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Q4 2019

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MACROECONOMIC HIGHLIGHTS

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WestEnd Outlook Highlights

- The U.S. economic cycle continues to mature. Growth remains positive, but it has decelerated as consumer strength is partly offset by weakness in manufacturing.
- The Federal Reserve's two recent short-term rate cuts should help normalize the yield curve but are unlikely to spur a sustained reacceleration of economic growth.
- We continue to avoid the most economically-sensitive U.S. equity sectors.
- In global portfolios, while we still see better opportunities in Asia than Europe, we continue to underweight international equities as a whole.
- With continued late-cycle growth and low absolute yields, we still favor corporate bond exposure in fixed-income allocations.

U.S. Equity Sector Allocations

WestEnd ETF Strategies
Current U.S. Equity Sector Allocations

Sectors Allocated/Overweighted

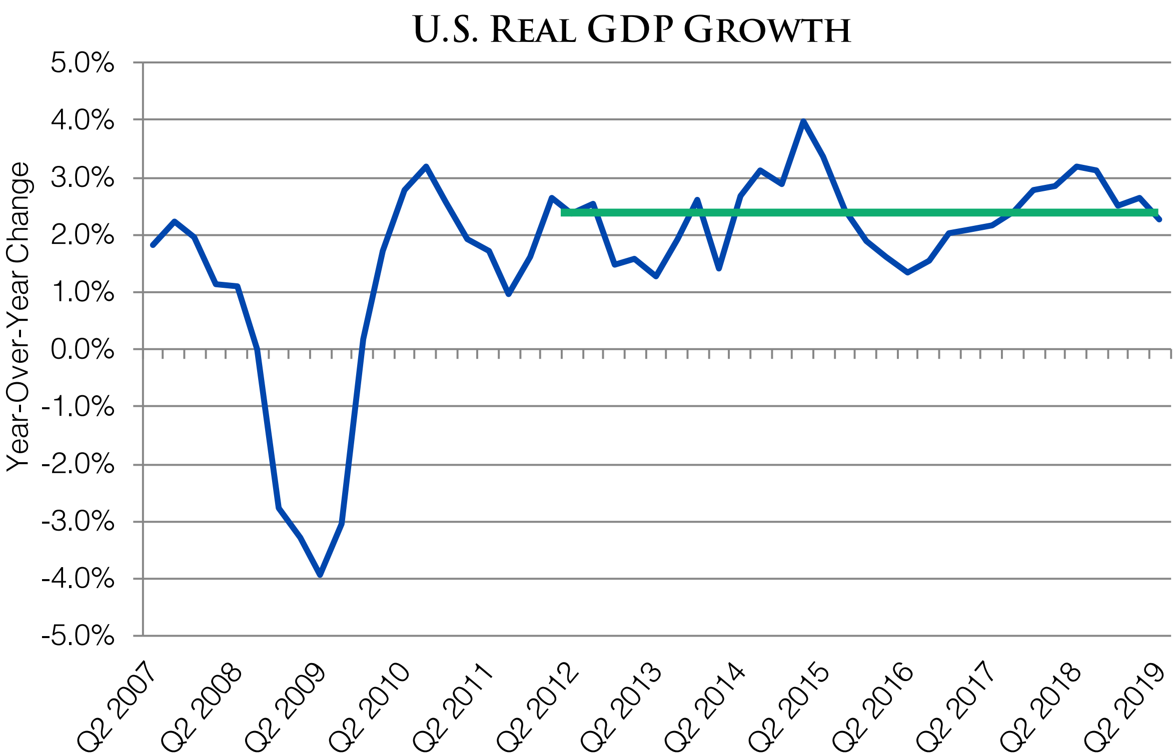
- Communication Services
- Consumer Discretionary
- Consumer Staples
- Health Care
- Information Technology
- Utilities

Sectors Avoided

- Energy
- Financials
- Industrials
- Materials
- Real Estate

U.S. Economic & Market Backdrop

U.S. Economic Activity Decelerates



Source: Bureau of Economic Analysis, WestEnd Advisors

Portfolio Impact

Moderate growth and an advanced economic cycle warrant exposure to a mix of sectors:

Technology & Communication Services:

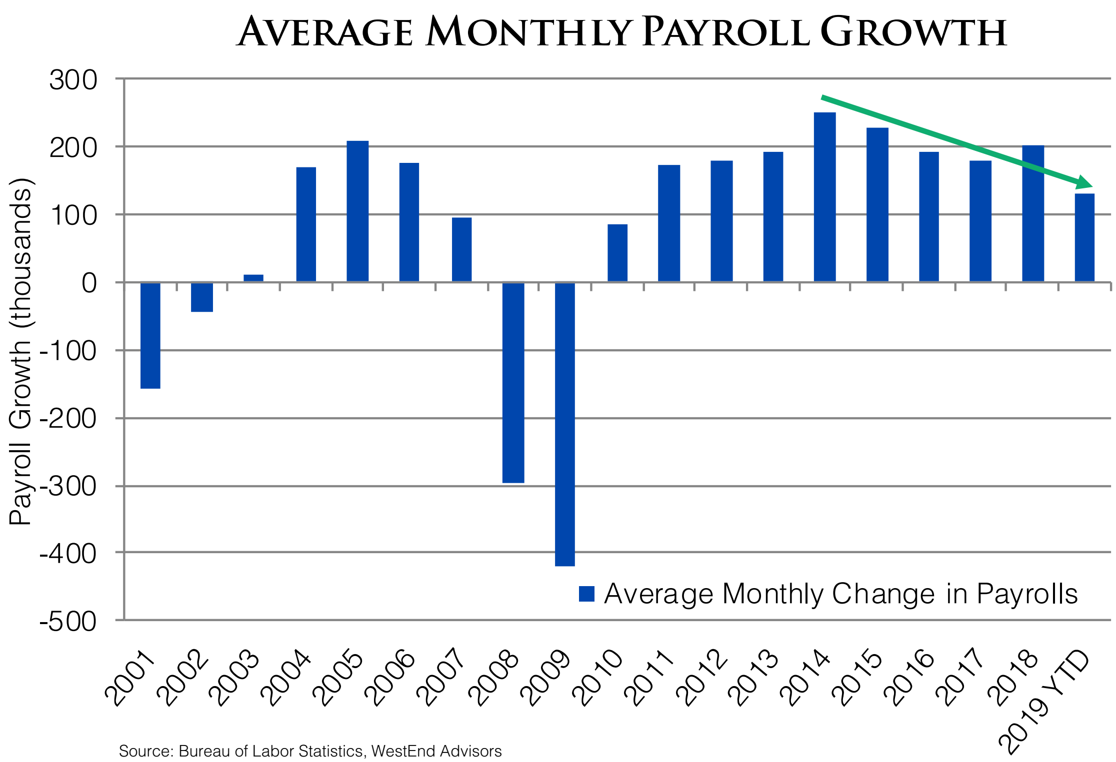
Sectors that benefit from sustained cyclical and secular growth drivers.

