Quarterly Update April 2018

Late Stages of a Record Bull Market

- ***We believe we are entering the late stages of both the financial market and economic cycle***
- ***Bonds continue to confuse and confound investors – where is inflation?***
- ***Non-correlated strategies lag traditional strategies even with a pick up in market volatility***

Overview

- Most equity markets sold off during the 1st quarter of 2018, with the exception of growth, momentum and low quality stocks. Value stocks were the laggards during the quarter. Bonds were volatile during the quarter with most US sectors trading lower.
- Most equity, bond and currency markets were more volatile than usual during the quarter as investors grappled with concerns of higher interest rates and geopolitical uncertainty.
- Despite a stock market selloff during the month of March led by the FANG stocks (that propped the market up during much of 2017), technology was one of the best performing sectors for the quarter.
- Hedge fund and non-correlated assets held up during the 1st quarter despite a disappointing sell off in March where most assets were highly correlated.

Areas of Opportunity & Concern

- With volatility picking up along with noticeable leverage in the economy, the recent behavior of both equity and bond markets suggest that we are entering the latest stages of the 2nd longest running bull market in history.
- We believe the odds of an economic recession are higher now due to signs of growth fatigue, higher uncertainty evidenced by higher volatility and higher stock and bond correlations with still high asset valuations in both the equity and bond markets.
- We continue to position investment portfolios in a more defensive posture, a reflection of our view that we are currently entering the latest stages of this bull market cycle, and the odds of economic recession are now higher.
- We continue to be long term believers in innovative technologies across the broad spectrum of global economic sectors.

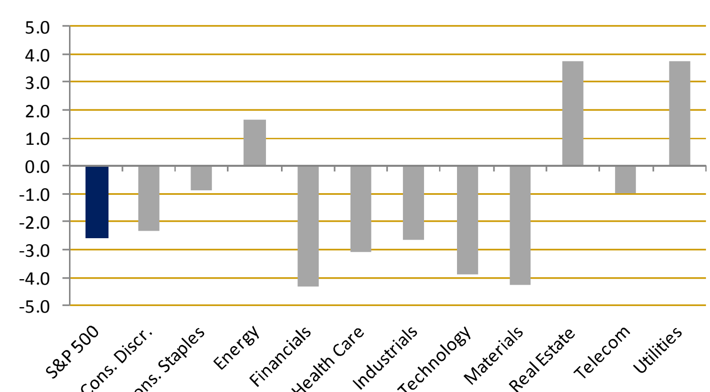
Key Market & Economic Indicators

Bullish | Favorable | Neutral | Cautious | Bearish

Equities	March 2018	Trailing 3 Months	Trailing 1 Year	Current View
U.S. Large & Mid Cap	-2.54%	-0.76%	13.99%	Cautious
U.S. Small Cap	1.29%	-0.08%	11.79%	Cautious
International	-1.80%	-1.53%	14.80%	Neutral
Emerging Markets	-1.86%	1.42%	24.93%	Neutral
Fixed Income				
U.S. Aggregate	0.64%	-1.46%	1.20%	Neutral
U.S. Government	0.93%	-1.15%	0.44%	Cautious
U.S. Corporate	0.31%	-2.13%	2.59%	Favorable
U.S. High Yield	-0.60%	-0.86%	3.78%	Neutral
Non-U.S. Developed	1.63%	3.51%	13.29%	Cautious
Emg Market Debt	1.01%	4.00%	12.07%	Bearish
Alternatives				
REITs	-7.71%	-11.76%	-10.12%	Neutral
Commodities	0.03%	0.72%	7.26%	Bearish
Managed Futures	-8.09%	-1.29%	-2.56%	Cautious
Hedge Fund	-2.42%	0.70%	4.26%	Favorable

Source: Morningstar *Data as of 03/31/2018*

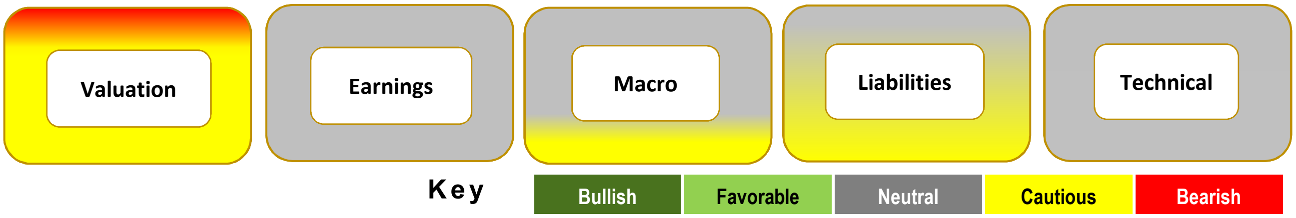
S&P 500 Sector Returns (%)
March 2018



Source: Morningstar

Risk Examination

A quarterly update on our views of the complex risk factors in global markets



Valuation

- Despite the recent sell off and increase in volatility in equity markets, we believe valuations remain rich for most of the broad equity and bond markets. However, we do believe there are pockets of opportunity in equities such as higher quality and lower volatility segments and for bonds we continue to favor high grade lower duration areas of the bond market. We also continue to favor equity positions in developed Europe, Asia and the emerging markets.

Earnings

- We believe earnings forecasts are over-optimistic due to the strong momentum bias built into consensus forecasts. As we move into the 2nd quarter we believe that analysts are more likely to revise their earnings estimates lower as top line growth disappoints.
- We do believe that the technology, health care and financial services sectors will lead the way in terms of higher revenue and earnings growth. Much of this may arrive in the form of M&A activity especially in the Health Care sector.

