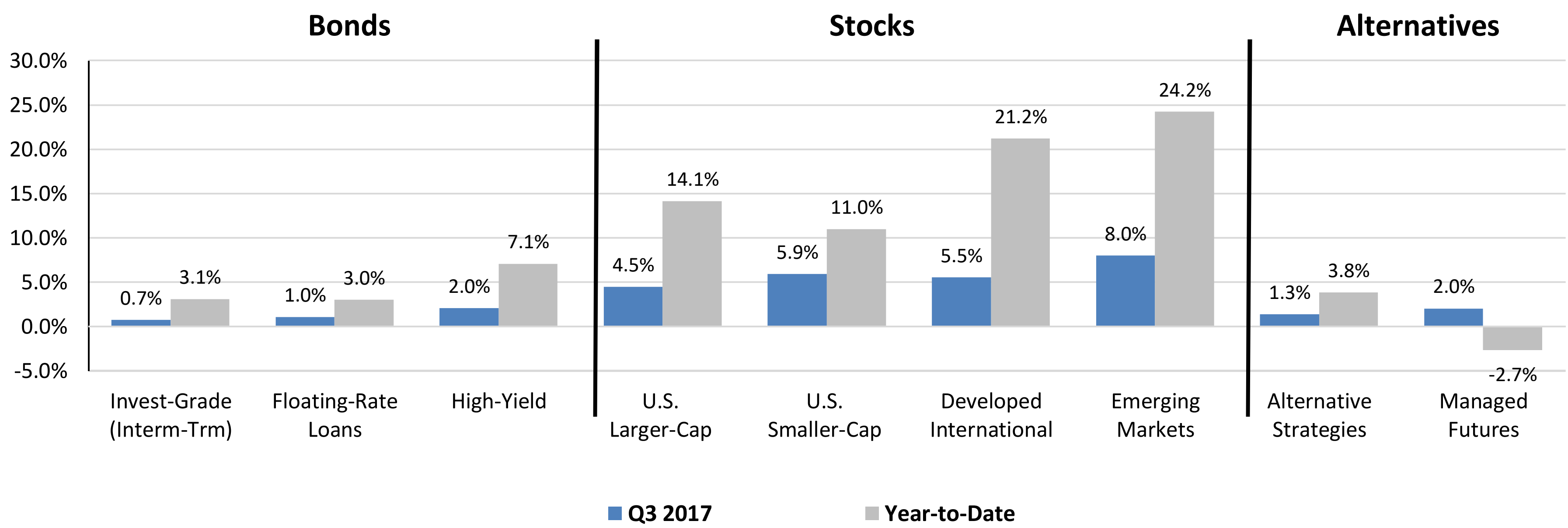
Market & Portfolio Strategy Review

Third Quarter 2017

Market Review & Economic Outlook

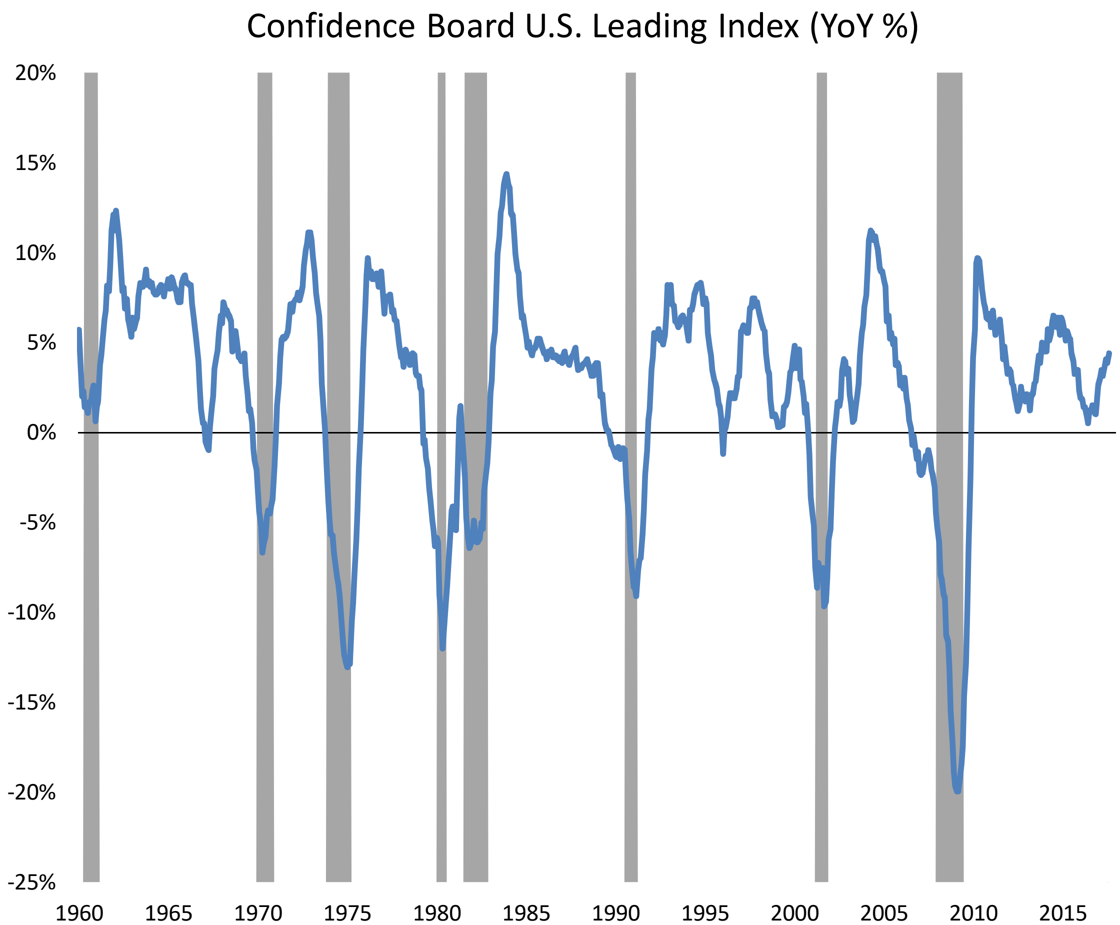
Market Review



- Global stock markets extended their run of strong performance in the third quarter. Emerging-markets and developed international markets were the strongest-performing global stock markets, propelled higher by improving global economic growth, faster earnings growth, and a falling U.S. dollar (which is positive for dollar-based investors). Within the U.S. equity market, larger-cap growth stocks—technology stocks in particular—continued their dominance over smaller-cap and value stocks.
- Core investment-grade bonds finished slightly positive in the quarter. Ten-year Treasury yields finished the quarter relatively flat at 2.30%; however, that masks an intra-quarter decline when yields bottomed at around 2.06%. Yields were driven lower by a confluence of factors including geopolitical tensions around North Korea, a potential debt-ceiling crisis/government shutdown, along with catastrophic hurricanes in Texas and Florida. Yields rose in the latter half of September, benefiting the more credit-sensitive sectors of the bond market, high-yield and floating-rate loans, which slightly outperformed the core bond index over the entire quarter.

