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Strategy & Outlook

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Economic and Market Recap

April 30, 2017

U.S. Equity Market

Index	Y-T-D	One Year
S&P 500	7.2%	17.9%
Russell 3000	6.9%	18.6%
Russell Mid Cap	6.0%	16.7%
Russell 2000	3.6%	25.6%

- April was another positive month for U.S. stocks with most major indices up 1%-2%.
- The strong month pushed equity markets solidly into positive territory for the year - with many indices hitting record highs.

International Markets

Index	Y-T-D	One Year
EAFE Developed	10.1%	11.3%
MSCI Emerging Mkt	13.9%	19.1%
Euro-Zone	9.3%	17.7%
China	5.4%	9.5%

- International markets have outpaced U.S. equities in 2017 with emerging markets leading the surge.
- Despite the strong start to the year, developed international markets continue to lag the U.S. on a year-over-year basis.

Rates, Currencies, Commodities

Asset	4/30/2017	12/31/2016
2 Year UST	1.25%	1.22%
10 Year UST	2.30%	2.49%
"BBB" Corporate	3.55%	3.72%
Yield Spread in BPS	125	123
Oil (WTI) / barrel	$49.30	$53.70

- The yield curve has flattened in 2017 as the Fed has raised short rates while long term rates have marginally declined.
- Oil prices continued to slide in April bringing its decline to nearly 10% for the year.

The Economy

Economic Data	4/30/2017	12/31/2016
Unemployment Rate	4.5%	4.7%
Participation Rate	63.0%	62.7%
Core CPI (YoY)	2.40%	2.29%
Leading Econ. Indicator	126.3	125.1

- The U.S. economy continues to improve – although at a gradual pace.
- The unemployment rate dropped 0.2% in April – and labor participation and real wages rose.

Sources: Russell, S&P, FactSet, Barclays, CRB, MSCI. BEA. Unemployment Rate as of 3/31/17

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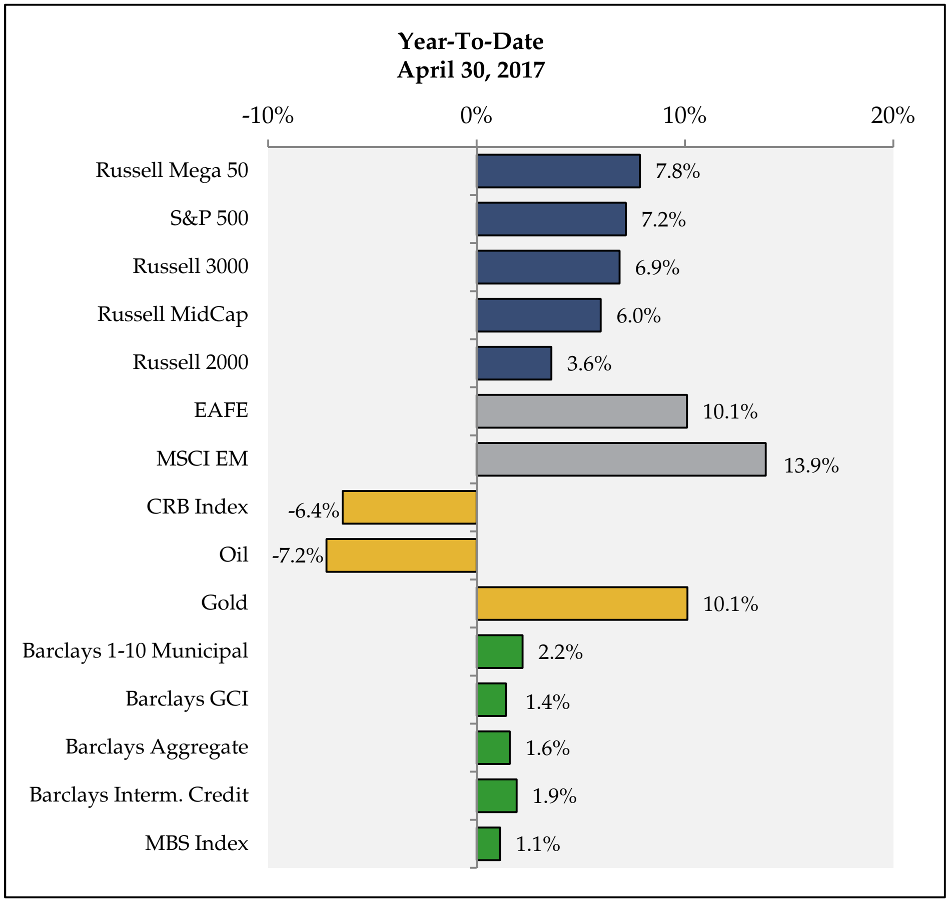
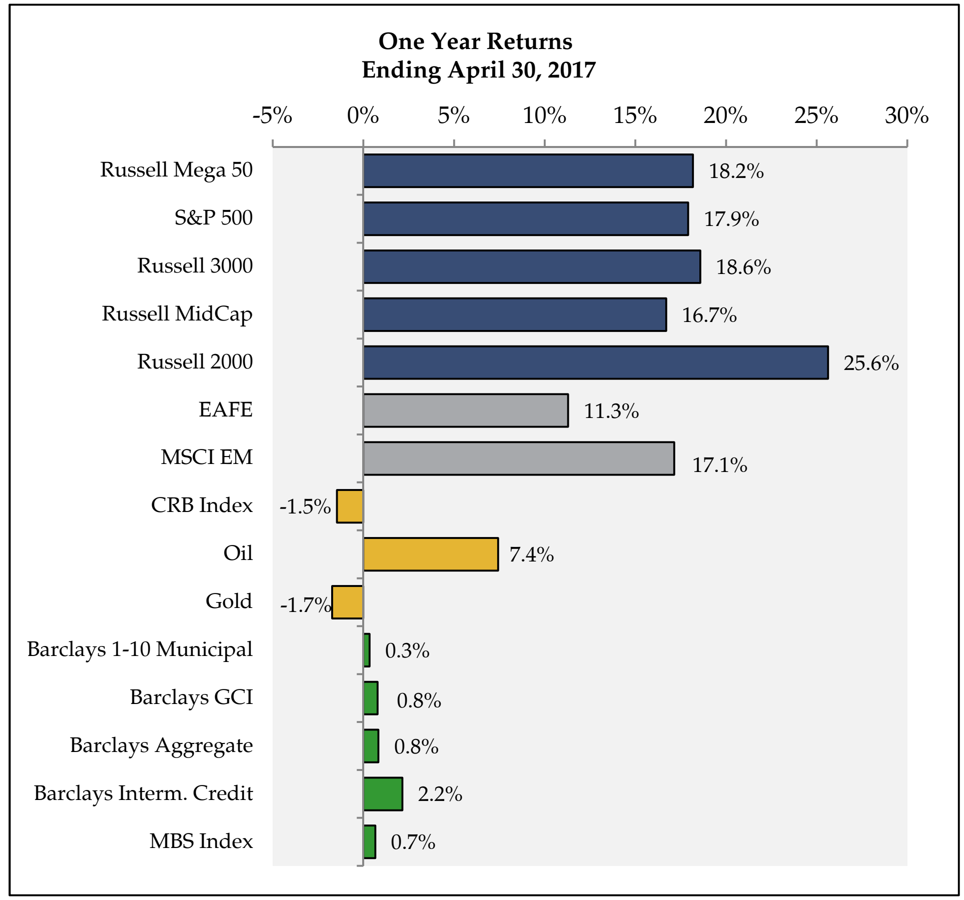
Major Market Returns

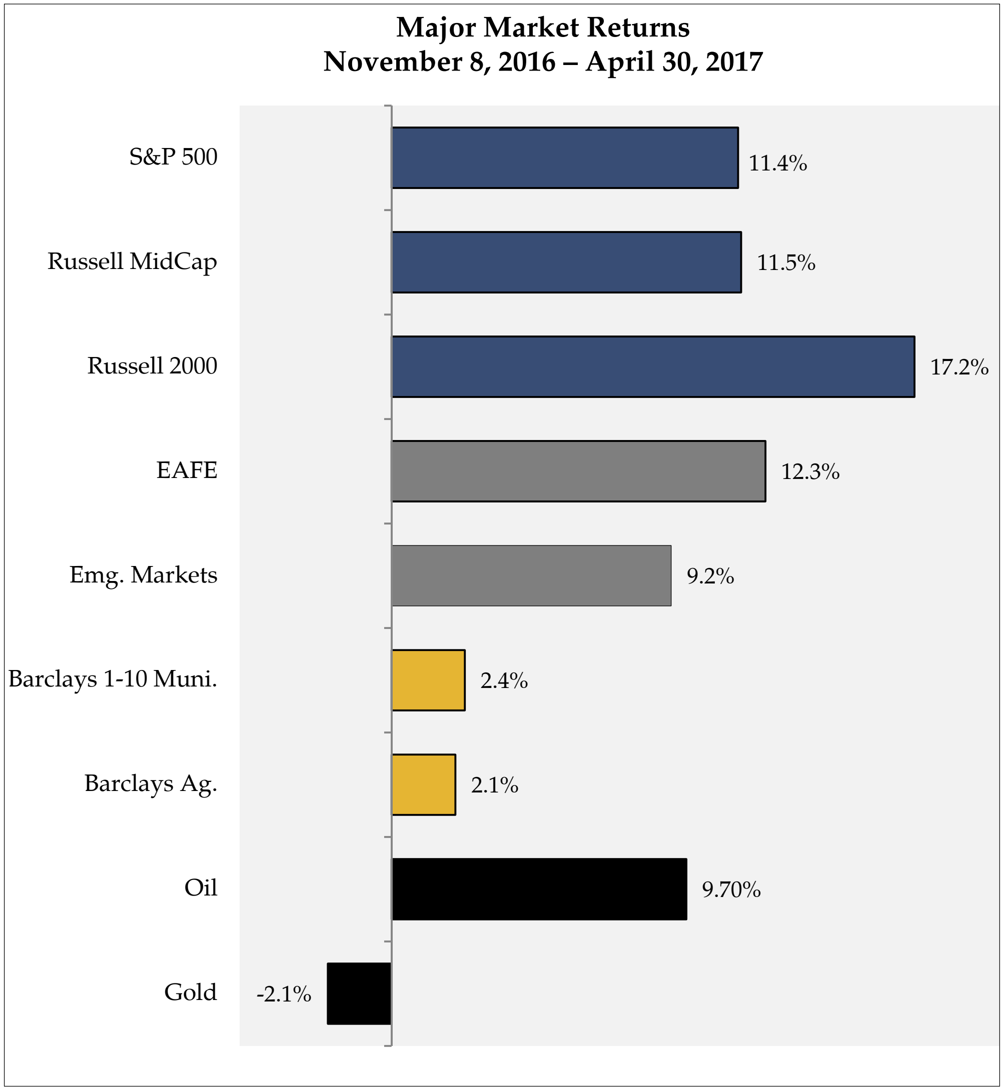




- U.S. equity markets continued their rally in April pushing all major indices well into positive territory for the year. Although small caps lagged in the quarter, they have significantly outperformed over the past year.
- International stocks have outperformed so far in 2017 – however, they continue to lag most U.S. markets over the trailing twelve months.
- The recent upward move in interest rates has served as a drag on fixed income returns – however, bonds have posted positive results year-to-date..

