



ASSET ALLOCATION UPDATE

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

EQUITY HIGHLIGHTS

- Global equity market volatility moderated in April, driven by relatively strong first quarter earnings and easing trade war fears. As a result, the Russell Global Index posted a 0.90% gain during the month. International developed markets outpaced the broad equity market during in April, while emerging markets underperformed and posted negative returns. Value outperformed growth, as value-centric sectors such as energy, utilities and materials generated positive results. Within the U.S., small-caps exhibited relative strength.
- Actively-managed equity strategies gave up some ground in April (especially in international markets), but have generally fared well during the first four months of 2018. Active managers in the U.S. mid-cap categories have been stand-outs year-to-date. Higher levels of year-to-date market volatility has generally been a tailwind for active managers.
- The relative performance of U.S. versus international equities has historically moved in long cycles. While U.S. equities have outperformed international equities by a substantial margin since the financial crisis, international equities have outperformed since January 2017 as compelling relative valuations, strong earnings growth, and improving economic data in key international markets have attracted investor interest. As a result, the rolling three-year relative return gap has narrowed.

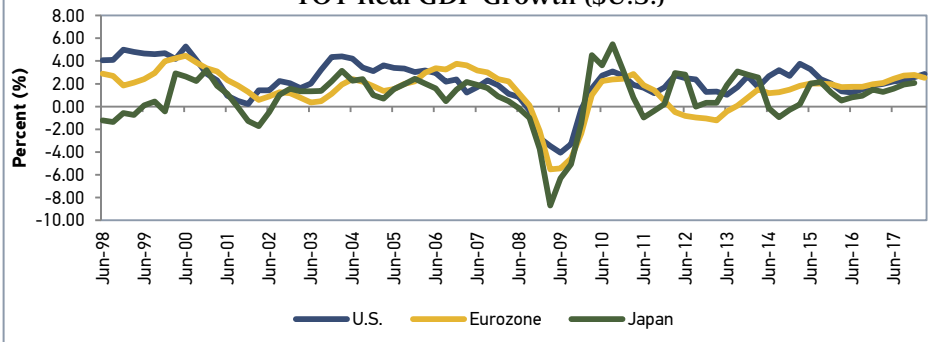
FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely negative during the month of April. The only asset class within our opportunity set that produced a positive return was high yield, returning 0.65%. This was a reversal from last month, in March, where fixed income markets were predominantly positive and high yield was the only asset class within the opportunity set that produced a negative return. With breakevens moving higher, TIPS outperformed nominal Treasuries in April. Emerging market debt and investment grade credit were the two bottom performers, down 1.02% and 0.91%, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -0.74% during the month.
- Over the month, select foreign developed 10-year government bond yields moved higher, with rates in Germany, Italy, France and U.K. increasing. Domestic rates, as represented by the yield of the 10-year Treasury, also moved higher by 19 bps from 2.74% to 2.95%.
- Shorted-dated Municipal/Treasury yield ratios moved higher in April, while longer-dated ratios moved lower. Ratios remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	0.00%	Barclays US Aggregate	-2.19%	60% LgShort-40% MktNeutral	-0.49%	6-month	2.04%	Prime Rate	4.75%
Russell 3000	-0.27%	Barclays Gbl Treas xUS Hdg	1.09%	DJ Equity All REIT	-6.18%	1-year	2.24%	LIBOR (3 Mo)	2.36%
S&P 500	-0.38%	Barclays US TIPS	-0.85%	Bloomberg Commodity	2.17%	3-year	2.62%	Oil Price (\$/barrel)	\$68.57
MSCI EAFE	0.72%	Barclays US High Yield	-0.21%			5-year	2.79%	Gold (\$/t oz)	\$1,319.20
MSCI EM	0.97%	Barclays EM Aggregate	-2.48%			10-year	2.95%		
						30-year	3.11%		

