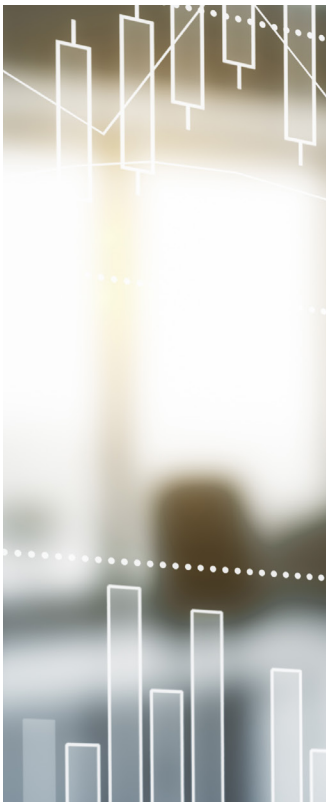
QUARTERLY 2Q19

TACTICAL ASSET ALLOCATION



The S&P 500 returned 13.7% in the first quarter, the best quarterly performance since 2009. This follows almost a 20% drop in the S&P 500 during the fourth quarter. The concerns about global growth and rising interest rates, which contributed to last fall's market selloff, appear to be easing. The WCA Fundamental Conditions "Barometer" advanced sharply in the past few weeks as signs emerged that growth may be picking up in the United States. Accordingly, equity exposure was increased and bond portfolio duration reduced across tactical asset allocation models.

What a Difference a Quarter Makes

Equity markets seem more accepting of risk now than a few months back. With markets in full retreat last fall, the Federal Reserve suddenly reversed course on planned rate increases. That decision meant savers would have to wait longer before earning a higher return on cash balances, and such yields would compete less with equity returns. By changing direction, policymakers also signaled they had very little patience for unsettled markets — music to the ears of equity investors. With cash returns lower, and with the central bank showing renewed support, stock and credit markets found plenty of reason to rally.

The Fed Re-Calibrates

Despite the early year market rally, the Federal Reserve's Federal Open Market Committee (FOMC) cut their interest rate and growth forecasts on March 20, reaffirming their dovish stance. The committee lowered its median long-run projection for the federal funds rate to 2.8%. When the FOMC began publishing forecasts in 2012, the projected long-run federal funds rate was 4.25%. The committee also cut its median 2019 economic growth rate to 2.1%, well below 2018's actual 3% growth rate.

The central bank seems committed to the view that growth and interest rates both are stuck well below levels achieved in past cycles. This perspective allows for the Federal Reserve to justify holding interest rates near today's historically low levels, but risks promoting asset bubbles and undermining policy options should a downturn unexpectedly materialize.

With short-rates set near 2.5%, the Federal Reserve is now very close to their stated long-run neutral interest rate expectation. The 5.25% and 6.5% levels that marked the end of the last two rate cycles, respectively, are nowhere in the forecast. Forwards markets for short-term interest rates are pricing in no change over the balance of 2019. In short, the shift to "patience" by the Federal Reserve is helping ease financial conditions across markets.

The Expansion Approaches a Record

Although the Federal Reserve has been talking down prospects for growth in recent months, there is some new evidence that output is picking up. Should the economy continue to grow through this quarter, the current expansion will become the longest on record according to the National Bureau of Economic Research.

At the end of 2018, the Congressional Budget Office's estimate of the "output gap," a measure of economic slack, turned positive for the first time since 2007. The unemployment rate, now below 4%, is also at levels many economists consider to be "full." A key challenge for policymakers in the coming year may well be maintaining accommodation in the face of mounting signs that the economy is pressing up against tight capacity.

Productivity Steps Up

Signs continue to point toward a pickup in productivity, an important contributor to long-run growth and market returns. Rising productivity brings with it many virtues. One such benefit is non-inflationary growth, which can help boost real returns while allowing the central bank to maintain reasonably accommodative monetary policy. Recently, the U.S. Department of Labor estimated that productivity rose to 1.3% for 2018, compared to 1.1% in 2017 and 0.2% in 2016. From 1960-2007, U.S. nonfarm business sector productivity grew near 2% per year. We expect productivity to grow near 1.5% over the long-run.

