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Market Commentary

First Quarter 2017

First Quarter Summary

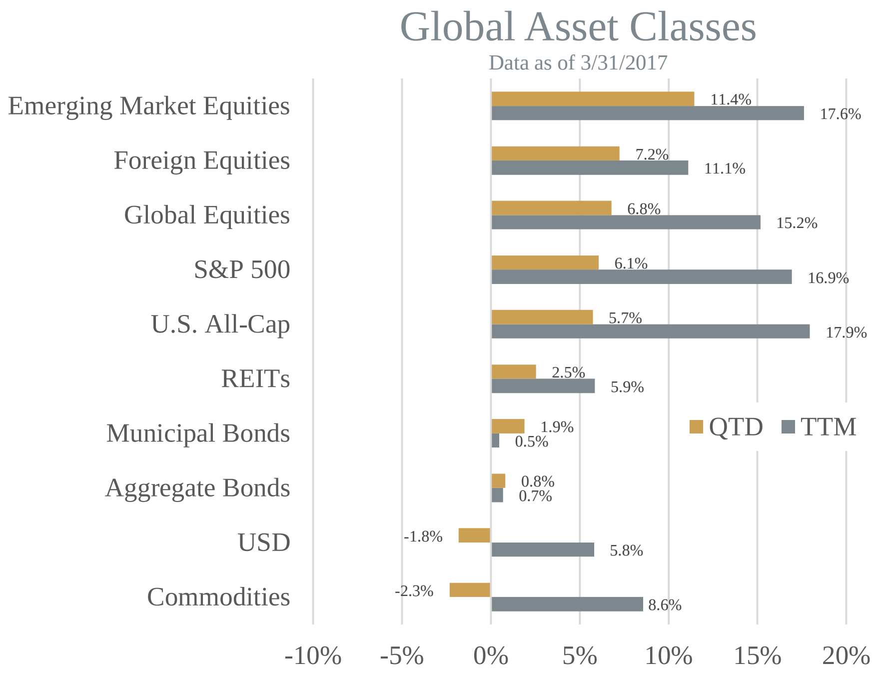
- Asset class returns were broadly positive across both equities and fixed income, with international stocks outperforming US stocks and bond returns rebounding from the last half of 2016 (Positive)

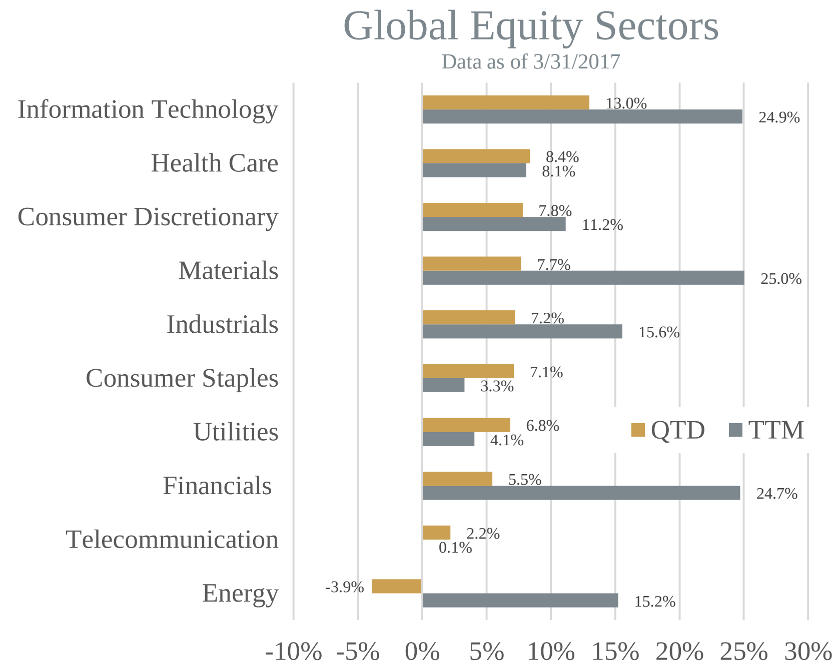
- The Federal Reserve raised its benchmark interest rate and signals at least two additional rate hikes in 2017 (Neutral)

- Inconsistent economic growth in the US – Following upward revisions for US GDP growth in the 4th quarter of 2016 to 2.1%, forecasts for the 1st quarter of 2017 look to be revised lower on declines in consumer spending during January and February (Neutral)

- The implementation of several key US reform items (healthcare, tax, infrastructure) appear uncertain amidst increasing dissent following the inability to pass a healthcare alternative to the Affordable Care Act (Negative)

Global Market Returns





- Emerging market and international equities were among the best performing asset classes during the first quarter, outpacing markets in the U.S. by a considerable margin
- U.S. stocks continued a post-election rally into 2017, but began to retrace gains later in the quarter, particularly in the financial and energy sectors
- Fixed income returns were positive during the first quarter following a substantial rise in yields over the prior six month period

Source: Morningstar Direct; Indices used include the following: MSCI EAFE (Foreign Equities), Barclays Muni 5-yr (Municipal Bonds), ICE USD Spot (USD), Barclays U.S. Agg (Aggregate Bonds), MSCI EM (Emerging Market Equities), MSCI ACWI IMI (Global Equities), Russell 3000 (U.S. All-cap), Bloomberg Commodity Index (Commodities), S&P 500 TR (S&P 500), FTSE NAREIT All Equity TR (REITs)

