



# U.S. LARGE CAP LOW VOLATILITY EQUITY

## MARKET COMMENTARY

During the second quarter, equity markets were mixed. Domestic markets performed well while international markets were generally weak and volatile. Emerging markets stocks (MSCI Emerging Markets Index<sup>®</sup>) were the worst performers declining 7.86% for the quarter. Non-U.S. large cap stocks (MSCI EAFE Index<sup>®</sup>) were the second worst performing group, dropping 0.97%. U.S. large cap stocks (S&P 500 Index<sup>®</sup>) returned 3.43%, while U.S. small cap stocks (Russell 2000 Index<sup>®</sup>) were the best performers returning 7.75%. Growth stocks, as a style, significantly outperformed value stocks across all market caps.

The Atlanta Fed GDP Now Forecast Index for the United States, forecasts 3.8% annualized growth for the second half of 2018. We do not see significant signs of a recession in the near term. Even after seven rate hikes since December 2015 the Fed Chairman announced two more rate increases are likely in 2018.

Consumers are clearly feeling good with an all-time high total persons employed of 155.5 million, a new high of \$100.8 trillion in household net worth, and the lowest household debt service ratio, 10.3% in the past 30 years. The Consumer Sentiment Index remained near its highest level in 17 years and the Conference Board US Leading Index rose +6.4% from a year ago.

Although equity market valuations are clearly stretched, we're still finding attractively valued companies in which to invest. After over nine years of an equity bull market, we believe it is time for investors to be proactively prudent by lowering equity market risk using our risk managed approach. We're grateful to you for entrusting us with your investments.

Performance	2Q18	YTD	1 Year	3 Years
S&P 500 Total Return	3.43%	2.65%	14.37%	11.92%
Russell 2000 Total Return	7.75%	7.66%	17.57%	10.95%
MSCI EAFE (USD)	-0.97%	-2.37%	7.37%	5.41%
MSCI EAFE Small-cap (USD)	-1.38%	-1.06%	12.85%	10.48%
MSCI Emerging Markets (USD)	-7.86%	-6.51%	8.59%	5.98%
MSCI ACWI (USD)	0.72%	-0.13%	11.31%	8.77%
MSCI USA Min Vol	2.87%	1.77%	10.87%	12.09%
Barclays Aggregate (ETF: AGG)	-0.16%	-1.66%	-0.47%	1.65%
Barclays High Yield 2% Issuer Cap	1.03%	0.16%	2.62%	5.53%
Barclays Global Aggregate ex US	-4.76%	-1.31%	2.78%	3.22%
Gold (ETF: IAU)	-5.60%	-3.67%	0.41%	1.95%
Oil (ETF: USO)	14.70%	24.36%	58.69%	-8.99%
USD Trade Weighted (ETF: UUP)	5.69%	4.05%	0.97%	-0.03%

## PERFORMANCE CONTRIBUTORS

The **momentum factor** outperformed with a return of 4.15% despite having a poor June.

**Energy** was the best performing sector, partially due to the spike in oil, returning 13.48%.

**Defensive** sectors bounced back strong in June as the yield curve flattened.

**Robert Half International (RHI)** appreciated 12.95% on the back of continued healthy US staffing growth. Robert Half is highly leveraged to the US staffing market (78% of revenue).

**TJX Companies (TJX)** appreciated 17.23% as Q1 same-store sales beat estimates and the company raised its full year EPS guidance.

**Valero Energy (VLO)** appreciated 20.30% as the street anticipated robust prospects for complex refiners, driven by the shift in global oil supply towards light oil.

## PERFORMANCE DETRACTORS

The **value factor** continued its cyclical underperformance trailing the reference benchmark by 2.20%.

**Financials** underperformed, with a loss of 3.16%, as a flattening yield curve threatens banks balance sheets.

**Industrials** struggled during the quarter with a decline of 3.18% due to concerns over trade and the economy.

**Lockheed Martin (LMT)** declined 12.02% on the back of a continued dispute with the Defense Department over payment of repair charges for five F-35 jets.

**Bristol-Myers Squibb (BMY)** declined 11.94% as analysts removed their M&A premium for the stock after Pfizer categorically denied any interest in acquiring the company.

**Starbucks (SBUX)** declined 15.17% as it cut its quarterly same-store sales growth forecast to 1% from 3%, citing intensifying competition from rivals.

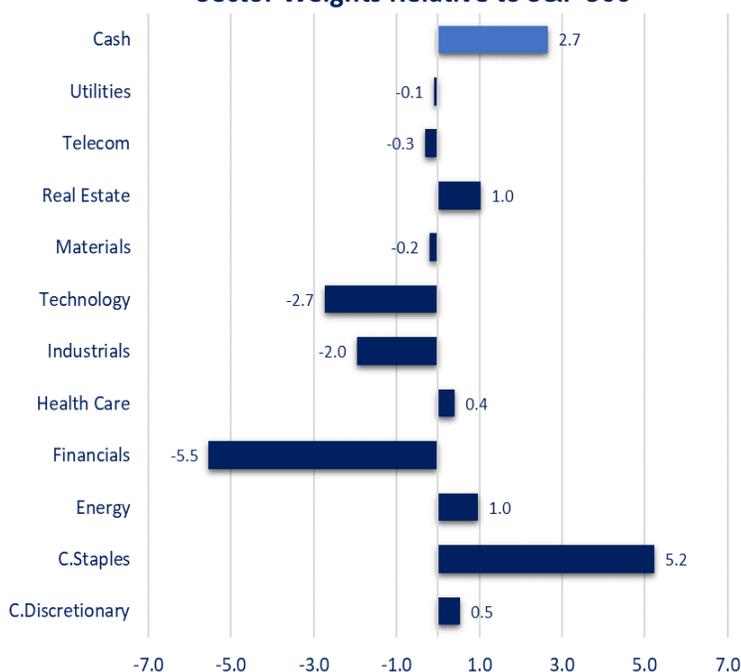


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## MARKET OUTLOOK

U.S. economic growth will remain modest as the probability of a recession remains low. The Federal Reserve will likely increase the Fed Funds rate by 0.25% at least once or possibly twice during the remainder of 2018. Globally, central bank balance sheets will start to decline in aggregate as debt matures, creating a headwind for stocks. Market valuations will remain elevated according to numerous valuation metrics. Total persons employed will remain near all-time highs. After over nine years of an equity bull market, we believe it is time for investors to be proactively prudent by lowering equity market risk using our risk managed approach.

Sector Weights Relative to S&P 500



Characteristics	Portfolio	S&P 500
# of Holdings	109	505
Beta(36M)	0.78	1.00
Market Capitalization (\$B)	41.2	104.6
P/E	24.7	22.2
P/CF	18.0	15.1
P/B	5.1	4.3
EV/S	3.7	3.6
Debt/Assets (%)	23.3	28.3
Dividend Yield (%)	1.57	1.78
ROE (%)	19.8	16.0

Top 10 Holdings	Ticker	Position
Walmart Inc	WMT	3.5%
S&P Global Inc	SPGI	3.5%
Intuit Inc	INTU	3.4%
Robert Half Intl Inc	RHI	3.2%
Valero Energy Corp	VLO	2.8%
Tjx Companies Inc	TJX	2.5%
Phillips 66	PSX	2.4%
Pepsico Inc	PEP	2.2%
Alphabet Inc-CI A	GOOGL	2.2%
Sysco Corp	SYI	2.1%

We believe investing in a low volatility equity portfolio provides more consistent returns with smaller drawdowns along with increased diversification benefits. Prudent disciplined investing is exactly what Summit Global Investments practices. We are honored that you have entrusted us with your investments.

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