

ASSET ALLOCATION UPDATE

- We recommend a neutral weight to Global Equities and Fixed Income across models.
- Within the equity allocation, we recommend an overweight to U.S. Equities and Emerging Markets and underweight to International Developed Equities.
- Within the fixed income allocation, we recommend a mild overweight position to the Long U.S Government sector.

EQUITY HIGHLIGHTS

- After a volatile October, global equities, as defined by the MSCI ACWI IMI, returned 1.41% in November. Emerging markets, as defined by the MSCI Emerging Markets IMI, rose 4.27% during the month, led by relative strength in China. U.S. equities, as defined by the Russell 3000 Index, increased 2.00%, while international developed markets, as defined by the MSCI World ex USA IMI, fell 0.22%. Value outperformed growth during the month, led by relative strength in U.S. value equities.
- The environment for actively-managed equity strategies has been challenging in 2018, particularly in the U.S. large-cap, international developed markets large-cap and emerging markets segments. Narrow market leadership trends in U.S. and international markets have created headwinds for active managers year-to-date.
- U.S. growth equities have outperformed value by a wide margin since the global financial crisis, driven partially by a prolonged low economic growth environment and significant outperformance from large-cap information technology, communication services and consumer discretionary companies. Stretched growth valuations could lead to an improvement in value relative performance.

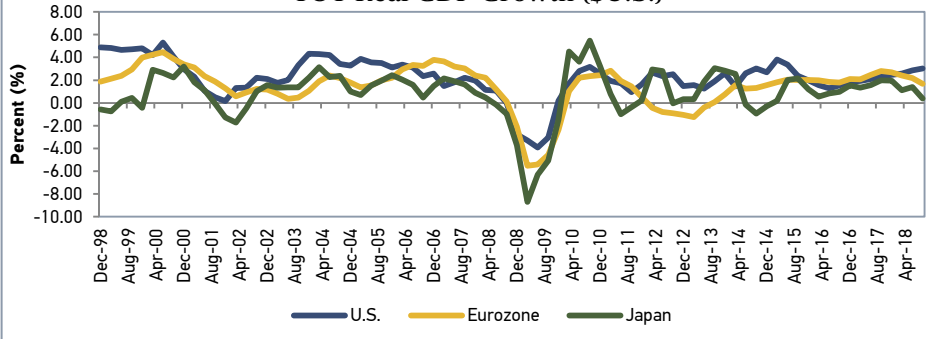
FIXED INCOME HIGHLIGHTS

- The month of November can be categorized as “risk-off” in the fixed income markets with credit oriented segments underperforming government securities. Agency mortgage-backed securities (MBS) and U.S. government securities were the top performers for the month, up 0.90% and 0.88%, respectively. Foreign government securities lagged the U.S. market but still produced a positive return of 0.59%. High yield and emerging market debt produced the lowest returns within the opportunity set, down 0.86% and 0.16%, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.60% in November.
- Over the month, 10-year government bond yields in select foreign markets moved lower, led by the yield in Italy which declined by 21 bps. Domestic rates, as represented by the yield of the 10-year Treasury, declined by 14 bps from 3.15% to 3.01%.
- In a reversal from last month, Municipal/Treasury yield ratios moved lower across the curve in November, although ratios remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
MSCI ACWI IMI	-3.07%	Barclays US Aggregate	-1.79%	60% LgShort-40% MktNeutral	-0.59%	6-month	2.52%	Prime Rate	5.25%
Russell 3000	4.48%	Barclays Gbl Treas xUS Hdg	2.18%	DJ Equity All REIT	4.09%	1-year	2.70%	LIBOR (3 Mo)	2.74%
S&P 500	5.11%	Barclays US TIPS	-1.80%	Bloomberg Commodity	-4.68%	3-year	2.83%	Oil Price (\$/barrel)	\$50.93
MSCI EAFE	-9.39%	Barclays US High Yield	0.06%			5-year	2.84%	Gold (\$/t oz)	\$1,226.00
MSCI EM	-12.24%	Barclays EM Aggregate	-3.77%			10-year	3.01%		
						30-year	3.30%		

