361 Large Cap Concentrated Equity Investment Commentary

March 31, 2019

361 CAPITAL Institutional

Market Environment

In a sharp reversal from the fourth quarter, domestic equity markets produced above average gains in the first quarter. The S&P 500 Index's gain was the largest since the third quarter of 2009. Outside the U.S., developed and emerging markets also rose, but less so than domestic markets. Treasury yields declined. Longer-dated maturities fell further than shorter ones, compressing spreads along the curve. The Volatility Index (VIX) ended the quarter lower. Gold (+1%) and Oil (+25%) also appreciated. The Federal Reserve's more cautious stance gave investors more comfort to be invested in equities and helped fuel optimism in global trade.

Category Performance

- The large cap benchmark S&P 500 Index rose 13.65% during the first quarter. The index gained more than the S&P SmallCap 600 (+11.49%), but trailed the S&P MidCap 400 Index (+14.48%).
- The factor landscaped was mixed during the first quarter's market rally. Returns to momentum, valuation and capitalization were negative overall. Inconsistent intra-quarter factor returns resulted in minor impacts from momentum and valuation, while capitalization did provide a benefit.
- On average, smaller capitalized, higher beta, and higher growth companies outperformed.

Strategy Characteristics

Inception	12/31/95
Benchmark	S&P 500 Index
Number of Securities	50-60
Maximum Cash	5%
Position Size	Equal Weighted, at cost

Portfolio Management

John Riddle, CFA
- Chief Investment Officer, Portfolio Manager
- 38 years of experience

Mark Jaeger, CFA, CPA
- Managing Director, Portfolio Manager
- 32 years of experience

Performance

Total Returns %	1Q19	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Inception
Gross	14.45%	1.98%	12.08%	8.33%	14.55%	11.48%
Net	14.24%	1.36%	11.46%	7.81%	14.06%	10.88%
S&P 500 Index	13.65%	9.50%	13.51%	10.91%	15.92%	8.83%

Performance information constitutes supplemental information for the purposes of Global Investment Performance Standards (GIPS).

Statistics

	Since Inception
Alpha	2.89
Tracking Error	6.32
Information Ratio	0.38
Beta	0.95
Upside Capture	102.99
Downside Capture	89.77

Manager Comments (1Q19)

- Our strategy aims to create a portfolio of companies that exhibit positive behavioral characteristics. This manifests in owning stocks with attractive analyst sentiment and those believed to be able to generate positive earnings surprises. Our research indicates that, over time, a portfolio of companies ranked highest on these behavioral characteristics outperforms those with the opposite characteristics.
- The strategy's exposure to the top quintile of our two main alpha models averaged 65.10% and 69.22%. Exposure to annual revisions decreased, while exposure to quarterly revisions increased from last quarter. We held stocks with attractive behavioral characteristics, however, our alpha models did not produce positive return spreads for quintile 1 (Q1) minus quintile 5 (Q5). Returns of the top-ranked stocks (Q1) were mostly even with or below those with the least attractive ranks (Q5). This flat-to-negative spread is a reflection that behavior was not a significant contributor to excess portfolio returns.
- Analyst sentiment deteriorated for the fourth consecutive quarter. The percentage of positive revisions fell to 41.8%—the lowest since the first quarter of 2016. Among our holdings, 59.1% of revisions were positive. Our process generated a portfolio that received 530 net positive revisions. This is 923 greater than would be expected by randomly creating a similar-sized portfolio from the same universe.

- The investor response rate to upward revisions was slightly above last quarter. Responses to downward revisions were less negative compared to last quarter.
- Our process generated a portfolio of stocks that exhibited a larger percentage of positive earnings surprises and fewer negative surprises relative to our universe. Sixty-seven percent of portfolio holdings announced a significant positive surprise compared to 51% of the universe. Seven percent of holdings fell short of expectations versus 15% of the universe. The response rate for companies with large positive surprises was negligible, while companies with earnings significantly below expectations had positive response rates.
- Our portfolio is constructed to be sector-neutral compared to the benchmark, therefore picking stocks that are in the top deciles of our model's behavioral ranks is a key contributor to performance. The two sectors that contributed most positively were Information Technology and Consumer Discretionary. Selections in the Communication Services and Materials sectors detracted the most from performance. The top two contributing stocks were both in the software industry. Cadence Design Systems outpaced the market and sector after its earnings report. The company had a positive surprise and predominantly positive revisions. Guidance was raised due to a strong demand environment for its products that support semiconductor design. SS&C Technologies Holdings was the second-best single contributor. Better-than-expected results stemmed from recent acquisition synergies. Biogen and Macy's were the biggest detractors from performance. Biogen shares lost about 30% of its value when it discontinued a trial of a key pipeline drug. Macy's lowered earnings and sales guidance below consensus expectations.
- Our philosophy and portfolio construction create exposure to factors that have proven to provide excess returns over time. Our security selection process looks to identify companies with an attractive mix of reasonable valuations and improving expectations. Although our valuation sub-model produced a negative return spread this quarter, we were under exposed, relative to the benchmark, to the lowest return quintiles. This provided a benefit to the portfolio.
- This strategy tends to have an incidental exposure to momentum, which is a result of the positive behavior underlying the top-ranked securities in our models. Risk mitigation techniques seek to reduce excess exposure to this factor. Momentum returns were neither extreme nor consistent and were net negative. Exposure to momentum was not a material driver of returns this quarter. Capitalization returns were skewed towards smaller companies within the benchmark index. This helped our equal-weighted portfolio against the market cap-weighted benchmark.

