



**PERSPECTIVES  
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ENTERPRISE  
SUCCESS**

NOVEMBER 2017  
Capital Markets Update



# Market commentary

## ECONOMIC CLIMATE

- Real U.S. GDP was revised upward to 3.3% from 3.0% (QoQ annualized). An increase in business investment offset a small downward revision in consumer spending.
- As of December 5<sup>th</sup>, the Q4 Atlanta Fed GDPNow forecast for real U.S. GDP growth was 3.2% (QoQ annualized).
- Retail Sales increased 0.8% in November, above the consensus estimate of 0.2%, led by an unexpected increase in online sales. The prior month's sales were also revised upward from 0.2% to 0.5%. Core Retail Sales increased 1.0% in the month, above the consensus estimate of a 0.6%.
- The U.S. dollar resumed its downward trend in November and depreciated by 1.6% against a basket of major currencies. The Bloomberg Dollar Spot index ended the month down 9.0% year-to-date.
- Headline CPI increased by 2.2% YoY in November, up 20 bps from October, affected by higher gasoline prices. Core CPI increased by 1.7% YoY, down 10 bps from the prior month.

## DOMESTIC EQUITIES

- Domestic equities realized their 13<sup>th</sup> consecutive month of positive performance – the S&P 500 returned 3.1%.
- According to FactSet, as of December 8<sup>th</sup>, the estimated Q4 earnings growth rate for the S&P 500 is 10.6% YoY. All eleven sectors are projected to have positive earnings growth, led by energy. Revenue growth is projected to be 6.3% YoY.

## DOMESTIC FIXED INCOME

- Domestic fixed income returns were slightly negative in November as the Bloomberg Barclays U.S. Aggregate Index returned -0.1%.
- U.S. high yield spreads ended the month slightly higher at 3.6%, after briefly reaching 4.0% on November 15<sup>th</sup>.
- The U.S. Treasury yield curve flattened over the month, as the 10-year minus 2-year spread contracted 14 bps to 0.64%. The flattening was mostly caused by rising yields on the short-end of the curve (the 2-year yield rose 18 bps to 1.78%).

## INTERNATIONAL MARKETS

- International equities (MSCI ACWI ex U.S. +0.8%) underperformed domestic equities in November (S&P 500 +3.1%). The hedged MSCI ACWI ex U.S. Index returned -0.5% in the month.
- U.K. Manufacturing PMI increased from 56.6 to 58.2 in November, the highest reading since December 2013. Output, new orders, and employment sub-indices led gains during the month.
- The Eurozone labor market continued to tighten as unemployment fell to 8.8% in October, down from 8.9% in September, and 9.8% in October 2016.
- Eurozone Consumer Confidence rose to 114.6 in November, up from 114.1 in October and well above the long-term average of 100.0. Consumers also reported increased expectations of future inflation.
- The Bank of Korea raised its benchmark interest rate for the first time since 2011. This may mark a turning point for central banks in Asia as inflation pressures mount and policy makers look to avoid a divergence from global lending rates.

