LPL RESEARCH
PLATFORM PERFORMANCE REVIEW

Strategic Asset Management (SAM)

RECOMMENDED MUTUAL FUND MODELS

QUARTERLY UPDATE & OUTLOOK

PORTFOLIO GOALS + EXPECTATIONS

Seek capital growth in excess of LPL Research Investment Objectives (IO) benchmarks by employing an all-weather approach.

Based on historical tendencies, these portfolios are dependent on credit-sensitive fixed income sectors outperforming Treasuries, equity market leadership by cyclical and smaller cap stocks, as well as a positive contribution from active management to achieve their goals.

The strategic asset allocation process projects a three- to five-year time period. While the strength of the asset allocation decisions is retested often, we do not anticipate making adjustments until midway through the strategic time frame, which generally is about every two to three years. If significant market fluctuations warrant a change, adjustments may be made sooner.

Portfolio Performance Review

The SAM Diversified and Diversified Plus models outperformed their respective investment objective (IO) benchmarks during the first quarter. Asset allocation was the primary contributor.

Quarterly Market Performance

The S&P 500 Index returned 13.6% during the quarter, its best start to a year since 1998. Stocks rebounded sharply from late-2018 losses as the primary concerns entering the year—trade uncertainty, Federal Reserve (Fed) policy, and a global growth slowdown—subsided to varying degrees. Mid-caps topped small and large cap stocks during the quarter, while growth stocks outpaced their value counterparts on strength in the technology sector and weakness in financial stocks. Both developed international and emerging markets produced solid double-digit gains but trailed the S&P 500. The 10-year Treasury yield dropped 28 basis points (0.28%) in the quarter amid signs of a global slowdown and the Fed's rate-hike pause, driving the broad bond market benchmark 2.9% higher. Credit-sensitive fixed income performed best, notably preferred stocks and high-yield corporate bonds, while Treasuries lagged.

Positive Contributors

- Asset allocation effect (underweight cash and overweight equity relative to the respective IO benchmarks)
- Manager selection effect (large cap blend, emerging markets, and intermediate-term bond managers outperformed relative to their respective indexes)

Negative Detractors

- Out-of-benchmark allocation effect (overweight to emerging market equities relative to respective IO benchmarks)
- Equity style selection effect (overweight to large cap value equities relative to respective IO benchmarks)

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STRATEGIC ASSET MANAGEMENT (SAM)

First Quarter 2019

Current Positioning

At the end of the first quarter and relative to IO benchmarks, the portfolios were positioned as follows:

- Asset allocation favored a slight overweight to fixed income, equity was neutral, and cash was slightly underweight.
- Equity market cap was underweight mid cap equity while large cap and small cap were neutral.
- Equity style favored a slight underweight to growth while value and core were neutral.
- Out-of-benchmark favored non-U.S. equity, specifically emerging market equity.
- Fixed income favored an overweight allocation to mortgage-backed bonds.

SAM Recommended Mutual Fund Models Actual Standardized Performance, by Percentage

		3-Month		1-Year		3-Year		5-Year		10-Year		Since Inception†	
		Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
AG	SAM Model	13.85	13.16	4.44	1.86	11.34	8.59	7.91	5.24	12.56	9.57	8.01	5.13
	Diversified Benchmark	12.47		5.01		11.97		8.26		13.85		9.10	
	IO Benchmark	13.35		8.49		12.87		9.89		15.21		9.59	
G	SAM Model	12.12	11.43	4.12	1.55	10.01	7.29	6.95	4.30	11.91	8.94	7.84	4.97
	Diversified Benchmark	10.93		5.07		10.43		7.45		12.30		8.64	
	IO Benchmark	11.66		8.01		11.17		8.81		13.43		9.06	
GWI	SAM Model	9.83	9.15	4.15	1.57	7.93	5.26	5.72	3.10	10.57	7.63	7.68	4.82
	Diversified Benchmark	8.89		5.07		8.32		6.31		10.20		7.92	
	IO Benchmark	9.43		7.26		8.90		7.33		11.02		8.28	
IMG	SAM Model	7.45	6.79	4.05	1.48	6.24	3.61	4.67	2.08	9.23	6.33	7.06	4.22
	Diversified Benchmark	6.81		4.88		6.22		5.10		7.97		7.10	
	IO Benchmark	7.16		6.35		6.59		5.76		8.50		7.33	
ICP	SAM Model	5.00	4.35	4.02	1.45	4.76	2.17	3.65	1.08	8.02	5.15	6.56	3.73
	Diversified Benchmark	4.72		4.64		4.02		3.78		5.66		6.07	
	IO Benchmark	4.89		5.31		4.26		4.14		5.93		6.26	

Source: LPL Research 03/31/19

† Inception date 01/02/95. Periods over one year are annualized.

Performance data quoted represent past performance, and are not indicative of future results.

Investment return and principal value will fluctuate; an investor's equity, when redeemed, may be worth more or less than its original cost. Current performance may be lower or higher than the performance information quoted. To obtain current month-end performance, contact your financial advisor.

Investment returns shown represent composite portfolio performance and do not reflect the performance of any individual account. Individual client experience may have differed dependent upon the timing of cash flows and accountlevel investment restrictions. Gross performance is gross of overlay and advisory fees but net of underlying mutual fund investment management fees and expenses. The impact of overlay fees and advisory fees would decrease performance quoted above. Net performance is net of expenses and the maximum annual advisory fee of 2.50% (for the 2016 period net performance reflects a maximum fee of 2.58% for select portfolios), depending on the particular portfolio and investment objective. The returns shown include reinvestment of income distributed from the underlying mutual funds.

