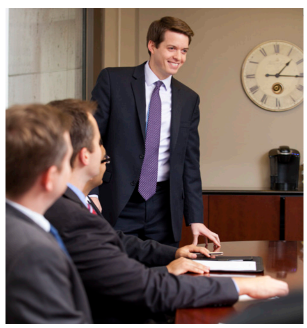
RESEARCH REVIEW

NOVEMBER 2017

INSIDE THIS ISSUE



November saw further improvement in many labor market variables, with some measures—including the lowest unemployment rate since December 2000—pointing to a tightening market. Across the major asset categories, global equities experienced continued positive momentum. Domestic markets produced the most pronounced gains, while a modest increase in Treasury yields led to a slight pullback in many fixed income sectors. Recent poor momentum in energy infrastructure accelerated during the month despite a solid increase in oil prices.

FEG® investment advisors

ECONOMIC UPDATE

U.S. Labor Market Tightens Further Through November

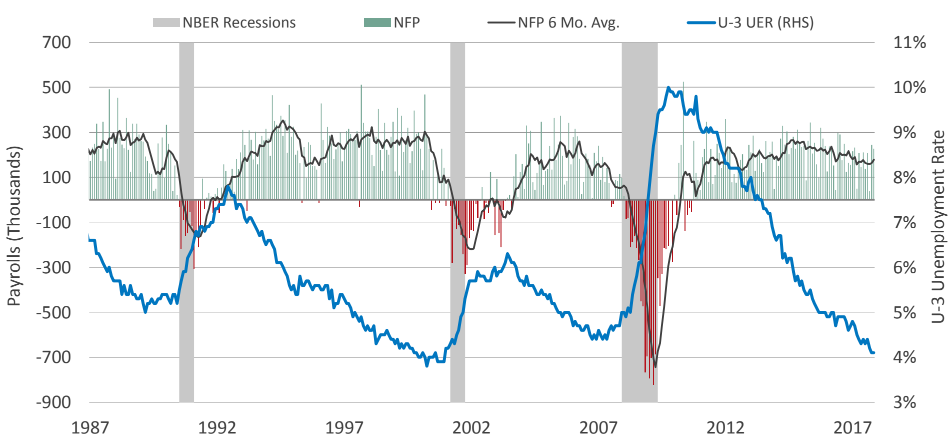
The Bureau of Labor Statistics' November Employment Situation report provided additional evidence of a fairly-tight labor market in the United States. The headline (U-3) unemployment rate, for instance, held steady at 4.1%, matching October 2017 as the lowest rate since December 2000 (3.9%). In addition, nonfarm payrolls surprised to the upside, printing at 228,000 net new jobs during the month in comparison to the conservative Bloomberg median consensus estimate of 195,000. The solid monthly payrolls reading helped send smoothed measures of payrolls growth higher, with an average of 178,000 net new jobs added per month over the trailing six-month period.

Stable jobs growth—which has recently been accelerating—in conjunction with a steadily-improving unemployment rate should help keep near-term recessionary risks at bay. Past recessionary environments were preceded by sub-1% year-over-year payrolls growth, an inverted yield curve, and trend-reversals in the U-3—none of which appear to be an immediate concern. The nonfarm payrolls and unemployment rate graph helps showcase the solid labor market underpinning the ongoing economic expansion.

While the labor market continues to exhibit potential tightness at the headline level, ongoing subdued labor force participation and stubbornly low inflation-adjusted wage growth readings highlight structural strains inherent in the labor market, with the former potentially serving as a key headwind to both elevated inflation and employee wage growth rates. Regardless, with headline unemployment near a 20-year low and payrolls exhibiting persistent strong gains, the Federal Reserve is likely to remain committed to its current monetary policy tightening path. The Fed's mid-December meeting will be a key focus of the markets, which are fully anticipating a rate hike to culminate Yellen's term that ends in February.

