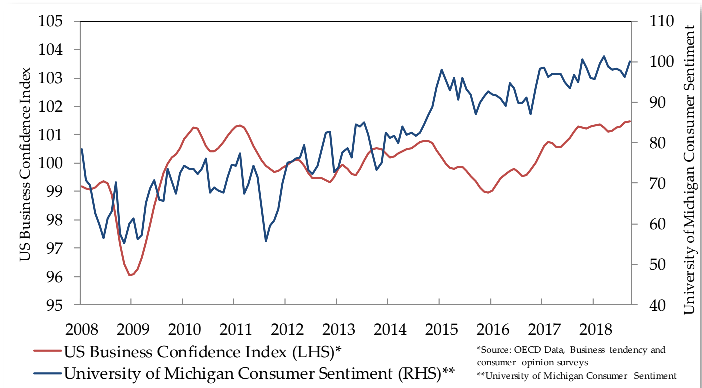
"The owner, the employees, and the buying public are all one and the same, and unless an industry can so manage itself as to keep wages high and prices low it destroys itself, for otherwise it limits the number of its customers. One's own employees ought to be one's own best customers."– Henry Ford

Third Quarter 2018 Update

Back in the early 1900's when Mr. Ford asked his managers to find a way to double the daily wages of his factory workers to a whopping $5 per day, they surely thought he was mad. In simple terms, an increase of costs in that magnitude would surely bankrupt the company. What Mr. Ford saw that others did not was the commensurate uptick in demand from more highly paid consumers and productivity gains that would come from a more stable and engaged labor force. Clearly, much has changed since those days as we now live in an era of complex global supply chains where the employees who produce goods and the consumers of said goods are often separated by oceans and continents. Fast forward to earlier this year when the CEO of BlackRock, Larry Fink, in a widely debated letter, discussed a new era on corporate governance where management should consider broader goals than simply hitting earnings per share estimates for the next quarter. In the note, he argues the long-term goals should be set and communicated effectively with the well-being of all stakeholders being taken into consideration.

As we consider our outlook for the balance of 2018, we wonder if the needs for all these various constituencies can be met. Specifically, we think about the mindset of Wall Street, corporations and the consumer in the U.S. and abroad. One thing they share in common is that both corporations and consumers in the United States (aka employees) are quite confident about the current economic outlook. Corporations have been emboldened by a much more favorable regulatory environment over the last few years, an uptick in cash flows due to tax cuts and central bankers in the U.S. and abroad that have kept markets tame and ebullient with stimulatory or at worst neutral monetary policy. Consumers have benefitted from the uptick in hiring which has taken the unemployment rate down to 3.7%, a level not seen since 1969. While wage growth has been held in check for now, employees' ability to maintain their current job or upgrade to a better position is as optimistic as it has ever been. We think the term "goldilocks economy" tends to be a bit over used, but it has been an environment where consumers and corporations are very optimistic as their capital expenditures and revenues increase along with personal consumer's 401k balances expanding thanks to rising equity markets since the Global Financial Crisis.

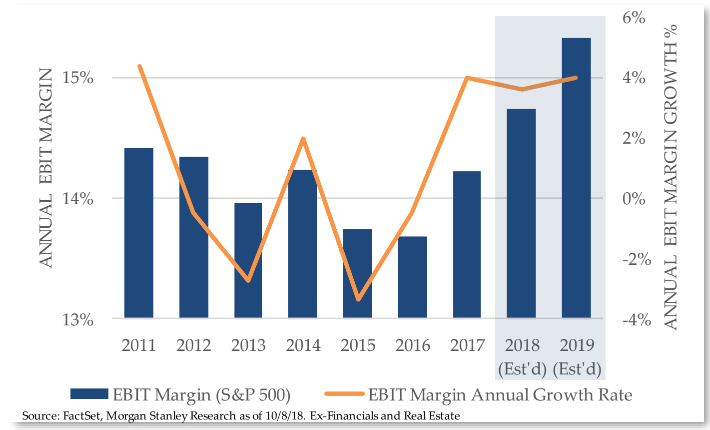
Business & Consumer Confidence High



However, we believe that we are approaching a point where something has to give. The equity markets are being supported by record high profit margins, but the consumers/employees of the world may start to ask for a larger piece of the pie as the labor market continues to tighten. As you can see in the following chart, the current consensus amongst analysts in the equity markets is that these margins will continue to expand. With some companies having as much as 70% of their cost base in personnel costs, this could be a meaningful hit to earnings, unless revenues increase as well. From a macro perspective, this could translate into increased consumer spending, which would be a net positive. Similar to Mr.

Fink's line of thought, we would argue that it could be time for public companies to look past next quarter's EPS target and share some of the wealth with their employees.

