



WHAT'S IN YOUR BOND PORTFOLIO?

As of April 30, 2019, the Intermediate-Term Bond category as defined by Morningstar was replaced with two new categories: Intermediate Core Bond and Intermediate Core-Plus Bond. Morningstar Category classifications were introduced in 1996 to help investors make meaningful comparisons between like-managed mutual funds. These categories were then further used to create peer groups or “universes” that would allow for better investment evaluation and oversight. These peer universes, in particular peer group risk and performance rankings, have become a staple of institutional investment policy statements and performance reporting.

So why the current category change? Financial markets have evolved and become increasingly complex over time. This is particularly true of the fixed income market. The introduction of entirely new investment products coupled with expanded access via professionally managed pools of capital (i.e. mutual funds) has broadened the investable universe of fixed income securities. As in any highly competitive industry, bond managers have consistently looked for ways to increase investment performance. As the fixed income opportunity set expanded, bond managers began to broaden their exposure to areas of the fixed income market that they deemed to be less efficient and offer higher returns. Those managers that were able to successfully invest in expanded opportunity sets often had an advantage over more traditional “core” managers. At the margin, these additional exposures did not significantly change the risk/return objectives of the core bond mandate but tended to enhance returns. These added exposures became known as the “plus” within core-plus mandates. However, at some level of exposure the expanded “plus” portfolio begins to materially alter the risk/return profile of a core bond portfolio.

Core Bond and Core-Plus Bond strategies primarily invest in investment-grade (high credit quality) domestic fixed income securities issued by the US government, government agencies, corporations and various securitized debt underwriters. The main difference between Core and Core-Plus strategies (as defined by industry and Morningstar) is the allocation to below-investment grade (lower credit quality) securities. Under Morningstar’s classification, Intermediate Core Bond managers are limited to invest no more than 5% of assets in below-investment grade securities. Core-Plus Bond managers have greater latitude within their allocation to below-investment grade securities. The current Morningstar universe average for Core-Plus Bond managers is just under 10% but it is not uncommon for more aggressive managers to allocate 20-25% of the portfolio to below-investment grade securities. In addition, Core-Plus managers will often have higher exposure to more complex and often less liquid asset-backed securities as well as bank loans, convertible bonds, futures/swaps and non-dollar denominated developed and emerging market securities.

So which strategy, Core or Core-Plus, is a better fit for investors? This is a complex question with the best-fit determined by what the investor is trying to achieve and what other specialty bond options are available. In general, if an investor’s time horizon is short and the primary objective of their bond portfolio is to provide a ballast or offset against equity or market liquidity risk, then Core Bond mandates may be preferred. This objective can be highlighted by comparing relative performance in 2008, one of the worst equity markets in history. In 2008, the return for Morningstar’s Core-Plus Bond category (as reflected in the new peer universe) was negative 4.89% vs. a positive 0.73% for the Core Bond category. By the end of 2009, this performance spread had reversed and there was virtually no difference in returns between the two categories across the two-year time frame. Bond investors with longer time horizons seeking higher returns, inflation protection and broader levels of diversification may be better served by a Core-Plus Bond mandate. This mandate generally runs with less interest rate risk, higher current yields and modestly broader currency exposure. Said differently, Core-Plus Bond mandates are generally expected to better protect investor purchasing power over longer time horizons.

The availability and utilization of other specialized bond strategies should also be considered when deciding between Core and Core-Plus mandates. In general, if an investor is likely to utilize a single bond option, they may prefer the broader exposure of the Core-Plus mandate. In contrast, if an investor is looking to build out a broadly diversified bond portfolio via multiple specialists, then they may be better served by starting with a Core Bond mandate and adding dedicated non-core allocations. Examples may include the addition of dedicated high yield and emerging market exposures. The utilization of a Core-Plus strategy in this context may result in overlapping exposures between your Core manager and your non-core specialists.

GLOBAL ECONOMIC LANDSCAPE

- The US economy gained 224,000 jobs in June, a sharp bounce back from a weak May report. This was significantly higher than economists had expected. While the recent report eases fears of a recession, it poses a major dilemma for a Federal Reserve that was expected to cut interest rates in July. The Fed initially forecast two rate hikes for 2019. Forward interest rate curves are now implying three rate cuts by the Fed for 2019. The European Central Bank appears to have pushed potential rate hikes out to 2020 and Japan is expected to continue its easing policy.
- The current unemployment rate of 3.7% remains near historic lows, well below the 50-year average rate of 6.2%. This would indicate an economy operating near full capacity. Historically we would expect to see higher inflation, rising interest rates and wage growth as a result. However, inflation remains below 2.0%, less than half the 50-year average. Interest rates have declined sharply since 3Q18 with 10-year Treasury yields currently just above 2.0%. Wage inflation appears to have stalled at 3.4%, well below the 4.1% 50-year average.
- The main driver of weaker economic growth sentiment during the quarter continued to be the back-and-forth tariff threats between the US and China. These concerns were compounded by weakness in domestic manufacturing, broadly slower growth reports out of China and a very weak May job report that ultimately rebounded in June.
- Foreign economies continue to show weak growth prospects. German industrial activity is nearing recession levels and the United Kingdom's Brexit transition is an ongoing source of uncertainty. Ten-year yields across Germany, France, Switzerland and Japan are all negative, reflecting continued weak growth expectations out of Europe.

