MULTI-ASSET DIRECTIONS

Perspectives on Multi-Asset Class Funds

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A widening gap between economic and earnings growth in the U.S. versus the rest of the world powered U.S. asset returns to notable advantage in the third quarter of 2018. The Russell 1000 Index of U.S. stocks produced a total return of 7.4% while the MSCI ACWI ex. U.S. Index was unchanged. In a similar vein, U.S. high yield bonds outperformed Europe and emerging markets high yield bonds during the quarter.

The U.S. growth advantage was triggered, at least partially, by the stimulus package passed in late 2017, and the combination of corporate and personal income tax cuts it delivered. Consumer spending remained particularly strong in the third quarter, registering another quarter of 3%+ SAAR growth while fixed investment slowed down a bit after a strong second quarter of 2018. Meanwhile, growth outside the U.S. seems to be moderating as global trade pauses after a sustained recovery in 2016-2017. This appears to be a normal cyclical deceleration but the possibility of a full-blown trade war between the U.S. and the rest of the world has increased the risk of a sharper downturn in the offing.

Strong economic growth in the U.S. has translated into extraordinarily powerful earnings growth. Turbocharged by the cut in the corporate income tax rate, earnings among U.S. companies were expected to increase 15-17% in 2018. But the actual increase in net income from continuing operations was a hefty 23.3% in the second quarter over a year ago. Energy companies are leading the way with an increase of 145%, followed by information technology companies with a 21.5% rate of earnings growth, and consumer discretionary companies with a 20.5% increase. While a slowdown in earnings growth is likely in the coming quarter, the increase in U.S. stock prices has been a response to positive fundamental surprises leading valuations to actually compress; the trailing P/E multiple of the S&P 500 fell from 22.5x at the start of 2018 to 21.1x at the end of the third quarter.

Meanwhile, financial conditions outside the U.S. tightened further as the FOMC continued raising rates in the U.S. and investors began to question whether an even more aggressive tightening stance might be necessary in response to the acceleration in U.S. economic growth. Rising U.S. rates and a stronger dollar pose potential problems for borrowers who have taken advantage of low U.S. rates and strong risk appetite to raise funds in the U.S. Higher hedging costs and widening spreads could make it much more expensive to roll the debt over as it matures, raising financial risk even more as uncertainty among investors leads to increased risk aversion.

Overseas markets contended with a number of potential idiosyncratic shocks in the third quarter. In Italy, the new government submitted a budget plan for 2019-2021 that appeared to be in violation of Italy's commitments under the Stability and Growth Pact. If the government insists on shedding the fiscal restraint that has been a feature of Italy's economy since it joined the Euro, a clash with its single partners poses the threat that investors will be forced to revisit the shaky foundations of the single currency, a test of market fortitude that all concerned parties would prefer to avoid after the prolonged crises in Ireland, Portugal, and Greece. In addition, doubts about China started surfacing as the authorities grapple with taming financial risk by forcing shadow banking institutions to rein in their activities. The coincidence of a slowdown driven by financial reform and the potential for trade strife to aggravate the weakness caused investors to avoid China risk; the MSCI Asia ex. Japan equity index was down 2.5% in the third quarter and has lost 8.2% in 2018.

Source: Bloomberg, Data as of 09/30/2018.

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ALLOCATION STRATEGY

The U.S. economy and financial markets may be approaching a crossroads where strong earnings growth today conflicts with strong earnings growth in the future. When current growth aggravates inflation fears, increases expectations of monetary tightening, and forces bond yields to rise, it also leads to worries about a future slowdown. This state of affairs also causes the returns of stocks and bonds to rise and fall together, increasing risk in a diversified portfolio and requiring a decline in the equity allocation to avoid an increase in portfolio risk.

