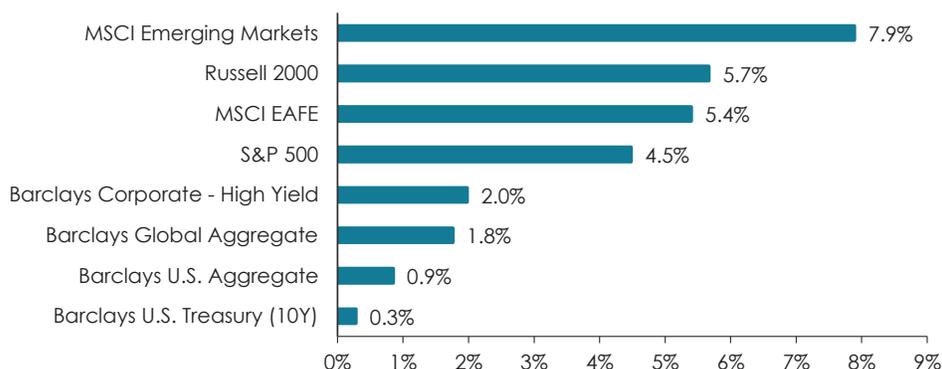


THIRD QUARTER 2017
MARKET HIGHLIGHTS

- Q2 earnings exceed expectations
- International and emerging equities blaze forward
- Interest rate expectations diverge

THIRD QUARTER 2017 INDEX RETURNS



Source: Glenmede Investment Management L.P. and FactSet Data through 9/30/17

Market Commentary

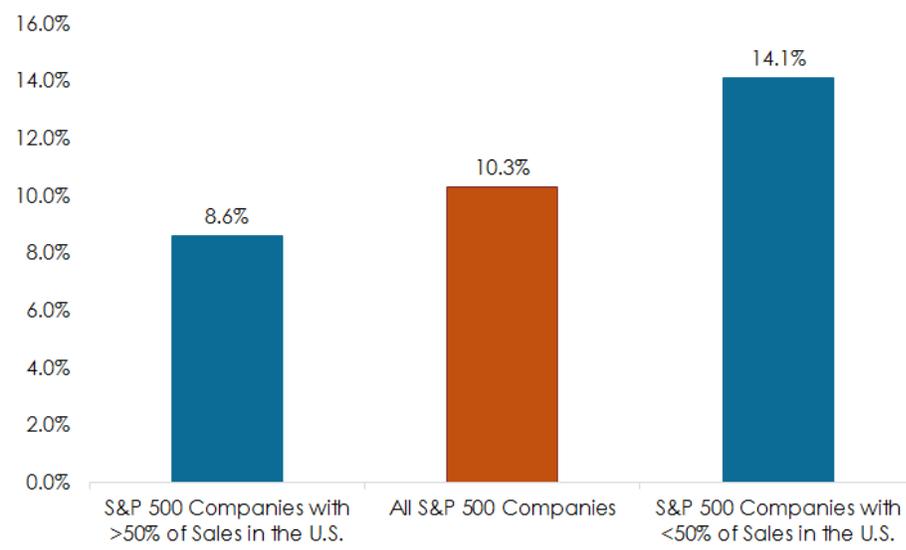
The third quarter of each year is often typecast as a challenging stretch for markets and is historically the weakest quarter of the year. While the escalating rhetoric between the U.S. and North Korea and natural disasters certainly had the opportunity to derail risk assets globally, realized returns reflected another stable quarter with solid growth.

Reported earnings growth for the S&P 500 significantly surprised to the upside for the second quarter, breaching over 10%. Additionally, expectations for the third quarter have experienced smaller downward revisions than history would suggest. At quarter-end, the blended third quarter earnings estimate, while lower than this past quarter, remained promising at 4.2%. Consensus year-over-year revenue growth estimates for the next quarter also look positive at 5.0%.

Perhaps more interesting, however, was the composition of reported earnings growth from the second quarter. As shown in **Exhibit 1**, companies with more than 50% of revenues derived in the U.S. experienced lower growth than those with far higher international revenue exposure.