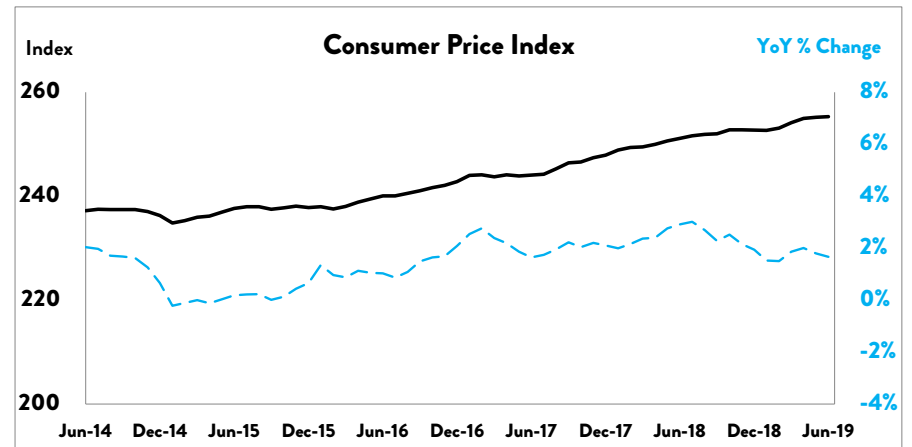
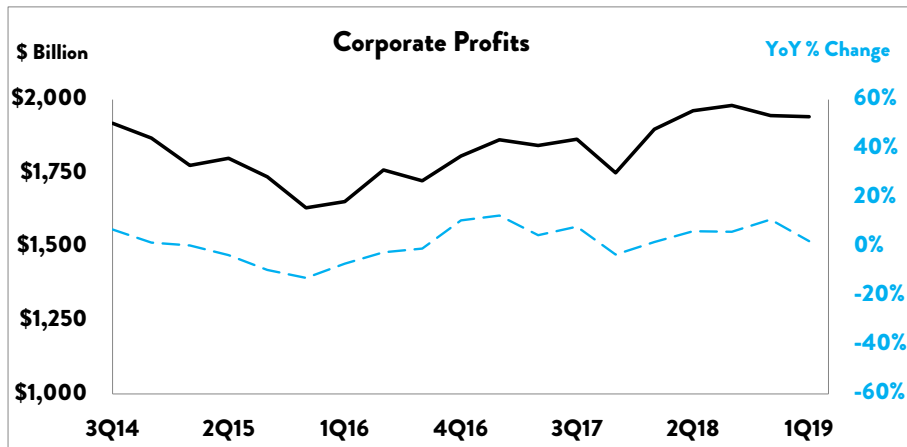
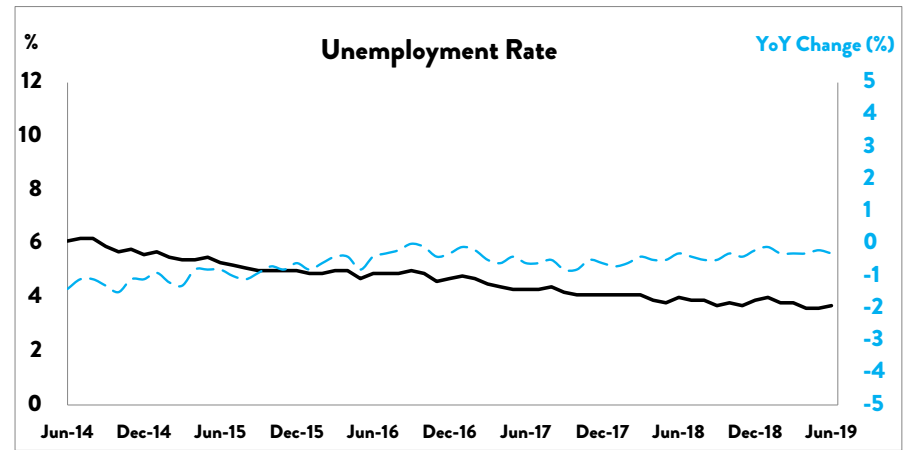
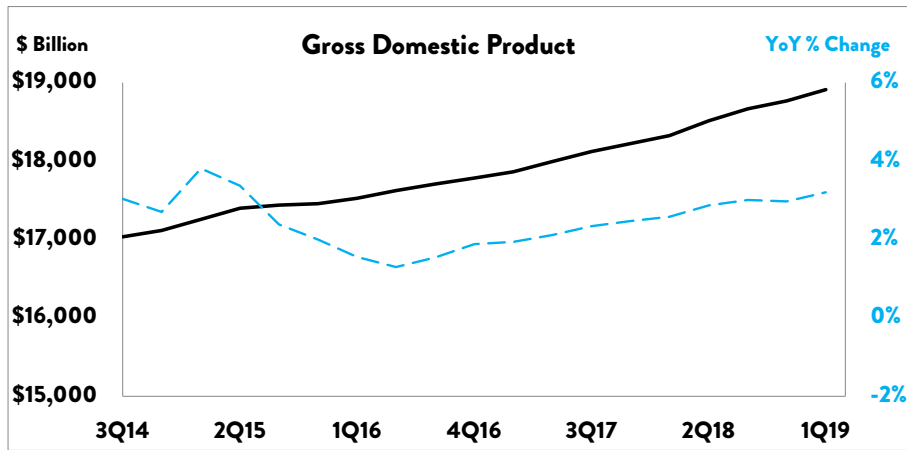
GLOBAL FINANCIAL MARKETS

