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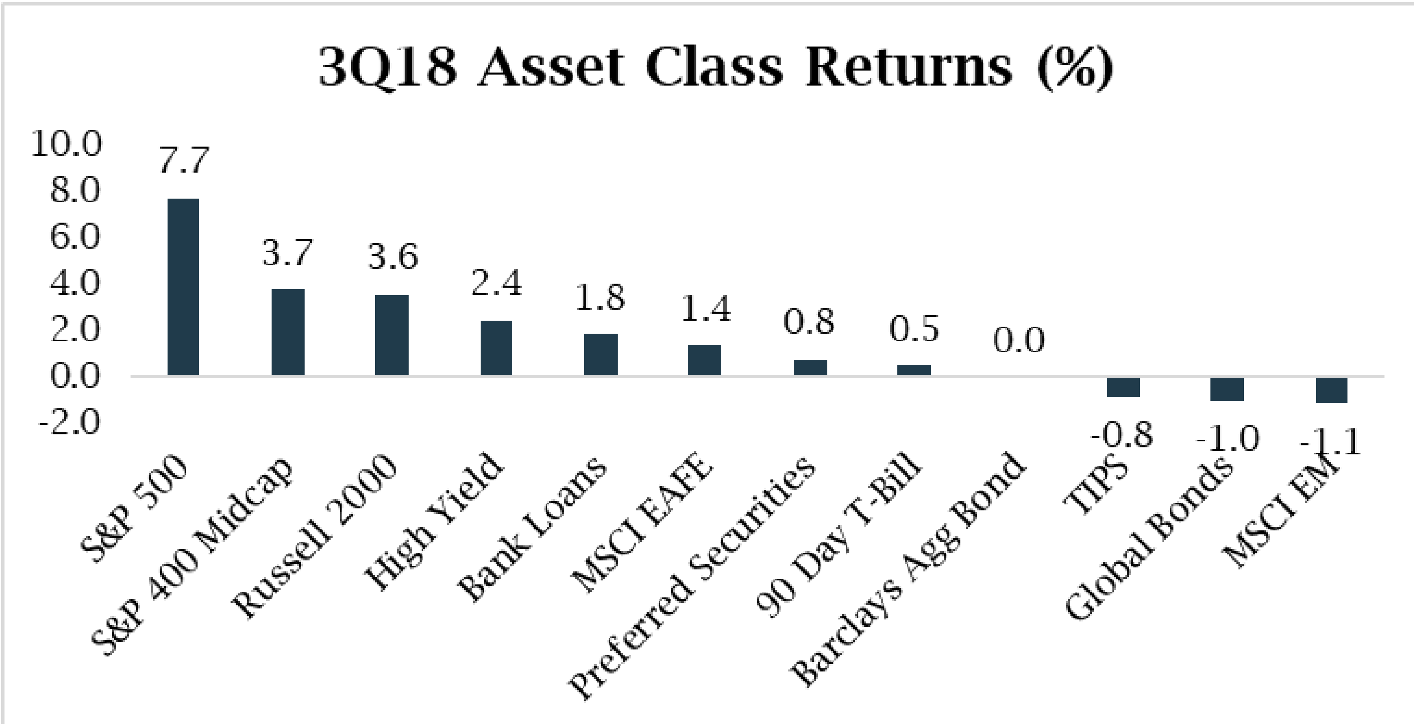
Fourth Quarter 2018

