AUREUS
ASSET MANAGEMENT

January 2019

2019 Global Asset Allocation Review

Introduction

The Aureus annual asset allocation review evaluates the risks and opportunities available in global financial markets and their potential impact on the investment portfolios of our clients. Our Asset Allocation Policy describes our positioning for the coming year and may be adjusted as market conditions evolve.

Beyond this annual perspective on global allocation, Aureus also develops a customized investment policy for each client based on their specific goals and objectives.

Summary

The Aureus 2019 global asset allocation review combines critical interpretations of global market factors with a focus on the following:

2019 Analysis			
Market Factors	▪ US Economy ▪ Global Economy ▪ Corporate Profitability ▪ Interest Rates & Inflation ▪ Geopolitics	**Asset Classes**	▪ Cash ▪ Fixed Income ▪ US Equities ▪ International Equities ▪ Alternative Assets

Based on our analysis, we design a 'base case' positioning with four principal asset categories: Cash, Fixed Income, Global Equities, and Alternatives. In turn, equities are further divided into US and International groups, while fixed income is subdivided by quality, and alternatives by directional and absolute return strategies.

Our 2019 asset allocation has relatively modest changes versus 2018 as noted in the table below and continues to demonstrate our preference for equities over fixed income. In addition, we have reduced recommended allocations to directional alternative strategies and increased cash.

2019 Asset Allocation Summary

Asset Class	Risk Level	2019 Allocation	Δ vs. 2018	2018 Allocation	2017 Allocation	2016 Allocation
Cash	Low	**7%**	↑	**5%**	**5%**	**4%**
Fixed Income		**8%**	↓	**10%**	**13%**	**14%**
High Quality Bonds	Moderate	8%	↓	10%	10%	11%
High Yield Bonds	High	0%	=	0%	3%	3%
Global Equities		**66%**	↑	**64%**	**64%**	**60%**
US Equities	High	46%	↑	44%	46%	42%
International Equities	High	20%	=	20%	18%	18%
Alternatives		**19%**	↓	**21%**	**18%**	**22%**
Directional Strategies	High	6%	↓	9%	8%	12%
Absolute Return	Lower	13%	↑	12%	10%	10%
Total		**100%**		**100%**	**100%**	**100%**

2019 Asset Class Commentary

This year's asset allocation reflects the following adjustments compared to 2018.

Cash: We are increasing our cash allocation to 7% for 2019. After providing extremely low returns for many years, cash now offers something in the 2% range, roughly the level of inflation. Also, since we expect equity market volatility to continue in 2019, having slightly more cash offers a source of liquid reserves for taking advantage of better price opportunities.

Fixed Income: We are reducing our fixed income allocation from 10% to 8% with the reduction allocated to cash which provides a comparable yield and lower volatility than longer-dated bonds. We continue to avoid high yield as spreads have widened and potentially slower growth may bring about recession worries and credit quality concerns.

In our 2017 Asset Allocation piece we expressed the opinion that we had seen the lows for the 10-year Treasury rate in July 2016 at 1.36%, which so far has proven correct. Since then we have seen the 10-year as high as 3.2% in October 2018 and back to where it currently stands at 2.7%. With consensus expectations for real GDP growth of 2.5% and inflation holding in the 2% range, there does not appear to be much pressure for interest rates to move higher in the near term. Short-term interest rates will continue to reflect actions of the Federal Reserve, which is projecting two rate increases in 2019 from the current target level of 2.50%, although that is now in question.

Global Equities: We are increasing the global equity allocation from 64% to 66% for 2019. The correction in the fourth quarter improved valuations for US equities and we are increasing this allocation from 44% to 46%, mostly based on valuation. Returns for international markets were disappointing last year coming off the rebound in 2017. We maintain our 20% allocation to international equities due to depressed valuations but are concerned with slowing growth in several developed markets and China.

