

We at Sterling Capital Management feel very privileged to partner with AE Wealth Management. As the Chief Investment Officer for the AE Wealth Management platform, we are engaged in three key support areas for you and your clients: providing custom asset allocation frameworks, selecting high quality investment managers and constructing well diversified portfolios. Importantly, of course, we remain engaged every day in the ongoing monitoring and periodic rebalancing of those portfolios over time.

Today, we pleased to provide a review of global financial markets during the third quarter of 2017, to reflect on changes we made to our portfolios during the quarter, and to update our current positioning and outlook.

EQUITY MARKET REVIEW

Beginning with equity markets, the Russell 3000 broad U.S. stock market index posted a 4.5% gain in the third quarter, closing at another all-time high. The index has now posted positive returns in eight consecutive quarters and, in fact, has posted just one negative quarterly return in the past five years. Similarly, the S&P 500 Index has produced a positive return in every month during the year, something that has never happened in a full calendar year. Additionally, the largest drawdown in the S&P 500 year-to-date is just 3%, matching a 30-year low last seen in 1995.

A continuation of strong earnings growth, a favorable economic backdrop and renewed hopes of fiscal stimulus in the form of tax cuts are all significant factors keeping equity market volatility at historically low levels during the quarter & helping to drive positive market returns. Notable, second quarter S&P 500 company earnings reported during Q3, rose more than 10% on a year-over-year basis, following a 14% increase in the first quarter of this year. This marked the first time that earnings grew at a double-digit pace in back-to-back quarters since the third and fourth quarters of 2011. Further, more than two thirds of companies in the S&P 500 Index exceeded revenue expectations in the second quarter, marking the highest rate since 2010. Additionally, U.S. GDP growth of 3.1% in the second quarter of 2017 was the highest quarterly rate of growth in two years, and we continue to witness relatively steady job growth and moderate inflation indicators.

On a sector and style basis, technology and growth continued to lead the market higher in the third quarter. Value equities did outperform growth equities by a wide margin in September, however, after trailing in the early part of the quarter, led by relative strength in value-centric sectors like energy, industrials and financials. In other sectors, health care, which was among the top performing sectors in the first half of 2017, underperformed in the third quarter as continued failure to repeal and replace the Affordable Care Act produced uncertainty. Consumer staples continued to underperform the broader market, led by weakness in personal care, grocery and tobacco stocks. On a size basis, the resumption of tax reform discussions led to improved market breadth in



September with small-cap stocks, seen as potentially the biggest beneficiaries of tax reform, experiencing resurgence and outperforming large-cap and mid-cap companies during the quarter.

Moving outside the U.S., International equities continued to outpace U.S. equities during the quarter. Emerging markets were again the top performing geographic segment, but international developed markets also outperformed the U.S. The U.S. Dollar Index fell for the third straight quarter, which created a tailwind for international equity performance in U.S. dollar terms. Growth outperformed value in international developed markets and emerging markets. Small-caps outperformed in international developed markets, while large-caps outperformed in emerging markets. China, Brazil and Russia were among the top-performing international equity markets, while Switzerland and South Korea were among the worst.

Synchronized global economic growth has played an important role in pushing international equities higher. In fact, all 45 countries tracked by the Organization for Economic Cooperation and Development or OECD are likely to generate positive economic growth in 2017, which would represent the first time since 2007 in which all countries were simultaneously experiencing positive growth. In addition, 33 of these countries are likely to experience accelerating growth compared to last year, which would represent the highest number since 2010. Economic conditions in Europe continue to improve as Eurozone unemployment hit eight year lows, manufacturing indicators set six-year highs, and loan demand remains positive. Risks that could inhibit the ongoing European economic recovery include premature European Central Bank tightening, Brexit negotiation difficulties, Brexit-induced U.K. stagflation, and separatist movement uncertainty (Catalonia for example).