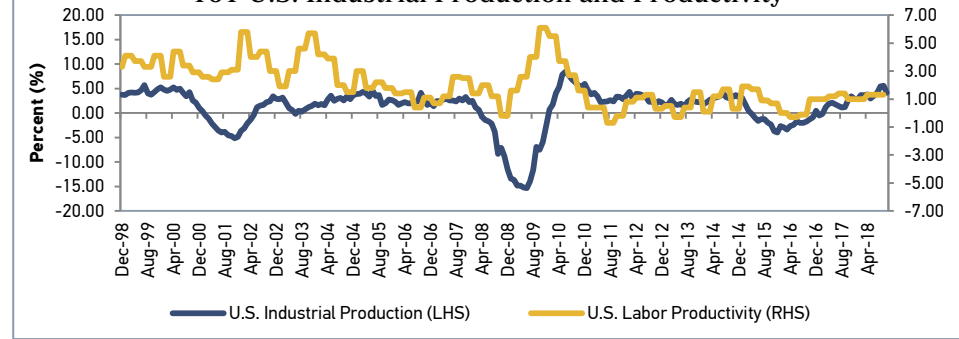


YOY Real GDP Growth (\$U.S.)



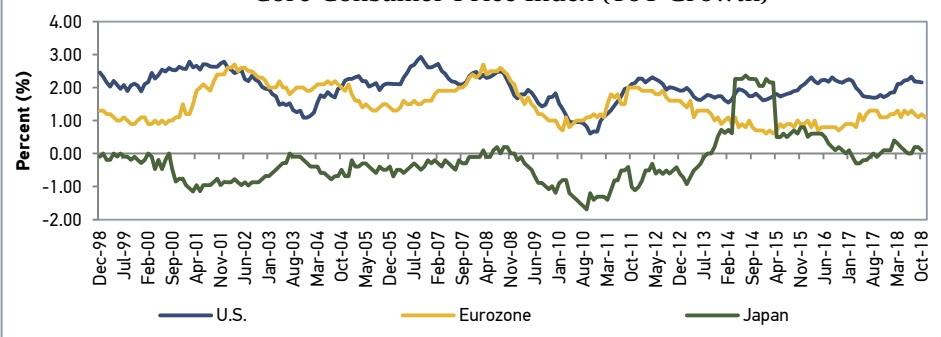
Data as of 09.30.2018; Source: FactSet

YoY U.S. Industrial Production and Productivity



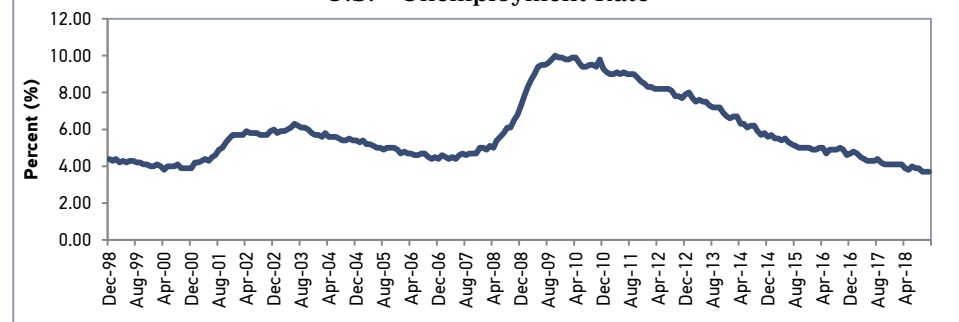
Labor Productivity as of 09.30.2018, Industrial Production as of 10.31.2018; Source: FactSet

Core Consumer Price Index (YoY Growth)



Eurozone data as of 11.30.2018. U.S. and Japan data as of 10.31.2018; Source: FactSet; The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.