The S&P 500 had its first down year since 2008, declining 4.4% in 2018. Last year we mentioned that we had not experienced a 10% correction since January 2016 and may see one. We did, as 2018 featured two corrections greater than 10%. Over longer periods the US market has clearly been the preferred asset class with a 3-year annualized return of 9.3%, a 5-year of 8.5% and a 10-year of 13.1%. The fundamental case for equities remains positive with moderate economic growth, benign interest rates, strong employment, a healthy consumer and public corporate balance sheets and improved valuations - a result of the market correction. Concerns in the form of trade wars, a slowing economy in China, a more restrictive Federal Reserve, higher interest rates and endless dysfunction in Washington will contribute to volatility in the US markets. Our current forecast is for a positive year for US equities, and valuations support a return in the mid to high-single digits.

International equity markets reflected slowing economic growth and political unrest in many countries, both developed and emerging. Despite many issues such as Brexit, trade tensions, and unsettled central bank monetary policies, valuations have become historically attractive and these markets appear oversold.

Alternative Assets: Overall allocation to alternative assets is reduced from 21% to 19%. Directional strategies, while protecting capital in the down markets, have not shown the ability to keep pace on a relative basis in positive markets. We are reducing our target weighting from 9% to 6%. Our allotment for Absolute Return strategies increases from 12% to 13%, reflecting the increasing appeal relative to fixed income of the consistent, low volatility returns we believe our managers can produce in this market environment.

2018 – Year in Review

Investment Return Summary

Asset Class/Index	Asset	2018	2017	2016	2015	2014	3 Year	5 Year	10 Year
		Calendar Year					Annualized		
Cash									
BofA ML U.S. Treasury Bills	Treasury Bills	1.9	0.8	0.4	0.1	0.1	1.0	0.6	0.4
Fixed Income									
Barclays US Aggregate	US Fixed Income	0.0	3.5	2.7	0.6	6.0	2.1	2.5	3.5
Barclays US Intermediate Agg.	US Fixed Income	0.9	2.3	2.0	1.2	4.1	1.7	2.1	3.1
BofA ML High Yield	US High Yield Bonds	-2.3	7.5	17.5	-4.6	2.5	7.3	3.8	11.0
Global Equities									
S&P 500	US Large Cap	-4.4	21.8	12.0	1.4	13.7	9.3	8.5	13.1
Russell 2000	US Small Cap	-11.0	14.7	21.3	-4.4	4.9	7.4	4.4	12.0
MSCI EAFE	Developed International	-13.8	25.0	1.0	-0.8	-4.9	2.9	0.5	6.3
MSCI EMF	Emerging International	-14.6	37.3	11.2	-14.9	-2.2	9.3	1.7	8.0
Alternatives									
HFRI Equity Hedge	Equity Hedge Funds	-6.9	13.2	5.5	-1.0	1.8	3.6	2.3	5.7
HFRI Fund of Funds Composite	Hedge Funds	-3.9	7.7	0.5	-0.3	3.4	1.5	1.5	3.2
S&P GSCI	Commodities	-13.8	5.8	11.4	-32.9	-33.1	0.5	-14.5	-5.8
S&P GSCI Gold	Gold	-2.8	12.8	7.8	-10.9	-1.8	5.7	0.7	3.1
Inflation									
CPI-U (Less Food and Energy)	Inflation	2.2	1.7	2.2	2.1	1.6	2.0	1.9	1.8

Best performing   Worst performing

The financial markets last year were a mirror image of their performance in 2017. Two years ago, optimism reigned, as both economic and political forces seemed positive. In 2017, all the world's stock markets rose, led by emerging markets, which were up 37%, while US markets rose 22% amidst historically low volatility. The reverse was true in 2018, when cash had the best returns and very few asset classes had positive returns. The S&P 500's streak of consecutive years of positive returns dating back to 2008 came to an end in 2018. After three strong quarters, the fourth reversed, sharply falling 13.5%, resulting in a decline of 4.4% for the full year. Volatility, unusually quiet in 2017, returned early in 2018 and continues today. International equities, after leading the way in 2017, were much worse than the US in 2018; down 14% for the year.

The market worried about slowing earnings growth, trade wars, Federal Reserve policies, rising interest rates, possible yield curve inversion, falling oil prices, and early talk of a US recession. On the positive side, economic news was generally positive, the US economy grew at 3%, unemployment fell below 4%, and corporate earnings increased 20% year over year – helped by tax reform. After falling almost 20% from their peak, the price to earnings ratio of the S&P 500 index fell from 18.4x at the start of the year to only 14.7x at year end.

