

Commentary – First Quarter 2019

After a severe downturn in the markets in which many major indices saw double digit losses in the 4th quarter of 2018, the first quarter of 2019 was set up for a recovery (in the equity markets) and most all delivered with some having their best quarter in the last several years. The S&P 500 gained 13.6%, its best quarter since 2009, while the DOW, NASDAQ, and Russell 2000 all gained over 10% over the first three months of the year. Per asset classes and style, REITs led the way, gaining 16.7% in Q1, followed by Growth stocks gaining 15.1%, and Small Cap gaining 13.9% after a rough 2018 where Small Cap stocks lost -12.2%. The Federal Reserve (Fed) responded to the market weakness and slower global growth by not moving too quickly in raising rates and the market rally continues to gain momentum. U.S. crude oil had its best quarter since 2002, as it soared 32% while the 10-year Treasury remained near its lowest level in over a year.

Globally, the MSCI Europe ex UK gained 12.6%, the MSCI Asia ex Japan gained 11.6%, MSCI EM gained 9.9%, while the UK FTSE 100 gained 9.5%, and the Japan TOPIX reversed a tough 2018 (-16.0%) and appreciated 7.7%. There continues to be tension from the U.S. administration continuing to increase tariffs, predominantly spillover from the fourth quarter of 2018; however, China was able to stimulate its economy during the start of 2019 through increased domestic demand via tax cuts, investment in infrastructure, and supporting bank credit growth, which should all help to stabilize Chinese growth. In the UK, the economy is being supported by a strong labor market as unemployment stands at 3.9% and wages have risen 3.4% year-over-year. Further, the European Central Bank kept their deposit rate steady at -0.4% and said it would not raise rates until at least next year to keep growth steady. “Brexit” remains in limbo as politicians were supposed to close the deal last Friday, but to few investors’ surprise, there has been little progress as Prime Minister Theresa May and Parliament continue to discuss the possibility of her stepping down and how a new plan will be conceived.

U.S. Equity Strategy

In March, the APS U.S. Equity Strategy returned 1.9% (Gross-of-Fees (GOF)) versus 1.4% for its benchmark, the Russell 3000 NR Index. The strategy saw strong performance in the Consumer Staples and Financials sectors while seeing some resistance in the Consumer Discretionary sector (CD). In Consumer Staples, Costco led the way, gaining 10.7%, while Mastercard was the leading contributor in the Financials sector, gaining 4.8%. The Consumer Discretionary sector was slightly challenged as Sony lost 12% and Lear Corp lagged 10.8%.

For the 1st quarter, the U.S. Equity Strategy returned 14.3% GOF versus 13.9% for the Russell 3000 NR Index. The strategy saw a relative outperformance due in large part to the Health Care and Consumer Staples coupled with no major lagging sectors during the quarter. Health Care was propped up by strong biotechnology performance, as Array Biopharma gained 71.1% for the quarter, while in Consumer Staples, Estee Lauder gained 27.6%. The strategy saw strong Mid Cap Information Technology (IT) growth as well, as Global Payments, Booz Allen Hamilton, and Gartner gained 32.4%, 29.6%, and 18.7%, respectively. The U.S. Equity Strategy maintains high active share, a cash position of approximately 3.5%, and as of March 31, holds 83 companies.

International Equity Strategy

The APS International Equity Strategy outperformed its benchmark in March, returning 2.9% GOF versus 0.6% for the MSCI ACWI ex USA NR Index. Much like the U.S. Equity Strategy, the International Strategy

saw very little headwinds as almost all sectors gained for the month, highlighted by CD, Financials, and IT. In CD, MercadoLibre gained 10.7%, in Financials, HDFC Bank appreciated 14.6%, and IT had multiple high contributors as Shopify and Accenture each returned 9.1%.

The International Equity Strategy saw an outperformance of over 3% in the 1st quarter, returning 13.7% GOF versus 10.3% for the MSCI ACWI ex USA NR Index. Similar to March, all sectors (with the exception of a slight negative in Real Estate) saw absolute positive performance with several sectors and many individual names contributing to the outperformance. Of note, Financials and IT were the leading contributors, by sector, for the quarter as AIA Group returned 21.8% in Financials, and in IT, Shopify gained 49.4%. In Materials, Fortescue Metals Group soared 79.7%, Neste Corp gained 41.5% in the Energy sector, and MTU Aero Engines gained 25.8% in the Industrials sector. The International Equity Strategy continues to have an active share of over 95%, a cash position of approximately 5%, and as of March 31, holds 79 companies.

