

ASSET ALLOCATION UPDATE

- We recommend a mild underweight to Global Equities and overweight to Fixed Income across models.
- Within the equity allocation, we continue to recommend an overweight to non-U.S. developed equity, concentrated in the growth segment.
- Within the fixed income allocation, we recommend an overweight to U.S. TIPS.

EQUITY HIGHLIGHTS

- Despite a slight uptick in equity market volatility, global equity markets posted a small gain in August. Emerging markets equities continued to outperform developed markets during the month, led by significant gains in China, Brazil and Russia. In the U.S., August represented a continuation of performance trends that have been dominant throughout 2017, with large-caps outperforming mid-caps and small-caps, and growth outperforming value. Technology and health care were among the best performing sectors, while the energy sector continued to plunge. International developed markets finished just ahead of U.S. equities during the month despite a continuation of relative weakness in the U.K. and Japan.
- The environment for active managers has improved substantially in 2017, especially in the international developed markets and emerging markets categories. Intra-stock correlation, which began to fall in mid-2016 and has remained relatively low during in 2017, has been a tailwind for active managers.
- The relative performance of U.S. versus international developed markets equities has tended to move in long cycles over time. While U.S. equities have outperformed international equities by a substantial margin since the financial crisis, international equities have significantly outperformed in 2017 as compelling relative valuations, strong earnings growth, and improving economic data in key international markets have attracted investor interest.

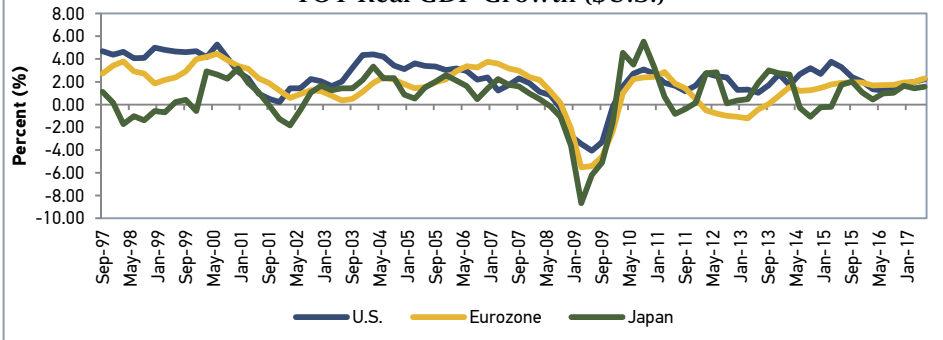
FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely positive during the month of August. Within the opportunity set, emerging market debt was the top performer, returning 1.35% over the month. Government related bonds (both domestic as well as foreign developed) produced positive returns, with U.S. Governments up 1.06% and Global Treasuries ex U.S. up 0.92%. High yield was the only asset class within the opportunity set to produce a negative return, down 0.04%. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.90% during the month.
- Over the month, select 10-year government bond yields declined, with the move lower led by the U.K. and Germany. The 10-year U.S. Treasury yield declined 18 bps, from 2.30% to 2.12%.
- Municipal/Treasury yield ratios moved lower during the month for shorter-dated maturities and higher for longer-dated maturities. Ratios remain below historical averages.

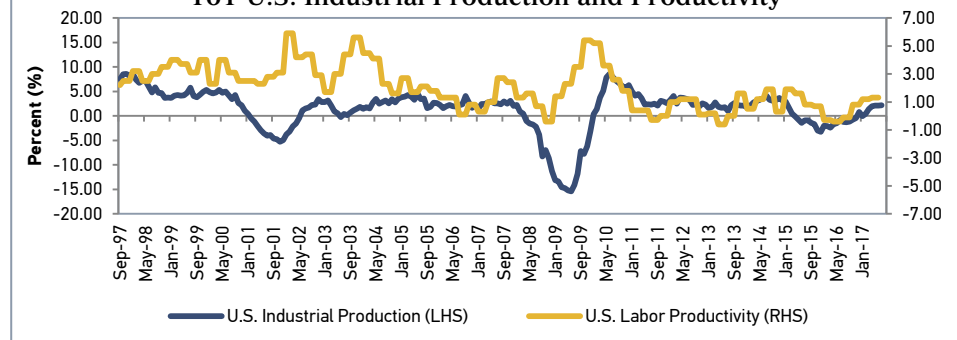
Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	14.70%	Barclays US Aggregate	3.64%	60% LgShort-40% MktNeutral	4.54%	6-month	1.08%	Prime Rate	4.25%
Russell 3000	11.20%	Barclays Gbl Treas xUS Hdg	1.52%	DJ Equity All REIT	6.95%	1-year	1.23%	LIBOR (3 Mo)	1.32%
S&P 500	11.93%	Barclays US TIPS	2.38%	Bloomberg Commodity	-2.72%	3-year	1.44%	Oil Price (\$/barrel)	\$47.23
MSCI EAFE	17.05%	Barclays US High Yield	6.05%			5-year	1.70%	Gold (\$/t oz)	\$1,322.20
MSCI EM	28.29%	Barclays EM Aggregate	7.44%			10-year	2.12%		
						30-year	2.73%		