In summary, the U.S. labor market continued to strengthen in November, driven by a stronger-than-expected payrolls print and steady headline unemployment hovering near a 20-year low. While broader participation measures and employee wage growth remained weak compared to historical average levels, market-implied expectations for the future course of Fed monetary policy continue to reflect incrementally tighter monetary conditions over the near term.

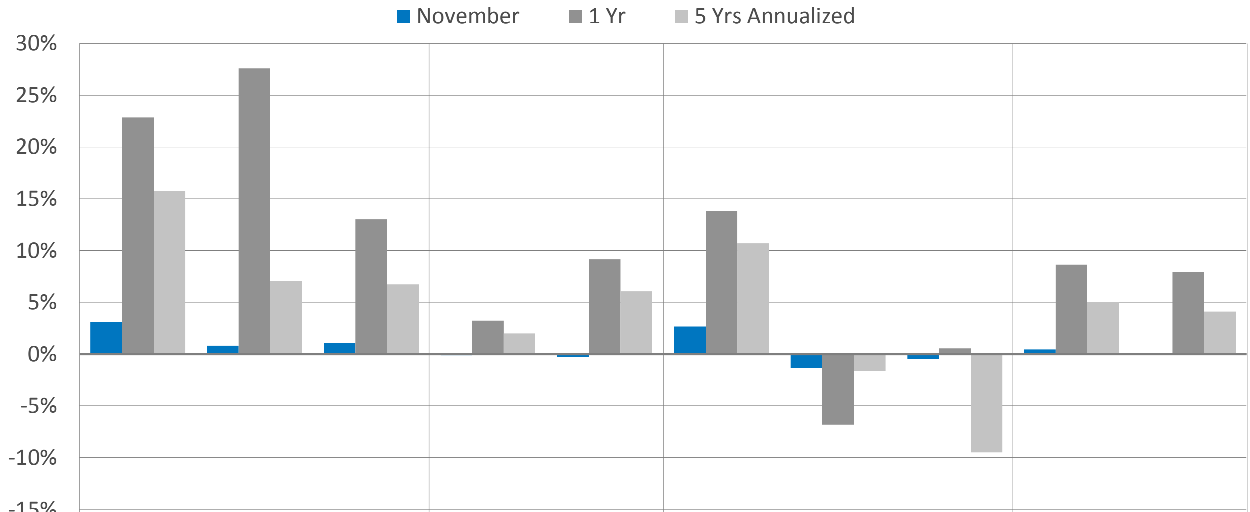
NON-FARM PAYROLLS AND UNEMPLOYMENT RATE



Data sources: BLS, NBER, Bloomberg, L.P.; Data as of November 2017

MARKET SUMMARY

NOVEMBER 2017



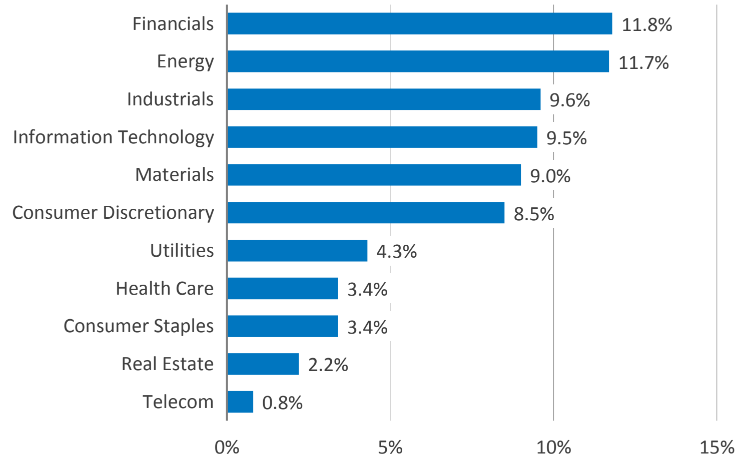
	GLOBAL EQUITY			FIXED INCOME		REAL ASSETS			DIVERSIFYING STRATEGIES	
	S&P 500 Index	MSCI ACWI ex-U.S.	HFRI Equity Hedge Index	Blmbrg Barclays U.S. Agg Index	Blmbrg Barclays HY Index	FTSE NAREIT All Equity Index	Alerian MLP Index	Blmbrg Cmdty Index	HFRI Fund Wtd Comp. Index	HFRI Fund of Fund Index
November	3.1%	0.8%	1.1%	-0.1%	-0.3%	2.7%	-1.4%	-0.5%	0.5%	0.1%
1 Yr	22.9%	27.6%	13.0%	3.2%	9.2%	13.9%	-6.8%	0.5%	8.6%	7.9%
5 Yrs Annualized	15.7%	7.1%	6.7%	2.0%	6.0%	10.7%	-1.6%	-9.5%	5.0%	4.1%

