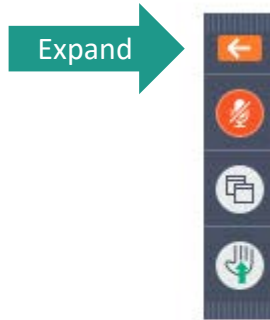


A decorative geometric pattern of overlapping triangles in shades of blue and brown is overlaid on the left side of the image. A white triangle is positioned to the left of the main title text.

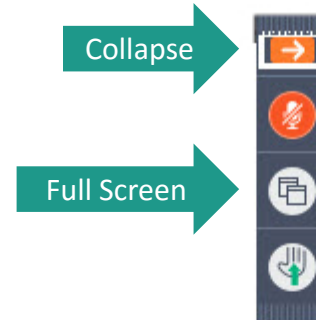
PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

2ND QUARTER 2018
Investment Landscape Call

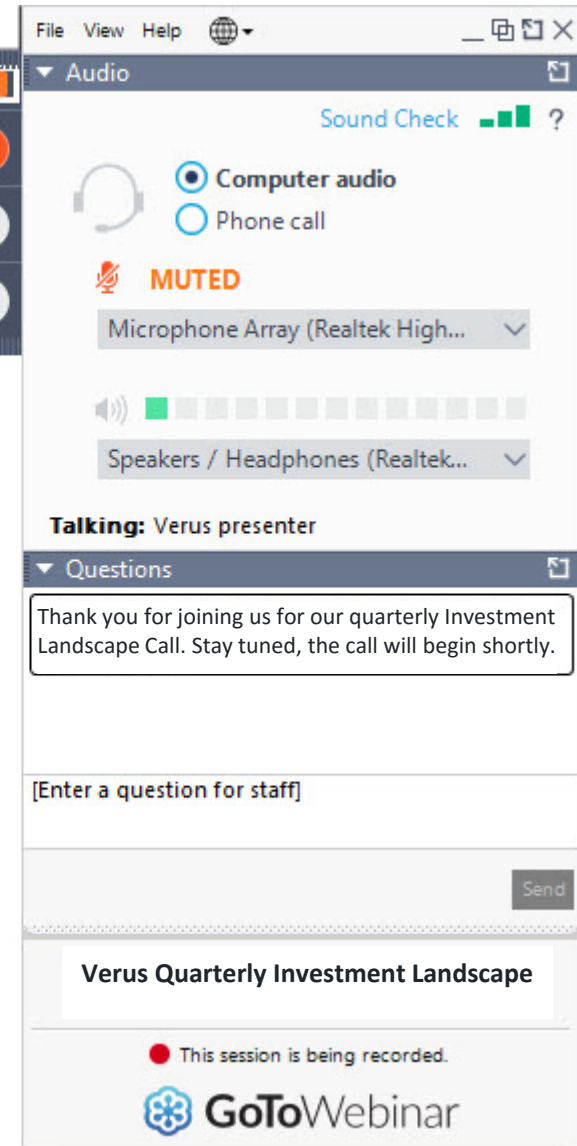
Call instructions



Use the orange arrow to expand or collapse the control panel



Ask questions here



2nd quarter conference call

Verus⁷⁷⁷

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700

LOS ANGELES 310-297-1777

SAN FRANCISCO 415-362-3484

IMPORTANT INFORMATION

Dial in: 1 (877) 309-2071 U.S. & Canada

Access Code: 372-223-007

Playback Info: Will be available on the website after the call www.verusinvestments.com

Audio Options: You may choose to listen through the webcast on your computer **or** dial in.

Introduction by: Jeffrey MacLean, Chief Executive Officer

Presented by: Ian Toner, CFA, Chief Investment Officer



Jeffrey J. MacLean
Chief Executive Officer



Ian Toner, CFA
Chief Investment Officer

1st quarter summary

THE ECONOMIC CLIMATE

- The U.S. economy is expected to grow at around 2.2% in Q1. Economists expect a slightly quicker rate of growth throughout the year. We believe that this *middle-of-the-road* expansion – characterized as not too fast and not too slow – may allow the U.S. economy to continue expanding for longer than expected.
- The U.S. has enacted a 25% tariff on steel and a 10% tariff on aluminum, which went into effect on March 23rd. The U.S. also engaged with China over allegations of asymmetrical trade policies and intellectual property theft.

PORTFOLIO IMPACTS

- Global economic growth has improved – low inflation, strong employment, and accommodative foreign central bank policies have been supportive of equity prices. In the U.S., monetary tightening has yet to have a major impact on equities.
- Concerns over increasing trade protectionism weighed on financial markets. The tariffs placed on steel and aluminum are not likely to have a material impact on asset prices, but escalating tensions and retaliatory measures could have a negative impact on global growth.

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- Excitement and optimism over tax cuts helped lead equities higher to begin the year. However, markets stumbled in February – falling roughly 10%. Equities recovered much of the losses throughout the quarter, but then fell back to their lows at the end of March.
- 2018 is expected to be a banner year for U.S. corporate profits. Earnings for the calendar year are forecast to grow 17.3%, with 7.3% revenue growth. These 2018 expectations may already be priced in.
- February's market correction appeared isolated to the equity markets. "Risk-off" selling that often accompanies market drawdowns was not apparent – credit spreads, U.S. Treasuries, and gold, reacted minimally.

ASSET ALLOCATION ISSUES

- Upward price momentum in equities has diminished following the February market correction. Investor sentiment is less positive, but the global economic and earnings backdrop remains intact. We believe a neutral or mild risk overweight is warranted in this environment.
- Equity volatility spiked in February, ending the period of extreme calm that investors experienced since the beginning of 2017. The VIX Index averaged 20.7 during the last two months of the quarter.

Changing market dynamics suggest a neutral or mild risk overweight may be warranted

What drove the market in Q1?

“Record high increase in S&P 500 EPS estimates for Q1 2018”

CHANGE IN EPS ESTIMATE DURING THE QUARTER (NET)

Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18
-2%	-4%	-2%	-4%	0%	+7%

Article Source: FactSet, March 29th, 2018

“U.S. stocks sell off on concerns about trade”

U.S. TRADE DEFICIT BY COUNTRY (\$ BILLIONS)

China	Japan	Germany	Italy	S. Korea	India
-375	-69	-64	-32	-23	-23

Article Source: WSJ, March 23rd, 2018

“Volatility index spikes by largest-ever [one day] amount”

VIX Index (Average)

Oct	Nov	Dec	Jan	Feb	Mar
10.1	10.5	10.2	11.1	22.5	19.0

Article Source: Bloomberg, February 5th, 2018

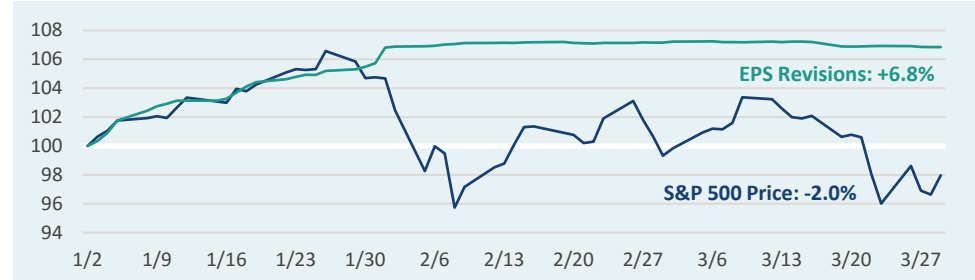
“U.S. Treasury yields rise to a new 4-year high as inflation concerns drag on”

U.S. 10-Year Treasury Yield

Oct	Nov	Dec	Jan	Feb	Mar
2.38%	2.41%	2.41%	2.71%	2.86%	2.74%

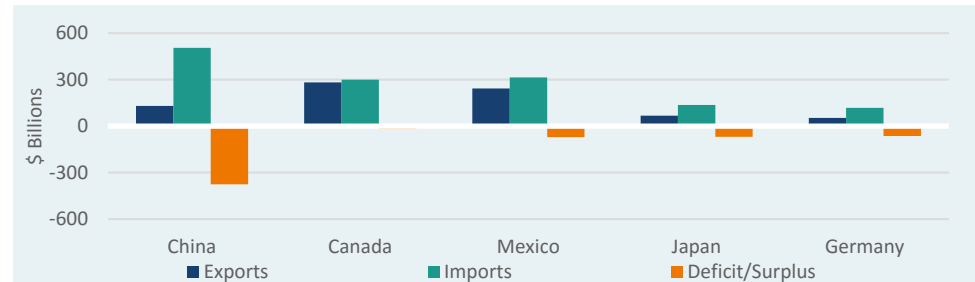
Article Source: USA Today, February 12th, 2018

S&P 500 PRICE INDEX AND Q1 EPS ESTIMATES (INDEXED TO 100)



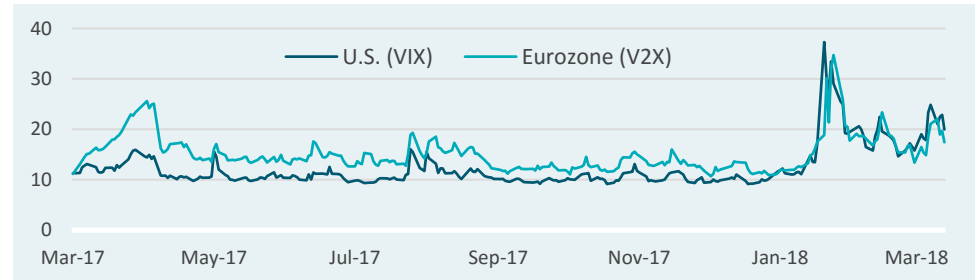
Source: Bloomberg, as of 3/29/18

U.S. TRADE DEFICIT BY COUNTRY



Source: U.S. Census Bureau, 2017

IMPLIED VOLATILITY



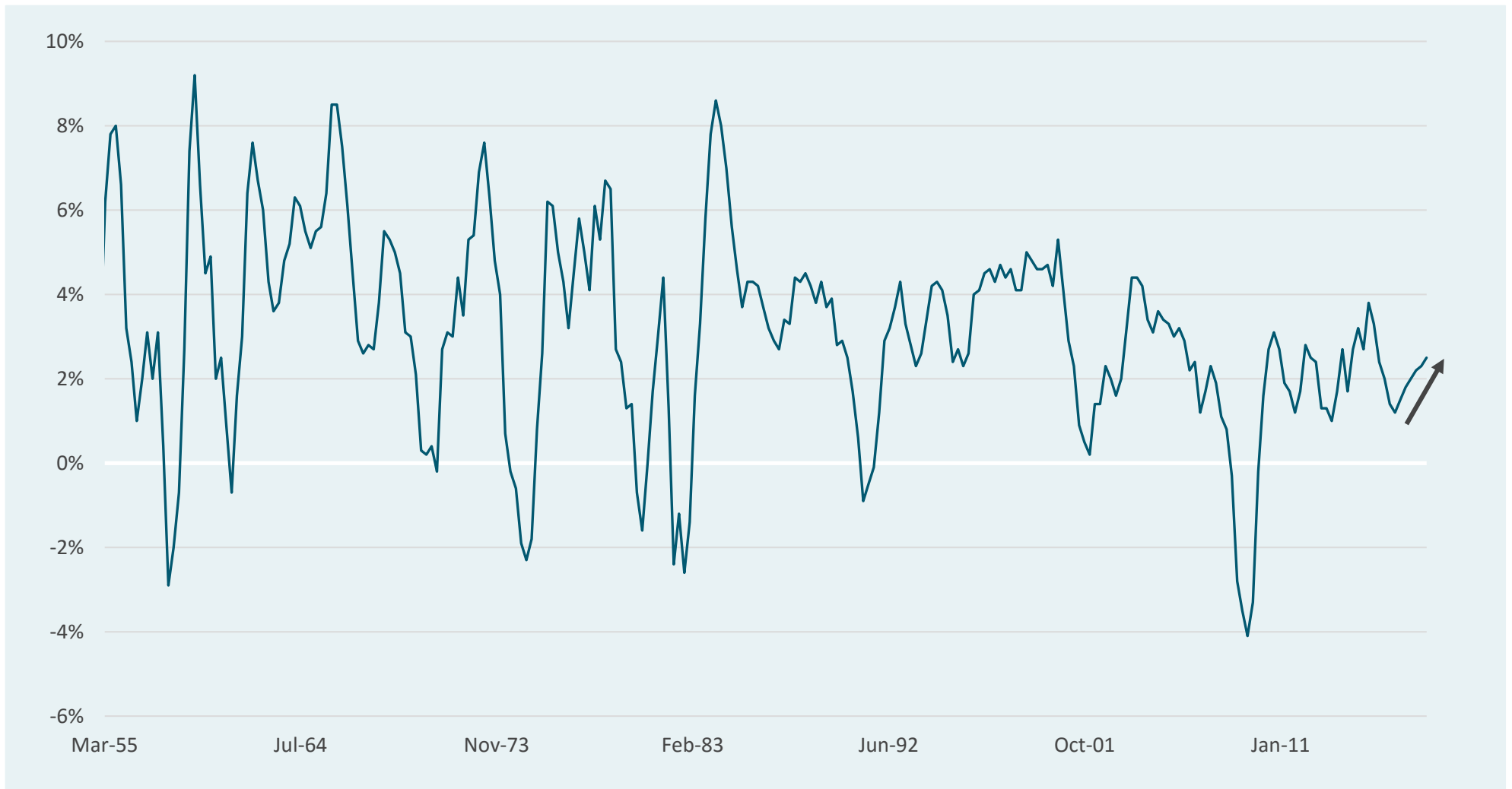
Source: Bloomberg, as of 3/29/18

U.S. economics summary

	Most Recent	12 Months Prior
GDP (YoY)	2.6% <i>12/31/17</i>	1.8% <i>12/31/16</i>
Inflation (CPI YoY, Core)	2.1% <i>3/31/18</i>	2.0% <i>3/31/17</i>
Expected Inflation (5yr-5yr forward)	2.2% <i>3/31/18</i>	2.2% <i>3/31/17</i>
Fed Funds Target Range	1.50 – 1.75% <i>3/31/18</i>	0.75 – 1.00% <i>3/31/17</i>
10 Year Rate	2.8% <i>3/31/18</i>	2.4% <i>3/31/17</i>
U-3 Unemployment	4.1% <i>3/31/18</i>	4.5% <i>3/31/17</i>
U-6 Unemployment	8.0% <i>3/31/18</i>	8.8% <i>3/31/17</i>

