MONTHLY MRI DRI COMMENTARY – JUNE 2019

Market Overview

After a strong start to the year, global equity indices pulled back sharply in the month of May. Both Developed and Emerging Markets were adversely affected by increased trade tensions between the U.S. and major trade partners. Both the U.S. and China increased tariffs against the other in May, and the U.S. threatened a 5% levy on all goods from Mexico. In addition, Chinese economic indicators reported a slowdown in the Chinese manufacturing sector.

Concerns about slower economic growth and more restrictive global trade drove bond yields lower. The 10-year Treasury yield dropped below the 3-month Treasury bill, inverting the yield curve, which is typically considered a leading indicator of recession. On a positive note, unemployment remains near historic lows.

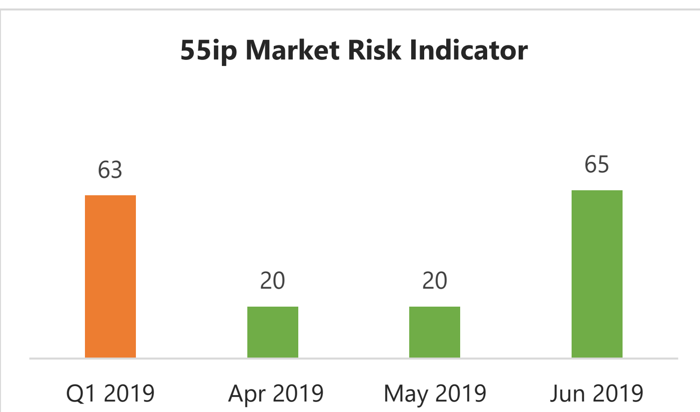
The S&P 500 finished down -6.58%, MSCI EAFE Index returned -5.42%, and the MSCI Emerging Markets Equity Index returned -7.53% for May.

55ip Risk Indicators

Market Risk Indicator (MRI)

55ip MRI guides allocation among global equities and a shelter basket (cash equivalents and other stable asset classes) to protect investors from extreme losses due to correlated and down markets. Based on the 55ip MRI score, exposure is dynamically adjusted to minimize the drag due to such allocation while aiming to provide protection when most needed. This becomes significantly important for investors who are averse to losses because of income or other needs.

The MRI score can range from 0 (lowest possible downside risk assessment) to 100 (highest possible downside risk assessment). (See White Paper). The MRI score is based on several indicators for **Valuations** (e.g. price to book ratio), **Macroeconomic Conditions** (e.g. manufacturing sentiment index), **Financing Indicators** (e.g. trend indicators) and **Return Stability** (e.g. multi-asset VIX).



55ip Market Risk Indicator (MRI) score increased to 65 in June 2019.

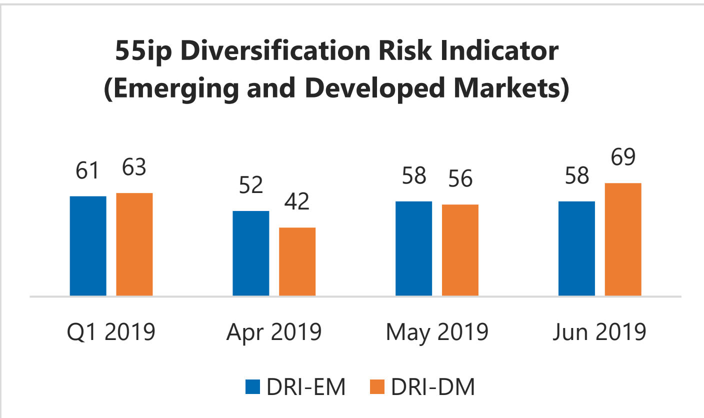
Based on this score, the shelter basket allocation increased to 32.5% in the Equities sleeve of the standard application of MRI. Below are details on each of the metrics contributing to the MRI.

- **VALUATION:** Our equity valuation metrics continue to indicate risk across markets.
- **MACROECONOMIC:** The contribution to MRI from Macroeconomic indicators was steady from April to May, with rising Consumer Confidence offset by slowing manufacturing activity in the U.S.
- **FINANCING:** Overall financing risks increased in May, contributing to June MRI. Credit spreads, which had narrowed from the 4th quarter through April, reversed course and widened throughout May. Global growth concerns put pressure on higher yielding debt as investors favored U.S. Treasuries. Turmoil in global equity markets increased equity financing risks.
- **RETURNS STABILITY:** The contribution to MRI from our Return Stability Indicators increased this month as correlations rose across asset classes. VIX, a measure of investors' expectation of market risk or volatility, spiked early in the month and rose again in the second half of May.

Diversification Risk Indicator (DRI)

55ip DRI guides allocation among US and non-US equities to protect from times when international exposure could lead to increased risk instead of diversification and risk reduction. This score is comprised of two regional components: DRI for Emerging Markets (DRI-EM) guides allocation between emerging market equities and US domestic markets. DRI for Developed Markets (ex-US) (DRI-DM) guides allocation between developed market equities and US domestic markets.

DRI score can range from 0 (lowest possible downside risk assessment) to 100 (highest possible downside risk assessment).



The regional risk scores, DRI for Emerging Markets (DRI-EM) remained unchanged at 58 and for Developed Markets (DRI-DM) increased to 69 from 56.

The DRI-EM score remained unchanged from last month, indicating continued risk in Emerging Markets. From an asset allocation perspective, DRI-EM will retain a 29% reduction from the maximum EM equity allocation. The DRI-DM measure increased, resulting in a reduction in the DM equity allocation of 34.5% in a standard 55ip-powered portfolio.

55ip Risk Management Capabilities

55ip provides portfolio construction and rebalancing algorithms aimed at protecting investors from extreme losses through increased diversification and monitoring the effectiveness of diversification in protecting capital in various market conditions.

55ip believes asset class diversification is helpful, but its effectiveness is limited in certain market conditions when there is a high degree of correlation. We help advisors leverage sophisticated quantitative capabilities to address these limitations by dynamically shifting asset allocation from higher volatility assets such as equities to lower volatility assets such as short duration fixed income.

Please contact us with any questions at 617.960.9559.