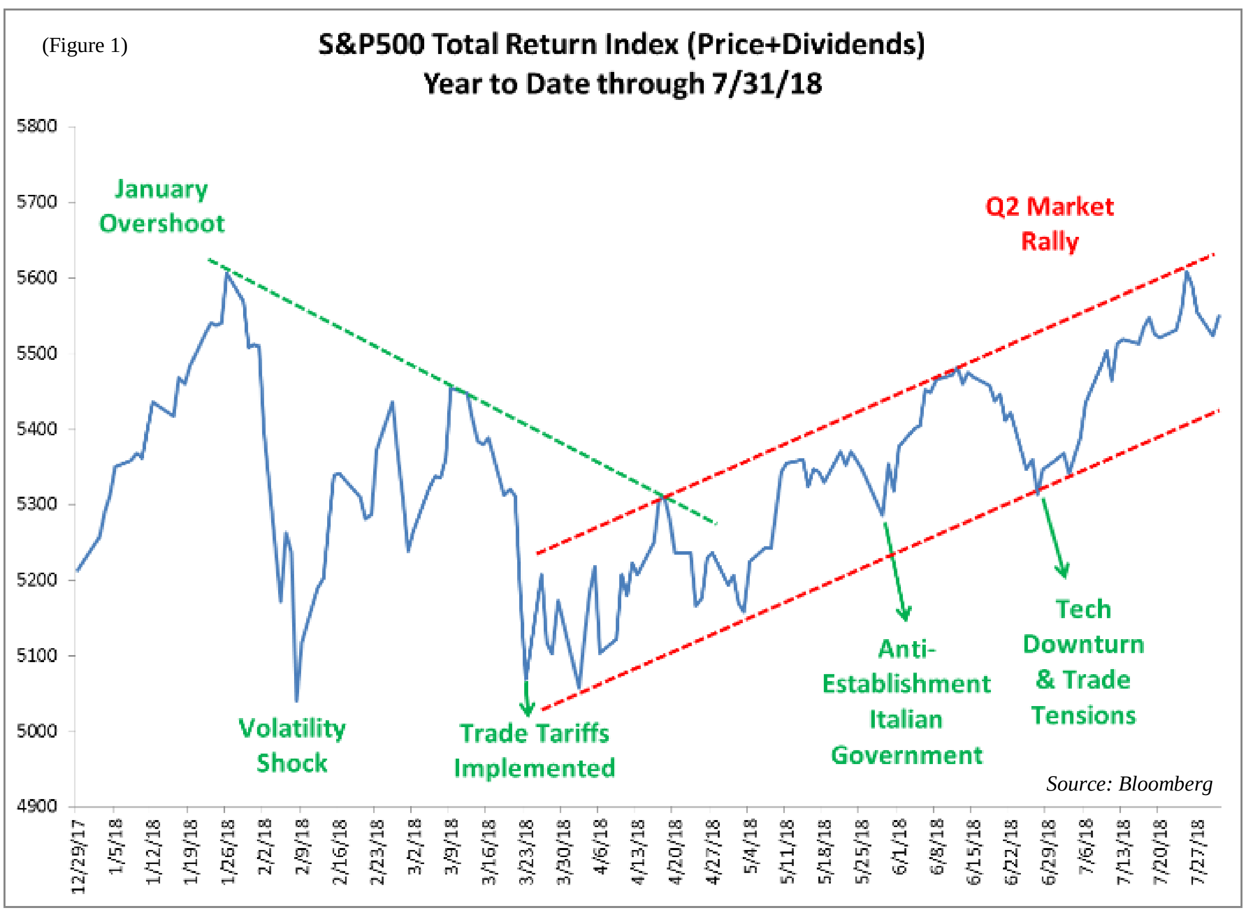
2018 SEMI-ANNUAL UPDATE

SUMMARY

For the past few years, we have been recommending that clients maintain significant allocations to growth assets, in line with a global economic recovery. In this note, we will discuss why we think the time has come to reduce risk exposures. While the U.S. economy appears strong and there are still no signs of imminent recession, the list of potential worries is growing longer, and financial markets have entered a new, more volatile phase, justifying a cautious stance. We recognize that we may be early but prefer to sacrifice potential late-cycle excess returns to protect client portfolios.

So far in 2018, growth assets have risen despite choppier markets and worries around the sustainability of economic growth. Through July, global equities are up +2.6% as early declines were reversed in the U.S. over the second quarter. Meanwhile the broad U.S. fixed income market is down -1.6% as the Federal Reserve continued to hike rates amid inflation concerns. The U.S. Dollar rose against emerging market currencies, lifted by rising rates and its safe-haven status. Broad commodities rose +6.5%, led by gains in energy as an undersupplied market depleted inventory.

In our 2018 outlook, we correctly anticipated the outperformance of stocks over bonds and the continued rise in energy prices. However, we underestimated political risk and the uncertainty generated by non-economic decisions. The increasing dispersion in returns benefitted our hedge fund strategies but our preference for foreign exposure hampered the performance of our global equity fund, causing it to perform in line with its benchmark.



