

Notable 3Q Market Performance

	S&P 500 (Large Cap Stocks)	MSCI EAFE (International Developed Stocks)	MSCI Emerging Markets (EM Stocks)	Barclays Aggregate (Bonds)	10-Year Treasury (Bonds)	HFRI Hedge Fund Composite (Hedge Funds)	USD	WTI Crude Oil
3Q Return	7.71%	1.42%	-0.95%	0.02%	-1.09%	0.63%	0.70%	3.26%
YTD Return	10.56%	-0.98%	-7.39%	-1.60%	-3.73%	1.45%	3.27%	27.24%

3Q 2018 Market Commentary

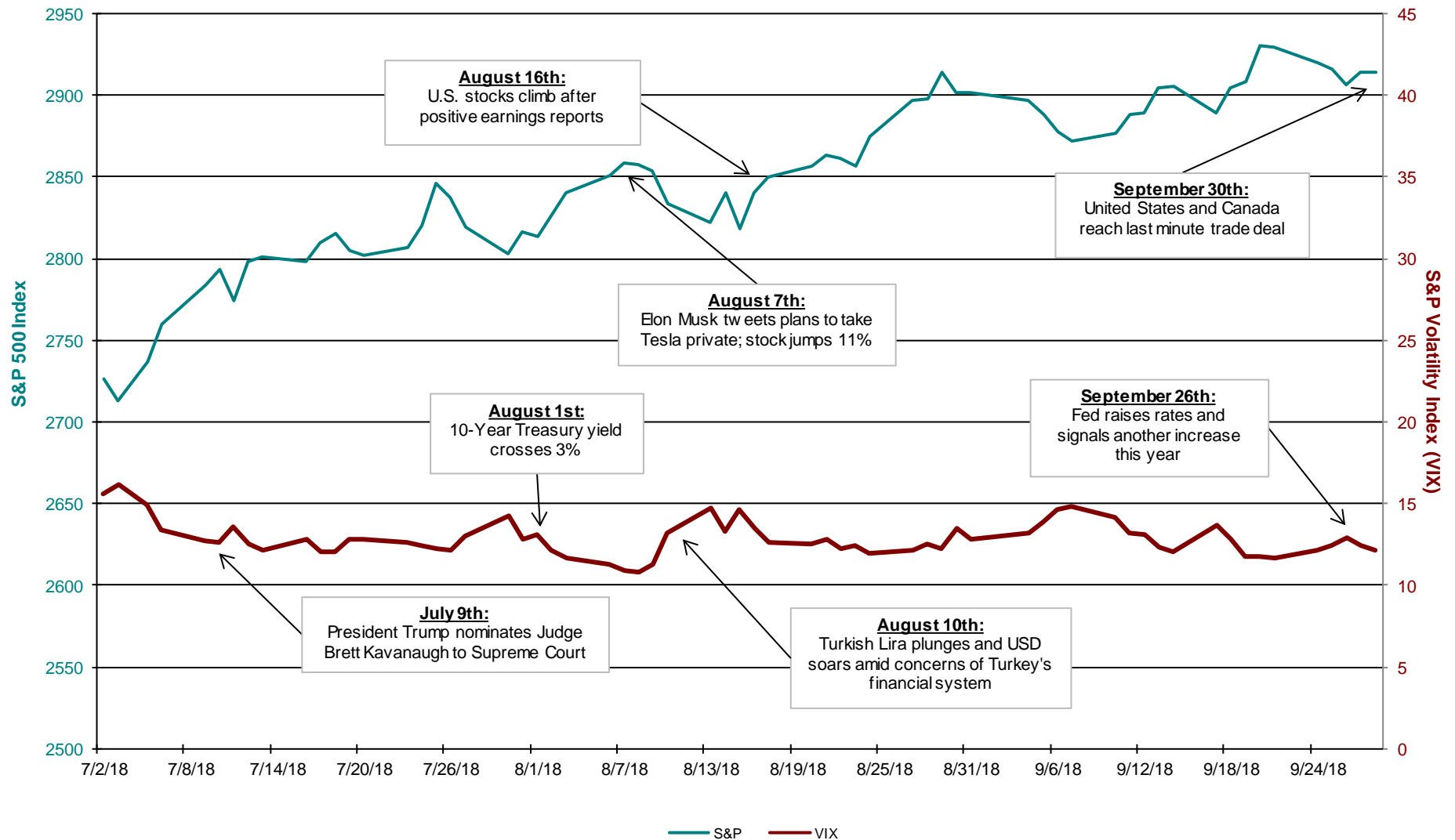
The US stock market shifted into overdrive during the 3rd quarter, gaining another 7.1% and leaving the rest of the world in the dust. In Europe, stocks were flat, held in check by uncertainty surrounding Brexit and concerns over Italy's debt sustainability. Emerging markets, which had already lost ground heading into the quarter, fell modestly as a result of the stronger dollar, higher oil prices and the detrimental effects of trade protectionism. Over the three-month period, Treasury yields increased across the curve, but rose more sharply at the short end as the Fed signaled clearly its plan to continue raising the discount rate several more times in the coming year. The Fed has become more vigilant and for good reason. The US is at full employment, GDP growth is quite strong (reported to be 4.1% in Q2) and, although the Personal Consumption Expenditures (PCE) price index is at the Fed's 2.0% target, inflationary pressures are building. WTI crude is up 27% year-to-date and oil prices could go higher if OPEC is able to sustain its disciplined approach to limit production, Iranian oil remains embargoed and supply disruptions continue in Venezuela. As influential as the Fed is, it cannot control the bond market. The spread between yields on 2-year and 10-year Treasuries fell to a narrow 0.236% at the end of the quarter, leading to some anxiety about the possibility of an inverted curve and with it the implied potential for a recession.