Additionally, emerging market equities barreled forward during the quarter. The MSCI Emerging Market Index generated nearly 8% alone this quarter and close to 28%

EXHIBIT 1: S&P Earnings Growth: Q2 2017



Sources: Glenmede Investment Management L.P. and FactSet Data through September 2017

year-to-date. Asian markets (ex Japan) contributed significantly to these returns, up almost 31% for the year and benefitting from a weaker U.S. dollar, growing middle-class consumer, and accelerating and synchronized global growth. In fact, both China and India have OECD (Organization for Economic Cooperation and Development) real GDP growth estimates for 2017 and 2018 greater than 6.5%. A comparison of domestic, international, and emerging market equity year-to-date performance is shown in **Exhibit 2**.

While the Federal Open Market Committee (FOMC) held rates steady this quarter, the decision to begin tapering bond purchases in October allowed the U.S. dollar to recover slightly by quarter-end. Year-to-date, however, the U.S. dollar index remains down 9.2%.

Meanwhile, mixed inflation data has continued and contributed to a mismatch in interest rate expectations between the market and the Federal Reserve. While the Fed has outlined an agenda for one additional rate increase this year and three additional hikes in 2018, market expectations more closely aligned with only one or two rate increases in the next year. This may be partly credited to benign inflation data and stubbornly low productivity readings.

Furthermore, relatively low volatility and risk-on sentiment have again contributed to lower credit quality fixed income instruments outperforming U.S. Treasury securities of comparable maturities. Tensions with North Korea caused corporate spreads to widen mid-quarter, but the move largely subsided as the risk of conflict fell, allowing credit spreads to compress back toward year-to-date tight.

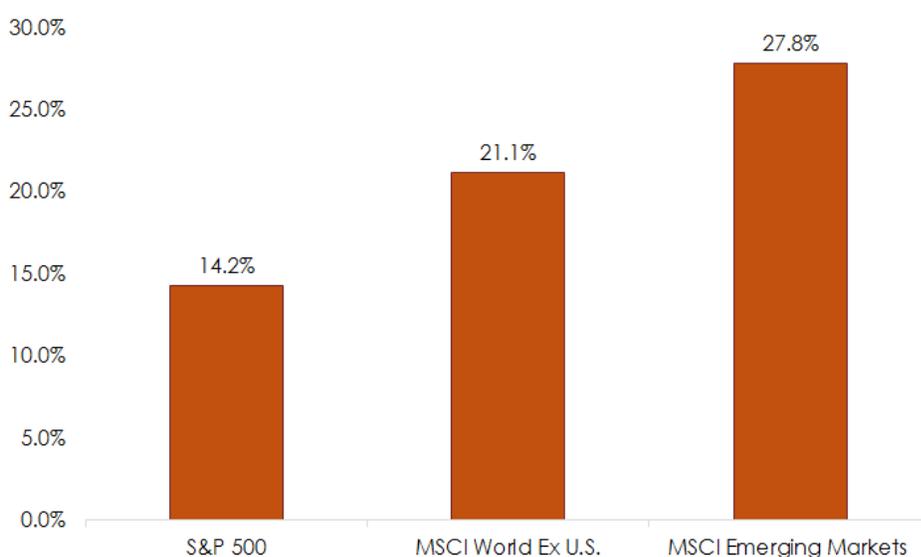
Robust returns remain a market highlight with 11 consecutive months of positive returns for the S&P 500 for the first time in nearly 50 years. As we enter the last quarter of 2017 we continue to be optimistic but practical about the future trajectory of the market. After all, even within a year of positive returns, it is rather unusual that the market has not experienced at least one 5% pullback.

Much Ado About Nothing – William Shakespeare

In this extended bull market, a handful of mega-capitalization, technology-driven companies have drawn headlines for their soaring share prices and large contribution to index returns. This year, the “FAAMGs”—Facebook, Amazon, Apple, Microsoft, and Google (Alphabet)—have been responsible for close to 24% of the S&P’s return. This phenomenon is not isolated to this year alone: these same stocks have produced 25% of the S&P 500’s return since 2015.