Data sources: Lipper, HedgeFund Research

GLOBAL EQUITY

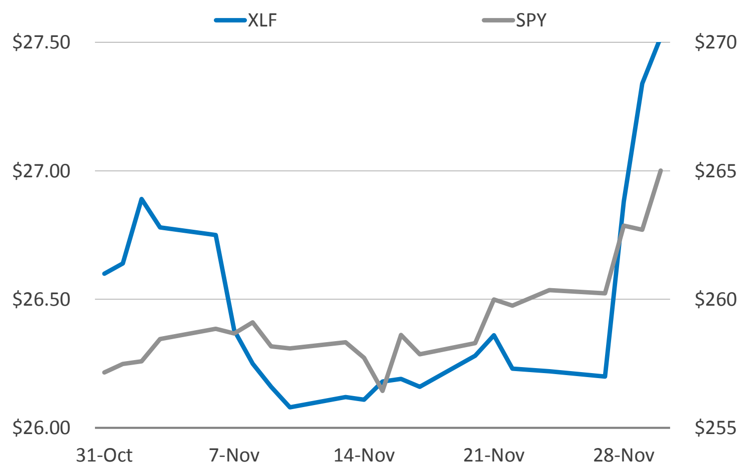
- U.S. equity returns were strong again in November, driven by continued earnings growth and global economic expansion. Optimism remained high as the Senate and House of Representatives made progress toward a potential tax reform bill, which may provide further support to U.S. equities if earnings growth materializes as a result.
- Large, mid, and small cap stocks performed in-line with each other over the month, and value index returns kept pace with growth index returns.
- All sector returns were positive in November. Strong returns in the financials sector were driven by tax plan optimism combined with an anticipated December rate hike, but were isolated to the final few days of the month, while energy rebounded with strong performance over the month as oil prices continued to rise.
- International developed markets out-performed emerging and frontier markets although lagged domestic markets during the month. Euro zone economic momentum accelerated after a revised GDP growth estimate printed at 2.5%, due in large part to strong German economic growth. November also saw a return of political uncertainty, as turmoil created by the Catalonia referendum in Spain and ambiguity in Germany's political future tempered returns.
- After strong gains year-to-date, emerging market returns were muted in November in the face of headwinds from rising optimism for U.S. tax reform and a broadly strengthening U.S. dollar. South Africa recorded strong gains after speculation that December's election may prompt a pro-market policy change. In contrast, Chile fell sharply after support for Sebastian Pinera during the first round of the presidential election came in lower than expected.