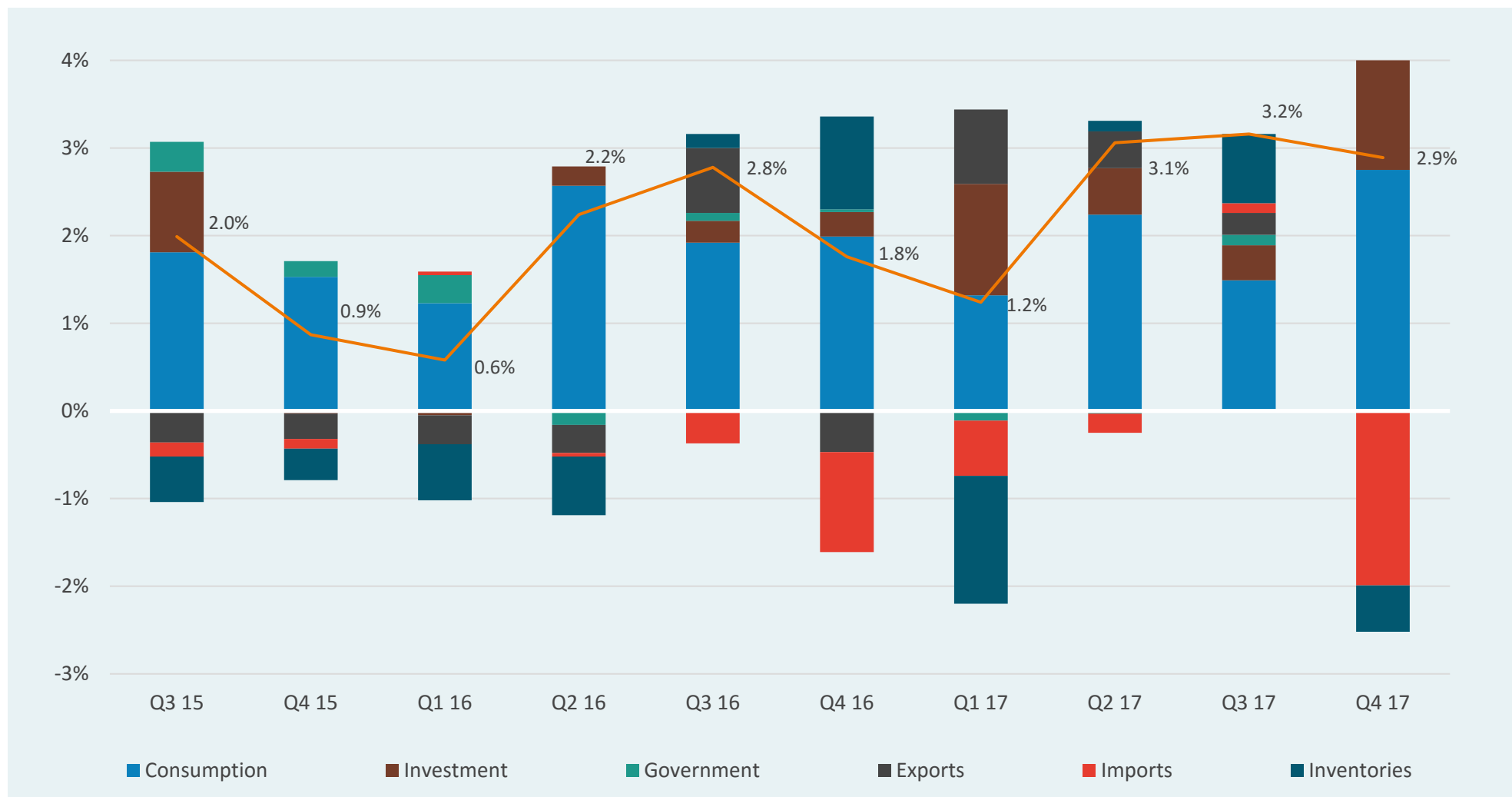
Source: Bloomberg

U.S. GDP growth



Source: FRED, year-over-year, as of 12/31/17

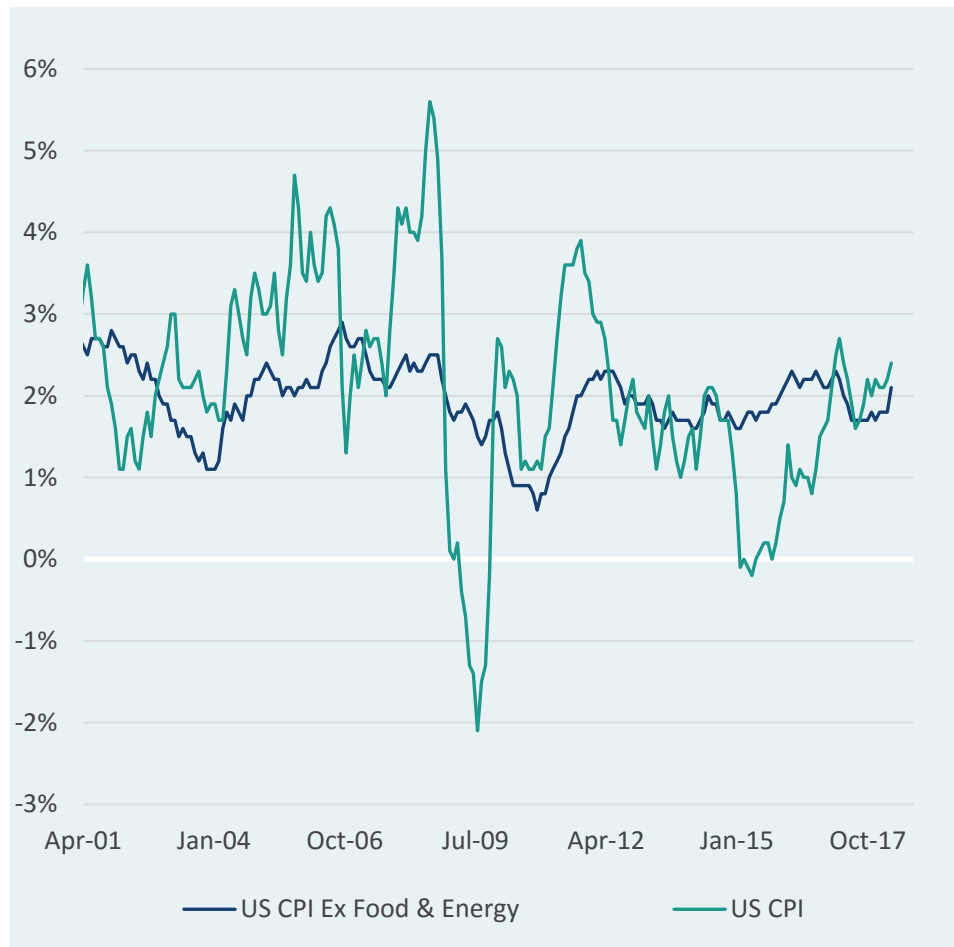
Sources of GDP growth



Source: BEA, annualized quarterly rate, as of 12/31/17

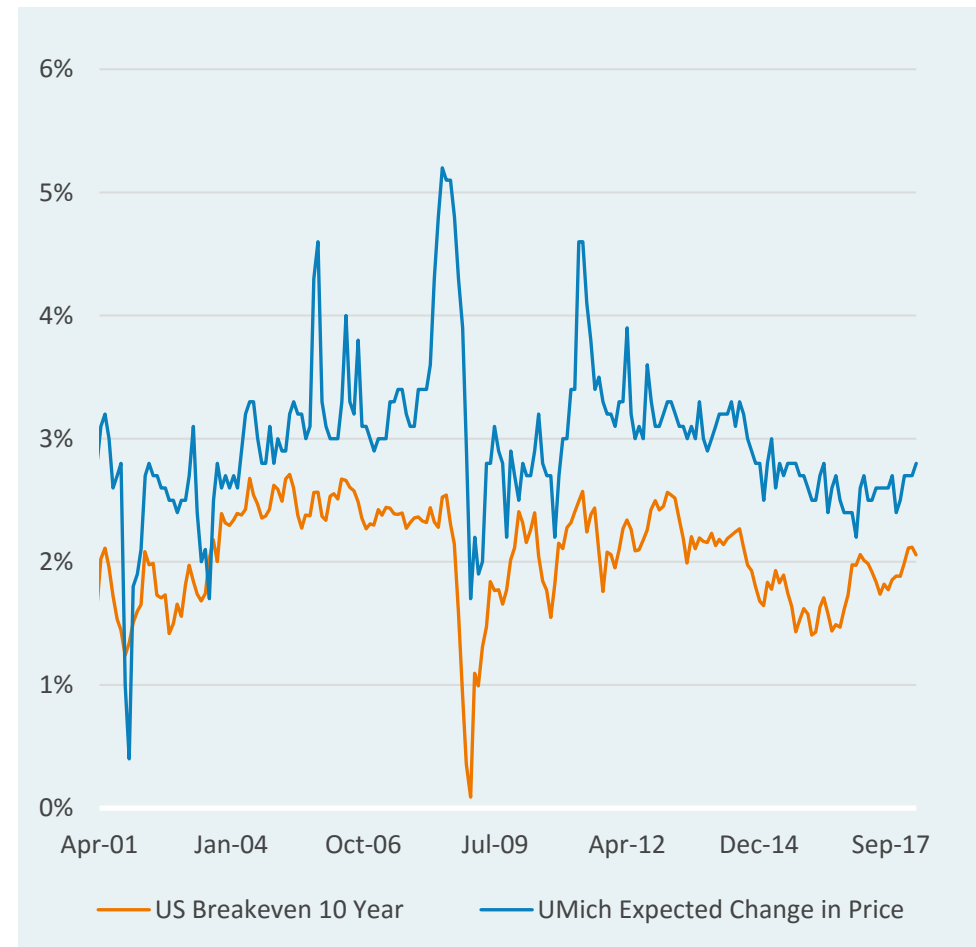
U.S. inflation

U.S. CPI (YOY)