Source: Morningstar Direct. Using price and U.S. dollar returns of investable indexes. Managed futures uses an average of the AQR Managed Futures, Natixis ASG Managed Futures and PIMCO TRENDS Managed Futures Strategies. Data as of 9/30/2017.

The Near-Term Outlook for the U.S. Economy is Solid

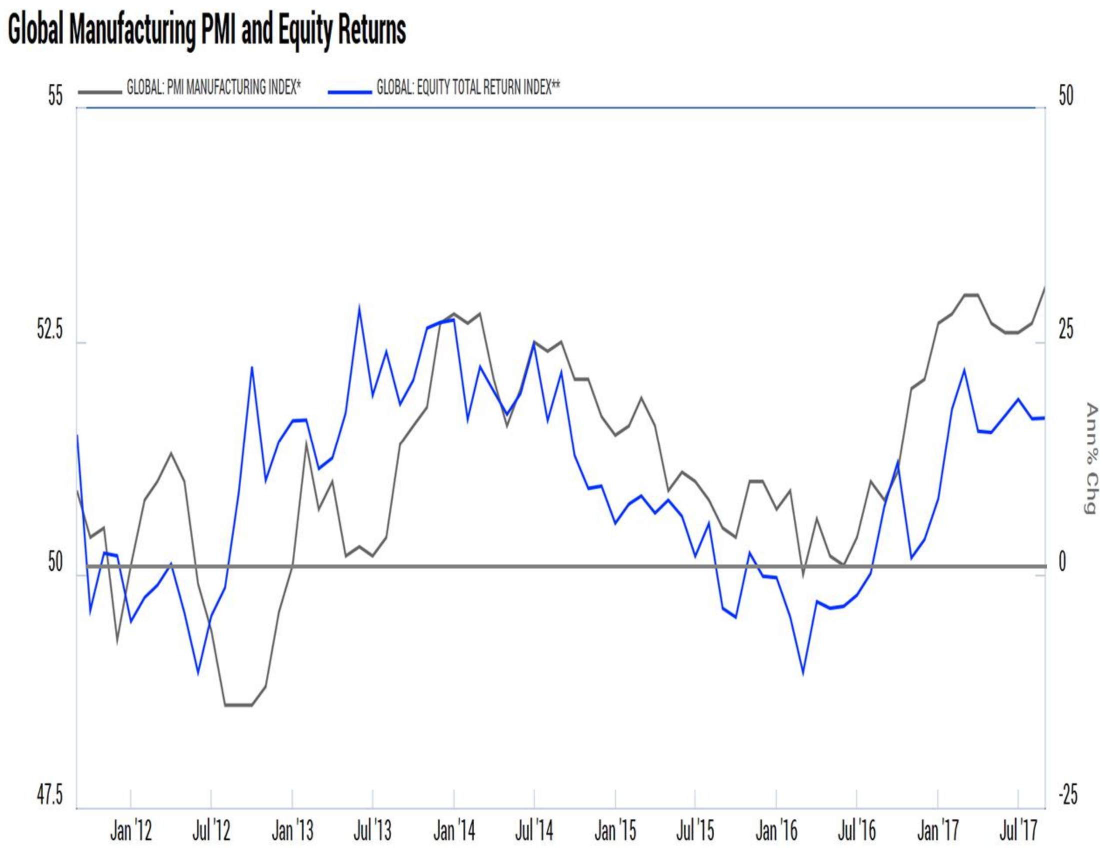


Shaded areas represent recessions (as defined by NBER)

- GDP growth in the United States remains low by historical standards but continues to remain steady at around a 2% annual rate.
- There are several factors supporting economic growth and longer-term trends are in reasonable shape at this point in the economic cycle.
- Looking ahead, a positive sign for the economy is that "financial conditions" have eased over the past year—despite three Fed rate hikes—due to a weaker dollar, lower bond yields, and tightening credit spreads.
- Although the current economic expansion is now the third longest in history, the risk of recession and a corresponding bear market in stocks appears remote for the time being.

