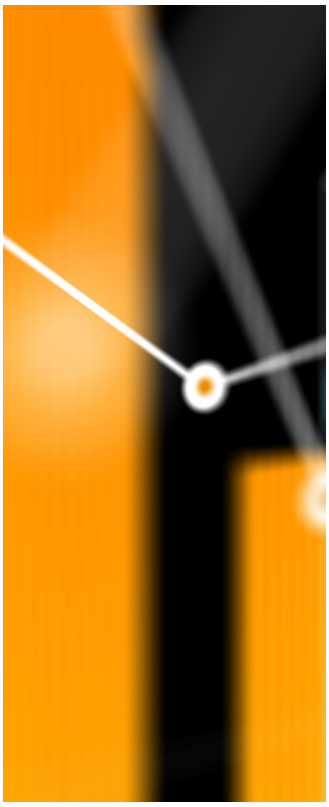
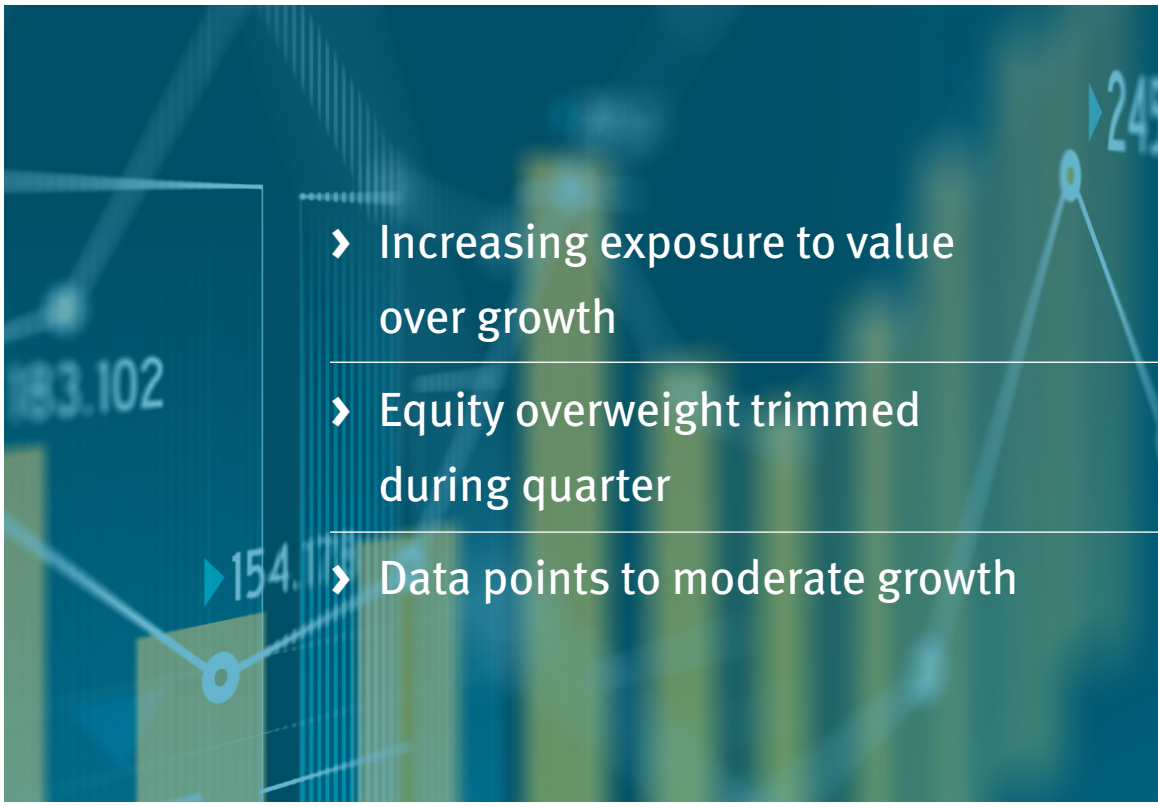
QUARTERLY 2Q18

TACTICAL ASSET ALLOCATION





- Increasing exposure to value over growth
- Equity overweight trimmed during quarter
- Data points to moderate growth

We see the economy on a growth track, but after a year of strong returns and historically low volatility, some moderation to growth and risk appetite seems reasonable. Continued economic growth, without a notable pickup in inflation, remains our dominant view. Last year's tax changes, and new federal spending initiatives, have the potential to lift investment and speed up growth. Risks to our outlook include rising trade and geopolitical tension, elevated asset prices in some areas, and rising interest rates.