While this handful of securities is frequently blamed for active management’s recent struggles, a deeper dive into the data suggests that the 10 largest market capitalization (mega-cap) stocks within the S&P 500 regularly contribute a similar percentage to the index’s return on an annual basis. In other words, this trend is not a new phenomenon.

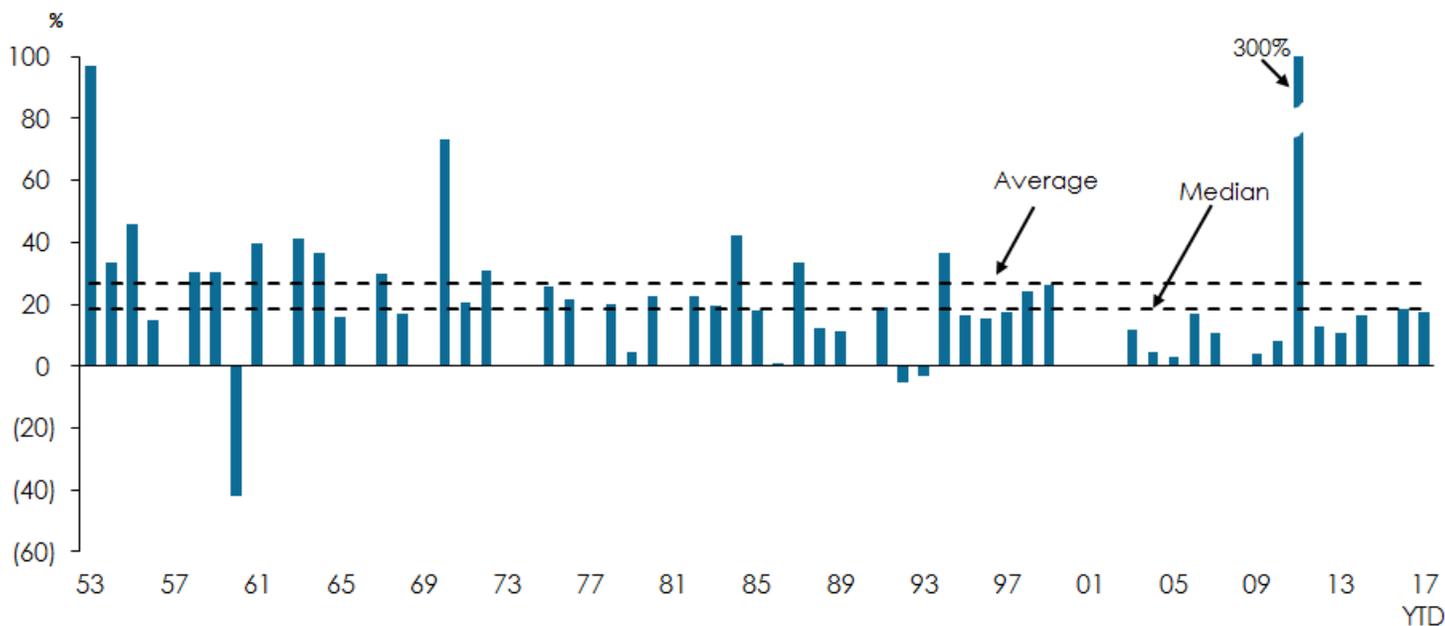
EXHIBIT 2: Year-to-Date Index Performance



Sources: Glenmede Investment Management L.P. and FactSet
Data through September 2017

Since 1953, the top 10 stocks by market capitalization have represent 26.5% of the market's return on average when the return of the S&P 500 is positive (**Exhibit 3**). During this same time period, the top 10 mega cap companies (which now currently includes the "FAAMGs") accounted for at least 15% of the index's return more than 75% of the time. (**Exhibit 4**). The recent performance narrative seems therefore to be an iteration of what actually may be a normal occurrence in the market.

