"You can't grow long-term if you can't eat short-term. Anybody can manage short. Anybody can manage long. Balancing those two things is what management is." – Jack Welch

First Quarter 2017 Update

Mr. Welch is renowned as a management guru due to his great success as the CEO of General Electric throughout the 1980's and 1990's. While his fame comes from his ability to manage people, and by extension a company, we occasionally find that insights from beyond the field of asset management can be helpful as we aim to navigate the markets for our clients. The term "eat short-term" can be translated into portfolio management speak as holding enough cash to weather a market downturn and still meet the liquidity needs of your organization.

Key challenges for any business, including endowments and plan sponsors, include determining how much cash you need to maintain to "eat" while also minimizing the cost of holding that cash. Cost is defined in terms of lost opportunity and the inherent loss of value due to inflation. Fortunately, at Disciplina we have a long history of managing through both challenges. In our note for this quarter, we will discuss our approach to managing institutional cash in the form of treasury, operating or capital reserves. Specifically, we will give investors some insight behind our "Cash Plus" strategy that we have managed as a team for several years.

The Cash Conundrum

So, let's get one thing out in the open: Cash management is not an exciting topic. It's definitely not an item that will come up during a cocktail party or even water cooler chatter. For this reason, many clients ignore the issue and/or take the path of least resistance and put it in a bank account or a short-term government fund. Even though the Federal Reserve has recently bumped up short term interest rates, both options yield close to 0%, and in some instances, negative returns on a net of fee basis. The current rate environment is a lingering reminder of the global financial crisis that is now almost 10 years behind us.

Another remnant is the fact that there is a heightened comfort level with holding higher than normal cash balances by institutions. Following the global financial crisis, the importance of liquidity was apparent as those who had it were afforded flexibility to continue business as usual, or in some instances make opportunistic investments, while others were forced to sell assets at distressed prices to raise cash. Another challenge, particularly with not for profits, is the lumpiness of inflows and outflows, which do not perfectly match the timing of their operating needs. Whether it is academic institutions that collects tuition twice a year or a donor dependent grant maker seeking to balance the cyclicality of inflows with program and grant requests, there is a need to find a better way to manage both the short and long-term investment needs of the organization so as to "eat" and possibly "grow".

So herein lies the conundrum. Organizations hold meaningful cash balances so they can "eat" in the short term, but have few viable investment options to "grow". While bank accounts and short term treasuries aid in preservation of capital, they offer minimal return and make the cost of holding those cash balances even higher. If only there was a way to preserve capital and generate incremental performance. This leads us to a discussion on Disciplina's cash plus strategy.

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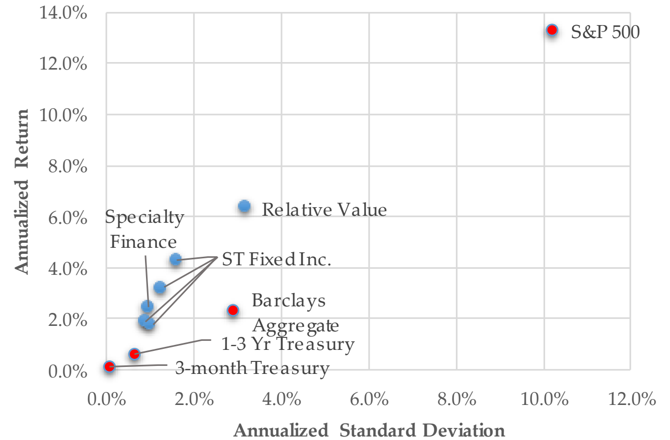
Disciplina's Cash Plus Strategy

Our team's prior experience within higher education institutions with major healthcare operations has afforded us the opportunity to oversee multiple pools of assets in addition to endowment portfolios. Through our experience, we have developed solutions to meet the investment needs for multi-million dollar operating funds, reserves and other liquidity pools. Based on recent discussions with institutions grappling with this issue, we thought it would be helpful to discuss it on a wider platform and welcome any questions or dialogue from this newsletter.

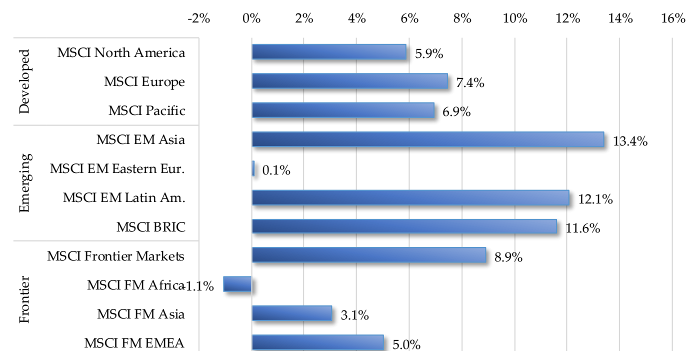
Through Disciplina's solution based approach, we provide manager of manager solutions tailored specifically for our clients through either customized strategies or our proprietary pooled vehicle. Leveraging over 15 years of experience as a team, we identify investment strategies and managers across our expansive network that generate superior risk adjusted returns while preserving capital and fulfilling our clients' liquidity requirements. Underlying investment strategies include short-term fixed income and alternative short-term investment strategies categorized as specialty finance and relative value. These strategies tend to be highly liquid, short-term and "self-liquidating" by nature. Therefore, market to market risk or the potential for downside returns is limited. The cash plus strategy is managed to be liquid, have a mitigated risk profile, and targets returns ranging between +2% to +4% over cash.

