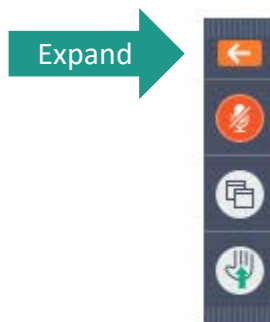


A decorative geometric pattern of overlapping triangles in shades of blue and gold is overlaid on the left side of the image. A white triangle is positioned to the left of the main title text.

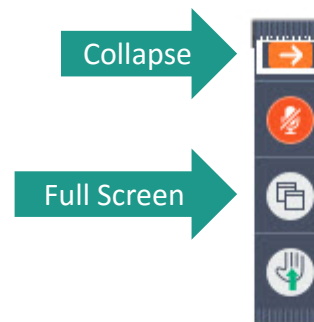
PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

3RD QUARTER 2018
Investment Landscape Call

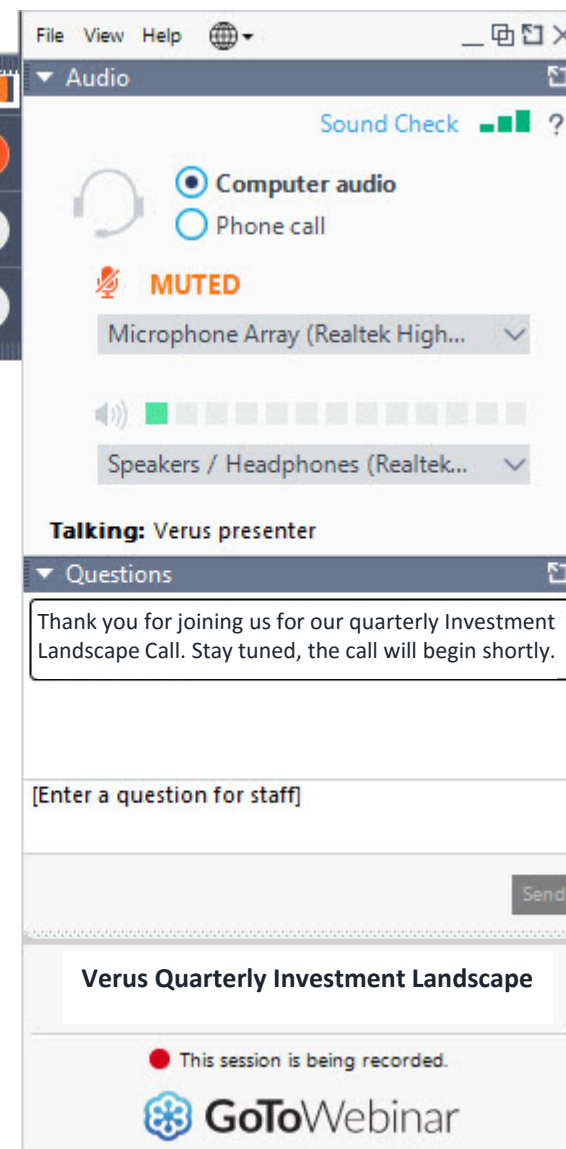
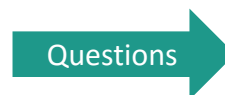
Call instructions



Use the orange arrow to expand or collapse the control panel



Ask questions here



3rd quarter conference call

Verus⁷⁷⁷

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SEATTLE 206-622-3700

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IMPORTANT INFORMATION

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

Access Code: 574-000-493

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

2nd quarter summary

THE ECONOMIC CLIMATE

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- The synchronized global growth story of the past year has shifted somewhat as economies have displayed more disparate performance. The change has not been too dramatic – growth continues to be positive, but at a more moderate pace.

PORTFOLIO IMPACTS

- Emerging market equity and local debt delivered losses of 8.0% and 10.4% in Q2 (MSCI Emerging Markets Index, JPM GBI-EM Global Diversified). Much of the losses were due to currency movement. We believe emerging market assets offer attractive value – recent movements appear to have been driven by a shift in short-term sentiment and currency depreciation.
- The U.S. implemented a first round of tariffs on Chinese imports on July 6th, which impacted \$34 billion worth of goods. So far, only a small portion of the discussed tariffs have been enacted.

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- Strong corporate earnings growth is expected again in the second quarter. According to FactSet, the bottom-up analyst forecast for the S&P 500 is 20.0% YoY.
- Short-term U.S. Treasury yields rose, resulting in a flatter yield curve. The spread between the 10- and 2-year yield was 27 bps, a new cycle low.
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- Following the February selloff equity markets have been range bound. As corporate earnings rise further equity valuations have been pushed down to more attractive levels closer to the long-term historical average.
- While we believe trade negotiations and geopolitical uncertainty are potential causes for concern, the backdrop of positive global growth and strong corporate earnings may allow for healthy risk-asset performance.

A neutral to mild risk overweight may be warranted in today's environment

What drove the market in Q2?

“Trade tariff worries keep stocks under pressure”

TOTAL PROPOSED GOODS SUBJECT TO U.S. TARIFFS (\$BILLIONS)

Jan	Feb	Mar	Apr	May	Jun
10	10	106	206	481	881

Article Source: Financial Times, June 21st, 2018

“Economic growth in U.S. leaves world behind”

U.S. Q2 GDP CONSENSUS EXPECTATION (%)

Jan	Feb	Mar	Apr	May	Jun
2.6	2.7	3.0	3.1	3.1	3.4

Article Source: WSJ, June 14th, 2018

“Rising dollar sparks tumult in emerging markets”

MSCI EMERGING MARKETS MONTHLY CURRENCY IMPACT

Jan	Feb	Mar	Apr	May	Jun
1.6%	-0.7%	0.0%	-1.6%	-1.3%	-1.7%

Article Source: WSJ, May 21st, 2018

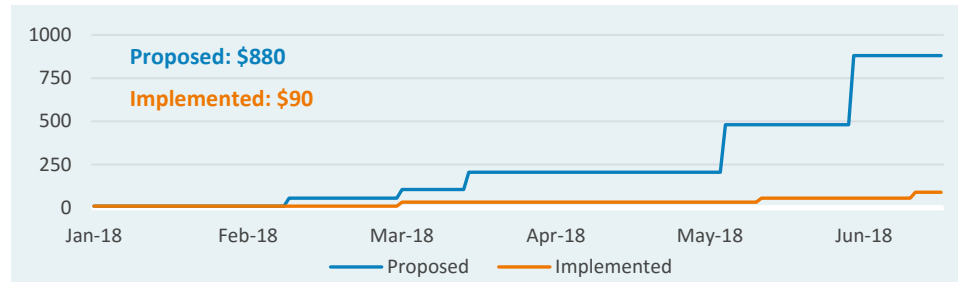
“Investors are getting worried about an inverted yield curve”

U.S. 10- MINUS 2-YEAR YIELD SPREAD (BPS)

Jan	Feb	Mar	Apr	May	Jun
56	61	47	46	42	33

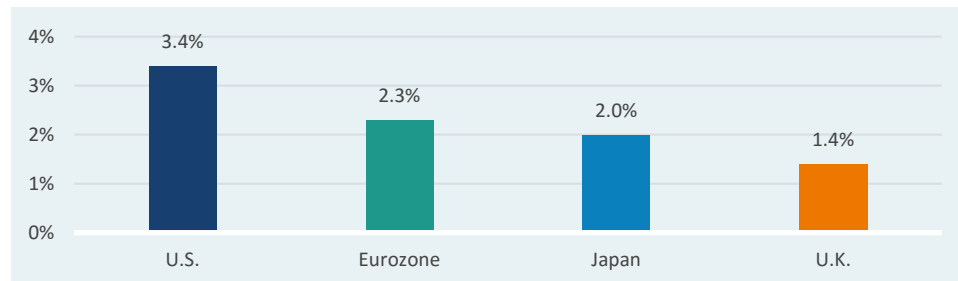
Article Source: Bloomberg, April 18th, 2018

PROPOSED VS. IMPLEMENTED U.S. TARIFFS (\$BILLIONS)



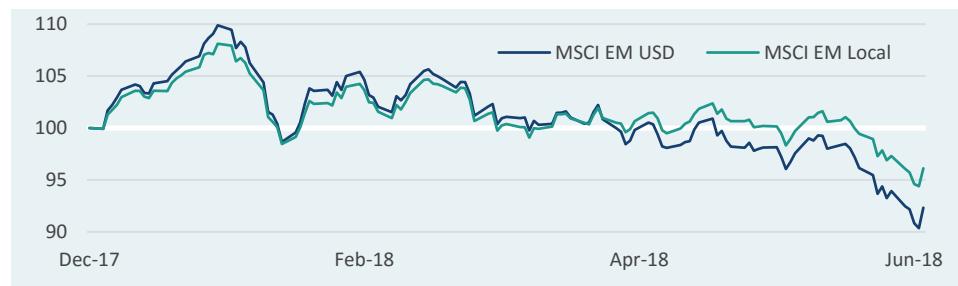
Source: Verus, as of 7/6/18

Q2 GDP EXPECTATIONS



Source: Bloomberg, as of 7/11/18

MSCI EMERGING MARKETS USD VS. LOCAL



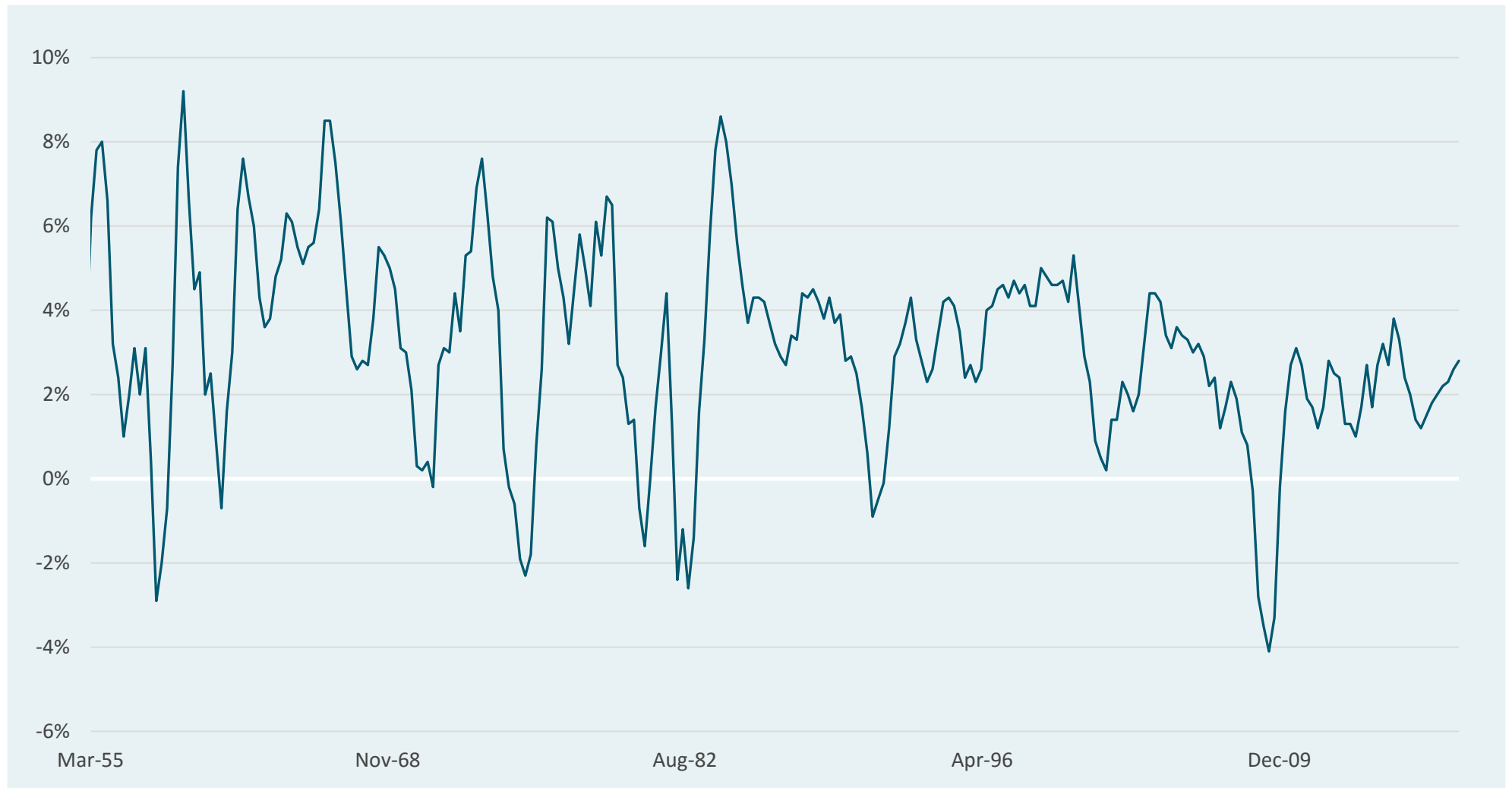
Source: Bloomberg, as of 6/30/18

U.S. economics summary

	Most Recent	12 Months Prior
GDP (YoY)	2.8% <i>3/31/18</i>	2.0% <i>3/31/17</i>
Inflation (CPI YoY, Core)	2.3% <i>6/30/18</i>	1.7% <i>6/30/17</i>
Expected Inflation (5yr-5yr forward)	2.2% <i>6/30/18</i>	1.8% <i>6/30/17</i>
Fed Funds Target Range	1.75 – 2.00% <i>6/30/18</i>	1.00 – 1.25% <i>6/30/17</i>
10 Year Rate	2.9% <i>6/30/18</i>	2.3% <i>6/30/17</i>
U-3 Unemployment	4.0% <i>6/30/18</i>	4.3% <i>6/30/17</i>
U-6 Unemployment	7.8% <i>6/30/18</i>	8.5% <i>6/30/17</i>

