OLYMPUS
WEALTH MANAGEMENT®

Quarterly Investment Commentary

First Quarter 2019

Highlights

- The markets remain vulnerable to fears that an economic downturn is coming.
- The equity market rebound during Q1 has been driven mostly by multiple expansion amidst declining earnings growth.
- The Federal Reserve is more attuned to market volatility and the continuation of this economic growth cycle, and as a result has removed all rate hikes from its forecast for 2019.
- The ease in trade tensions between the U.S. and China has helped improve business sentiment.
- We advocate for investors to be thoughtful about putting money to work, staying invested, rebalancing, and sticking to their long-term plan.
- Investors should be prudent about how they diversify their assets, manage risks, and refrain from making big directional trades or trying to time the market.
- The best and worst performing asset classes vary greatly over the years. We continue to emphasize the importance of diversification, discipline, perspective, and focusing on longer investment time horizons.

																2004 - 2018	
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	Ann.	Vol.
REITs 31.6%	EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	REITs 17.2%	REITs 8.5%	REITs 22.4%
EM Equity 26.0%	Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	Small Cap 14.6%	EM Equity 8.3%	EM Equity 22.1%
DM Equity 20.7%	DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Large Cap 13.6%	Large Cap 7.8%	Small Cap 18.6%
Small Cap 18.3%	REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 10.1%	Small Cap 7.5%	Comdty. 18.6%
High Yield 13.2%	Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	EM Equity 10.0%	High Yield 7.3%	DM Equity 17.6%
Asset Alloc. 12.8%	Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 25.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	Asset Alloc. 9.1%	Asset Alloc. 6.2%	Large Cap 14.5%
Large Cap 10.9%	Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 6.3%	DM Equity 5.2%	High Yield 11.0%
Comdty. 9.1%	High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Comdty. 6.3%	Fixed Income 3.9%	Asset Alloc. 10.3%
Fixed Income 4.3%	Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Fixed Income 2.9%	Cash 1.3%	Fixed Income 3.3%
Cash 1.2%	Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 0.6%	Comdty. -2.5%	Cash 0.8%

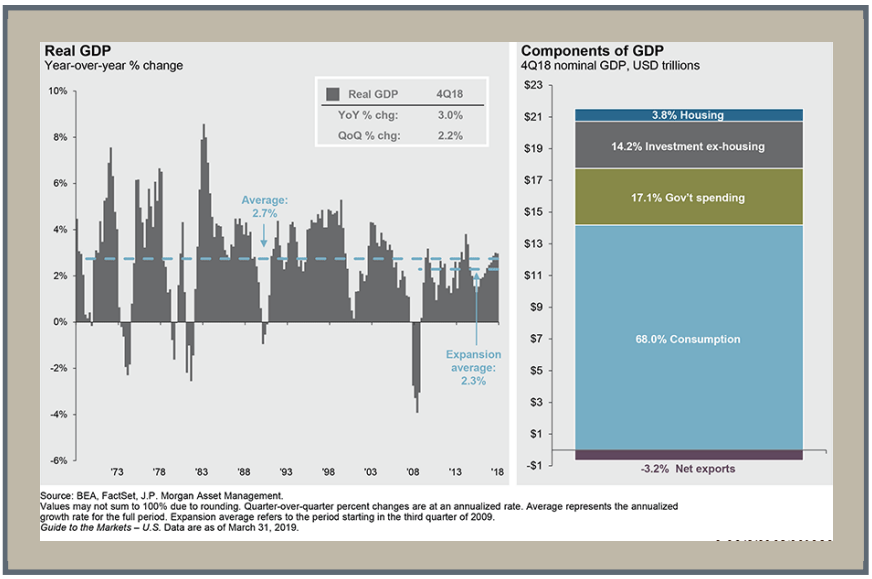
Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period of 12/31/03 – 12/31/18. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of 4. Please see disclosure page at end for index definitions. All data represents total return for stated period. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of March 31, 2019.

Economy

Economists continue to see the U.S. economy in the late-stage of the economic cycle, and while they do not anticipate a near-term recession, the markets remain vulnerable to fears that a downturn is coming. Both U.S. and global growth is slowing. U.S. economic data has been good, GDP growth is above this expansion's average (although we anticipate it reverts back to its 2.0-2.5% averages), inflation is on or near target, unemployment has not been lower since the 1969, and short-term interest rates are favorable. As we look at these and other fundamentals, the U.S. economy seems a bit like Goldilocks, not too hot and not too cold. The probability of a near term economic recession remains low.

