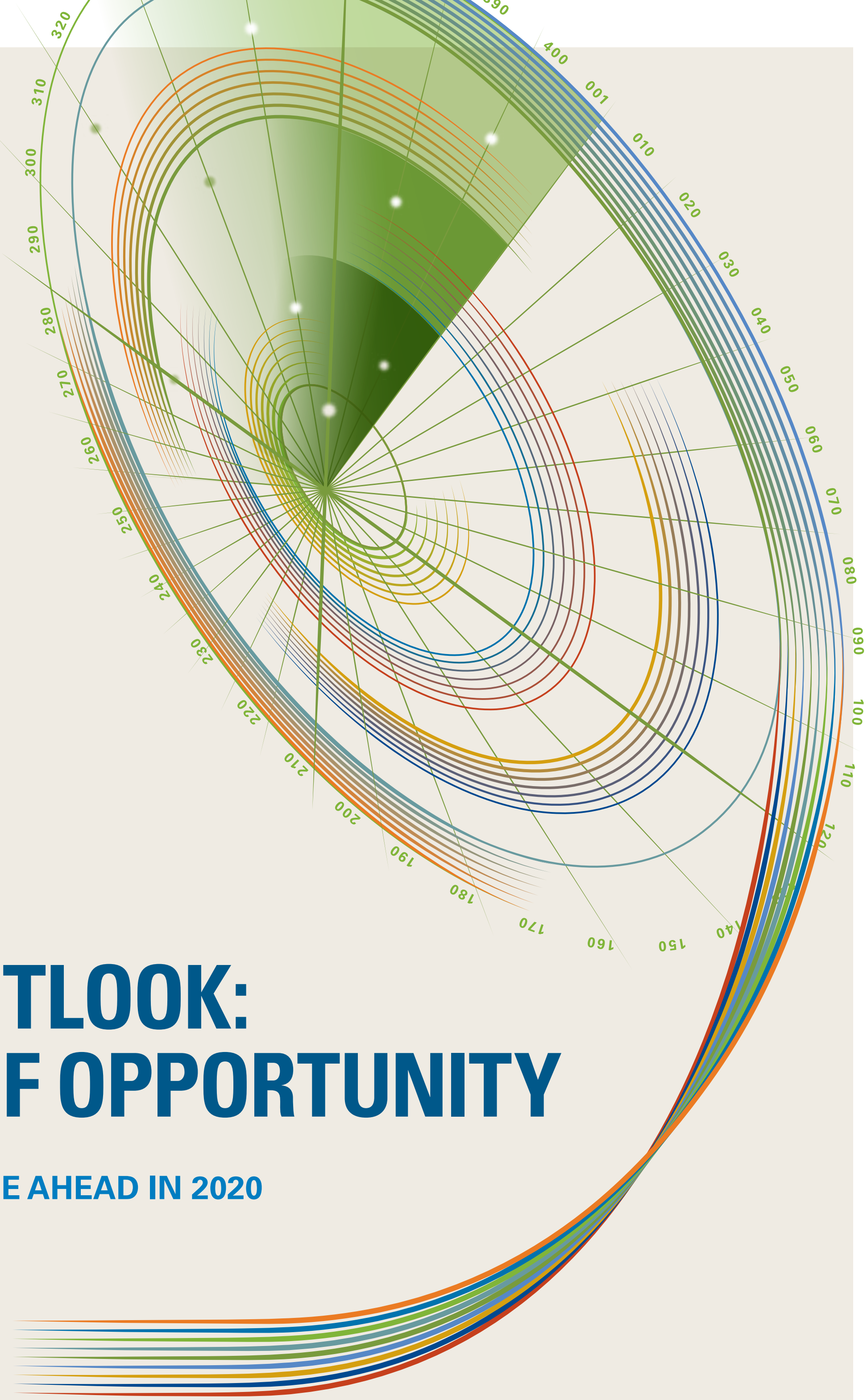

ANNUAL OUTLOOK: THE PRICE OF OPPORTUNITY

WHAT OUR MANAGERS SEE AHEAD IN 2020

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GLOBAL ASSET MANAGEMENT

Brandywine GLOBAL | CLARION PARTNERS | ClearBridge Investments | EnTrust Global

MARTIN CURRIE | QS Investors | RARE | ROYCE Investment Partners | WESTERN ASSET

Our managers expect positive growth for the world economy in 2020, but the pace may continue to slow. There will be selective opportunities for gains, but at a price: episodes of market volatility driven by political and policy concerns may test investors' resolve along the way.

