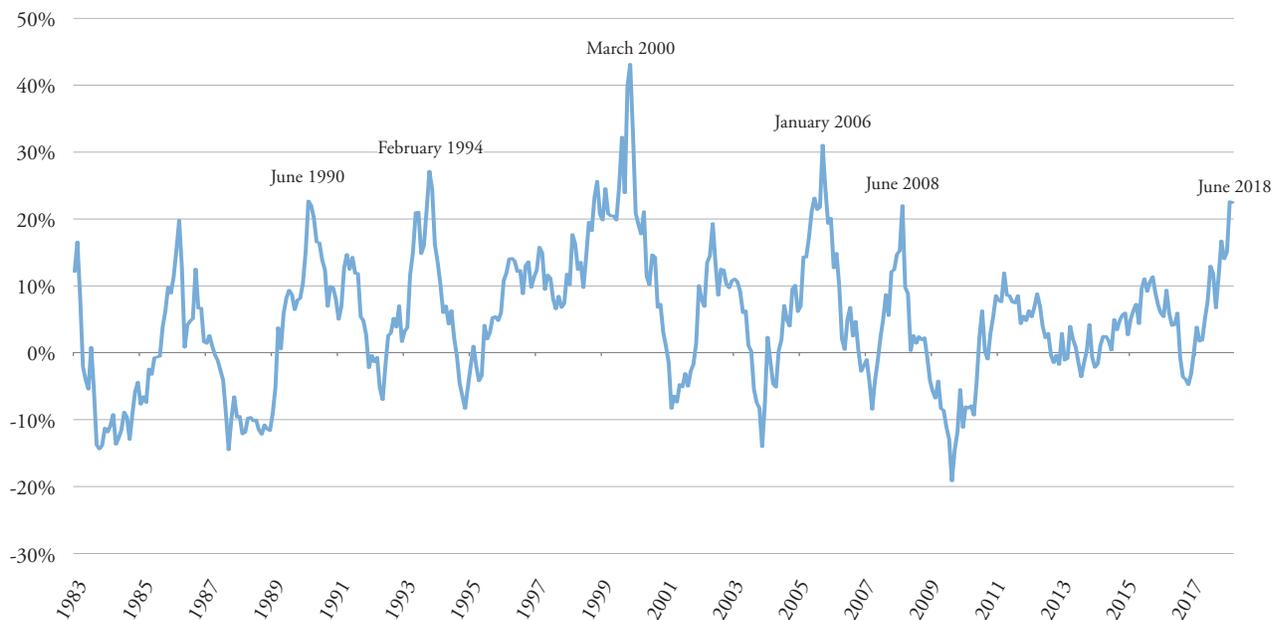


Both 2017 and the first half of 2018 have been marked by the strong relative performance of price momentum strategies. The outperformance of price momentum factors over this 18-month period has reached historically high levels, suggesting that a reversion to the mean may be in the offing in coming quarters.

The MSCI USA Momentum Index is based on the MSCI USA Index, which consists of large cap and midcap stocks in the U.S. market. The Momentum Index is designed to reflect the performance of an equity momentum strategy by emphasizing those stocks with high price momentum. This Index underperformed the S&P 500 by 6.8% in 2016, but then outperformed in 2017 by 16.0% and outperformed again in the first half of this year for a cumulative excess return over the past 18 months of 22.5%.

**ROLLING 18-MONTH RELATIVE RETURN:
MOMENTUM INDEX⁽¹⁾ VS. S&P 500**



Data from 4/30/83–6/30/18

⁽¹⁾The MSCI USA Momentum Index is based on the MSCI USA Index, which consists of large cap and midcap stocks in the U.S. market. The Momentum Index is designed to reflect the performance of an equity momentum strategy by emphasizing those stocks with high price momentum.

Source: Bloomberg, MSCI

The chart above illustrates how this past 18 months of excess return compares with history. As the chart illustrates, the relative performance of momentum is cyclical. As momentum strategies focus on recent stock market winners, they attract new investors who buy those same stocks, creating an upward cycle for the strategy. However, eventually the cycle reverses, perhaps due to valuation concerns, disappointing earnings or some other new development. The more investors who are on the momentum train at the time, the more severe the reversal in trend tends to be.

The past 18-month excess return of 22.5% for momentum ranks among the highest in the past 35+ years. All of these past periods were followed eventually by significant underperformance of momentum stocks, most notably in the period following the Tech bubble of 1999 and early 2000.

We believe that Momentum factors can be effective in stock selection and can add value over time. Given the unusually strong returns from Momentum over the past year and a half, however, it may prove beneficial for investors to ensure that they have exposure to other characteristics in their portfolios as well, such as good valuation, high quality and strong fundamentals.

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REFERENCED INDICES

S&P 500 Index—The S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. It is calculated by Standard & Poor's Corporation, and reflects reinvestment of all dividends and capital gains.

MSCI USA Momentum Index—The MSCI USA Momentum Index is based on the MSCI USA Index, which consists of large cap and midcap stocks in the U.S. market. The Momentum Index is designed to reflect the performance of an equity momentum strategy by emphasizing those stocks with high price momentum.

MSCI USA Index—The MSCI USA Index is designed to measure the performance of the large and mid-cap segments of the U.S. market. The index consists of approximately 630 securities and covers 85% of the float adjusted market capitalization in the U.S.