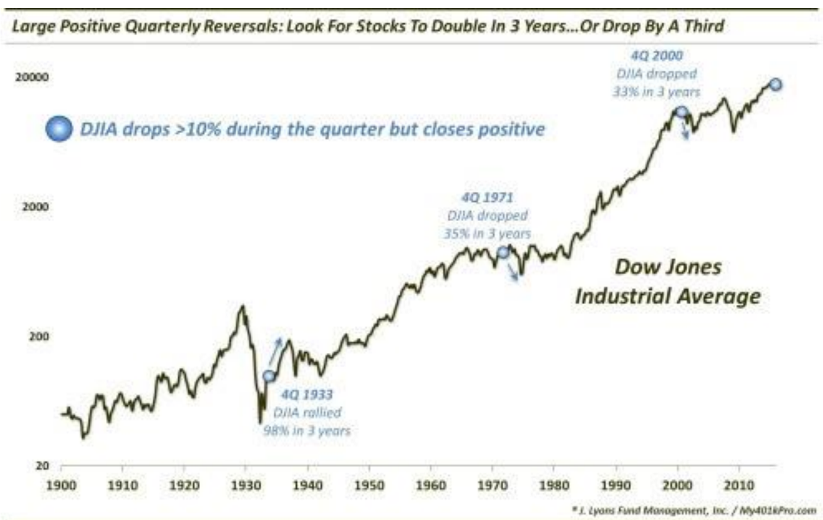
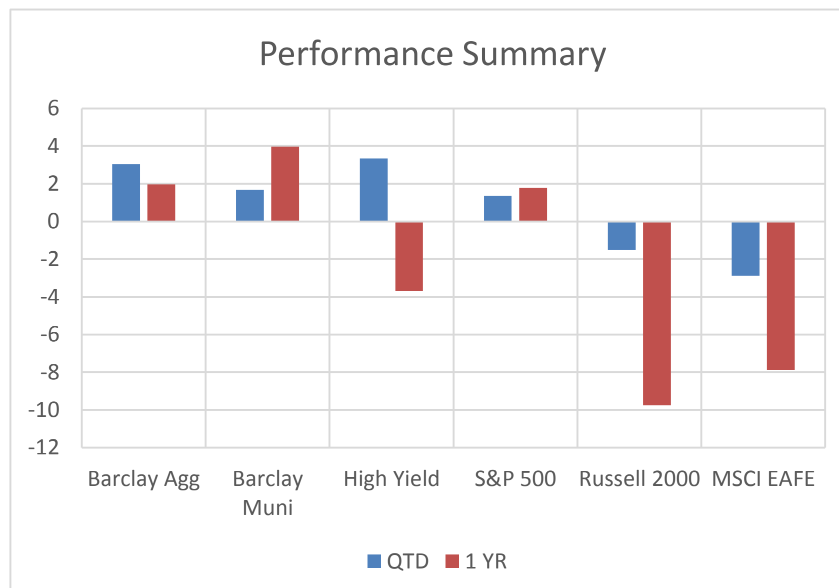
Q1 Investment Commentary

The reversal in stock market performance during the first quarter was enough to cause a case of whip-lash. Stocks dropped sharply to start the year before abruptly changing direction in the middle of February to the upside. The Dow Jones Industrial Average (DJIA) dropped more than 10% during the quarter and recovered to close in positive territory, something that has only occurred 3 other times since 1900! The main



drivers for the rebound in stocks were signs of improved economic performance in the U.S. (albeit feint), and aggressive expansion of monetary stimulus around the world. **As we wrote in our February investment commentary, we welcome periods of high volatility as they provide a great opportunity to buy quality stocks and reallocate portfolios.** Large-cap stocks finished the quarter up 1.35%, while small-cap stocks recovered sharply they were still down 1.52% for the quarter. **Leadership in stock performance changed with value outperforming growth for the first time in a long while**. Foreign stock performance was led by the emerging markets up 5.75%, while developed stocks were down 2.88%. We believe valuations in the foreign markets continue to be attractive relative to the U.S. and that investors with a long-term time horizon will be rewarded for ownership. Fixed income markets were volatile, however by quarter end most categories finished in positive territory. Core bonds were up 3.06%, high yield was up 3.35% and inflation protection bonds (TIPs) finished the quarter up 4.42%. **In general, the top performing asset class was alternatives, which includes diverse strategies such as real return, gold, global macro, etc.**



