

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 versus International Developed Equities. Additionally, our equity recommendations are weighted more heavily to value versus growth segments.
- Within the fixed income allocation, we recommend a neutral weight to U.S. Aggregate Fixed Income.

EQUITY HIGHLIGHTS

- Global equities, as defined by the Russell Global Index, returned 0.94% in August. U.S. equities and growth segments of the market continued to outperform during the month. Several key U.S. equity indexes reached all-time highs late in the month. Emerging markets volatility continued in August, as trade war fears, currency weakness and slowing economic growth were headwinds.
- Actively-managed equity performance has been mixed so far in 2018. While active managers in the U.S. mid-cap and U.S. small-cap growth segments have generally performed well, U.S. large-cap and U.S. small-cap value managers have struggled to keep pace with their benchmarks. Narrow market leadership in U.S. and international markets has 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 technology and consumer discretionary companies. Stretched growth valuations and accelerating economic growth are conditions that could lead to an improvement in value relative performance.

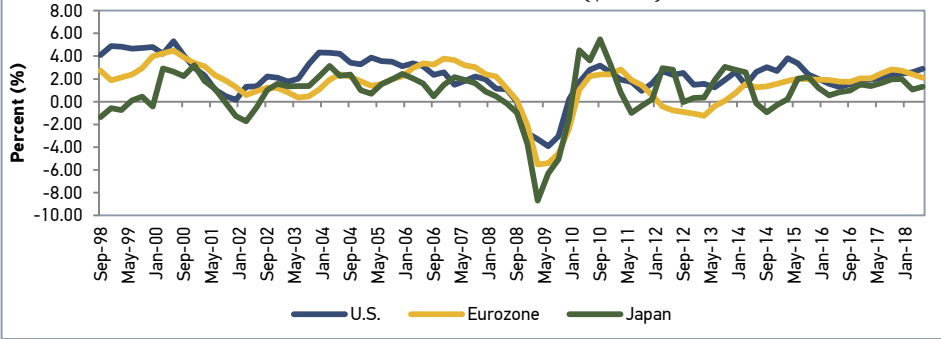
FIXED INCOME HIGHLIGHTS

- Sectors within the domestic fixed income market produced positive returns during the month of August, while foreign bonds were broadly negative. Within the U.S., the dispersion of returns were fairly tight with U.S. governments being the top performers (+0.76%) and investment grade corporates being the “bottom” performers (+0.51%). Foreign developed markets were slightly down (-0.13%), while emerging market debt fared worse (-1.35%). The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned +0.64% in August.
- Over the month, 10-year government bond yields in Germany and France moved lower, while rates in Italy and the U.K. moved higher. Domestic rates, as represented by the yield of the 10-year Treasury, moved lower by 10 bps from 2.96% to 2.86%.
- Municipal/Treasury yield ratios moved higher in August, although ratios remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	3.48%	Barclays US Aggregate	-0.96%	60% LgShort-40% MktNeutral	1.73%	6-month	2.28%	Prime Rate	5.00%
Russell 3000	10.39%	Barclays Gbl Treas xUS Hdg	1.41%	DJ Equity All REIT	4.67%	1-year	2.46%	LIBOR (3 Mo)	2.32%
S&P 500	9.94%	Barclays US TIPS	0.21%	Bloomberg Commodity	-3.87%	3-year	2.70%	Oil Price (\$/barrel)	\$69.80
MSCI EAFE	-2.28%	Barclays US High Yield	2.00%			5-year	2.74%	Gold (\$/t oz)	\$1,206.70
MSCI EM	-7.18%	Barclays EM Aggregate	-3.56%			10-year	2.86%		
						30-year	3.02%		