U.S. - Unemployment Rate



Data as of 11.30.2018; Source: FactSet

- GDP growth in Europe and Japan has moderated recently while U.S. growth has remained strong.
- Year-over-year U.S. productivity growth of 1.3% as of the end of the third quarter is an improvement over recent years. Sustained productivity growth is essential to drive long-term real growth. Year-over-year industrial production growth moderated in October but remains strong.
- U.S. inflation has moderated recently to roughly a 2% annual rate while European inflation has stabilized slightly above 1%. Japan inflation has ticked back up to a positive, but very low level.
- U.S. Employment growth remains steady and the unemployment rate held at a forty-year low of 3.7%.

Note: Please see Appendix for important definitions.



Leading	Initial Jobless Claims	<ul style="list-style-type: none"> In the week ending November 30th, the four-week moving average of Initial Jobless Claims was 228,000 an increase of 4,250 from the previous week's revised average of 223,750.
	Manufacturing	<ul style="list-style-type: none"> ISM Manufacturing registered 59.3% in November a 0.4 percentage point increase over the previous reading. A reading below 50.0% indicates contraction. ISM Manufacturing New Orders registered 62.1% in November a 4.7 percentage point increase over the previous reading. ISM Non-Manufacturing registered 60.7% in November a 1.3 percentage point decrease over the previous reading.
	Housing/Construction	<ul style="list-style-type: none"> Building permits decrease -0.4% in October and have fallen -5.8% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none"> The Consumer Confidence Index fell in November to 135.7 compared to 137.9 in October.
	Nonfarm Payrolls	<ul style="list-style-type: none"> Total nonfarm payroll employment gained 155,000 in November while the unemployment rate remained at 3.7%.
	Industrial Production	<ul style="list-style-type: none"> Industrial Production rose 0.10% in October and is up 4.11% over the past year.
	Personal Income	<ul style="list-style-type: none"> Real Disposable Personal Income increased 0.34% in October and is up 2.76% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"> This ratio fell -0.13% in October and is up 0.36% year-over-year. Consumer borrowing tends to lag improvements in personal income by many months because people remain hesitant to take on new debt until they are sure that their improved income level is sustainable.
	Inflation	<ul style="list-style-type: none"> CPI (All Items) rose 0.3% in October and is up 2.5% over the trailing one year period. CPI (Core) rose 0.2% in October and is up 2.2% over the trailing one year period.



**Nominal Trade-Weighted U.S. Dollar
Major Currencies**



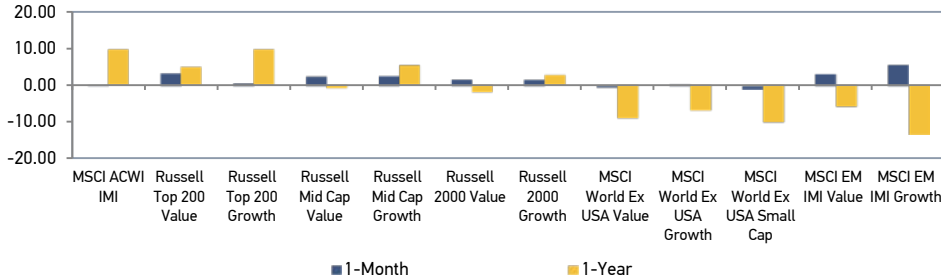
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 0.8% through November and the index is up 5.2% year-to-date. The dollar rose 0.1% versus the euro in November.



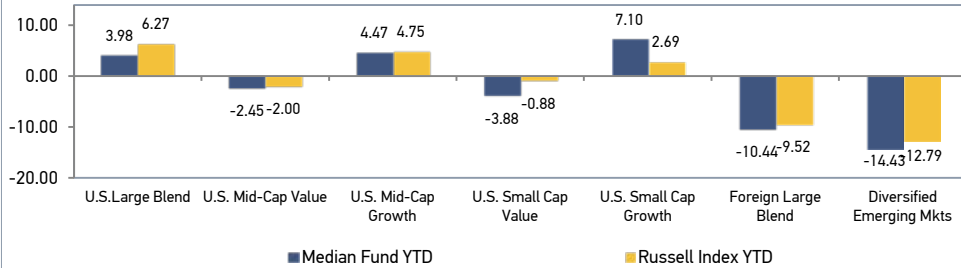
Equity Market Performance
As of 11.30.2018