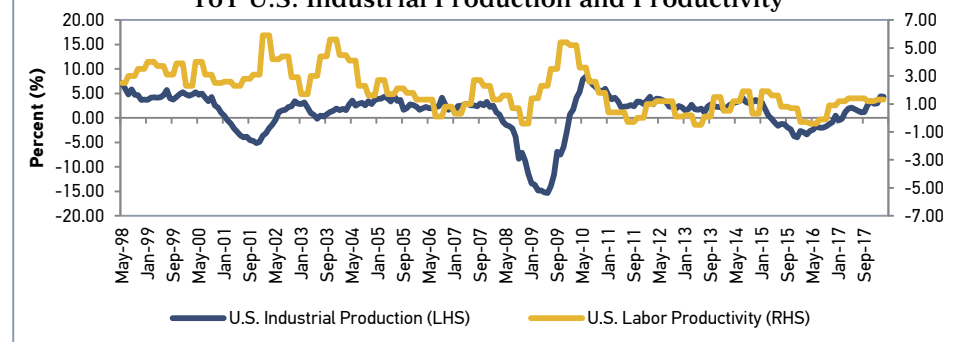


YOY Real GDP Growth (\$U.S.)



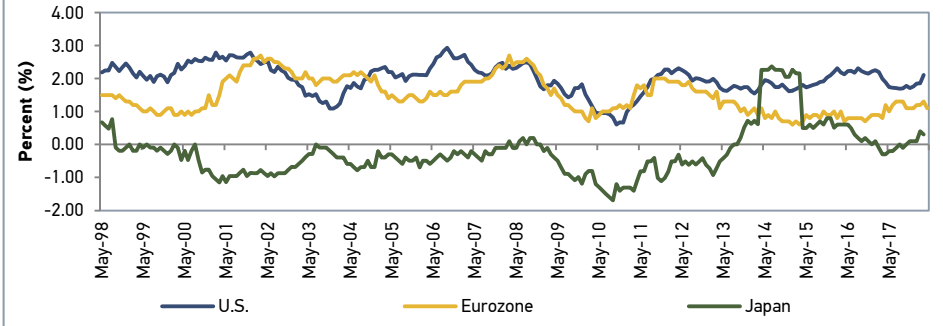
Data as of 12.29.2017 for Japan, 03.30.2018 for the U.S. and the Eurozone; Source: FactSet

YoY U.S. Industrial Production and Productivity



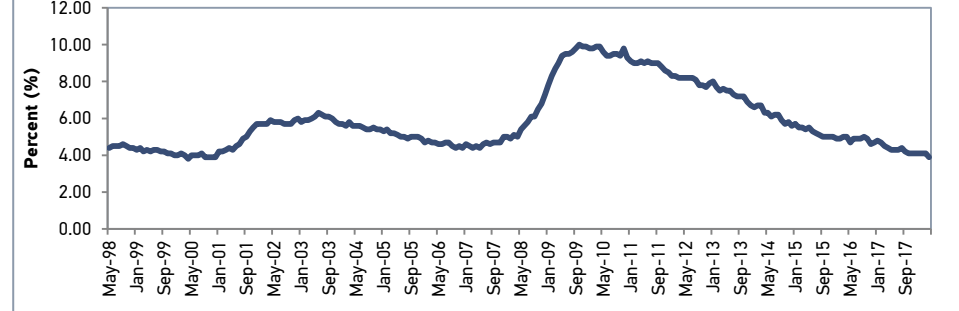
Data as of 03.30.2018; Source: FactSet

Core Consumer Price Index (YoY Growth)



Data as of 03.30.2018 for the U.S. and Japan and 04.30.2018 for the Eurozone; 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 04.30.2018; Source: FactSet

- YOY Global GDP has reached solid growth levels across economies. Eurozone GDP growth has moderated relative to the U.S. recently.
- Year-over-year U.S. productivity growth of 1.3% as of the end of the first 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. but has recently moderated in Europe. Japan inflation has moved above zero, a positive development.
- Current U.S. Unemployment of 3.9% is near a 40-year low and is likely to keep the Fed on a gradual tightening path.

Note: Please see Appendix for important definitions.



