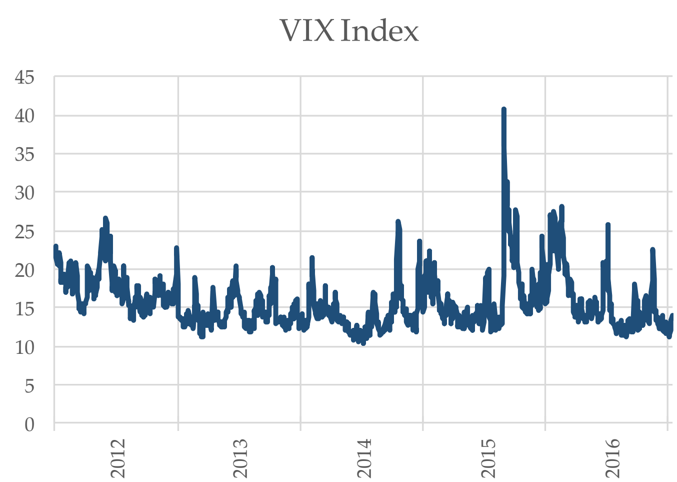
"Logic will never change emotion or perception."
-Edward de Bono
"Reality is merely an illusion, albeit a very persistent one."
-Albert Einstein

Fourth Quarter 2016 Update

In many recent discussions with our clients, peers and managers, the topic of how "volatile" the markets were in 2016 has come up. However, when we drill into the data, we find that 2016 was not a terribly volatile year at all when we compare it versus history. The oft quoted VIX index[1] averaged only 15.8 for the year (18.1 = VIX ten-year average) and consistently trended lower after a relatively brief spike in early 2016. So, when we reflect back on the downgrade of the U.S. in 2011 and various stages of the European debt crisis, volatility in 2016 was quite modest.



So what feeds into the perception of volatility in 2016? There are a few factors to consider in our view. There were definitely a few notable dates on the calendar that were expected to be quite volatile, especially since the "odds makers" were dead wrong in predicting the outcomes. When the citizens of Britain unexpectedly voted to leave the European Union, many market participants thought this was the end of the Euro and there was a quick, knee-jerk, risk off reaction in various asset classes across the globe. Fortunately, our team has been investing in Europe long enough to understand that no deal is final based a single vote and one reacts to initial headlines at their own peril. Stay tuned for more on this front over the course of 2017. Another significant event was the U.S. elections where a GOP sweep was even further off many investors' radars than the outcome of the aforementioned Brexit vote. In this case, the market dipped pre-election, but quickly moved on to focus on the improved prospects for growth if campaign promises to reduce taxes and regulation while increasing infrastructure spending come to fruition. The new administration's approach towards trade, foreign policy, and immigration remain a wild card, but post-election markets have focused more on upside potential than downside risk.

There's another factor to consider in investors' perception versus reality in 2016. Quite often, investment managers refer to markets that were "volatile" when explaining the unexpected. As a result, many managers were underweight from a risk perspective, then needed to quickly chase the markets higher when valuations rebounded faster than expected. Even in early 2017, we still see managers in certain asset classes chasing last year's trades, aiming to get back to a risk neutral position.

[1] VIX measures the market's expectations of near term volatility conveyed by S&P 500 index options.

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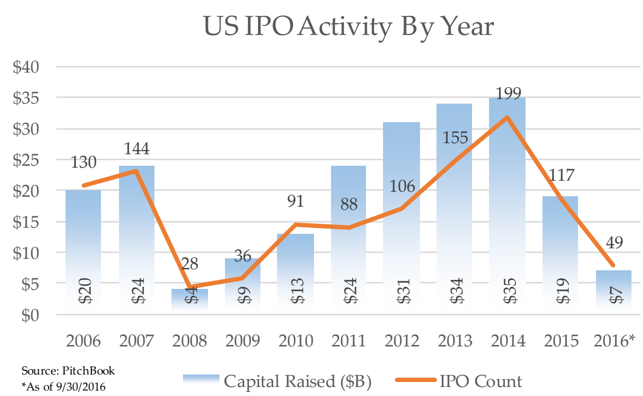
Amidst all these surprising events, U.S. Equity markets finished the year up +13%. Despite its strength, the IPO market hovered above historic lows not seen since the depths of the financial crisis in 2008. So what gives? Both private equity firms and venture capital managers are sitting on stockpiles of cash, giving companies opportunity to meet their financing needs within the private markets. This helps them avoid the costs, increased regulations and short term investor base that comes with tapping the public markets. In addition, the amount of capital that companies are holding led to strong merger and acquisition activity, which appears to be continuing into 2017 as well. The most recent example was Appdynamics. While on their road show and about to go public, they were bought by Cisco, supposedly within 72 hours of negotiations.



Looking Ahead Towards 2017

While much has been made of the market's post-election optimism, the fact remains that the U.S. economy was showing strong signs of life well before November 8, as demonstrated by full employment and signs of rising wages. Nevertheless, U.S. Equity market valuations remain at or near all-time highs while bond yields hover just above historic lows and are trending higher. We continue to recommend broadly diversified portfolios for our clients, which provide flexibility to over and underweight areas with more favorable expectations or material downside risk. At present, we consider non-U.S. equities and emerging markets as favorable due to their attractive valuations on an absolute and relative basis while core fixed income is less compelling due to duration risk. Finally, we continue to explore alternative investment strategies, which tend to be less efficient, offer greater opportunity through manager selection, and are less correlated with stock and bond markets.

