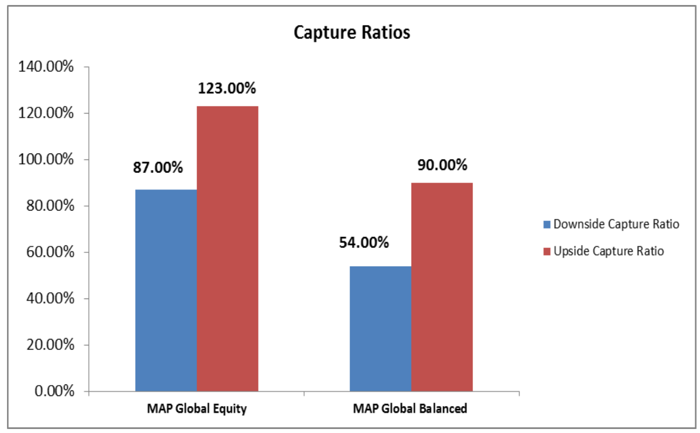
MANAGED ASSET PORTFOLIOS

THE KEY TO THE UPSIDE IS MANAGING THE DOWNSIDE

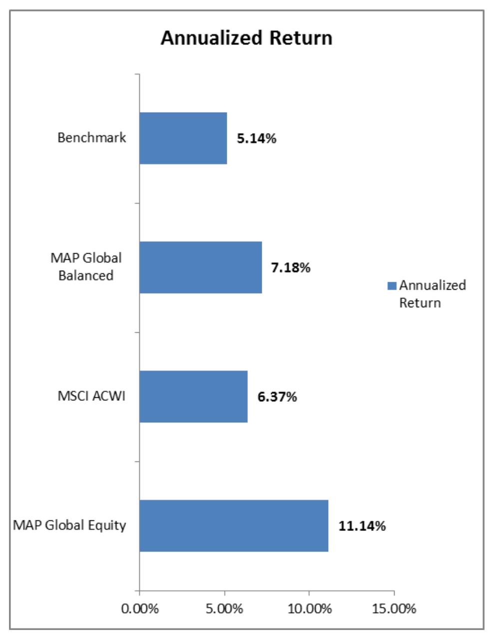
In today's market environment, one of the most impactful decisions investors must make is choosing an investment manager to help them achieve their financial goals. After years of a rising stock market, record low interest rates and volatility that has remained compressed near all-time lows, manager selection has been as easy as putting your money into an S&P 500 Index Fund. However, with a recovery that recently reached its nine-year anniversary and is now the second longest in history, investors will need to be much more strategic in how and where they allocate their assets. We believe that going forward, what investors do not own compared to what they do own is going to be a much more critical factor in determining returns than has been the case over the past nine years. With this in mind, we believe Managed Asset Portfolios could be your solution to this uncertain future.

So why are Managed Asset Portfolios' (MAPs') Global Equity and Global Balanced strategies a fit for you and your clients? Data has shown that one of the best attributes of a strategy to not only protect capital on the downside but also to generate positive alpha over the long term is a downside capture ratio below 100%. A downside capture ratio is calculated by taking a strategy's return during the designated period (i.e., weekly, monthly, or quarterly) and dividing it by the benchmark's return in down markets. Essentially, this means that if the S&P 500 is down 10%, a strategy with a downside capture ratio of 80% has typically been down around 8%. This point is critical because as drawdowns get larger, it takes an even greater return to recover the loss. For example, if a portfolio is down 32% (the average drawdown of a bear market) it will take a total return of 47.1% to get the account back to 100%.[1] Compare that to a strategy that has a downside capture ratio of 80%, which would only require a total return of 34.4% to get the account back to 100%. Over the long term, this is a significant generator of alpha.



See Footnotes 2 & 3

At MAP, our portfolios are constructed with this attribute in mind. By properly managing risk, as measured by the downside capture ratio, we have been able to generate significant alpha over the span of a market cycle. We have demonstrated this ability since our inception in 2001. Analyzing MAP's Global Equity and Global Balanced strategies versus their benchmark's, the MSCI ACWI and a 50%/50% blend of the MSCI ACWI and Merrill Lynch U.S. Corporate A-AAA, 1-3 year, respectively, both have downside capture ratios that are substantially below 100%. The MAP Global Equity strategy has a downside capture ratio of 87% relative to its upside capture ratio of 123%.[2] This dynamic has resulted in the Global Equity strategy returning 11.14% annualized compared to only 6.37% for the MSCI ACWI.[2] Looking at the MAP Global Balanced strategy, the downside capture ratio is 54% and its upside capture ratio is 90%, leading to an annualized return of 7.18% relative to the benchmark's return of 5.14%.[3] This demonstrates the fact that properly managing the downside risk can mitigate the effects of not capturing all of the benchmark's upside. Furthermore, it shows that when a strategy is constructed with downside risk management as a key component, significant excess return can be generated. As an extreme example, the MAP Global Balanced strategy outperformed its benchmark by nearly fourteen percentage points during the largest drawdown of the Great Recession while the Global Equity strategy outperformed the MSCI ACWI by twenty percentage points.[4]



Source: Morningstar: Global Equity 3/31/01 – 12/31/17
Global Balanced: 7/31/01 – 12/31/17

[1] Mullaney T. (2015) *8 things you need to know about bear markets.* CNBC

[2] Based on the annualized quarterly returns of the Global Equity Composite compared to the annualized quarterly total returns of the MSCI ACWI Index since inception. Based on the cumulative performance for the MSCI AC World (ACWI) Index's 48 positive quarters and 19 negative quarters between April 1, 2001 and December 31, 2017

[3] Based on the cumulative performance for the current Benchmark's (50% MSCI ACWI/50% Merrill Lynch U.S. Corporate A-AAA Rated 1-3 Years Total Return Index, rebalanced monthly) 46 positive quarters and 19 negative quarters between the October 31, 2001 and December 31, 2017 period.

