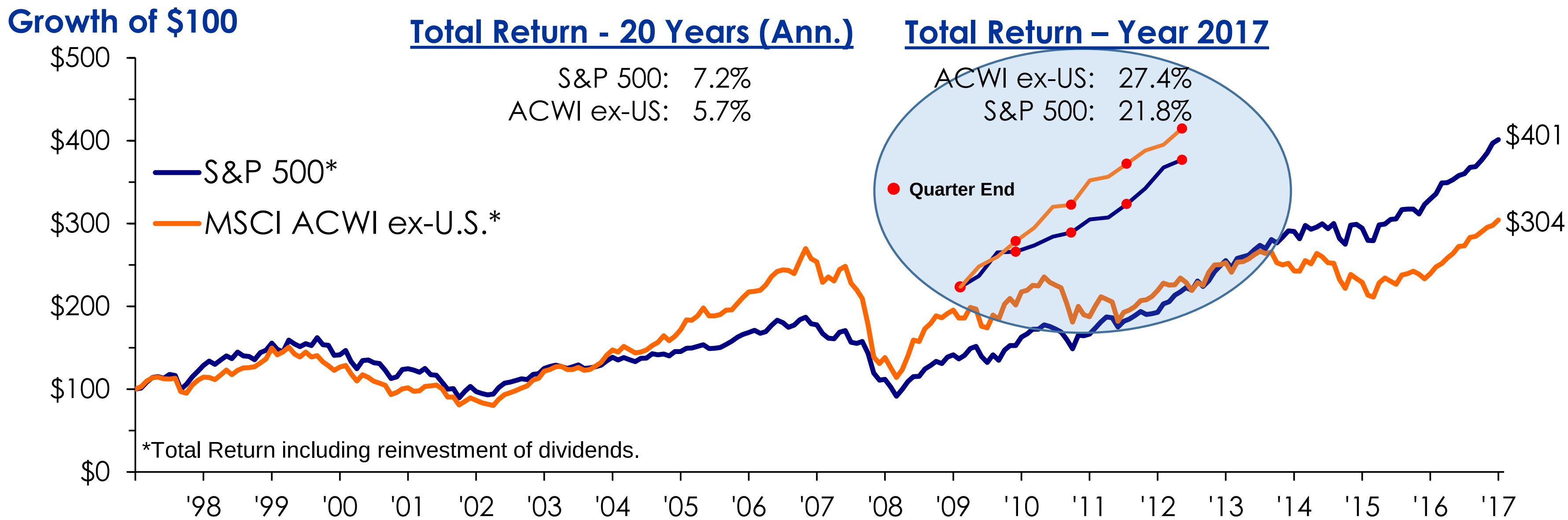
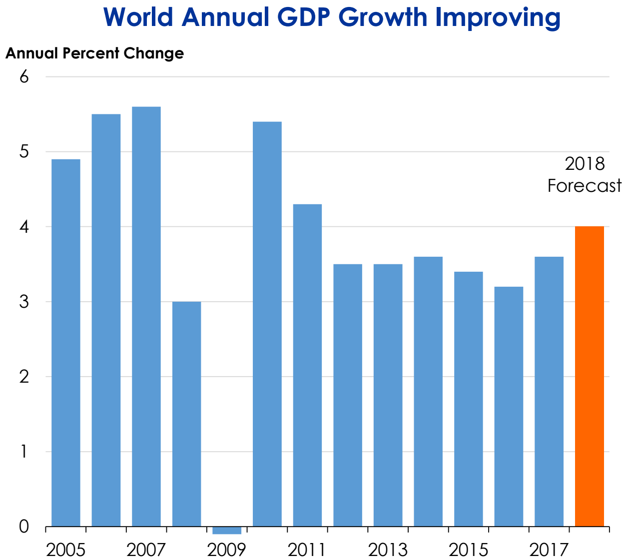
Capital Market Review

December 31, 2017

DeMarche
ASSOCIATES, INC.