Source: Bloomberg. Data as of 8/31/2017.

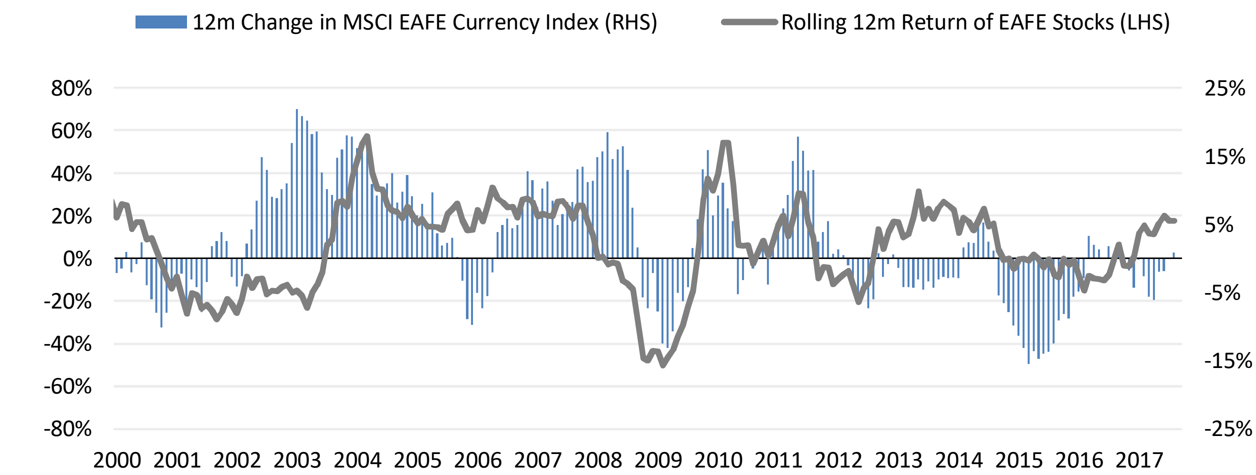
The Global Economy is Firing on all Cylinders for the First Time Since the Financial Crisis

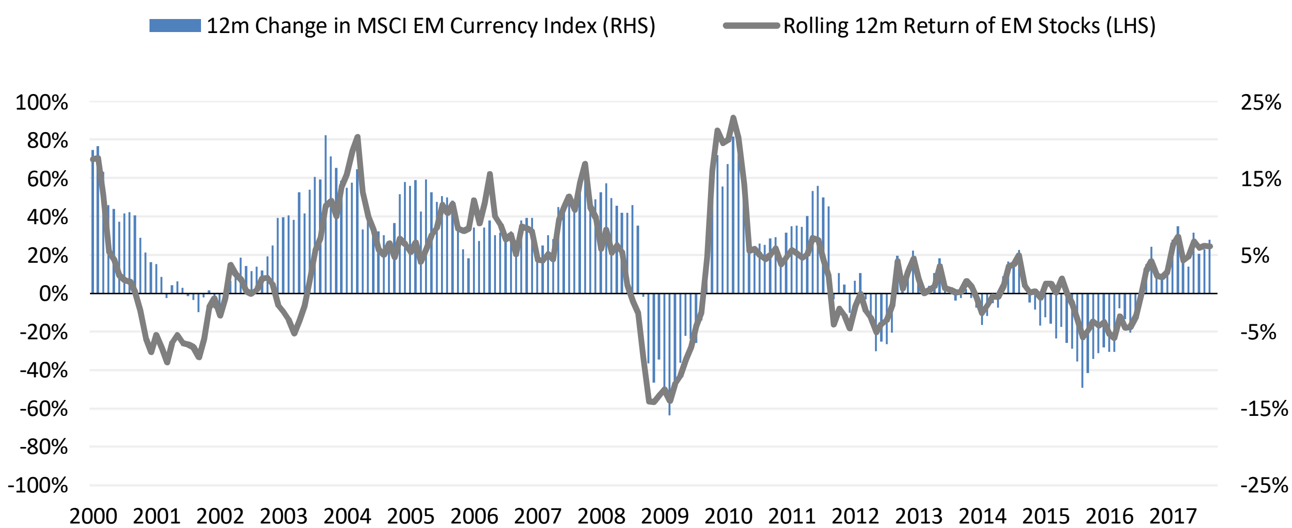


- Economic growth outside the United States continues to improve, providing a solid foundation for corporate earnings growth and financial assets in general.
- The synchronized global economic recovery remains intact. The OECD leading economic indicator hit its highest level since October 2014, while all 45 countries tracked have positive GDP growth this year and are expected to have positive growth next year as well for the first time since 2007.
- Global manufacturing PMI—a widely followed economic indicator—hit it's highest level in over six years, while PMI's in Europe and emerging markets are also at multiyear highs.
- An on-going economic and earnings recovery should be supportive of our international and emerging-market equity exposure.

Source: BCA Research. Data as of 8/31/2017.

