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[**Note to reviewers:** I encourage you to read the "takeaway" section on page 5, which applies findings from the fourth quarter of 2018 and first quarter of 2019 to make a compelling case for sticking to a long-term investment plan, diversification and dollar-cost averaging on short-term market pullbacks. Although commentaries are typically shorter, the following example begins with a brief introduction/summary followed by the performance of asset classes over the six-month period, factors that influenced performance, macroeconomic highlights, recap of market activity each quarter, analysis of sectors and sub-asset classes over the six months, and the takeaway that includes a call to action (generally included in letters I write for chief investment officers). I noted examples of fund-specific questions I often address.]

[Fund name]

Performance over the six months ending March 31, 2019

[introduction comparing fund and benchmark returns, followed by the commentary:]

The six-month reporting period ending March 31, 2019, was a tale of two quarters which, although aligned back to back, were worlds apart in terms of the performance of many global capital markets and investor sentiment. The Chicago Board Options Exchange Volatility Index (VIX), which tracks volatility on the large-cap S&P 500® Index, soared to 36.20 in December 2018 before dropping below 14% at the end of the reporting period.[1]

Global equity, emerging-market debt and U.S. high-yield bond markets in particular dropped sharply in the fourth quarter of 2018 amid rising concerns about rising interest rates, trade tensions, decelerating global economic growth, geopolitical conflicts and other challenges. However, many riskier asset classes rallied during the following quarter largely in reaction to comments from central banks signaling a less-hawkish shift toward looser monetary policies, hopes China and the U.S. would reach a trade accord, upbeat corporate earnings and strong U.S. employment data.

Emerging-market stocks outperformed.

For the six-month period, U.S. equities, as measured by the broad Russell 3000® Index, returned -2.27%. Emerging-market stocks rose; the MSCI Emerging Markets Index returned 1.71%. (All returns cited are in U.S. dollars.) International developed equity markets lagged. The MSCI EAFE® Index, which measures the performance of stocks in Europe, Australasia and the Far East, dropped 3.81%. Equities in the Asia-Pacific component of the MSCI World Index (excluding Japan) rose approximately 3%. However, investor concerns about the effect of a global economic slowdown on Japan's export-driven economy exerted pressure on Japan's equity market, and the MSCI Japan Index dropped more than 8% over the period.

[1] A VIX level of 36.20 indicates that the S&P 500 Index has a 66.7% probability of trading within a range of 36.20% above or below the index's current level over the next 12 months.

Fixed income markets rallied, the yield curve inverted.

In the U.S. investment-grade bond universe, the broad-based Bloomberg Barclays US Aggregate Bond Index returned 4.63% over the reporting period.[2] Higher-rated bond prices were bolstered by a flight to quality in the fourth quarter and comments from the Federal Reserve (Fed) that it would pursue a more accommodative monetary policy. During this time, many parts of the yield curve inverted (i.e., yields on many shorter-term U.S. treasuries rose above those on longer-term issues). An inverted curve has often preceded recessions in the U.S.. However, many analysts did not interpret this reversal from the normal rate trajectory as necessarily a harbinger of a recession but, rather, to investors' reaction to quantitative easing by many central banks.

U.S. high-yield corporate bonds (corporate debt rated below investment grade), based on the Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index, returned 2.39% over the six months.

Bond markets outside the U.S. also yielded strong results. The investment-grade Bloomberg Barclays Global Aggregate Bond Index advanced 3.43%. Emerging-market bonds, like their equity counterparts, categorically outperformed their developed-market peers. Emerging-market debt (EMD), as measured by the J.P. Morgan EMBI Global Diversified Index, returned 5.61%. U.S. dollar-denominated EMD in general outperformed local-currency bonds during the period as a result of the dollar's rise against currencies in those markets.

Real estate investment trust (REIT) shares collectively rallied.