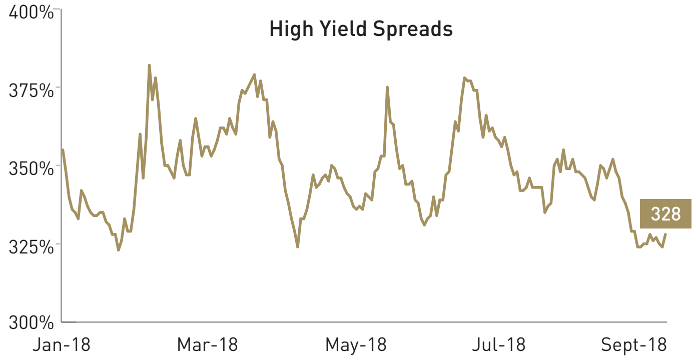
While it is logical to believe that the U.S. is approaching the "late-cycle" type relationships described above, we believe is too early to fully buy in to such a scenario. Inflation has remained very tame as both labor costs and product prices have increased very gradually compared to the acceleration that took place in prior expansions after the economy had grown by enough to surpass full employment. So long as inflation remains in line with the Fed's 2% target, even rising as high as 2.5%, it is likely that the Fed will tighten only gradually, without raising rates either too fast or too high to cause investors to fear a sharp slowdown. So long as this is true, i.e. so long as inflation remains relatively quiescent, we believe risk assets should continue to outperform.

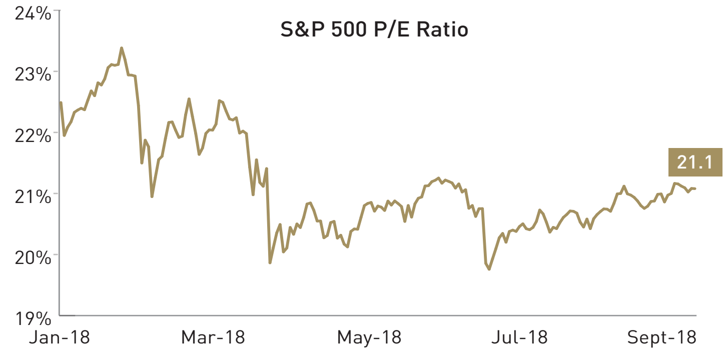
Meanwhile, even though non-U.S. stocks in local terms have underperformed U.S. equities since 2016, their valuations on forward earnings multiples are only modestly attractive. In an environment of rising U.S. interest rates and a potentially stronger U.S. dollar, we find that a neutral allocation, or below, is most appropriate.

Meanwhile, narrowing high yield spreads and improving credit quality make an ongoing overweight exposure to credit justified. Remarkably, there was only a single bankruptcy among companies in the JP Morgan high yield index in the third quarter. In addition, we believe the bearish steepening of the U.S. treasury yield curve provides the perfect backdrop for ongoing high yield outperformance.

We have shortened the duration of our credit exposure, choosing to avoid the tail risk associated with short-term corporate credit in favor of the lesser downside associated with ultra-short paper. While we remain sanguine with respect to both the persistence of economic growth and corporate credit quality, we believe that rather than taking the downside risk in longer duration corporate bonds, convertibles, and stocks provides a better return compared to underlying risk after the positions are appropriately sized.

After reducing U.S. equity exposure in the second quarter of 2018 and maintaining the lower weight for most of the third quarter, we increased it towards the end of the quarter. With valuations having contracted after we sold and the overall macro environment still favorable, along with ongoing positive earnings revisions, we felt the U.S. was poised to continue outperforming in a still-favorable environment for risk asset returns.





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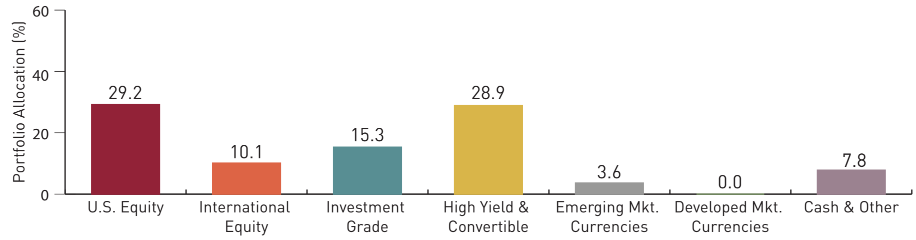
PORTFOLIO POSITIONING

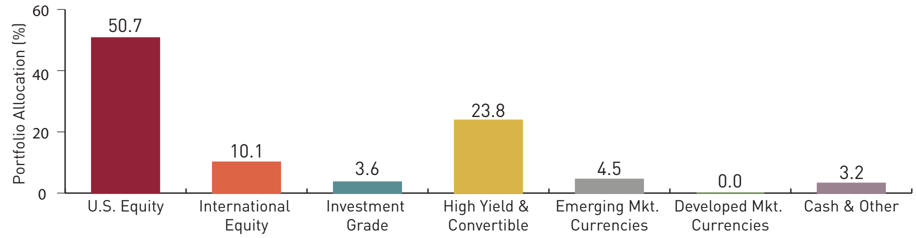
Multi-Asset Income Fund

The Fund seeks to capture income and return opportunities across a wide investment universe, including traditional and nontraditional asset classes.