The U.S. Dollar Declined Versus Both International and Emerging-Market Currencies



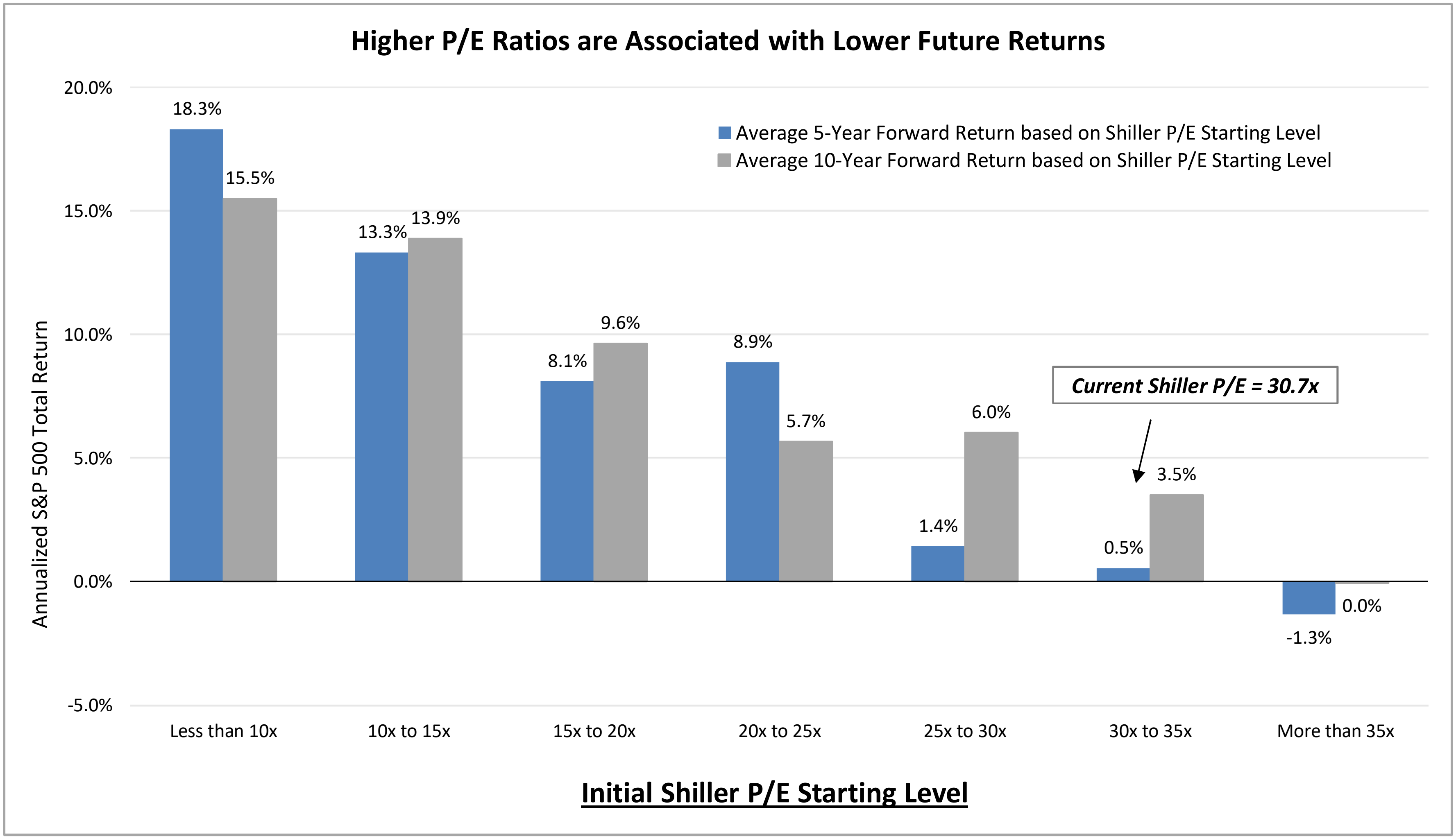


- The U.S. dollar rallied sharply following last November's election, based on expectations of stronger economic growth boosted by tax cuts and regulatory reform.
- However, as those expectations have failed to materialize, the dollar has given back those gains and is down roughly 10% year to date.
- Meanwhile, the euro and emerging-market currencies have appreciated sharply versus the U.S. dollar, which is a positive for U.S. dollar–based investors.

Source: Morningstar Direct and Bloomberg. Data as of 8/31/2017.