Macroeconomic

- Our view of economic growth for 2018 is not as optimistic as the consensus forecast. Higher debt levels coupled with flat wage growth should put a lid on any spike in real economic growth over the next several quarters.
- Trade tariff talk, especially on Chinese imports, may well expedite the slowdown in growth.
- Inflation should remain tame due to rapid technological innovation, slowing demand, rising debt levels and a graying population.

Liabilities

- Debt growth continues to accelerate in most sectors of the economy (household, corporate and government sectors).
- Leverage continues to fuel investments in financial markets and not capital projects that encourage investment and organic growth.
- The recent spate of privacy infringement and cyber hack concerns in the technology sector may be the spark that pushes the economy toward economic recession.

Technical

- Investors have become more risk averse evidenced by the recent sell off in equities and increase in market volatility.
- Recent dispersion data (low relative to historical measures) in the stock market suggests that it will remain a difficult environment for stock pickers even though total stock market volatility has moved higher.

2018 Scenarios

Our assessment of potential macro scenarios

	Black Swan	Ordinary Correction	Slow and Choppy	Upside Surprise
Economy / Geopolitical	▪N. Korea or Iran conflict leads to military intervention ▪Syria / Russia crisis ▪Terrorist/ cyber attack	▪Valuation contraction ▪Economic recession ▪Central bank policy error ▪Trade policy error	▪Continued slow slog ▪Below trend real economic growth ▪Low inflation ▪Limited or no fiscal response	▪Productivity gains ▪Earnings & growth increases ▪Political cooperation on tax cuts, infrastructure
Markets	▪Sharp sell off across risk assets ▪Elevated correlations suggest minimal diversification benefit	▪Equities decline between 10-20% (risk off) ▪Higher quality bonds gain modestly	▪Equity markets choppy but plod higher ▪Interest rates only modestly higher	▪Stocks & most risk assets head higher ▪Bond returns challenged by higher rates
Focus	▪Flight to quality: U.S. Treasuries, U.S. Dollar, Crypto Currencies & Gold benefit	▪Bonds outperform stocks ▪Diversified factor equity exposure with defensive tilt	▪Faster growth economies and segments, with attractive valuations	▪Fully invested, but highly diversified
Prospects	**< 15%**	**40%**	**35%**	**10%**

< < < Downside < < < | > > > Upside > > >

Risks

Downside:

- Diverging central bank policies; mishandled rate normalization; Social inequality leads to social unrest
- Lone wolf terrorism, cyber hacks, and trade wars
- Recession or sharp global slowdown
- High geopolitical risk leads to major conflict

Upside:

- Central banks thread policy needle
- Confidence builds, corporate investment resumes
- Economic and productivity growth rise above 3.0%
- Swift and comprehensive fiscal action

Asset Class Positioning

PORTFOLIO SEGMENT / SEGMENT OBJECTIVE	SEGMENT CONSTITUENTS	SEGMENT COMMENTS
Equity *Low-Cost, Systematic, and Factor Exposure*	▪ Global Systematic Equity Beta exposure ▪ Diversified factor exposure with emphasis on multi-factor and a slight tilt toward quality	▪ Favor higher quality equities ▪ Favor higher growth regions and sectors with attractive valuations ▪ Longer term, market driven by value, but in shorter-term growth and momentum can and have dominated
Fixed Income *Seeks to Preserve Capital and Generate Income*	▪ Broad, Core Plus Exposure ▪ Active, Multi-Sector Fixed Income ▪ Actively-managed Mortgage Backed Securities ▪ Short-to-Intermediate High Quality Credit ▪ Shorter duration high yield	▪ Favor intermediate duration or less ▪ Favor quality credit over rates ▪ Selective, short duration high yield ▪ Issuer selection critical ▪ BBB segment is crowded
Opportunistic *Reflecting Ideas Based on 12-24 Month Proprietary Forecasts*	▪ Active Beta Emerging Mkt Equity ▪ Regional Developed Mkt non-U.S. Equity ▪ Global Technology ▪ Basket of Innovation	▪ Reflects Palladiem's shorter term model (value and momentum) ▪ Sectors and themes have growth potential and attractive valuations relative to broad market ▪ Seeking participation in select themes with attractive return potential
Alternative *Anticipated Risk Mitigation with Alpha Opportunities*	▪ Global Macro ▪ Hedged Equity ▪ Long/Short Credit ▪ Managed Futures ▪ Merger Arbitrage	▪ Given elevated risks to traditional, long-only exposures, favor moderate allocations to non-correlated alternative strategies ▪ Favor transparency, low cost, and daily liquidity ▪ Favor global macro, long/short equity, and long/short credit strategies for lower correlation and diversification potential ▪ Favor hedged equity for volatility targeting

All investments are subject to risk, including the loss of principal. For additional information, please refer to the Disclosures at the end of this report.

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Index definitions:

“U.S. Large Cap” represented by the S&P 500 Index.
“U.S. Small Cap” represented by the Russell 2000 Index.
“International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
“Emerging” represented by the MSCI Emerging Markets Net Return Index.
“U.S. Aggregate” represented by the Barclays U.S. Aggregate Bond Index.
“U.S. Government” represented by the Barclays U.S. Government Bond Index.
“U.S. Corporate” represented by the Barclays U.S. Credit Bond Index.
“U.S. High Yield” represented by the Barclays U.S. Corporate High Yield Index.
“Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.
“Emg Market Debt” represented by the JP Morgan GBI-EM Global Core Index
“REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.
“Commodities” represented by the S&P Goldman Sachs Commodities Index (GSCI).
“Managed Futures” represented by the Credit Suisse Managed Futures Index.
“Global Macro” represented by the Credit Suisse Global Macro Index

Direct investment in an index is not possible.

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