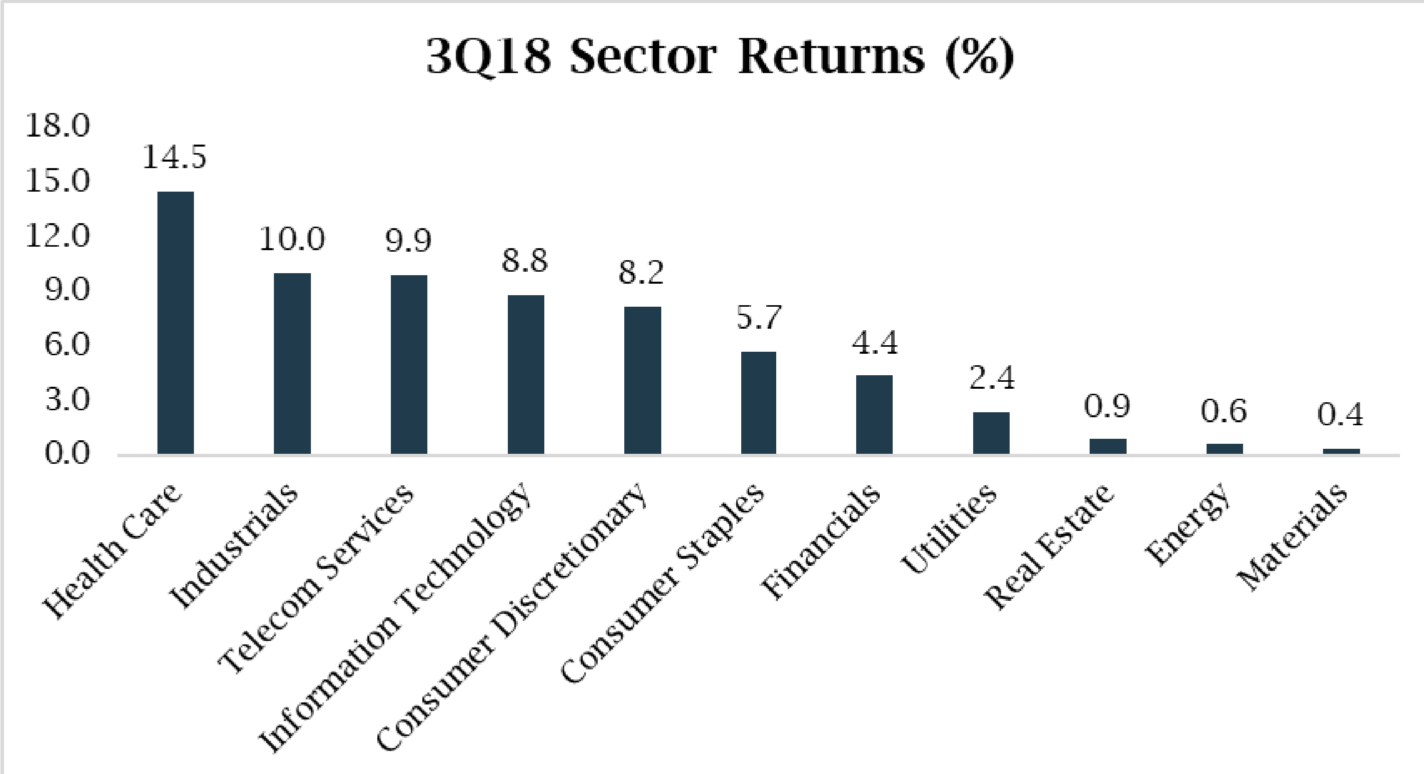
Market Outlook & Portfolio Insights

Domestic Equities Continue to Lead Markets Higher



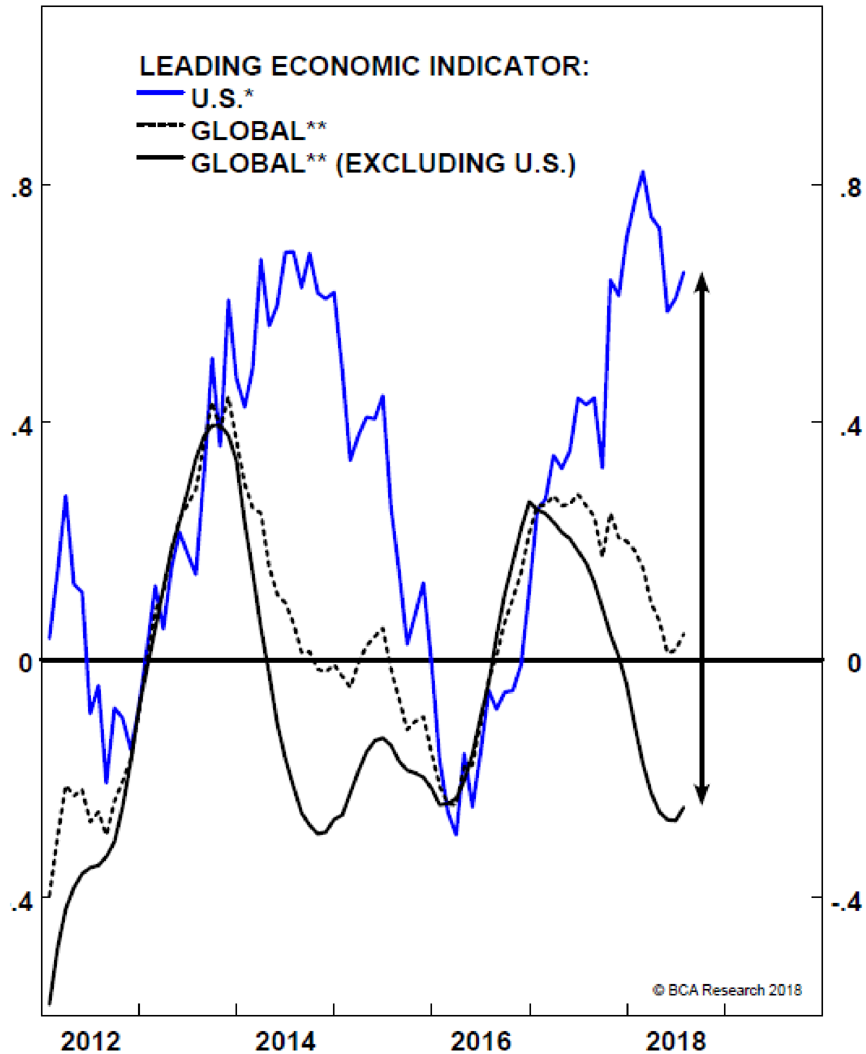
Source: Morningstar

Performance Continues to be Concentrated in a Few Sectors (and Stocks)