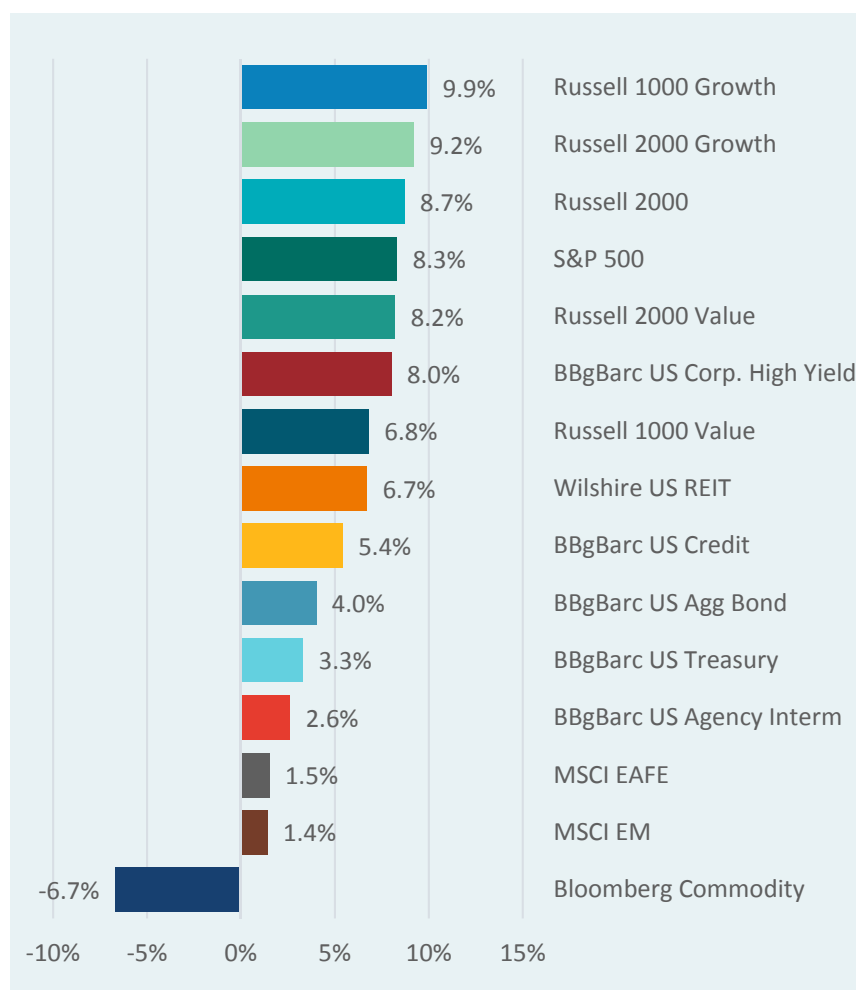
# Major asset class returns

ONE YEAR ENDING NOVEMBER



Source: Morningstar, as of 11/30/17

TEN YEARS ENDING NOVEMBER



Source: Morningstar, as of 11/30/17

# U.S. large cap equities

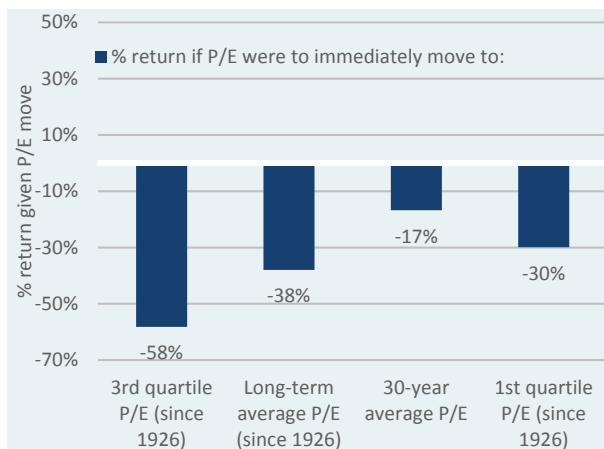
- Domestic large cap equities appreciated by 3.1% in November (S&P 500). Realized volatility remained subdued at 6.3% (annualized), well below the 5-year average of 11.9%.
- According to FactSet, the final Q3 earnings growth rate of the S&P 500 was 6.3% YoY, led by Energy and Information Technology at 135.1% and 20.0%, respectively. Revenue growth was 5.8% YoY, above the September 30<sup>th</sup> estimate of 4.9%.
- On December 2<sup>nd</sup>, the Senate voted to approve their version of the tax bill. The bill will move into a reconciliation phase where the House and Senate work out differences between the proposed bills, before drafting a final bill for Congressional approval.
- Despite strong earnings growth during the quarter, valuations continued to rise as the S&P 500 trailing P/E ratio increased to 22.3 in November from 21.7 in October.

