PARS/CITY OF CUPERTINO PRHCP

September 30, 2018

U.S. Bank, Institutional Trust & Custody

Your U.S. Bank Team

Rick Rosenthal
Vice President &
Senior Portfolio Manager
Institutional Trust & Custody
213-443-1848
richard.rosenthal@usbank.com

Carolyn Cox
Senior Vice President &
Relationship Manager
Institutional Trust & Custody
415-677-3603
carolyn.cox@usbank.com

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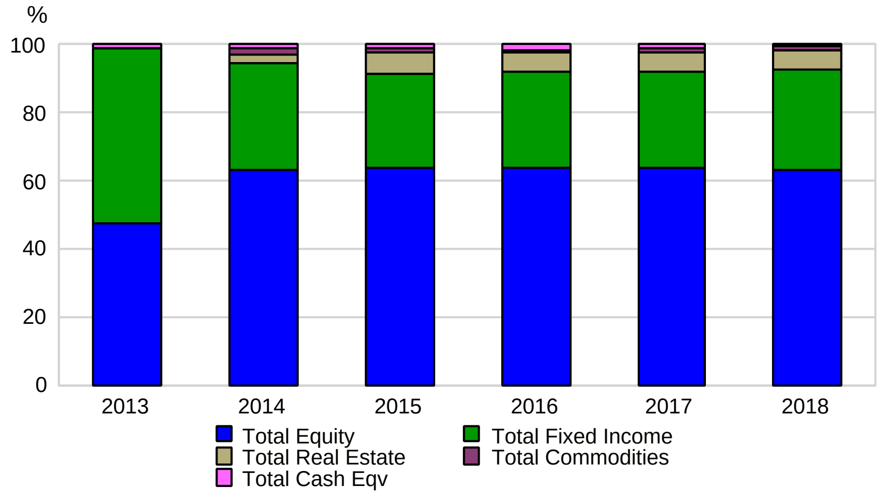
History of Asset Growth Graphs

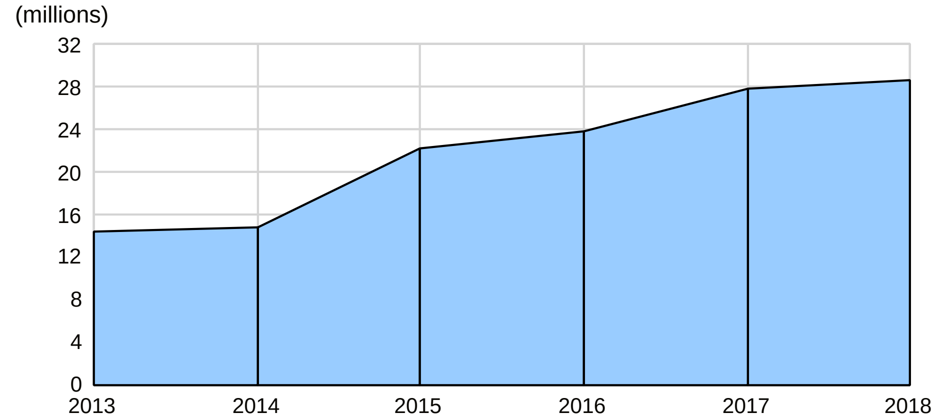
Annual Portfolio Values

	Consolidated	Jan 2013-Dec 2013	Jan 2014-Dec 2014	Jan 2015-Dec 2015	Jan 2016-Dec 2016	Jan 2017-Dec 2017	Jan 2018-Sep 2018
Beginning Portfolio Value	**12,828,964.34**	**12,828,964.34**	**14,425,224.48**	**14,766,782.94**	**22,293,645.19**	**23,808,268.51**	**27,914,892.83**
Contributions	8,000,020.87	.00	.33	8,000,000.79	3.11	2.40	14.24
Withdrawals	-525,441.48	-65,182.39	-73,875.10	-96,399.06	-97,969.38	-106,701.53	-85,314.02
Income Earned	2,210,484.59	265,277.78	326,220.41	406,271.56	448,186.91	452,363.78	312,164.15
Gain/Loss	6,110,737.75	1,396,164.75	89,212.82	-783,011.04	1,164,402.68	3,760,959.67	483,008.87
Ending Portfolio Value	**28,624,766.07**	**14,425,224.48**	**14,766,782.94**	**22,293,645.19**	**23,808,268.51**	**27,914,892.83**	**28,624,766.07**
Total Return	**7.05**	**12.98**	**2.88**	**-1.95**	**7.26**	**17.68**	**2.85**
Principal	5.08	10.82	.63	-3.72	5.20	15.74	1.72
Income	1.87	1.96	2.22	1.82	1.97	1.70	1.11

Allocation Over Time



Ending Market Values Over Time



Custom Benchmark

CITY OF CUPERTINO

Asset Class	Benchmark	Range	Target
Fixed Income	Barclays Global Agg Index (USD)	20-40%	29%
Equities	MSCI AC World Free Index	50-70%	62%
Real Estate	S&P Global REIT Tr USD	0-15%	6%
Commodities	S& P GSCI Commodity Index	0-10%	2%
Cash	Marrill 3-Mo US T-Bill Index	0-10%	1%

Selected Period Performance

Selected Period Performance

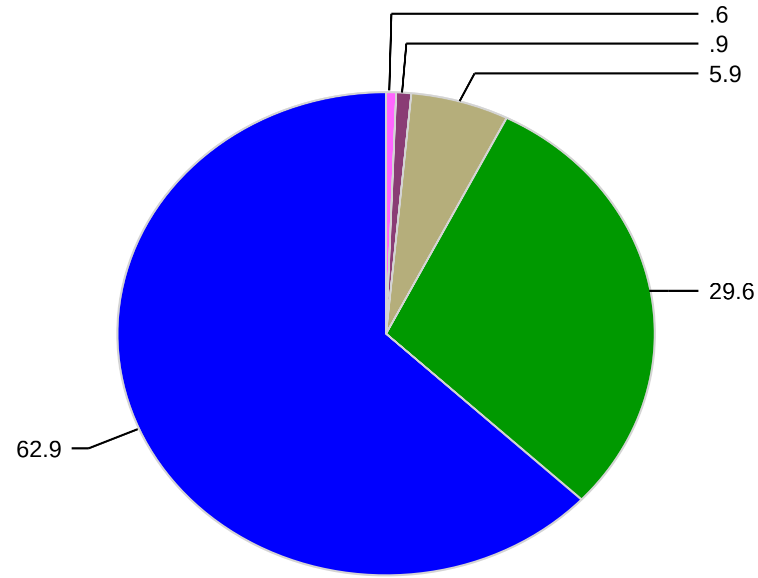
	Market Value	3 Months	Year to Date (9 Months)	1 Year	3 Years	4 Years	Inception to Date 07/01/2010
Total Portfolio Gross of Fees	28,624,766	2.13	2.85	7.06	10.30	6.41	7.18
Total Portfolio Net of Fees	28,624,766	2.07	2.69	6.84	10.06	6.18	
City of Cupertino		2.49	2.29	6.71	9.51	5.30	7.81
Total Equity	18,016,855	3.09	4.74	10.84	14.18	9.92	12.96
U.S. Equity	12,618,778	5.36	9.52	15.98	16.29	12.46	
MSCI ACWI Index (Net)		4.28	3.83	9.77	13.40	8.01	10.74
S&P 500 Composite Index		7.71	10.56	17.91	17.31	12.55	15.82
S&P MidCap 400 Index		3.86	7.49	14.21	15.68	11.93	15.21
S&P SmallCap 600 Index		4.71	14.54	19.08	19.41	15.30	16.80
Foreign Equity	5,398,077	-1.96	-5.44	-.17	9.22	4.05	
Developed Foreign	3,929,759	-.65	-2.72	2.48	9.25	5.29	
MSCI EAFE Index (Net)		1.35	-1.43	2.74	9.23	4.46	7.71
Emerging Foreign	1,468,317	-5.30	-12.51	-7.09	8.81	-.20	
MSCI EM Index (Net)		-1.09	-7.68	-.81	12.36	3.44	4.12
Total Fixed Income	8,467,225	.80	-.41	.03	3.12	1.43	2.68
BBARC Global Agg		-.92	-2.37	-1.32	1.98	.64	2.08
Total Real Estate	1,697,753	.54	1.03	3.49	7.16	7.76	
S&P Global REIT TR USD		.22	.77	4.06	7.17	6.66	10.86
Total Commodities	269,763	-3.57	-5.06	1.82	-3.19	-13.84	
S&P GSCI TR		1.34	11.84	22.91	3.17	-10.56	-4.06
Total Cash Equivalents	171,562	.45	1.17	1.42	.74	.56	.29
Pending Cash	1,609	.00	.00	.00	.00	.00	.00
Merrill 3-Mo US T-Bill Index		.49	1.30	1.59	.84	.63	.36