Improving Global Expectations

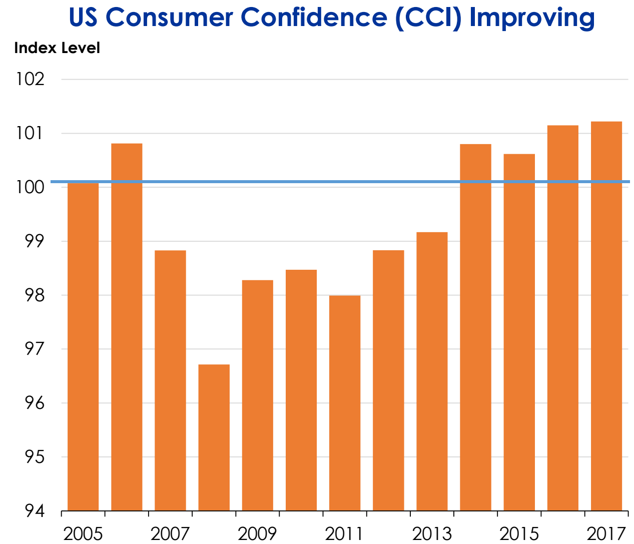




Source: International Monetary Fund, 2018 forecast by Goldman and Barclays

The solid and growing global economy fueled another great quarter of stock market returns. The two charts to the left and right tell us that Wall Street economists are predicting that global growth will accelerate, and consumers are feeling confident about prospects in 2018.

The 12-month return of 21.8% for the S&P 500 marked the best year since 2013. For international stocks, the return of 27.4% was the best annually since 2009. International stocks had struggled in comparison to domestic stocks in recent years, but 2017 was the first year in the past six that they outperformed.



Source: Organization for Economic Co-operation and Development (OECD)
CCI is produced by the Conference Board, and a level of 100 is a neutral reading.

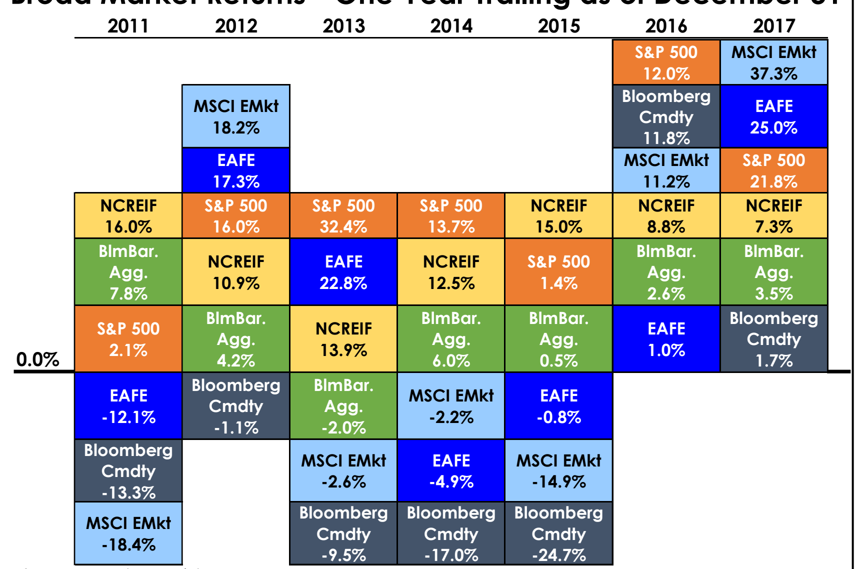
Broad Market Overview

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	5.5	22.4	9.3	11.6	5.0
DeMarche World*	4.9	23.1	9.6	10.9	4.8
DeMarche 3000	5.8	20.9	10.0	12.8	6.5
Russell 3000	6.3	21.1	11.1	15.6	8.6
S&P 500	6.6	21.8	11.4	15.8	8.5
DeMarche International	3.9	25.2	9.4	8.8	2.8
MSCI EAFE USD	4.2	25.0	7.8	7.9	1.9
BlmBarc Aggregate	0.4	3.5	2.2	2.1	4.0
Citigroup Non-U.S. Gov't Bond	1.6	10.3	2.0	-0.3	2.4
BlmBarc Global Aggregate	1.1	7.4	2.0	0.8	3.1
NCREIF (Private RE)	1.8	7.0	9.4	10.2	6.1
Bloomberg Commodity	4.7	1.7	-5.0	-8.5	-6.8

*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 12/31	2017	2016	2015	2014	50 Year Average
GDP Annual Growth Rate	2.5	1.8	2.0	2.5	2.8
Unemployment	4.1	4.7	5.0	5.6	6.2
Inflation (CPI)	2.1	2.1	0.7	0.8	4.1
10-Year Interest Rates	2.4	2.5	2.3	2.2	6.5

Broad Market Returns - One Year Trailing as of December 31



Source: DeMarche Associates, Inc.