## U.S. LARGE CAP EQUITIES



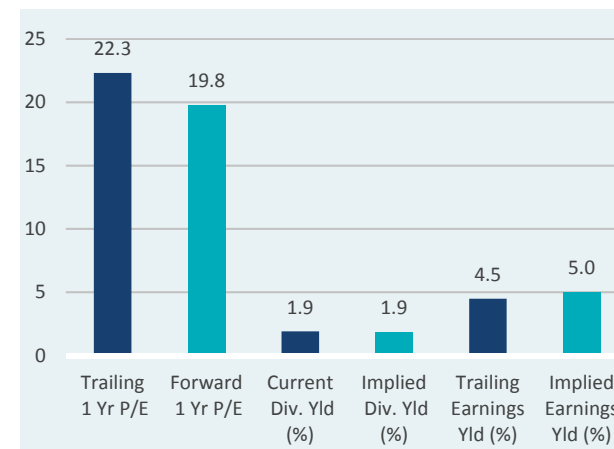
Source: Bloomberg, as of 11/30/17

## RETURNS IF TRAILING P/E MOVED TO HISTORIC AVERAGE



Source: Yale/Shiller, Verus, as of 11/30/17

## S&P 500 VALUATION SNAPSHOT

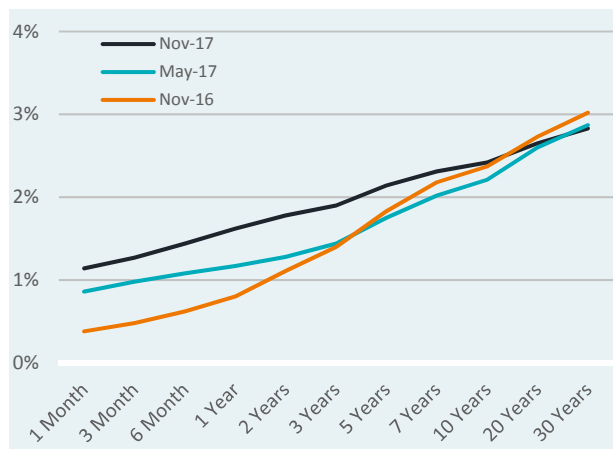


Source: Bloomberg, as of 11/30/17

# Fixed income

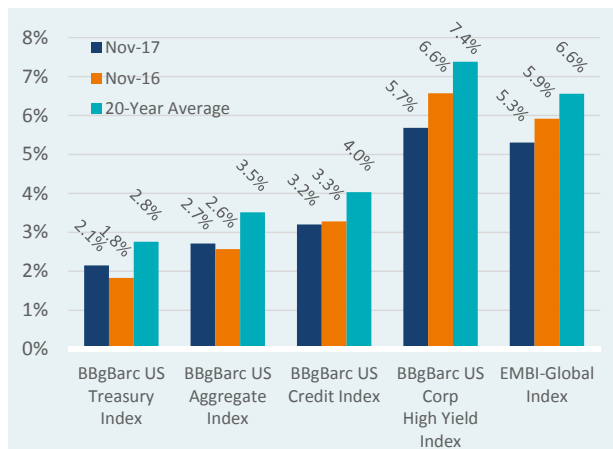
- The U.S. Treasury yield curve flattened modestly in November. The 10-year minus 2-year spread fell 14 bps to 0.64%. The long duration BBgBarc US Treasury Long Index (+0.7%) outperformed the broad U.S. Treasury Index (-0.1%) over the month.
- President Trump nominated Federal Reserve Governor Jerome Powell to serve as the next chairman of the Federal Reserve and Marvin Goodfriend to serve on the Fed's board of governors. Three vacancies remain on the board.
- As of November 30<sup>th</sup>, fed funds futures pricing implied two expected interest rate hikes in 2018. The FOMC projections predict three rate hikes.
- The Fed proceeded with its balance sheet unwind in November (-\$5.6 billion in Treasuries and -\$1.1 billion in mortgage-backed securities). The unwind in Treasuries remains on track with the schedule laid out in September (-\$6.0 billion per month), while MBS' were unwound slower than expected (-\$4.0 billion per month).

**U.S. TREASURY YIELD CURVE**



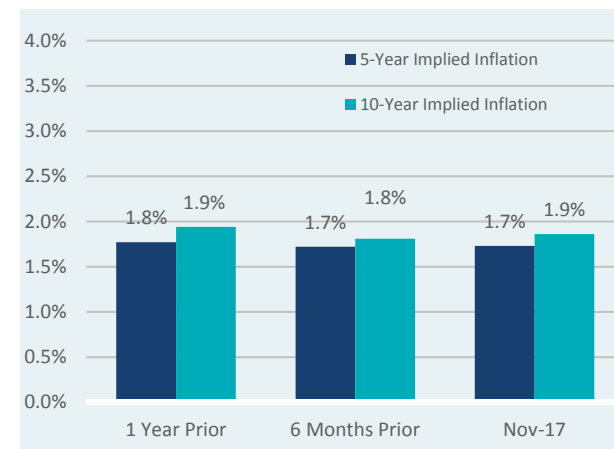
Source: Federal Reserve, as of 11/30/17

**NOMINAL FIXED INCOME YIELDS**



Source: Morningstar, as of 11/30/17

**IMPLIED INFLATION (TIPS BREAK-EVEN)**

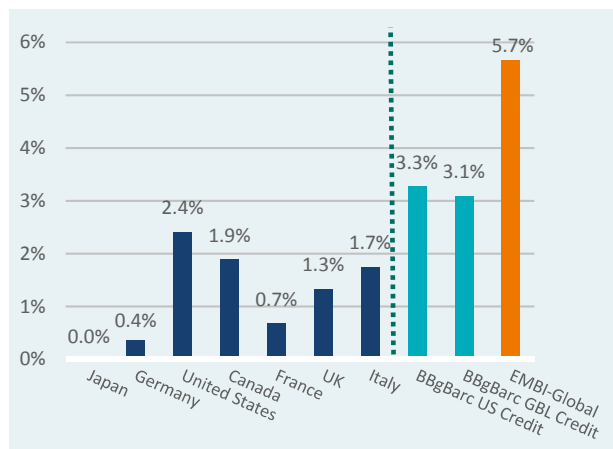


Source: Federal Reserve, as of 11/30/17

# Global markets

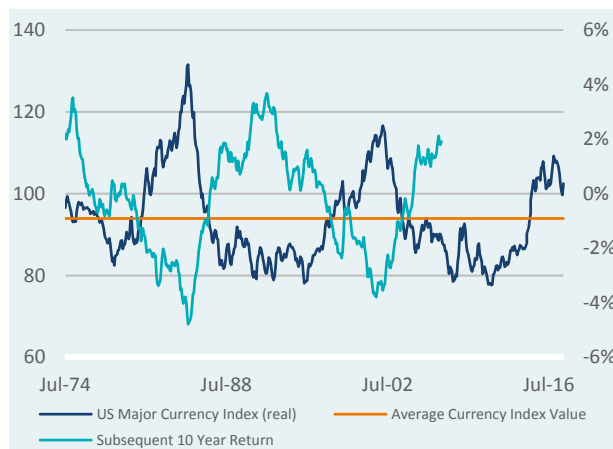
- The U.K. increased its financial offer to pay the European Union an estimated 40 to 45 billion euros over the coming years, allowing Brexit negotiations to advance to a second stage which includes EU citizen rights in the U.K., the Northern Ireland border and general trade agreements.
- Japanese equities (Nikkei 225 index +3.2%) continued their recent outperformance over international equities (MSCI EAFE index +1.0%) on an unhedged basis in November.
- Global sovereign yields were mostly lower during the period, led by the Italian 10-year yield (-8 bps), which fell to 1.7% from 1.8% over the month.
- Emerging market equities (MSCI EM index +0.2% unhedged, -0.9% hedged) underperformed broad international equities in November (MSCI EAFE index +1.0% unhedged, -0.4% hedged). Emerging Markets have outperformed year-to-date through November by +8.1% on a unhedged basis.

**GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS**



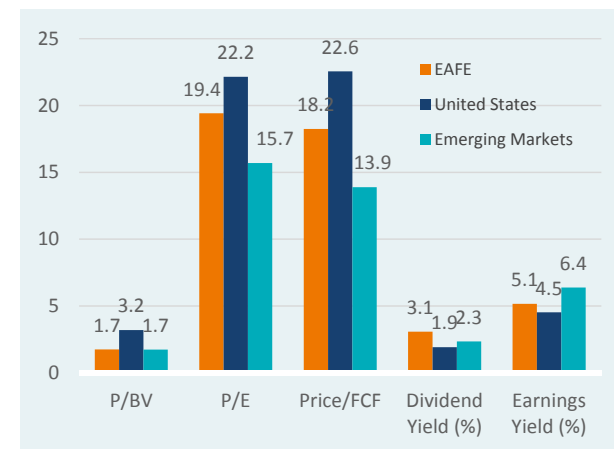
Source: Morningstar, as of 11/30/17

**U.S. DOLLAR MAJOR CURRENCY INDEX**



Source: Federal Reserve, as of 11/30/17

**MSCI VALUATION METRICS (3 MONTH AVERAGE)**

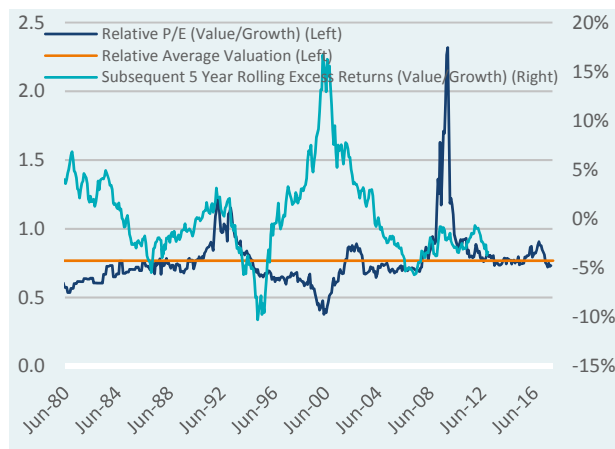


Source: Bloomberg, as of 11/30/17

# Style tilts: U.S. large value vs. growth

- Value equities narrowly outperformed growth equities in November, as the Russell 1000 Value and Russell 1000 Growth returned 3.1% and 3.0%, respectively.
- The relative trailing P/E ratio of value to growth equities remained slightly below the long-term average of 0.77 at 0.73.
- The Russell 1000 Growth index was negatively affected by the technology sector in November. The sub-index, the highest returning sector over the prior year (+40.4%), underperformed the majority of sectors in November (+1.2%).

## RELATIVE TRAILING PE RATIO OF U.S. VALUE VS. GROWTH



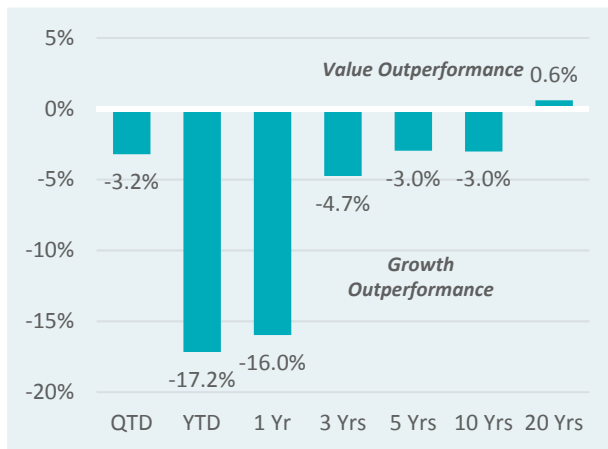
Source: Russell, Bloomberg, as of 11/30/17

## U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 VALUE ANNUALIZED RETURN TO DATE %	RUSSELL 1000 GROWTH ANNUALIZED RETURN TO DATE %
QTD	3.8	7.0
YTD	12.0	29.2
1 YEAR	14.8	30.8
3 YEARS	8.3	13.1
5 YEARS	14.2	17.1
10 YEARS	6.8	9.9
20 YEARS	7.5	6.9
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.79	1.17
5 YEARS	1.36	1.62
10 YEARS	0.47	0.67
20 YEARS	0.42	0.36

