MP McShane Partners

October 2018 INSIGHTS

Investment Overview

Synthesizing Portfolio Construction Strategies

Over the past several months, the Investment Team has repeatedly highlighted numerous tactical portfolio construction strategies that have been employed simultaneously across client investment portfolios. Given the media cacophony and escalating tension surrounding global trade and geopolitics, synthesizing these ideas will be beneficial in understanding portfolio positioning now and as we progress through the latter half of 2018. Since publishing these views in our monthly newsletters, a number of the Investment Team's contrarian ideas are beginning to outperform, with the notable exception of emerging market assets, which continue to cower under the strength of the U.S. dollar ("USD") but are exhibiting constructive signs of stabilization.

As can be seen in Chart I on the next page, the U.S. fixed income market, as represented by the Bloomberg Barclays U.S. Aggregate Index (the blue dashed line), appears to be stabilizing, while U.S. equities, as represented by the S&P 500® Index (the light green line), have considerably outperformed, with emerging market ("EM") equities, as represented by the MSCI EM Index (the orange line) significantly underperforming. The singular asset class in diversified, multi-asset investment portfolios (i.e., "Balanced Portfolios") exhibiting persistent relative outperformance has been U.S. Equity, suggesting that any investor requiring any level of downside protection has likely been *underperforming* the S&P 500® Index: in and of itself, the S&P 500® Index is *not* an appropriate benchmark for Balanced Portfolios, which blend principle protection and capital appreciation, as well as

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Wealth Advisory Overview

The Benefits of Working with a Wealth & Investment Advisory Team

There has been an increasing amount of research conducted regarding the benefits of working with a Wealth and Investment Advisory team. For obvious reasons, this research is of interest to consumers who want to understand how and when it makes sense to work with such a team, while advisors want to know how they can deliver value to their clients and tangibly convey that value to existing, as well as prospective clients.

Hire a Team or Do It Alone?

As wealth and investment advisors, we have the advantage of seeing the positive impact of our work in our client' lives. Whether it is mapping out a comprehensive financial plan to help them with a strategy to achieve their life goals, or keeping them from making behavioral mistakes that could derail their plan during a volatile market correction, we are often in the best position to see the value of what we do.

Investment Management

Studies show that there is an increase in the number of individuals

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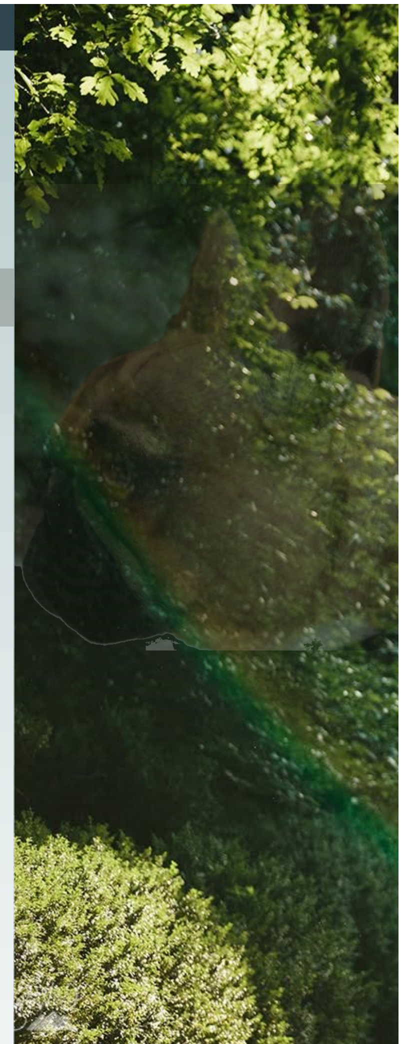


Investment Team

Daniele Donahoe, CFA
Chief Investment Officer
Elliott Van Ness, CFA
Director of Research | Portfolio Manager
Thomas Mack
Research Analyst

Wealth Advisory Team

Sandy Carlson, CFP®, CPA, CDFA™
President | Wealth Advisor
Leah Maybry, CPA
Director of Tax & Family Office Services
Lorri Tomlin, FPQP™
Wealth Advisor
Michael Means, CPA
Wealth Advisor
Ryan Vaudrin, CFP®
Wealth Associate
Lesley Burke
Client Service Associate