- After a volatile October, global equities, as defined by the MSCI ACWI IMI, returned 1.41% in November. Emerging markets, as defined by the MSCI Emerging Markets IMI, rose 4.27% during the month, led by relative strength in China. U.S. equities, as defined by the Russell 3000 Index, increased 2.00%, while international developed markets, as defined by the MSCI World ex USA IMI, fell 0.22%. Value outperformed growth during the month, led by relative strength in U.S. value equities.

Source: Morningstar, Russell Investments

Active vs. Passive
As of 11.30.2018

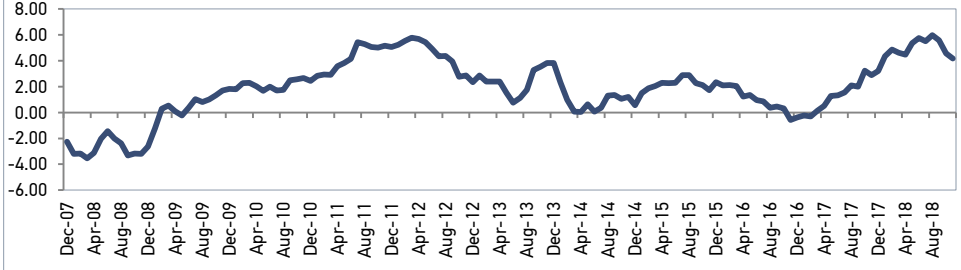


- The environment for actively-managed equity strategies has been challenging in 2018, particularly in the U.S. large-cap, international developed markets large-cap and emerging markets segments. Narrow market leadership trends in U.S. and international markets have created headwinds for active managers year-to-date.

Source: Morningstar, Russell Investments

Median return of Morningstar open-end fund category (institutional share class). Russell return of U.S. categories.

Rolling 5-Year Return Differential
Russell 3000 Growth minus Russell 3000 Value

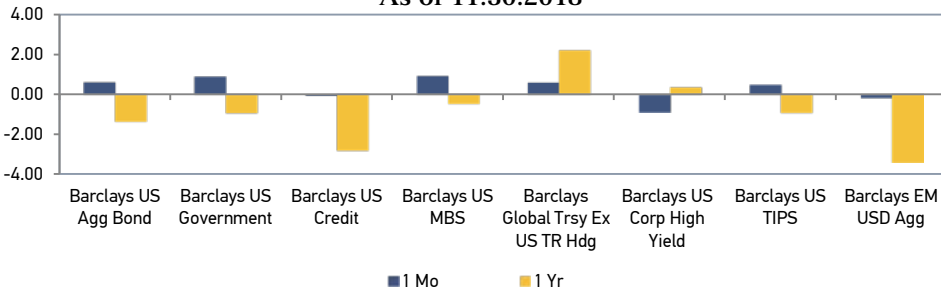


- U.S. growth equities have outperformed value by a wide margin since the global financial crisis, driven partially by a prolonged low economic growth environment and significant outperformance from large-cap information technology, communication services and consumer discretionary companies. Stretched growth valuations could lead to an improvement in value relative performance.

Data as of 11.30.2018; Source: Morningstar



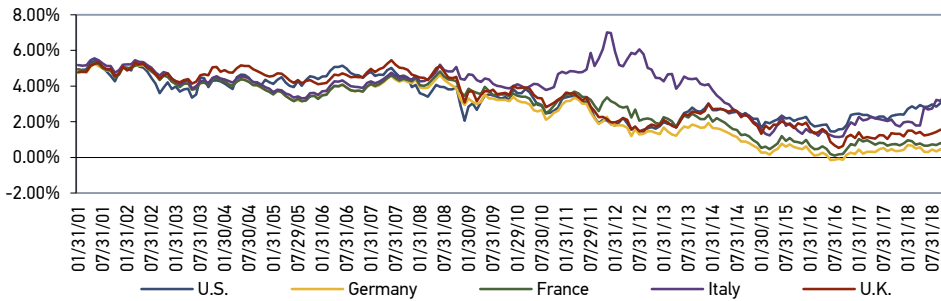
Bond Market Performance
As of 11.30.2018