Source: FRED, as of 3/31/18

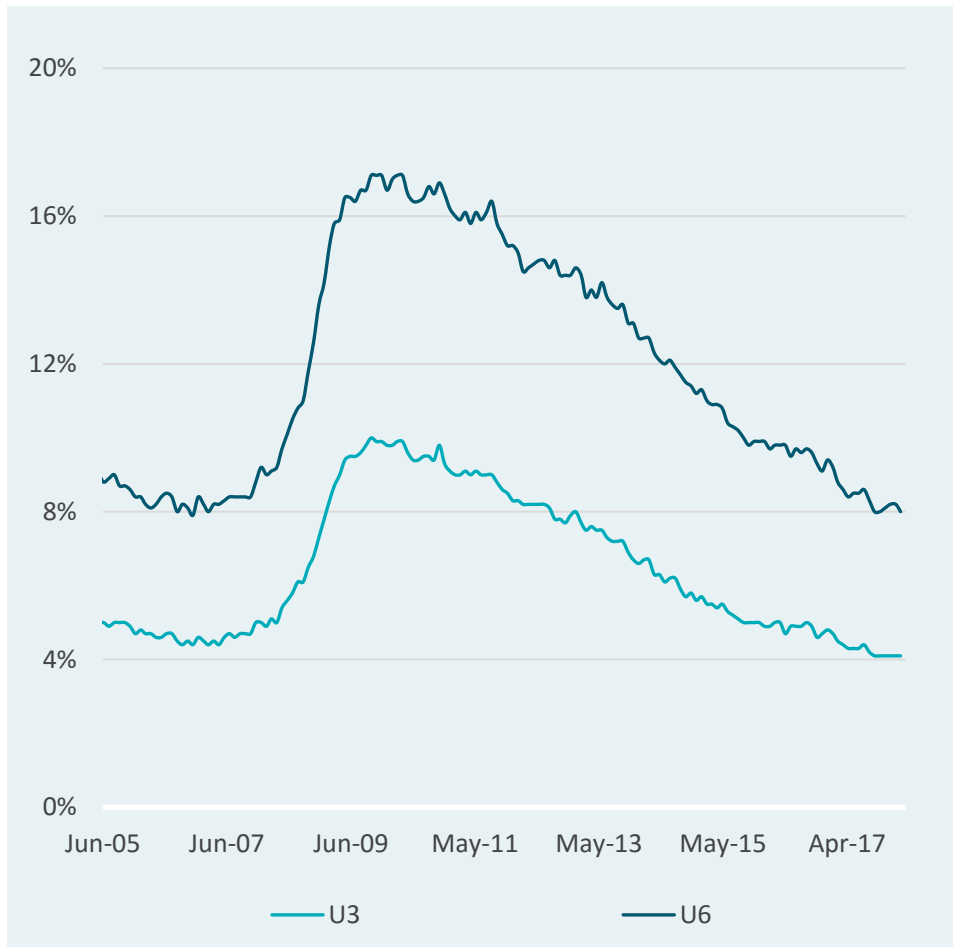
U.S. INFLATION EXPECTATIONS



Source: Bloomberg, as of 3/31/18

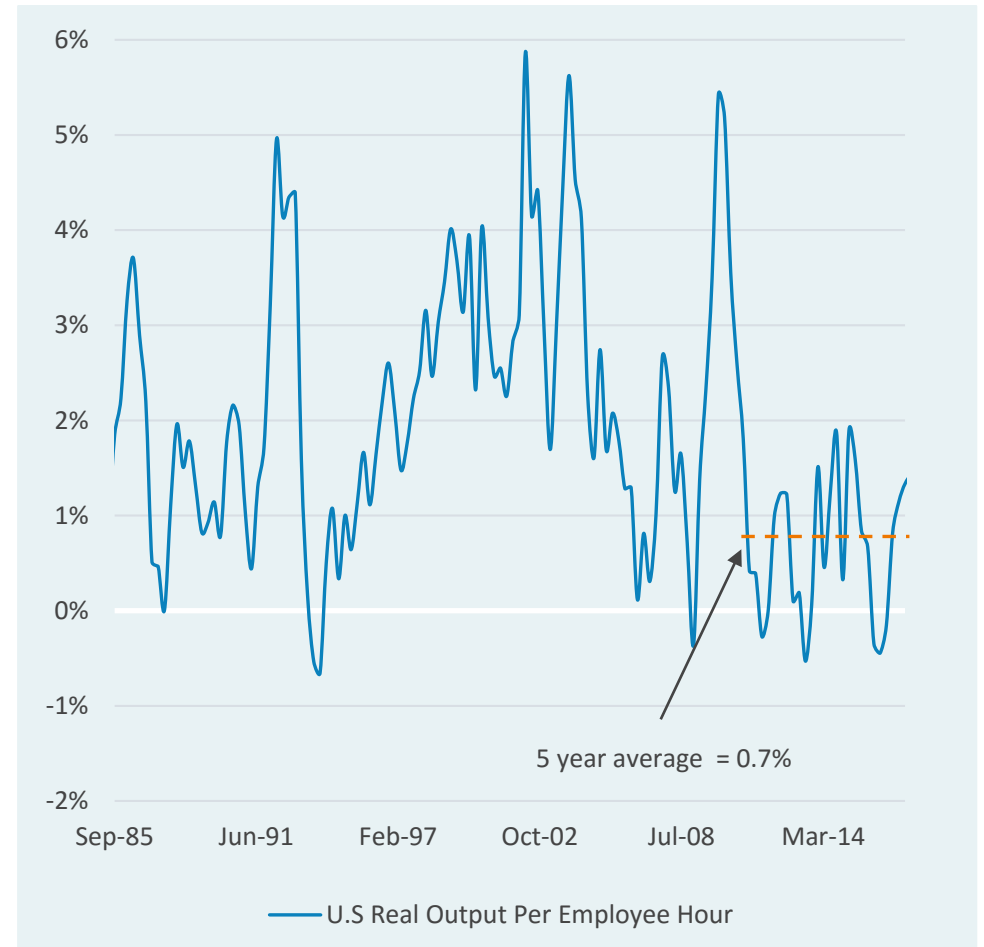
U.S. labor market

UNEMPLOYMENT RATE



Source: FRED, as of 3/31/18

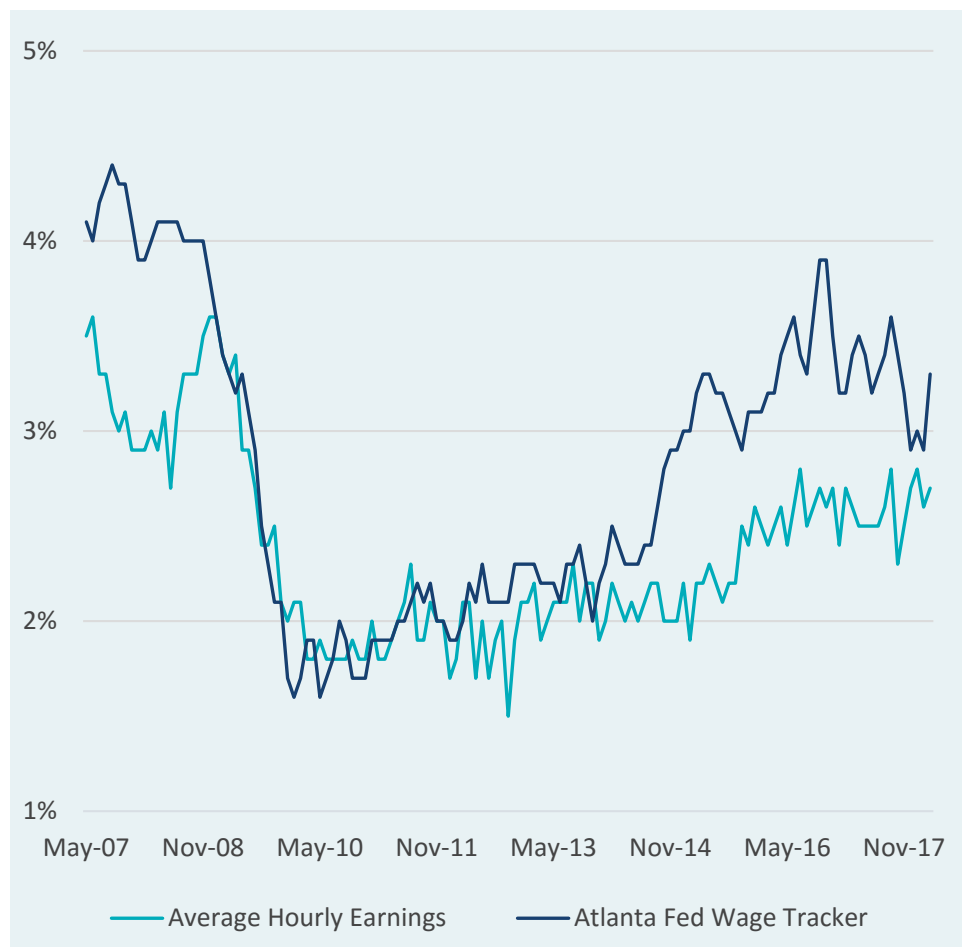
PRODUCTIVITY GROWTH



Source: FRED, as of 12/31/17

Wages

WAGE GROWTH (YOY)



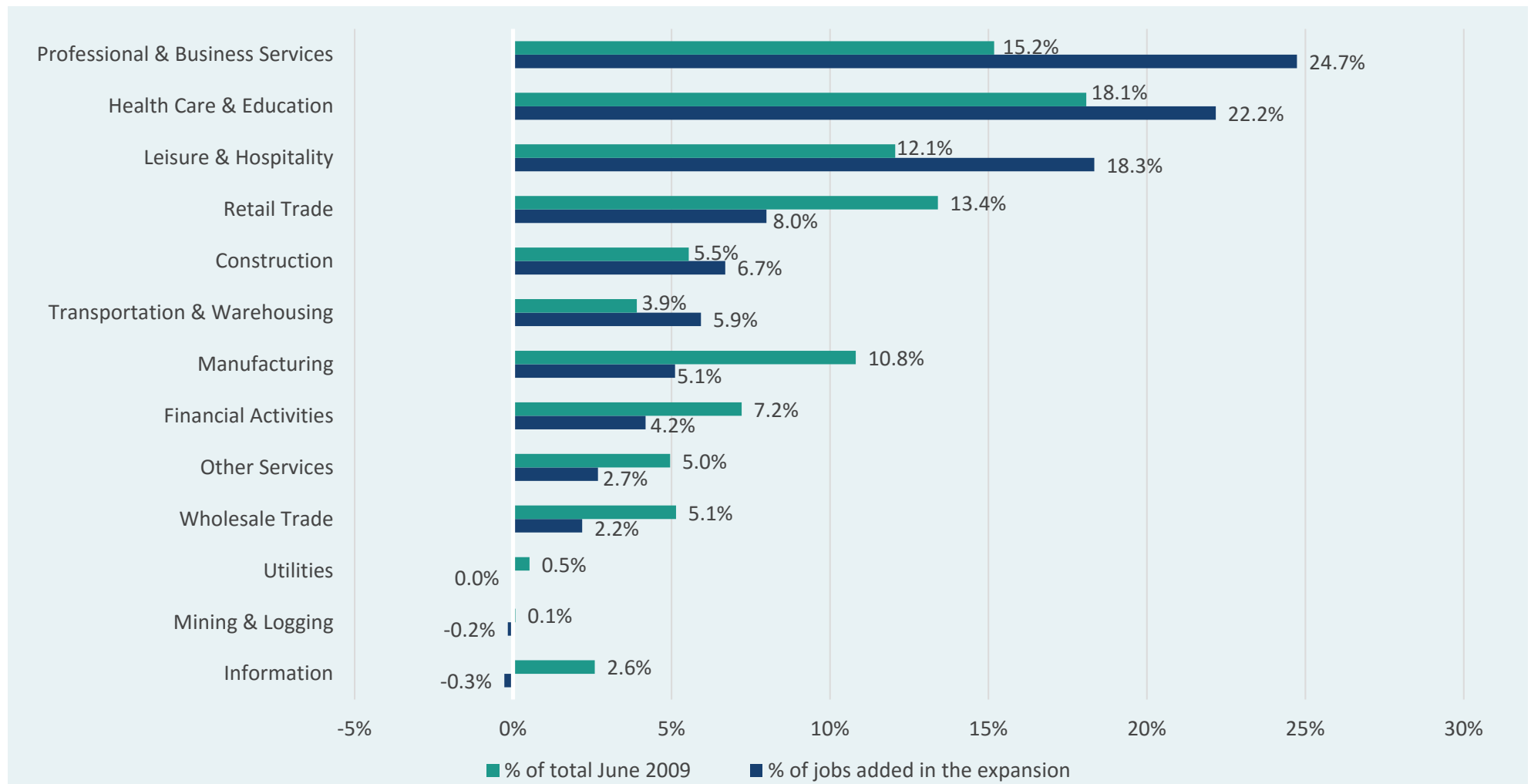
Source: Bloomberg, Atlanta Fed, as of 3/31/18

RELATIONSHIP BETWEEN WAGES AND UNEMPLOYMENT



Source: Bloomberg, Atlanta Fed, Verus, as of 3/31/18

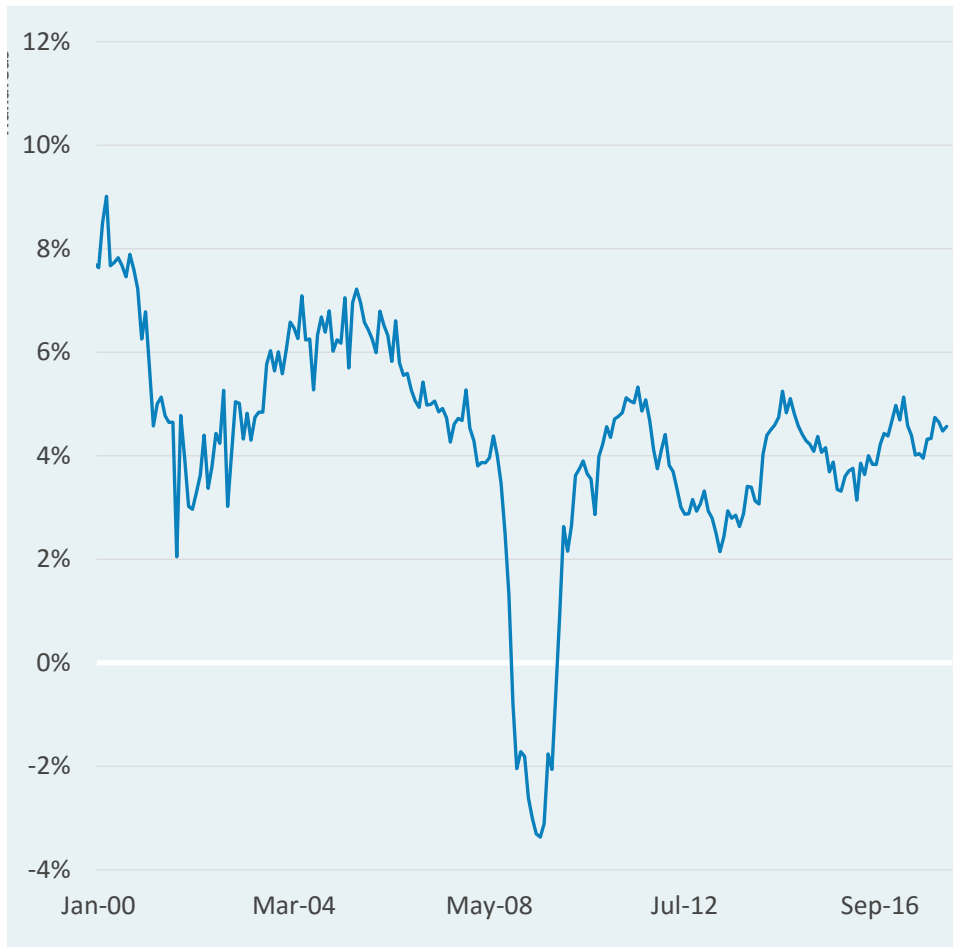
Job creation since the financial crisis



Source: FRED, as of 2/28/18

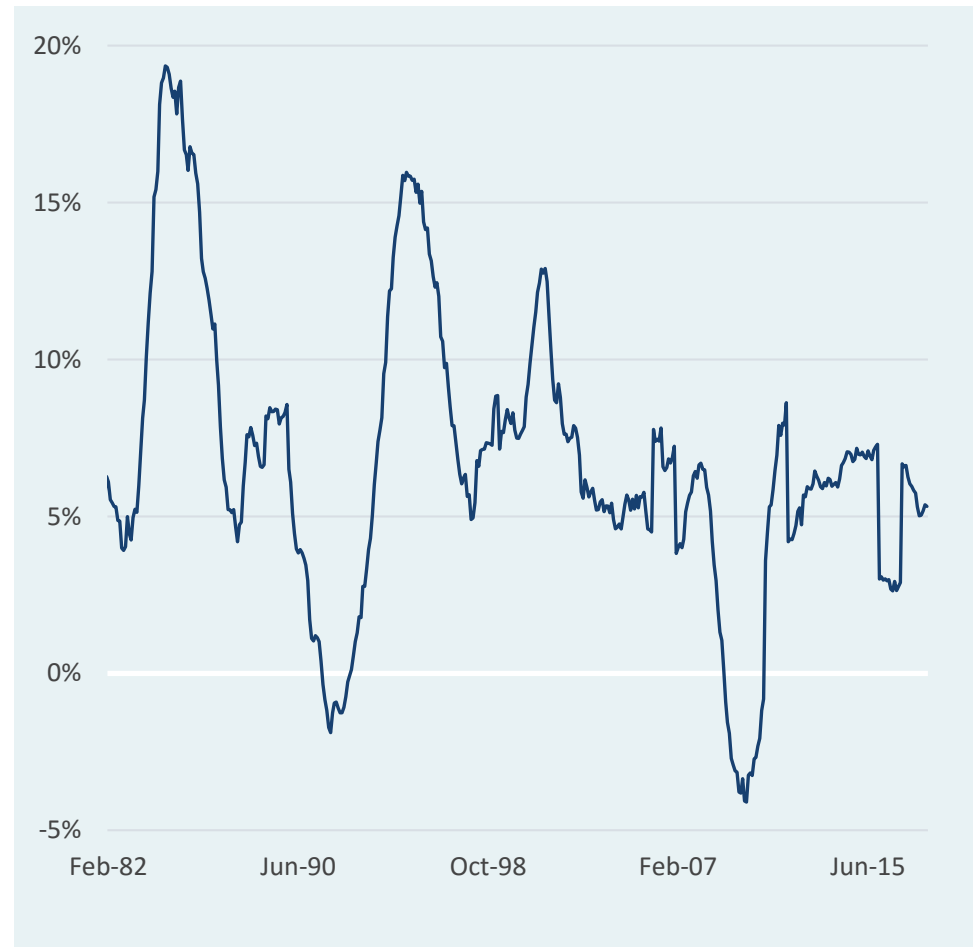
U.S. consumers

CONSUMER SPENDING (YOY GROWTH)



