

ASSET ALLOCATION UPDATE

- We recommend an overweight to Global Equities versus Fixed Income across models.
- Within the equity allocation, we recommend an overweight to U.S. Equities and Emerging Markets and underweight to International Developed Equities. We also recommend an overweight to Small Cap versus Mid and Large Cap Equities and an overweight to Value versus Growth segments.
- Within the fixed income allocation, we recommend an overweight to Short U.S. Government Bonds and TIPS.

EQUITY HIGHLIGHTS

- Returns were primarily negative across the equity opportunity set as fears over the coronavirus reduced investors' appetite for risk. Top performers for the month were the Russell Top 200 Growth Index which returned 2.58%, the Russell Mid Cap Value Index which returned 0.94% and the MSCI World Ex. USA Growth Index which returned -0.31%. The worst performers in the opportunity set were the MSCI Emerging Markets IMI Value Index which returned -6.55%, the Russell 2000 Value Index which returned -5.39% and the MSCI World Ex. USA Value Index which returned -3.57%.
- Save for the U.S. Large Blend and Foreign Large Blend categories, the month of January saw active equity funds continue the trend of outperformance relative to their passive counterparts.
- 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 improvement in value relative performance.

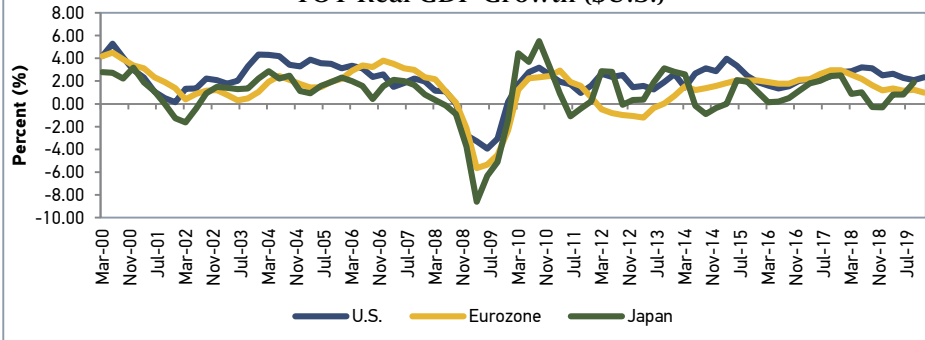
FIXED INCOME HIGHLIGHTS

- Returns were positive across the fixed income opportunity set in January as yields declined as a result of the coronavirus outbreak. The top performers in the opportunity set were the Bloomberg Barclays U.S. Government Index which returned 2.42%, the Bloomberg Barclays U.S. Credit Index which returned 2.34% and the Bloomberg Barclays U.S. Treasury Inflation Protected Securities Index which returned 2.10%. The worst performers in the opportunity set were the Bloomberg Barclays U.S. High Yield Index which returned 0.03%, the Bloomberg Barclays U.S. Mortgage Backed Securities Index which returned 0.70% and the Bloomberg Barclays Emerging Markets Aggregate Index which returned 1.54%.
- Ten-year government bond yields moved lower across the opportunity set in January 2020. The most substantial decrease in yields within the opportunity set occurred in Italy and the U.S. where yields moved lower by 48 basis points and 40 basis points. France, the U.K. and Germany round out the opportunity set and saw yield decreases of 29 basis points, 28 basis points and 25 basis points, respectively.
- Save for the 10-year maturity, municipal/Treasury yield ratios moved lower during the month of January. Current municipal/Treasury yield ratios remain below their historical averages across the opportunity set.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields		Rates/Commodities	
MSCI ACWI IMI	-1.32%	Barclays US Aggregate	1.92%	US Fund Multialternative	-0.23%	6-month	1.54%	Prime Rate	4.75%
Russell 3000	-0.11%	Barclays Gbl Treas xUS Hdq	1.76%	DJ Equity All REIT	1.28%	1-year	1.45%	LIBOR (3 Mo)	1.75%
S&P 500	-0.04%	Barclays US TIPS	2.10%	Bloomberg Commodity	-7.36%	3-year	1.30%	Oil Price (\$/barrel)	\$51.56
MSCI EAFE	-2.09%	Barclays US High Yield	0.03%			5-year	1.32%	Gold (\$/t oz)	\$1,587.90
MSCI EM	-4.66%	Barclays EM Aggregate	1.54%			10-year	1.51%		
						30-year	1.99%		

