INVESTMENT COMMENTARY: Q142018

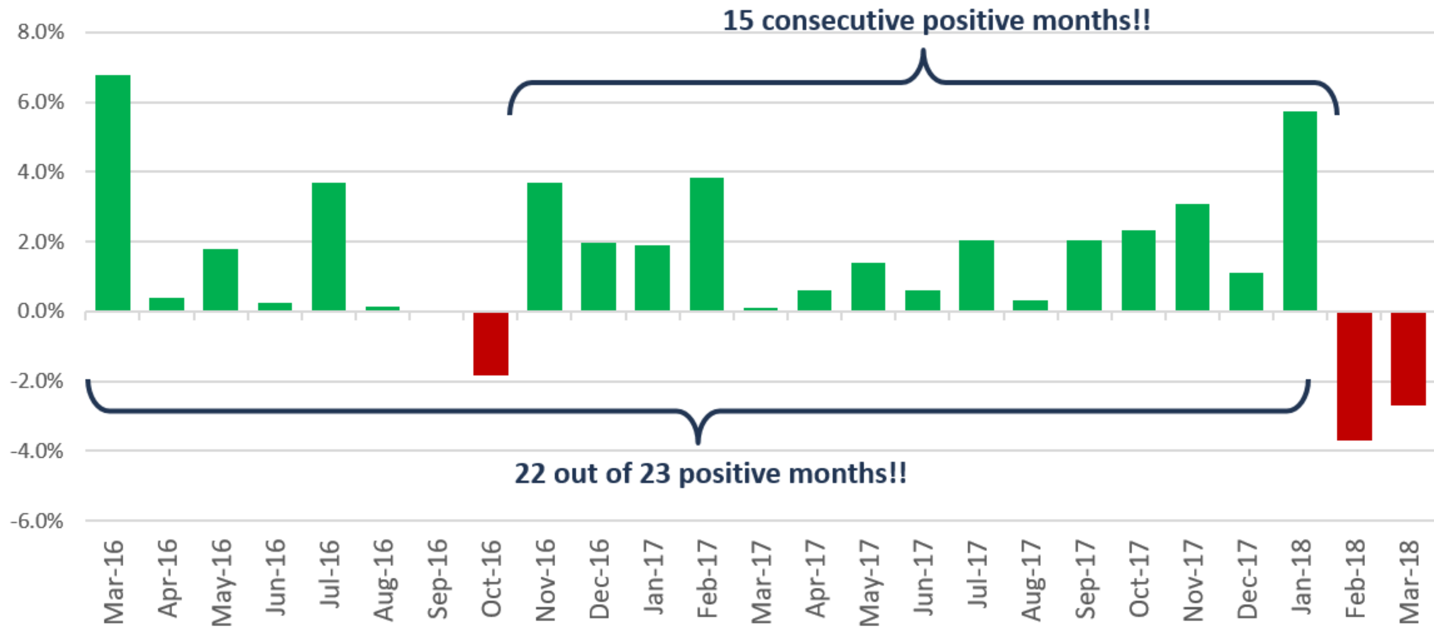
April | 2018

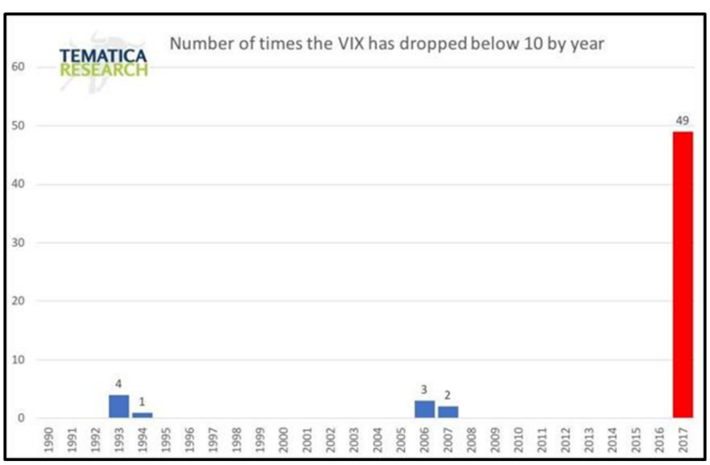
Risk Management, mean reverting volatility in a changing market environment

Last year was truly an exceptional market environment. The facts:

- Through Jan 2018, the S&P 500 recorded 15 consecutive positive months;
- This is the longest winning streak ever recorded;
- Going back to Mar 2016, the market recorded positive gains in 22 out of 23 months;
- Warren Buffett's ratio of total market cap to US GDP, the market is now roughly as expensive as it was at the peak of the tech bubble;
- A record low for the volatility index and a record for the number of times VIX closed below 10.