Intermediate US bonds returned 0.9% while interest rates finished the year at higher levels. The largest increase in interest rates occurred at the short-end of the yield curve, where yields gradually rose 1% in 2018. Longer maturity 10-year Treasuries started the year at 2.4%, moved to 3.2% in October, before finishing the year at 2.7%. High-yield bonds fell -2.3% as investors became less comfortable holding risker debt instruments.

Recently, the yield curve inverted with 2-year to 5-year maturities yielding less than 1-year maturities. An "official" yield curve inversion is when the 10-year yield falls below the 2-year yield, which did not happen in 2018. Inversions generally occurs when concerns arise around future economic growth and the market begins pricing in expectations for Fed rate cuts in the future. However, we caution that while the yield curve does reliably invert ahead of recessions, not every inversion is followed by a recession.

Alternative asset class returns were mostly negative in 2018. Higher-risk directional strategies followed the equity markets lower. Lower-risk absolute return strategies performed well and again outpaced bond market returns. Commodity returns suffered as oil prices declined precipitously in 2018, particularly in the fourth quarter.

2019 Model Factors

Model Factor 1 - Fundamentals

Key considerations include economic prospects, inflation expectations, and the corporate earnings outlook.

Economic Overview

China, Trade and Tariffs

In 2018, the US stock market fell over 4% and the Chinese stock market severely dropped by around 25%. Both countries' markets were negatively affected by the uncertainty of tariffs and a trade war. The administration emphatically believes that China benefits lopsidedly from its excess sales to the US versus their purchases from us and their tendency to demand or steal intellectual property.

President Trump has threatened massive tariffs to try to change China's trade practices. Currently, 25% tariffs have been imposed on about $50 billion of Chinese goods, and 10% on an additional $200 billion. Trump stated he will raise all tariffs to 25% on March 2nd if no deal is struck; he has also threatened tariffs on an additional $267 billion of Chinese goods.

The uncertainty created by these threats has produced negative effects on growth especially in China and its Far East suppliers but also to a lesser extent in the US. The Chinese consumer cut spending significantly in the last quarter of 2018, with autos and smartphones down sharply, as well as residential construction and housing. In the US, companies such as Apple and Federal Express reported sudden drops in demand for their products and services, blamed principally on the fall in Chinese purchasing.

Until a resolution, we should expect fairly weak growth numbers in 2019's first quarter. For instance, while the US economy grew an impressive 4.2% in the second quarter of last year and 3.4% more in the third quarter, growth is expected to slow below 3% in the fourth quarter and into 2019.

Tariffs and trade wars always have negative consequences. Trump believes that we can pay that price in the short-term because it will be worth it long-term. Hopefully both governments will be able to reach a well-balanced compromise without escalating the conflict.

Consumer Economy

We live in a consumer-driven economy and consumer spending represents 68% of US GDP. For GDP and earnings growth to slow precipitously or move into a recession, consumers would need to dramatically curtail spending. We view this as unlikely in 2019 as wages are higher, unemployment is low (3.9%), the cost of gas is down, and consumer balance sheets remain strong. All of this is positive for growth and consumption and argues against a recession in 2019. Some metrics we are watching carefully are gauges of consumer confidence, small business sentiment, and the impact and length of the government shutdown.

Tax Reform

Last year we discussed the Tax Cut and Jobs Act signed into law in December 2017. The major components were a significant reduction in corporate tax rates from 35% to 21% and for individuals, lower marginal tax rates, raised tax bracket ranges, and higher standard deductions (offset by limiting or eliminating many itemized deductions).

The expectation of supporters was for stronger economic growth, incentives for new investment, job creation, more consumer saving/spending. A year later here is what we know:

