DeMarche ASSOCIATES, INC. Putting Research To Work

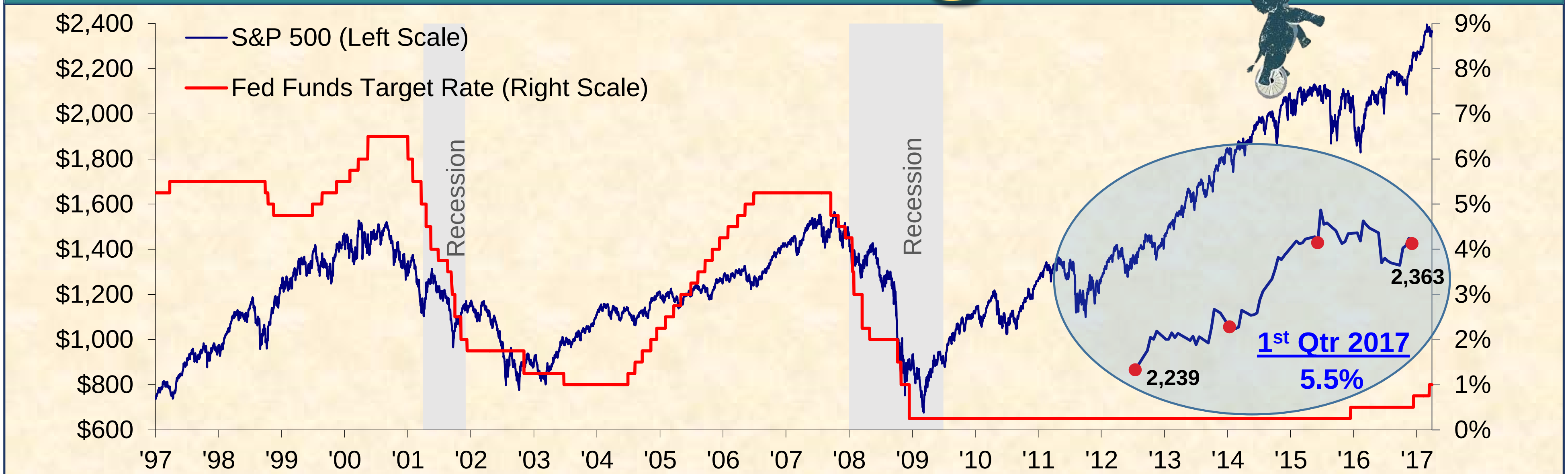
Capital Market Review

March 31, 2017

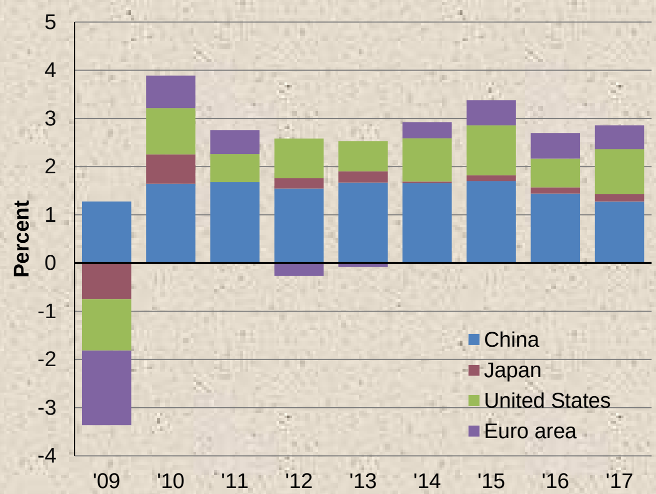
DeMarche Client Conference

Save the date for the 34th annual DeMarche Client Conference, **September 6-8, 2017** at **The Sheraton Kansas City Hotel at Crown Center** in Kansas City, Missouri. Questions may be directed to your DeMarche consultant.