Consumer Staples, Health Care & Utilities:

Sectors that deliver steady earnings growth and can benefit from secular growth drivers.

U.S. economic growth has decelerated in recent quarters. Q2 growth was up just 2.0% on an annualized basis, while year-over-year GDP growth decelerated to 2.3% as of Q2. The chart above indicates that the recent annual growth is consistent with the trend of moderate growth that has been recorded during this expansion. At the same time, growth has softened in recent quarters and Q3 2019 GDP growth will likely be near 2%, as healthy consumer spending is offset in part by sluggish manufacturing activity.

U.S. Economic Cycle Continues to Mature



Source: Bureau of Labor Statistics, WestEnd Advisors

Portfolio Impact

A more advanced economic cycle and moderate growth demand being selective within both equity and fixed income asset classes to identify attractive investment opportunities.

Energy and Industrials Sectors:

In equity allocations, avoid more economically-sensitive sectors that typically benefit from dynamic economic growth.

A variety of readings across the U.S. economy, including auto sales, construction spending, and the unemployment rate, point to the significant progress that has been made in the current economic expansion. The chart above focuses on payroll growth, another labor market indicator that **points to the maturing of the economic cycle.** The chart illustrates that the pace of payroll gains has diminished in recent years (2018 is an exception in the wake of the 2017 tax reform), consistent with the trend in prior cycles as those cycles have progressed.

The recent slower economic activity, together with the advanced stage of the economic cycle, bears close watching, but **our base case continues to call for moderate economic growth for the U.S. economy**.

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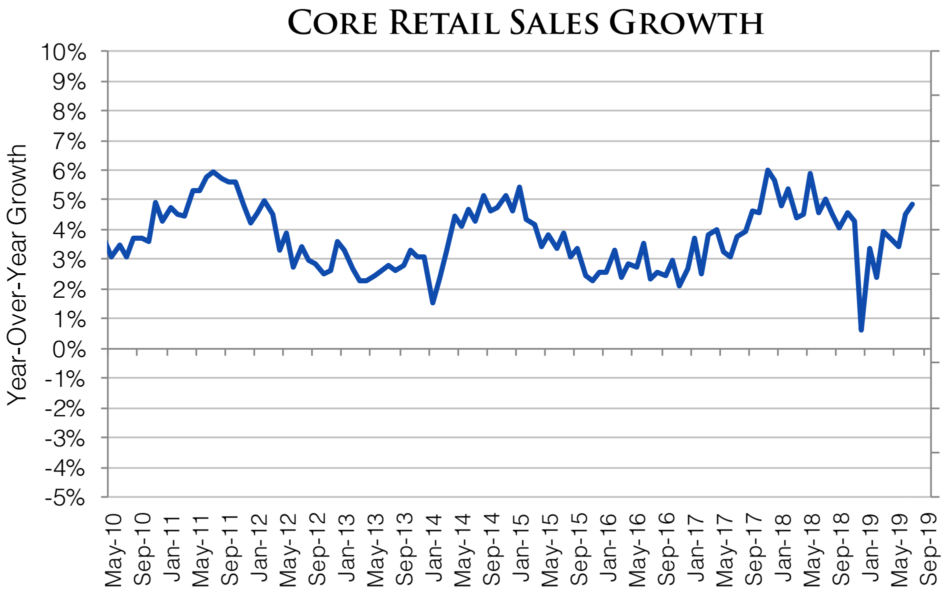
Divergence Between the Consumer and Manufacturing Extends in Q3



Source: U.S. Census Bureau, WestEnd Advisors

Source: Bureau of Lobar Statistics, WestEnd Advisors

Portfolio Impact

The U.S. consumer was the highlight of the economic data in Q3. These gains in consumer spending are important for consumer businesses and provide stability for the U.S. economy as a whole.

The U.S. economy continues to grow at a moderate pace, but not all parts of the economy are performing the same. Consumer spending has reaccelerated in Q3, as seen in the top chart, after slowing in the early part of 2019. **Core Retail Sales have grown 5% year-over-year** as of August, led by sales at non-store retailers (e-commerce), which were up 16% year-over-year as of August.

Recent data indicates, however, that the production portion of the U.S. economy has softened in 2019. **Hours worked for employees in manufacturing industries have fallen to essentially the lowest level in seven years,** which is concerning because when demand weakens, businesses typically cut workers' hours before laying off employees.

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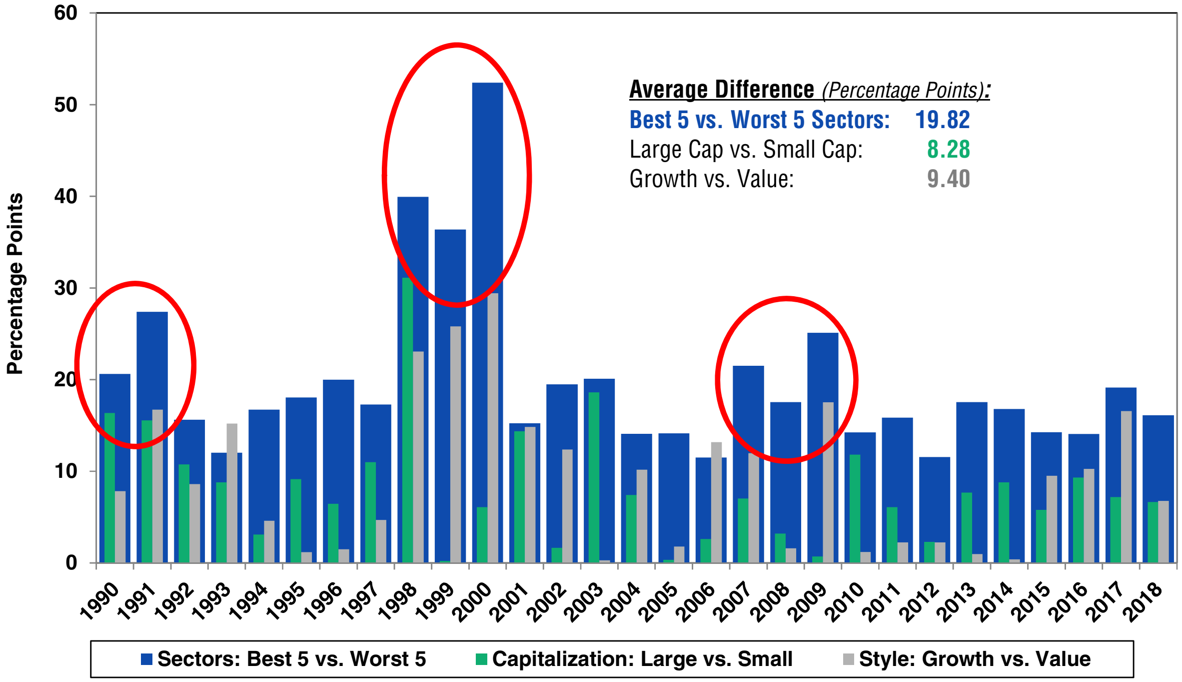
SECTOR DISPERSION TYPICALLY RISES AT CYCLICAL TURNS

RANGE OF RETURNS BY SECTOR, CAPITALIZATION, AND STYLE



Source: Factset, WestEnd Advisors
Please see additional disclosures on page 22.

