

As Predicted 2018 Ends in Negative Territory

Market Review

In a string of bad months heading into and including December, the S&P 500 closed the year down 6.24%.

The U.S. stock market had been in a correction since an early October peak. A combination of bad news, including the ongoing trade dispute between U.S. and China, possible signs of a global economic slowdown, a steady pace of Fed rate hikes and a partial government shutdown, were enough to shake investor confidence just in time for the holidays.

After what most were calling 'synchronized global growth' coming into 2018, many developed countries lost some momentum and global stocks finished the year down, with the MSCI All Country World index down over 11%.

Emerging market equities suffered the biggest retreat. Faced with headwinds from a strong U.S. dollar and tightening monetary policy, the MSCI Emerging Markets index was down over 16% for 2018.

Fear of an economic slowdown, as well as a supply glut, spooked the oil market this year, ending the year down 25% at \$45.41 a barrel.

The U.S. Federal Reserve hiked rates for the fourth time at its final meeting in December to a range of 2.25% to 2.50%. The Barclay US Aggregate Bond Index was flat, closing 0.01% to end the year.

Investment Implications

Dealing with spikes in volatility is perhaps the most challenging aspect of investing. Although periods of high market volatility always feel a bit like the world is ending, heightened sensitivity could be due to the fact that until recently, market volatility was extremely low.

Our investment implications for 2019 continue to be cautiously optimistic. We are predicting continued stock market volatility. The potential for a slowdown in global growth, geopolitical risks, concern and uncertainty around the implications stemming from the trade war between U.S. and China all may continue to chip away at business and investor confidence making it harder to withstand any negative headlines.

We reiterate: it will be very important to reevaluate your asset allocation mix in relation to your risk tolerance and financial goals. Remember to keep a long term focus during periods of volatility and large market movements. Our investment specialists can assist.

We suggest you contact one of our investment specialists if you have any questions or concerns over your portfolio. They can be contacted at 295-5566 or via email at retirement@bfm.bm.

The information and opinions in this newsletter are intended to provide a general commentary on areas which may be of interest to readers. This publication is not intended to provide specific financial advice or recommendations. Readers should consult with their personal financial advisor before acting on any information or opinions contained in this publication.

Annual Target Date Profile Adjustments

Annually the Target Date Profile allocations are adjusted as each target-date profile moves along its glide path towards its target year. These allocation adjustments are routine and normally occur near the beginning of each year. For 2019, the following changes will be made to the glide paths for the Target Date Profiles:

1) Shift from Stocks to Fixed Income in All Profiles

As economic conditions continue to slow and global equities appear to be nearing oversold territory we will be reducing our stock exposure across all the profiles and adding to our Fixed Income and Cash allocations.

2) Elimination of the 2010 Profile

As we are entering 2019 there is no longer a need for the 2010 profile. Persons in this profile have been moved to the Retirement profile and their asset allocation will now remain constant in the future.

Asset Class Changes

In the first week of March, we will be changing the Global Value Stock manager from Franklin Templeton Investment Management (“Templeton”) to Causeway Capital Management (“Causeway”).

Templeton have lagged their benchmarks and their peers over the past five and seven year periods which prompted us to put the manager on our watch list. In addition there have been recent changes both the investment team and the corporate research team following an acquisition. These changes prompted a manager search and as a result of that search, we have appointed Causeway as the new manager.

Causeway Capital Management LLC is an employee owned investment management firm based in Los Angeles, California, specializing in managing global, international, emerging market and absolute return equities. The firm has a long history in value investing starting at the original Hotchkis & Wiley in 1996. Causeway currently has over \$58 billion in assets under management. The Global Value strategy has been in place since 2001 and currently has over \$10 billion in assets under management.

Causeway has a proven long-term track record in the Global Value stock asset class, outperforming the benchmark since inception and on a five, seven and ten-year basis.

Target Date Performance by Profile	Annualized Returns at December 31, 2018			
	10 years	5 years	3 years	1 year
GlidePath Retirement	3.99	1.53	2.89	-2.72
Index	4.21	1.96	3.22	-2.04
GlidePath 2010	4.97	1.60	3.00	-2.82
Index	4.58	2.02	3.37	-2.12
GlidePath 2020	5.60	2.03	3.73	-3.90
Index	5.70	2.67	4.33	-3.09
GlidePath 2030	6.39	2.46	4.51	-6.84
Index	7.39	3.41	5.41	-5.99
GlidePath 2040	6.61	2.58	4.85	-8.23
Index	7.96	3.76	5.95	-7.30
GlidePath 2050	6.74	2.56	4.96	-9.33
Index	8.35	3.91	6.20	-8.30
GlidePath 2060				-9.33
Index				-8.30

