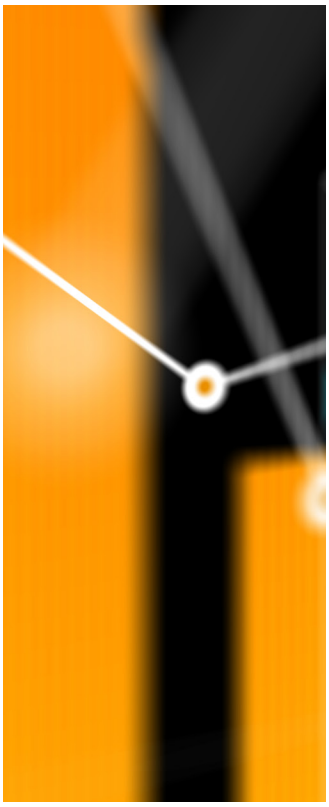
QUARTERLY 3Q18

TACTICAL ASSET ALLOCATION



- Global Growth Favors U.S.
- Trade Tension and Higher Rates Dampen Risk Appetite
- Dataflow Becoming More Mixed
- Tactically Underweight Stocks vs. Bonds

The U.S. economy is accelerating into the second half of the year with growth tracking toward 4% in the second quarter. However, the yield curve has flattened significantly as the Fed presses forward with rate increases, and trade concerns create some unease. Consequently, our own read of the data has become more mixed and we have tactically reduced exposure to stocks during the first half. Portfolios are overweight value versus growth, and foreign developed versus emerging. The fixed income posture is tilted toward high quality and shorter duration credit versus long-duration Treasuries. We also have a tactical tilt toward REITs versus gold.

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

We start our analysis by observing what returns are available in markets. An investment in a 90-day U.S. Treasury bill today will earn an annualized return of 1.9%, for example. A year ago, this same Treasury bill offered a return of 1%. The increase is due to the Federal Reserve's deliberate effort to raise policy rates. While not a historically high rate by any measure, the direction for rates is clearly up. This is lifting our forecasted return on cash and other short-term, high-quality assets.

Cash

At their June 13 meeting, the Federal Reserve hiked rates for the seventh time in three years. The committee views the economy as growing faster than long-run potential, suggesting resource tightness ahead. The Fed also expects growth near 2.8% this year, well above their long-run forecast of 1.8%. Expected inflation is near 2.1% this year, somewhat higher than the Fed's 2% target. Unemployment is also below the committee's long-run forecast for "full employment." All of this leads us to expect the Fed to continue to gradually raise rates toward our 3% long-run expectation. Consequently, we think cash returns will average 2.7% over the long-run (10 year) forecast horizon.

Bonds

At the same time, we would expect 30-year U.S. Treasury bond yields to gradually move toward 4%. This would align well, in our view, with an economy growing near 2.4% in real terms with inflation running close to 2%. If yields do gradually rise toward 4% over time, long-term Treasury bond returns will suffer. Our 10-year return assumption for the 30-year U.S. Treasury is just 2.4%, slightly higher than our cash return.

Stocks

As for the stock market, we assume a below-average 6% return given our growth expectation, income return, and adjustments for valuations and profitability. Return drivers include real economic growth (2.4%), inflation (2.1%), imported excess revenue growth from faster growing overseas markets (0.6%), and a cash return from dividends and buybacks (3.4%). However, we note that today's S&P 500 forward-looking market multiple of 16.1x is 12% higher than the 10-year historic average, and profit margins are roughly 15% higher than the historic average. We reduce expected stock returns by roughly 2.5% to account for future "mean reversion" adjustments to valuations and profitability. Summing this altogether leads to our 6% domestic stock return assumption, which is 3.6% above our long-term Treasury bond return assumption.

Economy

The most important driver to returns is the economy. Currently, we anticipate 3.8% real global growth and 2.4% domestic growth over the long-term. We increased these figures in anticipation of positive effects from the recently enacted U.S. tax cuts last year. We are still assessing potential impacts from ongoing trade negotiations. Our base case long-run real domestic growth assumption relies on long-term labor force growth near 0.9%, with productivity and investment contributing the remaining 1.5%.

Near-Term View

The outlook above is our long-run base case assumption. Over shorter periods, results are likely to be determined by evolving market and economic conditions. Stocks are likely to perform better during periods of growth and healthy market risk appetite. Growing economic uncertainty, periodic shocks and crises, and falling risk appetite are thought to favor bonds over stocks.

To that end, we regularly monitor a wide range of indicators through the lens of our WCA Fundamental Conditions Barometer. When conditions show sustained improvement across a wide array of indicators, the Barometer tends to rise above 50. Forecast readings over 50 lead us to overweight stocks versus bonds. Falling readings will lead us to do the opposite.