PORTFOLIO POSITIONING

In terms of portfolio positioning, we made a number of relatively small net-of-benchmark asset allocation changes to the equity portion of portfolios during the quarter. First, we reduced our underweight to U.S. mid-cap value as relative valuations in this space improved after the sector underperformed the broader market in the first half of 2017. We reduced U.S. large-cap value and U.S. small cap growth exposure to accommodate the increase to U.S. mid cap value. Also, as a result of strong relative performance from the growth segment of the market so far this year, we reduced the overweight to international developed markets growth and initiated a slight overweight to international developed markets value during Q3.

As of September 30, the portfolio continued to maintain an underweight to U.S. equities, primarily as a result of underweights to U.S. mid-cap value and U.S. large-cap growth. Conversely, the portfolio had an overweight to international developed equities largely as a result of an overweight to international developed growth. Emerging markets exposure remains in line with the benchmark.



BOND MARKETS

The Bloomberg Barclays Aggregate Bond Index, a proxy for overall fixed income performance returned 0.85% for the quarter. Most all areas of the bond market produced positive absolute returns & similar to the equity markets, volatility in fixed income was muted.

Looking at different segments of fixed income markets during the quarter, corporate credit spreads continued to compress with investment grade corporate bonds returning 1.4% and high yield corporates returning nearly 2%.

Within the structured space, agency mortgage-backed securities bounced back to outpace the broad market, returning nearly 1%.

Treasury Inflation Protected Securities or TIPs outpaced nominal treasuries as breakeven moved higher.

And, finally, municipal bonds returned just over 1% for the quarter as technical continue to remain supportive. Demand is strong with municipal bond mutual funds and ETFs having now amassed \$28 billion of net inflows year-to-date while supply remains manageable with issuance down approximately 16% year-over-year.

Of important note for bond investors, the Federal Reserve provided detail in October regarding its intention to unwind or normalize its \$4 ½ trillion dollar balance sheet. In that same meeting, the Fed kept its target range unchanged but suggested one more rate hike may be warranted in 2017.

The market continues to price in fewer near-term rate hikes than the FOMC, perhaps due to lower growth and/or inflation expectations. Importantly, the future path of interest rates and the balance sheet unwind may look dramatically different next year with as many as five new board members that could potentially be confirmed including a new chair.

During the third quarter, we made no changes to our Core Fixed Income portfolio.

With respect to positioning, similar to last quarter, our taxable portfolios remain short duration relative to respective benchmarks. All taxable portfolios maintain an overweight to credit, both corporate and structured, and an underweight to government related securities, specifically Treasuries. Yield curve positioning remains a focus.

The Municipal Bond portfolio also remains slightly short duration and maintains an overweight to essential service revenue bonds and an underweight to general obligation bonds.

Finally, emerging market debt continued its strong momentum, returning 2.2 percent for the second quarter, as the asset class is seeing strong flows, improving fundamentals and pending positive structural reforms in several large countries.



During the second quarter, we made no changes to our Core Fixed Income portfolio.

Similar to last quarter, our taxable fixed income portfolios remain short duration relative to respective benchmarks. Yield curve positioning remains a focus. Our Core strategy, which has the flexibility to move throughout the yield curve, remains underweight at the front end of the curve in favor of the belly (and longer).

The Municipal Bond portfolio remains slightly short duration but maintains a higher allocation to the long end of the curve in favor of the short end. Additionally, the portfolio has an overweight to essential service revenue bonds and an underweight to general obligations.

THIRD-QUARTER REVIEW

For the third quarter overall, our balanced portfolio posted strong absolute returns of more than 3.6% and relative returns that compared favorably to both its benchmark & peers. Both asset allocation and manager selection decisions added value during the quarter with manager selection decisions accounting for the majority of outperformance.

Leading contributors on the equity side for Q3 included our global equity manager and international developed market large-cap growth manager. On the fixed income side, four of five managers outperformed benchmarks, adding value.

Overall, we're pleased with Q3 2017 results and remain confident that we're well positioned for markets ahead.

Thank you very much as always for your interest, trust and support. We look forward to a continued strong and successful partnership.

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