Asset Allocation Analysis Graph

Market Value by Asset Class

	Market Value	% of Mkt Val
Total Equity	18,016,855	62.9
Total Fixed Income	8,467,225	29.6
Total Real Estate	1,697,753	5.9
Total Commodities	269,763	.9
Total Cash Eqv	171,562	.6
Total	**28,623,157**	**100.0**

Market Value by Asset Class Pie Chart



Equity Overview

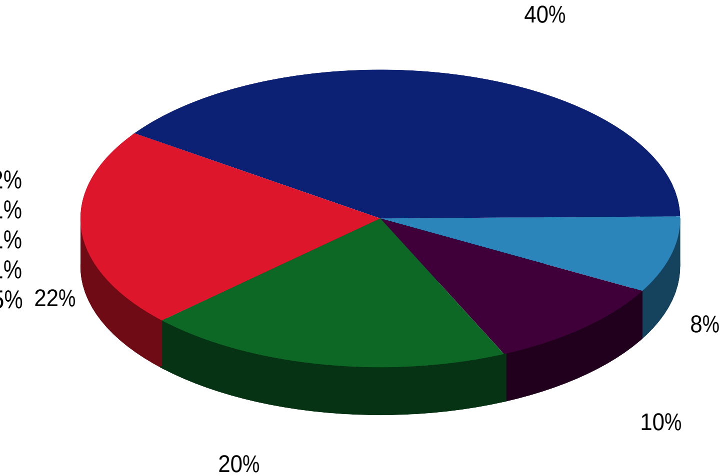
Portfolio Number: *6746035000* *Holdings Method:* *Direct & Indirect* *Report Date:* *09/28/2018*

Equity Summary

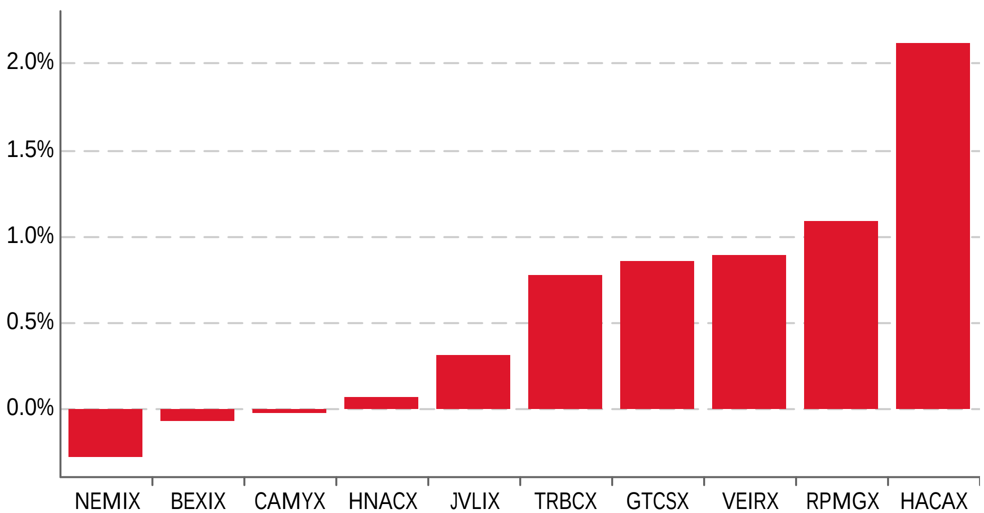
Inv. Objective	Balanced/Nontaxable-1
Equity Value	$18,016,855
Current Yield	0.83%
Projected Annual Income	$150,244
Portfolio Mgr.	Rick Rosenthal
Number of Securities	1,009

Equity Asset Allocation

Large Cap	$7,282,328	40.42%
Developed Foreign	$3,929,759	21.81%
Mid Cap	$3,532,515	19.61%
Small Cap	$1,803,935	10.01%
Emerging Foreign	$1,468,317	8.15%



Bottom 5/Top 5 Contributors (Trailing 12 Months)



Equity Global Distribution

Equity Country Distribution

Holdings Date: 09/28/2018

Portfolio Number: 6746035000 *Holdings Method: Direct & Indirect* *Report Date: 09/28/2018*

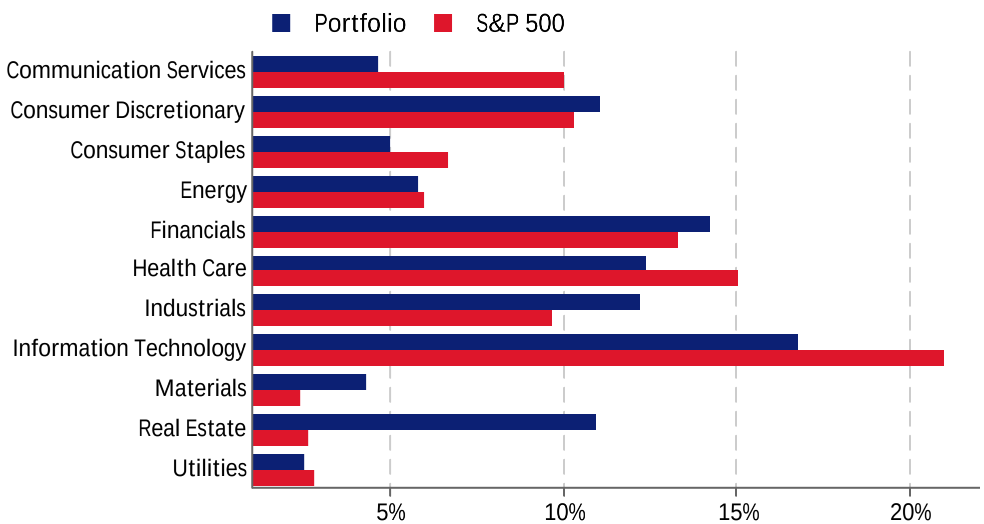
Top 10 Common Stock Holdings

	Ticker	Equity (%)	Port (%)	Yield (%)	YTD Return (%)	52 Wk Return (%)
Amazon.com, Inc.	*AMZN*	*1.85*	*1.20*	*--*	*71.3*	*109.4*
Microsoft Corporation	*MSFT*	*1.16*	*0.75*	*1.7*	*35.4*	*57.6*
JPMorgan Chase & Co.	*JPM*	*1.00*	*0.65*	*3.0*	*7.2*	*20.8*
Boeing Company	*BA*	*0.90*	*0.59*	*1.9*	*28.0*	*49.3*
Alibaba Group Holding Ltd. Spons...	*BABA*	*0.82*	*0.53*	*--*	*-4.4*	*-3.2*
Tencent Holdings Ltd.	*BMMV2K*	*0.77*	*0.50*	*0.3*	*-20.2*	*-2.7*
Facebook, Inc. Class A	*FB*	*0.74*	*0.48*	*--*	*-6.8*	*-2.5*
Visa Inc. Class A	*V*	*0.72*	*0.47*	*0.6*	*32.3*	*44.5*
Johnson & Johnson	*JNJ*	*0.71*	*0.46*	*2.7*	*0.9*	*9.6*
Mastercard Incorporated Class A	*MA*	*0.69*	*0.45*	*0.5*	*47.7*	*59.7*

Common Stock Characteristics

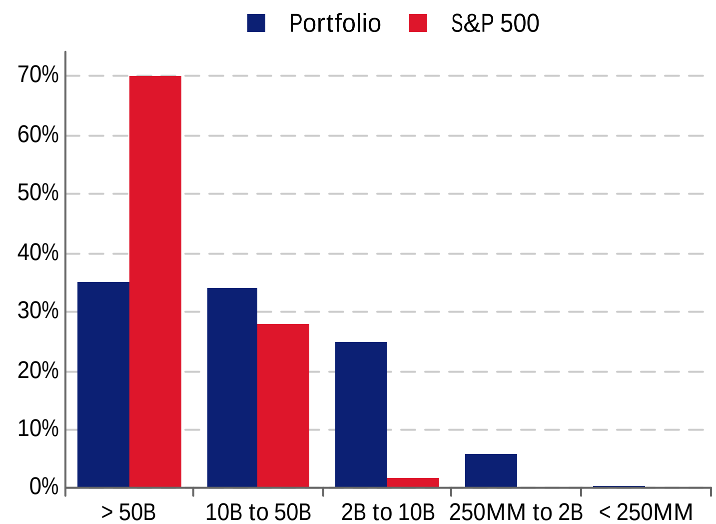
	Portfolio	S&P 500
Market Cap - Wtd Avg	$109.7B	$247.4B
Market Cap - Median	$7.7B	$21.7B
Dividend Yield (%)	1.89	1.88
1 Yr P/E Forecast	23.8	22.4
Price/Earnings Ratio	18.3	19.7
ROE (%)	14.9	19.8
Beta - 52W vs. the NYSE	0.96	1.05
Est 3-5 Yr EPS Growth (%)	13.7	13.6
Hist 3 Yr EPS Growth (%)	15.9	11.7
Number of Securities	1,058	505

