2018 MID – YEAR OUTLOOK

Main Themes

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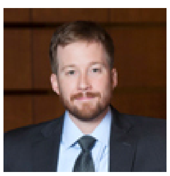
- Outlook
- Top of Mind

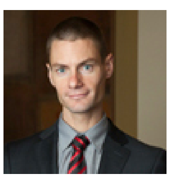
Syntrinsic Investment Committee

Syntrinsic's internal Investment Committee collaboratively evaluates economic data, forecasts capital markets, evaluates manager suitability, and develops client portfolios.



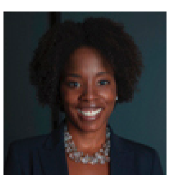
Mike Duffy, CFA®

Chief Investment Officer



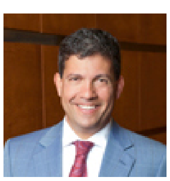
Alex Haun, CFA®, CAIA®

Senior Analyst



Akasha Absher

Chief Consulting Officer



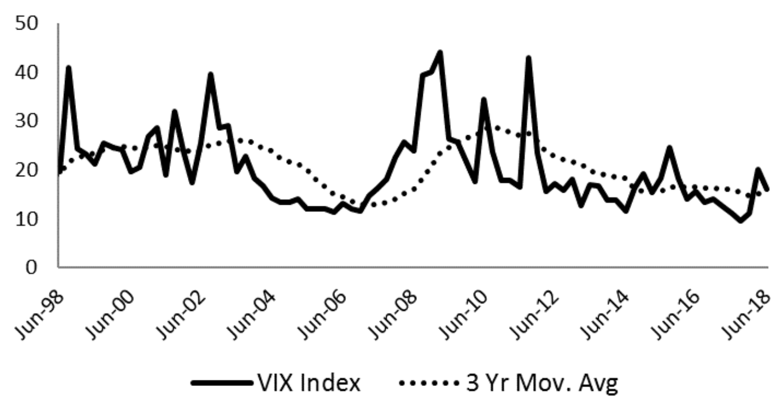
Ben Valore-Caplan

Chief Executive Officer

Reflection

At the onset of 2018, we cautioned that markets could see increased volatility as the peak years of accommodative central bank policies, ultra-low interest rates, and early cycle comparisons were behind us. That increased volatility came to fruition particularly in the first quarter as inflation, interest rates, and potential trade wars dominated market movements. However, expected volatility reflected by the VIX remains reasonable on a longer-term basis.

Exhibit I: CBOE VIX Index



Source: Bloomberg, CBOE

Developments during the first half of 2018 continue to support the dynamics of a late economic cycle. Specifically, the US Federal Reserve is reversing the extraordinary monetary policies enacted over past years. We expect other central banks eventually to begin doing the same. In conjunction with an expected increase in fiscal support, particularly in the US, economies and markets likely will continue to grow, albeit at a slower pace. Healthy economic fundamentals, gradual central bank tightening, and the potential for greater fiscal spending support the near-term outlook.

The aforementioned healthy fundamentals have been difficult to see at times this year. Global growth remained solid in the first half of 2018, although growth moderated slightly from last year. Earnings have remained strong; however, political concerns, mainly the opening salvos in what could become more significant trade wars, have obscured conditions and added to uncertainty. Also, higher rates have caused some repricing of assets. Still, the US remains buoyed by a healthy labor market, positive corporate fundamentals, and fiscal stimulus.

Strong labor markets, high consumer confidence, and improved business activity sustained growth in the Foreign Developed regions; however, renewed political risks have offset sentiment. Emerging Market growth is largely dependent on China, which remains on a soft landing path. Political and trade risks have been elevated across the emerging markets.

