

MARKET ADVANTAGE PORTFOLIOS

QUARTERLY COMMENTARY 2018Q1

After starting the year strong in January, global equity markets saw the return of volatility in the beginning of February. After lingering at lows near 10, the CBOE Volatility Index spiked to over 35, hitting a high of 37.32 at the beginning of February before settling back down near 20 at the end of the quarter. In addition to wiping out several volatility-linked securities that were on the wrong side of the spike, this market disruption saw many global equity indices enter or approach classic correction territory, a 10% pull back from highs.

As a result, most, if not all, January gains were erased across February and March. The MSCI Emerging Markets Total Return Index was the one index to buck the trend, posting a gain of 1.4%. The S&P 1500 Total Return Index ended the quarter with a -0.7% loss while the MSCI ACWI Total Return Index dropped -1.0%. On the fixed income side, negative returns were realized despite the risk-off environment occurring in equities. High yield saw the iBoxx USD Liquid High Yield Index move lower by -1.0% for the quarter. The Barclays US Aggregate Bond TR Index managed a loss of -1.5%, while the ICE US Treasury 3-7 Year TR Index finished the quarter with a loss of -0.9%. On the alternatives front, the HFRX Global Hedge Index closed out the quarter with a loss of -1.0%.

TABLE 1 | CEDAR MAPs PERFORMANCE

As of: March 31, 2018 PORTFOLIO	QTD			YTD 2018		
	NET	GROSS	BENCHMARK ¹	NET	GROSS	BENCHMARK ¹
MAP Conservative	-1.94%	-1.57%	-1.25%	-1.94%	-1.57%	-1.25%
MAP Moderate	-2.25%	-1.88%	-1.13%	-2.25%	-1.88%	-1.13%
MAP Growth	-1.77%	-1.40%	-1.01%	-1.77%	-1.40%	-1.01%
MAP Individual Endowment	-1.79%	-1.42%	-0.98%	-1.79%	-1.42%	-0.98%
MAP Alternatives	-1.94%	-1.57%	-1.02%	-1.94%	-1.57%	-1.02%

TABLE 2 | RETURNS FOR INDIVIDUAL MAPs HOLDINGS

Source: Internal, Bloomberg

CATEGORY	TARGET FOCUS	TICKER	12/31/2017	3/31/2018	RETURN
EQUITY	Strategic	ITOT	60.90	60.46	-0.72%
		EFA	70.31	69.68	-0.90%
		DBEF	31.78	30.71	-3.37%
		VWO	45.82	46.98	2.53%
	Tactical	GHSIX	11.02	10.83	-1.72%
FIXED INCOME	Strategic	AGG	108.60	107.01	-1.47%
		MBB	105.83	104.39	-1.36%
		TIP	113.76	112.76	-0.88%
		HYG	86.20	85.29	-1.05%
	Tactical	NTBIX	10.13	10.03	-0.99%
		PWRIX	9.93	9.82	-1.11%
ALTS	PE/VC	LDVIX	14.56	16.19	11.20%
		LDPIX	12.74	12.11	-4.95%
	Absolute Return	GHCIX	11.70	11.91	1.79%
	Real Assets	GHTIX	8.71	7.81	-10.33%

Table 2: Returns for individual MAPs holdings. **NOTE:** Not all portfolios hold all securities. Source: Internal, Bloomberg.¹ The benchmark for MAPs Conservative is 70% Barclays Agg/ 30% MSCI ACWI. The benchmark for MAPs Moderate is 50% Barclays Agg/ 50% MSCI ACWI. The benchmark for MAPs Growth is 20% Barclays Agg/ 80% MSCI ACWI. The benchmark for MAPs Individual Endowment is 10% Barclays Agg/ 90% MSCI ACWI. The benchmark for MAPs Alternatives is the HFRX Global Hedge Fund Index.