Common Stock Sector Exposures (%)



	Portfolio	S&P 500
Communication Services	4.66	10.03
Consumer Discretionary	11.04	10.30
Consumer Staples	5.00	6.71
Energy	5.80	6.00
Financials	14.25	13.31
Health Care	12.42	15.05
Industrials	12.24	9.70
Information Technology	16.79	20.99
Materials	4.33	2.43
Real Estate	10.93	2.65
Utilities	2.53	2.83

Common Stock Market Cap Distribution



Holdings Date: 09/28/2018

Fixed Income Overview

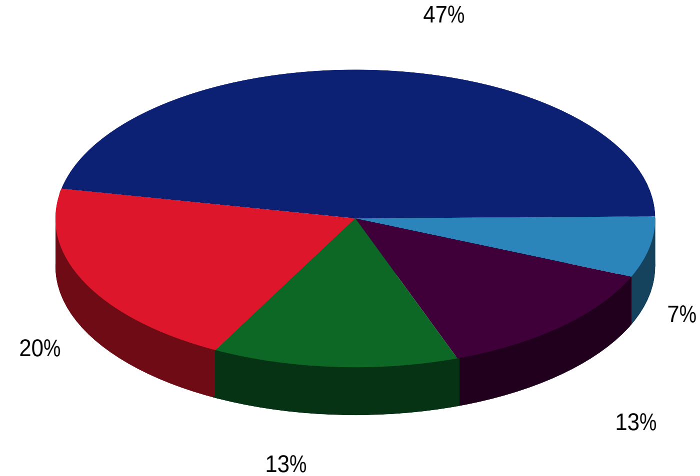
Portfolio Number: 6746035000 | Holdings Method: Direct | Report Date: 09/28/2018

Fixed Income Summary

Inv. Objective	Balanced/Nontaxable-1
Fixed Income Value	$8,445,994
Current Yield	3.88%
Projected Annual Income	$327,685
Portfolio Mgr.	Rick Rosenthal
Number of Securities	14

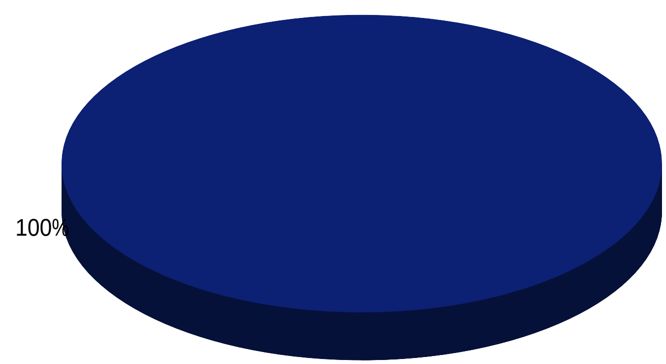
Fixed Income Asset Allocation

Investment Grade	$3,968,326	46.98%
High Yield	$1,723,903	20.41%
Inflation Protected Securities	$1,108,412	13.12%
Hedged Fixed Income	$1,095,944	12.98%
Emerging Foreign Debt	$549,409	6.50%

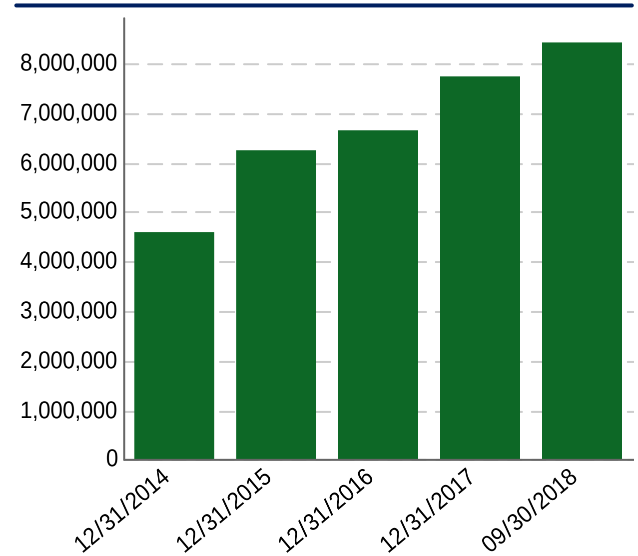


Fixed Income Sector Exposures

Mutual Funds & ETFs	$8,445,994	100%



Fixed Income Market Value



Holdings Date: 09/28/2018

PARS/CITY OF CUPERTINO PRHCP

Fixed Income Holdings

Portfolio Number: *6746035000* *Holdings Method:* *Direct* *Report Date:* *09/28/2018*

	Symbol	% of Fixed Income	Portfolio Value	Projected Annual Income	Current Yield	Yield To Maturity	Effective Duration	Years to Eff. Mat	Avg. Quality*
Total		100.0	8,445,994	327,685	3.88	5.09	4.72	--	BBB
Investment Grade		47.0	3,968,326	131,623	3.32	3.70	5.00	--	BBB-
Mutual Funds & ETFs		47.0	3,968,326	131,623	3.32	3.70	5.00	--	BBB-
American Century Diversified Bond Fd R6 Cl	ADDVX	6.7	567,135	15,946	2.81	3.89	5.57	--	BBB
American Century Diversified Bond Fund - I...	ACBPX	0.0	1,602	44	2.76	3.89	5.57	--	BBB
Baird Aggregate Bond Fund Institutional Class	BAGIX	6.8	571,340	16,098	2.82	3.64	6.01	--	A
Columbia Corporate Income Fund Class I	SRINX	6.7	568,741	16,843	2.96	4.21	6.91	--	BBB
DoubleLine Total Return Bond Fund Class I	DBLTX	6.8	572,934	21,222	3.70	3.60	4.12	--	BB
Nuveen Preferred Securities Fund Class I	NPSRX	6.6	557,904	31,338	5.62	--	4.39	--	BB
Nuveen Short Term Bond Class I	FLTIX	6.7	567,107	11,226	1.98	3.14	1.66	--	BBB
PGIM Total Return Bond Fund Class R6	PTRQX	6.6	561,564	18,907	3.37	--	6.37	--	BBB
High Yield		20.4	1,723,903	97,049	5.63	6.86	3.90	--	--
Mutual Funds & ETFs		20.4	1,723,903	97,049	5.63	6.86	3.90	--	--
American Century High Income Fund Class Y	NPHIX	10.2	860,380	47,325	5.50	7.01	3.70	--	B
Federated Institutional High Yield Bond Fu...	FIHBX	10.2	863,523	49,723	5.76	6.71	4.10	--	B
Inflation Protected Securities		13.1	1,108,412	26,895	2.43	--	6.86	--	AA
Mutual Funds & ETFs		13.1	1,108,412	26,895	2.43	--	6.86	--	AA
Nuveen Inflation Protected Securities Fun...	FYIPX	13.1	1,108,412	26,895	2.43	--	6.86	--	AA
Emerging Foreign Debt		6.5	549,409	27,643	5.03	6.75	6.01	--	BB
Mutual Funds & ETFs		6.5	549,409	27,643	5.03	6.75	6.01	--	BB
TCW Emerging Markets Income Fund I Cl	TGEIX	6.5	549,409	27,643	5.03	6.75	6.01	--	BB
Hedged Fixed Income		13.0	1,095,944	44,475	4.06	--	-0.20	--	BB
Mutual Funds & ETFs		13.0	1,095,944	44,475	4.06	--	-0.20	--	BB
Driehaus Active Income Fund	LCMAX	6.6	560,145	25,172	4.49	--	-0.20	--	--
Eaton Vance Global Macro Absolute Return F...	EIGMX	6.3	535,800	19,304	3.60	--	--	--	BB

**Higher of S&P and Moody's Credit Ratings*
Holdings Date: 09/28/2018

Portfolio Number: *6746035000* *Holdings Method:* *Direct* *Report Date:* *09/28/2018*