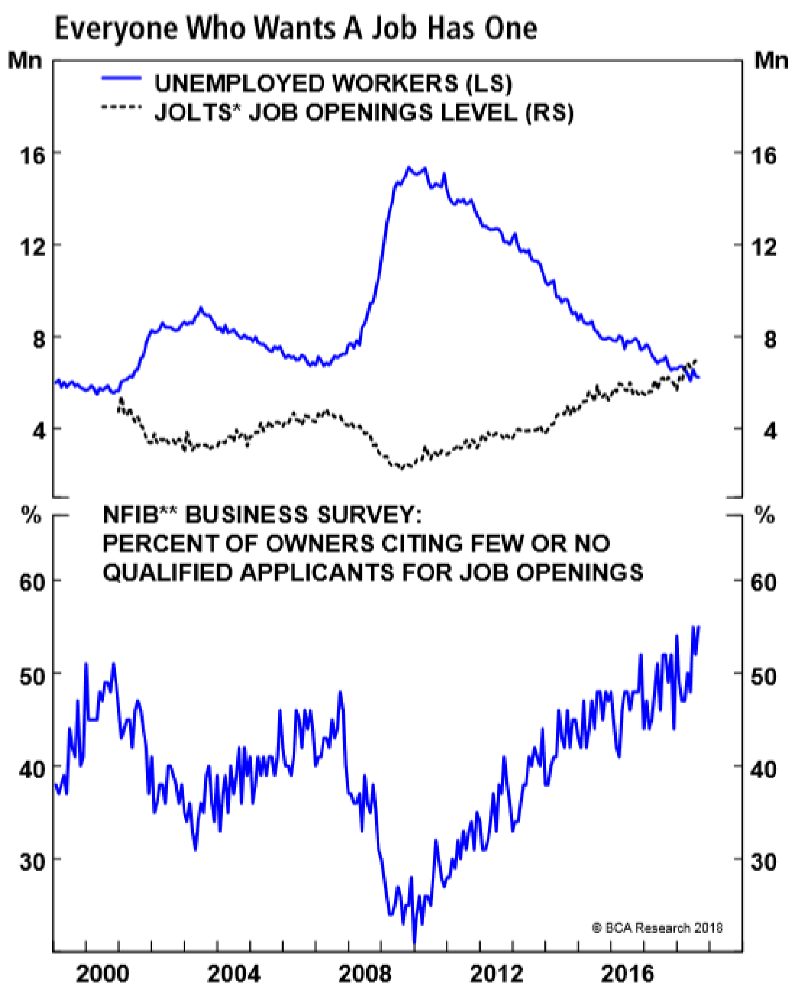


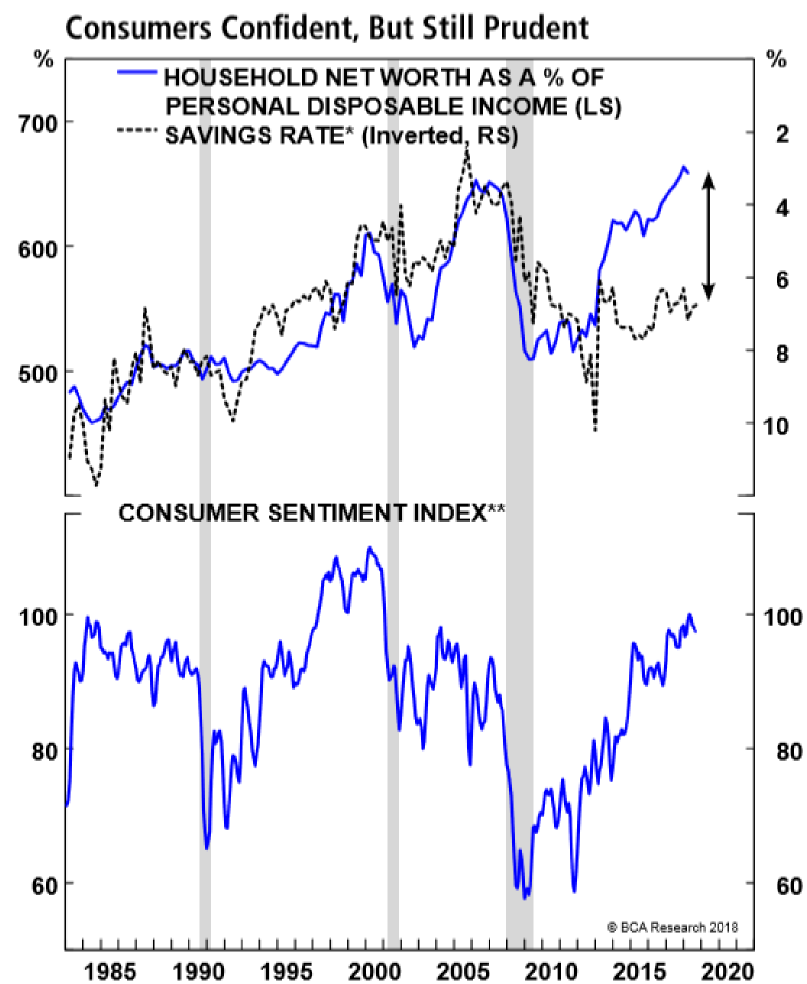
Source: Morningstar

Global Growth is Decelerating with the U.S. Outshining Its Peers



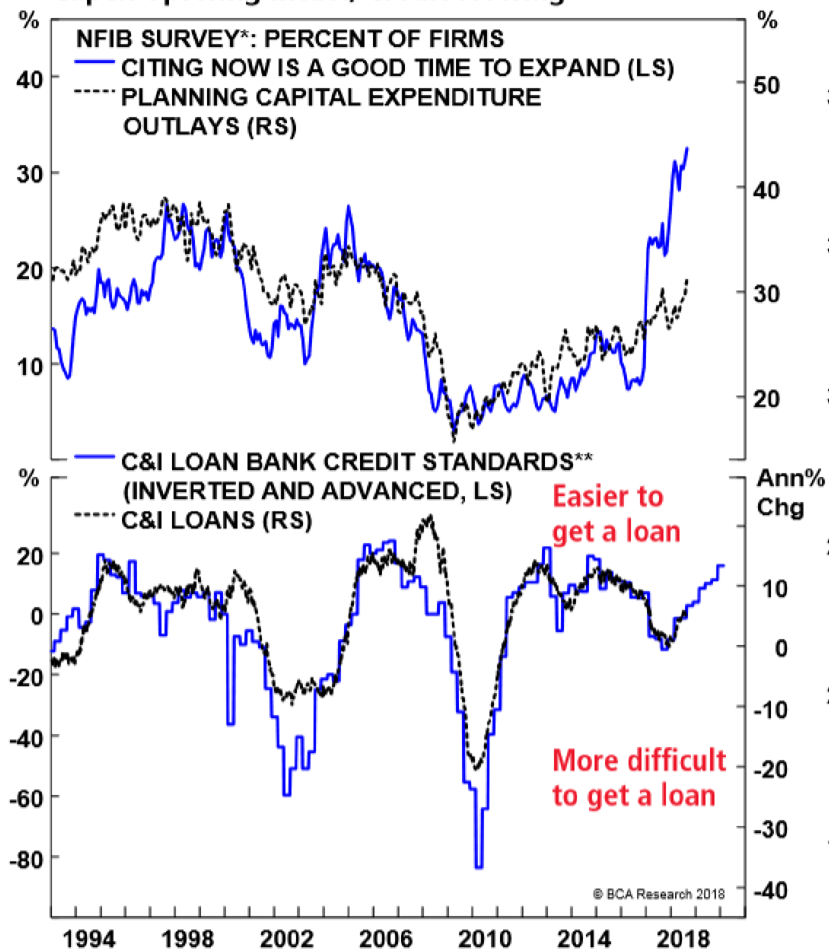
A Favorable View of the U.S. Economy Remains Appropriate



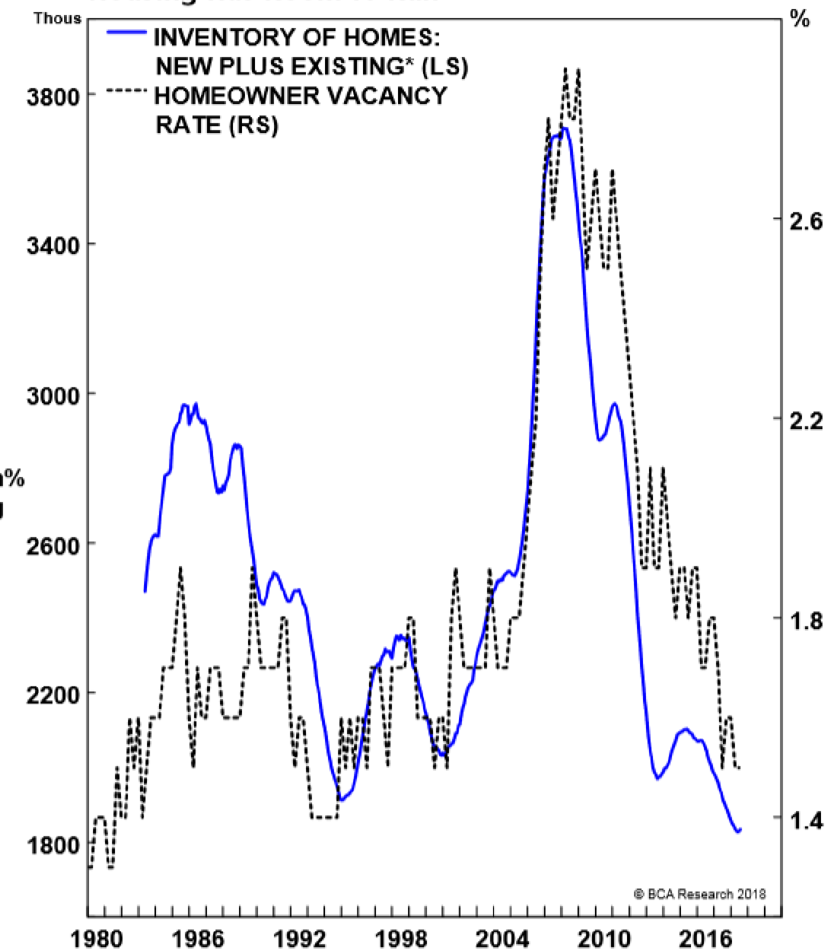


A Favorable View of the U.S. Economy Remains Appropriate (Continued)