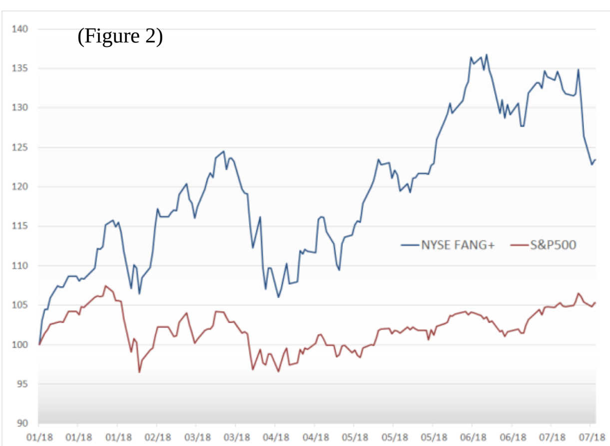
REVIEW OF 2018 THROUGH JULY

In a sharp break with the placid market conditions of 2017, investors have endured volatile markets so far in 2018, as negative developments cast into doubt the future path of global growth (figure 1).

U.S. equity markets went through a euphoric phase in the final quarter of last year, which ended abruptly in late January with a volatility shock. Possibly triggered by large institutional accounts rebalancing equity portfolios after experiencing large gains, the S&P500 dipped by 10% from January 26 through February 8th while the VIX volatility index spiked from 11.1 to 37.3 in the same period.

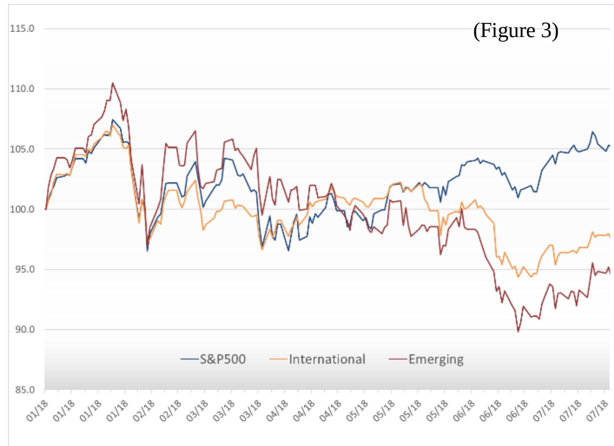
After a sharp rebound, markets went through another 7% pullback in March as the threat of trade tariffs moved front and center.

The rally since then has been quite narrow, led by technology bellwethers: Amazon, Microsoft, Apple, Netflix and Google. While accounting for only about 13% of the index, these securities have contributed almost half of its return year-to-date. The performance of the NYSE FANG+ index[1] (whose 10 positions includes four of these five names) has far surpassed that of the S&P500 so far this year (figure 2).



Source: Bloomberg

In addition, a toxic combination of trade tensions, renewed political turmoil in Italy, Brexit uncertainty in the U.K. and a strong U.S. Dollar linked to rising interest rates have weighed on foreign equities, causing a severe divergence with the U.S. since May (figure 3).



Source: Bloomberg

Much of the pain has come from currency depreciation against a strong U.S. Dollar, with losses concentrated in countries with weaker economic fundamentals and external funding needs.

As interest rates rise in the U.S. the appeal of riskier emerging market debt is reduced, and capital withdrawals constrain liquidity in these countries. The logical response is to raise interest rates to defend the local currency, as seen in Argentina. However, this will act as a brake on future growth.

In the case of Turkey, the government's refusal to raise rates is now leading to a currency crisis, further complicated by a diplomatic crisis with the U.S. While the issue is specific to Turkey, it is reinforcing negative sentiment and fears of contagion. New trade sanctions on Russia and Iran add to the adverse narrative.

China itself, the focal point of trade tensions, was already undergoing a cyclical slowdown and is now allowing its currency to weaken to improve its competitiveness and soften the impact of tariffs.

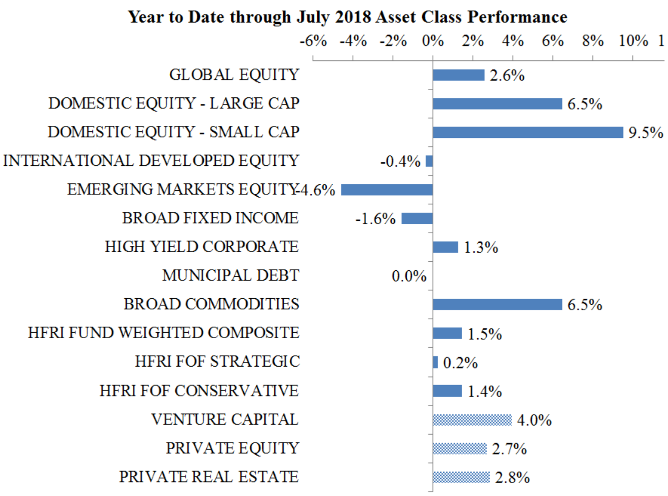
Against this backdrop, negative moves in markets were amplified by low liquidity conditions typical of summer months. And foreign developed markets, with their higher exposure to emerging market economies, have not escaped the weakness.