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



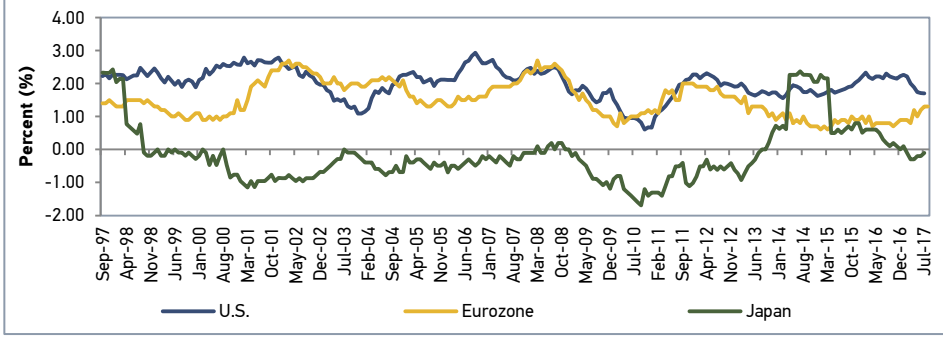
YoY U.S. Industrial Production and Productivity



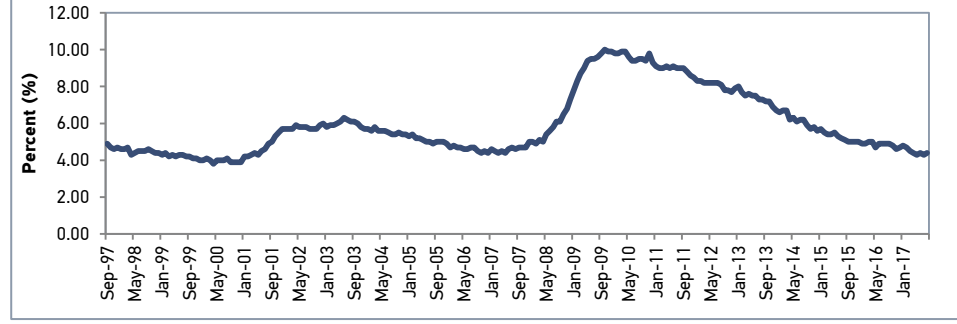
Data as of 06.30.2017; Source: FactSet

Industrial Production as of 07.31.2017. Labor Productivity as of 06.30.2017; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. - Unemployment Rate



U.S. and Japan as of 07.31.2017. Eurozone as of 08.31.2017; Source: FactSet; The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.

Data as of 08.31.2017; Source: FactSet

- YOY global growth rates have converged across economies at a moderate but slowly improving level.
- U.S. productivity growth improved in the second quarter, leaving the year-over-year rate at 1.3%. Continued improvement in productivity is essential to drive long-term real growth.
- Despite a recent soft spot, tightening labor conditions in the US should keep inflation firm. Improved growth in the Eurozone has resulted in higher inflation that is approaching US levels. Japan inflation has eased into negative territory.
- Current U.S. Unemployment of 4.4% matches the pre-crisis low in 2007 and is likely to keep the Fed on a gradual tightening path.

Note: Please see Appendix for important definitions.