S&P 500 Monthly Return





The return of volatility came swiftly in February as a sharp correction pulled markets lower by 10% in less than two weeks. Interest rates have begun to move higher in response to inflationary pressures. Despite strong economic data and a corporate friendly tax change, the markets must now learn to cope with headwinds. During the correction, the Strategy demonstrated it's strong downside protection qualities.

We believe a higher level of volatility is likely to persist as the market comes to grips with higher interest rates (and corresponding lower price multiples) and the removal of Federal Reserve support. The battle between a strong economy and rising rates will likely result in more volatile price action. Even if the outcome is benign for equity returns, the volatility of price movements is likely to return to normalcy and not repeat 2017's abnormally low volatility.

Therefore this leads us to conclude that higher volatility is here to stay. By higher we mean reverting back to the mean. Earning a positive return is going to be more difficult than it has been in the last six years, now that QE, balance sheet expansion, buy backs etc might have the potential to fall away.

We believe the art of downside capture comes back into play for the years ahead of us. We have dealt with various difficult market environments. The proof is in the pudding. The strategy has the best track record in terms of downside capture.

This changing environment is a great time to reflect on what investing is all about:

The goal of investing should be:

- To keep money
- To make money

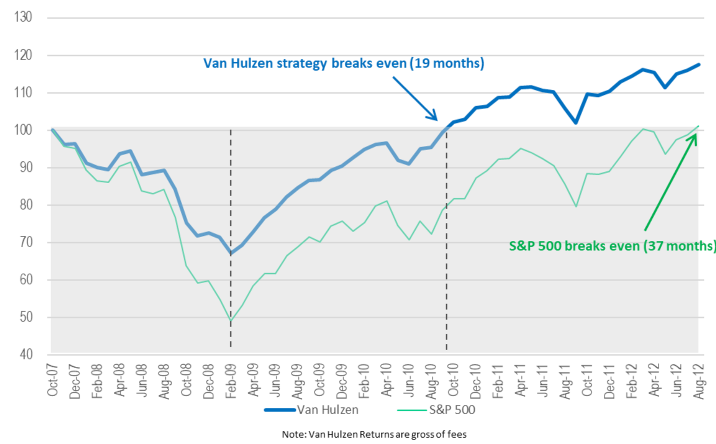
Money managers who successfully protect your capital and make money for you in changing environments are truly serving you. Those whose goal is to beat the S&P 500 by holding speculative holdings, will eventually serve you up.

This market has been greatly helped by Global Central Banks, through QE and balance sheet expansion, share buy backs and low interest rates. With the arrival of the new FED chairman, it appears that a different wind is blowing. The FED has made it clear that they will normalize their balance sheet.

We are moving away from the family station wagon on a road trip (with the FED behind the wheel), to an "all terrain" environment where driving has to be done. The bumpier road ahead requires a new vehicle.

How Did the Strategy Perform in 2008-2009?

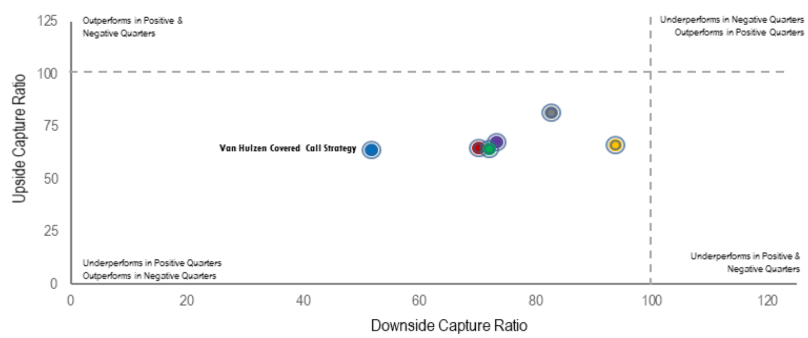
It took **37 months for the S&P 500** index to make up its losses from the 2008-09 stock market crash. The Van Hulzen covered call strategy reached **break even after 19 months.**



Past performance may not be indicative of future results

Downside Capture Analysis

Most covered call managers have an upside capture ratio of 65-70%. However, downside capture ratios vary more widely. The Van Hulzen Covered Call Strategy has a strong downside capture ratio compared to other SMA managers.