[1] The NYSE FANG+ index consists of equal weights of 10 stocks: Facebook, Apple, Amazon, Netflix, Google, Alibaba, Baidu, Nvidia, Tesla and Twitter.

The synchronous global recovery of 2017 is now splintering, and U.S. Treasuries are benefitting from a flight to safety, bringing long term yields lower.

The beginning of the year was marked by sharp divergence in performance between assets. U.S. equities and commodities were strong performers while foreign equities and fixed income detracted. Hedge funds indices recorded low single-digit returns in line with their lower net exposure. The returns for private assets are reported with a lag and shown here through March (figure 4).

(Figure 4)



See page 7 for index key.

SECTOR ANALYSIS – GROWTH ASSETS

Growth assets include investments that generally benefit from favorable economic conditions such as sustained growth and controlled inflation. Our definition includes equity and equity-like (credit) assets across public and private markets in long only, hedged or draw-down structures. The following discussion considers these various components in turn.

LONG ONLY EQUITIES

Global equities, as represented by the MSCI All Country World Index (ACWI), gained 2.6% in U.S. currency year-to-date through July. Within regions, U.S. equities were the best performers, returning 6.5% (S&P500), compared to -0.4% for international developed markets (MSCI EAFE) and -4.6% for emerging markets (MSCI EM), in U.S. dollar terms. Globally, large-caps outperformed small and mid-caps. The best performing sectors included Technology (+9.1%) and Energy (+8.7%), while the worst performing sectors included Consumer Staples (-3.1%), and Telecom Services (-5.9%). See figure 5.

(Figure 5)

YTD (%)	ACWI	US	Europe	Japan	EM
Information Technology	9.1	13.3	11.4	12.6	9.9
Energy	8.7	12.8	8.8	11.1	1.2
Health Care	7.7	8.8	4.9	7.2	0.0
Consumer Discretionary	5.3	8.6	3.3	7.1	-3.0
Utilities	2.8	2.7	0.9	4.7	-4.1
Industrials	0.5	2.6	0.5	1.7	-4.5
Materials	-0.6	1.7	0.1	-1.3	-5.1
Real Estate	-0.9	1.1	-0.7	-4.1	-8.7
Financials	-2.1	-0.2	-1.6	-4.6	-10.3
Consumer Staples	-3.1	-4.9	-5.2	-6.6	-13.0
Telecommunication Services	-5.9	-6.1	-8.5	-10.6	-14.8

Source: Morgan Stanley

The performance of emerging market equities was reduced by currency translation effects as their currencies depreciated against the U.S. Dollar. Currency translation effects were only slightly negative in developed markets. Within the U.S., growth dominated value, and small caps beat large-cap stocks (figure 6).

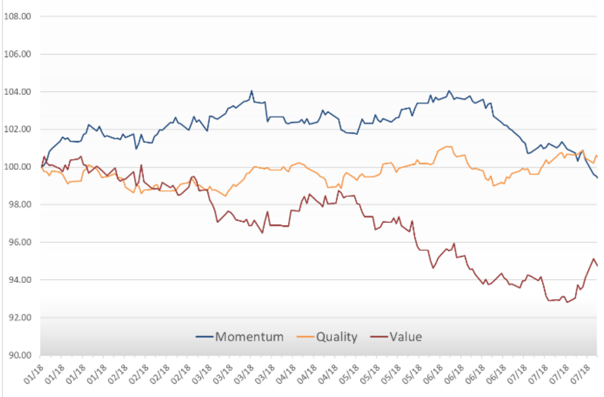
(Figure 6)

YTD Return	USD	Local
S&P500	6.5%	
MSCI EAFE	-0.4%	-0.2%
MSCI EM	-4.6%	-2.8%
MSCI ACWI	2.6%	2.5%
YTD Return	**Growth**	**Value**
S&P500	11.0%	1.7%
Russell 2000	11.6%	7.3%

Source: MSCI, Russell, S&P, Bloomberg

Earlier in the year, Momentum stocks led the market, supported by the strong performance of technology shares. This pattern inflected in July as technology stocks weakened and Value stocks started to rebound after a long period of underperformance. The more defensive Quality factor has been essentially flat for the year but is now ahead as the market turns cautious (figure 7).