A Balancing Act



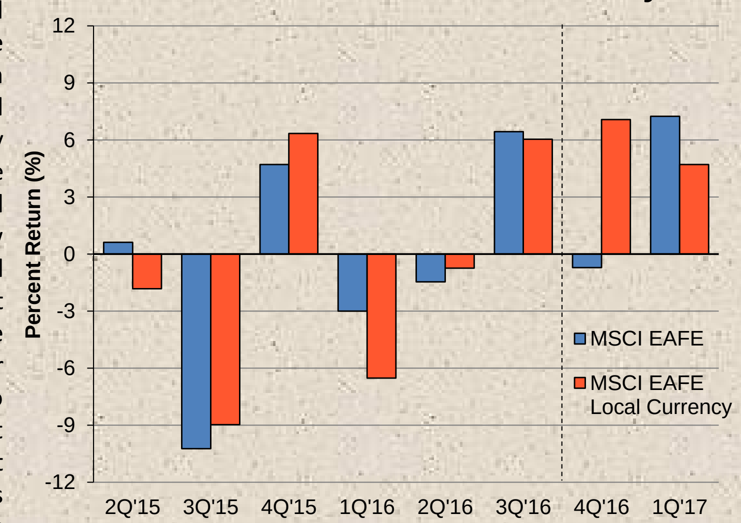
Economic Growth Expectations



Source: World Bank, Trading Economics,
Annual GDP Growth weighted by GDP in current US Dollars

It has been a balancing act for investors so far this year. Havens like government bonds, gold and international currencies did well in the quarter as investors balanced global growth prospects with concerns that the fiscal stimulus package and monetary policy tightening would mute GDP growth. In the last quarter of 2016, investors bet on financial stocks and sold bonds expecting the new administration to introduce pro-growth fiscal policies. As it became clearer in the first quarter that fiscal policies were going to be more difficult to enact, investors looked for relative value within stocks, moving into cheaper international and emerging market equities. The chart to the right shows that international returns in dollar terms outperformed as the dollar retreated from its fourth quarter strength.

EAFE: Dollar vs. Local Currency



Source: DeMarche Associates, Inc.

Broad Market Overview

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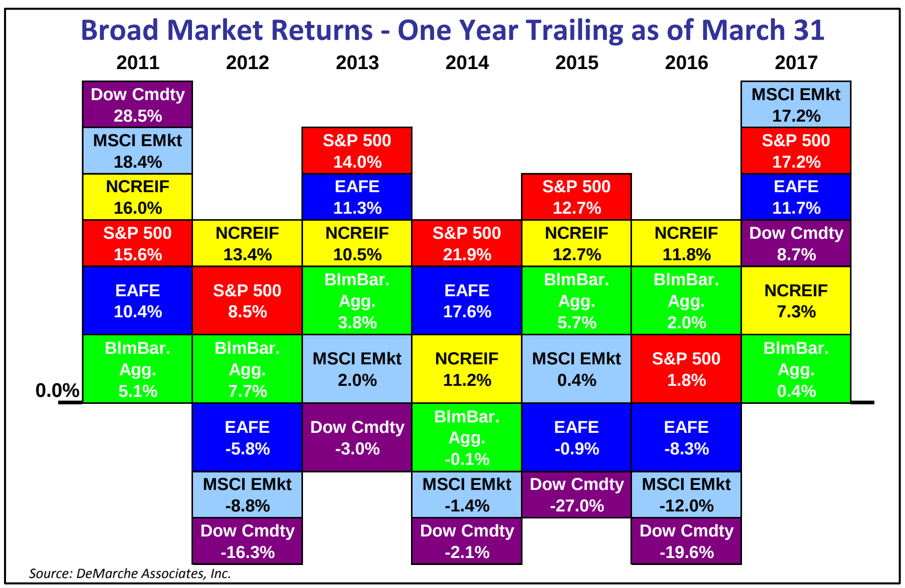
INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	6.4	14.8	5.5	9.4	4.2
DeMarche World*	6.9	15.2	5.1	8.7	4.2
DeMarche 3000	5.9	16.7	7.3	10.6	6.0
Russell 3000	5.7	18.1	9.8	13.2	7.5
S&P 500	6.1	17.2	10.4	13.3	7.5
DeMarche International	8.0	13.1	2.9	6.6	2.3
MSCI EAFE USD	7.2	11.7	0.5	5.8	1.1
DeMarche Bond	0.5	-0.6	2.5	2.1	4.0
BlmBarc Aggregate	0.8	0.4	2.7	2.3	4.3
Citigroup Non-U.S. Gov't Bond	2.0	-4.8	-2.6	-1.5	2.6
BlmBarc Global Aggregate	1.8	-1.9	-0.4	0.4	3.3
NCREIF (Private RE)	1.6	7.3	10.6	10.7	6.7
Bloomberg Commodity	-2.3	8.7	-13.9	-9.5	-6.2