NOVEMBER RUSSELL 3000 SECTOR PERFORMANCE



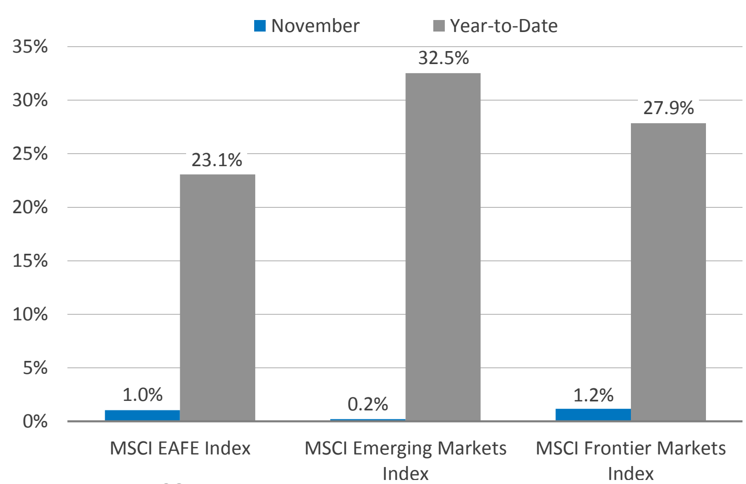
Data source: Russell

NOVEMBER FINANCIAL SECTOR PERFORMANCE



Data source: Bloomberg, L.P.

MSCI INDICES PERFORMANCE



Data source: MSCI

FIXED INCOME

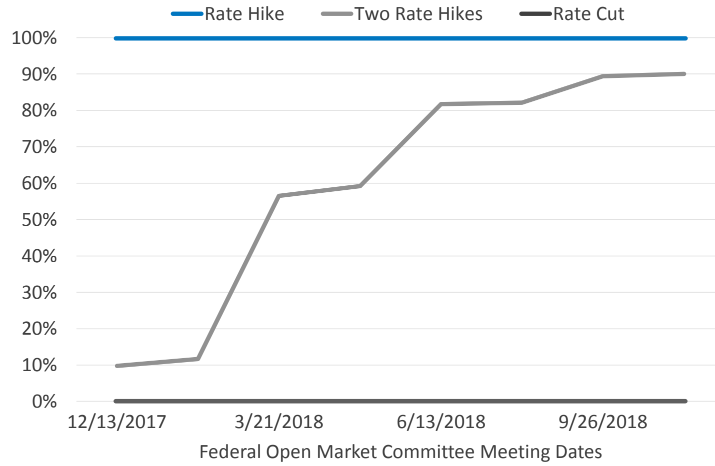
MARKET DRIVERS

- Markets have shown anticipation that the Federal Reserve will continue to support gradual interest rate hikes and the gradual reduction of its balance sheet, with a 100% probability of a rate hike in December 2017.
- In China, authorities have continued to promote growth, but the announcement of additional credit tightening regulations fueled concerns about the target growth rate for 2018. However, emerging market debt continued to show positive performance overall, with Moody's upgrading Indian government debt in November.
- Europe and Japan have sustained quantitative easing programs, though both countries are in the process of tapering their policies.

MARKET MOVEMENT

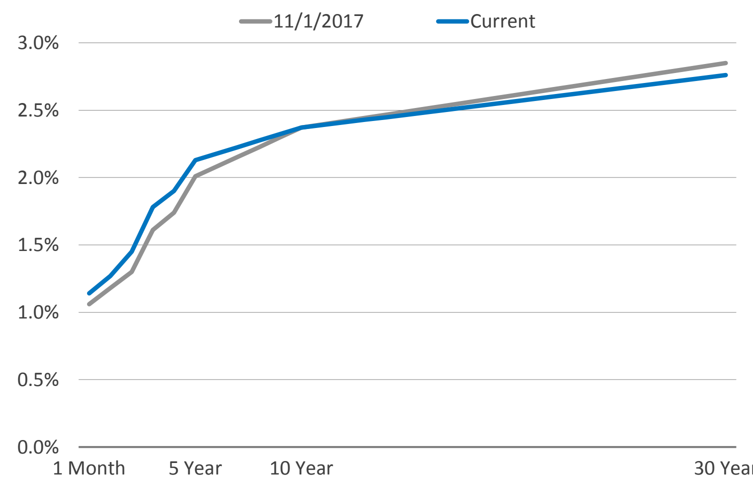
- U.S. bond returns were slightly negative across most sectors amid rising rates, with the notable exception of a slight gain in Treasury Inflation-Protected Securities.
- The yield curve flattened slightly as the Treasury announced a future supply weighted more heavily towards shorter-term notes.
- Bonds in Europe and Japan gained due to the continuation of quantitative easing programs as well a 2% rise in the euro and yen against the U.S. dollar.

