INVESTMENT UPDATE as of April 16, 2018

EQUITY MARKET COMMENTARY

After a strong year for equity markets in 2017, the S&P 500 continued the trend into January, rising almost 6%; however, as the calendar turned to February and President Trump announced future tariffs and fears of a potential trade war between the US and China progressed, accompanied by concerns over interest rate rises (LIBOR particularly) the markets took a negative, and volatile, step back. Of note, the first quarter saw *twenty-three* days of a +/- 1% gain/loss, which can be compared to two such days in the first quarter of 2017. Going further, the markets saw *six* days of +/- 2% gain/loss, which can be compared to zero in the first quarter of 2017. The first quarter showed a marked increase in volatility, which has been generally absent since 2011. February saw a selloff that was triggered by strong wage growth numbers from the US as it appeared to accelerate from 2.5% to 2.9% year-over-year (YoY), which caused investors to worry that interest rates would rise faster than anticipated. As the S&P 500 rose almost 6% in January to a high on January 26th, stocks soon retreated and as of February 8th were down -10% peak to trough. In the beginning of March, it appeared a degree of calm had returned; however, global equities proceeded to demonstrate increased volatility due to growing fears of a global trade war.

Despite all the headlines and volatility, the US markets ended relatively flat, down -0.8% for the quarter, while MSCI Europe ex UK returned -3.0%, the Japan TOPIX -4.7% and the UK FTSE 100 was the worst major market, down-7.2%. The European Central Bank (ECB) appears to be in no rush to raise interest rates and while the removal of quantitative easing by the end of the year still seems likely, there does not seem to be short term urgency for the ECB to begin raising rates.

FIXED INCOME COMMENTARY

The following Bond and Interest rate commentary came from a Financial Times article that I belive did a very good job of explaining where those markets are and what to expect for the rest of 2018.

Central Banks fear rising interest rates' effect on asset portfolios

Claire Jones – Frankfurt

Officials responsible for managing central banks' vast asset portfolios pear exposure to steep losses as their policy-making counterparts tighten interest rates on the back of a global economic expansion. Central banks are some of the biggest investors in markets for government and highly rated corporate bonds, making their portfolios sensitive to changes in interest rates. In a pool of central bank reserve managers, responsible for assets worth $5.5 trillion, most said rising rates posed the biggest threat to their performance over the next year.

The US Federal Reserve is expected to raise rates three times this year, and the European Central Bank set to follow suit around mid-2019. Rates are at or close to historic lows, a legacy of central banks' response to the financial crisis of 2008 that left global markets teetering. Higher rates are expected to push up yields on government bonds and other relatively safe assets. With yields moving in the opposite direction to price, that would lower the value of the sort of assets that central banks tend to own.

In the pool of reserve managers at 79 central banks conducted by Central Banking Publications, a trade publisher, and HSC, just over three-quarters of respondents thought rising interest rates would be one of the biggest threats over the next year, with 59 percent saying it was the most important risk.

The reserve managers signaled they would respond to tighter monetary policy by buying more short-term debt for now, in a sign that they expect bonds with longer-term maturities to offer higher yields in the coming years as monetary policymakers raise rates.

The prospect of rate rises comes at a time when monetary policymakers are beginning to wean bond markets off the support they have provided through quantitative easing. Monetary policymakers across advanced economies bought trillions of dollars of assets as part of "quantitative easing" programmes aimed at restoring economic growth and staving off deflation. While the policies are credited with spearheading the global economic recovery, critics have said policymakers have inflated bubbles in asset prices.

Assets bought by banks under quantitative easing are not included as central banks' reserves, as policymakers are not expected to hold on to these over the longer term. The Fed has started to unwind its quantitative easing operations while the ECB is expected to halt fresh asset purchases under its €2.4 trillion programme at the end of this year. Reserves are usually amassed through central banks' attempts to control the value of their currency through purchases of the main global reserve currencies such as dollars or euros. Central banks tend to invest their reserves in safe government or corporate bonds, as well as gold, though some invest in equities. Most assets are denominated in dollars or euros. Central banks hold reserves worth $10.8 trillion according to IMF data. Asian central banks are responsible for the biggest reserve stockpiles.

Colman Wasmer commentary: (as of 3/31/2018)

Intermediate Taxable Fixed Income (ITTX)

- The Coleman Foundation account outperformed its primary benchmark, gross of management fees, for the quarter. The account returned -0.91% against -0.98% for the index.
- Unlike the 4th quarter, the corporate bond market experienced increased volatility and had negative excess returns for the quarter. The corporate bond market was the worst performing sector across all fixed income markets and the overweight by the portfolio hurt performance.
- The taxable municipal market did not experience the spread widening seen across all other credit sectors due to light supply and their high-quality bias. This sector contributed to performance by outperforming the Treasury component of the index.
- Duration management of the portfolio was neutral to the benchmark from both an overall standpoint and yield curve placement.
- Sector allocation at quarter end was 48% corporate bonds, 47% taxable municipal bonds and a small allocation to securitized bonds with the remainder in cash. We anticipate maintaining these allocations for the foreseeable future, with the exception of letting the MBS securities pay down over time and reinvesting back into corporate bonds.

Multi-Sector Income (MITX)

- The MITX account fully transitioned to the new strategy during the quarter. At quarter end the account held 41% taxable municipals, 29% corporates and 19% preferred stock with the remainder in cash.
- The total return for the quarter was -0.71% vs. -1.46% for the Bloomberg Barclays Aggregate index. Again, the allocation to taxable municipal bonds benefited the account and contributed to outperformance.

In summary the CFI investment committee believes there will be continued volatility in the Equity markets and that Fixed Income markets will be dealing with slowly rising interest rates, particularly in the US. We have a well-diversified asset allocation, which may lean towards being slightly more conservative than it has been over the past several years, given these anticipated market conditions.