Sources: Data as of 4/30/17, Russell, S&P, Barclays, FactSet, MSCI

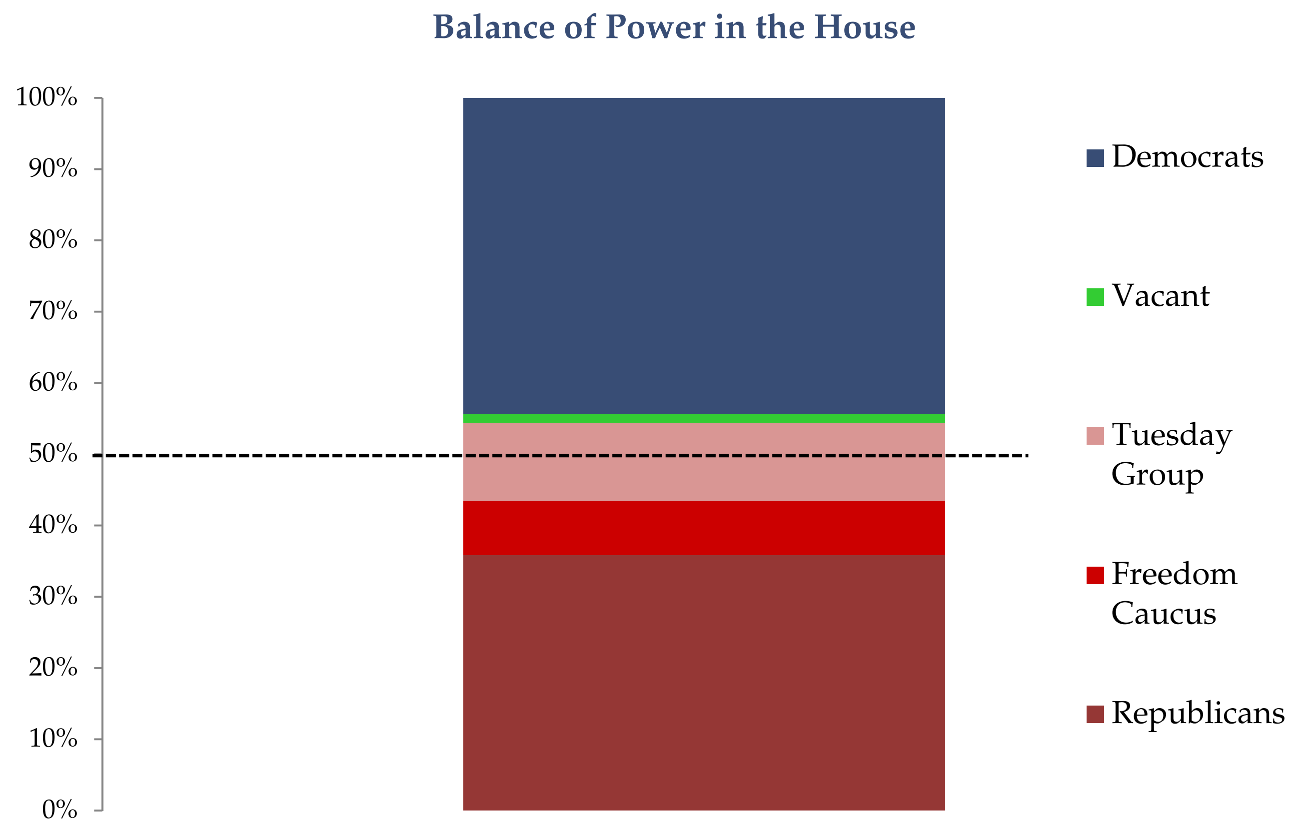
The "Trump Effect"



- Investor expectations of more robust economic growth fueled by lower taxes and reduced regulation has helped push markets higher since the November elections.
- Equity markets have soared with small and mid caps performing the best. Technology, consumer discretionary, and health care have led the markets higher.
- International markets have participated in the rally – however, emerging markets have lagged the U.S, primarily due to uncertainty regarding future trade policy.
- Fixed income markets have increased marginally as the yield curve has flattened with short rates moving higher and long rates declining.
- The markets' strong rally since the election has been driven by optimism over the new pro-business administration. Future market strength will be highly dependent on implementation of these policies.

Source: FactSet, as of 4/30/2017

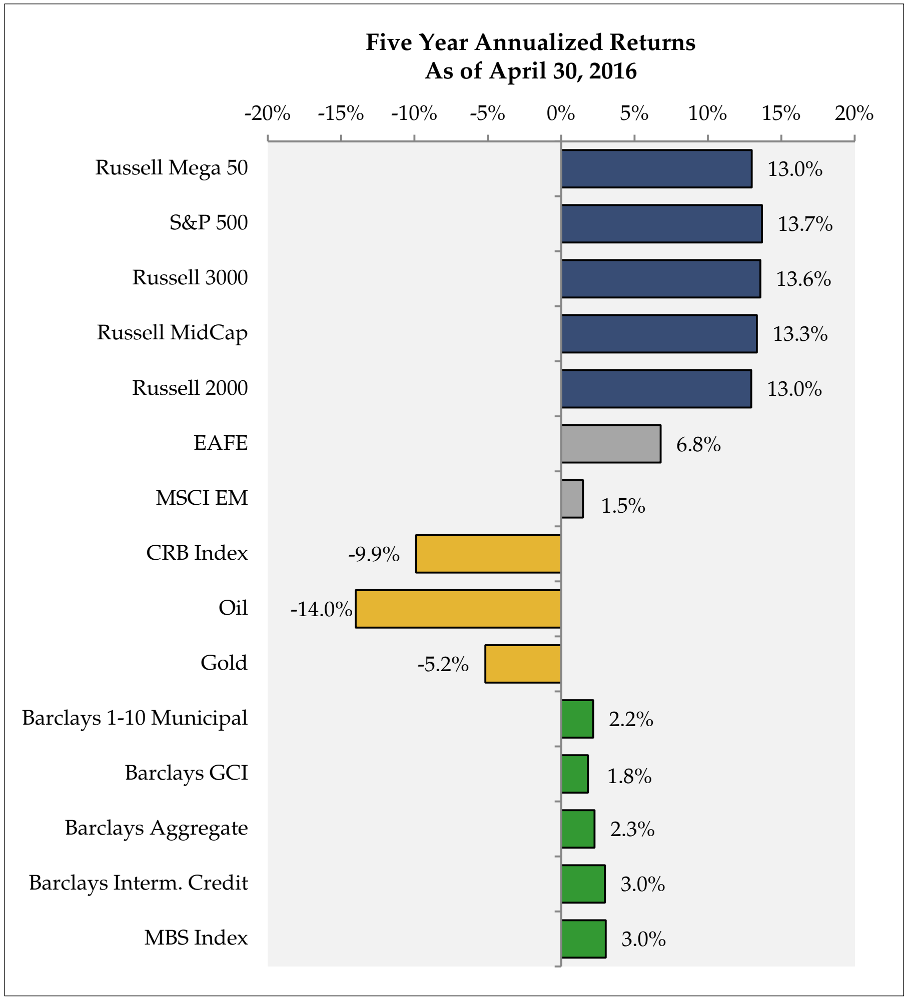
Balance of Power in the House

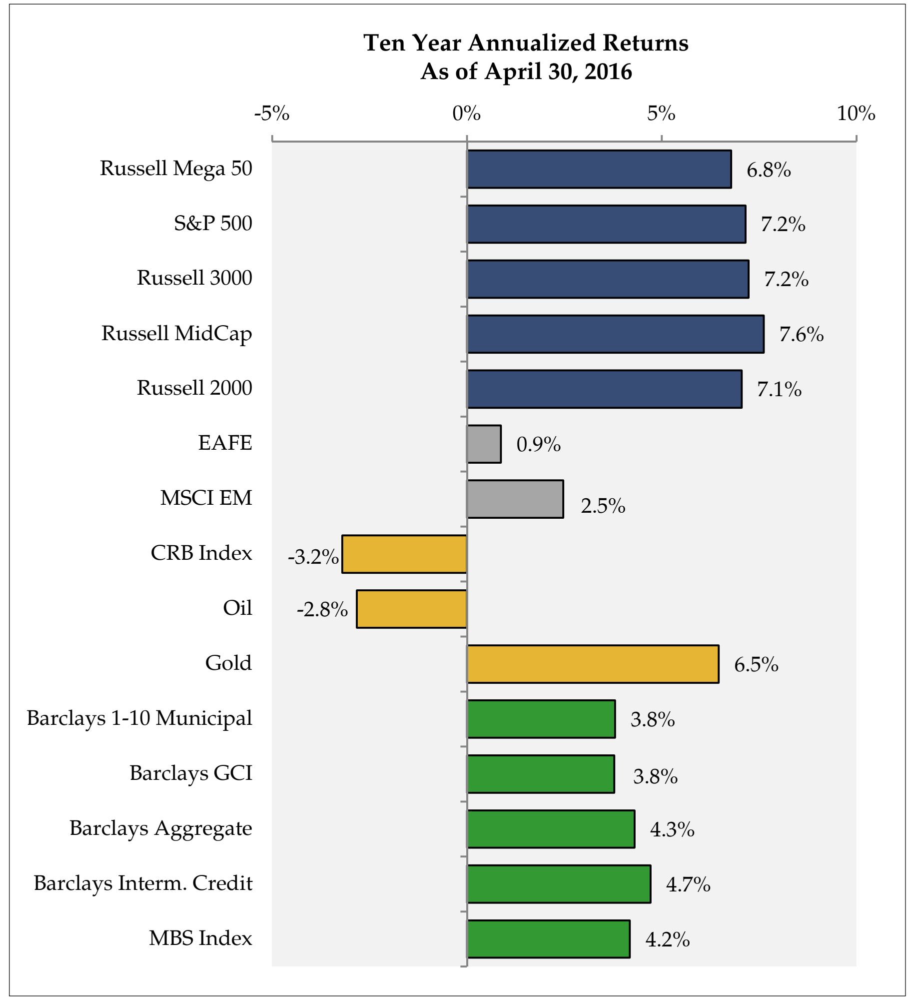


- Despite having majorities in the House and Senate as well as the Presidency, Republicans are fractured ideologically and face a united opposition. This balance is making executing policy changes difficult.
- Republicans must attract votes from both the conservative Freedom Caucus and the moderate Tuesday Group in order to pass legislation in the House.