- The United States is now the world's largest producer of oil, outpacing long-term leaders Saudi Arabia and Russia. According to the US Energy Information Administration, the US is projected to produce 14.46 million barrels of oil per day in 2019 thanks in large part to new technologies and methods of production. Enhanced domestic production allows the US to be less dependent on foreign producers for supply and reduces foreign producer's ability to manipulate pricing.
- Domestic fixed income markets benefited from a second straight quarter of declining interest rates and tighter credit spreads. This resulted in the strongest first-half returns in nearly 25 years despite historically low yields.
- Domestic equity markets continued to shed concerns of slowing economic data en route to posting extensive gains in the first half of the year. Gains that continued to be largely driven by a concentrated number of highly valued mega-cap technology stocks. For perspective, since the end of the last technology driven market rally of 1999, only one of the 10 largest-cap tech stocks (Microsoft) has outperformed the S&P 500 Index over the following 19 years.
- Despite generally poor growth prospects, international equity markets have posted strong returns. Developed markets have benefited from central bank pledges of more accommodative policies. Emerging markets have also benefited from easier monetary policy but have been more directly impacted by increasing trade tensions and resulting slower growth expectations.

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2Q2019 Economic Data



Key: — Economic Series

- - - Year-Over-Year Change

Labor Market Statistics (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	5-Yr Avg.	Date
Jobs Added/Lost Monthly	224,000	351,000	14,000	207,900	Jun-19
Unemployment Rate	3.7%	6.2%	3.6%	4.7%	Jun-19
Median Unemployment Length (Weeks)	7.3	14.0	6.6	10.6	Jun-19
Average Hourly Earnings	\$27.90	\$27.90	\$24.49	\$26.05	Jun-19

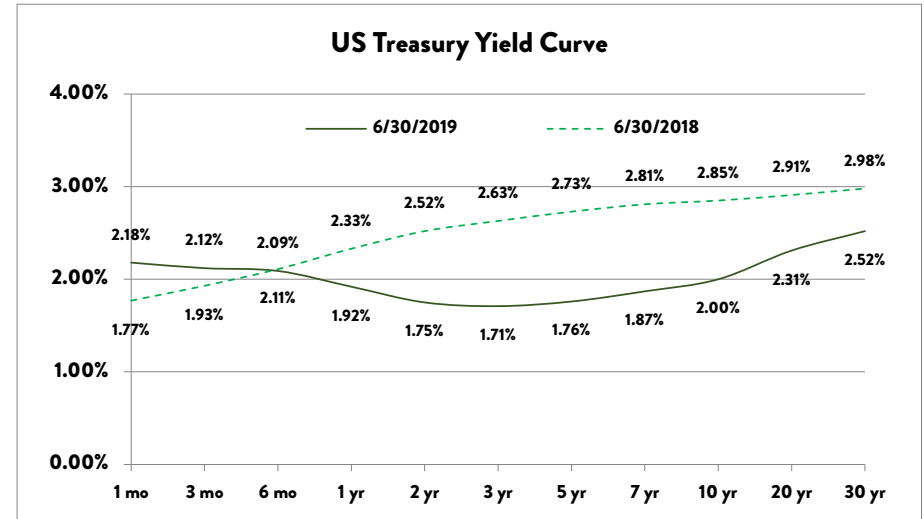
Source: Federal Reserve Bank of St. Louis and Bureau of Labor Statistics

Other Prices and Indexes (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	% Off Peak	Date
Gas: Price per Gallon	\$2.67	\$3.62	\$1.79	-26.2%	Jun-19
Spot Oil	\$54.66	\$103.59	\$30.32	-47.2%	Jun-19
Case-Shiller Home Price Index	215.7	215.7	170.3	26.7%*	Apr-19
Medical Care CPI	495.3	495.3	436.0	13.6%*	Jun-19

