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SGI Equity Strategies 2nd Quarter Summary

Second quarter of 2019 was a good period of performance for the firm. All three of the equity strategies posted positive returns and excess returns over their respective benchmarks. Here are some highlights:

- The U.S. Large Cap equity strategy returned 4.31%, slightly outperforming the S&P 500 Index on a gross basis by 0.01%, while maintaining significantly lower overall portfolio risk.
- The Global equity strategy returned 5.74%, significantly outperforming the MSCI ACWI Index on a gross basis by 1.96%.
- The U.S. Small Cap equity strategy returned 2.28%, while slightly outperforming the Russell 2000 Index on a gross basis by 0.19% and maintaining significantly lower overall portfolio risk.

SGI Performance	2Q19	YTD	1 Yr	3 Yrs	5 Yrs
US Large Cap Gross	4.31%	18.63%	12.12%	12.31%	12.27%
US Large Cap Net	4.10%	18.16%	11.21%	11.52%	11.40%
S&P 500 Total Return	4.30%	18.54%	10.41%	14.18%	10.70%
US Small Cap Gross	2.28%	13.92%	-3.03%	10.20%	11.39%
US Small Cap Net	2.09%	13.49%	-3.75%	9.49%	10.95%
Russell 2000 Total Return	2.09%	16.97%	-3.34%	12.28%	7.05%
Global Large Cap Gross	5.74%	18.13%	15.19%	11.11%	10.52%
Global Large Cap Net	5.60%	17.87%	14.59%	10.57%	10.20%
MSCI ACWI Total Return	3.78%	16.60%	6.35%	12.25%	6.77%

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 overall portfolio risk**. For example, historically, our large cap strategy averaged 25-30% less portfolio risk than the S&P 500 Index (5yr as of 6/30/2019).

MARKET COMMENTARY

Longest Post-War Expansion

The end of June 2019 marked the 120th month, or ten years of economic expansion. This matches the longest prior post-war expansion from 1991-2001 of 120 months. Although showing some growing indications of weakness, there is no explicit rule that states economic expansions have to die of old age. In fact, the relatively modest pace of this current expansion may indicate that typical excesses which occur late in business cycles have also remained modest, but that is not to suggest that risks don't exist.

Geopolitical Risk

The U.S. has engaged in a tit-for-tat trade dispute with China that has negatively affected both economies, although it has likely done greater damage to China, due to the relatively larger trade surplus. During the quarter, trade talks between the countries broke down. Subsequently, President Trump limited doing business with Huawei, one of the largest technology companies in China. The U.S. also increased tariffs on a much larger portion of imported goods from China. In retaliation, China reduced purchases from American farmers and technology companies, namely Apple. Although trade talks have resumed as of a recent G20 meeting in Osaka, Japan between President Xi Jinping and President Trump, a quick resolution with a new trade agreement seems unlikely.

President Trump instituted economy crippling sanctions on Iran and is pressuring other countries to follow suit. In response, Iran threatened closing the Strait of Hormuz, through which passes 30% of the world's oil. Additionally, Iran is responsible for attacking two oil tankers and downing an American military drone near its border. This conflict remains at risk for escalation, which would subsequently affect the oil and financial markets. Meanwhile, the U.S. did arrive at a new trade agreement with both Mexico and Canada during the quarter that should positively benefit all three economies.

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Levels	1Q19	2Q19	Change
Russell 1000 Index	8985.89	9367.53	4.25%
Russell 2000 Index	7702.52	7863.89	2.10%
MSCI EAFE	7761.73	8069.60	3.97%
MSCI Emerging Markets	2378.03	2395.54	0.74%
U.S. Aggregate*	2.93%	2.49%	-15.02%
US High Yield 2% Cap*	6.43%	5.87%	-8.74%
U.S. Federal Funds Rate**	2.43%	2.40%	-1.23%
U.S. 10 Year Treasury**	2.41%	2.01%	-16.63%
U.S. Dollar Index	97.28	96.13	-1.19%
WTI Crude Oil Spot	60.14	58.47	-2.78%

* Yield to Worst **Interest Rate

The Federal Reserve

The yield curve, which had been flattening steadily over the past year, finally inverted (10-yr/3-yr). The Fed announced a policy reversal by eliminating further short-term interest rate increases for the remainder of 2019 and ending quantitative tightening by September through halting its balance sheet reduction. In fact, the futures markets have already priced in a 100% probability of an interest rate cut by the July 31 Fed meeting and a high likelihood of at least two 25 basis point reductions by year end.

The U.S. Dollar is a concern because an increasingly dovish Fed will reduce the propensity of foreign investors to invest in U.S. financial assets, stocks and bonds, as the currency declines. A declining U.S. Dollar, while good for exports will certainly harm financial assets due to fewer foreign investors. Precious metals and commodities have reached six-year highs in this unusual environment where much of the global sovereign debt markets continue to have negative yields.

Additional risk to the global economy comes from the manufacturing sector. PMIs (Purchasing Managers Index) for the G7 economies have been contracting. Within the G7, only the U.S. and France are currently showing expanding manufacturing sectors, with the remaining G7 economies showing PMIs lower than 50, meaning contraction. Major stock market indices, especially in U.S., remain near or at all-time highs. On the positive side unemployment remains near historic lows and housing prices remain firm.

SGI Outlook

- The U.S. economy will break its current tie with the 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.
- Weakening global economies with low inflation should drive global long-term interest rates lower, and more negative for Europe and Japan.
- The Federal Reserve will likely respond aggressively to weakening economic conditions in the U.S. by lowering short term rates and halting balance sheet reduction.
- In the best interest of both major economies, the U.S. and China will likely come to a trade agreement this year, but negotiations may take much longer than originally expected.
- Election based rhetoric from President Trump and Democratic candidates will become increasingly sensational and vitriolic, potentially affecting specific sectors such as Technology and Healthcare.

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.

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