

To: All Limited Partners  
 From: AX Momentum Management, LLC, *General Partner*  
 CC: John Sarson, Brittany Keels, Chaster Johnson, Christine Pell

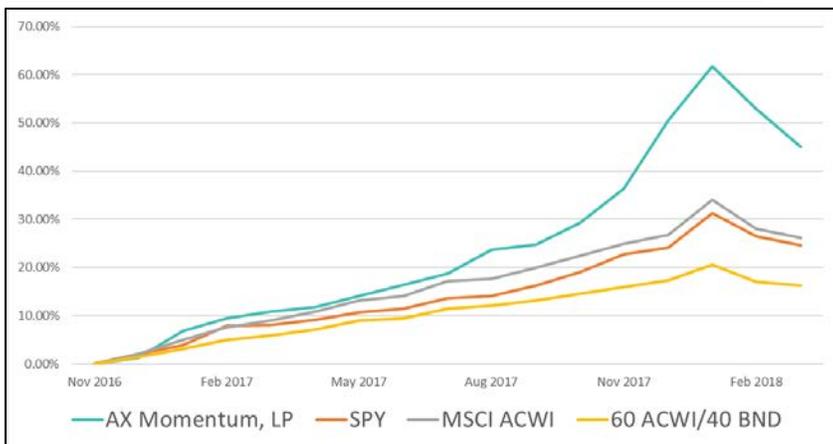
## Partnership Investment Memorandum –Second Quarter 2018

Early Spring greetings to you and your loved ones. We hope this memo finds you happy and healthy and that 2018 is off to a productive start.

Looking back over the past quarter, the most notable event for the market was the end of depressed volatility as February saw the first 10% correction in the U.S. stock market in 449 days (eighth longest streak on record). Keeping a cool head in February proved to be the best approach as the steadfast were rewarded when the early February plunge was followed by a quick recovery amounting to about half of the losses for most indexes. Concerns over inflation and higher interest rates helped trigger the initial decline, but many factors contributed to the fall, not the least of which was a "reversion to the mean" trade after a scorching start to the year where the U.S. stock market posted its best January in 50+ years.

Of course, no one knew in February that March would bring what is rapidly escalating into a "trade war" with China...

### Audited Performance Since Inception: Dec. 2016 – Mar. 2018



Strategy	Inception*	Year to Date†
<b>AX Momentum L.P.</b>	<b>45.05%</b>	<b>-3.70%</b>
S&P 500 Index Fund (SPY)	21.82%	-1.39%
MSCI All Country World Index Fund (ACWI)	26.09%	-0.55%
Global Benchmark - 60 ACWI/40 BND	16.25%	-0.86%

\*Inception December 1<sup>st</sup>, 2016, audited performance, net of all fees  
 †As of March 31<sup>st</sup>, 2018, audited performance, net of fees

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While AX Momentum’s model made very few trades during the first two months of the quarter, (and indeed in all of 2017 which proved to have been the right strategy given the 47% return for the year), March told a different story. Starting with a loss of leadership in FANG stocks (FACEBOOK, AMAZON, NETFLIX, GOOGLE) AX Momentum’s equity rotation process started rapidly delivering trades for the partnership’s portfolio. While March’s trades were diverse, they shared a common theme of de-risking. We added Gold holdings and sold equity positions. Our portfolio leverage (capped at 1.5x) has gradually declined, as the strength of equity price trends globally has eroded and as we have we have swapped equity positions for fixed income and commodities (neither of which are leverage eligible in our process). We start the second quarter with leverage at around 1.2x and expect to see leverage

further reduced in May, consistent with our back-tested findings and rules-based process.

Despite the defensive March trades, changing leadership in the market created a headwind for the portfolio and resulted in our first quarterly loss since our 2016 inception. The S&P 500 delivered negative performance for the quarter of **-1.39%** and AX Momentum, LP trailed that index with an **-3.70%** quarterly loss.

**Cryptocurrency Updates:** Easy come, easy go is how I believe the saying goes...

The cryptocurrency exposure in AX Momentum has proven to be a double-edged sword in the first quarter as exposure to cryptocurrency, which boosted performance in 2017 - ending up costing the partnership around 2% for the quarter and, the partnership's first quarterly underperformance to the S&P 500 since inception.

The backdrop in the cryptocurrency markets was abysmal, with our preferred benchmark, a 10-coin equal weighted index, down a whopping 63% for the quarter. Cryptocurrencies remain in the portfolio for now (still capped at 5%), but with the successful launch in October 2017 of **Blockchain Momentum LP**, a fund dedicated to cryptocurrencies and blockchain technology related companies, we are considering removing the asset class from AX Momentum altogether as a concession to investors wishing to avoid cryptocurrency exposure. Please let us know if you have strong feelings on the topic. We will not be making any changes until June 30<sup>th</sup> at the earliest. We will still retain the ability to accept deposits into the partnership in Bitcoin, Bitcoin Cash, Ethereum and Litecoin in addition to U.S. Dollars. (If you would like more details on cryptocurrencies and what is happening in those markets please see Blockchain Momentum's second quarter investment memo available on the website: [www.blockchainmomentum.com](http://www.blockchainmomentum.com).)