WE LOOK AT PORTFOLIOS FROM A LONG-TERM AND A SHORT-TERM VIEW. THIS QUARTERLY REPORT HIGHLIGHTS PORTFOLIO CHANGES AND THE RATIONALE BEHIND THEM.

The Long-View

The world's stock markets again sit near record highs. Measured in U.S. dollars, the value of public companies worldwide is near $80 trillion. This is close to the $77 trillion of global economic output we expect to see this year. Over long periods of time, we expect the value of stocks to remain loosely tied to the size of the global economy. This is why economic growth, in the long run, tends to be the most significant driver of stock returns.

It is also why we took notice of the International Monetary Fund's recent decision to increase their 2018-2019 growth forecast. The new forecast calls for 3.9% global growth, substantially higher than our own conservative-looking 3.4% expectation.

Improving prospects have already led analysts to increase earnings forecasts for the S&P 500 companies. Since December, profit forecasts are up 10%, but were not accompanied by a further rise in stock market value. The net result is an improvement in stock valuations and a slight boost to our long-run expected equity return projection.

Returns are also creeping higher elsewhere in financial markets. For example, cash markets are at long last seeing some better rates. This is because the Federal Reserve ("Fed") hiked short-term rates again during the quarter, with more expected to come. Firmer inflation and low unemployment provides the justification for further rate increases. Therefore, we continue to expect the Fed to ratchet up rates, unless the economy falters, toward about 2.75-3.00% over the next 2-3 years.

Along with cash rates, Treasury bond yields also rose during the quarter. This helped keep the yield curve relatively flat and positively sloped. After an initial plunge in corporate bond spreads, yields on corporate bonds rose versus Treasuries as investors weighed prospects for growth, taxes, and trade negotiations. All-in-all, we saw some modest yield improvement during the quarter across the broad fixed income spectrum.

The Short-View

We think the incoming data paints a picture of some lost momentum through the quarter, but it is too soon to call the slippage especially troubling. Recent years have seen a pattern of weak starts to the year, after all. Nonetheless, our WCA Fundamental Conditions Barometer (see chart, next page) suggests that conditions may soften somewhat in the months ahead from last year's torrid pace. We cut risk exposure because of the slippage in our barometer in tactical portfolios during the quarter. Cuts in February and March brought equity exposure down to 55% of the "satellite" part of portfolios versus 70% in January.

Mirroring the slippage in the barometer are three near-term indicators. First, after a 25% surge in profit forecasts over the last year, the pace of upward profit estimate revisions by analysts may be flattening out. Second, investors seem less complacent regarding risk. An uptick in stock market volatility, and widening of corporate bond spreads, could point to a shift in risk appetite. Lastly but not least, near-term domestic growth is tracking a little softer than we first expected. The Atlanta Federal Reserve, for example, now anticipates just 1.8% growth in the first quarter. These changes, while not enough to knock the economy off its growth path, are significant enough to warrant dialing back some risk.