3 KEY THEMES

Gradual Growth

Investors should expect global growth to advance in 2020, underpinned by the largesse of central banks. But the pace of expansion may continue to slow, with the potential for income and return somewhat muted.

Persistent Volatility

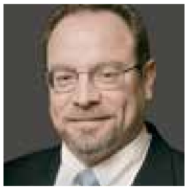
Some macro risks, such as an unruly Brexit, appear to be moderating, yet the U.S.-China trade relationship remains a major source of uncertainty. Markets remain highly sensitive to the news cycle and are likely to test investors' patience during the year amid shifting expectations on rates, politics, and earnings.

Cautious Confidence

The challenges surrounding markets now merit caution, but selective opportunities continue to surface across asset classes for active managers with specialized expertise and disciplined processes. Looking beyond traditional asset classes, small-caps, real estate, emerging markets, infrastructure and alternatives all merit consideration heading into the new year.

GLOBAL FIXED INCOME
GROWTH IN THE SLOW LANE

In addition to reduced trade tensions between the U.S. and China, there are several points of support for the world economy.



Jack McIntyre, CFA,
Portfolio Manager

Anujeet Sareen, CFA,
Portfolio Manager

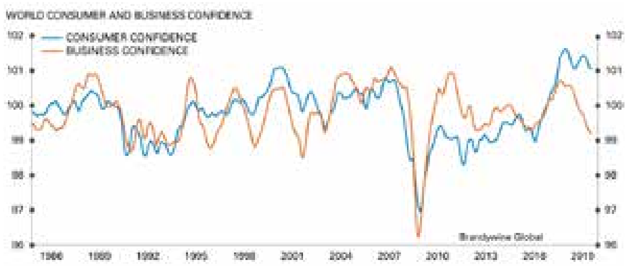
2020: Making Progress, But Still Stuck in the Slow Lane

As we prepare for 2020, some market participants and investors remain concerned about whether a downturn in U.S. economic conditions could precipitate a global recession. Rather than making a recession call, we instead prefer to highlight the factors that should support the global economy in 2020 and turn the two-year slowdown into a period of slow but sustainable growth. These supportive factors include improving consumer fundamentals, improving economic indicators from emerging markets, impending reform, and the global backdrop of low inflation that has ushered in a wave of global monetary easing.

Global Business Conditions Should Take Cues from Consumers

Looking at how 2019 unfolded, it's easy to understand why optimism gave way to pessimism. U.S.-China trade tensions escalated while the Federal Reserve (Fed) neglected to modify policy quickly and expand it broadly enough to offset the domestic consequences of this dispute, which then fed into the global economy. These factors had a profound impact on global business conditions, which took a significant hit in in 2019. Both investment spending and business sentiment declined, as shown below:

OECD World Consumer vs. Business Confidence Indexes, January 1985 through September 2019



Source: Haver Analytics. **Past performance is no guarantee of future results.** Indexes are unmanaged and not available for direct investment. Index returns do not include fees or sales changes. This information is provided for illustrative purposes only and does not reflect the performance of an actual investment.

However, the chart also shows that consumers have been globally optimistic, including in the U.S. In 2020, we believe consumer optimism and strong household fundamentals could lead business confidence higher. In particular, the U.S. consumer could determine whether the domestic economy emerged from a mid-cycle slowdown or is headed toward a recession that could spread to the rest of the world. We will be monitoring consumer sentiment and expectations very closely in the U.S. and beyond, to determine whether that continues to buoy household spending, and eventually feed into the business cycle by encouraging companies to increase capital expenditures.