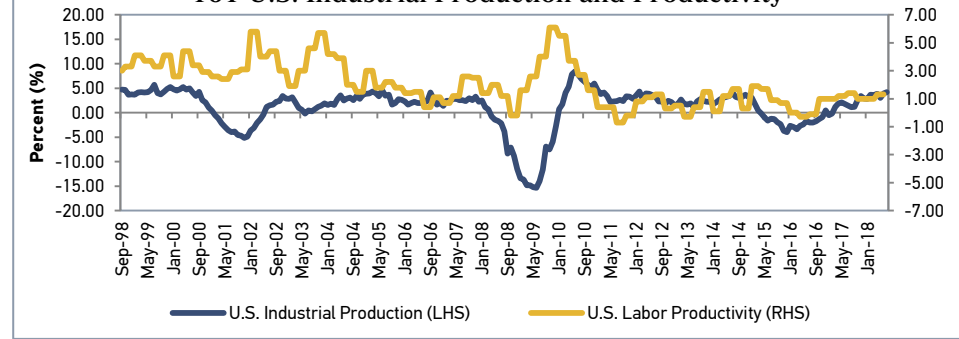


YOY Real GDP Growth (\$U.S.)



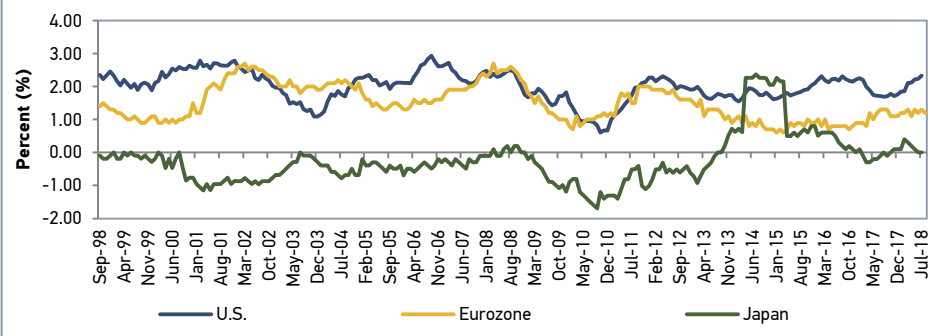
Data as of 06.30.2018; Source: FactSet

YoY U.S. Industrial Production and Productivity



Industrial Production data as of 07.31.2018, Labor Productivity data as of 06.30.2018; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. and Japan data as of 07.31.2018, Eurozone data as of 08.31.2018; 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 08.31.2018; 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 second quarter is an improvement over recent years. Sustained productivity growth is essential to drive long-term real growth. Year-over-year industrial production growth is near multi-year highs.
- Inflation has continued to move slowly higher in the U.S. and has stabilized above 1% in Europe. Japan inflation has moderated to a current reading of 0%.
- U.S. Employment growth remained solid in August, and unemployment remained at a very low rate of 3.9%.

Note: Please see Appendix for important definitions.