Portfolio Posture

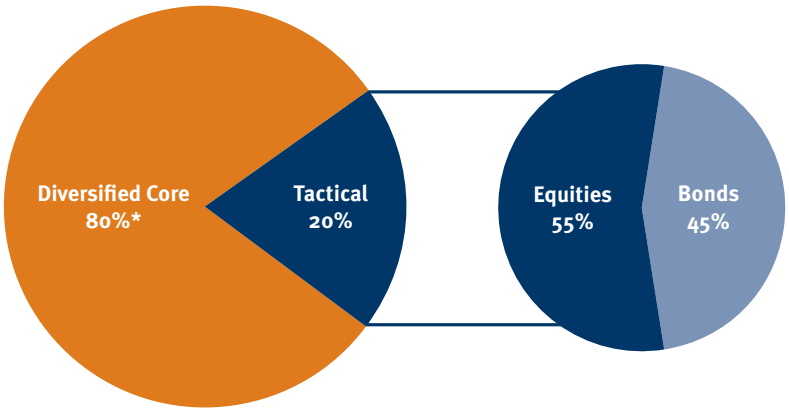
During the quarter, we made a few tactical adjustments to portfolios. We tilted portfolios toward large cap domestic value, and away from large cap growth. Increasing relative valuations in the technology sector encouraged that decision. We also increased real estate (REITs) to overweight given an improved return expectation versus high yield bonds. Finally, we reduced equity exposure, and increased bond exposure, due to slippage in our barometer (see chart, next page).

A Look Ahead

We see the economy on a growth track, but after a year of strong returns and historically low volatility, some moderation to growth and risk appetite seems reasonable. Continued economic growth, without a notable pickup in inflation, remains our dominant view. Last year's tax changes, and new federal spending initiatives, have the potential to lift investment and speed up growth. Risks to our outlook include rising trade and geopolitical tension, elevated asset prices in some areas, and rising interest rates.

Maintaining a proper allocation that meets your needs and responds to changing conditions is important. A tactically-managed portfolio may help you stay on top of changing conditions while allowing you to pursue other life goals. Please talk to your financial advisor to see if such a solution may fit your unique situation.

PORTFOLIO STRUCTURE

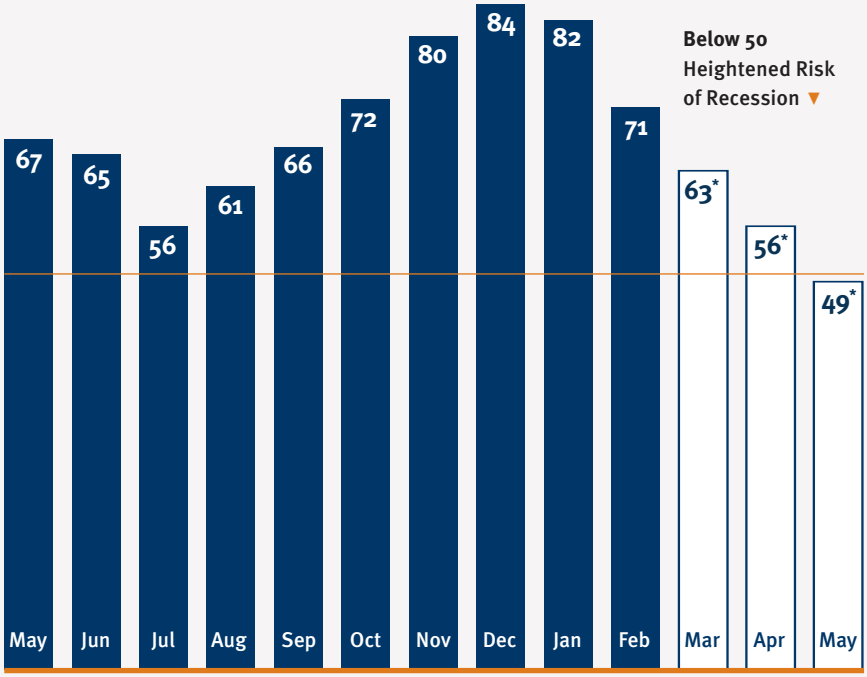


COMBINING LONG- AND SHORT-TERM PERSPECTIVES IN ONE ACCOUNT

- **We think of portfolios as having two parts.** At the "core" of the portfolio is a diversified equity and diversified bond allocation. The long-run forecasted returns you see on the next page guide these tactical allocations. Because forecasts are long term, changes in the core tend to be slower. This helps reduce turnover. Also, allocations to equities and bonds in the core can be adjusted to fit different risk profiles.
- **The smaller 20% (blue circle) is the "satellite."** As market conditions change, shorter-term "tactical" calls are implemented here.

