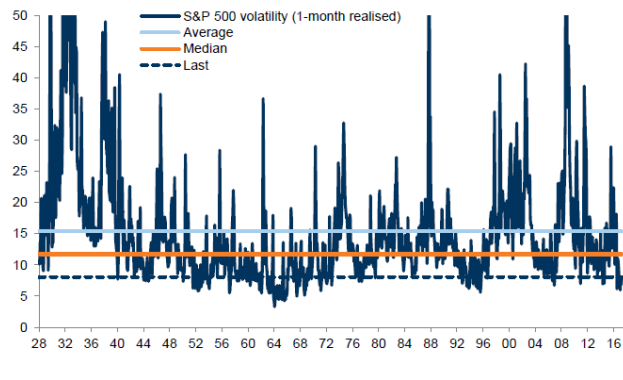
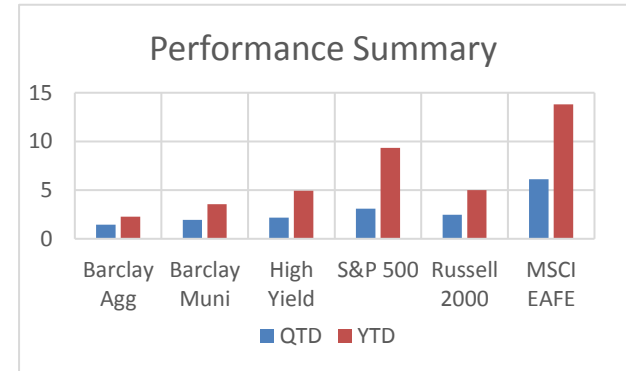


Global stock markets continued their strong performance in the second quarter. Collectively, global markets had their best opening half-year since 2009, with 26 out of the top 30 global markets posting positive returns. The S&P 500 was up 3.09% for the quarter and small-cap stocks were up 2.46%. **The first half of the year has seen a big divergence in the performance between growth and value stocks, with growth outperforming by a wide margin.** Year to date the Russell 1000 Growth index has returned 13.99% compared to the value index at 4.66%. **A large percentage of the performance in growth stocks is being driven by the ‘FANMAG’ stocks and strong money flow into passive investment strategies which adds to the performance of the largest companies in the index, most of which are growth stocks.** Foreign developed stocks continue to outperform U.S. stocks, finishing the quarter with a 6.37% gain, and are up 14.23% for the first six months. Emerging market stocks did a little better, up 6.38% for the quarter and 18.6% year-to-date. Core bonds ended the quarter with a 1.45% gain and are now up 2.27% year-to-date. More aggressive high-yield bonds were up 2.17% and 4.93% respectively.



Source: Bloomberg, Goldman Sachs Global Investment Research

central bank mistakes (excessively high interest rates and/or inflation). Currently these conditions do not appear to be present, and we’ll be watching closely for their emergence. **Given the high valuation in many ‘risk-on’ assets, any significant outbreak in volatility would be a clear signal to be more defensive in portfolio strategies.**

Searching for dividend growth: Earnings for the S&P 500 are projected to grow close to 10% this year, which should translate into solid dividend growth for stocks of about 7%. **The highest growth is likely to come from stocks in the financial and technology sectors, both areas are good places to search for high and growing dividend income. Another area that we like for dividend income are energy master limited partnerships (MLPs).** Energy MLPs are U.S. based publicly traded partnerships that provide and manage resources such as oil and pipelines. We like MLPs because revenues are largely fee-based and utilize long-term contracts, making their performance more dependent on volume growth than on commodity prices. The chart to the right, from PIMCO, highlights the relative valuations of MLPS to stocks. **The recent sell-off in energy assets, including MLPs, has created a decent opportunity to invest in MLPs at an attractive valuation relative to stocks.**



