2017 FIRST QUARTER MARKET REVIEW & OUTLOOK

MARCH 31, 2017

DISCLAIMER

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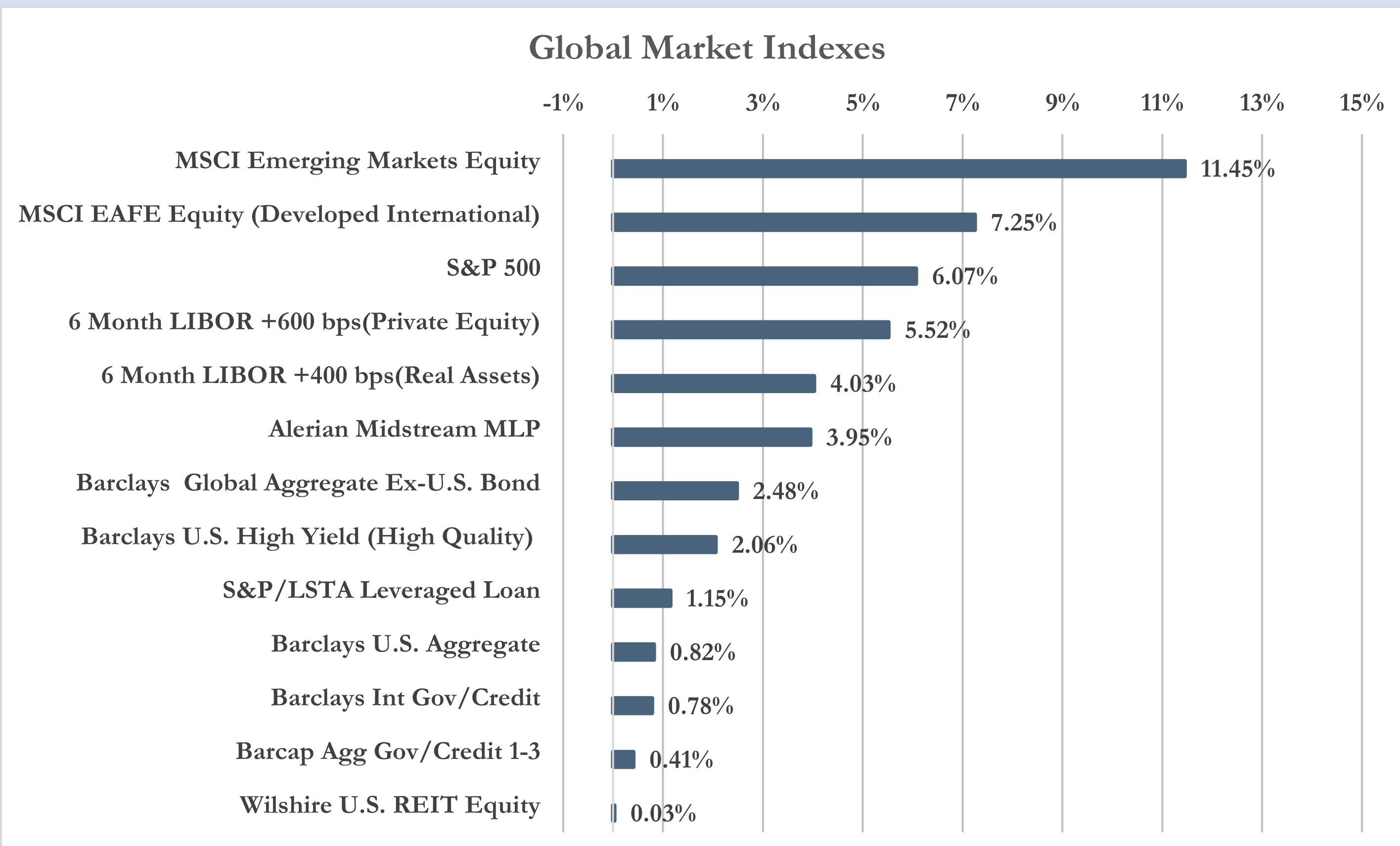
I. GLOBAL MARKETS "AT A GLANCE" – YEAR TO DATE AT MARCH 31, 2017