Source: Morningstar, Barclays

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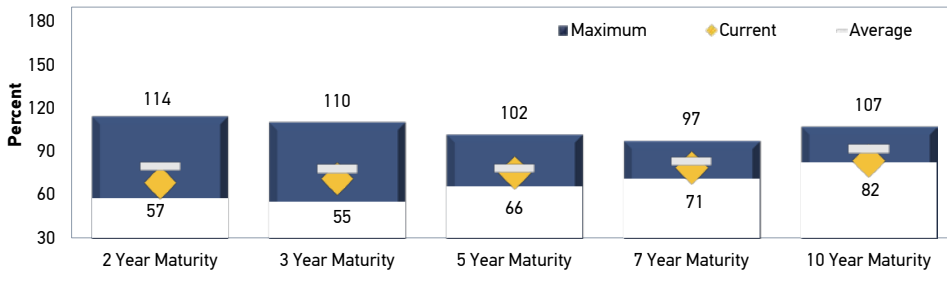
10-Year Government Bond Yields



Data as of 11.30.2018; Source: FactSet, U.S. Department of Treasury

- Over the month, 10-year government bond yields in select foreign markets moved lower, led by the yield in Italy which declined by 21 bps. Domestic rates, as represented by the yield of the 10-year Treasury, declined by 14 bps from 3.15% to 3.01%.

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 11.30.2018

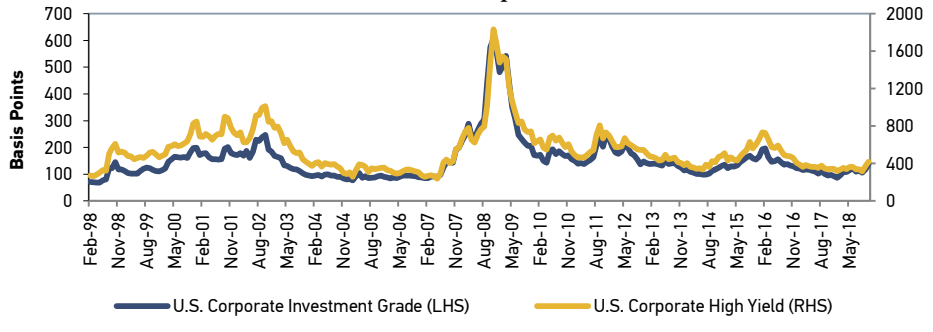


Source: Thompson Reuters; Sterling Capital Management Analytics.

- In a reversal from last month, Municipal/Treasury yield ratios moved lower across the curve in November, although ratios remain below historical averages.