- The global markets continued their path upward. The S&P 500 notched its ninth straight quarterly advance. A rally of this duration has only happened four other times since WWII.
- International markets performed positively this quarter. The MSCI EAFE Index lagged the S&P 500 slightly, but outpaced it for the year. Measured over longer time periods, international stocks still trail the U.S. by significant margins.
- The Federal Reserve raised interest rates again in December, marking the third increase in 2017. The yield curve flattened during the year due to the Fed raises that affected the short end while longer term yields were more stable.
- The dollar rallied in the 4th quarter after suffering two quarters of declines against global currencies. The dollar rallied in October and November in anticipation of a tighter interest rate policy. The weaker dollar means a unit of foreign currency can purchase more dollars, bolstering international returns.
- The chart to the left shows how international stocks, and particularly emerging market stocks, had a strong rebound in the past year after watching domestic stocks lead the pack for several years. This year provides further evidence that diversification and rebalancing can benefit investment portfolios.

DeFact

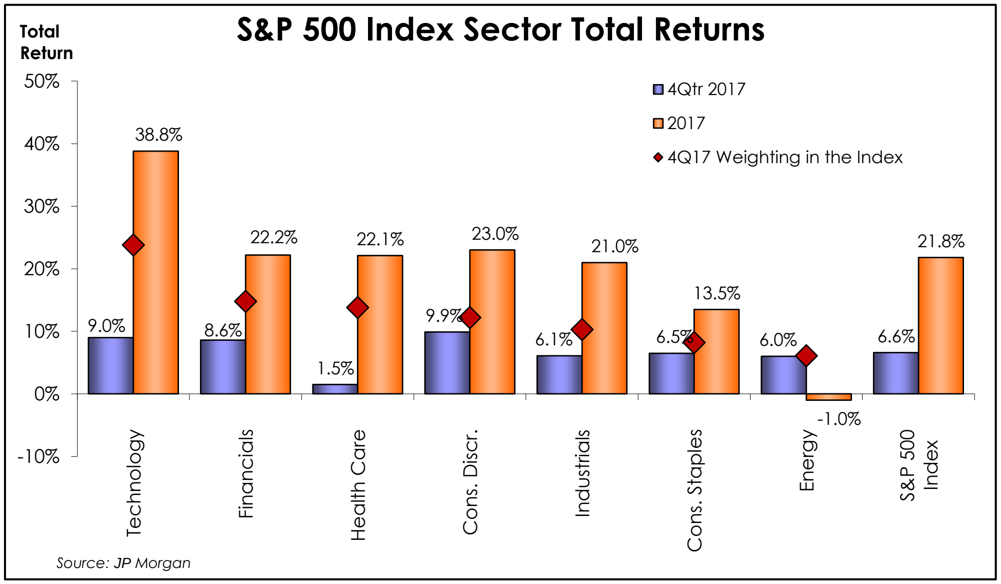
The Citigroup Economic Surprise index is at its highest point since 2003, with a reading of 84.5 at the end of 2017. The history of the Citigroup indicator tells us that when its reading is high, the subsequent return of the market has been rather modest. In fact, since 2003, the subsequent six month return of the S&P 500 has been an annualized 2.75% after the reading hits a high point. Economists explain this by stating that expectations eventually get too high and even strong economic data fails to meet expectations.

~WSJ, Citigroup

Domestic Equities

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	6.8	27.0	12.3	15.2	7.9
DeMarche Value	4.6	14.0	7.2	9.9	4.8
DeMarche Aggressive	4.8	16.1	4.6	10.5	4.4
DeMarche Defensive	5.9	21.5	10.5	13.0	6.6
DeMarche Large Cap	5.8	21.7	10.0	12.5	5.7
Large Cap Growth	7.1	28.8	12.8	15.5	7.5
Large Cap Value	4.3	13.9	6.7	9.0	3.5
DeMarche Small Cap	2.3	14.3	9.8	14.2	9.2
Small Cap Growth	0.9	15.5	9.0	13.4	7.6
Small Cap Value	3.5	13.3	10.4	14.7	10.2
S&P 500	6.6	21.8	11.4	15.8	8.5
S&P Mid-Cap 400	6.3	16.2	11.1	15.0	10.0
S&P Small-Cap 600	4.0	13.2	12.0	16.0	10.4
Russell 1000	6.6	21.7	11.2	15.7	8.6
Russell 1000 Growth	7.9	30.2	13.8	17.3	10.0
Russell 1000 Value	5.3	13.7	8.7	14.0	7.1
Russell 2000	3.3	14.6	10.0	14.1	8.7
Russell 2000 Growth	4.6	22.2	10.3	15.2	9.2
Russell 2000 Value	2.0	7.8	9.5	13.0	8.2

