LEAR
INVESTMENT MANAGEMENT

2017-2018

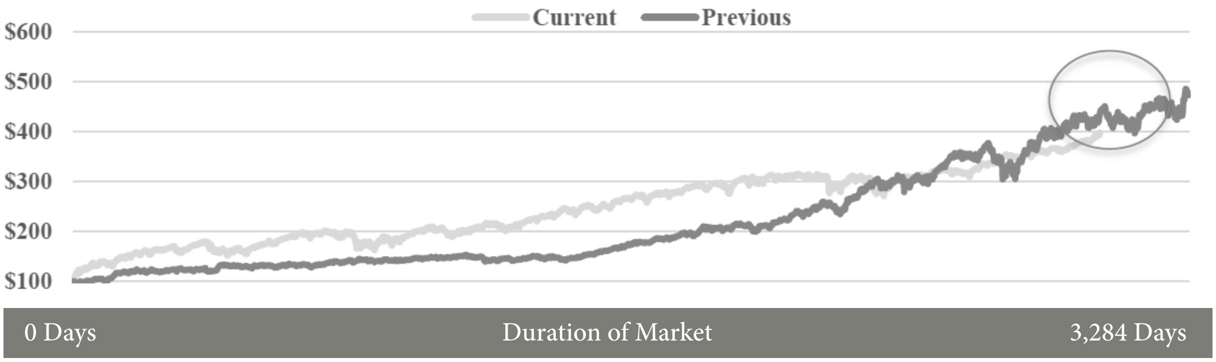
A Year of Metamorphosis

Allow us – as 2018 begins – to compare the current global markets to the beloved story of Conrad the Caterpillar. As a caterpillar, Conrad was limited to slow, horizontal movement, but he always dreamed of being free to fly. The spirit of the metamorphosis occurring during the life cycle of a butterfly is captured eloquently in the following from *Conrad the Caterpillar: Evolutionary Journey Home:* **"Conrad, the sleeping dreamer, now awakens and emerges into new life...he now spreads his wings and soars."**

Our performance soared in 2017 with a net-of-fee investment return of **19%** for the LIM Global Vigilance Composite*. The return included an average weighting of approximately 40% to income-oriented investments (cash and fixed income). We achieved our goal of capturing investment returns for a controlled amount of risk.

The Road to Flight

The larva stage of the current cycle began in 2009, after the financial crisis, when the Federal Reserve embarked on historic stimulus measures driving interest rates to historic lows. The caterpillar economy grew legs and crawled along for several years before entering a strange, awkward transitional phase from 2015-2016, a Chrysalis. In 2017, the economy improved and stocks climbed 22% (S&P 500 Index). This now brings the life cycle into the start of the ninth year. But, will this market die of old age? While no two cycles are the same, the past can give us clues into the future. To understand a late stage adult market, we looked at the longest bull market in history - from 1990-2000. The chart below displays growth of $100 invested at the start of the 1990's bull market compared to the current - starting in 2009.



Note the parallels of the two paths and the fact both reached a similar level of growth over the same duration into the cycle. While there are many differences between today and the 1990s, the chart is strikingly similar. There is a precedent for the market to run higher.

Chrysalis Phase

The ugly, awkward transitional phase started in 2015, but really peaked in 2016. It was littered with political noise, a Brexit, election of a controversial US president, declining oil prices, and many geopolitical tensions. But, despite it all, corporations emerged to achieve highest growth and earnings in history bringing the stock market to record highs.

Hey Siri!

In concert with the Fed's lower interest rate policy, the most prominent force for growth was technology. Technology further solidified its role as a leader in 2017 with giants like Apple, Google, Facebook and Amazon reaching record highs in stock prices, revenue, and earnings.

If You Build It They Will Come

There was more than technology performing well in 2017 - the sub sector of the stock market with the highest returns was homebuilders. We participated in these returns as homebuilders were a main investment theme for our portfolio.

Globe Trotters

There are other countries in the world at different stages of the cycle doing very well. In fact, many other countries outperformed the US in 2017. India (another of our investment themes) performed better than the US posting a 30% return. (as measured by INDA- the India Index EFT).