Positive Signs Emerge in Asia

The positive impact that global consumers could have on business conditions has become evident in Asian export activity. Following one of its deepest troughs at the beginning of 2019, Asian export volume rebounded significantly over the past few months despite headwinds from the trade dispute and the resulting drag on China's economic activity. Even countries with significant ties to the Chinese economy—such as

Taiwan, Singapore, and South Korea—took part in this recovery, underscoring the role of consumer demand in the global economy, and how governments are taking steps to preserve household health.

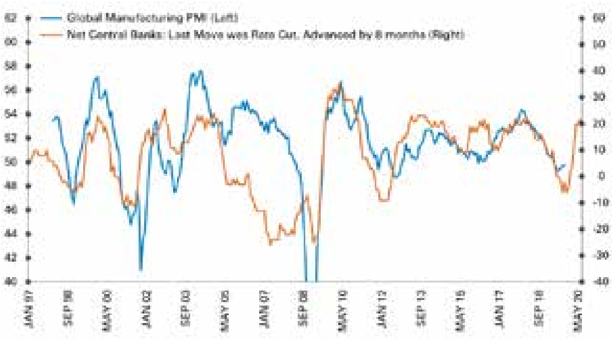
More Countries Are Expected to Implement Reform

Australia is another example of an economy that has significant ties to China. In 2020, we expect to see more countries follow Australia's lead, by taking a multi-faceted approach to stimulus as a way to buffer the lingering effects of weak economic activity from the prior year. In Australia's case, the governing Liberal Party has pledged to pursue a pro-growth agenda while the Reserve Bank of Australia eases. Although Australia runs a modest budget surplus, it has some slack to implement reform and fiscal stimulus intended to support households, improve infrastructure, and invest in potentially competitive sectors. Therefore, we expect countries with relatively stronger fiscal and external positions to pursue fiscal stimulus in 2020. Since the efficacy of easier monetary policy from developed market central banks is expected to fade, generating a growth impulse from government reform and fiscal stimulus should become increasingly important in 2020 and beyond.

Global Monetary Easing Should Register in the Economy

Most central banks around the world joined the G3 in 2019 by easing monetary conditions, a trend that should persist in 2020. For its part, the Federal Reserve (Fed) course-corrected three times to address global headwinds and improve domestic business conditions. The effects of these coordinated easing efforts will continue to take time to register in the global economy as shown in the chart below:

Global Manufacturing PMI and Monetary Policy Stimulus, Jan 1997 through October 2019



Source: Haver Analytics. Monetary Policy Stimulus reflects net difference between central banks whose last move was a rate cut, versus those that did not. **Past performance is no guarantee of future results.** Indexes are unmanaged and not available for direct investment. Index returns do not include fees or sales changes. This information is provided for illustrative purposes only and does not reflect the performance of an actual investment.

The tailwinds of easier monetary conditions should transmit into global economic activity in 2020 and eventually push global manufacturing Purchasing Manager Indices (PMIs) higher. While the chart above shows global PMIs hovering at that crucial "50" mark, emerging market manufacturing and services PMIs have remained expansionary in 2019, helping that broader metric stay in neutral territory. We expect emerging market PMIs will remain strong in 2020 and lend support to developed markets. Similarly, strength from the services sector of the global economy could also offset the slowdown in manufacturing.

This emerging market strength should come from lower policy rates—global short-term rates on a weighted GDP basis should stay around 2% in 2020—targeted reform, and improved external balances, including their current accounts.

Developed market manufacturing PMIs contracted in 2019, likely dragged down by Germany and the broader eurozone economy, which have been collateral damage in the U.S.-China trade dispute. The regional bloc has exhausted monetary policy and fiscal stimulus is needed. We have previously invoked German and European Commission officials to leverage their twin surpluses to stimulate the regional economy. However, it will be an incredibly high hurdle to convince more member countries and European Commission officials to increase spending to address flagging growth in 2020.