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



- Growth stock returns continued to trounce value stocks for the quarter and the year. The technology sector of the S&P 500 dominated the rest of the index, returning 38.8% for the year. The weighting of tech stocks has increased to 23.8% of the S&P. This is the sector's largest weighting since the peak of the tech bubble, in 1999-2000, when tech was almost 30% of the index.

- Small cap growth stocks, represented by the Russell 2000 Growth Index, outperformed small cap value stocks by a wide margin. Unlike large cap growth, small cap growth stock performance for the year was led by health-care (34.7% return, powered by biotech), far outpacing technology (10% return). Small cap value stocks, which are dominated by financials, lagged in part due to robust 4th quarter 2016 returns falling out of the one year return.

- Overall, small cap stocks underperformed large cap in more recent time periods. Presently, small cap index returns are not dominated by only a few stocks, as the large cap indexes are. The largest 30 stocks in the large cap index make up almost 50% of the market cap and 50% of the return. Therefore, small cap indexes are not as influenced by narrow leadership of the largest stocks within the index.

- The chart to the left shows that nearly all sectors of the market posted solid gains for the quarter and year. However, significant outperformance by technology and disappointing returns in energy, provide insight to the overall leadership of growth versus value during the past year.

DeFact

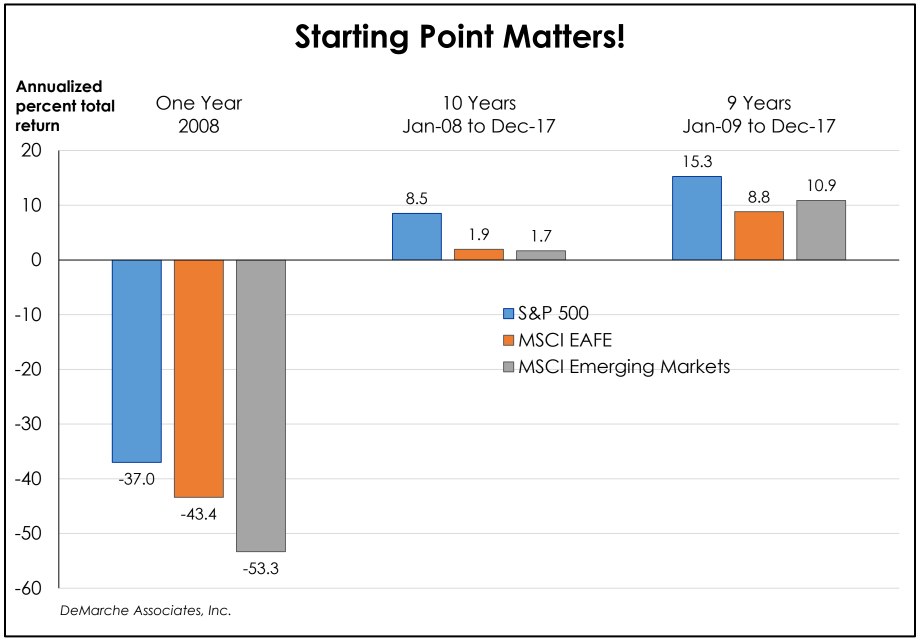
While technology stocks continued their advance during the quarter and the year, the "usual suspects" did not lead the index. This year, smaller and faster growing companies took the lead. Micron Technology returned over 90% for the year. PayPal came in a close second with an 88% return. In comparison, Apple returned a more modest 45%.