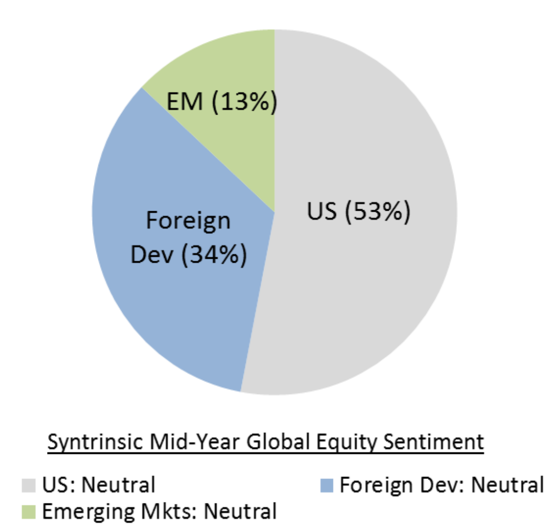
OUTLOOK

As we look into the second half of 2018, we acknowledge that several of the risks outlined earlier this year remain, such as a mature market cycle, the risk of rising interest rates and inflation, and the transition from monetary to fiscal stimulus. We also acknowledge the intensifying risk of a potential trade wars with China, Europe, and North America. Coupling those risks with the higher volatility we have seen in the first half, our sentiment continues to remain cautiously optimistic, and we recommend investors stay fully invested throughout this cycle unless their objectives or time horizon have changed.

Economic and Equity Market Outlook

When evaluating regional strengths, weaknesses, opportunities, and threats, we find a balanced dynamic. This even-keeled perspective keeps our sentiment for Global Equity neutral across the United States, Foreign Developed, and Emerging Markets regions. We recommend allocating to all three regions based on their relative global market capitalization weight, not favoring one region over another.

Exhibit II: MSCI All Country World Index Regional Allocation



Source: Bloomberg, MSCI

United States

Earnings momentum remains strong in the US, boosted by tax cuts and fiscal stimulus. This stimulus likely will add support to already strong earnings in the near term, but its impact will fade into next year. Core inflation has risen but does not provide cause for concern. In the first half of the year, we were more cautious on elevated valuations, but our apprehension has moderated as result of softer equity prices and higher earnings. However, the US is late in an economic cycle and room for incremental improvements is limited. We also expect inflation and interest rates to rise, but to a limited degree. In addition, there is potential for rising labor and borrowing costs (higher interest rates) to offset earnings growth, which leads us to maintain our neutral sentiment.

Foreign Developed

The outlook for growth and corporate earnings remains positive across the three major Foreign Developed regions (Japan, Eurozone, and United Kingdom) even though the region experienced softer economic growth comparatively in the first half. We believe growth will continue from improving labor markets, positive business conditions, and increased consumer confidence. The Foreign Developed region is earlier in the economic and credit cycle than the US, and is still benefiting from a monetary policy stance that is relatively more supportive than current US policy. Nevertheless, valuations are no longer cheap and political, geopolitical, and BREXIT uncertainty remains, leading us to maintain a neutral sentiment.

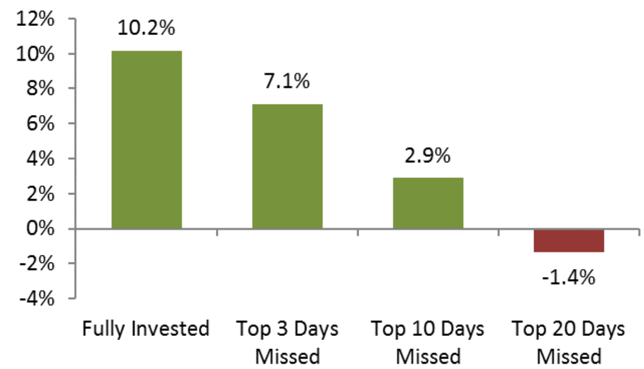
Emerging Markets

Economic growth across most of the Emerging Markets should continue as conditions have improved and headwinds from currencies and rising interest rates appear more manageable. Our neutral sentiment continues to balance positive corporate earnings and growth expectations with external risks from rising US interest rates, dollar strength, potential trade wars, and geopolitical uncertainty.

Even though our near-term sentiment is cautiously optimistic, we fully recognize the importance of continuously evaluating sources of risk in the portfolio and remaining diversified. We do not currently see any indicators that would lead us to believe that this late cycle market is doing anything other than maturing.

Late cycle markets often expose investors to more volatility, can provide pockets of opportunity and robust returns, and are inherently more risky. While some investors strive to time markets at this stage of the cycle, we see the opportunity cost of potentially missed positive returns as more than offsetting the risk of experiencing potential down markets.

Exhibit III: S&P 500: 10 Yr Annualized Return Comparison



Source: Bloomberg, S&P

2018 Top of Mind

On a monthly basis, Syntrinsic's Investment Committee evaluates the potential for different types of investment risks to derail the global growth picture. Two of these investments risks, interest rates and potential trade wars, are particularly acute currently and deserve additional attention.

