AUGUST 2017 IN REVIEW

September Update | As of August 31, 2017

ECONOMY:
AUGUST DATA CONFIRMS STEADY U.S. GROWTH

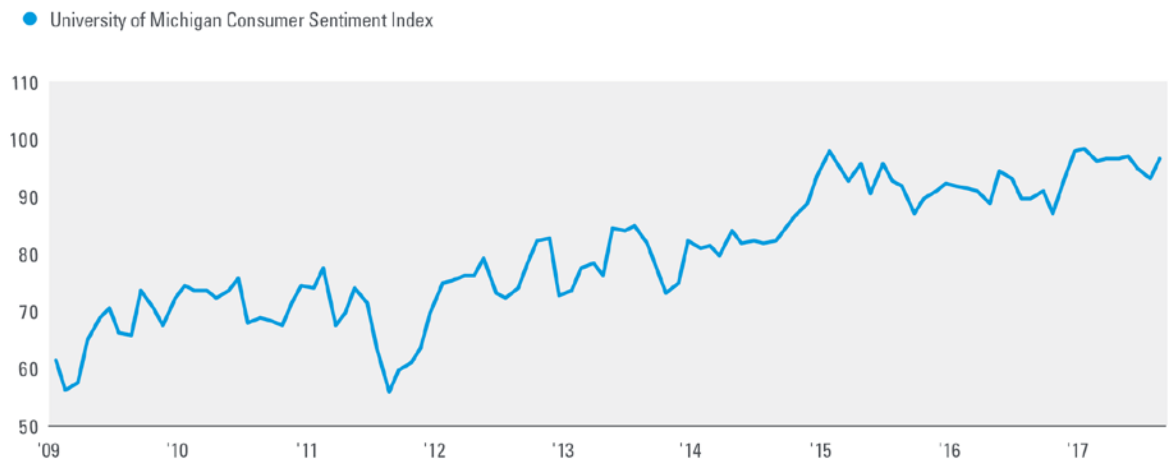
Economic Data

Economic reports released in August 2017, which mostly reflect economic activity in July, confirmed that the U.S. economy continued to exhibit steady growth at the start of the third quarter after a solid rebound in the second quarter. The primary driver of the expansion was support for business spending which has continued to round out the solid picture of consumer spending. According to Bloomberg-surveyed economists, consensus expectations for real (inflation-adjusted) economic growth in the third and fourth quarter are for 2.5% and 2.4%, respectively.

The second estimate of second quarter gross domestic product (GDP) was released in August, with a meaningful upward revision from the initial estimate of 2.6% to 3.0%, ahead of expectations of 2.7%. The main source of the revision was the underestimated growth of consumer spending, supported by a healthy labor market, although improvement in the initial estimate of business investment was also a positive sign. GDP data is backward looking, but it's our best overall estimate of economic activity and the positive revision provides added evidence that first quarter weakness was transitory.

On average, data released in August was largely in line with expectations and reflected approximate trend growth in July. Economic weakness was concentrated in inflation data and housing, while economic strength was more broadly based. Consumer spending continues to drive the economy, but business spending is playing an increasing role. A largely healthy labor market has provided important support for consumers, and the July jobs report continued to show strength. The economy added 209,000 jobs in July, according to data available as of August 31, topping expectations of 180,000. Strong jobs data flowed through to spending, retail sales in July rising 0.6%, ahead

A HEALTHY LABOR MARKET CONTINUES TO SUPPORT CONSUMER CONFIDENCE



Source: LPL Research, University of Michigan, Bloomberg 08/31/17 of expectations, with a healthy revision of June data from -0.2% to +0.3%. Consumer strength was also reflected in consumer confidence surveys. The University of Michigan's Consumer Sentiment reading jumped to 97.6 on a rise in future expectations, although sentiment on current conditions lost a little ground.