However, we are not likely on the eve of a recession, but rather in the middle of an evolving global economic regime which one manager has characterized using three distinct stages—the immediate past, the present and the immediate future. Last year the world enjoyed synchronous growth. This year the advance in US GDP continues to accelerate while the rest of the world is ratcheting down its growth. Next year, we may find that the globe is in sync once again but that this time all participants—including the US—are in deceleration mode.

What about the fractious nature of our domestic political divide and the specter of more heated partisan debate with the upcoming mid-term elections? Doesn't this feel like a uniquely chaotic, if not dangerous time? How can one justify the risk of being in the market at a time like this? We forget that *it is always "a time like this,"* teeming with worrisome developments that can distract from long-term fundamentals. So, it is hard to argue that 2018 is any worse than, say, 1968, a year when TV transmitted shocking images of wounded American soldiers from Vietnam, Robert Kennedy and Martin Luther King were assassinated, and violence erupted on the streets of Chicago as that city hosted an unruly Democratic Convention. Yet, even in that year the S&P 500 still managed to advance about 8%.

This is not to suggest that caution isn't merited. There are worrisome possibilities. The cost of US stock ascendancy is a current valuation premium versus international stocks. The dollar is up 3.3% year-to-date through September and could rise further if GDP growth continues at or above 3%. Renewed trade tensions could easily flare up and US interest rates are likely to continue to climb. A higher dollar pressures larger American companies since an estimated 38% of the S&P 500's revenues originate outside the US. Converting offshore profits when the dollar is strong dampens profits. With this in mind, we would reduce our overweight to domestic equity and raise some cash. Bonds are still likely to perform below their historical averages but may be appropriate for those interested in building a high-quality reserve. Select alternatives that either have proven risk management processes and/or proprietary and anomalous investment approaches are to be embraced.

The S&P 500 (+7.7%) has its Best Quarter Since 2013; Fed Indicates More Rate Increases to Come



Source: Bloomberg, WSJ.com.

Domestic Capital Markets Snapshot: Large Caps Lead the Way

U.S. Equity (S&P 500 +7.71%)

	Value	Blend	Growth
Large Cap	5.70	7.42	9.17
Mid Cap	3.30	5.00	7.57
Small Cap	1.60	3.58	5.52

U.S. Fixed Income (Barclays Agg +0.02%)

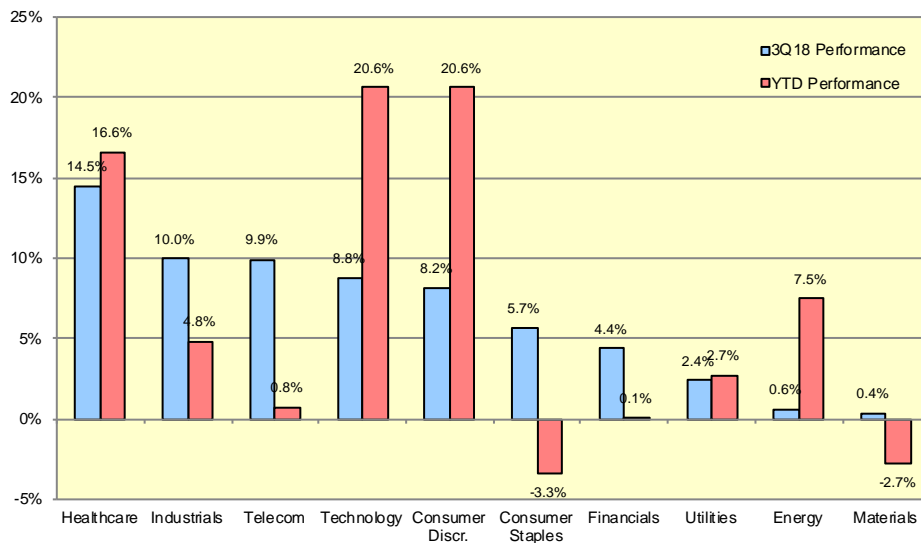
	Short Term	Intermediate	Long Term
Treasuries	0.19	(0.12)	(2.88)
Corporate	0.62	0.73	1.26
High Yield	N/A	2.37	3.05