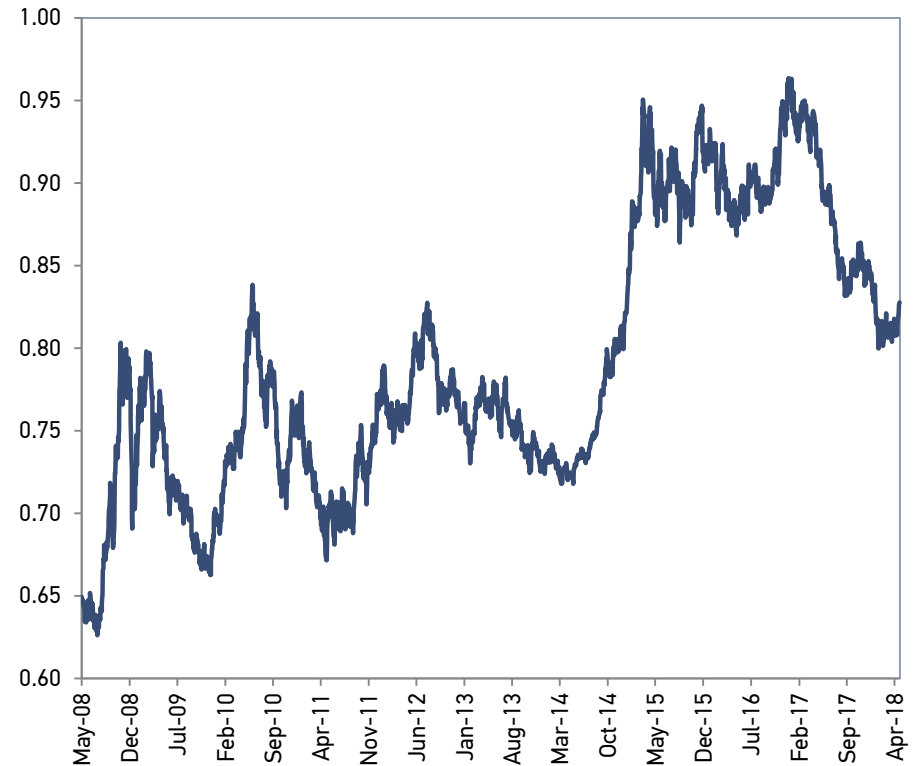
Leading	Initial Jobless Claims	<ul style="list-style-type: none">In the week ending April 27, the four-week moving average of Initial Jobless Claims was 221,500, a decrease of 7,750 from the previous week's revised average of 229,250.
	Manufacturing	<ul style="list-style-type: none">ISM Manufacturing registered 57.3% in April, 2.0 percentage points below the March reading. A reading below 50.0% indicates contraction.ISM Manufacturing New Orders registered 61.2% in April, 0.7 percentage points below the March reading.ISM Non-Manufacturing registered 56.8% in April, 2.0 percentage points below the March reading.
	Housing/Construction	<ul style="list-style-type: none">Building permits increased 4.4% in March and have increased 9.4% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none">The Consumer Confidence Index increased in April to 128.7 compared to 127.0 in March
	Nonfarm Payrolls	<ul style="list-style-type: none">Total nonfarm payroll employment gained 164,000 in April while the unemployment rate dropped for the first time in 6 months to 3.9%.
	Industrial Production	<ul style="list-style-type: none">Industrial Production rose 0.5% in March and is up 4.3% over the past year.
	Personal Income	<ul style="list-style-type: none">Real Disposable Personal Income increased 0.2% in March and is up 1.7% 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 March and is up 1.4% 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) fell -0.1% in March and is up 2.4% over the trailing one year period.CPI (Core) rose 0.2% in March and is up 2.1% over the trailing one year period.



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



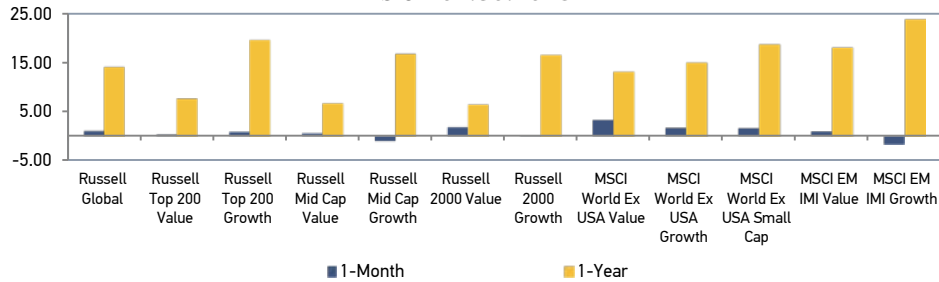
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 1.6% through April, and the index is down -0.9% year-to-date. The dollar appreciated 1.8% versus the euro in April.