Source: Morningstar, as of 11/30/17

## U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE

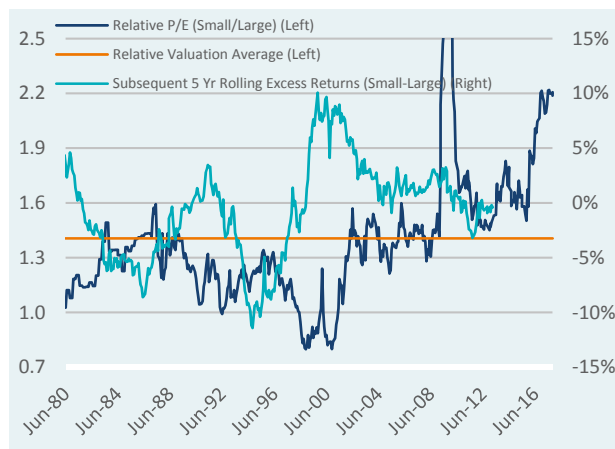


Source: Morningstar, as of 11/30/17

# Style tilts: U.S. large vs. small

- U.S. large cap and small cap equities both increased in November, as the Russell 1000 index and Russell 2000 index returned 3.0% and 2.9%, respectively.
- The telecommunication sector produced the largest performance differential between large and small cap sectors. Within telecommunications, large cap companies outperformed small caps by 12.5%. Large caps were largely influenced by AT&T (+8.1%) and Verizon (+6.3%) which make up approximately 90% of the Russell 1000 Telecommunication sub-index.
- The relative trailing P/E ratio of small to large cap equities remained elevated at 2.2, well above the long-term average ratio of 1.4.
- Over all the time periods examined below, large cap equities have provided superior risk-adjusted returns (Sharpe Ratio) relative to small cap equities.

## RELATIVE TRAILING PE RATIO OF U.S. SMALL VS. LARGE



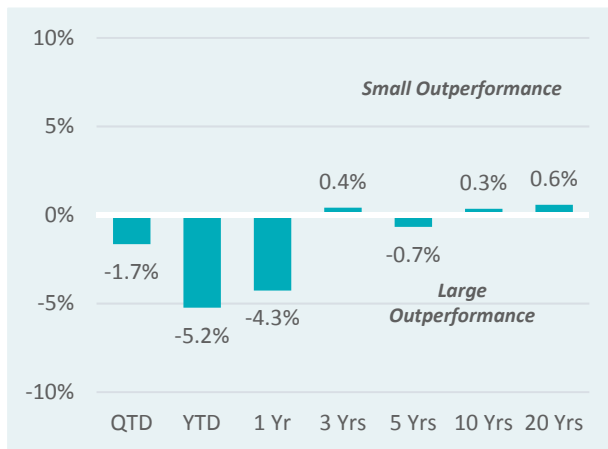
Source: Russell, Bloomberg, as of 11/30/17

## U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX ANNUALIZED RETURN TO DATE %	RUSSELL 2000 INDEX ANNUALIZED RETURN TO DATE %
QTD	5.4	3.8
YTD	20.3	15.1
1 YEAR	22.6	18.3
3 YEARS	10.7	11.1
5 YEARS	15.7	15.0
10 YEARS	8.4	8.7
20 YEARS	7.4	8.0
	SHARPE RATIO	SHARPE RATIO
3 YEARS	1.02	0.79
5 YEARS	1.55	1.06
10 YEARS	0.58	0.51
20 YEARS	0.42	0.39