Top Sectors

Bottom Sectors

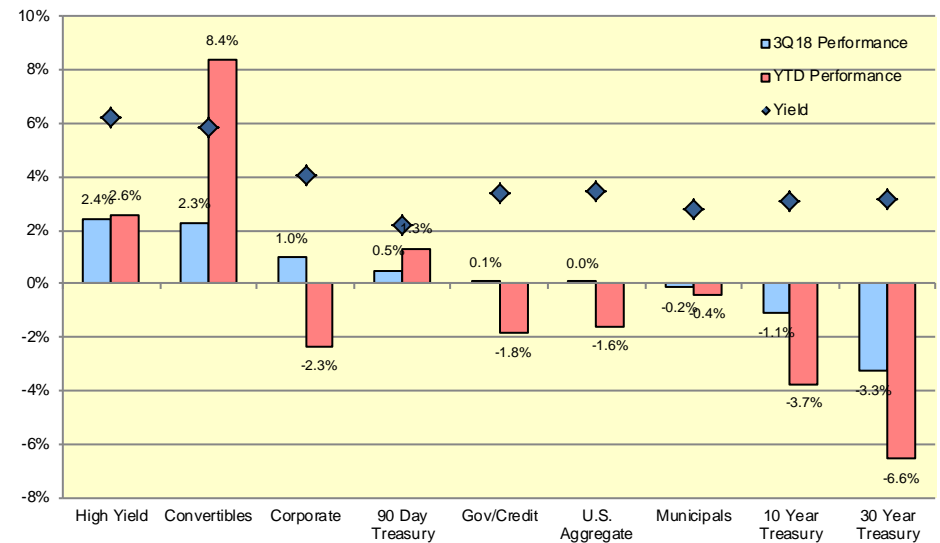
Source: Bloomberg; Barclays

S&P Sector Performance



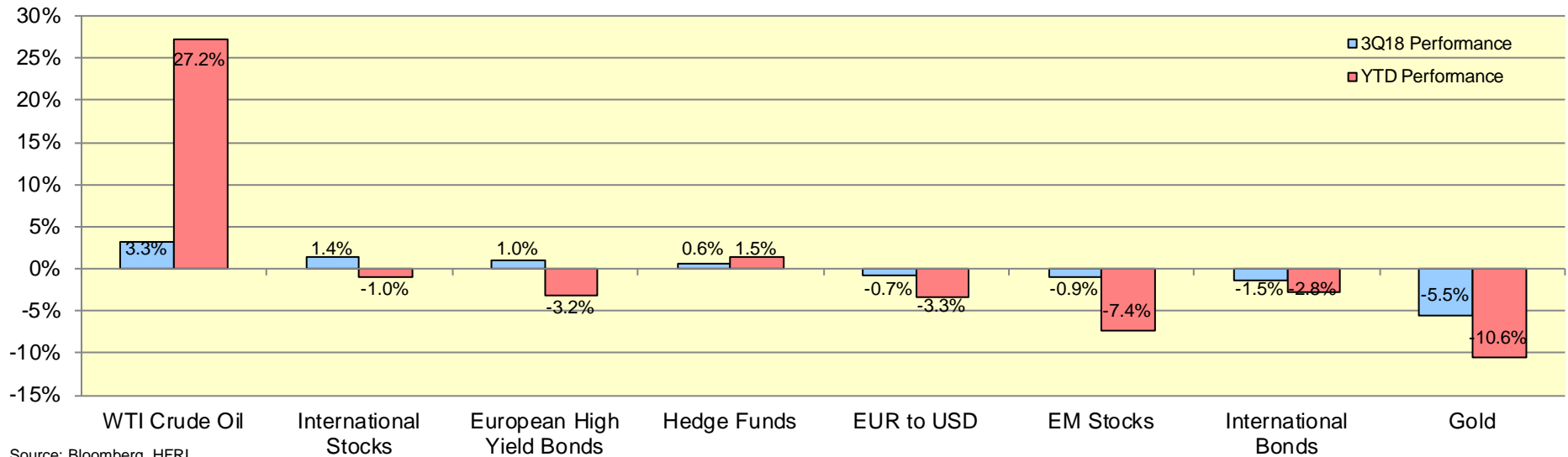
Source: Bloomberg

Domestic Fixed Income Performance



Source: Bloomberg, JP Morgan.

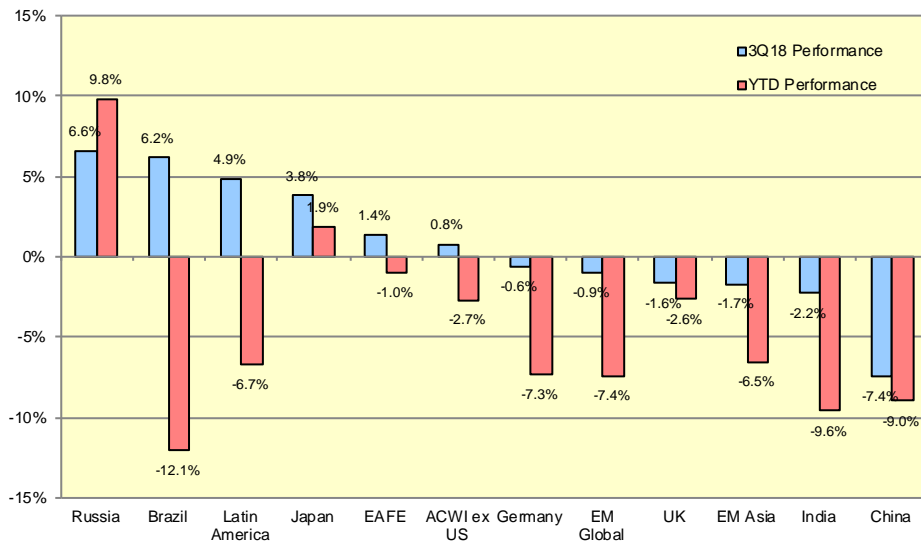
International Capital Markets Snapshot: Emerging Markets Continue to Underperform



Source: Bloomberg, HFRI.

Note: All returns in USD.

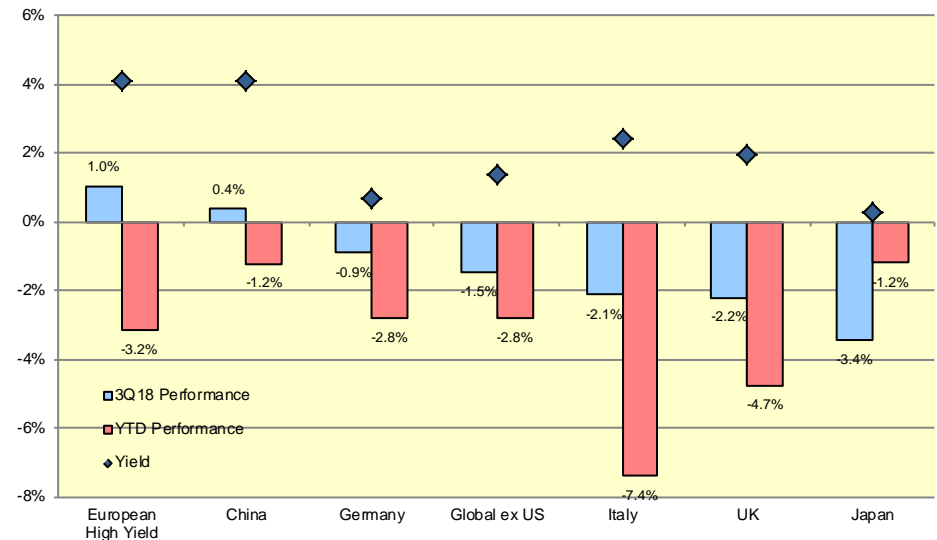
International Equity Performance



Source: Bloomberg

Note: All returns in USD.