Data on July business activity showed largely steady growth. The Institute for Supply Management's (ISM) Manufacturing Purchasing Managers' Index (PMI) fell to a still healthy 56.3 in July (above 50 indicates expansion) after surging to 57.8 in June. Markit's competing Manufacturing PMI rose to 53.3 and continues to paint a less rosy picture, although the spread between the two indexes has narrowed. ISM's Non-Manufacturing Composite showed unexpected weakness, falling to 53.9, although the Markit Services PMI provided a counterbalance, rising to 56.9. Hard data on business activity showed some upside; shipments of nondefense capital goods ex-aircraft, which flows through to GDP as part of private business investment, jumped 1.0% in July, while orders of durable goods ex-transportation (vehicles, aircraft, etc.) climbed a healthy 0.5%. Capital goods shipment data has accelerated sharply year over year off of 2016 lows, and the current value of +7.3% is the strongest since 2012.

Economic data compared to consensus estimates can also provide a helpful real-time gauge of economic activity. The Citi Economic Surprise Index, a rolling average of standardized economic surprises, reversed higher in July and continued to climb in August but remained in negative territory, showing normalization after elevated expectations were not met in the second quarter. Meanwhile, indicators that tend to lead economic activity continue to suggest below-historical odds of recession in the next year. The Conference Board's Leading Economic Index (LEI), an aggregate of 10 leading indicators, continued to climb in July, rising 3.9% year over year.

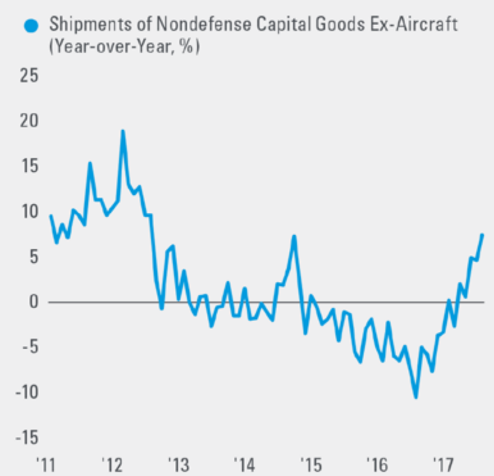
Overall, the August data painted a picture of an economy growing a little better than the 2.2% average we've seen since the end of the Great Recession — with no apparent threat of a downturn on the immediate horizon.

Central Banks

Major central banks had a quiet August, with no scheduled meetings for the Federal Reserve (Fed), the European Central Bank (ECB), or the Bank of Japan (BOJ). The headline event was the annual Fed-sponsored symposium in Jackson Hole, Wyoming from August 24–26. While there have been important market-moving speeches at Jackson Hole in the past, this year's symposium held no surprises.

Neither Fed Chair Janet Yellen nor ECB President Mario Draghi directly addressed monetary policy. One could interpret their comments as support for the status quo, and in a way, a victory lap for current policies. Fed Chair Yellen's comments about financial stability could have been interpreted as dovish, but they were also a clear defense of post-crisis regulatory policy. Yellen said reforms since the crisis have boosted the resilience of the system, and she downplayed concerns about the effects of regulation on bank lending and liquidity. ECB President Draghi delivered nothing new in terms of policy expectations, but he did say that substantial accommodation is still warranted considering still low inflation, giving his speech a dovish tilt. He spent the majority of the time defending international trade and provided a warning against the increasing rise of protectionism. However, he did not mention the strength of the euro, which was discussed at the last ECB meeting.

BUSINESS INVESTMENT IN CAPITAL GOODS IS ACCELERATING



Source: LPL Research, U.S. Census Bureau, Bloomberg 08/31/17

GLOBAL EQUITIES:

