

Quality Dividend Focus - Defensive

ACTIVE SEPARATELY MANAGED ACCOUNT

STRATEGY: US Large Cap Core**BENCHMARK:** Russell 1000®**ORGANIZATION:**

Northern Trust has been providing investment management services to investors since 1889. Our disciplined investment strategies seek to meet your wealth goals by combining extensive research, active risk management, and well-defined buy/sell criteria.

OBJECTIVE:

The Quality Dividend Focus Defensive (QDF Defensive) Portfolio is designed to provide consistent and systematic exposure to high-quality, dividend-paying securities while avoiding risks that we believe to be uncompensated. The strategy is a capital preservation and income growth strategy and is suited for income-oriented investors seeking a defensive portfolio approach.

INVESTMENT APPROACH:

The Quality Dividend Focus Defensive strategy is designed to deliver a high-quality, income-oriented portfolio emphasizing capital preservation. Our research concludes that high quality companies tend to outperform over time. Additionally, our research shows that high dividend yielding stocks have historically outperformed broad market benchmarks. We believe that the combination of high quality and high dividend yielding stocks can provide positive relative returns over the long-term.

Our methodology consists of three categories of fundamental factors (profitability, management, and cash factors) that we believe differentiate a security's level of quality. Portfolios are constructed to take active exposures by overweighting and underweighting securities based on their dividend yield and relative quality rankings. Risks that are not consistently rewarded such as market timing, sector and style tilting are minimized. The intent is to invest in companies that are priced attractively based on their expected dividend payment, and that exhibit strong business fundamentals, solid management and reliable cash flow. The portfolio has a defensive focus with a Beta that is approximately 20% lower than the market Beta and is expected to perform relatively well in downward trending markets.

1) The portfolio holdings, characteristics and sector allocations are that of a model portfolio and is provided for illustrative purposes only, subject to change and can vary for actual accounts. This information is not a recommendation to buy or sell any security. There is no assurance that any security discussed was profitable or will prove to be profitable. Source: FactSet

PORTFOLIO CHARACTERISTICS¹

	Portfolio	Benchmark
Number of Holdings	89	983
Representative Annual Turnover	20-30%	N/A
P/E Ratio	16.2x	17.9x
P/B Ratio	3.5x	2.9x
Annualized Dividend Yield	3.4%	2.1%
Wtd Avg Mkt Cap. (\$ millions)	\$148,070	\$173,500

SECTOR WEIGHTINGS¹ (% Equities)

	Portfolio	Benchmark
Communication Services	6.4	9.6
Consumer Discretionary	11.5	10.1
Consumer Staples	9.2	6.9
Energy	5.5	5.1
Financials	13.2	13.5
Health Care	12.5	15.0
Industrials	7.2	9.6
Information Technology	20.8	20.3
Materials	1.2	3.0
Real Estate	6.4	3.6
Utilities	6.3	3.3
Total	100.0%	100.0%

Sectors may not equal 100% due to rounding.

TOP TEN HOLDINGS¹ (% Portfolio)

	Portfolio	Sector
Johnson & Johnson	4.6	Health Care
Home Depot, Inc.	4.2	Consumer Discretionary
Pfizer Inc.	4.2	Health Care
Exxon Mobil Corporation	3.1	Energy
Int'l Business Machines	3.1	Information Technology
McDonald's Corporation	3.0	Consumer Discretionary
Boeing Company	3.0	Industrials
Texas Instruments, Inc.	2.8	Information Technology
Verizon Communications Inc.	2.7	Communication Services
Altria Group Inc	2.6	Consumer Staples
Total	33.4%	

INVESTMENT PERFORMANCE COMPARISON



	QTD	YTD	1 YR	3 YR	5 YR	Since 12/31/11
QDF LCD (Gross)	-9.55%	-2.42%	-2.42%	8.85%	8.52%	11.03%
R1000	-13.82%	-4.78%	-4.78%	9.09%	8.21%	12.63%
S&P 500	-13.52%	-4.38%	-4.38%	9.26%	8.49%	12.70%

RISK CHARACTERISTICS – 5 YEAR

(SUPPLEMENTAL)