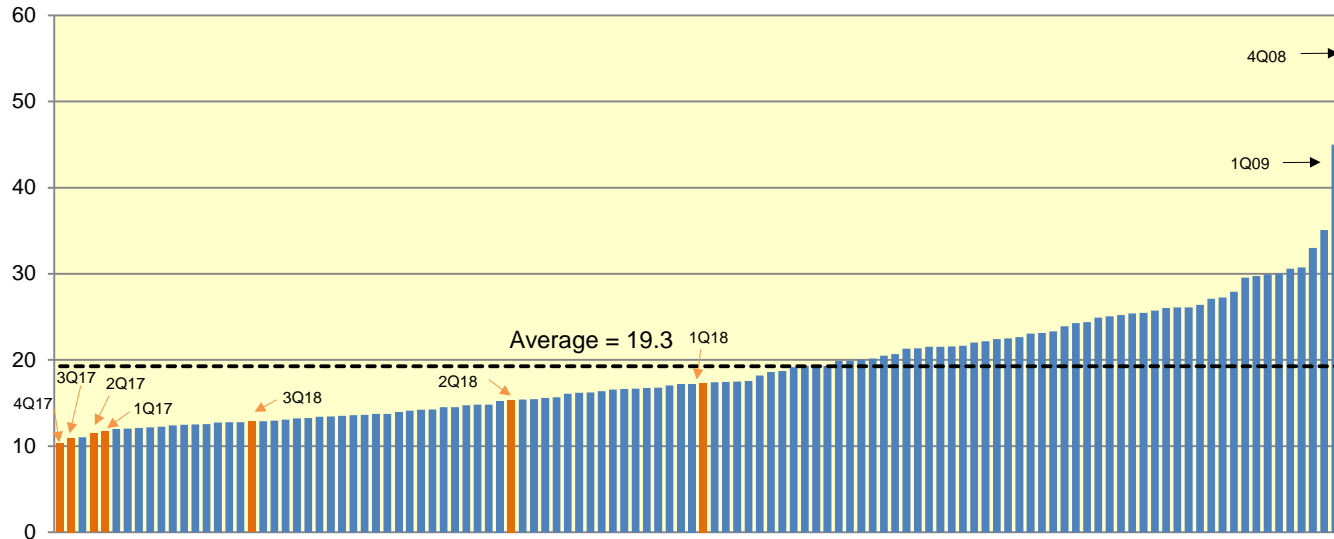
International Fixed Income Performance



Source: Bloomberg, JP Morgan. Country returns and yields represent those of Aggregate indices.

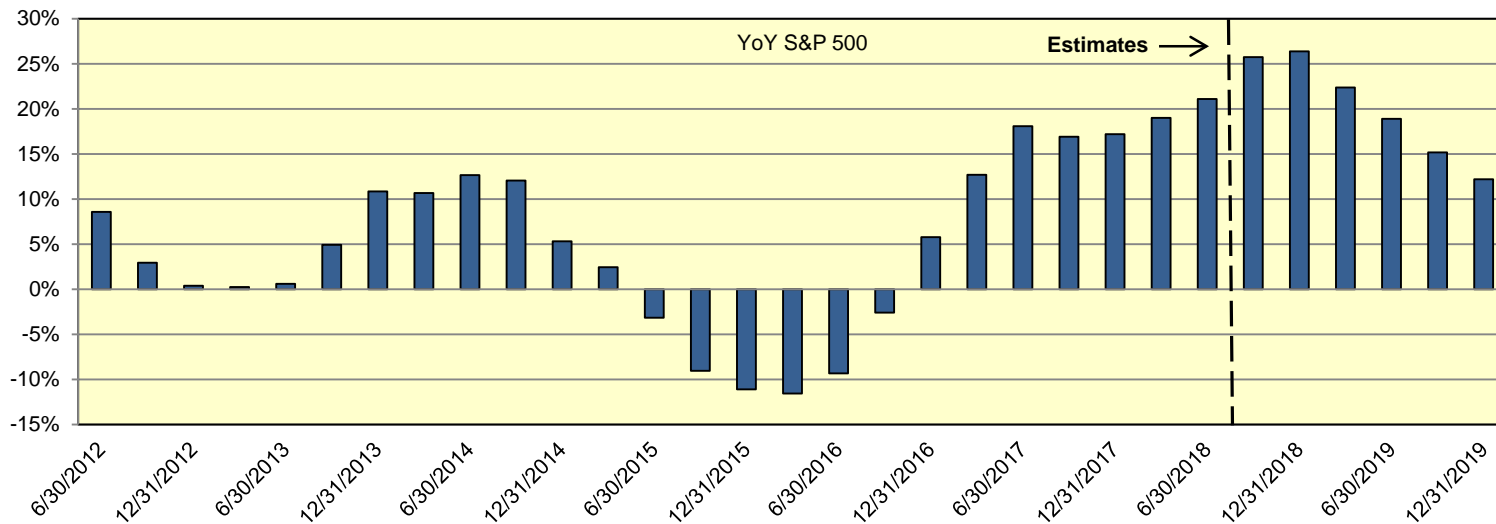
Note: All returns in USD.

Volatility Moved Closer to 2017 Calmness...



