

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 Emerging Markets and 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 Short U.S. Government Bonds and TIPS.

EQUITY HIGHLIGHTS

- All equity markets in the opportunity set delivered negative returns in August as trade tensions and fears of an economic downturn dominated the headlines. Trade tensions rose on August 1 as the U.S. announced intentions to impose additional tariffs on Chinese imports. China later responded with an increase in tariffs on U.S. imports. In addition to the trade dispute, some economic data releases such as manufacturing PMI and consumer sentiment fell in August, which added to investor concerns. Value indices were the worst performers in the opportunity set with the MSCI emerging markets value index and the Russell 2000 value index returning -5.91% and -5.58% in August. The top performing indices were the Russell top 200 growth index and MSCI world ex USA growth index returning -0.48% and -1.11% in August.
- After a challenging 2018, the performance of actively-managed equity strategies has improved in 2019 with all market segments, save for U.S. large blend, showing higher year-to-date returns than passive strategies.
- 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.

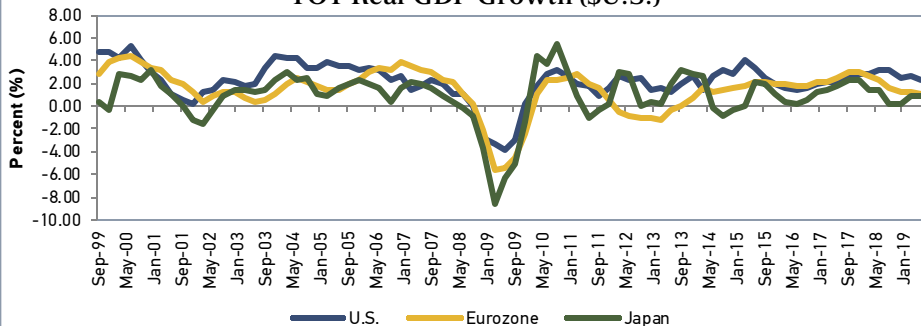
FIXED INCOME HIGHLIGHTS

- The fixed income opportunity set produced positive returns in August as the aforementioned trade dispute and economic uncertainty sent bond yields lower. The top performers in our opportunity set were U.S. government bonds and U.S. investment grade bonds returning 3.36% and 3.13%. The worst performers were emerging market and U.S. high yield bonds, which returned 0.25% and 0.40%. The Bloomberg Barclays U.S. Aggregate index, a proxy for the entire bond market, returned 2.59% during August.
- Over the month, both domestic and international developed 10-year bond yields moved lower across our opportunity set, led by Italian and U.S. yields, which decreased by 54 basis points and 52 basis points.
- Municipal/Treasury yield ratios decreased across the curve in August and remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields		Rates/Commodities	
MSCI ACWI IMI	13.49%	Barclays US Aggregate	9.10%	US Fund Multialternative	5.47%	6-month	1.89%	Prime Rate	5.25%
Russell 3000	18.02%	Barclays Gbl Treas xUS Hdg	9.42%	DJ Equity All REIT	26.20%	1-year	1.76%	LIBOR (3 Mo)	2.14%
S&P 500	18.34%	Barclays US TIPS	9.06%	Bloomberg Commodity	1.93%	3-year	1.42%	Oil Price (\$/barrel)	\$55.10
MSCI EAFE	9.66%	Barclays US High Yield	11.00%			5-year	1.39%	Gold (\$/t oz)	\$1,529.40
MSCI EM	3.90%	Barclays EM Aggregate	10.75%			10-year	1.50%		
						30-year	1.96%		

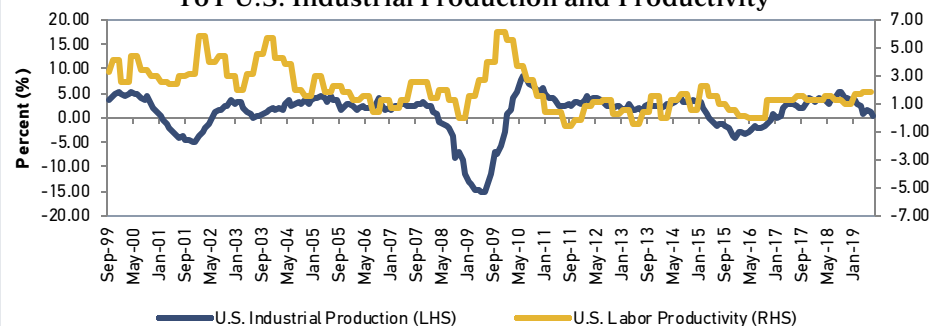


YOY Real GDP Growth (\$U.S.)