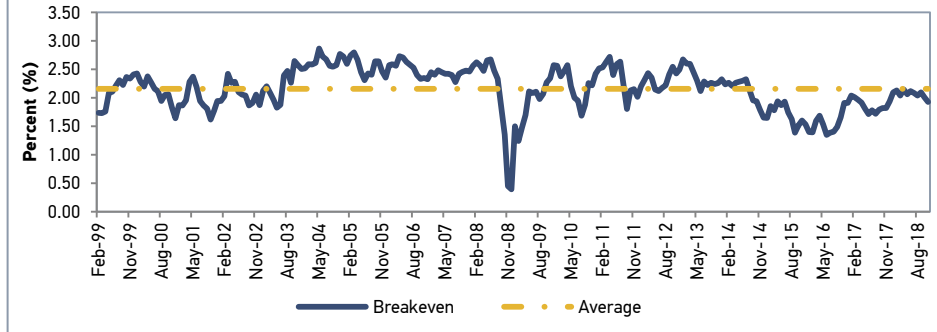


20-Year U.S. Corporate OAS



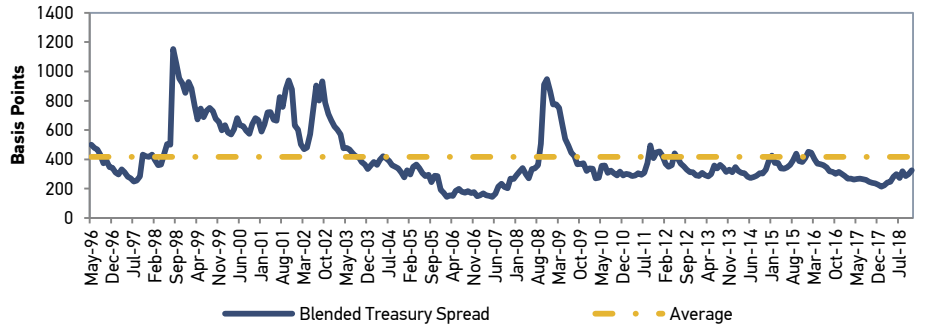
Data as of 11.30.2018; Source: FactSet

10-Year TIPS Breakeven



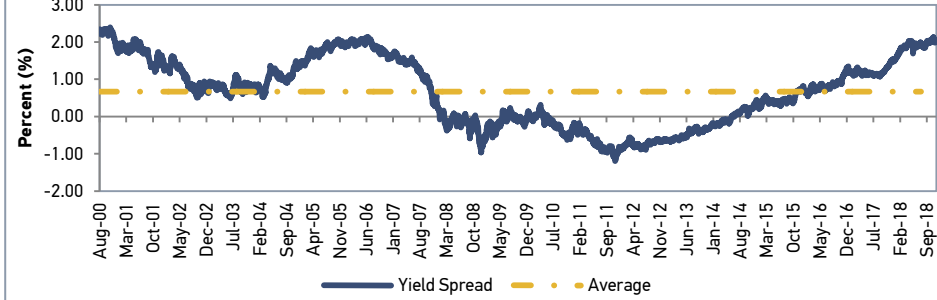
Data as of 11.30.2018; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 11.30.2018; Source: Barclays

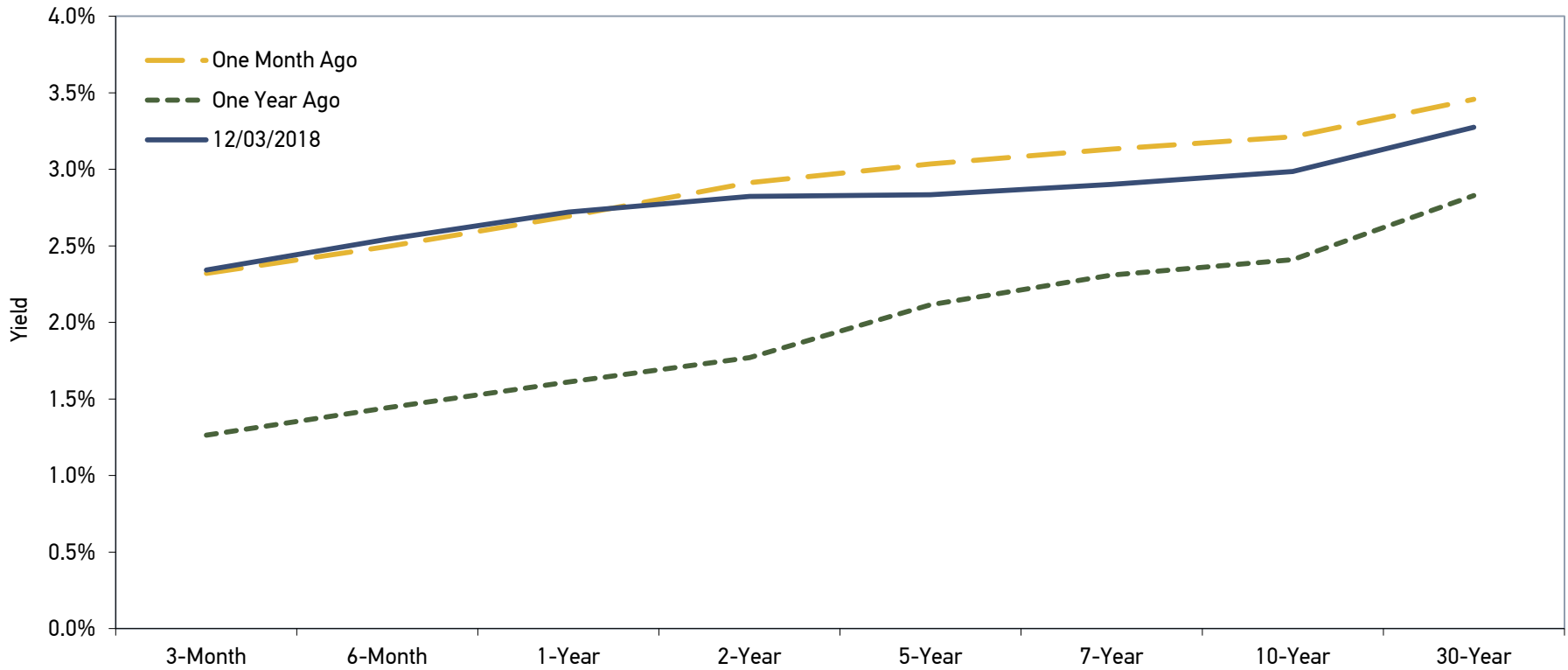
Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index