PORTFOLIO IMPACT

Sector allocation provides a powerful tool in portfolio construction. We continue to have significant allocations to sectors of the S&P 500 that should benefit from economic tailwinds and are avoiding other more economically sensitive parts of the U.S. market that typically fair poorly in a late cycle environment.

The average differences among segments of the market over the last three decades indicates that dispersion of returns among sectors may provide greater alpha generation opportunity than style allocation factors (growth vs. value, capitalization ranges).

While the power of sector investing typically holds up throughout the economic cycle, **sector performance spreads have typically increased near the end of the cycle** as highlighted by the circles in the chart above.

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U.S. Sector Outlook

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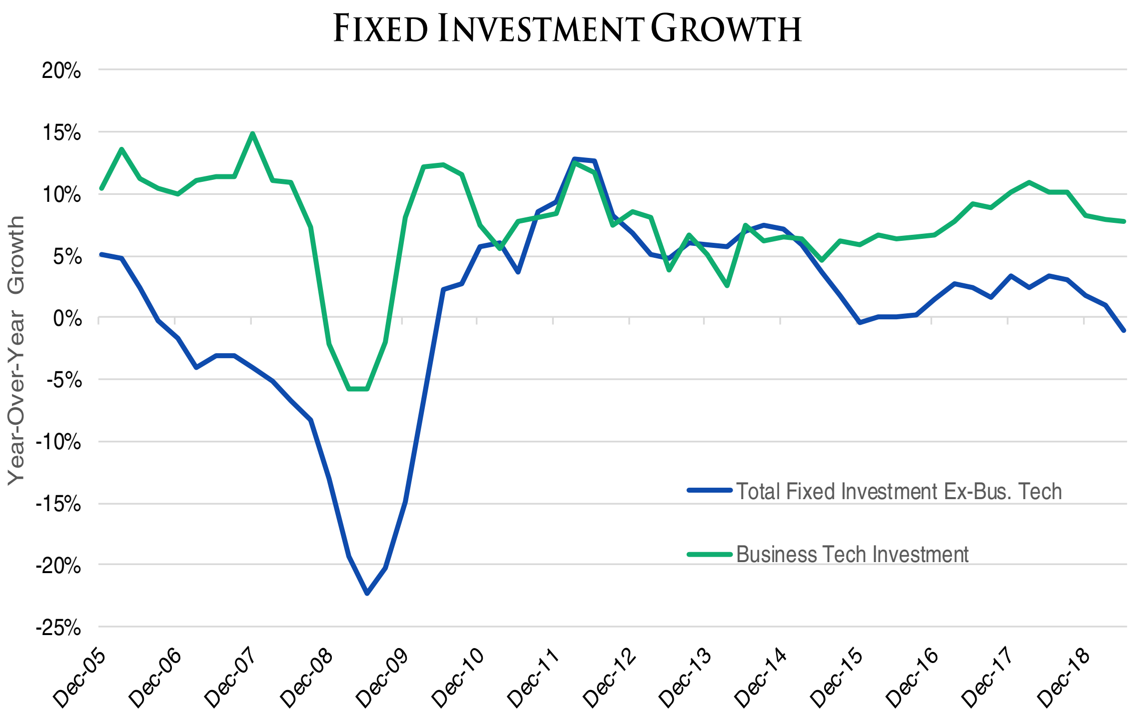
Business CapEx Drives Technology Sector Growth



Source: Bureau of Economic Analysis, WestEnd Advisors

Portfolio Impact

Technological innovation and corporations' pursuit of productivity gains drive higher Tech CapEx. Technology companies should benefit from these trends during this stage of the cycle.

Fixed Investment continues to contribute to U.S. real GDP growth, led by Fixed Investment in technology-related goods and services, which is outpacing investment in structures and other equipment.

We believe that the fundamental drivers of **increased tech spending can persist at this stage of the cycle** for a couple of reasons:

- A wave of technological innovations such as cloud computing, cybersecurity, and software-defined networking has created opportunities and complexities that enterprises and small businesses need to address.
- At this stage of the cycle, labor costs are rising, and investment in technology can enhance productivity.

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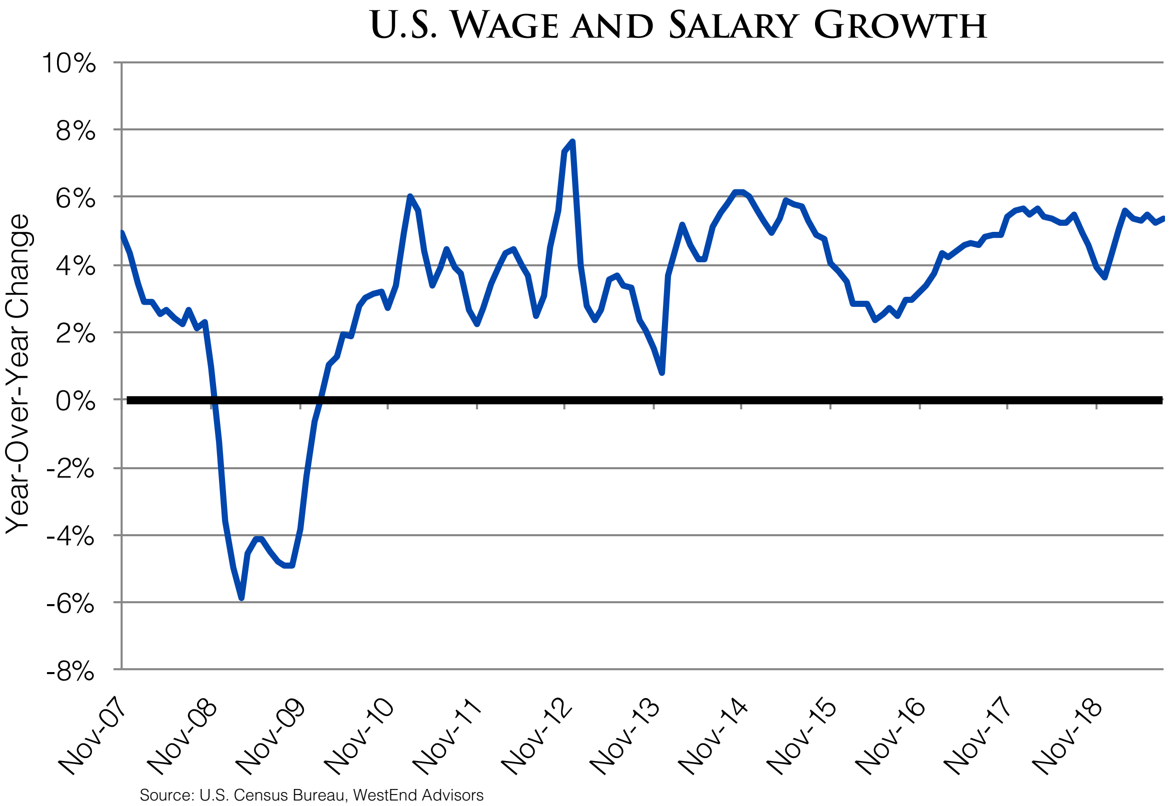
U.S. Consumer Fundamentals Support Spending



