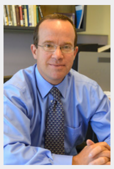
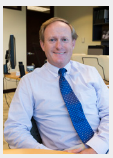
Barrow Street Advisors
Leadership

Nicholas Chermayeff
Principal
- 26 years of industry experience
- BA Harvard College



Robert F. Greenhill, Jr.
Principal
- 27 years of industry experience
- BA Harvard College
- MBA Harvard Business School



David R. Bechtel
Principal
- 27 years of industry experience
- BA Yale University
- JD Stanford Law School

About Barrow Street

Barrow Street Advisors LLC is a registered investment advisor and is an affiliate of Barrow Street Capital LLC which is an investment management firm that manages value-oriented private and public equity strategies.

Headquartered in Stamford, CT the firm serves pension funds, sovereign funds, endowments, foundations, family offices and high net worth individuals. Since its inception, Barrow Street Advisors LLC and Barrow Street Capital LLC have invested approximately $550 million, cumulatively, of equity in private and public equity strategies.

For More Information

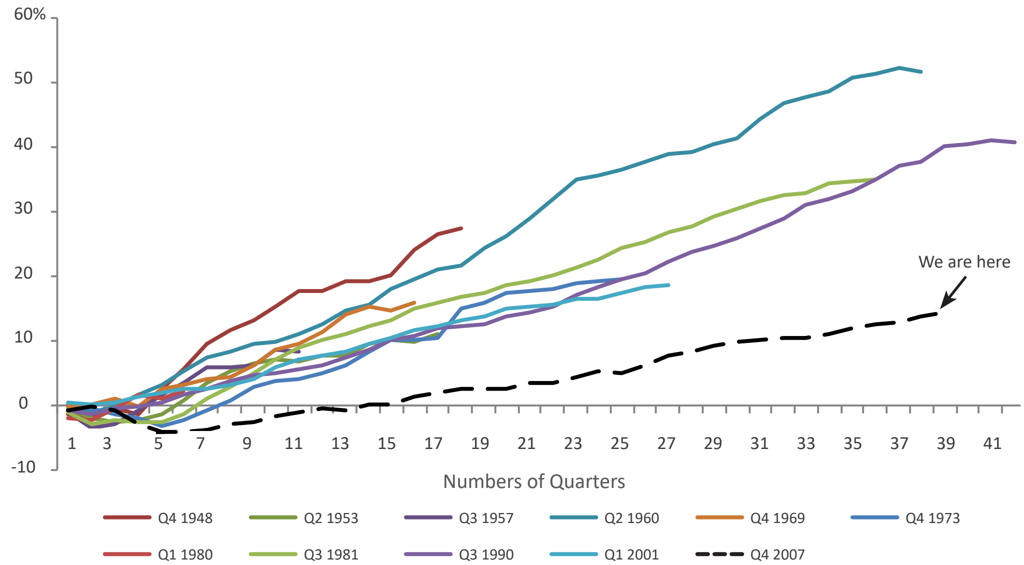
(203) 391-6100
barrowfunds.com

Playing the Second Half of the Business Cycle with **Defensive Equities**

Low and Slow Growth

The current business cycle began its expansion in June of 2009 after 18 straight months of GDP contraction. The last recession, from peak to trough, was the longest drawdown since the Great Depression. Following such a lengthy recession, investors might expect the GDP recovery to be a period of long and robust growth. However, they would only be half right – while the recovery has lasted for a long time (we are in the ninth year of expansion), the actual growth has tended to be low and slow.

FIGURE 1 **Strength of Economic Expansions: Cumulative Real GDP Growth Since Prior Peak**

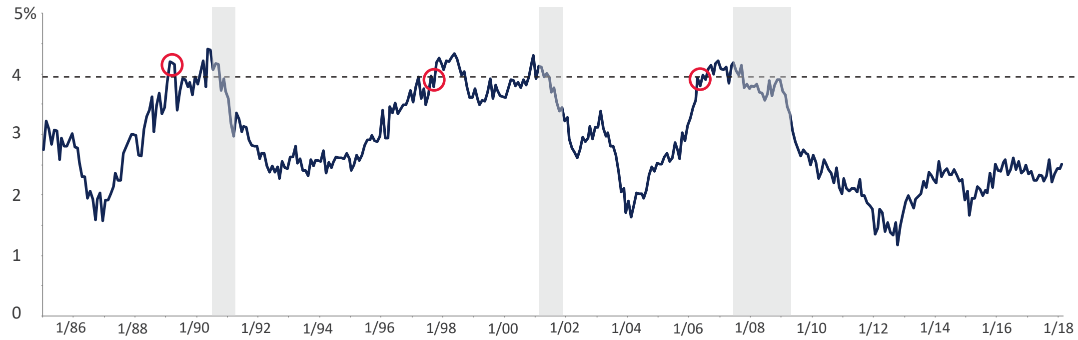


Data through Q3 2017
Source: Bureau of Economic Analysis, J.P. Morgan Asset Management