Source: Bloomberg, as of 2/28/18

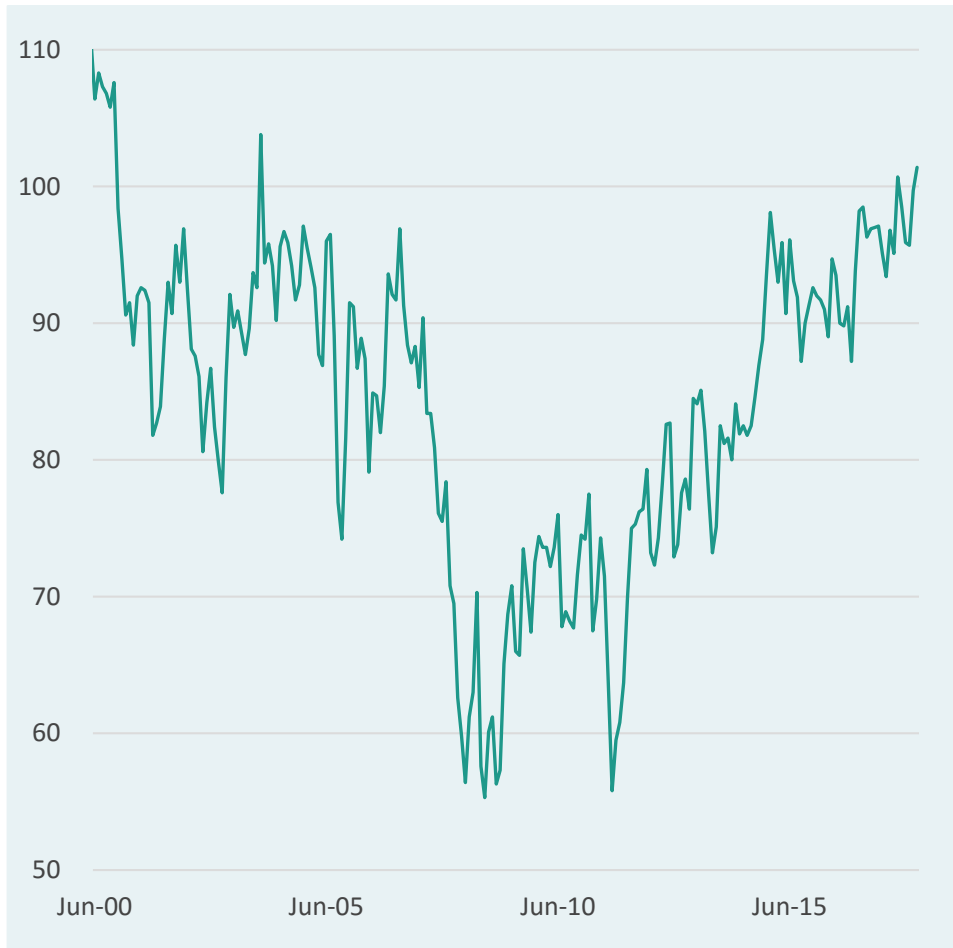
CONSUMER CREDIT GROWTH (YOY)



Source: FRED, as of 1/31/18

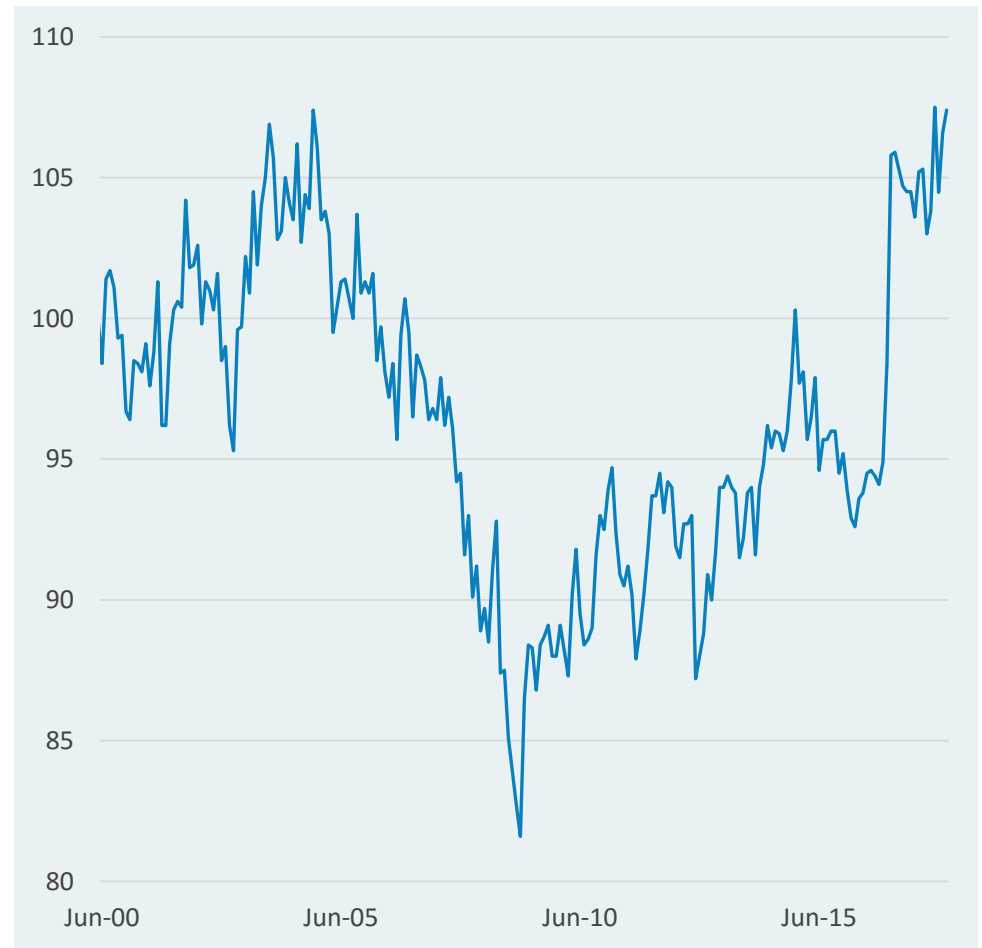
U.S. sentiment

UNIVERSITY OF MICHIGAN CONSUMER SENTIMENT



Source: University of Michigan, as of 3/31/18

NFIB SMALL BUSINESS OPTIMISM INDEX



Source: NFIB, as of 2/28/18

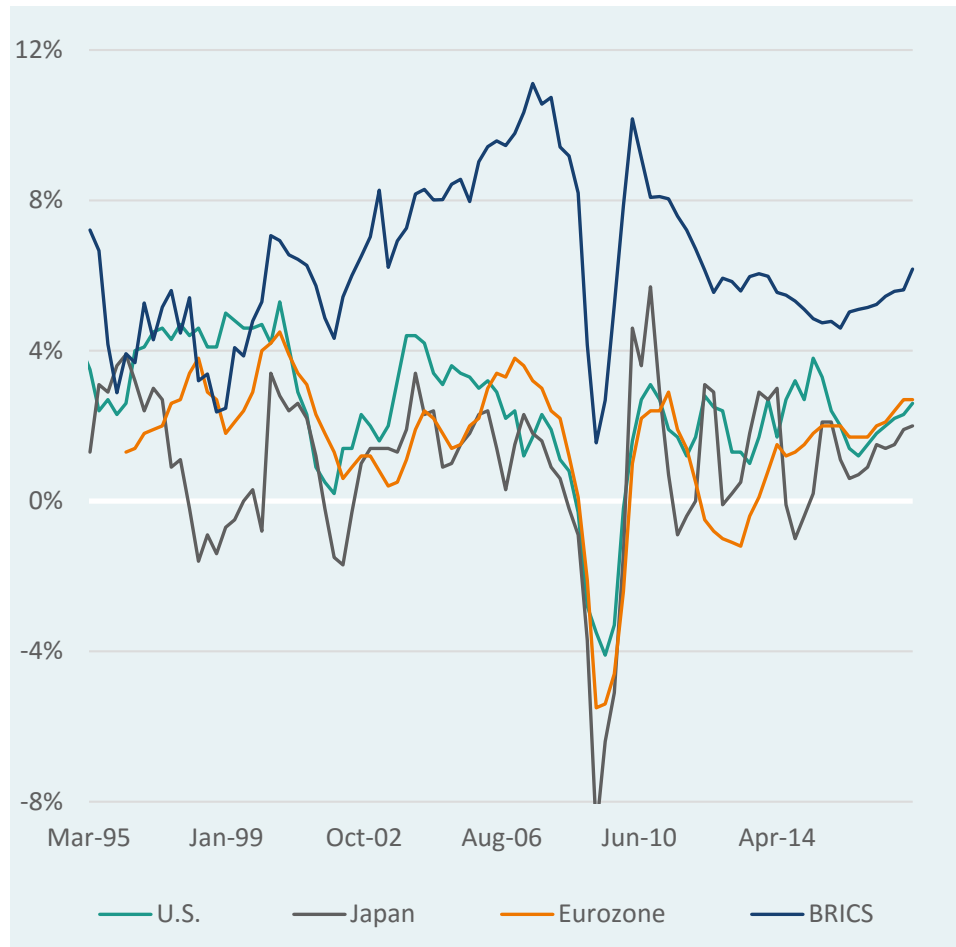
International economics

Area	GDP (Real, YoY)	Inflation (CPI, YoY)	Unemployment
United States	2.5% 12/31/17	2.4% 3/31/18	4.1% 3/31/18
Western Europe	2.5% 12/31/17	1.3% 3/31/18	7.4% 12/31/17
Japan	2.0% 12/31/17	1.5% 2/28/18	2.5% 2/28/18
BRICS Nations	6.2% 12/31/17	2.6% 3/31/18	5.6% 12/31/17
Brazil	2.1% 12/31/17	2.7% 3/31/18	12.4% 3/31/18
Russia	0.9% 12/31/17	2.4% 3/31/18	5.0% 2/28/18
India	7.2% 12/31/17	4.4% 2/28/18	8.8% 12/31/17
China	6.8% 12/31/17	2.1% 3/31/18	3.9% 12/31/17

Source: Bloomberg

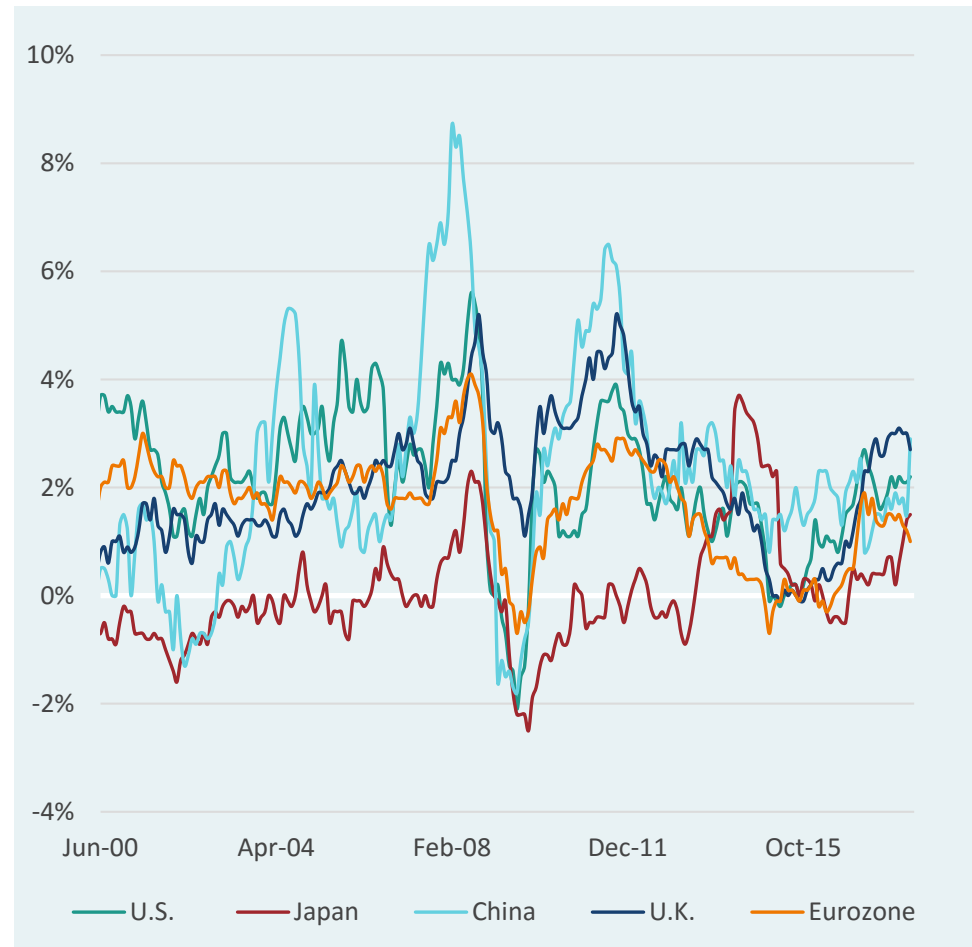
Global GDP and inflation

REAL GDP GROWTH (YOY)



