LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update **September 2017**

Alternative Investments – What and Why?

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Co-Chief Investment Officer, Principal

Most investors work and save diligently to pursue their investment objectives, and most investors only have access to the traditional asset classes of fixed income and equities.

Your investment goals are some combination of preserving wealth, building wealth or a desire for a stream of income. Stocks and bonds help you reach your goals, but alternative investments can really help!! All of us at Lanier have a very healthy allocation to our diversifying strategies that include alternative investments.

So what are “alternative investments?” There are many definitions, but simplistically they are investments other than long-only, publicly traded stocks and bonds. They include hedge funds that “short” – profiting from an asset’s decline – and other asset classes including commodities, natural resources and more. Most are fairly liquid, which means one has the ability to redeem their investments on a regular basis without taking a haircut.

Hedge fund strategies include long/short, global macro, market neutral, options, managed futures and more. All are designed to achieve superior risk adjusted returns over a market cycle and smooth returns.

So why invest in alternatives? Portfolios with a healthy allocation to alternatives of 20-40% of the total value produce higher returns, lower volatility, lower correlation to the S&P 500 and lower maximum drawdown, thus building and preserving wealth.

What do the pundits say about alternatives? Consistently two items – higher fees and lagging returns in bull markets.

Regarding fees, it makes all the sense in the world to pay management fees in inefficient markets such as alternatives. Conversely, it makes much less sense to pay fees in the efficient asset classes such as stocks and bonds – and that’s exactly what most investors indeed do! The studies are so clear. Alternative funds’ fee schedules are various, but all performance figures are net of fees. Who cares what the fee is if you can get 7-10% net with less than half the risk of the S&P 500? One manager we use is up over 30% YTD net of fees – who cares what the fee is?

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Alternatives typically do lag the stock market in bull markets, including the current 2nd longest bull in history. During bear markets, alternatives have generated superior returns to stocks. In times like the tech bubble bursting (2000-2002) when the market declined 50%, alternatives provided a positive return. In the Great Recession Financial Crisis (2007-2009), alternatives posted a slightly negative return as stocks were routed 50% yet once again.

One last pontification regarding hedge funds. At Lanier, due to our contacts and over 100 years of investment experience, we have access to the largest and most sought after managers. Some are accessible often, some only periodically. The universe depends on one's investor qualifications – with qualified investors having the most opportunities followed by accredited investors.

In summary, alternative investments assist the investor in a meaningful fashion to reach one's investment goals. We personally invest in alternatives in a very healthy fashion with several managers including the highly respected Citadel and Millennium organizations, and we strongly advise our clients to also use them as part of achieving their objectives.

Carl W. Hafele, CFA, CPA, is Co-Chief Investment Officer and Principal at Lanier Asset Management.

Key Points From Our Investment Meeting – 9/11/17

Macro Viewpoint

- We are entering the 9th year in this economic cycle without a bear market. Be careful and consider low to negatively correlated assets.
- The EU continues with easy money as Draghi remains dovish.
- Considering epic natural disasters in Texas, Florida and Mexico, does the Fed change its stance on interest rates?

Asset Class Comments

- The domestic equity market continues higher; please diversify!
- Developed foreign and emerging equity markets continue to move higher as investors look outside the US for gains.
- We hope the bond markets are wrong, but they rarely are…

Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
	Investment Vehicle	August	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.0%	0.0%	0.1%	0.4%	0.3%	0.2%	0.2%	0.6%
Fixed Income									
Domestic (Barclays US Agg)		0.9%	1.3%	3.7%	0.5%	2.6%	2.1%	2.9%	4.3%
Vanguard Total Bond Market	VBMFX	0.9%	1.2%	3.6%	0.2%	2.5%	2.0%	2.8%	4.2%
Eaton Vance Floating Rate	EIBLX	-0.1%	0.4%	2.9%	6.6%	3.7%	4.0%	4.6%	4.1%
US Preferred Stock ETF	PFF	-0.1%	0.6%	7.9%	2.5%	4.9%	5.6%	5.8%	4.9%
High Yield (Barclays US Corp HY)		0.1%	1.1%	5.7%	8.1%	4.4%	3.2%	4.4%	5.7%
Short Term High Yield	SJNK	0.1%	0.8%	4.8%	8.1%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		0.3%	2.4%	11.8%	16.2%	9.5%	14.2%	15.4%	7.6%
S&P Equal Weight	RSP	-1.0%	0.6%	8.4%	12.6%	7.7%	14.5%	15.1%	8.3%
Domestic Mid Cap (S&P 400 TR)		-1.5%	-0.7%	5.3%	12.4%	7.8%	13.8%	14.9%	8.8%
Vanguard Mid-Cap ETF	VO	-0.6%	1.2%	10.3%	13.2%	7.7%	14.3%	15.0%	8.0%
Domestic Small Cap (S&P 600 TR)		-2.6%	-1.6%	1.1%	13.1%	9.0%	14.3%	16.1%	8.6%
Vanguard Small-Cap ETF	VB	-0.9%	0.2%	5.9%	12.9%	6.9%	13.6%	15.1%	8.4%
Developed Intl. (MSCI EAFE)		0.0%	2.8%	17.0%	17.6%	2.8%	8.4%	7.4%	1.6%
MSCI EAFE	EFA	0.0%	2.6%	17.8%	17.7%	2.9%	8.4%	7.4%	1.6%
Emerging Intl. (MSCI EM)		2.2%	8.3%	28.3%	24.5%	2.4%	5.3%	4.1%	2.4%
Vanguard FTSE Emerging Markets ETF	VWO	3.0%	8.5%	24.8%	21.7%	1.8%	5.0%	3.9%	2.0%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		0.6%	1.8%	6.7%	2.1%	7.4%	9.2%	12.1%	6.3%
Mortgage Real Estate	REM	1.3%	1.5%	17.0%	20.1%	8.2%	7.3%	9.4%	-
REIT ETF	VNQ	-0.3%	1.0%	3.6%	-1.2%	7.3%	9.1%	12.0%	6.5%
Commodities (Thomson Reuters/Jefferies CRB Index)		1.6%	8.2%	-3.3%	7.7%	-16.9%	-11.5%	-6.3%	-5.9%
DBC	DBC	0.4%	4.5%	-4.7%	4.9%	-15.0%	-13.1%	-7.2%	-6.2%
Gold	GLD	4.2%	6.6%	14.8%	0.8%	5.6%	-4.5%	1.0%	6.4%
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.8%	2.0%	5.9%	7.8%	3.1%	5.0%	4.5%	3.4%
INFINITY*	OCEAN	1.1%	2.0%	3.3%	6.4%	5.3%	7.5%	7.4%	6.7%
Boston Partners Long/Short Equity	BPLEX	-2.1%	-0.1%	-4.2%	4.1%	3.0%	6.3%	9.7%	10.5%
QIM Tactical Aggressive*	QIM TA	13.8%	5.4%	56.2%	37.3%	28.2%	16.9%	18.1%	21.5%
Citadel*	CITADEL	2.1%	4.4%	9.0%	13.7%	11.4%	14.3%	15.6%	11.0%
Millennium*	MILLENN	1.4%	2.4%	4.9%	7.3%	8.7%	9.2%	9.3%	8.5%
Hedge Fund Plus*	HF+	3.0%	2.4%	11.2%	12.4%	9.8%	9.6%	10.5%	10.7%
Boston Partners Global Long/Short	BGLSX	0.0%	0.9%	3.2%	4.3%	3.7%	5.4%	4.8%	3.6%
Managed Futures									
Barclays CTA Index		0.5%	-1.0%	-0.5%	1.8%	2.7%	1.2%	1.5%	3.2%
WINTON*	WINTON	2.1%	1.5%	-2.3%	-6.7%	-1.7%	-1.1%	-0.8%	1.8%
QIM*	QIM	-3.4%	-3.6%	-0.7%	4.4%	6.9%	-0.5%	0.9%	2.2%
AQR Managed Futures Strategy	AQMNX	0.6%	0.7%	-5.0%	-12.9%	0.0%	1.6%	1.3%	2.9%
Natixis ASG Managed Futures Strategy	ASFYX	1.5%	4.5%	1.8%	-6.4%	1.6%	4.7%	3.4%	4.6%