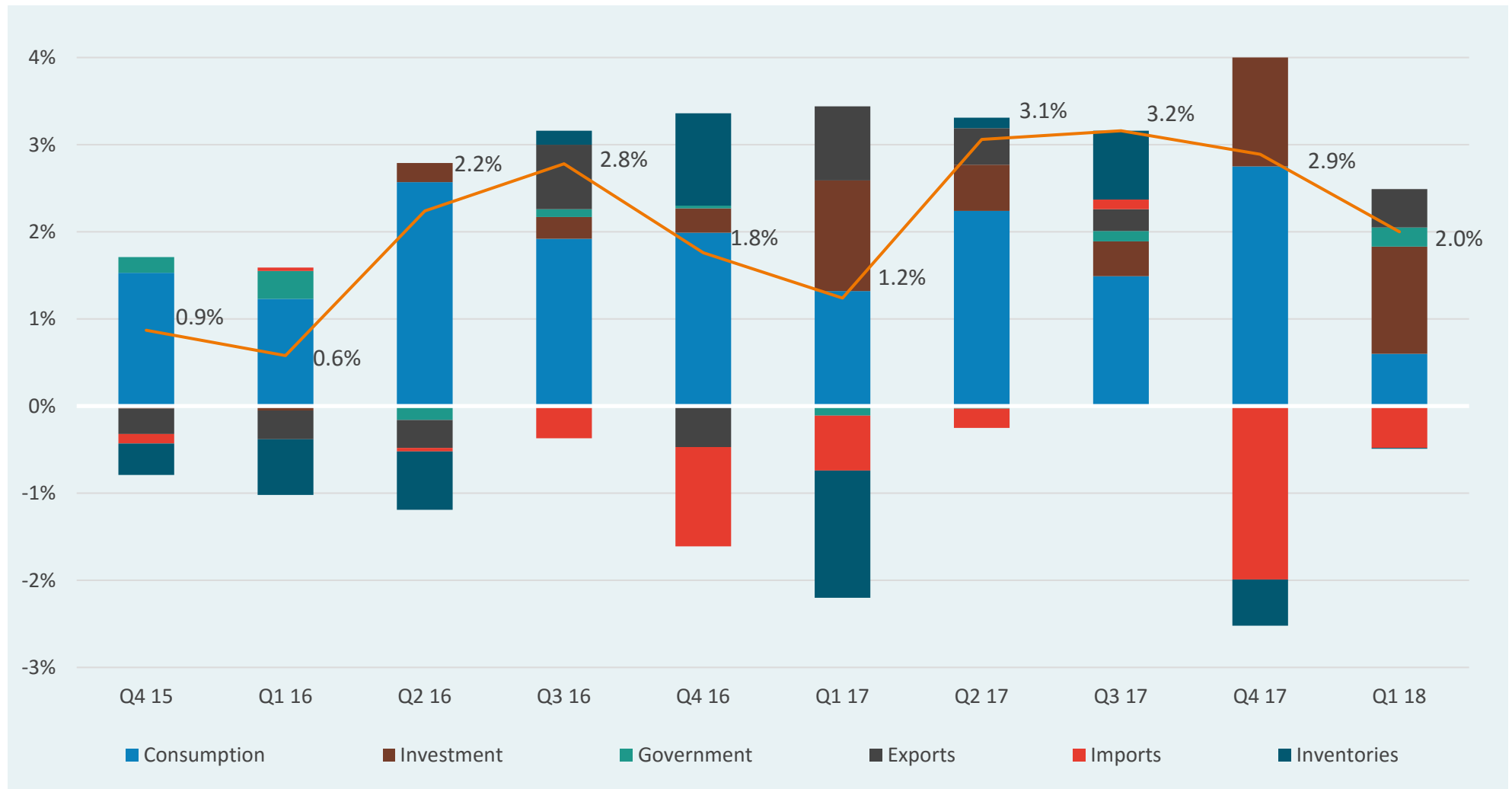
Source: Bloomberg

U.S. GDP growth



Source: FRED, year-over-year, as of 3/31/18

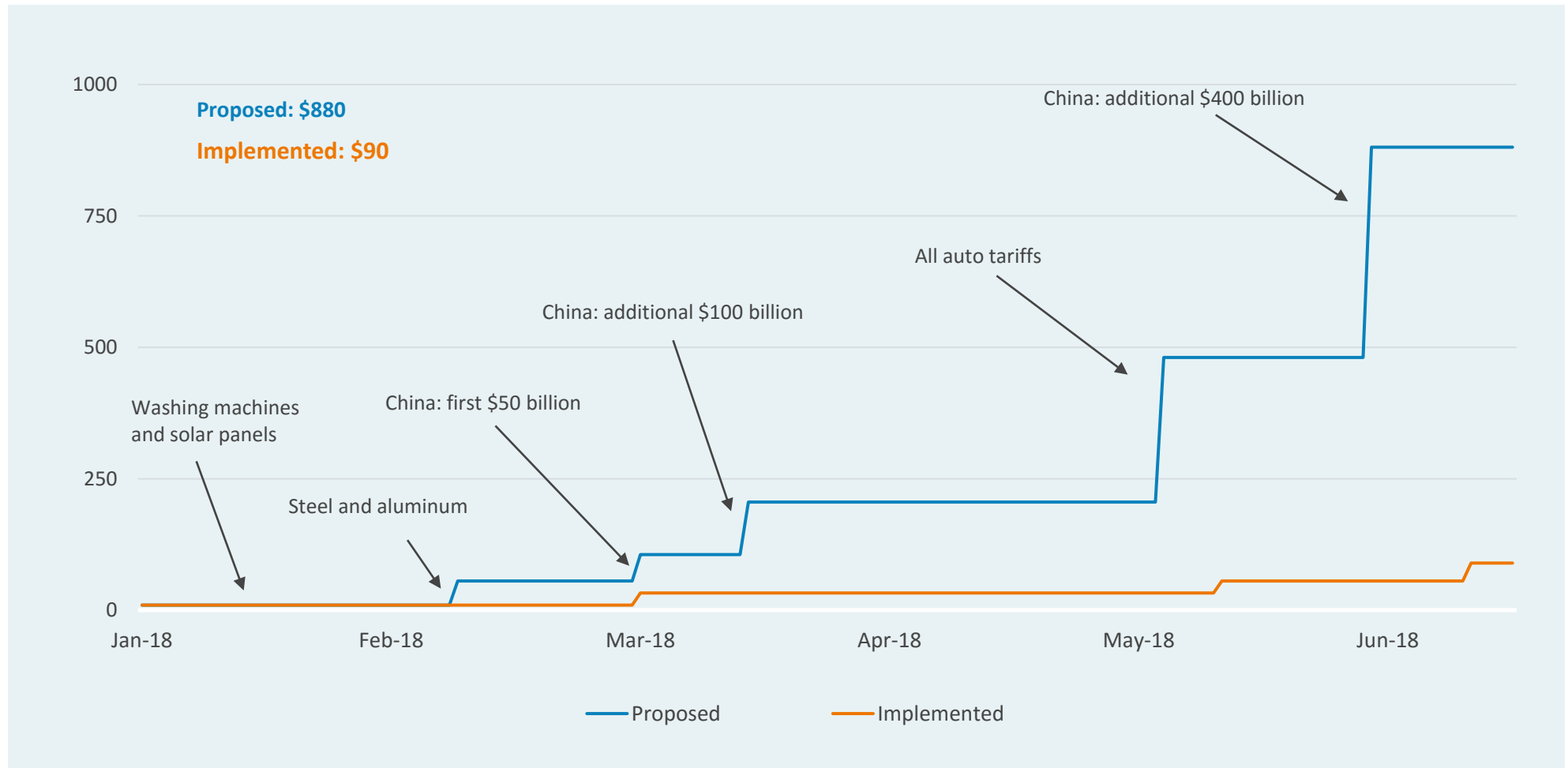
Sources of GDP growth



Source: BEA, annualized quarterly rate, as of 3/31/18

Global trade

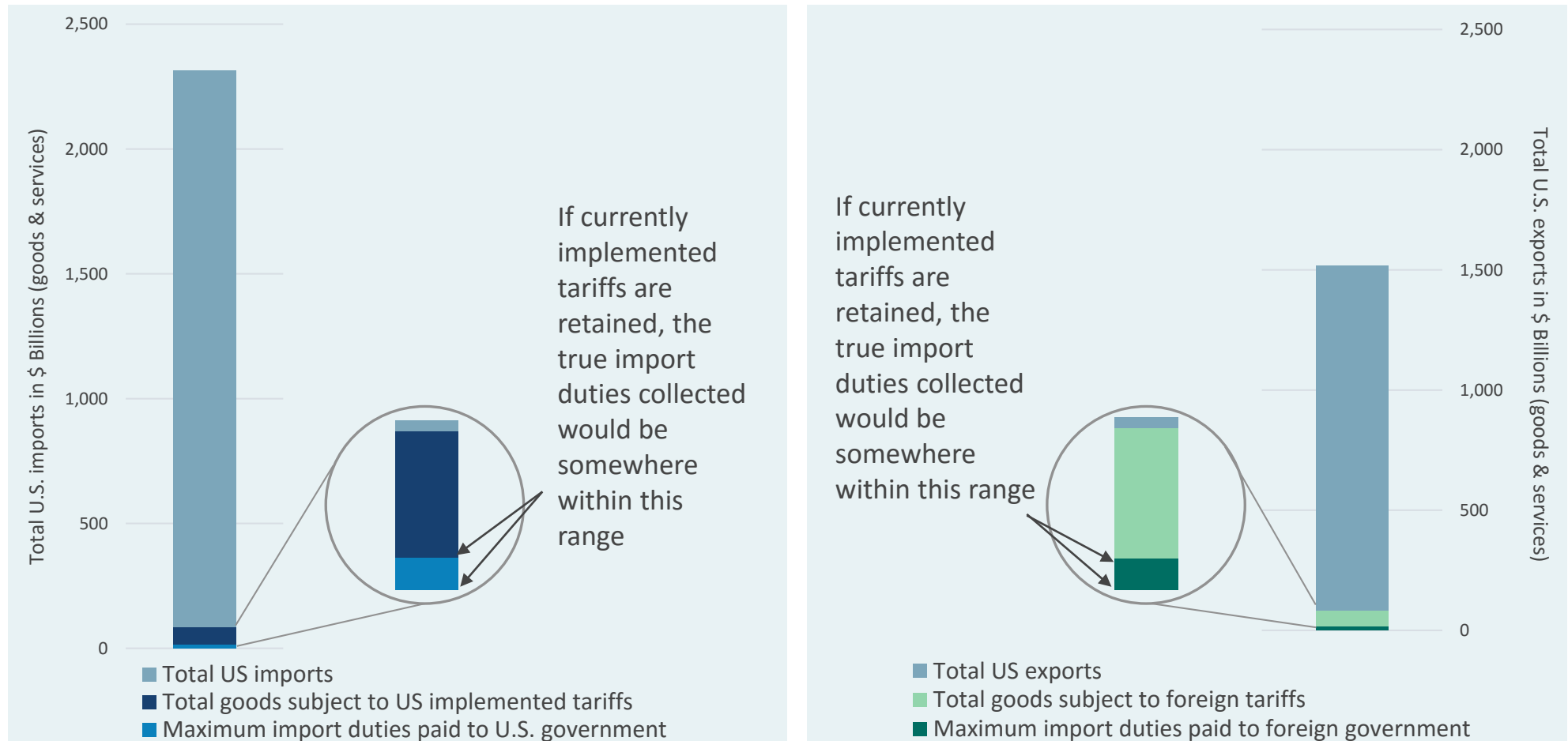
PROPOSED VS IMPLEMENTED U.S. TARIFFS (GOODS SUBJECT TO TARIFFS IN \$BILLIONS)



Source: Verus, as of 7/6/18

Putting tariffs into perspective

Tariff duties are better thought of as an avoidable tax. The impact of recently enacted tariffs is small, especially once substitution effects are accounted for.

