

## GROWTH WITH MODERATE INCOME QUARTERLY PORTFOLIO UPDATE

Financial markets rebounded sharply in the first quarter, with global equities gaining more than 10% and nearly all major asset classes in positive territory for the quarter. The market recovery was largely driven by a reversal of overly pessimistic investor sentiment on the growth outlook in late 2018 especially given dovish pivots by central banks globally and some softening in trade tensions between the U.S. and China throughout early 2019. The Federal Reserve adopted a more patient stance early in the quarter, and eventually moved away from two additional forecasted hikes in 2019, while the European Central Bank backed away from previous guidance on possible rate hikes later in 2019. Interest rates moved lower over the quarter with the 10-year Treasury yield ending at 2.41% – nearly 30 basis points below its 2019 starting point. Equity market momentum faded a bit in March on resurfacing global growth concerns and ongoing Brexit uncertainty, but the first quarter still ended up as one of the best quarters for equity market performance in over ten years.

We made one change in asset allocation in the quarter. In January, we decreased our municipal investment grade fixed income allocation while increasing our U.S. equity, emerging market equity and global real estate allocations. The tactical change increased the risk profile of the portfolio, as we believed that financial markets had become too pessimistic on the growth outlook, especially considering the early-January pivot by the Federal Reserve. U.S. and emerging market equities were considered well-positioned to benefit from a less restrictive Fed and less headwinds from trade tensions, while global real estate was expected to overcome overly negative investor sentiment and less headwinds from rising interest rates. Municipal investment grade fixed income was moved back to an underweight position given the prior decline in interest rates as well as our view that risk assets looked more attractive over the tactical horizon. The tactical move in the first quarter reintroduced a measured overweight to risk from the previous neutral positioning at the start of 2019. Currently, the portfolio has a significant overweight to municipal high yield fixed income and overweights to U.S. equities and global real estate, funded by underweights across municipal investment grade fixed income, cash, inflation-linked fixed income and emerging market equities. The portfolio ended the quarter with a modestly higher risk level than its strategic benchmark.

Performance for the quarter was negatively impacted by fund implementation despite some benefits from tactical positioning. Tactical positioning benefitted from underweight positioning in municipal investment grade fixed income, inflation-linked fixed income and cash, though this was partially offset by the overweight to municipal high yield fixed income. Our quality large cap U.S. equity strategy (QLC) and our broader-based developed markets ex-U.S. factor tilt strategy (TLTD) were the main detractors in terms of fund implementation, while our broader-based emerging markets factor tilt strategy (TLTE) and our global natural resources strategy (GUNR) were the main contributors.

**IMPORTANT INFORMATION:** Northern Trust Investments, Inc. (NTI) is an investment adviser registered with the Securities Exchange Commission under the Investment Advisers Act of 1940. The company manages a variety of portfolios utilizing stocks, bonds, and exchange-traded funds (ETFs). The information contained herein is intended for use with current or prospective clients of Northern Trust Investments, Inc. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. Northern Trust and its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, and its accuracy and completeness are not guaranteed. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor.

This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. Indices and trademarks are the property of their respective owners. Information is subject to change based on market or other conditions.

Forward-looking statements and assumptions are Northern Trust's current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

There are risks involved in investing including possible loss of principal. There is no guarantee that the investment objectives of any fund or strategy will be met. Risk controls and models do not promise any level of performance or guarantee against loss of principal. Past performance is no guarantee of future results. FlexShares™ ETFs and Northern Funds are sub-advised by Northern Trust Investments, Inc. For more information on the investment objectives, principle risks, and fees associated with these Funds, please see each Fund's prospectus and statement of additional information ("SAI"), which are available on the Advisors' websites at [northernfunds.com](http://northernfunds.com) and [flexshares.com](http://flexshares.com).

Northern Trust generally utilizes its own funds within this strategy. Northern Trust receives various fees from the funds via the fund expense ratios. Clients will incur these fees. Clients who access these portfolios through a financial intermediary firm will typically pay additional fees to that firm. Clients should speak to their Financial Advisor for more information. Financial intermediaries that employ Northern Trust for model management or overlay services may compensate Northern Trust for those services a fee of up to 0.25%.

© 2019 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.

Asset Management is composed of Northern Trust Investments, Inc., Northern Trust Global Investments Limited, 50 South Capital Advisors, LLC, Northern Trust Global Investments Japan, K.K., Northern Trust Global Advisors, Inc., and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.