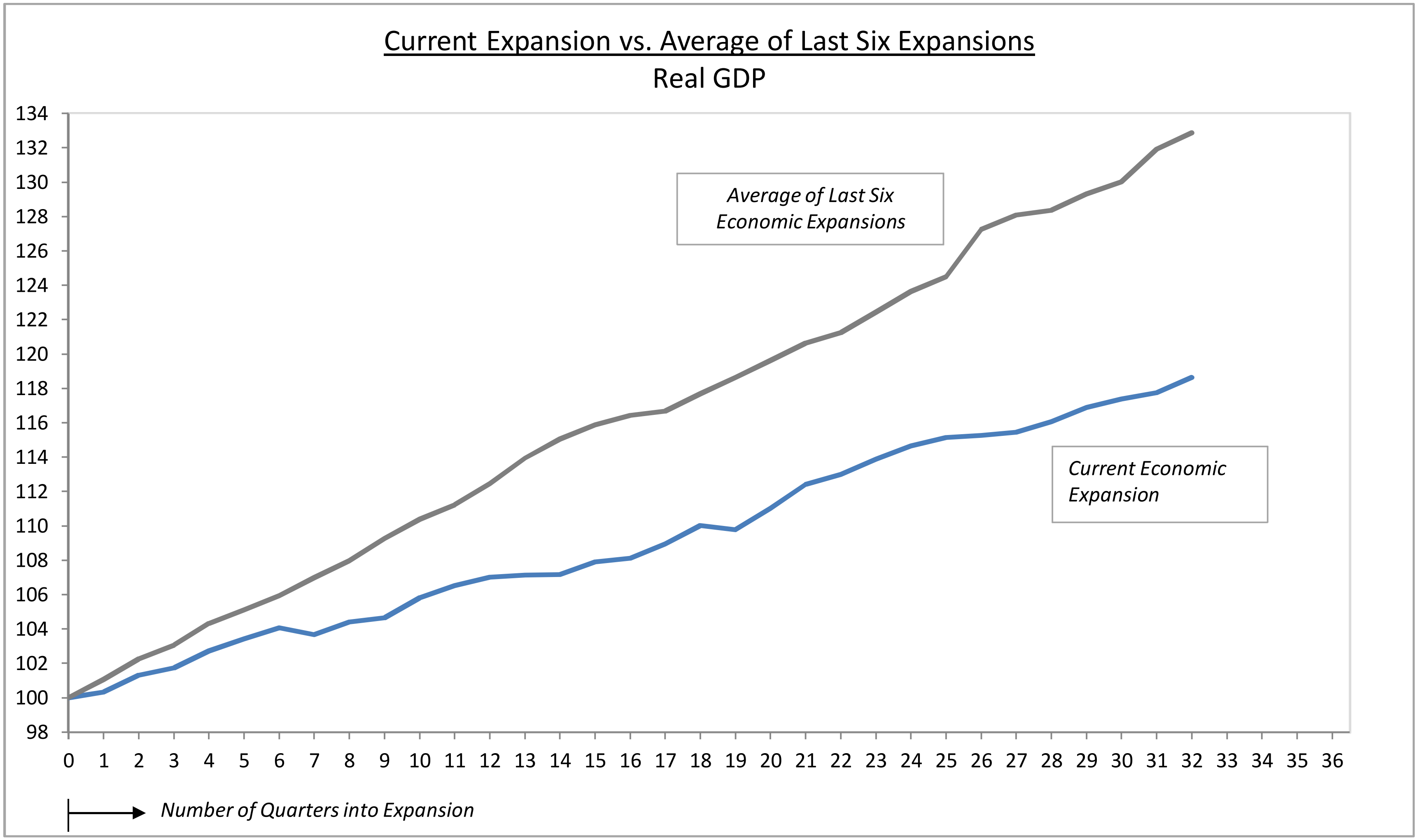
Investment Outlook

Expensive Starting Valuations Imply Lower Future Returns



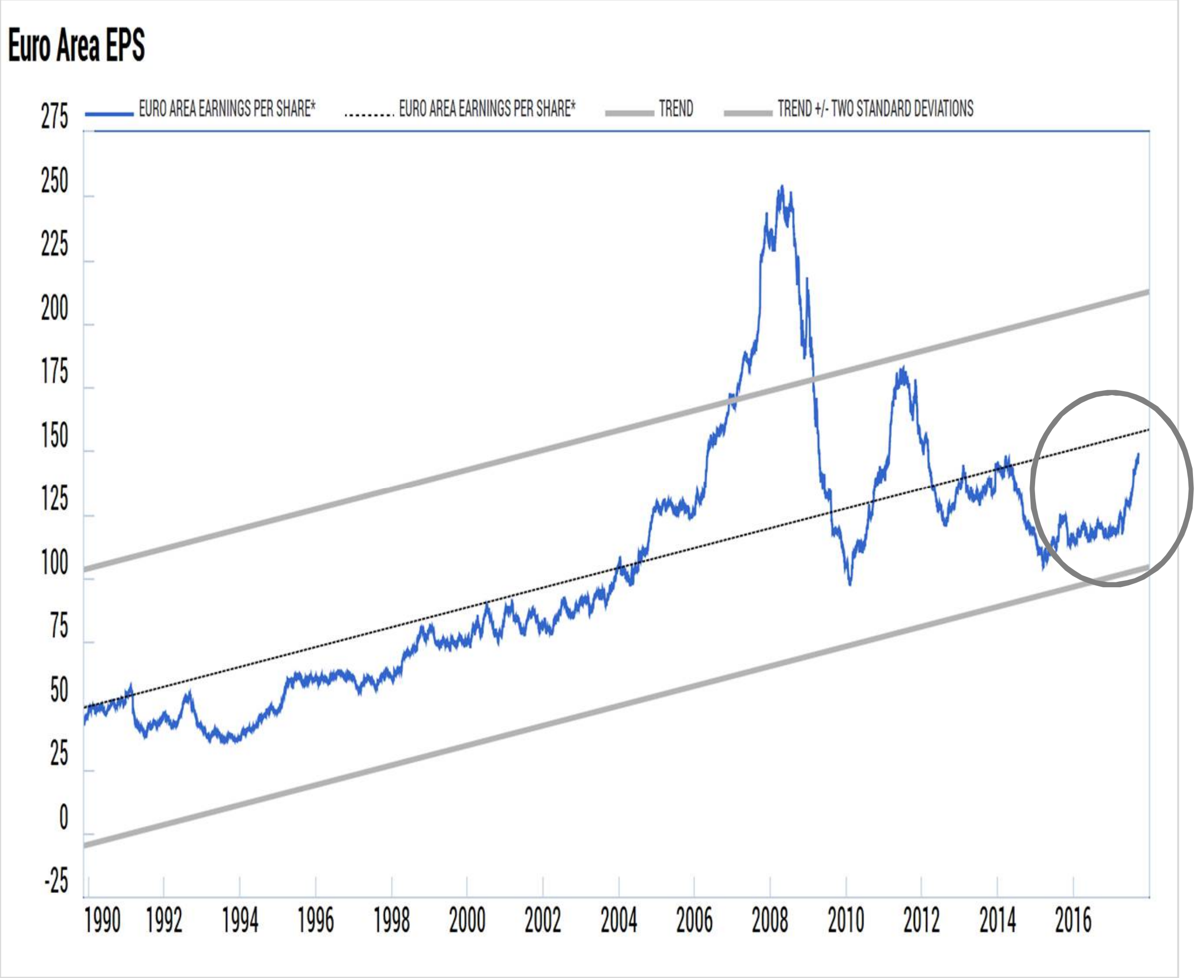
Source: Robert J. Shiller and Morningstar Direct. Data as of 8/31/2017.