361 Large Cap Concentrated Equity Institutional Composite

For the 10 years ended December 31, 2018

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Composite Annual Gross-of-Fees Return (%)	-9.68	28.72	2.76	0.24	13.14	32.37	18.63	2.14	14.22	22.43
Composite Annual Net-of-Fees Return (%)	-10.21	27.96	2.33	-0.13	12.70	31.95	18.25	1.80	13.71	21.87
Benchmark: S&P 500 Index Return (%)	-4.38	21.83	11.96	1.38	13.69	32.39	16.00	2.11	15.06	26.46
Composite Internal Dispersion (%)	0.07	0.02	0.02	0.27	0.29	0.21	0.23	0.06	0.17	0.65
Composite 3 Year Standard Deviation (%)	12.18	10.71	11.42	11.28	9.89	13.83	16.74	19.47	21.07	18.53
Benchmark 3 Year Standard Deviation (%)	10.80	9.92	10.59	10.48	8.98	11.94	15.09	18.70	21.85	19.63
Composite Number of Portfolios	2	5	3	13	17	18	12	12	14	9
Total Composite Assets (US Millions)	10.5	59.2	41.9	236.9	386.3	327.8	252.8	253.2	268.1	166.4
Total Firm Assets (US Millions)	1,553.7	1,509.8	1,789.6	Historical assets are not reported due to 361 Capital acquiring BRC Investment Management on 10/31/16. Please contact 361 Capital at info@361capital.com for asset numbers or for additional information.						

361 Capital LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. 361 Capital has been independently verified for the periods January 1, 2001 through December 31, 2017. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The 361 Large Cap Concentrated Equity Institutional Composite has been examined for the periods November 1, 2016 through December 31, 2017. The verification and performance examination reports are available upon request by contacting 361 at info@361capital.com. Performance shown prior to 11/1/2016 include results achieved by a portfolio management team while it was a part of BRC Investment Management. The composite received a performance examination for the periods of January 1, 2007 through September 30, 2016 while it was managed at BRC.

NOTES

1. The Firm, 361 Capital, is an independent investment adviser registered under the Investment Advisers Act of 1940.
2. The 361 Large Cap Concentrated Equity Institutional Composite was created on October 31, 2016. The composite was previously the BRC Large Cap Concentrated Institutional Composite. Performance results prior to 361 Capital LLC's acquisition of BRC on 10/31/2016 represent accounts managed by the firm's employees and members who made up substantially all the investment decision makers at BRC. This composite includes all 361 Large Cap Concentrated Equity Institutional accounts over $2 million that have been under management for at least one month. Prior to June 1997 the account minimum was $100 thousand. All accounts have target allocations to large-cap securities of at least 90%. Beginning July 1, 2002, any account that has a cash flow larger than 10% of the composite is removed from the composite. Beginning January 1, 2010 composite policy also requires the temporary removal of any portfolio incurring a significant cash flow larger than 50% of portfolio assets. Beginning January 1, 2013, composite policy requires the temporary removal of any portfolio incurring a significant cash flow larger than 10% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite in the month following the cash flow or full investment in the strategy. Additional information regarding the treatment of significant cash flows and a complete list and description of firm composites is available upon request by contacting 361 at info@361capital.com.
3. The benchmark for the composite is the S&P 500 Index. The benchmark and composite returns include the reinvestment of income, but the composite does not include trading costs, management fees or other costs.
4. All returns are expressed in U.S. dollars.
5. Gross-of-fees performance returns are presented before management and custodial fees but after all trading expenses. Net-of-fees performance returns are calculated by deducting the actual management fees and other applicable advisory fees from the gross composite return.
6. The standard management fee ranges from 0.75% to 0.45%. Please refer to the ADV for additional details
7. Composite Internal dispersion is calculated using the asset-weighted standard deviation of all portfolios that were included in the composite for the entire year.
8. Performance figures are based upon historical information and do not guarantee future results. Investing involves, risk, including possible loss of principal. Actual results may differ from composite results depending upon multiple factors including the size of the account, investment objectives and restrictions, the amount of transaction and related costs, significant cash flows into or out of the account, and the inception date of the account. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request (info@361capital.com).