A More Constructive Growth Outlook in 2020

A weak global macro pulse has started to support the world economy. For example, consumer confidence remains high, Asian export volume rebounds, emerging market PMIs remain expansionary, central banks ease in concert, and government budgets account for stimulus. While these factors should bode well for the global economy, the onus will nevertheless be on the U.S. and China to rein in those risk factors that precipitated the broad-based slowdown that started in 2018. We will need to see credible progress in terms of a trade deal, and sound policymaking from the Fed and Chinese authorities. If these factors were to crystallize, we expect that cyclical inflation pressures would remain controlled, U.S. economic growth would level off around 2% and Chinese economic growth would rebound. The biggest risks to this outlook include more policy inaction from the Fed and Chinese authorities, or the onslaught of political volatility related to the U.S. election cycle.

Investment Implications

The slump in Chinese economic activity significantly contributed to global malaise in 2019, as the country attempted to structurally change its economy amidst a trade dispute without implementing enough stimulus. Later in 2020, Chinese policymakers may pivot away from stimulus and refocus on generating organic growth. Meanwhile, emerging markets have run a combination of prescriptive policies to preserve industrial activity and consumer confidence. In aggregate, emerging markets are running an approximate 1% current account surplus on a GDP-weighted basis in spite of a challenging macro backdrop. So long as emerging market central banks continue easing, we expect these improvements to extend into 2020. As economic activity outside the U.S. picks up in 2020, the relative growth differential should narrow and allow the U.S. dollar to weaken more broadly.

Forecasts are inherently limited and should not be relied upon as indicators of actual or future performance.

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Yields represent past performance and there is no guarantee they will continue to be paid.

Active management does not ensure gains or protect against market declines.

Dividends represent past performance and there is no guarantee they will continue to be paid.

Investments in small-cap and mid-cap companies involve a higher degree of risk and volatility than investments in larger, more established companies.

Investment in real estate entails significant risks and is suitable only for certain investors as part of an overall diversified investment strategy and only for investors able to withstand a total loss of investment.

Currencies contain heightened risk that include market, political, regulatory and natural conditions and may not be suitable for all investors.

U.S. Treasuries are direct debt obligations issued and backed by the "full faith and credit" of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity. Unlike U.S. Treasury securities, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the U.S. government. Even when the U.S. government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.

Definitions:

"Brexit" is a shorthand term referring to the UK vote to exit the European Union.

"USD" refers to the U.S. dollar, the national currency of the United States.

FX, or foreign exchange, is a reference to exchange rates among currencies.

GAFO, or General Merchandise, Apparel and Accessories, Furniture and Other Sales (retail sales categories) represents sales at stores that sell merchandise normally sold in department stores.

Research and development (R&D) refers to corporate activity intended to create and deploy new technologies, products, and services.

G3 refers to the world's top three developed economies: US, Europe and Japan.

U.S., or American exceptionalism refers to the idea that the history of the United States is inherently different from those of other nations and has conferred special advantages in its historical development.

The **Federal Reserve Board ("Fed")** is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

The **federal funds rate (fed funds rate, fed funds target rate or intended federal funds rate)** is a target interest rate that is set by the FOMC for implementing U.S. monetary policies. It is the interest rate that banks with excess reserves at a U.S. Federal Reserve district bank charge other banks that need overnight loans.

The **European Union (EU)** is an economic and political union established in 1993 by members of the European Community. The EU now comprises 28 countries after its expansion to include numerous Central and Eastern European nations.

The **European Central Bank (ECB)** is responsible for the monetary system of the European Union (EU) and the euro currency.

The Reserve **Bank of Australia (RBA)** is the central bank of Australia.

The **International Monetary Fund (IMF)** is an international organization of various member countries, established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements.

UN **Principles for Responsible Investment (PRI)** are a set of six principles that provide a global standard for responsible investing as it relates to **environmental, social and corporate governance (ESG)** factors.

Quantitative easing (QE) refers to a monetary policy implemented by a central bank in which it increases the excess reserves of the banking system through the direct purchase of debt securities.

The **repo market** refers to the market for short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back the following day.

Emerging markets (EM) are nations with social or business activity in the process of rapid growth and industrialization. These nations are sometimes also referred to as developing or less developed countries.

Gross Domestic Product ("GDP") is an economic statistic which measures the market value of all final goods and services produced within a country in a given period of time.