Data as of 11.30.2018; Source: Barclays

- Investment grade and high yield credit spreads moved significantly higher for the second consecutive month in November. Investment grade spreads are now near their 20-year median while high yield spreads remain below their long-run median.
- Market inflation expectations as measured by TIPS breakeven rates moved significantly lower again in November and are slightly below long-run averages.
- Emerging Market credit spreads moved higher in November but are below the historical average. The yield spread of U.S. to Global Treasuries decreased in November but remains above the historical average.

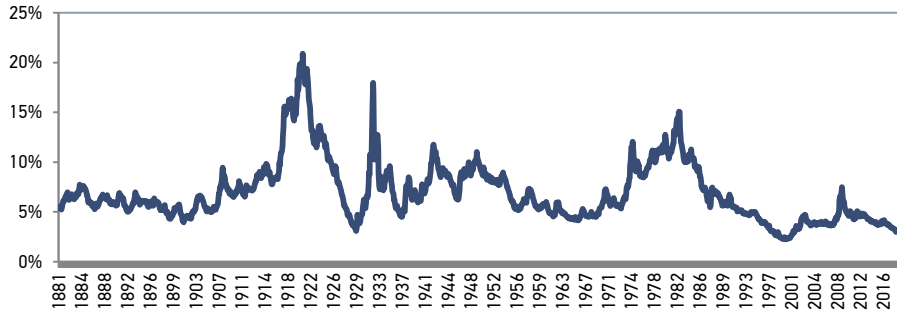
Note: Please see Appendix for important definitions.



- Month-over-month, the yield curve flattened with front-end rates moving higher and back-end rates moving lower. The flattening was most pronounced in the belly of the curve (5-10 years) as rates declined over 20 bps.