The FTSE NAREIT All Equity REITS Total Return Index (NAREIT Index) returned 10.07% over the two quarters.[3] The defensive net lease and healthcare sectors, as measured by the 24.67% return of the Bloomberg Single Tenant REIT Index and 16.48% return of the Bloomberg Healthcare REIT Index, respectively, outperformed other components of the NAREIT Index. The apartment sector also performed well. The Bloomberg Apartment REIT Index returned 14.11%. Many cyclical sector sub-indices trailed but rose over the period.

Prices of most commodities, particularly oil, dropped.

The Bloomberg Commodity Index slipped 3.68% over the six months, despite rising more than 6% in the first quarter of 2019. Steep drops in crude oil prices during late 2018 dealt a blow to many energy stocks. The price of a 42-gallon barrel of Current West Texas Intermediate Crude Oil opened the period at $75.30, closed the fourth quarter at $45.41, but recovered some lost ground in 2019 to close the period at $60.14.[4] Prices of precious metals in general rose as investors sought safety in hard-currency assets.[5]

Global economies continued to diverge.

In contrast to the synchronized global growth experienced in 2017, the pace of economic growth among nations diverged during 2018 and 2019.

The U.S. economy remained on firmer ground than most other economies. Gross domestic product (GDP) grew 2.2% in the fourth quarter of 2018 and 3.1% over the first quarter of 2019, driven largely by government and consumer spending, exports and business investment.[6] By comparison, GDP grew 3.4% in the third quarter of 2018, propelled in part by tax cuts.

Many companies reported robust earnings. Approximately 263,000 jobs were added in March, and the

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[2] Source: https://www.bloomberg.com/professional/product/indices/bloomberg-barclays-indices-fact-sheets-publications
[3] Source: https://www.reit.com
[4] Source: https://www.up.com/customers/surcharge/wti/prices/index.htm
[5] Source: https://www.agweb.com/markets/futures
[6] Source: https://www.bea.gov/data

national unemployment rate closed the period at 3.8% after opening it at a nearly 50-year low of 3.7%.[7] Inflation remained tame. The Personal Core Consumption Index (PCI), which excludes food and energy, rose 1.6% year over year in the final month of the reporting period but remained below the Fed's 2% target.[6] The Consumer Price Index (CPI), excluding food and energy, registered at 1.9% at the end of March.[6]

The growth rates of economies throughout the world varied although dropped in many countries. For example, China's annualized growth rate slid to 6.6% as the nation engaged in tit-for-tat tariff exchanges with the U.S. This deceleration, coupled with concerns about political developments in Italy, Brexit (the United Kingdom's plan to exit the European Union), demonstrations in France and other challenges weighed on European economies. Other data released during the period showed Japan's and Italy's economies contracted in the third quarter of 2018. Several emerging-market economies, specifically Argentina and Turkey, contended with economic pressures.

Stock and higher-yielding bond markets retreated in the fourth quarter of 2018.

Global equity markets suffered steep drops during the first half of the reporting period.

In October, stocks and bond prices fell on fears that the Fed might hike rates more quickly than previously anticipated to contain inflation. The price of the U.S. 10-year Treasury note dropped and its yield, which moves opposite to price, rose from 3.05% at the start of the period to 3.20% during the month. The spike in yields was triggered in part by investors' reaction to Fed Chair Jerome Powell's comment that interest rates were still "a long way" from a neutral level that is neither restrictive nor accommodative.

The following month the Republican party retained control of the Senate in mid-term elections, despite losing control of the House of Representatives to the Democrats. Economic reports revealed that the U.S. economy grew at a strong yet slower pace in the third quarter. However, average wages for October jumped 3.1% from a year earlier, marking the biggest increase in a decade. Other data signaled slowing growth in the Eurozone, and oil prices tumbled. In late November U.S. stock prices collectively rose after Fed Chair Powell said interest rates were just below "neutral", which was widely interpreted as signaling the central bank had no immediate plans to significantly hike interest rates.