U.S. STOCKS EKE OUT A GAIN IN AUGUST

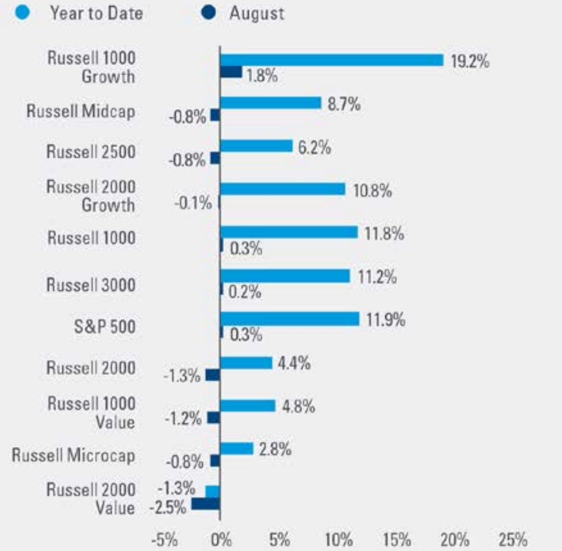
U.S.

Despite the devastation caused by Hurricane Harvey and an escalating North Korean threat, stocks managed a small gain in August to end the month less than 0.5% from their all-time closing high. The S&P 500 Index closed higher by 0.3% to mark its fifth consecutive monthly gain and tenth straight with a positive total return (including dividends); this is the longest such streak since 1995. The Dow Jones Industrial Average has produced five straight monthly gains, while the Nasdaq has been higher nine of the past ten months and has set a new record every month this year. Improving economic growth in both the U.S. and abroad, combined with strong earnings globally, ebbing inflation risks, and continued low interest rates all buoyed investor sentiment even at elevated valuation levels. As of August 31, the S&P 500 has returned 11.9% year to date.

Although stocks produced slight gains for the month, they did not come with the same low volatility observed throughout much of 2017. The S&P 500 lost 1% or more in two August trading sessions, which had only occurred twice the entire year — once in March and once in May. Losses were mostly attributable to escalating tensions with North Korea, but many investors were also unnerved by the terrorist attacks in Barcelona and the uncertainty in Washington, D.C., in particular the risk of a heated debt ceiling debate, a 2018 federal budget impasse, and stalled tax reform efforts. Still, as September begins, the S&P 500 has not pulled back 3% or more in 10 months.

Technology topped the sector leaderboard in August — this was the fourth time in eight months that the sector accomplished that feat. Earnings strength and improving business spending played a role; however, a double-digit advance for the sector's largest constituent was also a big part of the story. Additionally, interest rate sensitive utilities produced market-beating gains in August as Treasury yields fell. But on the flip side, Hurricane Harvey weighed on the energy sector as crude prices declined amid concerns about the potential demand impact of refinery outages.

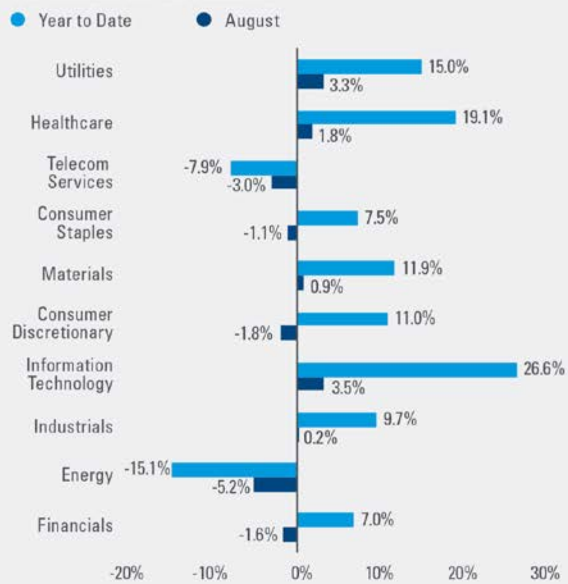
DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 08/31/17

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

S&P 500 SECTOR PERFORMANCE



Source: LPL Research, FactSet 08/31/17

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Stock investing involves risk, including loss of principal.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

By style, growth continued its strong performance versus value. Based on the Russell 3000 style indexes, growth outperformed value for the seventh month out of the past eight in August and has now outpaced value by more than 11 percentage points year to date. Technology strength was the biggest growth driver, while losses for the value-heavy financials and energy sectors hurt the value side.