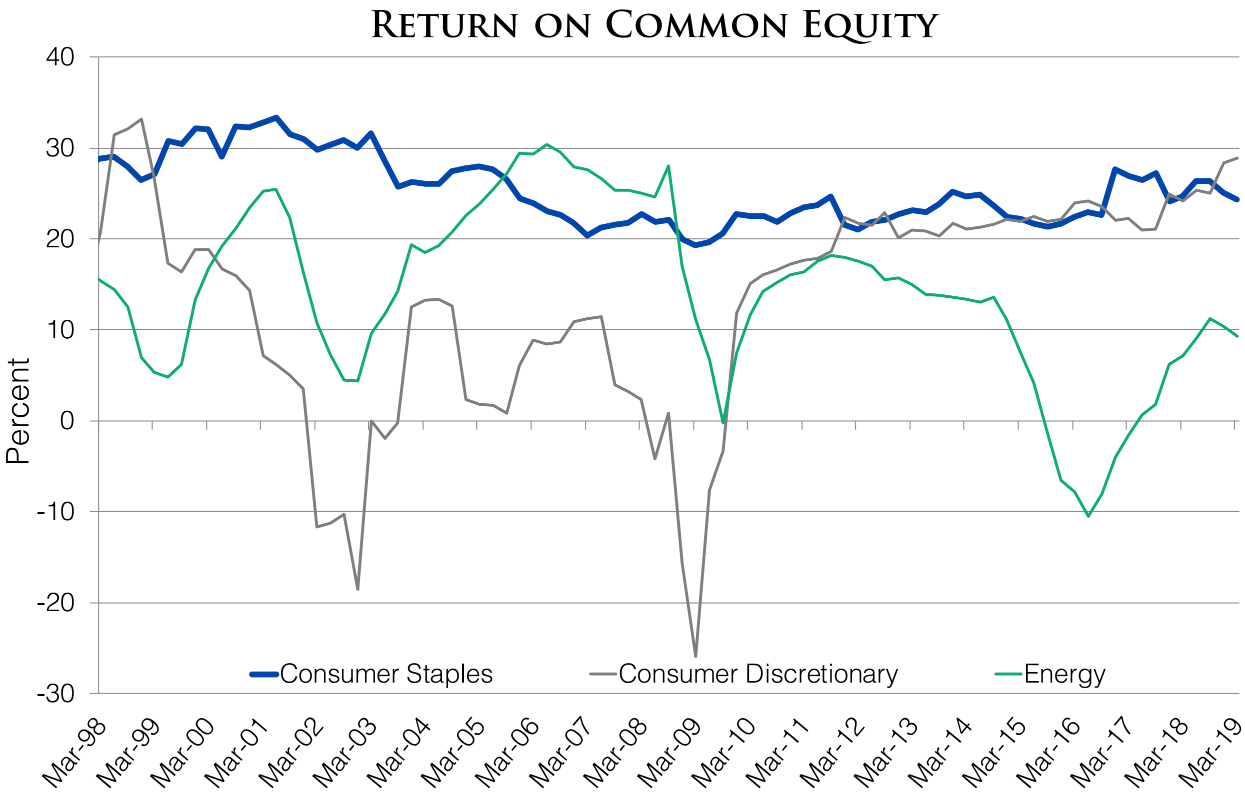
Portfolio Impact

Consumers remain an important aspect of U.S. economic growth, and consumer spending continues to grow, supported by record-low layoffs and solid personal income growth.

A healthy U.S. labor market is supporting workers' sense of job security and income gains, both of which, in turn, support consumer spending.

Wage and salary growth for workers was up 5.3% year-over-year as of August. The chart above illustrates that this pace of **wage and salary growth is at the high end of the range seen this expansion**.

Staples Sector Companies Provide Steady Earnings



Source: Bloomberg, WestEnd Advisors

Portfolio Impact

We believe continued exposure to the consumer – a key driver of economic growth – is warranted.

Consistent and above-market ROEs make Consumer Staples more attractive than Consumer Discretionary at this stage of the cycle.

We see the financial stability of Consumer Staples companies as desirable, particularly as the economic cycle matures and the risk of a substantial move higher in interest rates has diminished.

Consumer Staples companies have consistently generated above-market return on equity (ROE) over time. More importantly, **Consumer Staples' ROEs are very consistent**. Alternatively, economically sensitive sectors like Energy and Consumer Discretionary have much more cyclical ROEs, as illustrated in the chart above.

ROE for Consumer Staples has been 20% or better for the last 20 years, while ROE for the Energy and Consumer Discretionary Sectors has dropped to near zero or worse on several occasions.

