

US Economy

U.S. GDP growth will likely slow from the above trend 3.0% level of 2018 to 2.6% in 2019, a level many economists believe is right at the long term potential of this developed economy. The risk of recession over the next year remains low as consumer sentiment is very healthy, and business balance sheets appear to have ample cash reserves. Capital spending will be a key determinant for continued growth at current levels.

Monetary Policy

The markets didn't view the most recent rate hike, accompanying statement and Chairman's press conference as dovish enough. However, low inflation and the strong dollar will likely bring an end to the three year tightening cycle. The stage appears set for a pause in the first quarter and only one rate increase for all of 2019.

Bond Markets

Yield curve flattening angst will likely continue into the new year. However, a positive U.S. economic outlook and the expected end to Fed tightening should keep the curve upward sloping and yields across the curve only slightly higher than current levels by the end of 2019.

High-yield bonds have seen spreads widen substantially over the past few months due primarily to the impact of lower energy prices on that sector within the asset class. The overall economy appears healthy going into 2019, which means default rates should stay low outside of the energy issues.

Equity Markets

The recent sharp declines in equity prices have corrected any overvaluation concerns. Given our expectations for positive U.S. GDP, sales and earnings growth for all of 2019, stock prices appear very attractive at current levels.

Economic Forecast provided by HPM Partners

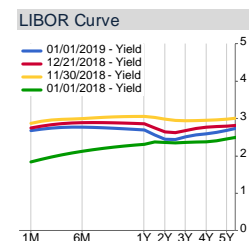
	Current	12-Mo Forecast	2019 est.
Fed Funds Rate	2.50%	2.75%	
Crude Oil WTI (\$/bbl)	\$45.33	\$55.00	
Gold (\$/ozt)	\$1,283	\$1,250	
US 10-Year Treasury Yield	2.68%	3.00%	
S&P 500 Index	2,489	2,800	
HY Fixed Income Spread**	530 bps	425 bps	
World GDP Growth Rate			3.70%
US GDP Growth Rate			2.60%

*Source: Factset
 **High Yield Spread is the BofA Merrill Lynch High Yield Master II relative to the US 10Year Treasury Bond.

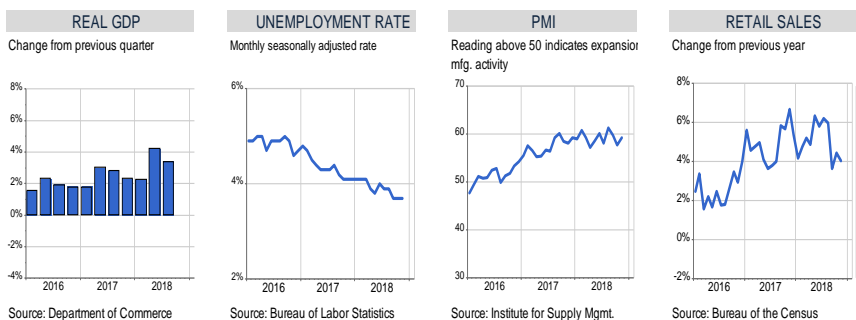
Rate Environment

	Current		Historical	
	Current	YTD %	52- Wk HI	52-Wk LO
US Treasury 2yr	2.50%	59 bps	2.97%	1.89%
US Treasury 5yr	2.51%	27 bps	3.09%	2.21%
US Treasury 10yr	2.68%	25 bps	3.23%	2.41%
US Treasury 30yr	3.01%	26 bps	3.46%	2.74%
LIBOR - 3 Month	2.81%	111 bps	2.82%	1.69%
LIBOR - 6 Month	2.88%	104 bps	2.91%	1.84%
LIBOR - 12 Month	3.01%	90 bps	3.14%	2.11%

Treasury Statistics and Libor Curve provided by Factset



Key Economic Data



Equity Market Performance

Index	Current	% Change			52 Week HI	52 Week LO	Trailing P/E	Forward P/E	Current Yield
		Last Week	YTD	52 Week					
DOW	23,142.64	3.93%	-3.48%	-3.48%	26,828.39	21,792.20	14.83	13.77	2.32%
S&P 500	2,488.59	3.78%	-4.38%	-4.38%	2,930.75	2,351.10	15.55	14.45	2.22%
NASDAQ	6,597.28	4.77%	-3.88%	-3.88%	8,109.69	6,192.92	20.74	18.45	0.00%
R2000	1,338.46	4.46%	-11.01%	-11.01%	1,740.75	1,266.93	19.77	22.90	0.00%
**VIX (S&P)	26.40	-15.58%	130.25%	130.25%	37.32	9.15	N/A	N/A	N/A

LBO Market

1Q13 2Q13 3Q13 4Q13 1Q14 2Q14 3Q14 4Q14 1Q15 2Q15 3Q15 4Q15 1Q16 2Q16 3Q16 4Q16 1Q17 2Q17 3Q17 4Q17 1Q18 2Q18 3Q18

Purchase Price Multiple

Large Corporate	8.40x	8.70x	9.20x	10.40x	9.70x	9.74x	11.98x	10.15x	10.03x	10.24x	10.19x	9.24x	11.09x	11.35x	11.85x	9.15x	9.91x	10.60x	10.53x	13.20x	10.69x	10.10x	11.30x
Middle Market	8.60x	7.80x	8.70x	8.10x	8.30x	8.62x	8.90x	8.52x	8.57x	9.56x	9.65x	10.08x	9.63x	9.70x	10.23x	9.64x	9.49x	9.63x	10.82x	10.29x	10.45x	10.66x	10.86x

Average Leverage Multiple (EBITDA < \$15M)

Senior Leverage	2.82x	3.30x	3.16x	3.30x	3.23x	3.24x	3.39x	3.35x	3.35x	3.62x	3.39x	3.63x	3.46x	3.78x	3.72x	3.43x	3.86x	3.86x	3.97x	3.83x	4.03x	4.00x	4.01x
Total Leverage	3.25x	4.09x	3.48x	3.96x	3.85x	3.86x	4.15x	4.01x	3.76x	4.16x	4.10x	4.09x	3.95x	4.28x	4.35x	4.07x	4.31x	4.37x	4.33x	4.22x	4.45x	4.45x	4.39x

Average Total Equity Contribution

Private MM	47.2%	49.0%	49.3%	47.3%	48.0%	45.7%	48.4%	52.4%	51.0%	51.4%	52.9%	52.8%	51.9%	54.4%	51.7%	49.8%	55.3%	50.4%	51.9%	55.1%	56.4%
Institutional MM	43.1%	43.0%	40.9%	42.0%	47.0%	40.4%	45.0%	45.7%	50.0%	44.8%	N/A	49.1%	40.5%	39.1%	42.3%	45.6%	51.0%	55.4%	48.4%	44.0%	51.2%
Large Corp.	30.8%	31.0%	35.0%	31.4%	40.2%	33.9%	38.5%	39.2%	39.1%	38.5%	43.7%	44.3%	45.5%	35.6%	40.3%	40.3%	37.6%	47.2%	36.3%	35.0%	36.4%

LBO Market Data was provided by Thomson Reuters

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