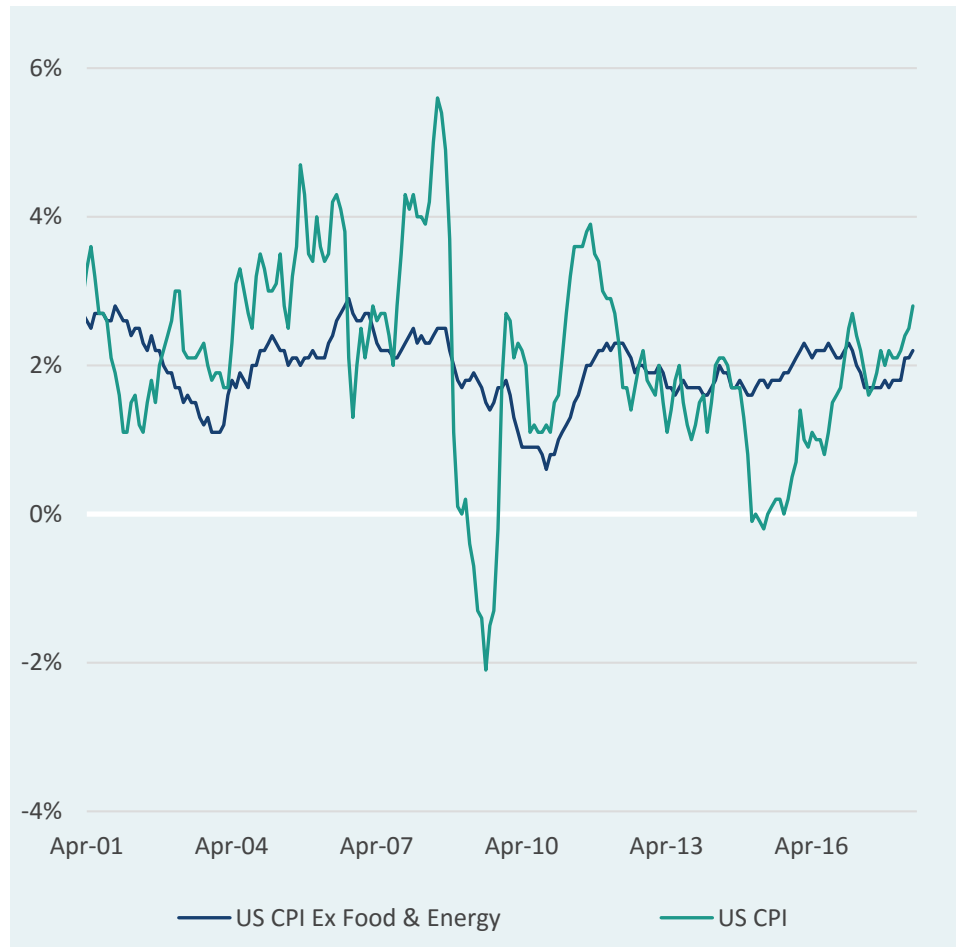


Source: U.S. Census Bureau, Verus

Analysis conservatively assumes a 25% tariff rate for an estimated \$90 billion of tariffs on both imports and exports, both goods and services are included

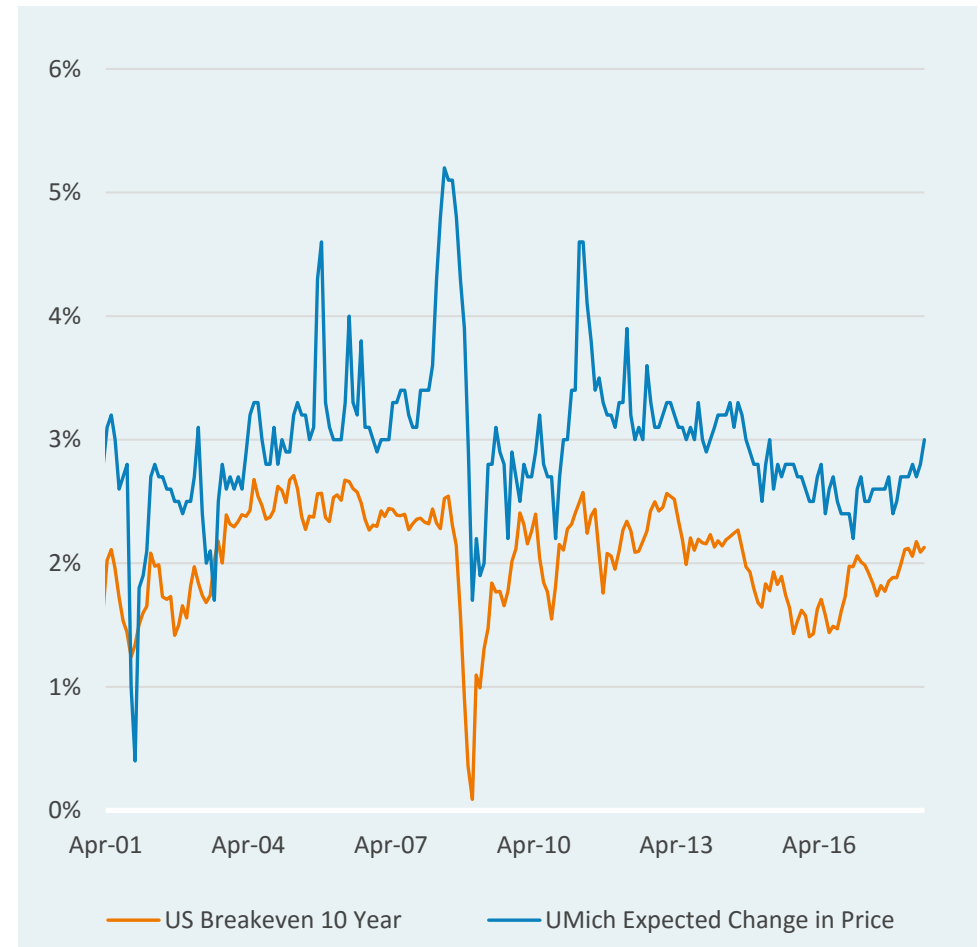
U.S. inflation

U.S. CPI (YOY)