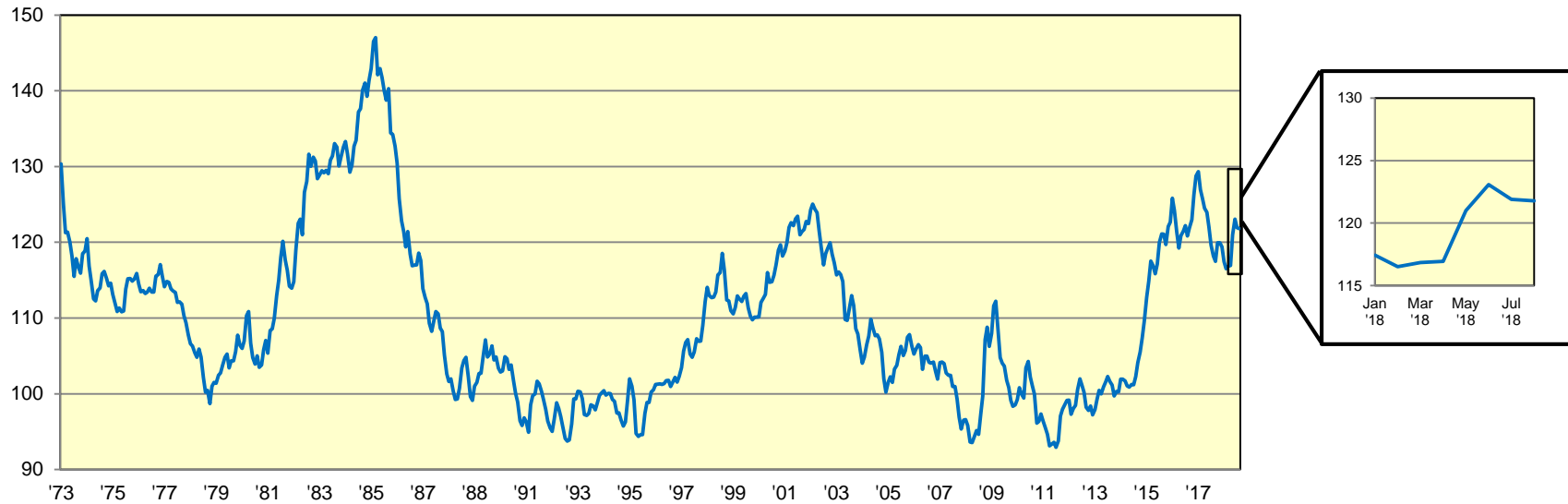
Note: Data dates back to inception of the VIX (1Q 1990).
Source: Cambridge, Bloomberg.

...And Earnings Should Continue to Grow but Taper Off in Late 2019



Source: S&P Dow Jones Indices.

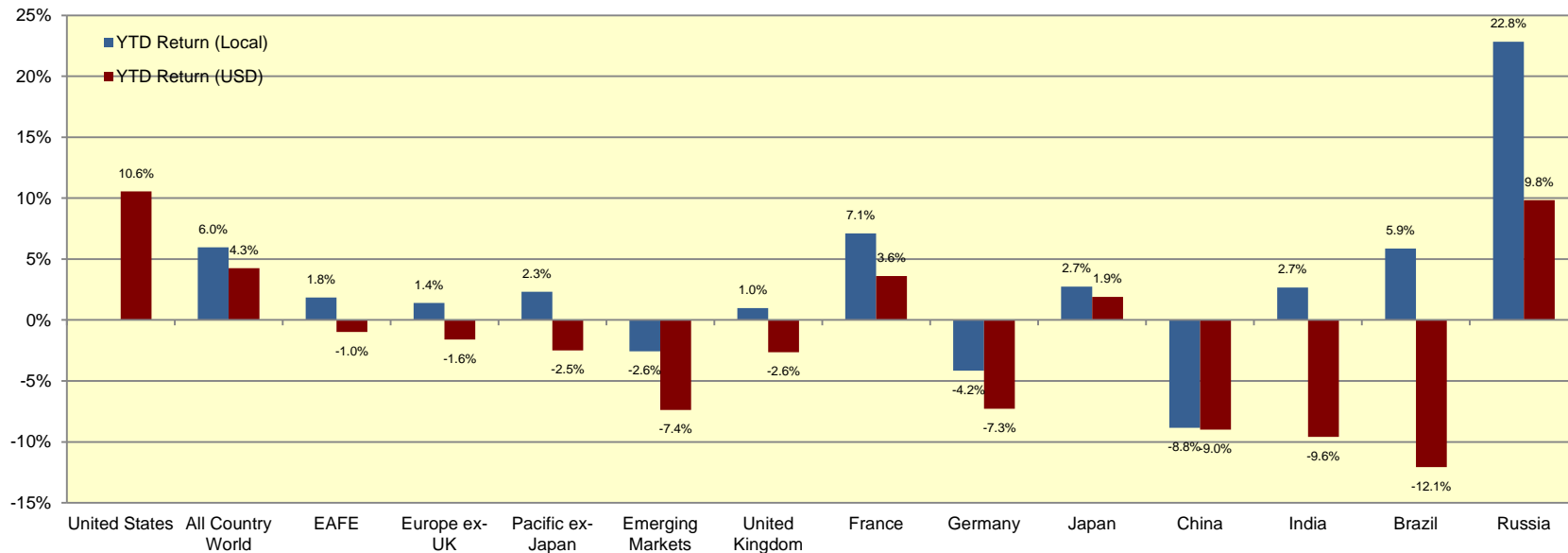
The Dollar Continued to Strengthen into the Third Quarter...



Note: Adjusted for inflation. The US Dollar Index is comprised of a basket of currencies of the trading partners of the United States.

Source: BIS.

