OUR FIRM

Boyd Watterson Asset Management, LLC is an SEC-registered investment advisory firm with $8.5 billion of assets under management. For 90 years, we have successfully managed a broad range of fixed income, real estate, and equity strategies for institutions and individuals alike.

With a singular focus on the management of money and a dedication to the satisfaction of our clients' expectations, we offer the benefits of a boutique firm but with the resources usually attributable to a much larger asset management firm.

Please visit our website, ***www.boydwatterson.com***, for information about Boyd Watterson's investment strategies, insights, philosophy, and people.

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THE MACRO VIEW: CONTINUED GROWTH

2018 was thought to be the year of strong, broad-based economic growth across most emerging and developed economies. However, it did not take long before the synchronized global growth narrative broke down, mostly because of disappointing growth in the European Union and China, which then subsequently dragged down emerging markets.

The U.S. economy was a different story. When final results are posted, 2018 will likely mark the strongest economic growth the U.S. will have experienced during the current expansion which started nearly ten years ago. Real GDP, annualized quarter-over-quarter, reached a high of 4.2% in the second quarter before retreating to 3.4% in the third quarter. Final real GDP is likely to come in at 2.9%.

The domestic economy has been a beneficiary of a more business-friendly environment as certain regulatory restrictions were either eliminated or relaxed and the effects of the 2017 tax cuts were enjoyed by individuals and corporations alike. Tax cuts generally had a positive impact on corporate earnings as the earnings growth rate is expected to top 24% in 2018, by far the highest rate in more than ten years.

A strong macro environment did not translate into attractive returns for risk markets. Several factors have been sighted for the disconnect and the diminished appetite for owning risk assets:

- the belief that economic activity peaked in the second quarter and growth will return to a more modest level going forward
- escalating trade tensions between the U.S. and China
- tighter financial conditions primarily due to the Fed raising the Fed Funds rate four times while also reducing its holdings of U.S. Treasuries and mortgages
- a strong U.S. dollar and weaker commodity prices
- the expectation that quantitative easing is coming to an end in Europe

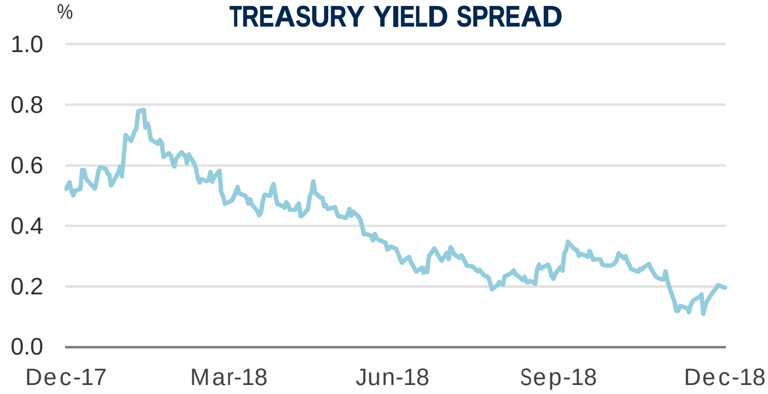
PERFORMANCE FOR PERIODS ENDING DECEMBER 31, 2018

	QTD	YTD	3-YR	5-YR
2-Year Treasury	1.30	1.49	0.78	0.70
10-Year Treasury	3.86	-0.03	0.62	2.62
Bloomberg Barclays Aggregate	1.64	0.01	2.06	2.52
Corporate Investment Grade	-0.06	-2.25	3.32	3.34
Corporate High Yield	-4.64	-2.26	7.22	3.81
Leveraged Loans	-3.08	1.14	5.03	3.33
Mortgage Backed Securities	2.04	1.00	1.70	2.51
S&P 500	-13.52	-4.39	9.26	8.49
MSCI EAFE	-12.54	-13.79	2.87	0.53

Source: Interactive Data, Credit Suisse, Bank of America/Merrill Lynch, and Bloomberg. Data through December 31, 2018.

As mentioned above, the Fed was actively raising interest rates in 2018, while inflation only briefly reached the Fed's target level of 2.0% around mid-year before dropping to 1.9% currently. Based on the flatness of the yield curve as measured by the yield difference between 2-year and 10-year Treasury rates (20 basis points), the market believes inflation is well contained.

2-YEAR AND 10-YEAR TREASURY YIELD SPREAD



Source: Bloomberg. Data through December 31, 2018.

