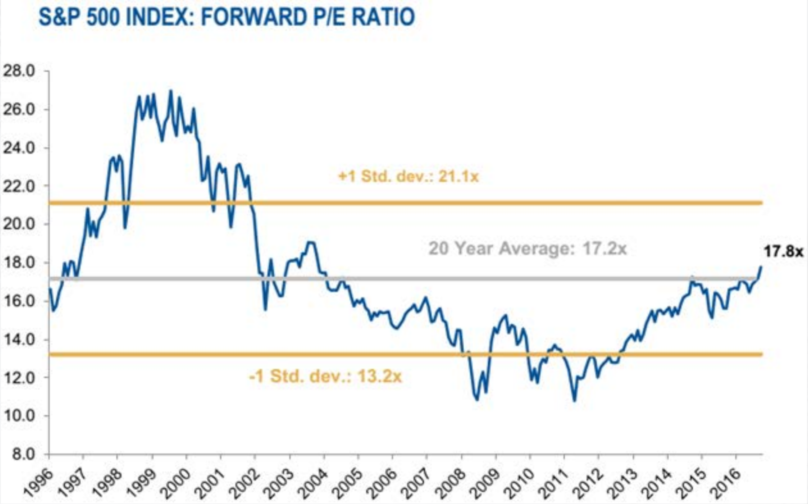
In the first quarter the market seemed less interested in *potential* negative impacts down the road, and more interested in *known* positive developments for businesses and economies. Known positives included strong corporate earnings growth in the U.S. and many other foreign countries, positive economic momentum in emerging markets broadly and Europe, and a synchronization of economic policies around the globe. As a result, global equity markets marched higher during the first quarter. The U.S. equity market was no exception, although leadership within the market changed from last year. Large-capitalization stocks, as represented by the S&P 500® Index, increased by +6.07%, while small-capitalization stocks, as represented by the Russell 2000® Index, gained +2.47%. Leadership between growth- and value-oriented stocks also changed. After significantly lagging value stocks in 2016, growth stocks shot higher by +8.91% (Russell 1000® Growth Index), which was well ahead of the +3.27% return for value stocks (Russell 1000® Value Index).

Foreign developed and emerging markets also finished in positive territory for the quarter. Developed foreign equity markets, as represented by the MSCI EAFE® Index, gained +7.25%, while emerging foreign equity markets, as represented by the MSCI Emerging Markets Index, registered a double-digit gain of +11.45%. One of the major drivers of performance, particularly in emerging markets, was a rebound in the underlying value of currencies relative to the U.S. dollar (strengthening currencies relative to the U.S. dollar is a positive for U.S.-based investors in foreign markets). Many emerging markets have also seen positive improvements in business activity, which translated into an increase in profit growth (for emerging markets as a whole) for the first time since 2014.

Equity Market Comments

From a valuation perspective, the S&P 500® Index's forward P/E ratio (price-to-earnings) rose to approximately 17.8x at quarter-end (17.8x is roughly the amount that investors are willing to pay for $1 of future earnings). This amount is slightly higher than at the end of 2016, and compares to a 20-year average of 17.2x.

If we were to solely base our opinion on the chart to the right, stocks appear to be somewhat expensive today. However, even though the P/E ratio is a useful data point, we will not base our investment decisions on one valuation metric.



Slide courtesy of Neuberger Berman – Investment Strategy and Asset Allocation March 2017. Sources: Bloomberg, as of February 2017. FactSet Monthly data March 1996-Feb 2017. Based on blended NTM P/E estimates.

We know that the equity market will not go up every quarter forever. However, the equity market can continue to move higher for much longer than people anticipate. Experience has taught us that stocks do not simply go down because they appear to be expensive. Rather, they typically go down because something interrupts the corporate earnings cycle and outlook. Simply put, valuation is generally not a catalyst by itself. Valuation can certainly cause stocks to decline much more (and faster) when a negative catalyst surfaces, but in of itself, high valuation levels generally do not cause stocks to decline. Since we do not believe we can accurately predict what a catalyst will be, or when a catalyst will surface, our investment process dictates that we remain fully invested (with few exceptions) in equities and bonds based on the investment policy statement (IPS) we have with each client. Over time we have learned that "getting out" of the equity market (selling stocks and holding the proceeds in cash) early can be just as damaging as getting out late. I.e. Timing tends to be a losing strategy.