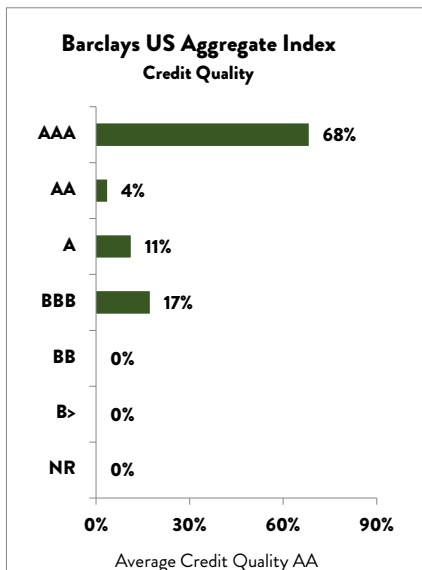
*% Off Low

2Q2019 Bond Market Data

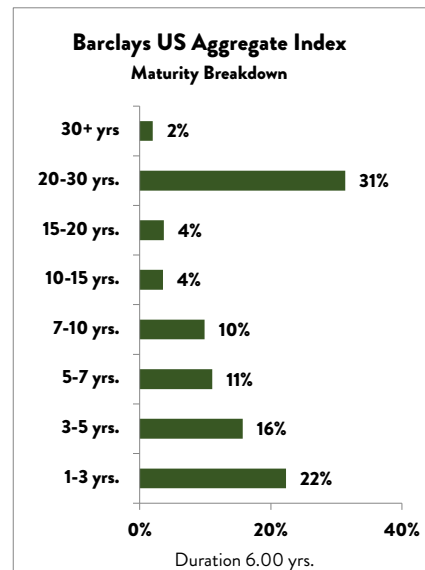
Index	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
90-Day T-Bill	0.65%	1.25%	2.22%	1.26%	0.79%	0.44%
Barclays US Aggregate	3.08%	6.11%	7.87%	2.31%	2.95%	3.90%
Barclays Short US Treasury	0.71%	1.38%	2.48%	1.42%	0.95%	0.58%
Barclays Int. US Treasury	2.36%	3.99%	6.19%	1.31%	1.95%	2.44%
Barclays Long US Treasury	6.03%	10.98%	12.30%	1.34%	5.71%	6.53%
Barclays US TIPS	2.86%	6.15%	4.84%	2.08%	1.76%	3.64%
Barclays US Credit	4.27%	9.35%	10.34%	3.74%	3.92%	5.77%
Barclays US Mortgage-Backed	1.96%	4.17%	6.22%	2.06%	2.56%	3.23%
Barclays US Asset-Backed	1.67%	3.17%	4.98%	1.99%	2.07%	3.35%
Barclays US 20-Yr Municipal	2.57%	6.16%	7.95%	3.14%	4.66%	5.95%
Barclays US High Yield	2.50%	9.94%	7.48%	7.52%	4.70%	9.24%
Barclays Global	3.29%	5.57%	5.85%	1.62%	1.20%	2.89%
Barclays International	3.42%	4.99%	4.10%	0.97%	-0.12%	2.10%
Barclays Emerging Market	3.75%	9.39%	10.95%	5.05%	4.61%	7.67%