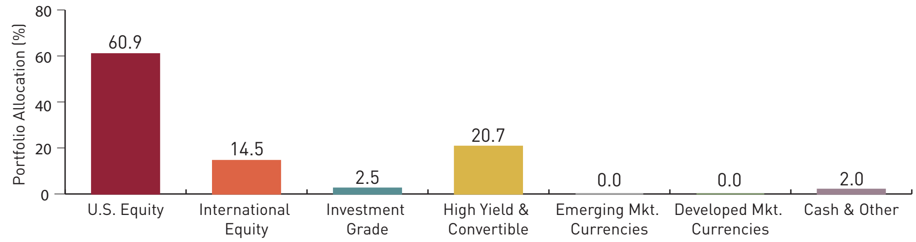
Multi-Asset Balanced Opportunity Fund

The Fund seeks to balance long-term growth of capital and attractive income by capturing return opportunities across a wide variety of asset classes.



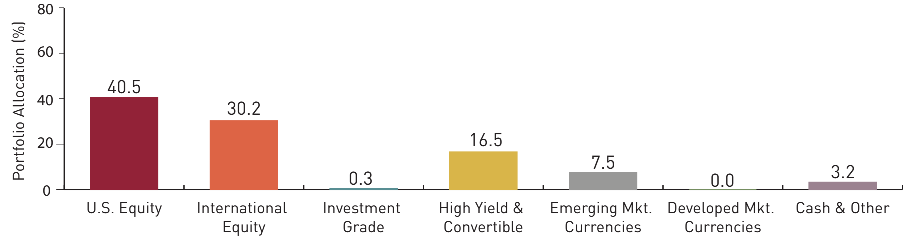
Multi-Asset Growth Fund

The Fund seeks to deliver long-term growth of capital by capturing return opportunities across a wide variety of asset classes.



Multi-Asset Global Opportunity Fund

The Fund seeks to deliver long-term growth of capital by capturing return opportunities across a wide variety of asset classes, both within and outside the United States.



The percentages shown are based on individual securities owned in one or more of the underlying funds as well as derivatives held directly by the Fund or in underlying funds. The percentages shown may not directly correspond with calculations utilized to meet prospectus requirements. Derivatives are valued at their net notional value and are included in the allocation to the asset class that they synthetically replicate. Long and short positions are netted. The Fund's portfolio is actively managed and therefore, its percentage allocations may change from time to time. Holdings are for informational purposes only and are not a recommendation to buy, sell, or hold any security.

MULTI-ASSET INCOME

CLASS	SYMBOL
CLASS A:	ISFAX
CLASS C:	ISFCX
CLASS F:	LIGFX
CLASS F3:	ISFOX
CLASS I:	ISFYX
CLASS R2:	LIGQX
CLASS R3:	LIXRX
CLASS R4:	LIXSX
CLASS R5:	LIXTX
CLASS R6:	LIXVX

MULTI-ASSET BALANCED OPPORTUNITY

CLASS	SYMBOL
CLASS A:	LABFX
CLASS C:	BFLAX
CLASS F:	BLAFX
CLASS F3:	LOBFX
CLASS I:	LABYX
CLASS R2:	BLAQX
CLASS R3:	BLARX
CLASS R4:	BLASX
CLASS R5:	BLATX
CLASS R6:	BLAVX

MULTI-ASSET GROWTH

CLASS	SYMBOL
CLASS A:	LWSAX
CLASS C:	LWSCX
CLASS F:	LGXFX
CLASS F3:	LOWSX
CLASS I:	LWSYX
CLASS R2:	LGIQX
CLASS R3:	LGIRX
CLASS R4:	LGIKX
CLASS R5:	LGITX
CLASS R6:	LGIVX

MULTI-ASSET GLOBAL OPPORTUNITY

CLASS	SYMBOL
CLASS A:	LAGEX
CLASS C:	LAGCX
CLASS F:	LAGFX
CLASS F3:	LOGEX
CLASS I:	LGEYX
CLASS R2:	LAGQX
CLASS R3:	LARRX
CLASS R4:	LARSX
CLASS R5:	LARTX
CLASS R6:	LARVX

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