Global Equities

Q2 2018 REVIEW

GLOBAL MULTICAP
by Jeffrey P. Davis, CFA

Strategy Overview

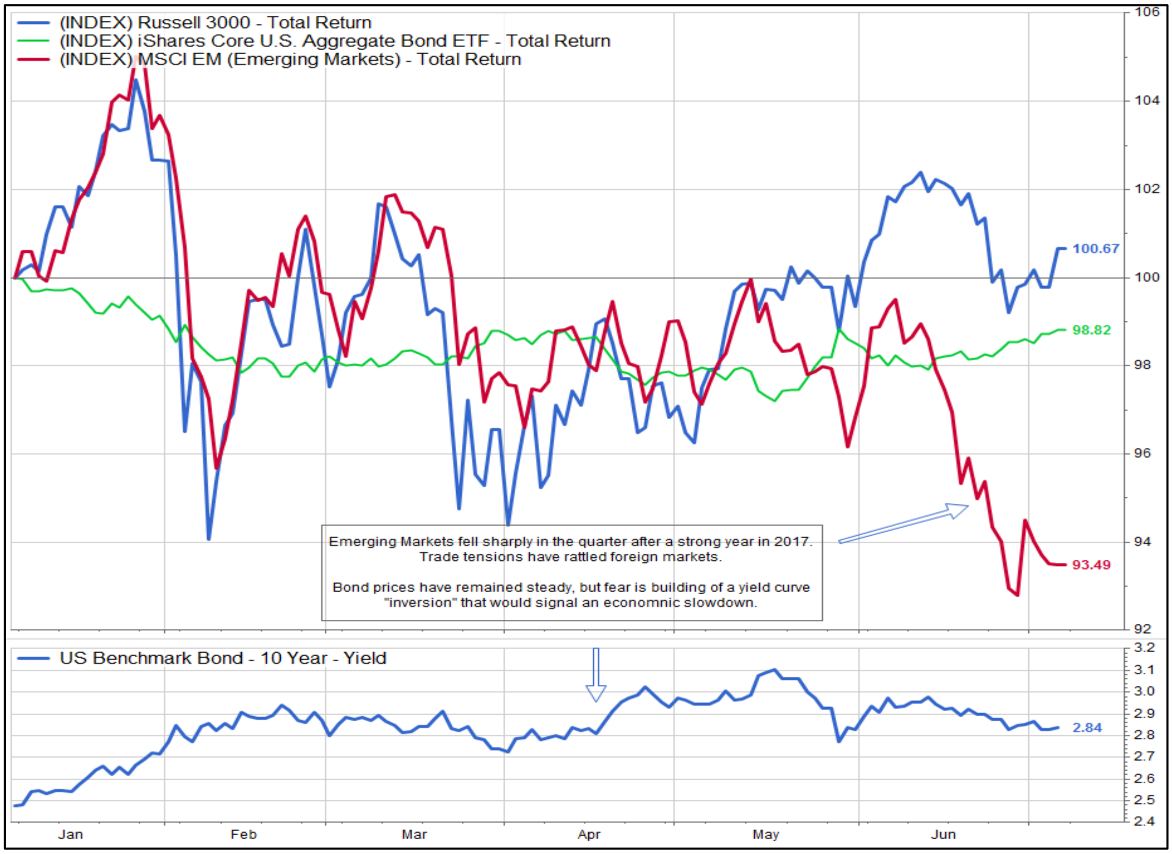
The LMCG Global MultiCap strategy is a diversified long-only global portfolio with exposure to US, developed and emerging international equity markets. Harnessing the investment acumen of a wide range of investment styles/approaches at LMCG Investments, the portfolio seeks to provide a broadly diversified, global portfolio, with multiple sources of potential alpha. The strategy attempts to add value versus the MSCI ACWI IMI Index through asset allocation and stock selection. The dynamic asset allocation process strives to position client portfolios in those regions and asset classes with the most favorable risk/return profiles. The Global MultiCap team, led by the firm's Chief Investment Officer Jeff Davis, CFA, monitors the global investment landscape looking for both areas of opportunity and potential stress points. Specifically, the team looks to mitigate downside risk by avoiding potential areas of weakness.