Source: Bloomberg, as of 12/31/17

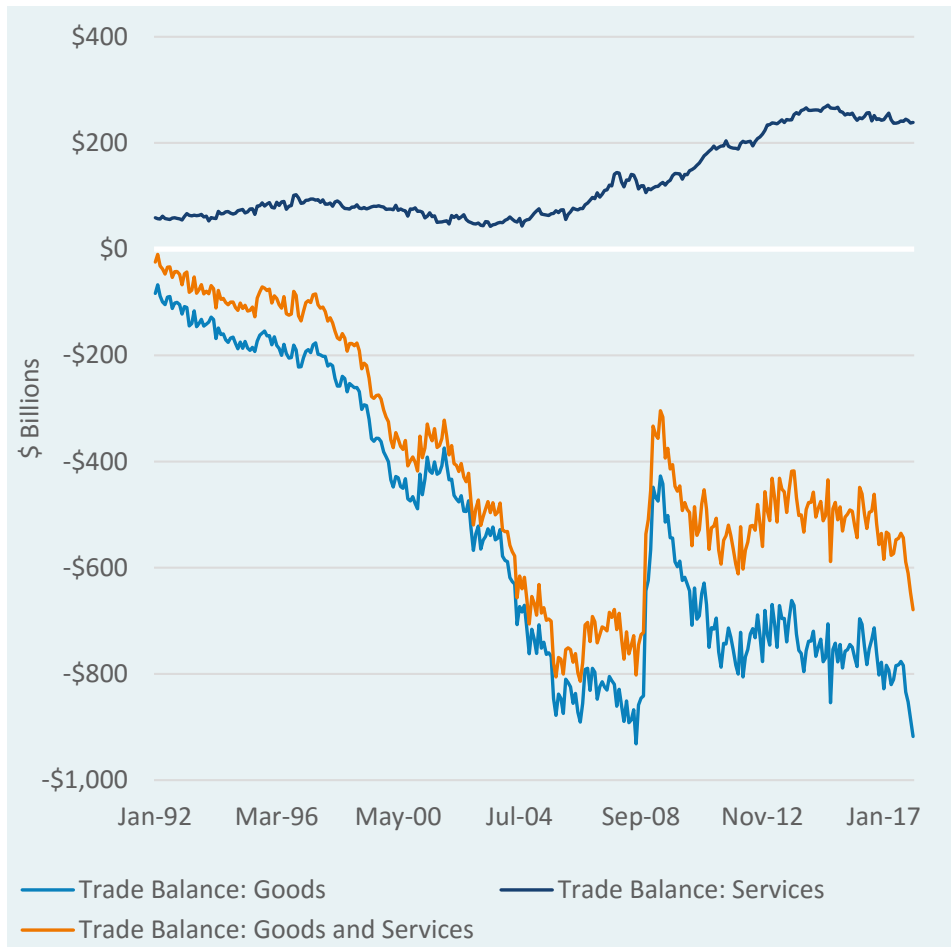
INFLATION (CPI, YOY)



Source: Bloomberg, as of 2/28/18 or most recent release

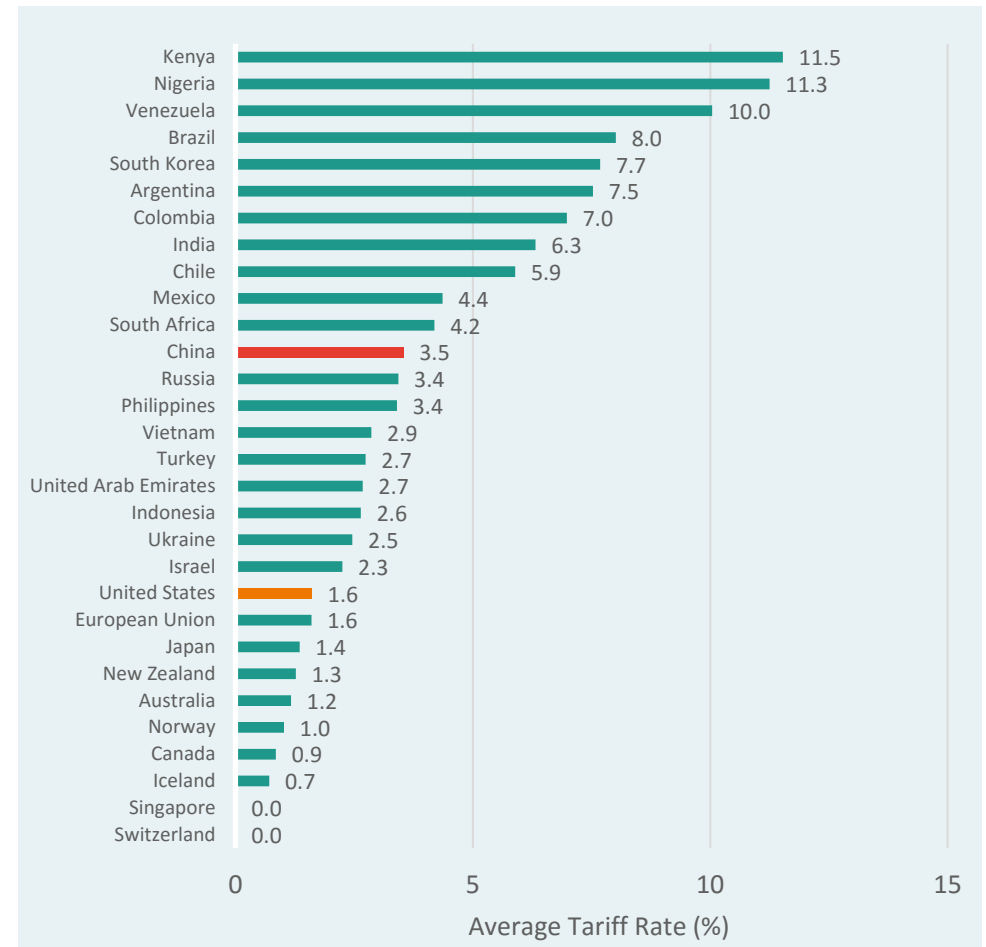
International trade

U.S. TRADE – GOODS & SERVICES



Source: FRED

GLOBAL TARIFF RATES

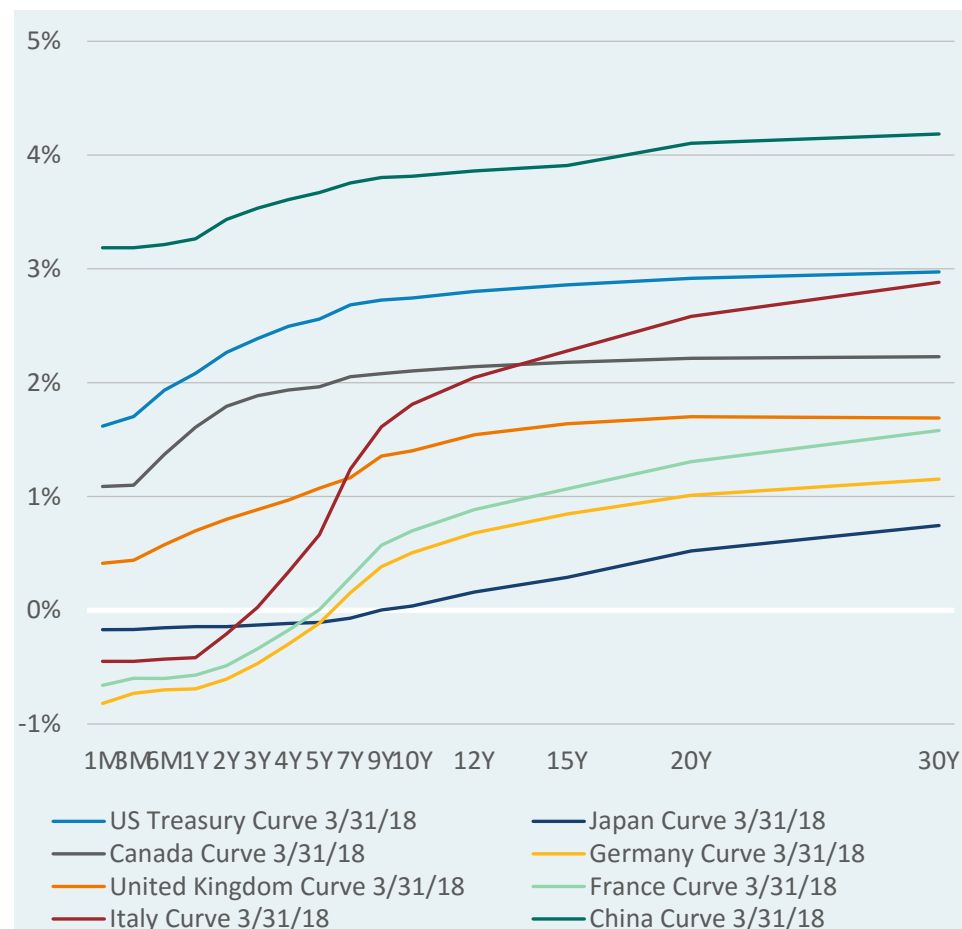


Source: WTO, 2016

Interest rate environment

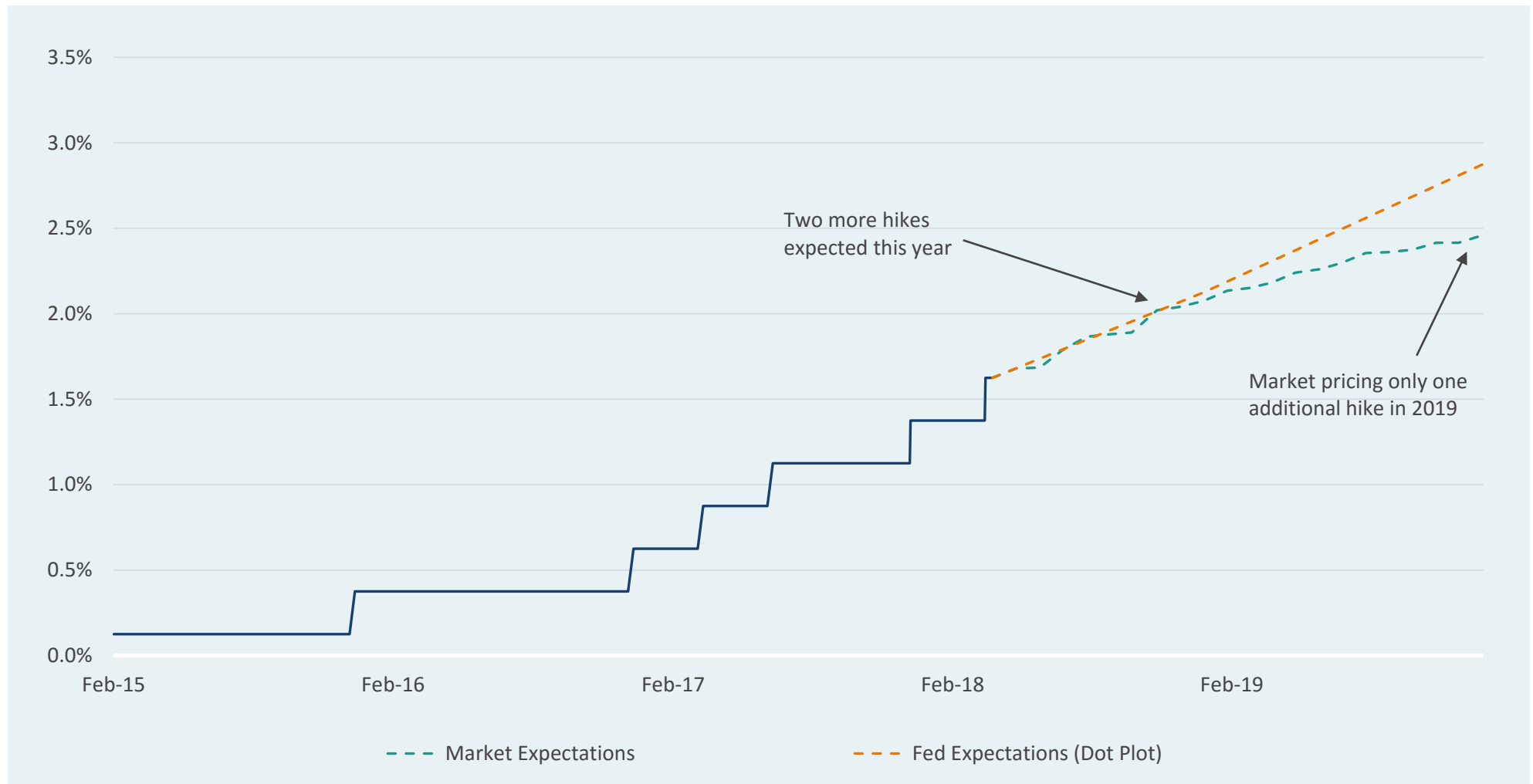
Area	Short Term (3M)	10 Year
United States	1.70%	2.74%
Germany	(0.75%)	0.50%
France	(0.58%)	0.72%
Spain	(0.50%)	1.16%
Italy	(0.43%)	1.79%
Greece	1.31%	4.32%
U.K.	0.49%	1.35%
Japan	(0.17%)	0.04%
Australia	2.03%	2.60%
China	3.12%	3.77%
Brazil	6.31%	9.50%
Russia	6.01%	7.16%