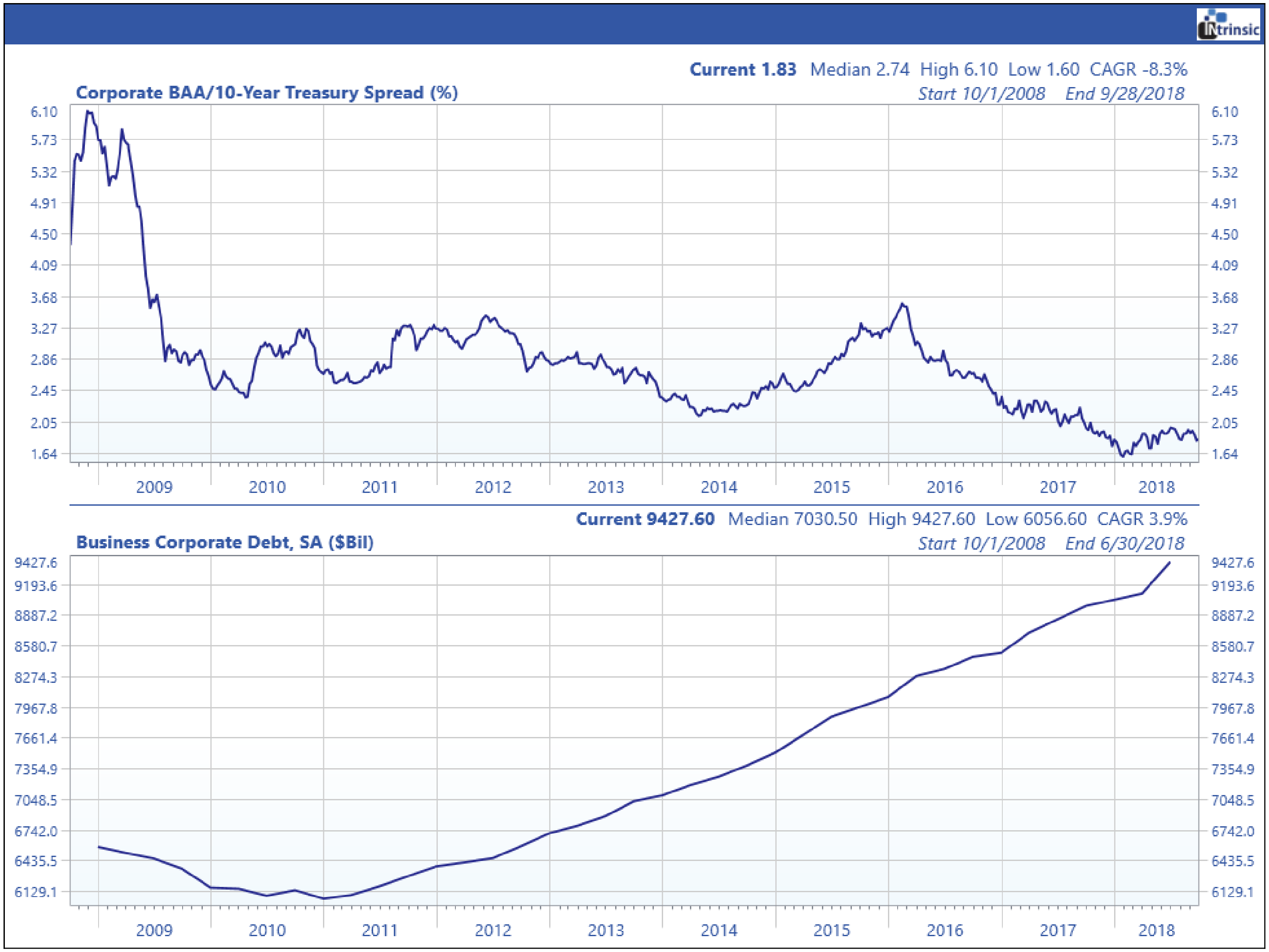
Capex Upswing Intact, Credit Flowing



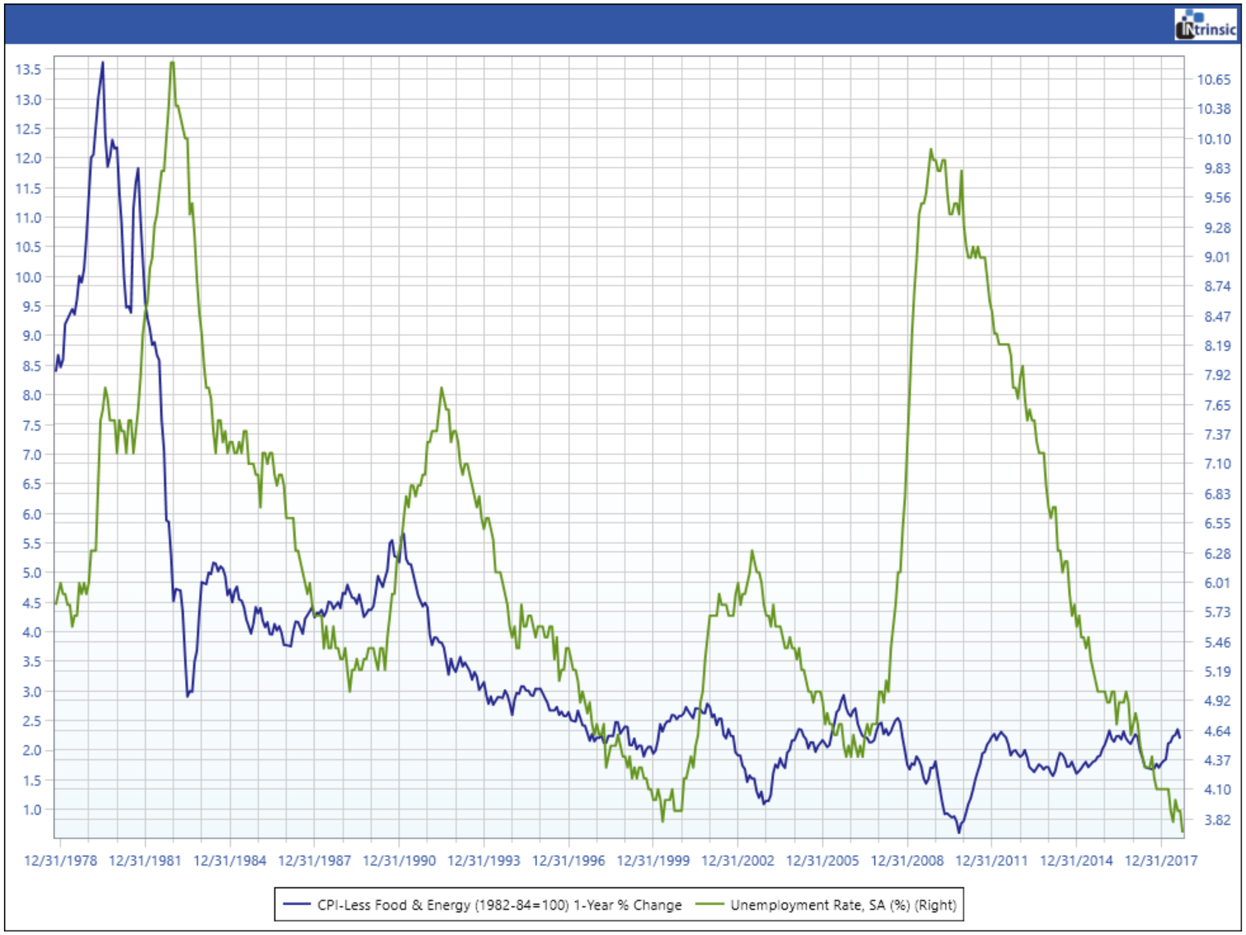
Housing Has Room To Run



Low Interest Rates Have Boosted the Use of Leverage



Low Unemployment Historically has been Coincident with Rising Inflation



A U.S. Economy Running Above Potential Intensifies the Risk of Inflation

CBO OUTPUT GAP ESTIMATE

United States
(percent; >0 indicates excess demand)