Global Equity Markets – Second Quarter 2018 Review

- The MSCI ACWI IMI benchmark for GMC rose 0.7% in the second quarter, returning nearly to its starting point at the beginning of 2018. The Russell 1000 Index posted a 3.6% gain in the second quarter bringing returns to 2.9% for the year-to-date period. Small cap stocks were the standouts in the second quarter as the Russell 2000 Index surged 7.8% bringing the year-to-date gain to 7.7%. International markets were hurt by both a stronger dollar and disruptive trade negotiations between the US and China. Latin American and Asian stocks fell sharply in the quarter, and the broad MSCI Emerging Markets Index fell 7.8%. Japan and Europe share prices both fell in the quarter, as developed markets, measured by the MSCI EAFE Index, fell 0.9%. Fixed income markets stabilized somewhat, declining only 0.2% after a decline of 1.5% in the first quarter.

A Volatile Six Months for Major Asset Classes

As of 6/30/2018



Sources: FactSet, MSCI

- Second quarter performance was a tale of sector performance more than any other factor. Energy shares and technology-related businesses dominated returns while the balance of stocks in other sectors languished. Bank shares struggled even as successful stress testing and loosening regulatory environment boosted forecasts.
- The vast majority of returns over the trailing one year have come from a handful of stocks, sometimes abbreviated by the acronym "FANG stocks."[1] Nearly 6.2% of the 14.5% of the return of the Russell 1000 Index came from just 12 technology-related stocks.[2] The "BATs," as the leading Chinese technology shares are called (Baidu, Alibaba, and Tencent), have had a similar impact on returns in emerging markets.
- Smaller stocks in the US reversed an extended period of underperformance and posted the strongest returns of the quarter of the major equity asset classes. While valuation comparisons have recently tended to favor small stocks, stronger performance may stem from investor sentiment that smaller businesses had less exposure to foreign sourced revenue and would be less risky should trade tensions escalate.
- "*Value Investors Face an Existential Crisis After Long Market Rally*" read a headline in the *Wall Street Journal* on June 4. Value-oriented shares have continued to lag the market causing anxiety among the most defensive investors. The surge in performance of growth relative to value shares over the past year is nearly the largest since the late 1990s during the technology bubble.
- Economic divergence of the United States relative to Europe and Asia resulted in sharp appreciation of the US dollar. Dollar strength was linked to a flight from emerging equity markets and European investments (as dollar debts became more expensive). Latin American investments were hit hardest as elections in Mexico and Brazil portend a potential change in trade climate. Turkey posted the sharpest decline as investors fled an increasingly authoritarian Erdogan government and loss of investor confidence in economic policy.

LMCG Global MultiCap Composite Performance

As of 6/30/2018, U.S. Dollar

				Annualized			
	Q2 2018	YTD 2018	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception*
LMCG Global MultiCap (Gross)	**1.5**	**0.0**	**11.3**	**8.4**	**9.9**	**7.9**	**6.4**
LMCG Global MultiCap (Net)	**1.2**	**-0.7**	**9.7**	**6.8**	**8.3**	**6.3**	**4.8**
MSCI ACWI IMI Index	0.7	-0.2	11.1	8.3	9.6	6.1	4.9

*Inception: September 2007.

Past performance is not indicative of future results. Gross performance returns presented above are net of transaction costs and include the reinvestment of dividends and other earnings but do not reflect the deduction of investment management fees which would reduce returns. Net returns are calculated by applying the investment management fee schedule noted in the composite disclosure to the gross returns of the accounts included in the composite. For information regarding the impact of investment management fees on performance, please refer to the attached composite disclosure.