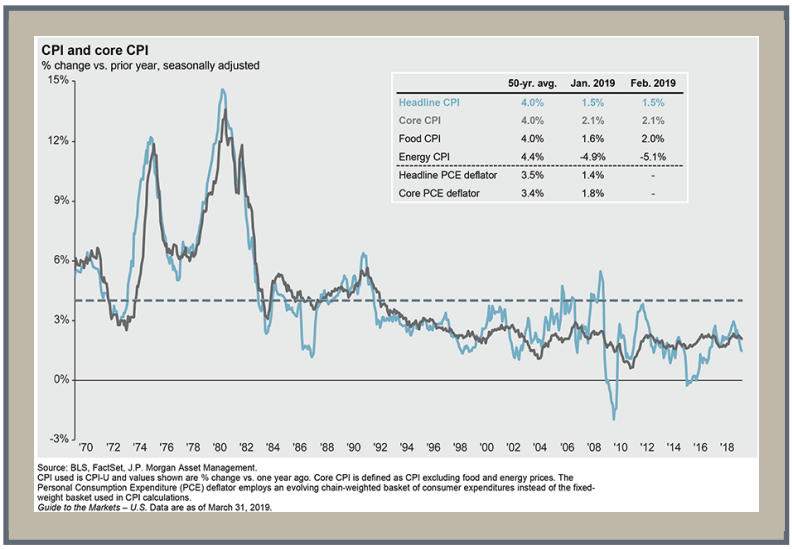
The stark change from hawkish to dovish[1] in the Federal Reserve's commentary during Q1, removing all rate hikes from its forecast this year, and pausing its balance sheet reduction program added confidence to the markets. Confidence that the Federal Reserve would not stifle economic growth. This confidence became the catalyst for Q1 market returns.

In addition, bilateral progress by both the U.S. and China regarding trade has been positive. Northern Trusts' economists believe China is anxious to avoid further economic slowing and the U.S. administration wants to avoid further market distress. Their expectation is that both China and the U.S. will find a way forward, but the possibility of 25% tariffs on Chinese imports remains a real threat to markets. Increasing trade tensions and tariffs are potential headwinds for global markets.

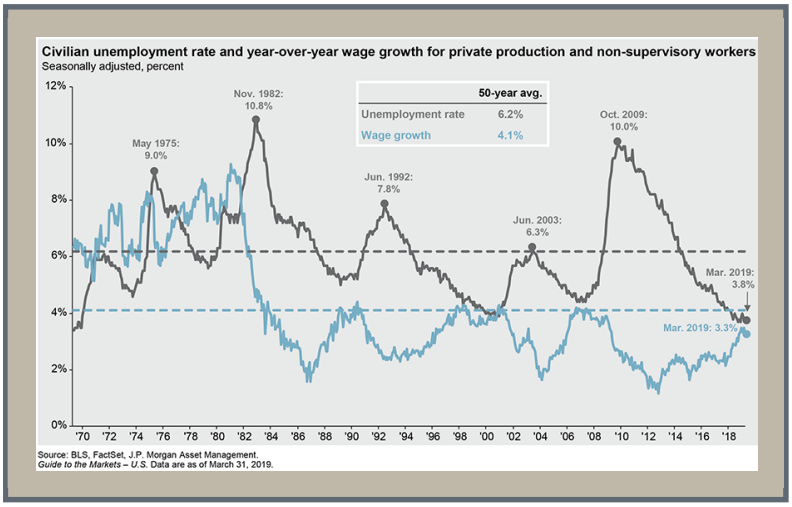


GDP[2]: Year over year GDP growth has increased to 3.0%, a pace firmly above the 2.3% average since the Great Recession and above the long-term average of 2.7%. Fourth quarter GDP growth came in at 2.2%. Fourth quarter GDP growth was attributable to contributions from PCE (the Federal Reserve's preferred measure of inflation), nonresidential fixed investment, exports, private inventory investment, and federal government spending. This growth was offset by negative contributions from residential fixed investment, state and local government spending, and an increase in imports. First quarter 2019 GDP advance estimates were just released and came in at 3.2%, although the higher Q1 number was the result of a transitory increase in inventories, which is not sustainable. The pace of GDP growth is expected to decline back to its post-recession averages in the 2.0-2.5% range.

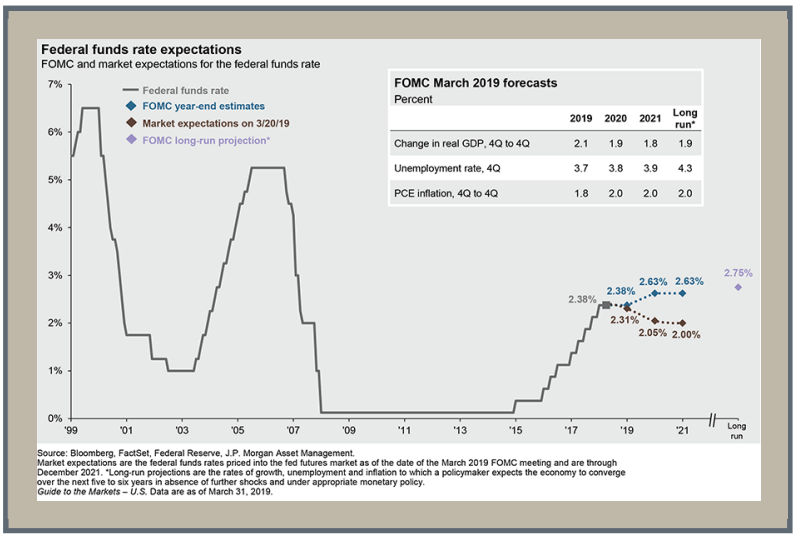
Inflation[3]: Inflation is near the Fed's 2.0% target. The chart on the right illustrates inflation for the last 50 years, as of February 2019. As of March, Headline CPI increased 0.4%, resulting in a 1.9% increase over the past 12 months. Headline CPI increased in March due to the sharp increase in the gasoline index, which was up 6.5% in March. Core CPI (ex-food and energy) increased 0.1% in March and was up 2.0% for the last 12-month period.