Source: Haver Analytics, GluskinSheff

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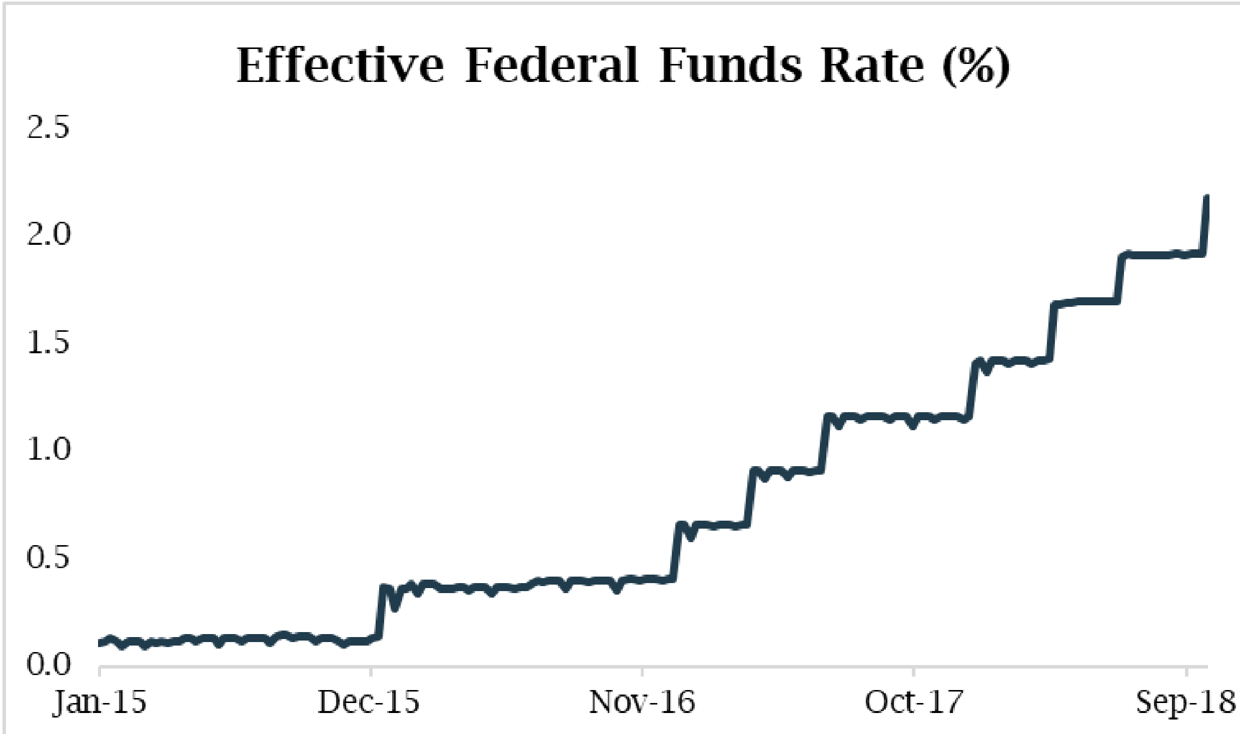
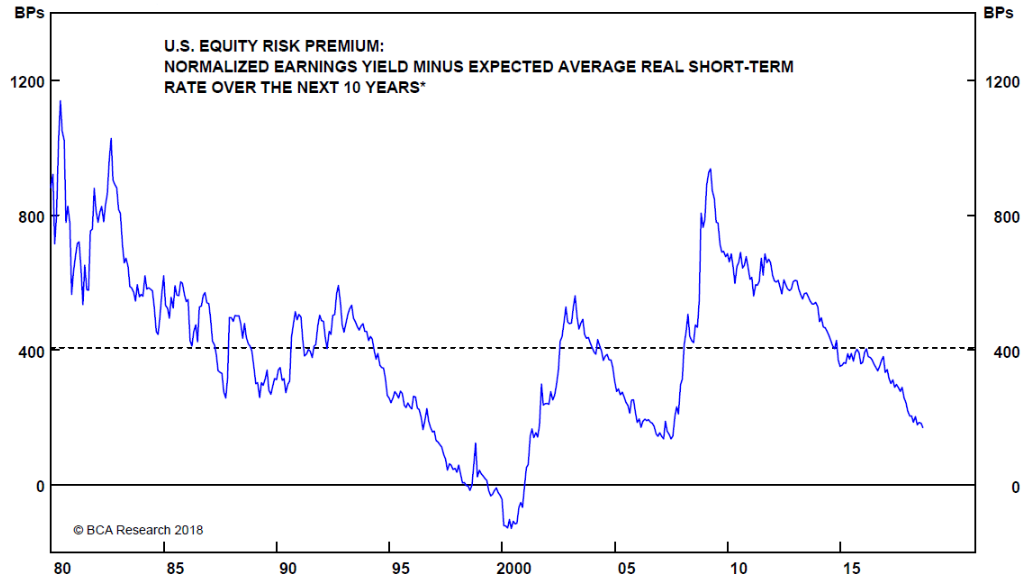
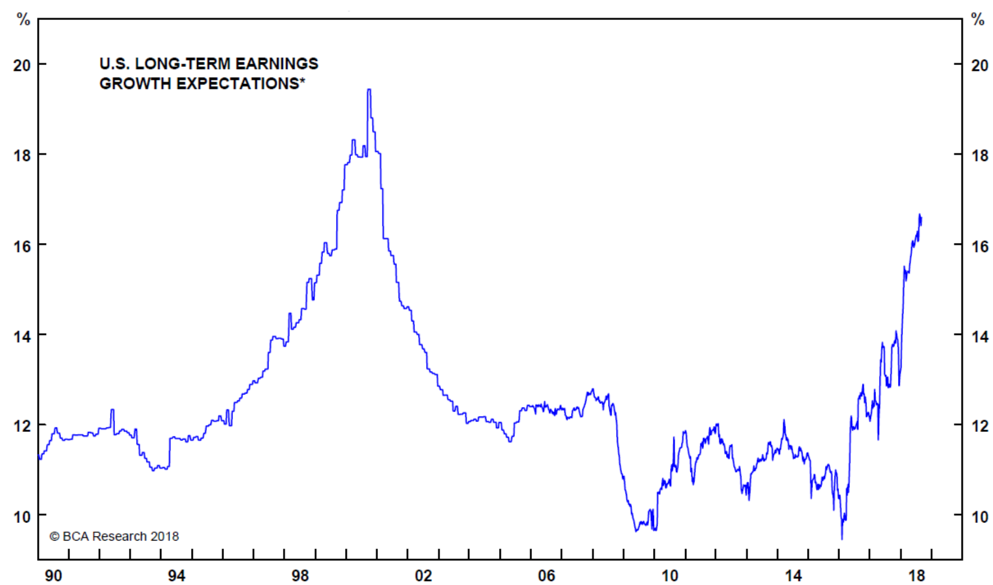
The Federal Reserve has been Measured in Normalizing Monetary Policy