GLOBAL GOVERNMENT YIELD CURVES



Source: Bloomberg, as of 3/31/18

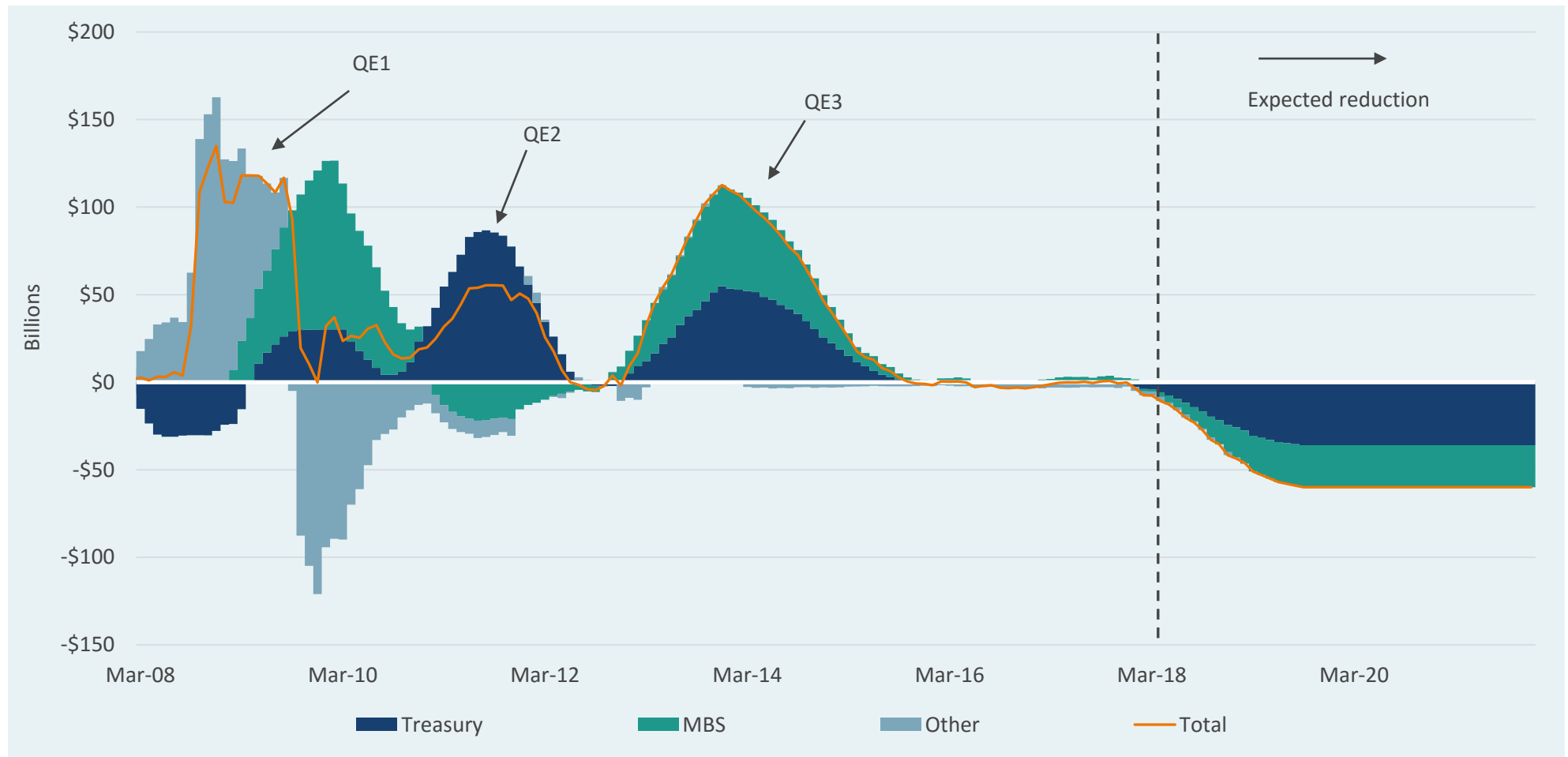
Fed tightening expectations



Source: Bloomberg, as of 3/31/18

Fed balance sheet reduction

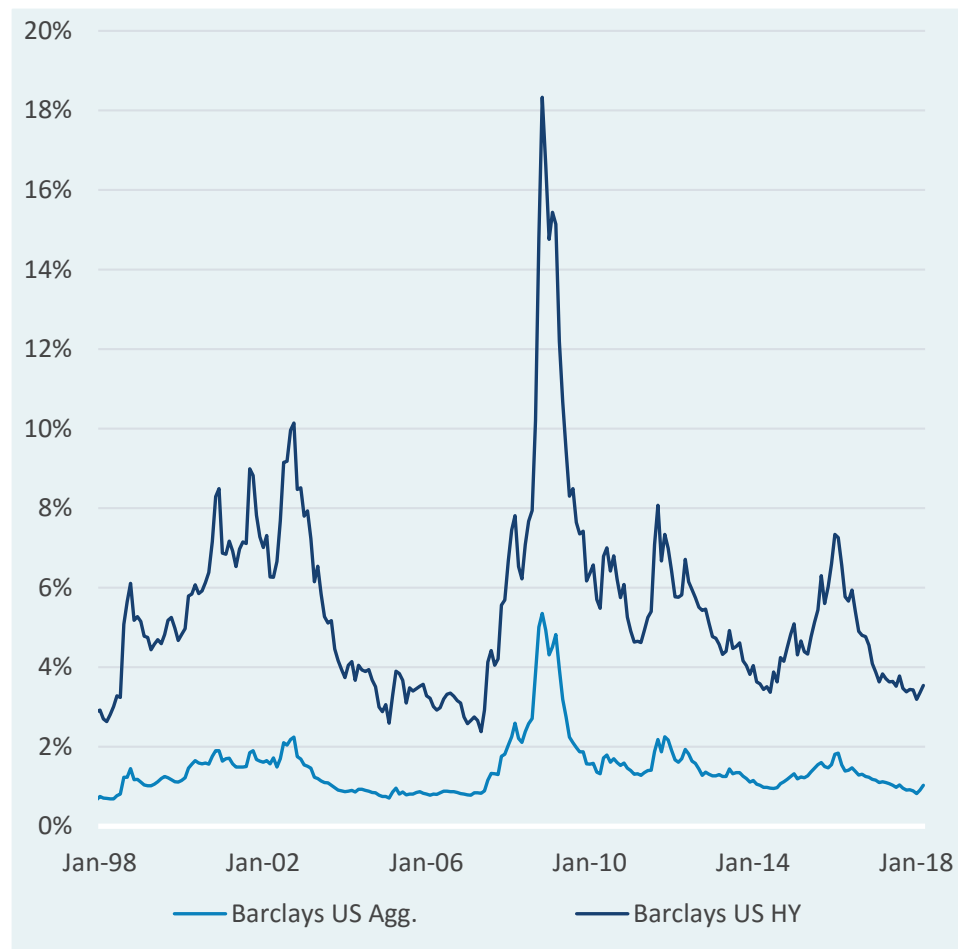
FED BALANCE SHEET FLOW (12-MONTH CHANGE)



Source: Federal Reserve, as of 3/31/18

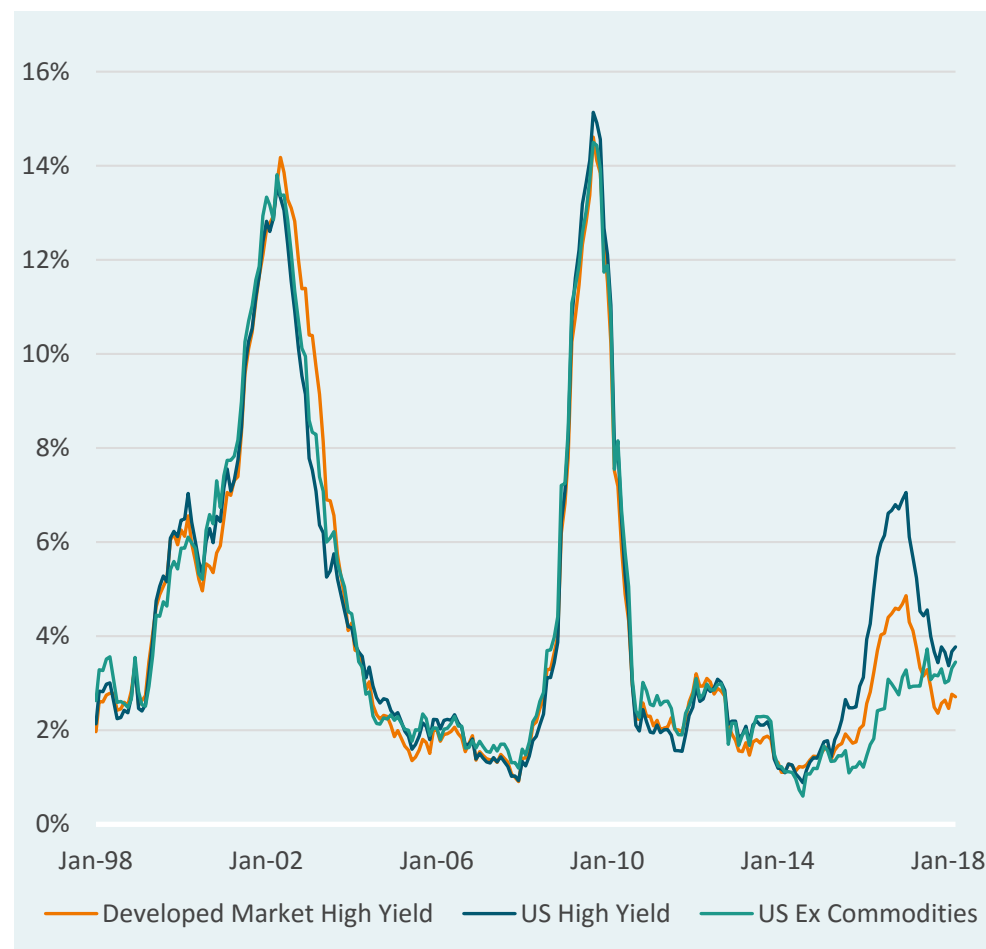
Credit environment

U.S. CREDIT SPREADS



Source: Bloomberg, as of 3/31/18

HIGH YIELD DEFAULT RATES



Source: BofA Merrill Lynch, as of 3/31/18

Equity environment

	QTD TOTAL RETURN		1 YEAR TOTAL RETURN	
	(unhedged)	(hedged)	(unhedged)	(hedged)
US Large Cap (Russell 1000)	(2.0%)		12.4%	
US Small Cap (Russell 2000)	(1.1%)		10.5%	
US Large Value (Russell 1000 Value)	(4.0%)		5.6%	
US Large Growth (Russell 1000 Growth)	(0.1%)		19.3%	
International Large (MSCI EAFE)	(1.6%)	(3.8%)	14.4%	7.1%
Eurozone (Euro Stoxx 50)	(0.5%)	(3.2%)	18.0%	0.3%
U.K. (FTSE 100)	(3.8%)	(6.9%)	11.9%	1.2%
Japan (NIKKEI 225)	0.6%	(5.3%)	20.9%	15.2%
Emerging Markets (MSCI Emerging Markets)	1.2%	0.4%	23.1%	20.4%

