MARKET ADVANTAGE PORTFOLIOS

QUARTERLY COMMENTARY 2019Q2

The second quarter saw the continuation of the broad based equity rally, with major indices both domestic and international posting positive returns. However, the quarter did post some volatility as a strong start in April was tempered by a measurable equity sell-off in May that was then reversed by solid gains in June as several indices reached new highs. All of this was accomplished against a backdrop of unsettled U.S. tariff disputes with China, continued Brexit uncertainty, tepid global growth and a Federal Reserve board poised to actually impose an interest rate cut – a reversal from the rate increase seen in 2018.

The S&P 1500 Total Return Index ended the quarter with a gain of 4.2%. The MSCI Emerging Markets Total Return Index gained 0.6% while the MSCI EAFE Total Return Index gained 3.7%. On the fixed income side, concerns over rising interest rates have dissipated and the market has been pricing in an actual rate cut. The ICE US Treasury 3-7 Year TR Index finished the quarter with a gain of 2.8%. The Barclays US Aggregate Bond TR Index was up 3.1% while high yield saw the iBoxx USD Liquid High Yield Index move higher by 2.4% for the quarter. On the alternatives front, the HFRX Global Hedge Index closed out the period with a gain of 1.6%.

TABLE 1 | CEDAR MAPs PERFORMANCE

As of: June 30, 2019 | PORTFOLIO	QTD			YTD 2019		
	NET	GROSS	BENCHMARK[1]	NET	GROSS	BENCHMARK[1]
MAP Conservative	1.47%	1.85%	3.35%	6.14%	6.93%	9.22%
MAP Moderate	1.42%	1.80%	3.47%	7.33%	8.13%	11.26%
MAP Growth	1.31%	1.69%	3.59%	9.47%	10.28%	14.27%
MAP Individual Endowment	0.93%	1.31%	3.60%	10.85%	11.67%	15.25%
MAP Alternatives	0.74%	1.11%	1.58%	12.57%	13.40%	4.22%

Source: Internal, Bloomberg

TABLE 2 | RETURNS FOR INDIVIDUAL MAPs HOLDINGS

CATEGORY	TARGET FOCUS	TICKER	3/31/2019	6/30/2019	RETURN
EQUITY	Strategic	ITOT	64.05	66.63	4.03%
		EFA	63.49	65.73	3.53%
		DBEF	30.56	31.61	3.43%
		VWO	42.21	42.53	0.76%
	Tactical	GHSIX	9.94	9.94	0.00%
FIXED INCOME	Strategic	AGG	108.05	111.10	2.82%
		MBB	105.31	107.34	1.92%
		TIP	111.81	114.88	2.74%
		HYG	84.96	86.79	2.16%
	Tactical	NTBIX	10.11	10.15	0.40%
		PWRIX	9.79	9.93	1.43%
ALTS	PE/VC	LDVIX	18.41	19.25	4.56%
		LDPIX	11.98	12.51	4.42%
	Absolute Return	IQDNX	11.78	11.88	0.85%
		BIMBX	9.81	10.06	2.55%
	Real Assets	GHTIX	7.90	7.67	-2.91%

*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)

Q2 | 2019		PORTFOLIO	STRATEGIC FIXED	TACTICAL FIXED	STRATEGIC EQUITY	TACTICAL EQUITY	ALTS
MAP Conservative	Return	1.85%	2.41%	0.90%	3.58%	-0.01%	0.67%
	Target Weight	100.0%	45.5%	24.5%	13.0%	7.0%	10.0%
	Wtd. Return	1.85%	1.10%	0.22%	0.47%	0.00%	0.07%
MAP Moderate	Return	1.80%	2.57%	0.89%	3.60%	-0.01%	0.53%
	Target Weight	100.0%	32.5%	17.5%	19.5%	10.5%	20.0%
	Wtd. Return	1.80%	0.83%	0.16%	0.70%	0.00%	0.11%
MAP Growth	Return	1.69%	2.61%	0.91%	3.38%	0.01%	0.63%
	Target Weight	100.0%	13.0%	7.0%	32.5%	17.5%	30.0%
	Wtd. Return	1.69%	0.34%	0.06%	1.10%	0.00%	0.19%
MAP Individual Endowment	Return	1.31%	3.08%	1.08%	3.49%	0.03%	0.77%
	Target Weight	100.0%	6.5%	3.5%	16.3%	8.8%	65.0%
	Wtd. Return	1.31%	0.20%	0.04%	0.57%	0.00%	0.50%

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

Looking specifically at the Market Advantage Portfolios, all composites posted positive returns for the quarter, with the lower risk portfolios benefitting from reduced alternatives exposure which proved to be the laggard in Q2. 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 finished slightly lower than the Barclays US Aggregate Bond TR Index. On the equity side, strategic equity allocations were right in line with the MSCI AC World Net TR USD Index, which closed the quarter with a 3.6% gain.