Sector returns are from the MSCI All Country World Investable Market Index; TTM represents trailing 12 month returns from 3/31/16 to 3/31/17

Asset Class Returns – Persistent Cyclicality

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Annualized	Sharpe Ratio
REITs 13.9%	Commodity Basket 25.9%	ex-US Stocks 41.4%	REITs 31.6%	Commodity Basket 21.4%	REITs 35.1%	ex-US Stocks 17.1%	Taxable Bonds 5.2%	ex-US Stocks 42.1%	REITs 27.9%	Municipal Bonds 10.7%	REITs 19.7%	US Stocks 33.6%	REITs 28.0%	Municipal Bonds 3.3%	US Stocks 12.7%	ex-US Stocks 8.0%	REITs 11.0%	Taxable Bonds 0.96
Taxable Bonds 8.4%	Taxable Bonds 10.3%	REITs 37.1%	ex-US Stocks 21.4%	ex-US Stocks 17.1%	ex-US Stocks 27.2%	Commodity Basket 16.2%	Cash 1.8%	US Stocks 28.3%	US Stocks 16.9%	REITs 8.3%	ex-US Stocks 17.4%	ex-US Stocks 15.8%	US Stocks 12.6%	REITs 2.8%	Commodity Basket 11.8%	US Stocks 5.7%	US Stocks 6.1%	Municipal Bonds 0.83
Municipal Bonds 5.1%	Municipal Bonds 9.6%	US Stocks 31.0%	US Stocks 11.9%	REITs 12.2%	US Stocks 15.7%	Taxable Bonds 7.0%	Municipal Bonds -2.5%	REITs 28.0%	Commodity Basket 16.8%	Taxable Bonds 7.8%	US Stocks 16.4%	Globally Diversified 11.9%	Municipal Bonds 9.1%	Taxable Bonds 0.5%	REITs 8.6%	Globally Diversified 3.9%	Globally Diversified 5.9%	Globally Diversified 0.45
Cash 4.1%	REITs 3.8%	Commodity Basket 23.9%	Globally Diversified 11.7%	Globally Diversified 8.2%	Globally Diversified 13.9%	Globally Diversified 6.7%	Globally Diversified -24.1%	Globally Diversified 23.7%	ex-US Stocks 11.6%	Globally Diversified 1.4%	Globally Diversified 11.8%	REITs 2.9%	Globally Diversified 6.9%	US Stocks 0.5%	Globally Diversified 6.2%	REITs 2.5%	ex-US Stocks 4.9%	REITs 0.44
Globally Diversified -5.2%	Cash 1.7%	Globally Diversified 22.7%	Commodity Basket 9.1%	US Stocks 6.1%	Municipal Bonds 4.8%	US Stocks 5.2%	Commodity Basket -35.6%	Commodity Basket 18.9%	Globally Diversified 11.0%	US Stocks 1.0%	Municipal Bonds 6.8%	Cash 0.0%	Taxable Bonds 6.0%	Cash 0.0%	ex-US Stocks 5.0%	Municipal Bonds 1.6%	Taxable Bonds 4.8%	US Stocks 0.28
US Stocks -11.4%	Globally Diversified -4.0%	Municipal Bonds 5.3%	Municipal Bonds 4.5%	Municipal Bonds 3.5%	Cash 4.8%	Cash 4.8%	US Stocks -37.3%	Municipal Bonds 12.9%	Taxable Bonds 6.5%	Cash 0.1%	Taxable Bonds 4.2%	Taxable Bonds -2.0%	Cash 0.0%	Globally Diversified -1.0%	Taxable Bonds 2.6%	Taxable Bonds 0.8%	Municipal Bonds 4.7%	ex-US Stocks 0.18
ex-US Stocks -19.5%	ex-US Stocks -14.7%	Taxable Bonds 4.1%	Taxable Bonds 4.3%	Cash 3.0%	Taxable Bonds 4.3%	Municipal Bonds 3.4%	REITs -37.7%	Taxable Bonds 5.9%	Municipal Bonds 2.4%	Commodity Basket -13.3%	Cash 0.1%	Municipal Bonds -2.6%	ex-US Stocks -3.4%	ex-US Stocks -5.3%	Cash 0.3%	Cash 0.1%	Cash 1.4%	Cash 0.00
Commodity Basket -19.5%	US Stocks -21.5%	Cash 1.0%	Cash 1.2%	Taxable Bonds 2.4%	Commodity Basket 2.1%	REITs -15.7%	ex-US Stocks -45.2%	Cash 0.1%	Cash 0.1%	ex-US Stocks -13.3%	Commodity Basket -1.1%	Commodity Basket -9.5%	Commodity Basket -17.0%	Commodity Basket -24.7%	Municipal Bonds 0.2%	Commodity Basket -2.3%	Commodity Basket -0.4%	Commodity Basket -0.10

- Cyclicality is present across all asset classes – every asset class except cash had at least one year with the highest annual return and one year with the lowest annual return
- Returns of globally diversified portfolios have been on par with US stocks but with lower volatility (i.e., risk-adjusted returns for globally diversified portfolios have been higher)
- Foreign stocks have been out of favor vs. US stocks the last 5 years, while we saw the opposite from 2003-2007