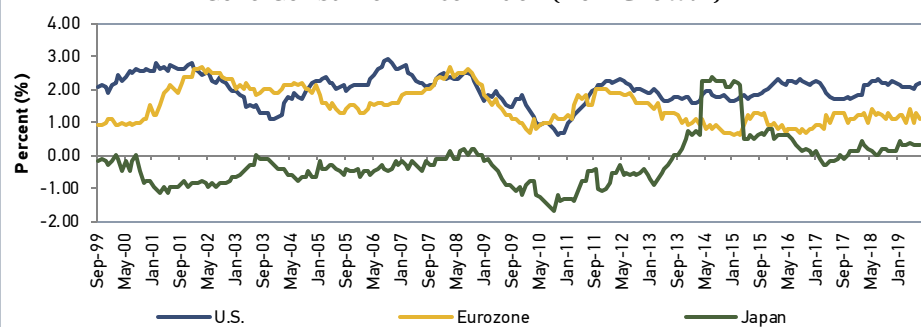
Data as of 06.30.2019; Source: FactSet

YoY U.S. Industrial Production and Productivity



Industrial Production as of 07.31.2019, Labor Productivity as of 06.30.2019; Source: FactSet

Core Consumer Price Index (YoY Growth)



Data as of 07.31.2019; 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 08.30.2019; Source: FactSet

- As expected, year-over-year GDP growth in the U.S. and Europe slowed in the second quarter. U.S. growth continues to exceed growth in Europe and Japan.
- Year-over-year U.S. productivity growth continued to improve in the second quarter and is at a multi-year high. Industrial production growth has slowed this year.
- Core U.S. inflation has been firm for the past two months following a slow down early in the year. European inflation has stabilized near 1%, while Japan's inflation rate remains very low, but positive.
- Employment growth in August was solid, and the unemployment rate held steady at 3.7%, just above a 45 year low.

Note: Please see Appendix for important definitions.



Leading	Initial Jobless Claims	<ul style="list-style-type: none">In the week ending August 30th the four-week moving average of Initial Jobless Claims was 216,250 an increase of 1,500 from the previous week's revised average of 214,750.
	Manufacturing	<ul style="list-style-type: none">ISM Manufacturing registered 49.1% in August a 2.1 percentage point decrease over the previous reading. A reading below 50.0% indicates contraction.ISM Manufacturing New Orders registered 47.2% in August a 3.6 percentage point decrease over the previous reading.ISM Non-Manufacturing registered 56.4% in August a 2.7 percentage point increase over the previous reading.
	Housing/Construction	<ul style="list-style-type: none">Building permits rose 6.9% in July and have risen 0.1% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none">The Consumer Confidence Index fell in August to 135.10 compared to 135.80 in July.
	Nonfarm Payrolls	<ul style="list-style-type: none">Total nonfarm payroll employment gained 130,000 in August while the unemployment rate remained at 3.7%.
	Industrial Production	<ul style="list-style-type: none">Industrial Production fell 0.22% in July and is up 0.48% over the past year.
	Personal Income	<ul style="list-style-type: none">Real Disposable Personal Income rose 0.06% in July and is up 3.03% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none">This ratio was 0.04% in July and -1.39% 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 0.3% in July and is up 1.8% over the trailing one year period.CPI (Core) rose 0.3% in July and is up 2.2% over the trailing one year period.