~ DeMarche, Yahoo Finance, Thomson Reuters

International Equities

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Int'l	3.9	25.2	9.4	8.8	2.8
Growth	3.5	26.9	8.3	7.5	2.6
Value	4.5	24.4	8.8	8.8	2.6
DeMarche Int'l Small Cap	2.6	24.3	11.3	9.7	5.6
DeMarche EM	8.0	33.0	7.9	6.1	1.8
MSCI EAFE Local	3.7	15.2	8.5	11.4	3.3
MSCI EAFE USD	4.2	25.0	7.8	7.9	1.9
Growth	5.2	28.9	9.2	8.8	2.7
Value	3.2	21.4	6.4	6.9	1.1
MSCI Japan	8.5	24.0	11.6	11.2	3.2
MSCI AC Asia-ex Japan	8.2	41.7	10.7	8.0	3.8
MSCI Germany	2.8	27.7	8.8	8.7	1.8
MSCI France	1.5	28.7	10.5	8.9	1.0
MSCI U.K.	5.7	22.3	4.1	5.2	1.5
MSCI EAFE Small Cap	6.1	33.0	14.2	12.9	5.8
MSCI EM	7.4	37.3	9.1	4.3	1.7
MSCI All Country-ex U.S.	5.0	27.2	7.8	6.8	1.8

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



- Foreign stocks outperformed domestic stocks for the first time since 2012 as markets rewarded developed international stocks during 2017. The dollar weakened during the year with the earnings recovery overseas. Companies in the EAFE index grew earnings at faster paces than large cap domestic companies in aggregate. For the year, international stocks outperformed domestic stocks, 25.0% (EAFE-USD) vs. 21.8% (S&P 500).

- Emerging market stocks came roaring back in 2017, boosted by a pickup in global economic growth and low interest rates. The 37.3% return for 2017 was the best since 2009. The weaker dollar may have proved to be rocket fuel for foreign equities this year, but earnings expectations are rising faster in emerging markets than in any other region. Over longer time periods, emerging market stocks still lag domestic stocks.

- Technology stocks dominated the international indexes just as they have the domestic indexes. The weighting of technology stocks in the Emerging Markets index is up to 28% compared to 23% a year ago. The technology impact was even greater in the narrower MSCI AC Asia – ex Japan index with Tencent, Samsung, and Alibaba comprising over 15% of the index.

- The chart to the left shows longer term international returns are rather modest compared to the U.S. But as we move into 2018, the disastrous 2008 returns will roll off. Longer term returns for domestic stocks will then be above average, and international stocks will be about average. This suggests that international stocks may offer some upside in the coming years when compared to domestic stocks.

DeFact

The MSCI Emerging Market index is turning 30 years old. At inception, it contained 10 countries; now it has 24. China, Russia and Central Europe were still behind the Iron Curtain, South Africa was still under apartheid. All were excluded. Chinese stocks now make up 24% of the index. Thirty years ago the constituent countries made up 5% of the global economy; today it is 35%.

~WSJ

Fixed Income

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
BlmBarc 1-3 Gov Credit	-0.2	0.8	0.9	0.8	1.9
BlmBarc Aggregate	0.4	3.5	2.2	2.1	4.0
BlmBarc Gov Credit Long	2.8	10.7	4.5	4.4	7.3
BlmBarc US TIPS	1.3	3.0	2.1	0.1	3.5
Merrill Lynch High Yield	0.4	7.5	6.4	5.8	7.8
CSFB Leveraged Loan	1.2	4.2	4.5	4.3	4.6
BlmBarc Global Aggregate	1.1	7.4	2.0	0.8	3.1
JPM Emerging Mkt Debt	0.5	9.3	6.8	3.8	7.1