	Upside Capture Ratio	Downside Capture Ratio
Van Hulzen Covered Call Strategy	64.04	51.76
Cullinan Associates DW	67.55	73.30
Connors Investor Covered Call	81.72	82.71
Griffin Asset GAM Covered Call Strategy	64.88	70.23
Willingdon W. M. Covered Call	66.50	93.87
Ziegler Capital FAMCO Covered Call	64.51	72.15

Van Hulzen Covered Call Strategy in Review and Outlook

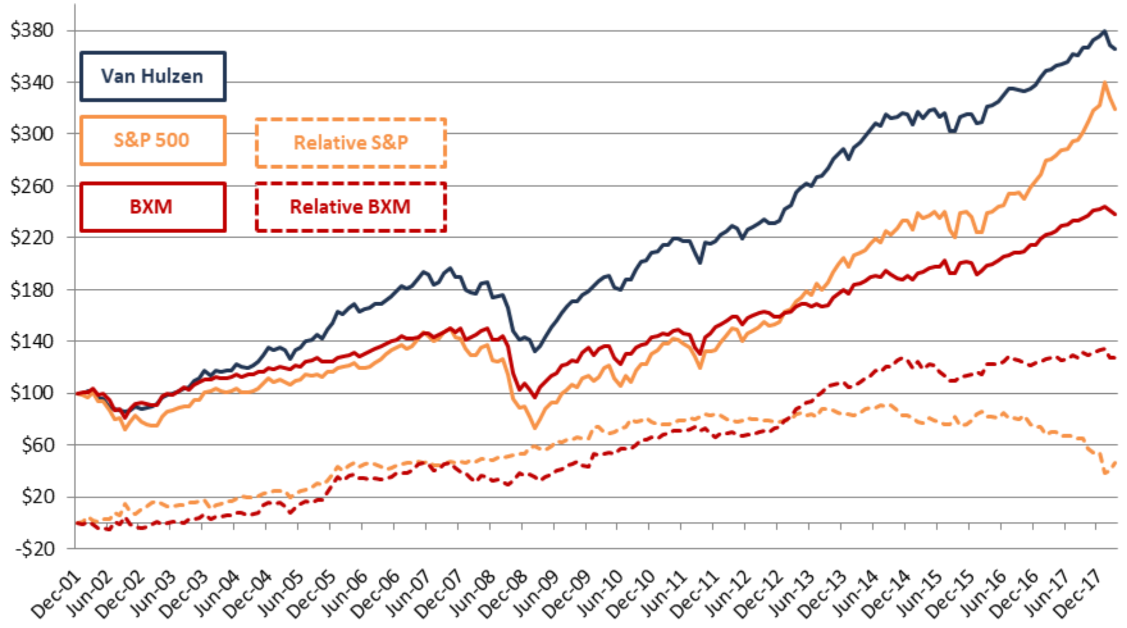
Our strategy lost 2.5% in Q4 compared to –1.6% for the BXM and –0.8 for the S&P 500. The performance of the S&P 500 does not tell the whole story. After an initial jump of 6% in January (see page 1), it fell extremely hard on the way down. Our investment process is focused on finding undervalued high quality stocks and selling call options to potentially enhance the total return and risk profile on each position. We believe that equity markets are now changing from an extremely low volatility environment to a very choppy higher volatility environment. As covered call investors, we welcome back this higher volatility as it makes the total return performance less dependent on price appreciation.

Van Hulzen Asset Management

Investment Committee

4370 Town Center Blvd Suite 220, El Dorado Hills, CA 95762
Tel: (916) 608-4284 | Fax: (916) 608-4296
www.vaminstitutional.com

Covered Call Strategy Performance (gross as of 03/31/2018)



Returns (annualized)*	Mar 2018	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	-0.6%	-2.5%	-0.1%	-2.5%	4.7%	5.5%	7.5%	7.9%	7.6%	8.3%
Van Hulzen (Net)	-0.6%	-2.7%	-0.4%	-2.7%	4.0%	4.9%	6.8%	7.1%	6.6%	7.4%
BXM	-1.1%	-1.6%	1.2%	-1.6%	6.9%	7.2%	7.4%	7.4%	5.1%	5.5%
Difference (Gross-BXM)	0.5%	-1.0%	-1.3%	-1.0%	-2.3%	-1.7%	0.1%	0.6%	2.5%	2.8%

*Inception date : 12/31/2001. Figures greater than one year are annualized. Van Hulzen returns represent actual returns from composite of accounts

Note: There is no assurance that the Strategy will achieve its investment objectives. Writing call options can result in an option exercise and may cause shares to be "called away" and sold. The use of covered call strategies does not ensure profits or guarantee against losses. Past performance may not be indicative of future results.

The foregoing content reflects the opinions of Van Hulzen Asset Management and is subject to change at any time without notice. Content provided herein is for informational purposes only and should not be used or construed as investment advice or a recommendation regarding the purchase or sale of any security. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. Past performance is not a guarantee of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns. All investing involves risk including the potential for loss of principal. There is no guarantee that any strategy will be successful. *The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index. The BXM is a passive total return index based on (1) buying an S&P 500 stock index portfolio, and (2) "writing" (or selling) the near-term S&P 500 Index (SPXSM) "covered" call option, generally on the third Friday of each month. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. It is widely used as a benchmark of U.S. equity performance. It is not possible to invest directly in an index.* FPAC-0145-18