Employment: In March 2019, the unemployment rate remained unchanged at 3.8%, with notable job gains in health care, professional, and technical services. The number of individuals employed part-time for economic reasons (involuntary part-time workers) has declined from 5.0 million in March 2018 to 4.5 million in March 2019. Employment remains the shining star in this economy, and you must look back to the 1960s to find lower unemployment data. Employment data remains very strong.



Interest Rates: The Federal Reserve has changed both its tone in dialogue and its policy this quarter. The Federal Reserve's new 2019 year-end estimate is for no further interest rate increases during the calendar year. This is a material change from their more hawkish stance of three interest rate increases in 2019. The Federal Reserve has communicated that it is on hold regarding rate increases, referencing slower growth and investment rates. They have also reiterated their patience as economic growth, labor markets, and inflation are near their objectives. This change has likely been the most important driver for the rebound in risk asset returns in 2019.

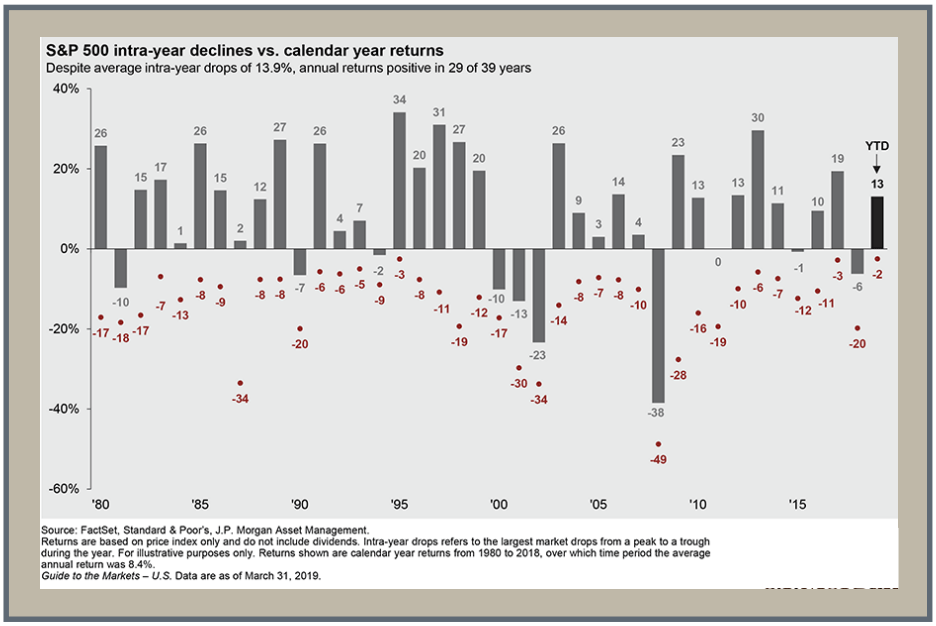


The Federal Reserve announced the end of their balance sheet normalization program, likely in May, maintaining the number of bonds they are buying in the open market.

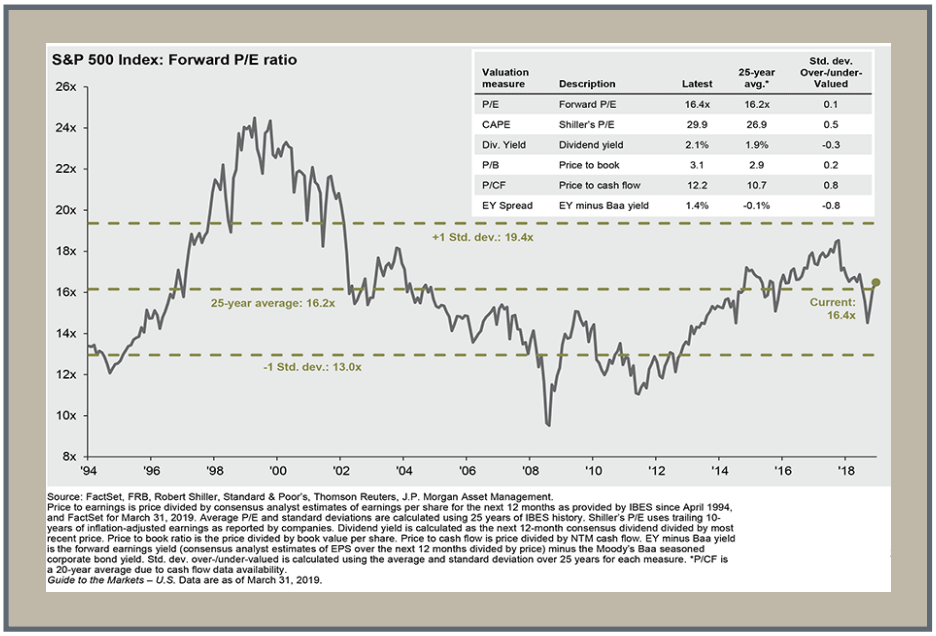
Equity Investments

Markets have rebounded nicely in 2019 after a sharp drawdown in Q4 2018, but this rebound has been driven mostly by multiple expansion amidst declining earnings growth. Multiples increased as concerns about rising interest rates faded and trade talks made progress. The market's rebound has been a refreshing change after last year's -20% decline from peak values. Regardless, we remain cautious with current valuations and slowing earnings growth.