As we move into the second quarter, there are two key questions plaguing investors: will economic growth return to “normal” levels and are global central banks running out of tools to stimulate the economy and financial markets. We’ve heard people refer to the economy as having a “dad bod”, which is another way of saying “the U.S. economy has lost its six-pack abs and is looking a little soft around the middle.” We think this is an apt description since economic growth has clearly gone soft and underperformed its potential since the financial crisis of 2007-‘08. We believe the main culprit of the “soft” economy has been excessive debt. **Extremely high government debt levels makes it challenging to use fiscal policy to stimulate the economy,** especially when governments know doing so will only make their financial debt situation worse. Given the upcoming election and current state of political rancor we don’t expect fiscal policy to change anytime soon. **Which leaves monetary policy as the sole driver of stimulus for the economy and financial markets**. In our opinion, even though interest rates are extremely low and in many cases negative around the world we don’t think global central banks are necessarily out of ammunition yet. They can always delve further into negative interest rate policies, pursue more quantitative easing (QE) or monetary finance (buying debt, helicopter money, etc.). Further adoption of these policies may continue to drive financial markets in the near-term, however we believe it’s important to watch for signs of building risks and unintended consequences. **Former Fed President Charles Prosser summed it up well when he said “the key problem in my view is that central banks have been asked to do more than they are capable of and to address all sorts of economic problems that they are not well suited to solve.”**

As we move further into 2016, most of the themes we discussed at year-end remain intact. At year-end we wrote “U.S. equity markets are overvalued and the technical conditions have deteriorated” the correction in January/February improved valuations and provided a good opportunity to buy and reallocate portfolios. However, the strong rally since mid-February has returned markets to a somewhat overvalued condition. **The next page provides a more detailed view of our outlook for the major asset classes.**

Asset Class Views

Asset Class		***** ↔ **Neutral weight** ↓ **Underweight** ↑ **Overweight**
Equities	***View****	***Comments***
U.S. Large Cap	↔	Stocks were whip-sawed in the first quarter, first dropping sharply then recovering sharply to finish with a small gain. At current valuations we expect long-term returns to be below the historical average. Near-term performance will depend on global central banker's ability to keep animal spirits going and to improve economic growth. Our preference is to focus on higher quality stocks (strong balance sheets & consistent earnings).
U.S. Small/Mid Cap	↓	Small-cap stocks have lagged for several years and the valuation premium has narrowed relative to large-cap stocks. Given the late stage of the market cycle our preference is to stay underweight.
International Developed	↑	Valuations are more attractive than U.S. stocks. Volatility is likely to remain high near-term, however we expect foreign developed stocks to outperform U.S. stocks over the next five years due to better valuations.
Emerging Markets	↔	Markets have pulled back sharply and valuations look attractive on a relative basis. We are comfortable starting small positions in lower volatility and high quality strategies, and averaging into full positions.
Fixed Income		
Investment Grade	↔	Yields remain in a low trading range; absolute returns will be in the low single-digits, however we recommend keeping some exposure for risk management and diversification purposes.
High-Yield Bonds	↓	High-yield bonds have rallied from the February lows; High-yield bonds have similar risk profiles to stocks and our preference is to seek growth from our stock market exposure and not from low quality bonds.
Municipal Bonds	↔	Valuations are fair, however they look attractive for high tax-bracket investors.
TIPS	↔	TIPs make sense in tax-deferred accounts as a hedge against inflation; our preference is short-duration exposure to avoid interest rate risk.
Floating-Rate Loans	↔	We view FRLs as reasonably attractive, however rates are well below the "floor' level and it may take several rate increases for any rate adjustments to kick-in.
Emerging Markets	↔	Valuations have improved, however we remain cautious about currency/liquidity risks. Our preference is to wait for potential "wash-outs" before seeking direct exposure; we are comfortable if managers add select exposure.
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 in the past year has improved significantly.
REITs	↔	Valuations for the general asset class look full; selectively we see opportunities in specific REITs and expect good risk adjusted returns if interest rates stay contained.
Commodities/Gold	↔	We view gold as an "insurance" asset and recommend holding small positions, precious metals have been in a tight trading range and we will watch closely to see if they break support or resistance. Commodities have sold off dramatically the past year and may be nearing a buying opportunity for long-term investors.