	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	$ Cost Basis	$ Unrealized Gain/Loss	Current Yield	Annual Income
Total		100.00			28,591,021	26,303,291	2,287,730	1.85	529,552
Cash		0.60	--	--	171,306	171,306	0	1.95	3,343
Cash Equivalents		0.60	--	--	171,306	171,306	0	1.95	3,343
FIRST AM GOVT OB FD CL Z	31846V567	0.60	1.00	171,306	171,306	171,306	0	1.95	3,343
Fixed		29.54	--	--	8,445,994	8,649,709	-203,716	3.88	327,685
Investment Grade		13.88	--	--	3,968,326	4,086,751	-118,425	3.32	131,623
Mutual Funds & ETFs		13.88	--	--	3,968,326	4,086,751	-118,425	3.32	131,623
American Century Diversified Bond Fd R6 Cl	ADDVX	1.98	10.35	54,796	567,135	595,187	-28,052	2.81	15,946
American Century Diversified Bond Fund - I...	ACBPX	0.01	10.34	155	1,602	1,612	-11	2.76	44
Baird Aggregate Bond Fund Institutional Class	BAGIX	2.00	10.47	54,569	571,340	591,074	-19,734	2.82	16,098
Columbia Corporate Income Fund Class I	SRINX	1.99	9.86	57,682	568,741	582,491	-13,750	2.96	16,843
DoubleLine Total Return Bond Fund Class I	DBLTX	2.00	10.34	55,409	572,934	601,436	-28,502	3.70	21,222
Nuveen Preferred Securities Fund Class I	NPSRX	1.95	16.77	33,268	557,904	569,359	-11,455	5.62	31,338
Nuveen Short Term Bond Class I	FLTIX	1.98	9.75	58,165	567,107	579,986	-12,879	1.98	11,226
PGIM Total Return Bond Fund Class R6	PTRQX	1.96	13.96	40,227	561,564	565,606	-4,043	3.37	18,907
High Yield		6.03	--	--	1,723,903	1,726,434	-2,531	5.63	97,049
Mutual Funds & ETFs		6.03	--	--	1,723,903	1,726,434	-2,531	5.63	97,049
American Century High Income Fund Class Y	NPHIX	3.01	9.49	90,662	860,380	855,871	4,509	5.50	47,325
Federated Institutional High Yield Bond Fu...	FIHBX	3.02	9.76	88,476	863,523	870,563	-7,040	5.76	49,723
Inflation Protected Securities		3.88	--	--	1,108,412	1,123,310	-14,899	2.43	26,895
Nuveen Inflation Protected Securities Fun...	FYIPX	3.88	10.88	101,876	1,108,412	1,123,310	-14,899	2.43	26,895
Emerging Foreign Debt		1.92	--	--	549,409	567,092	-17,683	5.03	27,643
TCW Emerging Markets Income Fund I Cl	TGEIX	1.92	7.97	68,935	549,409	567,092	-17,683	5.03	27,643
Hedged Fixed Income		3.83	--	--	1,095,944	1,146,121	-50,177	4.06	44,475
Driehaus Active Income Fund	LCMAX	1.96	9.68	57,866	560,145	572,042	-11,898	4.49	25,172
Eaton Vance Global Macro Absolute Return F...	EIGMX	1.87	8.66	61,871	535,800	574,079	-38,279	3.60	19,304
Equity		63.02	--	--	18,016,855	15,324,518	2,692,337	0.83	150,244
U.S. Equity		44.14	--	--	12,618,778	10,625,397	1,993,381	0.69	87,039

Portfolio Number: *6746035000* *Holdings Method:* *Direct* *Report Date:* *09/28/2018*

	Symbol	% of Port.	Price	Shares/ Units	Portfolio Value	$ Cost Basis	$ Unrealized Gain/Loss	Current Yield	Annual Income
Mutual Funds & ETFs		44.14	--	--	12,618,778	10,625,397	1,993,381	0.69	87,039
Glenmede Small Capitalization Equity Portf...	GTCSX	6.31	32.45	55,591	1,803,935	1,472,899	331,036	0.07	1,223
Harbor Capital Appreciation Fund - Retirem...	HNACX	6.56	82.22	22,804	1,874,949	1,346,072	528,878	0.20	3,763
John Hancock Fds III Disciplined Value Fun...	JVLIX	6.17	22.96	76,814	1,763,643	1,676,075	87,568	1.02	18,051
T. Rowe Price Blue Chip Growth Fund, Inc.	TRBCX	6.61	114.53	16,503	1,890,123	1,676,075	214,048	0.05	990
T. Rowe Price Mid-Cap Growth Fund, Inc.	RPMGX	6.32	98.15	18,422	1,808,164	1,418,457	389,707	--	--
T. Rowe Price Mid-Cap Value Fund, Inc.	TRMCX	6.03	31.79	54,242	1,724,351	1,619,514	104,837	1.04	17,900
Vanguard Equity Income Fund Admiral Shares	VEIRX	6.13	79.61	22,028	1,753,612	1,416,305	337,307	2.57	45,112
Developed Foreign		13.74	--	--	3,929,759	3,248,672	681,087	1.38	54,140
Mutual Funds & ETFs		13.74	--	--	3,929,759	3,248,672	681,087	1.38	54,140
Cambiar International Equity Fund Institut...	CAMYX	6.86	27.38	71,582	1,959,918	1,729,282	230,636	1.44	28,275
Victory Trivalent International Small-Cap ...	MISIX	6.89	14.47	136,133	1,969,841	1,519,390	450,451	1.31	25,865
Emerging Foreign		5.14	--	--	1,468,317	1,450,448	17,869	0.62	9,065
Mutual Funds & ETFs		5.14	--	--	1,468,317	1,450,448	17,869	0.62	9,065
Baron Emerging Markets Fd Inst Shs	BEXIX	2.57	13.35	55,050	734,923	639,696	95,227	0.52	3,798
Neuberger Berman Emerging Markets Equity F...	NEMIX	2.57	18.80	39,010	733,395	810,753	-77,358	0.72	5,266
Real Estate		5.90	--	--	1,687,103	1,901,123	-214,020	2.86	48,239
U.S. Listed		5.90	--	--	1,687,103	1,901,123	-214,020	2.86	48,239
Nuveen Real Estate Securities Fund Cl I	FARCX	5.90	20.04	84,187	1,687,103	1,901,123	-214,020	2.86	48,239
Commodities		0.94	--	--	269,763	256,634	13,129	0.01	40
Commodities		0.94	--	--	269,763	256,634	13,129	0.01	40
Invesco Balanced-Risk Commodity Strategy F...	BRCYX	0.94	6.75	39,965	269,763	256,634	13,129	0.01	40

Holdings Date: 09/28/2018

Transaction Listing

	ID	Trade Date	Transaction Type	Units	Price	Principal
Total Equity						
BARON EMERGING MARKETS INSTITUTIONAL	06828M876	07/26/2018	PURCHASE AS ASSET	9,105.346	14.230	-129,569.08
CAMBIAR INTL EQUITY FUND INS	00769G543	07/26/2018	PURCHASE AS ASSET	2,812.941	27.990	-78,734.21
GLENMEDE SC EQUITY PORT ADV	378690606	07/09/2018	DISTR. OF EARNINGS			166.77
HARBOR CAPITAL APPRECIATON CL R	411512528	09/04/2018	NULL-ADJ UNITS	22,804.056	81.640	.00
HARBOR CAPITAL APRCTION INST	411511504	09/04/2018	NULL-ADJ UNITS	-22,806.850	81.630	.00
NEUBERGER BERMAN EMERG MKTS EQ INSTL	641224415	07/26/2018	PURCHASE AS ASSET	5,563.767	20.200	-112,388.09
VANGUARD EQUITY INCOME ADM	921921300	09/25/2018	DISTR. OF EARNINGS			12,214.27
VICTORY TRIVALENT INTERNATIONAL SM	92647K309	07/26/2018	PURCHASE AS ASSET	2,842.531	14.710	-41,813.64
Total: Total Equity						**-350,123.98**
Total Fixed Income						
AMER CENT DIVERSIFI BOND CLASS I	024932600	07/02/2018	DIV REIN/ALLOC COLL FUND	140.047	10.400	-1,456.49
AMER CENT DIVERSIFI BOND CLASS I	024932600	07/02/2018	ASSET INCOME			1,456.49
AMER CENT DIVERSIFI BOND CLASS I	024932600	08/01/2018	DIV REIN/ALLOC COLL FUND	140.117	10.400	-1,457.22
AMER CENT DIVERSIFI BOND CLASS I	024932600	08/01/2018	ASSET INCOME			1,457.22
AMER CENT DIVERSIFI BOND CLASS I	024932600	09/04/2018	NULL-ADJ UNITS	-54,795.626	10.410	.00
AMER CENT DIVERSIFI BOND CLASS I	024932600	09/07/2018	DIV REIN/ALLOC COLL FUND	154.899	10.410	-1,612.50
AMER CENT DIVERSIFI BOND CLASS I	024932600	09/07/2018	ASSET INCOME			1,612.50
AMERICAN CENTURY DIVERSIFIED BOND	024932410	09/04/2018	NULL-ADJ UNITS	54,795.626	10.410	.00
AMERICAN CENTURY HIGH INCOME FD Y CL	024932154	07/02/2018	DIV REIN/ALLOC COLL FUND	450.028	9.430	-4,243.76
AMERICAN CENTURY HIGH INCOME FD Y CL	024932154	07/02/2018	ASSET INCOME			4,243.76
AMERICAN CENTURY HIGH INCOME FD Y CL	024932154	08/01/2018	DIV REIN/ALLOC COLL FUND	414.206	9.470	-3,922.53
AMERICAN CENTURY HIGH INCOME FD Y CL	024932154	08/01/2018	ASSET INCOME			3,922.53
AMERICAN CENTURY HIGH INCOME FD Y CL	024932154	09/04/2018	DIV REIN/ALLOC COLL FUND	490.839	9.480	-4,653.15