Does this mean that we just "sit on our hands?" Of course not, but we focus on what we believe we are good at doing, and avoid destroying client capital by telling ourselves we are good at something that very few people have an ability to do (time the market). If we are concerned about the future prospects of the market, there are a number of ways that we can protect capital in client accounts on a relative basis (compared to their stated blended benchmark outlined in their IPS with us). Three of the ways we do this are outlined below.

- We vary exposure within broad asset classes. For instance, we can make modifications to the amount of assets invested in large-cap and small-cap stocks, growth and value stocks, foreign and domestic stocks, emerging markets and developed markets stocks. This is where the relative value process of our portfolio construction process comes into focus. We can add to specific areas of the market that appear to be relatively inexpensive, while reducing exposure to areas of the market that appear to be expensive (among other factors). All while maintaining our broad equity weight.
- We vary our exposure by investment type, which generally means our exposure to actively-managed vs. passively-managed investment strategies. Historically, actively-managed strategies have held up better during periods of falling equity prices (relative basis) – particularly those we utilize in client portfolios.
- We vary the specific active managers chosen. We can utilize active managers that have historically protected capital (relative basis) during periods of equity market losses <u>and</u> we can invest in active managers that have been relatively weak performers in recent periods (relative performance reversion opportunities).

Client Portfolio Impact

We have made investment decisions in the last year based upon all three of the strategies outlined above and will continue to reposition the portfolio in the future as market conditions and opportunities change. We will not make investment decisions based on what is being trumpeted by the financial media, or by simply "following the herd" because it is easy.

From a positioning perspective, we did not make any large changes to portfolios in the first quarter because our outlook has not changed meaningfully. We continue to have a sizable emphasis on emerging markets equities (over developed equities) in the foreign segment of portfolios, while we remain committed to a relatively larger investment in large-cap domestic stocks (over small-cap domestic stocks).

Overall, we have a cautiously optimistic outlook for the equity market. We believe much of the so-called "Trump Rally" has less to do with the election of President Trump and more to do with positive underlying business and economic improvements in the U.S. and abroad. Regardless, we encourage our clients and prospects to exercise patience and focus on long-term objectives as opposed to short-term market noise.

Fixed Income Portfolio Comments

Fixed Income Market Results

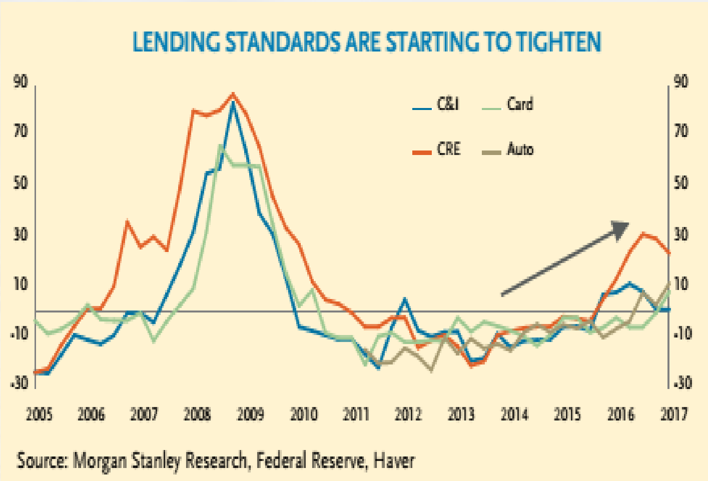
All major fixed income sectors posted positive returns in 1Q17. However, there was a clear line drawn between quality buckets. Below investment grade sectors posted the best results, with local emerging market debt leading the way at +5.9%. Preferred stocks and convertible bonds also posted returns above +5%. While still positive, the AAA-rated sectors generated the worst performance. Mortgage-backed securities and U.S. Treasury bonds both generated sub +1% returns for the quarter.

