

ASSET ALLOCATION UPDATE

- We recommend an overweight to Global Equities versus Fixed Income across models.
- Within the equity allocation, we recommend a mild overweight to U.S. Equities and corresponding underweight to International Developed Equities. We also recommend an overweight to Small Cap versus Mid and Large Cap Equities.
- Within the fixed income allocation, we recommend an overweight to U.S. High Yield.

EQUITY HIGHLIGHTS

- Global equities rebounded sharply in January after suffering heavy declines in the final month of 2018. The MSCI ACWI IMI increased 8.14% during the month, with U.S. and emerging markets slightly outperforming international developed markets. Dovish comments from Fed Chairman Powell and growing optimism of a U.S.-China trade deal served as a catalyst for positive equity returns. Small-caps outperformed large-caps during the month, and growth outperformed value.
- After a challenging 2018, the environment for actively-managed equity strategies improved in January, with U.S. large-cap and emerging markets managers producing particularly strong relative results.
- 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 continued improvement in value relative performance.

FIXED INCOME HIGHLIGHTS

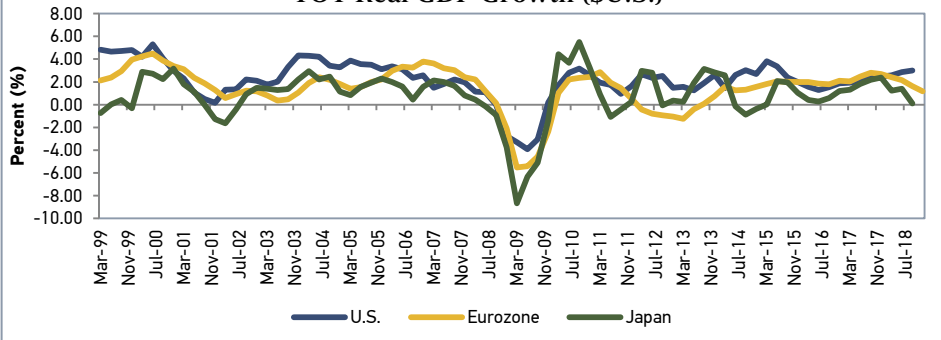
- Bond markets were largely positive in January as both government securities as well as credit sectors produced positive returns. On the government side, with inflation expectations rebounding, inflation-linked bonds (TIPS) outperformed nominal Treasuries. Further, Global Treasuries ex U.S. outpaced domestic government securities. From a credit perspective, lower quality securities sharply rebounded with high yield producing the best monthly return within the opportunity set. Emerging market debt was also a strong performer. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 1.06% for the first month of 2019.
- Over the month, 10-year government bond yields in select foreign markets moved lower, led by Italian and French yields, which declined by 16 bps and 15 bps, respectively. Domestic rates, as represented by the yield of the 10-year Treasury, declined by 6 bps from 2.69% to 2.63%.
- In a reversal from last month, Municipal/Treasury yield ratios moved lower across the curve in January, with ratios remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
MSCI ACWI IMI	8.14%	Barclays US Aggregate	1.06%	60% LgShort-40% MktNeutral	2.27%	6-month	2.46%	Prime Rate	5.50%
Russell 3000	8.58%	Barclays Gbl Treas xUS Hdg	0.97%	DJ Equity All REIT	11.60%	1-year	2.55%	LIBOR (3 Mo)	2.74%
S&P 500	8.01%	Barclays US TIPS	1.35%	Bloomberg Commodity	5.45%	3-year	2.43%	Oil Price (\$/barrel)	\$53.79
MSCI EAFE	6.57%	Barclays US High Yield	4.52%			5-year	2.43%	Gold (\$/t oz)	\$1,325.20
MSCI EM	8.77%	Barclays EM Aggregate	3.19%			10-year	2.63%		
						30-year	2.99%		

Data as of 01.31.2019; Source: Morningstar, FactSet, Russell Investments, Barclays, U.S. Department of Treasury