GMC Performance Highlights

- The LMCG Global MultiCap strategy led the MSCI ACWI IMI during the second quarter. While we are pleased with the gains, losses in international markets have offset gains in our important investments in small and mid-sized US based equities. Our developed markets investments in Europe and Asia have weighed on returns, and the sharp correction in emerging markets shares, a position we reduced earlier in the year, also muted returns.
- The largest contributor to returns in the portfolio for the quarter was active stock selection in small cap growth stocks in the US. Stock selection has been difficult for many managers with any type of quality or valuation bias as the US is caught up in a "momentum" cycle. Momentum is now a technical term that quantifies the fact that stocks that have led in the past keep performing well, and those that haven't continue to lag. Stock pickers also focus on company "quality," which typically means companies with any combination of low debt to total assets, high and consistent profitability, or high levels of free cash flow. Those stocks have underperformed as well.
- Our investments in banks in both the United States and Europe lagged in the quarter. Many investors were disappointed that long-term interest rates continued to fall even as the Federal Reserve pushed rates another quarter of a point higher. We believe this is a short-term issue.

[1] FAANG stocks are a group of companies made up of Facebook, Apple, Amazon, Netflix and Google (Alphabet is the holding company).

[2] Source: LMCG Investments

The term "Core" management (we are categorized as Global MultiCap Core in Morningstar and Lipper universes) implies that we are trying to provide long-term capital appreciation while keeping very close watch on the risks we take.

- Our profit taking in mid-January from emerging markets was driven primarily by our opinion that investors had priced the asset class too high and too fast. We are not convinced that EM investments have come to the end of their performance cycle, although the sharp selloffs in markets as diverse as Turkey, Brazil, Indonesia, and South Africa have been sobering. Fundamentals are still strong enough to support economic growth even as changes in trade and politics muddy the outlook.

Global MultiCap Outlook and Strategy – Adjusting to a New World Order?

Changes in trade relationships, strained political alliances, and even the success of disruptive industries make this a critical period for risk management. How we deal with changing risks is determined by our core investment philosophy. We strive to manage Global MulitCap with a similar attitude towards time horizon, risk, and return opportunity that the best endowment funds practice today. The way we diversify and size our exposures to investment opportunities is with a keen sense of what the past has taught us.

Today, we have access to a variety of tools we can employ in managing the GMC portfolio through the explosion of exchange-traded funds. Supporting these new tools are research and risk monitoring tools driven by powerful computing technology. By employing these tools, we seek to improve upon indexes that are now incredibly cheap to own.

The table below summarizes the top eight tools used in GMC, why we are using them, and the scenarios where we expect them to succeed or fail:

The GMC Toolbox – Top Shelf

Tools in Use	Strategy	Should succeed during:	Should fail during:
US and European Banks exposure	To moderate interest rate risk	Rising rates - rising inflation	Deflation Scare
Value tilt US	Build while value sharply underperforms	End of Business Cycle	Tech Bubble
Quality Tilt US	Build while quality underperforms	End of Business Cycle	Tech and Growth Bubble
Global Revenue Weighting	Avoid market excess valuations	End of Growth Cycle	FANG Bubble
Overweight US Small and Mid Caps	Improve portfolio risk return and valuation	Increasing Trade Issues	Trade Breakthrough
FANG Capping	Montoring and acting to cap FANG exposure	Regulatory Risk Increase	FANG Bubble
Near 40% non-US Weight	US market premium/US Dollar risk	US disappointment; End of Growth Cycle	Global Ex-US recession
Reduction in Emerging Markets Weight	Sale of EM securities	Rising rates, End of Growth Cycle	Rate reductions - EM reversal

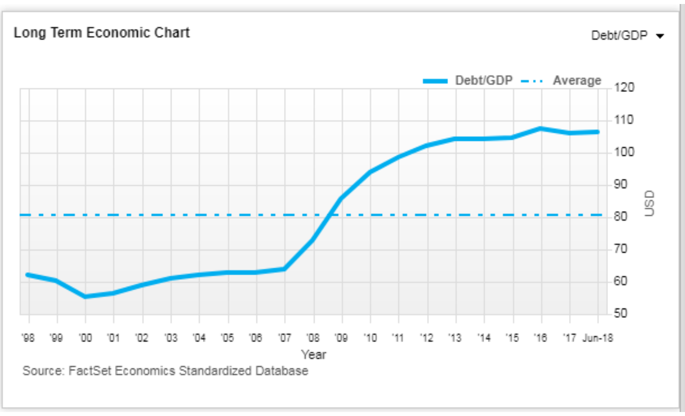
The first item on the list, "US and European Banks exposure," explains that we have emphasized investment in banks in two separate currencies to perform well specifically during a rising interest rate – rising inflation scenario. Underlying valuation is also good for banks and supports our long-term return objective.