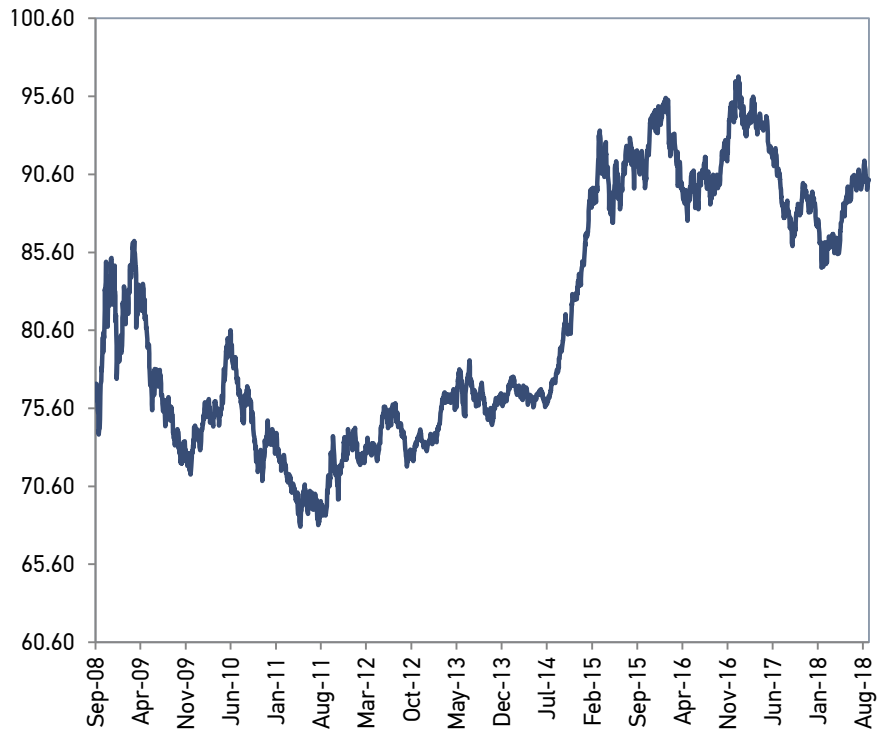


Leading	Initial Jobless Claims	<ul style="list-style-type: none"> In the week ending August 31, the four-week moving average of Initial Jobless Claims was 209,500 a decrease of 2,750 from the previous week's revised average of 212,250.
	Manufacturing	<ul style="list-style-type: none"> ISM Manufacturing registered 61.3% in August a 3.2 percentage point increase over the previous reading. A reading below 50.0% indicates contraction. ISM Manufacturing New Orders registered 65.1% in August a 4.9 percentage point increase over the previous reading. ISM Non-Manufacturing registered 58.5% in August a 2.8 percentage point increase over the previous reading.
Coincident	Housing/Construction	<ul style="list-style-type: none"> Building permits increased 0.9% in July and have risen 3.6% over the past year.
	Consumer Confidence	<ul style="list-style-type: none"> The Consumer Confidence Index increased in August to 133.4 compared to 127.9 in July.
	Nonfarm Payrolls	<ul style="list-style-type: none"> Total nonfarm payroll employment gained 201,000 in August while the unemployment rate held steady at 3.9%.
	Industrial Production	<ul style="list-style-type: none"> Industrial Production rose 0.11% in July and is up 4.23% over the past year.
	Personal Income	<ul style="list-style-type: none"> Real Disposable Personal Income increased 0.2% in July and is up 2.9% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"> This ratio rose 0.04% in July and is down -0.04% 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 0.2% in July and is up 2.9% over the trailing one year period. CPI (Core) rose 0.2% in July and is up 2.3% over the trailing one year period.