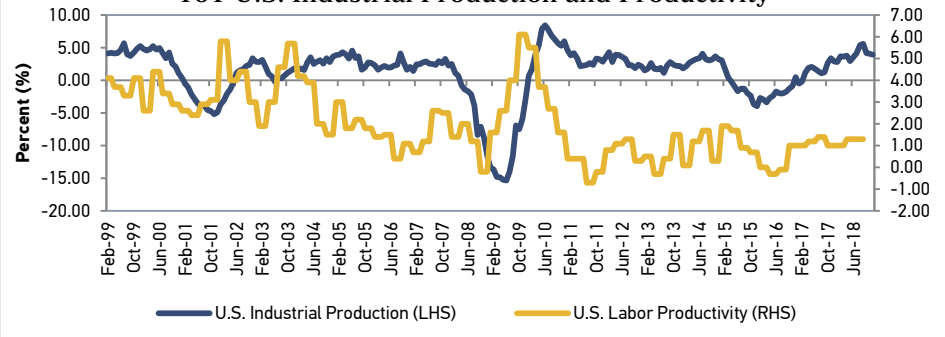
YOY Real GDP Growth (\$U.S.)



— U.S. — Eurozone — Japan

Eurozone data as of 12.31.2018. U.S. and Japan data as of 09.30.2018; Source: FactSet

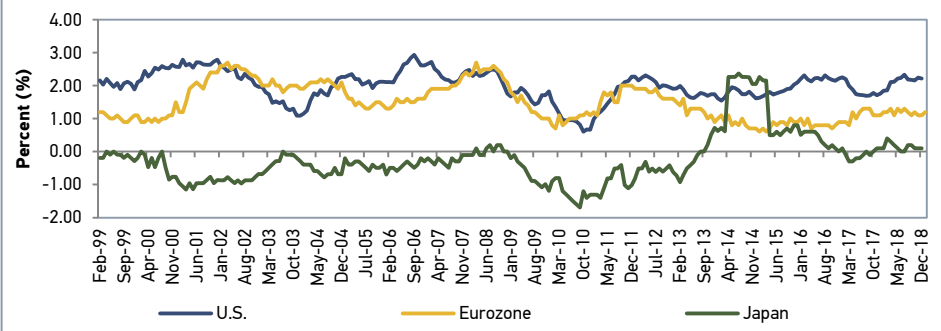
YoY U.S. Industrial Production and Productivity



— U.S. Industrial Production (LHS) — U.S. Labor Productivity (RHS)

Labor Productivity as of 09.30.2018, Industrial Production as of 12.31.2018; Source: FactSet

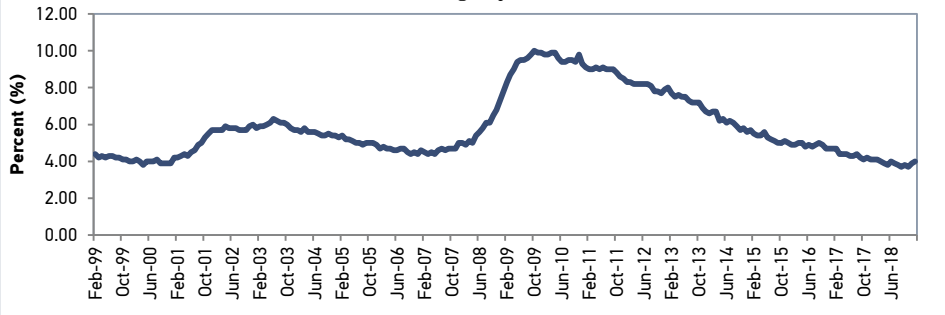
Core Consumer Price Index (YoY Growth)



— U.S. — Eurozone — Japan

Eurozone data as of 01.31.2019. U.S. and Japan data as of 12.31.2018; 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 01.31.2019; 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 has moderated in recent months but remains strong.
- For the second half of 2018, U.S. inflation leveled out a little above 2% while European inflation stabilized slightly above 1%. Japan inflation is positive but very low.
- The unemployment rate ticked up to 4.0% in January but U.S. employment growth remains steady.

