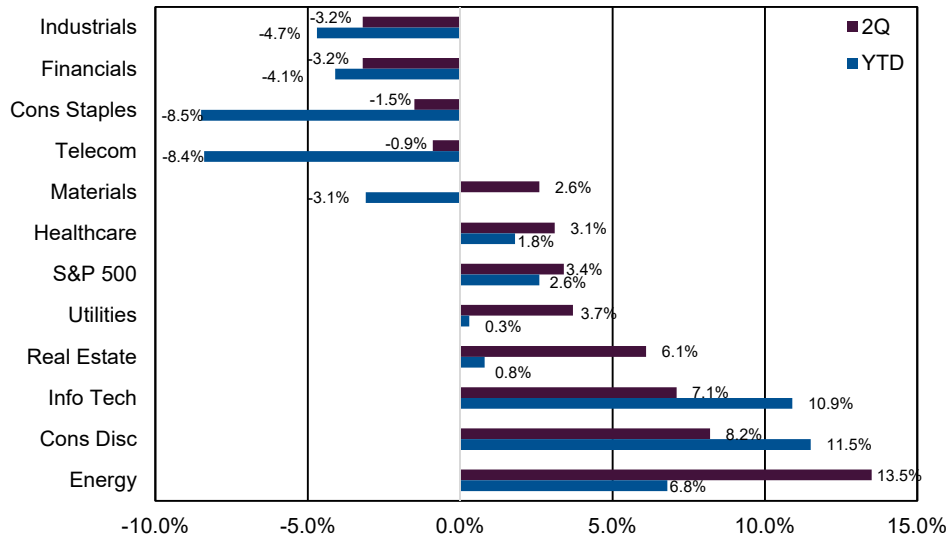


Capital Markets Review

Equities

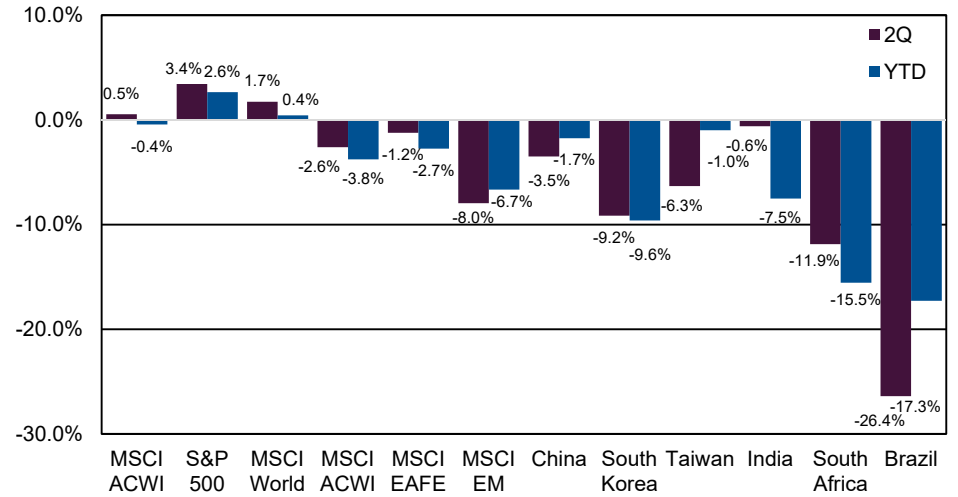
As of June 30, 2018

Second Quarter and YTD S&P 500 Sector Returns



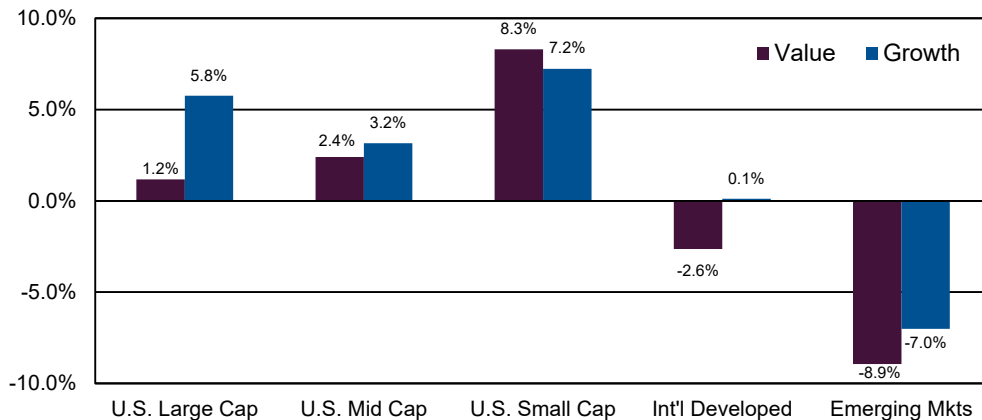
Source: FactSet, S&P

Second Quarter and YTD World and Emerging Market Equity Returns



Source: FactSet, MSCI

Growth Generally Outperformed Value During the Second Quarter



Source: FactSet

Growth continues to outperform while emerging markets struggle

- The S&P 500 Index returned +3.4% during the second quarter, bringing the first half return to +2.6%. Energy was the strongest sector during the quarter, followed by Consumer Discretionary, Information Technology, and Real Estate. Industrials and Financials were the weakest sectors during the quarter. For the first half of the year, Consumer Discretionary and Information Technology have been the best performing sectors while Consumer Staples and Telecom have been the weakest sectors.
- Developed market equity indices returned between -2.6% and +3.4% during the second quarter, with the S&P 500 the strongest at +3.4%. Emerging Market equities were more challenged during the second quarter, returning -8.0%, with Brazil particularly weak.