Fixed Income Market Comments

Over the intermediate-term (12-36 months) we see the risks to economic growth as balanced. There is still the possibility fiscal policy could step in and provide a catalyst to extend the business cycle through fiscal spending and tax reform. However, we are eight years into the current cycle, which is already longer than all but two post-war recoveries and we are starting to see late cycle dynamics take hold such as increasing leverage, relatively higher equity and credit valuations and tightening lending standards.

U.S. Interest Rates

Based on the three scenarios we think are most likely for the economy, our proprietary U.S. Treasury bond model estimates the current fair value range is between 2.3% and 2.8% for the 10-year Treasury bond. This remains consistent with our outlook.



Courtesy of TCW MetWest.

Yield Curve

Despite a modest flattening of the Treasury bond yield curve, it is moderately steep (long-term yields are moderately higher than short-term yields) relative to history. Based on our belief the 10-year Treasury bond is fairly valued, and the market's expectation for two additional rate hikes in 2017, we continue to believe the yield curve has room to flatten.

Sector & Quality Management

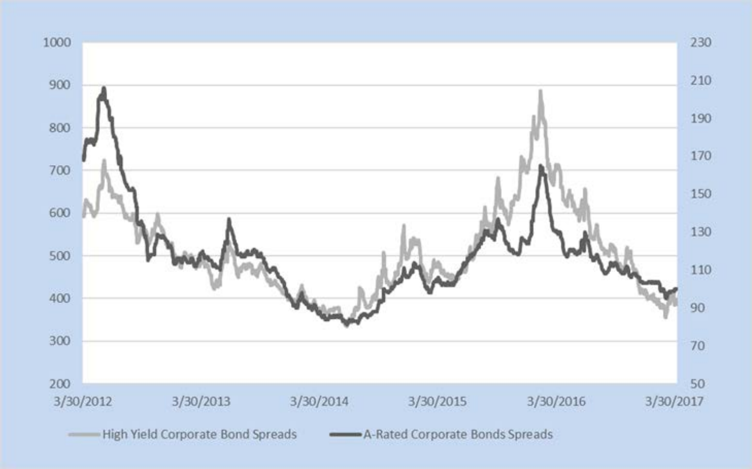
Corporate profits rose in the first quarter, but corporate leverage metrics (the amount of debt a company has) remain significantly above the highs of the last two credit cycles. Even though leverage metrics have been high for some time, the market has brushed off concerns because interest coverage (the amount of earnings a company has relative to interest payments) and cash flow have been strong. However, with the recent uptick in interest rates and increased debt issuance, these metrics have started to decline. Considering corporate fundamentals, such as revenues, profits and free cash flow, and the fact that corporate credit spreads are below long-term averages, and only slightly above their recent recession lows (see the chart on the next page), we don't see much value in the space.

Fixed Income Portfolio Comments

However, we do like non-agency mortgage-backed securities and asset-backed securities. Outside of the U.S., growth and inflation in foreign developed and emerging markets has stabilized, which has created some select opportunities in those areas of the market.

Investment Vehicle Selection

There has not been much change to our outlook for vehicle selection compared to last quarter. We continue to believe the time for using passive management in risky sectors has passed. Going forward, it is our view that active management is likely to win in most sectors of the market, as a rising tide will no longer lift all boats. In this last phase of the credit cycle, issuer selection will be paramount. We anticipate that active managers will have an edge avoiding "blowups" while still being able to find winners.



Sources: Entasis Asset Management, Merrill Lynch.

Client Portfolio Impact

We do not pretend to be able to predict business and economic cycles. Our job is to assess the risks in the market and determine whether we are getting compensated enough to assume them. Currently, we have repositioned fixed income portfolios to a more defensive posture. It is our goal to provide downside protection while we wait for better valuations in credit assets that may result from market volatility.

Our fixed income positioning in client portfolios reflects our views.