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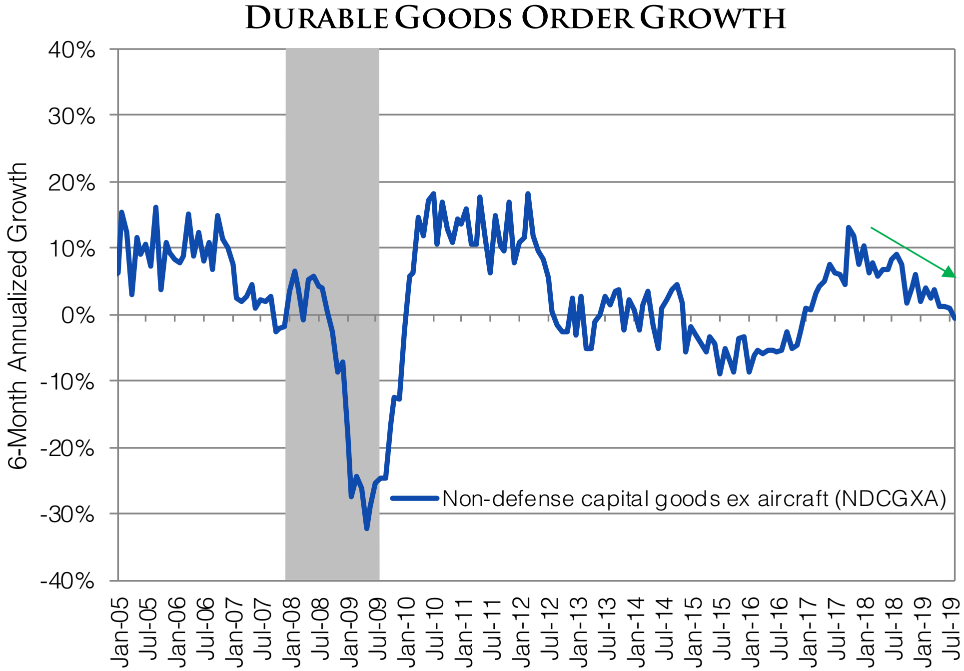
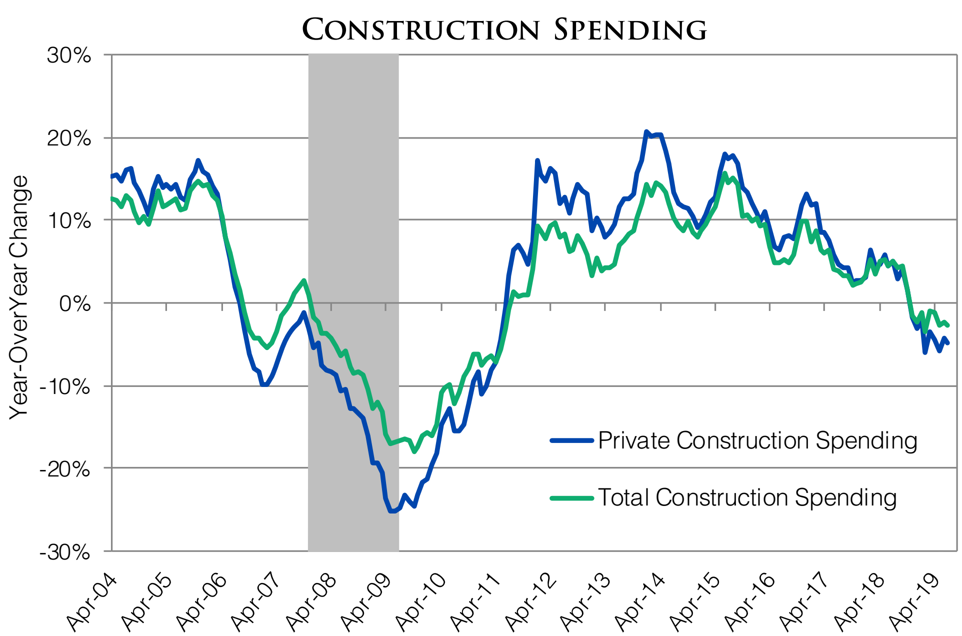
Industrials Sector Faces Headwinds



Source: U.S. Census Bureau, WestEnd Advisors



Source: U.S. Census Bureau, WestEnd Advisors

Portfolio Impact

Progress in the U.S. economic cycle along with an outlook for unexciting global growth warrants avoiding U.S. Industrials Sector stocks.

The economy, including cyclical measures like Business CapEx and construction spending, have made significant progress since the cyclical trough in 2009, but recent trends reflect a mature cycle.

Business CapEx (measured by NDCGXA orders) saw improved growth in 2017 and 2018. In recent quarters, however, **the pace of investment has slowed, particularly on industrial equipment**.

Private construction, which is typically more cyclical than public construction, has also weakened. **Private construction growth has turned negative for the first time since 2011** as Single-Family construction and Home Improvement spending have fallen 4.8% and 7.4%, respectively, over the last twelve months.

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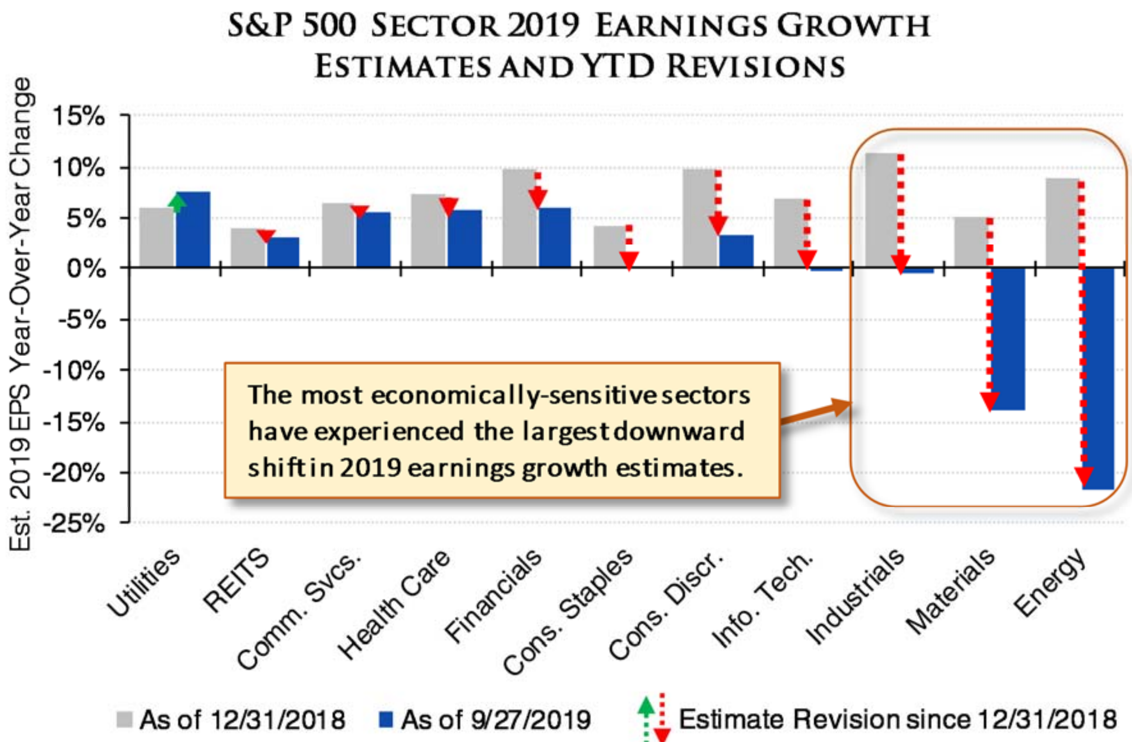
Cyclical Sectors See Biggest Earnings Revisions



Source: FactSet, WestEnd Advisors

Portfolio Impact

Given our outlook for continued maturing of the economic cycle, we are currently avoiding the most economically-sensitive U.S. equity sectors. Risks to economically sensitive sectors are evidenced by downward revisions to earnings growth estimates for 2019.