Source: FRED, as of 5/31/18

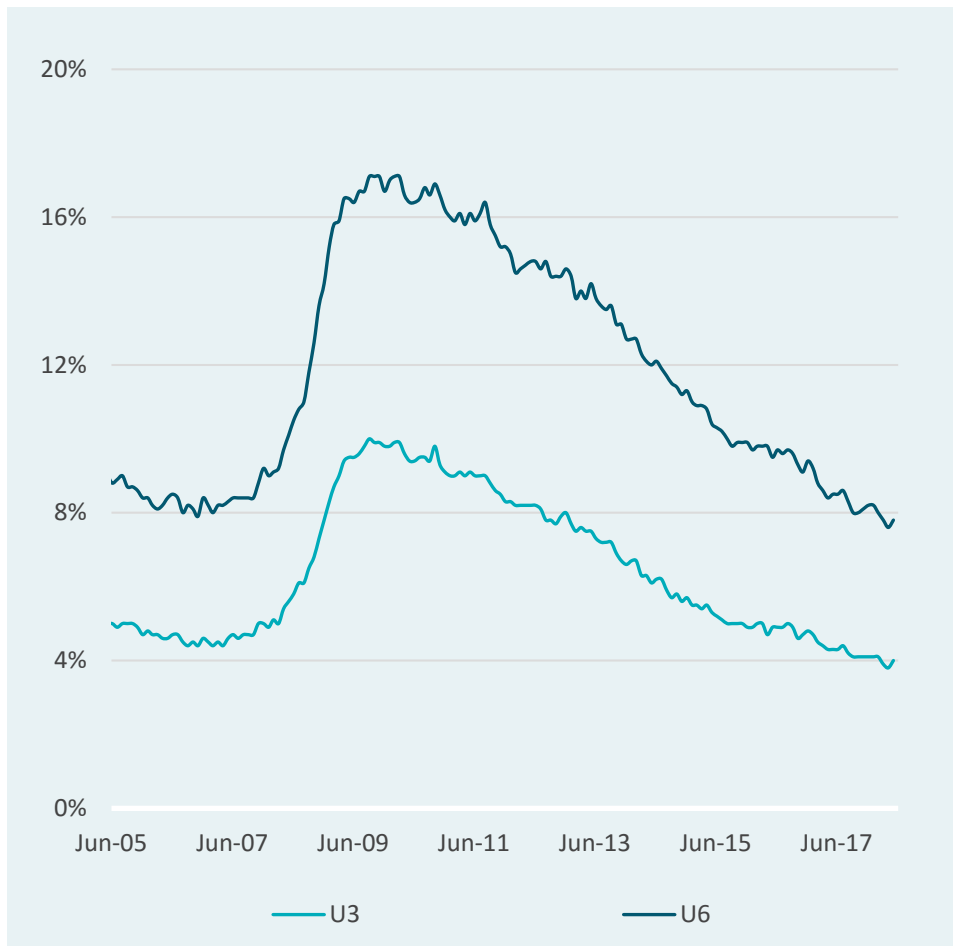
U.S. INFLATION EXPECTATIONS



Source: Bloomberg, as of 6/30/18

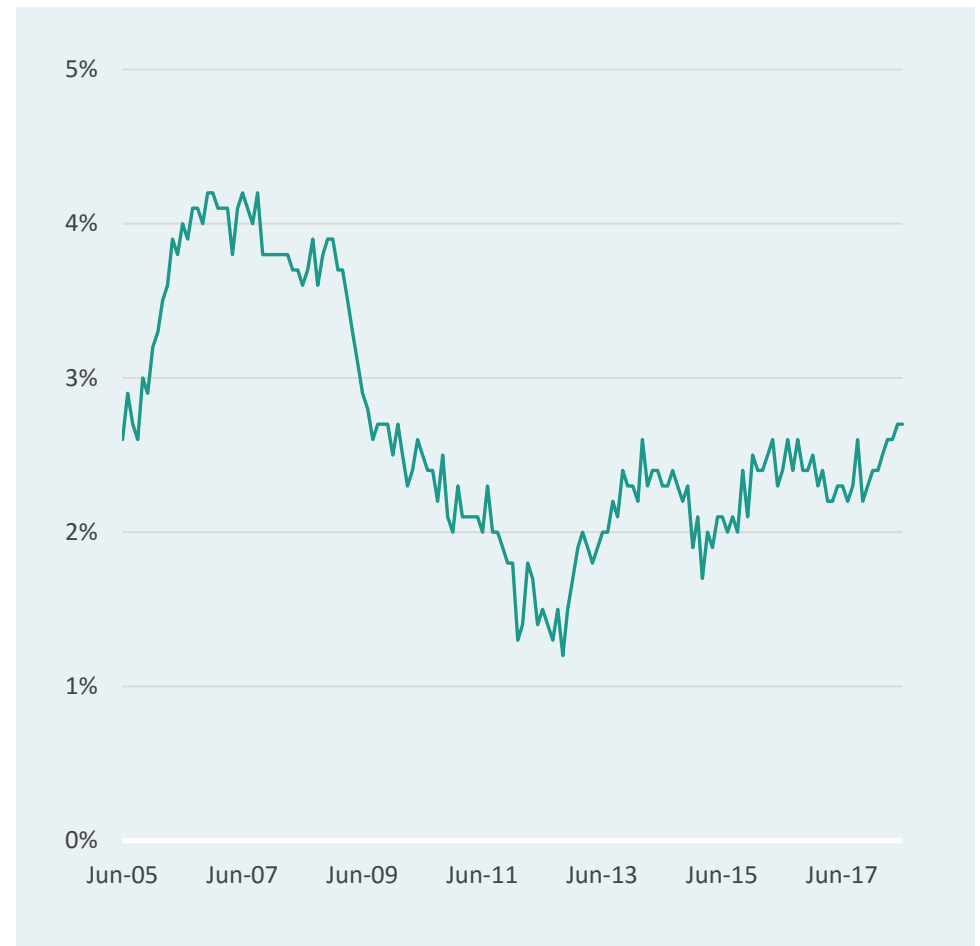
U.S. labor market

UNEMPLOYMENT RATE



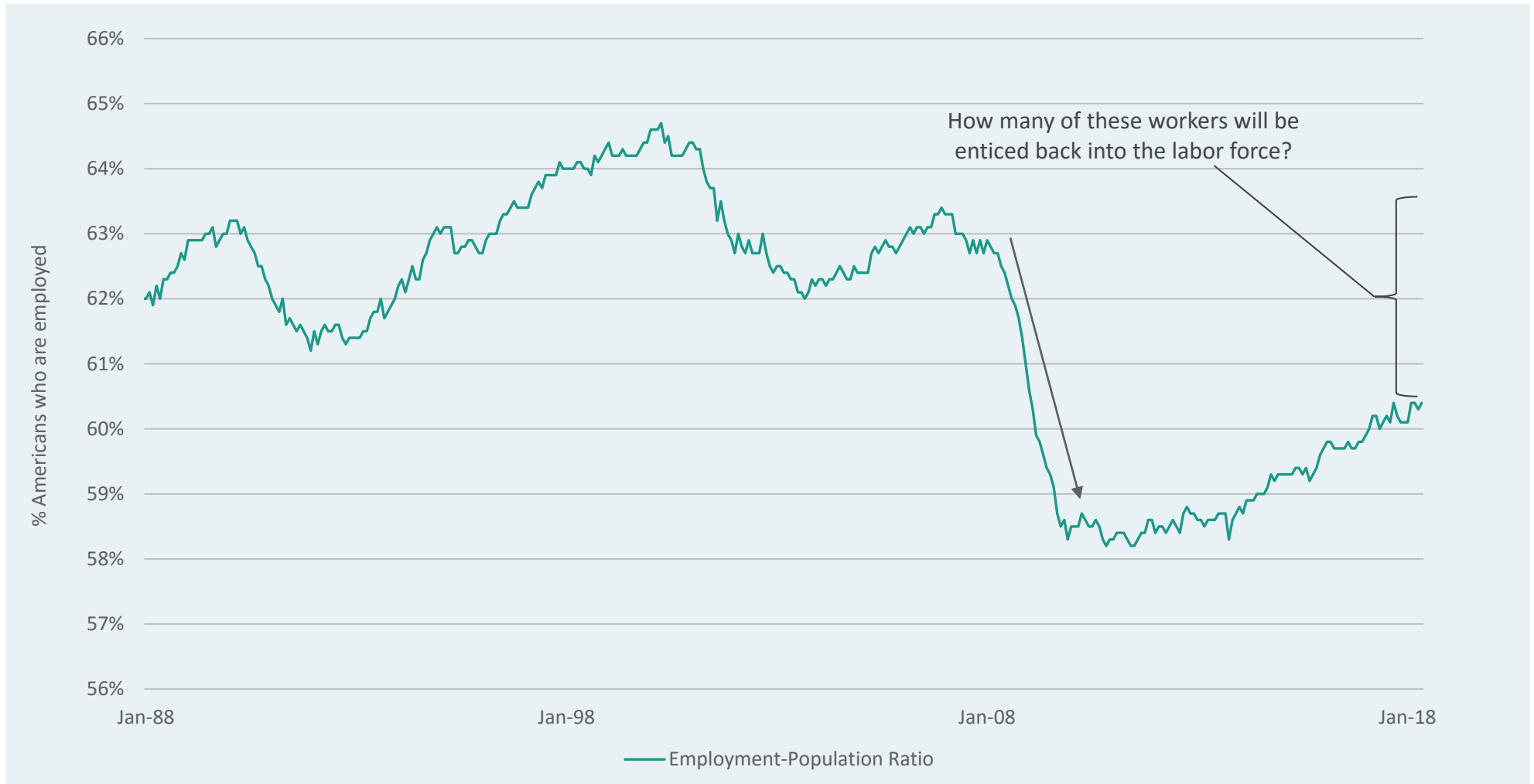
Source: FRED, as of 6/30/18

AVERAGE HOURLY EARNINGS (YOY)



Source: FRED, as of 5/31/18

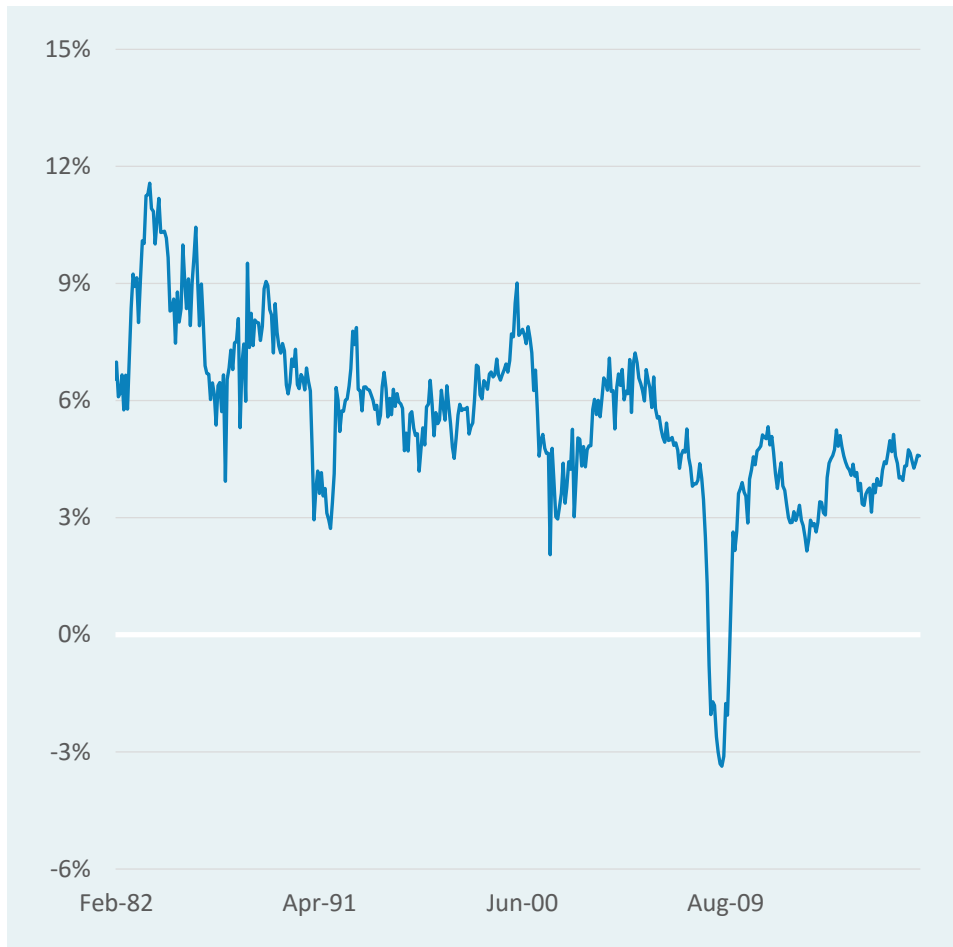
How tight is the job market?



Source: FRED, Verus, as of 6/30/18

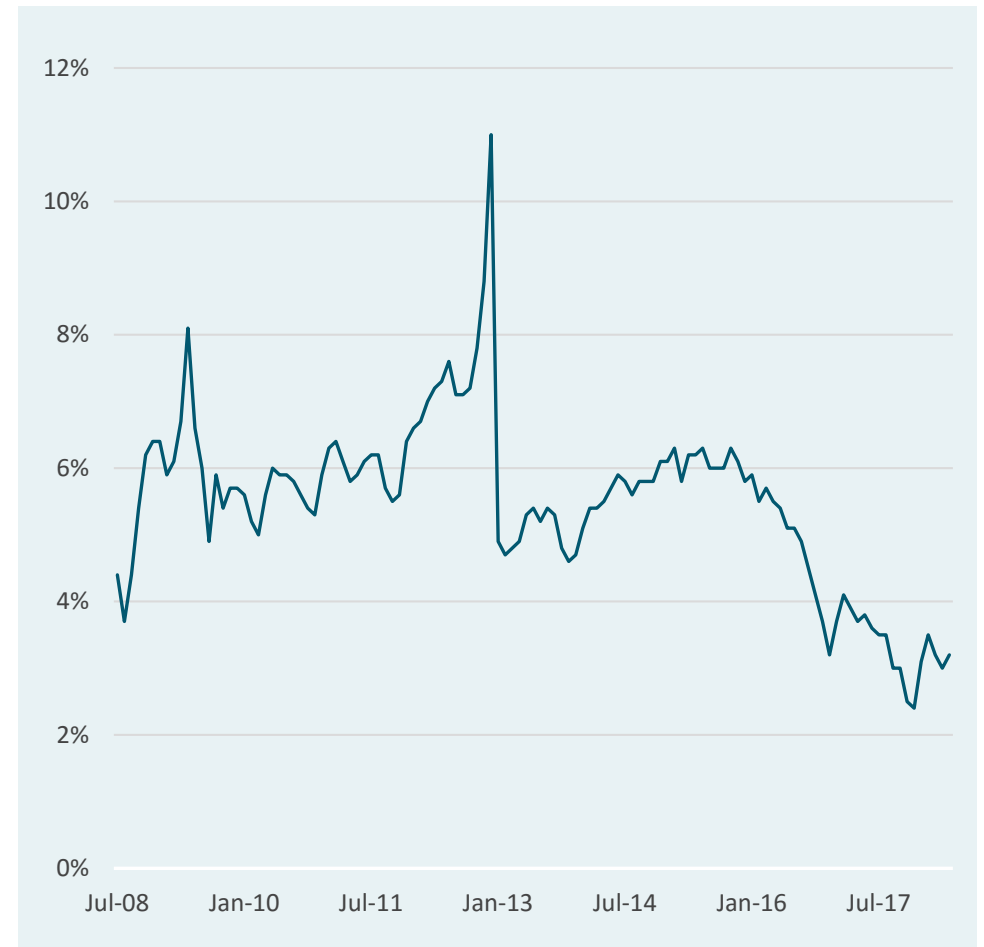
U.S. consumers

CONSUMER SPENDING (YOY GROWTH)