Leading	Initial Jobless Claims	<ul style="list-style-type: none">In the week ending September 1, the four-week moving average of Initial Jobless Claims was 250,250, an increase of 13,500 from the previous week's unrevised average.
	Manufacturing	<ul style="list-style-type: none">ISM Manufacturing registered 58.8% in August, 2.5 percentage points above the July reading. A reading below 50.0% indicates contraction.ISM Manufacturing New Orders registered 60.3% in August, 0.1 percentage points below the July reading.ISM Non-Manufacturing registered 55.3% in August, 1.4 percentage points above the July reading.
	Housing/Construction	<ul style="list-style-type: none">Building permits decreased 3.5% in July and have increased 4.7% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none">The Consumer Confidence Index increased in August to 122.9 compared to 120.0 in July.
	Nonfarm Payrolls	<ul style="list-style-type: none">Total nonfarm payroll employment increased by 156,000 in August. The unemployment rate was little changed at 4.4%.
	Industrial Production	<ul style="list-style-type: none">Industrial Production increased 0.2% in July and is up 2.2% over the past year.
	Personal Income	<ul style="list-style-type: none">Real Disposable Personal Income increased 0.2% in July, and is up 1.3% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none">This ratio rose 0.2% in July, and is up 3.0% 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 0.1% in July and is up 1.7% over the trailing one year period.CPI (Core) rose 0.1% in July, and is up 1.7% over the trailing one year period.



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



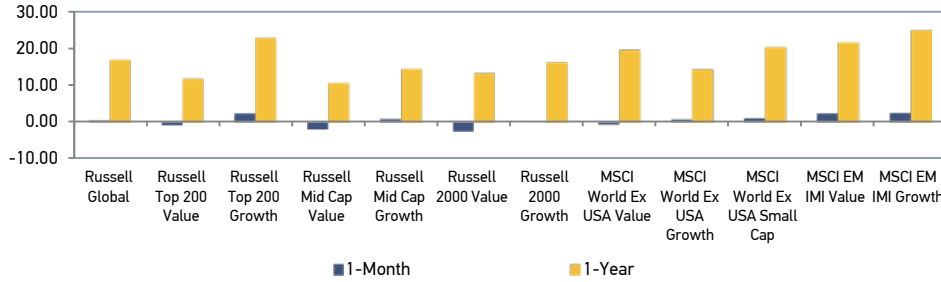
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) was unchanged through August, however, the index is down -8.3% year-to-date. The dollar depreciated -0.8% versus the euro in August.



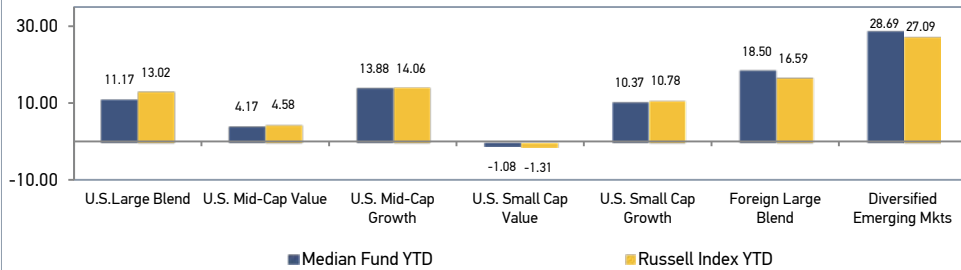
Equity Market Performance
As of 08.31.2017



- Despite a slight uptick in equity market volatility, global equity markets posted a small gain in August. Emerging markets equities continued to outperform developed markets during the month, led by significant gains in China, Brazil and Russia. In the U.S., August represented a continuation of performance trends that have been dominant throughout 2017, with large-caps outperforming mid-caps and small-caps, and growth outperforming value. Technology and health care were among the best performing sectors, while the energy sector continued to plunge. International developed markets finished just ahead of U.S. equities during the month despite a continuation of relative weakness in the U.K. and Japan.

Source: Morningstar, Russell Investments

Active vs. Passive
As of 08.31.2017

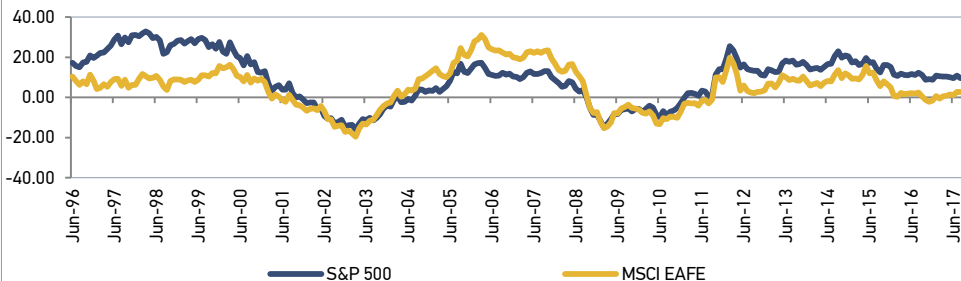


- The environment for active managers has improved substantially in 2017, especially in the international developed markets and emerging markets categories. Intra-stock correlation, which began to fall in mid-2016 and has remained relatively low during in 2017, has been a tailwind for active managers.