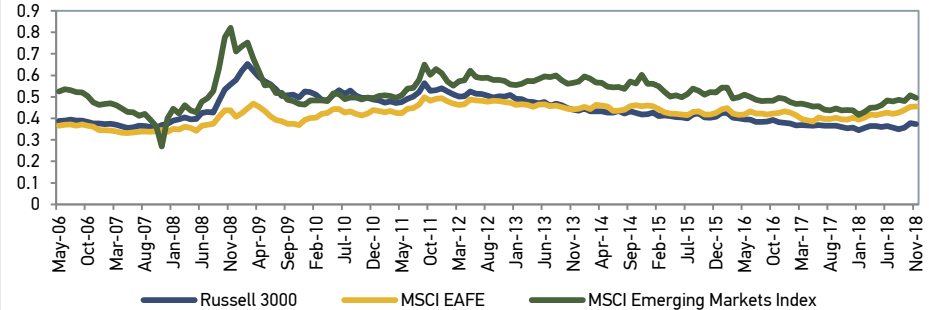


U.S. Cyclically Adjusted Earnings Yield



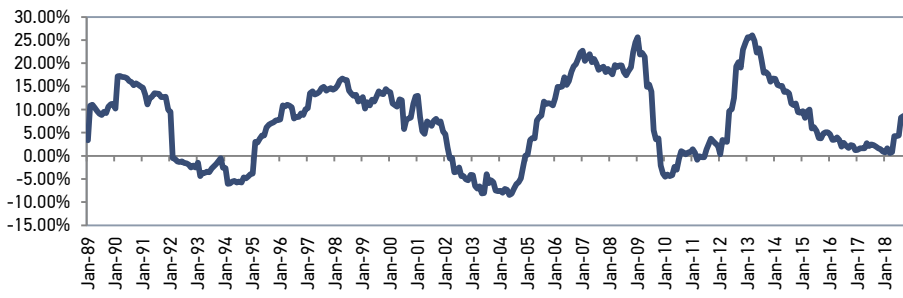
Data as of 11.30.2018; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



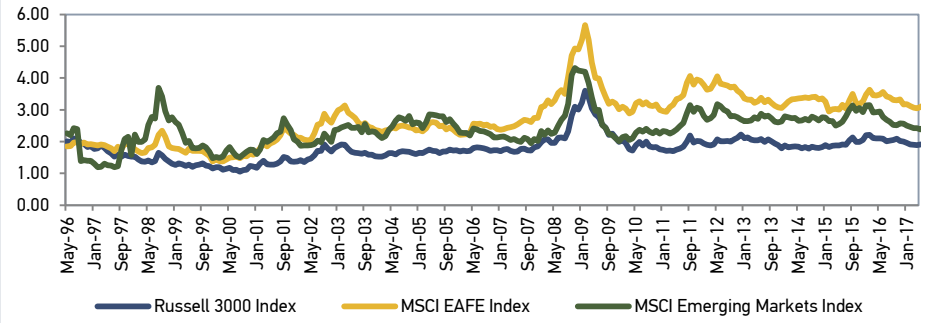
Data as of 11.30.2018; Source: Russell, MSCI

**U.S. 3 Year Real Revenue Growth –
Russell 3000 Non-Financials**



Data as of 11.30.2018; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 11.30.2018; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield increased again in November but remains well below long-term averages. Long-term U.S. sales growth increased in November.
- Revenue to firm value in the U.S. is lower than International Developed Markets. The Emerging Markets' ratio has increased recently on market weakness.
- International Equity Markets provide a significant dividend yield advantage over the U.S.

Appendix



Core Consumer Price Index: Core inflation is a measure of inflation that excludes certain items, usually food and energy, that face volatile price movements.

Option Adjusted Spread (OAS): A bond's yield spread over comparable maturity government bonds, adjusted for any embedded options.

Real GDP: Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices.

Revenue to Firm Value: Total Index Revenues of the past 12 months divided by the sum of equity market value and the value of total debt. This is a measure of total sales generated on the total value (debt plus equity) of firms in the index.

TIPS Breakeven: The inflation rate implied by the spread in yield between U.S. TIPS (Treasury Inflation Protected Securities) and nominal U.S. Government Bonds of equal maturity.

U.S. 3 yr. Real Revenue Growth, Russell 3000 Non-Financials: For the Russell 3000 excluding financial firms, the percentage change in trailing 12-month inflation adjusted revenue over 12-month inflation adjusted revenue three years prior.

U.S. Cyclically Adjusted Earnings Yield: The 10-year average of annual, inflation adjusted earnings divided by the current inflation adjusted price of the S&P 500 index. This measure is the inverse of the Shiller CAPE Ratio.

YOY US Productivity Growth: The year-over-year growth in real U.S. output produced per hour worked for non-farm workers.



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