On December 12, the European Central Bank (ECB) wrapped up its quantitative-easing program. The following week the Fed raised its federal funds interbank-lending rate target by 0.25% to a range of 2.25% to 2.50%. Although the rate hike was widely anticipated, the Fed's accompanying statement was more hawkish than many had expected. Fed Chair Powell proceeded to say the Fed's wind-down of its balance sheet (i.e., letting assets roll off its books by making fewer purchases of maturing U.S. Treasury and mortgage-backed securities) was on "autopilot." The statement was widely interpreted as meaning the central bank did not plan to change its balance sheet-reduction program. Many traders had been hoping the central bank would take a more flexible, looser position on monetary policy.

The year 2018 ended with a partial shutdown of the U.S. government during an impasse over funding sought by President Donald J. Trump to construct a wall at the nation's southern border. The uncertainty dampened investors' enthusiasm for stocks. However, on the final trading day of the year, President Trump tweeted that "big progress" was being made in trade talks with China's President Xi Jinpin, and the Dow Jones Industrial Average rallied more than 1,000 points.

[Reviewers: I would typically eliminate irrelevant asset classes or might insert the following data into a table that compares returns over the two quarters covered in this report.] For the fourth quarter, the Russell 3000 Index returned -14.30%. The NAREIT Index declined 6.06%. Stocks trading in many international developed and emerging markets closed lower over the period, based on the -12.80% return of the MSCI EAFE and -7.40% return of the MSCI Emerging Markets indices. In the fixed income arena, the Bloomberg Barclays US Aggregate Bond Index returned 1.64%. The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned -4.54%. The investment-grade Bloomberg Barclays Global Aggregate Bond Index returned 0.91%. In emerging markets, spreads on sovereign and corporate debt widened. The J.P. Morgan Emerging Markets Bond Index returned -1.26%.

[7] Source: https://www.bls.gov/data/

Financial markets across asset classes rallied in the first quarter of 2019.

During the second half of the reporting period, financial data revealed some areas of the U.S. economy (particularly within manufacturing) lost momentum.

In early January, the Fed signaled it would take a more patient approach when contemplating changes to its monetary policy. Stock and bond prices surged after the Fed provided dovish signals after its January 29–30 meeting. The S&P 500 Index climbed to a five-month high. Many stock markets around the world rose later in the period after President Trump said he would consider pushing back the deadline for hiking tariffs if China and the U.S. were approaching an agreement. The deadline proceeded to be extended to March and was pushed back again later.

During the final month of the reporting period, the European Union (EU) postponed the deadline for UK Prime Minister Theresa May to pass a Brexit plan through Parliament to April 12. The ECB reversed its monetary policy and revised its guidance, stating it did not plan to adjust rates at least until the end of 2019. The central bank also lowered its growth projection for the year. Central banks in Japan and the UK refrained from changing interest rates. China's equity market rose on rising optimism that government authorities in China would continue to boost its easing initiatives to help energize the nation's economy.

At its meeting that ended March 20, 2019, the Fed maintained its federal funds rate target, and monetary policymakers later signaled the central bank did not plan to hike rates in 2019. On the final day of the reporting period, March 29, U.S. stocks rallied following a tweet from U.S. Treasury Secretary Steven Mnuchin, which stated talks between the U.S. and China to reach a trade agreement were constructive.

Over the first quarter, the Russell 3000 Index returned 14.04%, propelled by the Fed's shift in monetary policy, dovish guidance, rising hopes for a U.S.-China trade agreement, relatively solid fourth-quarter corporate earnings and stock buybacks. The NAREIT Index returned 17.17%. Micro-cap REITs returned more than 25%, and nearly 96% of publicly traded REITs generated positive total returns over the quarter. Preferred shares categorically rose approximately 9%. Internationally, the MSCI EAFE and MSCI Emerging Market equity indices returned 10.13% and 9.95%, respectively.

The Bloomberg Barclays US Aggregate Bond Index returned 2.94%. The Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Index returned 8.08%. The Bloomberg Barclays Global Aggregate Bond Index returned 1.52%. In emerging markets, spreads on sovereign and corporate bonds tightened as their prices rebounded. The J.P. Morgan Emerging Markets Bond Index returned 6.95% over the quarter. The Bloomberg Commodity Index returned 6.32%, buoyed by a rebound in oil prices.