Tactical – On the fixed income side, tactical performance trailed strategic aggregate bond returns due to high yield exposure and the relative underperformance of that asset class compared to investment grade corporate credit. Similarly, on the equity side, tactical holdings underperformed strategic returns. The increase in volatility and the market sell off in equities in the fourth quarter of last year drove many tactical models into partial or fully defensive positons, many of which still remain in place. These relative “risk-off” allocations in both the U.S. and international equity markets limited the gains captured from the stock market rally.

Alternatives – The alternative component continued to benefit from the positive returns in the private equity and venture capital categories while being negatively impacted from the real-assets holding. The Thomson Reuters Private Equity Buyout Index gained 4.7% while the Thomson Reuters Venture Capital Index rose 4.9% for the quarter. Absolute return exposure achieved through the two reduced correlation holdings (IQDNX, BIMBX) managed to also contribute positively, in combination outpacing the HFRX Absolute Return Index, which gained 1.6% for the period. The sole laggard was the real-assets exposure (GHTIX) which lost 2.91% for the quarter due in large part to poor performance in the energy and energy infrastructure holdings.

On The Radar

In regards to equities, last quarter we stressed that several factors pointed to an overvalued market that could be setting up for some turbulence. That scenario remains in place as we look forward to Q3. U.S.-China trade relations and tariff issues continue to be at the forefront of business headlines. The longer this remains unresolved, the more likely equity markets will become further unsettled. As China growth slows, but still remains solidly positive, it appears the Chinese are preparing for a long drawn out affair, possibly extending through to the next election cycle. Such a scenario is likely to put stress on the U.S. economy as well as the stock market as businesses and consumers are left to absorb the negative impacts of tariff driven price hikes. However, any signs of positive movement in trade talks will almost certainly result in elevated equity prices as investors bank on a return to normalcy. So what is the punchline? While forecasting direction is difficult, we should expect China-U.S. trade tensions to be a driver of higher market volatility.

On another global theme, Brexit uncertainty also continues to be front and center. The U.K. now has a new prime minister who seems focused on positioning for a “no deal” exit to fulfill on campaign promises and to try and pressure the European Union to compromise on various positions. Ultimately, a “no deal” exit is likely to cause European trade turmoil as there would essentially be no terms to govern cross border businesses dealings, something that has been specifically highlighted in the Irish border element to Brexit. While a “no deal” exit would at least be a form of progress, the accompanying trade concerns would likely lead to slower global economic growth, and could be particularly troubling for international equity markets, with spillover into the U.S.

However, as we’ve noted before, knowing the markets are overvalued or expecting stock market stress does not necessarily lend itself to an actionable investment plan. Even as the above issues loom and U.S. economic growth is revised downward, we still see several equity indices reaching new highs. This is one of the main reasons the Cedar MAPs framework incorporates tactical equity strategies. In the first quarter, several of the underlying tactical models (both affiliated and unaffiliated) were in or shifted to more defensive positioning. Several of these defensive positions remain in place. While this can result in relative underperformance in a rising market as the defensive holdings rarely keep pace, it also provided an automatic “governor” should markets be unexpectedly disrupted to the downside.

On the fixed income front, we’ve seen a Federal Reserve do an about face from a rising rate theme to one of rate cuts, with the intent of trying to re-center inflation and avoid an economic rollover. A further decline in rates will almost certainly boost treasury prices and will likely be seen as a positive in the short term in the corporate credit markets. In the Cedar MAPs, the core strategic fixed income is built around an aggregate bond position, with the tactical component focused on attempting to extract additional return from the high yield space through the use of high-yield timing funds – something that proved beneficial so far in 2019.

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. 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

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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.

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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 **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 **Thomson Reuters Venture Capital Index** replicates the performance of the Thomson Reuters Venture Capital Research Index, which is designed to be a comprehensive and highly representative indicator of the US venture capital industry, through a combination of liquid, publicly listed assets.*

*The **HFRX Absolute Return Index** is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.*

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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