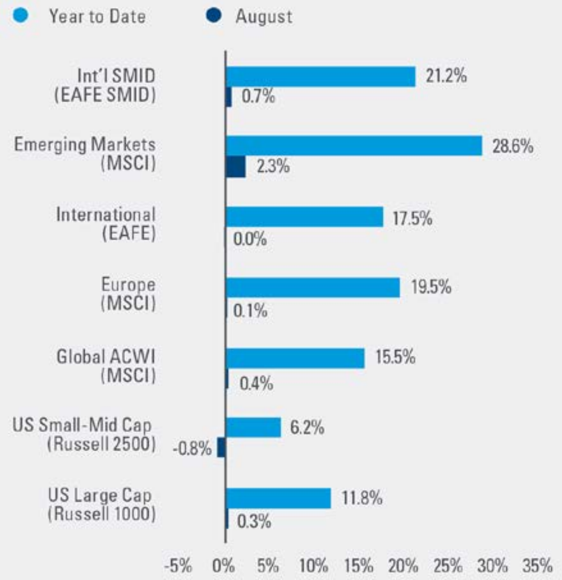
In terms of market cap, small cap stocks continued to struggle in August as they have done much of the year. Lingering doubts about tax reform are a factor, given that small cap companies could benefit more from a potential reduction in corporate tax rates due to their domestic focus. Year to date, the small cap Russell 2000 Index's return of 4.4% is well behind the large cap Russell 1000 Index's 11.8% return.

International

International equities were mixed in August, with the MSCI Emerging Markets (EM) Index returning a solid 2.3% for the month, while the developed foreign MSCI EAFE Index finished flat. Both benchmarks are ahead of the U.S. stock market year to date, with the EM Index up 28.6% and the EAFE Index up 17.5%, compared to the S&P 500's 11.9% return. Both indexes have benefited from improving global growth and U.S. dollar weakness, which boosts dollar-based returns for U.S. investors. ECB President Draghi delivered nothing new in terms of policy in Jackson Hole, but his comments were generally interpreted as dovish, and on the margin, may have had some positive impact on investor sentiment in the region. Hong Kong and France were among the best performing developed international markets for the month, while the U.K. and Switzerland were among the worst.

EM equities also got a boost from a weaker U.S. dollar in August, in addition to a firmer growth outlook in China, and a potentially slower pace of Fed rate hikes due to weaker inflation. The North Korean threat unsurprisingly hurt South Korean equities but did not prevent gains in China, which was among the best performing EM markets for the month, along with Brazil..

GLOBAL INDEX PERFORMANCE



Source: LPL Research, FactSet 08/31/17

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International and emerging markets investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors.

FIXED INCOME:

HIGH-QUALITY FIXED INCOME RALLIES AS RATES DECLINE

Treasury yields were down substantially during August, with the biggest declines in longer maturities (10- and 30-year), which declined by 18 and 16 basis points (0.18% and 0.16%), respectively. Declining inflation expectations and escalating geopolitical tensions helped push rates lower globally.

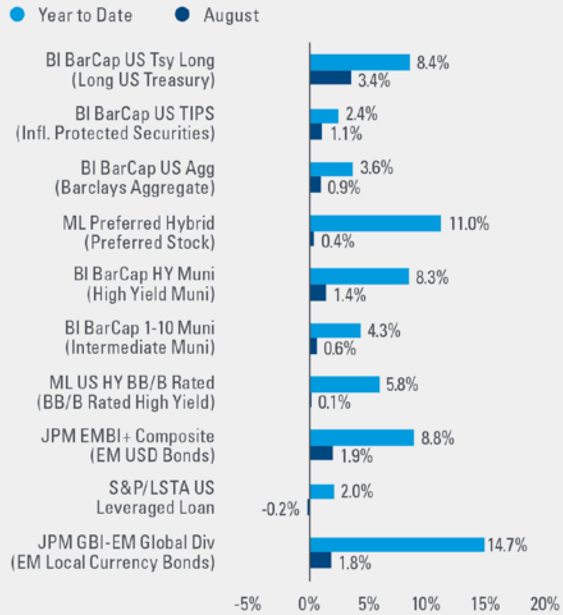
The broad Bloomberg Barclays Aggregate Bond Index returned 0.9% during the month, with Treasuries outperforming, returning 1.1% (Bloomberg Barclays U.S. Treasury Index). Investment-grade corporate bonds underperformed the broad high-quality market, returning 0.8%. Despite a decline in inflation expectations, Treasury Inflation-Protected Securities (TIPS) performed well amid the decline in rates, returning 1.1%.