S&P 500 Index sector performance: Real estate and utilities led, energy lagged.

For the six-month period, the large-cap equity S&P 500 Index returned -1.72%. Eight of the index's 11 component sectors posted negative returns. The worst-performing sector was energy, which fell 11.26% over the six months, despite rallying in the first quarter. The sector was hurt by the drop in crude oil prices in the first half of the reporting period. Most cyclical sectors also fell significantly, including financials, which returned -5.67%. Conversely, defensive sectors such as real estate and utilities advanced, posting double-digit returns. Utilities in particular benefited as interest rates dropped.

Value and mid-cap U.S. stocks outperformed other investment style and capitalization categories.

Over the reporting period, the Russell 3000 Value Index returned -1.76%, while the Russell 3000 Growth Index returned -2.80%. The Russell Midcap® Index returned -1.38%. The large-cap Russell 1000® Index returned -1.76%. The small-cap Russell 2000® Index returned -8.56%.

Yields on U.S. investment-grade bonds dropped as their prices rallied.

The U.S. Treasury 10-year note yield jumped from 3.05% at the beginning of the period to 3.25% in November, but closed March at 2.41% after bond markets rallied back.[8] Over the two quarters, the yield on the Bloomberg Barclays US Aggregate Bond Index dropped 52 basis points (bps). (One basis point equals 0.01%.) The corporate sub-index returned 4.89%, the government sub-index returned 4.37%, and the commercial mortgage-backed securities (MBS) sub-index returned 4.30%. Bonds rated "A" categorically returned 5.00%, while higher-quality bonds rated "AAA" returned 4.52%. Government agency bonds and Treasury Inflation-Protected Securities (TIPS) lagged but posted strong returns; the Bloomberg Barclays US Agency Bond Index returned 3.74%, and the Bloomberg Barclays US Treasury Inflation-Protected Securities Index (Series-L) returned 2.76%, respectively. In terms of maturities, the 10+ year sub-index returned 7.40%, outperforming issues with short maturities, collectively. The short-term treasury 1-3 year sub-index returned 2.41%.

Takeaway: Maintain a long-term investment horizon, rebalancing your portfolio when appropriate.
[Reviewers: I generally include takeaways to reflect themes in letters from chief investment officers.]

The fourth quarter of 2018 and first quarter of 2019 together make a compelling case for sticking to a long-term investment plan, diversification and dollar-cost averaging on short-term market "pullbacks" that occur in reaction to news-driven events.[9]

During the final quarter of 2018, stocks and many other riskier asset classes sold off as concerns mounted over interest rates, trade tensions, the global economy and other challenges previously noted. The Russell 3000 equity index dropped 14.30% over the quarter. As these worries diminished, stocks and several other asset categories reversed course, and the Russell 3000 index rose 14.03% over the following three months. Approximately $89.4 billion flowed out of equity mutual funds in December 2018.[10] Needless to say, many investors who moved most of their holdings into cash following the stock market pullbacks in late 2018 missed out on the rallies in the first quarter of 2019.

If you actively sell at the wrong time following market pullbacks, the results can be costly. For example, over a 15-year period, studies show that if you invested $10,000 in a portfolio of stocks reflecting the S&P 500 Index on December 31, 2003, and remained fully invested through December 31, 2018, the portfolio would have more than tripled in value to $30,711. However, if you moved money back and forth into cash following market drops and failed to participate in the index's 10 best-performing days during that period, your portfolio would have grown to only $15,481—a difference of $15,230.[11]

Of course, past performance is not indicative of future results. Business cycles change, markets will fluctuate, and there are no assurances that markets will rebound. However, the takeaway is that rather than shift your money between cash and securities in an attempt to time the market, a more prudent approach may be to stay the course but maintain a balanced portfolio. Consider consulting a qualified financial professional who can periodically review your portfolio and help you rebalance it when appropriate based on market conditions and your current financial situation, goals and tolerance for risk. Maybe you'll want to keep some cash on hand to take advantage of market pullbacks while maintaining a suitable long-term investment horizon.

