

Asset Allocation Insights

Mellon Capital's month in review and month-end model outlook.

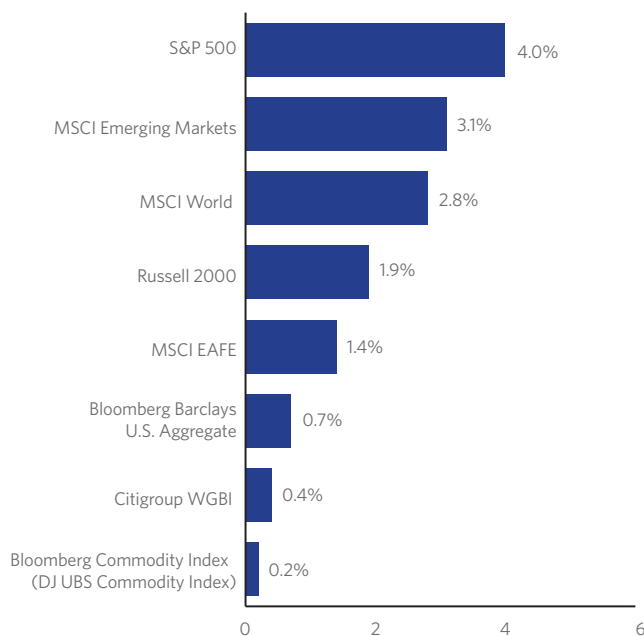


A Month in Review

Global equities continued their upward trajectory as the MSCI World Index rose for the fourth straight month, its longest such streak since 2014. U.S. equities led the gains as the S&P 500[®] rose 4.0%, its best return since March of last year. Continued bullishness has been based on expectations that President Trump's economic agenda will boost growth, while strong U.S. earnings and economic data have also supported risk appetite. At month end, 92% of companies had reported fourth quarter earnings. Two-thirds exceeded consensus earnings estimates while just over half reported better-than-expected sales. U.S. equity investors have so far appeared unconcerned about the prospect of the Federal Reserve (Fed) raising interest rates again, seeing tighter policy as a sign of a stronger economy that will bolster corporate profits. Fed minutes released in February increased expectations for a March rate hike, as Federal Open Market Committee members cited the potential for increased spending and reduced

Market Performance

February 2017



taxation under the Trump administration. Bets on a March rate hike rose further late in the month after New York Fed President Dudley said the case for tightening monetary policy

**Mellon
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has become a lot more compelling. Dudley's comments came soon after San Francisco Fed President John Williams said he expects an interest rate increase to receive "serious consideration" at its March meeting. Bond yields fell, led by U.K. and Germany. Yields in both countries tumbled due to concerns about Eurozone political risk ahead of the French election, as anti-Eurozone candidate Marine Le Pen's polling numbers improved. U.S. yields fell modestly, pausing from their recent rise on bets that Trump's economic policies will have limited impact in the near term. Commodities were slightly higher, led by rising metal prices. Oil prices remain range bound as the market seeks a balance between producers willing to cut production to prop prices up and producers ready to restart operations as soon as prices are high enough to generate a profit.

Mellon Capital Model Recommendations

GLOBAL ASSET ALLOCATION

Our valuation methodology indicates that both global equities and global bonds are attractive relative to cash, with a preference for equities. We like global equities as earnings growth and earnings revisions are mostly positive, global growth and inflation expectations have increased, and liquidity from most central banks should continue to support risky assets.

We believe that U.S. stocks remain attractive relative to U.S. corporate bonds and cash. While bond yields have risen recently, earnings expectations have been revised upward and volatility has declined, causing our measure of the risk premium to favor equities.

CROSS COUNTRY RELATIVE VALUE

Eurozone, Japanese, and Australian stocks appear relatively attractive as earnings expectations remain firm and earnings

revisions continue to improve. Conversely, we dislike U.S. stocks due to relatively slower earnings growth and recent outperformance.

Among sovereign bonds, we continue to prefer U.S. and Australian bonds as we believe that they are positioned to outperform due to higher yields and wider term premiums. We continue to hold short positions in German bunds and U.K. gilts, as we expect that they will experience outflows as investors demand higher yielding bond markets.