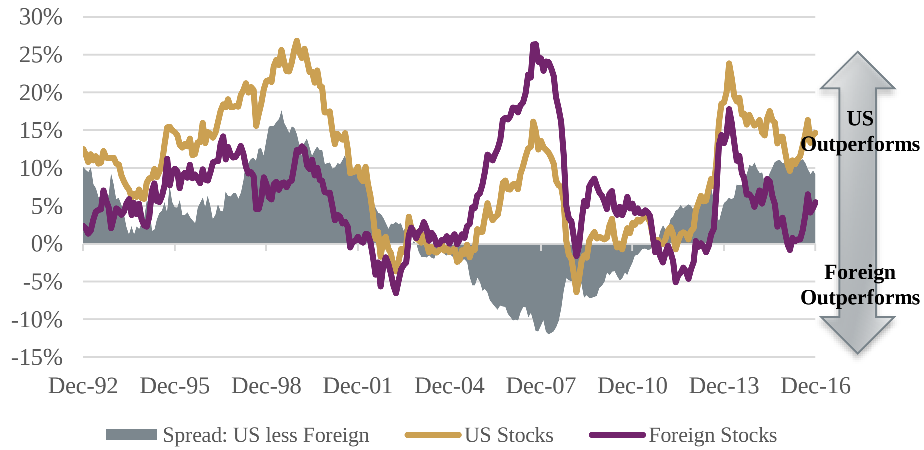
Source: Bloomberg; All indexes are total return. US Stocks: Russell 3000, ex-US Stocks: MSCI ACWI ex-US, Commodity Basket: Bloomberg Commodity Index, REITs: FTSE NAREIT Equity REIT Index, Taxable Bonds: Barclays US Aggregate, Municipal Bonds: Barclays Municipal Bond Index, Cash: Barclays US T-Bill (1-3 month) Index. Globally Diversified is rebalanced annually and consists of 30% Russell 3000, 20% MSCI ACWI ex-US, 5% Bloomberg Commodity Index, 5% FTSE NAREIT Equity REIT Index, 10% Barclays US Aggregate, 30% Barclays Municipal Bond Index

The Sharpe Ratio is a risk-adjusted return measure defined as the excess return (return above cash, in this instance) for an asset or asset class, divided by that asset or asset class's volatility, or standard deviation. The result is the asset or asset class's excess return per unit of volatility, or standard deviation.

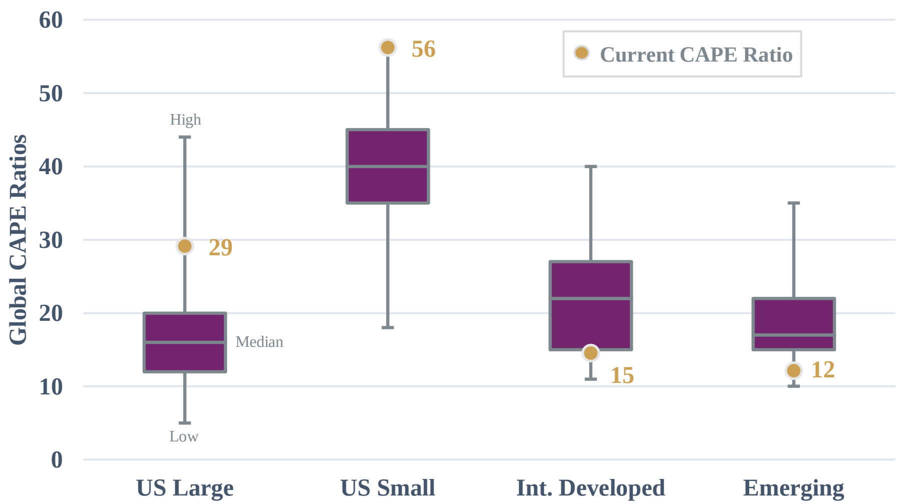
International Equities More Attractively Valued

- US equity markets have significantly outperformed their global counterparts since the onset of the Global Financial Crisis
- Despite recent US equity outperformance, starting in the late 90's, global markets far outpaced US stocks beginning with the Tech Bubble peak in 1999 and ending in 2007

5 Yr. Rolling Total Returns
US Stocks vs. Foreign Stocks



Equity Valuations: CAPE Ratios Across Markets



- As the US equity markets have run, valuations have become rich as prices have increased faster than corresponding earnings
- International Developed and Emerging Market stocks are currently more attractively priced relative to the US large and small cap markets

Source: Bloomberg, Research Affiliates, Robert Shiller; US Stocks represented by the Russell 3000 Index, Foreign Stocks by the MSCI ACWI ex. US Index

The cyclically adjusted price-to-earnings ratio, commonly known as CAPE, is a valuation measure usually applied to the US equity market, more specifically to the S&P 500. It is defined as the price level of the index divided by the simple ten-year moving average of earnings, adjusted for inflation. Boxes above Median represent 75th percentile CAPE ratios, and below represent 25th percentile historical CAPE ratios