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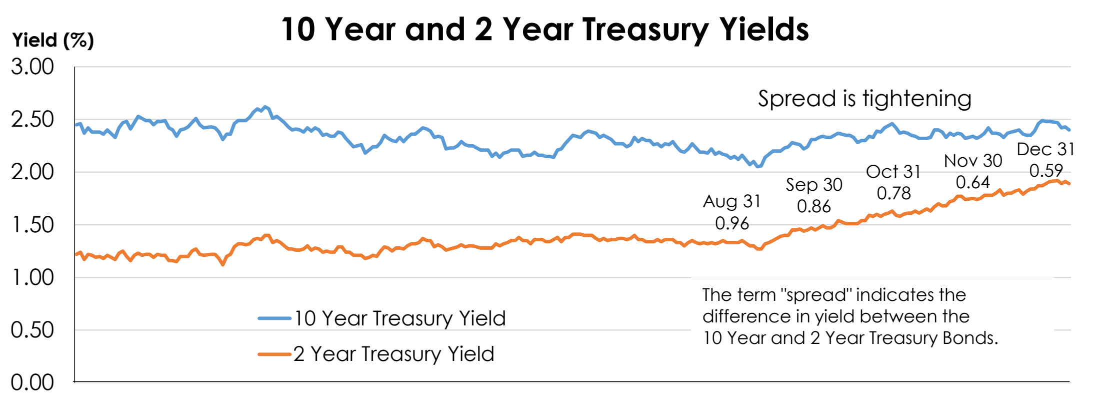
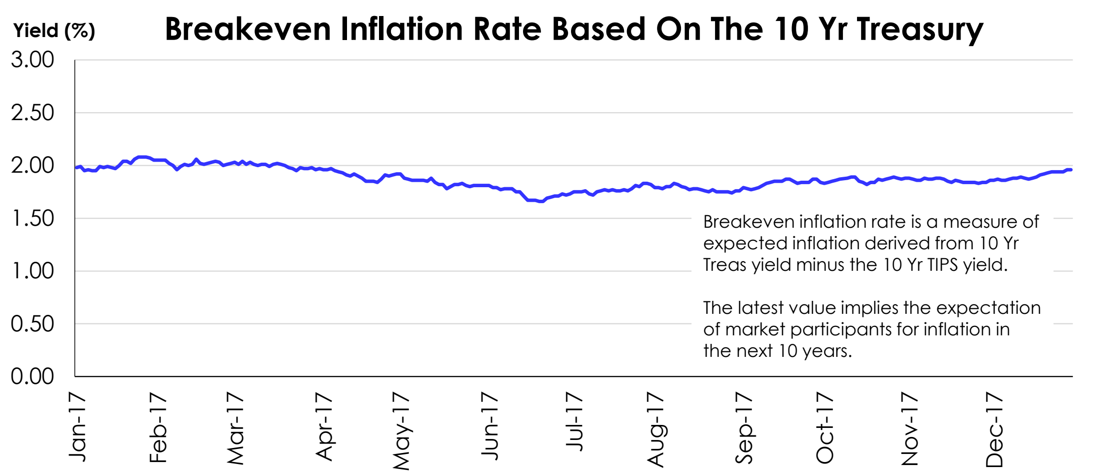




Source: Federal Reserve Bank of St. Louis (FRED)

- While other asset classes soared in 2017, longer term interest rates remained relatively stable. The 10 year Treasury yield ended 2017 at 2.41%, only 3 basis points lower than the 2.44% at the end of 2016. The Federal Reserve increased rates three times during 2017, resulting in a flatter yield curve.
- Ultimately, the returns on bonds this year were comprised mostly of coupon return. High yield spreads began the year at about 425 basis points versus the Treasury curve and ended the year approximately 50 basis points tighter. Investment grade spreads also tightened during the year by nearly 25 basis points. Tightening spreads enhance the return of bonds.
- The continued weakening of the dollar in the quarter helped emerging market debt returns. Debt denominated in dollars is easier to repay as the dollar weakens versus other currencies. In addition, emerging market debt has experienced spread tightening (as with other bond sectors), positively influencing longer term returns.
- The chart to the left shows the breakeven rate of inflation at about 2%, based upon the 10 year TIPS. Since the middle of 2017, the market has been expecting a pickup in the rate of inflation over the next decade. The Fed has been increasing rates this year, and since September the yield curve has been flattening with the 2 year yield increasing about 60 basis points in response to rising short term rates. The 10 year yield increased only half as much, primarily because inflation data is still modest.