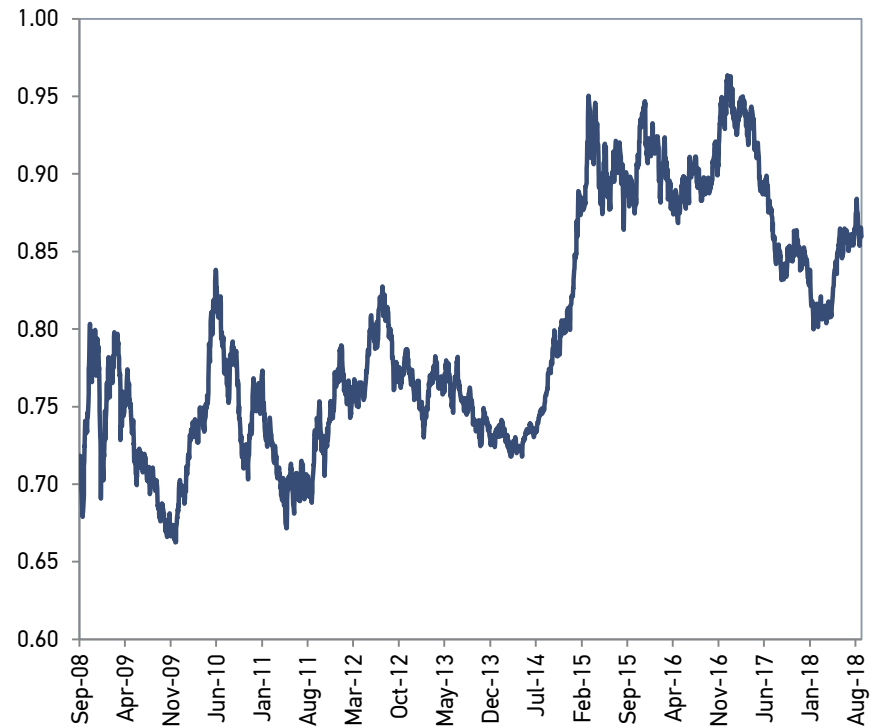
Source: FactSet



Nominal Trade-Weighted U.S. Dollar Major Currencies



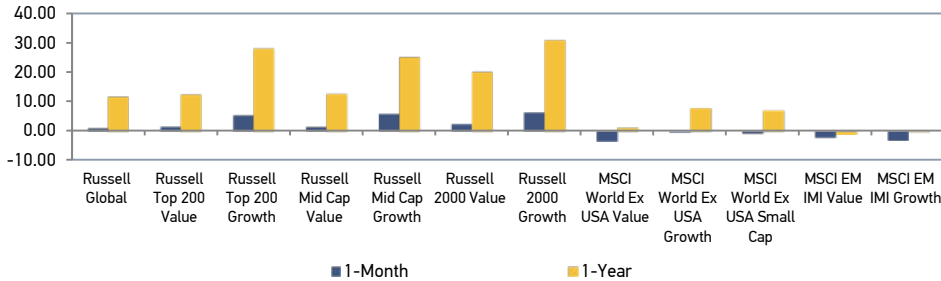
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 0.3% through August and the index is up 2.3% year-to-date. The dollar rose 0.6% versus the euro in August.



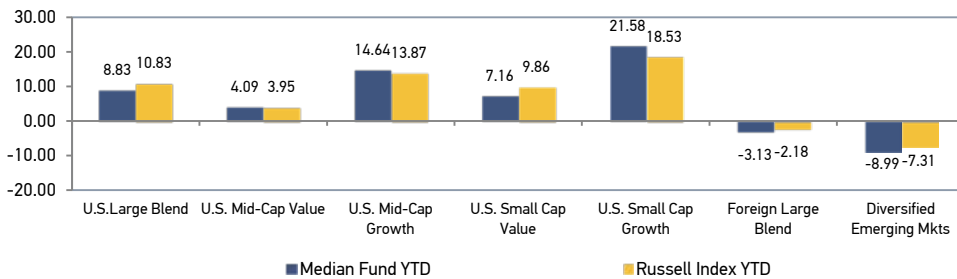
Equity Market Performance
As of 08.31.2018



- Global equities, as defined by the Russell Global Index, returned 0.94% in August. U.S. equities and growth segments of the market continued to outperform during the month. Several key U.S. equity indexes reached all-time highs late in the month. Emerging markets volatility continued in August, as trade war fears, currency weakness and slowing economic growth were headwinds.

Source: Morningstar, Russell Investments

Active vs. Passive
As of 08.31.2018

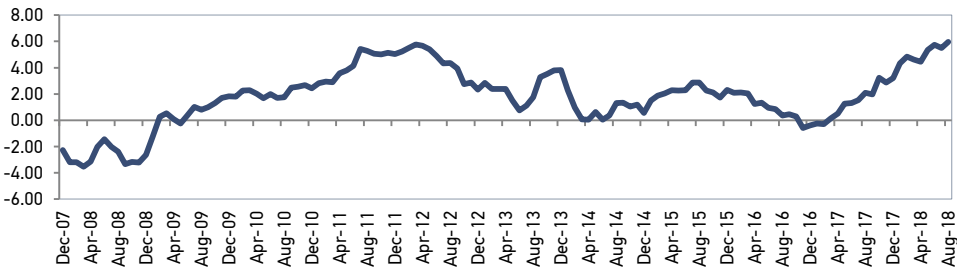


- Actively-managed equity performance has been mixed so far in 2018. While active managers in the U.S. mid-cap and U.S. small-cap growth segments have generally performed well, U.S. large-cap and U.S. small-cap value managers have struggled to keep pace with their benchmarks. Narrow market leadership in U.S. and international markets has 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