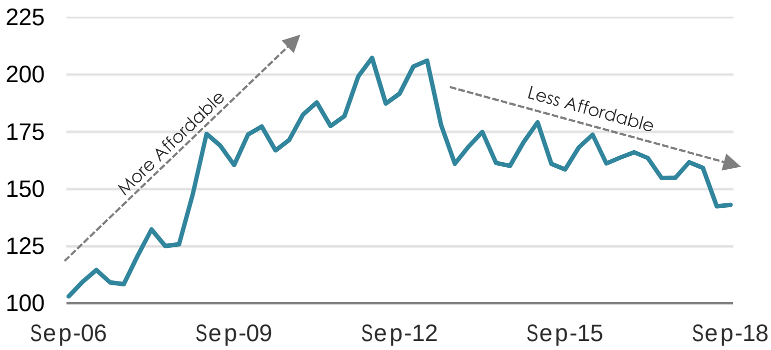
Heading into 2019, we expect real GDP growth to reach 2.5% as most domestic economic measures are still showing signs of growth, albeit at a slower rate than 2018. Although recession fears will continue to build, we do not think we will experience a recession within the next twelve months. We will closely monitor trade developments as well as growth in China and Europe as a harbinger as to what could negatively impact our outlook.

On a positive note, the most important contributor to growth is consumer spending which accounts for approximately 70% of real GDP. We believe the consumer will continue to be a source of strength as:

- the employment picture remains robust
- wage growth is accelerating
- consumer confidence remains elevated
- consumers are not overextended

However, the housing market, once the strength of the recovery, has been disappointing and we expect that to continue in 2019. Unlike most economic data measures, new and existing home sales peaked in the third quarter of 2017 and are now at levels not seen since 2016. Higher interest rates coupled with higher housing values have led to a decline in housing affordability, which has negatively impacted the housing market.

HOUSING AFFORDABILITY COMPOSITE INDEX



Source: Bloomberg. Data through September 30, 2018.

We do not believe the Fed will be as active in 2019 as they were in 2018. Chairman Powell recently indicated that the central bank anticipates only two moves in 2019, down from three moves previously. We believe the Fed is close to the end of its hiking cycle and believe that Fed policy will be data driven. Therefore, we think the Fed will raise rates only one time in 2019.

Inflation is a bit of a wild card in 2019. Wages have definitely increased as labor markets have tightened. However, we believe the Fed has done a good job of being in front of inflation and that structural forces such as demographics and technology will continue to keep a lid on inflation around current levels.

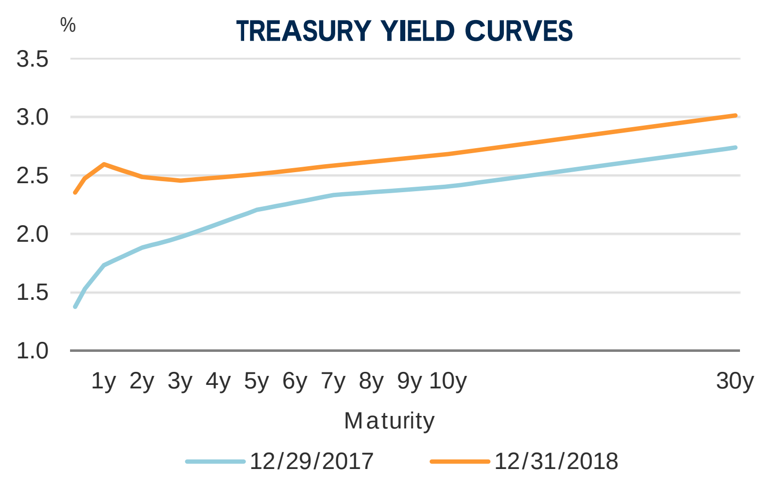
In conclusion, we expect economic growth to continue in 2019, but at a slower growth rate than we experienced in 2018. Recession fears will be elevated, but concerns of an imminent recession are overblown in our view. The Fed will remain in play, but we believe the Fed will only raise rates once in 2019, as inflation should remain around 2.0%.