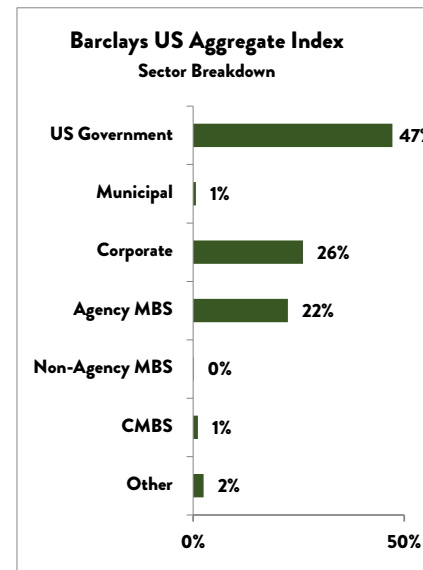
Source: Department of US Treasury



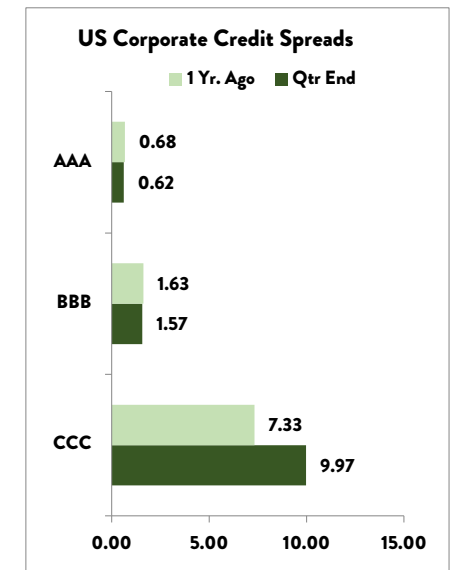
Source: Morningstar



Source: Morningstar



Source: Morningstar



Source: Federal Reserve / Bank of America

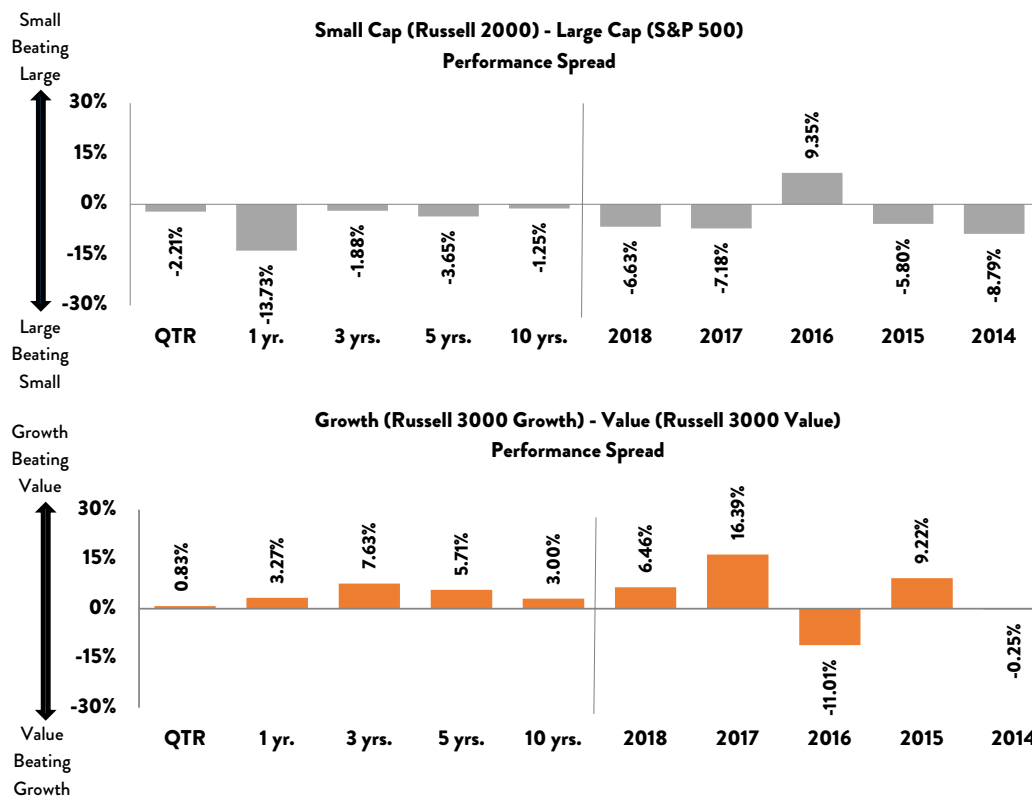
2Q2019 US Equity Market Data

Sectors Weights/Returns (ranked by quarter performance)

	S&P 500 Index				
	Wgt.	Sector	QTR	YTD	1 yr.
	13%	Financials	8.00%	17.24%	6.31%
	3%	Materials	6.31%	17.26%	3.20%
	21%	Information Technology	6.06%	27.13%	14.34%
	10%	Consumer Discretionary	5.28%	21.84%	10.17%
	10%	Communication Services	4.49%	19.09%	13.66%
	7%	Consumer Staples	3.72%	16.18%	16.39%
	9%	Industrials	3.57%	21.38%	10.43%
	3%	Utilities	3.48%	14.70%	19.03%
	3%	Real Estate	2.46%	20.42%	16.80%
	14%	Health Care	1.38%	8.07%	12.99%
	5%	Energy	-2.83%	13.13%	-13.25%
	S&P Midcap 400 Index				
	Wgt.	Sector	QTR	YTD	1 yr.
	17%	Financials	7.08%	18.84%	-0.20%
	16%	Industrials	7.07%	24.08%	9.17%
	12%	Consumer Discretionary	5.02%	16.36%	-5.36%
	16%	Information Technology	4.78%	27.09%	13.93%
	5%	Utilities	2.39%	13.08%	15.96%
	10%	Health Care	1.73%	15.25%	3.40%
	6%	Materials	1.03%	16.39%	-5.97%
	3%	Communication Services	0.69%	16.98%	19.90%
	10%	Real Estate	-1.93%	12.67%	0.61%
	3%	Consumer Staples	-2.70%	5.80%	-2.63%
	3%	Energy	-16.25%	0.34%	-39.31%
	S&P Smallcap 600 Index				
	Wgt.	Sector	QTR	YTD	1 yr.
	20%	Industrials	6.74%	20.17%	0.12%
	18%	Financials	5.78%	12.37%	-1.57%
	2%	Utilities	5.73%	15.32%	12.63%
	15%	Information Technology	4.02%	20.96%	2.30%
	12%	Health Care	2.17%	9.56%	-7.69%
	7%	Real Estate	-0.43%	15.99%	2.31%
	14%	Consumer Discretionary	-1.33%	8.72%	-8.06%
	3%	Consumer Staples	-2.38%	5.46%	-5.53%
	4%	Materials	-2.82%	15.52%	-11.83%
	2%	Communication Services	-8.72%	4.33%	-5.62%
	4%	Energy	-16.09%	2.94%	-46.52%