Transaction Listing

	ID	Trade Date	Transaction Type	Units	Price	Principal
AMERICAN CENTURY HIGH INCOME FD Y CL	024932154	09/04/2018	ASSET INCOME			4,653.15
BAIRD AGGREGATE BOND FD INSTL	057071854	07/26/2018	DIV REIN/ALLOC COLL FUND	136.291	10.520	-1,433.78
BAIRD AGGREGATE BOND FD INSTL	057071854	07/26/2018	DISTR. OF EARNINGS			1,433.78
BAIRD AGGREGATE BOND FD INSTL	057071854	08/28/2018	DIV REIN/ALLOC COLL FUND	130.164	10.570	-1,375.83
BAIRD AGGREGATE BOND FD INSTL	057071854	08/28/2018	DISTR. OF EARNINGS			1,375.83
BAIRD AGGREGATE BOND FD INSTL	057071854	09/26/2018	DIV REIN/ALLOC COLL FUND	135.708	10.440	-1,416.79
BAIRD AGGREGATE BOND FD INSTL	057071854	09/26/2018	DISTR. OF EARNINGS			1,416.79
COLUMBIA CORPORATE INC FD INSTL	19765N518	07/02/2018	DIV REIN/ALLOC COLL FUND	149.661	9.810	-1,468.17
COLUMBIA CORPORATE INC FD INSTL	19765N518	07/02/2018	ASSET INCOME			1,468.17
COLUMBIA CORPORATE INC FD INSTL	19765N518	08/01/2018	DIV REIN/ALLOC COLL FUND	154.231	9.890	-1,525.34
COLUMBIA CORPORATE INC FD INSTL	19765N518	08/01/2018	ASSET INCOME			1,525.34
COLUMBIA CORPORATE INC FD INSTL	19765N518	09/04/2018	DIV REIN/ALLOC COLL FUND	154.620	9.890	-1,529.19
COLUMBIA CORPORATE INC FD INSTL	19765N518	09/04/2018	ASSET INCOME			1,529.19
DOUBLELINE TOTAL RET BD I	258620103	07/03/2018	DIV REIN/ALLOC COLL FUND	178.978	10.420	-1,864.95
DOUBLELINE TOTAL RET BD I	258620103	07/03/2018	DISTR. OF EARNINGS			1,864.95
DOUBLELINE TOTAL RET BD I	258620103	08/02/2018	DIV REIN/ALLOC COLL FUND	173.179	10.380	-1,797.60
DOUBLELINE TOTAL RET BD I	258620103	08/02/2018	DISTR. OF EARNINGS			1,797.60
DOUBLELINE TOTAL RET BD I	258620103	09/05/2018	DIV REIN/ALLOC COLL FUND	177.057	10.410	-1,843.16
DOUBLELINE TOTAL RET BD I	258620103	09/05/2018	DISTR. OF EARNINGS			1,843.16
DRIEHAUS ACTIVE INCOME FUND	262028855	09/20/2018	DIV REIN/ALLOC COLL FUND	510.267	9.680	-4,939.38
DRIEHAUS ACTIVE INCOME FUND	262028855	09/20/2018	DISTR. OF EARNINGS			4,939.38
EATON VANCE GLOBAL MACRO FD CL I	277923728	07/02/2018	DISTR. OF EARNINGS			1,608.64
EATON VANCE GLOBAL MACRO FD CL I	277923728	07/31/2018	DISTR. OF EARNINGS			1,608.64
EATON VANCE GLOBAL MACRO FD CL I	277923728	08/31/2018	DISTR. OF EARNINGS			1,608.64
EATON VANCE GLOBAL MACRO FD CL I	277923728	09/28/2018	DISTR. OF EARNINGS			1,608.64
FEDERATED INST HI YLD BD FD	31420B300	07/02/2018	DIV REIN/ALLOC COLL FUND	423.180	9.680	-4,096.38
FEDERATED INST HI YLD BD FD	31420B300	07/02/2018	ASSET INCOME			4,096.38
FEDERATED INST HI YLD BD FD	31420B300	08/01/2018	DIV REIN/ALLOC COLL FUND	443.680	9.740	-4,321.44
FEDERATED INST HI YLD BD FD	31420B300	08/01/2018	ASSET INCOME			4,321.44
FEDERATED INST HI YLD BD FD	31420B300	09/04/2018	DIV REIN/ALLOC COLL FUND	451.728	9.760	-4,408.87
FEDERATED INST HI YLD BD FD	31420B300	09/04/2018	ASSET INCOME			4,408.87
NUVEEN INFLATION PRO SEC CL I	670690387	07/02/2018	ASSET INCOME			4,227.90

Transaction Listing

	ID	Trade Date	Transaction Type	Units	Price	Principal
NUVEEN INFLATION PRO SEC CL I	670690387	08/01/2018	ASSET INCOME			4,482.60
NUVEEN INFLATION PRO SEC CL I	670690387	09/04/2018	ASSET INCOME			1,680.82
NUVEEN PREFERRED SECS & INC FD CL I	670700400	07/02/2018	DIV REIN/ALLOC COLL FUND	154.207	16.700	-2,575.25
NUVEEN PREFERRED SECS & INC FD CL I	670700400	07/02/2018	ASSET INCOME			2,575.25
NUVEEN PREFERRED SECS & INC FD CL I	670700400	08/01/2018	DIV REIN/ALLOC COLL FUND	153.458	16.860	-2,587.31
NUVEEN PREFERRED SECS & INC FD CL I	670700400	08/01/2018	ASSET INCOME			2,587.31
NUVEEN PREFERRED SECS & INC FD CL I	670700400	09/04/2018	DIV REIN/ALLOC COLL FUND	154.175	16.860	-2,599.39
NUVEEN PREFERRED SECS & INC FD CL I	670700400	09/04/2018	ASSET INCOME			2,599.39
NUVEEN SHORT TERM BOND FUND CL I	670678648	07/02/2018	ASSET INCOME			959.70
NUVEEN SHORT TERM BOND FUND CL I	670678648	08/01/2018	ASSET INCOME			959.76
NUVEEN SHORT TERM BOND FUND CL I	670678648	09/04/2018	ASSET INCOME			1,046.87
PGIM TOTAL RETURN BOND CL R6	74440B884	07/02/2018	DIV REIN/ALLOC COLL FUND	129.844	14.090	-1,829.50
PGIM TOTAL RETURN BOND CL R6	74440B884	07/02/2018	ASSET INCOME			1,829.50
PGIM TOTAL RETURN BOND CL R6	74440B884	08/01/2018	DIV REIN/ALLOC COLL FUND	105.388	14.080	-1,483.87
PGIM TOTAL RETURN BOND CL R6	74440B884	08/01/2018	ASSET INCOME			1,483.87
PGIM TOTAL RETURN BOND CL R6	74440B884	09/04/2018	DIV REIN/ALLOC COLL FUND	128.028	14.100	-1,805.20
PGIM TOTAL RETURN BOND CL R6	74440B884	09/04/2018	ASSET INCOME			1,805.20
TCW EMERGING MARKETS INCOME FUND	87234N765	07/02/2018	DIV REIN/ALLOC COLL FUND	204.380	7.860	-1,606.43
TCW EMERGING MARKETS INCOME FUND	87234N765	07/02/2018	DISTR. OF EARNINGS			1,606.43
TCW EMERGING MARKETS INCOME FUND	87234N765	08/01/2018	DIV REIN/ALLOC COLL FUND	182.664	8.070	-1,474.10
TCW EMERGING MARKETS INCOME FUND	87234N765	08/01/2018	DISTR. OF EARNINGS			1,474.10
TCW EMERGING MARKETS INCOME FUND	87234N765	09/04/2018	DIV REIN/ALLOC COLL FUND	189.006	7.820	-1,478.03