With the equity market rebound in Q1, we see the market priced more expensive relative to the beginning of the year. While we do not anticipate significant additional equity returns in 2019, FactSet is reporting that analysts project the 12-month bottom-up price target for the S&P 500 at 3121, 7.6% above the recent 2900 closing. We advocate for investors to be thoughtful about putting money to work, staying invested, rebalancing, and sticking to their long-term plan. Investors should be prudent about how they diversify their assets, manage risks, and refrain from making big directional trades or trying to time the market.

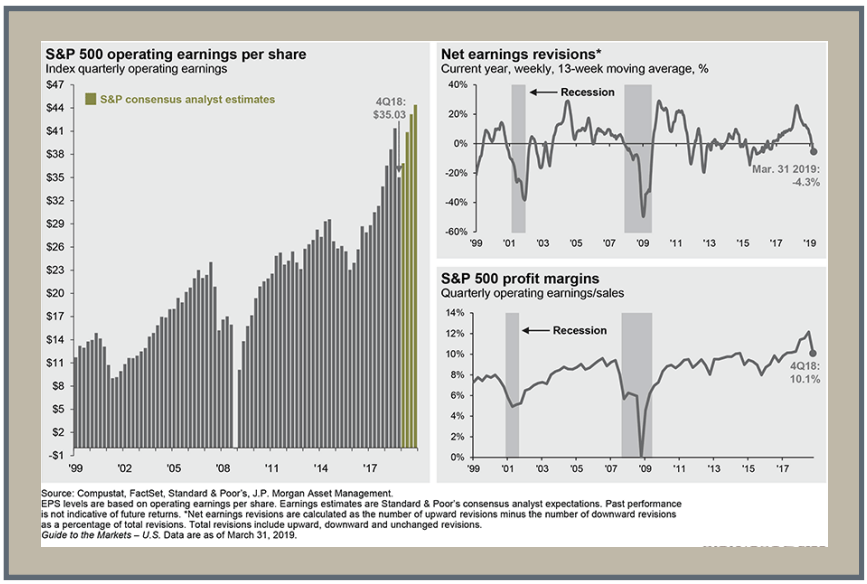


During the first quarter of 2019, equity markets rebounded strongly. The S&P 500 TR (including dividends) was up 13.65% during the first quarter (3/31/19). Developed international markets measured by the MSCI EAFE NR were up 9.98% for the first quarter (3/31/19). Emerging markets measured by the MSCI EM NR were up 9.91% for the first quarter (3/31/19). The broad-based benchmark, MSCI ACWI NR, a market capitalization weighted index designed to measure the global equity market performance of 46 developed and emerging markets, was up 12.18% for the first quarter (3/31/19).



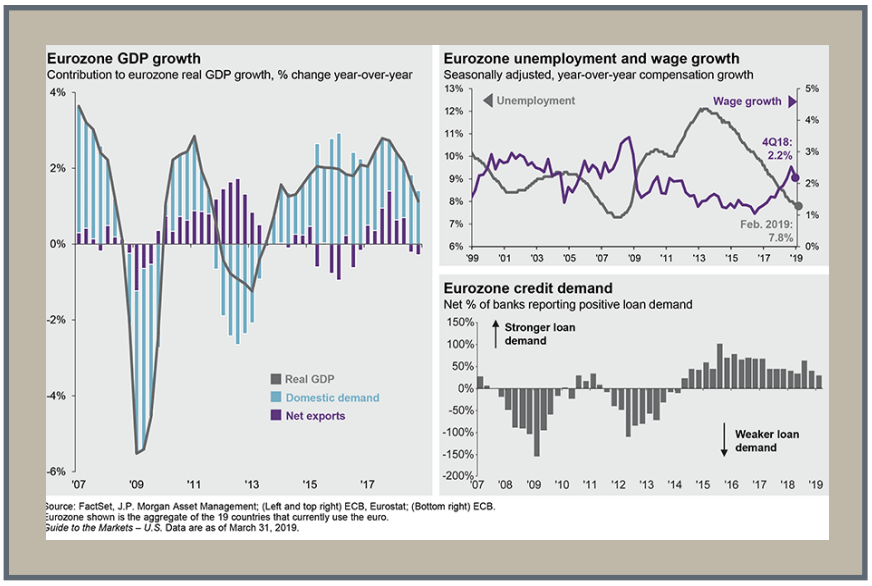
Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	16.4x	16.2x	0.1
CAPE	Shiller's P/E	29.9	26.9	0.5
Div. Yield	Dividend yield	2.1%	1.9%	-0.3
P/B	Price to book	3.1	2.9	0.2
P/CF	Price to cash flow	12.2	10.7	0.8
EY Spread	EY minus Baa yield	1.4%	-0.1%	-0.8