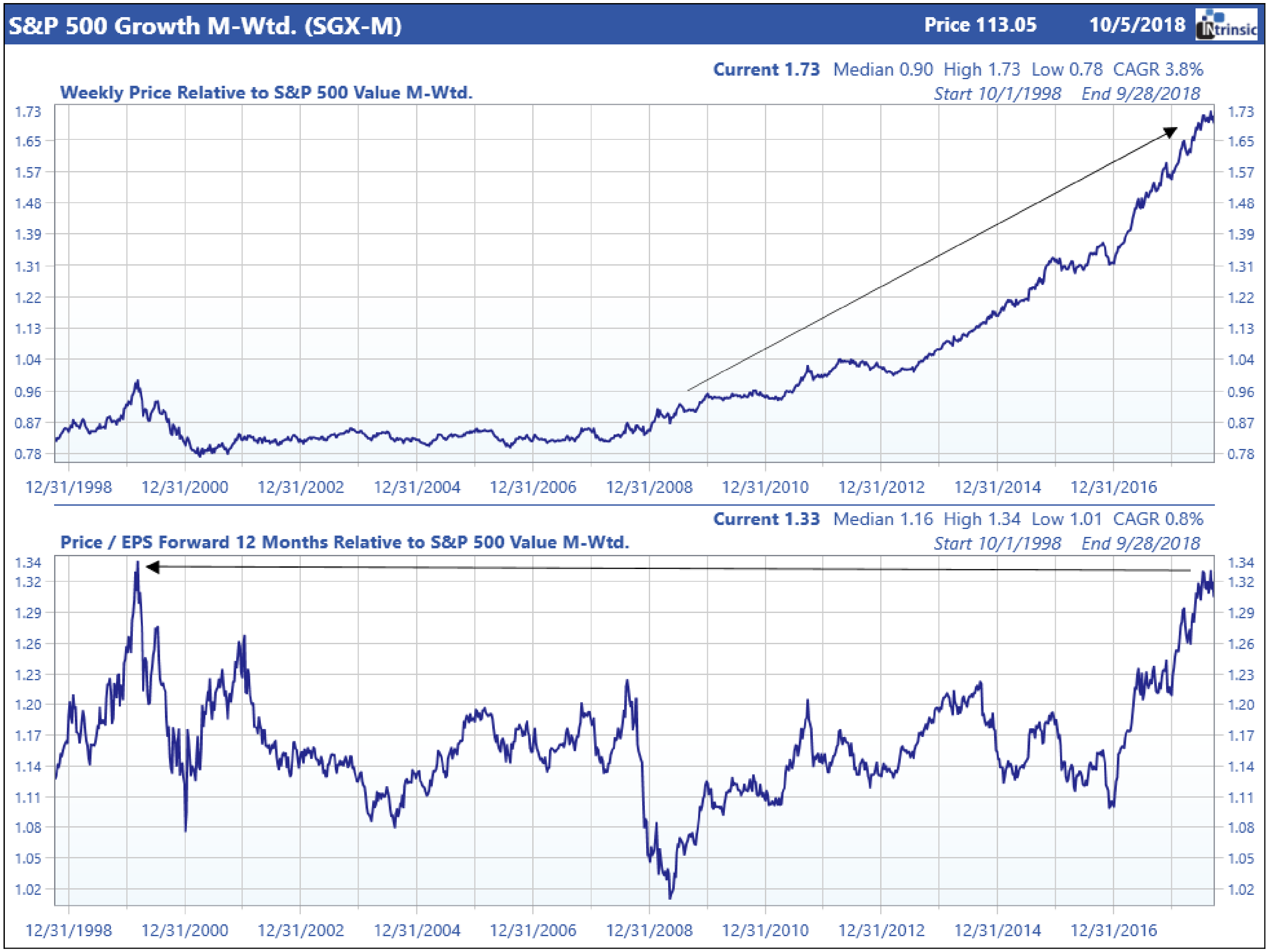
Source: Federal Reserve Bank of St. Louis

U.S. Equity Valuations are Full while Earnings Expectations are Optimistic

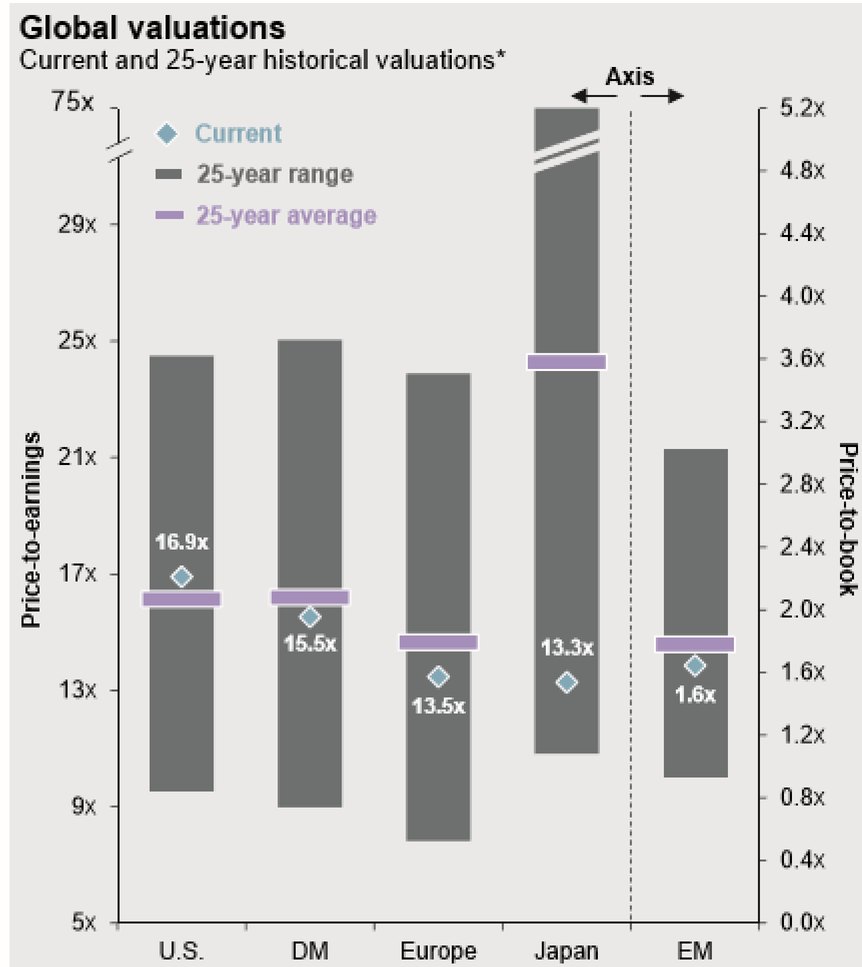




The Outperformance of Growth vs Value Suggests Potential for a Shift in Leadership

