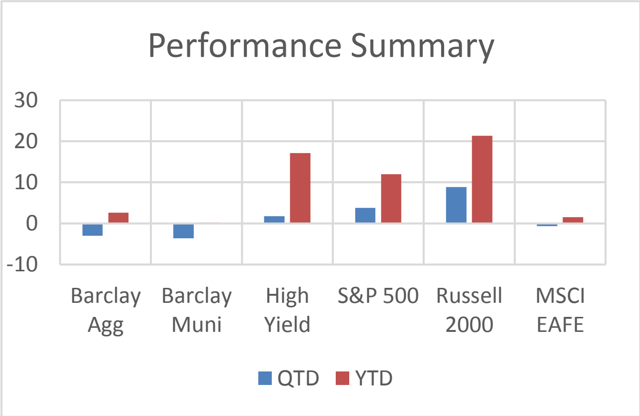
After the election, investor's optimism and appetite for risk increased sharply, driven by several related factors: reflation, increasing bond yields and increasing growth expectations (in particular through fiscal easing). Large cap stocks in the U.S. rose 3.8% in the quarter, while small-cap stocks rose an even more robust 8.8%. Foreign developed and emerging market stocks lagged due to concerns about slowing economic growth, increasing political risk and the negative impact of a rising U.S. dollar. Bond yields were on a steady rise ever since the 10-year Treasury yield touched 1.34% on July 6th. However post the election yields spiked from 1.86% on Election Day to 2.62% within five weeks, causing bonds to sell-off sharply. Core bonds finished the quarter down 3%, while municipal bonds were down even more due to expectations of lower tax rates in 2017. **As we move into 2017, economic growth prospects have improved due to expected fiscal easing, pro-business tax legislation changes, and higher wages as a result of a labor market near full employment. However, it is interesting to note that this economic expansion is now 90 months old, more than twice the duration of expansions since 1900.** And while expansions do not die of old age, history shows they are at a greater risk when spare capacity is exhausted, as it may be now. Also of note, is that each of the 10 Republican Presidents since Teddy Roosevelt endured a recession in their first term in office, with nine of them witnessing the recession's start within their first two years in office. So it will be especially important to monitor for signs of economic growth running out of steam the next few years.

Near-term, we think growth optimism will persist and will likely keep the appetite for risk strong. Longer-term, current expectations for policy and legislative change and economic growth are high. For optimism and risk appetites to continue, those expectations will need to be met or exceeded. Below are some ideas that will drive our investment thinking in 2017 (no particular order):

- Uncertainty will be high and the range of outcomes will be wider than normal; more than ever we need to think about the outlook as different scenarios and remain flexible in our thinking and investment strategies based on the actual policies that get implemented.
- Markets are pricing in a new paradigm of higher economic growth, reflation and higher interest rates based on expected policy changes. If the correct policies are implemented we think a self-reinforcing positive feedback cycle can extend the economic expansion and bull market, if not, markets are likely to sell-off.
- Foreign stocks are looking increasingly attractive and their performance may begin to "revert to the mean" relative to U.S. markets. They have lagged for several years and now have relatively low valuations and high dividend yields compared to their U.S. counter parts.
- We are looking for opportunities to increase our exposure to emerging markets. Keeping in mind that the best investment opportunities occur when few want to own it.



- In general, we are underweight core bonds and we own them mainly for diversification and risk management. The rise of yields in the fourth quarter has marginally increased our expected returns, but long-term expected returns remain in the low single digits.
- We believe select liquid alternative strategies will outperform bonds over the next five years and should be used to improve the risk-adjusted performance of portfolios, especially ones that are underweight core bonds.
- As inflation increases, real-return strategies will play a bigger role in portfolios.
- 2016 year-end tax-loss selling has created good opportunities to reallocate back into high quality investments that lagged last year
- We expect the market to stay in "rotational mode" and there will be ample opportunity to add value through tactical investment decisions.

