JUNE 2018 IN REVIEW

July Update | As of June 31, 2018

ECONOMY:

EVIDENCE OF A PICKUP IN U.S. GROWTH

Economic Data

Economic reports released in June 2018, largely reflecting economic activity in May, showed continued solid economic growth in the U.S. and provided evidence of a pickup in growth from seasonally weak first quarter levels.

The U.S. economy grew at 2.0% in the first quarter, based on the third revision to estimated gross domestic product (GDP), slightly below the consensus estimate of 2.2% and well below the near 3% growth of the prior three quarters. Persistent problems with first quarter seasonal adjustments and a lull in consumer activity after some spending was pulled forward into the fourth quarter weighed on first quarter growth, but have led to expectations of a rebound in the second quarter. The modest downward revision to first quarter growth was driven by slower spending on services by consumers and an inventory adjustment, which is expected to lift second quarter growth.

As of June 30, Bloomberg consensus for second quarter GDP growth stood at 3.4% (quarter over quarter annualized), up from 3.1% at the end of May. The expected rebound is being supported by the roll-off of temporary factors including bad weather, in addition to fiscal stimulus put in place from the new tax law and the federal spending bill passed in March. A healthy job market, strong manufacturing and business confidence surveys, and the new tax law are all expected to give economic growth a boost over at least the next couple of quarters.

Inflation readings inched higher in June but generally met expectations. Headline readings were pushed higher by rising energy prices, so increases in core readings excluding energy prices were smaller. The core consumer price index (CPI) excluding food and energy increased 2.2% year over year; the Federal Reserve's (Fed) preferred inflation gauge, the core personal consumption expenditures (PCE) deflator, increased 2.0%; and the prices paid component of the Institute for Supply Management (ISM) manufacturing survey rose more than expected to its highest level since April 2011. Wage growth accelerated slightly but remained within its 2018

JOBLESS CLAIMS AT 45-YEAR LOWS

Source: LPL Research, U.S. Department of Labor, Bloomberg 06/29/18 range, as average hourly earnings increased 2.7% year over year in May, up from April's 2.6% increase.

Labor markets remained healthy enough to potentially put further upward pressure on wages and keep the Fed on its gradual interest rate hiking path. The economy added 223,000 jobs in May, well above consensus expectations of 190,000 and a solid pace for the current later stage of the business cycle. Meanwhile, jobless claims remain near four-decade lows despite increasing slightly over the past two months.

Retail sales growth accelerated in May, rising 0.8% versus April, double the consensus growth estimates and a 6.4% year-over-year increase. The increase, which came despite higher prices at the pump, was broad based with 10 of 13 categories showing growth. The data, even excluding volatile auto and gasoline sales, provided a clear sign that consumer spending has picked up in the second quarter after a soft start to the year. A healthy job market, wage gains, and tax cuts continue to support consumer spending.

Manufacturing activity remained robust in May, based on data released in June, despite ongoing global trade tensions. The ISM manufacturing index accelerated to 58.7 in May, up from the April reading of 57.3 and above consensus expectations at 58.2. This data continues to indicate expanding factory activity and to signal solid corporate profit growth. Reduced corporate tax rates, incentives for capital purchases in the new tax law, strong earnings, and high business confidence readings signal a favorable outlook for capital investment.

The Conference Board's Leading Economic Index (LEI), an aggregate of 10 leading indicators, rose 0.2% in May and 6.4% year over year, slightly below consensus expectations and the prior month but still consistent with continued growth in the U.S. economy and low odds of recession in the coming year. New manufacturing orders and interest rate spreads were the biggest contributors, while building permits detracted most.

Central Banks

During its June 12–13 meeting, as expected, the Fed raised the fed funds rate 25 basis points (0.25%) to a new range of 1.75-2.00%. The Fed also raised its guidance for future hikes, i.e., the "dot plot," with the median dot pointing to four hikes in 2018 rather than three. The Fed also raised its estimates for 2018 GDP growth, lowered the unemployment estimate, and raised the inflation forecast. The slightly hawkish change to forecasts and statement language, and the tone of the press conference, indicated to markets that a September rate hike was likely.

The European Central Bank (ECB) announced it would end its bond purchases (so-called quantitative easing) by year end as expected. On the other hand, in a slightly dovish development, ECB Chief Mario Draghi pledged to not raise interest rates until at least summer 2019 and that the benchmark rate would remain at zero as long as is necessary thereafter, depending on the data. The Bank of Japan maintained the status quo, as expected, with negative short-term rates, long-term rates near zero, and continued unabated asset purchases.