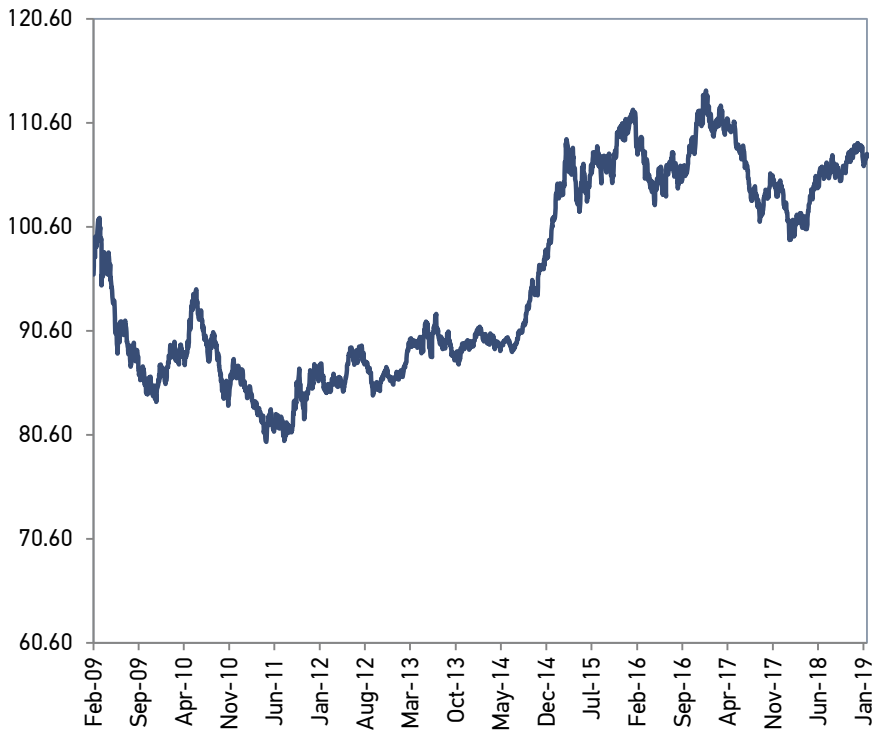
Note: Please see Appendix for important definitions.



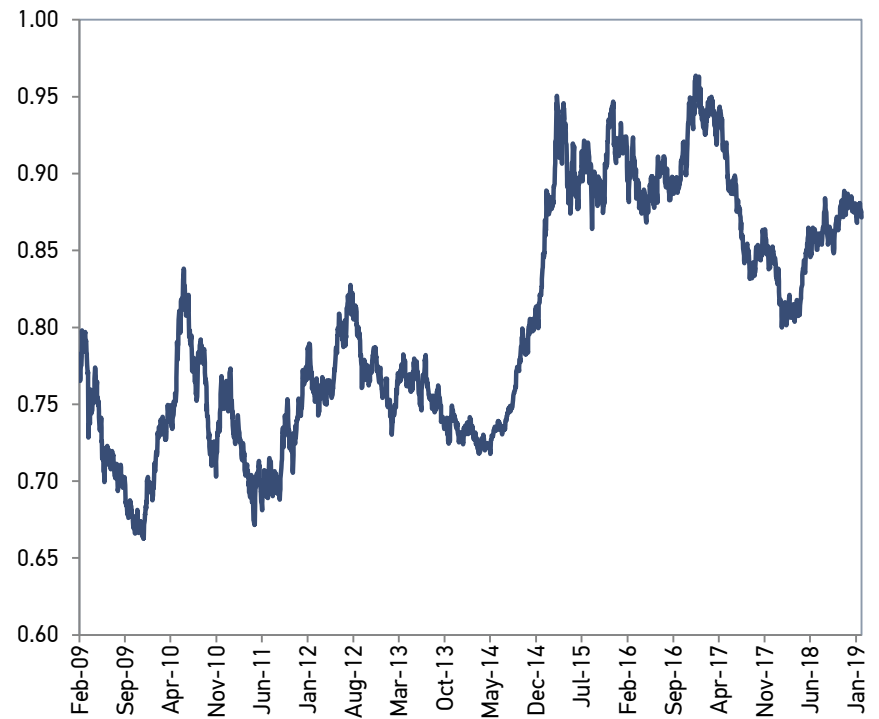
Leading	Initial Jobless Claims	<ul style="list-style-type: none"> In the week ending February 1st, the four-week moving average of Initial Jobless Claims was 224,750 an increase of 4,500 from the previous week's revised average of 220,250
	Manufacturing	<ul style="list-style-type: none"> ISM Manufacturing registered 56.6% in January a 2.3 percentage point increase over the previous reading. A reading below 50.0% indicates contraction. ISM Manufacturing New Orders registered 58.2% in January a 6.9 percentage point increase over the previous reading. ISM Non-Manufacturing registered 56.7% in January a 1.3 percentage point decrease over the previous reading.
	Housing/Construction	<ul style="list-style-type: none"> Building permits fell 0.38% in December and have risen 0.23% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none"> The Consumer Confidence Index fell in January to 120.2 compared to 126.6 in December
	Nonfarm Payrolls	<ul style="list-style-type: none"> Total nonfarm payroll employment gained 304,000 in January while the unemployment rate rose to 4.0%.
	Industrial Production	<ul style="list-style-type: none"> Industrial Production rose 0.35% in January and is up 3.95% over the past year.
	Personal Income	<ul style="list-style-type: none"> Real Disposable Personal Income increased 0.18% in November and is up 2.84% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"> This ratio rose 0.13% in December and is up 0.31% 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) remained unchanged in December and is up 1.9% over the trailing one year period. CPI (Core) rose 0.2% in December and is up 2.2% over the trailing one year period.