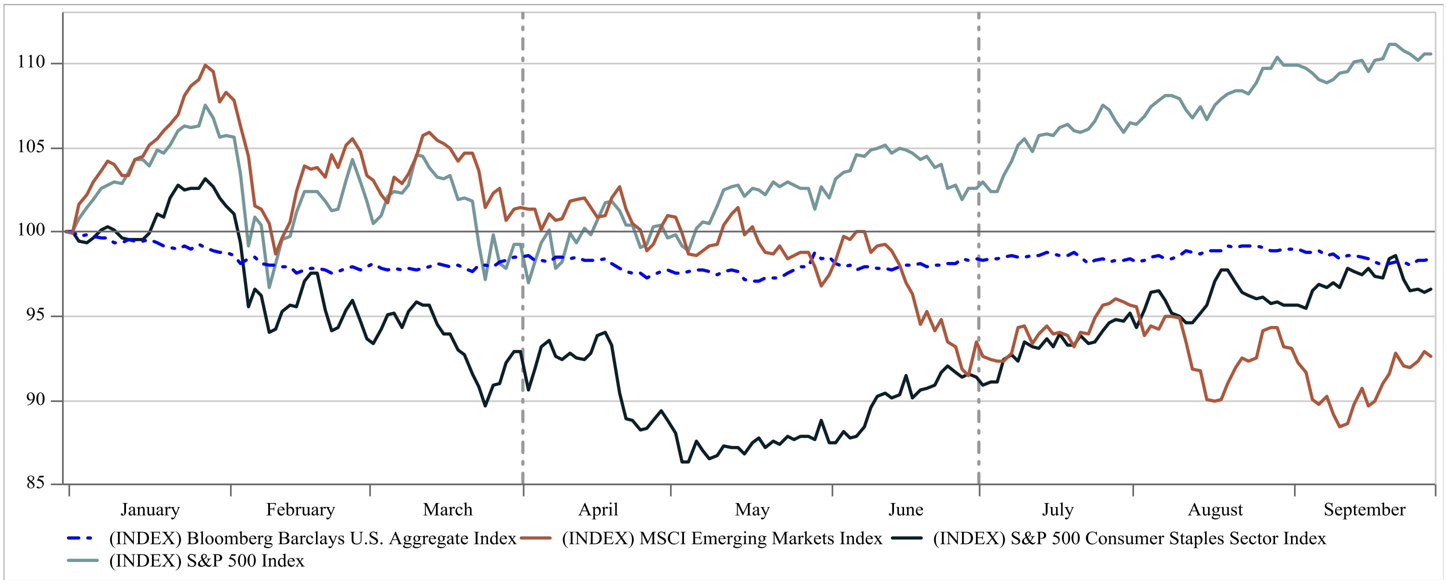
Special Points of Interest

Investment Overview

Synthesizing Portfolio Construction Strategies

incremental income generation. Our portfolio construction ideas are designed for clients seeking rational, risk-adjusted returns in accordance with their long-term return objectives and risk constraints, as stated in and mandated by their annual investment policy statement ("IPS") - *not* outperformance vs. the S&P 500® Index.

Chart I: 2018 Year-to-Date Index Performance



Source: FactSet Research Systems, Inc.

Fixed Income

When U.S. equity markets continually hit new all-time record highs, portfolio diversification is perceived as a nuisance by investors lamenting their exposure to other assets that are not the top-performing, high-momentum "celebrity" stocks du jour. As highlighted in the (April 2018 INSIGHTS), fixed income markets have historically outperformed equity markets through the trough in the equity market cycle, as represented by the cyclical bottoming of the S&P 500® Index. Despite lagging throughout the early-stages of prior rate hike cycles, broad-based fixed income assets, as represented by the Bloomberg Barclays U.S. Aggregate Index, have generated positive price returns following cyclical peaks in U.S. equities during the three most-recent rising rate periods for which index-level performance has been available, while the average cumulative peak-to-trough decline in the S&P 500® Index has been over **-44.0%**!