Source: Bloomberg, as of 5/31/18

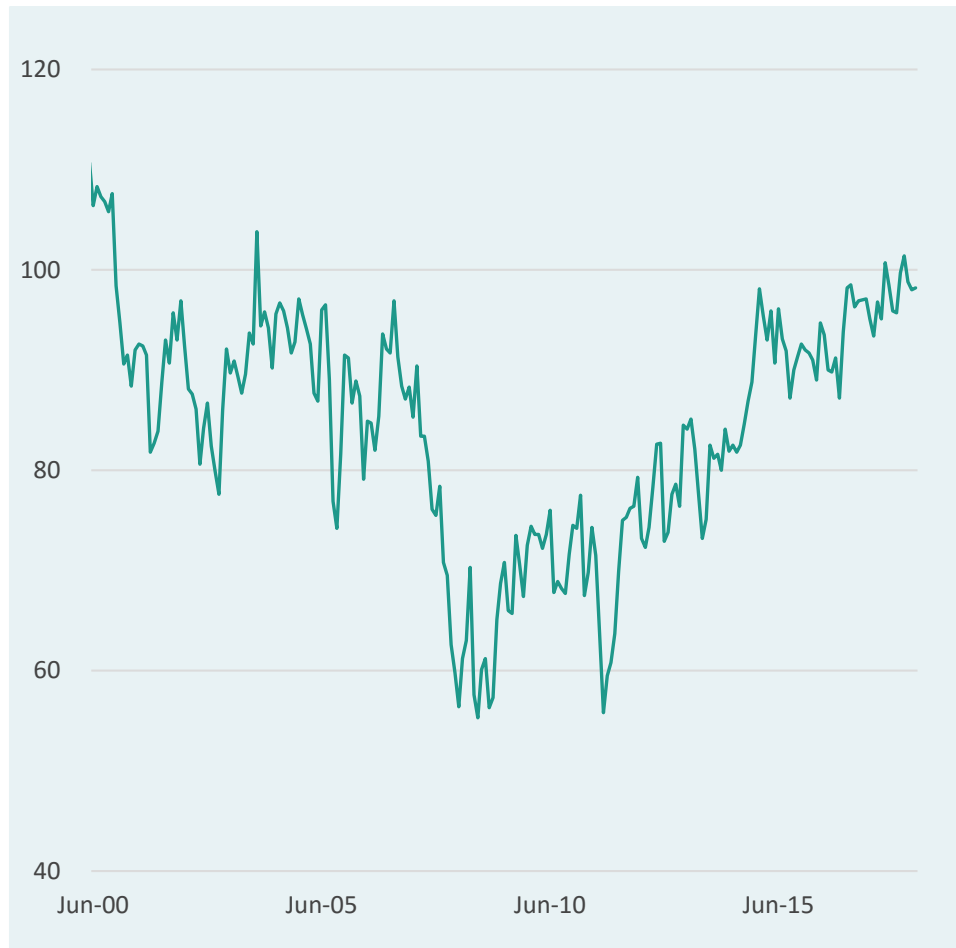
PERSONAL SAVINGS RATE



Source: FRED, as of 5/31/18

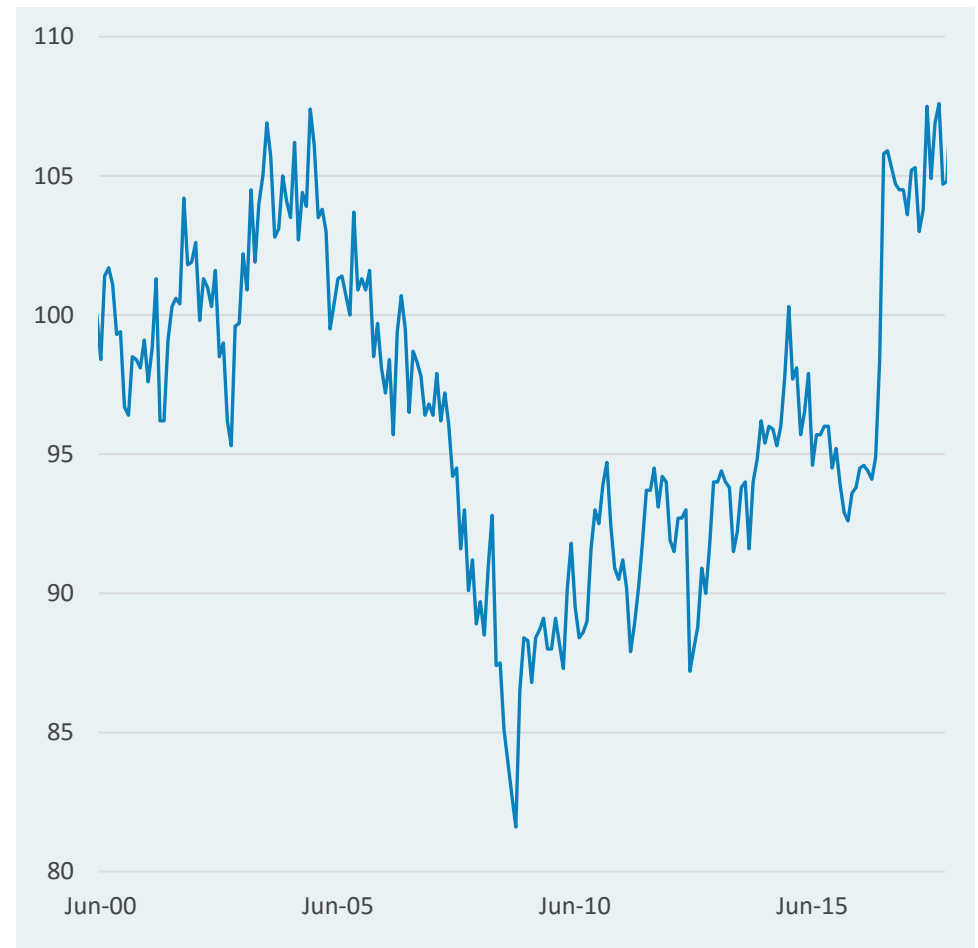
U.S. sentiment

UNIVERSITY OF MICHIGAN CONSUMER SENTIMENT



Source: University of Michigan, as of 6/30/18

NFIB SMALL BUSINESS OPTIMISM INDEX



Source: NFIB, as of 6/30/18

International economics

Area	GDP (Real, YoY)	Inflation (CPI, YoY)	Unemployment
United States	2.8% 3/31/18	2.8% 5/31/18	4.0% 6/30/18
Eurozone	2.5% 3/31/18	2.0% 6/30/18	8.6% 3/31/18
Japan	1.1% 3/31/18	0.7% 5/31/18	2.2% 5/31/18
BRICS Nations	5.8% 3/31/18	2.5% 6/30/18	5.6% 3/31/18
Brazil	1.2% 3/31/18	4.4% 6/30/18	12.8% 6/30/18
Russia	1.3% 3/31/18	2.3% 6/30/18	4.7% 5/31/18
India	7.7% 3/31/18	5.0% 6/30/18	8.8% 12/31/17
China	6.8% 3/31/18	1.9% 6/30/18	3.9% 3/31/18

Source: Bloomberg

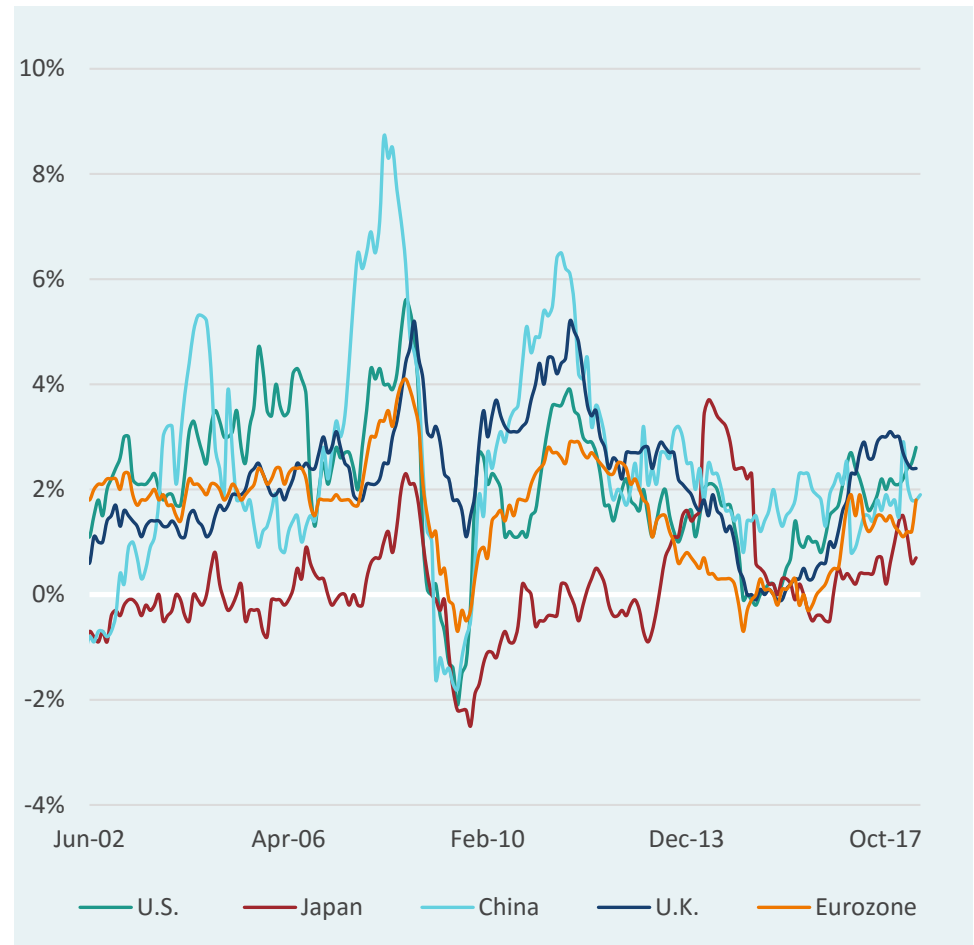
Global GDP and inflation

REAL GDP GROWTH (YOY)



Source: Bloomberg, as of 3/31/18

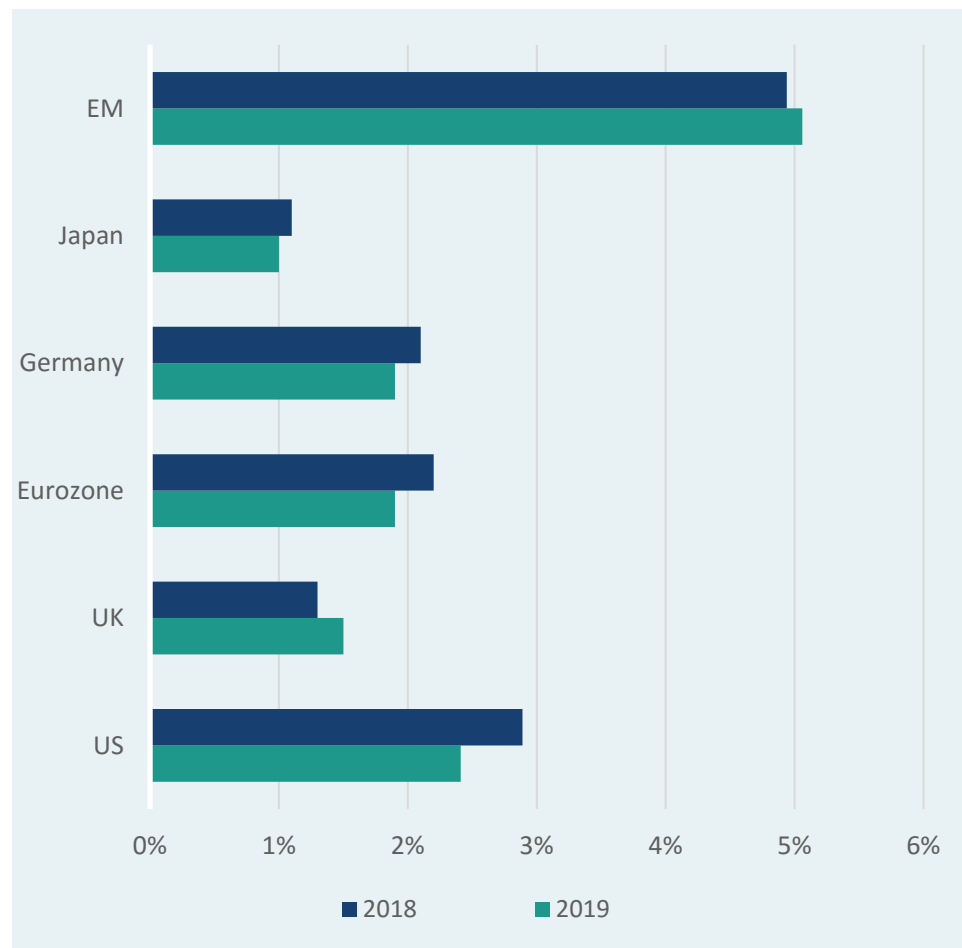
INFLATION (CPI, YOY)