- The Growth style continued to outperform the Value style during the second quarter, with the exception of U.S. Small Cap. The most pronounced spread between Growth and Value was in U.S. Large Cap. In International Developed markets, Growth was just slightly positive while Value returns were negative. In Emerging Markets, Growth was negative but to a lesser extent than Value. U.S. Small Cap outperformed its U.S. Mid and Large Cap counterparts within both styles, but it was more pronounced for the Value style.

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Fixed Income

As of June 30, 2018

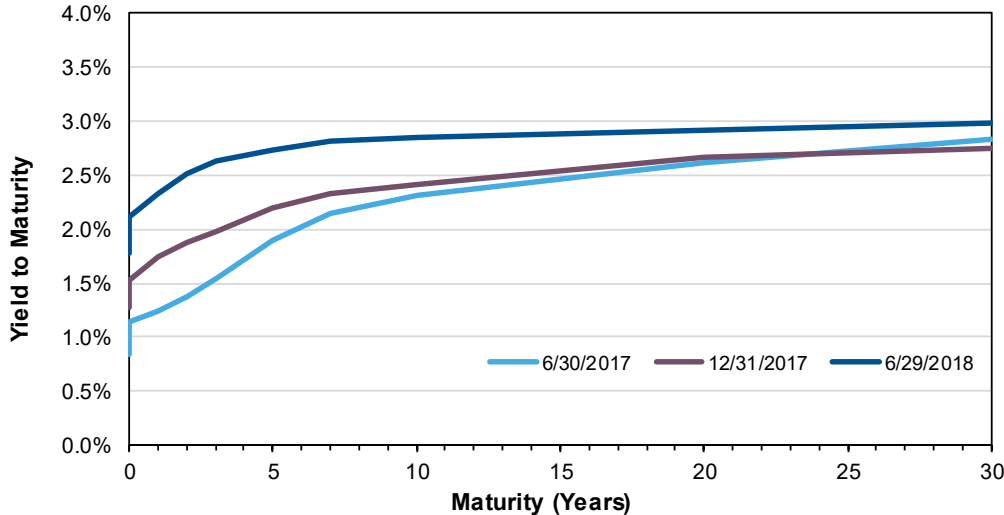
Duration – Adjusted Excess Returns to Treasuries (bps)

	2011	2012	2013	2014	2015	2016	2017	1Q18	2Q18
Aggregate	-114	226	93	10	-53	138	121	-31	-23
Agency	-25	166	1	10	-133	121	148	6	-15
MBS	-106	91	98	40	-5	-11	52	-39	15
ABS	52	246	24	53	44	95	92	-19	17
CMBS	47	841	97	108	-28	236	158	-7	0
Credit	-322	693	226	-18	-169	442	335	-68	-91
High Yield	-240	1394	923	-112	-577	1573	610	-17	96
EMD (USD)	-537	1503	-32	-120	3	880	627	-26	-242

