

# MARKET DECLINE – OCTOBER 2018



| Performance (as of 9/30/18)           | 3Q18  | YTD    | 1 Year | 3 Years |
|---------------------------------------|-------|--------|--------|---------|
| SGI US Low Volatility Gross           | 8.54% | 16.14% | 24.77% | 16.50%  |
| SGI US Low Volatility Net             | 8.33% | 15.51% | 23.90% | 15.70%  |
| S&P 500 Total Return                  | 7.71% | 10.56% | 17.91% | 17.29%  |
| SGI US Small-Cap Low Volatility Gross | 5.88% | 13.44% | 14.62% | 19.70%  |
| SGI US Small-Cap Low Volatility Net   | 5.70% | 12.88% | 13.87% | 19.14%  |
| Russell 2000 Total Return             | 3.58% | 11.51% | 15.24% | 17.10%  |

## The Decline

The equity markets suffered its strongest pullback since February with a S&P 500 loss of 6.31% from the beginning of October through October 11<sup>th</sup>. The decline was steep on the 10<sup>th</sup> and 11<sup>th</sup> with the Dow Jones Industrial Average declining 831.83 and 545.91 respectively. SGI U.S Low Volatility performed in line with benchmark, whereas the small cap portfolio outperformed.

The cause for the pullback was multifaceted. The threat of continued interest rate increases, increasing oil prices, high valuations, and concerns over emerging market economies boiled over on the 10<sup>th</sup>. SGI believes the chance for a large correction remains low given strong U.S. GDP growth, low unemployment, and expected strong earnings.

## SGI Performance

All SGI equities strategies are designed to persistently have volatility well below their benchmark.

This lower volatility mandate worked in our favor. However, due to our factor rotation models the strategies have been tilted towards momentum stocks. This proved to be a major detractor as the momentum trade unwound. By construction our U.S. Large Cap strategy is designed to be lower market cap than the S&P 500 for diversification benefits. This also proved to be a detractor to returns as investors flocked to larger companies. These tilts have been a primary reason for our exceptional performance in 2018.

The low volatility companies listed below have been excellent performers in 2018 but struggled in the pullback. SGI remains confident in these companies.

| 10/1/18-10/11/18 | Port. Weight | Bench Weight | Total Return | Contribution |
|------------------|--------------|--------------|--------------|--------------|
| INTUIT INC       | 3.5%         | 0.2%         | -11.6%       | -0.41%       |
| F5 NETWORKS      | 1.6%         | 0.1%         | -17.4%       | -0.30%       |
| ROBERT HALF INTL | 3.3%         | 0.2%         | -7.9%        | -0.26%       |
| S&P GLOBAL       | 3.0%         | 0.0%         | -8.5%        | -0.26%       |

## How Will SGI Protect You?

In very short drawdown periods various factors such as momentum or market cap may have outsized impact. During longer corrections being lower volatility becomes much more impactful. All strategies are constantly monitored and periodically rebalanced to be well positioned to provide a defensive posture in the case of a larger correction.

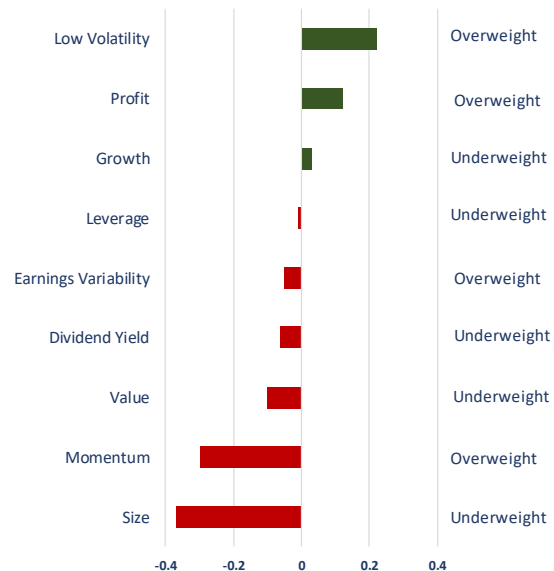
## Information as of 9/30/2018

| Characteristics             | USLV  | S&P 500 |
|-----------------------------|-------|---------|
| Strategy Assets (millions)  | \$623 |         |
| # of Holdings               | 109   | 508     |
| Beta(36M)                   | 0.75  | 1.00    |
| Standard Deviation (36M)    | 8.0%  | 9.2%    |
| Market Capitalization (\$B) | 44.6  | 112.6   |
| P/E                         | 25.6  | 22.2    |
| P/CF                        | 18.7  | 16.7    |
| P/B                         | 6.8   | 4.7     |
| EV/S                        | 4.1   | 3.8     |
| Debt/Assets (%)             | 24.0  | 28.1    |
| Dividend Yield (%)          | 1.63  | 1.80    |
| ROE (%)                     | 20.7  | 18.9    |

\*Weighted Median; Beta and Dividend Yield Weighted Average

| Top 10 Holdings      | Ticker | Position |
|----------------------|--------|----------|
| Intuit Inc           | INTU   | 3.6%     |
| Walmart Inc          | WMT    | 3.4%     |
| S&P Global Inc       | SPGI   | 3.2%     |
| Robert Half Intl Inc | RHI    | 3.0%     |
| Valero Energy Corp   | VLO    | 2.8%     |
| Tjx Companies Inc    | TJX    | 2.5%     |
| Phillips 66          | PSX    | 2.3%     |
| Eli Lilly & Co       | LLY    | 2.0%     |
| Alphabet Inc-Cl A    | GOOGL  | 2.0%     |
| Citrix Systems Inc   | CTXS   | 2.0%     |

## October MTD Factor Return Contributions



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