The length of this recovery suggests that the end of our economic expansion is near. However, other economic considerations suggest a more encouraging reality:

Year-over-year wage growth has received significant recent attention due to investors' fear of an overheating economy and inflation. However, at least historically, year-over-year wage growth doesn't typically become an issue for the economy until it hits 4%. According to Strategas Research, the 4% rate is where wages begin to eat into company margins and harm earnings. Taking a look at wage growth and its relationship to past recessions (grey bars), the data reveals that historically, on average, a recession does not occur until approximately 26 months after 4% wage growth is reached.

FIGURE 2 **Average Hourly Earnings: Production & Nonsupervisory Employees - YoY % Change**

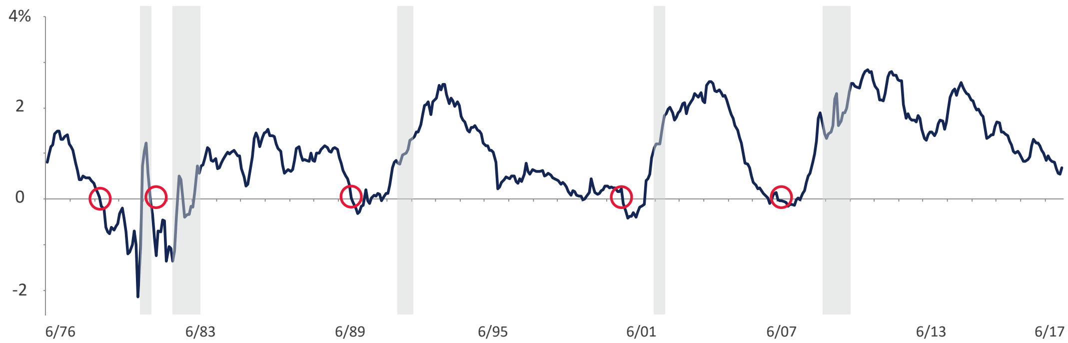


Date When Wage Growth Hits 4%	Date When Recession Begins	Months Between
February 1989 (4.2%)	August 1990	18
October 1997 (4.2%)	April 2001	42
August 2006 (4.1%)	January 2008	17
	Average	**26**

Source: Federal Reserve Economic Data, Strategas Research Partners

Another widely watched recession indicator is the 2-year/10-year treasury spread which has signaled every recession in the past 50 years. With inflation expectations up and the Federal Reserve expected to continue to raise rates, the yield curve should continue to flatten as the front end increases. However, the data show that a flattening curve is not a reason to panic, and in fact, historically, on average, there's a recession ~17 months after the curve is fully inverted, i.e., when shorter maturity bonds have higher yields than longer maturity bonds. Since the curve has not even fully inverted, there appears to be some time remaining in this business cycle.

FIGURE 3 **10 Year Treasury Yield – 2 Year Treasury Yield**

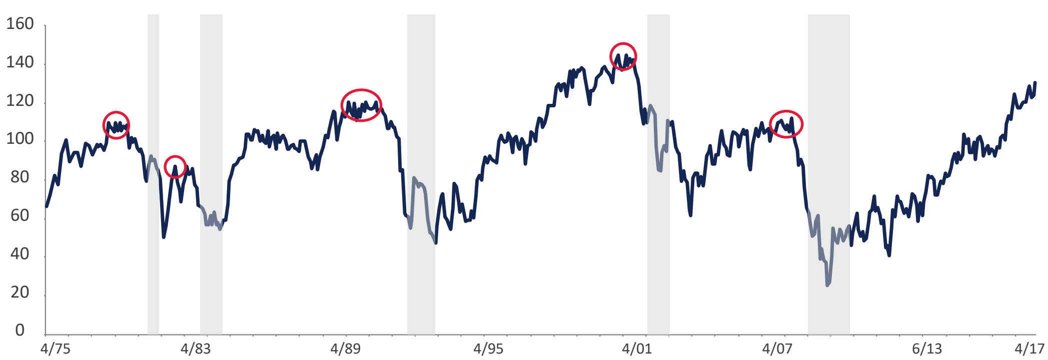


Date When Yield Curve Inverts	Date When Recession Begins	Months Between
September 1978	February 1980	17
August 1980	August 1981	11
January 1989	August 1990	19
February 2000	April 2001	14
February 2006	January 2008	23
	Average	**17**

Source: Federal Reserve Economic Data, Strategas Research Partners

Since the U.S. election in 2016, the promise of tax cuts and deregulation has caused a surge in consumer confidence. As of February 2018, consumer confidence hit its highest level going all the way back to the end of 2000. The new highs in confidence are a strong indicator that the business cycle has further to go. Typically, leading into a recession consumer confidence peaks and crashes about a year prior to a drawdown.

