January 2018 Commentary
Solutions based upon the RPg ActiveParadigm Methodology

Risk Paradigm Group seeks to defend capital through our ETF strategies based upon the RPg ActiveParadigm methodology. The below monthly commentary is related to the RPg Tactical ETF managed portfolios available as separately managed accounts.

Overview
January was a strong month for global equities. The gains came on the back of solid earnings with many companies reporting better results and guiding higher than expected profitability in the year ahead. The economy grew at a 2.6% pace in the fourth quarter supported by increased consumer and business spending. The International Monetary Fund (IMF) said they expect global growth to approach 4% in 2018 with at least 120 countries experiencing an upsurge in economic activity. Across the US, Europe and Asia economic growth is running above potential, sustained by macro momentum, easy financial conditions, and pockets of fiscal impulse.

The inflation report of 2017 showed headline CPI up 2.1% Y-o-Y. Although inflation has generally remained low, our work suggests that slack is diminishing rapidly across developed market economies, specifically G10 economies like the US, Germany, Canada and the UK where labor markets are tight. In recognition of a stable macro backdrop, central bank policies are in transition. The US Federal Reserve has already begun reducing the size of its balance sheet and is planning to raise short-term interest rates three, maybe four times.

With tax policy done, the jobs market firm and earnings registering the fifth straight quarter of positive growth since the recovery of the oil collapse, risk assets continued to experience very little volatility in January. Inflation remains the question mark, especially in Europe with much of the fixed income complex offering negative yields. In the U.S., both the “headline” and “core” inflation numbers are hovering around 2% Y-o-Y. While wages are increasing, they are not increasing at a rate commensurate with the tightening labor markets, but they are accelerating. In Euroland, rates have gone negative and have been supported in that move by deflationary pressures. But when rates rise, that will be the equivalent of the music stopping in musical chairs. You better find a chair, and fast, or you will be out of the game.

We remain in the camp that the market is in an environment of expansion, not contraction which is a road we’ve been on for so long that market pundits are starting to benchmark when the next bear market will start. More central to our investment decision making process, we remain fully invested across the equity spectrum, and as always, we remain vigilant to the changing data in an effort to defend the capital we collectively work so hard to grow.

RPg Tactical US Equity
The portfolio came into the new year fully invested in eight (8) sectors equally weighted, and ended the month equally distributed to the same eight (8) sectors within our universe with no changes. During September, the portfolio switched the Energy Sector ON and the Utilities Sector OFF. This was particularly helpful in December, as those two sectors registered large dispersion – Utilities to the downside and Energy was significantly positive. This will be supportive of our relative performance in an already solid year for this tactical solution. Consumer Discretionary, Technology and Health Care led the way for the S&P 500 in January. Utilities, Consumer Staples and Energy were the laggards. The market has endured cyclical to defensive rotation, and back, and our durable process has endured to deliver material participation within our mandate of participate and protect.

RPg Tactical US Equity FT
The portfolio came into the new year fully invested in eight (8) sectors equally weighted, and ended the month equally distributed to the same eight (8) sectors within our universe with no changes. During September, the portfolio switched the Energy Sector ON and the Utilities Sector OFF. This was particularly helpful in December as those two sectors registered large dispersion – Utilities to the downside and Energy was significantly positive. This will be supportive of our relative performance in an already solid year for this tactical solution. Consumer Discretionary, Technology and Health Care led the way for the S&P 500 in January. Utilities, Consumer Staples and Energy were the laggards. The market has endured...
cyclical to defensive rotation, and back, and our durable process has endured to deliver material participation within our mandate of participate and protect.

**RPg Tactical Global Balanced**

RPg Tactical Global Balanced portfolio has targeted allocations to four asset classes: US Equity (33%), Global Fixed Income (28%), International Equity (28%), and Alternatives (11%). Below are highlights of the activity for each asset class within the portfolio for the month of January.

**US Equity:** The portfolio came into the new year fully invested in eight (8) sectors equally weighted, and ended the month equally distributed to the same eight (8) sectors within our universe with no changes. During September, the portfolio switched the Energy Sector ON and the Utilities Sector OFF. This was particularly helpful in December as those two sectors registered large dispersion – Utilities to the downside, and Energy was significantly positive. This will be supportive of our relative performance in an already solid year for this tactical solution. Consumer Discretionary, Technology and Health Care led the way for the S&P 500 in January. Utilities, Consumer Staples and Energy were the laggards. The market has endured cyclical to defensive rotation, and back, and our durable process has endured to deliver material participation within our mandate of participate and protect.

The biggest headwind to Tactical Global Balanced has been factors such as the mid and small-cap exposure within the US equity complex, and the even split between growth and value (Growth crushed value in 2017). We have witnessed that headwind the first three quarters, which recently became a tailwind as tax reform momentum has sparked strength within the small and mid-cap names, and value rallied into year-end. These dynamics have helped Global Balanced close the gap against the NYSE equal weight equity index.