Index Performance Data

Index	QTR	YTD	1 yr.	Annualized		
				3 yrs.	5 yrs.	10 yrs.
S&P 500	4.30%	18.54%	10.42%	14.19%	10.71%	14.70%
Russell 1000 Value	3.84%	16.24%	8.46%	10.19%	7.46%	13.19%
Russell 1000 Growth	4.64%	21.49%	11.56%	18.07%	13.39%	16.28%
Russell Mid Cap	4.13%	21.35%	7.83%	12.16%	8.63%	15.16%
Russell Mid Cap Value	3.19%	18.02%	3.68%	8.95%	6.72%	14.56%
Russell Mid Cap Growth	5.40%	26.08%	13.94%	16.49%	11.10%	16.02%
Russell 2000	2.10%	16.98%	-3.31%	12.30%	7.06%	13.45%
Russell 2000 Value	1.37%	13.47%	-6.24%	9.81%	5.39%	12.40%
Russell 2000 Growth	2.75%	20.36%	-0.49%	14.69%	8.63%	14.41%
Russell 3000	4.10%	18.71%	8.98%	14.02%	10.19%	14.67%
DJ US Select REIT	0.82%	16.67%	9.75%	3.73%	7.61%	15.40%



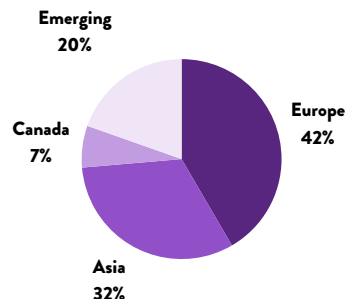
2Q2019 International Market Data

Index Performance Data (net)

Index (US\$)	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
MSCI ACWI ex-US	2.98%	13.60%	1.29%	9.39%	2.16%	6.54%
MSCI EAFE	3.68%	14.03%	1.08%	9.11%	2.25%	6.90%
Europe	4.48%	15.80%	1.88%	9.11%	1.27%	6.99%
United Kingdom	0.91%	12.91%	-2.05%	6.90%	-0.31%	6.82%
Germany	7.12%	14.52%	-3.76%	8.30%	0.30%	7.06%
France	6.49%	17.89%	2.98%	13.17%	3.61%	7.03%
Pacific	2.43%	11.17%	-0.17%	9.38%	4.29%	6.90%
Japan	1.02%	7.75%	-4.19%	8.06%	4.47%	5.85%
Hong Kong	1.02%	16.76%	10.41%	14.29%	8.40%	10.59%
Australia	7.30%	19.52%	6.55%	11.09%	2.35%	8.28%
Canada	4.88%	21.01%	3.32%	7.98%	-0.01%	5.31%
MSCI EM	0.61%	10.58%	1.21%	10.66%	2.49%	5.81%
MSCI EM Latin America	4.44%	12.64%	18.45%	10.79%	-0.75%	2.34%
MSCI EM Asia	-1.25%	9.72%	-2.29%	11.21%	4.49%	7.48%
MSCI EM Eur/Mid East	7.88%	14.72%	13.58%	11.23%	-1.59%	2.86%
MSCI ACWI Value ex-US	1.57%	10.02%	-0.07%	8.93%	0.29%	5.43%
MSCI ACWI Growth ex-US	4.35%	17.20%	2.64%	9.81%	4.00%	7.61%
MSCI ACWI Sm Cap ex-US	1.21%	11.60%	-5.94%	7.76%	2.77%	8.48%

Regional Exposure

MSCI ACWI ex-USA

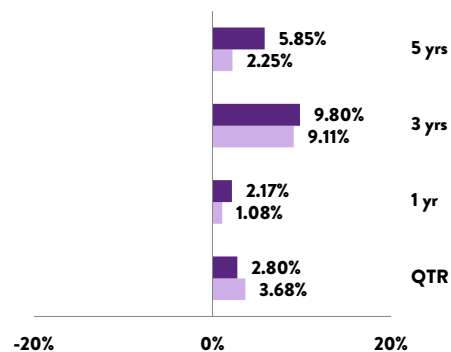


Top 10 Countries (MSCI AC World ex-USA)