- Considering the 10-year Treasury bond is in line with our fair value estimate of 2.3% to 2.8%, we have repositioned portfolios to have a similar level of interest rate risk as their respective benchmarks. However, with rates trending to the bottom-end of our fair value range, we may look to reduce interest rate risk if rates move considerably below 2.3%.
- Given our outlook, the 3-year to 4-year area of the Treasury yield curve is most vulnerable from a total return perspective. We are positioning portfolios to have slightly less exposure to this area of the yield curve than client benchmarks. To keep portfolios in line with their benchmarks from a duration perspective, we are maintaining a slight overweight to the 10-year area of the curve.
- We have scaled back our corporate credit positions and are now mostly neutral to client benchmarks. Where we do have exposure, we continue to favor high-quality bonds over below investment grade securities. We continue to like opportunities outside of corporate credit that we believe offer better late-cycle diversification and better risk-adjusted value. We are currently favoring non-agency mortgage-backed securities, asset-backed securities, local currency emerging market bonds, insurance-linked securities and high-yield municipal bonds.
- We continue to favor active management in sectors that we believe have attractive opportunities. We have also maintained our significant allocation to non-traditional bond funds that have the potential to make money whether interest rates are going up or down.

Research Focus

5-Stars? No Thank You.

Who wants to be average? Our society celebrates champions. When was the last time an 8th place finisher in the Olympics was on a box of Wheaties? Or, the last time an NFL team was invited to the White House for losing in the first round of the playoffs? It doesn't happen. Mediocrity isn't exciting. This type of behavior applies to the investment world as well. Investors and advisors want to invest alongside winners. And there is no award that we see trumpeted by investment managers more often than their Morningstar Rating™ for Funds (Star Rating).

<u>Morningstar Star Rating</u>

Morningstar has a full Fund Rating Methodology paper available on its website and a link is provided in the disclosure of this newsletter. In quick summary, a mutual fund's Morningstar Star Rating ranges from one star to five stars in its Morningstar Category peer group. The rating within each peer group is based on a normal distribution of risk-adjusted returns: one- and five-star ratings are awarded to the bottom and top 10% of funds (respectively), two- and four-star ratings are awarded to the next 22.5% of funds (up and down from the one- and five-star funds, respectively), three-star ratings are awarded to the middle 35% of funds. Mutual funds are awarded a star rating once they have accumulated a three-year track record of performance. As a mutual fund's track record increases over time, a five- and ten-year star rating will also be awarded. Finally, a mutual fund will also be awarded an overall rating, which reflects a combination of three-, five- and ten-year ratings. In layman's terms, better relative performance (risk-adjusted) results in more stars.

<u>The Flaw in the Stars</u>

Before we spend some time talking about the flaws of the Star Rating, we have to mention that Morningstar does acknowledge that the ratings are based on historical results. In fact, they specifically state that "the Morningstar Rating is intended for use as the first step in the fund evaluation process. A high rating alone is not a sufficient basis for investment decisions." We agree. Completely. The problem is most investors and advisors don't care. This is the major flaw. The pull to invest in winners is too strong. Plus, it's a seemingly easy way for investors and advisors to take a massive shortcut on actual due diligence and research of mutual funds.

The logic is usually presented very simply. "Why would I invest in a one-, two- or three-star fund when I could invest in a four- or five-star fund? The four- and five-star funds ***must*** be better." There is plenty of data available that provides evidence of the consistency of this type of investor behavior as well. The chart at the top of the next page is from a September, 2016 Vanguard study, "*Reframing investor choices: Right mindset, wrong market.*"

Charles (CJ) Batchelor, CFA
Chief Investment Officer - Equity

Summary

We utilize passively-managed and actively-managed investment strategies in client portfolios.

We do not try to time market cycles or make "bets" on asset classes. We strategically adjust portfolios at the margin to take advantage of secular trends we have identified through fundamental research.

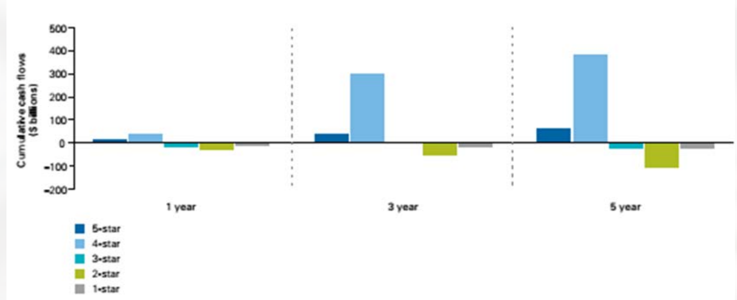
Out of favor investments are the starting point to our research. An investment decision needs to be substantiated and relative weakness understood.