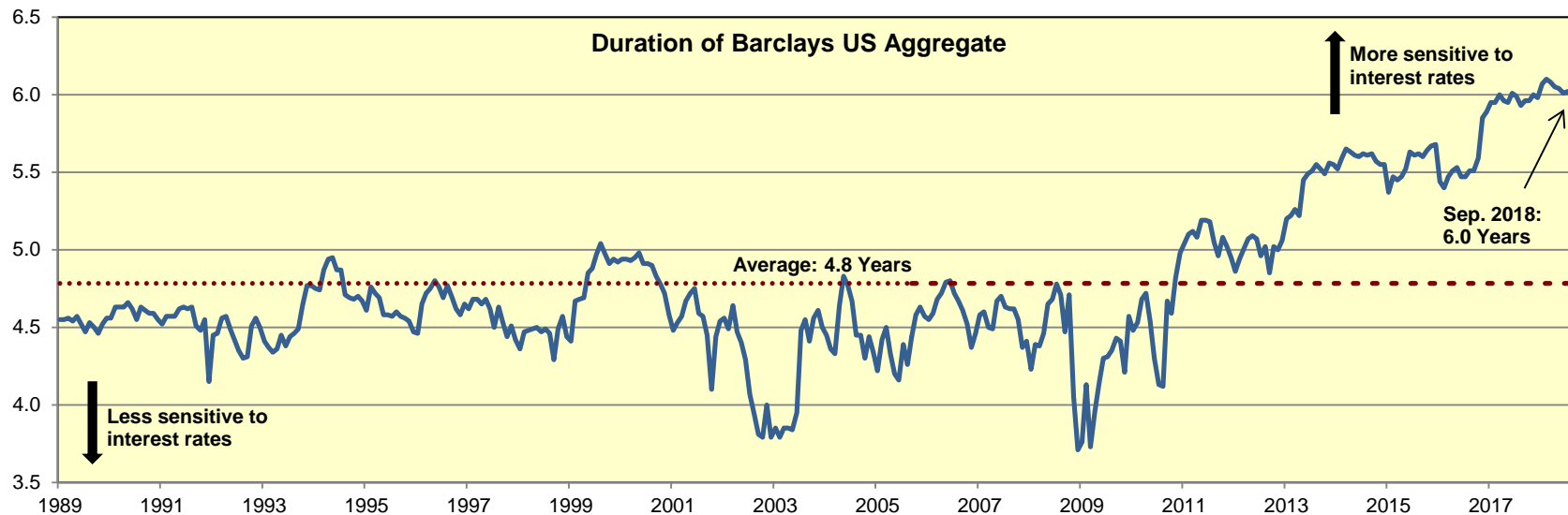
...as US Equity Markets Extended Outperformance Versus the Rest of the World



Source: Bloomberg, JP Morgan.

As Interest Rates Continue to Rise, Bonds Become Less Attractive

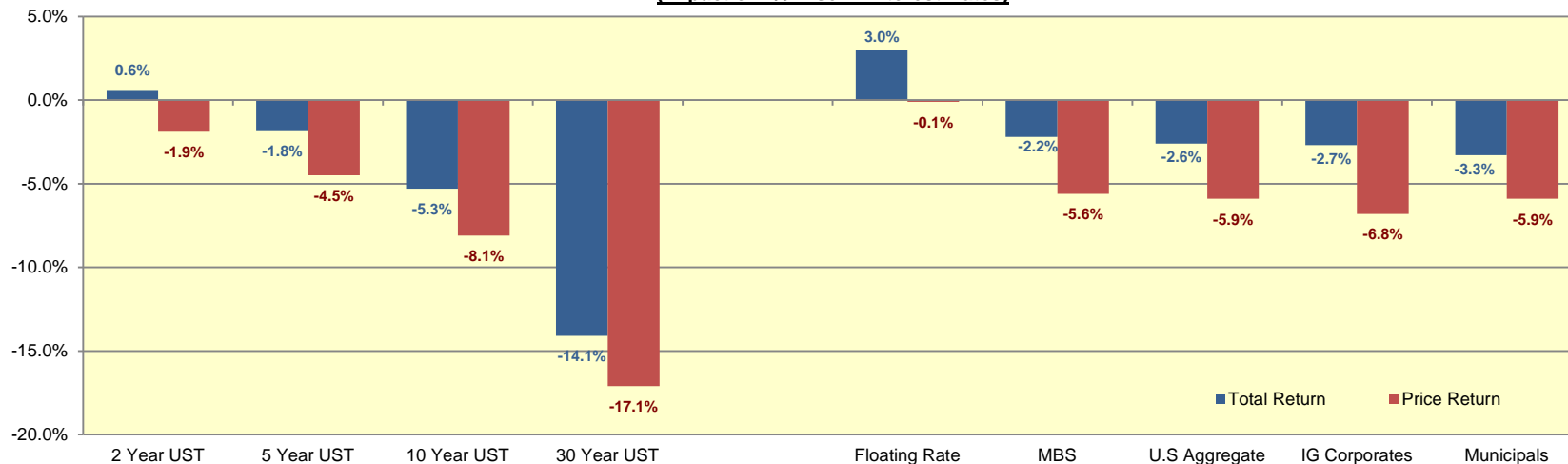
Interest Rate Sensitivity Remains at an Elevated Level



Source: Bloomberg, JP Morgan.