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Market and Portfolio Risks

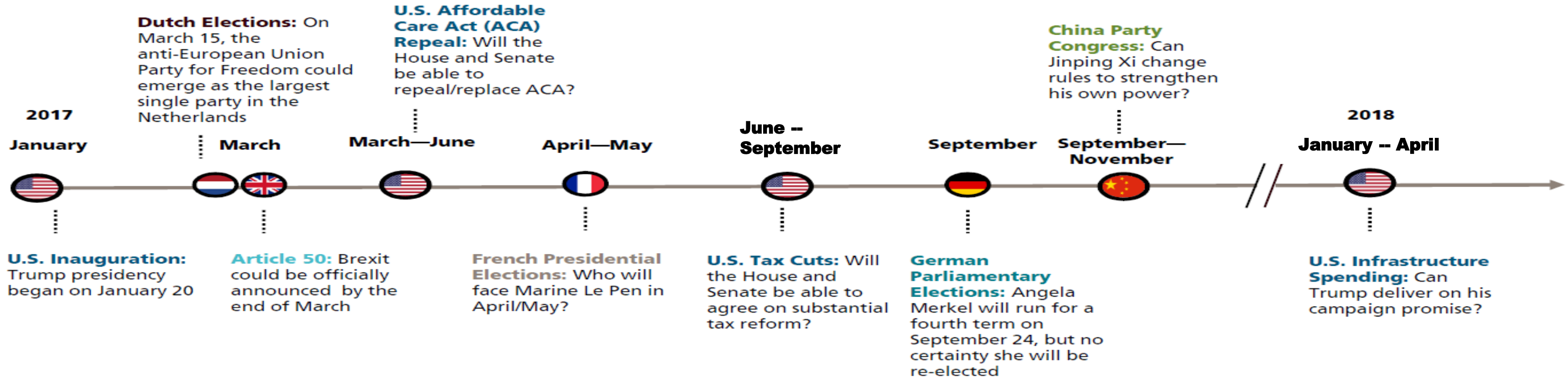
	Capital Preservation			Growth Assets		Real Assets	
	Fixed Income	Global Bonds	Hedged Strategies	Domestic Equities	Foreign Equities	Domestic Real Estate	Commodities
Inflation	Decline	Decline	Stable	Decline	Stable	Increase	Increase
Deflation	Increase	Increase	Stable	Decline	Decline	Decline	Decline
Stagflation	Decline	Decline	Increase	Decline	Decline	Increase	Increase
Chinese Slowdown	Increase	Increase	Stable	Stable	Decline	Stable	Decline
Japanese Government Default	Increase	Increase	Increase	Decline	Decline	Stable	Stable
EU Breakup	Increase	Stable	Increase	Stable	Decline	Stable	Stable
Geopolitical Turmoil (i.e. ME, Russian Tensions)	Increase	Stable	Increase	Stable	Decline	Stable	Increase
Unexpected Political Event	Decline	Decline	Increase	Stable	Stable	Stable	Stable
Central Bank Credibility	Stable	Stable	Increase	Decline	Decline	Stable	Increase

Return Expectations:

- Decline
- Stable
- Increase

- Uncertainty surrounding the outlook of several key components of the U.S. policy agenda, such as tax and regulatory reform
- Concerns remain over the sustainability of China's growth trajectory as Chinese authorities navigate complex issues such as foreign trade terms, currency matters and an overhaul of the tax and regulatory framework

Geopolitical Uncertainty Is Ever-Present



Market Impact	
Short Term Effect with Quick Recovery	Medium to Long Term Effect
Elections & Referenda	Changes in Regulation / Taxation
Changes in Government	Conflicts Between Large Economies
Conflicts Between Small Countries	Changes in System of Gov't (Democracy vs. Socialism, etc.)

- As geopolitical events continue to be in the forefront, it is important to remember some events can be short-lived and normalize quickly, while others can have a lasting influence on the markets (i.e. ignore the noise)
- The recent US election results and Brexit are both examples of short-term effects as equity markets absorbed the Brexit shock and the US election results within a couple of days

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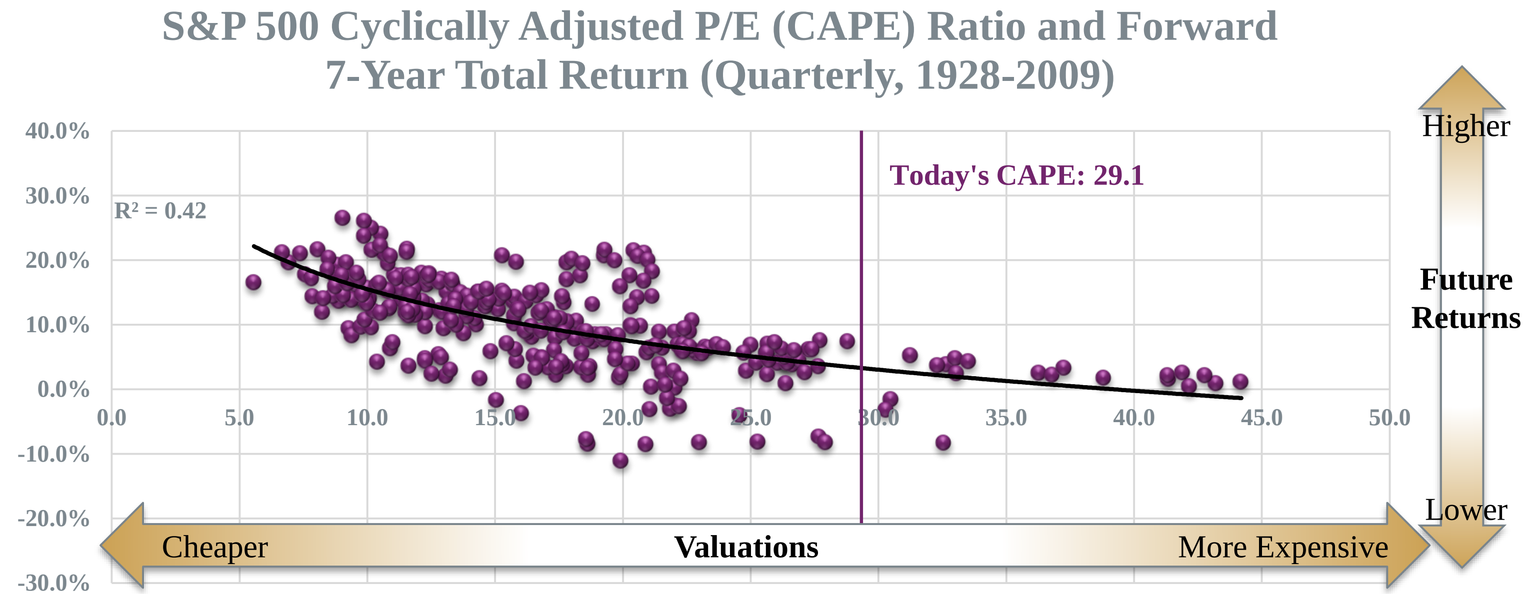
Source: JP Morgan Private Bank Economics. Data as of 1/31/2017.
Klement, Joachim. "Politics Matters – Sometimes." 9 March 2017. www.cfainstitute.org