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



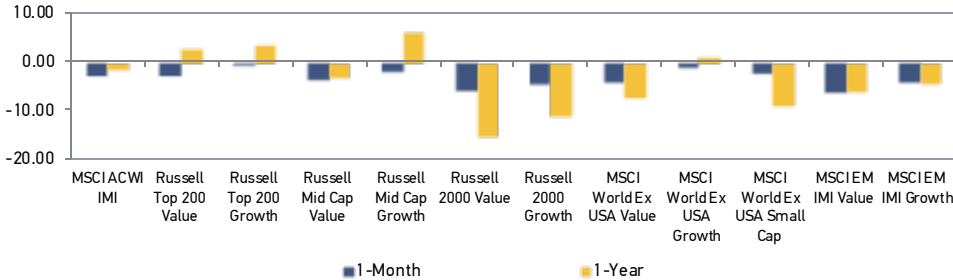
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 0.2% through August and the index is up 0.3% year-to-date. The dollar rose 1.1% versus the Euro in August.

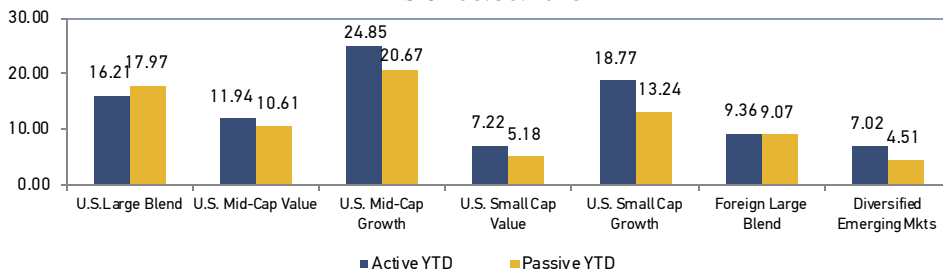


Equity Market Performance
As of 08.30.2019



Source: Morningstar, Russell Investments

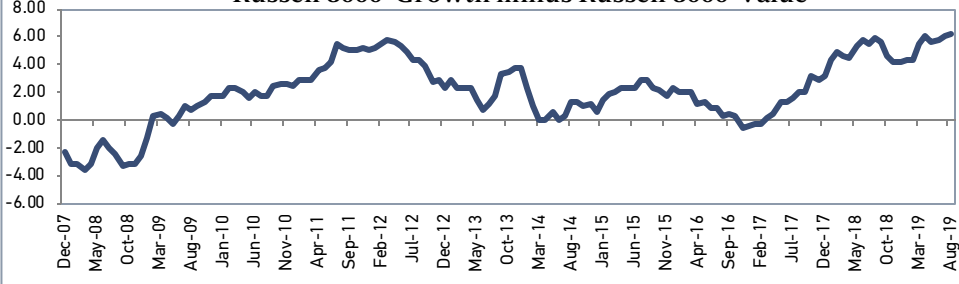
Active vs. Passive
As of 08.30.2019



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 08.30.2019; Source: Morningstar

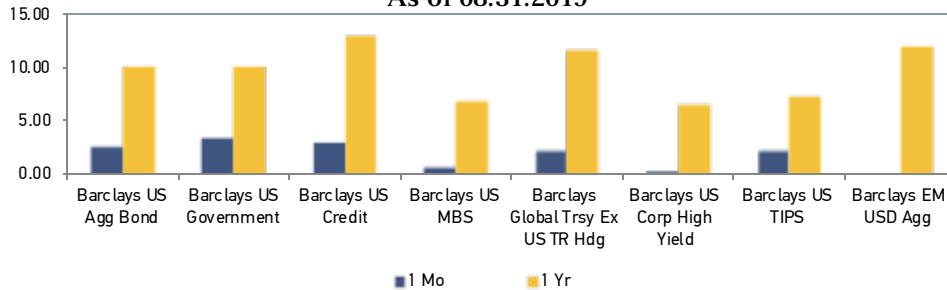
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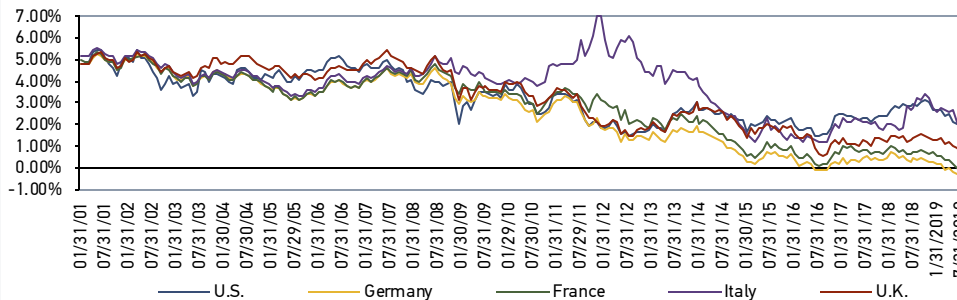
Bond Market Performance
As of 08.31.2019