U.S.: Q4 2018 earnings calls held during Q1 2019 were strong, however future earnings guidance has been much weaker. With 15% of companies in the S&P 500 reporting Q1 earnings, the blended earnings decline for the first quarter is -3.9%. FactSet earnings analysts estimate that Q1 2019 earnings may decline by -4.0%. Future earnings estimates have been low partly due to the strong earnings growth in 2018 (boosted by tax cuts) creating a higher starting point for year over year earnings growth calculations. As of 4/18/19 FactSet reports analysts expect a slight decline in Q2 earnings, low single-digit earnings growth in Q3, and high single-digit earnings growth in Q4.



2019 earnings estimates are falling because the one-time benefits from tax reform fall out of the year-over-year numbers. Earnings may come under additional pressure as wages, interest rates, and raw material costs increase (a combination of inflation and tariffs). The multiple placed on the next 12 months of earnings was at 16.4x as of 3/31/19 (16.8x as I am writing). U.S. equity valuations are above their 25-year average.

Developed International: Developed international markets traded up with global equity markets during the first quarter. We see two main reasons for this rebound in developed international markets. First, the Federal Reserve's change to a more accommodative policy has caused global central banks to reconsider the same. Second, the decrease in trade tensions. Challenges remain with the dramatic Brexit negotiations, slowing Chinese economy, and slowing global economic growth. Continued slowing Eurozone growth, continued slowing manufacturing indices (PMI), lingering Italian non-performing loans, and difficult Brexit negotiations have remained a challenge in 2019. We have yet to see improving economic data for developed international markets, however improving trade negotiations and more accommodative economic policies should help.

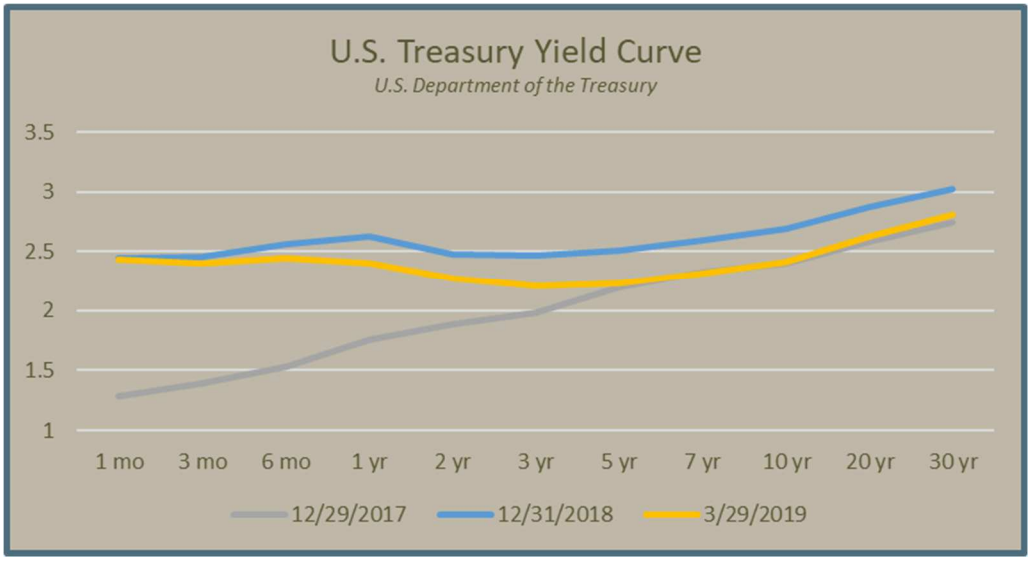


Emerging International: Emerging markets also traded up with global equity markets during the first quarter. China's effort to stabilize their economy through tax cuts, infrastructure spending, and looser monetary policy seems to be working. Our emerging market manager is reporting recent positive macroeconomic data from China, suggesting China's efforts to control their economic slowdown are succeeding. The recent ease in trade tensions

between the U.S. and China has also helped to improve business sentiment. With the strong rebound in stock prices during Q1, a U.S.-China trade deal may be cooked into the numbers. We believe in global diversification and emerging market equities are part of a global equity allocation. Attractive valuations and earnings growth support the case for emerging market equities.

Fixed Income Investments

During the first quarter, the Federal Reserve changed their hawkish tone regarding forward guidance on interest rates. Federal Reserve Chair, Jerome Powell, took a much more dovish tone in his public comments this quarter, suggesting the Federal Reserve was more attuned to market volatility and the continuation of this economic growth cycle. The Federal Reserve also announced the end in the unwinding of their balance sheet. As a result, long term interest rates fell as short-term interest rates remained in their range of 2.25-2.5% during the quarter. As of their March 2019 meeting, the Federal Reserve's "dot plot" projection suggests no further interest rate increases during 2019. Consequently, the yield curve has mildly inverted. Historically, an inverted yield curve has been a forward-looking indicator of economic recessions and bear markets. If inflation or other market forces do not increase long-term interest rates, then then Federal Reserve may be forced to decrease short-term interest rates later this year.