Data as of 04.05.2017. Source: Deutsche Bank Global Markets Research.

Long Term Market Returns

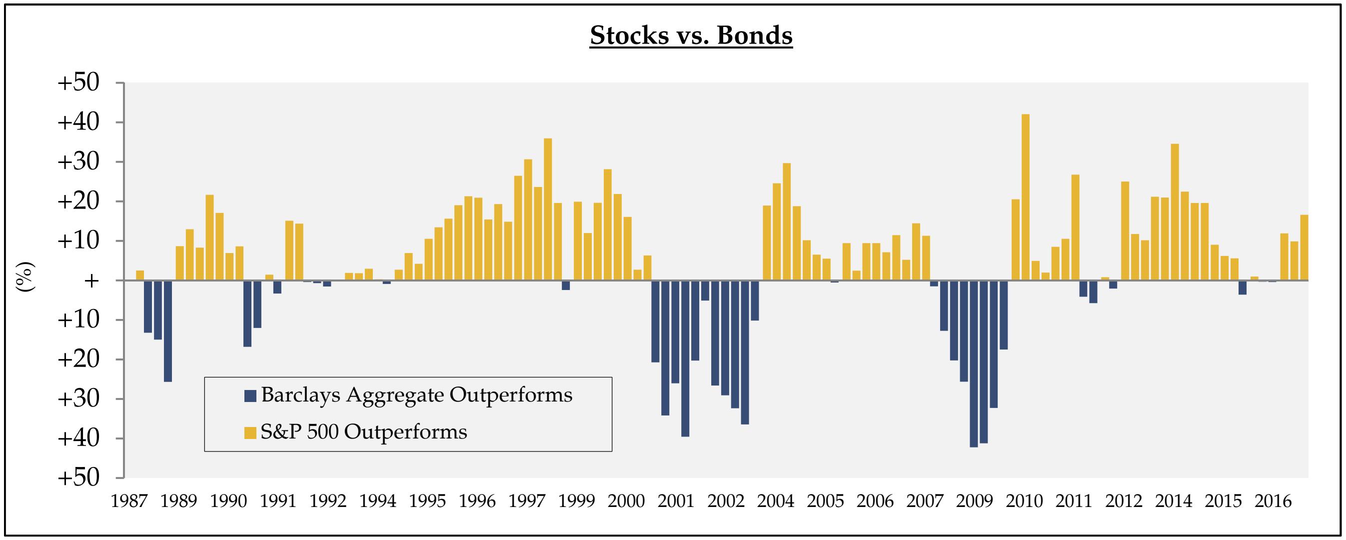




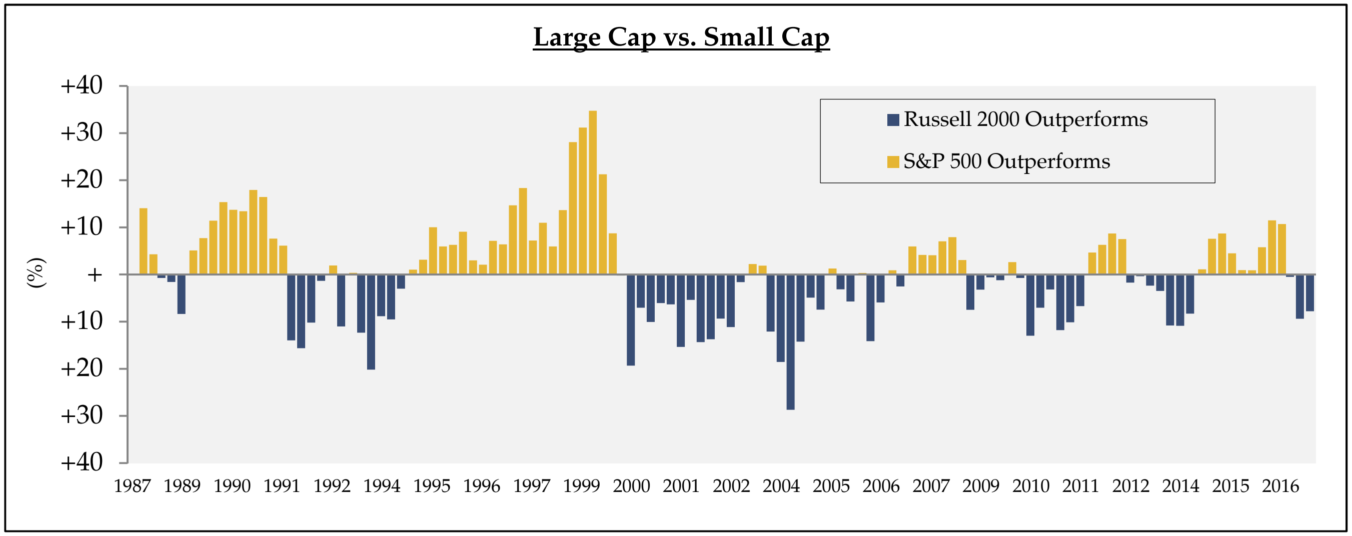
- Despite volatility, long term rates of return for financial assets have been positive – however, commodity prices have declined.
- Annual compounded returns for equities over the trailing ten years are solidly in positive territory, despite the more than 50% market drop during the financial crisis of 2008-2009 – further supporting a focus on the long term.

Source: FactSet, as of 4/30/2017

Market Leadership: Year-Over-Year Returns



- Stock returns relative to bonds diverge dramatically over market cycles. The equity rally in so far in 2017 has created significant return dispersion in stocks versus bonds on a year-over-year basis. This further supports the benefits of asset class diversification.



- There can be significant dispersion of returns within U.S. equity markets which is why we believe in equity asset class diversification. After a prolonged period of underperformance small cap stocks have begun to outperform large caps on a year-over-year basis.

Source for both charts: eVestment Analytics as of 4/30/2017.

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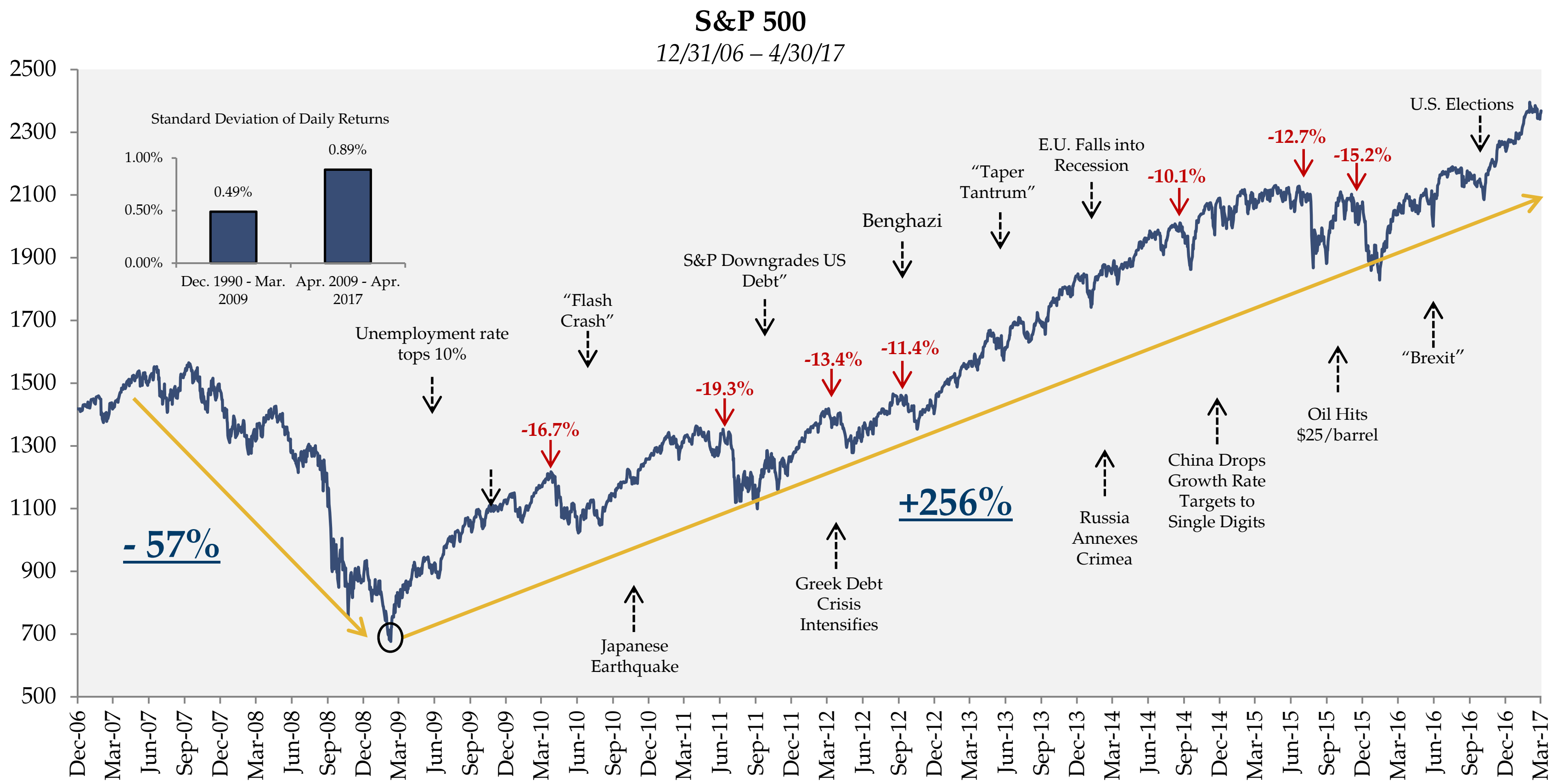
Equity Market Volatility Over the Past Decade