Source: Bloomberg, as of 5/31/18

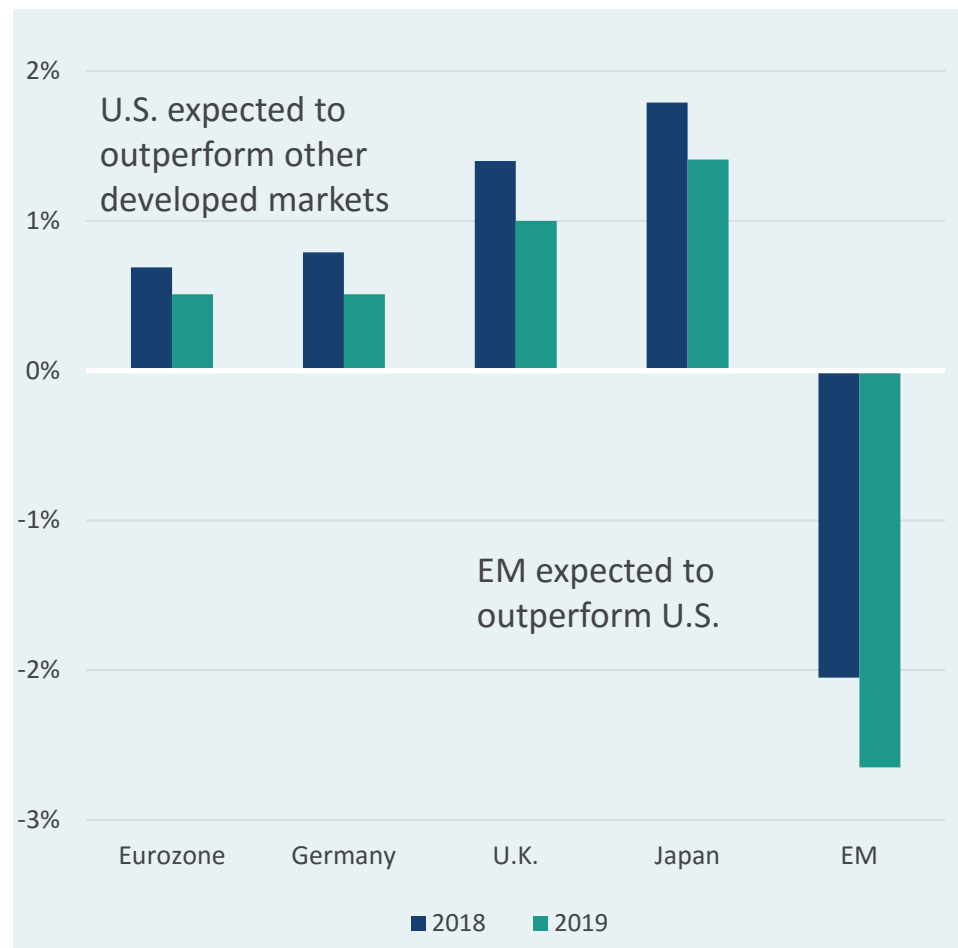
GDP growth expectations

GDP GROWTH EXPECTATIONS



Source: Bloomberg, as of 7/5/18

GDP EXPECTATIONS – U.S. VERSUS THE REST OF THE WORLD

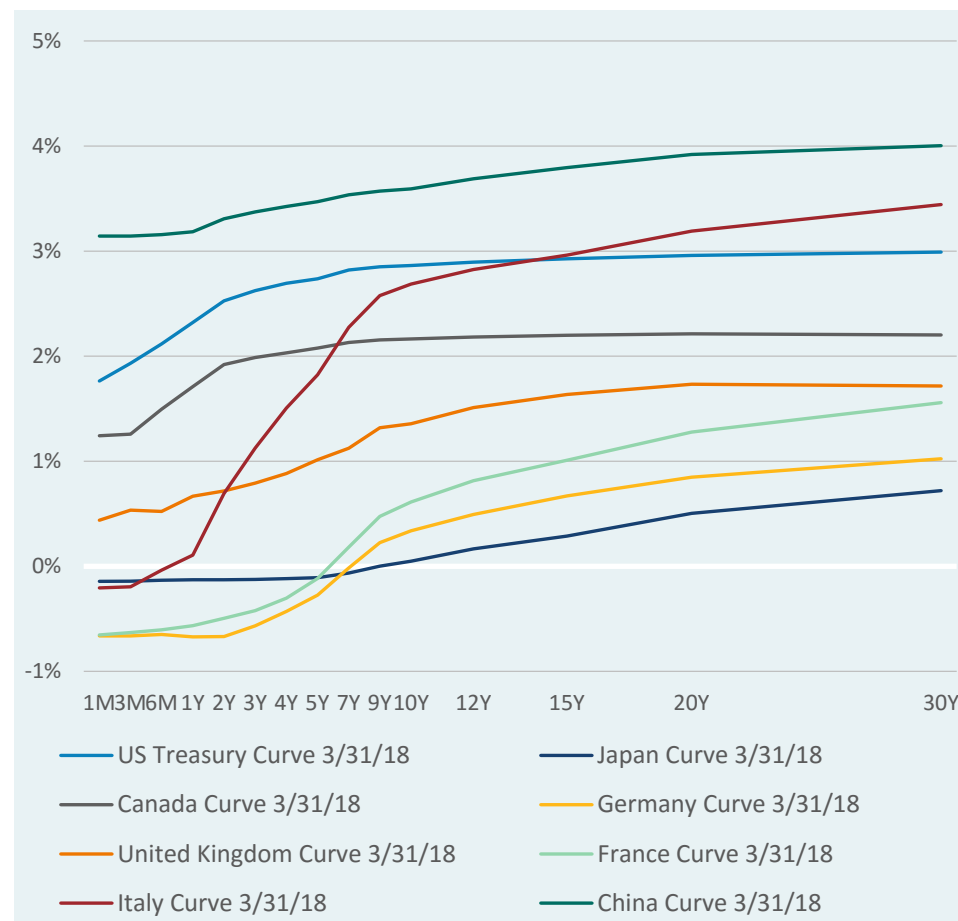


Source: Bloomberg, as of 7/5/18

Interest rate environment

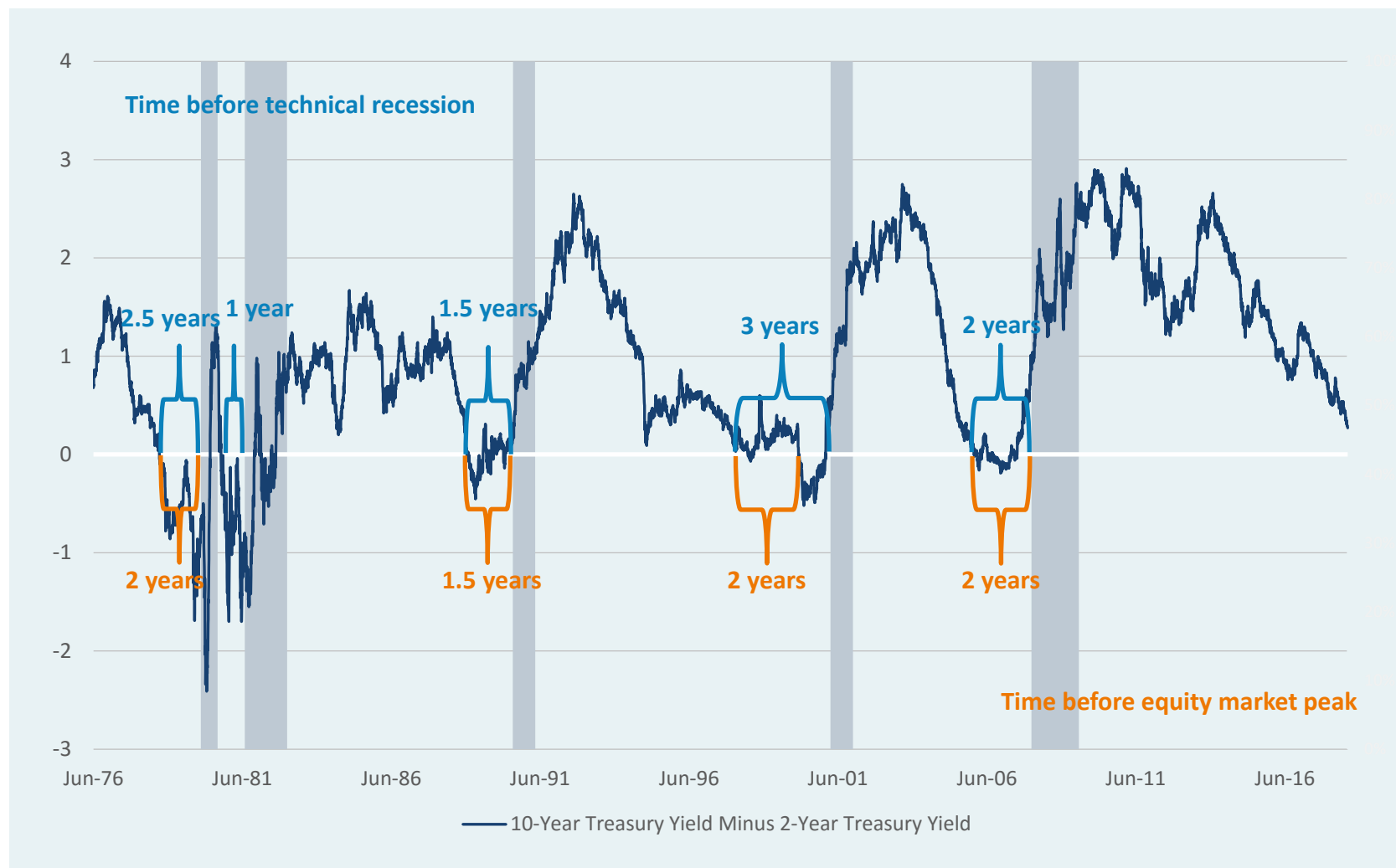
Area	Short Term (3M)	10 Year
United States	1.91%	2.86%
Germany	(0.59%)	0.30%
France	(0.63%)	0.67%
Spain	(0.42%)	1.32%
Italy	(0.12%)	2.68%
Greece	1.04%	3.96%
U.K.	0.61%	1.28%
Japan	(0.14%)	0.04%
Australia	1.92%	2.63%
China	3.01%	3.48%
Brazil	6.45%	11.68%
Russia	6.62%	7.81%

GLOBAL GOVERNMENT YIELD CURVES



Source: Bloomberg, as of 6/30/18

What does an inverted curve indicate?

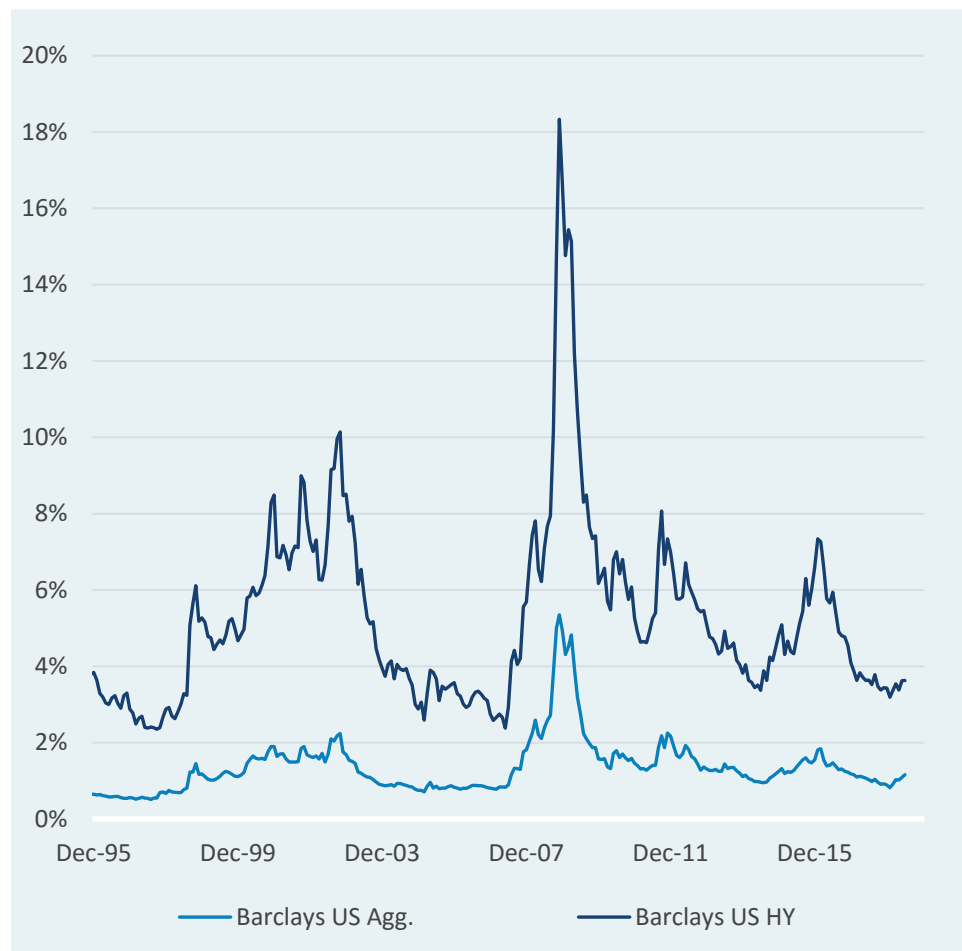


Source: FRED, Verus – time that passed between initial yield curve inversion and the next technical recession, and time that passed between initial yield curve inversion and next equity market peak

Note: There was not a clear equity market peak during the early 1980's expansion. A "time before equity market peak" was therefore not calculated.