U.S. Stocks

Market Performance, First Quarter 2016

Index	Q1 2016	1 YR
S&P 500	1.35%	1.78%
Russell 1000	1.17%	0.50%
Russell 1000 Value	1.64%	(1.54%)
Russell 1000 Growth	0.74%	2.52%
Russell Midcap	2.24%	(4.04%)
Russell 2000	(1.52%)	(9.76%)

Source: Morningstar

- Stocks were whipsawed during the quarter, dropping sharply in the beginning before rallying to finish with a small gain.
- The S&P 500 was up 1.35%, including dividends. Small-cap stocks continue to lag large-cap and finished the quarter with a loss of (1.52%).
- Value stocks showed leadership and outperformed growth stocks for the first time in a while. Value stocks tend to pay higher dividends and with the downdraft in bond yields investors gravitated towards dividend paying stocks.

International Stocks

Market Performance, First Quarter 2016

Index	Q1 2016	1 YR
MSCI EAFE	(2.88%)	(7.87%)
MCSI EME	5.75%	(11.70%)
MSCI BRIC	1.36%	(15.11%)

Source: Morningstar

- Emerging markets outperformed during the quarter, partly due to a recovery in commodity prices and a decline in the U.S. dollar, which took pressure off their debt burdens. Foreign developed markets lagged as investors became cautious on global macro risks from terrorism, Brexit, etc.
- We believe foreign developed markets are attractively valued relatively to the U.S., and expect them to perform well over the next five years. We are also comfortable starting positions in emerging market stocks in lower volatility and higher quality strategies.

Fixed Income

Market Performance, First Quarter 2016

Index	Q1 2016	1 YR
Vanguard Total Bond Index	3.06%	1.73%
Barclays Muni Bond	1.67%	3.98%
Barclays US Corp High-Yield	3.35%	(3.69%)
JPM GBI- EM Global Diversified	11.02%	(1.65%)
iShares TIPS Bond	4.42%	1.33%
BofA Merrill Lynch 3 month Treasury Note	0.07%	0.08%

Source: Morningstar

- Core bonds continue to surprise investors and finished the quarter with a gain of 3.06%.
- More aggressive parts of the bond market rallied after a weak showing in 2015. High-yield bonds were up 3.35% and emerging market bonds were up 11.02%. TIPs had a strong quarter as investors are becoming concerned that extraordinary global monetary policies will lead to higher inflation.
- Core bonds yields remain in a low trading range and we have modest expectations for returns in the coming years. We own core bonds mainly for diversification and risk management.

Alternative Assets

Market Performance, First Quarter 2016

Index	Q1 2016	1 YR
PIMCO All Asset All Authority	5.56%	(6.53%)
AQR Diversified Arbitrage	(0.87%)	(5.79%)
Gateway	(0.57%)	0.84%

Source: Morningstar

- In general, liquid alternative had a strong quarter depending on the strategy being used. Strategies focused on real return, gold and commodities had the strongest 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.