Portfolio performance assumes a quarterly rebalancing frequency. Rebalancing is a taxable event that may result in a taxable gain or loss; thus, rebalancing in non-tax-advantaged accounts may involve higher taxes than tax-advantaged accounts.

The illustrated benchmark is composed of indexes, which are unmanaged; have no deductions for fees, sales charges, and expenses; and can't be invested into directly. Index performance is not indicative of the performance of any investment.

Benchmark composition and investment objective descriptions can be found on page 4.

FREQUENTLY ASKED QUESTIONS

First Quarter 2019

Q What are our expectations for U.S. stock returns over the balance of the year following the strong first quarter?

A The S&P 500 Index's 13.6% return during the first quarter was quite impressive after it posted its worst December in history. Few (if any) could have predicted such a comeback, and even fewer could have predicted how smooth the returns during the period were, with the largest pullback measuring less than 3%. While our broad view of equity returns for 2019 remains positive, we've shifted equity portfolio allocations closer to benchmark-weight as the risk-reward trade-off in stocks has become less attractive.

Q What underpins our expectation for the continuation of the current economic cycle, and what could disappoint?

A Though many factors influence the health of the U.S. economy, one of the strongest gauges is the labor market, and by extension the consumer. Currently, the unemployment rate remains near multi-decade lows while wages continue to pick up, better positioning consumers, whose spending comprises roughly two-thirds of economic output. Meanwhile, progress on trade talks may alleviate policy uncertainty and lead businesses to increase investment. These conditions underpin our belief that the cycle still has room to run. However, a further pickup in wage and/or price inflation, both of which have been trending at or below levels that have historically preceded recessions, are notable risks that could force the Federal Reserve (Fed) to resume interest rate hikes. Unexpected catalysts such as a re-escalation in U.S.-China trade tensions (which we do not expect) could also hamper economic growth and bring about a recession sooner than we would otherwise expect.

Q What's our take on the Treasury yield curve?

A The yield curve continued to flatten in the first quarter, and even briefly inverted (three-month Treasury yield higher than the 10-year yield) in March. Historically, sustained inversions have been precursors to recessions, and investors understandably were anxious. However, there have been instances in which the yield curve has triggered a "false positive," and a subsequent recession did not occur for several years. While the yield curve is still historically flat, there are signs that we may start to see some steepening. Economic data have noticeably started to improve and inflation remains healthy. Also, buying pressure from foreign investors, which has pushed rates lower, has likely eased as international rates have picked up. The Fed commitment to patience until there is more clarity on global conditions has also helped stabilize shorter-term rates.

LPL Diversified Benchmark Description

Index	AG	G	GWI	IMG	ICP
S&P 500	57%	48%	36%	24%	12%
Russell 2000	19%	16%	12%	8%	4%
MSCI EAFE Net Return	12%	10%	8%	5%	4%
MSCI Emerging Markets Net Return	7%	6%	4%	3%	0%
Bloomberg Barclays US Aggregate		15%	35%	53%	70%
Cash	5%	5%	5%	7%	10%
Total	100%	100%	100%	100%	100%

Weighted Average Investment Objective Benchmark Description

Benchmark Indexes	AG	G	GWI	IMG	ICP
Russell 3000 Index	95%	80%	60%	40%	20%
Bloomberg Barclays Aggregate Bond Index	0%	15%	35%	53%	70%
Cash	5%	5%	5%	7%	10%
Total	100%	100%	100%	100%	100%

The cash portion of this portfolio is made up of money market instruments.

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Benchmark volatility is materially different from that of the portfolio.

The Diversified Benchmarks are a tool to assist in capturing and explaining client portfolio performance. They represent a more encompassing asset class mix than the IO benchmarks. By incorporating additional asset classes in the benchmarks, the diversified benchmarks are more aligned with clients' typical investment portfolios.

INVESTMENT OBJECTIVES

Aggressive Growth—Emphasis is placed on aggressive growth and maximum capital appreciation. This portfolio has a very high level of risk and is for investors with a longer time horizon. This portfolio is considered to have the highest level of risk.

Growth—Emphasis is placed on achieving high long-term growth and capital appreciation. This is considered higher than average risk.

Growth with Income—Emphasis is placed on modest capital growth. Certain assets are included to generate income and reduce overall volatility.

Income with Moderate Growth—Emphasis is placed on current income with some focus on moderate capital growth.

Income with Capital Preservation—Emphasis is placed on current income and preventing capital loss. This is considered the lowest risk portfolio available and is generally for investors with the shortest time horizon.

Portfolio performance assumes a quarterly rebalancing frequency. Rebalancing is a taxable event that may result in a taxable gain or loss; thus, rebalancing in non-tax-advantaged accounts may involve higher taxes than tax-advantaged accounts.

INDEX DEFINITIONS

The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia, and the Far East.

The MSCI Emerging Markets Index captures large and mid cap representation across 23 emerging markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. The economic forecasts set forth in this material may not develop as predicted.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to effect some of the strategies. There can be no assurance that any stated investment objectives will be achieved.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

The returns for the portfolio were obtained during a period of fluctuating interest rates, bond prices, and stock prices, and should not be considered representative of the returns you could expect to realize from any future investment in the portfolio. The underlying holdings contained in, or the investment strategies followed with respect to the model portfolio may have changed materially during the time period portrayed and may not relate to the type of securities or advisory services currently offered.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

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