Nominal Trade-Weighted U.S. Dollar Major Currencies



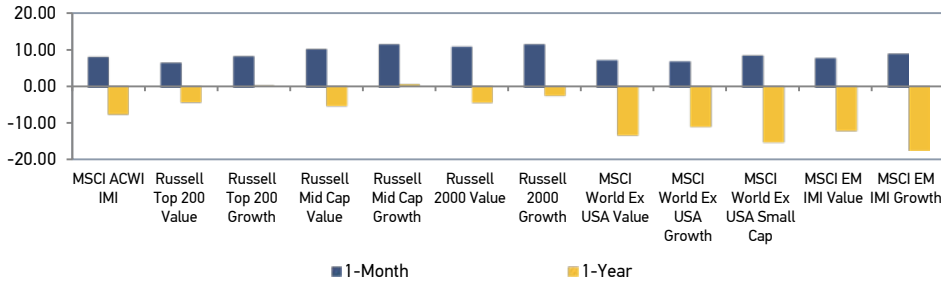
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell 1.5% through January and the index is down 1.5% year-to-date. The dollar fell 0.4% versus the Euro in January.



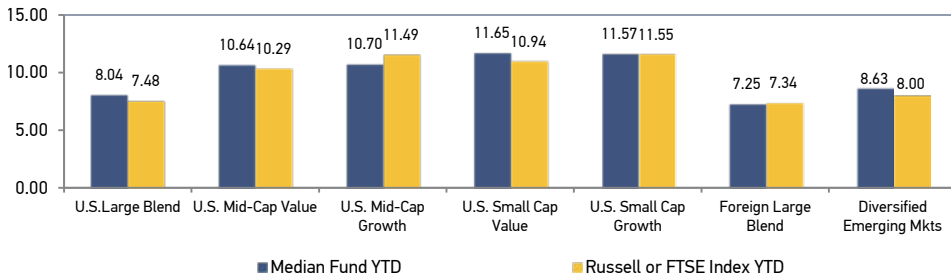
Equity Market Performance
As of 01.31.2019



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Source: Morningstar, Russell Investments

Active vs. Passive
As of 01.31.2019

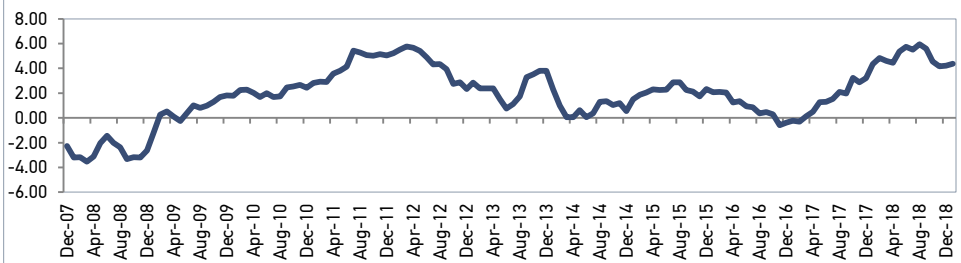


- After a challenging 2018, the environment for actively-managed equity strategies improved in January, with U.S. large-cap and emerging markets managers producing particularly strong relative results.