Inflation protection is especially important for executing a core investment style in 2018. Investors have grown accustomed to bonds protecting value when equity markets fall, as they have consistently done in the 21st century. While inflation is still benign, we are also in the midst of one of the most radical monetary experiments in history – simultaneously cutting taxes when the global economy is already strong. That puts bonds at risk.

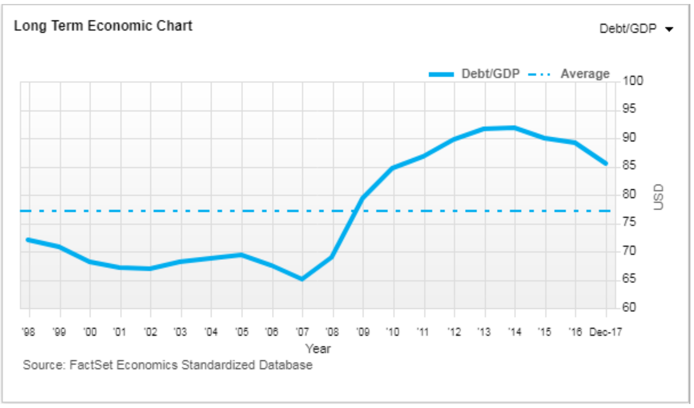
We've written in previous quarterly letters about regulatory risks that may ultimately impact technology winners such as Amazon (Facebook is already experiencing the downside of regulatory attention). For this, we employ what we call "FANG Capping," a process by which we limit the concentration of stocks with common risks to a maximum percentage of the portfolio. Most passive investors as well as some speculative growth investors will continue to concentrate more and more as FANG stocks continue their momentum; long-term investors like us can use the discipline of "FANG Capping" to limit exposure from early 2018 levels by rebalancing or by exiting certain stocks completely. For core investors, we believe it is consistent to forego upside of a hot investment area in exchange for a better balance.

We are also increasingly using tools that should perform best at the end of a business cycle. While there aren't obvious signs yet that this long growth cycle is ending, we are gradually moving into position for the inevitable correction, or even a bear market. Investors should be very aware that the major tax cut put into place at the beginning of 2018 has an unknown price tag. The cost and market impact will likely become known only in the next two or three years. For those who believe that the United States has debt under control compared to profligate Europeans, compare the total debt to gross domestic product charts below. Europe has a lower ratio of debt to GDP, and it is clearly trending in a more conservative direction.

United States – Total Debt to GDP



EUROZONE – Total Debt to GDP



Our team has spent time researching approaches that should improve the fundamental quality of companies in the GMC portfolio – a sound late business cycle strategy. Rather than seek stocks that yield high dividends, we are boosting companies that are consistent dividend payers. In economic slowdowns driven by higher interest rates, these shares should protect better than high dividend yielding stocks.

The US national debt, which has recently exceeded $21 trillion, will soar to more than $33 trillion in 2028, according to a recent report by the Congressional Budget Office. Debt held by the public in 2028 will almost match the size of the nation's economy, perhaps reaching 96 percent of gross domestic product. This debt ratio would be as high as any time since World War II. This enormous potential debt burden is one of the reasons we have been fairly aggressive in our exposure to non-US equities and currencies (our 40% non-US equity limit is higher than most individual strategies, but below what most large endowments target).