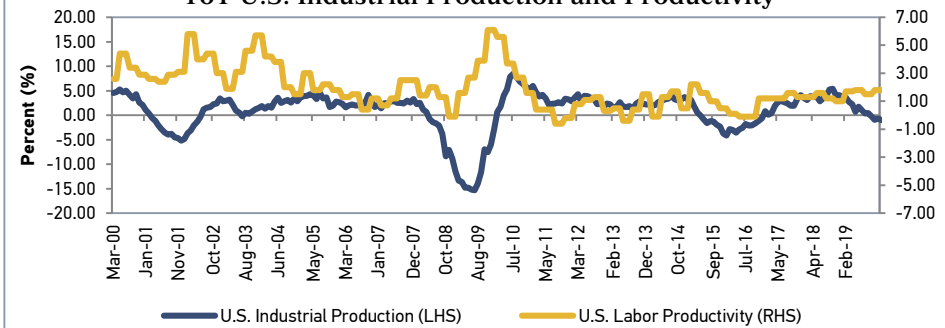


YOY Real GDP Growth (\$U.S.)



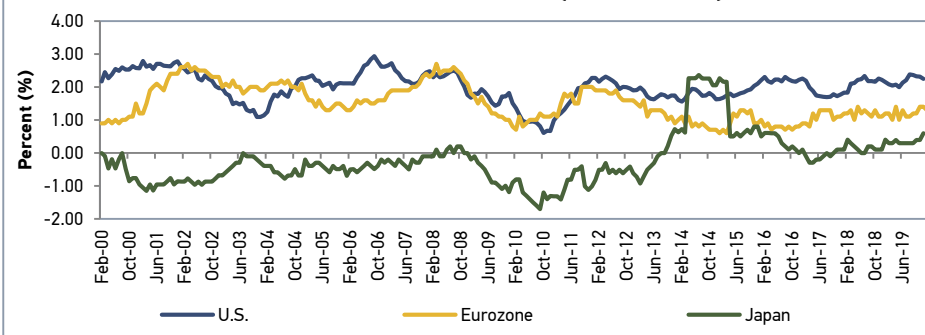
Japan data as of 09.30.2019, U.S. and Eurozone data as of 12.31.2019; Source: FactSet

YoY U.S. Industrial Production and Productivity



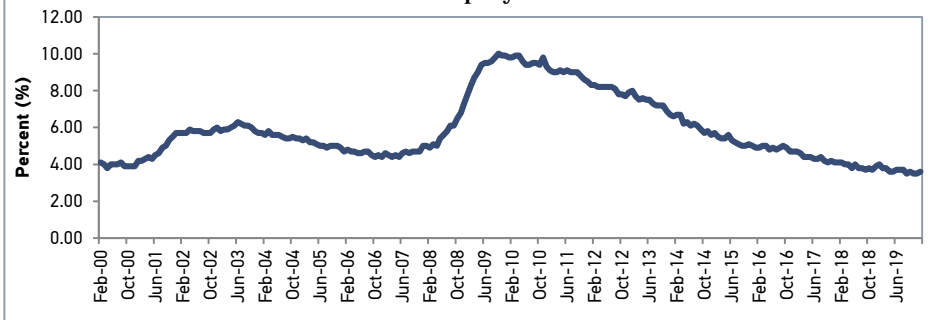
Data as of 12.31.2019; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. and Japan data as of 12.31.2019, Eurozone data as of 01.31.2020; 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 01.31.2020; Source: FactSet