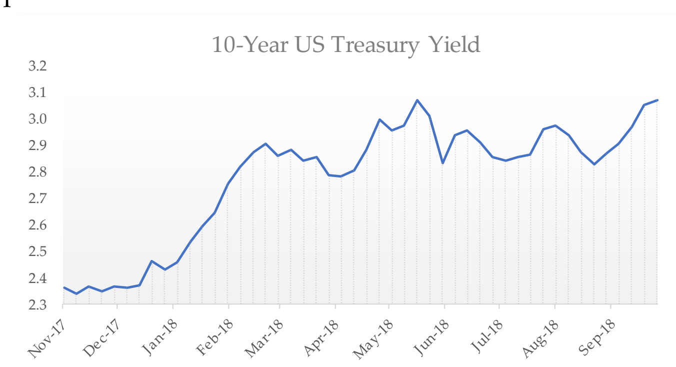
Analysts Overly Optimistic About 2019 Margins



Unfortunately, wage growth is a major fear factor on Wall Street right now. It is not that the equity and bond traders of the world have a problem with the average Jane or Joe taking home a few more dollars in their weekly paycheck, but rather they fear what the Federal Reserve's reaction to those wage increases might be.

Rate Spike Post August Fed Minutes

When discussing whether the Fed can communicate the exact level where interest rates are neutral in terms of their effect on the economy, it was stated "Continuing to provide an explicit assessment of the Federal Funds Rate relative to its neutral level could convey a false sense of precision."



Since this statement was released on August 22, the ten-year treasury closed at a yield of 2.82% and has been on a steady march higher, currently trading at a new high of 3.2% as we write this note.

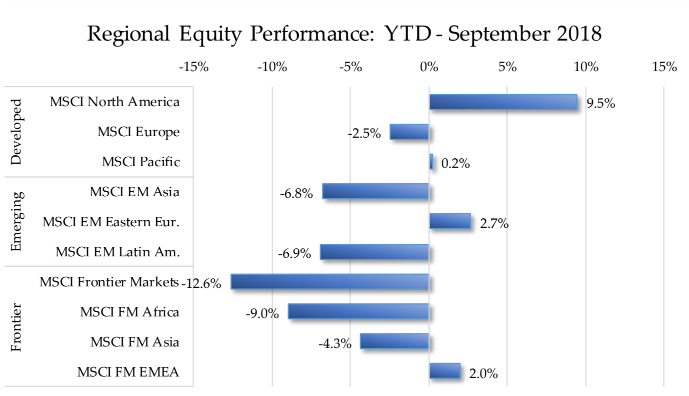
Volatility Creates Opportunity

As we survey the global investment landscape, there are plenty of issues that could keep a guardian of capital awake at night. In addition to upward pressure on rates and inflation, we also have trade wars, Brexit discussions, Italian budget negotiations and the current political climate in the U.S., to name a few. Out of this list, the state of our trade discussions with China remain the biggest concern as we discussed in our 2Q18 update http://www.disciplina.com//app/uploads/2018/07/Disciplina-2Q18-Letter.pdf. Our base case remains that this situation will not trigger any dramatic change in risk sentiment and/or recession in the U.S., but it will remain top of mind for the foreseeable future. There is also a chance that the current administration will escalate the rhetoric on this front post the mid-term elections.

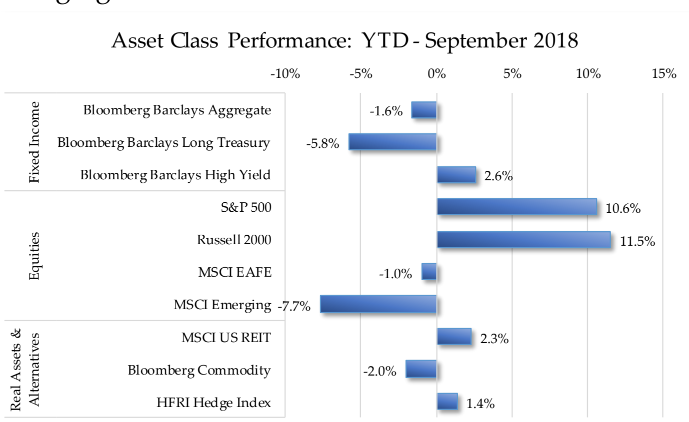
Somewhat akin to the taper tantrum experience of 2013, markets are currently in a transition period where complacent expectations for interest rates need to be adjusted higher. Margin expectations in the U.S. equity markets probably need to be tweaked a bit lower. Investors should also be mindful that recent tax cuts will expand government deficits that must be financed, adding technical and fundamental pressure on interest rates across the curve.