MANUFACTURING ACTIVITY REMAINED ROBUST IN MAY

Source: LPL Research, Institute for Supply Management, Bloomberg 06/29/18

GLOBAL EQUITIES:
U.S. STOCKS DELIVERED ANOTHER POSITIVE MONTH

U.S.

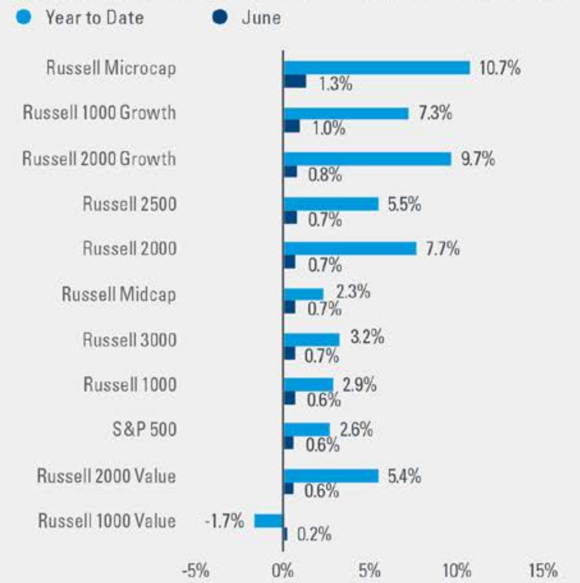
Stocks rose for the third straight month in June, with the S&P 500 returning 0.6% to bring its year-to-date return to 2.6%. Modest gains came despite global trade tensions and related weakness in international markets. The technology-heavy Nasdaq Composite fared best among the major averages with a 1.0% return for the month, while the Dow Industrials lagged with a 0.5% loss. During the first half, the Nasdaq gained an impressive 9.4%, well ahead of the S&P 500's 2.6% return and the 0.7% loss for the Dow Industrials.

Investor discussions in June focused on global tariffs, the pickup in the U.S. economy, the strong U.S. dollar, and resulting headwinds on emerging markets (EM) and EM currencies. Trade tensions ratcheted higher as President Trump announced tariffs on an additional $200 billion in Chinese goods, called for tariffs on European auto imports, and threatened to restrict Chinese investments in U.S. technology and certain technology exports to Beijing. Retaliation was swift as China, the European Union, and Mexico announced new import taxes on U.S. products. The likely overall impact of tariffs on the U.S. and global economy may end up being limited, but the Trump administration's tough negotiating tactics did weigh on market sentiment during the second half of June.

Amid the uncertainty surrounding trade, the stock market's resilience in June was encouraging. The consensus view remained that a full-blown trade war would be avoided. Stocks also garnered support from solid U.S. economic data that pointed to a second quarter rebound in GDP growth, including a pickup in capital expenditures supported by tax cuts, immediate expensing of capital investments, strong earnings, and repatriation of overseas cash.

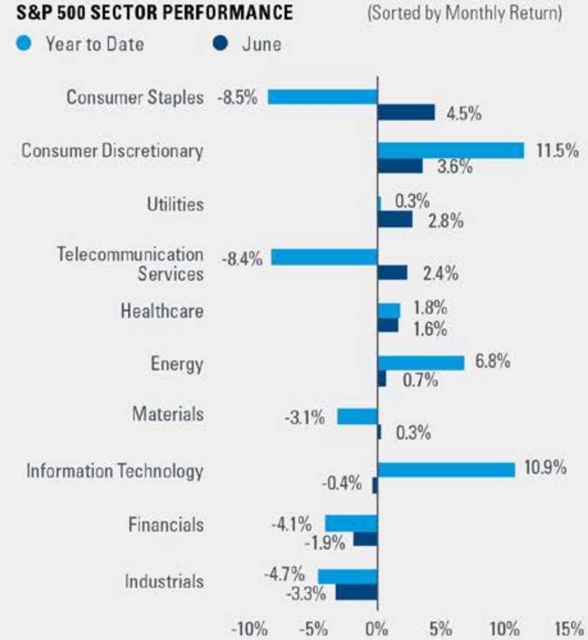
Trade concerns were evident in intra-market activity in June. Defensive sectors fared well, led by the 4.5% return for consumer staples and including real estate (+4.4%), utilities (+2.8%), and telecom (+2.4%). Cyclical sectors were weaker on balance, with the trade-sensitive industrials down 3.3%. Technology's monthly decline

DOMESTIC INDEX PERFORMANCE (Sorted by Monthly Return)



Source: LPL Research, FactSet 06/30/18

S&P 500 SECTOR PERFORMANCE (Sorted by Monthly Return)



Source: LPL Research, FactSet 06/30/18

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

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.

caused it to lose its year-to-date lead to consumer discretionary, which returned 11.5% in the first half on the strength in internet retailers, followed by technology's 10.9% advance. Despite the strong June, the 8.5% year-to-date loss for consumer staples is the worst among all S&P 500 sectors.