CURRENCY

The Federal Reserve's and market participants' interest rate and growth expectations for the U.S. are higher relative to expectations in other developed markets, making the U.S. dollar an attractive long position. Negative interest rates and continued quantitative easing from the European Central Bank make the euro an attractive short position. We also dislike the British pound due to relatively weak macro signals, quantitative easing and dovishness from the Bank of England, and the potential for a "hard exit" from the European Union.

COMMODITIES

Among grains we continue to dislike wheat due to the contango¹ conditions of the futures curve, and prefer the flatter curve and positive momentum of soybeans. We maintain a bearish view on natural gas because of the curve shape dynamics. Positions in the petroleum sector are relatively muted with a slight positive bias. Metals are a moderate overweight, with long positions in silver due to investor positioning and price momentum, and both copper and aluminium (bullish inventory levels).

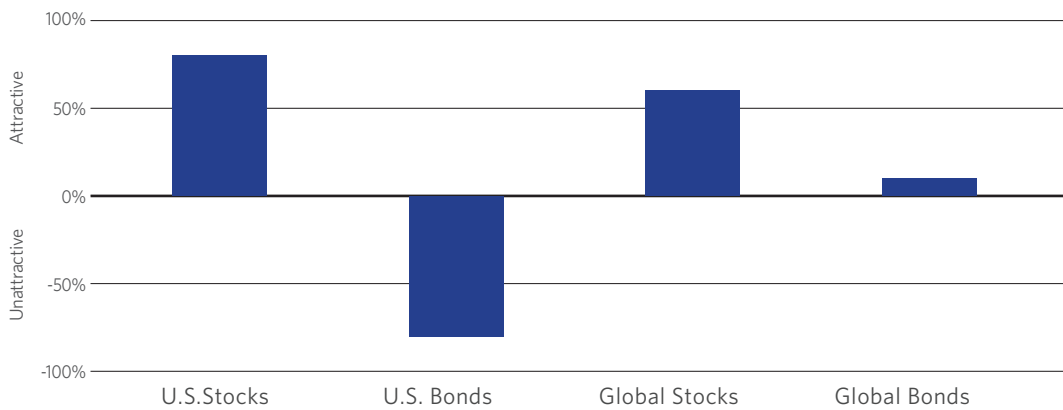
Lean hogs appear attractive on a long calendar spread basis, while we hold a bear spread in live cattle as we expect the near-term contracts to underperform longer-dated contracts.

¹Contango is a condition when future prices are above the spot rate and are progressively higher in future delivery months.