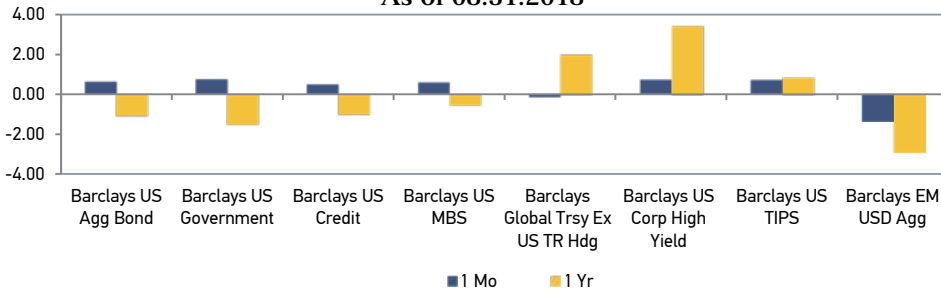


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Data as of 08.31.2018; Source: Morningstar



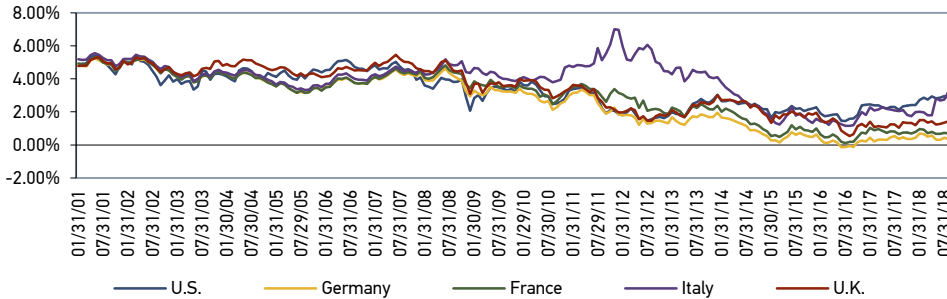
Bond Market Performance
As of 08.31.2018



Source: Morningstar, Barclays

- Sectors within the domestic fixed income market produced positive returns during the month of August, while foreign bonds were broadly negative. Within the U.S., the dispersion of returns were fairly tight with U.S. governments being the top performers (+0.76%) and investment grade corporates being the “bottom” performers (+0.51%). Foreign developed markets were slightly down (-0.13%), while emerging market debt fared worse (-1.35%). The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned +0.64% in August.

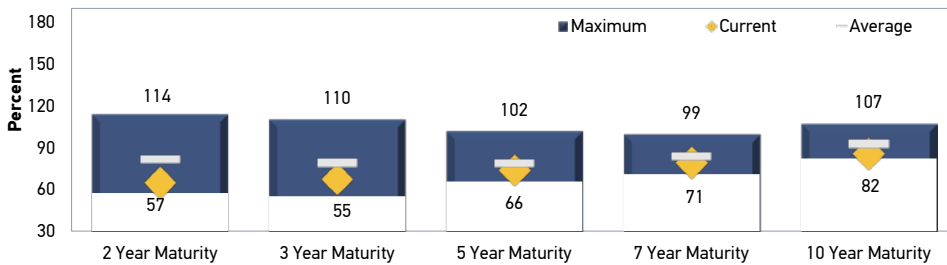
10-Year Government Bond Yields



Data as of 08.31.2018; Source: FactSet, U.S. Department of Treasury

- Over the month, 10-year government bond yields in Germany and France moved lower, while rates in Italy and the U.K. moved higher. Domestic rates, as represented by the yield of the 10-year Treasury, moved lower by 10 bps from 2.96% to 2.86%.

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 08.31.2018

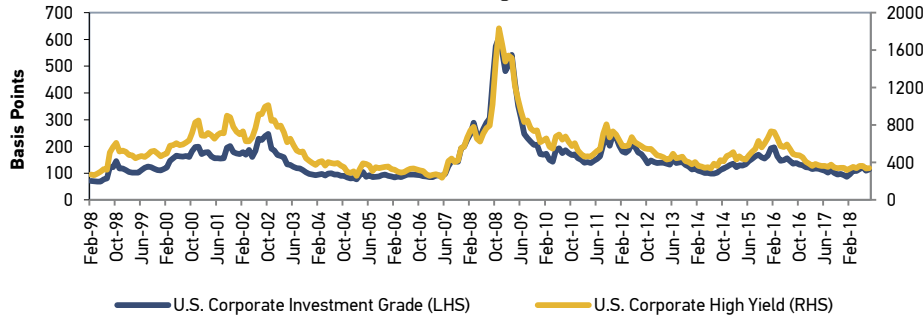


Source: Thompson Reuters; Sterling Capital Management Analytics.