IMPLIED PROBABILITY OF U.S. INTEREST RATE HIKES



Data source: CME Group

U.S. TREASURY YIELD CURVE



Data source: U.S. Department of the Treasury

REAL ASSETS

REAL ESTATE

- Strong corporate earnings drove the U.S. REIT market's positive returns. Additionally, domestic REITs experienced tailwinds from increased shareholder activism in the mall sector. Shareholder activism has prompted speculation that recent low share prices could result in the acquisition or privatization of certain companies.
- Internationally, real estate in both Europe and Asia benefitted from ongoing economic improvements that boosted the office sector.

NATURAL RESOURCES

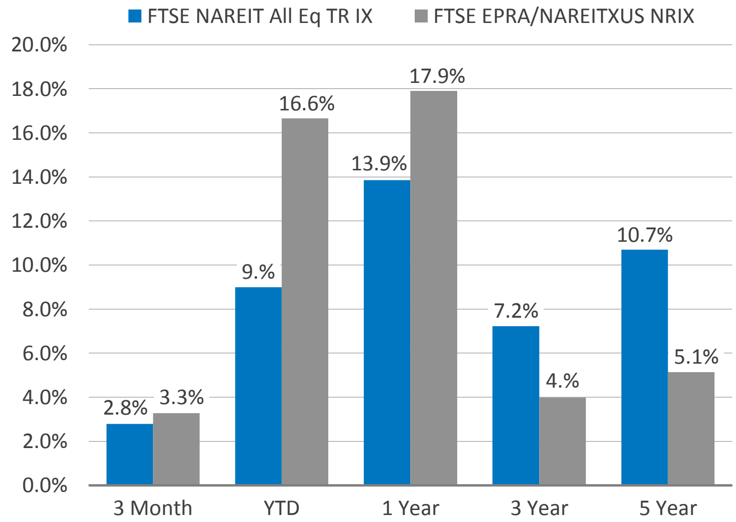
- Oil prices continued to rally through the end of November, with OPEC and Russia coming to an agreement on production cuts for 2018. Rising production in the United States may be the wildcard in the energy markets, as current production is at 9.3 million barrels a day, just shy of the April 2015 peak of 9.6 million. Additionally, a cold start to the winter season may trigger a rise in natural gas prices in the last month of 2017.
- Commodities declined slightly in November. The agriculture complex recovered slightly from pressures during the fall harvest in the U.S.

DIVERSIFYING STRATEGIES

- Macro managers generated slightly negative performance, driven by discretionary traders.
- Systematic managers were flat overall, as those with a longer-term trading horizon tended to outperform shorter-dated counterparts.
- Event-driven strategies struggled as key widely-held merger deals came under pressure due to regulatory uncertainty. In particular, large deals in the semi-conductor and technology, media, and telecom sectors endured heightened scrutiny, causing spreads to widen.

DOMESTIC vs. INTERNATIONAL REIT RETURNS

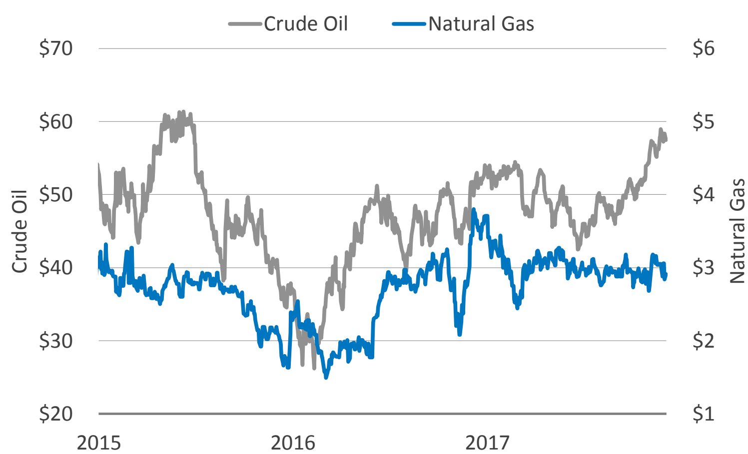
As of November 30, 2017



Data source: Bloomberg, L.P.