Source: Morningstar, Russell Investments

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

Rolling 3-Year Return Differential
S&P 500 vs. MSCI EAFE

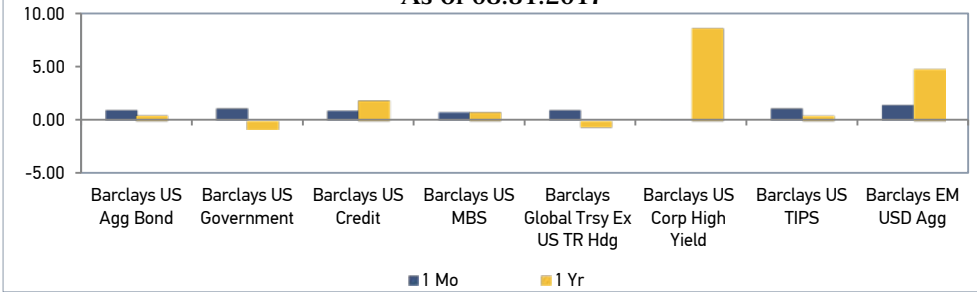


- The relative performance of U.S. versus international developed markets equities has tended to move in long cycles over time. While U.S. equities have outperformed international equities by a substantial margin since the financial crisis, international equities have significantly outperformed in 2017 as compelling relative valuations, strong earnings growth, and improving economic data in key international markets have attracted investor interest.

Data as of 08.31.2017; Source: Morningstar



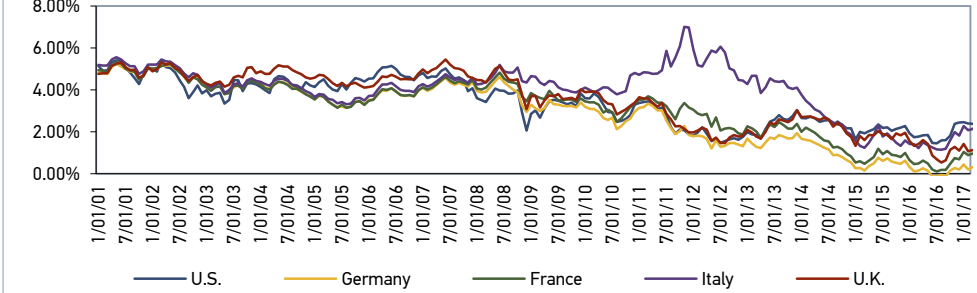
Bond Market Performance
As of 08.31.2017



Source: Morningstar, Barclays

- Fixed income markets were largely positive during the month of August. Within the opportunity set, emerging market debt was the top performer, returning 1.35% over the month. Government related bonds (both domestic as well as foreign developed) produced positive returns, with U.S. Governments up 1.06% and Global Treasuries ex U.S. up 0.92%. High yield was the only asset class within the opportunity set to produce a negative return, down 0.04%. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.90% during the month.

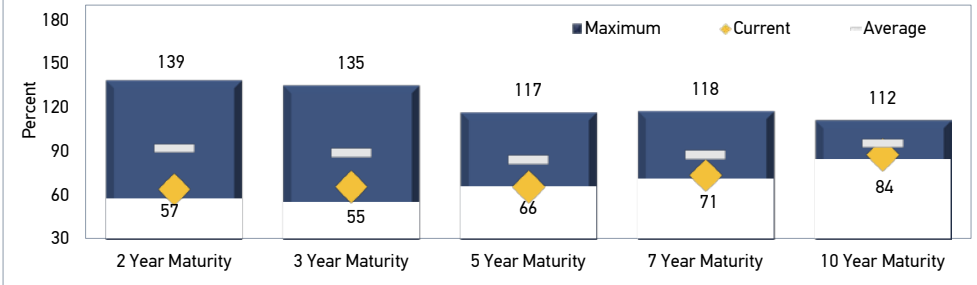
10-Year Government Bond Yields



Data as of 07.31.2017; Source: FactSet, U.S. Department of Treasury

- Over the month, select 10-year government bond yields declined, with the move lower led by the U.K. and Germany. The 10-year U.S. Treasury yield declined 18 bps, from 2.30% to 2.12%.