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

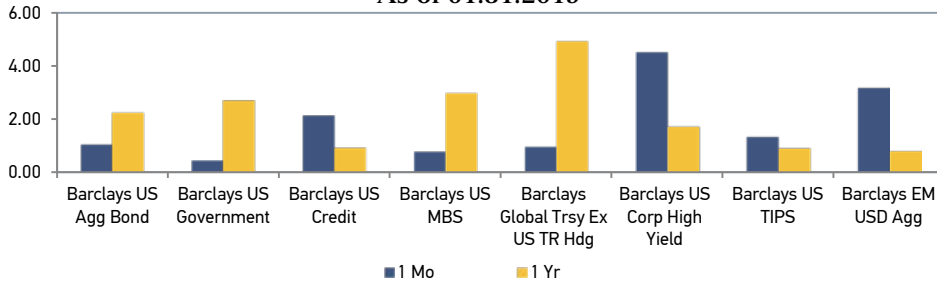


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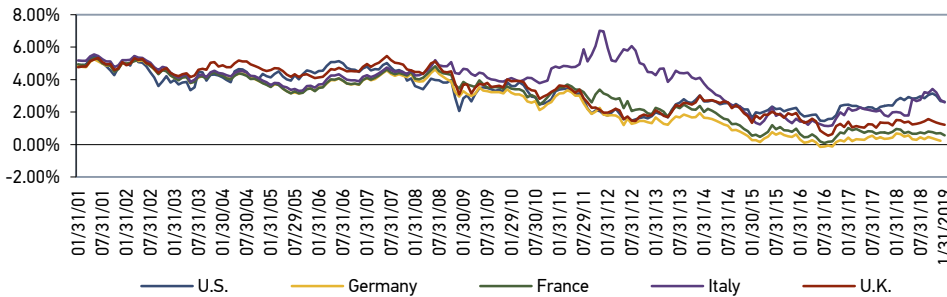


Bond Market Performance
As of 01.31.2019



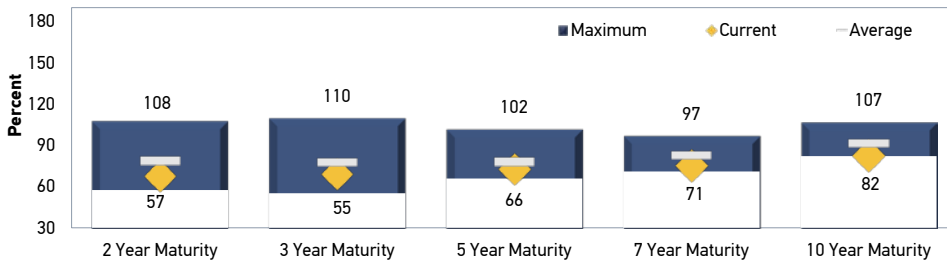
Source: Morningstar, Barclays

10-Year Government Bond Yields



Data as of 01.31.2019; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 01.31.2019



Source: Thompson Reuters; Sterling Capital Management Analytics.

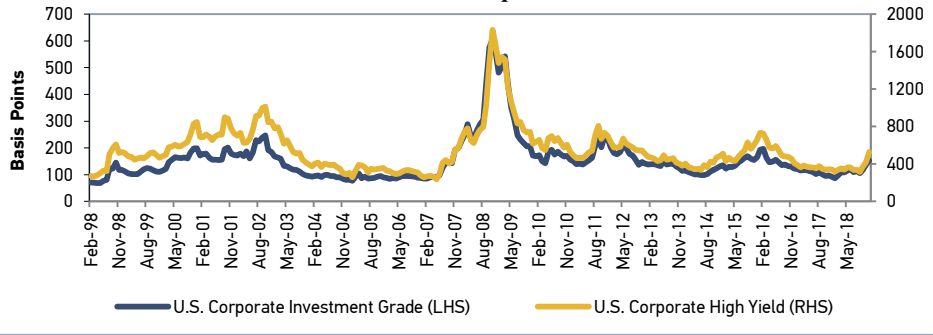
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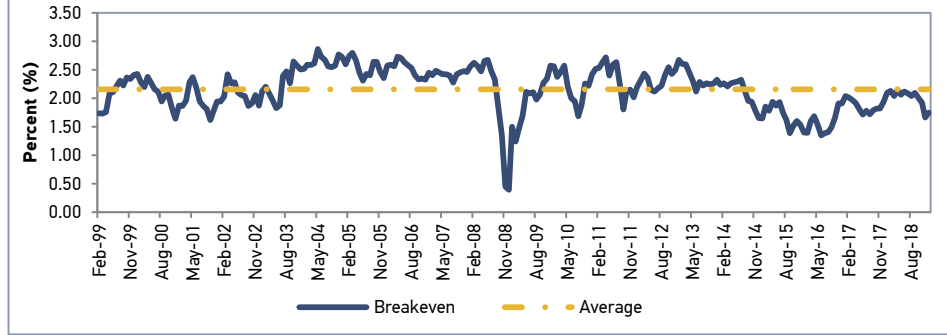


