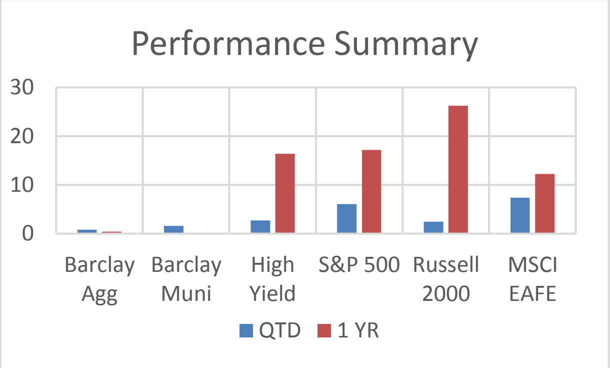

The first quarter of 2017 was another good quarter to own risk. Risk assets outperformed despite a rising flow of uncertainty in the headlines: President Trump's flurry of executive orders, Congress' failure to repeal and replace Obamacare, mixed economic data, the Fed's third interest rate hike and crude oil's sharp reversal, just to highlight a few. **The S&P 500 rose 6.1% for the first quarter, its best start since 2013.** Returns were led by big moves in the technology, discretion and healthcare sectors, all up over 8%. Small cap stocks lagged, but still rose a respectable 2.5%. Foreign stock market returns were strong, with developed market stocks up 7.4%. Emerging market stocks did even better, up 11.5%. Interest rates rose early in the quarter as investors perceived the Fed would take a more hawkish stance in anticipation of higher economic growth and inflation from the proposed Trump legislative agenda. This view shifted as the quarter drew to a close, and interest rates dropped from their intra-quarter peak of 2.6% to close the month at 2.4%. Core bonds were up 0.8% for the quarter, while more aggressive high-yield bonds were up 2.7%.

The current investment environment: **Across a wide range of measures, the global environment is in its best shape in years. Global economic growth is in sync and accelerating, albeit modestly**. Leading economic indicators suggest this trend can continue, and many of the respected economic research firms we follow agree. Capital Economics expects world GDP to be at least 3% this year, up from 2.5% in 2016. BCA research expects the global economy to be in a reflationary growth window that will stay open until mid-2018 before slowing. While unexpected macro shocks can occur at any time, causing at least a short-term flight from risk assets, the likelihood of an incipient U.S. or global economic recession appears low. **Typically without a recession, history suggests a significant bear market in stocks is unlikely.** We remain alert to potential risks, and policy-driven political risk in the U.S. and abroad is a potential area of concern. In Europe, the outcome of upcoming political elections, and related developments in France (May) and Germany (September), may have unexpected impacts on markets. We also remain concerned with unresolved risks stemming from the global debt build-up and unprecedented central bank policies.

Portfolio Positioning and Outlook: **Over the longer term, our analysis indicates the U.S. stock market is broadly overvalued.** The U.S. equity bull market is now eight years old and the S&P 500 has had a great run, averaging close to 20% annualized returns since its low on March 9, 2009. A recent study by Goldman Sachs suggests the median stock in the S&P 500 is now trading at its highest valuation over the past 40 years. We recognize stock market valuation is a poor predictor of short-term performance, however we are highly confident that high valuations today will lead to lower long-term returns. **With that in mind, we have lowered our rating on large-cap U.S. stocks to underweight for the first since the market bottom of 2009 - note we were already underweight small-cap stocks.** By no means, are we suggesting that investors sell out of U.S. stocks, but simply that the risk vs. reward outlook has shifted enough to warrant a trimming of U. S. stocks and a reallocation to other asset classes.

During the first quarter we have been gradually shifting our recommended stock allocations towards the foreign markets. In our opinion, foreign stock markets are more reasonably valued than U.S. stocks, earnings have greater upside potential and investors are significantly underweight the asset class. To put things in perspective, the MSCI USA Index (stocks) is more than 50% above its October 2007 peak, while the World Ex-USA Index (foreign stocks) would need to rally by roughly 33% just to recoup their losses from 2007-2009. Needless to say, the performance gap of the U.S. vs. foreign markets has been significant the past eight years. We can't know for sure when the cycle of outperformance will change, but history has taught us this relationship of performance runs in mean-reverting cycles. Given the relative attractiveness of foreign valuations compared to the U.S., we are willing to patiently wait for history to be on our side, again.