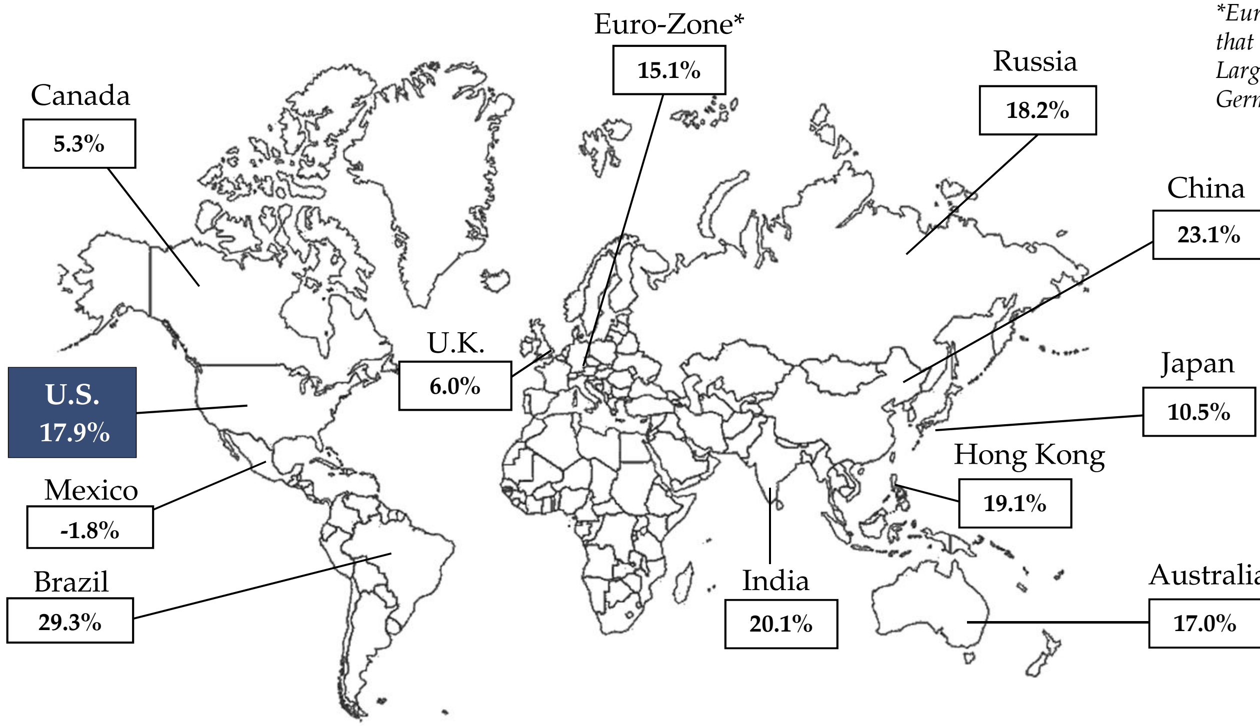
➢ The past decade has been filled with economic and political challenges – however, stock prices have more than tripled from their low point in the first quarter of 2009.

➢ These market gains have been accompanied by extreme volatility with seven corrections greater than 10% in the past seven years, and daily volatility that far exceeds historic norms.

Source: FactSet

Global Equity Market Returns

Trailing 12 Months Ending April 30, 2017



**Eurozone comprised of 17 countries that use the Euro as its currency. Largest constituents include Germany, France and Italy.*

- International equity markets over the past year experienced dramatic dispersion relative to U.S. stocks – many emerging markets have bounced back from their "bear market" levels over the last 12-18 months.
- Global markets continue to confront political and economic uncertainty – this should push volatility higher.

Source: Bloomberg

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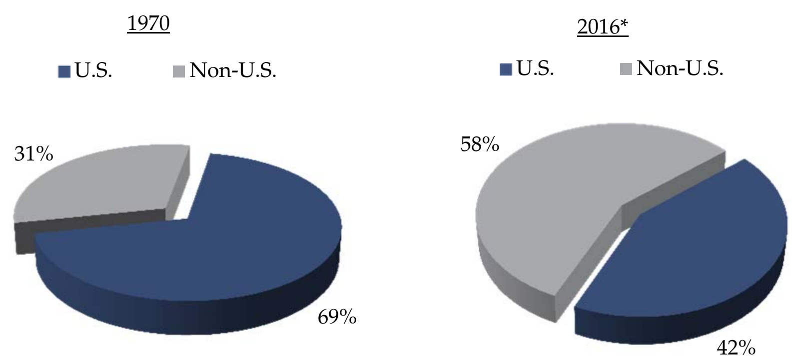
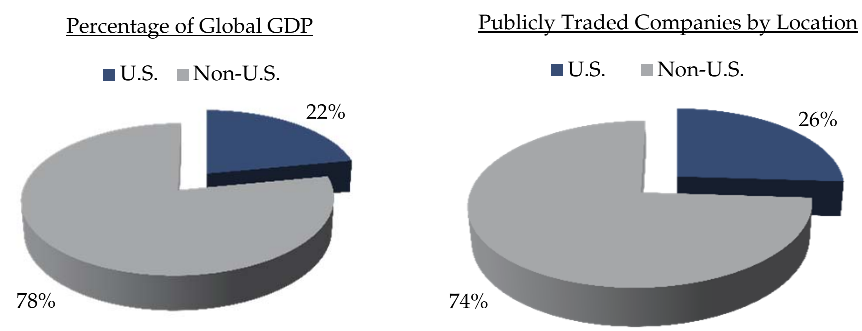
Global Perspective

Global Market Capitalization Breakdown (U.S. vs. Non-U.S.)



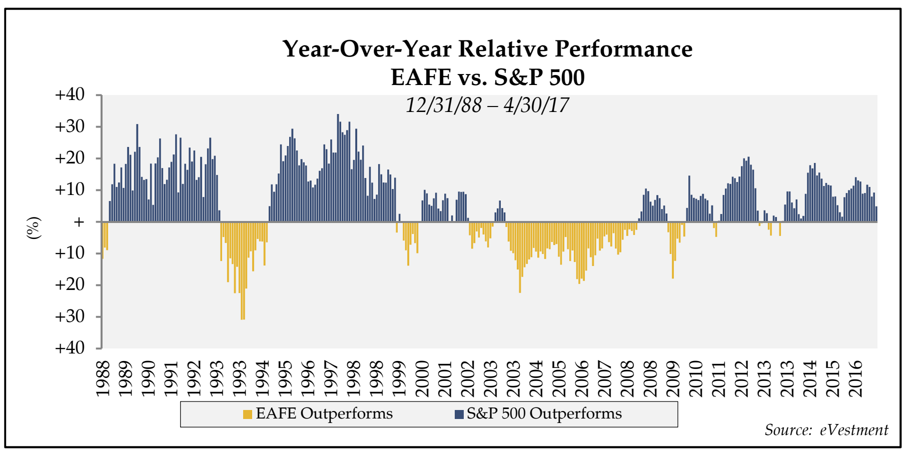
Source: International Monetary Fund (IMF), Russell Investments
** Preliminary*

Global GDP and Corporate Location (U.S. vs. Non-U.S.)



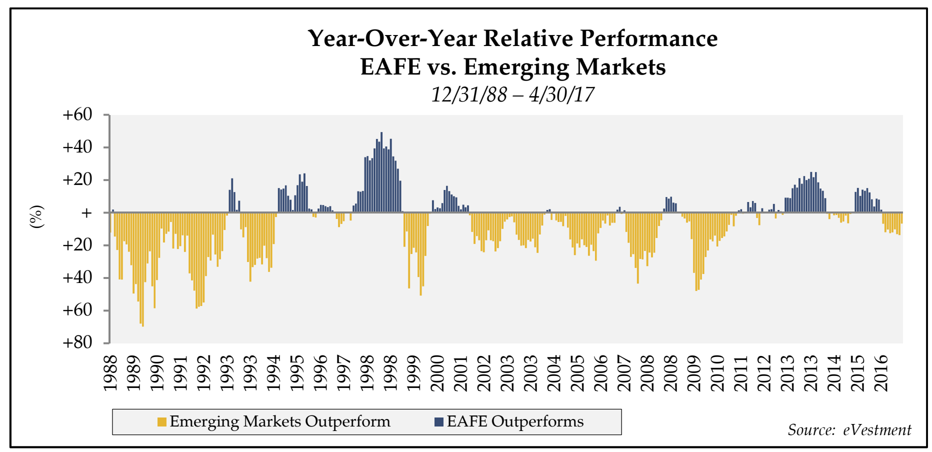
Source: International Monetary Fund (IMF), MSCI for most recent period ending 12/31/16

- International markets continue to grow with over half of the world's market capitalization traded outside of the U.S.
- International economies represent two-thirds of global GDP with the majority of publicly traded companies based outside of the U.S.



Source: eVestment

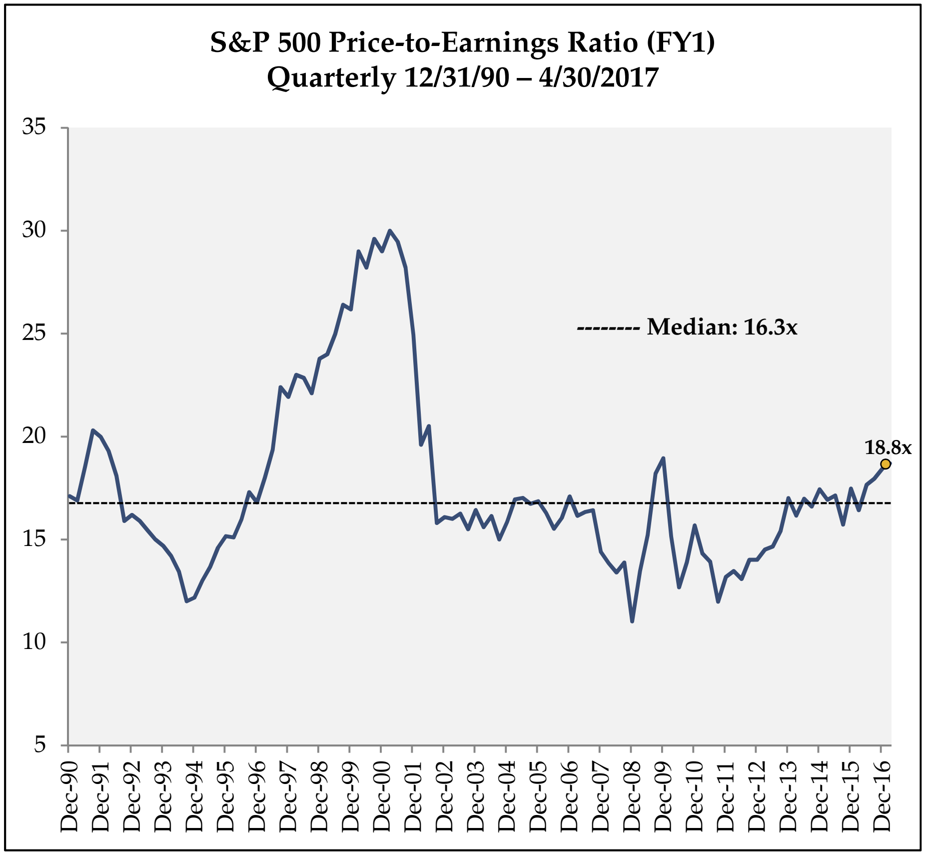
- International markets move in cycles with periods of underperformance versus U.S. markets followed by periods of outperformance.