FIGURE 4 **Conference Board Consumer Confidence**

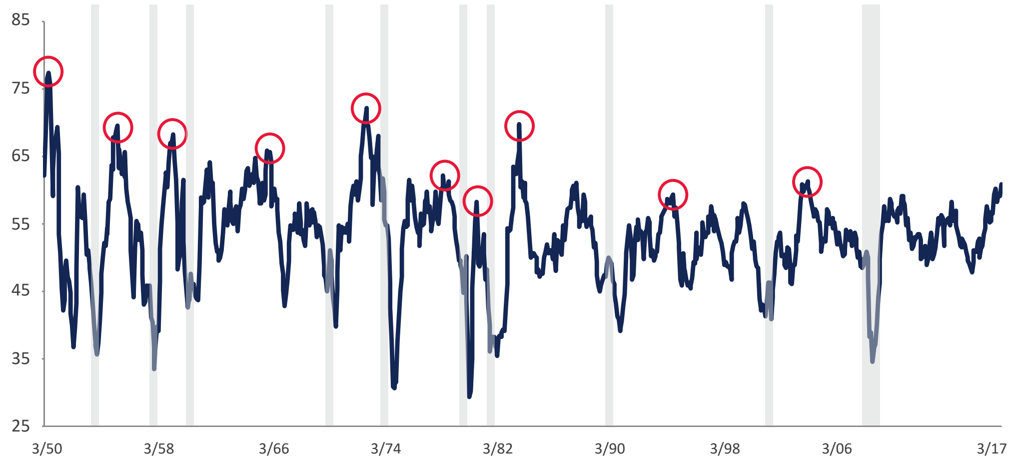


Date When Consumer Confidence Peaks	Date When Recession Begins	Months Between
April 1978	February 1980	22
November 1980	August 1981	9
February 1989	August 1990	18
May 2000	April 2001	11
August 2007	January 2008	6
	Average	**13**

Source: Bloomberg, Strategas Research Partners

This past year (2017) was a year of synchronized global economic growth with almost every nation expanding across the board. This was especially the case in the U.S. where the manufacturing Purchasing Managers' Index (PMI) continued to hit cycle highs and its highest reading going all the way back to 2004. The still expanding manufacturing PMI (as of February 2018) bodes well for an extending business cycle as recessions typically don't start until approximately 37 months after manufacturing PMI peaks.

FIGURE 5 **Manufacturing PMI**



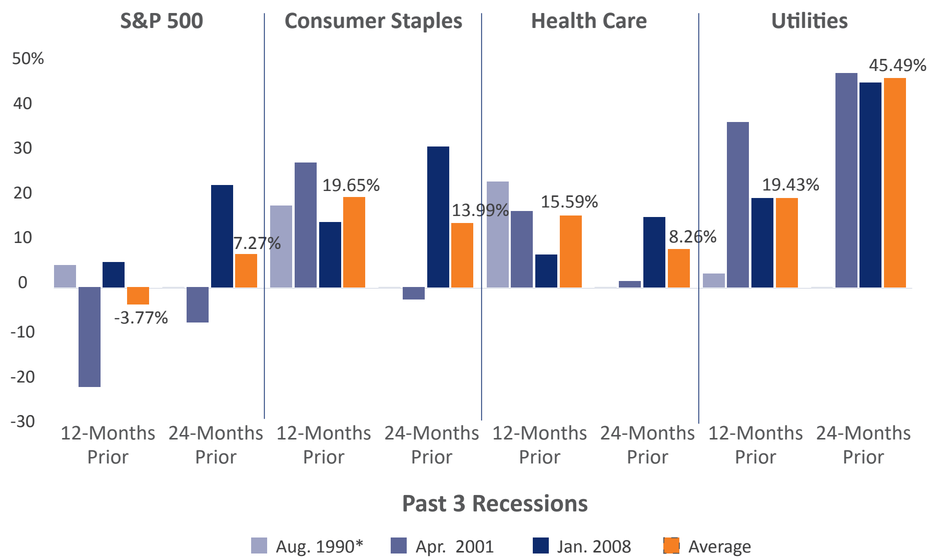
Date When PMI Peaks	Date When Recession Begins	Months Between
July 1950	August 1953	37
May 1955	September 1957	28
May 1959	May 1960	12
January 1966	January 1970	48
January 1973	December 1973	11
July 1978	February 1980	19
November 1980	August 1981	9
December 1983	August 1990	80
October 1994	April 2001	78
May 2004	January 2008	44
	Average	**37**