*Notes: Data are presented as percent returns. All 3, 5 and 10-year returns are annualized. *Does not include Canada or Brazil.*

Indicator Year Ending 3/31	2017	2016	2015	2014	Long Term Average
GDP Annual Growth Rate	1.9	1.6	3.3	1.6	3.1
Unemployment	4.5	5.0	5.5	6.6	5.9
Inflation (CPI)	2.4	0.9	-0.1	1.5	3.7
10-Year Interest Rates	2.4	1.8	1.9	2.7	5.9



Broad Market Returns - One Year Trailing as of March 31

- The Federal Reserve hiked interest rates for the second consecutive quarter. However, this quarter, bonds posted slightly positive returns as compared to the negative returns in fourth quarter 2016. The rapid increase of rates in the fourth quarter transitioned to stable rates in the first quarter. The ten-year bond actually dropped in yield from 2.45% at the end of the year to 2.40% on March 31 as investors reassessed global growth prospects.
- International stock markets outperformed during the first quarter. As investors looked for relative value, they shifted money into cheaper international markets. The dollar weakened slightly, thus providing a tailwind for international returns.
- The first quarter dollar weakening also was evident in international bond returns. The Citigroup Non-U.S. Bond Index returned 2.0% for the quarter. The index consists of sovereign bonds of developed countries denominated in local currency. The dollar retraced some of its fourth quarter gains, providing an added boost to return.
- The chart to the left illustrates the range of one-year returns, highlighting the importance of diversification. For example, emerging market and developed international stocks have lagged U.S. stocks in recent years but their performance has recently rebounded.

DeFact

Low market volatility, market momentum, and lofty valuations have encouraged IPO activity. The number and dollar value of U.S. IPOs ballooned in the first quarter. There were 29 IPOs in the quarter, raising about $13.3 billion. The largest IPO and the biggest tech offering since 2014, was Snap Inc., which closed the quarter with a $26 billion market cap, making Snap Inc. the 200th largest U.S. company.

~WSJ, DeMarche

Domestic Equities

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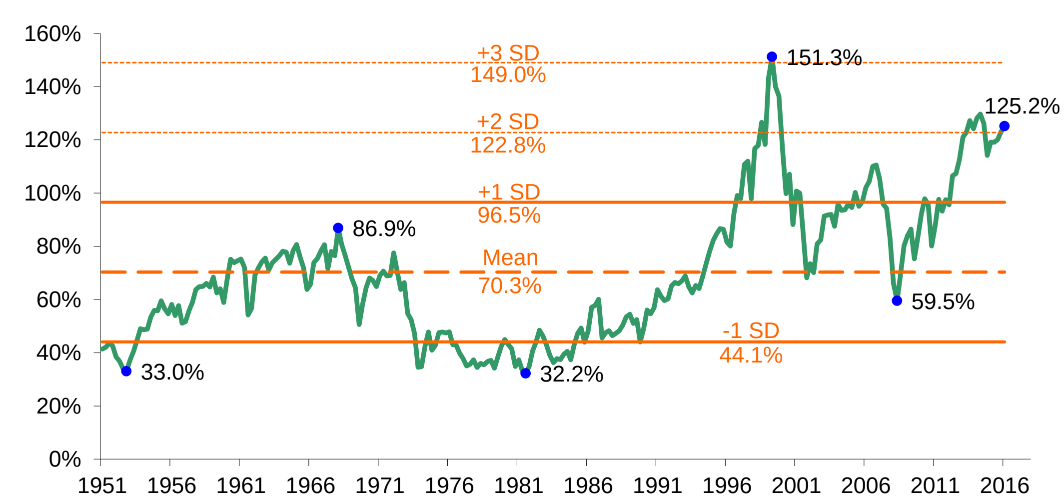
INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	7.8	16.1	9.6	12.0	7.6
DeMarche Value	3.7	17.8	4.4	8.8	4.0
DeMarche Aggressive	3.1	21.8	0.6	8.7	3.6
DeMarche Defensive	6.2	16.2	8.0	10.7	6.1
DeMarche Large Cap	6.1	15.1	7.3	10.2	5.4
Large Cap Growth	8.3	15.0	10.2	12.1	7.3
Large Cap value	3.6	15.6	3.9	8.0	3.0
DeMarche Small Cap	1.5	31.2	4.9	12.1	6.7
Small Cap Growth	2.2	30.1	4.1	10.6	5.8
Small Cap Value	0.9	32.0	5.5	13.1	7.2
S&P 500	6.1	17.2	10.4	13.3	7.5
S&P Mid-Cap 400	3.9	20.9	9.4	13.3	9.0
S&P Small-Cap 600	1.1	24.6	9.5	14.2	8.8
Russell 1000	6.0	17.4	10.0	13.3	7.6
Russell 1000 Growth	8.9	15.8	11.3	13.3	9.1
Russell 1000 Value	3.3	19.2	8.7	13.1	5.9
Russell 2000	2.5	26.2	7.2	12.4	7.1
Russell 2000 Growth	5.3	23.0	6.7	12.1	8.1
Russell 2000 Value	-0.1	29.4	7.6	12.5	6.1