Asset Class Views

Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	View*	Comments
U.S. Large Cap	↓	We are underweight US equities based on historically high valuations and better investment prospects in other asset classes. At some point, we expect volatility to increase in the U.S. and valuations will revert to lower levels.
U.S. Small/Mid Cap	↓	Small-caps have lagged this year, even after a strong quarter-end rally. Financials comprise a large portion of the index, so performance may improve if interest rates rise and the sector performs better. However, given valuations, length of the stock market rally and stage of the business cycle we expect small-caps to continue lagging.
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 also improve longer-term. We believe political uncertainty may periodically increase risk and volatility, but that may turn into good buying opportunities.
Emerging Markets	↔	EM was a top performer for the quarter. We have some concerns about geopolitical and trade risks, however investors willing to ride out the volatility should be well rewarded over the long-term.
Fixed Income		
Investment Grade	↔	Our long-term expected returns are low, however we recommend keeping some exposure for disciplined risk management and diversification purposes, depending on your risk tolerance.
High-Yield Bonds	↓	High-yield bonds have rallied strongly and yield spreads have narrowed substantially. If low volatility continues they may continue to perform well, however we caution their 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	↑	Inflation continues to be relatively benign, however given the low level of interest rates available on core bonds the case for holding some TIPS as a hedge against inflation makes sense. Especially in tax-deferred accounts.
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. We are very selective in the funds we will use as most liquid alternative strategies have disappointed.
REITs	↔	Valuations in the REIT asset class are full. Similar to high-yield bonds, if we stay in a low volatility environment with low interest rates they will perform well. We think modest allocations make sense.
Commodities/Gold	↔	We view gold as an “insurance” asset and recommend holding small positions as a hedge; for long-term investors we believe now is a good time to start building small positions in commodities, especially on dips.

U.S. Stocks**Market Performance, Second Quarter 2017**

Index	Q2 2017	YTD
S&P 500	3.09%	9.34%
Russell 1000	3.06%	9.34%
Russell 1000 Value	1.34%	4.66%
Russell 1000 Growth	4.67%	13.99%
Russell Midcap	2.70%	7.99%
Russell 2000	2.46%	4.99%

Source: Morningstar

- Risk assets had another good quarter and are having one of the best starts to the year since 2009
- The S&P 500 was up 3.09%, including dividends. Small-cap stocks lagged for the quarter, up 2.46%. However they had a strong performance in June, up 3.46%. The strong rally was led by financials which comprises a large percentage of the small-cap index.
- Growth stocks continued their outperformance, up 4.67% for the quarter vs. value stocks up 1.34%. Technology and the FAANG stocks are leading the performance charge. In a slow-growth economy, investors have been willing to pay-up for growth.

International Stocks**Market Performance, Second Quarter 2017**

Index	Q2 2017	YTD
MSCI EAFE	6.37%	14.23%
MCSI EME	6.38%	18.60%
MSCI BRIC	4.78%	16.92%

Source: Morningstar

- Foreign developed market stocks continued their outperformance, up 6.37%. Improved economic performance and a continued decline in the U.S. dollar helped push foreign markets higher, surprising many investors. Emerging market stocks performed slightly better, up 6.38%.
- We upgraded foreign stocks in the first quarter based on relatively attractive valuations and an improving global economy. Near-term we expect foreign stocks to cool-off, however long-term we still believe they will outperform U.S. Stocks.

Fixed Income**Market Performance, Second Quarter 2017**

Index	Q2 2017	YTD
Vanguard Total Bond Index	1.47%	2.36%
Barclays Muni Bond	1.96%	3.57%
Barclays US Corp High-Yield	2.17%	4.93%
JPM GBI- EM Global Diversified	3.62%	10.36%
iShares TIPS Bond	(0.41%)	0.81%
BofA Merrill Lynch 3 month Treasury Note	0.16%	0.25%

Source: Morningstar

- 10 year treasury yields declined most of the quarter, before rallying sharply at the end of June, to finish the quarter at 2.3%. Core bonds were up 1.47% and municipals did even better up 1.96%.
- High-yield bonds continue to outperform as credit spreads tightened and investors searched for yield. If the low volatility environment continues, high-yield bonds may continue to outperform, however their valuations are at historically expensive levels.
- 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, Second Quarter 2017**

Index	Q2 2017	YTD
PIMCO All Asset All Authority	1.73%	6.38%
AQR Diversified Arbitrage	2.77%	4.66%
Gateway	2.15%	5.05%
Dreyfus Global Real Return	1.55%	3.74%

Source: Morningstar

- The roster of liquid alternative funds we use is small, and in general their performance has been good. Our expectation for alternative assets is that they can outperform bonds over the full market cycle without substantially increasing portfolio risk.
- 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.