Entasis Maxims

- Be mindful of cycles
- Don't chase performance
- Be patient
- Focus on the long-term
- Stick to a process
- Know your investments

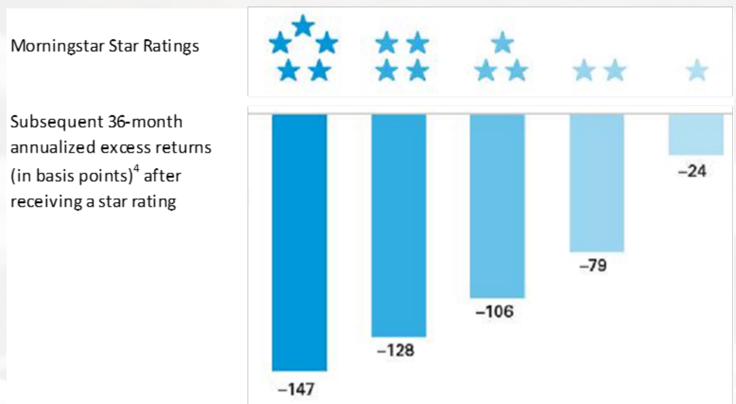
The chart illustrates that after a mutual fund receives a particular star rating, investors begin to pour money into four- and five-star funds and withdraw money from one- and two-star funds. Said another way, investors are chasing good performance and fleeing from weak performance since the star ratings are based on quantitatively-oriented, backwards-looking data.

Figure 6. Cumulative cash flows after receiving a Morningstar rating



Note: Data as of December 31, 2015.
Sources: Vanguard calculations, based on data from Morningstar, Inc.

So, what is wrong with only using the Morningstar Star Rating to select mutual funds? Relative performance for active managers is anything but consistent! In fact, the only consistency when it comes to relative performance, based on our experience analyzing truly active mutual funds, is inconsistency. If an investment has performed relatively well for an extended timeframe, we believe the odds increase for the investment to perform relatively poorly (or not as strongly) going forward (over the short- to intermediate-term). This view is supported by the second chart to the right (from the same Vanguard study noted above).



4. Data as of December 31, 2015. One basis point = 1/100 of a percentage point. Sources: Vanguard calculations, based on data from Morningstar, Inc.

As you can see from the bar chart, the star ratings do not positively correlate well with the future performance for active mutual funds. Based on this Vanguard study, five-star funds underperformed by 147 basis points (1.47%) per year for the next three-year period following the fund's initial five-star rating. Conversely, the weaker performers (fewer stars) tended to perform relatively better.

The Solution

To reiterate, there is nothing wrong with the methodology of the Morningstar Star Rating. The flaw is how it is used. Morningstar has a lot of great analysis tools. We rely on many. However, we would love to see the stars go away. First, investment managers don't need trophies. They are well-compensated. Second, the star ratings encourage bad behavior despite the efforts of Morningstar's disclosure. Many investors and advisors love to invest in winners, which unfortunately isn't a winning strategy. Finally, the star ratings encourage laziness. Investors and advisors use it as a primary research tool too often without any real research or due diligence effort. Again, a losing strategy.

As we descend from our soapbox, we realize the likelihood of the stars going away is almost zero. Therefore, we highly encourage the next best thing – **ignore the stars**. Or, if the pull is too strong, focus more attention on the "losers." And if you have an advisor, do not ever let them trumpet stars as a reason for investment. There are no shortcuts. Research requires effort.

Client Focus

This quarter our Client Focus is an overview of our new strategy. Entasis Dynamic Total Return.

We have begun to work with a mix of clients since we launched the firm. Some are interested in our Investment Planning services and a customized investment portfolio. Others have hired us just for investment management. Dynamic Total Return is our most recent investment management offering. An overview of the investment strategy is included here.

Investment Objective

The strategy seeks long-term capital appreciation. Over a complete market cycle[1] the strategy will pursue returns from traditional equity and fixed income asset classes as well as non-traditional[3] asset classes. Asset class exposure will vary by market opportunity and the outcomes of our research.