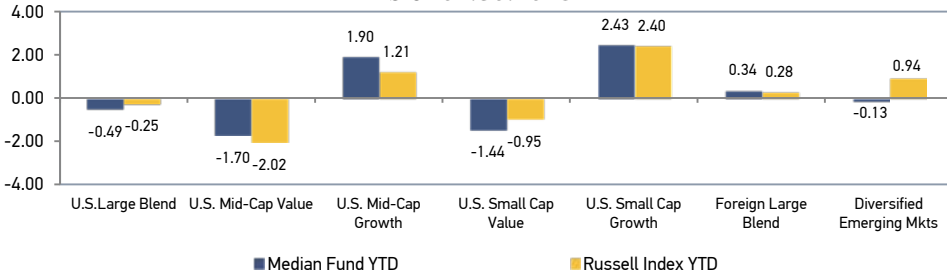
Equity Market Performance
As of 04.30.2018



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Source: Morningstar, Russell Investments

Active vs. Passive
As of 04.30.2018

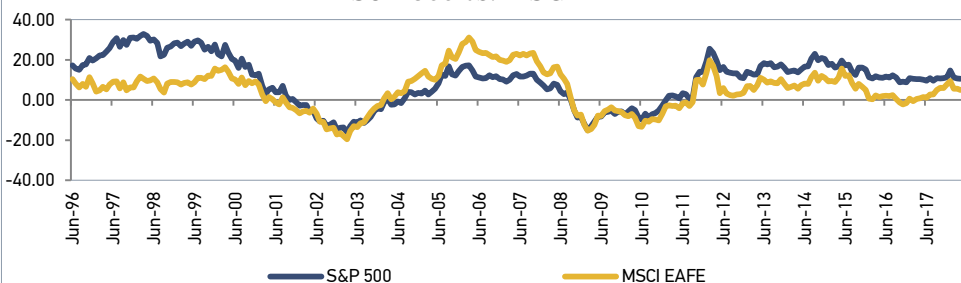


- Actively-managed equity strategies gave up some ground in April (especially in international markets), but have generally fared well during the first four months of 2018. Active managers in the U.S. mid-cap categories have been stand-outs year-to-date. Higher levels of year-to-date market volatility has generally 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

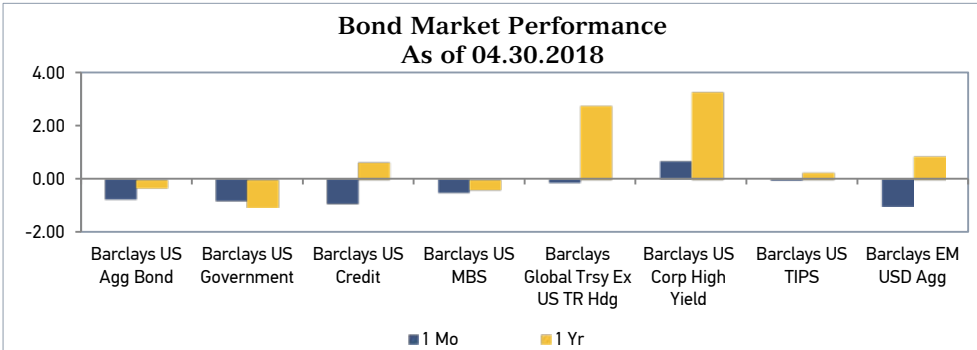


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Data as of 04.30.2018; Source: Morningstar



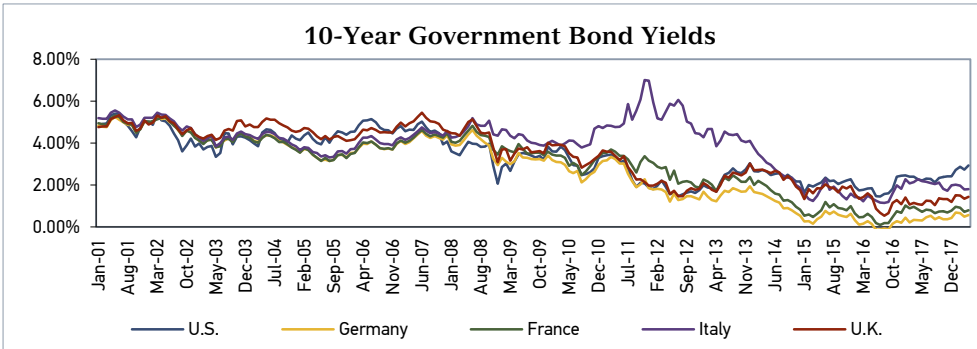
Bond Market Performance
As of 04.30.2018