EXHIBIT 3: Large-Capitalization Stocks
Share of Annual Returns Explained by the Largest 10 Stocks Each Year¹
1953 Through September 2017

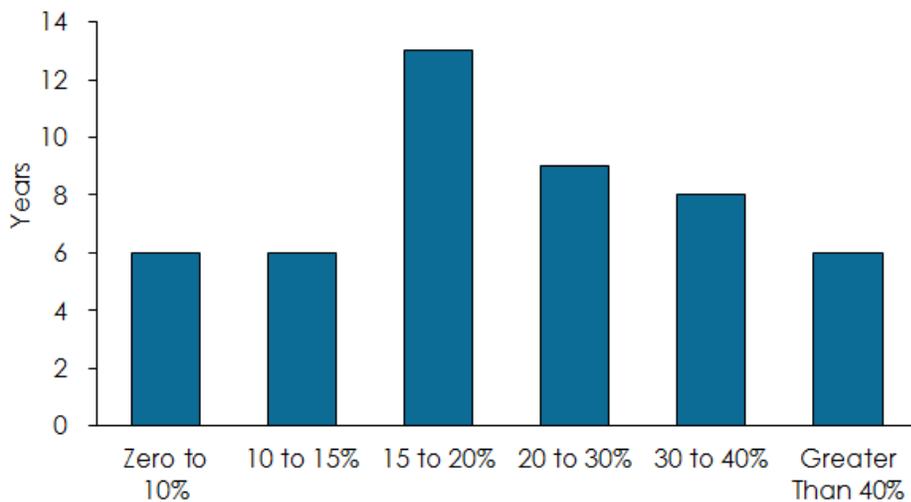


Source: Empirical Research Partners Analysis.
¹ Excludes years when large-cap stocks return was negative.

While the regularity and magnitude of this contribution to index performance may be impressive, it doesn't consider the risk-adjusted performance of consistently owning stocks using a market-cap weighting. For this reason, it's important to assess the behavior of these constituents using a more balanced approach.

Since 1953, the equal- and cap-weighted indices have achieved similar risk-adjusted performance on an annualized basis (**Exhibit 5A**). More recently and relevantly, however, over the past 20 years risk-adjusted performance has favored the more diverse equal-

EXHIBIT 4: Large-Capitalization Stocks
Historical Distribution of Share of Annual Returns Explained by the Largest 10 Stocks¹
1953 Through September 2017



Source: Empirical Research Partners Analysis.
¹ Excludes years when large-cap stocks return was negative.

weighted scheme, rather than the market cap-weighted index (**Exhibit 5B**). This difference becomes more pronounced when comparing the equal-weighted index's performance to the performance of the top 10 stocks by market cap.

EXHIBIT 5: S&P 500 annualized returns and volatility based on monthly returns

A: 1953 through September 2017

	Top 10 Stocks by Market Cap	Cap-Weighted Index	Equal-Weighted Index
Average Return	10.5	11.3	12.8
Volatility	14.6	14.5	16.4
Return/Risk	0.72	0.78	0.78

B: September 1997 through September 2017

	Top 10 Stocks by Market Cap	Cap-Weighted Index	Equal-Weighted Index
Average Return	6.8	8.0	10.1
Volatility	16.1	15.2	17.8
Return/Risk	0.43	0.53	0.57

Sources: Empirical Research Partners Analysis and Glenmede Investment Management L.P.

This represents past performance of a selected group of stocks over the indicated timeframe and results could vary materially for individual investors. It is not indicative of future results. Please see important disclosures relating to hypothetical performance at the end of this presentation.

While headlines continue to focus on the effect of a few stocks on index returns, this may be business as usual for the markets. What may be more worthy of emphasis is the use of a balanced approach to equities that doesn't chase the size of a company, but rather seeks diversification to achieve superior risk-adjusted returns.



THE QUARTERLY STATEMENT is a Glenmede newsletter written by Peter J. Zuleba, III, CFA®, President of Glenmede Investment Management.

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