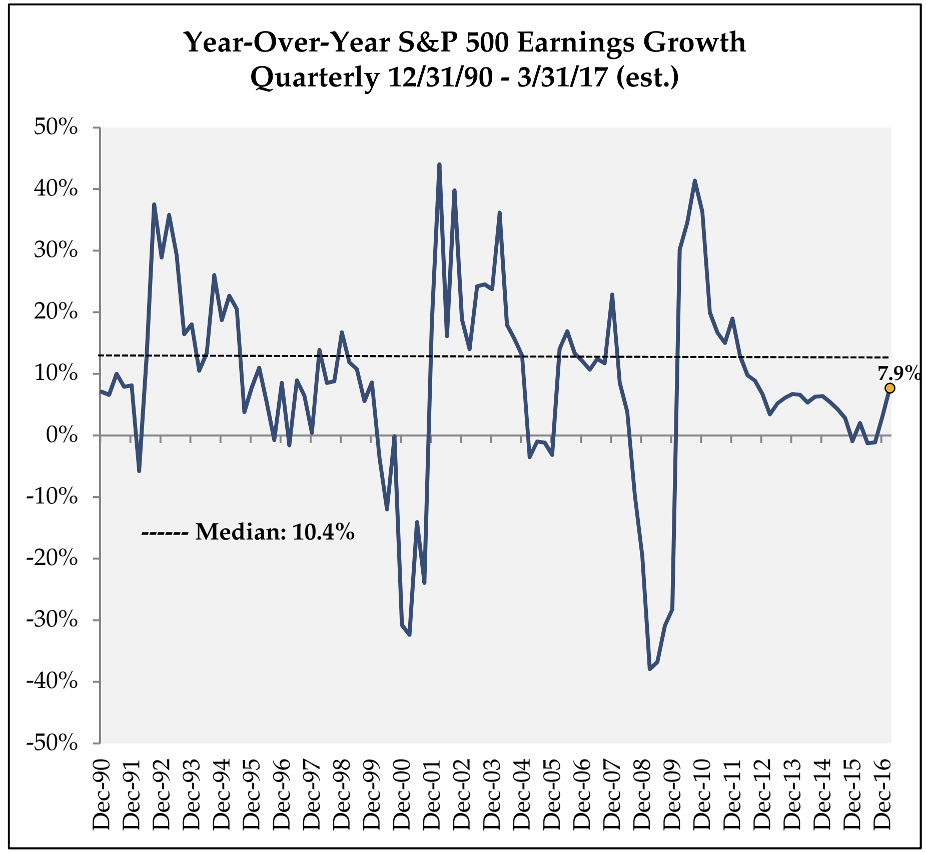


Source: eVestment

- Emerging Markets have the advantage of higher growth rates – however, there are prolonged periods where developed markets generate higher returns.

Market Valuation and Earnings Growth



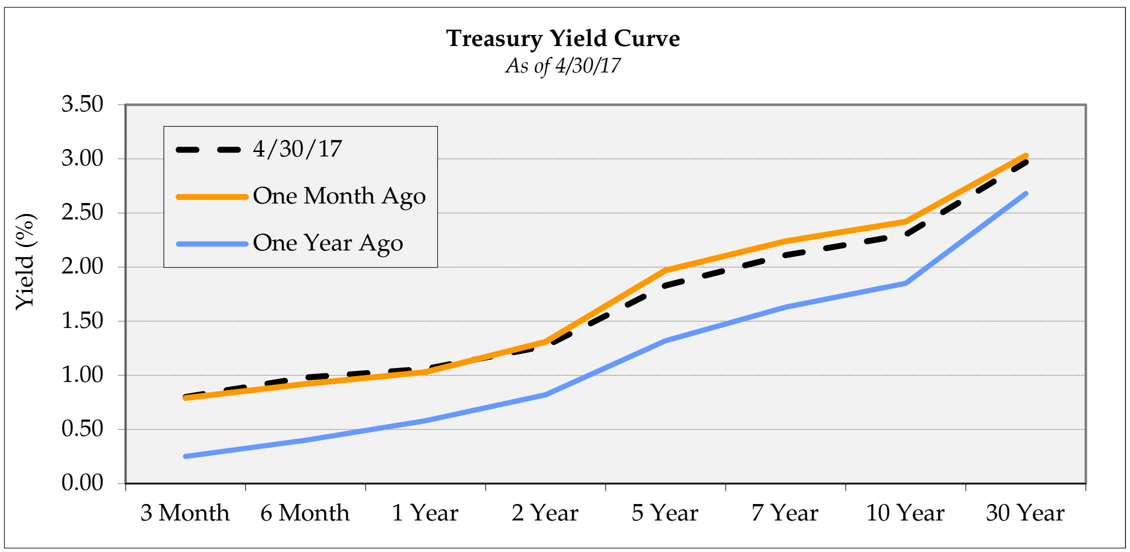


- The recent rally in equities has pushed market valuations above historic levels.
- However, year-over-year earnings growth is expected to turn positive in the first quarter after several years of decline.

Source: Factset, S&P

Fixed Income Markets: Trailing 12 Months

Source: Bloomberg; Barclays Capital



Source: FactSet

- In April, the BBB-rated corporate yield versus Treasuries remained unchanged versus early January at 125 basis points. However, the spread is well below last summer's level of 210 basis points.

- The yield curve flattened in the first quarter as short term rates have moved higher while long term rates have declined.

- The 10 year Treasury bond yield closed April at 2.30% - up dramatically from last summer's record low of 1.40%, but lower than the year end 2016 level of 2.50%

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Our Current Market View and Strategy

U.S. Equity Markets

Strengths

- Economic growth is expected to be positive with possible upside to expectations with the new administration's policies.
- Valuations are historically high – but not at historic extremes, and earnings growth is improving.
- Corporate balance sheets are very strong – high cash and low debt levels – leading to continued share buybacks, dividend increases, and M&A activity.
- U.S. markets continue to be viewed globally as a safe haven with strong fundamentals.
- Long term rolling returns are below historic norms.

Concerns

- Uncertainty over the impact of new trade and tax policies anticipated by the new administration.
- Uncertainty over the timing and pace of the Fed's shift in monetary policy in 2017.
- Geopolitical risk - especially with recent developments in Iraq and Syria, and continuation of uncertainty in Russian Mid East policy.

We are positive on the long-term outlook for U.S. equities. We expect positive earnings growth, low inflation, and strong corporate balance sheets will help stocks move higher over the next several years. In addition, the U.S.'s position as a global economic leader should continue to attract capital. Capital markets will also benefit from rising M&A activity and additional share buyback programs. The pro-business shift in Washington following the election adds opportunity for a boost in growth – however, uncertainty will persist. We expect significant volatility as issues are resolved around fiscal and monetary policy – and global growth expectations.

International Equity Markets

Strengths

- Unique investment opportunities in various regions exist as non-U.S. markets now represent over 50% of global capitalization – our emphasis is currently on developed markets vs. emerging markets.
- Expect higher than U.S. growth in many non-U.S. economies – primarily emerging markets - over the next three to five years.
- Recent underperformance versus the U.S. has improved relative valuations in many international markets.

Concerns

- Dislocation in markets is a risk with recent political events such as "Brexit" and the Trump victory leading to concerns over protectionist sentiments and possible policy initiatives.
- Emerging market growth expectations (especially in China) have slowed in recent quarters causing investor concerns and increased volatility in their equity markets.
- Political, economic, social, and military unrest and uncertainty in Syria and throughout the Middle East.

We want to have an active exposure to the international markets. We believe global economic and financial markets continue to be a cornerstone of a diversified portfolio. Our current bias is towards developed markets versus emerging markets.

We are watching closely the impact on global markets of recent political shifts towards more protectionist policies. Although this shift will create additional volatility, new opportunities may be presented to investors.

Fixed Income Markets

Strengths

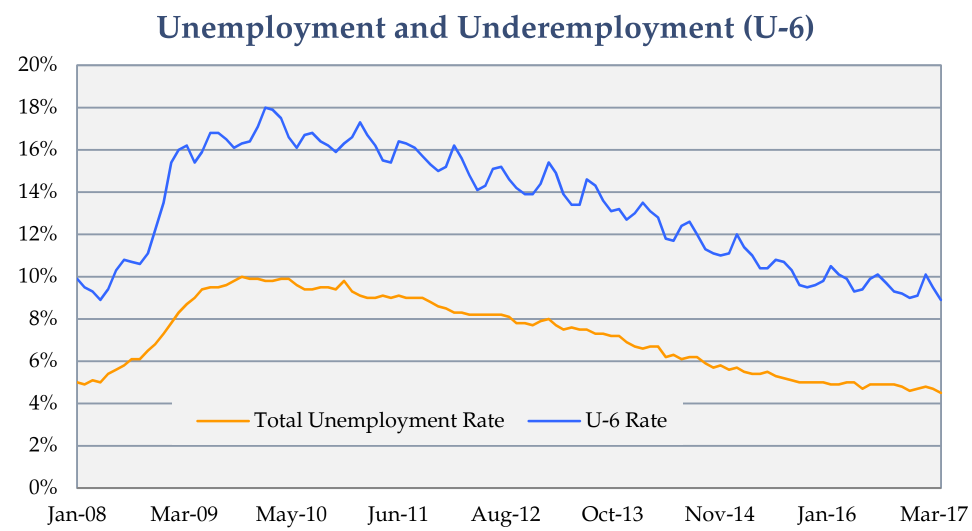
- Changes to monetary policy through the Fed's interest rate policies is expected to be gradual over the next year.
- Corporate credit fundamentals are strong and improving.
- Growing pressure to reduce government debt and spending.
- Continued low inflationary pressures.