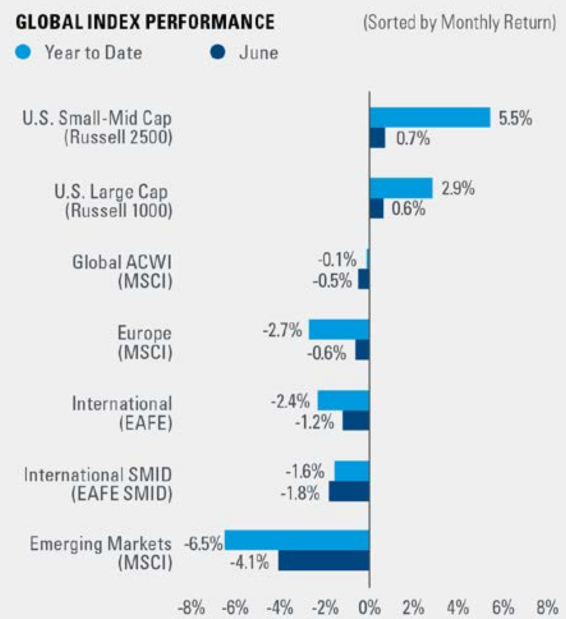
Small cap stocks outpaced large and midcaps for the fourth straight month, as the Russell 2000 Index returned 0.7% in June, fractionally ahead of similar returns for the Russell 1000 and Russell Midcap indexes. In general, small caps benefit more from corporate tax cuts and are relatively less impacted by tariffs and a stronger U.S. dollar. Small caps have a solid lead on mid and large caps for the year, as the Russell 2000 Index returned 7.7% during the first half, handily outpacing the Russell 1000 (+2.9%) and Russell Midcap indexes (+2.3%).

The growth style outperformed value during June, as the Russell 3000 Growth Index returned 1.0% compared with 0.3% for its value counterpart. Strength in the growth-oriented consumer discretionary sector, coupled with underperformance by the value-heavy financials, drove most of the growth outperformance, which was concentrated in large caps. Growth maintains a solid lead in 2018, with the Russell 3000 Growth Index having returned 7.4% year to date, compared with the 1.2% loss for the Russell 3000 Value Index.

International

Developed foreign equities lost 1.2% in June, based on the MSCI EAFE Index, trailing the U.S. but well ahead of EM equities. Trade fears, soft European economic data, and the negative currency translation effects from a stronger U.S. dollar presented headwinds for international equities. Export-focused Japan and Germany and the China-sensitive Hong Kong market suffered the biggest losses in the month among major developed overseas markets. Year to date, developed international equities have lost 2.4%, with particular weakness in Europe including Germany and Switzerland.

EM equities lost 4.1% in June, lagging behind both U.S. and developed international equities, amid escalating trade tensions, tightening financial conditions, and weakening currencies. China, with a more than 30% weight in the MSCI EM Index, was the biggest drag on EM with its 5.1% loss, though losses in Korea and Brazil were also meaningful index detractors. Interestingly, Mexico was the strongest EM equity market in June despite trade risk and anticipation ahead of the July 1 general election. Year to date, the MSCI EM index has lost 6.5%, driven mostly by declines in Korea, China, Brazil, and South Africa.



Source: LPL Research, FactSet 06/30/18

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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.