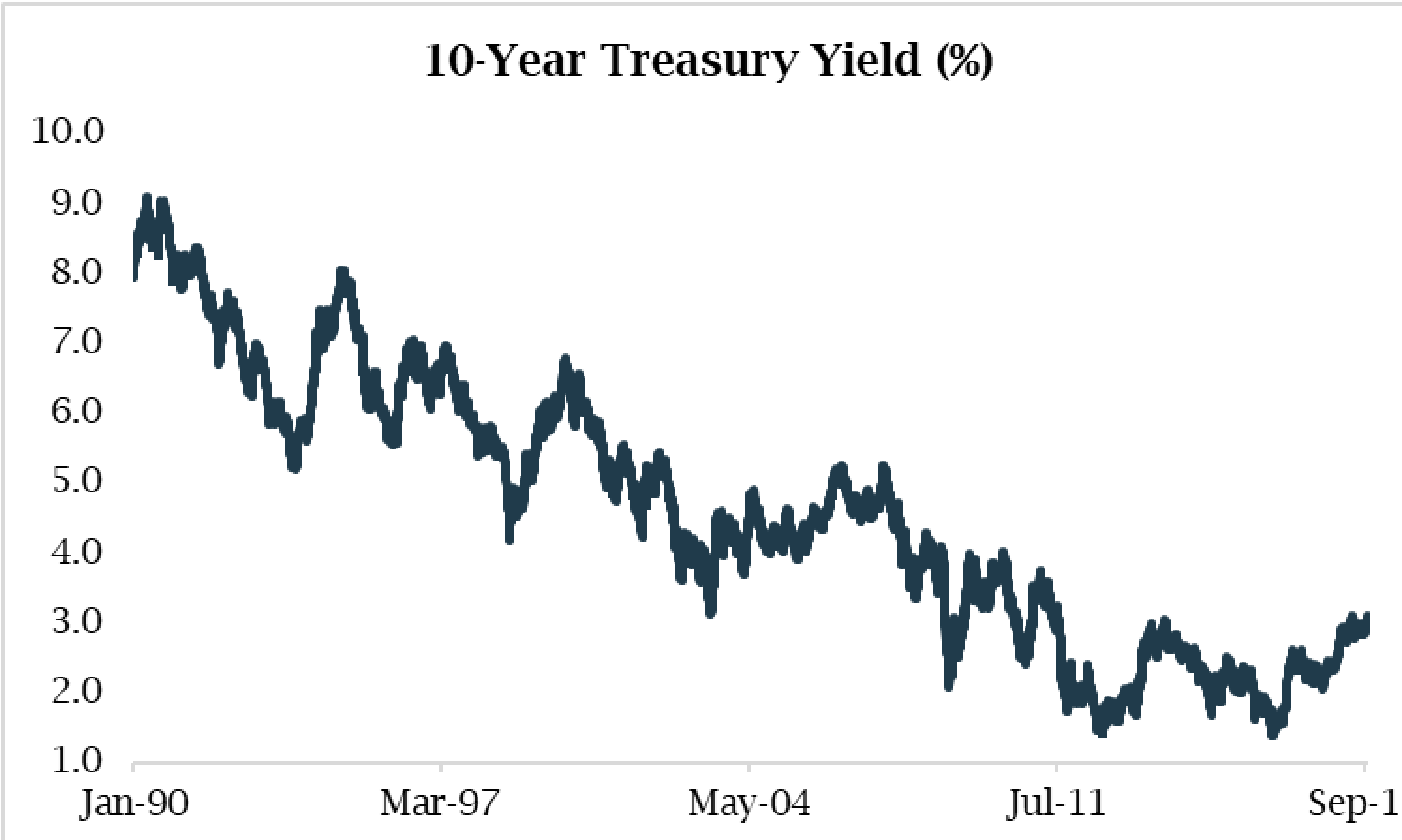


Fundamentals Continue to Favor Developed Markets Over Emerging Markets



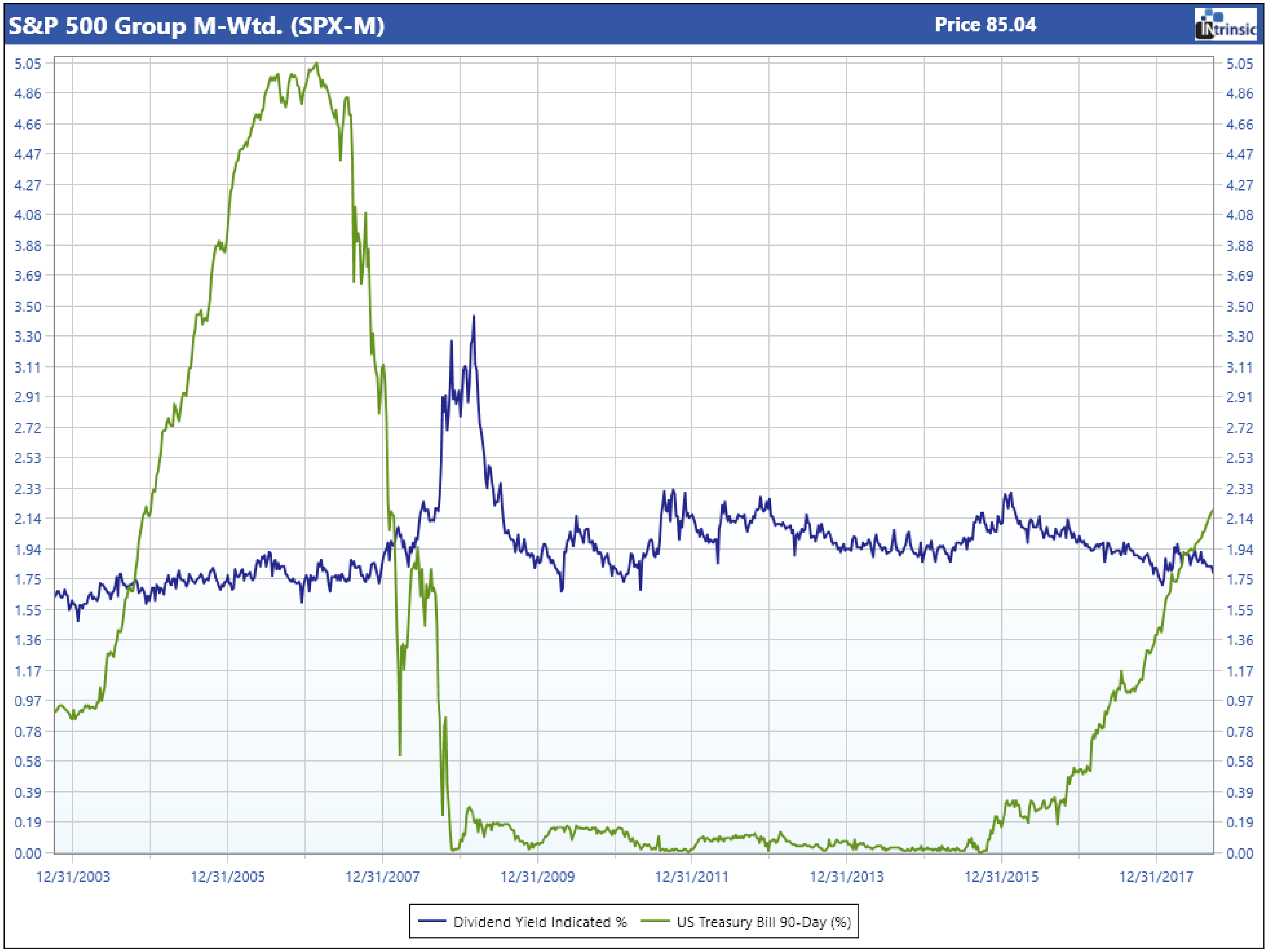
Source: JPMorgan

Bond Yields Have Broken Out to a Seven-Year High on Rising Growth Expectations



Source: Federal Reserve Bank of St. Louis

For the First Time This Cycle, Cash Returns are Competitive with Dividend Yields



Recent Tactical Shifts

January 2018: Sold out of high yield corporate bonds and deployed proceeds into U.S. Treasury Inflation-protected Securities.
Rationale: High yield bonds have benefited from improving economic fundamentals and a surge in corporate earnings accompanied by low default rates. In conjunction with such strong performance, spreads have compressed meaningfully. Growth tends to lead inflation. We cannot predict exactly when we will experience a meaningful pickup in inflation, but we do believe it represents a potential headwind for fixed income investments. In addition, TIPS are guaranteed by the U.S. government and should serve as an important tool in enhancing the overall quality of client portfolios.

