PORTFOLIO UPDATE – JUNE 1, 2018

While market volatility has generally declined from levels earlier in the year, we continue to see broad swings based on geopolitical headlines. There has been a steady flow of events for investors to assess in recent weeks. These include the U.S. departure from the Iran nuclear pact, major tensions in the Middle East with the U.S. embassy move to Jerusalem, the makings of a constitutional crisis in Italy, and the daily go/no go decision on the U.S./North Korea summit. And let's not forget the undercurrent of a "trade war" as the U.S. imposes tariffs and NAFTA negotiations drag on. While global growth appears healthy and U.S. corporate fundamentals are strong, it is frustrating that the S&P 500 Index is only up 2.3% year-to-date on a total return basis. As we consider the ramifications of these global developments, we have chosen to make tactical position changes within our portfolios. As always, our positioning is based on an assessment of true market drivers (eliminating near-term "noise") and longer-term expectations. The current changes include concentrating our emerging market equity exposure, trimming U.S. large cap equities to more evenly balance out U.S. market cap exposure, and selling a dedicated U.S. health care sector instrument (where applicable).

Within emerging markets, we have growing concerns about the impact of rising U.S. interest rates, weakening currencies and political uncertainty (in specific markets). Debt levels in some of these regions have escalated as governments took advantage of low interest rates. We acknowledge the recent bearish comments made by leading academics. We sold out of our broad market exposure based on these concerns, and believe it is becoming more important to "pick your spots" within emerging market equities. We maintain high conviction in emerging Asia countries based on attractive growth potential and generally healthy current account balances.

We have had a long-standing preference for the U.S. in regard to both equity and fixed income positioning. Earlier this year, we increased our exposure to large cap equities at the expense of small and mid cap equities. This move was largely predicated on the extended market cycle and the belief that larger cap, multinational companies would perform best in the late stages of the rally. That has not been the case in recent months, providing further confirmation that this is not a typical market cycle due to the aggressive monetary support of global central banks. The recovery has been slow to develop and we remain in an environment of artificially low interest rates and closely scrutinized policy actions. In reassessing our positioning, we recognize that smaller companies should benefit disproportionately from corporate tax cuts and deregulation. They should also be less impacted by global trade disputes based on the more domestic nature of their businesses. However, from a price standpoint, we also recognize that small cap equities are trading at multi-year highs. That is somewhat mitigated by strong market technicals that indicate that the small cap rally has room to run. Weighing all of those considerations, we have increased our small and mid cap equity exposure to a more neutral stance, funding these increases from both emerging markets and U.S. large cap exposures.

In regard to U.S. sector exposures, we continue to prefer Information Technology and Financials, while avoiding bond-like exposures in Utilities and Telecommunications. Where possible, we have sold our dedicated Health Care position due to weak market technical factors, deteriorating fundamentals and reduced conviction relative to other sectors. Our positioning in that sector was concentrated in large cap companies and we have used the sale proceeds to increase our smaller cap holdings.

In terms of overall positioning, we maintain a long-standing preference for the U.S. across equities and fixed income. Within U.S. equities, we have an overweight to large cap stocks with a corresponding underweight to mid and small cap stocks. As discussed above, we have pared back our emerging market equity exposure but continue to have a favorable view of emerging Asia countries. Our overweights to these markets are primarily funded from non-U.S. bonds. Within fixed income, we remain underweight across both U.S. and non-U.S. regions while maintaining a preference for corporate credit. Our portfolios maintain lower duration than the benchmark. Our cash position is overweight relative to our benchmark.

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Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

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Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, the risk of issuer default, liquidity risk and market risk. These risks can affect a security's price and yield to varying degrees, depending upon the nature of the instrument, and may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets. In general, a bond's yield is inversely related to its price. Bonds can lose their value as interest rates rise and an investor can lose principal. If sold prior to maturity, fixed income securities are subject to gains/losses based on the level of interest rates, market conditions and the credit quality of the issuer.

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An investment in small/mid-capitalization companies involves greater risk and price volatility than an investment in securities of larger capitalization, more established companies. Such securities may have limited marketability and the firms may have more limited product lines, markets and financial resources than larger, more established companies.

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Portfolios that invest a significant portion of assets in one sector, issuer, geographical area or industry, or in related industries, may involve greater risks, including greater potential for volatility, than more diversified portfolios.

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For additional information regarding advisory fees, please refer to the Fee Summary and/or Fee Detail pages (if included with this report) and the program sponsor's/each co-sponsor's Form ADV Part 2, Wrap Fee Brochure or other disclosure documents, which may be obtained through your advisor.

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