- 2018 Real GDP accelerated to 4.2% in Q2, the best rate since 2014. However, growth dropped back to 3.4% in Q3 and is estimated to be 2.9% for the full year. Growth expectations for 2019 are below 3%.
- 2018 corporate earnings were very impressive, rising 20% over 2017. Core earnings rose 12%, which were then boosted by the impact of the tax cut. We expect the core growth rate to slow in 2019 but remain positive in the 4.5% to 6.5% range. The slowdown reflects moderate economic growth tempered by rising labor costs and currency headwinds.
- US corporations used part of their tax savings to increase share repurchases, which reached a record $1 trillion in 2018, well above the $800 million in 2015.
- Capital spending remains a wild card for 2019. While nonresidential fixed investment did increase in 2018, following a weak 2016-2017, it was less than expected by tax reform proponents. The outlook for 2019 depends on both the outcome of trade negotiations and the overall growth of the economy.
- Consumers are benefiting from a tight labor market, which helped average weekly earnings growth accelerate from 2.5% in 2017 to 3%+ in 2018. Eight years of falling unemployment, rising home and stock prices, low interest rates, and a savings rate over 6% have resulted in healthy consumer balance sheets. We believe a more resilient financial picture for consumers – a marked contrast to 2008 – should help buffer the impact of any economic slowdown.
- Federal deficits are a concern, made worse by tax reform. The US budget deficit has moved from roughly $450 billion at the end of 2015 to $800 billion currently and is approaching 4% of GDP. Government spending shows no sign of easing and, to date, the expected increase in tax revenues (trickle down) has yet to materialize.
- After raising short-term rates four times in 2018, in part to prevent any economic excess from tax cuts, the Fed has struck a more dovish and data dependent tone for 2019. While the Fed has projected two rate hikes in 2019, the market now believes that these may not occur and that the Fed could possibly lower rates sometime in 2019.

Global Monetary Policies

The Federal Reserve continued its path of increasing short term interest rates which began in 2015. Through the end of 2018 short-term interest rates have been increased nine times and currently sit at 2.5%. Indications are that there could be another rate hike early in 2019, but Chairman Jay Powell was careful to note that this decision would be based on current data. Signs of a slowing economy and increased market volatility have caused many economists and even Fed members question the wisdom of more near-term hikes.

The central banks outside the US have maintained policies of monetary easing, although the European Central Bank stated that it might well change to a more neutral policy this year. In China, the central bank has already gone so far as to relax monetary restraints, as the Chinese economy slowed sharply in the fourth quarter of last year.

Volatility

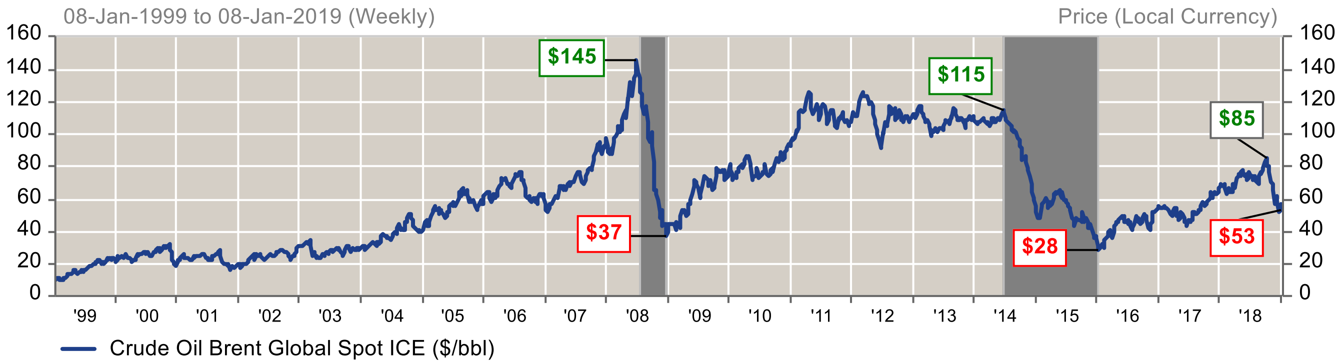
Though not necessarily a fundamental factor in our investment outlook, market volatility deserves some comment in this year's piece. Stock market volatility (the degree of fluctuation in daily prices) hit an historic low in 2017 and then rebounded in 2018. Looking at several decades of returns, it's clear that 2017 was the outlier, not last year.

A very detailed, long-term study of market price volatility was published in 2016. When measured on a monthly basis, volatility has not really changed since 1940; but when measured on a daily basis, volatility has more than doubled since 1970. This is probably because the costs of trading were slashed in the 1970s through the initial advent of computers and much lower commissions. However, each decade from 1970 on has about the same amount of daily price volatility until the most recent decade when it dropped, in response to the long, slow economic recovery which started after the Great Recession of 2008-9. Last year, volatility returned to its long-term averages, implying that the country may be adjusting to a more typical economic cycle.