- Strong first quarter for global equities amid improved U.S. economic survey data and broad-based earnings growth in Europe.
- U.S. equity markets were tepid in March, as investors began to question the new administration's ability to deliver on objectives.
- In terms of first quarter U.S. equity attribution, large outperformed small-cap and growth outperformed value.
- Midstream MLPs returned nearly 4% during the first quarter, but fell in March alongside a 6.3% decline in crude oil prices ($50.60).
- International equities ended the quarter up 7.3%; investors reacted favorably to an improved European growth and earnings outlook.
- Emerging market equities had a good start to the year, up 11%, thanks to a pause in the upward trajectory of the U.S. dollar.
- The Fed raised the target range for its federal funds by 0.25% in March, from 0.75% to 1.0%; the 10-Year Treasury fell to 2.40%.
- U.S. investment grade taxable and municipal bond indexes gained between 0.8% and 1.6% during the first quarter; yields fell slightly.
- U.S. high yield corporate bonds reported a solid quarter; defaults remain low, yields at 6%.
- Floating rate loans gained in each of the first three months of the year and continue to serve as a buffer against rising rates.
- Global bonds benefitted from a softening U.S. dollar and lower long-term yields to gain 2.5% during the first quarter.

SELECT BENCHMARKS – YEAR-TO-DATE AT MARCH 31, 2017



Source: eVestment Analytics

II.GLOBAL ECONOMY – FIRST QUARTER 2017

Broadly Positive

Global equity and fixed income markets were generally positive in the first quarter, with most global indexes able to partially or completely offset the losses from the previous quarter. The U.S. bull market marked its 8th anniversary in March, with the S&P 500 Index having increased by 314% on a cumulative basis (dividends reinvested) since bottoming on March 9, 2009. We also saw a continuation of the relief rally that followed the 2016 U.S. presidential election, which propelled the S&P 500 Index to his highest ever close at 2,289 in March.

Despite the strong start to the quarter, U.S. markets did stumble later in March following the new Administration and Republican-controlled House of Representatives' failure to replace the Affordable Care Act with a healthcare bill of its own design. This temporarily shocked markets, as investors began to question the ability of the new Administration to pass tax-reform and fiscal stimulus measures intended to bolster U.S. economic growth.

Fortunately, the impact to the U.S. equity market was minimal and temporary. The Federal Reserve reassured investors that the U.S. economy was healthy and growing by raising short-term interest rates by 0.25% in March. This marked the third rake hike since December 2015. Normalization action was well received and markets remained relatively calm as the increase was highly anticipated. Fed Chairwoman Yellen cited a healthy 4.7% unemployment rate, strong corporate profits and a consistently (albeit slowly) expanding U.S. economy as the primary catalysts to support the hike. Real GDP figures for the fourth quarter came in at 2.1%, down from 3.5% in the third quarter, but consumer spending was strong and consumer confidence figures remained supportive.

While U.S. equity markets performed well, foreign equity markets performed even better. International developed and emerging markets equities rallied in the first quarter, with the MSCI EAFE Index and MSCI EM Index gaining 7.3% and 11.5%, respectively. The returns were primarily attributable to a slightly weaker U.S. dollar, with nearly every major foreign currency strengthening against it. Other contributing factors included the continuation of an accommodating monetary policy by the European Central Bank (qualitative easing), and a well-received lower, but solid 6.5% economic growth outlook for China.

Bond markets appeared benign in the first quarter when viewed point-to-point, but there was plenty of activity as interest rates initially rose and then fell. The first quarter takeaway was the sideways movement of U.S. Treasury yields. Despite the short-term rate hike, the yields on the 5-, 10- and 30-year U.S. Treasuries moved very little. In fact, the yields actually declined 10-20 basis points to 1.9%, 2.4% and 3.0%, respectively.

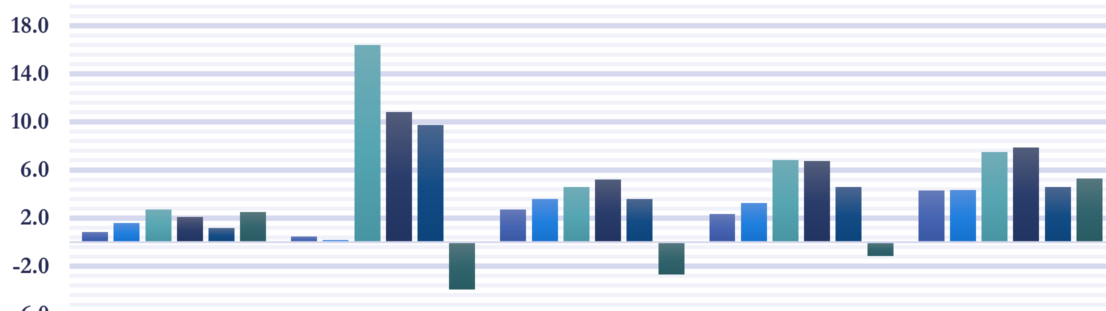
Investment grade bonds gained during the quarter, with Barclays U.S. Municipal Aggregate Index doubling that of the equivalent taxable U.S. index. Lower-quality bonds generally outperformed higher credit tiers, with U.S. high yield bonds and leveraged loans gaining 2.7% and 1.2%, respectively. Abroad, favorable currency trends supported a small rally in emerging markets debt.