GMC Asset Class Exposure	Relative Positioning*	Q2 2018 Index Performance^
US Large Cap (Russell 1000)	Underweight	+3.6%
US Small/Mid Value (Russell 2500 Value)	Overweight	+5.8%
US Small/Mid Growth (Russell 2500 Growth)	Overweight	+5.5%
Non-US Large Cap (MSCI EAFE)	Underweight	-0.9%
Non-US Small Cap (MSCI EAFE Small Cap)	Underweight	-1.2%
Emerging Markets (MSCI Emerging Markets)	Underweight	-7.8%

* Asset Allocation decisions in the Global MultiCap Strategy are subject to change over time. The relative positioning of the portfolio shown above is as of June 29, 2018.
^ Source: Bloomberg as of June 29, 2018.

Global Balanced Management and Stocks – Bonds – Liquid Alternatives

Bonds and liquid alternative investments continue to produce lackluster returns, continuing a trend that is over a year old. The combination of the US tax cut impact and higher stress from trade negotiations is creating opposing forces of confidence and concern. The yield curve is nearing inversion as long-term expectations of inflation appear to be falling. This would be a signal for investors to be on the lookout for a slowdown. And yet, a successful conclusion of China trade talks could send equity markets higher fairly quickly.

We remain overweight equities and underweight bonds, but simultaneously are becoming more defensive within both strategies. Our valuation models support this strategy and we believe fundamentals continue to support a positive equity environment.

	Economic Contraction			Neutral	Economic Recovery/ Boom		
Equity	50%	55%	60%	65%	70%	75%	80%
Fixed Income	50%	45%	40%	35%	30%	25%	20%

*Current Asset Allocation**: 70% Equity / 30% Fixed Income

* The Global Balanced Strategy is subject to re-balancing. Asset allocation decisions, formulated by LMCG's Asset Allocation Committee, are subject to change over time and may fluctuate between 80% Equity / 20% Fixed Income and 50% Equity / 50% Fixed Income. The asset allocation of the portfolio shown above reflects the most current outlook as of 6/30/2018.

LMCG Global Balanced/Core Bond Composite Performance

As of 6/30/2018, U.S. Dollar

				Annualized		
	Q2 2018	YTD 2018	1 Yr	3 Yrs	5 Yrs	Since Inception*
LMCG Global Balanced/ Core Bond (Gross)	**1.0**	**-0.3**	**8.5**	**6.6**	**7.9**	**8.0**
LMCG Global Balanced/ Core Bond (Net)	**0.7**	**-0.9**	**7.0**	**5.1**	**6.4**	**6.5**
65% MSCI ACWI IMI/ 35% Bloomberg Barclays Interm U.S. Gov't/Credit	0.5	-0.4	7.0	5.9	6.9	6.6

*Inception: March 2012.

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LMCG Global Balanced/Municipal Bond Composite Performance

As of 6/30/2018, U.S. Dollar

				Annualized		
	Q2 2018	YTD 2018	1 Yr	3 Yrs	5 Yrs	Since Inception*
LMCG Global Balanced/ Municipal Bond (Gross)	**1.3**	**0.1**	**8.7**	**6.5**	**7.9**	**7.1**
LMCG Global Balanced/ Municipal Bond (Net)	**0.9**	**-0.6**	**7.2**	**5.1**	**6.4**	**5.6**
65% MSCI ACWI IMI/ 35% Blooomberg Barclays 1-10 Yr. Municipal Bond	0.8	0.0	7.4	6.2	7.1	6.1

*Inception: June 2011.

Past performance is not indicative of future results. Gross performance returns presented above are net of transaction costs and include the reinvestment of dividends and other earnings but do not reflect the deduction of investment management fees which would reduce returns. Net returns are calculated by applying the investment management fee schedule noted in the composite disclosure to the gross returns of the accounts included in the composite. For information regarding the impact of investment management fees on performance, please refer to the attached composite disclosure. The benchmark for the strategy is a blend of 65% MSCI ACWI IMI Index/35% Barclays Municipal Bond 1-10yr Index and is calculated internally by LMCG.