Source: Morningstar, Barclays

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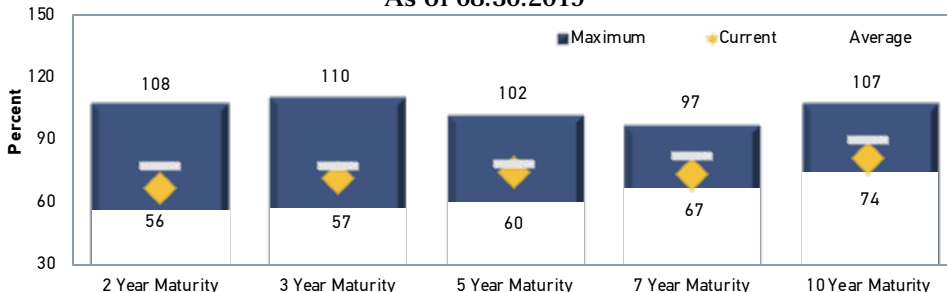
10-Year Government Bond Yields



Data as of 08.30.2019; Source: FactSet, U.S. Department of Treasury

- Over the month, both domestic and international developed 10-year bond yields moved lower across our opportunity set, led by Italian and U.S. yields, which decreased by 54 basis points and 52 basis points.

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 08.30.2019

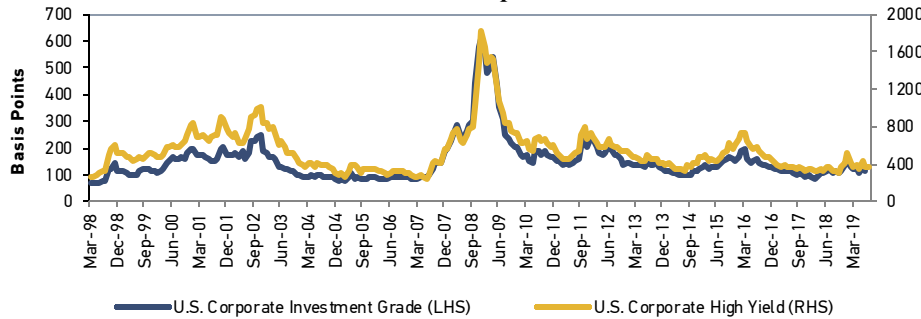


Source: Thompson Reuters; Sterling Capital Management Analytics.

- Municipal/Treasury yield ratios decreased across the curve in August and remain below historical averages.