■ Best Period
 ■ Second Best Period
 ■ Worst Period
 ■ Second Worst Period

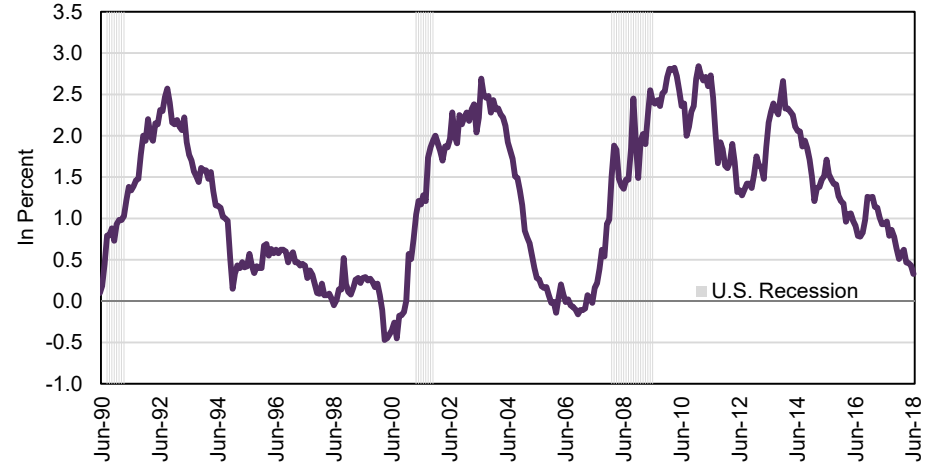
Source: Bloomberg

U.S. Treasury Yield Curve Change



Source: US Dept. of The Treasury

2- vs. 10-Year Treasury Curve Slope



Source: Federal Reserve Bank of St. Louis

Curve flattens as trade tensions rise

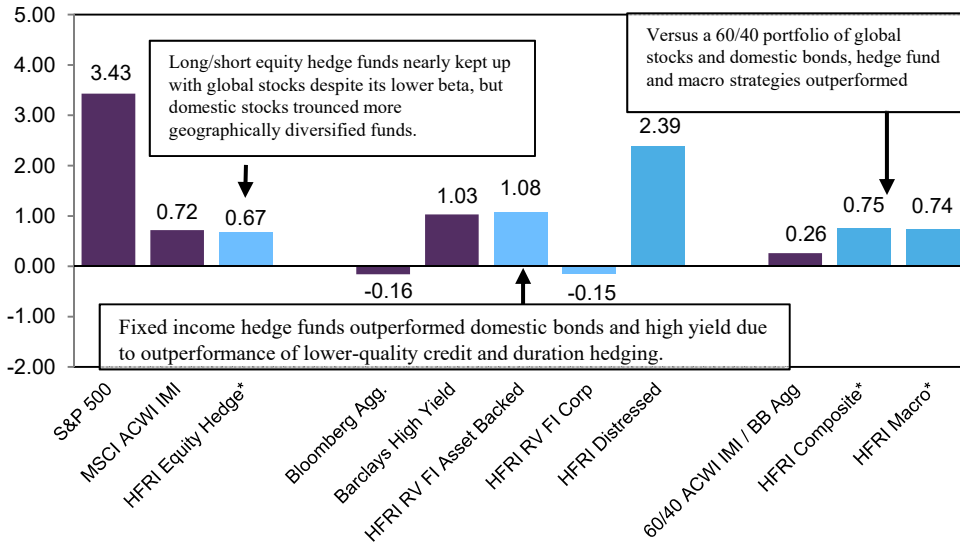
- The Fed raised rates 0.25% at the June Federal Open Market Committee meeting, setting the Federal Funds Rate target at 1.75% to 2.00%. Yields moved higher across the entire maturity spectrum and the curve continued its flattening trend. The bellwether 10-year U.S. Treasury reached 3.11% in mid-May as growth and inflation expectations increased, but retraced back to 2.85% by quarter-end amid the flight-to-quality. Escalating trade tensions put downward pressure on yields later in the quarter as the U.S. imposed 25% tariffs on imported steel and aluminum, creating concerns over future growth. The spread between 2-year and 10-year Treasuries narrowed to post crisis lows but is not yet signaling a near-term recession.
- Investment-grade (“IG”) corporate spreads widened 14 basis points (“bps”) in the quarter, to +123 bps, due primarily to supply/demand imbalances rather than deterioration in credit fundamentals. Foreign demand for IG corporates has moderated as currency hedging costs for overseas buyers have risen with a stronger U.S. dollar and higher short-term rates. High yield (+1.03%) outpaced investment grade (-0.98%) corporates, benefitting from light supply and a shorter duration.
- Structured products were insulated from trade tension-related weakness, and fared better than corporates during the quarter. Agency MBS (+0.24%) benefited from strong housing data and demand for high-quality bonds, which outweighed heavy supply in the space.
- Local currency emerging market debt (-10.42%) was the worst performer on the quarter as brewing trade conflicts erupted, and the U.S. dollar continued to soar. The WSJ Dollar Index (a basket of 16 currencies) jumped 5.1% in Q2, the first quarterly gain since 2016.