Japan	16%
UK	11%
China	8%
France	8%
Canada	7%
Switzerland	6%
Germany	6%
Australia	5%
South Korea	3%
Taiwan	3%

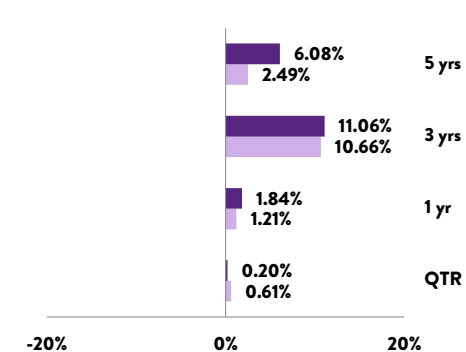
MSCI EAFE Index Return

Local (Dark Purple), US\$ (Light Purple)

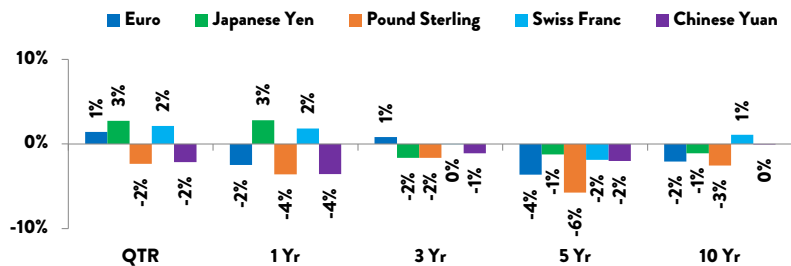


MSCI Emerging Index Return

Local (Dark Purple), US\$ (Light Purple)

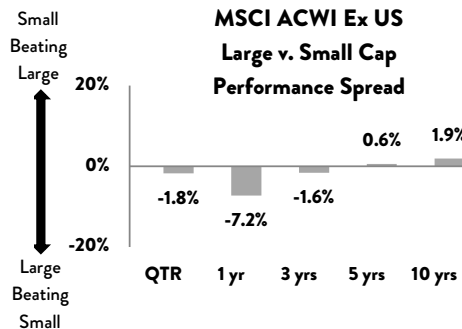


Foreign Currency v. US\$ Returns

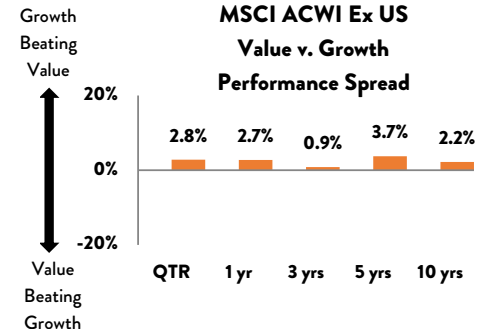


Exchange Rates	QTR	1Q19	4Q18	3Q18	2Q18	1Q18
Japanese Yen	107.84	110.68	109.70	113.48	110.71	106.20
Euro	0.88	0.89	0.87	0.86	0.86	0.81
British Pound	0.79	0.77	0.78	0.77	0.76	0.71
Swiss Franc	0.98	1.00	0.98	0.98	0.99	0.95
Chinese Yuan	6.87	6.71	6.88	6.87	6.62	6.27