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Monthly Index Review
USD Total Return

Data as of September 30th 2018	September 2018	2018 YTD	2017	2016
S&P 500®	+0.57%	+10.56%	+21.83%	+11.96%
Dow Jones Industrial Average	**+1.97%**	+8.83%	+28.11%	+16.50%
NASDAQ Composite	**-0.70%**	**+17.48%**	+29.64%	+8.87%
Russell 2000	**-2.41%**	+11.51%	+14.65%	**+21.31%**
MSCI Emerging Markets	**-0.50%**	**-7.39%**	**+37.75%**	+11.60%
MSCI EAFE	+0.91%	**-0.98%**	+25.62%	+1.51%
Bloomberg Barclays U.S. Aggregate Bond Index	**-0.64%**	**-1.60%**	+3.54%	+2.65%

Investment Overview

Synthesizing Portfolio Construction Strategies

In late-2014/early-2015, the Investment Team moved to a tactical underweight positioning in Fixed Income across client investment portfolios due to initial concerns that interest rates would face upward pressure from rising wage inflation in response to subtle shifts in domestic labor market supply-demand dynamics. This tactical underweight has been maintained for the better part of the past three years, but, at the beginning of this year, the Investment Team outlined its intentions to increase portfolio-level Fixed Income allocations in tandem with rising interest rates through year-end, and, as such, we have been gradually adding exposure to high-quality fixed income assets (e.g., bonds) across client investment portfolios over the past several months.

After disappointing performance relative to the S&P 500® Index over the past three years, the Bloomberg Barclays U.S. Aggregate Index appears to have stabilized recently, returning approximately **±0.02%** quarter-to-date ("QTD") for the third quarter of 2018 ("3Q18"). Accordingly, we believe U.S. fixed income markets have experienced the majority of the negative price impact from the ongoing rate hike cycle after experiencing a near-term peak-to-trough decline of as much as **-8.4%** alongside an associated **±150 basis point** ("bps") increase in the federal funds rate. Heading into the fourth quarter of 2018 ("4Q18"), the Investment Team is continuing to reduce its tactical underweight positioning in Fixed Income allocations across client investment portfolios with the stated objective and intention of fortifying portfolios against an eventual drawdown in U.S. equity markets, although we are not *overly*-concerned enough, yet, to recommend a tactical overweight allocation to Fixed Income.

"It's wise to remember that too much success in the stock market is in itself an excellent warning."
- Gerald Loeb

Information Technology

At the end of the second quarter of 2018 ("2Q18"), the Investment Team wrote a newsletter highlighting the mounting risks surrounding the markets' unabashed infatuation with several high-profile, high-flying information technology stocks (July 2018 INSIGHTS). At the time, the Investment Team argued that, while index-level relative and absolute valuations were not egregious compared to peak levels seen during prior equity market cycles, the sector's premium relative to the broader U.S. equity market warranted caution ahead of adding to existing positions in information technology stocks at this stage in the market cycle. Since then, the popularity of and reverence for "FAANG" and other celebrity stocks within the sector has waned following disappointing earnings results from Facebook, Inc. ("FB") and heightened regulatory scrutiny regarding social media platforms and data privacy, with the NASDAQ Composite Index actually generating a *negative* return of **-0.70%** for the month of September.

As can be seen in Table I on the next page, the S&P 500® Dividend Aristocrats Index had been on track to outperform both the S&P 500® Information Technology Sector Index and the S&P 500® Index on a total return basis heading into the final week of the quarter, returning as much as **±9.8%** vs. **±7.9%** and **±8.3%** for the S&P 500® Information Technology Sector Index and the S&P 500® Index, respectively - lagging our tactical overweight in dividend-paying stocks. Through quarter-end, however, the S&P 500® Dividend Aristocrats Index returned **±7.9%** vs. **±8.8%** and **±7.7%** for the S&P 500® Information Technology Sector Index and the S&P 500® Index, respectively - the Investment Team continues to believe that patience, independent thought, consistency, and careful consideration of valuation might be temporarily out of favor, but normally prevail in long-term outperformance.