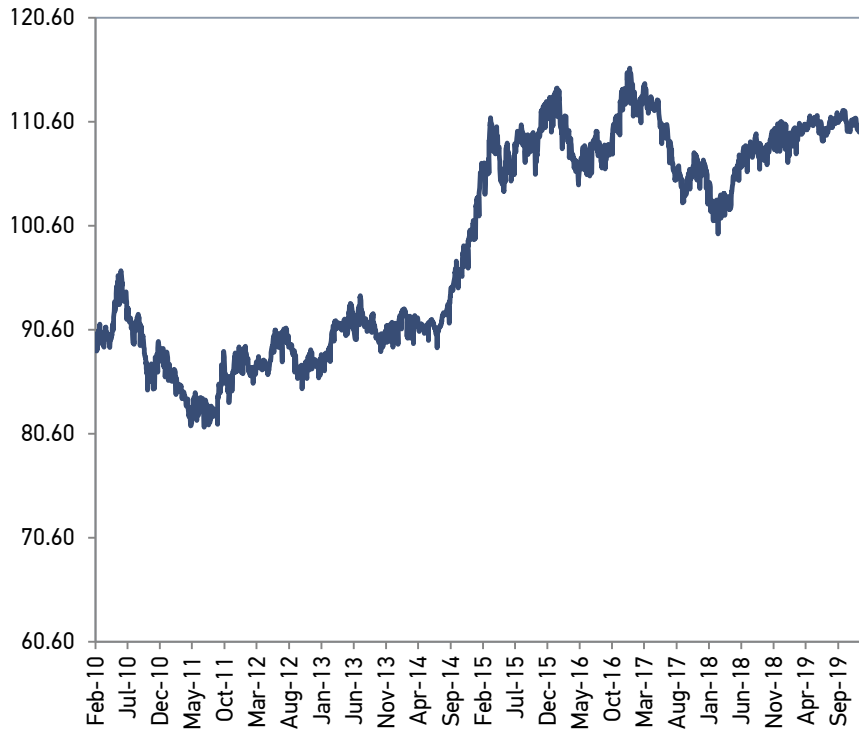
- GDP growth in Japan has accelerated and now approaches US levels. Growth in Europe continues to be slow but positive.
- U.S. productivity growth rebounded in the fourth quarter to a solid 1.8% year-over-year rate. Industrial production growth continued to weaken through the end of 2019.
- Core U.S. inflation as measured by the CPI remains elevated at 2.25% on a year-over-year basis. Inflation in Europe and Japan has been turning higher.
- Job growth was strong in January but increased labor force participation pushed the unemployment rate slightly higher to 3.6%, still near a 50-year low.



Leading	Initial Jobless Claims	<ul style="list-style-type: none">In the week ending January 31st the four-week moving average of Initial Jobless Claims was 211,750 a decrease of 3,000 from the previous week's revised average.
	Manufacturing	<ul style="list-style-type: none">ISM Manufacturing registered 50.9% in January a 3.1 percentage point increase over the previous reading. A reading below 50.0% indicates contraction.ISM Manufacturing New Orders registered 52.0% in January a 4.4 percentage point increase over the previous reading.ISM Non-Manufacturing registered 55.5% in January a 0.6 percentage point increase over the previous reading.
	Housing/Construction	<ul style="list-style-type: none">Building permits fell 3.7% in December and have risen 7.1% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none">The Consumer Confidence Index rose in January to 131.6 compared to 128.2 in December.
	Nonfarm Payrolls	<ul style="list-style-type: none">Total nonfarm payroll employment gained 225,000 in January while the unemployment rate rose to 3.6%.
	Industrial Production	<ul style="list-style-type: none">Industrial Production fell 0.3% in December and is down 1.01% over the past year.
	Personal Income	<ul style="list-style-type: none">Real Disposable Personal Income fell 0.08% in December and is up 1.98% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none">This ratio was 0.1% in December and 0.4% 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) rose 0.2% in December and is up 2.3% over the trailing one year period.CPI (Core) rose 0.1% in December and is up 2.2% over the trailing one year period.