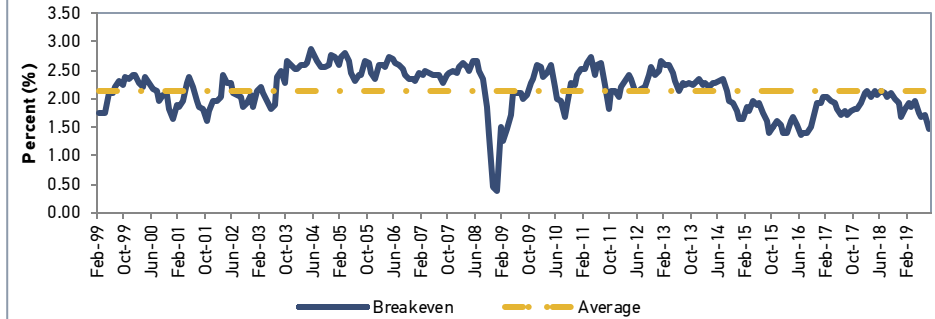


20-Year U.S. Corporate OAS



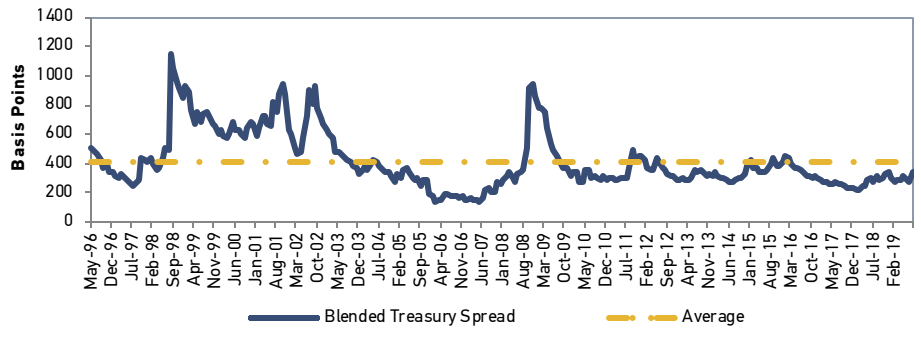
Data as of 08.30.2019; Source: FactSet

10-Year TIPS Breakeven



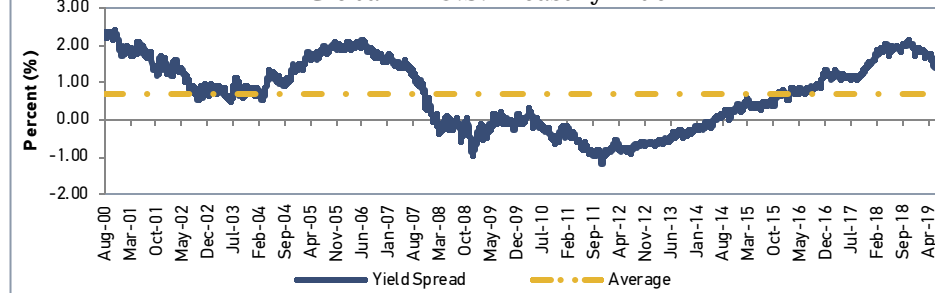
Data as of 08.30.2019; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 08.30.2019; Source: Barclays