Transaction Listing

	ID	Trade Date	Transaction Type	Units	Price	Principal
TCW EMERGING MARKETS INCOME FUND	87234N765	09/04/2018	DISTR. OF EARNINGS			1,478.03
Total: Total Fixed Income						**19,792.21**
Total Real Estate						
NUVEEN REAL ESTATE SECS I	670678507	07/02/2018	DIV REIN/ALLOC COLL FUND	535.239	20.380	-10,908.18
NUVEEN REAL ESTATE SECS I	670678507	07/02/2018	DISTR. OF EARNINGS			10,908.18
NUVEEN REAL ESTATE SECS I	670678507	09/14/2018	CAPITAL GAINS DISTRIBUTION			22,430.52
NUVEEN REAL ESTATE SECS I	670678507	09/14/2018	CAPITAL GAINS DISTRIBUTION			4,665.08
NUVEEN REAL ESTATE SECS I	670678507	09/18/2018	DIV REIN/ALLOC COLL FUND	1,325.616	20.440	-27,095.60
Total: Total Real Estate						**.00**
Total Cash Equivalents						
Cash	000000000	07/26/2018	FEE COLLECTION			-4,894.44
Cash	000000000	07/30/2018	CASH DISBURSEMENT			-4,548.68
Cash	000000000	08/28/2018	FEE COLLECTION			-4,994.32
Cash	000000000	08/30/2018	CASH DISBURSEMENT			-4,601.62
Cash	000000000	09/26/2018	FEE COLLECTION			-5,023.62
Cash	000000000	09/27/2018	CASH DISBURSEMENT			-4,630.27
FIRST AM GOVT OB FD CL Z	31846V567	07/02/2018	ASSET INCOME			734.71
FIRST AM GOVT OB FD CL Z	31846V567	07/03/2018	PURCHASE AS ASSET	7,530.950	1.000	-7,530.95
FIRST AM GOVT OB FD CL Z	31846V567	07/10/2018	PURCHASE AS ASSET	166.770	1.000	-166.77
FIRST AM GOVT OB FD CL Z	31846V567	07/26/2018	SELL ASSET	-4,894.440	1.000	4,894.44
FIRST AM GOVT OB FD CL Z	31846V567	07/27/2018	SELL ASSET	-362,505.020	1.000	362,505.02
FIRST AM GOVT OB FD CL Z	31846V567	07/30/2018	SELL ASSET	-4,548.680	1.000	4,548.68
FIRST AM GOVT OB FD CL Z	31846V567	08/01/2018	PURCHASE AS ASSET	1,608.640	1.000	-1,608.64
FIRST AM GOVT OB FD CL Z	31846V567	08/01/2018	ASSET INCOME			719.13
FIRST AM GOVT OB FD CL Z	31846V567	08/02/2018	PURCHASE AS ASSET	6,161.490	1.000	-6,161.49
FIRST AM GOVT OB FD CL Z	31846V567	08/28/2018	SELL ASSET	-4,994.320	1.000	4,994.32
FIRST AM GOVT OB FD CL Z	31846V567	08/30/2018	SELL ASSET	-4,601.620	1.000	4,601.62
FIRST AM GOVT OB FD CL Z	31846V567	09/04/2018	PURCHASE AS ASSET	1,608.640	1.000	-1,608.64
FIRST AM GOVT OB FD CL Z	31846V567	09/04/2018	ASSET INCOME			261.84
FIRST AM GOVT OB FD CL Z	31846V567	09/05/2018	PURCHASE AS ASSET	2,989.530	1.000	-2,989.53

Transaction Listing

	ID	Trade Date	Transaction Type	Units	Price	Principal
FIRST AM GOVT OB FD CL Z	31846V567	09/26/2018	PURCHASE AS ASSET	7,190.650	1.000	-7,190.65
FIRST AM GOVT OB FD CL Z	31846V567	09/27/2018	SELL ASSET	-4,630.270	1.000	4,630.27
Total: Total Cash Equivalents						**331,940.41**

4Q 2018 investment views: Positive domestic momentum heading into an action-packed conclusion to the year

Quarterly outlook

Contributors from U.S. Bank Wealth Management:

Eric J. Freedman
Chief Investment Officer

Thomas M. Hainlin, CFA
National Investment Strategist

Robert L. Haworth, CFA
Senior Investment Strategy Director

William J. Merz, CFA
Senior Research Analyst,
Fixed Income

Terry D. Sandven
Chief Equity Strategist

Kurt W. Silberstein, CFA
Head of Alternative Investments

Kevin T. Weigel, CFA
Senior Research Analyst,
Real Assets

Executive summary

As we enter the year's final quarter and contemplate the path forward, we find ourselves at an interesting juncture. Our analysis suggests that the global economy remains on firm footing, although we are seeing mild deterioration, particularly outside of the United States. However, relatively favorable asset performance has demonstrated some momentum inconsistent with softening economic data. What is an investor to do? Do you anticipate that potential further economic weakness may result in asset prices following suit or stay the course after over nine-and-a-half years into a global equity market bull market?

We continue to advocate a slight pro-growth portfolio orientation in the current environment. While economic growth is showing signs of slowing, that slowdown comes from a favorable base built up over several years and for much of 2017 and early 2018 in a globally synchronized fashion. Further, corporate profits remain robust, credit conditions are favorable and global central banks remain, on balance, prone to easier money policies versus more restrictive ones.

Risks remain and several key catalysts await in the fourth quarter. The domestic central bank — the U.S. Federal Reserve (Fed) — hosts key meetings that will provide guidance on where it may steer policy into 2019, with markets concerned about the potential for a Fed that could transition to a faster pace of interest rate increases than is currently discounted. The U.S. midterm elections will also prove noteworthy, with markets anticipating some legislative movements, but room for surprises always exists. Finally, trade negotiations, which to date have driven considerable media attention yet a minor capital market response, may escalate to levels where markets may react. We will keep you apprised of our views and hope the content that follows helps guide you into the fourth quarter and beyond.

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 Important disclosures provided on page 9.

Global economic views

We think the U.S. economy is the best house in the neighborhood, but growth may slow to finish the year

U.S. economic growth remains among the most solid in the world, although recent weaker data indicates to us that we may have passed the peak for now. Tax cuts and easier global monetary policy continue to be a tailwind to growth while growing tariffs and trade war issues could be a meaningful headwind next year. Inflation is also likely to subside in the coming months, reflecting weaker food prices and flat energy prices. Accelerating wage growth could provide some boost to inflation, although it may be insufficient to stem the moderation.

- U.S. economic growth accelerated to the fastest pace in three years at 2.9 percent year over year as of June 30, 2018. A robust labor market is likely to continue to support growing consumer spending. The unemployment rate is touching the lowest levels since 2001 and July job openings (6.9 million) exceeded total unemployed for the first time in the history of the job openings data (inception March 2001).
- The Fed's preferred inflation measure, core (excluding food and energy) personal consumption expenditure (PCE) prices, reached the Fed's stated target (2 percent) to start the third quarter. Core prices have been boosted generally by growth in housing and transportation costs. Energy prices have been a primary driver of the higher gains for headline price indices.
- The Fed has continued to remove monetary accommodation, in contrast to central banks in Europe and Japan. The Fed has reduced balance sheet holdings of bonds by 4 percent for the year ended in July and increased interest rates four times in the past year. Financial conditions in the United States remain relatively accommodative for now despite the recent changes in policy.

Europe and Japan appear to be past their respective growth peaks

The economic momentum story across major developed market economies outside the United States, especially Japan and the eurozone, has been somewhat disappointing and we expect this trend to continue well into next year. Business and consumer sentiment surveys have softened and inflation trends have moderated. Central bank policies remain accommodative, with the European Central Bank (ECB) and Bank of Japan (BOJ) continuing asset purchase programs at least through year-end. We estimate that a recession in the near term is unlikely in either region due to continued monetary stimulus. However, unlike the United States, there is likely little fiscal stimulus in the pipeline to provide a catalyst for additional acceleration.

- Gross domestic product (GDP) growth in Europe and Japan has rolled over, with peak year-over-year growth in both economies achieved in the third quarter 2017. Business and consumer sentiment surveys have rolled over, and with little prospect of fiscal stimulus growth, are likely to continue to slow.
- Inflation trends in Europe and Japan have begun to soften despite the continuing monetary stimulus. Softer food prices, combined with weaker business and consumer sentiment, leads us to believe inflation trends are likely to remain weak.

Emerging market growth continues to slow in the face of weaker currencies

U.S. dollar strength remains a challenge for emerging market growth. Tighter U.S. monetary policy appears to be straining emerging market currencies and rates. The momentum of economic growth is likely to continue slowing across this segment. While some economies are amid crises, such as Turkey, Venezuela and Argentina, we believe most are likely to avoid recession for now. Major economies, such as China and India, continue to post very solid overall growth, though at somewhat slower levels. Potential tariffs from the United States remain a modest risk to overall economic activity for now.