TABLE 3 | ESTIMATED PERFORMANCE ATTRIBUTION (gross-of-fees)

Q1 2018		PORTFOLIO	STRATEGIC FIXED	TACTICAL FIXED	STRATEGIC EQUITY	TACTICAL EQUITY	ALTS
MAP Conservative	Return	-1.57%	-1.28%	-0.99%	-1.37%	-1.78%	-4.41%
	Target Weight	100.0%	45.5%	24.5%	13.0%	7.0%	10.0%
	Wtd. Return	-1.57%	-0.58%	-0.24%	-0.18%	-0.12%	-0.44%
MAP Moderate	Return	-1.88%	-1.24%	-0.96%	-1.34%	-1.73%	-4.29%
	Target Weight	100.0%	32.5%	17.5%	19.5%	10.5%	20.0%
	Wtd. Return	-1.88%	-0.40%	-0.17%	-0.26%	-0.18%	-0.86%
MAP Growth	Return	-1.40%	-1.40%	-1.05%	-1.06%	-1.86%	-1.54%
	Target Weight	100.0%	13.0%	7.0%	32.5%	17.5%	30.0%
	Wtd. Return	-1.40%	-0.18%	-0.07%	-0.35%	-0.33%	-0.46%
MAP Individual Endowment	Return	-1.42%	-1.33%	-1.03%	-0.82%	-1.86%	-1.54%
	Target Weight	100.0%	6.5%	3.5%	16.3%	8.8%	65.0%
	Wtd. Return	-1.42%	-0.09%	-0.04%	-0.13%	-0.16%	-1.00%

Table 3: Estimated performance attribution across different portfolio sleeves. Source: Internal, Bloomberg

Looking specifically at the Market Advantage Portfolios, all composites posted negative returns for the quarter, which is not surprising given virtually all asset classes utilized had negative returns for the quarter. Table 3 breaks out the performance attribution by key functional area within the MAPs portfolios. In general:

Strategic – On the fixed income side, the strategic allocations were generally in-line with the Barclays US Aggregate Bond TR Index. On the equity side, portfolios with an emerging markets component (i.e. Growth and Endowment) benefitted from the positive returns in that space.

Tactical – On the fixed income side, tactical performance tended to outpace strategic returns due to high yield exposure, even though overall returns were still negative. Conversely, on the equity side, tactical holdings fell short of strategic returns. Underperformance was driven both by equity allocations that underperformed relative to the broader benchmarks as well as defensive, risk-off positions that posted negative returns as well, due to losses experienced in U.S. Treasury holdings.

Alternatives – In general, the alternatives sleeve suffered from negative returns in the real-asset space as well as the private equity component. The Thomson Reuters Private Equity Buyout Index was down -4.8%. The MSCI US REIT Index fell -9.1% for the quarter, while the S&P Composite 1500 Energy Total Return Index dropped -6.0%. Absolute return exposure through the Leland Currency Strategy Fund (GHCIX) proved to be a positive contributor. For portfolios with venture capital risk exposure (i.e. Growth and Individual Endowment), the strong performance of the Leland Thomson Reuters Venture Capital Index Fund (LDVIX) helped elevate the alternatives sleeve returns.

In keeping with the structure of MAPs, it is important to recognize that in any given period, certain elements of the portfolios will be the drivers to overall performance. Which elements prove to be key contributors to returns will naturally vary throughout time and market environments. While this most recent reporting period saw components of the alternatives sleeve lead the way, there is no guarantee this pattern will continue into the future. As such, based on our research, we believe one of the best ways to construct portfolios is to blend strategic, tactical and alternative components as done through the MAPs framework to establish a well-balanced portfolio consistent with investor objectives and risk tolerance. A well-designed portfolio paired with discipline can often be one of the most effective ways to achieve investment success.

DISCLOSURES

The commentary is prepared by Cedar Capital, LLC (“Cedar Capital”) for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of any security. The information contained herein is neither investment advice nor legal opinion. The views expressed are those of the author as of the date of the publication of this report, and are subject to change without notice.

Performance results and strategy characteristics presented are derived from each strategy’s composite. The composites include all discretionary accounts managed in accordance with each strategy. Inception dates of the composites presented are as follows: MAPs Conservative – October 31, 2015; MAPs Moderate – October 31, 2015; MAPs Growth – October 31, 2015; MAPs Individual Endowment – December 31, 2015 ; MAPs Alternatives - October 31, 2015.

Performance results are presented in U.S. dollars and reflect the reinvestment of dividends and capital gains. Results are presented gross and net of management fees. Gross returns include the deduction of trading expenses and are presented as supplemental information. Net returns are net-of-max model fees and trading expenses; the applicable fee is 1.5%. Actual fees may vary based on, among other factors, account size and custodial relationship. Changes in investment strategies, contributions or withdrawals may cause the performance results of an individual account to differ materially from the composite presented.

Past performance is no guarantee of future results. There are risks associated with any investment strategy, including the possible loss of principal. There is no guarantee that any investment strategy will achieve its objectives. Diversification does not guarantee a profit or eliminate the risk of loss.