Source: Russell Investments, MSCI, Stoxx, FTSE, Nikkei, as of 3/31/18

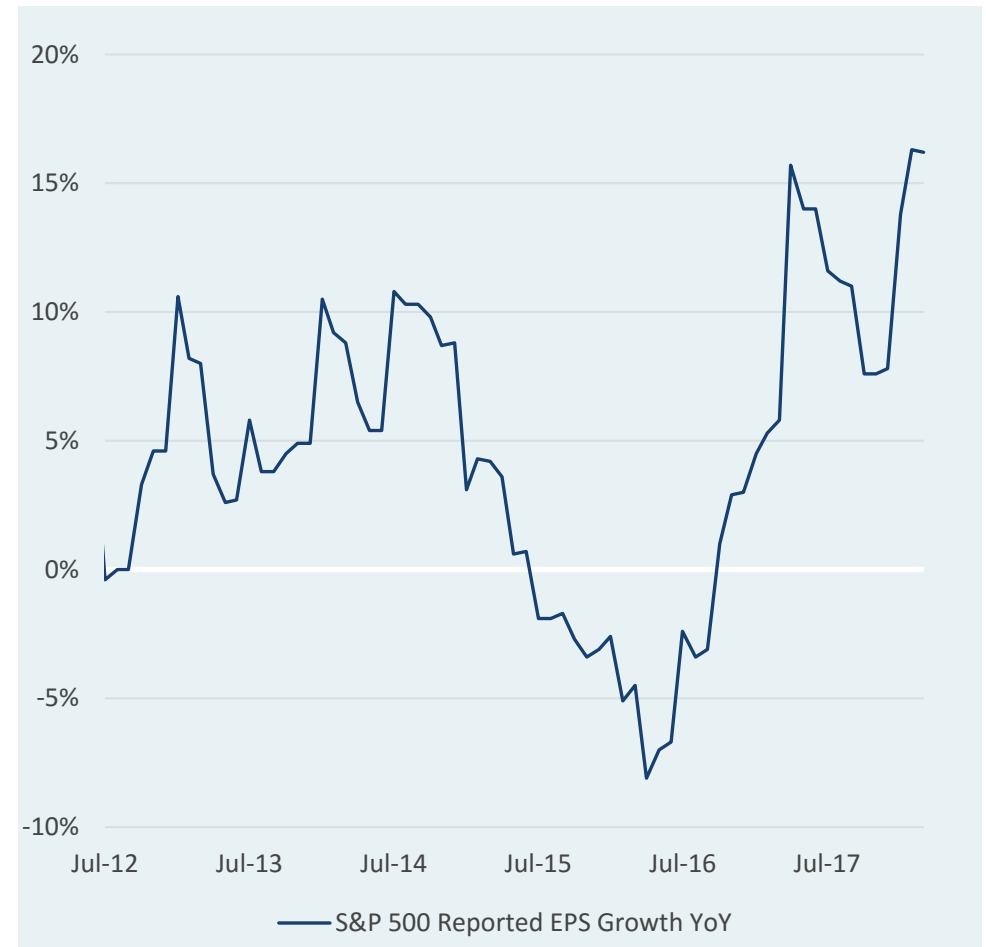
Domestic equity

RUSSELL 3000 PRICE INDEX



Source: Russell Investments, as of 3/31/18

U.S. EARNINGS GROWTH



Source: Bloomberg, as of 3/31/18

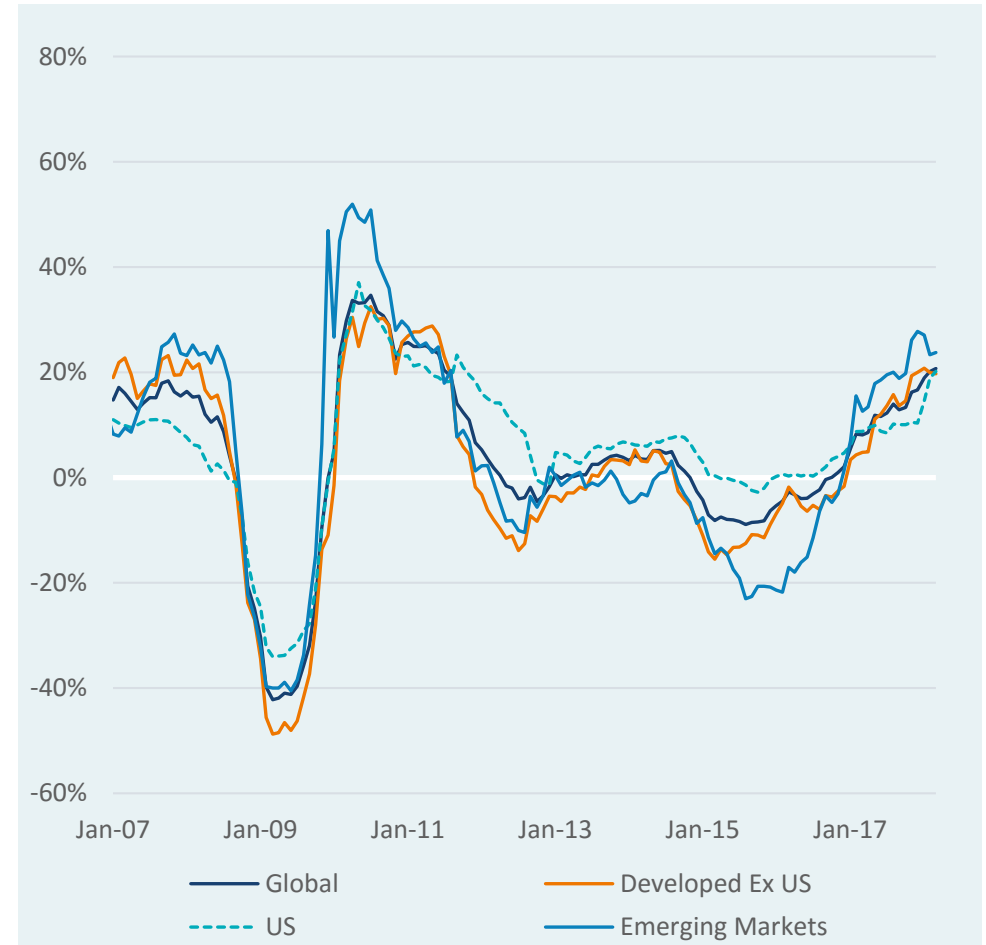
International equity

3-YEAR ROLLING PERFORMANCE



Source: Bloomberg, as of 3/31/18

EARNINGS GROWTH



Source: MSCI, as of 3/31/18 – YoY growth in forward earnings

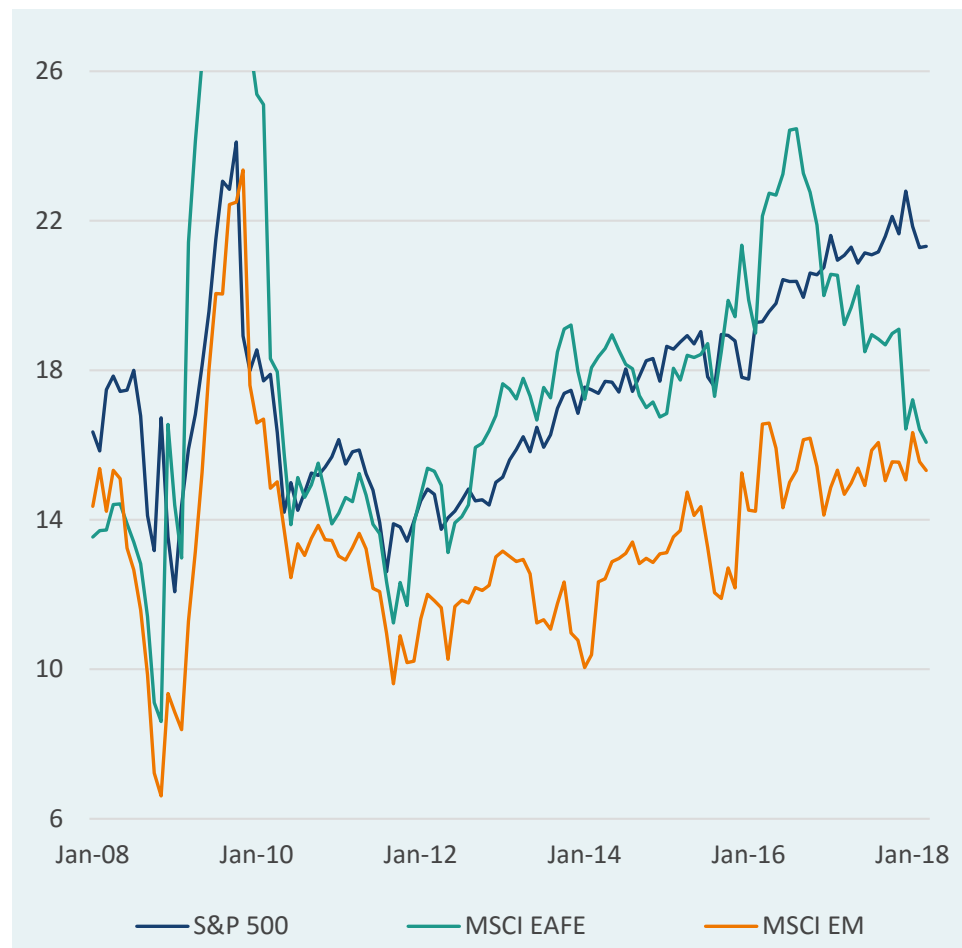
Equity valuations

FORWARD P/E RATIOS



Source: Bloomberg, as of 3/31/18

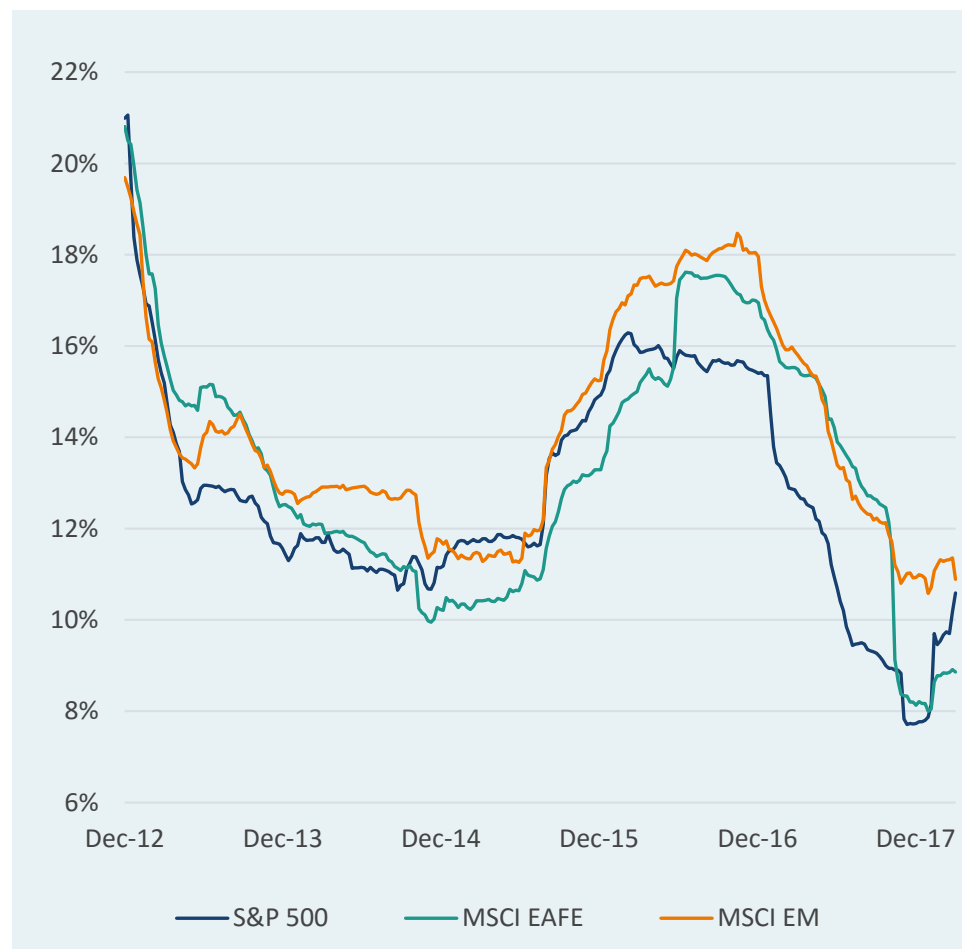
TRAILING P/E RATIOS



Source: Bloomberg, as of 3/31/18

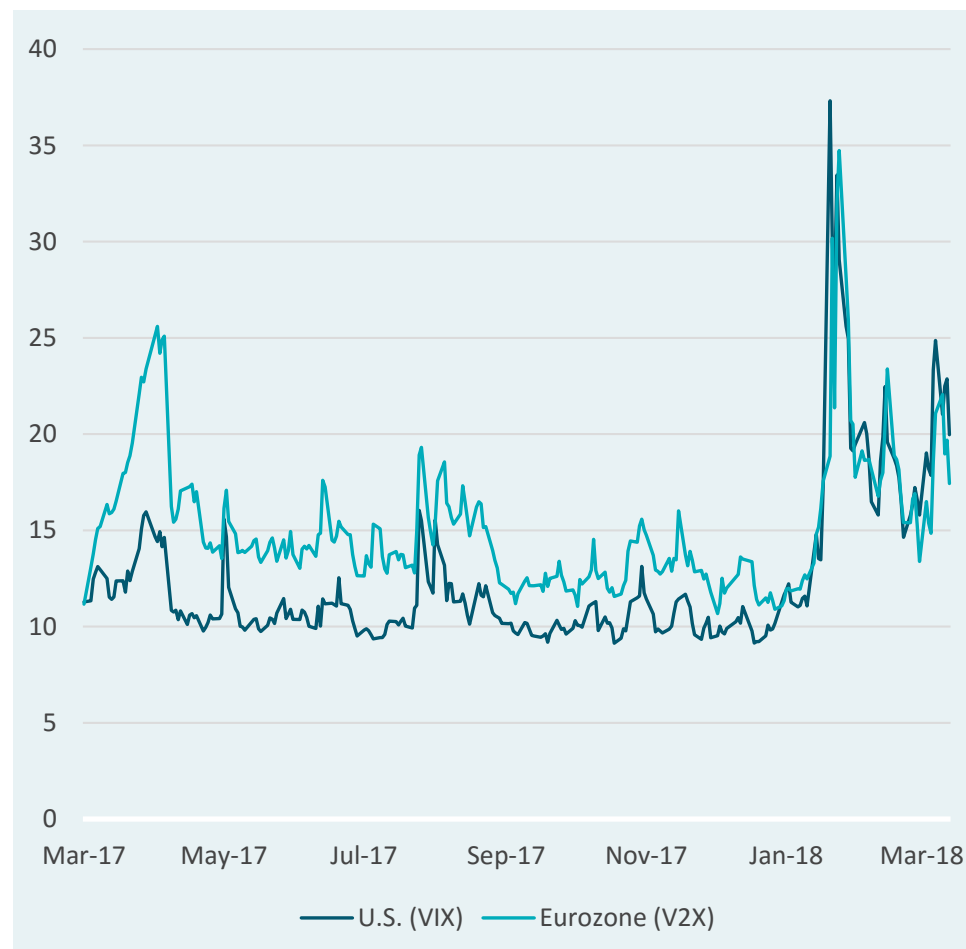
Equity volatility

REALIZED 1-YEAR ROLLING VOLATILITY



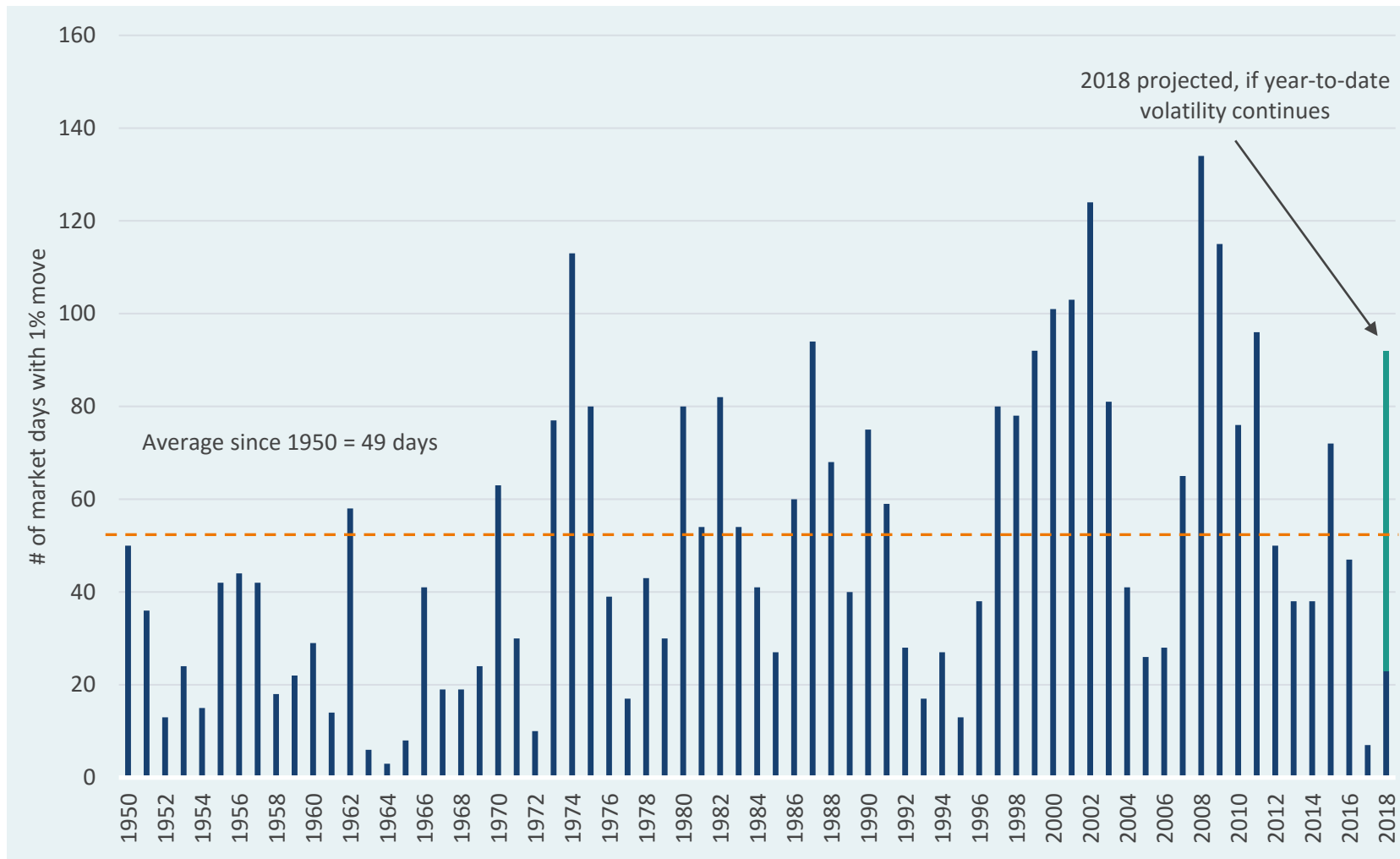
Source: Bloomberg, as of 3/31/18

IMPLIED VOLATILITY