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About McShane Partners

McShane Partners is an experienced, boutique registered investment advisor dedicated to independent, comprehensive wealth management. Founded over 30 years ago, the firm, from its inception, has had a singular focus: to provide highly customized investment management and financial planning solutions to clients.

Boutique Firm:

Being a boutique wealth management firm allows us the flexibility to provide more personalized service and offer unique investment solutions to clients in a Fee-Only environment.

Team Approach:

Because each client's situation is different, the team of advisors is hand-selected to ensure areas of expertise are appropriately aligned with the client's specific needs and interests.

Proprietary Investment Research:

The differentiating factor of our portfolio management process is the proprietary investment research driving the portfolio construction. All investment research and analysis is done entirely in-house by our Investment Team.

INVESTMENT OVERVIEW

SYNTHESIZING PORTFOLIO CONSTRUCTION STRATEGIES

DEFENSIVE SECTORS

Similarly, the Investment Team also wrote a newsletter earlier this year reiterating our positive fundamental outlook for Defensive Sectors ("Defensives") - including Consumer Staples, Health Care, Telecommunication Services, and Utilities - despite the admittedly disappointing relative underperformance of Defensives through the end of 2Q18 (June 2018 INSIGHTS). As a means of quickly gaining tactical, sector-level exposure to Consumer Staples across client investment portfolios, the Investment Team added the Vanguard Consumer Staples ETF ("VDC") to our firm-wide buy lists in late-May/early-June 2018 and has been selectively initiating positions in VDC across applicable client investment portfolios over the past several months. As can be seen below in Table I, since initiating coverage on VDC (May 31st 2018) and reiterating our positive near term outlook for Consumer Staples, the VDC and the S&P 500® Consumer Staples Index have returned **±9.7%** and **±10.5%**, respectively, vs. **±8.4%** for the S&P 500® Index.

TABLE I: U.S. EQUITY MARKET INDEX PERFORMANCE ANALYSIS

INDEX-LEVEL PERFORMANCE USD TOTAL RETURN	PARTIAL 3Q18 6/30/18 - 9/21/18	3Q18	SINCE INITIATION 5/31/18 - 9/30/18	2018 YTD
S&P 500® Index	+8.26%	+7.71%	+8.37%	+10.56%
S&P 500® Dividend Aristocrats Index	**+9.82%**	+7.91%	+8.84%	+6.46%
S&P 500® Information Technology Index	+7.90%	**+8.80%**	+8.42%	**+20.62%**
S&P 500® Consumer Staples Index	+7.87%	+5.70%	**+10.45%**	**-3.34%**
Vanguard Consumer Staples ETF ("VDC")	*+6.99%*	*+4.97%*	*+9.70%*	**-2.27%**

U.S. DOLLAR VS. EMERGING MARKETS

As the Investment Team highlighted in a monthly newsletter published earlier this year (August 2018 INSIGHTS), the strengthening U.S. dollar ("USD") over the past ±9-12 months has weighed on the performance of emerging market ("EM") equities year-to-date ("YTD") in 2018 following strong outperformance in 2017. EM equities have continued to struggle through the end of 3Q18, and, as such, the Investment Team is taking advantage of tactical pullbacks to increase exposure to attractively-valued EM equities and selectively add to actively-managed EM equity strategies across client investment portfolios given a near-term stabilization in relative USD strength and the superior long-term economic growth outlook for EM countries versus developed market ("DM") counterparts.

While our actively-managed strategies and individual security selections struggled to keep pace with the rapid outperformance of the MSCI Emerging Market Index throughout 2017 and into early-2018, the

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TABLE II: EMERGING MARKET EQUITY PERFORMANCE ANALYSIS

INDEX-LEVEL PERFORMANCE USD TOTAL RETURN	3Q18	2018 YTD	2017
MSCI Emerging Markets Index (Net)	**-0.95%**	**-7.39%**	**+37.75%**
AmBev SA Sponsored ADR ("ABEV")	**-1.30%**	**-28.26%**	+34.66%
Infosys Limited Sponsored ADR ("INFY")	**+28.03%**	**+4.68%**	+12.00%
Janus Henderson Emerging Markets Fund ("HEMIX")	**-11.92%**	**-2.66%**	+29.72%
Matthews Asian Growth & Income Fund ("MACSX")	**-4.70%**	+1.61%	+21.73%
Matthews Pacific Tiger Fund ("MAPTX")	**-7.68%**	**-2.40%**	**+39.86%**
Rondure New World Fund ("RNWIX")	**-9.40%**	**-4.66%**	-
Seafarer Overseas Growth & Income Fund ("SIGIX")	**-9.21%**	+1.41%	+26.03%