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 08.31.2017

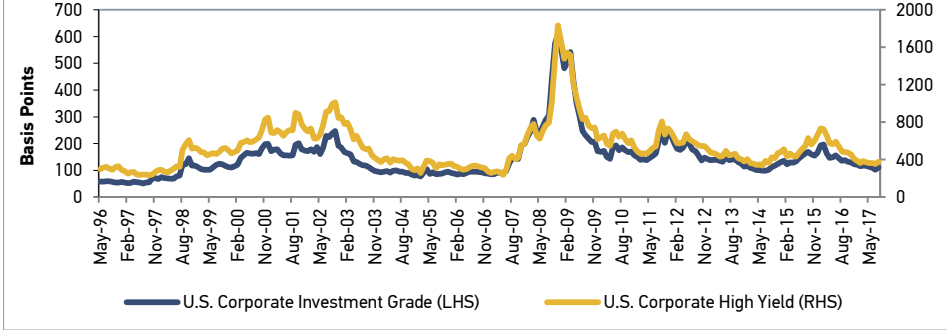


Source: Thompson Reuters; Sterling Capital Management Analytics.

- Municipal/Treasury yield ratios moved lower during the month for shorter-dated maturities and higher for longer-dated maturities. Ratios remain below historical averages.

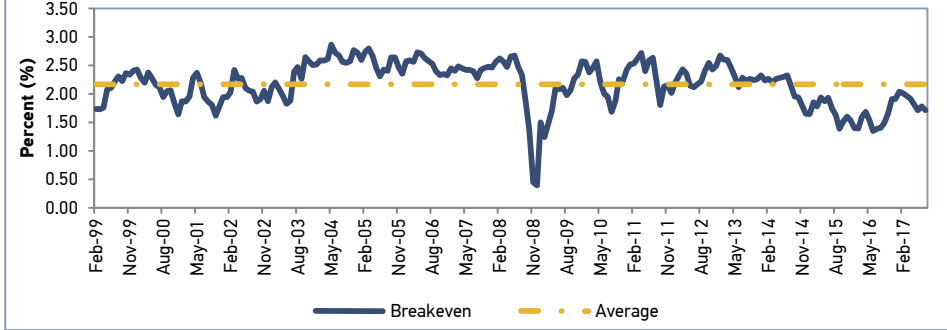


20-Year U.S. Corporate OAS



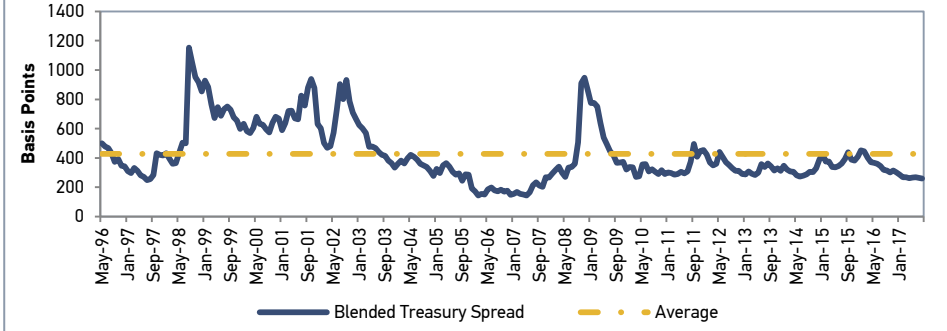
Data as of 08.31.2017; Source: FactSet

10-Year TIPS Breakeven



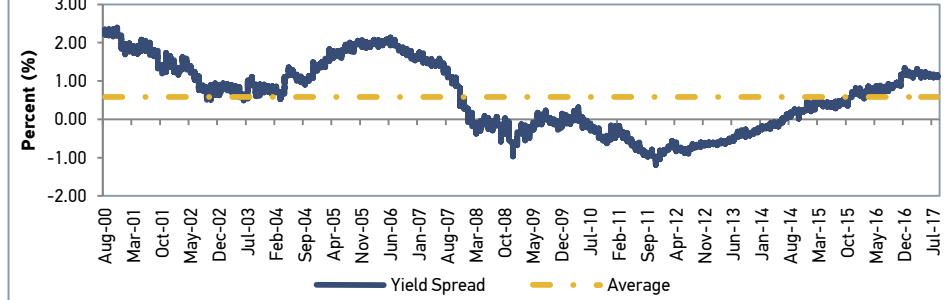
Data as of 08.31.2017; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 08.31.2017; Source: Barclays