Since the beginning of the year, Energy, Materials, and Industrials have seen the largest cuts in expected earnings growth for 2019. The Energy and Materials Sectors are now expected to show double-digit earnings declines in 2019 (compared to growth of 5% and 9% that was expected at the start of the year for these sectors).

Ongoing international trade disputes, while a general source of investor concern, may have particularly negative fundamental impacts for these economically-sensitive sectors, and are likely a key driver for the magnitude of downward earnings estimate revisions these sectors have experienced year-to-date.

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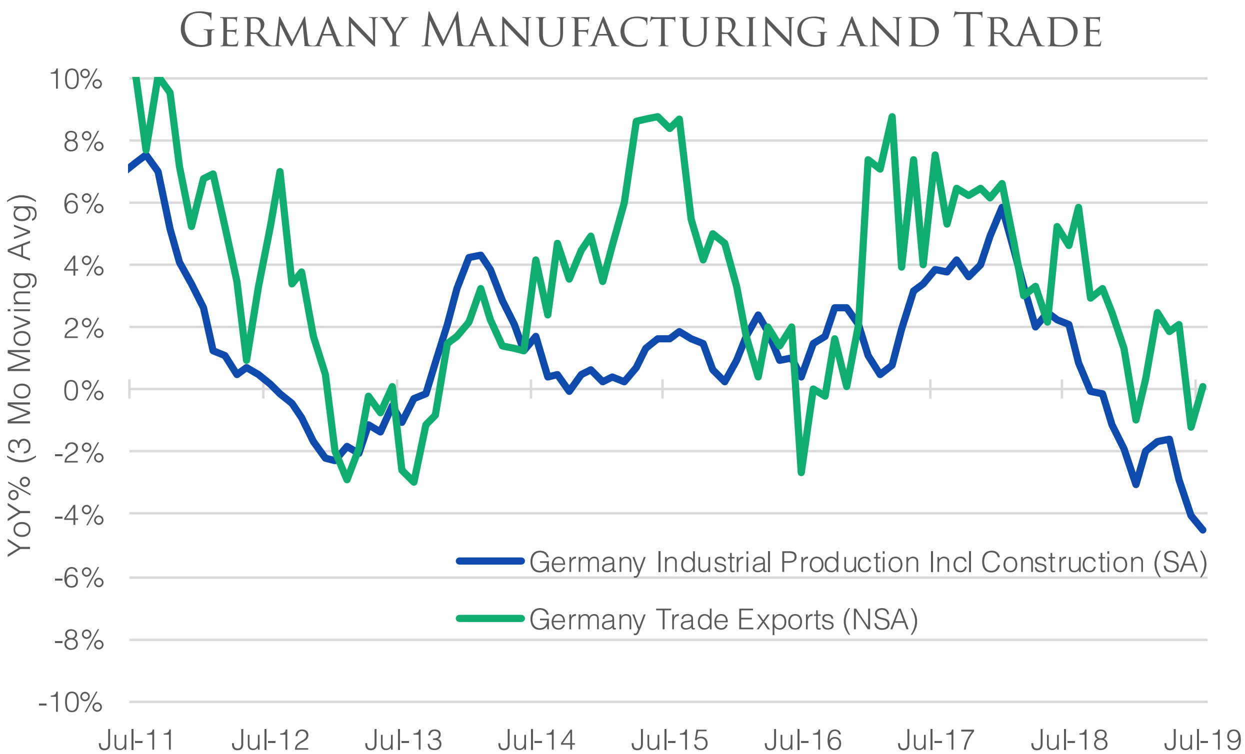
International Economic & Market Backdrop

German Manufacturing Weighs on Growth



Source: Destatis, WestEnd Advisors

Portfolio Impact

Developed Europe has experienced continued economic slowdowns in 2019. Headwinds to growth include global trade adjustments, Brexit uncertainty, and general maturing of the global economic cycle. European equity valuations remain below U.S valuations, but the economic fundamentals warrant an underweight of the region.

Germany's slowing GDP growth has centered in the manufacturing and international trade portions of the economy. Temporary events were partly to blame in the second half of 2018, such as regulatory disruption to the auto industry, but declines in manufacturing and trade have persisted in 2019, which is worrisome. A second straight quarter of negative German GDP growth is now more likely, driven by manufacturing and trade.

China's slowdown is cited as a contributor to Germany's slowdown, although exports to China are only about 8% of total German exports. We believe Brexit uncertainty and global trade adjustments have also contributed to the struggles for Germany's industrial sector. New manufacturing orders for capital, intermediate, and consumer goods are now all negative year-over-year.

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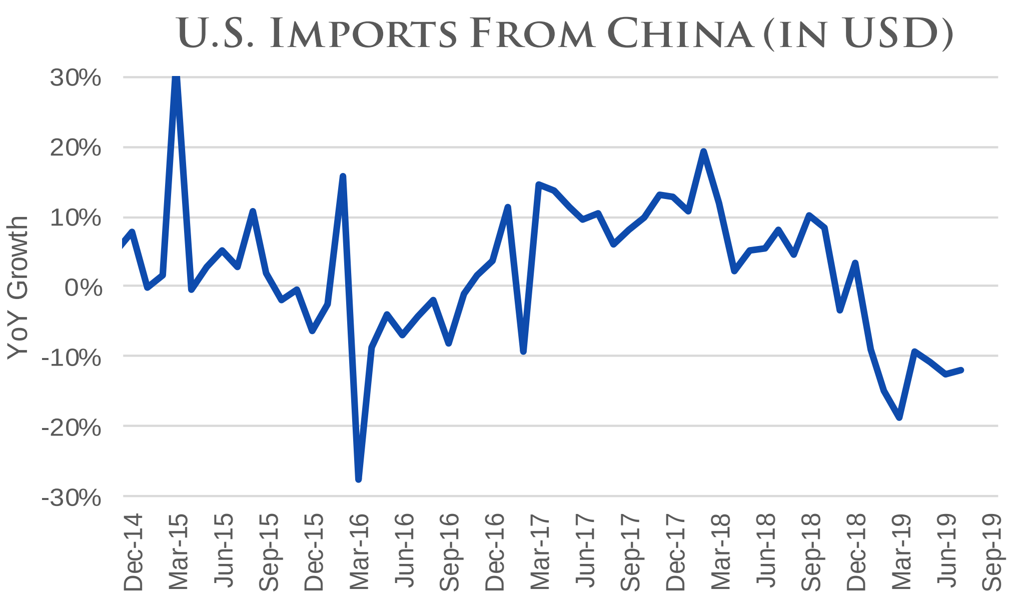
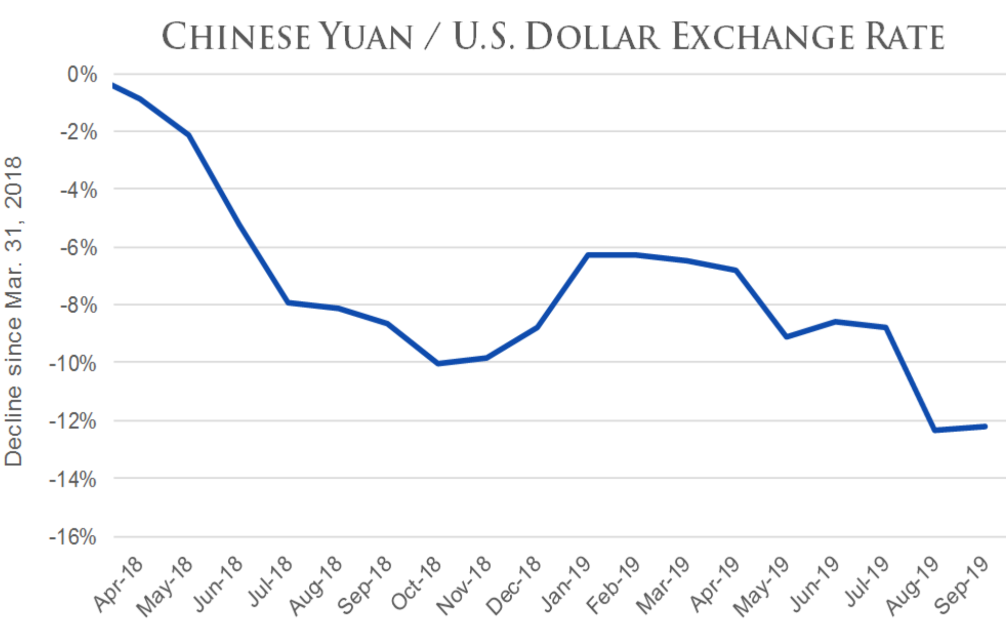
Trade Tensions Hit Imports and Currencies