Investment Strategy

The Entasis Dynamic Total Return strategy is designed to leverage our core research process to develop a differentiated and largely benchmark agnostic portfolio of investments from four primary opportunity segments: High Conviction Managers, Emerging Managers, Performance Reversion Strategies and Diversifying Investments. Investments may have traits of one or more segments.

Dynamic Total Return Strategy

<u>High Conviction Managers</u>

- Managers where we have a high level of confidence in the potential for benchmark relative outperformance over a complete market cycle
- Investment horizon: Long-term = 5 years+

<u>Emerging Managers</u>

- Managers with a short-term track record that satisfy all qualitative hurdles
- Investment horizon: Intermediate- to long-term = 2-5 years+

<u>Diversifying Investments</u>

- Non-traditional asset classes that are not typically part of an individual's core portfolio holdings
- Investment horizon: Short- to intermediate-term = 1-3 years+

<u>Performance Reversion Strategies</u>

- Investment strategies that have struggled in the short run with long-term potential in tact or high conviction managers in an out of favor segment
- Investment horizon: Short- to intermediate-term = 1-3 years+

Client Focus

Portfolio Construction

- Our traditional investment strategies are constructed using our Core / Completion philosophy, which was developed over time through extensive research into broad asset classes, sub-asset classes, interaction of those asset classes with one another and the probability of active manager success over a complete market cycle. In asset classes where we have determined there is a higher probability of success, we tend to utilize active management more extensively. In asset classes where we have determined there is a lower probability of success, we tend to utilize low-cost passive management to reduce the overall level of fees in portfolios. The Core of portfolios generally refers to an investment in inexpensive passive or broad market U.S. exposure, while the Completion portion of portfolios generally refers to an investment in active managers.
- The Entasis Dynamic Total Return strategy is generally comprised of Completion strategies. We use a proprietary risk model and our fundamental research to establish portfolio position sizes. Our risk model utilizes a combination of forward-looking capital market assumptions, volatility assumptions and relative valuation metrics. The investments that represent our highest fundamental conviction and most attractive risk profiles become our largest positions. We believe this combined approach generally limits bias and allows the strategy to benefit from the return potential of individual investments across a broad range of asset classes while managing risk over a variety of market environments.
- Under normal market conditions, we anticipate that at least 50% of the strategy will typically be invested in traditional equity investments across market-capitalizations and styles. The remainder of the strategy will typically be invested in fixed income asset classes and non-traditional asset classes. Non-traditional asset classes will often include sub-sets of the broad U.S. equity market such as micro-cap equities, sub-sets of foreign equity markets such as frontier markets and higher risk sectors of the fixed income market such as high-yield, emerging markets (U.S. and foreign currency denominated), insurance-linked securities and catastrophe bonds. Non-traditional asset classes may also include commodities, gold, real estate (REITs), closed-end funds, targeted foreign currency exposures, covered calls, global macro, preferred equity and convertible bonds.
- Up to 20% of the portfolio may be in investments that have limited short-term liquidity such as quarterly purchase and redemption periods. During periods of significant market volatility, we may increase investments in cash and cash equivalents up to 20% of the strategy.

Investor Profile

- Long-term investor looking for a differentiated source of potential value creation
- Core asset allocation strategy already in place
- 5+ years of investment experience
- Moderate to high level of investment knowledge
- Comfortable with equity price volatility

Benchmark

- Largely benchmark agnostic
- Blended broad-based global benchmark

Management Fee

0.50%*

*Entasis' fee for investment management does not include underlying product fees or platform fees. Our fee transparency sheet provides an estimate of the total client fee for this strategy. Actual client total fees will vary. Entasis' fee for investment management will be charged as a percentage of "household" assets under management. For the purposes of the fee calculation, "household" assets mean investment accounts managed for a client and client's spouse, partner, minor children and/or disabled adult children. Fees for households with assets over $5M will be negotiated individually.

Our Team

Bob Batchelor, CFA
CEO
Co-Founder

Bob J. Batchelor, CFA is Co-Founder and Chief Executive Officer of Entasis Asset Management. Bob has 19 years of experience in the investment industry. Prior to founding Entasis, Bob worked at Artisan Partners where he held a variety of roles including Head of Corporate Communications, Managing Director, Head of Marketing and Technology and Head of Marketing and Communications. He also served as a member of Artisan Partners Executive Committee. Before Artisan Partners, Bob worked at Strong Capital Management as Client Account Manager and Director of Investment Research and Communication.