SATELLITE POSITIONING: SHORT-TERM FOCUS

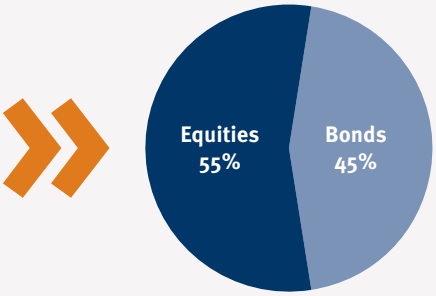
WCA FUNDAMENTAL CONDITIONS BAROMETER



We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions. Analysis incorporates approximately 30 forward-looking indicators in categories ranging from Credit and Capital Markets to U.S. Economic Conditions and Foreign Conditions. From each category of data, we create three diffusion-style sub-indices that measure the trends in the underlying data. Sustained improvement that is spread across a wide variety of observations will produce index readings above 50 (potentially favoring stocks), while readings below 50 would indicate potential deterioration (potentially favoring bonds). The WCA Fundamental Conditions Index combines the three underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions. *Estimate.

SATELLITE
Short-Term Focus

Asset allocation is tactically overweight equities versus bonds. This view is supported by the WCA Fundamental Conditions Barometer, which remains above 50 (see chart left).



ASSET CLASS	10-15 YR VIEW RETURN	10-15 YR VIEW VOLATILITY	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
BONDS					
Core Bonds	2.5%	2.8%			
1-3 Year Treasury Bond	2.5%	1.0%			
Mortgage-Backed Securities	2.5%	2.3%			
Intermediate Government/Credit	2.8%	2.4%			
20+ Year Treasury Bond	1.5%	11.8%			
Investment-Grade Corporate Bonds	3.0%	5.9%			
High-Yield Corporate Bonds	4.8%	10.3%			
EQUITY					
Equity	5.9%	13.9%			
Domestic Large Cap Value	6.3%	14.3%			
Domestic Large Cap Growth	5.3%	13.5%			
Foreign Developed Equity Markets	6.0%	16.1%			
Foreign Emerging Equity Markets	6.0%	19.7%			
Gold	2.0%	13.6%			
REITs	7.8%	20.5%			

As of March 31, 2018. Past performance does not guarantee future results.

Core Tactical

CORE POSITIONING: LONG-TERM FOCUS

DEVELOPED VS. EMERGING	› **Equities are allocated with a tilt toward developed over emerging markets.** Improving growth in the United States and Europe, higher expected volatility in emerging markets, and a neutral view on the dollar lead us to a tactical overweight for developed versus emerging markets.
GROWTH VS. VALUE	› **Domestic style exposure is now overweight value vs. growth.** Outsized gains in technology shares reduces the relative attractiveness of growth over value. Returning style bias to neutral versus benchmarks.
DURATION AND CREDIT QUALITY	› **Portfolio duration and credit exposure is currently neutral versus target exposure across most categories of fixed income.** We remain modestly overweight high-yield corporate bonds, however, given still favorable macroeconomic conditions and prospects for corporate tax reform.

These views are provided by Washington Crossing Advisors, LLC. Assumptions are estimates based on historic performance and an evaluation of the current market environment. These are estimates only and not intended to represent future performance. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy. Volatility refers to an expected standard deviation of returns, a measure of uncertainty around our estimate. The forecasts contained herein are for illustrative purposes only and not to be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product. These forecasts are based upon subjective estimates and assumptions about circumstances and events that may not have taken place and may never do so. In addition, Washington Crossing used historic index returns in evaluating past return relationships. This information was gathered from third-party sources we deem reliable, but no independent verification has been undertaken. Actual returns could be higher or lower than shown herein. Opinion subject to change without notice.

* Including stocks, bonds, and other assets.

About Washington Crossing Advisors

Washington Crossing Advisors, LLC ("WCA") is an SEC registered investment advisor and wholly owned subsidiary of Stifel Financial Corp. WCA helps supervise and manage over $1 billion in assets under advisement for individuals and institutions.