The Current Economic Expansion is Now the Third Longest in U.S. History but Subpar in its Strength



Source: Bureau of Economic Analysis. Data as of 6/30/2017.

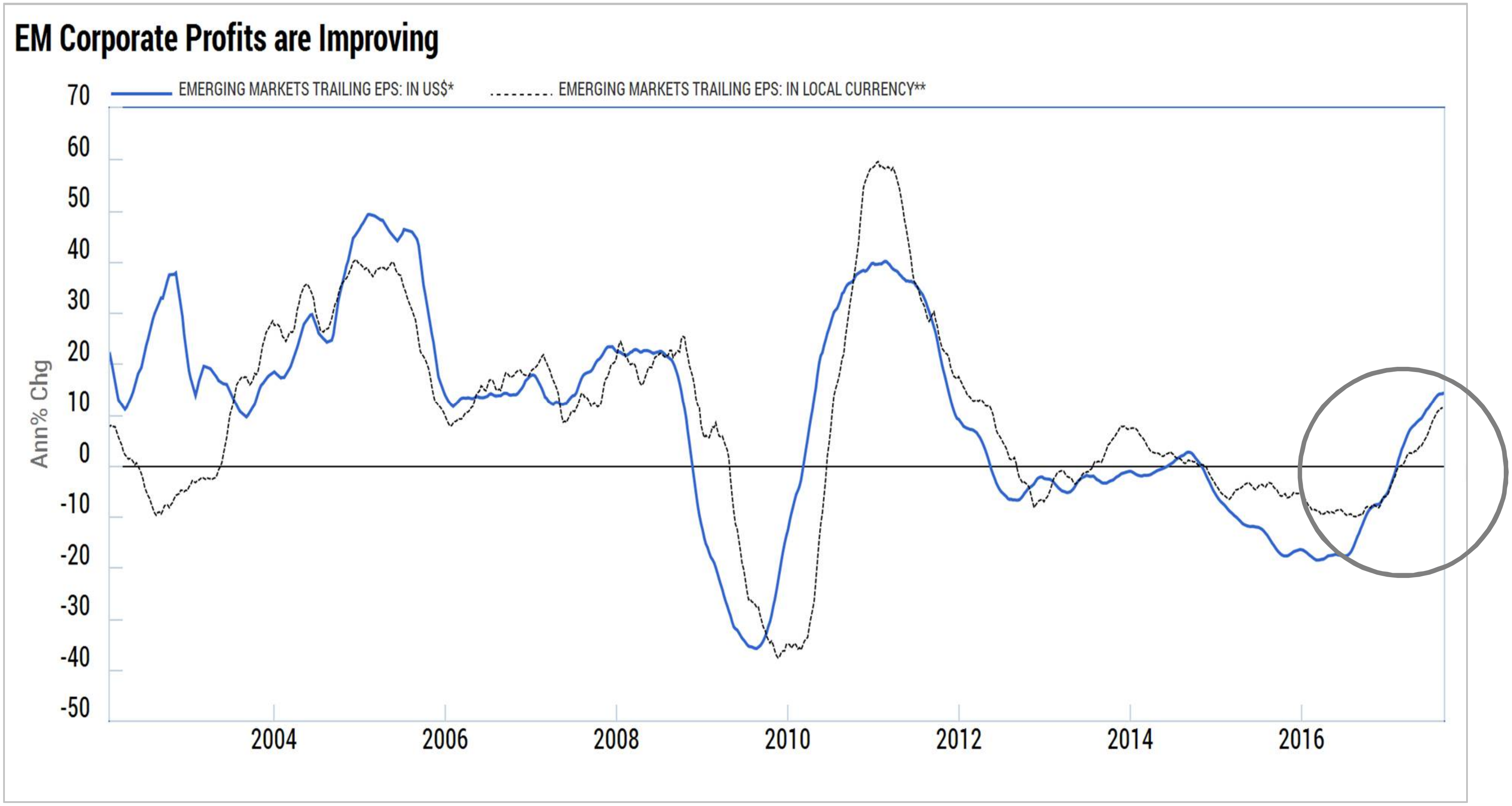
Corporate Earnings Growth in Europe is Improving and Moving Back In Line With Long-Term Trends



- We remain overweight to European stocks; they look very attractive relative to U.S. stocks and offer solid absolute expected returns.
- We are seeing the corporate earnings and stock market recovery we've been expecting. European companies are growing earnings again and are experiencing their strongest earnings momentum in more than seven years.
- Yet, earnings remain far below their pre-crisis highs and also below their normalized (longer-term) trend growth level.