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



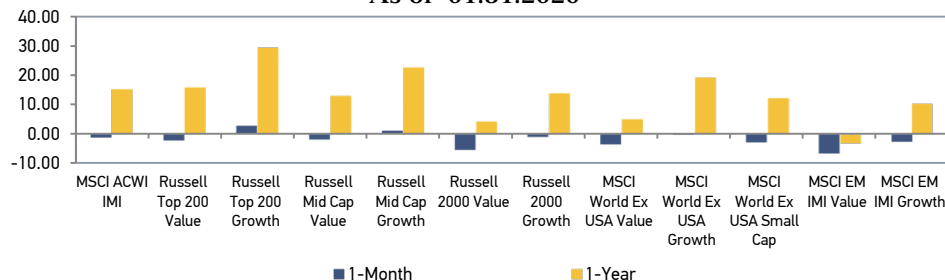
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 1.3% through January and the index is up 1.3% year-to-date. The dollar rose 1.3% versus the Euro in January.

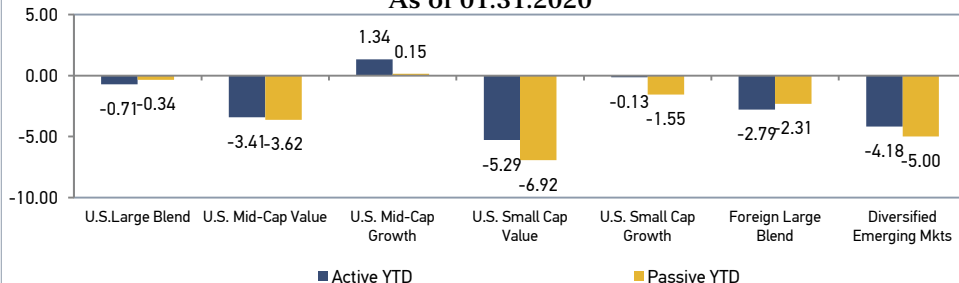


Equity Market Performance
As of 01.31.2020



Source: Morningstar, Russell Investments

Active vs. Passive
As of 01.31.2020



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



Data as of 01.31.2020; Source: Morningstar

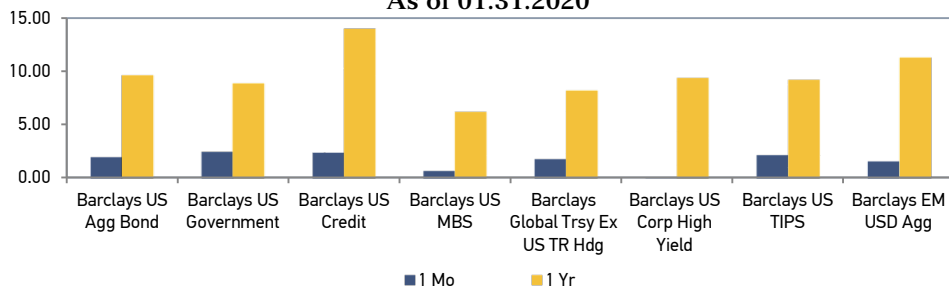
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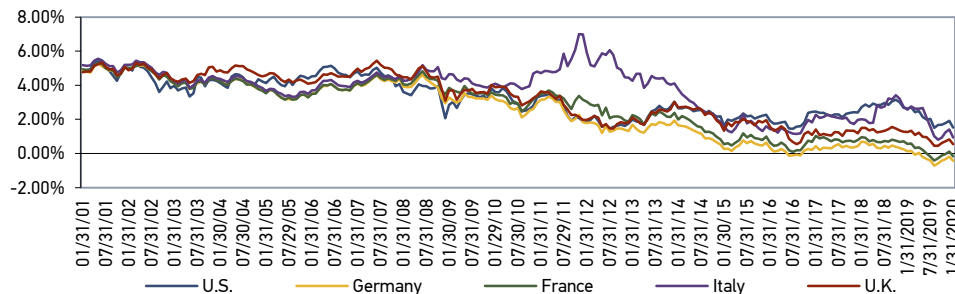