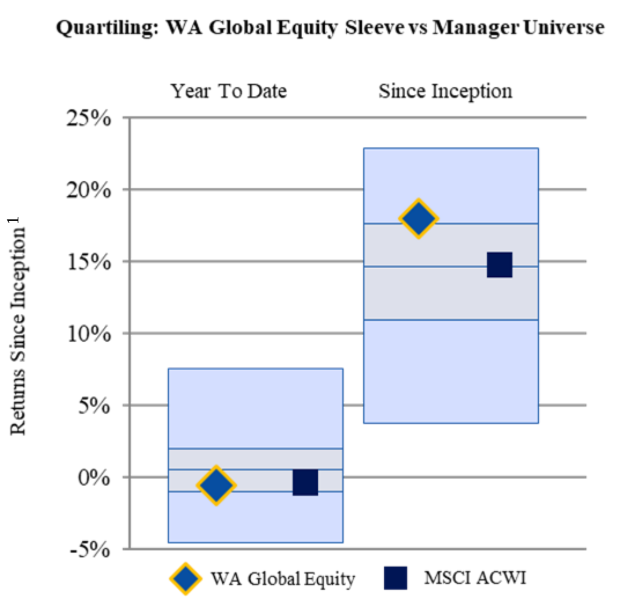
(Figure 7)



Source: Bloomberg

Through June, the WA Global Equity investment sleeve, which combines our long only equity allocations across global, domestic, international and emerging markets mandates, returned -0.3% (compared to -0.4% for the MSCI ACWI) and +17.5% since inception (compared to +14.7% for the MSCI ACWI). This performance positions the sleeve in the top quartile versus global equity peers since inception (figure 8).

(Figure 8)



For the year-to-date, our bias toward value investing and emerging equity managers detracted from performance. The best returns were recorded by our growth and small cap domestic mandates.

[1]Inception date 7/1/2016. Performance is net of manager fees and gross of advisory fees.

POSITIONING

During the first half of the year, we reconfigured our emerging equity portfolio to include country mandates focused on India and China, while trimming broader emerging exposure. These changes were motivated by a desire to focus on the strongest secular growth prospects as markets cheapened, while trimming exposure to potential areas of macro-economic risk.

DIRECTIONAL HEDGE FUNDS

Directional hedge funds include strategies that typically show high correlation to equities, such as long short equity, event-driven and distressed credit.

Directional funds of hedge funds (HFRI Fund of Funds Strategic, +1.5%) were up for the first half of the year, delivering about 60% of global equity gains.

Within specific strategies, Equity Hedged strategies led performance for the year thanks to gains in technology and health care sector funds. Lagging strategies were concentrated in systematic macro and emerging market strategies (figure 9).

What is most striking in the data is the margin of superiority of the winning strategy year-to-date. Technology and health care sector funds (+10.5%) have returned almost twice as much as the next best performing strategy (Yield Alternatives, or Structured Credit, +5.3%) through July.

(Figure 9) **Hedge Fund Performance by Major Strategy vs. S&P 500**

	HF Comp	Eq L/S Total	Tech/ HC Eq	Quant Equity	Eq Mrkt Neutral	Event Total	Distressed	Merger Arbitrage	Rel Val Total	Yield Altern	ABS	Multi-Strategy	Corp Fixed Inc	Macro Total	Systematic Macro	Emerg Mrkts
July 2018	+0.61%	+1.05%	+1.27%	+1.96%	+0.00%	+0.50%	+1.63%	-0.40%	+1.00%	+1.92%	+0.55%	+0.46%	+1.13%	-0.46%	-1.03%	+0.64%
YTD 2018	+1.45%	+2.29%	+10.49%	+1.00%	+1.19%	+2.52%	+4.63%	+2.28%	+2.56%	+5.27%	+3.89%	+1.82%	+2.08%	-2.19%	-5.02%	-3.09%
FY 2017	+8.54%	+13.16%	+16.02%	+11.04%	+4.78%	+7.31%	+7.00%	+4.09%	+5.31%	-0.78%	+7.59%	+4.25%	+6.73%	+2.25%	+2.33%	+20.12%
FY 2016	+5.57%	+5.54%	+0.82%	+5.33%	+1.59%	+10.22%	+13.42%	+3.76%	+7.82%	+17.63%	+4.94%	+6.45%	+11.69%	+1.49%	-1.06%	+7.05%

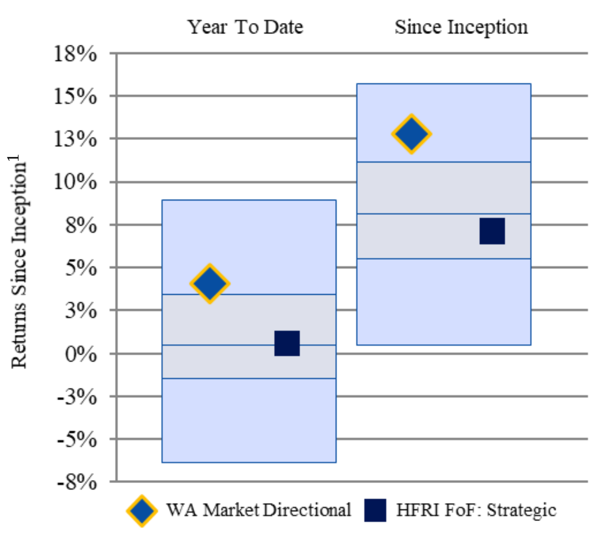
Source: HFRI Indices and S&P 500 Index sourced from PerTrac on August 13, 2018. Data as of July 31, 2018.