PRICE OF CRUDE OIL AND NATURAL GAS

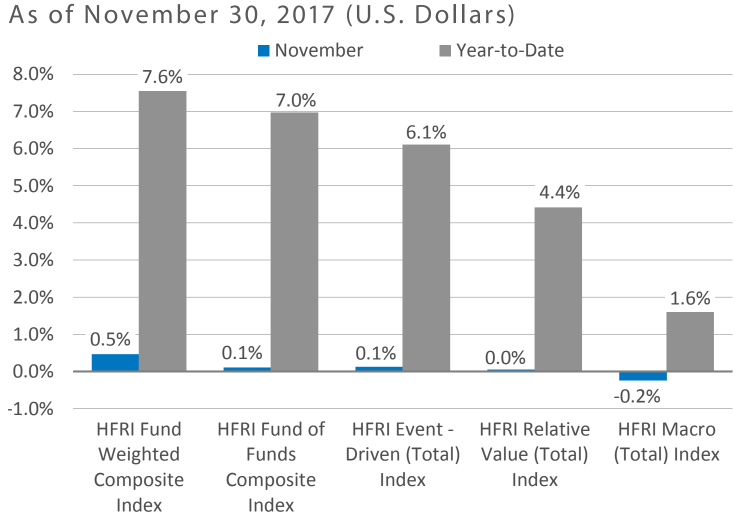
As of November 30, 2017



Data source: Energy Information Agency

HFRI INDICES PERFORMANCE RETURNS

As of November 30, 2017 (U.S. Dollars)



Data source: HedgeFund Research

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All data is as of November 30, 2017 unless otherwise noted.

INDICES

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class.

Barclays Capital Fixed Income Indices is an index family comprised of the Barclays Capital Aggregate Index, Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, Municipal Index, High-Yield Index, and others designed to represent the broad fixed income markets and sectors within constraints of maturity and minimum outstanding par value. See https://ecommerce.barcap.com/indices/index.dxml for more information.

The CBOE Volatility Index (VIX) is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500 Index option bid/ask quotes. The Index uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index. FTSE Real Estate Indices (NAREIT Index and EPRA/NAREIT Index) includes only those companies that meet minimum size, liquidity and free float criteria as set forth by FTSE and is meant as a broad representation of publicly traded real estate securities. Relevant real estate activities are defined as the ownership, disposure, and development of income-producing real estate. See www.ftse.com/Indices for more information.

HFRI Monthly Indices (HFRI) are equally weighted performance indexes, compiled by Hedge Fund Research Inc. (HFX), and are used by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 37 different categories by strategy, including the HFRI Fund Weighted Composite, which accounts for over 2000 funds listed on the internal HFR Database. The HFRI Fund of Funds Composite Index is an equal weighted, net of fee, index composed of approximately 800 fund- of- funds which report to HFR. See www.hedgefundresearch.com for more information on index construction.

J.P. Morgan's Global Index Research group produces proprietary index products that track emerging markets, government debt, and corporate debt asset classes. Some of these indices include the JPMorgan Emerging Market Bond Plus Index, JPMorgan Emerging Market Local Plus Index, JPMorgan Global Bond Non-US Index and JPMorgan Global Bond Non-US Index. See www.jpmorgan.com for more information.

Merrill Lynch high yield indices measure the performance of securities that pay interest in cash and have a credit rating of below investment grade. Merrill Lynch uses a composite of Fitch Ratings, Moody's and Standard and Poor's credit ratings in selecting bonds for these indices. These ratings measure the risk that the bond issuer will fail to pay interest or to repay principal in full. See www.ml.com for more information.