Equity markets

We expect U.S. equities to trend higher into year-end, albeit with greater volatility and at a more subdued pace

U.S. equities are beginning the fourth quarter amid a generally favorable fundamental backdrop, spurred by strong earnings growth while the degree of investment difficulty has risen. On balance, we expect equities to trend higher into year-end, absent ramping inflation and a looming recession. Our year-end 2018 and 2019 price targets for the S&P 500 are 3,000 and 3,325, respectively.

The fundamental backdrop of rising earnings, non-problematic inflation and still relatively low interest rates provide valuation support while serving as the basis for stocks to trend higher

Consensus earnings estimates for 2018 and 2019 are approximately $160 and $175 as of the end of the third quarter, according to Bloomberg and FactSet. This reflects year-over-year earnings growth of roughly 20 percent and 10 percent, respectively. Rising earnings typically equate to rising stock prices. The projected slowing in the rate of earnings growth in 2019 over 2018 levels while looming on the horizon, seems well telegraphed.

Valuations, although elevated, are short of extremes, implying continued support for stocks. The S&P 500 ended the third quarter trading at roughly 18.1 times 12-month forward estimates, modestly above the 25-year average of 17.1, according to Bloomberg.

The degree of investment difficulty has increased, a potential headwind for future performance

Factors impacting sentiment appear to be increasing, thus warranting a cautious near-term bias.

- Year-to-date performance leadership is narrow, with the Information Technology, Consumer Discretionary and Healthcare sectors leading all other sectors by nearly a three-to-one or higher margin. Narrow performance leadership is typically indicative of deteriorating market fundamentals and/or investor angst.
- Inflationary pressures, while not widespread, are more prevalent. The pace of inflation is important because price-earnings multiples are apt to trend lower, commensurate with the pace of rising inflation. Relatedly, it is difficult to envision price-earnings multiple expansion serving as a lever for higher stock prices in an environment where inflation may be surfacing and the pace of earnings growth is projected to slow.
- Interest rates are on the cusp of change. Rising interest rates present increased competition for equities as the yield curve continues to flatten. In September, the difference between the 10-year and two-year U.S. Treasury notes reached the lowest level in more than a decade. Should the two-year rate exceed the 10-year rate, resulting in an inverted yield curve, sentiment is likely to wane in anticipation of a potential corporate credit crunch, resulting in a shift toward more defensive sectors and companies.
- Tariff-related activities have the potential to damage business confidence, interrupt the global supply chain, negatively impact company earnings and weigh on stock prices. The implications of tariffs remain a work-in-progress, with timing and magnitude being unknowns.
- Midterm elections add to political and business uncertainty. A change in House and/or Senate control following the November elections could imply that many of the items that have helped propel equities higher over the past two years may be subject to change. At a minimum, a change in control would likely spur rotation among sectors and companies.

Neutral outlook for foreign developed equities as slowing momentum offsets healthy earnings growth

We view opportunities for foreign developed market equities as fairly balanced for the remainder of 2018 and looking into early 2019. Current economic conditions in Europe and Japan are healthy and provide a generally positive backdrop for equities. Corporate profits across foreign developed markets are estimated to grow at a healthy 19 percent over the full year in 2018, led by a strong earnings recovery in the United Kingdom. Valuation of foreign developed equities has moderated and is at or near 20-year lows relative to U.S. equities. Finally, monetary policy is expected to remain supportive for risk assets throughout developed economies. While the ECB is looking to end its asset purchase program after 2018, they have indicated that interest rates in the region would likely remain at current low levels well into 2019. The BOJ remains committed to both asset purchases and low interest rates as inflation and growth in that country remain below the central bank's targets.

Tempering our positive outlook, economic momentum in Europe appears to have moderated based on our analysis of a broad range of macroeconomic indicators. The Japanese economy has also decelerated in the first half of 2018. Corporate profit growth is expected to also decelerate to a still healthy but slower rate of growth of 8 percent. Despite notable improvements in corporate profitability of "Japan, Inc.," foreign investors remain skeptical toward Japanese equities, as evidenced by net outflows of investor funds in 2018. Finally, price momentum, or the trend in stock price movements, for foreign developed equities remains weak and in sharp contrast compared to positive U.S. equity price trends.

Balancing improved valuation, healthy earnings and supportive central banks with softening macroeconomic data, decelerating earnings growth and weak relative price trends, we maintain a neutral outlook on foreign developed equities.

Neutral outlook for emerging market equities remains despite challenging market performance

We also view opportunities and risks in emerging market equities as fairly balanced for the remainder of 2018 and into 2019, and retain our neutral outlook. An environment of rising U.S. interest rates, a rising U.S. dollar relative to other currencies and rising oil prices has persisted into the second half of 2018. This combination creates one of the most challenging macro environments for emerging market countries. In particular, rising U.S. interest rates increases the competitiveness of U.S. Treasury yields to other riskier investments, such as emerging markets equities. Of note, the interest rate on the two-year U.S. Treasury note is equivalent to the dividend yield on the emerging market equity index.

In addition, uncertainty regarding ongoing trade negotiations between the United States and China, the world's two largest economies, has also served to increase the "premium" that investors demand for riskier assets, such as investments in emerging market equities. Finally, Turkey and Argentina, two emerging market countries highly dependent on foreign capital for investment, are experiencing near-crisis financial conditions due weak economic fundamentals and spiraling inflation (34 percent in Argentina and 18 percent in Turkey).

The confluence of all of these factors has led to significant underperformance of emerging market equities relative to U.S. equities in 2018. Despite the challenging environment and negative price momentum of emerging market equities, the global economy remains healthy and most emerging market countries are in solid fundamental shape. China's policymakers have recently enacted a variety of measures to stimulate the economy in order to offset trade-related uncertainty, including monetary easing, middle-class tax cuts and regulatory reforms. Corporate earnings in emerging market equities are estimated to rise an estimated 10 percent in 2019. Valuation of emerging market equities has moderated and is at a substantial discount relative to U.S. equities. And within emerging market equities, we continue to have a positive view of "thematic" approaches that focus on China's maturing economy (areas such as healthcare, the environment and infrastructure that connects China to the world) and the growing ranks of middle class consumers in emerging markets.

We remain neutral on emerging market equities, balancing country specific risks and trade uncertainty with Chinese policy stimulus, still healthy earnings growth and relatively moderate valuations. While recent price declines present an appearance of value, we continue to watch for a reversal in the challenging macro conditions described above and a commensurate decline in risk "premium" before adjusting our forward view.

Fixed income markets

Yields likely rise modestly based on Fed policy, inflation and strong Treasury bond issuance

Bond yields are still low by historical standards. We expect yields to continue to trend higher, which is a negative headwind for bond investors since rising yields equate to falling prices. Catalysts for yields to trend higher include further Fed interest rate increases, rising inflation expectations, stable U.S. growth, increased U.S. Treasury debt issuance (due to a rising fiscal deficit) and softer foreign investor demand for U.S. Treasuries. Outside the United States, central banks are gradually removing policy accommodation via rate hikes and slowing central bank asset purchases, which further leads to upward pressure on yields.

Investment grade and high yield credit valuations are expensive by historical comparisons, but strong corporate fundamentals, a robust domestic economy and still-supportive monetary conditions justify a continued neutral allocation.

- Core inflation measures appear to be stabilizing, though a strong job market and rising wages may yet put upward pressure on prices. As it currently stands, a modest degree of re-pricing in inflation expectations should apply incremental upward pressure to bond yields.
- We expect four total interest rate hikes from the Fed in 2018, which includes one more increase at the December meeting. This is in line with the Fed's median forecast. In 2019, the median forecast is for three hikes. Market-based odds call for one more this year (December) and two next year, which we believe underappreciates the Fed's likely path. Treasury yields should move modestly higher as the market further acknowledges the Fed's resolve.
- We expect the Fed to continue unwinding its balance sheet at a modest and deliberate pace. On a net basis, global central banks are still injecting liquidity into markets via asset purchases, though we expect net purchases will continue to fall as we approach 2019.
- Later in 2019, monetary policy could become slightly restrictive if growth trends weaken. While this may eventually put pressure on corporate bonds (and economic growth in general) domestic credit and economic fundamentals appear robust for the time being.
- Ongoing deficit spending should necessitate elevated U.S. Treasury issuance for the foreseeable future. This should contribute to upward pressure on bond yields as investors digest increasing supply.

Maintain shorter-than-normal bond maturities

We advocate for shorter-than-normal bond portfolio maturities due to the current limited give-up in yields and our expectation for higher rates. Treasury bonds, particularly those with shorter maturities, offer increased competition and a more balanced risk/reward versus riskier income-producing assets.

Balanced risk/reward between corporate credit and U.S. Treasuries

Incremental yields for investment grade corporate bonds relative to U.S. Treasuries remain near historically low levels. A constructive economic backdrop and strong corporate fundamentals mean this relationship may remain near these low levels despite deceleration in global growth and monetary policy.