The math for core investment-grade bonds suggest that returns are likely to be in the low single digit range for several years. Although we believe the bond strategies and managers we are using will add value to those expected returns, we continue to own bonds mostly for diversification and risk management purposes. **Our positive outlook for liquid alternative assets with a low correlation to traditional assets is unchanged, and we expect them to outperform bonds over a full market cycle**, improving the risk-adjusted returns in portfolios. **Lastly, we continue to build positions in assets that we believe can hedge and perform well in a gradually rising inflation and interest rate environment.**

Asset Class Views

Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	***View****	***Comments***
U.S. Large Cap	↓	We have reduced our recommended allocation to underweight in March, based mostly on inflated valuations, profit margins and earnings. This is a 'trim' not a complete sell recommendation, and proceeds should be reallocated into other asset classes that can improve absolute and risk-adjusted performance over the long-term.
U.S. Small/Mid Cap	↓	Small-caps lagged in the first quarter, however valuations remain high and warrants an underweight. Given the length of the stock market rally and stage of the Fed cycle we expect small-cap performance to be below average.
International Developed	↑	Relative valuations are attractive compared to the U.S., especially when depressed earnings are normalized. With the global economy improving we expect earnings and performance to improve longer-term. We believe political uncertainty may periodically increase risk and volatility that may turn into good buying opportunities.
Emerging Markets	↔	EM was a top performer in the first quarter. For investors willing to ride out the volatility we believe this asset class offers good opportunities for long-term performance. We are selectively buying and view sell-offs as opportunities.
Fixed Income		
Investment Grade	↔	Our long-term expected returns are low, however we recommend keeping some exposure for risk management and diversification purposes, depending on your risk tolerance.
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	↔	Our outlook is similar to investment grade bonds, however they remain attractive for high tax-bracket investors.
TIPS	↑	We are seeing some potential signs of early inflation and TIPs make sense (in tax-deferred accounts) as a hedge against higher inflation; our preference is short to intermediate 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 to limit credit risk.
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. We expect mid-single digit performance long-term.
REITs	↔	Valuations are rich and they may be vulnerable to increases in interest rates. We believe there are select opportunities in individual REITs, but don't expect to buy the entire asset class until valuations improve.
Commodities/Gold	↔	We view gold as an "insurance" asset and recommend holding small positions as a hedge; selectively we also see opportunities to add positions in commodity oriented investments as a hedge against rising inflation.

U.S. Stocks

Market Performance, First Quarter 2017

Index	Q1 2017	1 YR
S&P 500	6.07%	17.17%
Russell 1000	6.03%	17.43%
Russell 1000 Value	3.27%	19.22%
Russell 1000 Growth	8.91%	15.76%
Russell Midcap	5.15%	17.03%
Russell 2000	2.47%	26.22%

Source: Morningstar

- Risk assets continue to outperform.
- The S&P 500 was up 6.07%, including dividends. More aggressive Small-cap stocks lagged in performance, however that comes after strong performance in 2016.
- Growth stocks outperformed by a wide margin for the quarter. The strong showing for growth stocks was led by the technology, healthcare and consumer discretion sectors, all up over 8%.

International Stocks

Market Performance, First Quarter 2017

Index	Q1 2017	1 YR
MSCI EAFE	7.39%	12.25%
MCSI EME	11.49%	17.65%
MSCI BRIC	11.59%	23.72%

Source: Morningstar

- Foreign stocks outperformed during the quarter and were led by strong performance in the emerging markets. Money flowed back into foreign assets as investors gained confidence in the global economic recovery and dollar appreciation tapered.
- We believe foreign markets are attractively valued relatively to the U.S. and recommend an overweight allocation. Long-term returns should outperform U.S. Stocks.

Fixed Income

Market Performance, First Quarter 2017

Index	Q1 2017	1 YR
Vanguard Total Bond Index	0.90%	0.34%
Barclays Muni Bond	1.58%	0.15%
Barclays US Corp High-Yield	2.70%	16.69%
JPM GBI- EM Global Diversified	6.50%	5.47%
iShares TIPS Bond	1.22%	1.36%
BofA Merrill Lynch 3 month Treasury Note	0.09%	0.27%

Source: Morningstar

- Interest rates fluctuated widely during the quarter but finished down slightly at 2.4% for the 10 year treasury. Core bonds were up close to 1% and municipals did a little better up 1.6%.
- High-yield bonds continue to outperform as credit spreads tightened and investors searched for yield. Emerging market bonds were up sharply following their sell-off in the fourth quarter of last year.
- Our expectations for core bond returns the next few years is in the low single digits, 2-3%. We own core bonds mainly for diversification and risk management.

Alternative Assets

Market Performance, First Quarter 2017

Index	Q1 2017	1 YR
PIMCO All Asset All Authority	4.56%	12.66%
AQR Diversified Arbitrage	1.84%	10.57%
Gateway	2.84%	9.10%

Source: Morningstar

- In general, liquid alternative had a strong quarter and continue to outperform core bonds. Real return strategies moved into favor in the second half of the quarter and funds like PIMCO All Asset and Dreyfus Global Real Return had good performance.
- 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.