US Equity Valuations Continue to Rise



- Current equity valuations in the United States, as defined by the S&P 500's CAPE Ratio, are expensive relative to the historical average (the mean since 1928 is approximately 18)
- While valuation measures, such as the CAPE, are not particularly useful market timing tools in the short run, they can provide insight into medium to long-term future expected returns
- Higher valuations (i.e. more expensive), on average, have led to lower future returns, while lower valuations (i.e. cheaper), on average, have led to higher future returns

Sources: Bloomberg, Robert Shiller

The cyclically adjusted price-to-earnings ratio, commonly known as CAPE, is a valuation measure usually applied to the US equity market, more specifically to the S&P 500. It is defined as the price level of the index divided by the simple ten-year moving average of earnings, adjusted for inflation.

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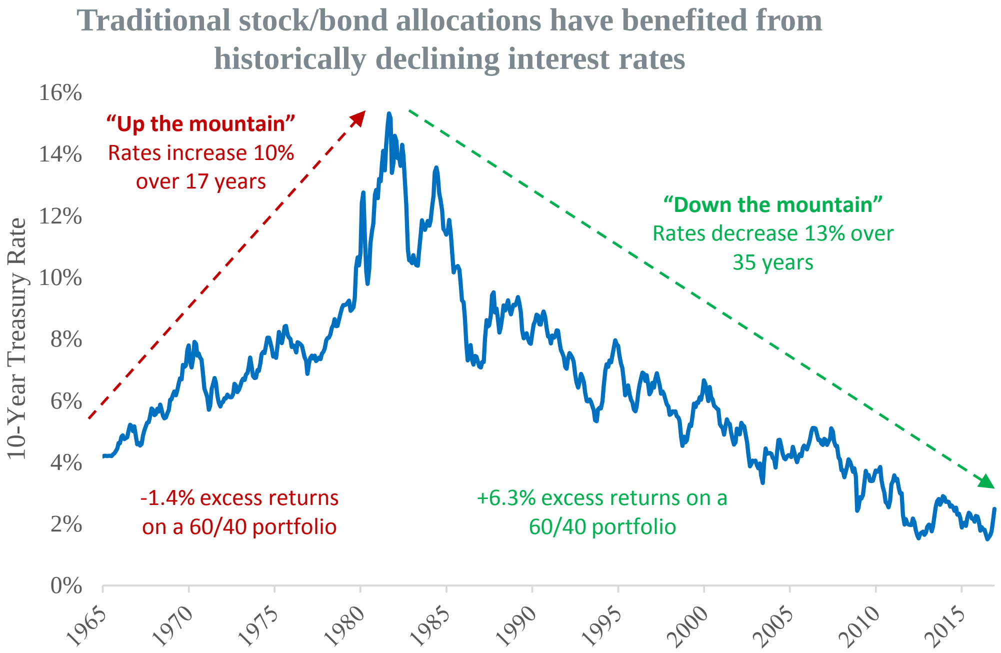
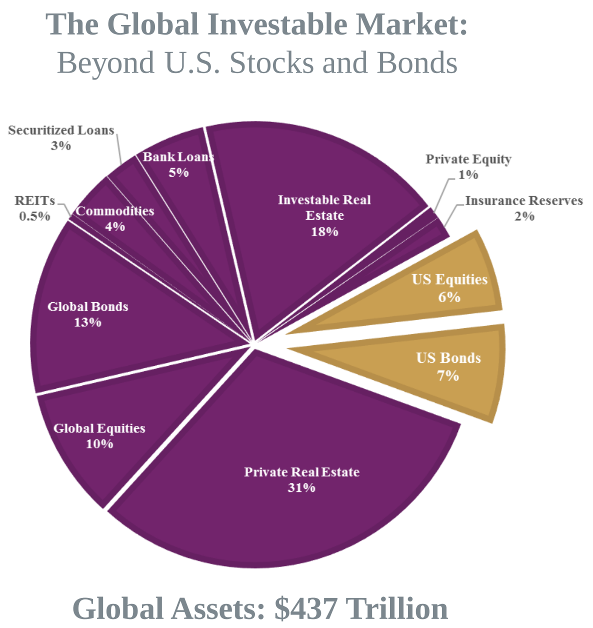
The Investor Dilemma