III. FIXED INCOME MARKETS

Steady, Point-to-Point

Global fixed income markets recorded positive returns overall in the first quarter, with lower-quality bonds outperforming higher yielding credit tiers on a total return basis. While nearly all fixed income indexes posted gains, U.S. high yield bonds, leveraged loans and emerging markets debt were the strongest performers. The Federal Reserve's decision to raise rates for the second time in three months did impact the fixed income market. Specifically, we saw an immediate credit spread tightening and a flattening of the mid-to-long end of the curve.

SELECT BENCHMARKS – GLOBAL FIXED INCOME MARKETS – **UPDATED MARCH 31, 2017**



	1Q17	One Yr	Three Yr	Five Yr	Ten Yr
US Aggregate Bond	0.82	0.44	2.68	2.34	4.27
US Municipal Bond	1.58	0.15	3.55	3.24	4.33
US Corporate High Yield	2.70	16.39	4.56	6.82	7.46
US High Quality High Yield	2.06	10.82	5.20	6.72	7.86
S&P/LSTA Leveraged Loans	1.15	9.72	3.57	4.58	4.55
Global Agg. Ex-U.S.	2.48	-3.93	-2.68	-1.13	5.28

Source: eVestment Analytics

TAXABLE BONDS

U.S. Investment Grade Taxable Bonds +0.8%

U.S. investment grade bonds performed moderately well during the first quarter, but underperformed lower quality bonds, leveraged loans and emerging markets debt. The Barclays U.S. Aggregate Bond Index gained 0.8% between December and March, with U.S. corporate investment grade bonds providing the majority of the return. The index ended the quarter trading at a $2.70 premium to par and yielding 2.6%. U.S. corporate investment grade bonds offered the highest total yield at 3.3%, but were the most expensive by trading at a $4.10 premium to par.

TAX-EXEMPT BONDS

U.S. Investment Grade Municipal Bonds +1.6%

The Barclays Municipal Bond Index gained 1.6% during the first quarter, which represents about half of the loss sustained in the fourth quarter. The overall credit landscape for municipal bonds changed little, quarter-over-quarter, and remained healthy. Municipal bonds are expensive and were trading at a $7.40 premium to par. At quarter-end the broad municipal index offered a tax-free yield of 2.5%, which provided a compelling after-tax advantage compared to U.S. investment grade taxable bonds. The taxable municipal yield was 3.7%.

HIGH YIELD & FLOATING RATE

High Yield +2.7%

U.S. high yield bonds performed well during the first quarter after posting double digit returns in 2016. The Barclays U.S. Corporate High Yield Bond Index generated back-to-back 1.5% returns in January and February, but fell 0.2% in March. The strong start to the year resulted from favorable U.S. economic data and continued enthusiasm for meaningful tax reform and deregulation. The volatility in March was attributable to oil prices, which dipped into the $40s before rallying to end the quarter at $50.60 per barrel. The index recouped some of its March losses following comments from Federal Reserve Chairwoman Yellen, who settled the nerves of investors concerned over the potential for an increased pace of rate hikes. Fundamentally, the U.S. high yield market remained healthy and new issue supply / investor demand was balanced. Lower-quality bonds continued to outperform higher-quality high yield bonds, with CCC-, B- and BB-rated bonds returning 5.2%, 2.7% and 2.0%, respectively. Looking ahead, we see a supportive backdrop for the high yield bond market, including modest U.S. growth and a robust demand for yield. High yield bond valuations are full and delays in Washington could lead to increased volatility, but overall the economic and interest rate outlooks remain supportive.

Floating Rate +1.2%

The S&P/LSTA Leveraged Loan Index generated a positive total return for the quarter, with monthly gains during the period of 0.6%, 0.5% and 0.1% for January, February and March, respectively. The 1.2% quarterly index return was comprised primarily of coupon income, which continued to drive investor demand. Fundamentally, the loan market remained healthy with default rates of less than 1.5% over the past 12-months. However, capital appreciation potential is limited as loan prices ended the quarter averaging $98.20. Looking ahead, we could see a slight uptick in default rates and expect prices to hover around par. But with one or two more rate hikes expected before year-end, we think floating rate loans remain an important component of a well-diversified bond allocation.