Bond Market Performance
As of 01.31.2020



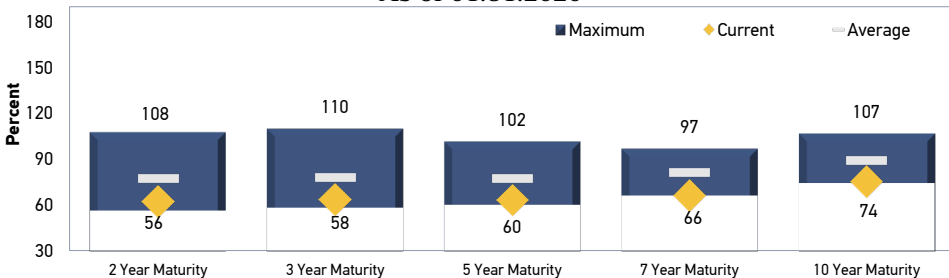
Source: Morningstar, Barclays

10-Year Government Bond Yields



Data as of 01.31.2020; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 01.31.2020



Source: Thompson Reuters; Sterling Capital Management Analytics.

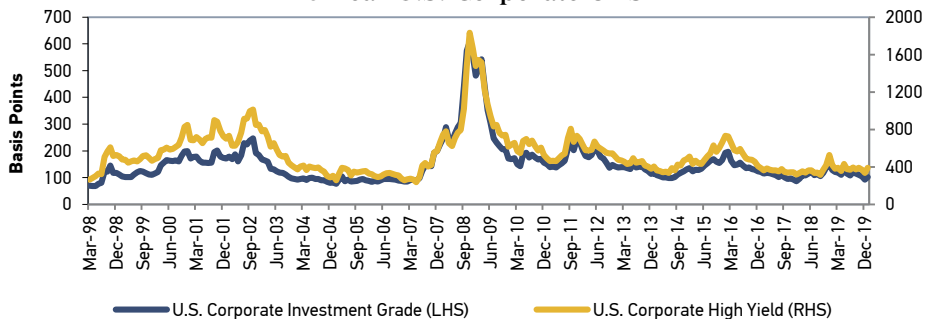
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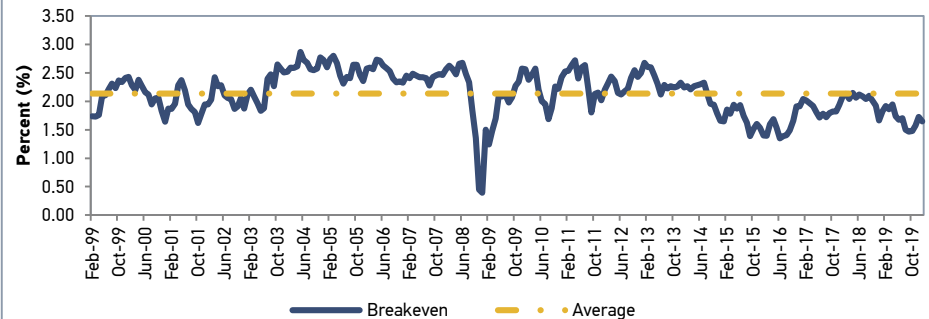