Notes: Data are presented as percent returns. All 3, 5 and 10-year returns are annualized.

The Buffet Indicator: Total Market Cap to GDP



Source: Federal Reserve, BEA

- Growth stocks rebounded to lead value stocks by a wide margin in both large and small cap. Within the large cap indexes, technology stocks were the best performing sector, up over 13%. Financial stocks, presently a large component of value indexes, gained slightly above 2% after great returns in the fourth quarter. Energy stocks reversed, posting negative returns in the quarter.
- The growth story also showed up in small cap stock returns. Small cap growth stocks outperformed in the first quarter, led by the health care sector, which rebounded after health care reform failed to pass Congress. Growth stocks still lag value stocks for the one-year period due to value stocks' great fourth quarter 2016 return where they led growth by over 20%.
- The theme of the leaders from the fourth quarter becoming laggards of the first quarter was evidenced by large cap stocks leading small cap. Small cap stocks retraced some of their great outperformance gains but still lead for the one-year period.
- Domestic stocks appear overvalued. The premise of the Buffet indicator shown on the chart to the left, is that stock prices are dependent upon a growing economy, but at times, stock prices become overvalued or undervalued and revert to the mean. The Buffet Indicator is at best a long-term sign of future returns, with the current readings suggesting below average returns for the coming years.

DeFact

Apple shares sported their best quarterly performance in five years, up 24% in the first quarter of 2017. The first quarter performance was good enough to make Apple the biggest gainer among the 30 stocks in the DJIA, contributing about 20% of the total gains for the quarter. Apple has been one of the biggest beneficiaries of the renewed appetite for technology stocks this year.

~WSJ

INTERNATIONAL EQUITIES

DeMarche ASSOCIATES, INC. | Putting Research To Work

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Int'l	8.0	13.1	2.9	6.6	2.3
Growth	9.1	8.8	2.6	5.7	2.4
Value	7.0	17.6	1.6	6.5	1.7
DeMarche Int'l Small Cap	7.0	14.5	4.4	8.4	3.2
DeMarche EM	8.9	13.5	3.8	2.7	2.7
MSCI EAFE Local	4.7	18.0	7.3	10.7	2.3
MSCI EAFE USD	7.2	11.7	0.5	5.8	1.1
Growth	8.5	7.4	1.5	6.0	2.0
Value	6.0	16.0	-0.6	5.6	0.1
MSCI Japan	4.5	14.4	6.0	6.8	0.6
MSCI AC Asia-ex Japan	13.4	17.5	4.7	4.8	4.9
MSCI Germany	8.4	14.2	-0.6	6.8	2.5
MSCI France	7.3	12.4	-0.5	6.7	0.2
MSCI U.K.	5.0	7.4	-2.6	3.5	0.5
MSCI EAFE Small Cap	8.0	11.0	3.6	9.2	3.0
MSCI EM	11.4	17.2	1.2	0.8	2.7
MSCI All Country-ex U.S.	7.9	13.1	0.6	4.4	1.4

Notes: Data are presented as percent returns. All 3, 5 and 10-year returns are annualized.