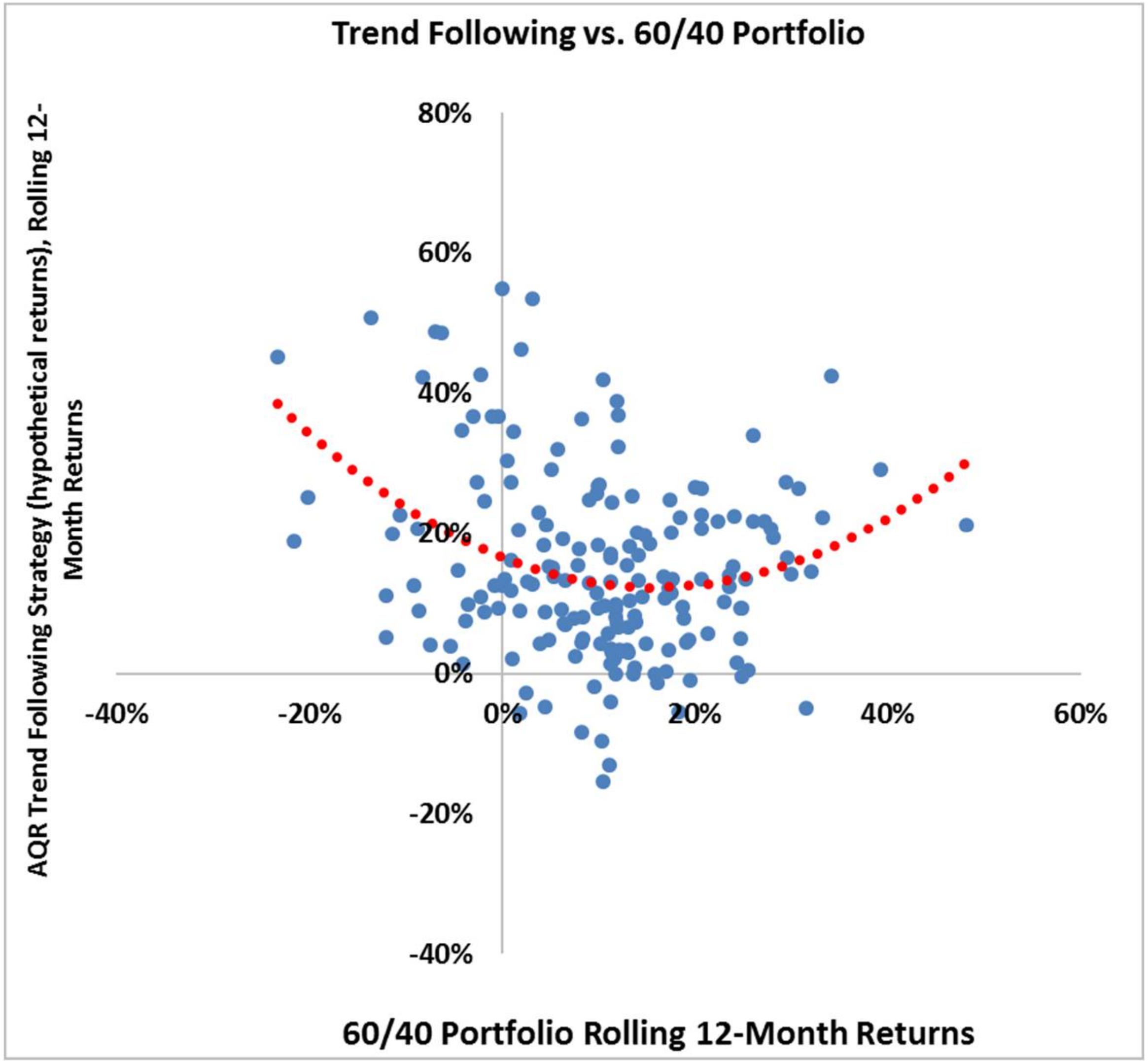
Source: BCA Research. Data as of 6/30/2017.

Corporate Earnings Growth in Emerging Markets is Rebounding



Source: BCA Research. Data as of 8/31/2017.

Managed Futures May Perform Well in a Variety of Economic and Financial Market Scenarios



- A well-executed trend-following managed futures strategy should improve a diversified balanced portfolio's risk-adjusted return over the long-term and across a wide range of potential economic and financial market scenarios.
- The chart shows trend-following managed futures strategies have performed well when a diversified balanced portfolio is falling or rising.
- Managed futures' return profile is said to represent a "smile" in that they are more profitable as markets move in more extreme directions, whether positive or negative.
- In particular, the upper left quadrant of the chart, reflects the powerful diversification benefit trend-following strategies have historically provided to a traditional stock/bond balanced portfolio.