High yield bonds offer incremental yield relative to investment grade corporates and U.S. Treasuries, but rich valuations leave little room for error. Limited supply has been a major contributor to the resilience of high yield bonds throughout 2018 despite volatility early in the year. While bank loans have historically offered lower risk and lower return alternative to high yield bonds, deteriorating issuance quality is likely to result in credit losses that surpass investor expectations when the credit cycle eventually ends. We strongly advocate for active management within the high yield space, reflecting the higher risk and diverse nature of the market.

Balanced view of municipal debt, with elevated valuations offset by limited supply

Like corporate credit markets, municipal bond valuations are richer than historical averages. However, limited supply continues to support prices and municipal bonds may provide value for taxable investors in higher tax brackets. Longer term, legacy liabilities, such as underfunded pensions, increased healthcare spending and deferred maintenance on infrastructure, may pose risks to certain segments of the municipal bond market. For nontaxable or low-tax investors, municipals with longer maturity profiles may offer more compelling value relative to longer maturity Treasury and investment grade corporate bonds.

Risks in non-U.S. bonds leads us to prefer currency hedged or U.S. dollar-denominated investments

Yields in developed markets remain quite low, though like U.S. yields, are trending higher. Some countries are still experiencing bond yields below zero. Monetary policy outside the United States remains in the early stages of removing accommodation, which should push yields higher. Coupled with risks from currency volatility, we believe exposure to foreign developed market bonds is unattractive, especially for bonds denominated in foreign currencies. On a currency-hedged basis, the investment picture is mixed, but with higher rates and lower central bank liquidity likely ahead, we prefer U.S. markets.

For investors with higher-than-average risk tolerance, emerging market debt remains an opportunity for diversification, though ongoing volatility is likely

Emerging market debt has begun to recover slightly in the third quarter, though returns are still negative for the year. Weakening emerging market currencies and crises in a small number of countries have fueled negative returns. Continued volatility is a clear risk, driven by currency risk and potentially exacerbated by additional Fed rate hikes. However, valuations are near long-term medians, unlike the historically rich levels witnessed in most other segments of the global bond market. We remain neutral on emerging market debt and continue to recommend active management. Like non-U.S. developed markets, incurring emerging market foreign currency risk has often resulted in uncompensated price volatility. As such, we advocate for U.S. dollar-denominated bonds within the emerging market bond category.

Real estate markets

Real estate providing solid income while rising rates creating headwinds

Centrally located, Class A property prices have generally been flat for the better part of two years now. Vacancy rates appear to be rebounding from recent lows and property income growth has come under pressure. We expect the deceleration in income growth to continue as more supply continues to grow, on average. Valuations remain rich, with incomes relative to property values near all-time low levels. Rising U.S. Treasury yields, especially relative to real estate market incomes, are likely to provide future pressure on prices.

Furthermore, commercial mortgage interest rates are now only 0.25 percent below the average earnings rate for centrally located, Class A properties. As the Fed continues to raise rates and inflationary pressures build, the spread between mortgage rates and property income yields could compress further. Historically, prices have come under pressure as commercial mortgage rates reach the level of the property market's earnings yield. While current levels of mortgage rates relative to earnings is indicating caution, we believe investors are likely to at least earn the current income of real estate investments. We remain tactically cautious on real estate since Fed interest rate increases could dislodge valuations from historically expensive levels, causing price declines in commercial real estate.

Commodities markets

Trade wars and emerging market turbulence pressure commodity prices

Commodity markets from grains to industrial metals and oil have come under pressure over the past few months. Trade wars, Fed tightening and economic crises in several emerging market countries (Venezuela, Argentina, Turkey) have all contributed to the broad weakness in commodity prices. In general, most global commodity markets remain well supplied. Spare capacity was built when prices were at all-time highs five years ago. This spare capacity was being worked off amid a synchronized global economic recovery. However, increased tariffs could reduce global trade and, potentially, global GDP. This lessens the risk of unanticipated supply shocks. Furthermore, higher growth prospects and a more active central bank in the United States has led to increases in the dollar, which should continue to pressure commodities for the remainder of the year.

Alternative investments

Opportunities in alternative investments remain favorable but require caution

As we head into the fourth quarter, it is easy to be both optimistic and pessimistic. The optimism is due to the third quarter rewarding investors as markets reacted favorably to company earnings and guidance while the United States side-stepped geopolitical pitfalls. Pessimism can be attributable to the escalation of trade tariffs, U.S. midterm elections and trouble in emerging markets that may extend into the fourth quarter and beyond. Despite the conflicting outlook, when appropriate, opportunities in alternative investments remain favorable but require caution. Hedge funds should be able to take advantage of the increasing volatility and price dispersion among companies, regions and asset classes. Demand for private capital remains strong due to the higher expected returns over traditional stock and bond portfolios. However, prudence is required due to the large amount of capital raised for both private equity and private debt over the past few years.

The path to outsized returns is oftentimes that less traveled

We find that the greatest dispersion between winners and losers in the public markets is within: 1) technology and healthcare stocks, 2) high yield bonds, 3) global structured credits and 4) distressed debt within emerging markets. Dispersion can be due to either a lack of research in the space or the velocity of change within the market or sector. In the Technology and Healthcare sectors, we believe alternative managers are uniquely positioned to potentially profit by differentiating between innovators and followers. In certain high yield and structured credits markets, we see increased use of leverage and weakening bond covenants, with credit prices being driven less by fundamentals than by the supply/demand imbalance between minimal new issuance and the insatiable demand for yield. An experienced fund manager can identify securities with prices detached from economic reality by buying securities that are financially sound and selling securities expected to trade lower due to poor financial condition. The possible advantage to investing in these markets through a private capital fund is the longer investment period to deploy capital as events unfold since it is difficult to time when a market is at the bottom.

Emerging markets are a different story. Three countries, Brazil, Argentina and Turkey, are in various degrees of financial distress. Investors' first reaction is often to sell out of emerging markets and wait until the dust settles. This year, selling pressure has pushed some emerging market equity indices down 20 percent as of early September. The indiscriminate selling provides attractive investment opportunities, but timing when to invest is difficult. As stated by one emerging markets hedge fund manager, "it is akin to catching a falling knife." History shows emerging markets recover from these selloffs and can reward managers with outsized returns depending on the ability to identify and invest in undervalued assets before an "all clear" signal is given.

Below are a few of our thoughts on hedge funds and private capital investment opportunities.

- **Hedged equity:** We have a favorable outlook for the Healthcare and Technology sectors. There is constant innovation and frequent turnover among winners and losers in these sectors. Funds profit from "creative destruction." For instance, a firm with a new drug treatment showing greater efficacy over a competing company's drug can render the drug obsolete in a matter of months. This is observed by the abrupt price declines and increases (plus/minus 25 percent) of biotech stocks reacting to favorable/unfavorable FDA rulings or drug trial results. Disruption among technology companies can be attributable to a new application that changes how we use our smart phones to communicate, shop, monitor our exercise habits, etc. The result is a recalibration of companies leading the charge and those left behind.
- **Hedged fixed income:** Our highest conviction strategies continue to be high yield, structured credit and distressed debt in emerging markets. Securities in these markets have a low sensitivity to rising interest rates since credit quality is the key driver of investment return. We believe having exposure to high yield and structured credit funds can generate superior returns with less risk than traditional long-only funds. Most important is the ability of the funds to understand the dynamics between fundamental analysis and the trading activity in the markets, or "technicals" driving bonds prices. Not being deceived by opportunities that appear to look good on the surface is the key to success in these markets. Knowing the full extent of a security's weak covenants and its financial stability helps to avoid the significant drawdowns resulting from shoddy analysis.
- **Private equity:** An area of interest is light industrial real estate (LIRE). Demand for LIRE is driven by the growth in e-commerce and storage for the vast number of servers required for all our pictures and documents stored in "the cloud." E-commerce is approximately 10 percent of total retail sales in the United States and growing three times faster than brick and mortar sales. That is not a surprise to many of us. What most of us do not know is the e-commerce supply chain requires up to three times more warehouse and logistics than the traditional brick and mortar supply chain. This is due to customers expecting e-commerce to deliver a nearly infinite number of choices very quickly. Fast delivery requires the "last mile" distribution network, which is driving strong demand for LIRE.
- **Private debt:** Finding funds that do not accept too much capital is a challenge. Private debt funds are awash in capital looking for loans to make. This makes us wonder about the credit quality of the loans being made and what will happen when there is an economic slowdown. That said, we have been able to identify a few funds that are adhering to sound and conservative underwriting standards. Overall, it is a market where we remain very selective. This is captured in the traders' adage, "sometimes the best trades are the ones you don't do."