DeFact

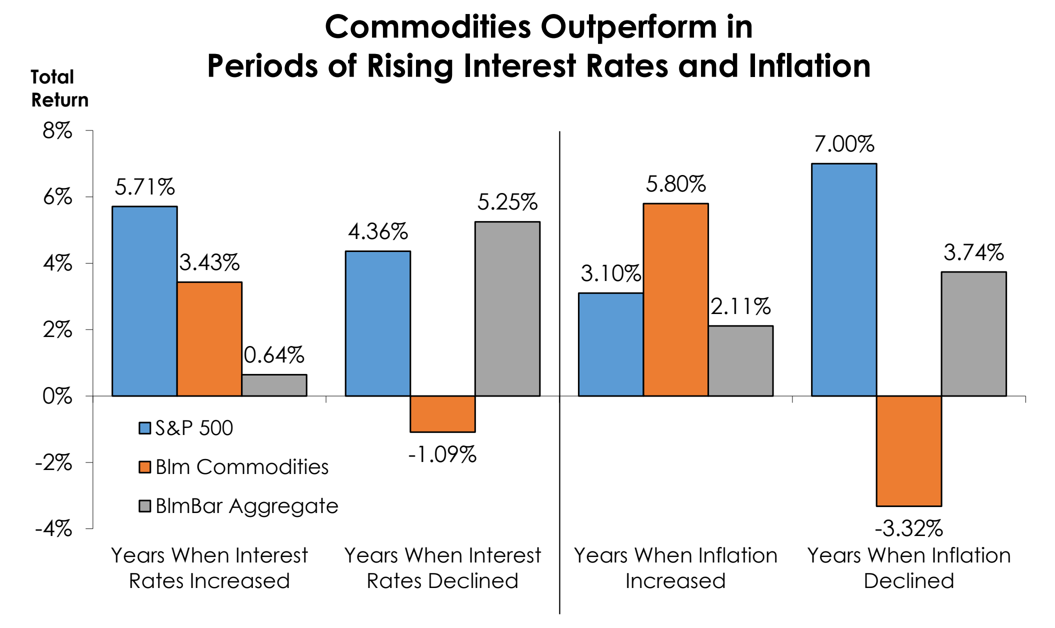
With interest low and investor demand high, gross issuance of investment grade bonds hit a record for 2017. Over $800 billion in new investment grade debt was issued during the year. Leveraged loan issuance also hit record amounts in 2017, and high yield bond sales outpaced the issuance in 2015 and 2016.

~CBOE, Forbes, DeMarche

Less Liquid Strategies

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	1.8	7.0	9.4	10.2	6.1
Apartment	1.6	6.2	8.5	9.2	6.1
Industrial	3.3	13.1	13.4	13.2	7.2
Office	1.7	6.0	8.2	9.2	4.9
Retail	1.3	5.7	9.9	11.1	7.5
NAREIT (Public RE)*	2.4	9.3	6.9	9.9	7.7
NCREIF Timberland	1.5	3.6	3.7	6.2	4.4
HFR FOF Composite	2.0	7.7	2.6	4.0	1.1
Conservative	1.1	4.1	2.1	3.4	0.9
Diversified	1.8	6.6	2.3	3.8	1.1
Strategic	2.7	11.5	3.5	4.8	1.1
Bloomberg Commodities	4.7	1.7	-5.0	-8.5	-6.8

Notes:* *Data are presented as percent returns. All 3, 5 and 10-year returns are annualized.
****Public RE is not a less liquid strategy. It is listed for comparative purposes.***



Averge annual total return (12/31/90 - 12/31/17). Years include all 12-month periods of quarterly data.
Source: DeMarche Associates, Federal Reserve

- REITs posted another quarter of positive performance. REITs have been trailing behind small cap stocks over longer time frames. However, the returns are in-line with private real estate over five and 10 years.
- Commodities had a second straight year of positive performance after years of negative returns. Oil and precious metals improved over the year and outperformed the broader index. Agricultural products underperformed the broader index.
- Hedge funds posted positive returns in every month of 2017, the first perfect calendar year since 2003. Over the past year, funds that invest in "strategic" oriented portfolios such as emerging markets and sector specific funds, exhibited greater volatility and dispersion than more "conservative" funds that seek to minimize volatility. Therefore the strong returns of the global markets during the past year benefitted "strategic" funds by comparison.
- Commodities have lagged other investment strategies for years. However, the current environment of inflation and rising interest rates may be beneficial to prices. The chart shows that in years in which inflation increases, commodities are the best performing asset class when compared to stocks and bonds.

DeFact

In 2017, Bitcoin became one of the market's greatest speculative crazes. It started the year valued at about $970 and rose to nearly $20,000 by December, a gain of almost 2,000%. During the year, there were five selloffs of at least 30% including the almost 45% drop in December. At the end of the year, the cryptocurrency recovered, ending the year up 1,375%.

~WSJ

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