Significant Relative Opportunities: Month End Outlook

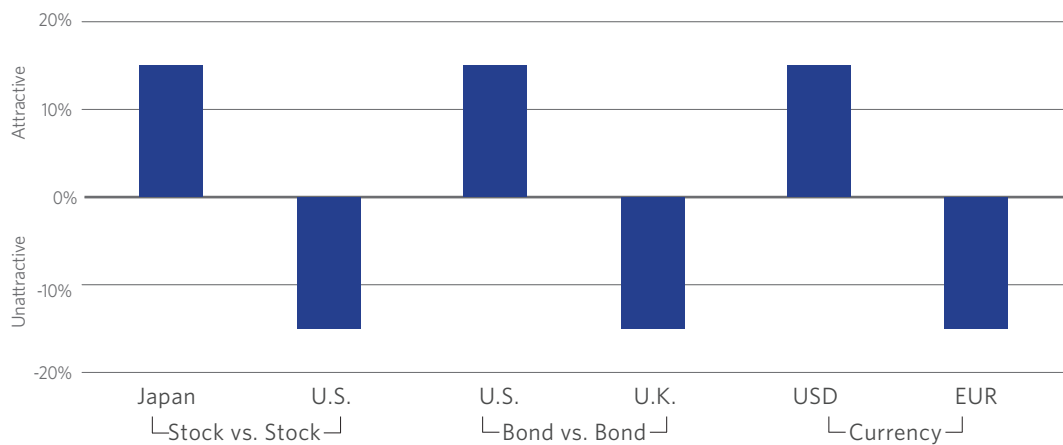
Global Asset Allocation

February 2017



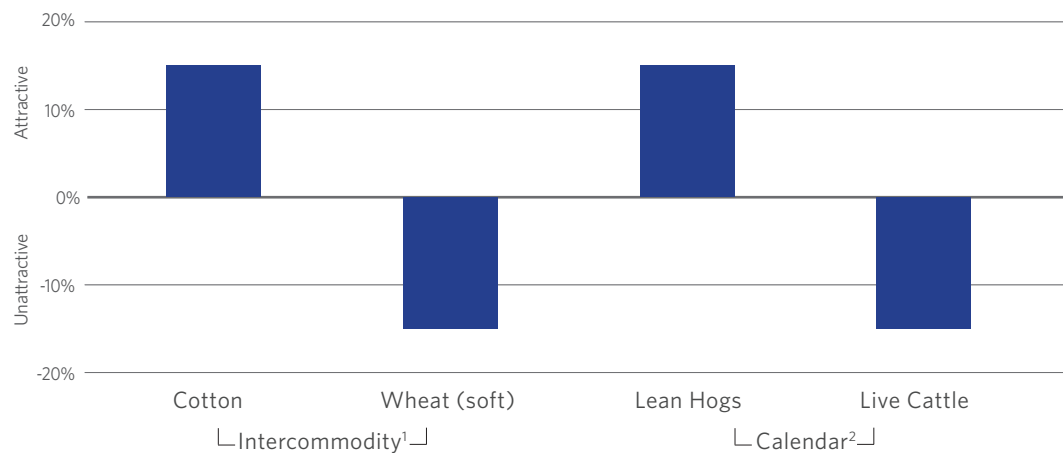
Cross-Country Relative Value

February 2017



Commodities

February 2017



¹The Intercommodity signal attempts to determine a commodity's attractiveness versus other commodities using proprietary models.

²The Calendar signal measures the relative attractiveness of a commodity's near-term contract versus longer-term contracts using proprietary models.

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Benchmark Definitions: S&P 500® Index is a capitalization-weighted index of 500 commonly traded U.S. stocks designed to represent the broad domestic economy.

The MSCI EAFE® Index (US\$) is a market capitalization weighted benchmark designed to measure the performance of large and mid capitalization stocks of the developed stock markets of Europe, Australia, and the Far East.

The MSCI World Index is a market capitalization weighted benchmark designed to measure the performance of large and mid capitalization stocks of the developed stock markets of Europe, Australia, the Far East and North America.

The Bloomberg Barclays U.S. Aggregate Index is a broad representation of the U.S. investment-grade fixed income market including Treasuries, government-related issues, securitized assets, and U.S. credit dollar-denominated issues with a minimum term to maturity of one year.

The Citigroup World Government Bond Index (WGBI) is market capitalization weighted index and tracks total returns of 23 developed country government bonds with having a minimum term to maturity of one year.

The MSCI Emerging Markets Index is a market capitalization index designed to measure the performance of large and mid capitalization stocks of emerging markets.

The Bloomberg Commodity IndexSM is a production- and liquidity-weighted, U.S. dollar-denominated index comprised of liquid exchange-traded futures contracts for energy, industrial metals, precious metals, agriculture, and livestock commodities.

The Russell 2000® Index is a market capitalization benchmark designed to measure the performance of the small-cap segment of the U.S. equity universe.

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Mellon Capital – Global. Insightful. Engaged. Mellon Capital has provided investors with distinct insights into complex capital markets since 1983. Our unique approach to fundamentals-based systematic investing drives our capabilities, which include multi-asset, active, smart beta, and indexing strategies. We're committed to helping our clients reach their investment goals. That's why we've been an innovative pioneer of dynamic multi-asset allocation for more than 30 years. Our intellectual curiosity, sophisticated research platform, global reach, and flexibility to transact in all liquid asset classes help us deliver powerful and unique investment solutions.

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