When rebalancing your portfolio, consider including growth and value stocks across different industries because investment styles and sectors fall in and out of favor depending on economic conditions and other factors. For example, technology and energy stock sectors, which struggled in late 2018, were among the top performers in the first quarter of 2019. Growth stocks underperformed value equities by

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[8] Source: https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield
[9] **Past performance does not guarantee future results.**
[10] Source: Investment Company Institute (www.ici.org)
[11] Based on S&P 500 historical data. Past performance does not guarantee future results. Returns stated do not take into account taxes and any investment fees or expenses. You cannot invest directly in an index.

4.09% over the first half of the reporting period but outperformed value stocks by 4.25% over the second half, as reflected by the performance of Russell 3000 style indices.[12]

Think about incorporating funds that invest in securities besides traditional corporate equities and bonds. Examples include funds that invest in preferred securities, which offer attractive yields and other benefits, and TIPS. Consider funds that offer exposure to real estate-related investments, such as REITs, and hard-currency commodities. Their returns tend not to be highly correlated to those of equities in general.[13] Also, consider expanding your portfolio to include funds that employ alternative strategies, such as "long-short" investing, to help more effectively manage your portfolio's exposure to market volatility.[14]

[If highlighting active portfolio management rather than passive investing:] Keep in mind that given many stocks are hovering near highs, security selection and tactical allocations may be particularly important for generating excess returns (returns of an investment over its benchmark index) and managing risk. Experienced, active portfolio managers who have the flexibility to navigate global markets, and the resources and know-how to prudently select securities (including opportunities that might not be reflected in a particular index) can offer considerable value. [Consider referencing particular funds, differentiators, etc., in a call to action followed by a link to funds, fact sheets or research.]

[**Reviewers:** I typically include performance-attribution content that addresses both absolute returns and relative performance. I generally highlight developments that affected the performance of securities held in funds based on both input from portfolio managers and my own research. The following questions are merely a few general examples illustrating the types of performance-attribution issues I address. I can provide other examples of questions for funds that invest in international securities, "alternative" asset classes and other portfolios (e.g., target-date lifecycle funds). I obtain information from portfolio managers' raw commentary, spreadsheets from Fund Reporting and Fund Accounting units, interviews with Fund managers and other sources.

Q: Which overweight and underweight positions in the Fund contributed most to the Fund's performance relative to the benchmark index? (Include any holdings not represented in the benchmark and note securities reflected in the index that were excluded from the Fund.)

Q: Which overweight and underweight positions in the Fund detracted most from the Fund's performance relative to the benchmark index? (Include any holdings not represented in the benchmark and note securities reflected in the index that were excluded from the Fund.)

Q: Which holdings were the leading contributors and detractors in terms of relative performance?

Q: What factors affected the performance of key contributors and detractors? (I can suggest obvious factors pertaining to macro, sector, earnings and news developments for reviewers to confirm.)

Q: Has the Fund continued to invest in particular securities that dropped in value (dollar-cost average) because the portfolio managers continue to believe the securities offer long-term potential value?

Q: Did the Fund employ derivatives or particular strategies to reduce market risk? If so, how did they affect the results?

Q: Did the Fund adjust its approach, such as the average duration and credit quality of bond holdings?

Q: How are the portfolio managers positioning the Fund based on their current outlook?

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[12] The Russell 3000 Growth Index returned -16.33% and 16.18% over the fourth quarter of 2018 and first quarter of 2019, respectively. The Russell 3000 Value Index returned -12.24% and 11.93% over the fourth and first quarters, respectively.

[13] [I would add your firm's risk disclosures for each respective asset category.]

[14] Strategies, including long-short investing approaches, can help mitigate risk but detract from upside potential.