Most economically sensitive sectors of fixed income were restrained by relatively flat equity markets and a 5.9% decline in the price of oil. High yield was flat on the month and bank loans lost 0.2%. Emerging market debt was a standout with a 1.9% return, benefiting from elevated interest rate sensitivity (relative to high yield) and richening valuations.

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

FIXED INCOME PERFORMANCE



U.S. TREASURY YIELDS

Security	07/31/17	08/31/17	Change in Yield
3 Month	1.07	1.01	-0.06
2 Year	1.34	1.33	-0.01
5 Year	1.84	1.70	-0.14
10 Year	2.30	2.12	-0.18
30 Year	2.89	2.73	-0.16

AAA MUNICIPAL YIELDS

Security	07/31/17	08/31/17	Change in Yield
2 Year	0.97	0.92	-0.05
5 Year	1.37	1.25	-0.12
10 Year	2.07	1.95	-0.12
20 Year	2.72	2.60	-0.12
30 Year	2.89	2.78	-0.11

Source: LPL Research, Bloomberg, FactSet 08/31/17

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Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

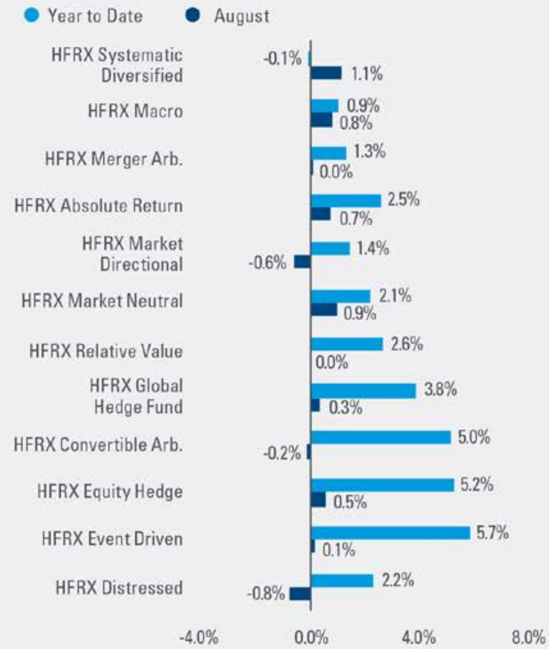
ALTERNATIVES:
MANAGED FUTURES STRENGTH CONTINUES

Managed futures strategies posted a second straight month of strong returns, as the HFRX Systematic Diversified Index gained 1.1%. Returns were once again supported by long equity and long fixed income contract exposure, as both markets moved higher during the month. Commodity positioning, specifically long exposure in base metals such as copper, aluminum, and zinc, provided further gains and illustrated the positive diversification benefits managed futures could provide across a variety of markets.

While the broader HFRX Event Driven Index edged out a 0.1% gain during the month, the underlying merger arbitrage and distressed subcategories faced headwinds. Within the merger arbitrage space, announced deal spreads widened marginally due to the spikes in volatility during the month. While the increase in deal spreads may cause a short-term loss for existing positions, it also provides a more attractive entry point for adding new capital. In the distressed category, the 0.81% loss was partially driven by the industries sensitivity to the energy market. In general, finding value in the space has become increasingly difficult, as the impressive stretch of return since early 2016 has led to significant capital appreciation in many credits. Year to date, the HFRX Event Driven Index leads all other alternative investment categories in performance, with a gain of 5.7%.