Source: Bank of America

The WA Market Directional investment sleeve, which combines our more aggressive return-seeking hedge fund strategies, has returned +3.9% year-to-date through June (compared to +0.4% for the HFRI FoF Strategic Index) and +14.0% since inception (compared to +7.6% for the HFRI Strategic Index). This performance has positioned the sleeve in the top quartile of the universe of comparable funds since inception (figure 10).

(Figure 10)

Quartiling: WA Market Directional Sleeve vs Manager Universe



Like the rest of the market, Technology and Biotech specialist funds led performance so far this year in the sleeve, with all funds returning over 10% year-to-date. Value and opportunistic mandates lagged.

[1]Inception date 7/1/2016. Performance is net of manager fees and gross of advisory fees.

POSITIONING

In the first half of the year we continued to make incremental changes to the portfolio, adding long researched specialist funds focused on India, Technology and Biotech.

PRIVATE EQUITY & CREDIT

Private equity (Cambridge Associates U.S. Private Equity +2.7%) and venture capital (Cambridge Associates U.S. Venture +4.0%) offered solid returns in line with public markets.

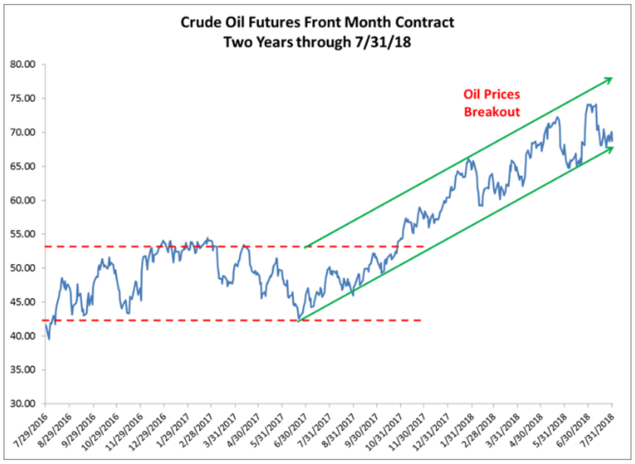
Earlier this year we recommended the inclusion of a mix of shorter duration private credit strategies in client portfolios. As of July, we have also fully committed our 2018 vintage Private Equity Fund VII with a mix of early stage venture, growth equity and buyout funds.

Diversification across vintage years is paramount in private investing, and we continue to recommend a steady pace of investment with carefully selected top performing managers.

INFLATION PROTECTION

Broad commodity prices, as proxied by the S&P GSCI index, rallied for the year (+6.5%), led by Energy (+13.8%) as oil prices continued a strong run that started last summer (WTI index, figure 11). Industrial Metals fell (-10.5%) on fears of an economic slowdown, while the appeal of Precious Metals (-7.1%) was reduced by a strong U.S. Dollar. Agriculture markets are flat (+0.4%) year-to-date.

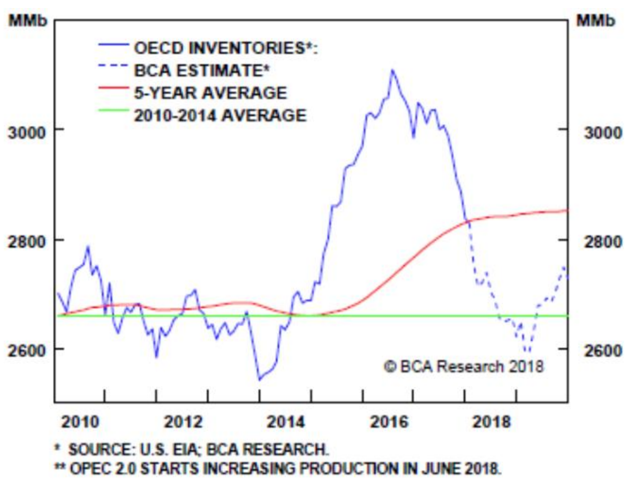
(Figure 11)



Sources: Bloomberg

In Energy, sustained demand and production cuts by OPEC led to an undersupplied market starting last year, which brought inventories in line with their five-year average and supported higher prices (figure 12).

(Figure 12)



Sources: BCA Research

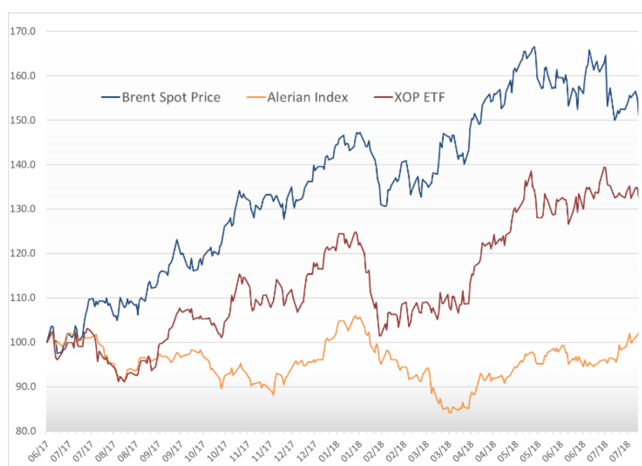
With inventories normalized, OPEC reversed course in June, choosing to increase production and promising to offset any unexpected production declines out of Venezuela, Iran or Libya. This implies that Saudi Arabia will need to operate at maximum capacity for an extended period of time, a feat that has not been achieved for longer than 1-2 months historically.