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Alternative Investments

As of June 30, 2018

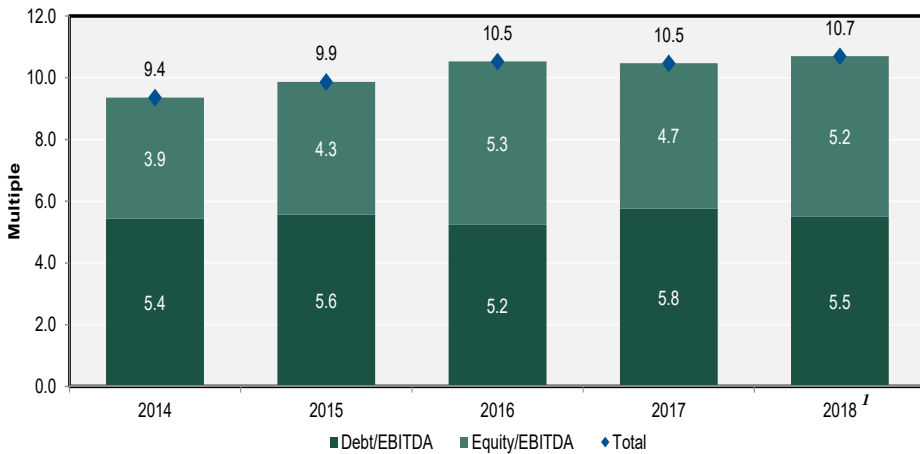
Hedge Funds vs Long-Only: Total Returns 2018 Q2



*Asset-weighted is used instead of fund-weighted, as it is available and more indicative of the universe.

Sources: Hedge Fund Research, FactSet

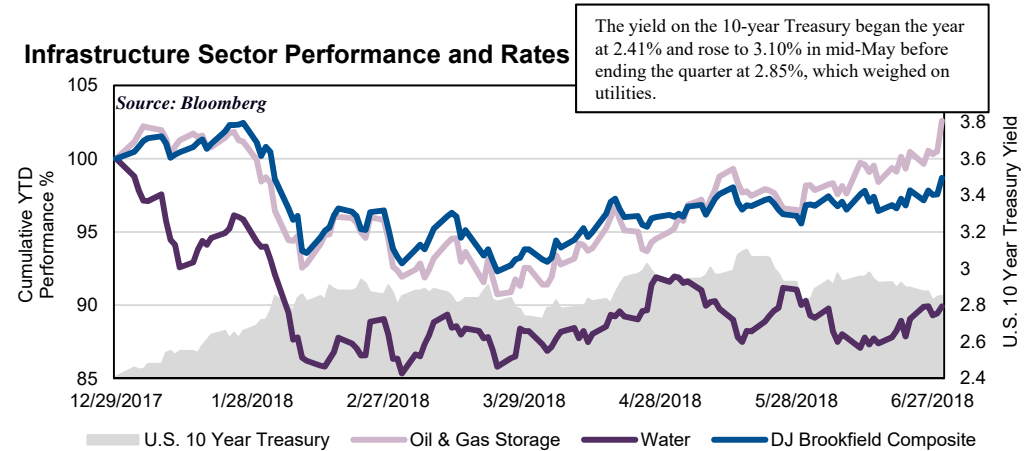
U.S. Middle Market Median EV/EBITDA Multiples