Source: Morningstar, as of 11/30/17

## U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 11/30/17



# Commodities

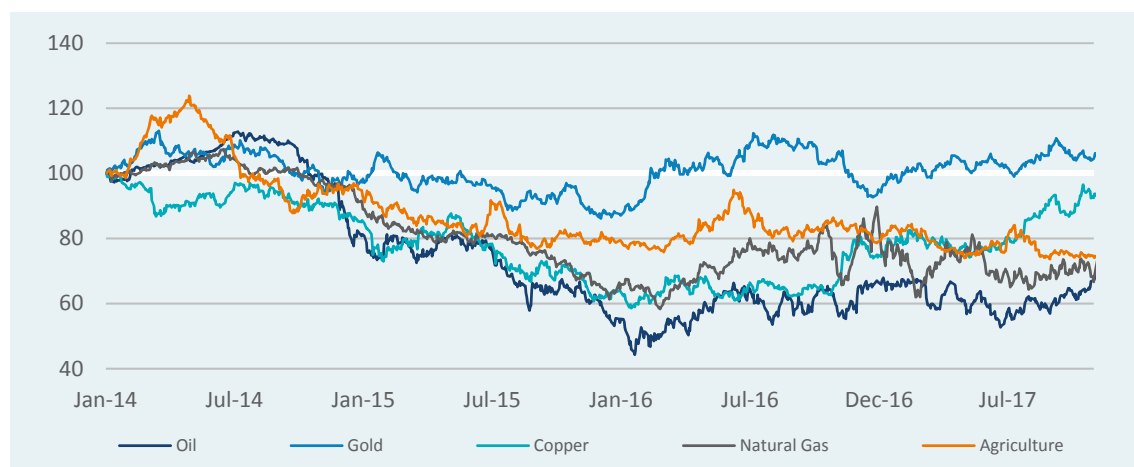
- The broad Bloomberg Commodity Index decreased in November by -0.5%. Livestock and Industrial Metals were the largest detractors during the month, returning -5.9% and -4.2%, respectively.
- The Bloomberg Industrial Metals index was adversely impacted by Aluminum and Nickel prices, which fell by -5.4% and -9.8%, respectively.
- OPEC and non-OPEC allies reached an agreement to extend current oil production cuts (-1.8 million barrels per day) through the end of 2018. Several countries proposed drafting an early exit strategy at the next meeting in June, in the event of an overheated oil market. WTI Crude Oil ended the month up 5.6%.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(0.5)	1.7	(1.2)	0.5	(8.4)	(9.5)	(6.7)
Bloomberg Agriculture	0.4	(0.5)	(9.7)	(11.7)	(8.6)	(10.4)	(4.0)
Bloomberg Energy	2.3	4.8	(7.9)	0.4	(20.1)	(16.4)	(17.2)
Bloomberg Grains	(0.4)	(2.9)	(9.5)	(10.1)	(11.4)	(13.5)	(6.1)
Bloomberg Industrial Metals	(4.2)	1.4	18.5	12.5	(0.2)	(3.7)	(4.1)
Bloomberg Livestock	(5.9)	4.0	7.1	17.8	(7.9)	(2.4)	(5.9)
Bloomberg Petroleum	3.0	9.6	3.2	11.7	(15.6)	(15.1)	(11.9)
Bloomberg Precious Metals	(0.3)	(1.0)	7.7	5.3	1.7	(8.3)	3.5
Bloomberg Softs	2.5	3.5	(16.1)	(19.2)	(7.6)	(8.6)	(2.7)