Global Stock Fundamentals

Most Recent Data as of February 2017

Valuation	S&P 500	MSCI EAFE	MSCI Emerging Markets
P/E (next fiscal year estimated earnings) x	18.0	15.0	12.5
Price to Book Ratio x	2.9	1.6	1.5
Price to Cash Flow Ratio x	12.5	9.4	7.9
Price to Sales Ratio x	2.0	1.2	1.3
Profitability			
Return on Equity (ROE) %	16.1	10.6	12.0
Balance Sheet Strength			
Long-term Debt to Capital Ratio %	45.5	34.4	27.2

Note: Valuation and Profitability figures utilize a statistical technique that reduces the effects of extreme outlying data.
Long-term Debt to Capital figures are weighted averages.
Source: Voya, FactSet

- The dollar weakened slightly in the first quarter, retracing some of its gains from the fourth quarter. International stocks denominated in dollars benefited from the dollar reversal; however, international stocks still lag local currency returns over the long term.
- Emerging market stocks rebounded from weak fourth quarter performance, posting strong returns. Some $30 billion flowed into emerging markets assets in March, the biggest inflow since January 2015. One-year returns significantly outperformed longer-term returns, suggesting a theme that investors are searching out underperforming asset classes that will respond in a growing global economy.
- U.K. stocks lagged in the quarter and longer periods, bogged down by the Brexit uncertainty. The U.K. government officially started the two-year Brexit process on March 29.
- Asian stocks rebounded in the first quarter after posting weak results in the fourth quarter. Stocks of companies in China and India rebounded over 14% and 18% for the quarter, respectively, due to renewed economic growth expectations and regulatory reform prospects.
- The table to the left shows that emerging market stocks appear to offer comparable profitability and better balance sheet strength versus developed market stocks. Additionally, they have valuations below those of developed market stocks.

DeFact

The peso is up nearly 11% from its January lows. The MSCI Mexico Capped index is up more than 16% for the year to date. The peso fell to a record low after the U.S. Election on fears that the new Administration would push protectionist policies that would hinder Mexico's export driven economy.

~WSJ

Fixed Income

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INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Bond Index	0.5	-0.6	2.5	2.1	4.0
Quality					
AAA/Aaa	0.7	-1.3	2.2	1.5	3.6
BBB/Baa	-0.5	3.2	4.0	4.4	6.3
Duration					
1-5 Years	0.3	0.0	1.3	1.2	3.0
5-10 Years	0.7	-0.7	3.1	2.5	5.0
10-20 Years	0.8	-1.9	5.6	4.4	5.8
Sector					
U.S. Treasuries	0.7	-1.4	2.2	1.5	3.7
U.S. Agencies	0.6	-0.1	1.7	1.4	3.1
Corporates	-0.2	2.6	3.9	4.2	5.9
BlmBarc U.S. TIPS	1.3	1.5	2.0	1.0	4.2
BlmBarc Aggregate	0.8	0.4	2.7	2.3	4.3
BlmBarc Gov Credit Long	1.6	1.0	5.5	4.8	6.9
Merrill Lynch High Yield	2.7	16.7	4.6	6.8	7.3
CSFB Leveraged Loan	1.2	9.7	3.7	4.9	4.2
JPM Emerging Mkt Debt Global	3.9	8.8	5.7	5.2	6.9