MSCI ACWI Ex US Large v. Small Cap Performance Spread



MSCI ACWI Ex US Value v. Growth Performance Spread



Historical Market Returns

Ranked by Performance

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	2Q19
Emerging Markets 25.55%	Emerging Markets 34.00%	Emerging Markets 32.14%	Emerging Markets 39.42%	US Bonds 5.24%	Emerging Markets 78.51%	Small Cap 26.85%	Core Real Estate 14.96%	Emerging Markets 18.22%	Small Cap 38.82%	Large Cap 13.68%	Core Real Estate 13.95%	Small Cap 21.30%	Emerging Markets 37.28%	Core Real Estate 7.36%	Mid Cap 21.35%	Large Cap 4.30%
Intl 20.91%	Commod. 21.36%	Intl 26.65%	Intl 16.65%	Global Bonds 4.79%	High Yield 58.21%	Mid Cap 25.48%	TIPS 13.56%	Mid Cap 17.28%	Mid Cap 34.76%	Mid Cap 13.21%	Large Cap 1.38%	High Yield 17.12%	Intl 27.19%	Cash 1.69%	Large Cap 18.54%	Mid Cap 4.13%
Mid Cap 20.22%	Core Real Estate 20.15%	Small Cap 18.37%	Commod. 16.23%	Cash 1.39%	Intl 41.45%	Emerging Markets 18.88%	US Bonds 7.84%	Intl 16.83%	Large Cap 32.39%	Core Real Estate 11.44%	US Bonds 0.55%	Mid Cap 13.79%	Large Cap 21.83%	US Bonds 0.01%	Small Cap 16.98%	Global Balanced 3.59%
Small Cap 18.33%	Intl 16.62%	Large Cap 15.79%	Core Real Estate 14.84%	TIPS -2.35%	Mid Cap 40.48%	Commod. 16.83%	Global Bonds 5.64%	Small Cap 16.35%	Intl 15.29%	US Bonds 5.97%	Cash 0.03%	Large Cap 11.95%	Mid Cap 18.52%	Global Bonds -1.20%	Intl 13.60%	Global Bonds 3.29%
Global Balanced 12.18%	Mid Cap 12.65%	Core Real Estate 15.27%	TIPS 11.64%	Core Real Estate -10.70%	Small Cap 27.17%	Core Real Estate 15.26%	High Yield 4.98%	Large Cap 16.00%	Global Balanced 14.46%	Small Cap 4.89%	TIPS -1.43%	Commod. 11.76	Global Balanced 15.87%	TIPS -1.26%	Global Balanced 12.17%	US Bonds 3.08%
Core Real Estate 12.00%	Large Cap 4.91%	Mid Cap 15.26%	Global Bonds 9.48%	Global Balanced -24.51%	Large Cap 26.46%	High Yield 15.12%	Large Cap 2.11%	High Yield 15.81%	Core Real Estate 12.95%	TIPS 3.64%	Global Balanced -1.45%	Emerging Markets 11.18%	Small Cap 14.65%	High Yield -2.08%	Emerging Markets 10.58%	Intl 2.98%
High Yield 11.13%	Small Cap 4.55%	Global Balanced 14.53%	Global Balanced 9.07%	High Yield -26.16%	Global Balanced 20.49%	Large Cap 15.06%	Cash 0.06%	Global Balanced 11.06%	High Yield 7.44%	Global Balanced 3.17%	Mid Cap -2.43%	Core Real Estate 7.76%	High Yield 7.50%	Large Cap -4.38%	High Yield 9.94%	TIPS 2.86%
Large Cap 10.88%	Global Balanced 4.16%	High Yield 11.85%	US Bonds 6.97%	Small Cap -33.79%	Commod. 18.91%	Intl 11.15%	Global Balanced -0.97%	Core Real Estate 9.76%	Cash 0.07%	High Yield 2.45%	Global Bonds -3.15%	Global Balanced 5.38%	Global Bonds 7.39%	Global Balanced -5.30%	TIPS 6.15%	High Yield 2.50%
Global Bonds 9.27%	Cash 3.25%	Global Bonds 6.64%	Mid Cap 5.60%	Commod. -35.65%	TIPS 11.41%	Global Balanced 9.40%	Mid Cap -1.55%	TIPS 6.98%	US Bonds -2.02%	Global Bonds 0.59%	Small Cap -4.41%	TIPS 4.68%	Core Real Estate 6.66%	Mid Cap -9.06%	US Bonds 6.11%	Small Cap 2.10%
Commod. 9.15%	TIPS 2.84%	Cash 4.85%	Large Cap 5.49%	Large Cap -37.00%	Global Bonds 6.93%	US Bonds 6.54%	Small Cap -4.18%	Global Bonds 4.32%	Global Bonds -2.60%	Cash 0.04%	High Yield -4.46%	Intl 4.50%	US Bonds 3.54%	Small Cap -11.01%	Global Bonds 5.57%	Core Real Estate 0.78%
TIPS 8.46%	High Yield 2.74%	US Bonds 4.33%	Cash 4.44%	Mid Cap -41.46%	US Bonds 5.93%	TIPS 6.31%	Commod. -13.32%	US Bonds 4.21%	Emerging Markets -2.60%	Emerging Markets -2.18%	Intl -5.66%	US Bonds 2.65%	TIPS 3.01%	Commod. -11.25%	Commod. 5.06%	Cash 0.65%
US Bonds 4.34%	US Bonds 2.43%	Commod. 2.07%	High Yield 1.87%	Intl -45.53%	Cash 0.16%	Global Bonds 5.54%	Intl -13.71%	Cash 0.08%	TIPS -8.61%	Intl -3.86%	Emerging Markets -14.90%	Global Bonds 2.09%	Commod. 1.70%	Intl -14.20%	Core Real Estate 1.99%	Emerging Markets 0.61%
Cash 1.44%	Global Bonds -4.49%	TIPS 0.41%	Small Cap -1.57%	Emerging Markets -53.33%	Core Real Estate -30.40%	Cash 0.15%	Emerging Markets -18.42%	Commod. -1.06%	Commod. -9.52%	Commod. -17.00%	Commod. -24.60%	Cash 0.25%	Cash 0.71%	Emerging Markets -14.58%	Cash 1.25%	Commod. -1.19%

Global Balanced is composed of 60% MSCI World Stock Index, 35% Barclays Global Aggregate Bond Index, and 5% US 90-Day T-Bills.