

MORNINGSTAR ETF ALLOCATION SERIES

AGGRESSIVE GROWTH | BALANCED | CONSERVATIVE | GROWTH | INCOME & GROWTH

Summary

Increasing concerns about trade conflicts kept the markets on edge in 2018's second quarter.

The Trump administration's effort to renegotiate terms with its trade partners started with tariffs on steel and aluminum announced in March. That move was aimed at China, but also impacted many other countries. China prepared countermeasures by proposing tariffs on imports of American soybeans. Mexico and Canada faced challenges as the U.S. administration sought to renegotiate the North American Free Trade Agreement. European countries confronted the U.S. over tariff threats on autos. Retaliatory measures from all sides raised the probability of an extended conflict that may hamper global economic growth.

Volatility in the quarter remained above 2017 levels, but major stock markets didn't falter. Strong earnings growth among U.S. companies led to a 3.4% second-quarter gain for the S&P 500, with corporate tax cuts providing a significant boost to profits. Consumer spending was similarly buoyed by cuts to personal tax rates and continued improvements in the labor markets. Small-cap stocks, which are viewed as having some protection from trade disruptions, delivered robust performance as the Russell 2000 gained 7.8%.

A strengthening U.S. dollar presented a challenge to international equities. The MSCI EAFE Index of developed-market stocks rose 3.5% in local-currency terms but fell 1.2% in U.S. dollar terms. The MSCI United Kingdom Index rose 9.4% in pounds sterling but gained just 3.0% in U.S. dollars. Many emerging markets are more dependent on global trade, so it wasn't surprising to see them struggle. The MSCI Emerging Markets Index fell 3.5% in local terms and 8% in U.S. dollar terms. In Brazil, a truckers' strike and uncertainty about its October presidential election contributed to a 26% correction. The rise in oil prices to \$74 per barrel wasn't enough to lift oil-producing countries.

One rationale for a strong U.S. dollar is the monetary policy of the Federal Reserve, which raised interest rates for the second time in June and hinted at a couple more increases before year-end. June's hike was widely anticipated by the market, and long-term interest rates hardly budged, as the 10-year Treasury yield rose to 2.84% from 2.74% in the quarter. Strong corporate earnings helped credit-sensitive bonds to a modest gain, while the Bloomberg Barclays U.S. Aggregate Bond Index of investment-grade bonds was flat.

Returns of Key Indexes

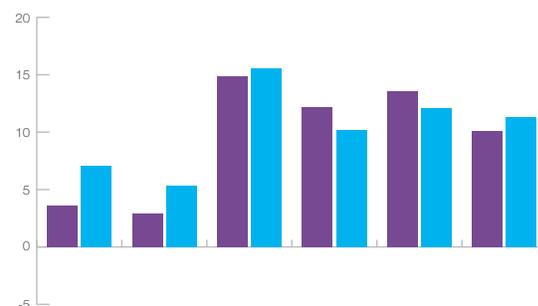
	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
Domestic Stock						
S&P 500	3.43	2.65	14.37	11.93	13.42	10.17
DJ Industrial Average	1.26	-0.73	16.31	14.07	12.96	10.78
NASDAQ Composite	6.61	9.37	23.60	15.96	18.54	13.87
Russell 2000	7.75	7.66	17.57	10.96	12.46	10.60
International Stock						
MSCI EAFE	-1.24	-2.75	6.84	4.90	6.44	2.84
MSCI Emerging Markets	-7.96	-6.66	8.20	5.60	5.01	2.26
Fixed-Income						
Bloomberg Barclays Aggregate	-0.16	-1.62	-0.40	1.72	2.27	3.72
Bloomberg Barclays High Yield Corporate	1.03	0.16	2.62	5.53	5.51	8.19
Bloomberg Barclays Credit	-0.88	-2.99	-0.65	2.86	3.37	5.15
Bloomberg Barclays Government Bond	0.10	-1.05	-0.63	1.02	1.48	2.91
Bloomberg Barclays Long Term Treasury	0.31	-3.00	-0.13	3.40	4.55	6.05

Past Performance is not indicative of future results. Index performance is not indicative of fund performance. One cannot invest directly in an index.