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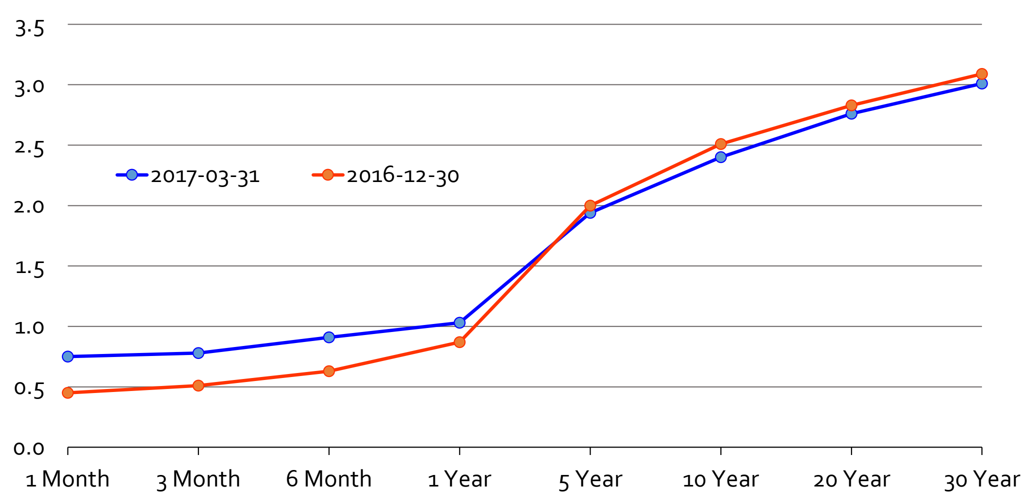
Yield Curve Now And Three Months Ago



Source: U.S. Federal Reserve

- Even though the Fed tightened interest rates during the quarter, the impact was minimal due to the market having priced in the tightening last quarter. One-year returns are negative because of the significant fourth quarter interest rates increase.
- Credit spreads widened slightly during the quarter. Wider credit spreads have a negative price impact on investment grade corporate and high yield bonds. High yield bonds produced positive returns for the quarter due to higher coupon rates, which help cushion against adverse price moves. Investment grade corporates have lower coupon rates; therefore, they provide less cushion against price moves.
- Bank loans have provided steady returns over all time periods. Bank loans feature floating rates, so they are not affected as much by changes in interest rates compared to fixed coupon bonds. The outsized return in the past year is due to credit spreads tightening as investors searched for yield.
- The chart at the left shows that the Treasury yield curve flattened slightly during the quarter. Shorter-term rates increased in response to Fed tightening and longer-term rates fell slightly in response to investors' reassessment of U.S. growth prospects. These actions produced positive returns in longer-term maturities, but anemic returns in shorter maturities.

DeFact

An estimated net $112 billion flowed into mutual funds and ETFs that invest in bonds. In contrast, an estimated $34.5 billion went into U.S. stock funds in the quarter. The reaction is a reversal of last quarter as money flowed strongly into stock funds and out of bonds. Investors appear to be a bit cautious and careful about growth prospects.