Source: Morningstar, as of 11/30/17

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 11/30/17

# Appendix

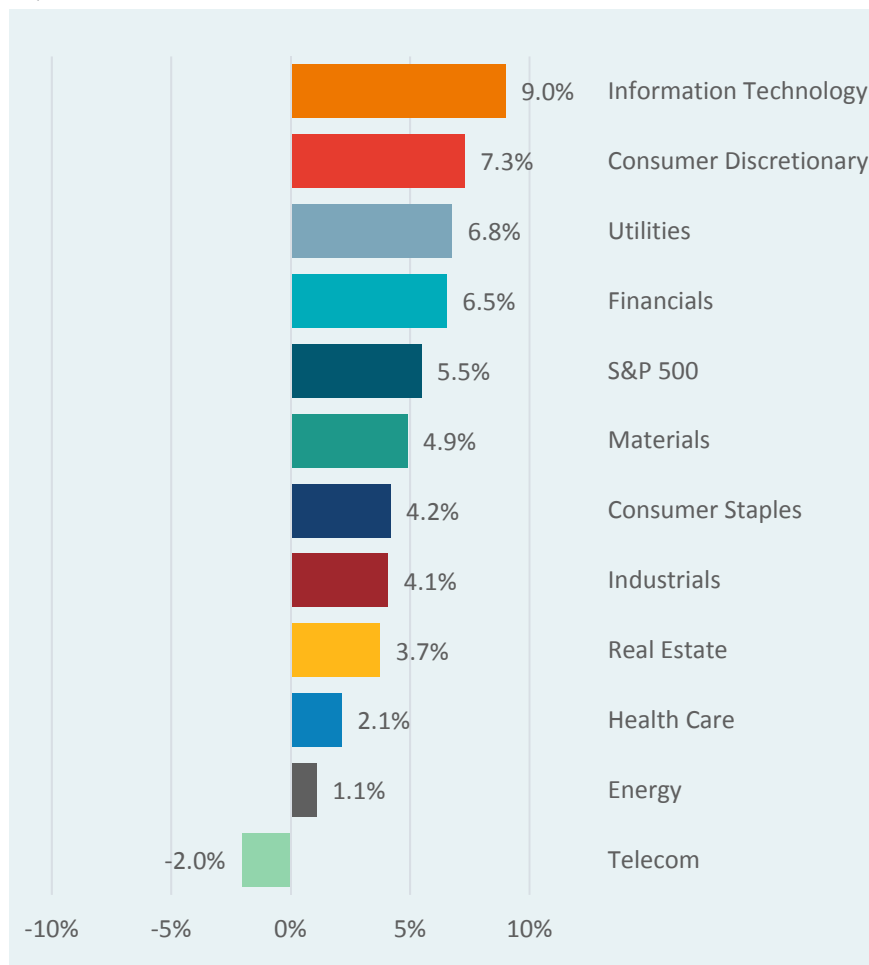
# Periodic table of returns

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	5-Year	10-Year	
BEST	Emerging Markets Equity	16.6	38.4	23.2	35.2	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	32.5	17.1	9.9
	Large Cap Growth	8.1	37.8	23.1	32.9	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	29.2	15.8	9.2
	International Equity	6.4	37.2	22.4	31.8	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	23.1	15.7	8.7
	Small Cap Growth	4.4	31.0	21.6	30.5	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.0	15.0	8.4
	Large Cap Equity	3.2	28.5	21.4	22.4	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	20.3	14.2	8.2
	60/40 Global Portfolio	2.6	25.7	16.5	16.2	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	15.8	14.2	6.8
	Small Cap Equity	0.4	19.6	14.4	13.9	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	15.1	10.3	6.2
	Large Cap Value	-1.5	18.5	11.3	12.9	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	12.0	8.2	4.1
	Small Cap Value	-1.8	15.2	10.3	10.6	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	8.9	6.8	4.0
	Hedge Funds of Funds	-2.0	11.6	9.9	9.7	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.0	4.6	1.5
	Real Estate	-2.4	11.1	6.4	5.2	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	5.1	4.1	1.4
	US Bonds	-2.9	7.5	6.0	2.1	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.1	2.0	1.1
	Cash	-3.5	5.7	5.1	-3.4	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	0.8	0.2	0.3
	Commodities	-7.3	-5.2	3.6	-11.6	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	-1.2	-9.5	-6.7
WORST																											
	Large Cap Equity																										
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	International Equity																										
	Emerging Markets Equity																										
	US Bonds																										
	Cash																										
	Commodities																										
	Real Estate																										
	Hedge Funds of Funds																										
	60% MSCI ACWI/40% BBgBarc Global Bond																										

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 9/30/17.

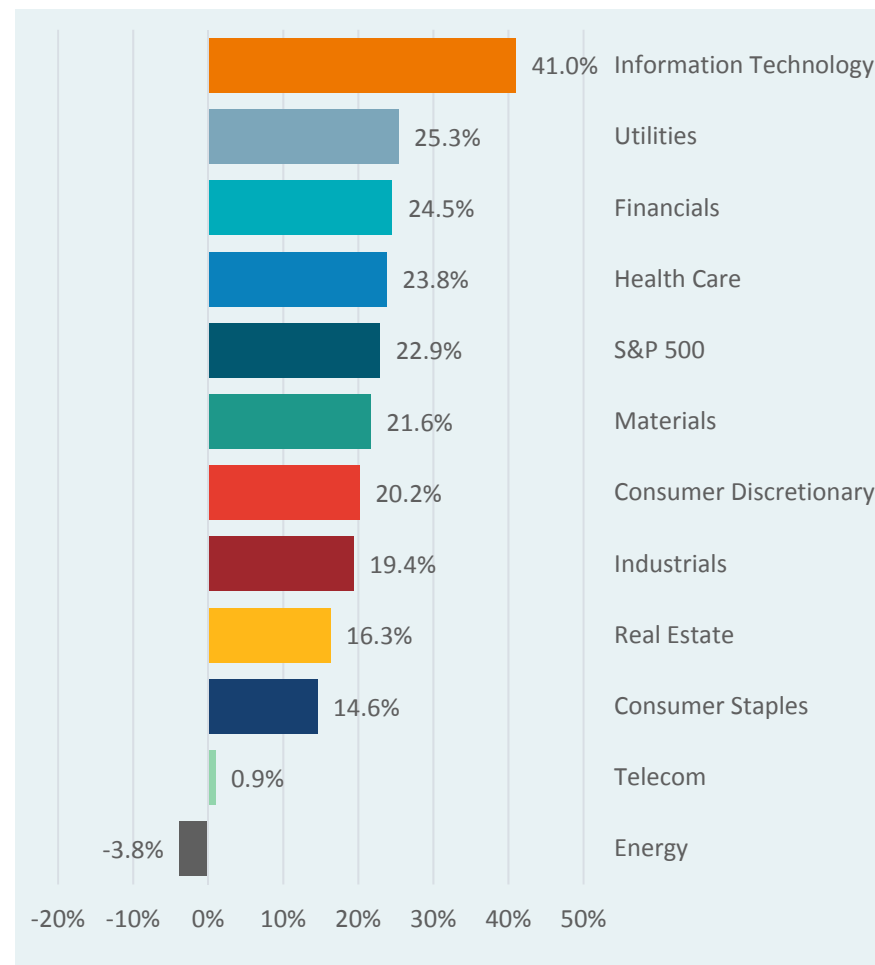
# S&P 500 sector returns

QTD



Source: Morningstar, as of 11/30/17

ONE YEAR ENDING NOVEMBER



Source: Morningstar, as of 11/30/17



# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	3.1	5.5	20.5	22.9	10.9	15.7	8.3
S&P 500 Equal Weighted	3.8	5.0	17.5	18.8	9.8	16.0	9.9
DJ Industrial Average	4.2	8.9	25.7	30.0	13.7	16.1	9.0
Russell Top 200	2.9	5.5	21.5	24.2	11.3	15.9	8.2
Russell 1000	3.0	5.4	20.3	22.6	10.7	15.7	8.4
Russell 2000	2.9	3.8	15.1	18.3	11.1	15.0	8.7
Russell 3000	3.0	5.3	19.9	22.3	10.8	15.6	8.4
Russell Mid Cap	3.4	5.1	17.4	18.8	9.3	15.3	9.0
<b>Style Index</b>							
Russell 1000 Growth	3.0	7.0	29.2	30.8	13.1	17.1	9.9
Russell 1000 Value	3.1	3.8	12.0	14.8	8.3	14.2	6.8
Russell 2000 Growth	2.9	4.5	22.0	23.7	11.3	15.8	9.2
Russell 2000 Value	2.9	3.0	8.9	13.4	10.9	14.2	8.2