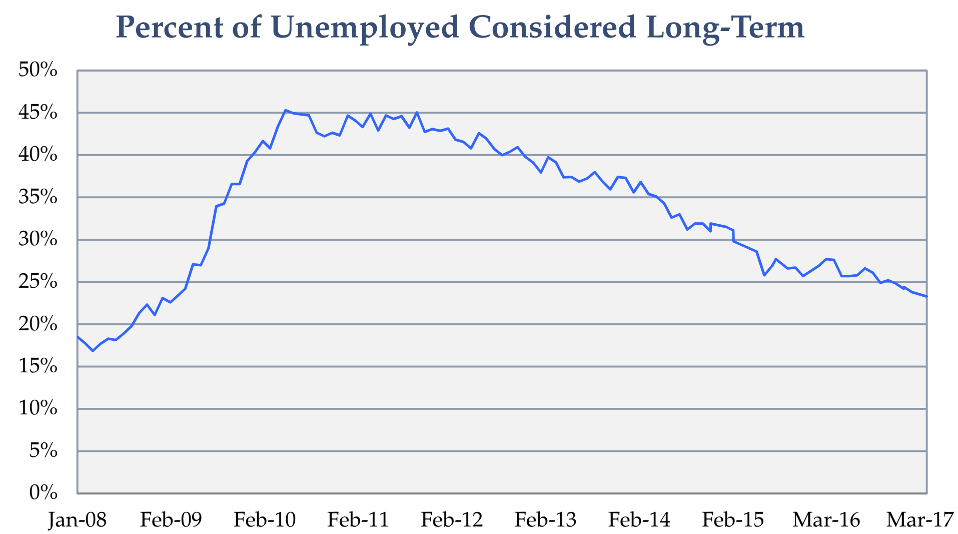
Concerns

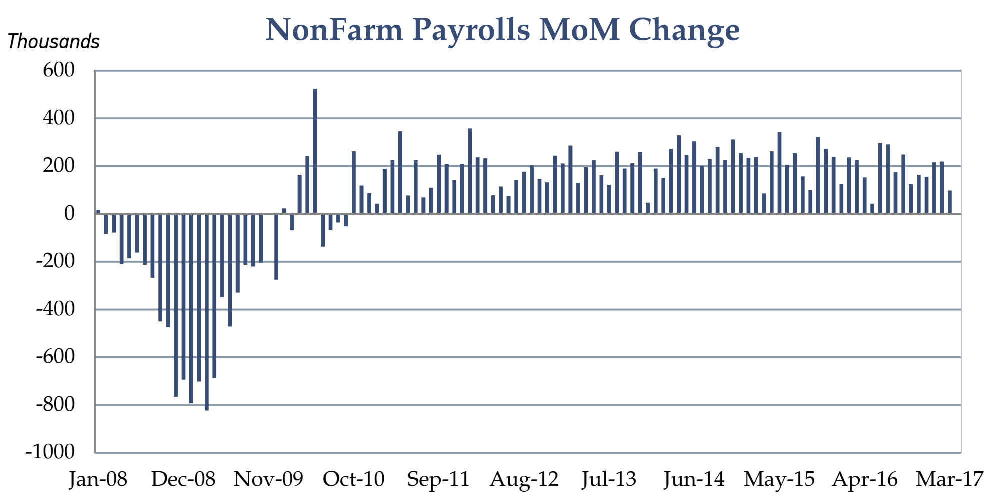
- Persistently large budget deficits.
- The Fed's successful launch and execution of rate hikes over the next year.
- Rising concerns over a possible uptick in inflation driven by improving economic conditions.
- Risk associated with emerging market debt, China and India economic slowdown, and pervasive geopolitical unrest.

We are positioning our portfolios more defensively by maintaining short to neutral maturity positions relative to benchmarks and focusing on higher coupon bonds. We believe the improving economy is expected to eventually put upward pressure on long term rates. We favor overweighting high quality corporate bonds relative to Treasury and Agency securities. Our high quality bias is expected to provide enhanced liquidity during this transition period. Municipal bonds have been attractively priced relative to taxable securities for the past several years – however, recently that relationship has become more normalized.

Yellen's Dashboard of Labor Market Indicators







Data as of 3/31/2017. Sources: Bureau of Labor Statistics, Department of Labor.

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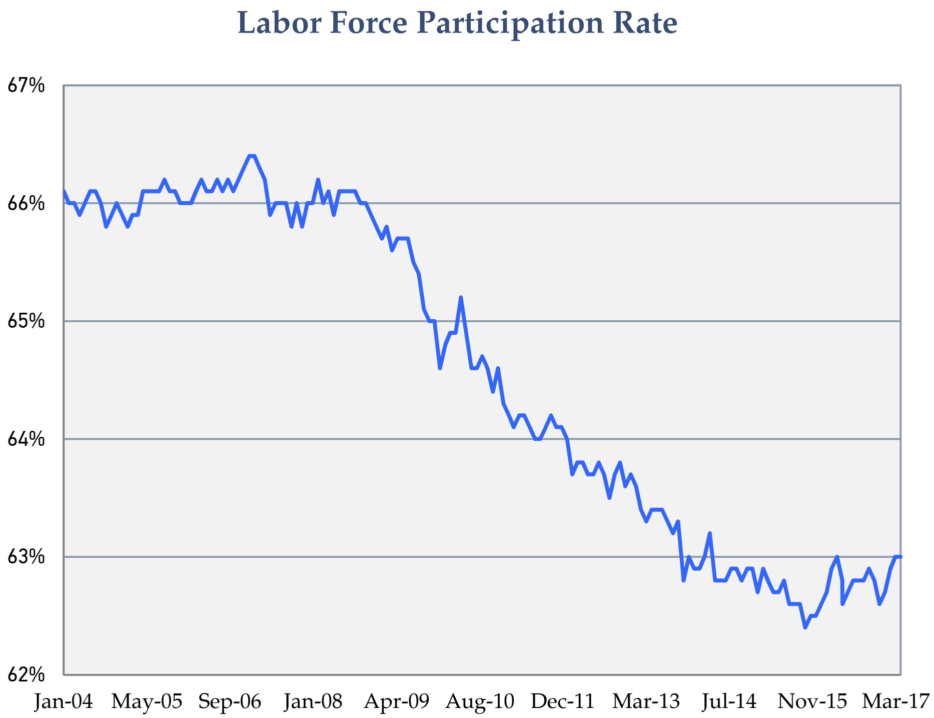
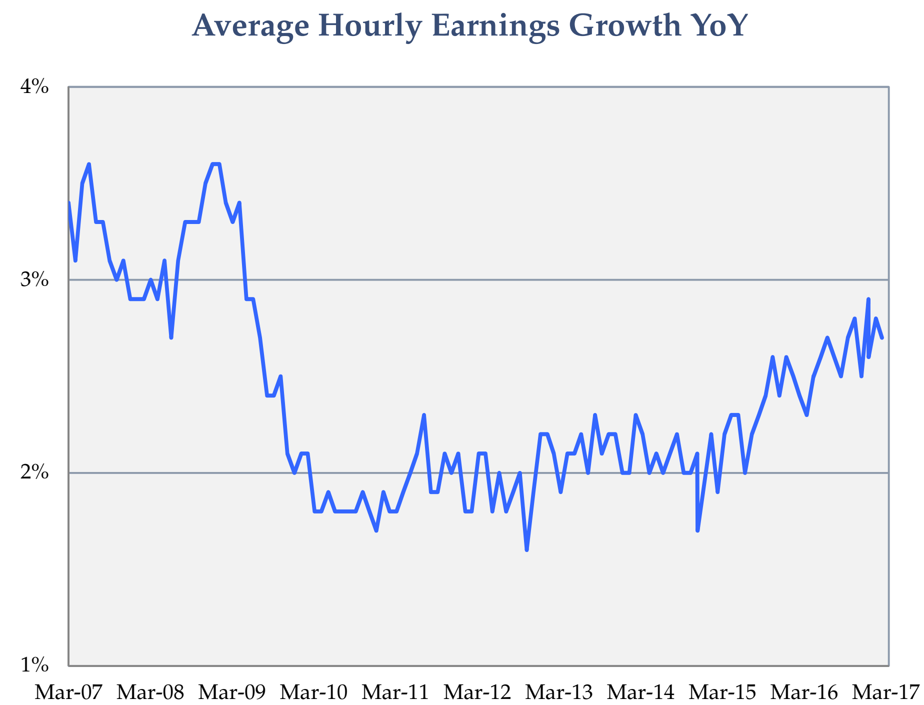
Yellen's Dashboard of Labor Market Indicators