Nominal gross domestic product (GDP) is a GDP figure that has not been adjusted for inflation.

Purchasing Managers Indexes (PMI) measure the manufacturing and services sectors in an economy, based on survey data collected from a representative panel of manufacturing and services firms. PMI greater than 50 indicated economic expansion; below 50, contraction.

The **Institute of Supply Management (ISM) Non-Manufacturing Purchasing Managers' Index (PMI)** (also known as the **ISM Services PMI**) is an indicator of the overall economic condition for the non-manufacturing sector. Levels greater than 50 indicate expansion; below 50, contraction.

The **price-to-earnings (P/E)** ratio, also referred to as the **earnings multipl**e, is a stock's (or index's) price divided by its earnings per share (or index earnings). The **forward P/E** ratio is a stock's (or index's) current price divided by its estimated earnings per share (or estimated index earnings), usually one-year ahead.

Risk-adjusted return is a measure of performance relative to its level of risk exposure over a given period of time.

One **basis point (bps)** equals one one-hundredth (0.01) of one percentage point).

Real yields are calculated by adjusting stated yields to compensate for inflation expectations over the time period during which the yields are expected to be paid.

The **yield curve** is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

Inverted yield curve refers to a market condition when yields for longer-maturity bonds have yields which are lower than shorter-maturity issues.

A **credit spread** is the difference in yield between two different types of fixed income securities with similar maturities, where the spread is due to a difference in creditworthiness.

Investment-grade bonds are those rated Aaa, Aa, A and Baa by Moody's Investors Service and AAA, AA, A and BBB by Standard & Poor's Ratings Service, or that have an equivalent rating by a nationally recognized statistical rating organization or are determined by the manager to be of equivalent quality.

A **current account balance** summarizes the flow of goods, services, income and transfer payments into and out of a country.

Small cap refers to stocks with a relatively small market capitalization. **Market capitalization** is the total dollar market value of all of a company's outstanding shares; it is calculated by multiplying a company's shares outstanding by the current market price of one share.

The **financial crisis of 2007–2008**, also known as the **Global Financial crisis (GFC)** and the **2008 financial crisis**, was a severe worldwide economic crisis considered by many economists to have been the most serious financial crisis since the Great Depression of the 1930s, to which it is often compared.

"Bloc" refers to an association of nations with political or economic interests in common.

Moat refers to a defensive boundary that's difficult to cross; an obstacle to invasion.

"Print" As a noun, refers to the publication of a price or economic data point.

The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.

The S&P Growth Index is an unmanaged index consisting of growth stocks within the S&P 500 Index, an unmanaged index of U.S. large-cap stocks.

The S&P Value Index is an unmanaged index consisting of value stocks within the S&P 500 Index, an unmanaged index of U.S. large-cap stocks.

The **Russell 2000 Index** is an unmanaged list of common stocks that is frequently used as a general performance measure of U.S. stocks of small and/or midsize companies.

The **MSCI World Index** is an unmanaged index of large- and mid-cap common stocks across 23 developed market countries.

The **MSCI USA Index** is is an unmanaged index of common stocks designed to broadly and fairly represent the full diversity of business activities in the United States.

The **FTSE 100 Index** is an unmanaged index of the 100 largest stocks by capitalization on the London Stock Exchange.

The **OECD Consumer Confidence Index and OECD Business Confidence Index** are broadly used economic indicators reflecting consumer and business confidence levels based on surveys conducted by the Organization for Economic Development and Cooperation.

Preqin is a source of data, insights and tools for alternative asset professionals.

Bloomberg New Energy Finance (BloombergNEF) is a provider of primary research on clean energy, advanced transport, digital industry, innovative materials, and commodities.

USDCNY is a shorthand term for the currency exchange rate between the U.S. dollar and Chinese yuan.

CNY is a shorthand term for the Chinese yuan.

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International investments are subject to special risks including currency fluctuations, social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets.

Commodities and currencies contain heightened risk that include market, political, regulatory, and natural conditions and may not be suitable for all investors.

Past performance is no guarantee of future results. Please note that an investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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