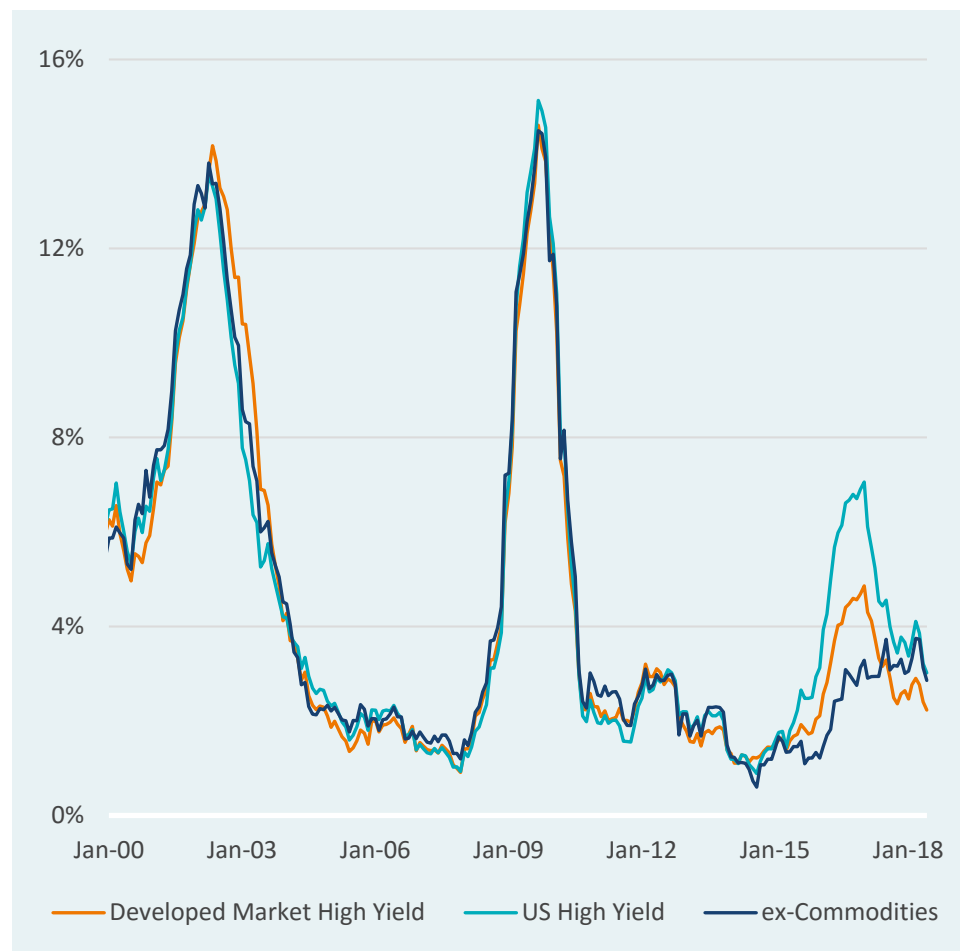
Credit environment

U.S. CREDIT SPREADS



Source: Bloomberg, as of 6/30/18

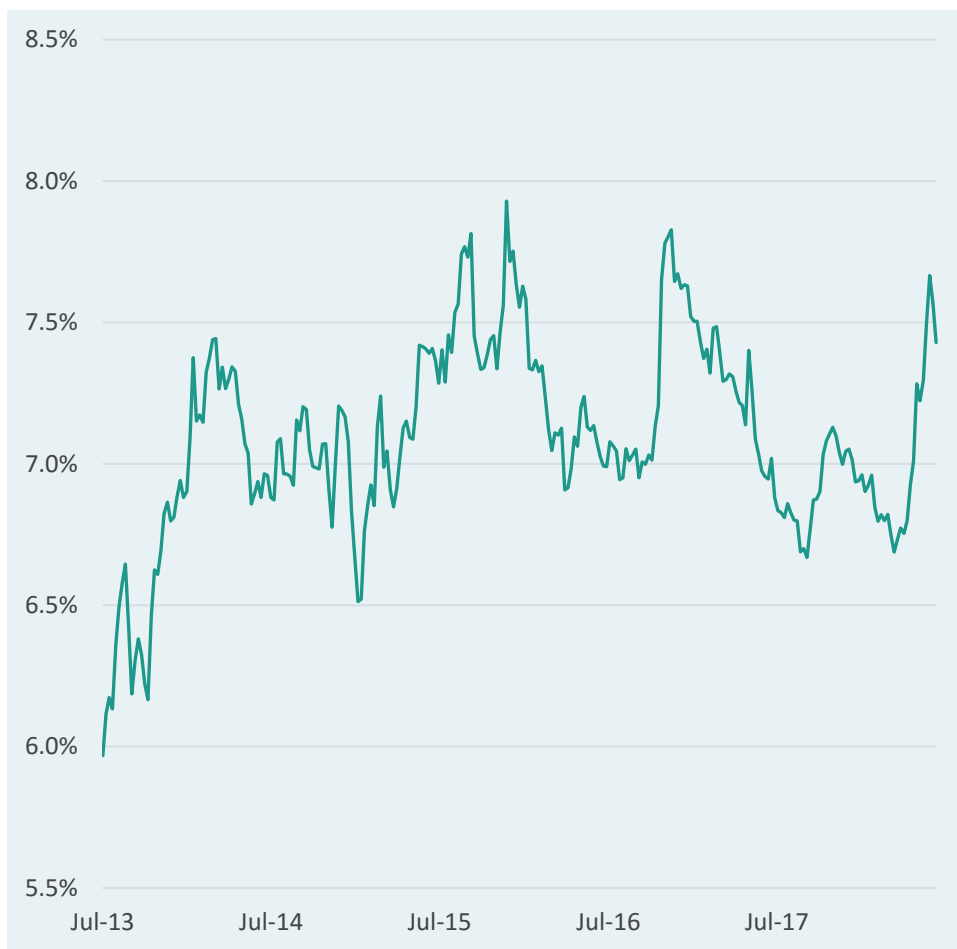
HIGH YIELD DEFAULT RATES



Source: BofA Merrill Lynch, as of 6/30/18

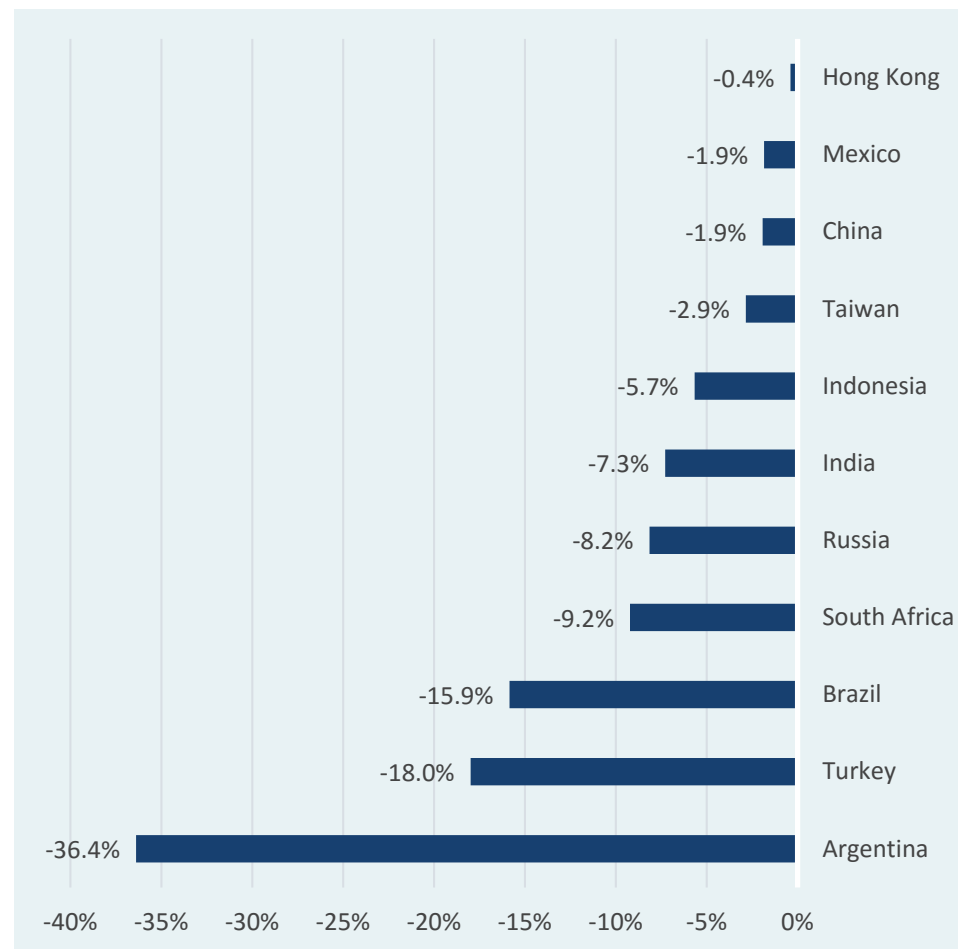
Emerging market debt

EMD LOCAL YIELDS



Source: Bloomberg, as of 6/30/18

YTD CURRENCY LOSSES VS USD



Source: Bloomberg, as of 6/30/18

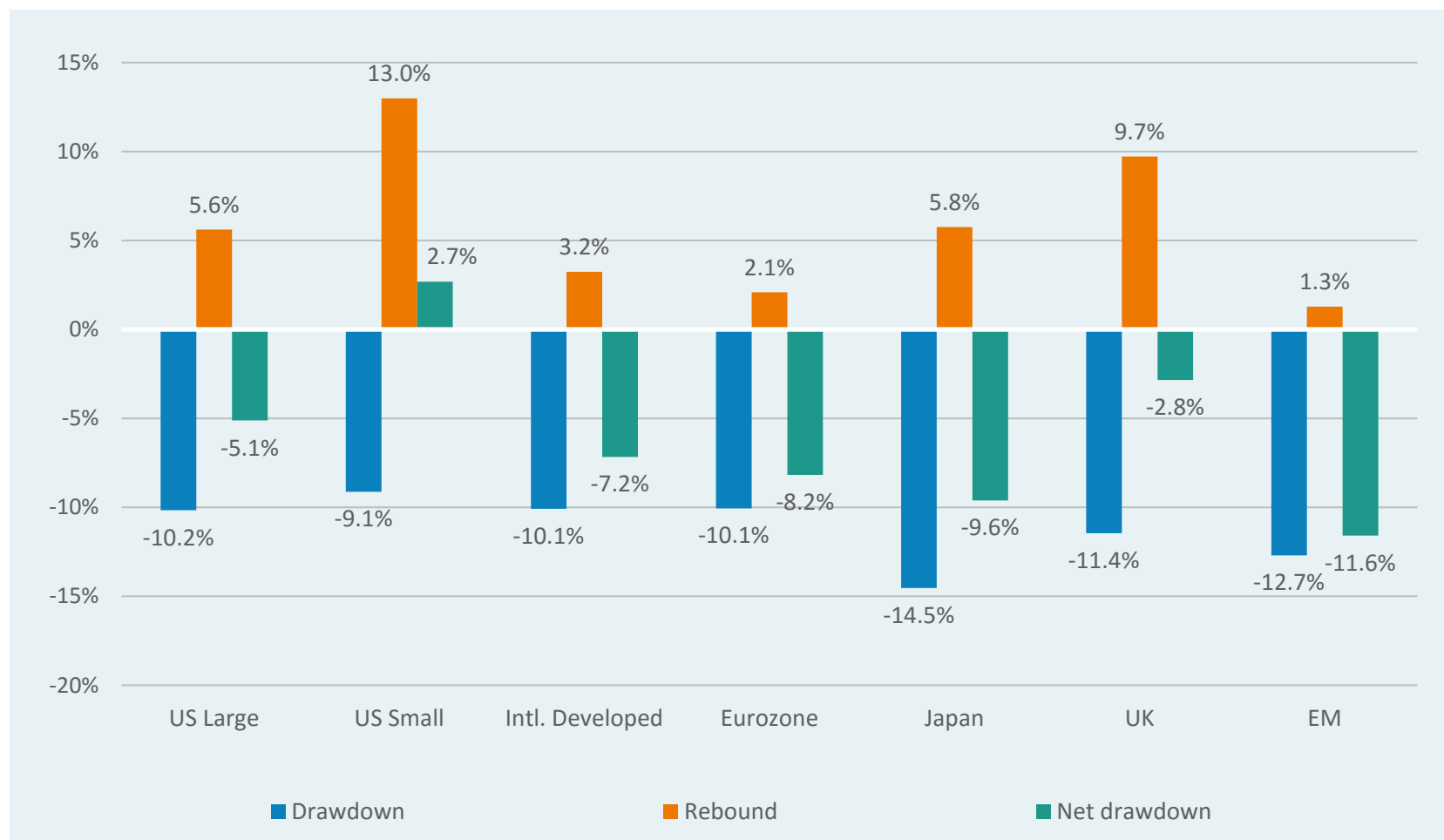
Equity environment

	QTD TOTAL RETURN		YTD TOTAL RETURN		1 YEAR TOTAL RETURN	
	(unhedged)	(hedged)	(unhedged)	(hedged)	(unhedged)	(hedged)
US Large Cap (Russell 1000)	3.6%		2.9%		14.5%	
US Small Cap (Russell 2000)	7.8%		7.7%		17.6%	
US Large Value (Russell 1000 Value)	1.0%		-2.0%		6.0%	
US Large Growth (Russell 1000 Growth)	5.8%		7.3%		22.5%	
International Large (MSCI EAFE)	(1.2%)	3.9%	(2.7%)	0.0%	6.8%	7.9%
Eurozone (Euro Stoxx 50)	(2.3%)	3.6%	(3.7%)	0.5%	3.7%	3.7%
U.K. (FTSE 100)	(3.1%)	9.8%	(0.9%)	2.2%	10.2%	9.9%
Japan (NIKKEI 225)	0.2%	4.4%	0.5%	(1.1%)	15.1%	13.2%
Emerging Markets (MSCI Emerging Markets)	(8.0%)	(3.6%)	(6.7%)	(3.0%)	8.2%	9.5%

Source: Russell Investments, MSCI, Stoxx, FTSE, Nikkei, as of 6/30/18

2018 peak to trough

PEAK TO TROUGH



2018 peak to trough, local returns, as of 7/2/18 – the trough (market bottom) date for each market is as follows: US Large (2/8), US Small (2/8), Intl. Dev. (3/26), Eurozone (3/23), Japan (3/23), UK (3/26), EM (6/28)

Domestic equity

S&P 500 PRICE INDEX & EARNINGS (NORMALIZED TO 100)



