An independent, privately-owned investment management firm delivering access to sophisticated portfolio construction and investment advice in a client-focused, boutique setting.

RAIN CAPITAL MANAGEMENT, LLC
121 SW Morrison Street, Suite 850, Portland, OR 97204
toll free: 866.752.0430 • main: 503.822.1700 • fax: 503.227.2398
www.raincapital.com

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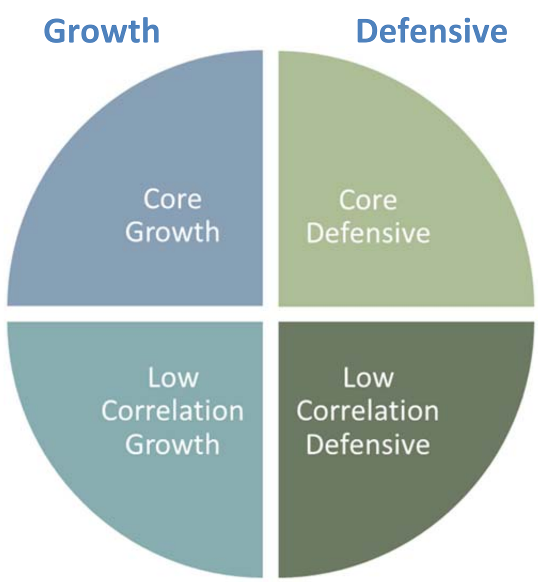
Low Correlation to the Rescue

As part of what one of our managers described as "a bull market in fear," 2012 was a year in which central banks around the world ganged up against savers and forced them to choose between monetary debasement and navigating a minefield trying to escape it. Asset classes largely manifested those two extremes and investors who attempted to diversify around asset classes experienced the full brunt of that market volatility. This was better known as the 'risk on / risk off' investing environment that vexed most investors.



***Low Correlation* strategies were the workhorses of 2012**

Rather than participate in the unpredictable 'risk on / risk off' world, RAIN portfolios spent much of the year in *Low Correlation Growth* and *Low Correlation Defensive* strategies, segments of portfolios that are less directly correlated to equity and bond markets. In *Low Correlation Growth*, we focused on strategies that are designed to do well in changing credit, liquidity and volatility conditions, but not necessarily strongly tied to the direction of equity markets; in *Low Correlation Defensive*, we focused on strategies designed to deliver bond-like returns and safety, but whose performance drivers may be independent of interest rates or credit spreads.

However, the texture of those returns tells an even more interesting story. As you know, we build portfolios to tilt away from the more extreme risks building up during different points in the economic cycle. As examples, early in the year, we lightened up on European-linked emerging markets equity exposure in favor of high quality US companies because we expected the latter to be less exposed to a European meltdown and currency or commodity volatility. In the end, they delivered similar returns, but with nearly half the downside risk. Likewise, we positioned away from long duration bonds in favor of less interest-rate-sensitive strategies because the low-to-negative real yields on bonds simply didn't compensate investors for the principal risk in such a low-rate environment. In the end, these strategies provided important ballast to portfolios, but with much less exposure to traditional bond risks.

We believe many of the uncertainties that clouded the horizon in 2012 are slowly being resolved or constructively contained. In fact, we also see domestic economic strength that would indicate an earlier hike in interest rates than is currently priced into the market. Money velocity (an important measure of money usage) has picked up, inflation is closing in on the Fed's 2.5% target, growth is increasingly led by robust domestic private investment and monthly job growth (though anemic) is high enough to reach the Fed's 6.5% unemployment target within 12 to 18 months.

As a result, on the defensive side we will continue to build out the *Low Correlation Defensive* portion of portfolios and further rein in interest rate exposure in the *Core Defensive* strategies. On the growth side of portfolios, we will be adding selectively to *Core Growth* strategies that benefit from equity market growth and inflation. We continue to favor high quality, higher dividend strategies because we believe that even at higher tax rates, these will deliver better risk-adjusted returns. Larger, high quality, higher yielding companies have exhibited less than half the market exposure of small, low yielding, low quality companies in the junk rally of the past four years, and we think they will be a far more defensive way to capture growth as interest rates normalize.

2012 has been a good year for Rain Capital and our clients. We are humbled by the loyalty and trust demonstrated to us, a reminder of the deeply personal nature of this business. As the year draws to a close, we extend our best holiday wishes and the promise to continue our diligent focus on improving the financial wellbeing of our clients.

Happy Holidays,

Chris Abbruzzese David Reichle Ellen Kim