Source: U.S. Census Bureau, WestEnd Advisors



Source: Bloomberg, WestEnd Advisors

Portfolio Impact

Higher tariff rates on imported Chinese goods have not been broadly felt in the U.S. as declines in the Chinese Yuan have offset tariffs. While other indirect economic damage from ongoing uncertainty is more evident, particularly in China, a deal remains our base case as it is in the best interest of both sides.

Since the end of 2018, U.S. imports from China have declined double-digits in year-over-year terms. U.S. exports to China have fallen to a similar extent.

The blended tariff rate on *all* imported Chinese goods is near 11%, which we view as not enough to generate product substitutions as the Yuan has declined by about 12% since the end of March 2018.

Indirect damage from the ongoing trade disputes is taking a toll, particularly in China, and therefore a trade resolution remains our base case as it is in the best interest of both countries. That said, **we don't believe a major trade deal would be a catalyst for sustained stronger growth**.

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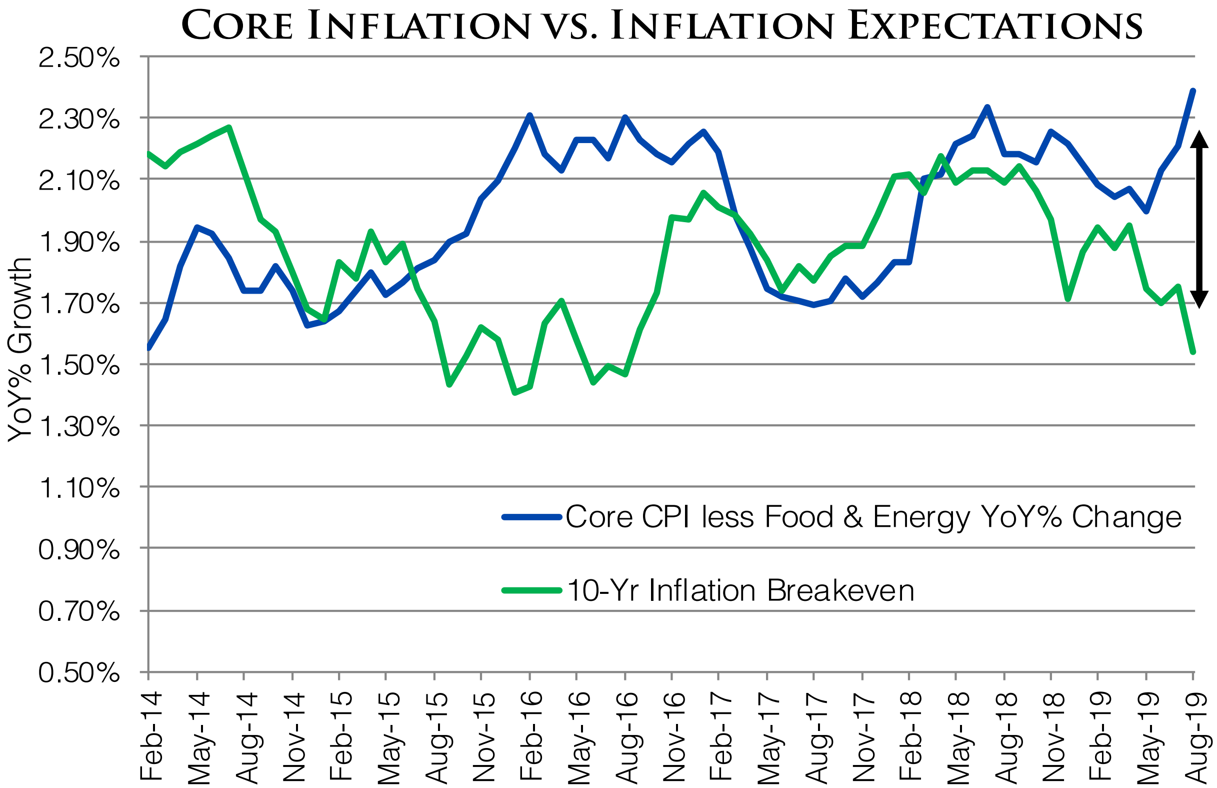
Interest Rates