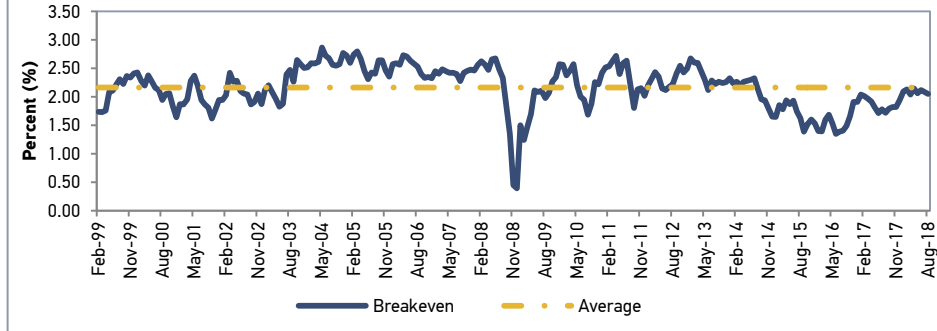
- Municipal/Treasury yield ratios moved higher in August, although ratios remain below historical averages.



20-Year U.S. Corporate OAS



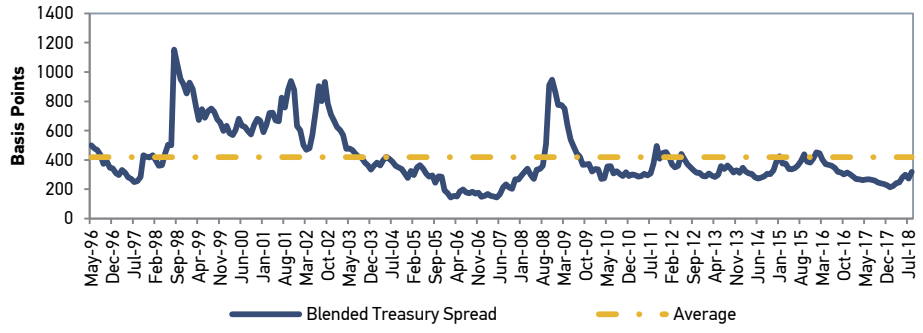
10-Year TIPS Breakeven



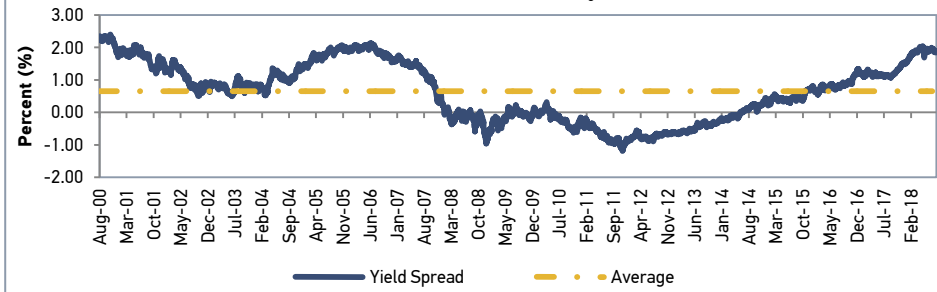
Data as of 08.31.2018; Source: FactSet

Data as of 08.31.2018; Source: Federal Reserve Board of Governors

EM Debt OAS



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

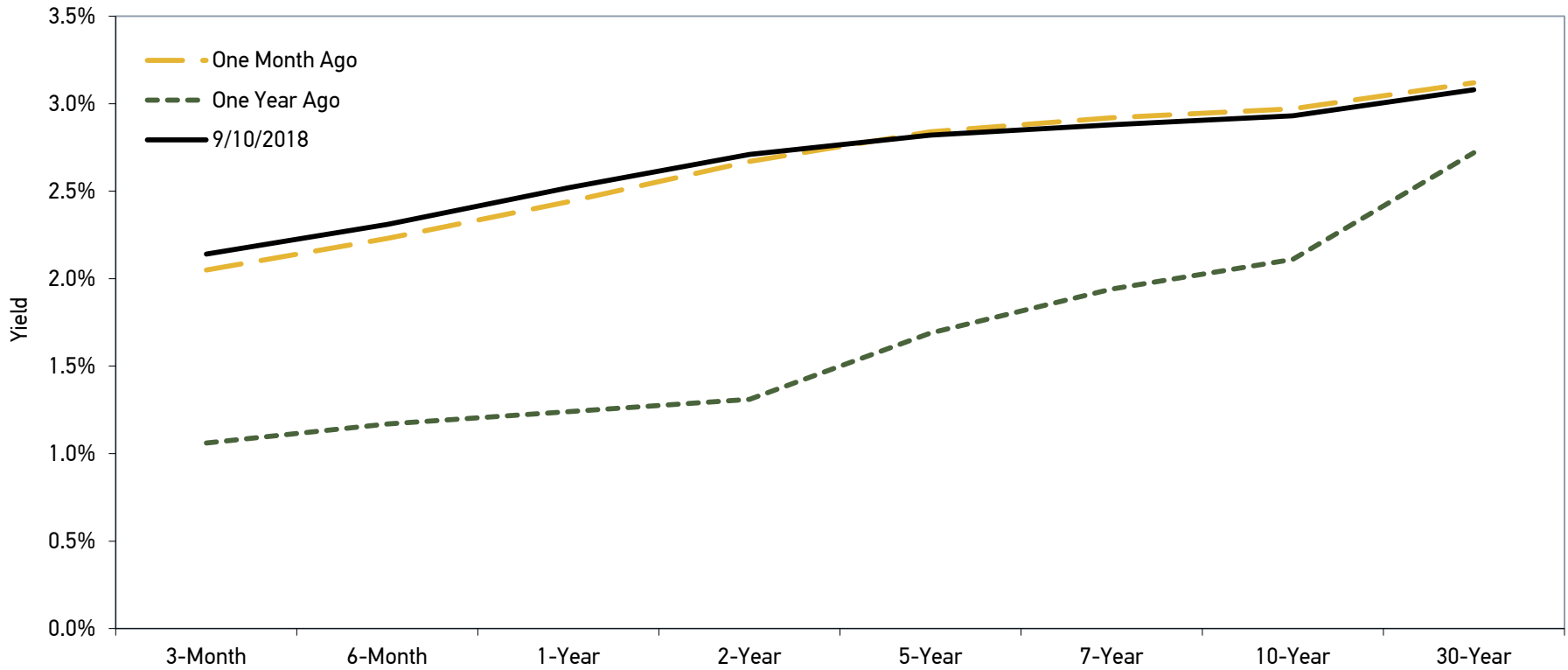


Data as of 08.31.2018; Source: Barclays

Data as of 08.31.2018; Source: Barclays

- Investment grade and high yield credit spreads moved moderately higher in August, but spreads remain below long-run averages, particularly for high yield bonds.
- Market inflation expectations as measured by TIPS breakeven rates moved slightly lower in August and are close to long run averages.
- Emerging Market credit spreads moved significantly wider in August. Emerging Market spreads have reached levels not seen since 2016, but remain below historical averages. The yield spread of U.S. to Global Treasuries decreased in August but is above the historical average.