= Benchmarks
= Lanier Selections

* For Accredited Investors

Our Team

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CEO, Principal

Junius V. (Trip) Beaver, III
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Director, Private Client Group

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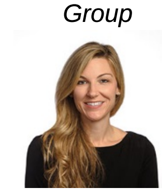
Financial Consultant

Sara B. Thomas, JD, CPA
Financial Consultant

Deidre M. Durbin
Chief Compliance Officer



Stephanie E. Milby
Investment Associate

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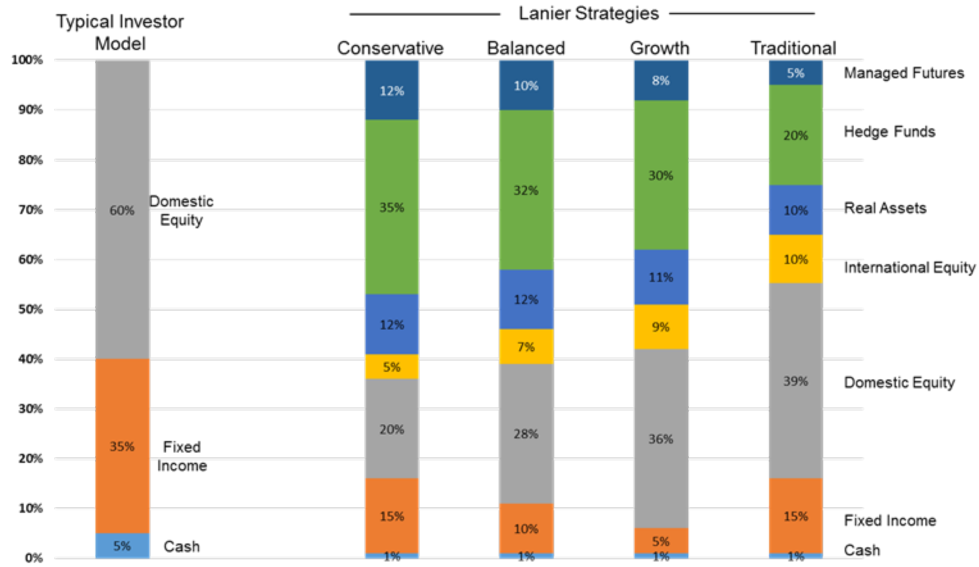
Our Approach

At Lanier, we believe that portfolios designed to deliver superior performance and lower correlation with the overall markets must decrease reliance on stocks and bonds and be complemented with a set of diversifying strategies and alternatives



Each of our clients has a unique set of needs (based on age, risk tolerance, income need, etc.) and an asset allocation model designed specifically to meet those needs. Consequently, actual client investment models can and do vary from the allocation percentages listed above.

Lanier Asset Management is an independent Registered Investment Advisory firm. Our mission: ***To Build Confidence and Security in our Clients' Financial Future***. We use an open architecture investment structure to combine the best of proprietary and independent investment strategies. At Lanier, we deliver superior service and performance to our clients as a result of four distinguishing elements:

- **People**: we are an independent firm, providing objective advice from experienced investment professionals working in your best interests
- **Investment Philosophy**: we seek to smooth investment returns, providing superior investment performance and a significantly lower correlation to the overall market
  - Focus on projected returns rather than historic for all asset classes
  - Similar to the largest U.S. endowments
- **Investment Process**: combine active and passive management in traditional asset classes; complement with diversifying strategies/ alternatives
- **Conviction**: we believe in our approach – this is how we invest our own money

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