It has been an amazing run for our investment portfolio, but many talking heads are calling for the end of the stock market run. While many investors rely on a hunch (or a feeling) for their predictions, we prefer to look at the facts.

Learning to Fly

The present stage of this metamorphosis can continue further into adulthood based on the following favorable present conditions:

- Unemployment is at 4.1%.
- Interest rates remain low (10-year treasury at 2.4%).
- Taxes will be lower for most corporations.
- Coordinated global growth is occurring for the first time since 2008.
- Manufacturing is at the highest level in a decade.
- Costs of goods, and services reasonable = low inflation.
- Many corporate profits are at their highest levels in history.
- Investing in bonds does not provide adequate returns to achieve investor's long-term goals.

The Next Phase

The following is a summary of the four trends we have identified for 2018 that could extend the life well into adulthood:

1) Technology Revolution – Continued advancements in cloud computing (Edge and Kubernetes), sparked by Artificial Intelligence and Machine Learning could drive the next phase of the revolution. Blockchain technology is another area of focus in this revolution. With optimism about the future, corporations could unleash a new wave of spending on technology to make business more efficient. This could improve productivity and take the stock market to the next level. Please watch our webcast for further details on this important theme. https://www.youtube.com/watch?v=GD7q8sCrWM8&t=4s

2) Global Growth (The Other 7 Billion People) – For the first time since 2008, synchronized global growth is occurring in all developed markets. India, Europe, China, and Indonesia continue to be areas we believe have a favorable demographic story. In addition to having favorable demographics, we like the valuations and diversification in economies at earlier stages of the economic cycle.

3) US Acceleration of Economic Growth – The US economy is growing at a healthy pace. Now that the tax reform bill has passed, there is talk of additional legislation that would further stimulate the economy- the infrastructure bill. The passing of an infrastructure spending bill could help continue to fuel the economy. While we wait for the debating to take place in DC, the lowered corporate tax rates and deregulation is a good combination to keep profits moving higher. Also, the repatriation of cash will lead to special dividends, M&A, share repurchases, and other positive actions for stock investors.

4) Bonds offer little upside – interest rates should continue to slowly climb, thus prices of bonds fall. There have been calls for this crash in bonds for almost 5 years now and it seems clear this will be a gradual process and we must trust the Fed as they have earned respect navigating this current cycle. We remain in short-term bonds and wait patiently for higher rates so we can buy bonds with higher interest rates.

Could the trends above fuel the Butterfly Stage of the lifecycle, or will other factors end this story?

Life is uncertain and so are stock markets. In 2017, the stock market seemed to go straight up. In fact, we are in the longest period in history without a 5% pullback. This hot cycle will end as all have in the past, but what will be the warning signs to help us lighten-up on stocks?

The first level of risk control is balance. We do not know exactly when the stock market will turn, so we will not be fully committed to stocks. We hold approximately 35% of assets in defensive positions – including cash, fixed income and gold.

The second level of risk is perpetual vigilance. We remain on alert for signs on how the future economic conditions will affect the investments. In anticipation of an end to the cycle, we look to the following signs for indications of when to lower stock allocation:

- Higher inflation – higher cost of goods and services (especially oil prices).
- Higher interest rates – key to end of economic cycle is higher lending costs.
- Higher stock ownership – investors pile funds into stocks - leaving few left to buy stocks.
- Increased tensions with North Korea (or any increased geopolitical situations).
- Confusion interpreting new accounting for the repatriation and capital expenses measures.
- Lowered earnings from portfolio companies.

The warning signs above (with exception of geopolitical tensions and accounting) are signals of an overheated economy. The economy growing too fast is the most common warning sign for the end of a market cycle.

Conclusion

Conrad the dreamer has emerged from a long transformational stage and looks to fly into 2018 fueled by tax reform, technology revolution, and growth around the world. However, in order for his life cycle to continue the conditions must be favorable and major accidents avoided.