INVESTMENT OVERVIEW

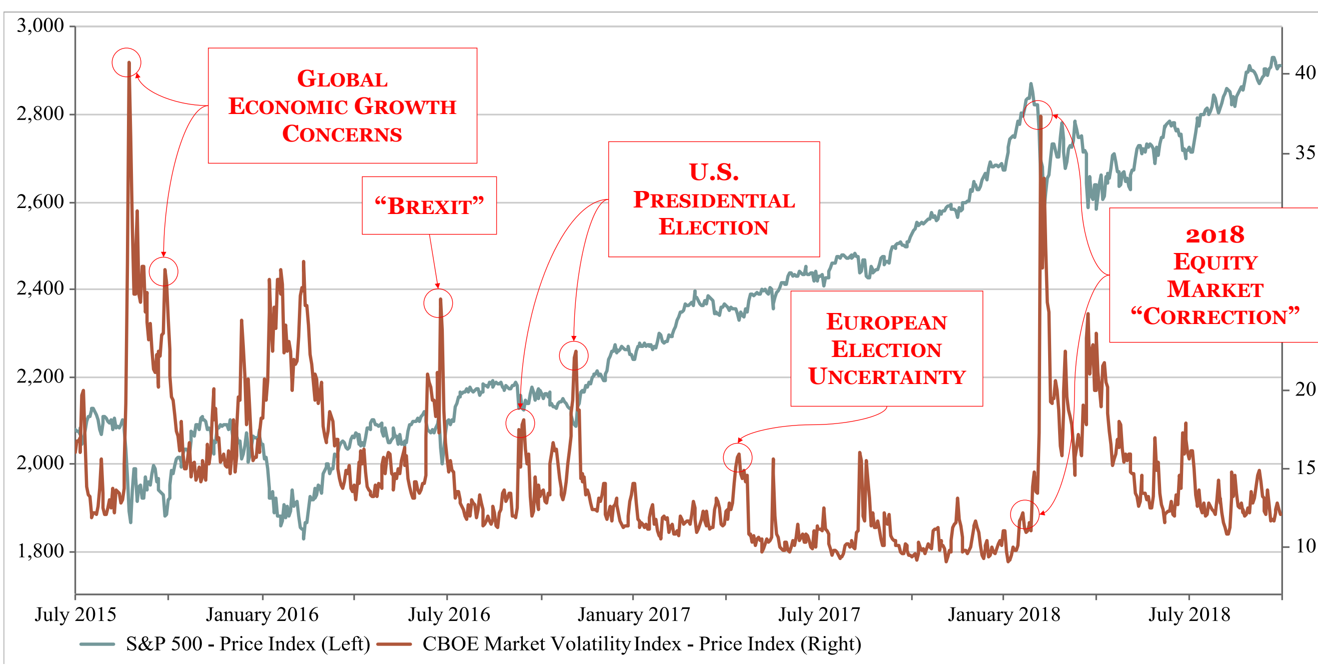
SYNTHESIZING PORTFOLIO CONSTRUCTION STRATEGIES

Investment Team continues to adhere to our fundamental investment philosophy of avoiding EM index replication across client investment portfolios given the benchmark's inherent structural flaws and disregard for fundamental quality, which we view as critical components to long-term risk-adjusted outperformance. As can be seen in Table II on the prior page, **when the MSCI Emerging Market Index suddenly collapsed with the sudden appreciation in the USD, our International Equity allocations began to exhibit meaningfully risk-adjusted outperformance.** Therefore, we continue to view short-term pullbacks as opportunities to add incremental risk across International Equity allocations, while continuing to reducing equity market risk (i.e., "beta") across our U.S. Equity allocations. There is a considerable sentiment-driven valuation discrepancy between international and domestic equity markets that suggests a contrarian investment opportunity, which has consistently delivered/performed over time for long-term investors, as supported by the aforementioned portfolio positioning strategies that are currently paying dividends, despite being out-of-favor and unpopularity at the time of their initiation.