Bob holds an M.B.A. from Marquette University and a B.B.A. from the University of Wisconsin-Madison. He has earned the right to use the CFA designation. Bob is a member of the CFA Institute and CFA Society of Milwaukee.

Bob currently resides in New Berlin, WI with his wife Christine and their three children – Courtney, Sam and Charlie.

C.J. Batchelor, CFA
CIO – Equity
Co-Founder

Charles J. (C.J.) Batchelor, CFA is Co-Founder and Chief Investment Officer – Equity of Entasis Asset Management. C.J. has 14 years of experience in the investment industry. Prior to founding Entasis, C.J. worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Director of Investment Research. He also served as a member of Cleary Gull's Investment Policy Committee, Investment Committee and Equity Strategy Group.

C.J. holds a B.B.A. in Finance from the University of Wisconsin-Milwaukee. He has earned the right to use the CFA designation. C.J. is a member of the CFA Institute and CFA Society of Milwaukee, where he currently serves on the Board of Directors.

C.J. currently resides in Muskego, WI with his wife Shelly and their two children – Addison and Ethan.

Mike Peters, CFA
CIO – Fixed Income
Co-Founder

Mike Peters, CFA is Co-Founder and Chief Investment Officer – Fixed Income of Entasis Asset Management. Mike has 14 years of experience in the investment industry. Prior to founding Entasis, Mike worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Fixed Income Portfolio Manager. In his role he served as voting member of Cleary Gull's Fixed Income Strategy Group and Complement (Alternative) Strategy Group. Before Cleary Gull, Mike worked for several years at Madison Investment Advisors, a multi-billion dollar asset management firm, as a Fixed Income Analyst.

Mike holds a B.B.A. in Finance from the University of Wisconsin-Milwaukee. He has earned the right to use the CFA designation. Mike is a member of the CFA Institute and CFA Society of Milwaukee.

Mike currently resides in Oconomowoc, WI with his wife Kristen and their two children – Evan and Eli.

IMPORTANT INFORMATION

Statements may be forward looking and are not intended as specific investment advice without further review of individual circumstances. Commentary, opinions, analysis, and recommendations may be subjective, do not guarantee future performance, and could change at any time without notice. Under no circumstances does the information contained within represent a recommendation to buy or sell any security. Charts and graphs provided are for illustrative purposes only.

This information is provided for informational purposes only and does not constitute individualized financial advice or create an advisor-client relationship. This newsletter is published for the exclusive use of our clients and friends and is not intended as investment, legal or tax advice. This newsletter was prepared using information from third-party sources, which we believe to be reliable; however, we have not audited the data from these sources and are not responsible for its accuracy.

The **S&P 500® Index** is a market capitalization weighted index that measures the performance of 500 leading companies in leading industries of the U.S. economy. The **Russell 1000® Index** measures the performance of roughly 1,000 U.S. large-cap companies. The **Russell 1000® Growth** Index measures the performance of U.S. large-cap companies with higher price/book ratios and forecasted growth values. The **Russell 1000® Value Index** measures the performance of U.S. large-cap companies with lower price/book ratios and forecasted growth values. The **Russell 2000® Index** measures the performance of roughly 2,000 U.S. small-cap companies. The **MSCI EAFE® Index** is a market capitalization weighted index that is designed to measure the performance of developed markets, excluding the U.S. and Canada. The **MSCI Emerging Markets Index** is a market capitalization weighted index that is designed to measure equity market performance of emerging markets. **The MSCI ACWI Ex USA Small Cap Index** is a market capitalization weighted index that represents the performance of smaller capitalization companies in developed and emerging markets excluding the U.S.

The **Barclays Aggregate Bond Index** tracks the performance of intermediate-term government bonds, investment grade corporate debt securities and mortgage-backed securities with at least one year to final maturity. The **Barclays Intermediate U.S. Gov/Credit Index** tracks the performance of intermediate U.S. government and corporate bonds. The **Barclays Municipal Bond Index** is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year.