Source: Bloomberg, as of 6/30/18, 12 month forward EPS

International equity

3-YEAR ROLLING PERFORMANCE



Source: Bloomberg, as of 6/30/18

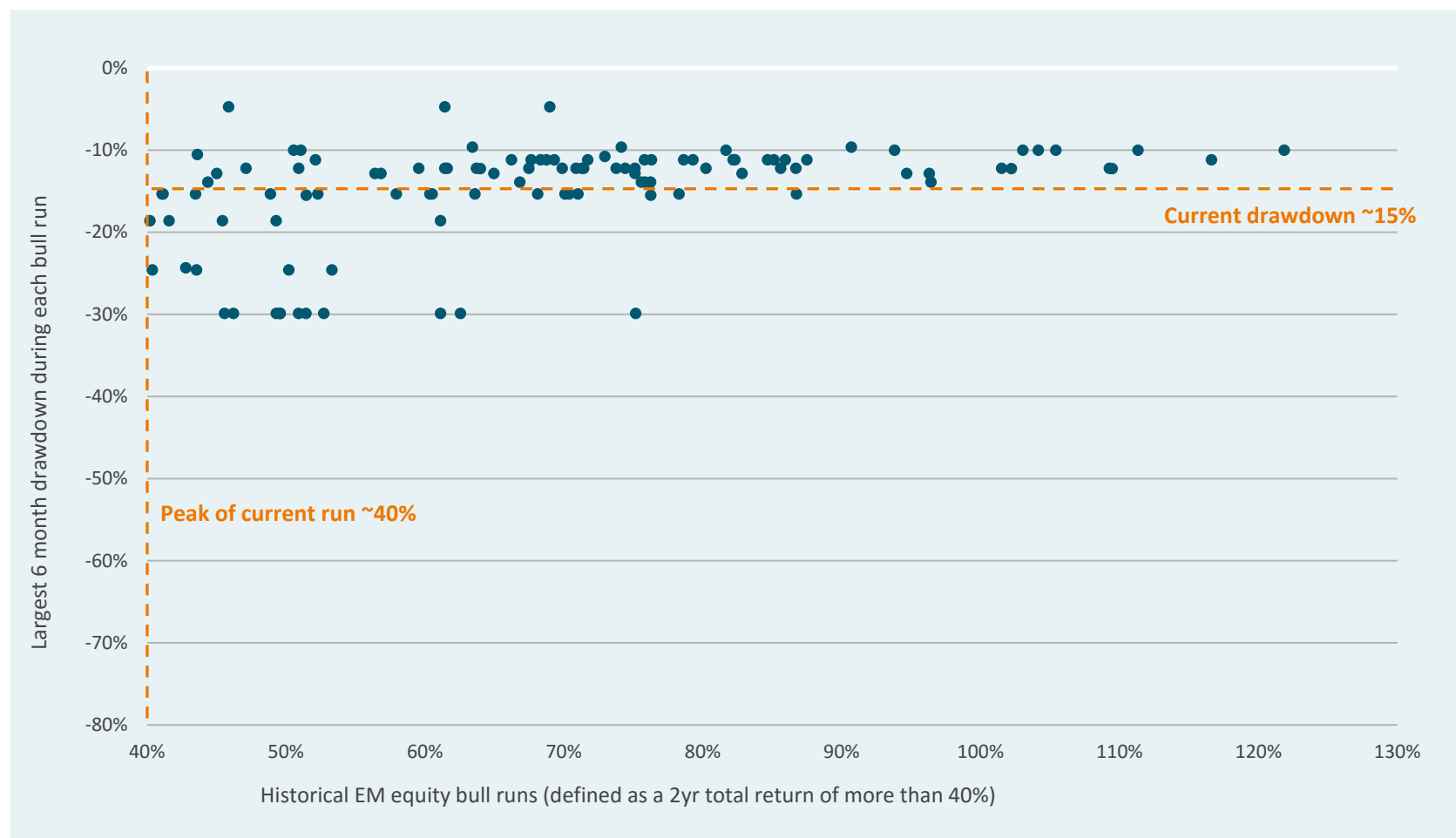
EARNINGS GROWTH



Source: MSCI, as of 6/30/18 – YoY growth in forward earnings

Emerging market volatility

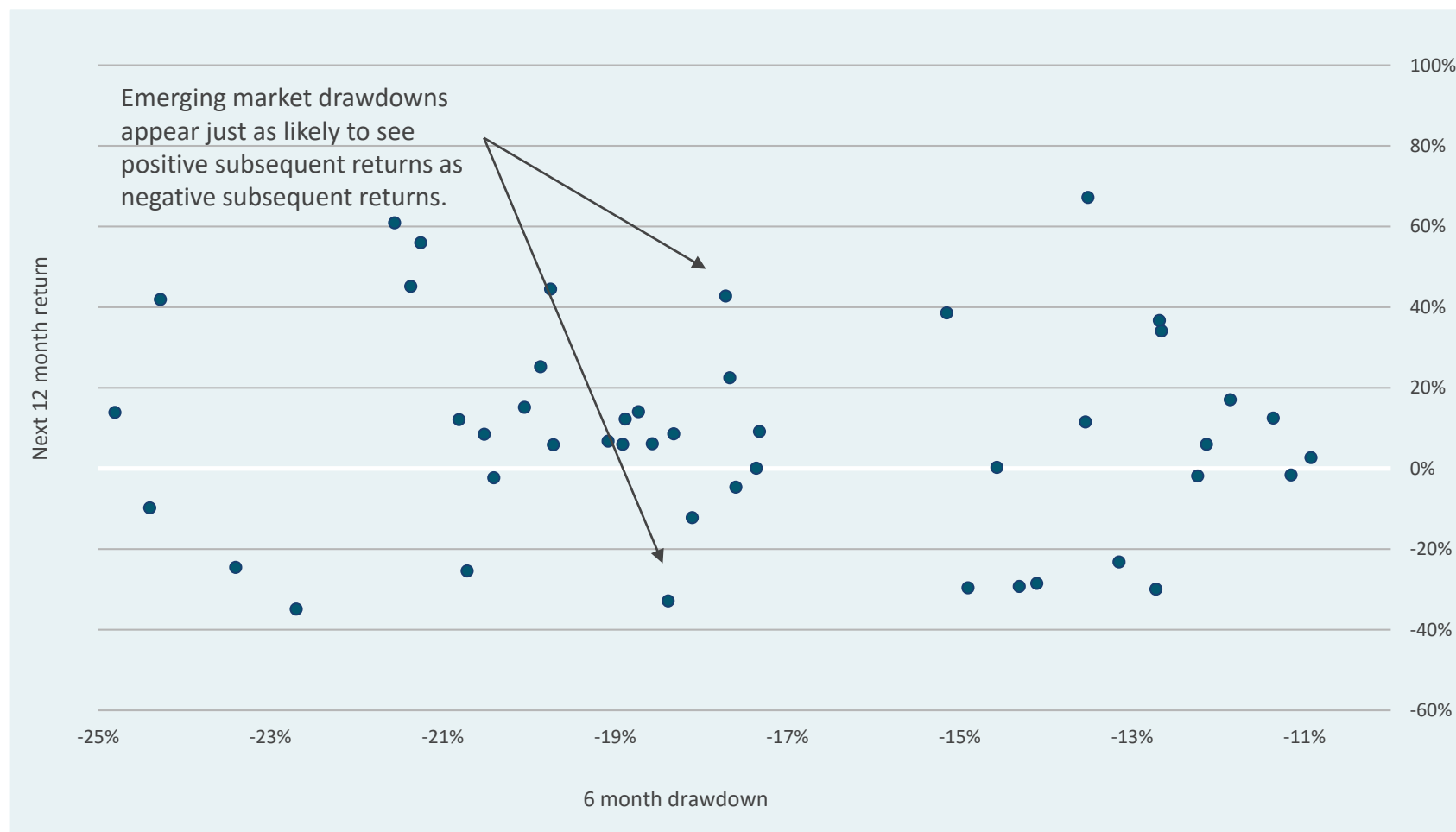
Drawdowns of 10% or more are typical during EM bull runs



The average drawdown experienced during all 2 year periods of 40%+ returns was -14.8%

Emerging market volatility

The recent drawdown does not imply heightened risk of further losses



Source: MSCI, Verus

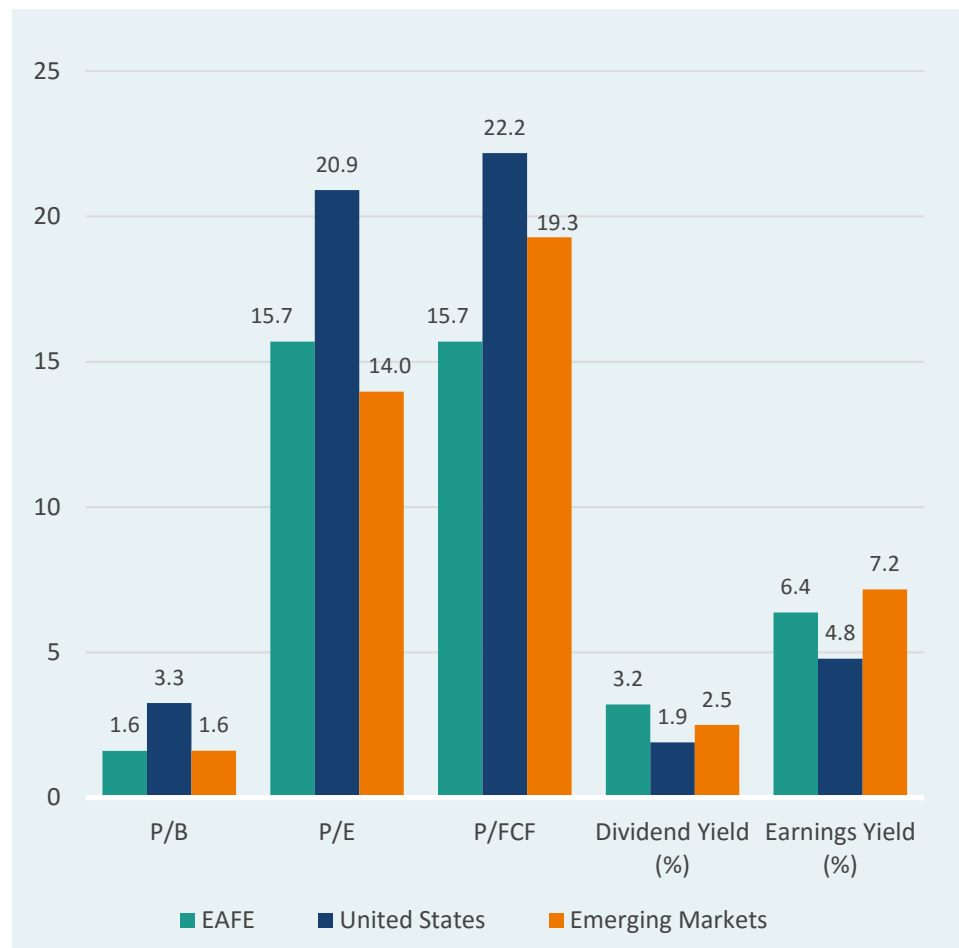
Equity valuations

FORWARD P/E RATIOS



Source: Bloomberg, as of 6/30/18

VALUATION METRICS (3-MONTH AVERAGE)



Source: Bloomberg, as of 6/30/18

Equity volatility

REALIZED 1-YEAR ROLLING VOLATILITY



Source: Bloomberg, as of 6/30/18

Currency

U.S. DOLLAR TRADE WEIGHTED INDEX



Source: Federal Reserve, as of 6/30/18

U.S. VS DEVELOPED INTEREST RATE DIFFERENTIALS



Source: Verus, Bloomberg, as of 6/30/18

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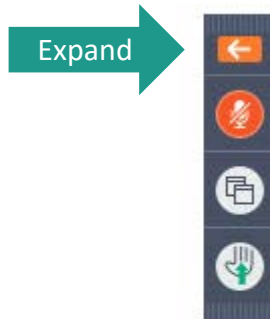
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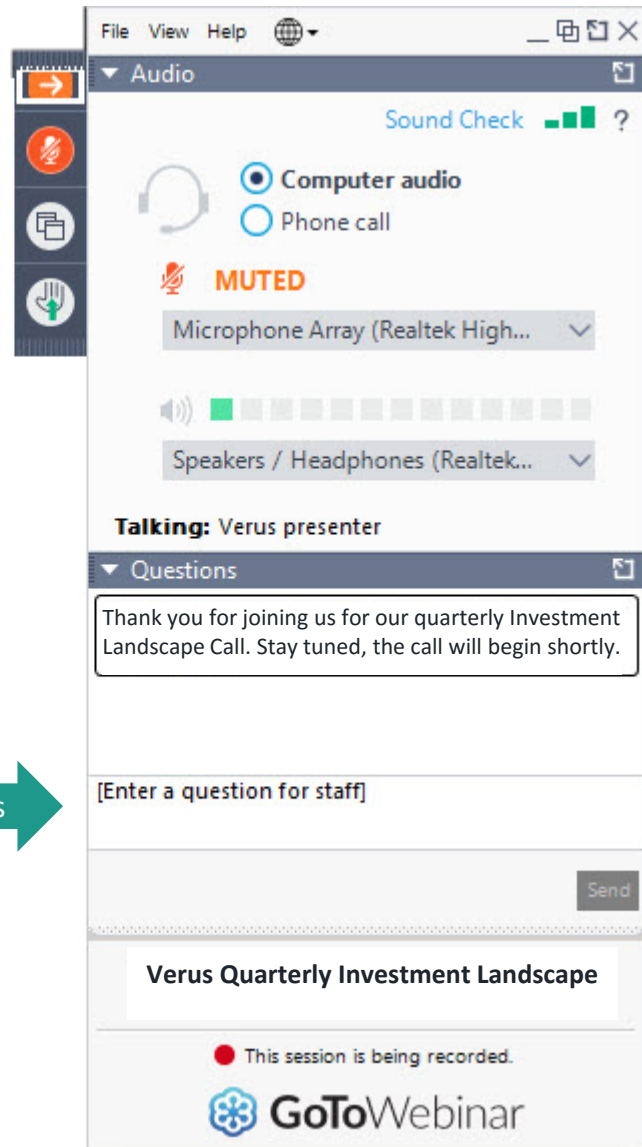
Q&A



Use the orange arrow to expand the control panel

Ask questions here

Questions





Thank you