- Over the prior 35 years, a traditional stock/bond portfolio (the "60/40") generated significant excess returns over cash, with many favorable tailwinds, most notably declining interest rates
- While the "60/40" portfolio has performed well during this period, compressed bond yields and elevated equity valuations have led to increasing risk and lower return expectations moving forward
- A climb "up the mountain" for interest rates presents a considerably more challenging return environment, with a need to improve portfolio diversification through a much larger universe of investable, non-correlated risk premiums

Sources: Stevens, Ross; Zwick, Joshua; Cohen, Randolph B.(2017, February) "Illuminating the Path Forward: Breaking Free from the 60/40 Portfolio" Oliver Wyman; Federal Reserve Bank of St. Louis (FRED), Bloomberg
Note: The performance of the S&P 500 Total Return Index and the 10-Year Constant Maturity Treasury are used to estimate the nominal returns of the 60/40 Portfolio. Excess returns are over the 3-month Treasury Yield
ACLI, AON, BIS, Bloomberg, CoreLogic, Federal Reserve Board, Guy Carpenter, NAIC, OECD, Oliver Wyman estimates, Preqin, Savill's, SIFMA, SNL, TEFAF, Thomson Reuters, UN, University of St Gallens, World Federation of Exchanges.

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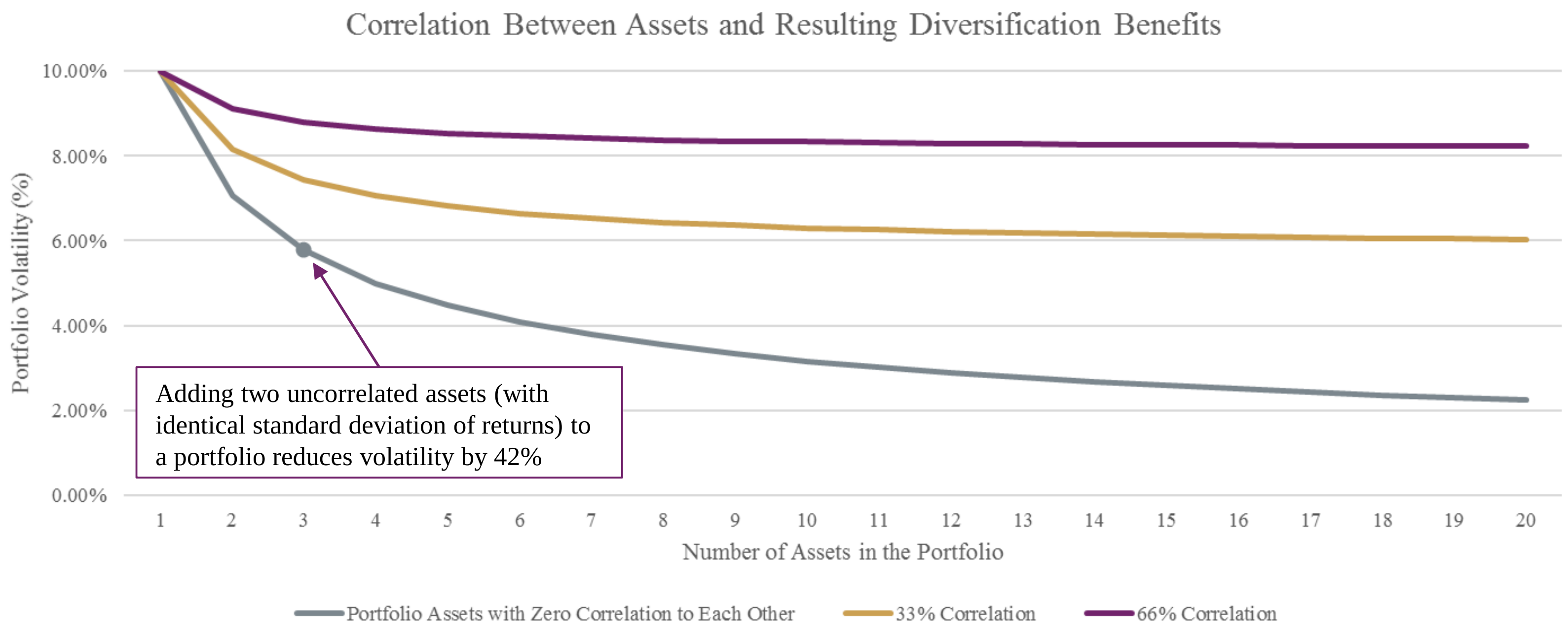
Improving Diversification: Correlation Benefits