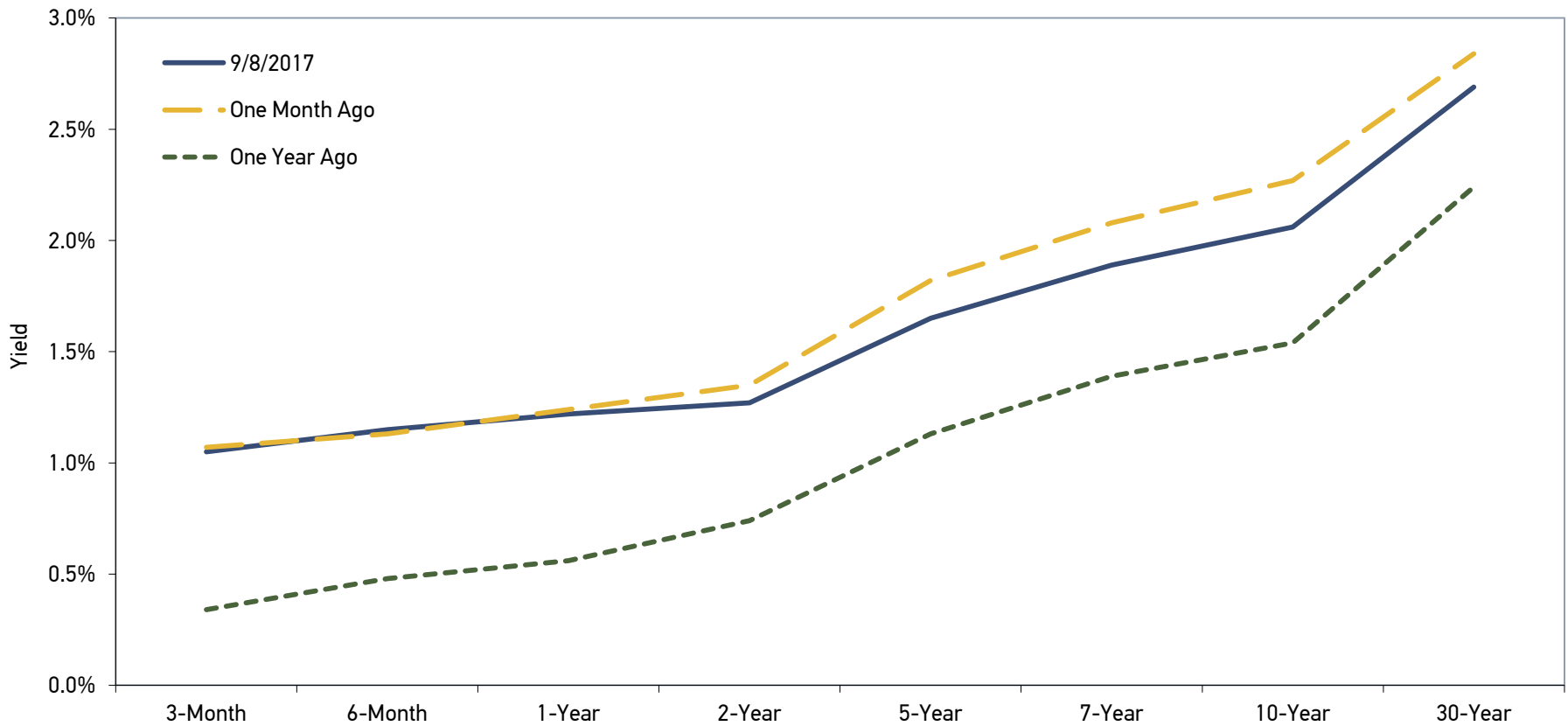
Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index



Data as of 08.31.2017; Source: Barclays

- Both investment grade and high yield corporate credit spreads increased in August but remain well below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates declined in August and remain below long run averages.
- Emerging market spreads moved slightly lower in August and remain well below historical averages. The yield spread of U.S. to Global Treasuries has moved lower this year but is above the historical average.