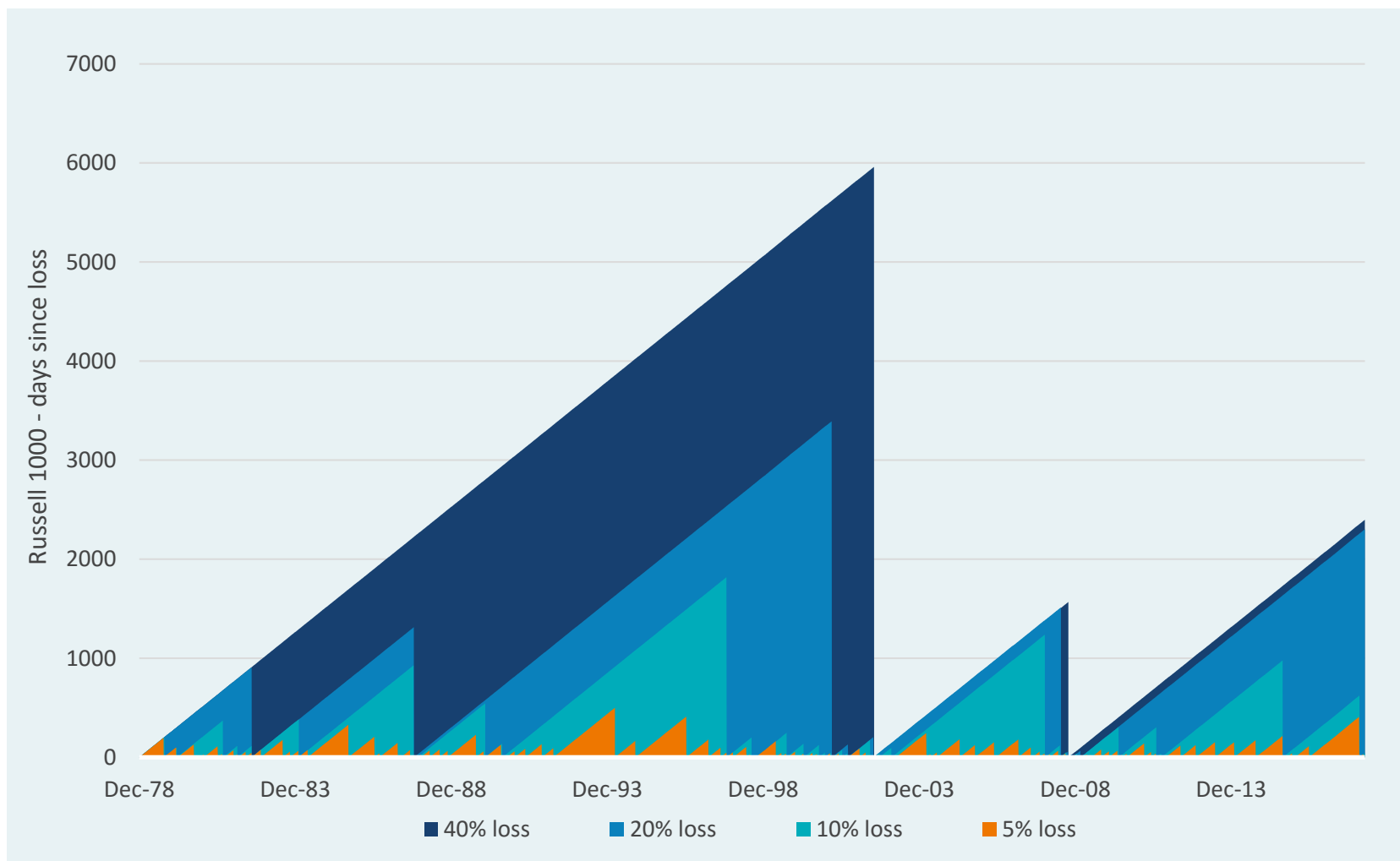
Source: Bloomberg, as of 3/31/18

Daily +/- 1% equity moves



Source: S&P 500, as of 3/31/18

Expect the unexpected



Equities experienced a 10% correction for the first time in more than two years

Source: FTSE Russell, Bloomberg, as of 4/11/18

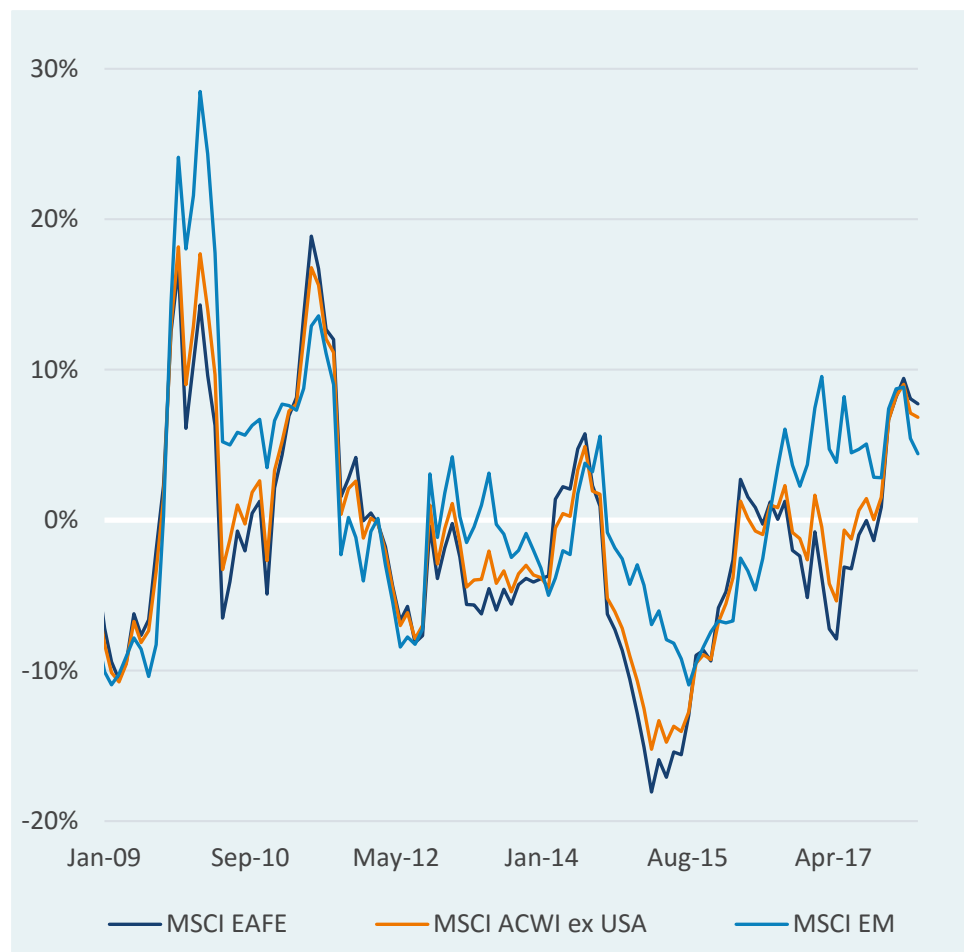
Currency

U.S. DOLLAR TRADE WEIGHTED INDEX



Source: Federal Reserve, as of 3/28/18

EFFECT OF CURRENCY (1-YEAR ROLLING)



Source: MSCI, Verus, as of 3/31/18

1st quarter summary

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THE INVESTMENT CLIMATE

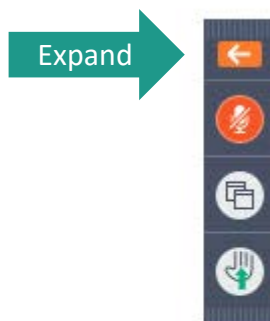
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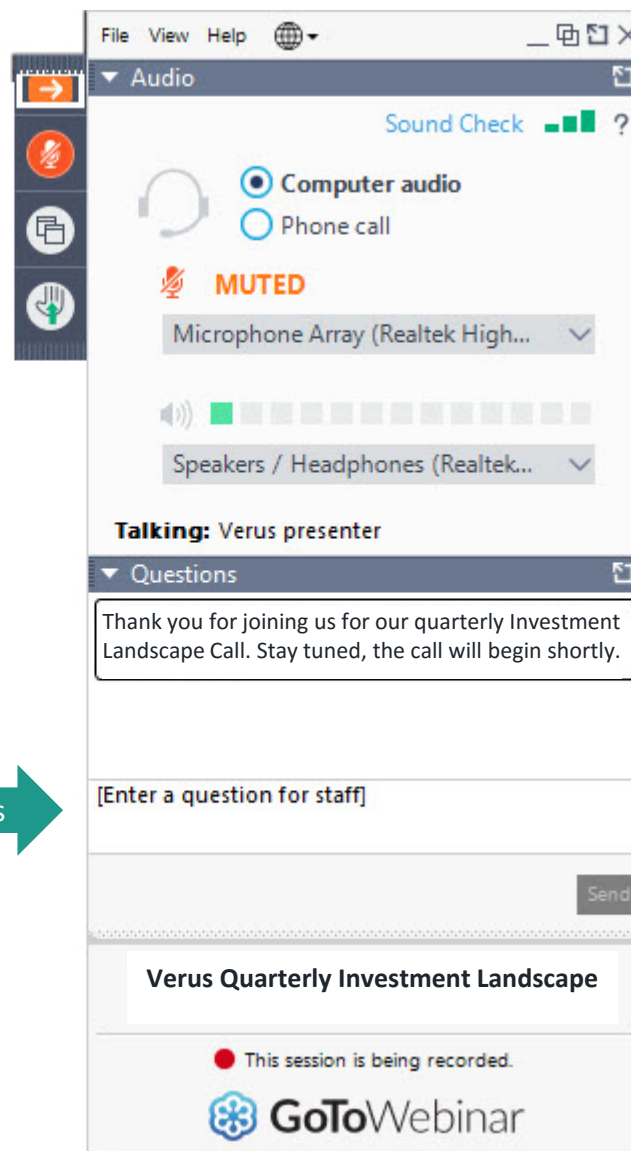
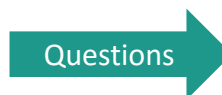
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Q&A



Use the orange arrow to expand the control panel

Ask questions here





Thank you