Global Equities

GLOBAL MULTICAP COMPOSITE

Schedule of Annual Returns

January 1, 2008 through December 31, 2017

	Gross Returns (%)	Net Returns (%)	Benchmark Returns[1] (%)	Dispersion[2] (bps)	Composite 3yr Ex Post Standard Deviation[3] (%)	Benchmark 3yr Ex Post Standard Deviation[3] (%)	Number of Accounts	Composite Assets at End of Period ($ millions)	Total Firm Assets ($ millions)
2017	22.9	21.1	24.0	29	10.8	10.3	298	289.0	7,551.3
2016	11.0	9.4	8.4	38	11.5	11.1	310	254.3	7,367.5
2015	-1.6	-3.0	-2.2	24	10.7	10.7	327	242.0	6,786.9
2014	2.6	1.2	3.8	28	10.7	10.6	314	237.1	6,370.5
2013	26.6	24.8	23.6	55	14.3	14.1	255	199.8	5,831.5
2012	18.2	16.4	16.4	78	17.8	17.3	188	125.2	4,402.6
2011	-6.1	-7.4	-7.9	54	20.2	20.9	150	87.0	4,200.7
2010	15.6	14.0	14.4	82	23.1	24.9	95	61.8	4,412.7
2009	36.5	34.6	36.4	128	-	-	32	21.5	4,365.1
2008	-38.2	-39.1	-42.3	NA	-	-	11	6.0	2,527.4

[1] Benchmark returns have been obtained from an independent source and have not been examined by independent accountants.
[2] Not statistically significant because insufficient number of portfolios in the composite for the year.
[3] The three-year annualized standard deviation is not presented from December 31, 2008 through December 31, 2009 because the composite did not have 36 monthly returns in that time period.

Global MultiCap Composite: Portfolios included in this composite are invested to achieve consistent returns above the benchmark over a full market cycle. Primary emphasis is placed on investing in financially strong small, mid-sized and large capitalization companies both domestic and international with above average earnings growth potential, strong balance sheets, improving profitability and attractive valuations. On July 1, 2011, the benchmark was changed from the MSCI-World Index to the MSCI All Country World Investable Market Index ("MSCI ACWI IMI"). The broader country and market cap universe of the MSCI ACWI IMI more closely aligns with the strategy than the previous index. Returns for the MSCI ACWI IMI are net of all foreign withholding taxes from a U.S. tax perspective. The inception date of the composite is September 1, 2007. The composite was created in January 2008.

Royal Bank of Canada ("RBC") became LMCG's indirect majority owner in November 2015 when RBC acquired City National Corporation ("CNC"). Effective January 1, 2015, Lee Munder Capital Group, LLC is known as LMCG Investments, LLC ("LMCG"), an investment adviser registered with the Securities and Exchange Commission. In July 2009, the firm was reorganized as an affiliate of CNC and took the name of Lee Munder Capital Group, LLC., prior to which it was known as Lee Munder Investments Ltd. ("LMIL"), which itself was an investment adviser registered with the Securities and Exchange Commission. The firm maintains a complete list and description of composites, which is available upon request.

The investment management fee schedule is as follows: 1.50% on the first $1 million, 1.47% on the next $1 million, 1.32% on the next $3 million, and 1.07% on assets above $5 million. This is the maximum fee schedule applicable to the strategy. Actual investment advisory fees incurred by clients may vary.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance. Performance results are presented gross and net of management fees, include the reinvestment of income and are net of foreign withholding taxes. Net returns are calculated by applying the fee schedule disclosed above to the monthly gross returns of the accounts included in the composite. The annual composite dispersion presented is an asset weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

LMCG claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. LMCG has been independently verified for the periods October 1, 2000 through December 31, 2017. The verification report(s) is/are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. Past performance is not indicative of future results.