Sources: S&P Capital IQ, PitchBook

¹ Through May 31, 2018

Infrastructure Sector Performance and Rates



Global alternatives rise with risk assets

- Hedge Funds:** Hedge funds generated mixed performance during the quarter. The growth bias of the universe was a boon, although international exposures was a strong headwind to performance. Mature quantitative funds with nuanced models did well during the quarter, but those with exposures to broad market “factors”, such as value and momentum, incurred losses, while trend rebounded. Within long/short equity, crowded long positioning declined in late-April, and a reversal in momentum names hurt at the end of June. In all, alpha generation was relatively flat during the quarter for long-short equity funds, with funds that had long positioning in growth and domestic names outperforming those with long exposures to Asia, Latin America, and the technology sector. Fixed income funds were boosted by an outperformance of lower-quality credit and duration hedging. Record-making M&A deal volumes continue to support merger-oriented event-driven strategies, which was one of the strongest strategies in the quarter.
- Real Assets:** Higher-yielding liquid real assets rebounded in the second quarter following a challenging start to 2018. Listed infrastructure rallied +5.2%. After the sell-off in the first quarter, oil & gas pipelines were the most significant contributor to second quarter performance. Broadly, we expect diversified infrastructure to perform well in a rising interest rate environment if economic growth also improves. That said, regulated utilities, such as water utilities, can be more sensitive to changes in interest rates due to their fixed long-term contracts and have struggled in the first half of 2018.
- Private Capital Markets: U.S. Middle Market Valuation Update:** One sustaining trend over recent years is an increase in purchase price multiples within private equity. The price increase could be a possible explanation for the decrease in deal flow over the past nine quarters. Several factors could be contributing to the rise in purchase price multiples. One of the most impactful factors that could be creating upward pressure is the rise in public market comparable valuations. High public company valuations could be inflating the valuations of private company counterparts. Further, the low-cost debt environment and record fundraising levels, both of which have increased the competition for good deals, also could be contributing factors.