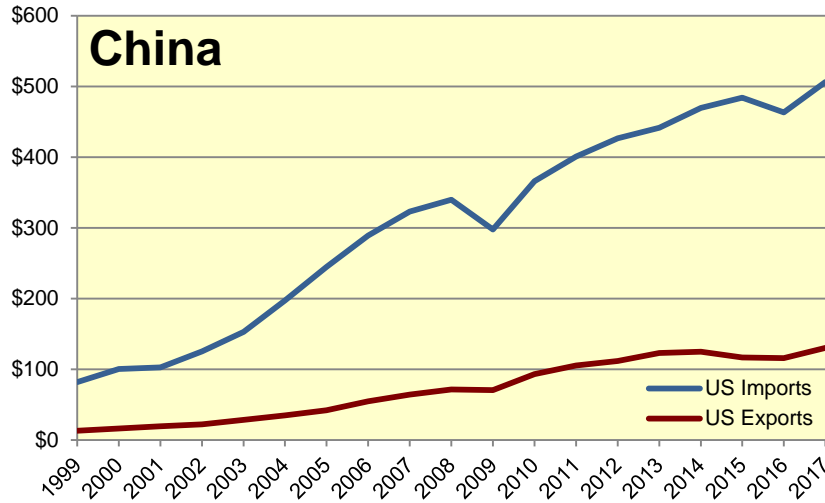
Interest Rate Risk Persists

(Impact of 1% Rise in Interest Rates)

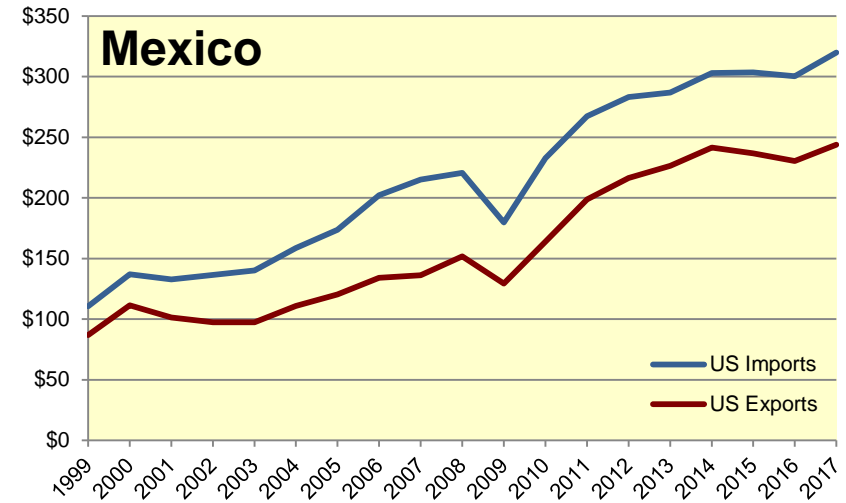


Source: JP Morgan.

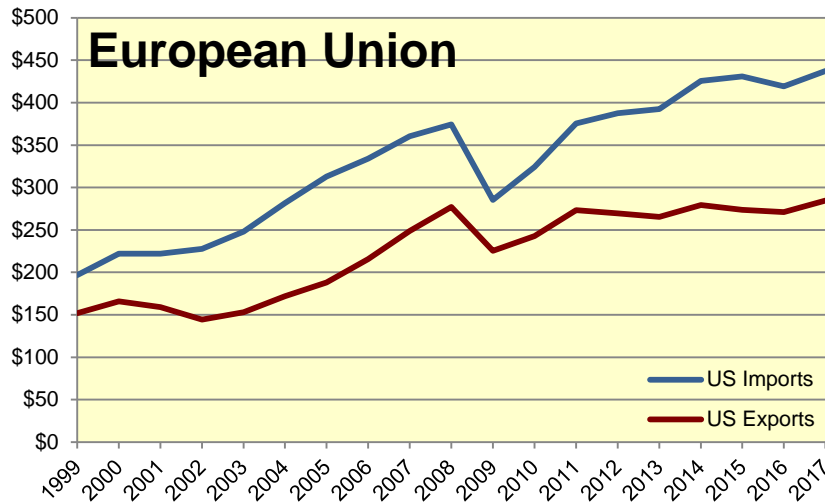
Trump Trade Summary



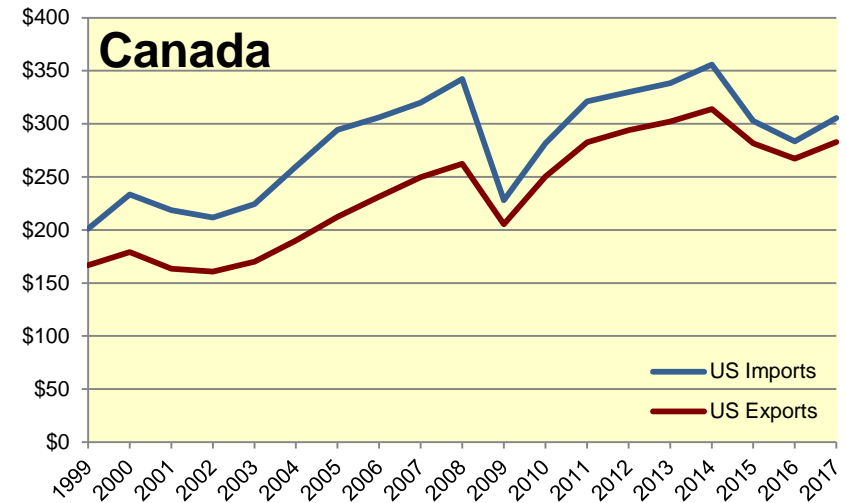
- Initially imposed tariffs on solar cells, steel, and other imports
- Alleged IT theft--ordered tariffs on roughly \$250 billion in imports
- Threats of tariffs on up to \$267 billion additional Chinese goods--would cover all Chinese products sold in U.S.