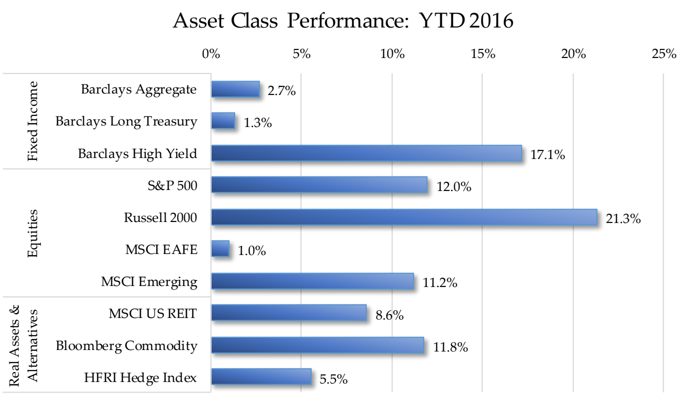
Risk Management and Monitoring: IRIS Software Solution

Risk management and monitoring continues to be a hallmark of Disciplina's investment philosophy, necessitated by our extensive history of investing across a broad range of geographies and asset classes for over 25 years. In strategic partnership with Vanderbilt University, we recently launched

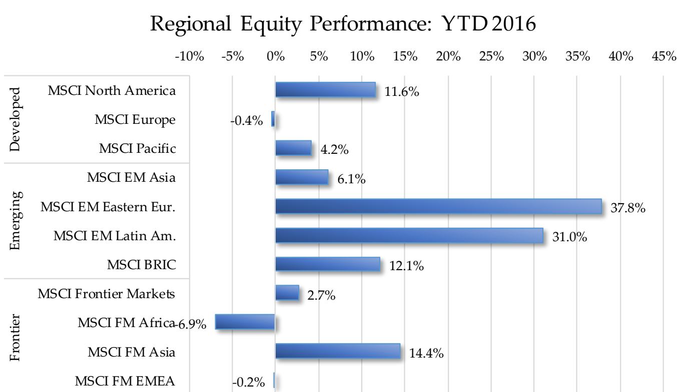
commercialization efforts of an integrated portfolio management solution called IRIS, developed during our team's tenure at Vanderbilt. IRIS is specifically designed as a **holistic solution** for multi-asset class and multi-manager investment portfolios encompassing accounting, reporting, and risk monitoring. The system's multi-asset class aggregation capabilities offer unparalleled transparency and daily reporting. Please contact Rigved Joshi (rpjoshi@disciplina.com) for more information or to schedule a demo of the software.

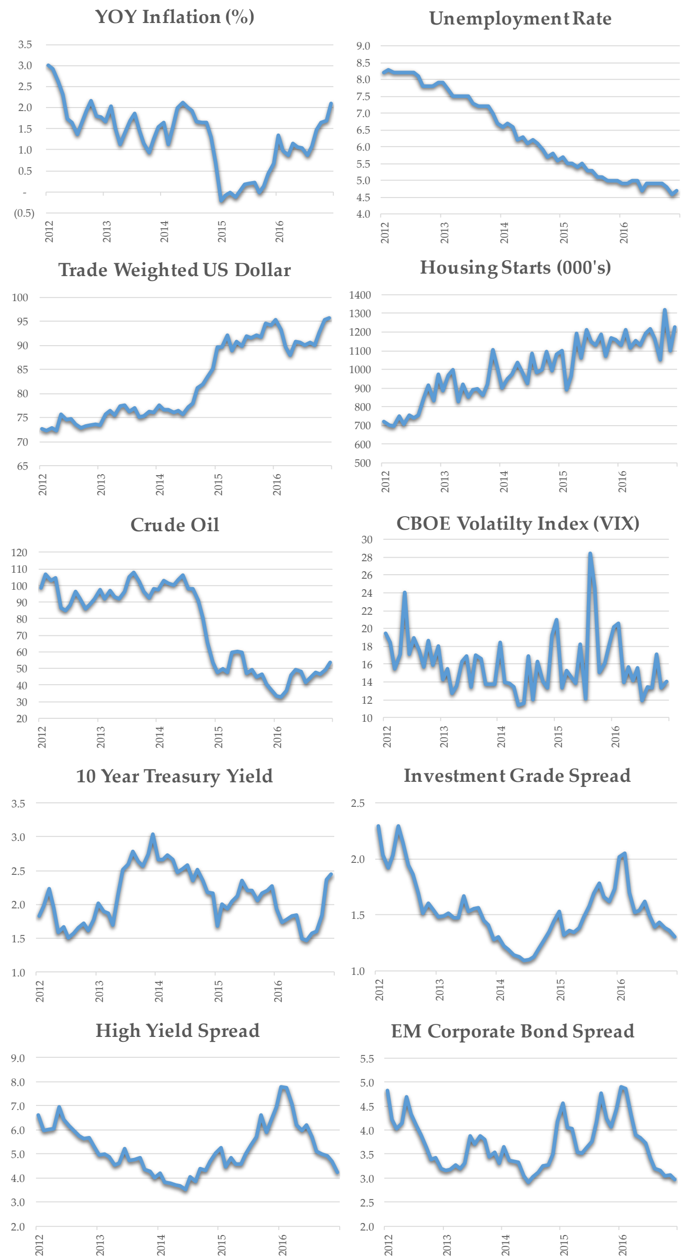
Market Update

All major market indices were positive in 2016. U.S. equities led the way with emerging market equities following close behind. High yield credit spreads compressed throughout the year and gained 17.1%. Real assets in gained 8-12% while hedge fund strategies gained 6%.



Regionally, U.S. equity markets outperformed other developed markets. Emerging markets were led by Russia and Brazil, rebounding from prior years' lows.





* Sources: BofA Merrill Lynch; US Departments of Labor, Commerce & Energy; CBOE; Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System

Firm Update

Finally, we recently moved offices. Please note our new address at the bottom of the page. We look forward to seeing you in 2017!