20-Year U.S. Corporate OAS



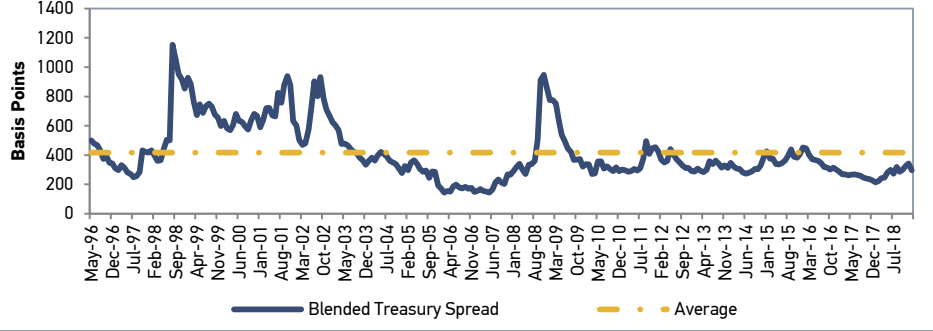
Data as of 01.31.2019; Source: FactSet

10-Year TIPS Breakeven



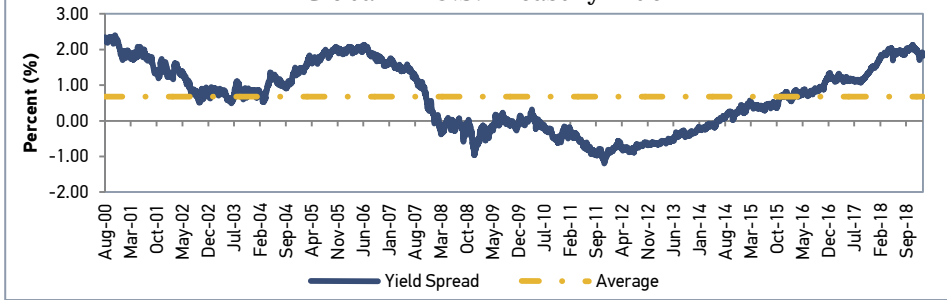
Data as of 01.31.2019; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 01.31.2019; Source: Barclays

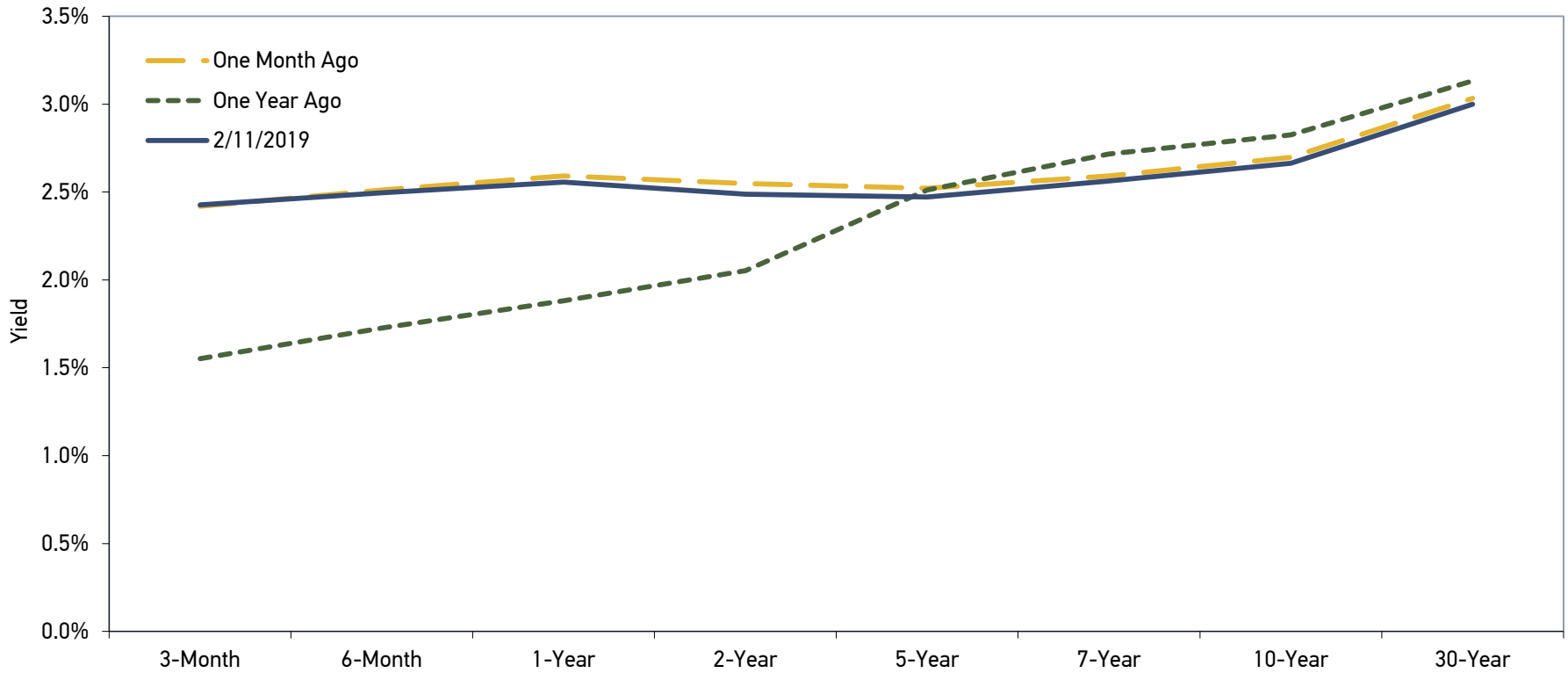
Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index