Near-Term Outlook

Our WCA "Barometer" (bar chart, page 3) is up sharply due to a mixture of improving market sentiment and economic data. The sharp lift in our barometer also jives with the Federal Reserve Bank of Atlanta's "GDP Now" forecaster which estimates current quarter economic growth. The bank is forecasting that the U.S. economy will ***accelerate*** to 2.3% growth in the first quarter, up smartly from sub-1% readings seen in early March. Recent data on manufacturing orders and business investment also indicate some pickup in near-term growth.

Portfolio Posture

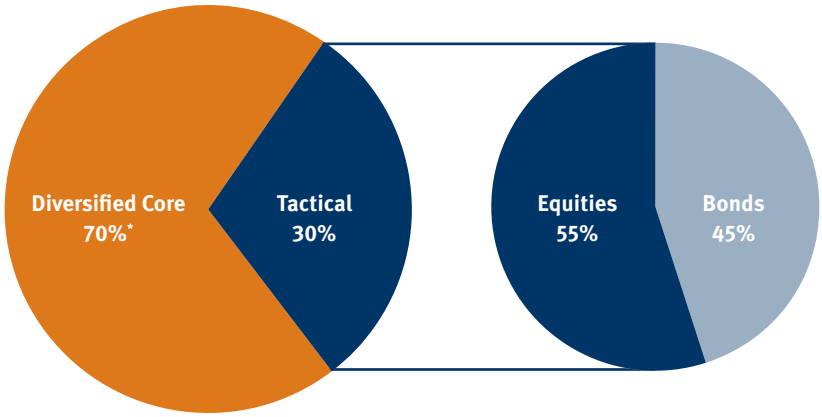
The sharp bounce in our barometer suggests that the likelihood of a near-term recession has faded and calls for a somewhat less defensive near-term tactical posture. We accomplished this by increasing equity exposure and reducing bond exposure within the satellite portion of portfolios (30% portfolio weight). Moreover, we cut the tilt toward longer duration U.S. Treasuries to neutral. The sharp and sudden swing in market tone, from highly bearish to very bullish in just under three months, reminds us that volatility is still with us.

As we progress through the second quarter, we should get a better feel regarding the sustainability of recent trends. We are prepared to increase or reduce risk exposure as the story unfolds and more information becomes available. We continue to believe that a tactical approach to portfolio management is particularly appropriate today given our expectation of relatively low forecast returns from here (see table, page 4).