THE OVERVIEW BY MARKET

FIXED INCOME

As we close the books on 2018, the broad investment grade fixed income markets experienced a reversal of fortune when compared to 2017. In 2017, the yield curve flattened as measured by the spread between 2-year and 10-year Treasury Rates. Long maturity rates actually fell while short and intermediate rates rose. In 2018, although the yield curve continued to flatten, the story was different as rates rose across all maturity ranges. While the Federal Reserve raised rates four times in 2018, the cumulative effect from three increases in 2017 plus quantitative tightening (unwind of the Fed's balance sheet) took its toll on credit spreads and longer maturity securities. The reemergence of volatility contributed an additional layer of uncertainty which exaggerated spread moves.

TREASURY YIELD CURVES



Source: Bloomberg. Data through December 31, 2018.

As we began 2018, the market had bought into the synchronized world growth story and expected the Fed to continue to tighten monetary policy by raising interest rates and reducing their balance sheet in a Goldilocks scenario. The stock market was comfortable with this narrative as the earnings growth rate was near 25% year-over-year. That all changed soon after the end of the third quarter. With peak economic growth in the rearview mirror, coupled with investor concerns centered around the prospects of a growing trade war with China and its resultant slowing effects on the domestic economy, market sentiment changed and the fear of the Fed raising rates too high, too soon, became the commentary.

The fourth quarter started with a gradual re-pricing of risk assets. Aggressive Fed posturing, the ongoing weight of the balance sheet unwind, uncertainty surrounding the outcome of mid-term elections and a more combative tone concerning trade talks with China, changed all that. Corporate bond spreads began to gap out as equity markets headed lower and Treasuries rallied. As we moved closer to year-end, liquidity dried up and buyers boycotted risk assets as spreads across IG, HY and EM moved sharply out to their widest levels of the year. Trading volatility both in equities and bonds contributed to a 'flight-to-quality' in the treasury market leading to a strong price rally into year-end. In contrast to corporate credit, the securitized sectors, ABS, MBS and CMBS, enjoyed stronger performance for the year contributing positive total returns and surpassing that of the Aggregate Bond Index return which was essentially flat for the year.

CORPORATE INVESTMENT GRADE INDEX - OAS

Source: Bloomberg Barclays Live. Data through December 31, 2018.

As we look forward, we see better value due to wider spreads and higher yields. In 2018, we finally saw an increase in volatility which we expect to continue in 2019. We want to take advantage of higher volatility to drive relative performance in 2019. A steeper corporate credit curve means valuations of longer maturity securities are at levels we have not seen since the energy sector driven credit spike of early 2016.

As a result, we are positioning portfolios as follows as we head into 2019:

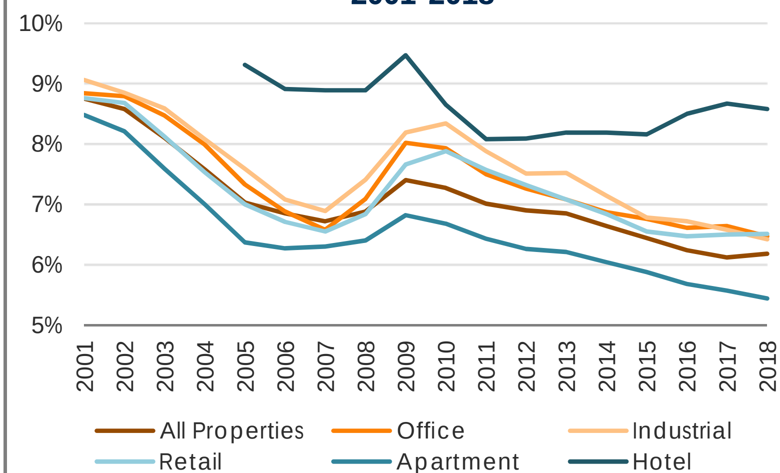
- maintain a defensive posture by being underweight duration
- overweight corporate sector due to more attractive valuations and solid fundamentals
- extend corporate maturities when valuations dictate
- overweight ABS and CMBS while remaining underweight to neutral Agency MBS
- own TIPS to protect against unexpected spikes in inflation

We look to maintain liquid portfolios that offer a yield advantage over respective benchmarks, while also taking advantage of price dislocations when supported by fundamentals.

REAL ESTATE

There was a relative calm and consistency in the commercial real estate market in 2018 in contrast to the volatility seen in the equity and bond markets towards the end of the year. Pricing has largely remained consistent compared to 2017 and the drop in long-term interest rates at the end of the year has eased some concerns that rising rates would eventually push cap rates up. Liquidity has been strong with transaction volumes for year-end 2018 expected to exceed 2017 totals according to Real Capital Analytics.