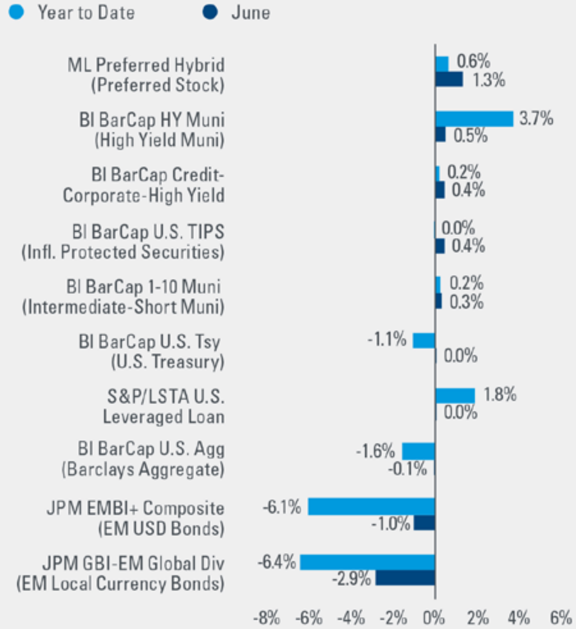
FIXED INCOME:
YIELD CURVE FLATTENS ON CONTINUED TRADE TENSIONS

Treasury yields rose at shorter maturities due to a Federal Reserve (Fed) rate hike intra-month, along with slightly more aggressive Fed guidance regarding rate hikes going forward. Global trade tensions worried investors, however, leading to flat to slightly lower longer-maturity yields. This resulted in a further flattening of the Treasury yield curve (as measured by the spread between 2- and 10-year Treasuries). During June, the 2-year Treasury yield rose by 12 basis points (0.12%), while the 10-year yield rose by 2 basis points (0.02%), and the 30-year Treasury yield declined by 2 basis points (0.02%).

The mixed move in rates led to a muted month for broad fixed income. The broad Bloomberg Barclays Aggregate Bond Index returned -0.1% during June. Treasuries were flat and mortgage-backed securities outperformed the broad market, returning 0.1%. Investment-grade corporates underperformed, returning -0.5%, continuing a difficult stretch of performance year to date. An increase in expected mergers and acquisitions activity and related bond issuance led to technical pressure and further weakness in the asset class.

Modestly higher equity markets during June helped boost high-yield to a 0.4% return during the month. Emerging market debt returned -1.0%, hindered by further concerns over the threat of global trade friction.

FIXED INCOME PERFORMANCE (Sorted by Monthly Return)



U.S. TREASURY YIELDS

Security	05/31/18	06/30/18	Change in Yield
3 Month	1.93	1.93	0.00
2 Year	2.40	2.52	0.12
5 Year	2.68	2.73	0.05
10 Year	2.83	2.85	0.02
30 Year	3.00	2.98	-0.02

AAA MUNICIPAL YIELDS

Security	05/31/18	06/30/18	Change in Yield
2 Year	1.72	1.64	-0.08
5 Year	2.00	1.97	-0.03
10 Year	2.40	2.40	0.00
20 Year	2.82	2.84	0.02
30 Year	2.94	2.98	0.04

Source: LPL Research, Bloomberg, FactSet 06/30/18

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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.

ALTERNATIVES:

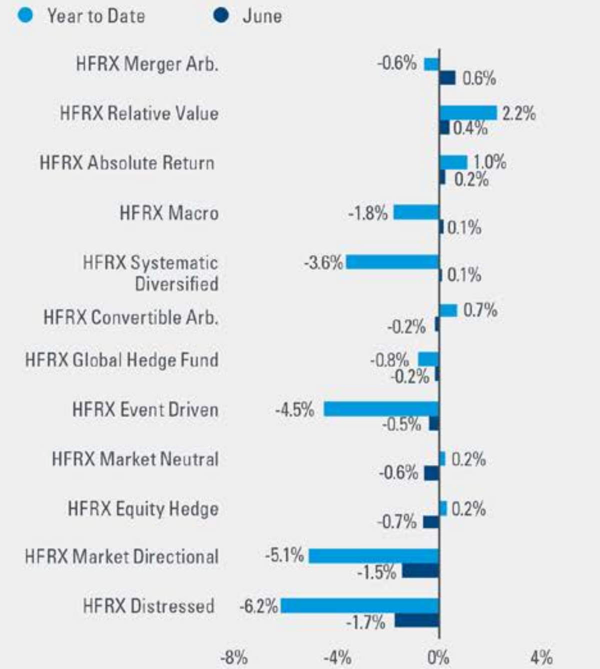
MERGER ARBITRAGE STRENGTH CONTINUES

The HFRX Event Driven: Merger Arbitrage Index once again led alternative investment gains with a monthly return of 0.6%. Broad-based strength within the equity market (the S&P 500 was also up 0.6%) supported merger arbitrage spreads, as the share price of many target firms climbed higher and closer to their respective deal prices. We continue to closely watch the ongoing global trade rhetoric and subsequent impact on deal flow.