GLOBAL BALANCED/ CORE BOND COMPOSITE

Schedule of Annual Returns

March 1, 2012 (date of inception) through December 31, 2017

	Gross Returns (%)	Net Returns (%)	Benchmark Returns[1] (%)	Dispersion[2] (bps)	Composite 3yr Ex Post Standard Deviation[4] (%)	Benchmark 3yr Ex Post Standard Deviation[4] (%)	Number of Accounts	Composite Assets at End of Period ($ millions)	Total Firm Assets ($ millions)
2017	17.5	16.0	15.9	37	7.7	6.6	19	25.5	7,551.3
2016	8.4	6.9	6.3	58	8.4	7.2	20	23.3	7,367.5
2015	-0.8	-2.2	-0.9	15	8.1	7.1	21	22.4	6,786.9
2014	2.8	1.4	3.7	11	-	-	19	21.0	6,370.5
2013	19.6	17.9	14.5	56	-	-	12	13.0	5,831.5
2012[3]	5.1	3.9	4.1	NA	-	-	3	3.4	4,402.6

[1] Benchmark returns have been obtained from an independent source and have not been examined by independent accountants.
[2] Not statistically significant due to insufficient number of accounts in the composite for the year.
[3] Partial year performance for the period of March 1, 2012 through December 31, 2012.
[4] The three-year annualized standard deviation is not presented from December 31, 2012 through December 31, 2014 because the composite did not have 36 monthly returns in that time period.

Global Balanced/Core Bond Composite consists of all accounts managed in the global balanced/core bond strategy. The global balanced strategy is an asset allocation strategy that seeks long term growth and capital preservation through investments in global equities and core bond (taxable) fixed income products. The allocation of assets may range from 80% equity/20% fixed income to 50% equity/50% fixed income. Asset allocation decisions are formulated by LMCG's Asset Allocation Committee and are subject to change. The fixed income portion of the portfolio will be invested in core fixed income securities. Fixed income allocations below $1 million will be invested in core bond exchange traded funds and/or mutual funds. Returns for the strategy are measured against a blend of 65% MSCI ACWI IMI index and 35% Barclays Intermediate Government Credit Index for GBT. The composite was created in December 2012.

Royal Bank of Canada ("RBC") became LMCG's indirect majority owner in November 2015 when RBC acquired City National Corporation ("CNC"). Effective January 1, 2015, Lee Munder Capital Group, LLC is known as LMCG Investments, LLC ("LMCG"), an investment adviser registered with the Securities and Exchange Commission. In July 2009, the firm was reorganized as an affiliate of CNC and took the name of Lee Munder Capital Group, LLC., prior to which it was known as Lee Munder Investments Ltd. ("LMIL"), which itself was an investment adviser registered with the Securities and Exchange Commission. The firm maintains a complete list and description of composites, which is available upon request.

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The investment management fee schedule is as follows: 1.40% on the first $1 million, 1.37% on the next $1 million, 1.270% on the next $3 million, and 1.02% on assets above $5 million. This is the maximum fee schedule applicable to the strategy. Actual investment advisory fees incurred by clients may vary.

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GLOBAL BALANCED/ MUNICIPAL BOND COMPOSITE

Schedule of Annual Returns

June 1, 2011 (date of inception) through December 31, 2017

	Gross Returns (%)	Net Returns (%)	Benchmark Returns[1] (%)	Dispersion[2] (bps)	Composite 3yr Ex Post Standard Deviation[4] (%)	Benchmark 3yr Ex Post Standard Deviation[4] (%)	Number of Accounts	Composite Assets at End of Period ($ millions)	Total Firm Assets ($ millions)
2017	17.4	15.8	16.4	32	7.7	6.6	27	34.8	7,551.3
2016	7.6	6.1	5.5	43	8.3	7.1	27	30.1	7,367.5
2015	-0.5	-1.9	-0.4	21	8.1	7.1	28	30.3	6,786.9
2014	3.1	1.7	4.2	40	8.1	7.1	26	26.3	6,370.5
2013	19.6	18.0	14.7	30	-	-	22	21.9	5,831.5
2012	13.5	11.9	12.0	30	-	-	11	10.6	4,402.6
2011 [3]	-7.5	-8.3	-7.2	NA	-	-	6	5.1	4,200.7

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