- Opened renegotiation of NAFTA
- In August, announced a deal with Mexico that would move forward with or without Canada
- In September struck deal allowing Canada to join--anticipate signing in November

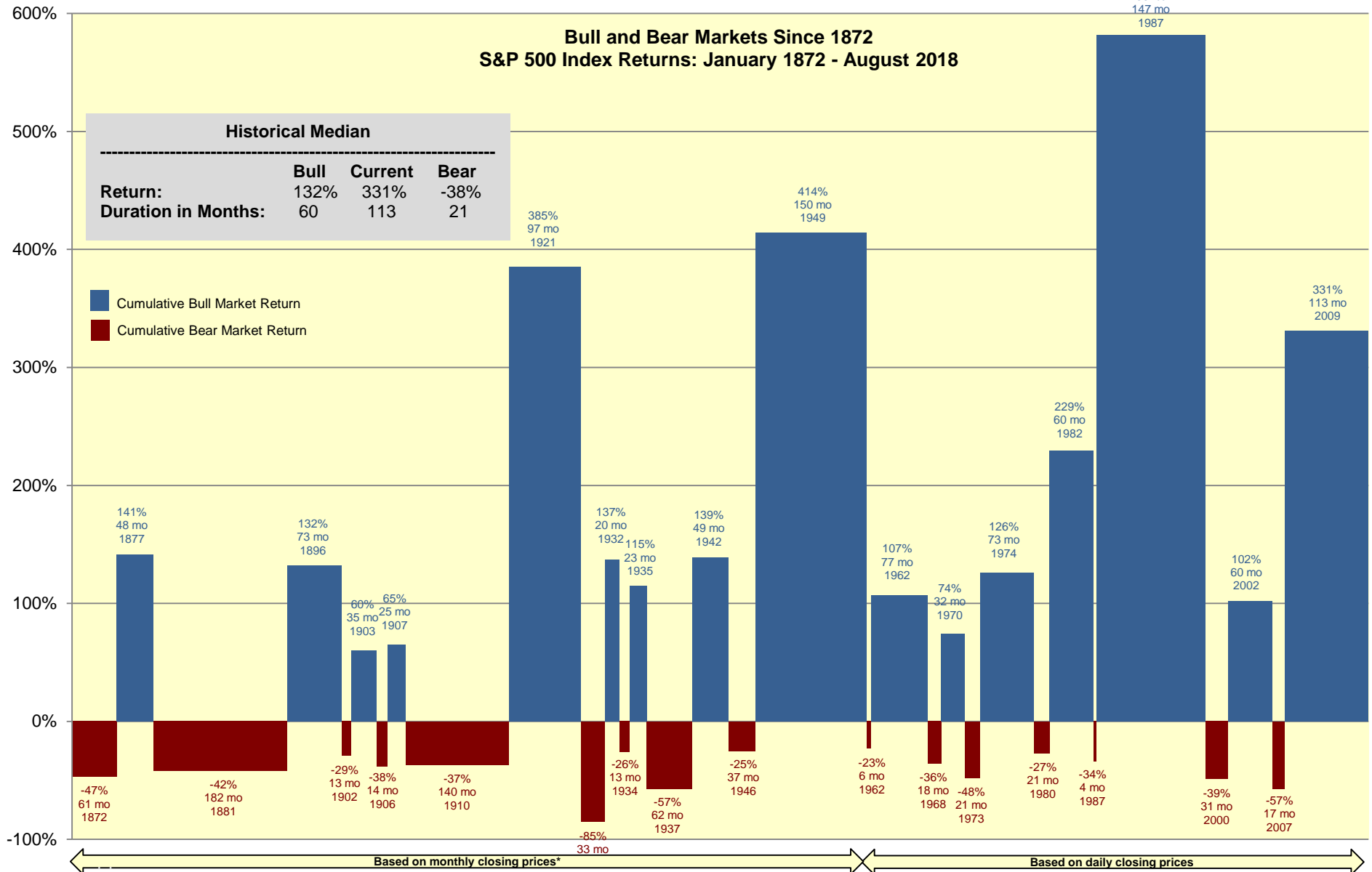


- Imposed steel and threatened car tariffs (car tariffs later taken off the table)
- Long divisive talks are expected



- Trump vowed to pull US out of NAFTA if Canada/Mexico didn't agree to big changes
- Deal reached just before Sept. 30 deadline--expected to sign deal that includes Mexico in late November

Although Not Unprecedented, This Bull Market is Above the Average in Both Return and Duration



*Prior to 1962, S&P data was based on Robert Shiller's research.

Note: Year referenced is start date of bull or bear market. Data appears in chronological order. The width of each bar represents the number of months for each bear/bull market. Bull markets are defined as the time between 20% drops in the index.

Source: Touchstone Investments.

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Index returns are derived principally from market indices on Bloomberg and other third party proprietary databases such as Morningstar, HFRI and CS Tremont. The following four broad-based indices are examples of indices used in reports for comparative purposes only and have been selected as they are well known and may be easily recognizable by investors. The S&P 500 Index includes 70% of all U.S. equities and is weighted by market value, and its performance is thought to be representative of the U.S. stock market as a whole. The Barclays Aggregate Bond Index comprises government securities, mortgage-backed securities, asset-backed securities and corporate securities, and is a broad measure of the taxable, investment grade U.S. bond market. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada. It comprises 21 MSCI country indexes. The HFRI Monthly Indices are equal fund weighted and comprised of hedge funds that voluntarily report their performance to HFR. Each HFR broad strategy index consists of funds that allocate capital among several hedge fund strategies. Each strategic index consists of funds that allocate capital within a specific strategy. With respect to these and other indices used in this report, more detailed information is available upon request. Please note that these indices or performance benchmarks are comprised of securities which for the most part are dissimilar to the positions held directly or indirectly by the managers or funds in the portfolios represented in this report, and these indices or benchmarks do not have similar risk/return profiles to them. Additionally, indices are unmanaged; do not incur management fees, costs or expenses; and cannot be invested in directly. Benchmarks are provided for illustrative purposes only and should not be relied upon as an accurate measure of comparison.

Past Performance is No Guarantee of Future Results