In the U.S., lack of capital and Permian infrastructure bottlenecks will constrain near-term production growth. The current lack of take-away pipeline capacity has lowered the price of oil in the Midland basin compared to the WTI index by an all-time high of $17 per barrel.

While Energy prices weakened in July in response to the OPEC announcement, we think that supply constraints will continue to support oil prices in the medium term. Yet despite higher oil prices since last summer, the stocks of exploration & production and midstream companies has not kept up (figure 14). Partly, this reflects greater demand for fiscal discipline on the part of public market investors, limiting capital available in the sector. In turn, we think that this will create opportunities for private funds to deploy capital at more attractive terms. It is also likely that the performance of energy stocks will converge with that of oil prices, as has historically been the case.

The midstream sector experienced a correction in Q1 following an unexpected ruling by the Federal Energy Regulatory Commission (FERC), which created uncertainty around the Master Limited Partnership structure. The midstream industry is now undergoing changes as management teams ponder the optimal structures for their assets. The resulting volatility has reduced the appeal of these assets to the traditional retail investor base that saw it as a fixed income alternative. Despite positive fundamentals linked to strong U.S. production growth and demand for infrastructure assets, this sector is offering unusual valuation opportunities and we remain overweight.

(Figure 13)



Sources: Bloomberg

POSITIONING

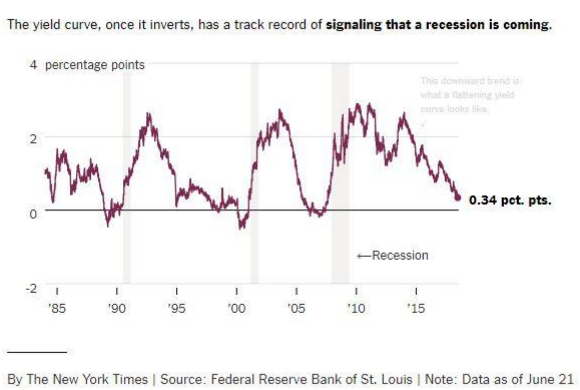
In the first half of the year, we continued to diversify our pool of inflation protection assets, adding a real estate focused equity long/short strategy, as well as a commodity trading strategy.

RECESSION PROTECTION

The yield on the benchmark 10-year Treasury initially rose from 2.41% at the end of December 2017 to 3.06% in May 2018 as rate hikes and fears of resurgent inflation dominated markets. Since May, rates have trended lower ending July at 2.96% as the downturn in emerging markets has increased the appeal of safe-haven assets.

During the first half, the U.S. Federal Reserve continued to proceed with rate hikes, and short-term rates have increased in anticipation of continued tightening. As short-term rates increased faster than long-term yields, market watchers monitoring the shape of the yield curve for a recession signal became concerned, adding to negative market sentiment. Historically, a yield curve inversion, where short-term rates (2-year) move higher than long-term rates (10-year) has been a reliable recession signal (figure 14).

(Figure 14)



While an inverted yield curve has preceded each of the last seven recessions, there is a long lead time between that signal and an actual recession: 16 months on average. And an inverted yield curve is not a foregone conclusion as budding inflation signals could cause long-term rates to back up, or turmoil in equity markets could lead the Fed to hold off on further rate hikes, causing short-term rates to fall. In any case, we anticipate higher interest rate volatility going forward, an environment that would favor global macro managers.

Year-to-date, taxable fixed income markets, as represented by the Barclays Aggregate Index, posted negative returns (-1.6%). Among the major components of the Aggregate index, securitized debt (-1.1%) outperformed both government securities (-1.5%) and corporate debt (-2.5%). A repricing of inflation risk benefitted inflation linked debt (-0.5%) while the municipal debt index was flat. The outliers for the period were high yield municipals (+4.0%) and emerging markets local debt (-5.3%).

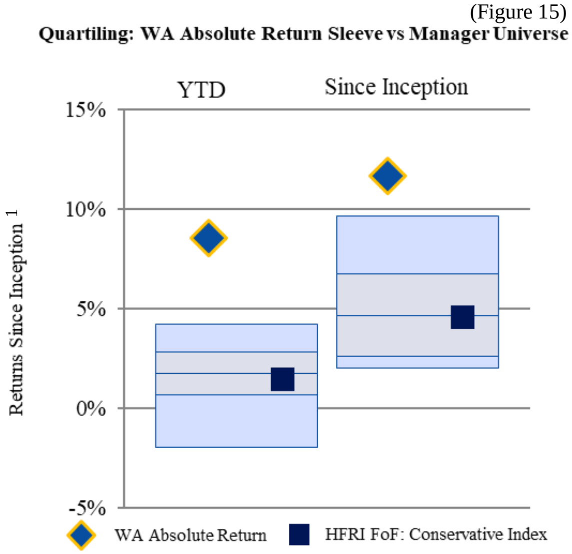
The conservative stance of our fixed income managers has helped relative performance year-to-date. Going forward, we favor a barbell approach between cash and short duration assets benefitting from rising rates, and high-quality long duration bonds for their insurance value.