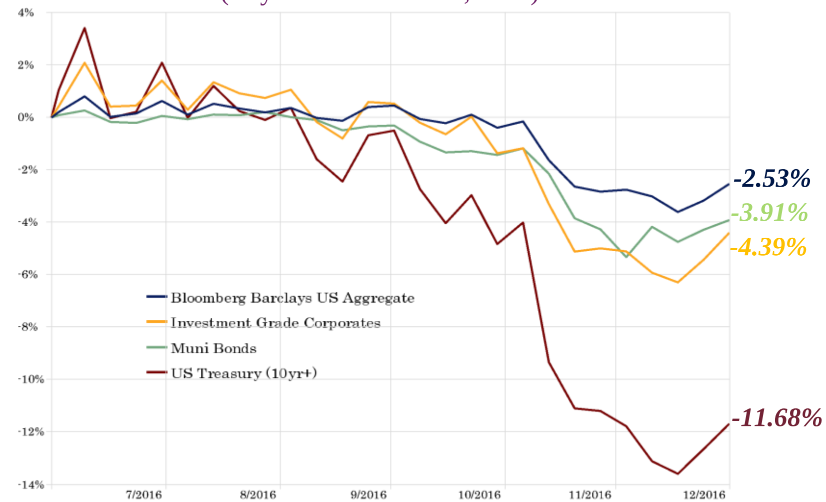
- Traditional asset classes such as equities and fixed income have moved in very different return patterns historically, thus exhibiting low correlation to one another
- Diversification can be greatly enhanced and the risk/return profile of a portfolio improved by adding other asset classes with low to zero correlation, like reinsurance, alternative lending, commodities, or hedged strategies
- The less correlated the assets in a portfolio, the lower the volatility and greater diversification you achieve

Sources: White, T., Peterson, K., *Reducing Risk*, Columbia Management Investment Advisors, LLC 2014; Stone Ridge Asset Management, LLC

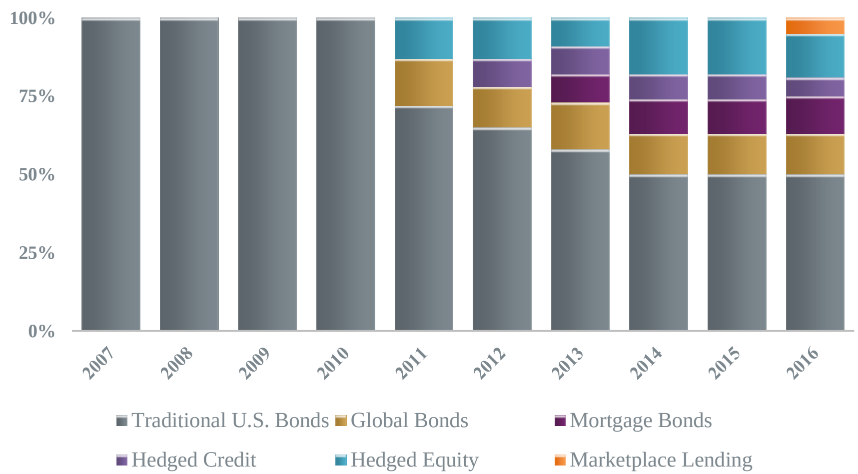
Improving Diversification: Capital Preservation

- Fixed income volatility rose sharply during the second half of 2016, as the yield on the 10-year Treasury increased by ~100 basis points
- During this period, returns on broad fixed income asset classes were negative, with longer duration bonds (higher interest rate sensitivity) declining significantly

Returns of Major Fixed Income Indices
(July 1 – December 31, 2016)



Evolution of Capital Preservation: Sample Allocation



- Diversifying a traditional fixed income portfolio with assets that have low-to-negative correlation with interest rates should reduce volatility and maximize returns in periods of rising rates

Source: Driehaus Capital Management; Morningstar Direct

Indices used: BBgBarc U.S. Agg Bond TR USD; Investment Grade Corporates = BBgBarc U.S. Corp AAA Tr USD; Muni Bonds = BBgBarc Municipal TR USD; U.S. Treasury (10yr+) = BBgBarc U.S. Treasury 10+ YR TR USD

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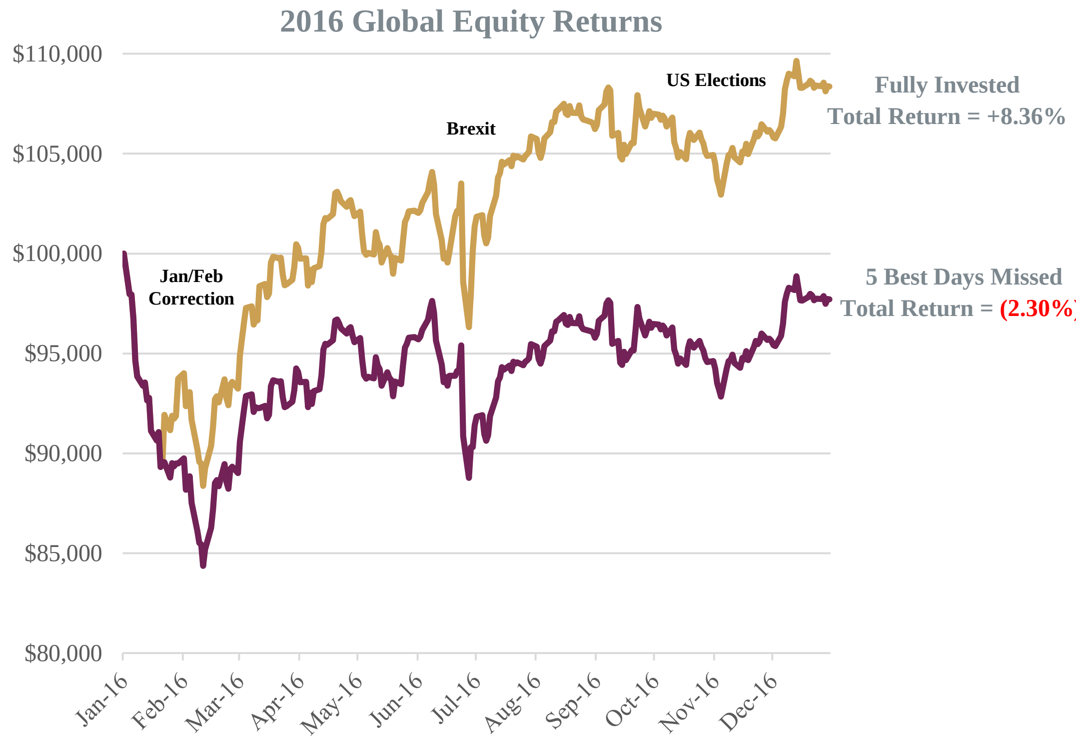
Market Timing