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Source: Morningstar, Barclays

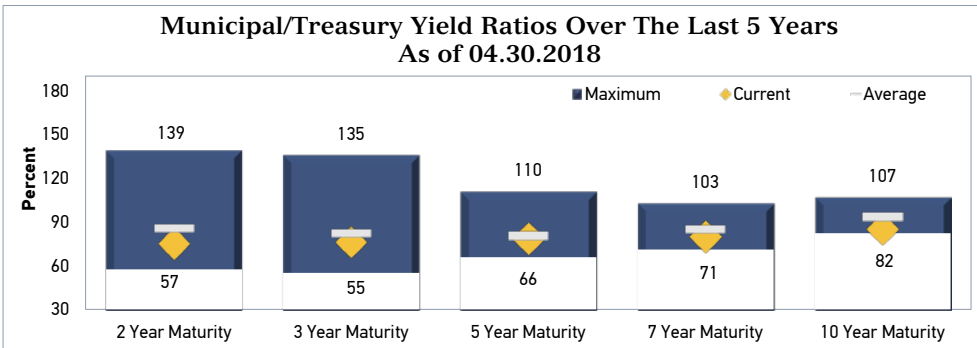
10-Year Government Bond Yields



- Over the month, select foreign developed 10-year government bond yields moved higher, with rates in Germany, Italy, France and U.K. increasing. Domestic rates, as represented by the yield of the 10-year Treasury, also moved higher by 19 bps from 2.74% to 2.95%.

Data as of 04.30.2018; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 04.30.2018

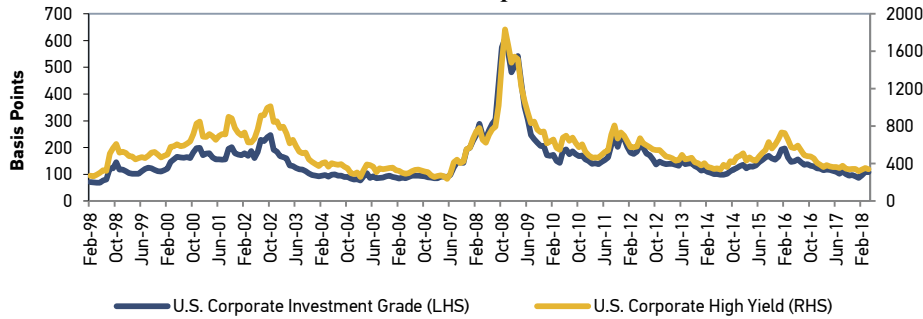


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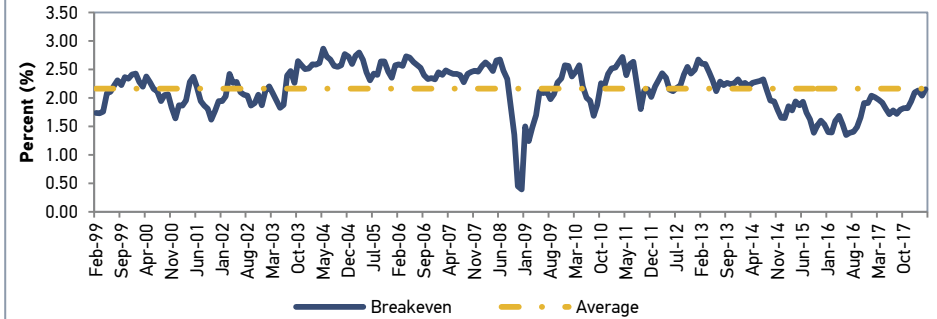
Source: Thompson Reuters; Sterling Capital Management Analytics.