Data as of 01.31.2019; Source: Barclays

- Investment grade and high yield credit spreads moved significantly tighter in January, recovering from poor performance in December and moving back below 20-year median levels.
- Market inflation expectations as measured by TIPS breakeven rates moved mildly higher in January but remain below the historical average.
- Emerging Market credit spreads moved significantly lower in January, further below the historical average. The yield spread of U.S. to Global Treasuries continued to decline in January but remains above the historical average.

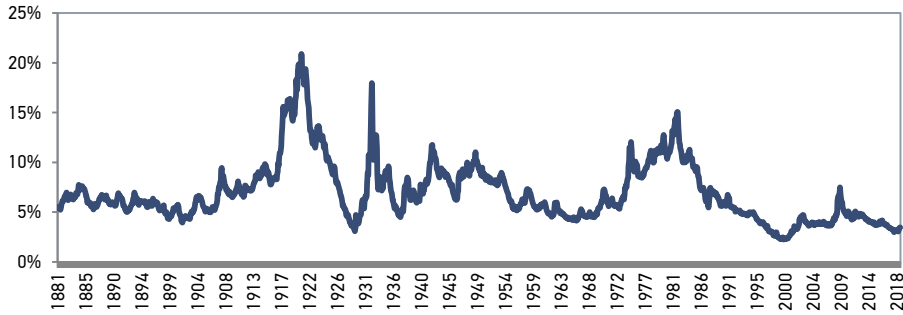
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- Month-over-month, the yield curve flattened with most key rates moving lower. Aside from the three-month yield moving one basis point higher, yields across the curve moved lower between two and six basis points.

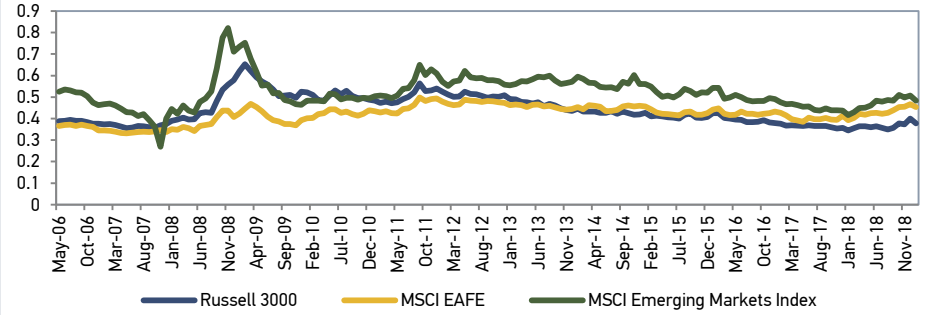


U.S. Cyclically Adjusted Earnings Yield



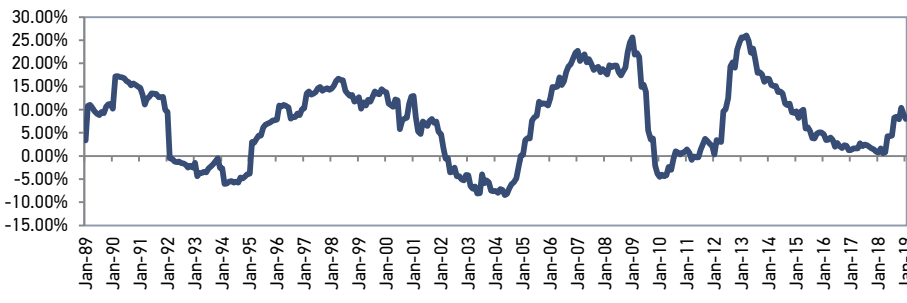
Data as of 01.31.2019; Source: Online Data Robert Shiller "US Stock Markets 1871 -Present and CAPE Ratio"