20-Year U.S. Corporate OAS



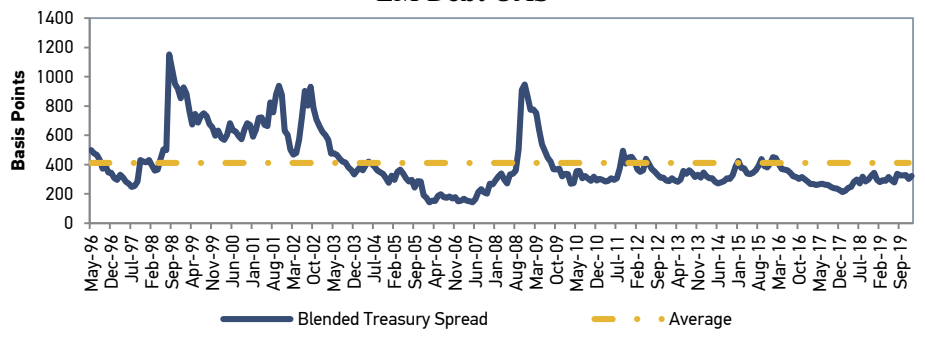
Data as of 01.31.2020; Source: FactSet

10-Year TIPS Breakeven



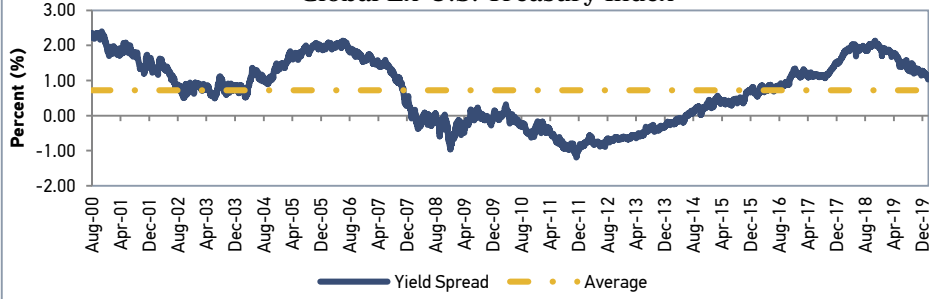
Data as of 01.31.2020; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 12.31.2019; Source: Barclays