Manager selection entails several quantitative and qualitative elements such as manager quality, volatility, returns, correlations and other risk factors. In general, the most attractive investment strategies and managers tend to be smaller, operating in niche market segments producing attractive risk adjusted returns due to some form of structural impediment or information asymmetry. This chart highlights a number of these investment managers.



Market Update

U.S. equity markets carried their fourth quarter 2016's positive momentum into the first quarter of 2017, gaining 5.7% with large cap U.S. equities outperforming small cap equities. U.S. markets performed well, despite waning enthusiasm for the "Trump Trade" toward the end of the quarter as the administration pushed the probability of affecting change further into the future. International equity



markets gained more (+7.2%) in the first quarter of

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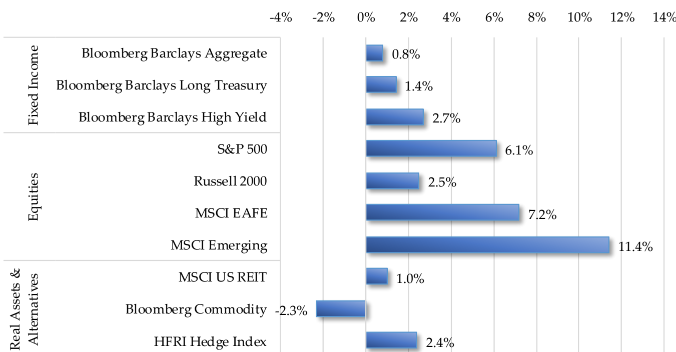
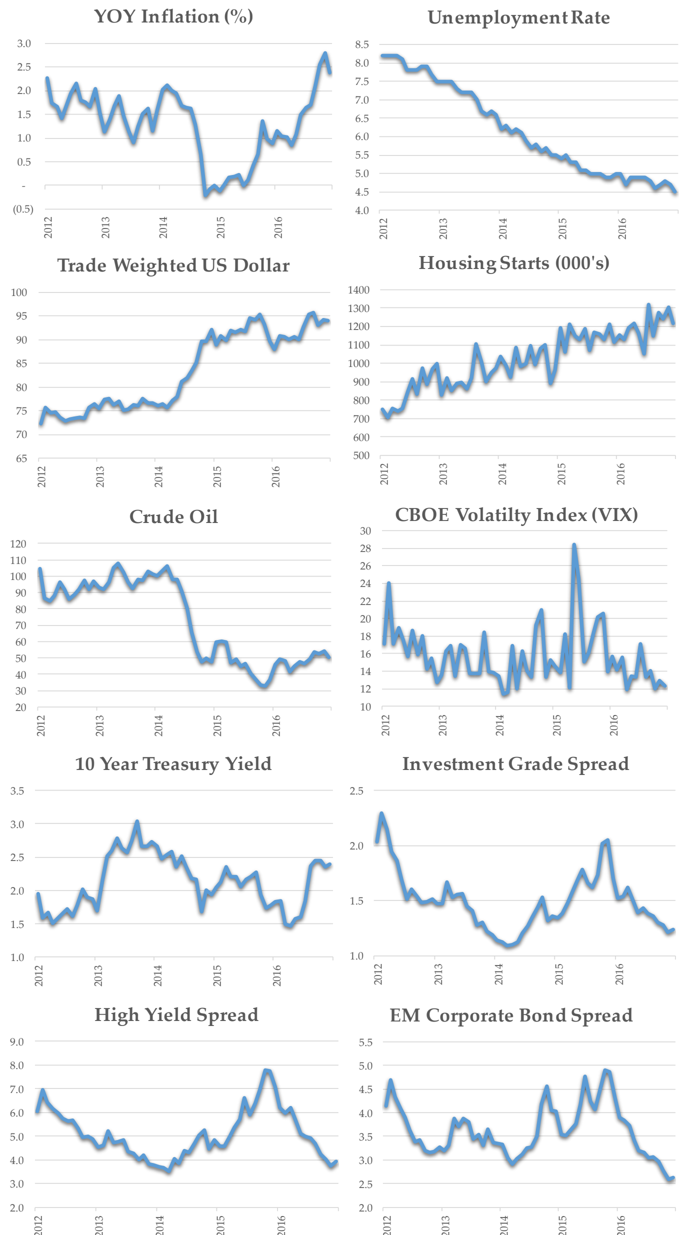
2017 than they had in all of 2016 as European political risk subsided. Emerging market equities led the charge with an 11.4% gain with India (+17.1%) and South Korea (+16.9%) leading the way. Latin America fared well with both Brazil (+13.2%) and Mexico (+16.0%) in double-digits. China was up 12.9%.





* 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

Despite the proverbial market ups and downs, we continue to identify differentiated opportunities to enhance our clients' long-term endowment and cash plus portfolios and thus their missions. We look forward to checking in with you on our travels throughout the remainder of the year. In the meantime, please free to contact us regarding this letter or visit our website www.disciplina.com for the latest updates including Matthew's selection as the 2017 Commencement Speaker at his alma mater, Seton Hall University.