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Index Returns

As of June 30, 2018

		Quarter	Calendar YTD	1 Year	2 Years	3 Years	5 Years	10 Years
Equity Markets								
Broad Global Equity	MSCI All Country World IMI	0.7	-0.2	11.1	15.0	8.3	9.6	6.1
Broad U.S. Equity	Dow Jones Industrial Average	1.3	-0.7	16.3	19.2	14.1	13.0	10.7
Broad U.S. Equity	Russell 3000 Index	3.9	3.2	14.8	16.6	11.6	13.3	10.2
Technology Equity	NASDAQ Index	6.6	9.4	23.6	25.9	16.0	18.5	13.9
U.S. Large Cap Equity	S&P 500 Index	3.4	2.6	14.4	16.1	11.9	13.4	10.2
U.S. Large Cap Equity	Russell 1000 Index	3.6	2.9	14.5	16.3	11.6	13.4	10.2
U.S. Large Value Equity	Russell 1000 Value Index	1.2	-1.7	6.8	11.1	8.3	10.3	8.5
U.S. Large Growth Equity	Russell 1000 Growth Index	5.8	7.3	22.5	21.5	15.0	16.4	11.8
U.S. Mid Cap Equity	Russell Mid Cap Index	2.8	2.3	12.3	14.4	9.6	12.2	10.2
U.S. Mid Cap Value Equity	Russell Mid Cap Value Index	2.4	-0.2	7.6	11.7	8.8	11.3	10.1
U.S. Mid Cap Growth Equity	Russell Mid Cap Growth Index	3.2	5.4	18.5	17.8	10.7	13.4	10.5
U.S. Small Cap Equity	Russell 2000 Index	7.8	7.7	17.6	21.0	11.0	12.5	10.6
U.S. Small Cap Value Equity	Russell 2000 Value Index	8.3	5.4	13.1	18.8	11.2	11.2	9.9
U.S. Small Cap Growth Equity	Russell 2000 Growth Index	7.2	9.7	21.9	23.1	10.6	13.6	11.2
International Equity	MSCI EAFE Index	-1.2	-2.7	6.8	13.4	4.9	6.4	2.8
International Equity	MSCI EAFE Index (Hedged)	2.8	-1.7	5.1	12.4	3.4	6.6	2.6
International Equity	MSCI ACWI ex-U.S. Index (inc. Emerging Mkts)	-2.6	-3.8	7.3	13.7	5.1	6.0	2.5
International Value Equity	MSCI ACWI ex-U.S. Value Index	-3.8	-5.3	4.6	13.7	3.5	4.8	2.0
International Growth Equity	MSCI ACWI ex-U.S. Growth Index	-1.4	-2.3	9.9	13.6	6.6	7.2	3.0
International Small Cap	S&P Developed ex-U.S. Small Cap Index	-1.0	-2.2	11.0	16.1	8.9	10.4	5.7
Emerging Markets	MSCI Emerging Markets Index	-8.0	-6.7	8.2	15.7	5.6	5.0	2.3
Bond Markets								
Core Plus Bond	Bloomberg Barclays Aggregate Bond Index	-0.2	-1.6	-0.4	-0.4	1.7	2.3	3.7
Global Bonds	Bloomberg Barclays Global Aggregate Index	-2.8	-1.5	1.4	-0.4	2.6	1.5	2.6
Total Bond Market	Bloomberg Barclays Universal Bond Index	-0.3	-1.7	-0.3	0.3	2.1	2.6	4.1
Long Duration Bonds	Bloomberg Barclays Long Credit Index	-2.7	-6.4	-1.3	0.8	5.0	5.5	7.3
Short-Duration Bonds	BofA Merrill Lynch U.S. Treasury (1-3 Year)	0.2	0.1	0.1	0.0	0.4	0.6	1.2
Global Bonds	Citigroup-WGBI ex-U.S. Index (Unhedged)	-5.1	-0.9	3.2	-1.0	3.7	1.0	1.8
Global Bonds	Citigroup-WGBI ex-U.S. Index (Hedged)	0.2	1.7	3.6	0.8	3.8	4.3	4.4
Treasury Inflation Protection	Bloomberg Barclays 1-10 Year TIPS Index	0.6	0.2	1.5	0.6	1.5	1.2	2.3
Municipal Bonds	Bloomberg Barclays Municipal Bond Index	0.9	-0.2	1.6	0.5	2.9	3.5	4.4
Cash	91-Day T-Bills Index	0.4	0.8	1.3	0.9	0.6	0.4	0.3
Alternatives								
Commodities	Bloomberg Commodity Index	0.4	0.0	7.3	0.2	-4.5	-6.4	-9.0
U.S. Public Real Estate	FTSE NAREIT All Equity REIT Index	8.5	1.3	4.9	2.5	9.1	8.9	8.3
Global Listed Infrastructure	DJ Brookfield Global Infrastructure Comp. Index	5.2	-1.3	1.2	4.1	3.5	6.1	7.9
Diversified Hedge Funds	HFRI FoF Conservative Index	1.0	1.6	4.1	4.6	1.9	3.0	1.2
Long/Short Equity	HFRI Equity Hedge Index	0.8	1.2	8.2	10.2	4.9	5.8	3.7
Inflation								
Inflation	CPI	1.0	2.2	2.9	2.3	1.8	1.5	1.4

Returns for periods greater than one year are annualized.