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

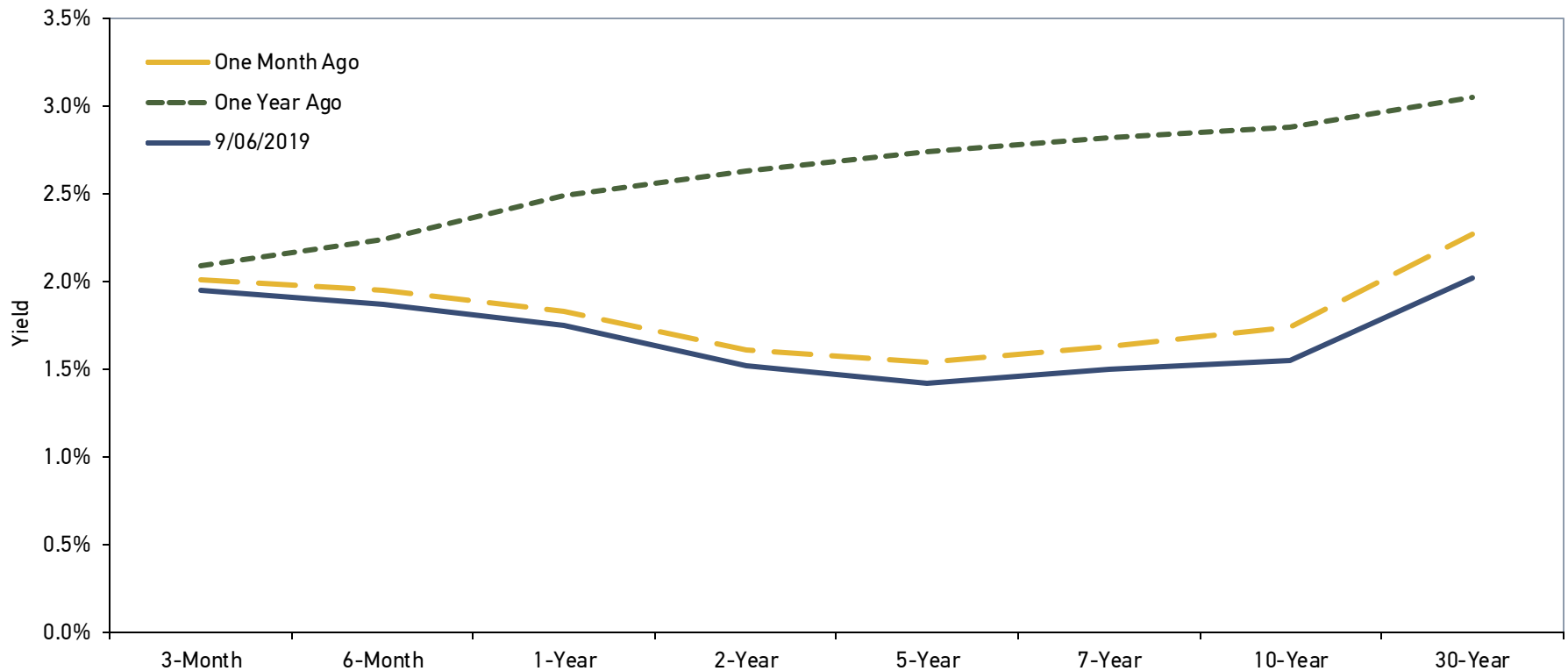


Data as of 07.31.2019; Source: Barclays

- Investment grade and high yield credit spreads widened in August but remain below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates moved significantly lower in August and are well below the historical average.
- Emerging Market credit spreads moved higher in August but are below the long run average. The yield spread of U.S. to Global Treasuries moved lower in August but remains above the historical average.



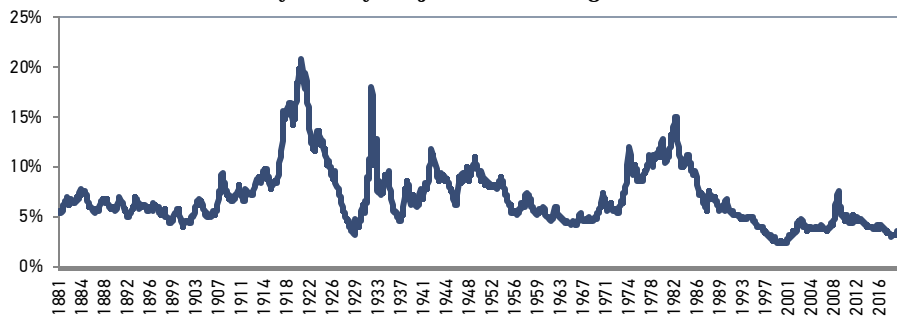
U.S. Treasury Yield Curve



- As of 09.06.2019, Treasury yields moved lower across the curve compared to the previous month. Portions of the yield curve remain inverted as of 09.06.2019, with the 3-month bill yielding 40 basis points more than the 10-year bond. During August, the 2-year and 10-year portion of the yield curve inverted sending the 10-year yield to its lowest level against the 2-year yield since 2007. Along with the 3-month and 10-year portion of the yield curve, an inversion of the 2-year and 10-year portion of the yield curve is seen by many as an indicator of a future economic downturn. As of 09.06.2019, the 10-year yield has increased above the 2-year yield. Additionally, it should be noted the 30 year bond yield fell to its lowest level ever in August but has since rebounded above 2.00%.