This may finally lead to some additional volatility in the markets when combined with the potential impact of a trade war with China and any other geopolitical events. The good news is that volatility brings opportunity within actively managed portfolios. As correlation across and within markets declines while volatility increases, a target rich environment is created for event driven hedge funds and some actively managed equity strategies. While emerging markets will likely remain volatile, valuations have reached extreme levels, so we are looking for targeted ways to add exposure. Lastly, we remain defensive on fixed income assets, but we do see attractive opportunities to generate income through structured credit mandates that are linked to floating rate assets and should continue to benefit as the Federal Reserve increases rates over the next year.

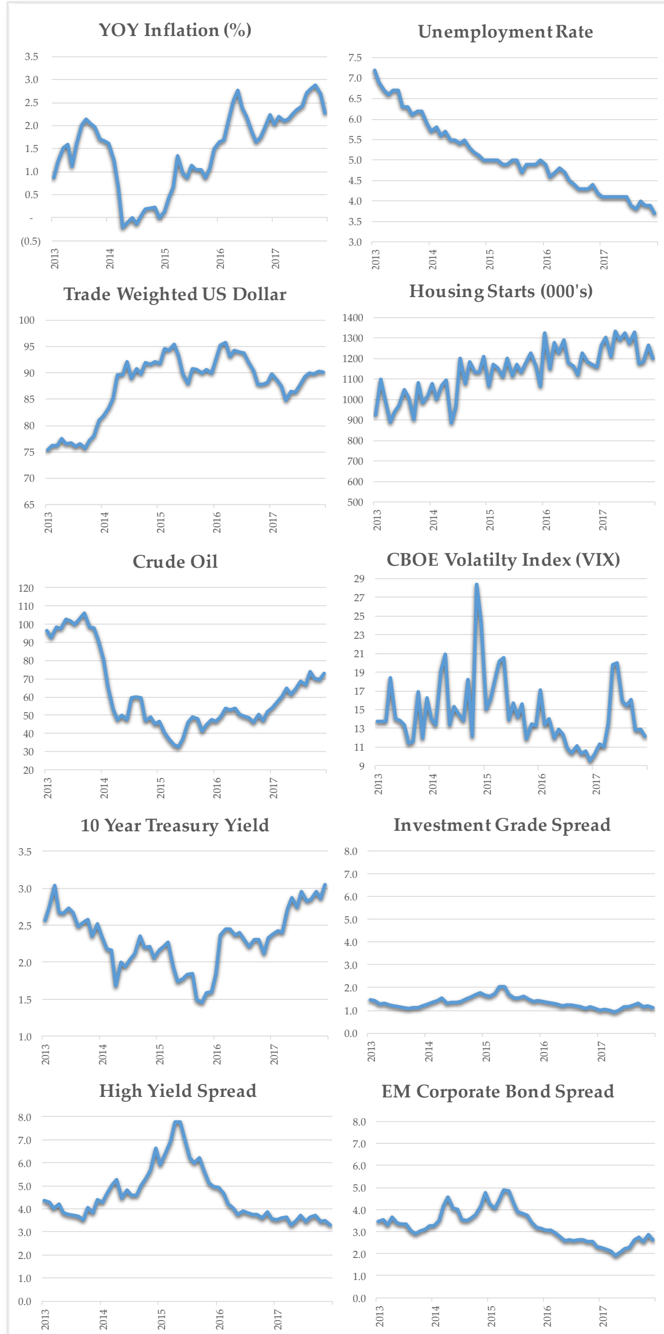
Market Update



Most risky asset classes posted strong returns during the third quarter with the S&P 500 up 7.7%. For the first time in several quarters, small caps lagged their larger peers, but still gained 3.6%. International markets were mixed with the MSCI EAFE index up 1.4%, while the MSCI Emerging Markets Index was down -1.1%.



Against a backdrop of strong growth, rising inflation and interest rates in the U.S., domestic fixed income continues to have a difficult year. The Bloomberg Barclays Aggregate Bond Index was flat for the quarter and is down -1.6% year to date. High Yield bonds outperformed, rebounding with a +2.4% return during the three month period. Commodities were mixed as energy prices rose while agriculture declined.



* 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

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Firm Update

Disciplina recently celebrated its five-year anniversary, and now has clients spanning a variety of non-profit sectors including Higher Education, Health Care, Cultural Arts, Community and Faith Based organizations. Recent awards include a hospital pension located within the Southeastern U.S., a cultural arts museum in the Mid-Atlantic region, and a community-based organization located in New York City.

In light of recent client growth, we are pleased to announce that we have expanded our investment team with the addition of a new managing director and partner, Brian Arsenault. Brian is located in the New York City Area and has assumed the role of Chief Market Strategist. In this role, he will help formulate investable themes to implement in our portfolios and enhance Disciplina's presence as a thought leader in the OCIO market. Prior to Disciplina, Brian held senior strategist and portfolio manager roles at well regarded firms such as Lord Abbett, Claren Road, Morgan Stanley, and JP Morgan Investment Management.

Thank you for your continued support and interest in our firm.

Best Regards,

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