Cedar Capital’s reliance on the strategy and its judgments about the value and potential appreciation of the securities in which the strategy invests may prove to be incorrect. Overall market risk, including volatility, may affect the strategy’s performance. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment strategy will either be suitable or profitable for a client’s investment portfolio.

The Cedar Market Advantage Portfolios (“Cedar MAPs”) are subject to specific risks. Cedar MAPs are subject to management risk and an investor’s return and principal value of investment may fluctuate such that an investment, when liquidated, may be worth more or less than their original investment. Cedar MAPs invest primarily in mutual funds or exchange traded funds (ETFs), which are subject to investment advisory and other expenses. There are numerous risks associated with investing in the underlying mutual funds and ETFs which should be considered prior to investing.

Cedar MAPs invest in equity, fixed income, and liquid alternative investments (as classified by Cedar Capital). The more aggressive the Cedar MAPs selected, the more likely the strategy will contain larger percentages of riskier asset classes. Equity investments are subject to overall market risk and volatility. Fixed income investments are subject to issuer credit risks and the effects of interest rate fluctuations. Alternative investments typically hold more non-traditional investments and may employ more complex trading strategies including leverage through the use of derivatives. Investors considering alternative investments should carefully consider their unique characteristics and additional risks. Tactical investment strategies may result in the portfolios being more concentrated in a specific asset class, which could reduce overall return if these asset classes underperform.

*The **S&P Composite 1500 Total Return Index** combines three leading indices, the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600 to cover approximately 90% of the U.S. market capitalization.*

*The **MSCI EAFE Total Return Net Index** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.*

*The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.*

*The **ICE U.S. Treasury 3-7 Year Bond Index** measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to three years and less than seven years.*

*The **Barclays US Aggregate Bond Total Return Index** (“Barclays Agg”) is an index designed to provide a measure of the performance of the U.S. investment grade bond market, which includes investment grade U.S. Government bonds, investment grade corporate bonds, mortgage pass through securities and asset backed securities that are publicly offered for sale in the U.S.*

*The **Markit iBoxx USD Liquid High Yield Index** is a modified market-value weighted index designed to provide a balanced representation of U.S. dollar-denominated high yield corporate bonds for sale within the United States by means of including the most liquid high yield corporate bonds available as determined by the index provider.*

The **HFRX Global Hedge Fund Index** is designed to be representative of the overall composition of the hedge fund universe. It is composed of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event drive, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

The **MSCI ACWI Net Total Return** (“MSCI ACWI”) is a free float-adjusted market capitalization weighted index that is designed to measure the performance of developed and emerging markets. Net total return indexes reinvest dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

The **Chicago Board Options Exchange Volatility Index** reflects a market estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of S&P 500 index options.

The **Thomson Reuters Private Equity Buyout Index** replicates the performance of the Thomson Reuters Private Equity Buyout Research Index, which is designed to be a comprehensive and highly representative indicator of the US PE Buyout industry, through a combination of liquid, publicly listed assets.

The **MSCI US REIT Index** is a free float-adjusted market capitalization index that is comprised of equity REITs. The index is based on MSCI USA Investable Market Index (IMI) its parent index which captures large, mid and small caps securities. With 152 constituents, it represents about 99% of the US REIT universe and securities are classified in the Equity REITs Industry (under the Real Estate sector) according to the Global Industry Classification Standard. It however excludes Mortgage REIT and selected Specialized REITs.

The **S&P Composite 1500 Energy Index** comprises those companies included in in the S&P Composite 1500 that are classified as members of the GICS energy sector.

Total Return indexes reflect the reinvestment of income. Net total return indexes reinvest dividends after the deduction of withholding taxes, using a tax rate applicable to non resident institutional investors who do not benefit from double taxation treaties. The indexes for each composite are as follows: MAPs Conservative – 70% Barclays Agg/30% MSCI ACWI; MAPs Moderate – 50% Barclays Agg/50% MSCI ACWI; MAPs Growth – 20% Barclays Agg/80% MSCI ACWI; MAPs Individual Endowment – 10% Barclays Agg/90% MSCI ACWI; MAPs Alternatives - HFRX Global Hedge Fund Index.

Indexes are unmanaged and cannot be invested into directly. Index performance does not reflect the deduction of fees or transaction costs, which would decrease performance. The investment strategy and types of securities held by the comparison indices may be substantially different from the investment strategy and the types of securities held by the strategies. Performance of the strategy relative to its benchmark may have been impacted positively or negatively by economic and market conditions which affect the strategy or the benchmark to a greater degree.

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