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Definitions

- **S&P 500 Index** is a capitalization-weighted index of 500 U.S. stocks published by Standard and Poor's. The index, which is heavily dominated by the largest stocks in the U.S. market, contains about 80% of the total stock market capitalization and is widely used as a benchmark of the largest U.S. stocks.
- **MSCI ACWI Investable Market Index (IMI)** captures large, mid and small cap representation across 24 Developed Markets (DM) and 21 Emerging Markets (EM) countries identified below. With 8,425 constituents, the index is comprehensive, covering approximately 99% of the global equity investment opportunity set.
- **Bloomberg Barclays U.S. Aggregate Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for Treasury, government agencies, corporate securities, mortgage pass-through securities, commercial mortgage-backed securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. The U.S. Aggregate Index was created in 1986 with history backfilled to January 1, 1976.
- **Bank of America Merrill Lynch U.S. High Yield Index** is a commonly used benchmark index for high yield corporate bonds. It is administered by Merrill Lynch. The existing High Yield Master Index excluded two types of issues that were becoming popular because of the boom in leveraged buyout financing, zero-coupon bonds and payment-in-kind (PIK) bonds.
- **Citigroup World Government Bond Index (WGBI)** is a market capitalization weighted index consisting of the government bond markets. Country eligibility is determined based on market capitalization and investability criteria. All issues have a remaining maturity of at least one year.
- **Consumer Price Index (CPI)** is a monthly inflation indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food and transportation.
- **Russell 2000 Index** is a capitalization-weighted index that measures the performance of the small-cap segment of the U.S. equity universe, created by Russell Investments. It includes approximately 2,000 of the smallest securities within the 3,000 largest securities in the U.S. equity universe. The Growth or Value style indexes are a non-exclusive subset of the broader index, where growth or value is determined by valuation and growth characteristics, as determined by Russell Investments.
- **HFRI Monthly Indices (HFRI):** This is an equally weighted set of performance indexes, used by numerous hedge fund managers as benchmarks for their own hedge funds. The HFRI are broken down into four main strategies, each with multiple sub strategies. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite, which accounts for over 2,200 funds listed on the internal HFR Database. Due to mutual agreements with the hedge fund managers listed in the HFR Database, we are not at liberty to disclose the particular funds behind any index to non-database subscribers. Funds included in the HFRI Indices must report monthly returns, report net of all fees returns, report assets in U.S. Dollars, and have at least \$50 Million under management or have been actively trading for at least twelve (12) months.
- **HFRI Equity Hedge (Total) Index** is comprised of investment managers who maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. EH managers would typically maintain at least 50% exposure to, and may in some cases be entirely invested in, equities, both long and short.

Capital Markets Review

Definitions

- **HFRI FOF Cons: Conservative Index** is comprised of FOFs classified as 'Conservative' exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more 'conservative' strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index. A fund in the HFRI FOF Conservative Index shows generally consistent performance regardless of market conditions.
- **MSCI EAFE (Europe, Australasia and Far East) Index** is a standard, capitalization-weighted representation of developed equity markets excluding the U.S. and Canada. As of December 2015 the MSCI EAFE Index consisted of the following 21 developed countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The index includes MSCI's assessment of the most "investable" stocks, determined by size, trading volume, and free float. Performance is shown net of foreign withholding tax on the dividends paid. The Growth or Value style indexes are a non-exclusive subset of the broader index, where growth or value is determined by valuation and growth characteristics, as defined by MSCI.
- **MSCI Emerging Markets Free Index** is A Morgan Stanley Capital International index created to track stock markets in selected emerging markets that are open to foreign investment like Argentina, Chile, Jordan, Malaysia, Mexico, Philippines, and Thailand.
- **Bloomberg Commodity Index:** Formerly known as the Dow Jones-UBS Commodity Index. This is designed to be a liquid and diversified benchmark for the commodities futures market. The Index is composed of futures contracts on 22 physical commodities, and was launched on July 14, 1998
- **S&P Developed Ex U.S. Small Cap Index:** A subset of the S&P Global BMI, the S&P Developed Ex-U.S. SmallCap seeks to measure the stocks representing the lowest 15% of float-adjusted market cap in each developed country, excluding the U.S.
- **BBG Barclays Global Aggregate Index:** The Bloomberg Barclays US Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds, and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S.
- **91-Day T-Bills:** The U.S. government issues short-term debt at a discount at a competitive auction, usually on a weekly basis. At a discount means the note is sold at a discount from face value and then redeemed at maturity at the full face value. The difference between the discounted price and the face value determines the yield. The yield on 91-day Treasury bills is the average discount rate.
- **The Dow Jones Brookfield Global Infrastructure Index** is designed to measure the performance of pure-play infrastructure companies domiciled globally. The index covers all sectors of the infrastructure market. To be included in the index, a company must derive at least 70% of cash flows from infrastructure lines of business.

Capital Markets Review

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