Health Care Strategy

In March, the APS Health Care Strategy outperformed its benchmark, returning 0.9% GOF versus 0.5% for the Health Care Select SPDR. The strategy continued to see strong performance from the Biotechnology industry as well as the HC Providers/Services industry. Ionis Pharmaceuticals and Array Biopharma gained 14.3% and 6.3%, respectively for the month while WellCare Health Plans and UnitedHealth Group returned 6.4% and 2.5%, respectively, in the HC Providers/Services industry. The strategy saw slight resistance from Pharma as Bristol-Myers Squibb struggled towards the end of the month and ended down -7.7% as one of the few laggards.

In the 1st quarter, the Health Care Strategy outperformed its benchmark by almost 7% as it returned 13.2% GOF versus 6.6% for the Health Care Select SPDR. Much like the equity markets, the S&P Biotechnology Select Industry Index reversed its rough Q4 2018 by gaining 25.8% in the 1st quarter of 2019 and taking the APS Health Care Strategy with it. As noted above, Array BioPharma gained 71.1% in the first quarter and was complemented by Seattle Genetics returning 29.3% and Ionis Pharmaceuticals returning 50.2%. The Health Care Strategy continues to maintain strong alpha for both 2019 and our long-term performance (both 5-year performance and Inception performance from 1/1/2011) as it ranks in the Top 1 percentile vs. its peer group.

APS-WCM World Equity Strategy

On January 1, 2018, APS Labs, LLC and WCM Asset Management launched their World Equity strategy, which is all cap, country agnostic, and sector neutral. The strategy is made up of 6 WCM Strategies that vary in style type, including an International Growth, International Value, Global Growth, Large Cap Value, Mid Cap Value, and Small Cap Value. Since Inception, or approximately 15 months, the strategy has averaged a Beta of 1.0, Alpha of 4.8, an Upside Capture Ratio of 115.5, a Downside Capture Ratio of 90.3, and a current Active Share of 94%.

In March, the APS-WCM World Equity Strategy outperformed its benchmark, returning 2.5% GOF versus 1.3% for the MSCI ACWI NR Index. The strategy saw strong performance in the CD sector, primarily, while also seeing positive returns from the Communication Services and IT sectors. The top 3 performers in the whole strategy, for the month, were all in the CD sector, as Amazon, Compass Group PLC, and America's Car-Mart returned 8.6%, 6.8%, and 11.9%, respectively. In Communication Services, Activision returned 8.9% and Tencent gained 7.4%.

In the 1st quarter, the World Equity Strategy returned 14.1% versus 12.2% for the MSCI ACWI NR. The quarter was similar to the month of March, as CD had a strong showing along with Consumer Staples and IT. The best performing security of the quarter was John B Sanfilippo & Son, in Consumer Staples, which

returned 29.1% while America's Car-Mart mimicked its strong March showing by returning 26.1% for CD in Q1. In IT, Shopify gained 49.4% and Accenture PLC gained 24.8%. The strategy didn't have any significant laggards; however, lack of exposure to large names in the Index such as Apple and Facebook took away some outperformance.

Since Inception, the World Equity Strategy has outperformed the MSCI ACWI NR Index by nearly 5%, as the strategy has returned 6.1% versus 1.3%. Along with strong contribution from CD and Consumer Staples, Health Care has been a leading driver as well, as CSL Ltd has returned 22.2%, Coloplast has gained 38.6%, and Icon PLC 17.1%. We continue to deploy the above listed six WCM Strategies and as of March 31, the World Equity Strategy maintains a cash position of approximately 5% and holds 74 companies.

All Strategies remain concentrated in nature and include exposure across all different stock capitalizations. We continue to seek and own securities of high-quality companies with long term earnings potential. As always, we emphasize security selection through our portfolio construction process.

Thank you for your continued support of APS Labs, LLC.

Best Regards,

Daniel B. Wanzenberg

Daniel B. Wanzenberg, Chief Investment Officer

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