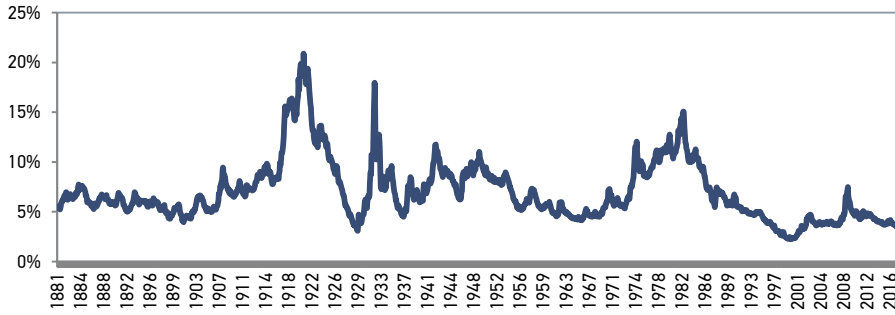
Note: Please see Appendix for important definitions.



- Month-over-month, yields moved lower with the largest decline occurring in the belly of the curve.

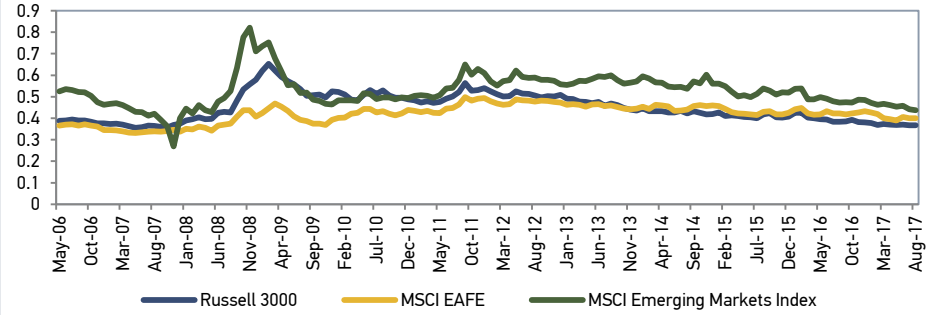


U.S. Cyclically Adjusted Earnings Yield



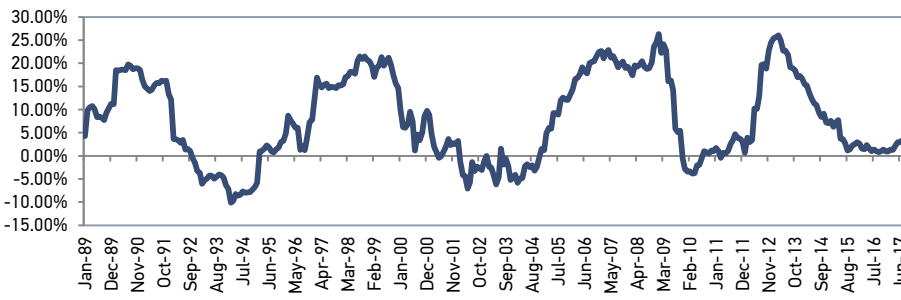
Data as of 08.31.2017; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



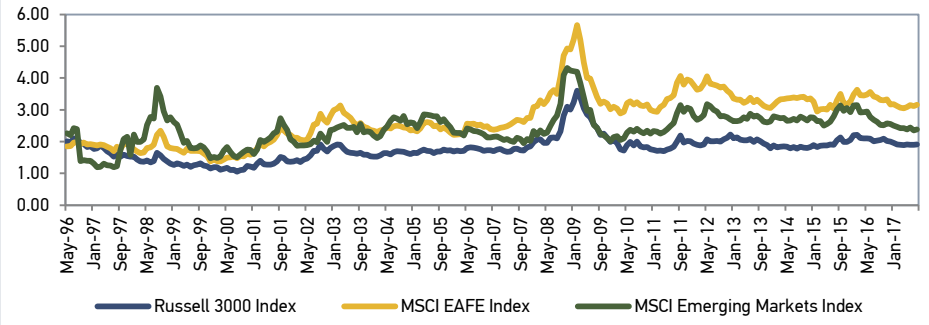
Data as of 08.31.2017; Source: Russell, MSCI

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



Data as of 08.31.2017; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 08.31.2017; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield continues to slowly decline and is well below long-term averages. Sales growth has picked up recently, but long-term real growth remains low.
- Revenue to firm value in the U.S. is lower than international developed markets. The emerging markets' ratio is only slightly higher than international developed markets.
- International developed equities provide a significant dividend yield advantage over emerging market and U.S. equities.

Note: Please see Appendix for important definitions.

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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