LACK OF VOLATILITY

In an attempt to avoid repeating painful past mistakes, we would recommend taking the time to revisit our thoughts and commentary from August 2017 INSIGHTS, wherein the Investment Team addressed the eerie market complacency, exemplified by the virtual absence of volatility, as measured and represented by the CBOE Volatility Index® ("VIX"), which measures forward-looking 30-day S&P 500® Index volatility. Subsequently, as can be seen below in Chart II, U.S. equity markets experienced the most significant spike in volatility, as well as the first **±10.0%** correction, in almost *six years*. Fast forward to today, when the S&P 500® Index has not experienced a move up or down greater than **±190 points** for **±57 days** - the longest streak since January 2018 (*Source: Barron's, September 17th 2018*). The current backdrop looks similar to that from late-2017 and early-2018, thus the Investment Team would caution investors against becoming complacent heading into year-end.

CHART II: CBOE VOLATILITY INDEX® VS. S&P 500® INDEX



Source: FactSet Research Systems, Inc.

Investment Overview

Synthesizing Portfolio Construction Strategies

Stock & Strategy Spotlight

Name	Ticker	2018 YTD
The S&P 500® Communication Services Sector Index	SP793	+0.75%

Description & Investment Thesis

In late-September 2018, the S&P Dow Jones Indices completed the restructuring and reorganization of its widely-used Global Industry Classification Standard ("GICS®") index methodology by effectively replacing the S&P 500® Telecommunication Services Sector Index with the newly-created S&P 500® Communication Services Sector Index, which is composed of the original underlying component stocks from the S&P 500® Telecommunication Services Sector Index, as well as several reclassified stocks from both the information technology and consumer discretionary GICS® sector-level indexes. As the Investment Team previously mentioned in its July 2018 INSIGHTS newsletter, the S&P 500® Communication Services Sector Index should be *more* economically representative of the fundamental business and revenue models of the underlying component stocks than the prior sector-level index classifications, under which several prominent internet-/technology-driven businesses, such as Netflix, Inc. ("NFLX"), had been included in the S&P 500® Consumer Discretionary Sector Index.

The majority of the index-level impact will be felt with the reclassification of sector-level index heavyweights from the S&P 500® Information Technology Sector Index, such as Alphabet, Inc. Class A & C ("GOOGL"/"GOOG") and Facebook, Inc. Class A ("FB"), to the S&P 500® Communication Services Sector Index. For example, the weighting of the S&P 500® Information Technology Sector Index within the S&P 500® Index declined from approximately **±25.9%** (September 21st 2018) to roughly **±21.0%** (September 28th 2018) as a result of the reorganization, while the index-level representation/weighting of the S&P 500® Communication Services Sector Index increased from **±2.0%** to **±10.0%** during that same time.

While the Investment Team does *not* anticipate the reorganization of the GICS® sector-level indexes will have a significant, long-term impact to our fundamental investment and portfolio management strategies, the near-term effects of such broad-based changes may cause short-term disruptions or distortions in the observed behavior of certain affected stocks sector-level behavior, as indexes, passively-managed investment vehicles, and portfolio managers incorporate the resulting changes in their constituent holdings and securities portfolios, respectively.

Wealth Advisory Overview

The Benefits of Working with a Wealth & Investment Advisory Team

who are beginning to manage their own money. This increase is attributed to easy access to financial information, a proliferation of online brokers and low fee market index funds. While the advantages of managing your own money include a savings on investment advisor fees and the freedom to make your own decisions, these benefits often come at a high cost. More than likely, your portfolio will not outperform that of a professional. This can result from improper diversification which means that your portfolio has not been invested appropriately among all asset classes, or maintains position sizes that are too large and subject the portfolio to risk. This lack of diversification does not prepare the portfolio adequately for market fluctuations.