Risk-Based Performance by Profile	Annualized Returns at December 31, 2018			
	10 years	5 years	3 years	1 year
Guaranteed Interest	1.18	0.87	0.96	1.36
Index	1.18	0.87	0.96	1.36
Conservative Risk	3.62	1.89	2.23	-0.97
Index	2.99	1.53	1.81	-1.33
Moderate Risk	4.44	2.16	2.72	-2.93
Index	3.42	1.45	1.94	-3.71
Accumulator	6.70	3.00	3.74	-4.73
Index	5.12	2.07	2.75	-5.54
Stable Growth	7.66	3.46	4.34	-4.55
Index	5.89	2.51	3.27	-6.06
Growth Risk	7.48	3.77	4.90	-5.46
Index	5.81	2.60	3.47	-7.66
Aggressive Risk	10.30	4.91	6.12	-5.40
Index	8.28	3.76	4.72	-7.96

Data obtained from Morningstar Direct. Risk profile performance is based on historical blend of actual managers. Individual fund performance reflects only the manager currently used for that asset class. Past performance is no guarantee of future performance. The price of the shares of each Profile and the income received from each Profile may go down as well as up, and investors may not get back the full amount that they invested. Investment in any of the Profiles involves risks. Currency fluctuations will affect the value of overseas investments. Information has been provided by BF&M Investment Services Limited, which is licensed to conduct Investment Business by the Bermuda Monetary Authority under the Investment Business Act.

Performance by Fund	Annualized Returns at December 31, 2018			
	10 years	5 years	3 years	1 year
Guaranteed Interest Account (GIA5)	1.18	0.87	0.96	1.36
Money Market – Payden USD Liquidity (MMKT)	0.58	0.98	1.54	1.90
Bank of America ML US Treasury Bill 3 Month TR USD	0.37	0.63	1.02	1.87
Short Duration - Logan Circle Short Duration 1-3yr (BFMSDF)	2.32	1.19	1.55	2.86
BofAML US Treasuries 1-3 Year TR USD	0.95	0.81	0.96	1.58
Global Bond - Lazard Global Bond Core Plus (BFMGBF1)	2.54	0.65	2.21	-1.65
Barclays Global Aggregate TR USD	2.49	1.08	2.70	-1.20
US Bond - PIMCO Total Return (BF1)	4.14	2.35	2.31	-1.06
Barclays US Aggregate Bond TR USD	3.48	2.52	2.06	0.01
Inflation Strategy - PIMCO Inflation Strategy (INFLTN)	2.49	-0.07	1.36	-4.63
PIMCO Inflation Strategy Benchmark USD	4.39	0.20	2.20	-3.66
Global TIPS - Standard Life Global Inflation Linked Bond	4.31	3.89	4.09	-0.29
Barclays Gbl. Inflation Linked TIPS TR USD	3.64	1.69	2.11	-1.26
High Yield Bond – Alliance Bernstein Global High Yield (HYLDBD)	10.33	2.68	5.48	-5.06
Barclays Global High Yield TR USD	11.06	3.33	6.58	-4.06
Emerging Mkt Bond - MFS Meridian EM Debt (EMKBD)	7.59	3.42	4.46	-5.12
JPM EMBI Plus TR USD	7.29	3.97	3.97	-5.33
Global Value Stock - Templeton Global (GVF)	8.00	0.32	1.82	-14.11
MSCI ACWI NR USD	9.46	4.26	6.60	-9.42
Global Growth Stock - Artisan Global Opportunities (IGF)	15.61	6.94	7.30	-8.46
MSCI ACWI NR USD	9.46	4.26	6.60	-9.42
US Growth Stock - Franklin US Opportunities (USGF)	13.96	7.27	7.67	-0.99
MSCI US Large Cap Growth PR USD	13.47	8.95	9.33	-2.47
US Value Stock - MFS Meridian US Value (USVF)	10.04	5.03	5.76	-10.83
MSCI US Large Cap Value PR USD	7.64	3.71	4.90	-9.29
US Stock Index - Vanguard US 500 Stock Index (INDUSE)	12.22	7.73	8.49	-5.07
S&P 500 NR USD	12.40	7.83	8.59	-4.94
Global Stock Index - Vanguard Global Stock Index (INDGEQ)	9.42	4.40	6.14	-8.85
MSCI World Free NR USD	9.67	4.56	6.30	-8.71
Global Small Cap Stock - Vanguard Glb. Small Cap Index (GSMCEQ)	N/A	3.65	5.78	-14.06
MSCI World Small Cap NR USD	12.02	3.88	6.00	-13.86
Emerging Market Stock - Schroder Global EM Opp. (EMKEQ)	7.36	1.87	8.58	-15.96
MSCI EM PR USD	5.47	-0.75	6.74	-16.64

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