**Global Fixed Income:** The sleeve came into the new year invested in four (4) of the ten (10) Fixed Income sectors, and ended the month invested in the same four (4) of the ten (10) sectors. While tighter Federal Reserve policy (Quantitative Tightening or QT) and greater fiscal stimulus may help transition from a low rate regime to that of a rising rate regime, global economic growth, the evolving composition of monetary policy, and a sustainable shift towards higher US inflation may be the foundation to sustain the transition. The ActiveParadigm model is currently evenly split between credit sensitive bonds and rates sensitive bonds as of the end of January. We have explicitly chosen to avoid bonds where they guarantee losses to bondholders on both a nominal and real basis. From a scoring methodology standpoint, we are seeing credit sensitive bonds and income generative asset classes score better than rates sensitive asset classes like Treasuries. We are also watching the yield curve very closely as its as flat as its been in a decade.

**International Equity:** The International Equity sleeve entered the new year fully invested in all six (6) of the possible six (6) International ETF exposures. In mid-December 2016, the model turned on Emerging Markets, Europe, and Asia ex-Japan bringing the portfolio to a fully invested posture. Emerging Markets and Europe and Japan continue to drive performance from our international sleeve. Coming in to 2018, the international sleeve is scoring very positively, and looks to be priced at a discount to U.S. equity markets.

**Alternatives:** The sleeve ended the year invested in core S&P 500, REITs and Gold. Mid-January marked a move from REITs and into MLPs within the alternatives sleeve and the core S&P 500 leading performance for the sleeve.

**Outlook**

As a quantitative rules-based asset manager who relies on data to drive the investment decisions, we do not make market forecasts. However, the portfolio allocation does offer useful intelligence to how the methodology is interpreting current market activity. Some specific observations:

- We are still positioned in a fully invested posture given the risk/return dynamics in the equity markets with an equally weighted allocation to eight (8) of the sectors of the S&P 500. International sectors seem to be some of the most attractively priced and score very well within our ActiveParadigm methodology.
• The thirst for yield continues which we believe favors a tactical approach to income generation with the ability to defend capital if a rising interest rate environment ensues. With international rates so low, and many posting negative yields, we have chosen to avoid the exposure due to an enormous amount of unknown unknowns with a negative interest rate regime.

• Economic data is supportive of a Goldilocks economic environment in the U.S., and equity prices are starting to reflect some of the potential catalysts for market volatility, namely policy surprises, inflation and global trade which could create obstacles on the reflation road and induce market volatility. We view this as a good time to be tactical.

Important Disclosures:
Risk Paradigm Group, LLC (“RPg Asset Management” or “RPg”) is a registered investment advisor with the U.S. Securities and Exchange Commission (“SEC”). Additional information regarding Risk Paradigm Group, LLC can be found on our website at www.rpgassetmanagement.com.

RPg does not provide tax or legal advice. Please consult an independent tax advisor for additional guidance.

This material has been prepared solely for informative purposes and is not to be considered investment advice nor a solicitation for investment. Any projections, market outlooks, or estimates in this presentation are forward-looking statements and are based upon certain assumptions and should not be construed as indicative of actual events that will occur. Information contained in this report is as of the period indicated and is subject to change. The Information contained herein includes information obtained from sources that are believed to be reliable, but are not independently verified by RPg. It is made available on an "as is" basis without warranty.

This material is proprietary and may not be reproduced, transferred or distributed in any form without prior written permission from RPg. RPg reserves the right at any time, and without notice, to change, amend, or cease publication of the information contained herein.

Performance provided is past performance. Past performance is not indicative of future results. Investments may increase or decrease in value and are subject to a risk of loss. Investors should consult their financial advisor before investing.

“ActiveParadigm” is a quantitative methodology that is proprietary to RPg. The RPg tactical strategies (“RPg Tactical US Equity”, “RPg Tactical US Equity FT”, “RPg Tactical US Long-Short Equity”, and “RPg Tactical Global Balanced”) are managed account strategies managed by RPg. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. All investments include a risk of loss that clients should be prepared to bear. The principal risks of the quantitative methodology and strategies are disclosed in Risk Paradigm Group’s publicly available Form ADV Part 2A.

RPg may change the exposures and compositions reflected herein at any time and in any manner in response to market conditions or other factors without prior notice to investors.

Statements in this piece that reflect projections or expectations of future financial or economic performance of the markets in general are forward-looking statements. Actual results or events may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements.

References to Indexes:
The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the equity performance of larger companies in the U.S. Please note that an investor cannot invest directly into an index.

Risk Disclosures:
Concentration, volatility, and other risk characteristics of a client’s account also may differ from the information shown herein. There is no guarantee that any client will achieve performance similar to, or better than, the strategy mentioned herein.

Sources: Bloomberg. All rights reserved.

For more information, including risks of investing in our strategies, visit our website at www.rpgassetmanagement.com.