In our modern world, people are living longer, more productive lives with the help of technology. Perhaps Conrad (and the current cycle) will resemble this fact and fly further and higher than many initially imagined.

We will continue to work tirelessly to grow and protect your irreplaceable wealth. We are grateful for our relationships with you and your families.

Wishing you much peace, health and happiness in the New Year!

Composite Name	Year	Firm Assets under Mgmt^	Composite Assets	% of Firm Assets	# of Accounts	Gross of Fees	Net of Fees	Benchmark	Dispersion
LIM Composite	2017	$106,686,854	$93,567,733	87.7%	93	20.1%	18.9%	12.3%	2.5%
LIM Composite	2016	$80,781,889	$60,233,652	74.6%	32	8.6%	7.5%	4.5%	2.3%
LIM Composite	2015 *	$77,587,731	$76,104,332	98.1%	48	-2.7%	-3.6%	-1.8%	1.4% **

* Composite and benchmark performance are for the period 2/2/2015 through 12/31/2015
** Dispersion was calculated using partial year data.

^ Total does not include assets under sub-advisory.

Lear Investment Management ("LIM") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. LIM has been independently verified by ACA Performance Services.

Firm Information: LIM is a Registered Investment Advisor based in Dallas, Texas and registered with the Securities and Exchange Commission. Registration does not imply a certain level of skills or training. LIM is a company with purpose, dedicated to creative and unique thinking. We focus on portfolio valuation and research, along with a superior client experience. We seek to identify investment opportunities by looking at economic factors, security valuation and human behavior. We start with the fundamentals of portfolio management and valuation. Then we build on these fundamentals with unique thinking and creative intelligence-gathering to form a viable investment thesis. We believe this approach leads to dynamic global portfolios with increased return and managed risk. LIM utilizes Charles Schwab & Co. Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, as its custodian of assets. LIM is independently owned and operated and not affiliated with Schwab.

Composite Characteristics: The LIM Global Vigilance Composite is a collection of separate accounts managed by LIM. Currently the composite holds approximately 60% equities, 35% fixed income and 5% money market. The composite is tracked by Black Diamond (an Advent company). The composite is $94 million dollars of total assets and made up of 93 accounts. These are actual clients of the firm and are all managed by the Lear Investment Management portfolio management team. The strategy is global (US and abroad) equities, fixed income, and cash - depending on market conditions. The composite reinvests dividends. Individual account performance will differ. Past performance is not indicative of future results. The composite was created on February 2, 2015. The composite includes accounts over $100,000, one to three months after inception (depending on how the assets were received). The firm's list of composite descriptions is available upon request.

Calculation Methodology: Composite returns are calculated by asset-weighting the individual portfolio returns using beginning-of-period values. Composite returns are calculated on a daily basis and geometrically linked to calculate the monthly return. Cash flow timing method: contributions are recorded at the beginning of the day (AM) and distributions are recorded at the end of the day (PM). LIM may use leverage up to 150% of the portfolio net assets as part of investment strategy. Derivatives are not used. Depending on the conditions in the financial markets, the firm may utilize options to hedge entire portfolios or a specific security within a portfolio. LIM calculates the asset-weighted standard deviation of the annual gross returns for composites that have six or more portfolios in the composite for the entire year using Black Diamond. LIM's policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The three-year annualized standard deviation is not presented for 2015 through 2017 due to less than 36 months of composite and benchmark data.

Benchmark: The customized Composite Benchmark is currently 50% Bloomberg Barclays Aggregate Bond Index & 50% FTSE Global Equity All-World, calculated monthly.

Net-of-fee Performance: Net-of-fee performance shown is calculated by Black Diamond (an Advent Company) and reflects the deduction of actual management fees charged by LIM and any applicable trade fees charged by Schwab. Valuations and performance are computed in US dollars, and individual portfolios are revalued daily.

Fee Schedule: For Private Client: 1.00% on the first $10 million of assets under management. 0.90% on assets from $10 million to $30 million and 0.80% on assets of $30,000,001 or more. Institutional Clients' fee schedule may vary.