COMMERCIAL REAL ESTATE CAP RATES 2001-2018



Source: Real Capital Analytics. Data through December 31, 2018.

Returns in the real estate sector have remained fairly strong with NCREIF's NPI producing a 7.16% return through the end of Q3 2018 and full-year 2018 returns anticipated to be in the 7% range. This stands in sharp contrast to the negative returns produced in 2018 in nearly every other major asset class. The outlook for return in real estate continues to look attractive though not robust, with expectations in the 5% to 7% range for

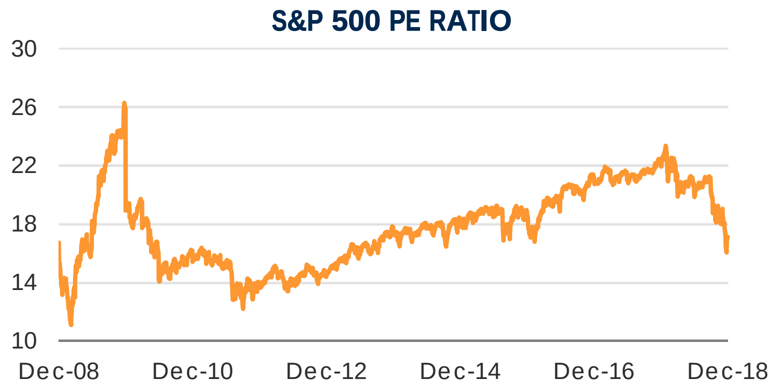
2019 as price appreciation slows down. Still, with the strong recent performance relative to other asset classes and low return expectations in the equity and bond markets, it is expected that capital will continue to flow into the real estate space on top of the record $180 billion of dry powder held by closed-end fund investors in North America, according to Preqin. This massive amount of capital, on top of the additional capital held by open-end funds and REITs, will, in our opinion, continue to keep a lid on cap rates and maintain a steady-state in the real estate sector.

Fundamentals in each property type remain relatively strong and there is little evidence of overbuilding on a large scale. Even if there is a slowdown in the economy in 2019, trends are favorable in the multi-family (prime-renter age demographics and higher mortgage rates) and industrial spaces (growth of e-commerce) which should continue to fuel these sectors. Retail will remain a challenged asset class, particularly for lower-quality malls and strip centers. Pricing has reflected these concerns, with values down 11% from their peak in 2016 and with public mall REITs, historically a leading indicator for private sector prices, trading at a 20% discount to net asset value according to Green Street Advisors. We believe the office sector will be dependent on job growth and will be challenged by new developments coming online. Other headwinds in the office sector include the continued trend of shrinking office spaces per employee as well as the increasing capital expenditures needed to attract quality tenants. We believe niche sectors such as senior housing, self-storage and student housing will likely outperform traditional asset classes. This is due to demographics working in their favor. They are relatively recession-resistant, which may prove attractive to investors concerned about a slowing economy.

EQUITIES

At the end of the third quarter, the equity markets were setting up to have a solid year with plenty of optimism still on the horizon. However, the optimism quickly faded as volatility reemerged and the fourth quarter brought a vastly different perspective to equity investors. The S&P 500 declined 13.52% in the fourth quarter, ending the year down 4.39% in what turned out to be the worst year for equities since 2008. Tighter financial conditions, higher interest rates, and peaking growth rates all contributed to the decline. The earnings season generally produced better than expected results, but beating estimates was not nearly enough for investors as forward guidance and the quality of the earnings became the focus. As a result, risk appetites decreased and the buy-the-dip mentality quickly disappeared.

Our belief is that the rapid repricing of risk in the equity markets and current investor sentiment is too bearish relative to the fundamentals. Although earnings estimates are expected to continue to fall, we believe the decline in earnings will not likely be as significant as feared. Additionally, any meaningful resolution on trade talks should provide support for risk assets. One positive to the correction in equity prices is that current price-to-earnings multiples have fallen to levels last seen five years ago.



Source: Bloomberg. Data through December 31, 2018.

Despite our outlook for a slowing macro environment, the recent decline in equities has resulted in more attractive valuations. In this type of environment, we would expect value-oriented, dividend paying stocks to outperform. Our 2019 forecast projects volatility to remain elevated, but in our view the recent sell-off has provided a much better entry point for equity investors.