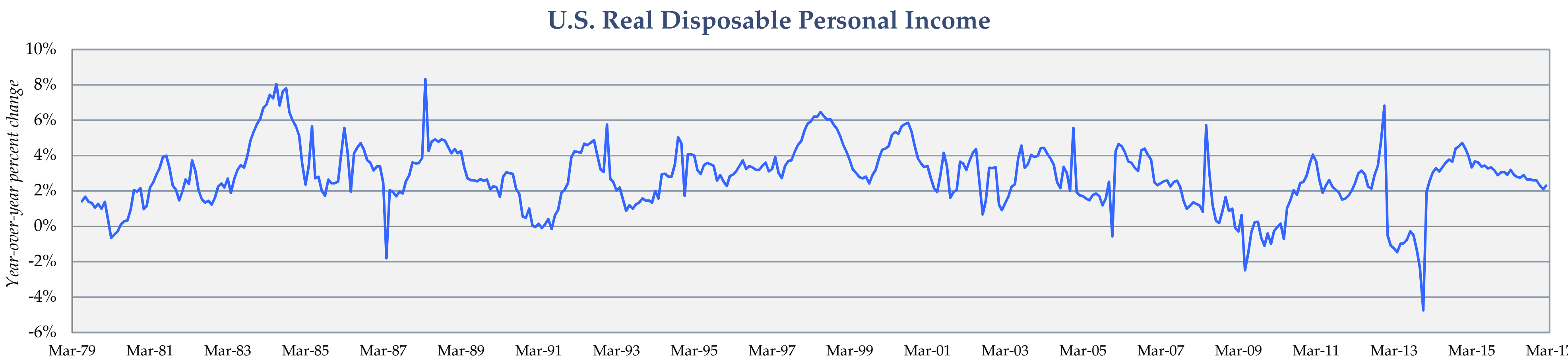


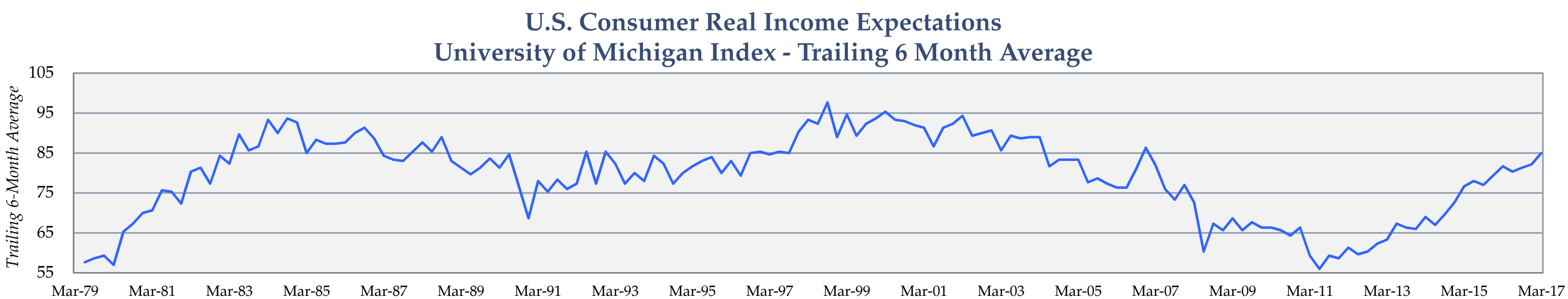
- As employment continues to improve the labor participation rate should continue to rise as more job seekers enter the market. Labor participation rose to 63% in March from 62.7% in January.

- Rising labor participation puts upward pressure on wages as year-over-year hourly earnings rose 2.8% in March from 2.5% in January.

Charts: Labor Force Participation Rate and Average Hourly Earnings Growth YoY data as of 03.31.2017. Source: Bureau of Labor Statistics.

U.S Consumer on Solid Footing

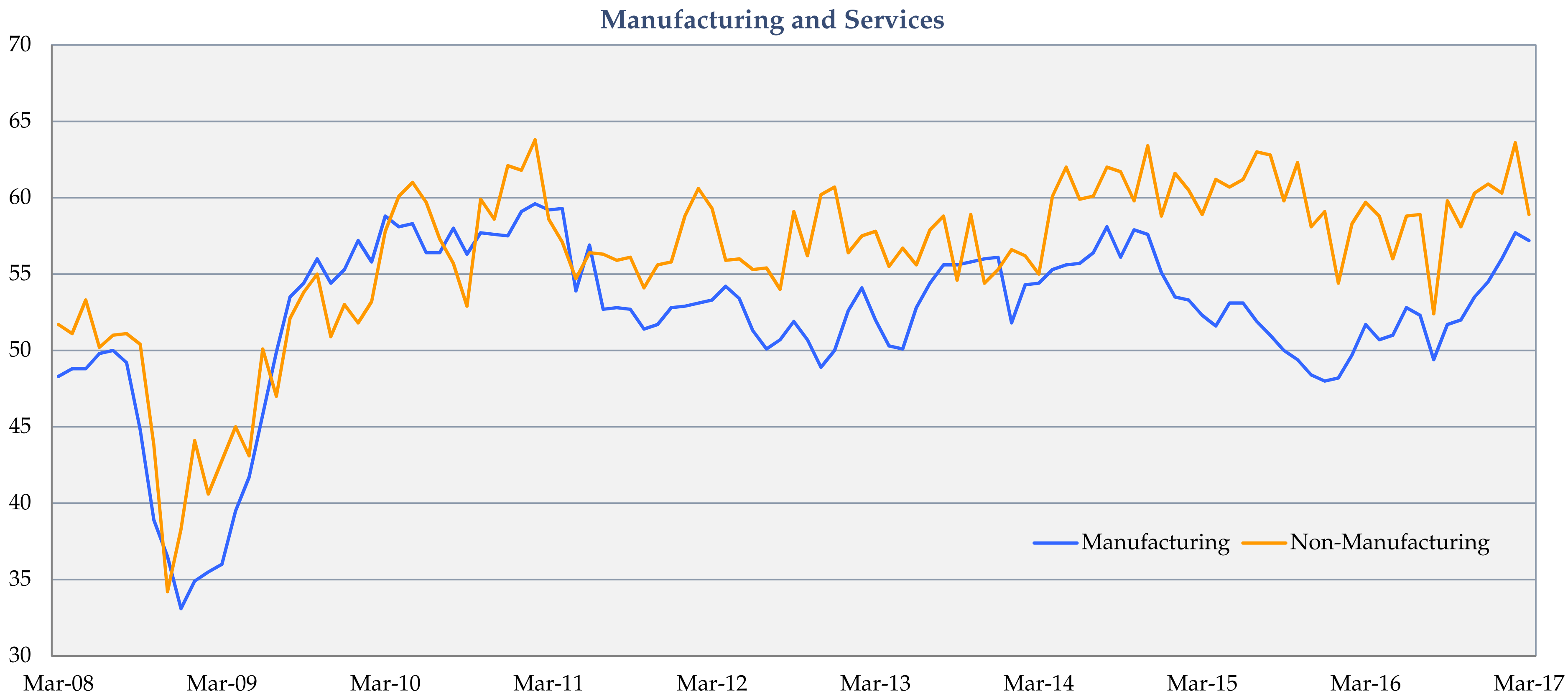




- Consumer confidence and manufacturing is on much firmer footing after struggling for several years.

Data as of 02.28.2017. Source: Bureau of Economic Analysis.

Manufacturing and Services Sectors



- Manufacturing is on much firmer footing after struggling while services remain strong.

Data as of 03.31.2017. Source: Institute for Supply Management.

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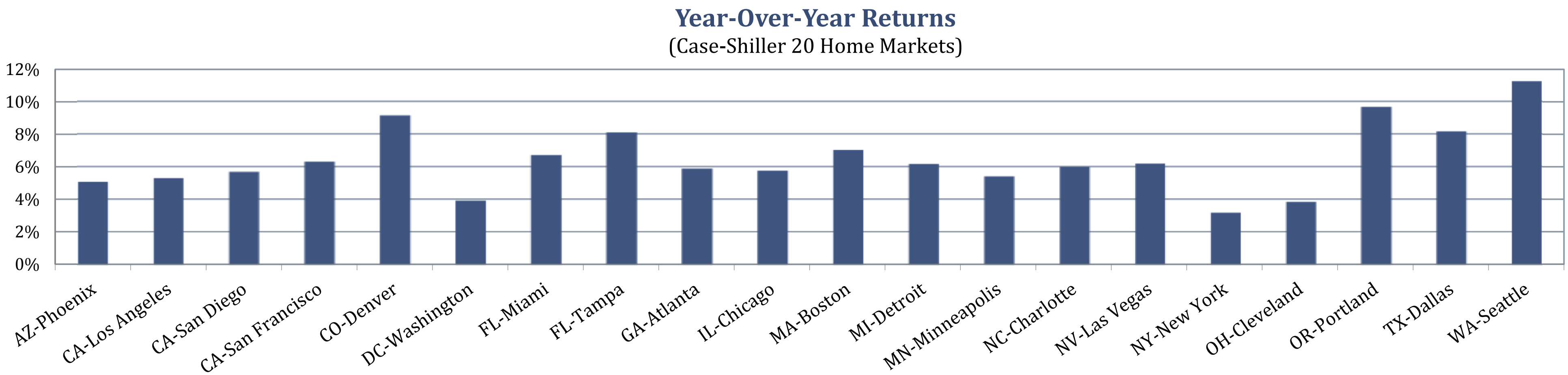
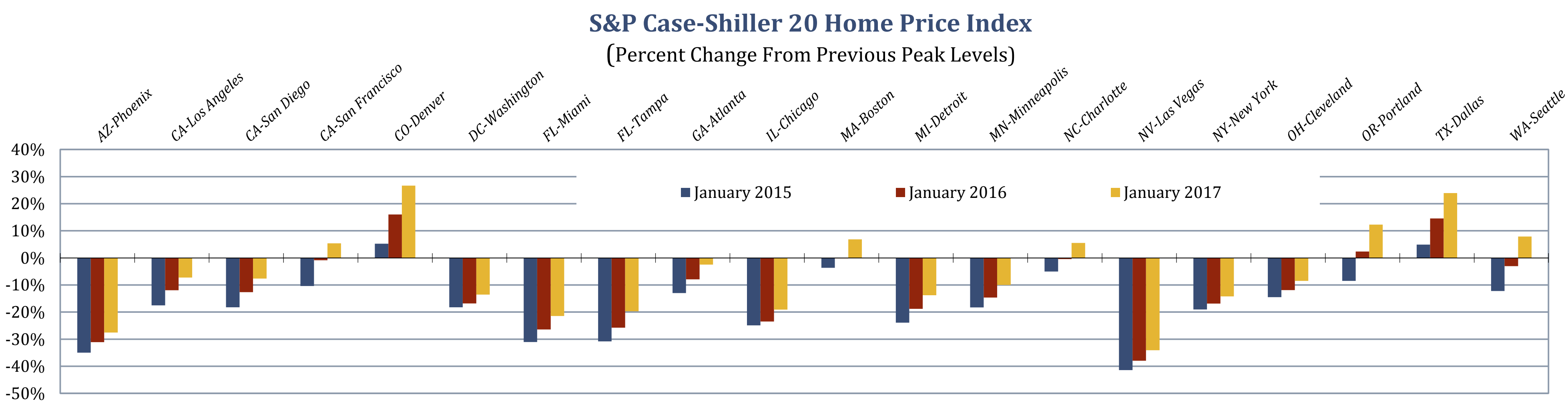
Housing by Metropolitan Area





- The most recent housing data shows continued improvement in home prices – however, most major markets remain below peak levels.

Data as of 01.31.2017. Source: Standard & Poor's.

Historical U.S. GDP

- U.S. economic growth has been positive for the past seven years; however the pace of growth has been below its long-term historic average.
- GDP expansion in 2016 generated full year growth of 1.6% - primarily due to a stronger second half of the year. We expect economic momentum to continue and pro - growth policies to be implemented. Our 2017 growth expectations are in the 2.25% - 2.75% range.

Data as of 12.31.2016. Forecast data from Sterling Capital Management . Source: Bureau of Economic Analysis, Sterling Capital Management.