ABSOLUTE RETURN HEDGE FUNDS

Absolute Return hedge funds include strategies that typically show low correlation to equities, such as low net long/short equity, global macro and multi-strategy.

The WA Absolute Return investment sleeve, which combines our more conservative or risk-diversifying strategies has returned 9.0% year-to-date through June (compared to 1.7% for the HFRI FoF Conservative Index) and 12.2% since inception (compared to 4.7% for the HFRI FoF Conservative Index). This performance has positioned the sleeve in the top 5% of the universe of comparable funds since inception (figure 15).

(Figure 15)



The sleeve's allocation to Global Macro was the top contributor to performance in the first half of the year. All but one strategy recorded positive performance, with the only loss stemming from Trend Following.

POSITIONING

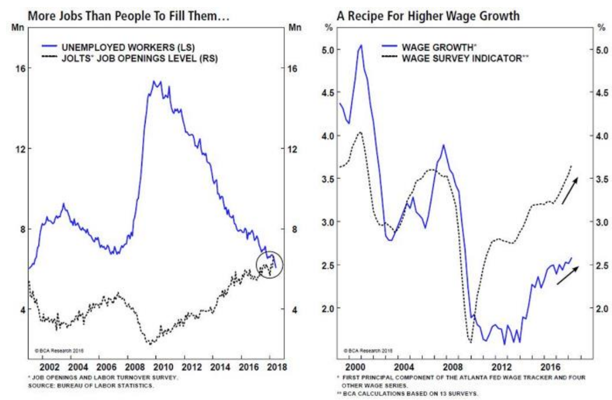
During the first half, we increased exposure to our global macro fund, which has delivered the highest performance across our investment platform. High volatility in rates and currency markets going forward is likely to favor this strategy.

MARKET OUTLOOK

After experiencing euphoria in the wake of historic tax cuts, markets are now experiencing a significant hang-over and deteriorating outlook for risk assets.

In the U.S., pro-cyclical fiscal stimulus is taking place at a time of full employment, raising the prospect of higher inflation in the future and increasing the resolve of the Federal Reserve to persist in its tightening campaign (figure 16).

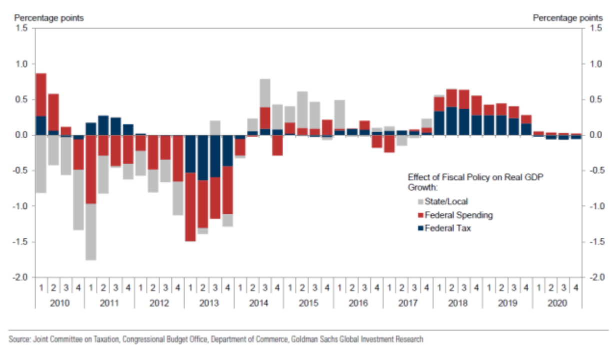
[1]Inception date 7/1/2016. Performance is net of manager fees and gross of advisory fees.



Source: BCA Research (Figure 16)

Consensus expectation among economists is that the fiscal stimulus will support the U.S. economy through 2019 before its effects fade (figure 17).

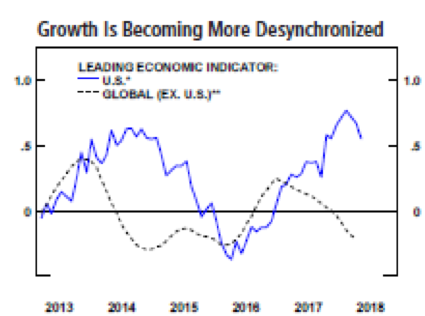
(Figure 17)



Source: Goldman Sachs

While U.S. growth is currently strong, other world economies are now decelerating, pinched by tighter financial conditions and declining global trade (figure 18). In addition to developing weakness in foreign markets, the U.S. administration's resolve in using trade as an instrument of power has increased uncertainty.

(Figure 18)



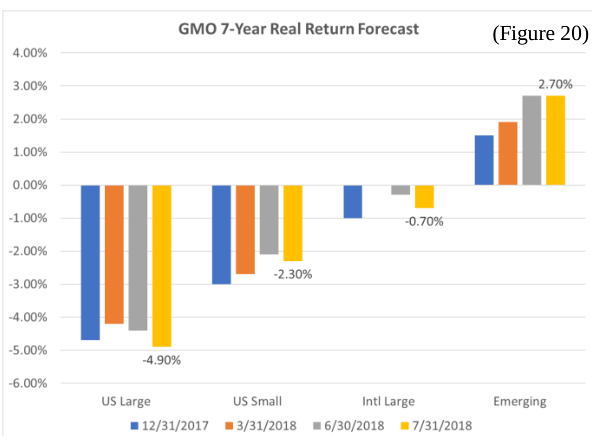
Source: BCA Research

Relative growth and interest rate differentials are also likely to continue to support a strong Dollar in the near term. This leaves the U.S. currency overvalued on a trade-weighted purchasing power parity basis (figure 19).