20-Year U.S. Corporate OAS



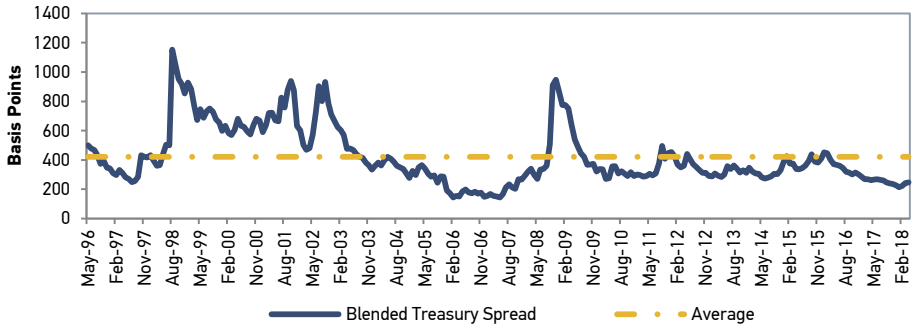
10-Year TIPS Breakeven



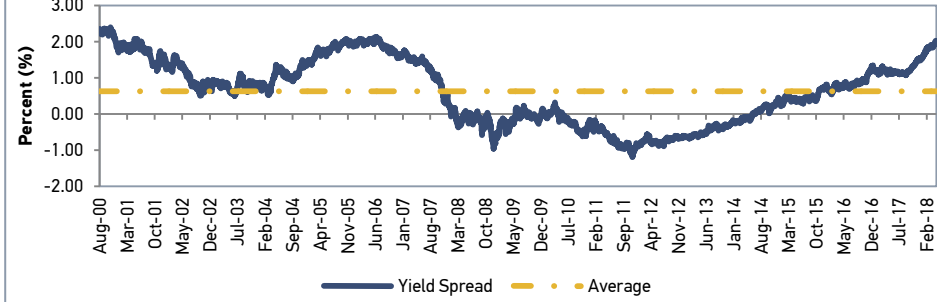
Data as of 04.30.2018; Source: FactSet

Data as of 04.30.2018; Source: Federal Reserve Board of Governors

EM Debt OAS



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

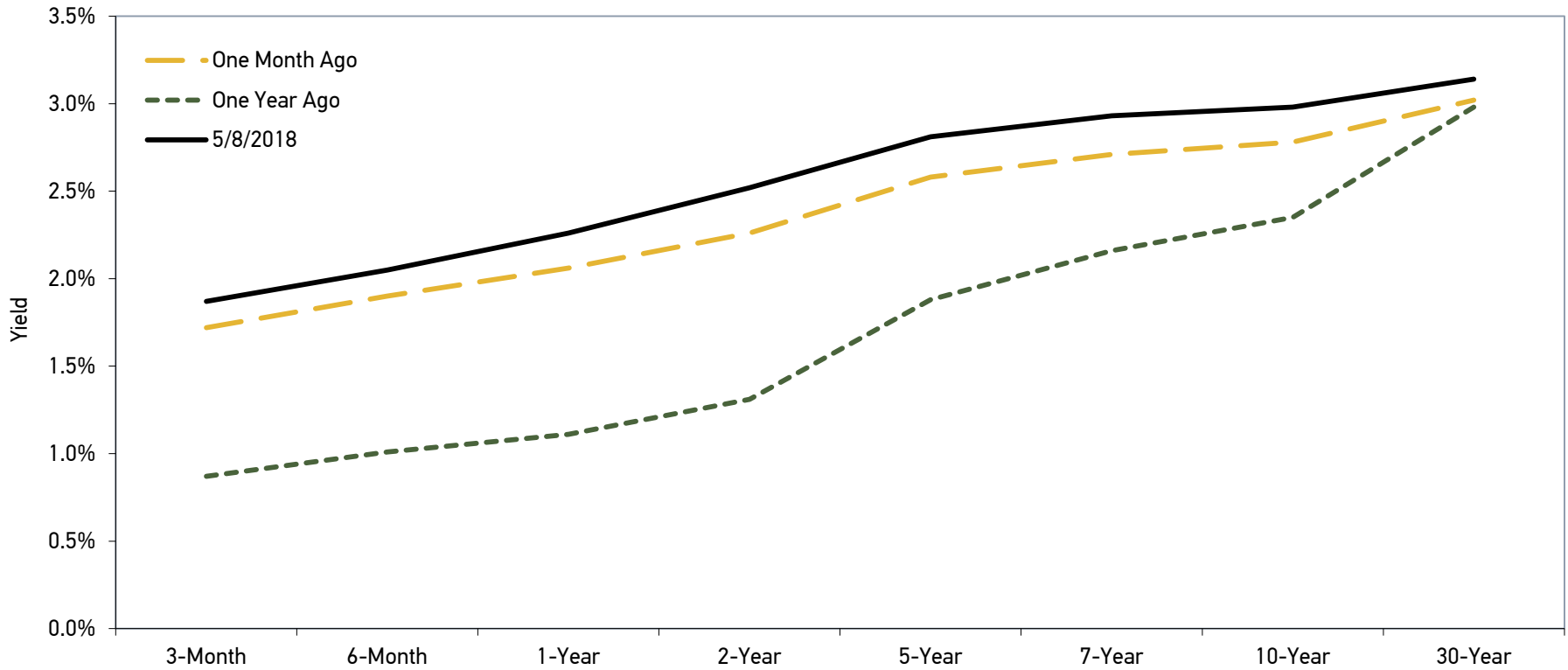


Data as of 04.30.2018; Source: Barclays

Data as of 04.30.2018; Source: Barclays

- Investment grade corporate credit spreads were little changed in April while high yield spreads moved lower. Credit spreads remain