A VIEW FROM THE SUMMIT

- **SGI Equity Strategies 1st Quarter Summary**
- **Market Commentary**
  - **The Roaring '90s**
  - **The Federal Reserve**
- **SGI Outlook**

SGI Equity Strategies 1st Quarter Summary

First quarter of 2019 was a strong period of performance for the firm. All three equity strategies posted double-digit returns, recovering powerfully from a weak prior quarter. Here are some highlights:

- The U.S. large cap strategy returned 13.73%, outperforming the Morningstar Large Blend Category average return by 0.49%, and slightly outperforming the S&P 500 Index on a gross basis by 0.08%, while taking significantly lower overall portfolio risk.
- The Global strategy returned 11.71%, slightly underperforming the MSCI ACWI Index on a gross basis by 0.61%.
- Although the small cap equity strategy returned a solid 11.37%, it underperformed both the Morningstar Small Blend Category average return by 2.40% and the Russell 2000 Index on a gross basis by 3.20%, but maintained significantly lower overall portfolio risk.

SGI Performance	1Q19	1 Yr	3 Yrs	5 Yrs
US Low Volatility Gross	13.73%	13.99%	12.06%	12.07%
US Low Volatility Net	13.50%	13.07%	11.29%	11.19%
S&P 500 Total Return	13.65%	9.49%	13.50%	10.90%
Small-Cap Low Volatility Gross	11.37%	2.54%	11.59%	11.21%
Small-Cap Low Volatility Net	11.17%	1.80%	10.92%	10.81%
Russell 2000 Total Return	14.57%	2.01%	12.90%	7.04%
Global Low Volatility Gross	11.71%	9.53%	11.26%	10.48%
Global Low Volatility Net	11.60%	8.88%	10.75%	10.17%
MSCI ACWI Total Return	12.32%	3.16%	11.30%	7.06%

Please review our separate one-page commentaries covering each strategy for additional details about portfolio positioning and attribution.

All SGI equity strategies implement a managed risk approach to equity investing. This managed risk focus has historically allowed investors to enjoy **competitive equity returns** while taking **meaningfully less portfolio risk**. For example, historically, our large cap strategy averaged 25-30% less portfolio risk than the S&P 500 Index.

MARKET COMMENTARY

The Roaring '90s

The equity markets came roaring back from a weak 2018. In fact, 1st quarter 2019 was the best returning quarter in over twenty years. All the major equity indices posted strong returns. The S&P 500 Index, representing U.S. large cap stocks, rose 12.3%, the Russell 2000, representing U.S. small cap stocks, increased 13.8%. Even international stocks participated in the rally with a 10.4% return for the MSCI All Cap World Index, while the tech heavy NASDAQ Index led the pack with a 15.6% gain.

The global equity markets euphoria was not due to underlying economic strength. The fourth quarter GDP number released in late March was revised down to 2.2%. During 2018, the national debt increased by $1.48 trillion. Such huge deficit spending is not typically characteristic of a late stage strong economy. New home sales got a boost this quarter from falling mortgage rates, which mirrored a reduction in most long-term interest rates. Total vehicle sales in the U.S. dropped from an annualized rate of 18.1 million in October 2018 to 17.0 million in February 2019.

Levels	4Q2018	1Q19	Change
Russell 1000 Index	7882.31	8985.89	14.00%
Russell 2000 Index	6722.15	7702.52	14.58%
MSCI EAFE	7048.07	7761.73	10.13%
MSCI Emerging Markets	2162.75	2378.03	9.95%
U.S. Aggregate*	3.28%	2.93%	-10.56%
US High Yield 2% Cap*	7.96%	6.43%	-19.18%
U.S. Federal Funds Rate**	2.40%	2.43%	1.25%
U.S. 10 Year Treasury**	2.69%	2.41%	-10.39%
U.S. Dollar Index	96.17	97.28	1.16%
WTI Crude Oil Spot	45.41	60.14	32.44%

* Yield to Worst   **Interest Rate

Long-term interest rates, represented by the 10 Year Treasury yield, dropped precipitously from a high of 3.22% in November 2018 to 2.41% at the end of the quarter. Falling long-term interest rates are not typically indicative of a strengthening economic outlook. The yield curve, measured by the difference between 10 Year Treasury yield minus the three-month T-bill, inverted in March. An inverted yield curve has historically been a good but early indicator of recession. Finally, during the first quarter, even analysts' earnings estimates on a bottom-up basis for S&P 500 companies dropped 7.2% from $40.21 to $37.33 for Q1. What accounts for the divergence between the stock market and the economy?

The Federal Reserve

The stock market boost was due to a dramatic policy reversal by the Federal Reserve during the past three months. The Fed policy three months ago was articulated as being on autopilot. The market expected at least three more short-term interest rate increases during 2019 and a continuing reduction of its balance sheet by $50 billion per month. Instead, the Fed announced the policy reversal by eliminating further short-term interest rate increases for the remainder of 2019 and ending quantitative tightening by halting its balance sheet reduction by September. In fact, the futures markets have already priced in an interest rate cut by first quarter of 2020.

The dramatic reversal means the central bank fears pushing the U.S. economy into recession. It's signaling interest rate cuts to support future economic growth and the stock market. Although recent U.S economic statistics are somewhat mixed, slowdowns in China and the European Union are clearly evident. Generally large U.S. budget deficits would cause the U.S. dollar to go down relative to other currencies. However, the reserve currency status of the U.S. dollar allows a stronger currency because other major countries and currencies are economically slowing even faster than the U.S.

Although unemployment is at historic lows, a turning point may be starting. U.S. private payrolls just posted the second disappointing month in a row. Finally, another source of potential economic weakness is a reduction in the effects of tax cuts from 2017. Fiscal stimulus from the 2017 tax cuts gave a temporary boost to the economy but those effects will fade over time. Despite these negative data, not everything is pointing to a recession.

Recent manufacturing data from the Institute of Purchasing Managers remains solidly above 50 in expansion territory. Stock markets, as leading indicators, have been strong globally. Major stock market indices, especially in U.S., remain near all-time highs. Housing prices continue to increase globally. Unemployment, as mentioned, remains near historic lows.

SGI Outlook

- The U.S. economy will surpass its previous record to become longest economic expansion in history.
- Globally, highly indebted major economies will force governments to attempt to keep interest rates lower for a longer time period.
- New economic stimulus efforts in China will become temporarily effective in stopping the slowdown but the long-term trend, due to its size, remains slowing economic growth.
- The Federal Reserve will remain data driven and will likely respond aggressively to weakening economic conditions in the U.S.
- Quantitative tightening by further reducing the Fed balance sheet is expected to remain on hold indefinitely.
- The U.S. and China will likely come to a trade agreement this year, but negotiations may take longer than expected.

We continue to adhere to our disciplined, managed-risk, multi-factor investment process. Over a full market cycle, this approach has historically limited downside risks and allowed for participation in market rallies. We are grateful for the opportunity to help steward your investments.

Sincerely,

Summit Global Investments