Index Strategy: Rothschild & Co Risk-Based International Index TR (USD)

4th Quarter 2018

Market Review*

The MSCI EAFE Index NR USD (hereafter, "the EAFE") lost -12.5% in the fourth quarter of 2018, bringing its year-end return to -13.8%. The EAFE started the year strongly following a 25.0% return in 2017 and began 2018 with a 5.0% return in January. The January return would prove to be the EAFE's best monthly result in 2018 and one of only four during the year. Following January's strong result the EAFE declined in February and March as investors became unnerved about the path is US interest rates and worries over trade, resulting in a first quarter loss of -1.5%. The EAFE rebounded April, only to see losses in May and June and a second quarter loss of -1.2%. The EAFE would fare better in the third quarter as it delivered a +1.4% return with two of the three months positive. However, the fourth quarter would bring about a loss of -12.5% for the EAFE, its worst quarterly result since the -15.7% loss in the third quarter of 2011 when a deepening sovereign debt crises roiled markets. For the year the EAFE's -13.8% loss was its worst annual result since 2008's -43.4% plunge.

For the year, the EAFE's decline was broad based with only one of eleven GICS economic sectors, Utilities (+1.9%), seeing a positive return with the worst performers being Financials (-19.6%), Materials (-17.1%) and Consumer Discretionary (-16.2%). On a relative basis the best performing sectors were Utilities (+1.7%), Health Care (-3.4%), and Energy (-6.5%). During the steep Q4 decline the only sector to see a positive return was the Utilities sector which barely rose +0.02%.

Index Performance Review*

The Rothschild & Co Risk-Based International Index NR (hereafter "Index") outperformed the EAFE in the 4th quarter with a return of -10.0% versus the EAFE return of -12.5%. For the year, the Index also outperformed the EAFE, -9.0% vs. -12.5%. The 2018 Index returns when compared to the EAFE were 14% less volatile[1], a 25% decrease in maximum drawdown[1] and a higher Sharpe ratio[1].

The Index's lower loss during the quarter compared to the EAFE was driven primarily by its risk-based approach that seeks to identify stocks from its universe that offer a combination of low volatility and low correlation. This approach led to the Index generating positive total attribution (combination of allocation, selection and currency effects) in nine of eleven sectors with the largest coming from Industrials, Communication Services and Financials. In each of these three sectors stock selection was the primary driver of the outperformance as the Index's stocks outperformed those of the same EAFE sector. The two sectors that detracted from relative performance were the Consumer Discretionary and Health Care Sectors. In both cases, the Index's stocks underperformed those of the same EAFE sector and in the case of the Health Care sector, the Index's underweight allocation (-3.9%) also held back performance.

For the year, the reasons for the Index's outperformance were similar to that of the 4th quarter as the Index saw positive attribution in every sector except one, the Consumer Discretionary sector. The top sectors for the Index were Industrials, Financials and Communication Services. In the Industrial sector the Index's stocks outperformed those of the EAFE by a wide margin, declining only -4.5% compared to the -15.4% result of the EAFE sector. In the Financials sector, the Index benefitted in two ways, first from being underweight (16.9% vs. 20.4%) to the worst performing sector of the EAFE and second by overweighting Insurance companies and underweighting Banks and Diversified Financials. The Index also benefited by overweighting sectors that have historically demonstrated less earnings and price volatility including the Consumer Staples and Utilities sectors. In the case of the Utilities sector, the only sector of the EAFE with a positive return, the Index outperformed (+2.7% vs. 1.7%) and was also overweight (6.9% vs. 3.3%). In the Consumer Discretionary sector, the lone detracting sector, the Index's stocks underperformed (-18.2% vs. -16.2%).

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At the country level the Index saw positive attribution from most countries for both the quarter and year with the vast majority of outperformance coming from selection effect with a lesser amount from allocation and currency effects. The country with the largest positive impact for the quarter and year was Japan which accounted for approximately half of the Index's outperformance during both periods. For the quarter and year the largest detracting country was Denmark, driven primarily by stock selection as the Index's holdings underperformed. For the annual period the overweight to Denmark (3.3% vs. 1.7%) also detracted.

Index Positioning*

The Index's sector weights did not change significantly over the course of the year. The largest sector additions were to Consumer Staples (+3.5%) and Financials (+3.4%) while the largest reductions were in the Information Technology (-3.5%) and Energy (-2.6%) sectors. At year end all sector weights were within 500 basis points of the EAFE sector weights with the largest overweights being to Consumer Staples (+4.7%) and Utilities (+4.1%). The largest sector underweights were to Energy (-4.5%) and Health Care (-3.7%).

At the country level, the largest deviation from the EAFE was Japan where the Index ended the year overweight +6.0% (30.3% vs. 24.3%). All other Index country weights were within 500 basis points of the EAFE Index with the largest overweights being to Germany (+4.1%) and the largest underweights being to France (-4.8%) and Switzerland (-4.8%).

As a systematic risk-based manager, we do not forecast future market events or use expectations of future events to influence or change the strategy. Rather, we consistently and systematically apply a strategy that puts risk management at the heart of the portfolio construction process. The strategy seeks outperformance with less volatility over a full market cycle, relative to market-cap weighted strategies. With the events that triggered the volatility experienced in 2018 likely to persist, the Index is well positioned to continue to moderate market volatility, sharp market declines and improve risk-adjusted returns while providing a diversified equity exposure to multi-asset portfolios.

Source: Morningstar, Bloomberg.

* Performance attribution versus the iShares MSCI EAFE ETF (EFA).

1. Based on 1 year period with daily frequency.

Investing involves risk. Principal loss is possible.

KEY RISKS: The Fund is subject to the risk of investing in equity securities. The Fund also is subject to the risks of investing in foreign securities (which are volatile, harder to price and less liquid than U.S. securities). Please refer to the summary prospectus for a more detailed explanation of the Fund's principal risks. There is no assurance that the investment objective of any fund will be achieved. Diversification does not assure a profit or protect against loss in a declining market.

MSCI EAFE® Index: An unmanaged, free float-adjusted, market capitalization-weighted index that is designed to measure the performance of large-cap and mid-cap stocks in developed markets as determined by MSCI; excludes the United States and Canada.

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