Oil Prices

A year ago, oil prices appeared to have stabilized near the $60 per barrel level. The threat of sanctions and resulting lower supply caused prices to rise to $85 in September. However, sanctions were minor and when combined with higher supply and talk of slowing economic growth, prices fell to $53 at year end.

1998-2018 Crude Oil Prices



Source: FactSet Prices

Interest Rates and Inflation

Early signs of inflation are now visible with wage growth increasing 3.2% due to the strong labor market. Expectations, specifically from the Fed, is that inflation remains in the 2% range and not a major concern. Short-term interest rates have followed the Fed move higher while long-term rates have moved up more slowly. We would expect the 10-year rate to trade in a 2.7% to 3.5% range in 2019, barring any negative turn in the economy.

Corporate Earnings

Earnings in 2018 grew 20% over 2017 and 12% if you exclude the impact of the corporate tax cut. The bear case is that earnings estimates for 2019 are too high and that estimates will keep falling, perhaps to a 1-4% growth rate. We believe that forecast is overly pessimistic. Share buybacks should generate 2% earnings growth and large tech and communications companies appear well positioned to continue double-digit earnings growth. Weaker industries, such as autos, building materials, and energy, account for a relatively small percent of total earnings. Our research points to a 4.5% to 6.5% improvement in earnings per share in 2019.

Economic Growth

United States:
With continued steady job growth and improving wage growth, real economic growth should remain in the ± 2.5% range in 2019. Earnings growth should be in the 4-7% range. The Fed is carefully watching economic fundamentals and, to date, has managed the expansion well. A prolonged or heightened trade war with China is a risk and bears watching.

Factors	Influence
Moderate, steady economic growth	+
Corporate earnings growth	+
Trade and tariff concerns	–
Continued wage growth and low unemployment	+
Modestly higher interest rates and inflation	–
Political dysfunction	–

Europe and Japan:
Europe's growth faltered in 2018, with Germany especially disappointing. Consumer confidence suffered from uncertainties relating to Brexit, immigration fears, and resurgence of nationalistic and populist political parties. Little improvement is expected this year, at least until the Brexit problem

Factors	Influence
Slowing economic growth	–
Supportive central banks	+
Political uncertainty in several countries	–
Brexit negotiations	–
Trade and China Impact	+ or –

comes to some sort of solution. Japan's outlook is better and reconstruction from natural disasters helps but, like most countries in Asia, is subject to the health of Chinese economy.

Emerging Markets:
China remains the key country and signs point to slowing growth. Trade issues dominate with the US playing an important role, as does the willingness of the government to implement fiscal and credit stimulus. The Asia Pacific region, led by China and India, have better economic growth rates. Commodity-oriented economies will be influenced by US tariff policy and potentially slowing global growth.

Factors	Influence
▪ Improved global growth	=
▪ Reasonable equity valuations	+
▪ Government stability in China	+
▪ US trade policy	+ or −

Model Factor 2 - Valuation

Key considerations are valuation and yields, viewed historically, in absolute and relative terms.