OUTLOOK

Volatility + Modestly Higher Yields + Pricing Pressure

We expect credit fundamentals will remain strong and are likely to moderately improve throughout the year. However, valuations are currently above long-term historical averages, and most bonds, both investment and non-investment grade, are likely to trade close to par or at a premium. We believe that from a risk compensation perspective, the improving fundamentals and market technicals support some spread premium, especially in a lower-yielding environment, but we acknowledge that valuations of some segments of the credit market are becoming overstretched.

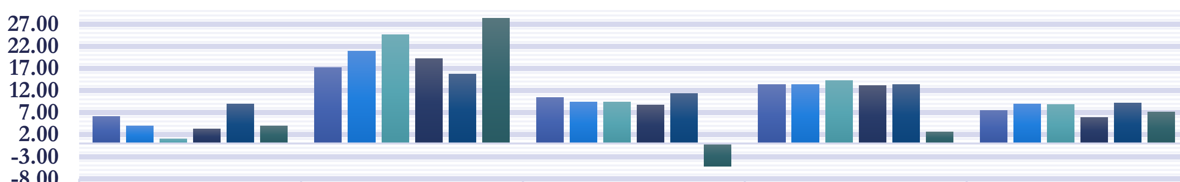
We are also wary of domestic political risk, global monetary policy and currencies. We are mindful of the normalization path of the U.S. Federal Reserve, the beginning of normalizing easy monetary policies of the European Central Bank and Bank of China, and the influence of the U.S. dollar on global sovereign bonds.

IV. U.S. EQUITY MARKET

U.S. Large Cap +6.1%

U.S. equities were broadly positive in the first quarter, with large-, mid- and small-cap stocks up 6.1%, 3.9% and 1.1%, respectively. Investors remained optimistic that significant U.S. fiscal policy changes would result in accelerated growth, but it is understood that the timing of approvals and implementations will be closely monitored. Key economic indicators were also supportive during the quarter, including employment, wage growth and consumer spending statistics. Corporate earnings data was very strong, with fourth quarter earnings per share rising 5.1%, year-over-year, which was 3.1% higher than expected. The only setback during the quarter came when the new Administration failed to pass its new health care bill through Congress. Despite this setback, investors remained bullish throughout the quarter.

SELECT BENCHMARKS – U.S. EQUITY MARKETS – **UPDATED MARCH 31, 2017**



	1Q17	One Yr	Three Yr	Five Yr	Ten Yr
S&P 500	6.07	17.17	10.37	13.30	7.51
S&P Mid Cap 400	3.94	20.92	9.36	13.31	8.96
S&P Small Cap 600	1.06	24.59	9.45	14.25	8.80
Russell 1000 Value	3.27	19.22	8.67	13.13	5.93
Russell 1000 Growth	8.91	15.76	11.27	13.32	9.13
Alerian MLP	3.95	28.32	-5.17	2.64	7.15

MASTER LIMITED PARTNERSHIPS (MLPS)

Master Limited Partnerships +4.0%

The Alerian MLP Index had recovered approximately 58% of the losses sustained in 2014/15 by the end of the first quarter, but has ample room to run. Midstream MLPs were priced attractively relative to historical multiples and earnings. Looking ahead, we see higher asset utilization, better coverage ratios, more predictable growth in distributable cash flows and lower operational cost overall. We are also seeing massive new sources of domestic energy production and growing demand, which is evidenced by increased infrastructure utilization. In addition to capital appreciation potential, midstream MLPs continue to offer dividend yields between 5% and 7%.

OUTLOOK

Can the New Administration Rebound?

The failure to repeal and replace the Affordable Care Act, the new Administration's first policy initiative, rattled markets and cast doubt about the timing of other initiatives intended to fuel U.S. economic growth. However, the U.S. economy remains healthy and the tax, infrastructure and regulatory initiatives laid forth by the new Administration should support economic growth if they come to fruition. Looking ahead, we expect moderate gains for U.S. equities despite full valuations. Midstream MLPs continue to offer the greatest upside and highest yield.