The **BoAML Fixed Rate Preferred Securities Index** tracks the performance of fixed rate U.S. dollar denominated preferred securities in the U.S. domestic market. The **BoAML Treasury Master Index** tracks the performance of the direct sovereign debt of the U.S. Government. The **BoAML U.S. Mortgage Back Securities Index** tracks the performance of U.S. dollar denominated fixed rate and hybrid residential mortgage pass-through securities publicly issued by U.S. agencies in the U.S. market. The **BoAML U.S. Corporate Master Index** tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market. The **BoAML High Yield Master II Index** is a broad based index consisting of all U.S. dollar-denominated high-yield bonds with a minimum outstanding of $100 million and maturing over one year. The **BoAML All Convertibles All Qualities Index** measures convertible securities' performance of U.S. dollar denominated convertible securities not currently in bankruptcy with a total market value greater than $50 million at issuance. The **BoAML Euro Broad Market Index** gives exposure to euro-denominated investment grade debt publicly issued in the Eurobond or euro member domestic markets including government, quasi-government, corporate, securitized and collateralized securities. The **BoAML Local Debt Markets Plus Index** is a broad composite designed to track the performance of local currency sovereign debt of emerging markets countries.

Past performance is no guarantee of future results. All indices are unmanaged. Investors cannot invest directly in an index. Index returns do not include expenses.

Investment Terms

Valuation levels are typically shown by calculating the price level of an index or a company relative to any number of characteristics of an index or company. For instance, the price-to-earnings valuation metric looks at the price of an index (or stock) divided by the total earnings of an index (or stock). Based on the multiple (in this instance, the multiple is how much investors are willing to pay – the price – for a given amount of earnings), it provides investors with a general sense of how expensive, or cheap, the overall market is at the present time. While there are a significant number of valuation metrics that are used in practice, and many ways to vary/modify the calculation of the price-to-earnings ratio, in this summary we are focused on the price investors are willing to pay (the level of the S&P 500® Index) divided by earnings expectations for the equity market (S&P 500 Index) over the next 12 months. This valuation metric is referred to as the forward P/E.

A yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt.

A basis point is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001).

Morningstar Rating, Risk and Return
Morningstar rates mutual funds from one to five stars based on how well they've performed (after adjusting for risk and accounting for all sales charges) in comparison to similar funds. Within each Morningstar Category, the top 10% of funds receive five stars, the next 22.5% four stars, the middle 35% three stars, the next 22.5% two stars, and the bottom 10% receive one star. Funds are rated for up to three time periods--three-,five-, and 10 years--and these ratings are combined to produce an overall rating. Funds with less than three years of history are not rated. Ratings are objective, based entirely on a mathematical evaluation of past performance. They're a useful tool for identifying funds worthy of further research, but shouldn't be considered buy or sell recommendations. Overall ratings represent a weighted average of specific time period (3-, 5- and 10-year) ratings.

Additional information about the Morningstar Rating™ can be found at the link below.

The Morningstar Rating™ for Funds (Star Rating)

The Entasis Dynamic Total Return strategy summarized in this document may not be suitable for all investors and should not be construed as a solicitation or recommendation for any client or potential client. Under no circumstances does the information contained within represent a recommendation to buy or sell any security. **This information is provided for informational purposes only and does not constitute individualized financial advice or create an advisor-client relationship.** The profile sheet does not take into account a client's or prospective client's particular investment objectives, tolerance for risk, financial situation or needs. An advisor-client relationship is only created by the execution of a management agreement by us and the individual or entity to whom we provide individualized services.

[1]Entasis defines a complete market cycle as an extended timeframe that incorporates positive and negative periods of economic and security markets activity.

Investment Risks

The strategy is subject to asset allocation risk and the risks of the underlying funds and ETFs in which it invests. Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. International investing presents specific risks, such as currency fluctuations, differences in financial accounting standards as well as potential political and economic instability. These risks are magnified in emerging and frontier markets. Fixed income investments entail interest rate risk (as interest rates rise bond prices usually fall), the risk of issuer default, issuer credit risk and inflation risk. Lower-quality bonds can be more volatile and have greater risk of default than higher-quality bonds.

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