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	1.9	4.1	22.0	24.6	8.0	10.9	4.4
MSCI ACWI ex US	0.8	2.7	24.4	27.6	5.7	7.1	1.5
MSCI EAFE	1.0	2.6	23.1	27.3	6.0	8.2	1.5
MSCI EM	0.2	3.7	32.5	32.8	6.1	4.6	1.4
MSCI EAFE Small Cap	1.6	3.3	29.6	33.3	13.0	13.2	5.1
<b>Style Index</b>							
MSCI EAFE Growth	1.2	3.5	26.7	29.5	7.3	8.9	2.3
MSCI EAFE Value	0.9	1.7	19.6	25.1	4.6	7.5	0.8
<b>Regional Index</b>							
MSCI UK	0.1	0.7	16.5	21.3	1.5	4.6	0.8
MSCI Japan	3.0	7.7	23.1	24.3	10.8	12.2	2.7
MSCI Euro	0.1	0.9	27.1	35.5	5.7	8.9	(0.3)
MSCI EM Asia	0.1	5.4	39.0	37.0	9.3	8.1	3.2
MSCI EM Latin American	(3.0)	(6.5)	18.5	19.5	(0.9)	(2.8)	(2.0)

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US Treasury US TIPS	0.1	0.3	2.1	2.0	1.4	(0.2)	3.4
BBgBarc US Treasury Bills	0.1	0.2	0.7	0.8	0.4	0.3	0.5
BBgBarc US Agg Bond	(0.1)	(0.1)	3.1	3.2	2.1	2.0	4.0
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	(0.2)	(0.3)	0.4	0.4	0.5	0.6	1.5
BBgBarc US Treasury Long	0.7	0.6	6.7	6.1	3.2	2.7	6.3
BBgBarc US Treasury	(0.1)	(0.3)	2.0	1.9	1.3	1.1	3.3
<b>Issuer</b>							
BBgBarc US MBS	(0.1)	(0.2)	2.1	2.1	1.8	2.0	3.8
BBgBarc US Corp. High Yield	(0.3)	0.2	7.2	9.2	5.7	6.0	8.0
BBgBarc US Agency Interm	(0.2)	(0.3)	1.1	1.1	1.1	1.0	2.6
BBgBarc US Credit	(0.1)	0.2	5.3	6.0	3.4	3.1	5.4

## OTHER

<b>Index</b>							
Bloomberg Commodity	(0.5)	1.7	(1.2)	0.5	(8.4)	(9.5)	(6.7)
Wilshire US REIT	2.8	1.8	4.3	9.4	5.9	10.2	6.7
CS Leveraged Loans	0.1	0.8	3.8	5.0	4.0	4.4	4.6
<b>Regional Index</b>							
JPM EMBI Global Div	0.1	0.4	9.5	10.9	6.0	4.6	7.3
JPM GBI-EM Global Div	1.7	(1.2)	12.9	15.0	(0.2)	(1.5)	3.4
<b>Hedge Funds</b>							
HFRI Composite	0.5	1.6	7.6	8.6	3.8	5.0	3.2
HFRI FOF Composite	0.1	1.3	7.0	7.9	2.5	4.1	1.1
<b>Currency (Spot)</b>							
Euro	2.4	0.9	13.0	12.4	(1.5)	(1.7)	(2.1)
Pound	1.9	0.9	9.6	8.3	(4.7)	(3.3)	(4.1)
Yen	1.5	0.6	4.2	1.8	2.0	(5.9)	(0.1)

Source: Morningstar, as of 11/30/17

# Definitions

**Eurozone Economic Sentiment Indicator** - The Directorate-General Financial and Economic Affairs (DG ECFIN) of the European Commission publishes the Business and Consumer Survey Results every month. The data of the surveys is processed by DG ECFIN's Unit Economic situation, forecasts, business and consumer surveys (A3), Sector Business and consumer surveys and short-term forecast. ([http://ec.europa.eu/economy\\_finance/db\\_indicators/surveys/index\\_en.htm](http://ec.europa.eu/economy_finance/db_indicators/surveys/index_en.htm))

**IHS Markit/CIPS UK Manufacturing PMI** - The IHS Markit/CIPS UK Manufacturing PMI® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 600 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group and company workforce size, based on the industry and company size contributions to GDP. IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. ([www.ihsmarkit.com](http://www.ihsmarkit.com))

**ISM Manufacturing Index** – based on data compiled from purchasing and supply executives nationwide. Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Backlog of Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Customers' Inventories, Employment and Prices), this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction and the negative economic direction, and the diffusion index. ([www.instituteforsupplymanagement.org](http://www.instituteforsupplymanagement.org))

# Notices & disclosures

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