Strategy Review | *Data as of 09/30/2017*

QUARTERLY HIGHLIGHTS

- ***The Diversified Income Strategy model rose nicely for the quarter, as most fixed income and dividend-paying equities appreciated***
- ***During the quarter, the strategy model modestly outperformed its benchmark, a weighted average combination of the Barclays Aggregate and MSCI ACWI indices, primarily due to its global dividend equity and high yield fixed income allocations***
- ***Backed by strong market conditions, most strategy model allocations were in positive territory, but an interest rate hedging strategy declined modestly during the quarter***

MARKET CONTEXT | OUTLOOK

As expected, Jerome Powell, an existing Fed Governor under Chair Janet Yellen, has been highlighted as the White House administration's choice for the new Chair. The expected outcome of this change should be minimal relative to Yellen's current approach to dealing with labor markets and inflation. However, we would expect more favorable deregulation proposals in the bank and finance area. The Philips Curve looks to be dead (the relationship between full employment and wage inflation), with the U.S. labor market at nearly full employment without a commensurate rise in inflation. As we have stated previously, a shifting labor market from manufacturing to services, coupled with a rapid pace of technological innovation and unfavorable demographics (deflationary), should keep a lid on real wage growth.

Our concerns range from elevated financial asset prices to market complacency. The last several years have been marked by a lack of "productive" capital formation. Equity prices have been driven by the search for yield and non-productive use of capital, such as share buybacks and dividend distributions, rather than capital investment. Opportunities exist longer term in those areas of the global economy where productive capital investment is being made in transforming old business models and funding new R&D. These areas include biotech, machine learning ("AI"), cloud computing, e-commerce and clean tech. Much of that will be predicated on the market's view of future growth, inflation and debt burdens.

STRATEGY KEY CONTRIBUTORS | DETRACTORS

- Global dividend-paying equity, crossover and investment grade bonds, and an allocation to preferred ex-financials were the strongest contributors.
- Multi-asset income and short duration high yield allocations, while still positive, were lesser contributors while an interest rate hedging strategy detracted for the period.
- The strategy is actively managed with a long-term perspective, so it is reasonable to expect there will be periods when the strategy's results differ from the benchmark in pursuit of its objectives over time. Since inception in 2012, the strategy model has outperformed (after fees) its benchmark, a weighted average combination of the Barclays Aggregate and MSCI ACWI indices, with moderately higher volatility.

PORTFOLIO CHANGES

- Equity valuations by most measures are rich, especially in the U.S., and we favor companies with quality balance sheets and businesses for this strategy. Interest rates and inflation remain at low levels despite central banks' efforts to raise them.
- Bonds and other income producing assets are quite possibly more overvalued than stocks, and we observe some signs of frothiness in certain sectors, such as bank loans and real estate.
- During the quarter, we reconfigured the portfolio to reflect current and anticipated risks and opportunities, while also streamlining the number of holdings and reducing internal expenses.
- We reduced or eliminated exposure to high yield, real estate, and bank loans, while increasing exposure to core fixed income and multi-asset income strategies.

Strategy Summary

The Diversified Income Strategy, on a long-term basis, seeks to provide:

- Yield in excess of intermediate term high quality bonds, while sustaining principal
- Protection of capital and diversification of traditional interest rate risks
- A better alternative to typical benchmark sensitive, long-only bond funds
- A diversified portfolio of assets including a range of investment grade and high yield bonds, as well as dividend-paying equities
- A strategy that can supplement or replace a traditional fixed income allocation

The Diversified Income Strategy is:

- Actively managed by an experienced team of investment professionals, with daily liquidity
- Implemented at lower cost than many strategic income and unconstrained bond funds
- Invested in ETFs and mutual funds focused on income generation, with a keen eye towards risk
- This strategy is typically appropriate for an investor seeking to fulfill or supplement need for current income with a low-to-moderate tolerance for risk.

Strategy Review | ***Data as of 09/30/2017***

ABOUT OUR FIRM

Palladiem LLC is an independent, employee owned asset management firm that manages global, multi-asset class investment strategies, with an emphasis on alternative investments and active risk management. Palladiem's investment team has 30+ years experience working with high profile institutional clients in the public and corporate pension fund markets, as well as high-net-worth individuals.

The cornerstone of Palladiem's investment process was developed nearly 30 years ago. Refined and revised over time, this process has been implemented at both a major wire-house and managed account provider.

PORTFOLIO MANAGEMENT TEAM

Donald Robinson
CEO & Co-CIO
35 years industry experience

David Feldman
President & Co-CIO
34 years industry experience

Joseph J. Scavetti, Jr.
Chief Operating Officer
26 years industry experience

Disclosures: The performance returns discussed represent the results of a model portfolio of the investment strategy only and do not represent the results of actual trading of investor assets. The model performance has inherent limitations. Palladiem maintains the model and calculates the model performance discussed, but it does not represent actual assets. Thus, the performance discussed does not reflect the impact that material economic and market factors had or might have had on decision making if actual investor money had been managed. While model performance may have performed better than the benchmark for some or all of the periods shown, the performance during any other period may not have, and there is no assurance that model performance will perform better than the benchmark in the future. An investor's actual account is managed by the investor or by an advisor based on the model portfolio, but the actual composition and performance of the account may differ from those of the model portfolio due to differences in the timing and prices of trades, and the identity and weightings of securities holdings. Portfolio performance assumes reinvestment of dividends and capital gains and is net of standard advisory fees payable to Palladiem LLC (0.55%) but does not include any other expenses not covered by the advisory fee, which will reduce a client's return. Direct investment in an index is not possible. Index returns assume the reinvestment of dividends and capital gains. Past performance is no guarantee of future results.

The statements contained herein are based upon the opinions of Palladiem LLC (Palladiem) and the data available at the time of publication and are subject to change at any time without notice. This communication does not constitute investment advice and is for informational purposes only, is not intended to meet the objectives or suitability requirements of any specific individual or account, and does not provide a guarantee that the investment objective of any model will be met. An investor should assess his/her own investment needs based on his/her own financial circumstances and investment objectives. Neither the information nor any opinions expressed herein should be construed as a solicitation or a recommendation by Palladiem or its affiliates to buy or sell any securities or investments or hire any specific manager. The information contained herein has been obtained from sources that are believed to be reliable. Palladiem takes reasonable care to ensure the accuracy of such information but does not warrant that it is complete, accurate or adequate and it should not be relied upon as such.

It is important to remember that there are risks inherent in any investment and that there is no assurance that any investment, asset class, style or index will provide positive performance over time. Diversification and strategic asset allocation do not guarantee a profit or protect against a loss in declining markets. For more information about Palladiem, as well as its products, fees and services, please refer to Palladiem's Form ADV Part 2, which may be obtained through your financial advisor or by writing to Palladiem: 7 Great Valley Parkway, Suite 295, Malvern, PA 19355 or by calling (888) 886-4122.

For more information contact us:

Palladiem, LLC|7 Great Valley Parkway, Suite 295 |Malvern, PA 19355

888-886-4122 | info@palladiem.com | www.palladiem.com