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

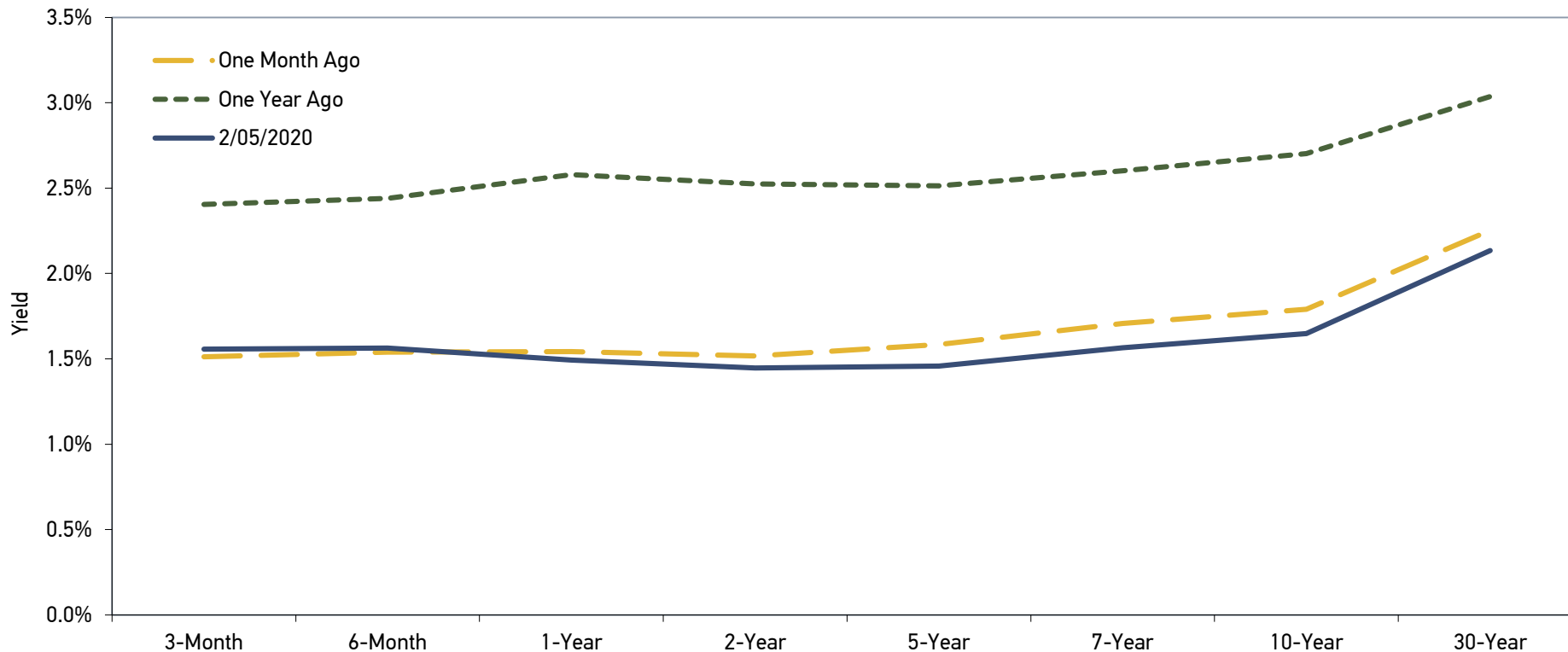


Data as of 02.04.2020; Source: Barclays

- Investment Grade and High Yield corporate bond spreads widened in January but remain tight relative to history.
- Market inflation expectations as measured by TIPS breakeven rates moved lower in January and remain below the historical average.
- Emerging Market credit spreads moved higher in January but continue to be below the long run average. The yield spread of U.S. to Global Treasuries continued to move lower in January and is approaching the historical average.



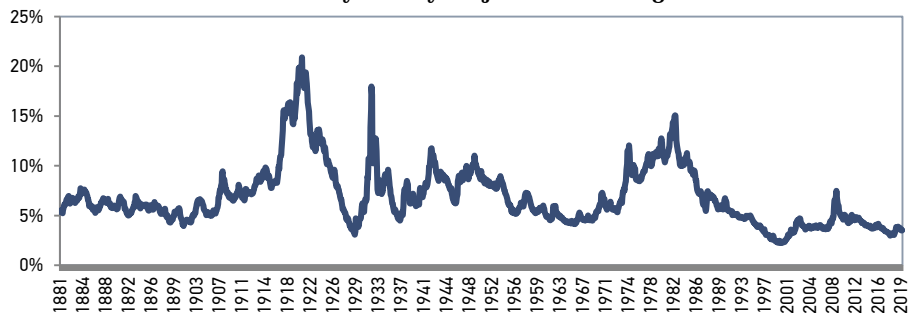
U.S. Treasury Yield Curve



- As of 02.05.2020, 3 and 6 month yields moved slightly higher compared to the previous month while yields in the remainder of the curve moved lower. The most pronounced movement occurred for the 7 and 10 year yields, which saw yield decreases of 14 basis points.