The evolving economic, interest rate and market environments have us discussing fixed income. Short-term interest rates have risen and moved to neutral (potentially at their cycle peak). Long-term rates, tied to tame inflation and slower economic growth, continue to be range bound (falling recently). With the current expectation for less upward pressure on interest rates due to a neutral Federal Funds rate, muted inflation, and slowing economic growth we are continuing discussions about fixed income allocations. Long-term fixed income is an important part of an overall portfolio's asset allocation. Exposure to long-term core bonds is important for several reasons, including its historical ability to provide a buffer during stock market corrections. We continue to diversify fixed income across short- and long-term core bonds, unconstrained fixed income strategies, international fixed income, high yield, and floating rate bonds.

International fixed income has been a contributor to fixed income returns over the fourth quarter. With rising interest rates in the U.S., we have found exposure to other interest rate regimes beneficial to fixed income diversification.

Extended credit (high yield bonds and floating rate loans) traded up with other risk assets during the first quarter. As a result, credit spreads decreased during the quarter, resulting in slightly less attractive entry

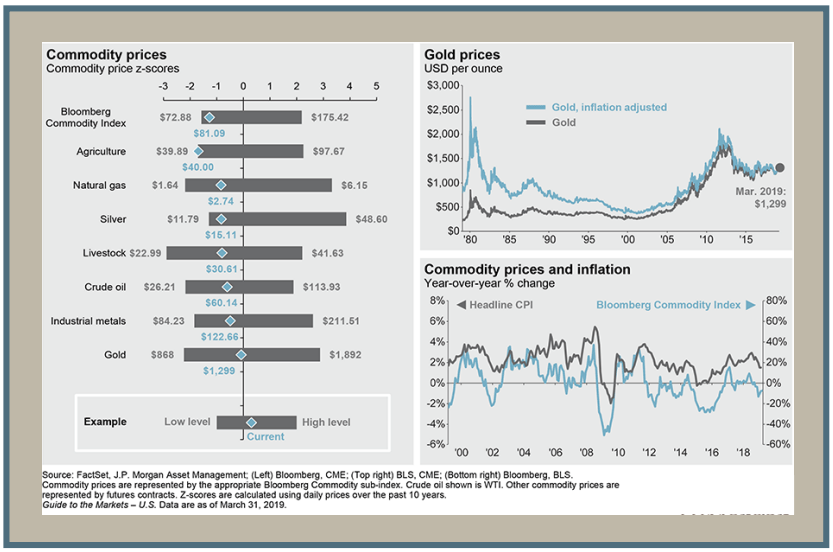
prices today. We are very close to neutral between floating rate loans and high yield bonds in our portfolios. The increase in short-term interest rates has benefited floating rate bonds. With the Federal Reserve's new, more accommodative monetary policy, we do not anticipate any significant increases in yields on floating rate bonds.

Alternative Investments

We believe that allocations to alternative investments can be helpful in managing portfolio volatility, diversifying sources of risk, adding low correlated returns, and thereby enhancing risk-adjusted returns.

Regarding real estate in 2019, CBRE believes demand for office space will slow, retail will continue to be challenged, industrial will continue to expand and further integrate with retail, and steady multi-family demand will continue to drive up rents. REIT prices increased over the first quarter with other risk assets, but we are mindful that publicly traded REITs have a high correlation with equities. In this environment we prefer to gain real estate exposure across the capital stack including investments in real estate common equity, preferred equity, and bonds (with conservative loan to values) to navigate the potential for decreasing prices and increasing interest rates. Regarding residential real estate, median existing home prices are up 3.8% from a year ago, marking the 85th straight month of year over year gains. Existing home sales surged upward in February but decreased in March. Lawrency Yun, Chief Economist at Natoinal Association of Realtors believes current residential sales activity is underperforming in relation to the strength in the jobs markets. In addition, Yun believes tax policy changes (limits on tax deductions of mortgage interest payments and property taxes) are dampening the upper-end residential real estate market while the lower-end of the market remains hot.

We continue to be cautious on commodities because of their significant price volatility. We understand this asset class is volatile and the purposes for these investments are diversification of risk, low correlation with other asset classes, and a hedge against inflation. It is difficult to achieve these characteristics with other asset classes. Because commodity prices have significant price volatility, it only takes a small allocation to achieve the benefits mentioned above in a portfolio. For these reasons we maintained a small allocation to a broad basket of commodities and gold.



Private investments such as private equity, private debt, and private real estate are growing markets. Private investments are complex, less regulated, and different than their publicly traded peers. We have reviewed local, regional, national, and international managers with investment focuses spanning niches across North America, Europe, and Asia. This experience and exposure give us perspective on current terms, fees, investment strategies, etc. available today and allows us to compare private investment opportunities for our clients who understand and desire this type of investment exposure.