below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates moved higher in April and are very close to long run averages.
- Emerging market spreads moved higher for the third consecutive month in April but remain well below historical averages. The yield spread of U.S. to Global Treasuries continued higher and is above the historical average.

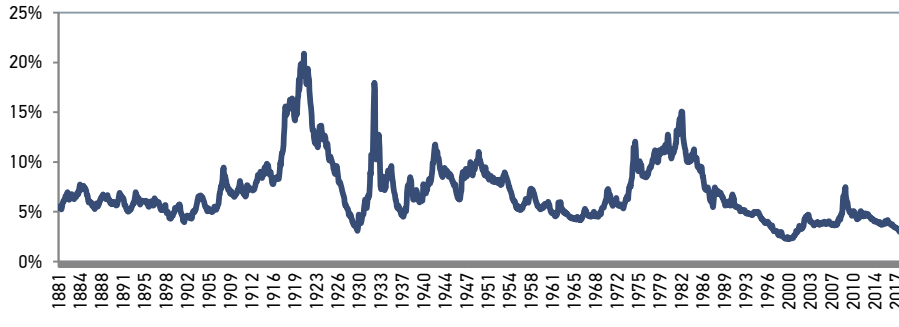
Note: Please see Appendix for important definitions.



- Month-over-month, the yield curve shifted up as rates moved higher. Two-year and five-year rates had the largest increase, moving higher by 26 bps and 23 bps, respectively.