Performance in the long/short equity space was disappointing as the HFRX Equity Hedge Index declined 0.7%. The weak performance was predominantly driven by the information technology's 0.4% decline and strong performance in certain defensive sectors. Information technology has been a consistent overweight, while many strategies maintain either underweight or short exposure to the consumer staples (+4.5%) and utility sectors (+2.8%). For the year, the HFRX Equity Hedge has gained 0.2% and less than their roughly .25–.35 beta profile would indicate.

In the macro space, the HFRX Systematic Diversified and HFRX Macro Indexes gained 0.1%. U.S. dollar strength has been a beneficial position for both the trend followers and discretionary managers, while short positioning in select commodity markets also supported portfolios. Within the agriculture space, sugar declined 7.3%, while grains fell 13.3% due to the announced tariffs on imports. The rally in crude oil has also been a positive contributor in the managed futures industry, as the price of crude oil has climbed over 20.0% year to date.

HFRX INDEX PERFORMANCE (Sorted by Monthly Return)



MORNINGSTAR INDEX PERFORMANCE (Sorted by Monthly Return)

Source: LPL Research, FactSet 06/30/18

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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.

REAL ASSETS:

U.S. REITS LED IN MIXED JUNE FOR REAL ASSETS

Liquid real asset performance was mixed during June. U.S. real estate investment trusts (REIT) and global infrastructure produced solid gains, while international real estate, master limited partnerships (MLP), and commodities suffered losses.

Master Limited Partnerships

After two strong months, the Alerian MLP Index lost 1.5% in June, despite a double-digit increase in WTI Crude prices. Uncertainly ahead of the OPEC meeting on June 22 may have weighed on the group early in the month, but as those clouds cleared, MLPs did not realize any discernable benefit. Uncertainty around the viability of the partnership model in light of recent changes to MLP tax treatment may have hampered MLP sentiment in June despite the potential for more industry consolidation, strong production trends, domestic energy infrastructure needs, and solid performance for defensive equities during the month.

REITs & Global Listed Infrastructure

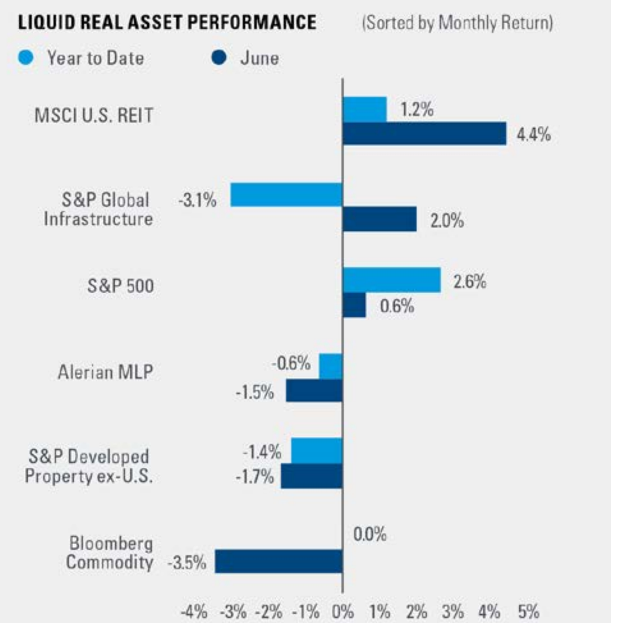
The S&P Global Infrastructure Index gained 2.0% in June, outperforming global equities, as investors globally generally favored more defensive, income-oriented investments. Within the infrastructure space, positive energy and industrial sector performance was offset by utilities weakness. Year to date, the S&P Global Infrastructure Index has lost 3.1%.

Led by the data centers and self-storage sectors, the MSCI REIT Index outperformed the broad U.S. equity market in June with a strong 4.4% return. Data centers rebounded in June, outperforming the broad REIT Index after underperforming through the first five months of the year. Self-storage, industrial, and hotels/lodging were the top performing sectors in the first half, which saw the broad REIT index return 1.2%.

Commodities

The Bloomberg Commodity index slid 3.5% during June amid weakness across many different commodity categories. Agriculture was the worst performing category with a double-digit monthly decline, though industrial metals also fell more than the broad commodity index. Soybean, wheat, and corn prices fell amid concerns that Chinese tariffs could hurt U.S. exports. Zinc led industrial metals lower on rising stockpiles and softening demand. Precious metals were weighed down by a stronger dollar and higher short-term interest rates. Energy gains, particularly oil on tightening U.S. inventories and a slower-than-expected ramp in global production, helped pare losses for the broad commodity index, which is flat year to date.

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.



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