(Figure 19)

Data as of June 2018
Source: GMO

In terms of valuations, recent weakness is improving the long-term real return prospects for foreign equities, particularly emerging equities (figure 20). Despite their relative attraction near-term, U.S. equities trade at higher multiples, on peak earnings and with an expensive currency.

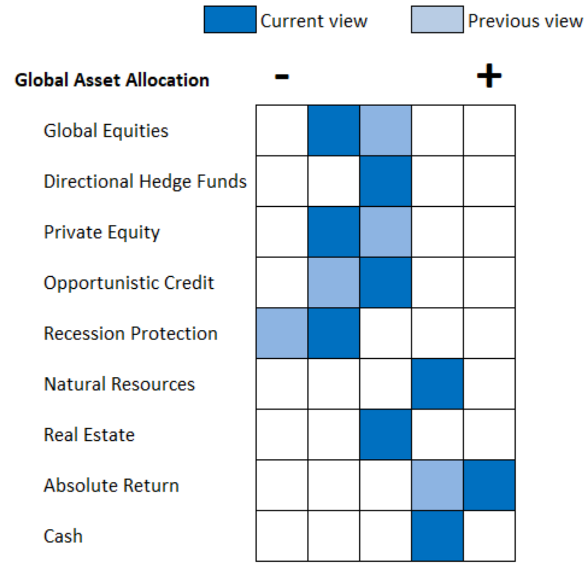


Source: GMO

Volatility in emerging markets, especially due to currency movements, is nothing new and should be expected from time to time. While investors with a long investment horizon will be well served with opportunities in foreign equities. However, we do anticipate negative momentum in the near term.

In sum, decelerating global growth, rising inflation pressures, tightening financial conditions and trade tensions are all negative signals that warrant a more cautious stance going forward.

Below is a summary of our asset allocation views:



1. We are downgrading Global Equities in light of greater market risk and plan to moderate the sleeve's beta, or sensitivity.
2. We continue to prefer hedged strategies. As divergences and differentiation increases in markets, active management will be increasingly rewarded in our view, benefitting strategies in our Market Directional sleeve.
3. With economic momentum weakening, growth assets whose valuation depends on future earnings will become challenged. Private equity may find it difficult to replicate recent performance, while short duration assets with visible cash flows should benefit. We think value-oriented opportunistic credit is well positioned.
4. As volatility increases across all asset classes in coming years we expect that discretionary and systematic macro strategies will benefit. Our Absolute Return sleeve is our preferred recommendation as it offers the potential for sustained returns while maintaining liquidity.
5. Despite relatively low returns, cash benefits from rising rates and maximum liquidity, offering optionality in a downturn.
6. While we anticipate rising bond yields in the long terms, higher rates and market uncertainty justify owning some duration as a cushion against equity risk.
7. Within public markets, we continue to think that real assets and commodities, some of the most

challenged areas in recent years, offer the most compelling value opportunities. Energy is also a typical late-cycle outperformer (figure 21).

(Figure 21)

Source: JP Morgan

INDEX KEY

Global Equity (MSCI All Country World-USD), Domestic Equity Large Cap (S&P500), Domestic Equity Small Cap (Russell 2000), International Developed Equity (MSCI EAFE), Emerging Market Equity (MSCI EM), Energy Equity (MSCI ACWI Energy) Broad Fixed Income (Barclays Aggregate), U.S. Government Debt (Barclays U.S. Treasury), U.S. Inflation-linked (Barclays U.S. Treasury Inflation Notes), U.S. Corporate Debt (Barclays U.S. Corporate), U.S. Securitized Debt (Barclays U.S. Securitized), Emerging Debt U.S. Dollar (JP Morgan Emerging Market Bond Index Global), Emerging Debt local currency (JP Morgan Global Bond Index Emerging Markets), High Yield Debt (Barclays U.S. High Yield), Municipal High Yield (Barclays U.S. Municipal High Yield), Municipal Debt (Barclays U.S. Municipal), Commodities (S&P/Goldman Sachs Commodity Index), Public Real Estate (MSCI U.S. REIT), Global Hedge Funds (HFRI Fund Weighted Composite), Directional Hedge Funds (HFRI Fund of Funds Strategic), Absolute Return Hedge Funds (HFRI Fund of Funds Conservative), Venture Capital (Cambridge Associates Venture Capital Index), Private Equity (Cambridge Associates Private Equity Index), Private Real Estate (Cambridge Associates Private Real Estate).

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