Revenue to Firm Value



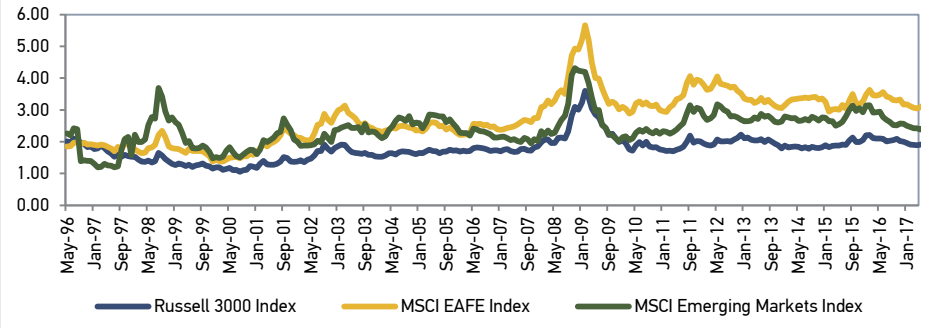
Data as of 01.31.2019; Source: Russell, MSCI

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



Data as of 01.31.2019; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 01.31.2019; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield was little changed in January but remains well below long-term averages. Long-term U.S. sales growth declined in January.
- Revenue to firm value ratios declined in January following significant price increases. The International Developed Markets ratio is significantly higher than the U.S. and is approaching the Emerging Markets ratio.
- Dividend yields declined in January. International Equity Markets provide a significant dividend yield advantage over the U.S.

Note: Please see Appendix for important definitions.



Net of Benchmark Allocations

(Standard Models & U.S. Focused Models) – February 2019

	Fixed Income	Income	Income Primary	Income & Growth	Balanced	Growth	Aggressive Growth
U.S. Equity							
Large Cap Value	0.00%	-0.28%	-0.44%	-0.55%	-0.66%	-0.98%	-1.50%
Large Cap Growth	0.00%	0.12%	0.19%	0.24%	0.29%	0.18%	0.00%
Mid Cap Value	0.00%	-0.21%	-0.33%	-0.41%	-0.49%	-0.68%	-1.00%
Mid Cap Growth	0.00%	-0.09%	-0.15%	-0.19%	-0.22%	-0.33%	-0.50%
Small Cap Value	0.00%	0.78%	1.25%	1.56%	1.87%	2.30%	3.00%
Small Cap Growth	0.00%	0.27%	0.43%	0.54%	0.64%	0.78%	1.00%
Non-U.S. Equity							
International Developed Value	0.00%	0.09%	0.15%	0.19%	0.22%	0.14%	0.00%
International Developed Growth	0.00%	-0.29%	-0.47%	-0.59%	-0.70%	-1.00%	-1.50%
International Developed Small Cap	0.00%	0.16%	0.25%	0.32%	0.38%	0.43%	0.50%
Emerging Markets Value	0.00%	0.04%	0.06%	0.07%	0.09%	0.05%	0.00%
Emerging Markets Growth	0.00%	0.04%	0.06%	0.07%	0.09%	0.05%	0.00%
Total Equity	0.00%	0.63%	1.00%	1.25%	1.50%	0.94%	0.00%
Fixed Income							
U.S. Aggregate Fixed Income	-2.50%	-2.48%	-2.48%	-2.47%	-2.46%	-1.54%	0.00%
International Fixed Income (Hedged)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. High Yield	2.50%	1.86%	1.48%	1.22%	0.96%	0.60%	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%
U.S. Government: Short	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. Government: Intermediate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. Government Long	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Fixed Income	0.00%	-0.63%	-1.00%	-1.25%	-1.50%	-0.94%	0.00%
Total	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

As of 01.09.2019. Benchmark weights reflect market values as of the market close on 10.08.2018 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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