Inflation Pickup as Growth Outlook Weakens



Source: Census Bureau, WestEnd Advisors

Portfolio Impact

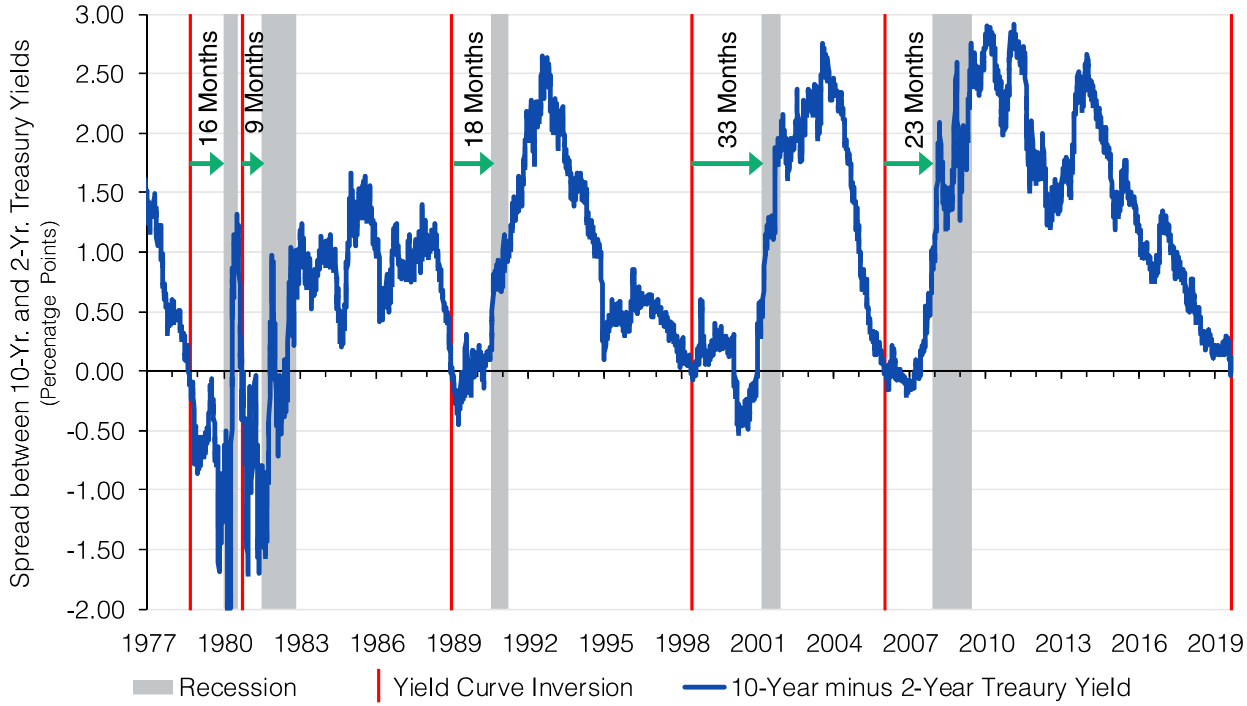
With an outlook for continued economic growth along with low absolute yields, we favor corporate bond exposure over allocations to Treasury bonds in fixed-income allocations.

Inflation data indicates higher levels of price increases in recent months, but at the same time inflation expectations have fallen. One measure of inflation expectations, the breakeven rate, can be derived by comparing yields on traditional fixed-coupon Treasury bonds and Treasury Inflation Protected Securities (TIPS).

Even as the economic data has softened recently, hotter inflation data should provide support for yields. **Continued economic growth should support stable yield spreads for corporate bonds.**

Yield Curve Inversions are Important, but Recession Timing Varies

Yield Curve and Recession Timing



Source: U.S. Federal Reserve, WestEnd Advisors

We continue to monitor closely the spread between short-term and long-term Treasury bond yields. We believe inversion of the yield curve can be a useful signal in interpreting the future strength of the economy.

At the same time, over the past five economic cycles, there has been an average of over 20 months from the time the 2-year yield to 10-year yield first inverts to the start of a recession.

In our view, **the current yield curve, though much flatter than a few years ago, is more indicative of a late-cycle expansion with room for growth than of an impending recession or extended bear market**.

Portfolio Impact

Recent slower economic growth, along with inversions of portions of the yield curve, warrants close attention, but our base case remains for the U.S. economy to grow at a moderate pace.

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The Standard and Poor's 500 Stock Index includes 500 stocks and is a common measure of the performance of the overall U.S. stock market. The MSCI ACWI consists of 47 country indexes comprising 23 developed and 24 emerging market country indexes. The total return of the MSCI ACWI (Net) Index is calculated using net dividends. Net total return reflects the reinvestment of dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The MSCI Europe Index represents a subset of the MSCI ACWI, comprising 15 developed market country indexes in Europe. An index is unmanaged and is not available for direct investment.

Any portfolio characteristics, including position sizes and sector allocations, among others, are generally averages and are for illustrative purposes only and do not reflect the investments of an actual portfolio unless otherwise noted. The investment guidelines of an actual portfolio may permit or restrict investments that are materially different in size, nature, and risk from those shown. The investment processes, research processes, or risk processes shown herein are for informational purposes to demonstrate an overview of the process. Such processes may differ by product, client mandate, or market conditions. Portfolios that are concentrated in a specific sector or industry may be subject to a higher degree of market risk than a portfolio whose investments are more diversified.

Holdings, Sector Weightings, and Portfolio Characteristics were current as of the date specified in this presentation. The listing of particular securities should not be considered a recommendation to purchase or sell these securities. While these securities were among WestEnd Advisors' strategies' holdings at the time this material was assembled, holdings will change over time. There can be no assurance that the securities remain in the portfolio or that other securities have not been purchased. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities presently in the portfolio. Individual clients' portfolios may vary. Upon request, WestEnd Advisors will provide a list of all recommendations for the prior year.

The Bloomberg Barclays US Treasury Bill Index tracks the market for Treasury bills issued by the US government. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index tracks agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. The Bloomberg Agriculture Spot Index measures the price movements of agricultural commodities included in the Bloomberg Commodity Index and select sub-indexes. The Bloomberg Precious Metals Spot Subindex measures the price movements of Precious Metals included in the Bloomberg Commodity Index and select sub-indexes. The Russell 2500 Index is composed of the smallest 2500 securities in the Russell 3000 Index. The Russell 2500 is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment of the U.S. equity universe. The MSCI World ex-USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries excluding the United States. The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across 24 Emerging Markets (EM) countries. The Bloomberg Energy Spot Subindex measures the price movements of Energy included in the Bloomberg Commodity Index and select sub-indexes. The Bloomberg Industrial Metals Spot Subindex measures the price movements of Industrial Metals included in the Bloomberg Commodity Index and select sub-indexes.

On page 8, sector performance is represented by sectors of the S&P 500® Index. "Large Cap" is represented by the S&P 500® Index. "Small Cap" is represented by the Russell 2000® Index. "Growth" is represented by the Russell 1000® Growth Index. "Value" is represented by the Russell 1000® Value Index. Data for 2016 excludes Real Estate as a stand-alone sector, which was included in Financials until September 16, 2016. Data for 2018 replaces the Telecommunication Services Sector with the new Communication Services Sector after September 21, 2018, using geometrically-linked total returns to produce a single full-year return, and treats the linked returns as a single sector, due to changes in GICS sector classifications and index rebalancing that occurred as of market close on September 21, 2018.