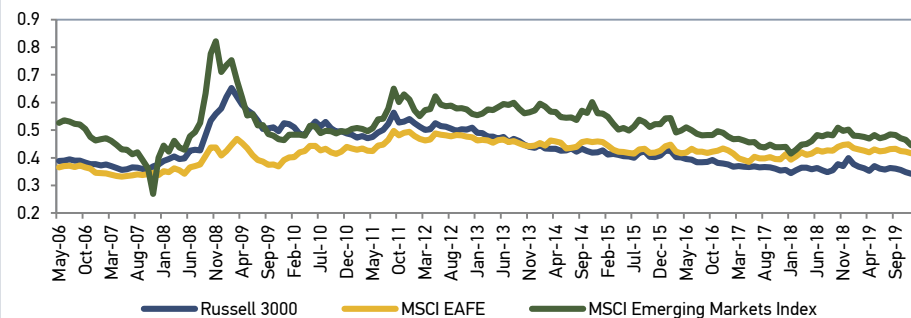


U.S. Cyclically Adjusted Earnings Yield



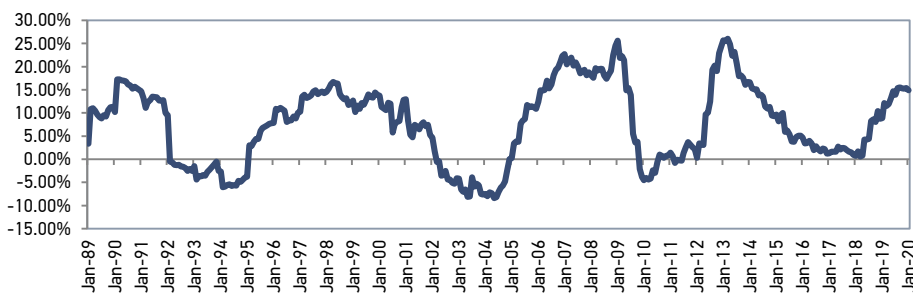
Data as of 01.31.2020; Source: Bloomberg, Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



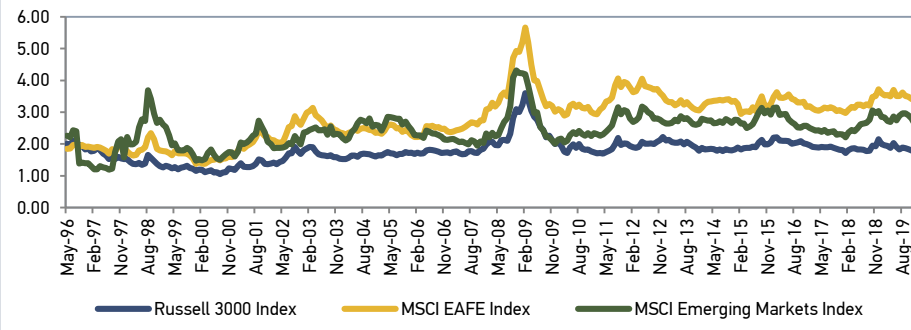
Data as of 01.31.2020; Source: Russell, MSCI

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



Data as of 01.31.2020; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 01.31.2020; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield remains at a low level relative to history. Long-term real U.S. sales growth strengthened in 2019.
- In January, the revenue to firm value ratio moved mildly higher across U.S. and international markets.
- US and Emerging Market dividend yields moved higher in January while International Developed yields moved mildly lower. International Developed yields continue to provide a significant income advantage over the U.S.



Net of Benchmark Allocations (Standard Models & U.S. Focused Models) – February 2020

	Fixed Income	Income	Income Primary	Income & Growth	Balanced	Growth	Aggressive Growth
U.S. Equity							
Large Cap Value	0.00%	0.23%	0.37%	0.46%	0.55%	0.53%	0.50%
Large Cap Growth	0.00%	0.00%	0.01%	0.01%	0.01%	-0.18%	-0.50%
Mid Cap Value	0.00%	0.18%	0.29%	0.36%	0.43%	0.46%	0.50%
Mid Cap Growth	0.00%	-0.35%	-0.56%	-0.70%	-0.84%	-1.09%	-1.50%
Small Cap Value	0.00%	0.52%	0.84%	1.05%	1.26%	1.54%	2.00%
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%	0.22%	0.35%	0.43%	0.52%	0.51%	0.50%
International Developed Growth	0.00%	-0.81%	-1.29%	-1.62%	-1.94%	-2.52%	-3.50%
International Developed Small Cap	0.00%	0.03%	0.05%	0.06%	0.07%	0.04%	0.00%
Emerging Markets Value	0.00%	0.16%	0.26%	0.33%	0.40%	0.43%	0.50%
Emerging Markets Growth	0.00%	0.17%	0.27%	0.33%	0.40%	0.44%	0.50%
Total Equity	0.00%	0.63%	1.00%	1.25%	1.50%	0.94%	0.00%
U.S. Aggregate Fixed Income	-8.00%	-6.58%	-5.72%	-5.15%	-4.58%	-2.86%	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	2.00%	1.49%	1.18%	0.98%	0.77%	0.48%	0.00%
Emerging Markets Debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. Government: Short	6.00%	4.46%	3.54%	2.93%	2.31%	1.44%	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%	-0.62%	-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 01.09.2020. Benchmark weights reflect market values as of the market close on 01.07.2020 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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