Equities

Global Equity Valuation Comparison

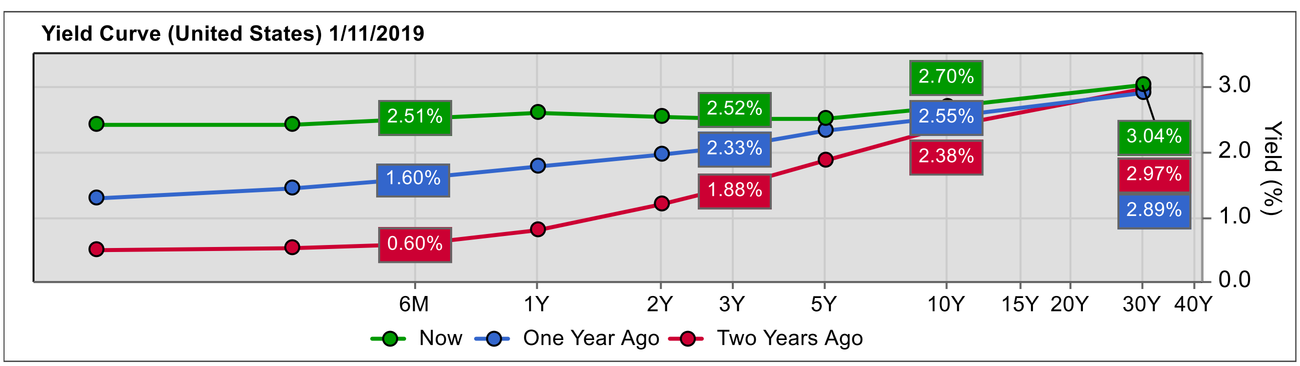
	10 Year P/E Ratio			Jan.	Jan.	10 Year Price/Book Ratio			Jan.	Jan.
Country/Region	High	Low	Avg.	2019	2018	High	Low	Avg.	2019	2018
US	19.1	10.4	15.3	14.7	18.7	3.1	1.3	2.3	2.6	2.9
Europe	16.2	8.2	12.7	11.7	14.7	1.8	0.9	1.5	1.4	1.7
Japan	37.3	10.9	15.4	11.7	15.4	1.5	0.8	1.1	1.1	1.4
Emerging Markets	18.9	8.7	13.2	12.0	15.1	2.3	1.1	1.7	1.6	1.9

Source: FactSet, January 2019. Forward P/E and P/B ratios.

The market now sells for around 15x next year's earnings and less than that on 2020 earnings. This P/E level is below the market's 20-year average of nearly 16x. By this measure the market is not overvalued. While interest rates have moved higher in 2018, they remain relatively low and do not currently suggest bond returns will be competition for equity returns.

Based on the price/earnings ratio, valuations in Europe, Japan, and emerging markets are below their 10-year averages. This is less expensive than the US on an historic relative basis. Overall, economic growth has been disappointing and supports the rationale for lower valuation. However, we think downside is limited from these levels and signs of positive economic news could produce better returns from international equities.

Bonds



US interest rates have risen over the last several years as the Federal Reserve has increased short-term rates. The table above presents the US Treasury yield curve for the last two years. The green line plots the current yields, blue is one year ago and red is two years ago. As you can see the increase in interest rates is more pronounced for maturities less than 5 years. Specifically, six-month Treasury Bills which yielded 0.60% two years ago now yield 2.51%, an increase of 1.9%. 10-year Treasury Notes yielded 2.38% two years ago and now yield 2.69%, an increase of only 0.3%. Steady but moderate economic growth combined with low inflation has acted to keep longer rates down. We expect this environment will continue with shorter rates following the Fed and longer rates following the economy and inflation.

Developed market bonds outside the US offer essentially the same yield as a year ago and remain well below US yields.

Model Factor 3 - Geopolitical

Key considerations are government and political conditions in specific geographies that may impact economies and investment markets.

United States

Political dysfunction in the US appears to be the norm for the time being. As the mid-term elections split control of Congress, the president and Congress will have great trouble compromising on any important agenda items. From a global economic standpoint trade will be center stage for the time being. Last year's hot items of North Korea, Russia, and the Middle East remain and will periodically move to the front of the news cycle.

Europe

More than two years after the vote, Brexit remains an open and divisive issue for the United Kingdom. Terms have yet to be agreed on and, on balance, the separation is negative for the UK economy. In France, President Macron experienced political unrest with the middle class after proposals of higher fuel taxes and reduced job protection. In response, he relented by cancelling or deferring tax increases in hopes of improving his approval ratings. In Germany, Chancellor Merkel stepped down in December after a poor showing from her party in the October elections. Italy's new government push for spending above the EU limits has been cut back after pushback by the EU, an example of economic discontent across the Eurozone.

Japan

Domestic growth has been positive in Japan, but the country's exports were affected by the China-US trade quarrel. Despite poor demographics – aging population, practically no net immigration – Japan has been able to add back to its work force both older workers and women, providing some impetus for growth.

Emerging Markets

China dominates any emerging markets discussion. It is by far the largest purchaser of commodities supplied by emerging countries around the globe. In addition, China has greatly increased its trade with countries in Africa, Southeast Asia, and parts of Latin America. This implies that the outlook for many emerging countries is subject to the resolution of the China-US dispute.