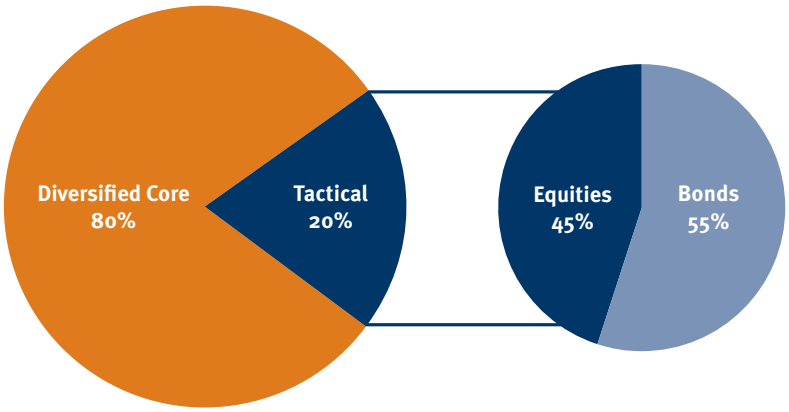
After a strong performance in 2017, our Barometer peaked in January and has drifted lower since. Equity allocations were cut from overweight to slightly underweight as this played out. A pickup in volatility, rising interest rates, and talk of trade disputes may have all contributed to a more mixed outlook than at the start of the year.

As we enter the second half of the year, portfolios are positioned with a tactical style tilt toward value over growth, a tactical global tilt toward developed over emerging markets, and a slight preference toward REITs relative to gold. The near-term direction for the dollar is expected to be biased upward given solid domestic growth, a move toward tighter monetary policy, and increasing fiscal accommodation due to tax cuts and anticipated spending.

PORTFOLIO STRUCTURE

DIVERSIFIED CORE
Long-Term Focus

SATELLITE
Short-Term Focus



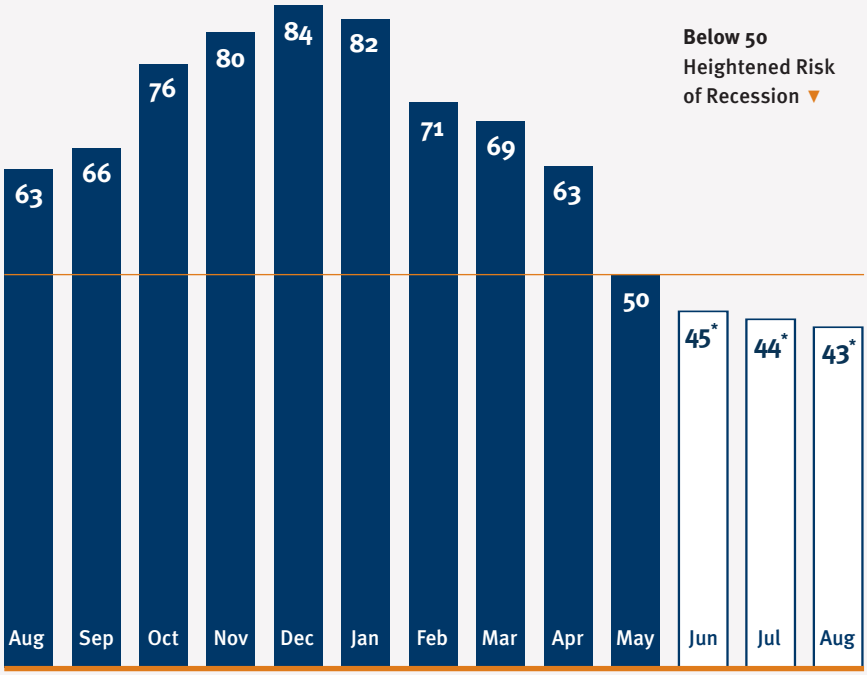
COMBINING LONG- AND SHORT-TERM PERSPECTIVES IN ONE ACCOUNT

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 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

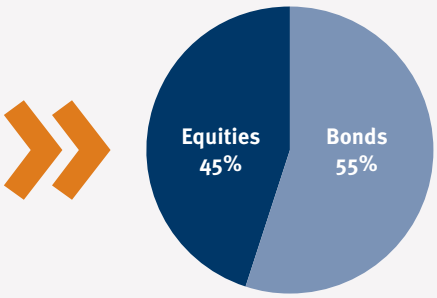
WCA FUNDAMENTAL CONDITIONS BAROMETER



As of June 30, 2018. 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	2.7%	2.8%			
1-3 Year Treasury Bond	2.7%	0.8%			
20+ Year Treasury Bond	2.3%	12.1%			
Mortgage-Backed Securities	2.6%	2.2%			
Intermediate Government/Credit	2.8%	2.3%			
Investment-Grade Corporate Bonds	3.4%	6.0%			
High-Yield Corporate Bonds*	4.7%	10.5%			
EQUITY					
Equity	6.0%	13.9%			
Domestic Large Cap Value	6.7%	14.3%			
Domestic Large Cap Growth	5.2%	13.5%			
Foreign Developed Equity Markets	6.6%	16.2%			
Foreign Emerging Equity Markets	6.6%	20.0%			
Gold*	1.6%	13.4%			
REITs*	7.0%	20.7%			

As of June 30, 2018. Past performance does not guarantee future results.

Core Satellite

CORE POSITIONING	
STOCKS VS. BONDS	› **Modest tilt toward bonds versus stocks in satellite on slippage in WCA Barometer.**
DURATION	› **Yield curve flattening makes long-end less attractive versus cash.**
CREDIT	› **Credit spreads have improved somewhat and defaults remain low.**
DOMESTIC STYLE	› **Elevated tech valuations reduce appeal for growth versus value.**
STAGE OF DEVELOPMENT	› **Strong dollar and high debt hurts the case for emerging markets.**
ALTERNATIVES	› **Good economy and stronger dollar hurts the case for gold. REIT yield spread appears normal versus long-term Treasuries.**

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.

* Lower correlation vs. stocks or bonds.

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.

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