Trade Wars

In the last couple of months, it has become more evident that the likelihood of the US entering into trade wars with multiple countries has increased. Currently, the formally imposed tariffs still are small and are mainly on steel, aluminum, solar panels, washing machines, automobiles, aerospace, and lumber. However a much larger dollar amount of tariffs have been proposed on many items with multiple countries affected, most notably China.

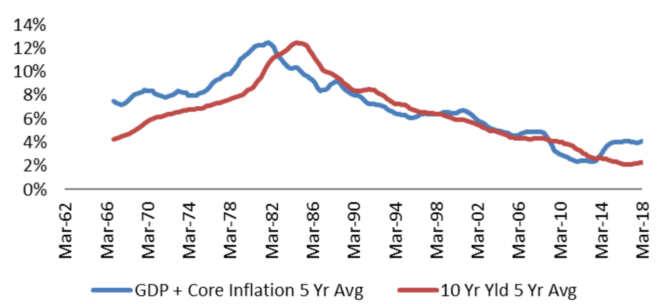
The potential impact of tariffs concerns us as they increase the risk to our near-term outlook. Historically, tariffs have resulted in a net loss of consumer surplus, slower growth, and increased inflation. In the past, when tariffs have been enacted, a few domestic industries have benefitted at the cost of the rest of the economy. For example, the Peterson Institute study in 2012[i] analyzes the Chinese tire tariff of 2009. In that situation, the US gained approximately 1,200 jobs in US manufacturing at the cost of 3,731 lost retail jobs and at a cost to US consumers of $1.1 billion. Tariffs can, however, provide a source of revenue to the government and potentially lead to a reduction in US borrowing. That being said, the revenue growth does not tend to offset the repressive nature of tariffs on the economy.

At this time, it is challenging to quantify the impact of the proposed tariffs on growth and inflation. We require greater clarity regarding which proposed actions will actually become policy and how those changes will affect product prices, competition, and the supply chain for goods. As a result, we expect to see more volatility and recommend that equity investors stay globally diversified as the winners and losers from trade wars will be hard to predict.

Interest Rates

Interest rates remain quite low by historical standards and relative to our near-term forecasts for growth and inflation; however, competing supply and demand forces predict only modest near-term interest rate risk.

Exhibit IV: US Long-Term Growth & Inflation vs. Interest Rates



Source: Bloomberg

Several factors argue for higher interest rates over the near-term. Most important will be the US Federal Reserve's pace of interest rate hikes and the balance sheet runoff. The pace of Fed tightening will be highly dependent on the Fed's expectations for growth and inflation. While we see these expectations as likely to be positive, we also see structural headwinds that should prevent either growth or inflation getting out of control. Nonetheless, potential policy missteps represent a real risk. Fiscal stimulus and growing debt issuance remains another factor supporting higher interest rates.

Our base case for interest rates considers several factors that help offset some of the above concerns. While we maintain a constructive view on growth and inflation, structural limitations from aging demographics and technological innovation should temper inflationary pressures. Late economic cycle inflation does have potential to force more aggressive central bank tightening, but little evidence supports dramatic prices gains over the next few years. As we mentioned earlier, the escalation of trade tensions does have the potential to drive higher inflation, but so much is unknown at this time. Additionally, demand has been quite strong at much lower yields, and any significant rise in rates is expected to draw in large pension and insurance buyers that have been starved for yield over these past years. Lastly, US bond yields remain more attractive compared to foreign bonds. While we also expect foreign central banks to tighten policy in the coming years, the relative attractiveness of US bonds remains.

DISCLOSURES

The information in this document is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance.

Given the complex nature of risk-reward trade-offs involved in portfolio construction, we advise clients to consult with financial professionals on specific investment-related decisions. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. In addition, past performance is not a guarantee of future results.

Assumptions, opinions, and estimates are provided for illustrative purposes only and are subject to significant limitations. Expected return estimates are subject to uncertainty and error. Expected returns for each asset class are predicated on economic scenarios that might lead to returns that are significantly higher or lower than forecasted. These expectations should not be solely relied upon as recommendations to buy or sell securities.

Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable, but do not warrant its accuracy or completeness.

This material has been prepared for information purposes only and is not intended to provide, and should not be relied upon for accounting, legal, or tax advice.

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[i] Peterson Institute for International Economics, Gary Clyde Hufbauer and Sean Lowery, US Tire Tariffs: Saving Few Jobs at High Cost, https://piie.com/system/files/documents/pb12-9.pdf, April 2012