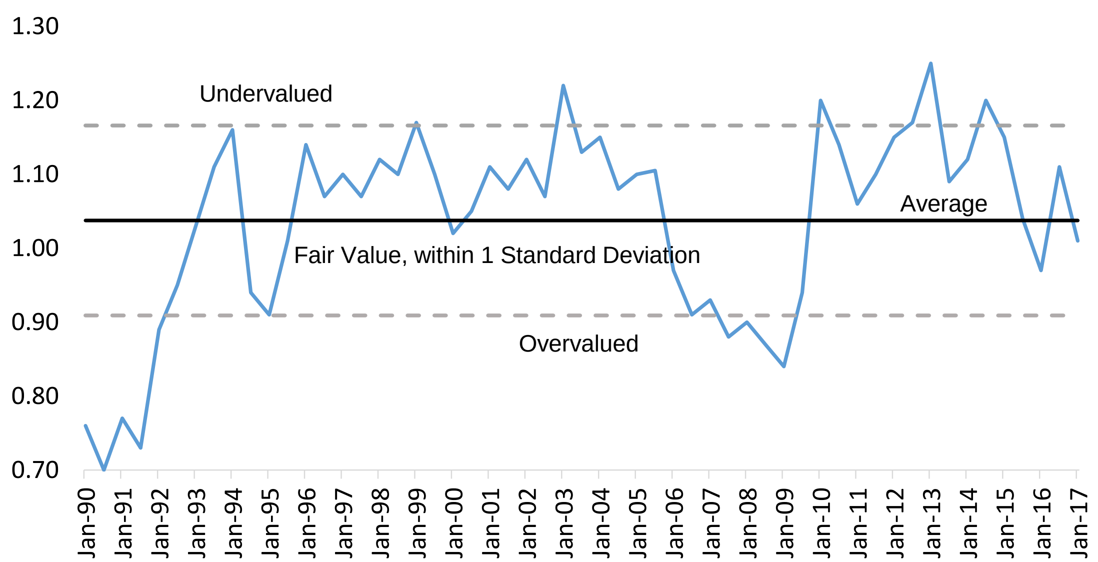
~Investment Company Institute

LESS LIQUID STRATEGIES

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	1.6	7.3	10.6	10.7	6.7
Apartment	1.3	6.7	9.5	9.9	6.4
Industrial	2.8	12.2	13.6	12.8	7.3
Office	1.3	5.7	9.7	9.7	6.0
Retail	1.6	7.6	11.5	12.1	8.2
NAREIT (Public RE)	3.0	6.3	10.5	10.4	4.8
NCREIF Timberland	0.8	3.6	5.7	7.1	5.7
HFR FOF Composite	2.3	6.2	1.8	3.2	1.2
Conservative	1.2	5.3	1.8	3.2	1.1
Diversified	1.8	5.2	1.7	3.2	1.3
Strategic	3.8	8.4	1.9	3.6	1.3
Bloomberg Commodities	-2.3	8.7	-13.9	-9.5	-6.2

Notes: Data are presented as percent returns. All 3, 5 and 10-year returns are annualized.

Ratio of Real Estate Capitalization Rates to Baa Corporate Bonds



Sources: National Council of Real Estate Fiduciaries (NCREIF), St. Louis Federal Reserve, RCA, Green Street, Moody's Analytics, CBRE Global

- Returns on commodities fell back into negative territory this quarter. Energy prices fell over 11% in the quarter. Interestingly, gold was up over 9% for the quarter as gold has traditionally been a hedge against inflation. The economy did experience an uptick in inflation this quarter as housing prices increased.
- Hedge funds continued to post positive returns for the fourth quarter in a row. The primary driver of returns was currency and the dramatic switch into technology stocks for the quarter. With the removal of monetary stimulus and the prospects of fiscal stimulus, hedge funds have benefited from changing investor sentiment.
- The chart to the left shows real estate cap rates as a ratio to "Baa" corporate bonds. A cap rate is the measure of income a property generates compared to its market value. An investor seeks a return on real estate that is comparable to bonds as a yield alternative. Currently real estate looks to be fairly-priced when compared to the yield a Baa bond will generate.

DeFact

Companies are staying private longer and have larger market caps when they do go public. According to data compiled by JP Morgan, private companies are relying on private equity funding for an average of eight years versus four years at the turn of the millennium. In addition, company market caps are larger by a factor of five times over same period. A few reasons companies stay private longer are high costs of going public and large amounts of patient private equity capital.

~JP Morgan, Goodwin Law

2017 Programs in Finance and Investments Workshop Series

The series presented by DeMarche Associates, Inc. are half-day forums focusing on current investment topics that are impacting your organization. DeMarche Associates continues to be an industry leader committed to bringing outstanding educational programs to our foundation, endowment, retirement plan and investment fund clients and friends. Register online at **www.demarche.com.** Questions may be directed to Ryan Pickert at (913) 384-4994.

Managing Pension Risk Today (Concluded)

April 26, 2017
Dallas, TX | The Hotel Crescent Court
7:30 a.m. – Noon

The Evolution of Alternative Strategies

May 24, 2017
Kansas City, MO | The InterContinental
7:30 a.m. – Noon

34th Annual DeMarche Client Conference – September 6-8, 2017

The Elephant in the Room

Join us beginning September 6, as we discuss some of the issues we can no longer ignore and address the elephant(s) in the room.

The Sheraton Kansas City Hotel at Crown Center in Kansas City, Missouri. Questions may be directed to your DeMarche consultant.