Conclusion

In summary, we are cautious. The U.S. economic backdrop, while slowing back to normal, is good and economic fundamentals do not suggest a recession in the near term. Equity markets continue to benefit from earnings growth, albeit slower earnings growth, as expected. Our caution comes from the potential for slowing global growth, trade disputes, tariffs, political risks, decreasing profit margins, and geopolitical hotspots posing as realistic threats and potential for future market volatility. Looking outside the U.S., both developed and emerging international equities still have more attractive valuations and more room for earnings to grow relative to U.S. equities, although rising interest rates, a strengthening U.S. dollar, and tariffs are headwinds to these asset classes. Core fixed income prices may be less challenged by rising interest rates going forward. We continue to see opportunities in private investments, but these asset classes are complex, illiquid, less regulated, and are not appropriate for every investor. We will continue to monitor the economy and geopolitical events as we manage through this economic and market cycle.

Investors should not act on their emotions (often intensified by the media). There are many examples of investors trying to time the market only to miss the market's move. At any point in time, one asset class will outperform all others. Investors should be thoughtful about getting invested, staying invested, rebalancing, and sticking to their long-term plan. Instead of trying to pick the tops and bottoms of the markets, investors should be thoughtful about how they diversify their assets, manage risks, and refrain from making big directional trades or timing the market. In addition, investors should be careful about concentrated positions in the latter part of the market cycle and consider diversifying these concentrated positions. We welcome discussing these and any other items of importance with you.

Best Regards,

The Olympus Wealth Management Team

Sources: Barron's, Bessemer Trust, BlackRock, CBRE, Eaton Vance, FactSet, Franklin Templeton, Goldman Sachs, JPMorgan, MFS, Morningstar Direct, National Association of Realtors®, Northern Trust, Oppenheimer, The Federal Reserve, U.S. Department of the Treasury, U.S. Department of Commerce Bureau of Economic Analysis, U.S. Department of Labor Bureau of Labor Statistics.

1. "Hawkish" is used to describe an aggressive tone used by the Federal Reserve to indicate the threat of potentially stronger actions from the Federal Reserve. "Dovish" is the opposite of Hawkish and is used to describe a conciliatory tone used by the Federal Reserve to indicate an unlikely threat of potentially stronger actions from the Federal Reserve.

2. GDP estimates are prepared on a schedule that requires three successive estimates – "advance", "preliminary" and "final". The advance estimate is prepared approximately 1 month after the end of the quarter. In most cases, the sources data for the quarter are not final and are subject to revision by the issuing agency. One month later the preliminary estimate replaces the advance estimate. The source data used for preliminary estimates, particularly the data for the third month of the quarter, are subject to further revision. One month later the final estimate replaces the preliminary estimate. The final estimate incorporates revisions in source data for the third month of the quarter. Source: http://www.bea.gov/scb/account_articles/national/1093od/maintext.htm

3. The Federal Reserve reviews multiple measures of inflation when making policy decisions. The Fed moved away from the concept of core CPI to the Personal Consumption Expenditure Price Index (PCE) as their key inflation measure. Specifically, the Fed said the PCE index is "…most consistent over the longer run with the Federal Reserve's statutory mandate targets."

The PCE index uses a different formula than CPI to calculate inflation that allows for the consumer's power of substitution (elasticity of demand), and the PCE index has different weights associated with the underlying goods (e.g. the PCE index has a significantly lower weight associated with housing). The PCE index represents both households and nonprofit institutions serving households, whereas CPI only represents households. The PCE index also has other seasonal adjustments.

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

Equities:

The **Dow Jones Industrial Average** is a price-weighted average of 30 actively traded blue-chip U.S. stocks.

The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.

The **MSCI Pacific Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region.

The **Russell 1000 Index**® measures the performance of the 1,000 largest companies in the Russell 3000.

The **Russell 1000 Growth Index**® measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index**® measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index**® measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **Russell 2000 Growth Index**® measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 2000 Value Index**® measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 3000 Index**® measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

The **Russell Midcap Index**® measures the performance of the 800 smallest companies in the Russell 1000 Index.

The **Russell Midcap Growth Index** ® measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.

The **Russell Midcap Value Index** ® measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The **S&P 500 Index** focuses on the large-cap segment of the market, however, since it includes a significant portion of the total value of the market, it also represents the market.

Source: Guide to the Markets March 31, 2019

Fixed income:

The **Bloomberg Barclays 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon US Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible.

The **Bloomberg Barclays Global High Yield Index** is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities.

The **Bloomberg Barclays Municipal Index**: consists of a broad selection of investment- grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market.

The **Bloomberg Barclays US Dollar Floating Rate Note (FRN) Index** provides a measure of the U.S. dollar denominated floating rate note market.

The **Bloomberg Barclays US Corporate Investment Grade Index** is an unmanaged index consisting of publicly issued US Corporate and specified foreign debentures and secured notes that are rated investment grade (Baa3/BBB or higher) by at least two ratings agencies, have at least one year to final maturity and have at least $250 million par amount outstanding. To qualify, bonds must be SEC-registered.

The **Bloomberg Barclays US High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.

The **Bloomberg Barclays US Mortgage Backed Securities Index** is an unmanaged index that measures the performance of investment grade fixed-rate mortgage backed pass-through securities of GNMA, FNMA and FHLMC.