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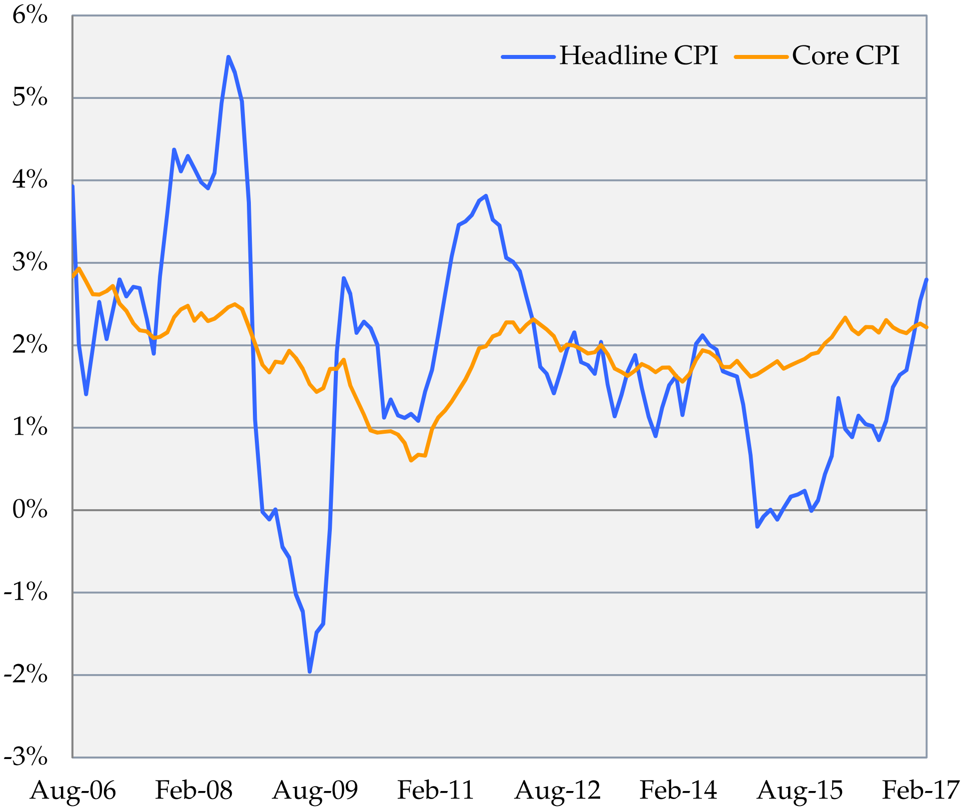
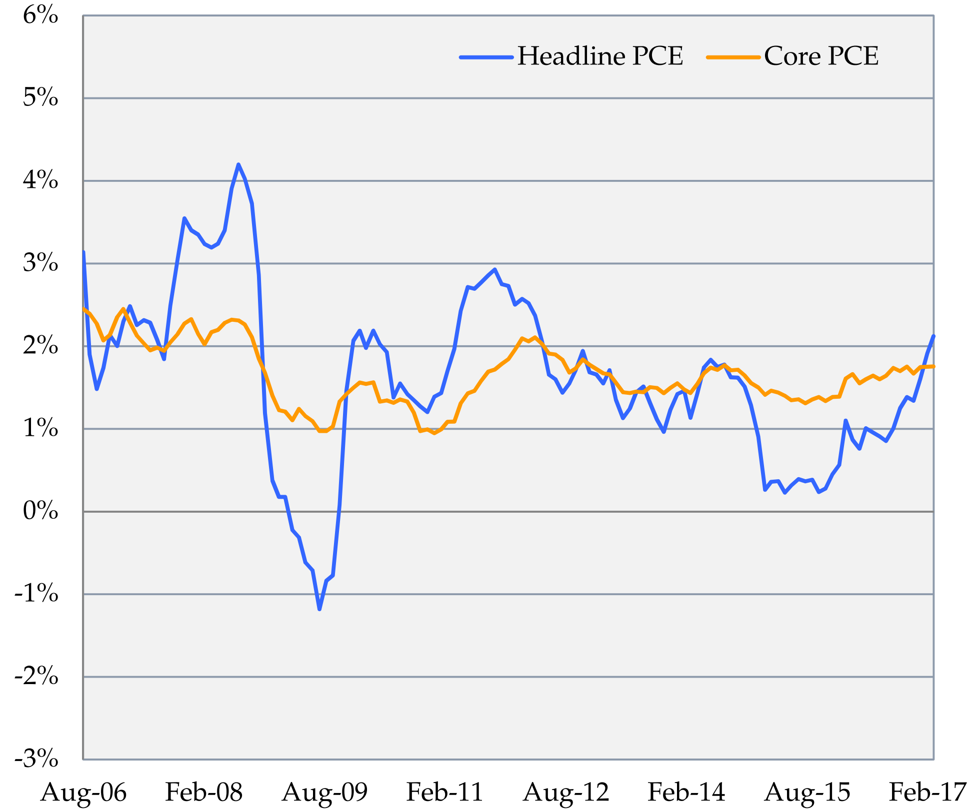
Inflation Outlook

Consumer Price Index



PCE Price Deflator



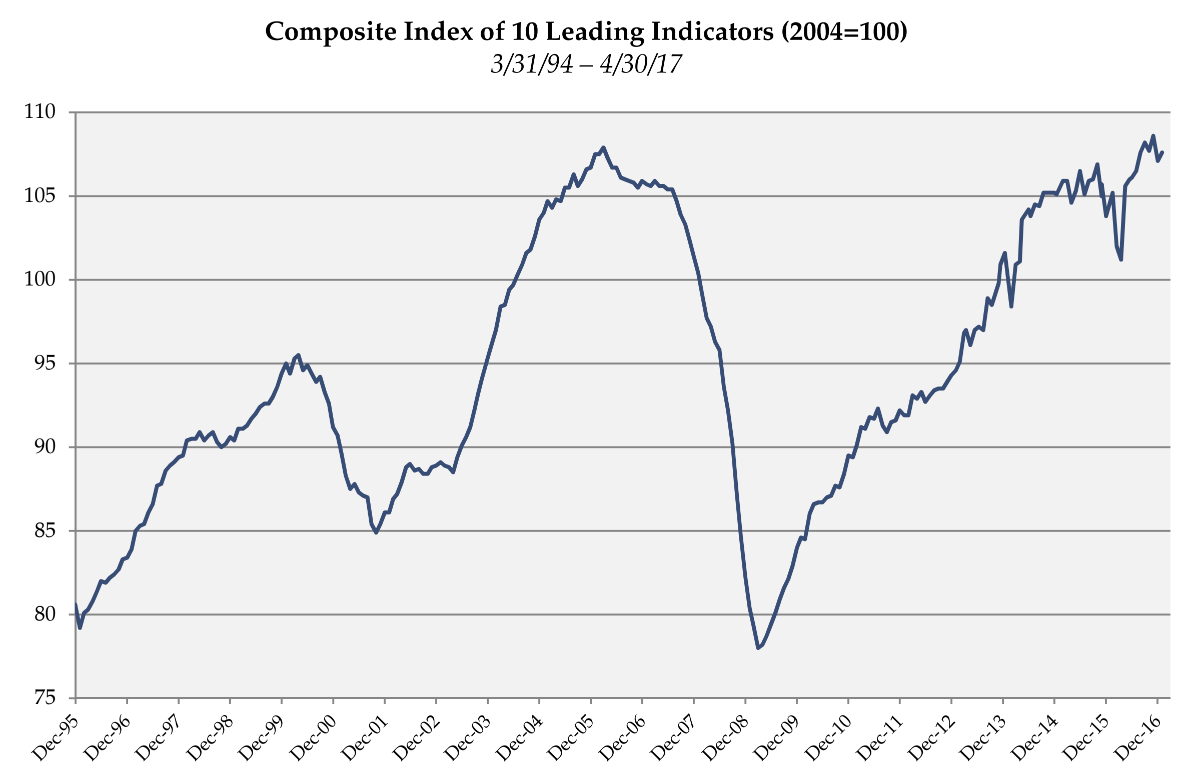
- Inflation measures are beginning to increase, though are not at levels that threaten to undermine U.S. growth. March CPI jumped to 2.51% versus 2.31% in January – however, price increases are being driven by the improving economy.

Data as of 02.28.2017. Sources: Bureau of Economic Analysis, The Federal Reserve.

Leading Economic Indicators

Indicators

- Week by Hours (Manufacturing)
- Jobless Claims
- Manufacturing New Orders for Consumers
- Manufacturing New Orders for Non-Defense
- Vendors Performance
- Building Permits
- S&P 500 Performance
- Money Supply (M2)
- Interest Rate Spread (10 yr Treasury vs. Fed Funds)
- Consumer Confidence



- The Leading Economic Indicators (LEI) Index is released monthly and is comprised of 10 indicators that have shown to forecast the future direction of the business cycle.
- The current LEI remains marginally below pre-recession highs – however, 7 of 10 indicators are in positive territory and the trend remains positive.

Source: U.S. Conference Board

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Economic Outlook

Strengths

- Signs of economic improvement continue – new "pro business" administration in Washington likely to support stronger growth through tax reforms and reduced regulation.
- Consumer confidence and manufacturing is strengthening.
- Strong corporate balance sheets continue as a positive.
- M&A activity, dividend increases, and share buy-backs positive.
- Personal incomes growing and employment picture improving.
- Positive trend in leading economic indicators.

Concerns

- Washington "quagmire" may derail new administration's policies and stall the execution of pro-business agenda.
- The Fed's pace and magnitude of interest rate increases adds monetary policy uncertainty.
- Potential "Brexit" contagion within the E.U and the Trump administration's potential protectionist trade policies will add uncertainty to the global economic environment.
- Global security concerns are rising with several terrorist incidences occurring this year.

Outlook

The combination of a modest improvement in housing, employment, and business spending should keep economic growth in positive territory over the next several quarters. However, the pace of growth is expected to be relatively subdued. Geopolitical concerns and uncertainty in Washington will overhang the economy but should not derail the recovery. Improving corporate earnings, rising consumer confidence, and an uptick in capital spending should support positive future growth. However, the threat of the administration's pro-business agenda being stalled adds uncertainty. There will be additional positive gains realized from continued M&A activity and share repurchases which should further help the recovery. For 2017, we believe economic growth will push higher to the 2.25%-2.75% range, up from the 1.7% rate of growth in 2016.

Sterling Capital Disclosure

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