June 2018: Increased exposure to U.S. equities relative to international equities. Specifically, sold out of international small cap and emerging market equities and reduced exposure to global equities. Deployed proceeds into U.S. large and mid cap equities along with a regional bank ETF.
Rationale: The U.S. economy is growing faster than many other regions of the world, which should result in the outperformance of domestic equities relative to international equities in the coming quarters. We believe that regional banks stand to benefit meaningfully from a stronger U.S. economy, rising interest rates, and deregulation -- all themes that should remain pervasive.

August 2018: Invested in bank loans and reduced exposure to global bonds.
Rationale: Bank loans should drive incremental income in a rising rate environment and reduce the duration (i.e. interest rate sensitivity) of client portfolios. Our favored global bond strategy, BrandywineGLOBAL's Global Opportunities Bond Fund, seeks to maximize total return through strategic investments in countries, currencies, and sectors. With meaningful allocations to non-U.S. developed and emerging markets, the Fund is positioned to take advantage of global growth. It benefited from synchronized global expansion last year, returning 12.7%. However, we believe that relative economic strength is shifting towards the U.S. Therefore, a smaller position in global bonds seems prudent.

September 2018: Shifted index position in domestic large-cap stocks from the iShares Core S&P 500 ETF (ticker: IVV) which tracks the market capitalization-weighted S&P 500 Index to the Invesco S&P 500 Equal Weight ETF (ticker: RSP) which tracks the equal-weight S&P 500 Index.
Rationale: Over the course of the last five years, we have increasingly utilized a combination of the S&P 500 Index fund coupled with the Heritage Concentrated Leaders portfolio (our internally-managed U.S. large-cap stock portfolio) to gain broad exposure to U.S. large-cap stocks. While we remain constructive on U.S. equity markets, we are becoming increasingly troubled by the concentration of market capitalization and performance in a narrow group of sectors and individual stocks.

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Heritage Market Views

Monetary Policy	Less Accommodating

The Federal Reserve raised interest rates again in September and signaled another increase is likely in December as well as three more in 2019. A stronger economy is giving the Fed leeway to raise rates. Inflation readings have accelerated modestly as the unemployment rate has hit multi-generational lows. Focus remains on wage growth and whether it will induce the Fed to increase rates more aggressively.

Fiscal Policy	Accommodating

The lower corporate tax rate and deregulation have fueled a surge in business optimism and bolstered earnings, particularly for small, U.S.-centric companies. This is good news for stocks, but it remains to be seen whether the incremental fiscal stimulus will give a boost to longer-term economic growth and enable the government to address debt and deficits.

Economic Fundamentals	Positive

Q2 GDP growth registered 4.2%, an acceleration from recent levels and in line with the strongest growth experienced in this recovery. Early forecasts of Q3 GDP growth remain above 4%, according to the Atlanta Federal Reserve. Strength is broad-based in the U.S. with positive business investment trends, continued solid household, spending, and lending standards. In international markets, the picture is a bit different as the synchronous global recovery has hit a stumbling block. Tariffs and looming threats of a trade war with China as well as a strengthening U.S. Dollar are headwinds for global growth, especially in emerging markets.

Market Dynamics	Neutral

Large cap stocks, as measured by the S&P 500, are up ~11% YTD, having eclipsed the all-time high set in early January. Performance has been concentrated in a limited number of sectors with five stocks (AMZN, AAPL, GOOG, MSFT and NFLX) accounting for approximately half of the return of the index. Small cap stocks, as measured by the Russell 2000, are up ~13%. The outperformance of growth stocks versus value stocks has been extreme. Foreign markets are lagging with developed markets, as measured by the MSCI EAFE, down ~1% and emerging markets down ~8%.

U.S. Equities	Neutral

The S&P 500 is trading at 16.6x forward earnings, in-line with the long-term average multiple. The Russell 2000 is trading at 21.4x earnings, which is modestly above historic average. Earnings expectations are optimistic. While signs of a recession remain elusive, valuations suggest future returns will be muted.

International Equities	Neutral

The MSCI EAFE is trading at a discount (13.3x) to the long-term average (~16.0x) given a slowdown in underlying economic and earnings growth. EM stocks are trading at 10.7x earnings, also a discount to historic average. Emerging market stocks are likely to be pressured by a stronger U.S. Dollar and the threat of tariffs.

Bond Yields & Credit	Negative

The yield on the 10-year U.S. Treasury Note recently breached 3.2%, a seven-year high, on stronger growth expectations. Inflation remains the wild card with respect to the future direction of rates. Global bonds serve as an expanded opportunity set to add income through country and credit selection. Bank loans are floating rate in nature, providing insulation against rising interest rates and driving incremental income. High yield spreads are meaningfully below historic average and do not appear to be appropriately compensating investors for risk.

Commodities	Neutral

Global demand for oil is trending close to 2%, above the historic average of ~1.2%. Supply/demand fundamentals have become more favorable. This has pushed oil into the mid-$70/bbl range. There has been underinvestment in legacy fields worldwide with fracking and technological advances filling the gap.

U.S. Dollar	Positive

Ongoing improvement in the U.S. economy, rising U.S. interest rates, and slowing activity overseas have combined to push the Dollar higher this year -- factors likely to remain in place for the near term.

Disclosures

Past performance is no guarantee of future results. No assurance can be given that an investor will not lose invested capital. This performance is neither a composite performance nor actual performance experienced by any past or present client.

The “Hypothetical” or “Historical” performance is a simulated historical calculation of how this portfolio of managed assets would have performed over the period indicated. Performance calculations are based on the indicated asset weights presented and assume annual rebalancing. No annual rebalance is captured for time analysis periods less than one year in length. “Hypothetical” or “Historical” performance of the portfolio is shown Gross of the manager fees and Gross of Investment Advisory Fees. Performance of mutual funds is shown net of fees based on published expense ratios.

Definitions:

S&P 500: The Standard & Poor's 500 Index is an index of 500 stocks seen as a leading indicator of US equities and a reflection of the performance of the large cap universe, made up of companies selected by economists.

Russell 2000: The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks.

MSCI ACWI: A market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

MSCI EAFE: The MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

Emerging Markets: Emerging Market Equity is represented by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 23 emerging economies.

Investment Grade Corporates: Investment Grade Corporate bonds are represented by the iShares iBoxx $ Investment Grade Corporate Bond ETF. The iShares iBoxx $ Investment Grade Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, investment grade corporate bonds.

Global Bonds: Global bonds are represented by the BoAML Global Broad Market Index. The Global Broad Market Index tracks the performance of investment grade public debt issued in the major domestic and eurobond markets, including global bonds.

TIPS: Treasury Inflation Protected Securities are represented by the BBgBarc US Treasury US TIPS Index. The index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

High Yield Corporates: High Yield Corporates are represented by the BBg US Corporate High Yield Index. The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested.

Preferred Stock: Preferred stock is represented by the BoAML: Preferred Stock Adjustable Rate Index.

US Treasurys: US Treasurys are represented by the BBgBarc Aggregate Bond Treasury Index.

Commodities: Commodities are represented by the Bloomberg Commodity Index.