You could also make very expensive mistakes, such as making behavioral decisions to sell while under duress in times of market volatility. What if the market crashes as it did in 2007? Are you able to fight the urge to panic and sell everything if your portfolio lost half its value? This is where working with an investment professional is a huge asset. Choosing to hire an investment advisor to manage your money, while taking into account your goals and cash needs, provides you with expert management of your portfolio and peace of mind knowing that a professional is monitoring the market and your portfolio, and making needed changes without being emotional and/or irrational.

Comprehensive Financial Planning

Why should you work with a wealth advisor that provides comprehensive financial planning? Having a partner that is credentialed and highly experienced to help you navigate complex financial situations, answer questions as they come up and provide you with continuous comprehensive financial planning allows you to make adjustments to your plan along the way and track your progress as you work to achieve you goals.

- ✓ Are you nearing retirement and need to understand if you are financially ready to retire, or are you in retirement and need to understand the best strategy for withdrawing from your various retirement accounts in order to meet your needs and maintain a successful plan?
- ✓ Maybe you are a high earner and have the ability to save a lot of money but do not know the right way to prioritize and take advantage of the tax breaks available to you? A wealth advisor can help you make decisions and recommend tax-savings strategies.
- ✓ Want advice on what type of life insurance you need and how much is needed?
- ✓ Should you deposit your bonus into your child's 529 plan or your retirement account?

These questions all have a number of nuances and strategies that can be difficult to understand or implement without the help of a professional. You need a financial partner who will provide comprehensive financial planning in all areas and at all times. The value of hiring an excellent team is that you have help achieving your life goals, which translates to you living a better life. A wealth and investment advisory team can help you make better financial decisions and take full advantage of the opportunities available to you and provide you with the peace of mind of knowing that your financial life is on track.

Wealth Scorecard

As we near the end of our wealth advisory portal implementation, we are excited to launch our Wealth Scorecard initiative over the next several months. The Wealth Scorecard is a tool that will help us summarize and quantify the value of the wealth and investment management services that we have provided to you over the prior twelve months. We look forward to discussing all of the services that we provide and the value that we add to you as a client of McShane Partners.

Around McShane Partners

Light the Night

At Light the Night, it is their aim to bring light to the darkness of cancer through research and cures. Light The Night is a series of fundraising campaigns benefiting The Leukemia & Lymphoma Society's ("LLS)" funding of research to find blood cancer cures. Partner, Leah Maybry, was asked to do the Executive Challenge to raise money for the Leukemia & Lymphoma Society's Light the Night Walk, which will be held on November 10th. She is teaming up with her good friend Wendy Teal, who was diagnosed with lymphoma in 2015, and her goal is to raise $50K.

To learn more about this amazing charity or support this great cause, please visit Leah's page.

Supporting Dress for Success at The Ultimate Power Luncheon

McShane Partners, clients and friends attended the Ultimate Power Lunch for Dress for Success. The luncheon was held at the Fillmore Charlotte Music Factory on Monday, September 24th. At this years' event special guest, Joi Gordon, Chief Executive Officer of Dress for Success Worldwide spoke about the amazing success stories of how Dress for Success has had a tremendous impact on women in our communities. A champion of upward mobility for 18 years, Dress for Success Charlotte provides services to more than 800 women who are seeking employment as a means to achieve economic independence and strengthen their families.

McShane Partners' ladies pictures below with Kerry Barr O'Connor, Executive Director, Dress for Success

Charlotte and Joi Gordon, President & CEO, Dress for Success Worldwide

McShane Partners' Wealth Advisory Portal Lunch & Learn Seminars

Please join us for an informational opportunity to learn how to navigate & understand your wealth advisory portal. Learn how to link outside accounts, utilize electronic vault storage, and access both wealth advisory and investment portals with one login.

Please choose from one of the following available informational sessions:

Tuesday, October 23rd
11:30 AM - 1:00 PM (Lunch Provided)

Tuesday, October 23rd
5:30 PM - 7:00 PM (Light Refreshments Provided)

If possible, please plan on bringing your laptop

McShane Partners

Wealth management is our only business; therefore, our attention is undivided and our intentions are transparent.

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