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves"

-Peter Lynch, legendary investor and portfolio manager of the Fidelity Magellan Fund from 1977-1990



- Staying invested and avoiding attempts to "time the market" can significantly increase long-term returns in the portion of the portfolio designed to participate in global growth
- Instead of using market timing as a lever to be more conservative, the appropriate levers are at the asset class and manager level
- Investing with patient and disciplined managers who can be opportunistic when dislocations occur (e.g., Brexit) can help increase the probability of reaching your goals

Source: Morningstar Direct; Bloomberg

Performance for "Fully Invested" portfolio represents growth of $100,000 investment in the MSCI All Country World Investable Market Index from 1/1/16 to 12/31/16

Performance for "Missed 5 Best Days" portfolio represents growth of $100,000 investment in the MSCI All Country World Investable Market Index from 1/1/16 to 12/31/16 after removing performance of the 5 best days

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Investment Themes

- International Developed and Emerging Market stocks, while having lagged domestic markets since the Global Financial Crisis, are currently more attractively priced relative to the US large and small cap markets

- Stretched US equity valuations and low interest rates have created a more challenging return environment moving forward; improve upon traditional stock/bond diversification by including additional, less correlated risk premiums found in asset classes off the beaten path (alternative lending, reinsurance, private equity, etc.).

- Avoid attempting to "time the market" around ongoing political events and general uncertainty, utilizing the more appropriate levers at the asset class and manager level to modulate risk and drive long-term returns.

- Pro-actively monitor potential portfolio implications arising from any policy changes by the new U.S. President and Congress (e.g., tax policy, trade, etc.)

Important Disclosures

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Important Disclosures - Continued

Indices

The indices presented herein are not actively managed and do not reflect the deduction of any expenses or fees, except as noted below. Certain portfolio or fund performance may not be comparable to the performance of these indices. It is not possible to invest directly in an index. Indices denoted as "TR" have been adjusted for dividends.

- The *Barclays 5-Year Municipal Bond Index* is a capitalization-weighted bond index intended to be representative of major municipal bonds of all quality ratings with an average maturity of approximately five years.
- The *Barclays U.S. Aggregate Bond Index* is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).
- The *FTSE NAREIT Equity TR Index* is a broad-based index consisting of real estate investment trusts (REITs).
- The *ICE U.S. Dollar Index* futures contract is a leading benchmark for the international value of the U.S. dollar and the world's most widely traded currency index.
- The *MSCI ACWI Investable Market Index* captures large-, mid-, and small-cap representation across 23 developed markets and 23 emerging markets countries. With 8,525 constituents, the index is comprehensive, covering approximately 99% of the global equity investment opportunity set.
- The *MSCI EAFE Index* is an equity index which captures large and mid-cap representation across developed markets around the world, excluding the U.S. and Canada. With 926 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
- The *MSCI EM Index* is a free float-adjusted market capitalization index designed to measure equity performance in the global emerging markets.
- The *Russell 3000 Index* is a float-adjusted, market capitalization-weighted index that measures the performance of the largest 3,000 companies in the U.S. equity market. The index offers investors access to the broad U.S. equity universe, representing approximately 98% of the U.S. market.
- The *S&P 500 Index* is a capitalization-weighted index which is considered to be generally representative of the U.S. large capitalization stock market as a whole. It includes 500 leading companies and captures approximately 80% of the available market capitalization.
- The *Bloomberg Barclays U.S. Aggregate Bond Index* is an unmanaged index that measures the performance of the agency sector of the U.S. government bond market.
- The *Bloomberg Barclays U.S. Corporate AAA – A Capped Index* is a subset of the Barclays U.S. Corporate Index that measures performance of the Aaa – A rated range of the fixed-rate, U.S. dollar-denominated, taxable, corporate bond market.
- The *Bloomberg Barclays Municipal Bond Index* is an unmanaged index that is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year.
- The *Bloomberg Barclays U.S. 10-20 Year Treasury Bond Index* is an unmanaged index that measures the performance of U.S. Treasury securities that have a remaining maturity of at least 10 years and less than 20 years.

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