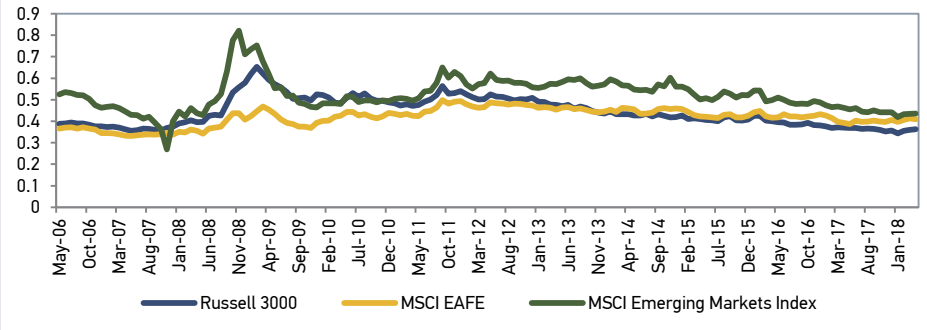


U.S. Cyclically Adjusted Earnings Yield



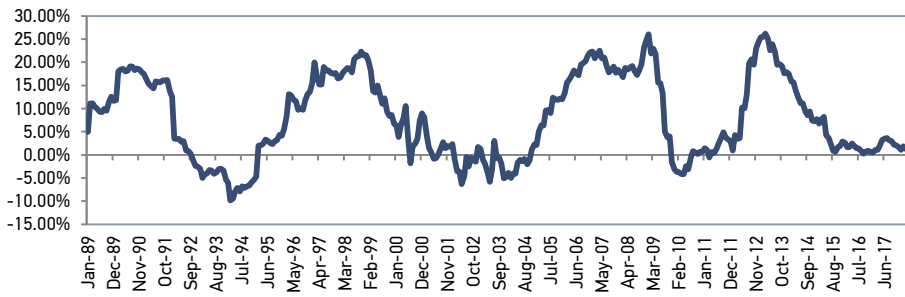
Data as of 04.30.2018; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



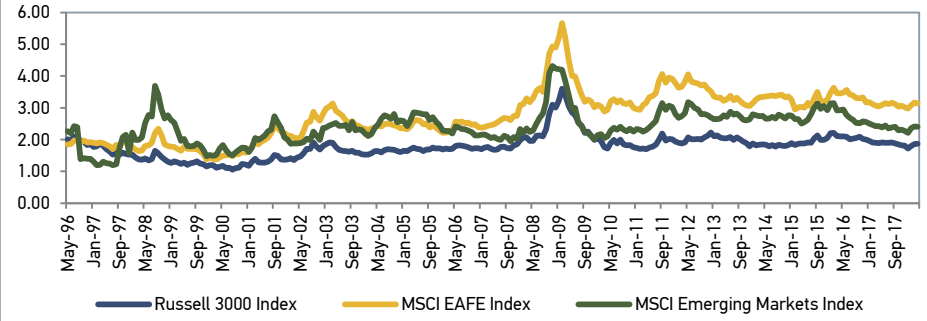
Data as of 04.30.2018; Source: Russell, MSCI

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



Data as of 04.30.2018; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 04.30.2018; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield remains 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. Emerging Market dividend yields have declined relative to Developed Markets.

Note: Please see Appendix for important definitions.



Net of Benchmark Allocations (Standard Models & U.S. Focused Models) – May 2018

	Fixed Income	Income	Income Primary	Income & Growth	Balanced	Growth	Aggressive Growth
U.S. Equity							
Large Cap Value	0.00%	0.70%	1.12%	1.40%	1.68%	1.99%	2.50%
Large Cap Growth	0.00%	0.20%	0.33%	0.41%	0.49%	0.49%	0.50%
Mid Cap Value	0.00%	-0.35%	-0.56%	-0.70%	-0.84%	-1.09%	-1.50%
Mid Cap Growth	0.00%	0.15%	0.24%	0.30%	0.36%	0.42%	0.50%
Small Cap Value	0.00%	0.26%	0.42%	0.52%	0.63%	0.77%	1.00%
Small Cap Growth	0.00%	-0.25%	-0.39%	-0.49%	-0.59%	-0.74%	-1.00%
Non-U.S. Equity							
International Developed Value	0.00%	0.32%	0.51%	0.64%	0.77%	0.86%	1.00%
International Developed Growth	0.00%	-0.31%	-0.50%	-0.63%	-0.75%	-1.03%	-1.50%
International Developed Small Cap	0.00%	0.27%	0.43%	0.54%	0.65%	0.78%	1.00%
Emerging Markets Value	0.00%	-0.29%	-0.47%	-0.58%	-0.70%	-0.91%	-1.25%
Emerging Markets Growth	0.00%	-0.29%	-0.47%	-0.58%	-0.70%	-0.91%	-1.25%
Total Equity	0.00%	0.42%	0.67%	0.83%	1.00%	0.62%	0.00%
U.S. Aggregate Fixed Income	0.00%	-0.42%	-0.67%	-0.83%	-1.00%	-0.62%	0.00%
International Fixed Income (Hedged)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. High Yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. TIPS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Emerging Markets Debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Fixed Income	0.00%	-0.42%	-0.67%	-0.83%	-1.00%	-0.62%	0.00%
Total	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

As of 04.09.2018. Benchmark weights reflect market values as of the market close on 04.06.2018 and will change through time due to differences in index returns and other factors. Net benchmark exposure for Standard Models and U.S. Focused Models is the same.

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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