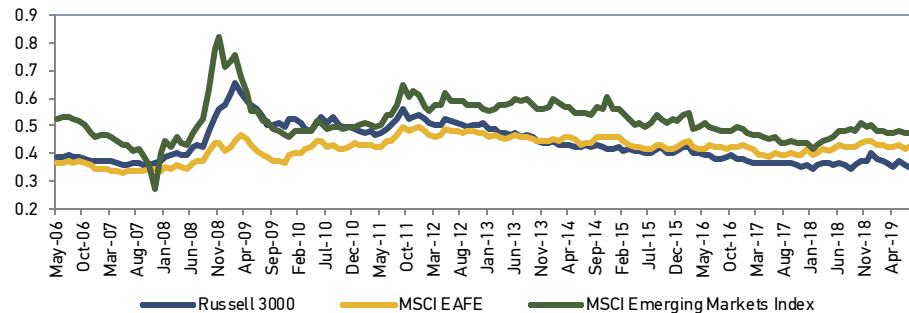


U.S. Cyclically Adjusted Earnings Yield



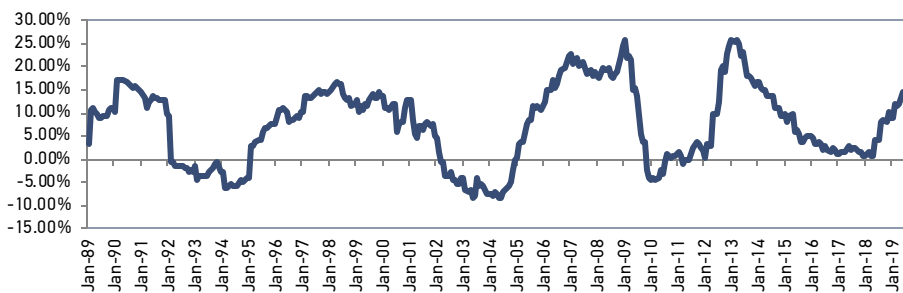
Data as of 08.30.2019; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



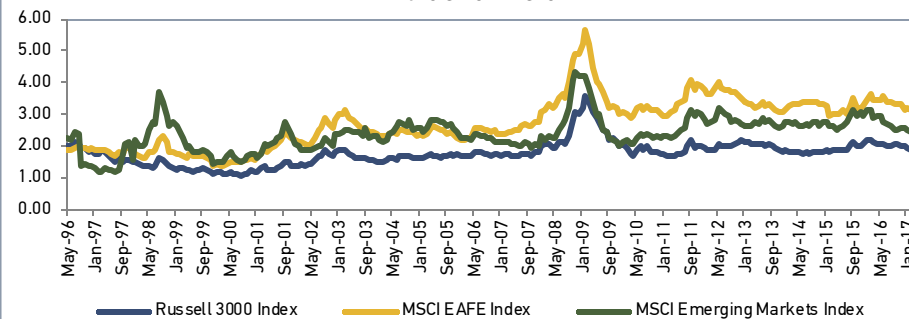
Data as of 08.30.2019; Source: Russell, MSCI

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



Data as of 08.30.2019; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 08.30.2019; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield increased in August but remains at a low level relative to history. Long-term real U.S. sales growth has strengthened this year.
- In August, the revenue to firm value ratio increased across U.S. and international markets.
- Dividend yields increased last month due to price declines. International Developed yields continue to provide a significant income advantage over the U.S.



Net of Benchmark Allocations

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

	Fixed Income	Income	Income Primary	Income & Growth	Balanced	Growth	Aggressive Growth
U.S. Equity							
Large Cap Value	0.00%	-0.15%	-0.24%	-0.30%	-0.36%	-0.60%	-1.00%
Large Cap Growth	0.00%	0.13%	0.21%	0.26%	0.31%	0.19%	0.00%
Mid Cap Value	0.00%	-0.20%	-0.32%	-0.41%	-0.49%	-0.68%	-1.00%
Mid Cap Growth	0.00%	-0.22%	-0.35%	-0.44%	-0.53%	-0.71%	-1.00%
Small Cap Value	0.00%	0.52%	0.84%	1.05%	1.26%	1.54%	2.00%
Small Cap Growth	0.00%	0.40%	0.63%	0.79%	0.95%	1.16%	1.50%
Non-U.S. Equity							
International Developed Value	0.00%	0.34%	0.55%	0.68%	0.82%	0.89%	1.00%
International Developed Growth	0.00%	-0.68%	-1.08%	-1.35%	-1.62%	-2.14%	-3.00%
International Developed Small Cap	0.00%	0.16%	0.25%	0.31%	0.38%	0.42%	0.50%
Emerging Markets Value	0.00%	0.16%	0.26%	0.33%	0.39%	0.43%	0.50%
Emerging Markets Growth	0.00%	0.16%	0.26%	0.33%	0.39%	0.43%	0.50%
Total Equity	0.00%	0.63%	1.00%	1.25%	1.50%	0.94%	0.00%
U.S. Aggregate Fixed Income	-7.50%	-6.20%	-5.43%	-4.91%	-4.39%	-2.74%	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	2.50%	1.86%	1.48%	1.22%	0.96%	0.60%	0.00%
Emerging Markets Debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
U.S. Government: Short	5.00%	3.72%	2.95%	2.44%	1.93%	1.20%	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 07.12.2019. Benchmark weights reflect market values as of the market close on 07.10.2019 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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