Asset Class Views

Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	***View****	***Comments***
U.S. Large Cap	↔	Based on valuation it is challenging to make a strong case for stocks. However, the prospect of lower taxes and an improved economy since the election, combined with positive market internals or price action continue to warrant a neutral rating for stocks.
U.S. Small/Mid Cap	↓	Small-cap outperformance relative to large-cap since the election was a 3 standard deviation event (rare), and although we may have missed some upside we are sticking with our underweight recommendation.
International Developed	↑	Relative valuations are attractive, especially if depressed earnings are normalized. Valuation is not a great market timing tool, however investors with a longer time horizon should be at least neutral, preferably overweight.
Emerging Markets	↔	EM has been pressured due to a higher US $ and concerns about global trade, we expect this may continue in the near-term. At some point however we expect a very good buying opportunity to occur.
Fixed Income		
Investment Grade	↔	Yields have risen sharply since the election and have slightly improved our long-term estimated returns; we recommend keeping some exposure for risk management and diversification purposes.
High-Yield Bonds	↓	High-yield bonds have rallied strongly and yield spreads (default-adjusted) have narrowed substantially. We caution investors that HY risk is more comparable to stocks than core bonds.
Municipal Bonds	↔	Yields have risen sharply and lower expected tax rates in 2017 have pressured returns, however they still look attractive for high tax-bracket investors.
TIPS	↑	We are seeing some signs of early inflation and TIPs make sense (in tax-deferred accounts) as a hedge against higher inflation; our preference is short-duration exposure to avoid interest rate risk.
Floating-Rate Loans	↑	We view FRLs as reasonably attractive and the increase in LIBOR rates make them more attractive as a hedge against rising interest rates. We suggest sticking with the highest quality.
Emerging Markets	↔	We expect money to continue to search for higher yields in EM bonds, however we are not seeking any direct exposure, recognizing that some of our managers own EM bonds and we are comfortable with those decisions.
Alternatives		
Absolute-Return/Alternatives	↑	We like this asset class and believe it can improve the risk/reward profile of portfolios that hold traditional asset classes; investors need to maintain a long-term perspective. Performance this year has improved significantly.
REITs	↔	REITs have attracted funds as investors viewed them as a proxy for bond exposure and positioned for their recent addition to the S&P 500. Valuations are not cheap and they may be vulnerable if interest rates continue to rise. That being said, we believe there are selective opportunities and will look to add on pullbacks.
Commodities/Gold	↔	We view gold as an “insurance” asset and recommend holding small positions, precious metals are in the process of correcting and we view that as an opportunity to build positions at lower levels.

U.S. Stocks

Market Performance, Fourth Quarter 2016

Index	Q4 2016	YTD
S&P 500	3.82%	11.96%
Russell 1000	3.83%	12.05%
Russell 1000 Value	6.68%	17.34%
Russell 1000 Growth	1.01%	7.08%
Russell Midcap	3.21%	13.80%
Russell 2000	8.83%	21.31%

Source: Morningstar

- Risk assets rallied sharply after the election and finished the quarter with strong gains.
- The S&P 500 was up 3.8%, including dividends. More aggressive Small-cap stocks performed even better, up 8.8% for the quarter, and finished the year up 21%.
- Value stocks outperformed by a wide margin for the quarter and year. Expectations of stronger economic growth and higher interest rates helped cyclicals and financials lead the rally.

International Stocks

Market Performance, Fourth Quarter 2016

Index	Q4 2016	YTD
MSCI EAFE	(0.68%)	1.51%
MCSI EME	(4.08%)	11.60%
MSCI BRIC	(3.76%)	12.37%

Source: Morningstar

- Foreign stocks lagged during the quarter as money flowed towards the U.S. A stronger dollar, concerns about slow economic growth and political uncertainty contributed to the poor performance for developed and emerging foreign stocks.
- We believe foreign markets are attractively valued relatively to the U.S. and recommend at least a neutral weight to both foreign developed and emerging markets. Long-term returns should outperform U.S. Stocks.

Fixed Income
Market Performance, Fourth Quarter 2016

Index	Q4 2016	YTD
Vanguard Total Bond Index	(3.18%)	2.51%
Barclays Muni Bond	(3.62%)	0.25%
Barclays US Corp High-Yield	1.75%	17.13%
JPM GBI- EM Global Diversified	(6.09%)	9.94%
iShares TIPS Bond	(2.44%)	4.56%
BofA Merrill Lynch 3 month Treasury Note	0.06%	0.24%

Source: Morningstar

- Interest rates rose sharply during the quarter and core bonds sold off significantly. Municipal bonds were especially hard hit as higher rates and lower expected tax rates contributed to their sell-off.
- High-yield bonds were one of the few segments of fixed income with positive returns for the quarter, up 1.75%. Emerging market bonds were down a sharp 6.1% as EM currencies depreciated against the U.S. dollar and money flowed back towards the U.S.
- Core bonds yields have risen and our expected returns have increased slightly but are still low. We own core bonds mainly for diversification and risk management.

Alternative Assets
Market Performance, Fourth Quarter 2016

Index	Q4 2016	YTD
PIMCO All Asset All Authority	(0.86%)	13.88%
AQR Diversified Arbitrage	3.68%	7.98%
Gateway	2.00%	5.06%

Source: Morningstar

- In general, liquid alternative had a strong quarter and outperformed core bonds by a wide margin. Arbitrage strategies improved sharply as merger activity increased, the biggest laggards were precious metal and managed futures.
- We continue to recommend moderate allocations for the long-term and believe they will improve the risk-adjusted return of portfolios.

Appendix:

Benchmark Definitions

U.S. Equity		Description
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
International Equity		**Description**
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Barclays Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Barclays Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Barclays US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3 month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		**Description**
PIMCO All Asset All Authority	Mutual Fund	The investment seeks maximum real return, consistent with preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, other types of derivative instruments.
Gateway	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments, while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.