The team is managed by Kevin R. Caron, CFA and Chad A. Morganlander, who were among the founding members of Washington Crossing Advisors.

Washington Crossing Advisors' views on investing and markets are regularly sought by national media outlets, including *CNBC*, *Bloomberg*, *Fox Business News*, *The Wall Street Journal*, *Forbes*, and *Reuters*.

Philosophy and Process

We believe that investments should be selected only after clear and quantified measures of value, risk, and potential reward have been made. Our investment approach combines top-down analysis of the macro-economy with fundamentally rooted, bottom-up security analysis.

Description of Indices and Terms Description of Indices and Terms: All performance calculations of indices are calculated on a total return basis (reflecting reinvestment of dividends and other earnings). Indices are unmanaged, are not available for direct investment, and have no associated management fees.

Barclays Aggregate Bond Index: A composite of the Barclays Gov't/Corp Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are investment grade or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

S&P 500 Index: Capitalization-weighted composite of 500 stocks traded on the NYSE, AMEX, and NASDAQ; not the largest 500 stocks in U.S., but rather a blend of leading companies in leading industries in the U.S. economy; index comprised of 10 broad industrial sectors.

Dow Jones U.S. Select REIT: The Dow Jones U.S. Select REIT Index intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S.

The ICE U.S. Treasury 1-3 Year Bond Index is a market value weighted index designed to measure the performance of U.S. dollar-denominated, fixed rate U.S. Treasury securities with minimum term to maturity greater than one year and less than or equal to three years.

Markit iBoxx USD Liquid High Yield Index consists of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe.

The FTSE Developed All Cap ex U.S. Index is part of a range of indices designed to benchmark international investments. The index comprises large, mid and small cap stocks from developed markets excluding the U.S.

The FTSE Emerging Markets All Cap China A Inclusion Index is a market-capitalization weighted index representing the performance of large, mid and small cap stocks in Emerging markets. The index is comprised of approximately 3350 securities from 21 countries.

Moody's Baa Corporate Bond Index—An index comprised of industrial bonds rated Baa by Moody's with a minimum maturity of 20 years.

Consumer Price Index—A measure of the average change in prices over time for a basket of consumer goods.

Asset Allocation—Asset allocation does not ensure a profit or protect against loss.

International and Emerging Markets Investing—There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Bonds and High Yield Bonds—When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High yield bonds have greater credit risk than higher quality bonds.

Commodities and Futures—The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Real Estate—When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

Score Disclosure: The Washington Crossing Advisors, LLC Stifel Conquest and Dynamic Strategies Portfolios require a $25,000 and $50,000 minimum investment, respectively. Strategies in the Stifel Score Program are proprietary products developed by Stifel. More information on the Score Program is included in the Stifel Consulting Services Disclosure Brochure and Part II of the Manager's Form ADV, which may be obtained from your Financial Advisor and which further outlines the fees, services, exclusions, and disclosures associated with this program. The information contained herein is believed to be reliable and representative of the portfolios available through Stifel; however, the accuracy of this information cannot be guaranteed. Investors should consider all terms and conditions before deciding whether the Score Program is appropriate for their needs.

This commentary often expresses opinions about the direction of market, investment sector, and other trends. The opinions should not be considered predictions of future results. The information contained in this report is based on sources believed to be reliable, but is not guaranteed and not necessarily complete.

All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. Equity investments are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors to varying degrees. Fixed Income investments are subject to market, market liquidity, issuer, investment style, interest rate, credit quality, and call risks, among other factors to varying degrees.

Any projections, targets, or estimates in this report are forward looking statements and are based on WCA's research, analysis, and assumptions made by the Adviser. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this commentary.

About Washington Crossing Advisors | Washington Crossing Advisors a wholly owned subsidiary of Stifel Financial Corp. (NYSE-SF). The WCA team has been helping individual and institutional investors build wealth for over 20 years. www.washingtoncrossingadvisors.com