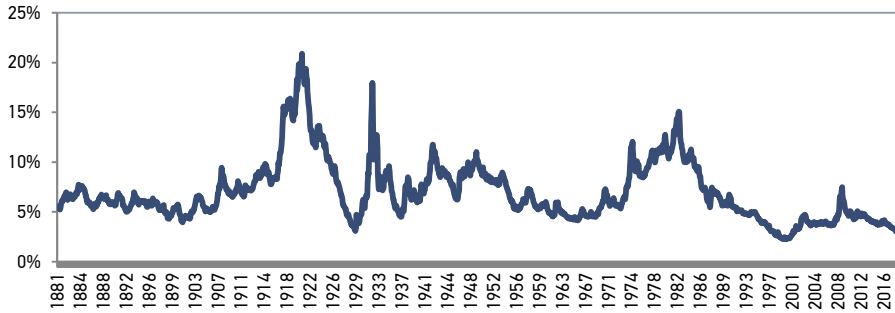
Note: Please see Appendix for important definitions.



- Month-over-month, the yield curve flattened, as front-end rates increased and long-end rates declined.

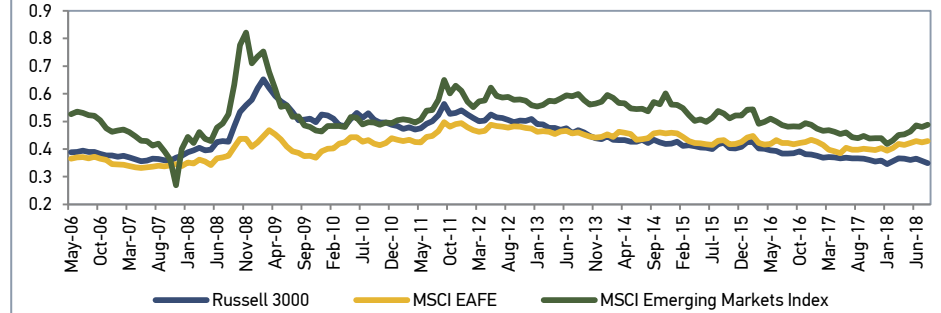


U.S. Cyclically Adjusted Earnings Yield



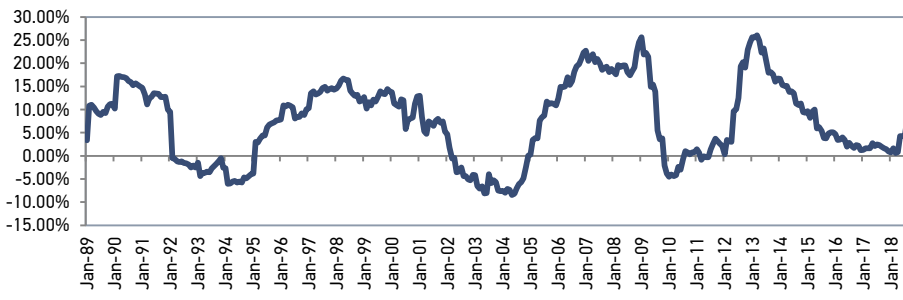
Data as of 08.31.2018; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



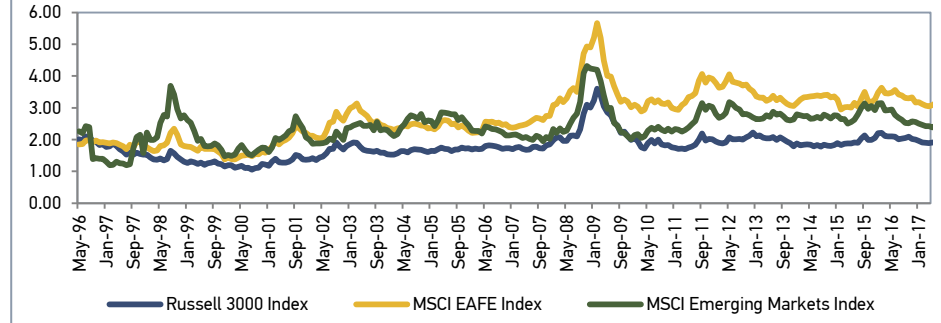
Data as of 08.31.2018; Source: Russell, MSCI

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



Data as of 08.31.2018; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 08.31.2018; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield remains well below long-term averages. Long-term sales growth is turning higher.
- 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.

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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