	Portfolio	Benchmark
Alpha	1.86%	0.00%
Beta	0.80	1.00
Information Ratio	0.08	N/A
R-squared	87.94%	100.00%
Standard Deviation	9.28%	10.91%
Tracking Error	3.94%	0.00%

Source: Zephyr, calculated using gross of fees returns

CALENDAR YEAR RETURNS AND ASSETS

	QUARTERLY RETURNS (GROSS)				YEAR TO DATE		AS OF YEAR-END					
	1Q	2Q	3Q	4Q	Composite (GROSS)	Russell 1000® Index	# of Accounts	Comp Assets (\$MIL)	% Firm Assets	Internal Dispersion	3YR Annualized Composite Std. Deviation	3YR Annualized Index Std. Deviation
2018	-1.98	2.15	7.75	-9.55	-2.42	-4.78	38	57	0.10	0.10	9.12	10.95
2017	4.33	1.55	3.25	5.88	15.83	21.69	44	74	0.10	0.12	8.43	9.97
2016	4.16	4.56	0.51	4.25	14.12	12.05	43	73	0.10	0.35	9.10	10.69
2015	1.16	-2.73	-2.60	5.42	1.04	0.92	26	47	0.10	0.18	8.84	10.48
2014	3.54	4.94	1.75	5.76	15.47	13.24	23	41	0.10	0.23	8.02	9.12
2013	12.31	2.08	2.50	7.41	26.22	33.11	8	11	0.10	0.31	N/A	12.26
2012	6.54	0.76	3.61	-1.54	9.52	16.42	5	6	0.10	N/A	N/A	15.40

Northern Trust Asset Management comprises Northern Trust Investments, Inc. (NTI), Northern Trust Global Investments Limited (NTGIL), Northern Trust Global Investments Japan, K.K. (NTGIJ), the investment advisor division of The Northern Trust Company (TNTC) and its subsidiaries to offer investment products and services to personal and institutional markets. As of September 2017, the Northern Trust Global Securities Lending Program Division, a division of Northern Trust Asset Management, has been included in the GIPS® firm. For purpose of compliance with the Global Investment Performance Standards (GIPS®) the firm is defined as Northern Trust Asset Management Services, a subset of Northern Trust Asset Management, and includes those investment products managed by NTI, NTGIL, NTGIJ and TNTC that are distributed through global channels. As of 9/30/2018 Northern Trust Asset Management had assets under management totaling \$971.6 billion of which \$910.5 billion is part of the GIPS firm. The Quality Dividend Focus - Defensive Composite consists of portfolios indexed to the Russell 1000® following proprietary processes for providing attractive but sustainable rates of dividend. The Russell 1000® Index is an unmanaged index which measures the performance of the 1,000 largest companies in the Russell 3000® Index, based on market capitalization. This benchmark replaced the prior benchmark the S&P 500® Index, effective 7/1/14 as it is the more appropriate benchmark for the QDF Defensive strategy. Financial leverage is not employed as a part of the overall investment strategy. Financial derivatives, in the form of futures contracts and options, may be utilized for the purposes of liquidity, market exposure or investment opportunity. An investment cannot be made directly in an index. Historical performance of the S&P 500® Index is provided for illustrative purposes only and is not indicative of the performance of any NTI managed portfolio. Index performance results do not account for investment management fees or transaction costs. Performance returns results reflect the reinvestment of dividends and other earnings, and are expressed in U.S. dollars. Actual performance results would be reduced by investment management and any applicable advisory fees. Performance returns are presented gross of management fees and have been calculated after the deduction of all transaction fees and commissions. The standard annual total fee schedule is as follows: 0.45% on total assets. To illustrate the effect of the compounding of fees assuming a \$5 million account which earned a 10% annual return and paid an annual fee of .45% the account would grow in value over five years to \$8.05 million before fees and \$7.89 million after deduction of fees. Past performance is no guarantee of future results. Northern Trust Asset Management Services has been verified by an independent verifier for the period from January 1, 1993 through December 31, 2017. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. A copy of the verification report is available upon request. Northern Trust Asset Management Services has prepared and presented this report in compliance with GIPS®. Prior to 1/1/93, all discretionary accounts may not have been included in a composite. A complete list and description of Northern Trust Asset Management Services' composites and additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. **For one-on-one presentations only.**