Long/short equity strategies continue to perform well, as the HFRX Equity Hedge Index gained 0.50%, outperforming the S&P 500, while still maintaining a beta inside of 0.5. Gains from long positioning were once again supported by the industry's overweight to the technology sector (+3.5% during the month), while short energy (-5.2% during the month) related positioning also added value.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE

Source: LPL Research, FactSet 08/31/17

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Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

INTERNATIONAL REAL ESTATE AND GLOBAL INFRASTRUCTURE PACED LIQUID REAL ASSET GAINS

August was mixed overall for liquid real assets, with international real estate, global infrastructure, and commodities producing positive returns, and master limited partnerships (MLP) and domestic real estate investment trusts (REIT) suffering losses. Stable and low interest rates and tepid inflation globally provided support, while lower crude prices and a distribution cut weighed on MLPs.

MLPs

MLP performance has been tightly tied to oil price movements this year and August was no different, as the Alerian MLP Index declined -4.9% for the month. One of the major MLPs announced a dividend cut and provided a downbeat outlook, which directly impacted the index and resulted in spillover effects on other players.

The U.S. Senate finally approved two nominations to the Federal Energy Regulatory Commission (FERC), the main regulatory body for MLPs. A number of major projects have been in limbo pending these position appointments and we expect fairly quick action on project backlog, which should bode well for the asset class in the long run.

REITs & Global Listed Infrastructure

Global infrastructure produced the best August returns among the major liquid real asset categories, followed by international real estate, while domestic REITs suffered modest losses. Global and international yield-oriented investments got some support from low interest rates and expectations for continued monetary policy stimulus, in addition to broad gains in global equities and modest U.S. dollar weakness. U.S. REITs were down modestly as weakness in office REITs was only partly offset by strength in industrial and data center REITs.

Commodities

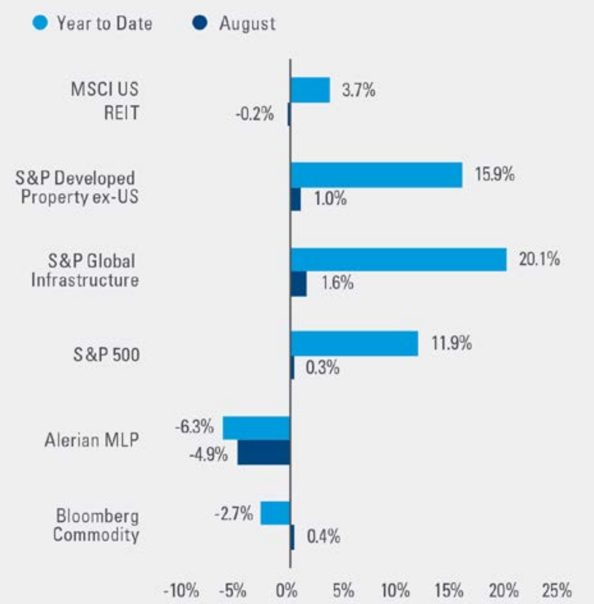
The Bloomberg Commodity Index gained 0.4% in August. The U.S. dollar weakness that boosted commodities early in the year slowed to a modest decline. Domestic energy markets were impacted by Hurricane Harvey and generally oversupplied conditions. Oil fell 5.9% (WTI Crude Oil futures), while gasoline futures jumped 15.7% as refineries were closed in the Houston area. Base metals gained 10.1% during the month and are now up 21.7% this year (Bloomberg Base Metals Spot Price Commodity Index), driven by strong demand and reports that China is reducing production. The Bloomberg Agriculture Subindex lost 6.9%, while cotton gained 3% in August (cotton futures), but saw a price spike at the end of the month and in early September due to Hurricane Harvey.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Investing in MLPs involves additional risks as compared with the risks of investing in common stock, including risks related to cash flow, dilution, and voting rights.

MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership. Additional management fees and other expenses are associated with investing in MLP funds.

LIQUID REAL ASSET PERFORMANCE



Source: LPL Research, FactSet 08/31/17