Source: AQR, Morningstar Direct. Data as of 9/30/2017. The 60/40 portfolio is 60% S&P 500 / 40% U.S. Bonds (Intermediate-term govt bonds from 1972 – 1975 and the Barclays U.S. AGG Bond Index from 1976 onward). AQR Trend Following Strategy is hypothetical, back-tested performance from 1972 through June 2012. From July 2012 onward, data is from AQMIX.

Our Base Case Economic Scenario Continues to be a Moderate Economic Recovery

SCENARIO	DEFINITION
Bull Case	U.S. economic growth is above average and/or earnings end the period above the long-term trendline. Helped by stronger non-U.S. growth, releveraging of the U.S. consumer, and corporate investment spending, a self-reinforcing global growth cycle develops.
Base Case	Moderate economic recovery continues with no major crisis, but a normal recession is likely within the five-year time horizon. Assumes GDP growth rates and interest rates start to "normalize" toward the end of our five-year horizon.
Bear Case	The economy falls into recession for any of various reasons, such as deleveraging/deflation from Europe or China, an unexpected systemic shock, a Fed policy error, etc. This scenario does not assume another severe financial crisis (i.e., not a repeat of 2008–2009).

Source: Morningstar Direct. Data as of 9/30/2017.

Litman Gregory Investment Outlook

Economy: Our base-case macroeconomic scenario calls for a continuation of the moderate economic recovery, both in the United States and globally. Assumes GDP growth rates and interest rates "normalize" toward the end of our five-year investment time horizon.

Asset Class	Outlook	Positioning
U.S. Stocks	We continue to view the U.S. stock market as overvalued and unattractive relative to the risks looking out over the next few years.	We're underweight to U.S. stocks because our analysis suggests potential returns are not high enough to compensate for the downside risk.
Developed International Stocks	Earnings are likely to improve and be higher than market expectations. Valuations are attractive both in absolute terms and relative to U.S. stocks.	We're slightly overweight to developed international stocks, specifically Europe. Potential returns are in the low double digits over our five-year investment time horizon.
Emerging-Market Stocks	Long-term return potential is attractive, but there could be greater shorter-term downside risk.	We're slightly overweight to emerging-market stocks as potential returns are attractive compared to U.S. stocks and in line with what we want to see when taking equity risk.
Investment-Grade Bonds	Very low current yields and the likelihood of rising interest rates imply low potential returns.	We're heavily underweight to investment-grade bonds in favor of flexible core bond funds, unconstrained and absolute-return-oriented funds, and floating-rate loan funds we believe have the ability to generate higher returns and better manage their sensitivity to rising interest rates.
Alternative Strategies	Mid-single-digit return potential that offers a degree of portfolio protection and additional diversification relative to stocks and bonds.	We're overweight to a mix of alternative strategies we believe improve the overall risk-adjusted return potential of our portfolios.

Disclosures

Asset Class Descriptions:

Domestic Investment-Grade Bonds (Barclays Capital U.S. Aggregate Bond Index): We are currently using the Vanguard Total Bond Market Index Fund to represent the Barclays Capital U.S. Aggregate Bond Index, an index of domestic investment grade bonds.

Floating Rate Loans (S&P/LSTA Leveraged Loan Index): We are currently using the S&P/LSTA Leveraged Loan Index to represent an index of floating rate loans.

High Yield Bonds (Merrill Lynch U.S. High Yield Master Cash Pay Index): We are currently using the Merrill Lynch U.S. High Yield Master Cash Pay Index to represent an index of domestic high yield bonds.

Domestic Larger-Cap Stocks (S&P 500 Index): We are currently using the Vanguard 500 Index Fund to represent the S&P 500, an index of primarily domestic larger-cap stocks.

Domestic Smaller-Cap Stocks (Russell 2000 Index): We are currently using the Russell 2000 Index iShares Exchange Traded Fund (ETF) to represent the Russell 2000, an index of primarily domestic smaller-cap stocks.

International Developed-Market Stocks (FTSE Developed ex North America Index): We are currently using the Vanguard FTSE Developed Markets Exchange Trade Fund (ETF) to represent an index of international developed-market stocks. Prior to May 2013, this Vanguard Exchange Traded Fund followed MSCI-EAFE. Prior to the July 2007 inception of Vanguard MSCI EAFE ETF, we use iShares MSCI EAFE Index from September 2001 to July 2007, and the MSCI EAFE Index adjusted for 0.35% expenses annually prior to September 2001.

International Emerging-Market Stocks (FTSE Emerging Markets Index): We are currently using the Vanguard FTSE Emerging Markets Index Exchange Traded Fund (ETF) to represent an index of emerging market stocks. Prior to January 2013, this Vanguard Exchange Traded Fund followed the MSCI Emerging Markets Index. Prior to the March 2005 inception of Vanguard MSCI Emerging Markets ETF, we use iShares MSCI Emerging Markets Index from May 2003 to March 2005, and the MSCI Emerging Markets Index adjusted for 0.67% expenses annually prior to May 2003.

Managed Futures: We are currently using an average of the AQR Managed Futures Strategy HV, Natixis ASG Managed Futures Strategy Y and PIMCO TRENDS Managed Futures Strategy.

Arbitrage Strategies: We are currently using an average of the AQR Diversified Arbitrage Strategy (ADAIX) and the Arbitrage Event Driven Strategy (AEDNX).

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