The **Bloomberg Barclays US TIPS Index** consists of Inflation-Protection securities issued by the U.S. Treasury.

The **J.P. Morgan Emerging Market Bond Global Index (EMBI)** includes U.S. dollar denominated Brady bonds, Eurobonds, traded loans and local market debt instruments issued by sovereign and quasi-sovereign entities.

The **J.P. Morgan Domestic High Yield Index** is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market.

The **J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)** is an expansion of the **J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI)**. The CEMBI is a market capitalization weighted index consisting of U.S. dollar denominated emerging market corporate bonds.

The **J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified)** tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. The index limits the exposure of some of the larger countries.

The **J.P. Morgan GBI EM Global Diversified** tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base.

The **U.S. Treasury Index** is a component of the U.S. Government index.

Historically the PCE index measurements of inflation are lower than CPI measures of inflation. From January 1995 to May 2013, the average rate of inflation was 2.4% when measured by headline CPI and 2.0% when measured by headline PCE. When setting both indexes equal to 100 in 1995, the CPI was more than 7% higher than the PCE index in May 2013. Arguably, focusing on the PCE index rather than CPI allows the Fed to continue economic stimulus at the expense of inflation.

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Other asset classes:

The **Alerian MLP Index** is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for the asset class.

The **Bloomberg Commodity Index** and related sub-indices are composed of futures contracts on physical commodities and represents twenty two separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc

The **Cambridge Associates U.S. Global Buyout and Growth Index**® is based on data compiled from 1,768 global (U.S. & ex - U.S.) buyout and growth equity funds, including fully liquidated partnerships, formed between 1986 and 2013.

The **CS/Tremont Hedge Fund Index** is compiled by Credit Suisse Tremont Index, LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The Index uses the Credit Suisse/Tremont database, which tracks over 4500 funds, and consists only of funds with a minimum of US$50 million under management, a 12-month track record, and audited financial statements. It is calculated and rebalanced on a monthly basis, and shown net of all performance fees and expenses. It is the exclusive property of Credit Suisse Tremont Index, LLC.

The **HFRI Monthly Indices (HFRI)** are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 4 main strategies, each with multiple sub strategies. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite, which accounts for over 2200 funds listed on the internal HFR Database.

The **NAREIT EQUITY REIT Index** is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

The **NFI-ODCE**, short for NCREIF Fund Index - Open End Diversified Core Equity, is an index of investment returns reporting on both a historical and current basis the results of 33 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s. The NFI-ODCE Index is capitalization-weighted and is reported gross of fees. Measurement is time-weighted.

Definitions:

Investing in **alternative assets** involves higher risks than traditional investments and is suitable only for sophisticated investors. Alternative investments involve greater risks than traditional investments and should not be deemed a complete investment program. They are not tax efficient and an investor should consult with his/her tax advisor prior to investing. Alternative investments have higher fees than traditional investments and they may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain. The value of the investment may fall as well as rise and investors may get back less than they invested.

Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise.

Investments in **commodities** may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Derivatives may be riskier than other types of investments because they may be more sensitive to changes in economic or market conditions than other types of investments and could result in losses that significantly exceed the original investment. The use of derivatives may not be successful, resulting in investment losses, and the cost of such strategies may reduce investment returns.

Distressed Restructuring Strategies employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings.

Investments in **emerging markets** can be more volatile. The normal risks of investing in foreign countries are heightened when investing in emerging markets. In addition, the small size of securities markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not provide adequate legal protection for private or foreign investment or private property.

The price of **equity** securities may rise, or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries, or the securities market as a whole, such as changes in economic or political conditions. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time.

Equity market neutral strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. Equity Market Neutral Strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

Global macro strategies trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Some overseas markets may not be as politically and economically stable as the United States and other nations.

There is no guarantee that the use of **long and short positions** will succeed in limiting an investor's exposure to domestic stock market movements, capitalization, sector swings or other risk factors. Using long and short selling strategies may have higher portfolio turnover rates. Short selling involves certain risks, including additional costs associated with covering short positions and a possibility of unlimited loss on certain short sale positions.

Merger arbitrage strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction.

Mid-capitalization investing typically carries more risk than investing in well-established "blue-chip" companies. Historically, mid-cap companies' stock has experienced a greater degree of market volatility than the average stock.

Price to forward earnings is a measure of the price-to-earnings ratio (P/E) using forecasted earnings. **Price to book value** compares a stock's market value to its book value. **Price to cash flow** is a measure of the market's expectations of a firm's future financial health. **Price to dividends** is the ratio of the price of a share on a stock exchange to the dividends per share paid in the previous year, used as a measure of a company's potential as an investment.

Real estate investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

Relative Value Strategies maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities.

Small-capitalization investing typically carries more risk than investing in well-established "blue-chip" companies since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock.

Source: Guide to the Markets March 31,

Past performance may not be indicative nor a guarantee of future results. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals, and economic conditions may materially alter the performance of your portfolio.

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Unless otherwise stated, all data are as of March 31, 2019 or most recently available.

Guide to the Markets – U.S.

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