Model Factors – Summary Table:

Region	Economic Fundamentals	Valuation & Risk	Geopolitical
US	▪ Tax reform has longer term benefits to corporations although not the windfall experienced in 2018. ▪ Consumer is in good shape with high employment, benefits from the tax cut, and improving wage growth. ▪ Continued steady, yet moderate, GDP growth around 3%. ▪ Federal Reserve focused on fundamentals to drive future policy changes. ▪ Budget deficit has doubled as a percentage of GDP in the last year and, at some point, needs to be addressed.	▪ Equity valuations are now below longer-term averages, a result of the unpleasant correction in Q4 2018. ▪ Earnings growth remains key to equity performance. While year over year comparison will not approach the 20% gain in 2018 it should provide be positive factor for equities. ▪ Bond yields at current levels provide limited competition for equities. ▪ Equity market volatility is expected to continue.	▪ Mid-term elections increased the political divide in Washington. Not much expected from new legislation. ▪ Trade discussion dominates and a comprehensive resolution is key. ▪ Global terrorism and cyberattacks remain a material threat. ▪ North Korea, Iran and Russia are problems for US foreign policy.
Developed Markets	▪ Economic growth is slowing in many countries, ▪ European central banks committed to maintaining liquidity, but less accommodative. ▪ Eurozone consumer sentiment deteriorated in 2018 and remains an issue. ▪ Brexit a continuing and divisive issue.	▪ Equity valuations are below longer-term averages. ▪ Interest rates remain low and unattractive.	▪ UK political situation tenuous given Brexit implementation. ▪ Trade and tariffs remain an important element for Eurozone countries. Germany will need to adjust to new leadership. ▪ Globalization under pressure given resurgence of nationalism. ▪ Terrorism poses a threat for most European countries.
Emerging Markets	▪ China is slowing and dealing with demographic issues. ▪ Trade agreements are an important factor growth in many countries. ▪ Slowing global growth presents challenges for many EM economies.	▪ Equity valuations significantly lower after 2018's poor performance. ▪ Apart from China, debt levels appear reasonable, and rates remain low.	▪ China may be occupied with domestic issues and less able to fill a global leadership position. ▪ US immigration policies remain unresolved. ▪ Trade policies and agreements are uncertain. ▪ Middle East remains a potential source of conflict.

Expected Returns

2019 Asset Allocation: Expected Returns

Asset Class	Expected Nominal Return	2019 Allocation	Expected Nominal Return Attribution
Cash	2.0% – 2.5%	7%	0.1% – 0.2%
Fixed Income	1.5% – 3.0%	8%	0.1% – 0.2%
US Equities	6.0% – 9.5%	46%	2.8% – 4.4%
International Equities	6.0% – 10.0%	20%	1.2% – 2.0%
Directional Alternatives	4.0% – 7.0%	6%	0.2% – 0.4%
Absolute Return Alternatives	3.5% – 7.0%	13%	0.5% – 0.9%
Total Portfolio Nominal Return		100%	**4.9% – 8.1%**
Less Expected Inflation			(2.0%)
Total Portfolio Real Return			**2.9% – 6.1%**

Calculating expected returns is mainly a quantitative exercise to establish a range of returns for both asset classes and an overall "average" portfolio. History has shown that rarely will these asset classes deliver these expected returns during any one calendar year given the cyclicality and volatility of individual asset classes. For example, US equities returned 21.8% in 2017 followed by -4.4% in 2018, delivering a two-year annualized return of 7.9%. Over longer periods these more volatile one-year returns are smoothed and returns generally move toward longer term asset-class averages. The expected nominal returns in the table above incorporate factors specific to our view of the current market environment and allow us to express our assumptions and apply them to a client's portfolio.

For 2019, we expect better returns to come from US equities and International equities. In a base-case portfolio implementation, we would expect a diversified portfolio to generate expected returns in the 4.9% to 8.1% range, with the overweight to global equities providing the bulk of the return contribution.

As always, we remain diligent in our approach to the financial markets and the management of our clients' investment portfolios. As new information becomes available we update our models and, when market conditions warrant, will adjust our allocations.

We appreciate the opportunity to share our views and welcome your questions and comments.