Source: Bloomberg, Strategas Research Partners

Playing the End of a Business Cycle

If there are still a few years left in this business cycle, an important consideration for investors is how to position portfolios going forward. At this point in the cycle we believe a defensive tilt (Consumer Staples, Health Care and Utilities sectors) in the equity portfolio makes the most sense. The defensive sectors tend to be more secular and earnings are much more resilient during a recession. It is also evident from the data that these sectors outperform in the months leading up to a recession (12-months prior and 24-months prior).

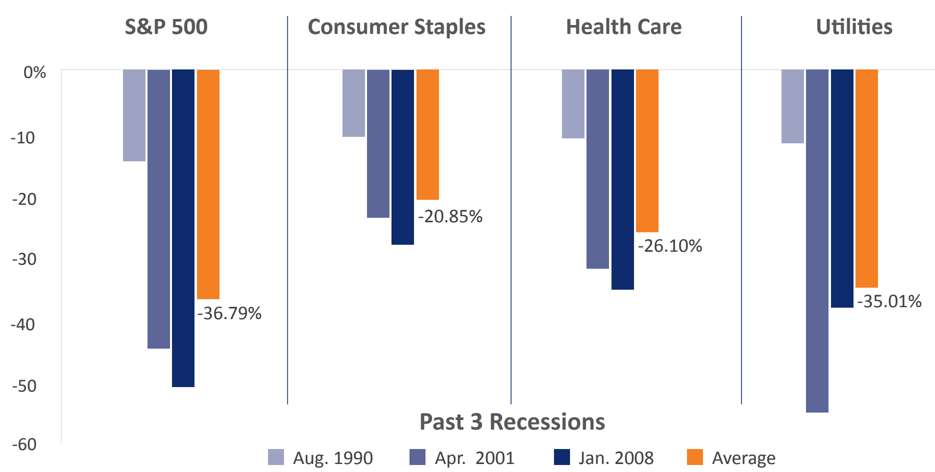
FIGURE 6 **S&P 500 Defensive Sector Returns Leading Up to Recessions**



Source: Bloomberg
*Only 10 months of data was available at the GICS sector levels prior to the August 1990 recession.

However, the value of the defensive sectors is not just in the months leading up to a recession. During a recession, the defensive sectors provided excellent downside protection as well (especially Consumer Staples and Health Care).

FIGURE 7 **S&P 500 Defensive Sector Recession Drawdown**



Source: Bloomberg

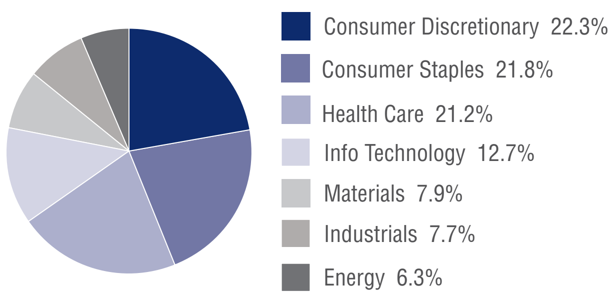
We believe that based on where we are in the business cycle it is prudent for investors to begin to weight towards the defensive sectors. But even if our views on the cycle are incorrect (and there's even more time left in this cycle) there are still plenty of risks around the globe that warrant a more defensive stance: Valuations are high by most measures, volatility has reemerged and trade tensions have been increasing.

Barrow Funds

At Barrow Funds, our investment process favors higher quality companies trading at what we believe to be a substantial discount. We define high quality as those businesses with high operating margins, high return-on-equity and low financial leverage, as these companies have historically outperformed overall growth stocks over the long run. Often, many of the companies are found in the more defensive areas of the market. By policy, our portfolios may have an overweight allocation to Consumer Staples (20%) and Health Care (20%).

Barrow Value Opportunity Fund Sector Allocation

As of 3/31/18



Mutual fund investing involves risk. Principal loss is possible. The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund and may be obtained by calling 1-877-767-6633. Read it carefully before investing. Distributed by Ultimus Fund Distributors, LLC.

The Fund invests in small and mid cap companies, which involves additional risks such as limited liquidity and greater volatility. Past performance does not guarantee future results.

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The **S&P 500 Index** is an unmanaged index of equity prices and is representative of a broader market and range of securities than is found in the Fund's portfolio. It is not possible to invest directly in indexes which are unmanaged and do not incur fees and charges.