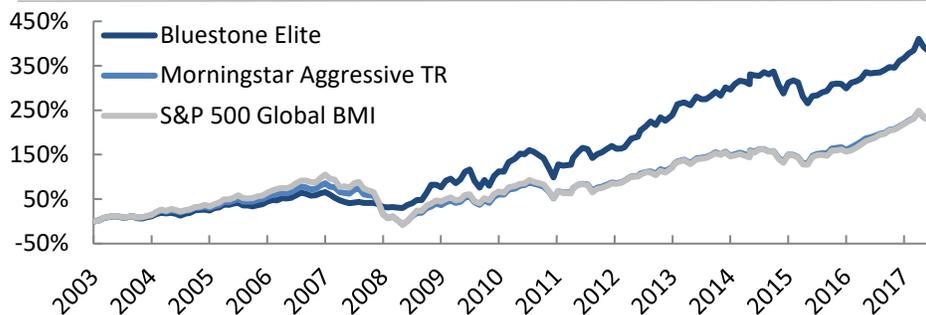


## Bluestone Elite – Q1 2018 Manager Commentary

**Portfolio Managers:** Brian C. Shevland  
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### Historical Statistics (Since Inception)

	Elite	MS Agg TR
Cumulative Return	384.05%	229.65%
Annualized Return	11.56%	8.63%
Alpha	4.45%	-
Beta	0.81	-
Sharp Ratio	0.76	0.54
Sortino Ratio	1.46	0.91

### Market Summary:

Markets started this year off on a high note as the S&P 500 index rallied over 6% through late January. This gain proved to be short lived, and markets aggressively sold off through the end of January and early February. Volatility came roaring back and caught many investors and trading desks off guard who had significant short volatility exposure through equity and derivative allocations. Exchange traded VIX products suffered massive declines and some were even wiped out. Fixed income proved to be a poor hedge against equity and volatility as the Barclays Agg posted relatively significant declines in both January and February. Overall, the first quarter saw significant pain inflicted across asset classes and investors are still struggling to come to terms with how to appropriately allocate capital and risk in post-crisis rising rate environment. On balance, we are proud to have posted a 1<sup>st</sup> quarter net return of -0.08% compared to our index's return of -0.67%.

### Macro Overview:

The first quarter saw the US post annualized GDP growth of 2.3% driven primarily by weaker consumer spending figures. Most economists believe this data point is likely a temporary bump in the road considering the steadily tightening labor market and the significant fiscal stimulus provided by the tax cut. As reported by Bloomberg's Lu Wang, capital spending by S&P 500 companies is up 39% year over year. Although the quantitative macro picture appears to paint a rosy picture, geopolitical risks remain elevated amid the current global trend towards populist policies. The US – China trade talks have produced sharply increased volatility amid heightened rhetoric, and the potential for escalation remains.

### Looking forward:

Although we produced a strong Q1 return relative to our benchmark, we are always seeking to deliver the best risk-adjusted returns we can for our investors. To that end, we recently implemented a portfolio shift to better capitalize on the macro-economic environment we find ourselves in and to increase our odds of producing additional alpha for investors. Our key shifts are focused on increasing and refining our positions in Financial Services, Technology, Healthcare and Emerging Markets while reducing our exposures to energy and consumer staples. We also increased our cash position from 1% to 5.5% to maintain our targeted portfolio risk levels and create some "dry powder" to be able to more efficiently capitalize on some attractive trends we've been monitoring while waiting for more advantageous entry points.

*\*All investments involve risk, including the loss of principal. Past results do not guarantee future performance. Further, the investment return and principal value of an investment will fluctuate; thus an investor's equity, when liquidated, may be worth more or less than the original cost. This document provides only impersonal advice and/or statistical data and is not intended to meet objectives or suitability requirements of any specific individual or account. This report should not be construed as a solicitation to purchase or sell any security. Returns are presented in USD net of all fees shown as well as trading costs. The returns shown are for a composite of accounts assigned to the Bluestone Elite strategy composite managed by Bluestone Capital Management and at firms that the portfolio managers were previously affiliated before the founding of Bluestone in 2011. The Bluestone Elite composite includes all Bluestone Elite strategy accounts not a part of a WRAP program. The Bluestone Elite strategy is an equity replacement strategy which seeks to provide superior risk-adjusted returns over a full market cycle. The Morningstar Aggressive Target Risk Index represents a portfolio of global equities and bonds. This portfolio is held in a static allocation of 95% equities and 5% fixed income, which is appropriate for investors who seek an above average exposure to equity market risk and returns. The S&P Global BMI is a rules-based index measuring global stock market performance. Prospective clients may obtain a compliant presentation by contacting the firm via the phone or email listed below.*