Source: Morningstar Direct, June 30, 2018

Morningstar Index Returns %

Large vs. Small

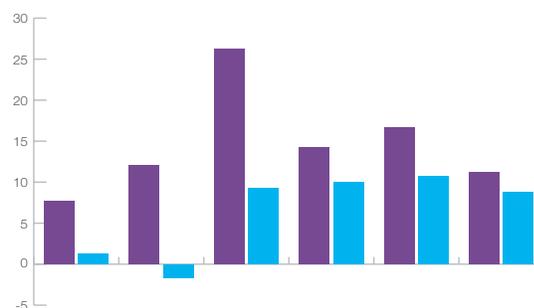


	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
Large-Cap	3.57	2.88	14.87	12.15	13.52	10.05
Small-Cap	7.02	5.33	15.52	10.19	12.11	11.26

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The Morningstar U.S. Small Cap Index outpaced the Morningstar U.S. Large Cap Index in 2018's second quarter. Trade concerns didn't pose as great a challenge among real estate stocks and other more domestically-oriented firms in the small-cap index. Pharmaceutical and consumer staples companies help back the large-cap index, while insurers and energy stocks boosted small caps.

Growth vs. Value



	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
Growth	7.71	12.03	26.23	14.27	16.70	11.26
Value	1.33	-1.67	9.24	10.05	10.69	8.80

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In what has become a regular occurrence, the Morningstar U.S. Growth Index thumped the Morningstar U.S. Value Index in the quarter. Growth-oriented tech stocks were the biggest contributor to the difference, with online media and software companies providing the lion's share. The value index was held back by its bank stocks. A relatively large weight in energy stocks was the sole positive in the value index.



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Index Definitions

Barclays Capital Aggregate Bond Index: The U.S. Aggregate Bond Index is the market-value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

Barclays Credit Index: The U.S. Credit Index comprises the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities. The U.S. Credit Index was called the U.S. Corporate Investment Grade Index until July 2000, when it was renamed to reflect its inclusion of both corporate and non-corporate issuers. Index history is available back to 1973. The U.S. Credit Index is a subset of the U.S. Government/Credit Index and the US Aggregate Index.

Barclays Government Bond Index: Securities issued by the U.S. Government (i.e., securities in the Treasury and Agency Indices). Inclusions: Public obligations of the U.S. Treasury with a remaining maturity of one year or more. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government.

Barclays Long Term Treasury Index: Securities in the long maturity range of the U.S. Treasury Index. The U.S. Treasury Index represents public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Barclays U.S. Corporate High Yield Index: The U.S. Corporate High-Yield Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB /BB or below, excluding emerging market debt. The U.S. Corporate High-Yield Index was created in 1986, with history backfilled to July 1, 1983, and rolls up into the Barclays U.S. Universal and Global High-Yield Indices.

DJ Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

Morningstar Large Cap Index: The Morningstar Large Cap Index tracks the performance of U.S. large-cap stocks. These stocks represent the largest 70 percent capitalization of the investable universe.

Morningstar Small Cap Index: The Morningstar Small Cap Index tracks the performance of U.S. small-cap stocks. These stocks fall between the 90th and 97th percentile in market capitalization of the investable universe. In aggregate, the Small Cap Index represents 7 percent of the investable universe.

Morningstar U.S. Growth Index: The Morningstar U.S. Growth Index tracks the performance of stocks that are expected to grow at a faster pace than the rest of the market as measured by forward earnings, historical earnings, book value, cash flow and sales.

Morningstar U.S. Value Index: The Morningstar U.S. Value Index tracks the performance of stocks with relatively low prices given anticipated per-share earnings, book value, cash flow, sales and dividends.

MSCI Emerging Markets Index: Capitalization-weighted index measuring the total returns of stocks from a number of emerging markets across the world.

MSCI EAFE Index: This index tracks non-U.S. stock funds (EAFE refers to Europe, Australasia, and Far East). The EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the world's major markets.

NASDAQ Composite Index: Measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. Morningstar reports the NASDAQ Composite as a price return.

Russell 2000 Index: Consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization. The returns published for the index are total returns, which include reinvestment of dividends.

Standard & Poor's 500 Index: Market-capitalization-weighted index of 500 widely held stocks. Member companies are chosen based on market size, liquidity, and industry group representation. Included are the stocks of industrial, financial, utility and transportation companies.

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- Provides day-to-day management of Portfolios
- Over 37 years of experience providing real world asset allocation solutions
- Trusted name and track record in the investment community

- Not a bank or credit union deposit or obligation
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- Not insured by any federal government agency
- Not guaranteed by any bank or credit union
- May lose value