PORTFOLIO STRUCTURE

DIVERSIFIED CORE: Long-Term Focus

SATELLITE: Short-Term Focus



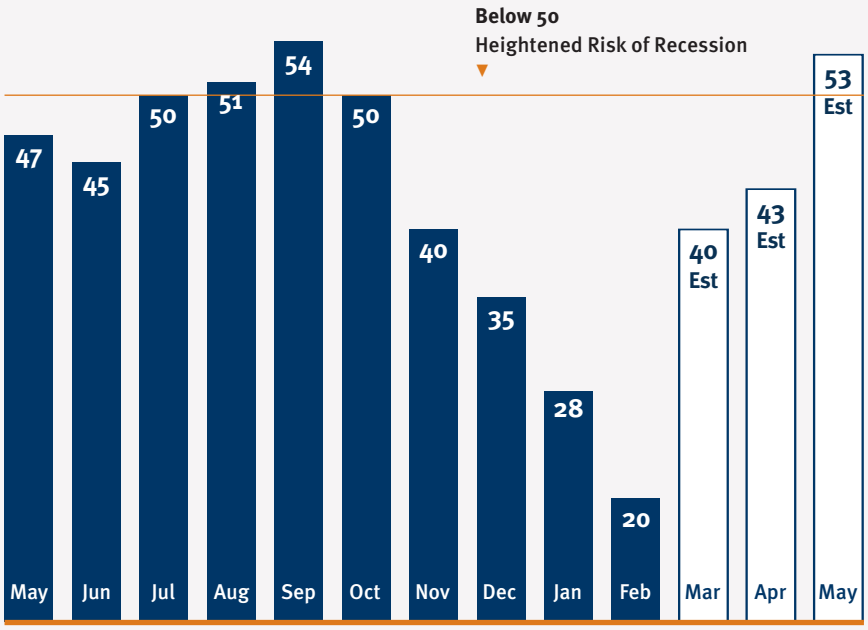
COMBINING LONG- AND SHORT-TERM PERSPECTIVES IN ONE ACCOUNT

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 capital market assumptions on page 4 guide these tactical allocations. Because forecasts are long term, changes in the core tend to be slower. This helps reduce turnover.

The smaller 30% (blue circle) is the "satellite." As fundamental conditions change, shorter term "tactical" tilts between stocks and bonds are implemented here.

SATELLITE POSITIONING: SHORT-TERM FOCUS

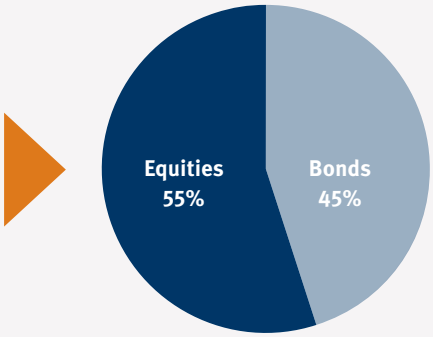
WCA FUNDAMENTAL CONDITIONS BAROMETER



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.

SATELLITE
Short-Term Focus

Asset allocation is tilted slightly in favor of equities over bonds, given a sharp improvement in our barometer during the first quarter. This view is supported by the WCA Fundamental Conditions Barometer, which has risen to just above 50 (see chart left).



As of March 31, 2019.

ASSET CLASS	10-YEAR VIEW RETURN	10-YEAR VIEW VOLATILITY	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
BOND ASSUMPTIONS					
Core Bonds	2.6%	3.0%			
1-3 Year Treasury Bond	2.7%	0.8%			
Mortgage-Backed Securities	2.6%	2.2%			
Intermediate Government/Credit	2.7%	2.4%			
20+ Year Treasury Bond	2.5%	13.5%			
Investment-Grade Corporate Bonds	2.8%	6.1%			
High-Yield Corporate Bonds	4.1%	8.1%			
EQUITY ASSUMPTIONS					
Equity	6.0%	13.7%			
Domestic Large Cap Value	6.0%	14.1%			
Domestic Large Cap Growth	5.7%	13.4%			
Foreign Developed Equity Markets	6.1%	16.2%			
Foreign Emerging Equity Markets	5.8%	19.3%			
Gold	3.4%	16.8%			
REITs	6.2%	20.1%			

As of March 31, 2019. Past performance does not guarantee future results.

Core Satellite

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, higher expected volatility in emerging markets, and a neutral view on the dollar led us to a tactical overweight for developed versus emerging markets.
GROWTH VS. VALUE	› **Domestic style exposure now is overweight value versus growth.** Outsized gains in technology shares reduces the relative attractiveness of growth over value. Domestically focused sectors, like utilities, offer some near-term value.
DURATION AND CREDIT QUALITY	› **Portfolio duration and credit exposure is currently neutral versus target exposure across most categories of fixed income.** We reduced duration due to the recent fall in long-term Treasury yields and higher readings from our barometer.

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 $2 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.

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.

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.

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.

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index is a value-weighted average that seeks to measure the value of residential real estate in 20 major U.S. metropolitan areas. The index is a composite of single-family home price indices for the nine U.S. Census divisions.

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.

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