[4] Morningstar Direct: November 2007 to February 2009

To reiterate though, the key is not to outperform only during extreme drawdowns but instead to ensure this is a consistent attribute of the strategy to be able to estimate its sustainability going forward. MAP has demonstrated that talking about downside risk management is not something we do to accumulate assets. Rather, it is an attribute embedded into our process demonstrated by the fact that the Global Equity strategy has outperformed its benchmark on 79% of drawdowns while the Global Balanced has outperformed on 88%.[5] We firmly believe this approach is a competitive advantage of our strategy over the competition and why our strategy is built for the long term.

With that said, you may be asking yourself why you should switch from what you are doing now. The answer to that question is: market valuations and what they indicate for stock market returns going forward. If you look at the adjusted price-to-sales ratio for the S&P 500, it is currently at 2.18.[6] That is the highest level since the dot-com bubble. Prior to the recent market sell off, over the past couple of weeks, the price-to-sales ratio was near 2.37 which is right around the peak it reached during the dot-com era.[6] The reason we focus on this price multiple metric rather than the others is that studies have shown that it has the best ability to predict future expected ten-year returns as measured by R^2 statistics. As you can see from the chart below, the R^2 for future ten-year returns is 0.89, meaning for the regression analysis between the price-to-sales ratio and future ten-year returns, 89% is explained by the valuation level.[7] With that, a price-to-sales ratio at 2.19 indicates future ten-year annualized returns around negative two percent. However, that is not the only metric indicating poor returns in the future. Another popular valuation metric used to predict future returns is the Schiller P/E Ratio, or CAPE Ratio, which uses the annual earnings over the past ten years adjusted for inflation using the CPI to adjust them to today's dollars. As of 03/27/2018, the Shiller P/E for the S&P 500 was at 31.8, which is 89.3% above its historical mean of 16.8. To put this number into context, it's the highest it has been since the dot-com bubble and very close to where it peaked prior to the Great Depression at 32.6. A Shiller P/E at this level implies future ten-year annualized returns of negative 2.7 percent.[8]

We are not forecasting that markets are going to go straight into a bear market. Rather, as an asset allocator one has to look at the indicators available and position their capital accordingly. With market valuations trading near all-time highs and indicators suggesting that future returns could trail the long-term average by a large margin, now more than ever seems like the time to evaluate your current investments in regard to how they are going to be able to handle the downside risk in years to come. Because it is not a matter of IF the next market downturn occurs, but a matter of WHEN. It is also the answer to our previous question as to why MAP's Global Equity and Global Balanced strategies may be an optimal fit for you and your clients. At MAP, for nearly eighteen years, we have successfully limited our clients' downside risk while earning excess returns. This can be quantitatively measured by our downside capture ratios and the excess returns that were generated because of that risk management. Even though investors have been recently able to successfully ignore the risks associated with turbulent markets by blindly embracing passive strategies, this cycle seems to be ending. We ask that you keep MAP in mind as you invest in what appears to be a more volatile market environment in the years ahead.

Exhibit 2A: Regression of Quarterly S&P 500 P/S Ratios and Future 10-Year Returns (1991–2016)

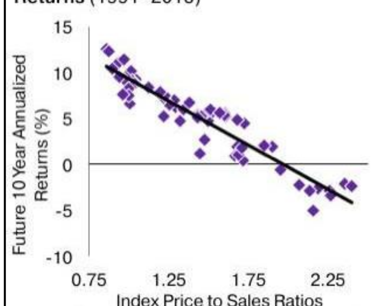


Exhibit 2B: Ratios as a Predictor of Future S&P 500 Price Return using R^2 (Quarterly, 1991–2016)

Future Periods	Common Valuation Ratios: P/E	P/S	P/B	P/CF	P/FCF
3M	0.02	0.02	0.00	0.00	0.00
6M	0.03	0.04	0.01	0.02	0.01
1Y	0.05	0.10	0.04	0.09	0.04
3Y	0.11	0.42	0.23	0.29	0.08
5Y	0.08	0.67	0.38	0.38	0.05
10Y	0.55	0.89	0.76	0.84	0.36

Source: FactSet, 12/31/16. **Past performance does not guarantee future results.**

April 6th, 2018

The Management Team of Managed Asset Portfolios

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The information contained herein represents our views as of the date mentioned above and does not represent a recommendation by us to buy or sell any security or securities mentioned. Past performance is no guarantee of future results. Certain statements made by us may be forward-looking statements and projections which describe our strategies, goals, outlook, expectations or projections. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause actual results to differ materially from those expressed or implied by such forward-looking statements.

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[5] Morningstar Direct Quarterly Gross Return Data: Global Equity data is from 3/31/01 – 12/31/17. Global Balanced data is from 10/1/01 – 12/31/17

[6] Bloomberg as of 03/27/2018

[7] Mazza, D. (2017) *Revenue Uncovers Value in a Rich Stock Market.* OppenheimerFunds

[8] Gurufocus.com/Shiller-PE as of 03/27/2018