Morgan Stanley Capital International – MSCI is a series of indices constructed by Morgan Stanley to help institutional investors benchmark their returns. There are a wide range of indices created by Morgan Stanley covering a multitude of developed and emerging economies and economic sectors. See www.morganstanley.com for more information.

Russell Investments rank U.S. common stocks from largest to smallest market capitalization at each annual reconstitution period (May 31). The primary Russell Indices are defined as follows: 1) the top 3,000 stocks become the Russell 3000 Index, 2) the largest 1,000 stocks become the Russell 1000 Index, 3) the smallest 800 stocks in the Russell 1000 Index become the Russell Midcap index, 4) the next 2,000 stocks become the Russell 2000 Index, 5) the smallest 1,000 in the Russell 2000 Index plus the next smallest 1,000 comprise the Russell Microcap Index. See www.russell.com for more information.

S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation, among other factors by the S&P Index Committee, which is a team of analysts and economists at Standard and Poor's. The S&P 500 is a market-value weighted index, which means each stock's weight in the index is proportionate to its market value and is designed to be a leading indicator of U.S. equities, and meant to reflect the risk/return characteristics of the large cap universe. See www.standardandpoors.com for more information.

Information on any indices mentioned can be obtained either through your consultant or by written request to information@feg.com

RESEARCH AND INVESTMENTS TEAM

CHERYL A. BARKER
Senior Research Analyst
Global Equities

NOLAN M. BEAN, CFA, CAIA
Managing Principal
Head of Institutional Investments

KEITH M. BERLIN
Senior Vice President
Director of Global Fixed Income and Credit

CHRISTIAN S. BUSKEN
Senior Vice President
Director of Real Assets

KEVIN J. CONROY, CFA, CAIA
Vice President
Hedged Strategies

KEVIN C. DEE
Research Analyst
Global Fixed Income and Credit

MATT DENBLEYKER
Vice President
Real Asset Research Analyst

BRAD DERFLINGER, CFA
Vice President
Assistant Portfolio Manager,
Risk Management

GREGORY M. DOWLING, CFA, CAIA
Managing Principal
Chief Investment Officer,
Head of Research

SUSAN MAHAN FASIG, CFA
Managing Principal
Portfolio Manager, Private Investments

ANTHONY L. FESTA, CFA
Managing Principal
Head of Portfolio Strategy

MICHAEL B. FRANKE, CFA
Senior *Research* Analyst
Hedged Strategies

EMILY C. HOGYA
Portfolio Analyst Analyst

BRIAN A. HOOPER
Vice President
Global Equities

GREGORY D. HOUSER, CFA, CAIA
Senior Vice President
Capital Markets

XAVIER A. JIMENEZ
Research Analyst
Real Assets

MARK A. KOENIG, CFA
Senior Vice President
Director of Quantitative Analysis

J. ALAN LENAHAN, CFA, CAIA
Managing Principal
Chief Investment Officer,
Head of Portfolio Management

CHARLIE W. LUECKE
Senior Research Analyst
Private Equity

LAUREN M. MAYERNIK
Research Analyst
Private Equity

SEAN P. MCCHESNEY
Vice President
Hedged Strategies

MICHAEL J. OYSTER, CFA
Managing Principal
Chief Investment Strategist

MICHAEL J. O'CONNOR, CFA, CAIA
Vice President
Assistant Portfolio Manager,
Public Investments

SAMUEL A. RAGAN
Research Analyst
Global Equities

G. SCOTT TABOR, CAIA
Senior Vice President
Private Capital

STEVEN G. THIEME, CFA
Senior Research Analyst
Hedged Equity

NATHAN C. WERNER, CFA, CAIA
Senior Vice President
Director of Private Equity

201 East Fifth Street
Suite 1600
Cincinnati, Ohio 45202

513.977.4400
information@feg.com
www.feg.com

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Research and Investments Team as of date of publication.