V. INTERNATIONAL DEVELOPED & EMERGING MARKETS

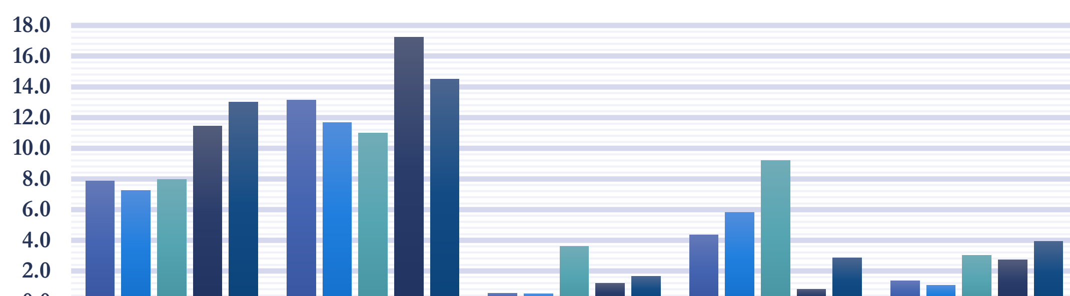
International Developed +7.3%

International equities followed up a lackluster 2016 with an impressive 7.3% return during the first quarter. The strong start was attributable to a combination of positive factors, including a bullish outlook, supportive news out of Europe, a 2% decline in the U.S. dollar, and a continuation of the European Central Bank's quantitative easing program. The headline for the quarter was the announcement that the United Kingdom had invoked Article 50, which marked the official start of its departure from the European Union. The highly contentious Brexit referendum uncovered a fractured political landscape, which highlighted tensions between England (voted to leave), Scotland (voted to stay) and Northern Ireland (voted to stay). Fundamentally, international developed equities are attractive, with yields exceeding those offered domestically and prices below their historical averages. However, the political landscape is fragile and higher levels of market volatility are probable.

Emerging Markets +11.5%

The emerging markets index fully offset the fourth quarter sell-off with a strong 11.5% return in the first quarter. Investor demand remained strong throughout the quarter, with all sectors contributing positive total return. The double-digit return was attributable to a weakened U.S. dollar, with some emerging market currencies rising as much as 8%-10% against the greenback. Chinese equities, which represented approximately 27% of the MSCI Emerging Markets Index at quarter-end, performed very well in the first quarter. Chinese economic data pointed to signs of stabilization, with an improved outlook for sustainable (but lower) growth and lower concern surrounding rising debt levels. Outside of China, we are seeing generally improved relations between the U.S. and Mexico, and the political tensions in Brazil have lessened. Fundamental signs point to higher valuations and price swings resulting from negative news flow. While economic data and political sentiment appear to be improving, we acknowledge that this asset class remains highly correlated to currency prices and global growth expectations' effect on commodities, and it is susceptible to short-term swings due to investor fear.

SELECT BENCHMARKS – NON-U.S. EQUITY MARKETS – **UPDATED MARCH 31, 2017**



	1Q17	One Yr	Three Yr	Five Yr	Ten Yr
MSCI ACWI ex US	7.86	13.13	0.56	4.36	1.35
MSCI EAFE	7.25	11.67	0.50	5.83	1.05
MSCI EAFE Small Cap	7.97	10.99	3.60	9.20	3.03
MSCI Emerging Markets	11.45	17.22	1.18	0.81	2.72
MSCI EM Small Cap	13.02	14.49	1.66	2.87	3.92

VI. TAILWINDS & HEADWINDS – SECOND HALF 2017

	Tailwinds	Headwinds
United States	Oil Price Stabilization	Foreign Trade Policy
	Tax, Infrastructure & Regulatory Reform	Ability to Deliver on Objectives
	Declining Unemployment	Weakening U.S. Dollar
	Low Credit Defaults	Fed Tightening
Developed International	Accommodative Central Banks (Japan and Europe)	Political Diversion
	Improving Employment	Unemployment Still High
	Improving Bank Lending	Tight Lending Conditions
Emerging Markets	Weakening U.S. Dollar	U.S. Trade Policy
	6.5% China GDP - Attainable	Rising U.S. Rates
	Low Corporate & Government Debt	Slowing Global Growth

VII. GLOBAL ASSET ALLOCATION VIEWS – SECOND HALF 2017

Asset Class	Sub-Class	Outlook	Underweight	Neutral	Overweight
Main Asset Classes	Equities	↑			✓
	Credit	↑		✓	
	Cash	↓	✓		
Equities	U.S. Large	↑			✓
	U.S. Mid/Small	↑	✓		
	Europe ex-UK	↑		✓	
	UK	↓	✓		
	Emerging Markets	↓		✓	
	U.S. REITs	↑		✓	
	Midstream MLPs	↑			✓
Credit	U.S. Investment Grade	↓		✓	
	U.S. Treasuries	↓	✓		
	U.S. High Yield	-			✓
	Floating Rate	-			✓
	Bank Loans	↓		✓	
	EM Debt	↑	✓		
	Credit L.P.	↑		✓	