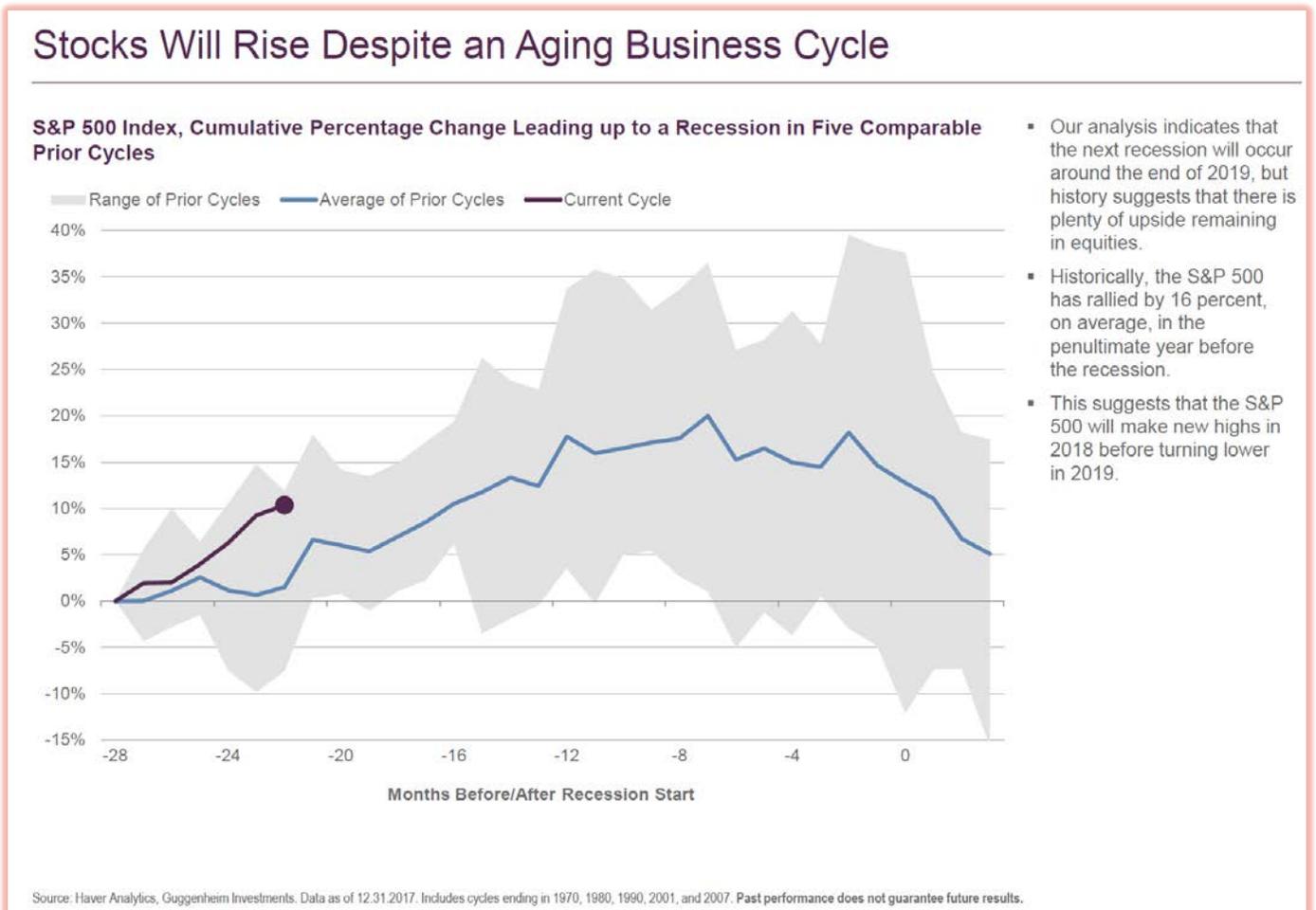
### **Looking Forward:**

Looking forward, despite some alarmingly high prices in certain sectors, we remain disciplined to the investment process that powers AX Momentum, LP that we have spent the past decade developing and refining. We think that 2018 could be the year where our ability to manage risk is finally put to the test. We are ready of course, and should our rules be tested we remain supremely confident they will make the portfolio adjustments necessary to protect assets - just as we have seen them do in the past.



*We remain committed to our proven investment process regardless of the noise around us.*

Although investing in risk assets is no longer the “easy money” it was in 2017, our models still have us positioned predominately long equities and other risk assets, looking for more capital gains. Our friends at Guggenheim make a strong case that the U.S. economy is still two years away from recession and have put together the graph below that we believe is worth sharing. You can read their entire analysis [here](#).



We believe our process is, and will remain, among the safest ways to invest private capital - especially at this late point in the economic cycle. Please continue to ask us any questions you may have and mention us to any interested friends that are accredited investors, this memo and are monthly fact cards can be accessed at: [www.axmomentum.com](http://www.axmomentum.com).

On behalf of myself and the ETFMI team, thank you for the trust and confidence you have placed in us. We will continue to work hard to not let you down.

Warm Regards,

John R. Sarson Managing Partner  
AX Momentum Management, LLC

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