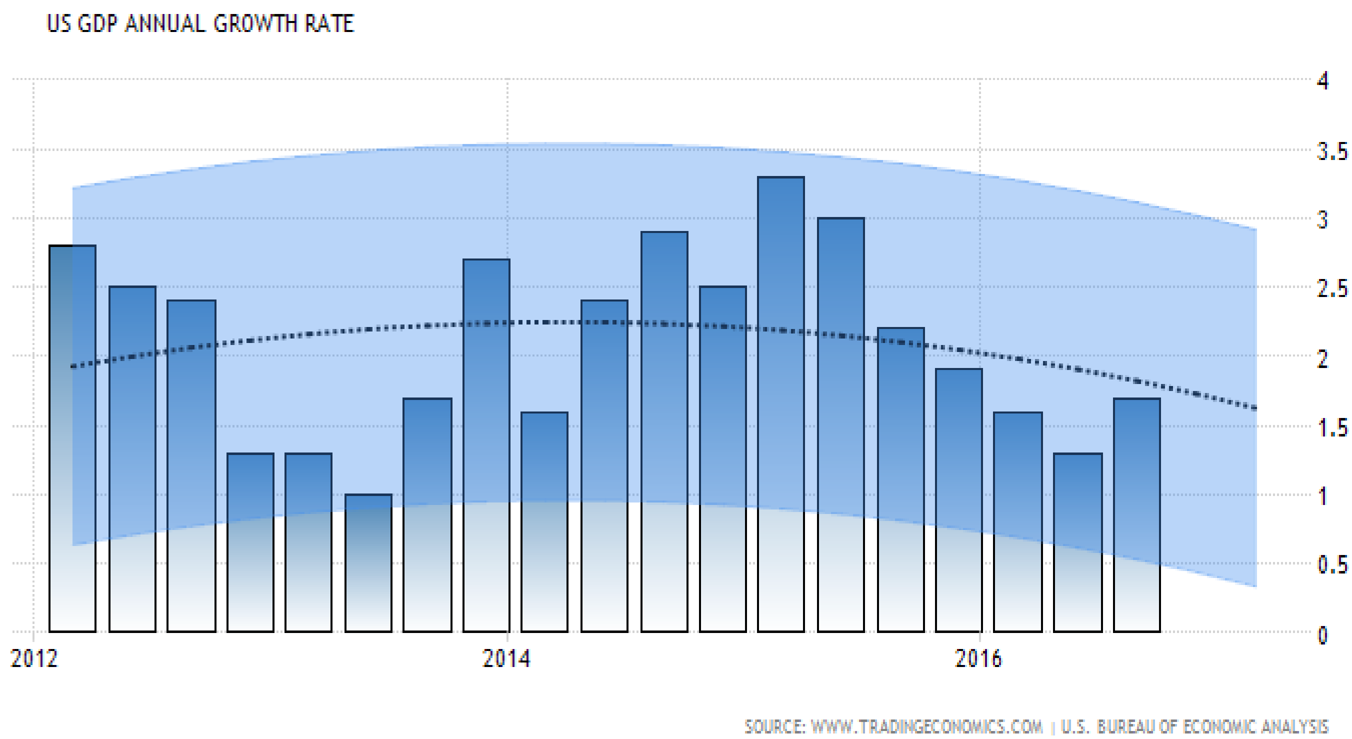
DMS Economic Outlook for next 12 months

- GDP growth has been below 2% for the past 4 quarters. We see growth modestly improving over 2017 as the global uncertainty from Brexit and the U.S. election fades.
- The Federal Reserve will continue interest rate hikes into 2017; we expect two more rate hikes, totaling 50 basis points.
- Headline inflation will begin to trend above 2% for 2017 due to the improvement in commodity prices. Oil prices increased 45% for 2016, ending the year at approximately $53. A growing economy will continue to put upward pressure on prices.
- Wage growth will increase slightly with a tighter labor market. Job creation will be stable with the unemployment rate remaining below 5%. Labor force participation will increase slightly.
- The U.S. dollar will remain relatively strong, but stable, versus other currencies. The recent surge in strength resulting from the Fed rate hike and the U.S. election will consolidate into a new stable trading range for 2017.

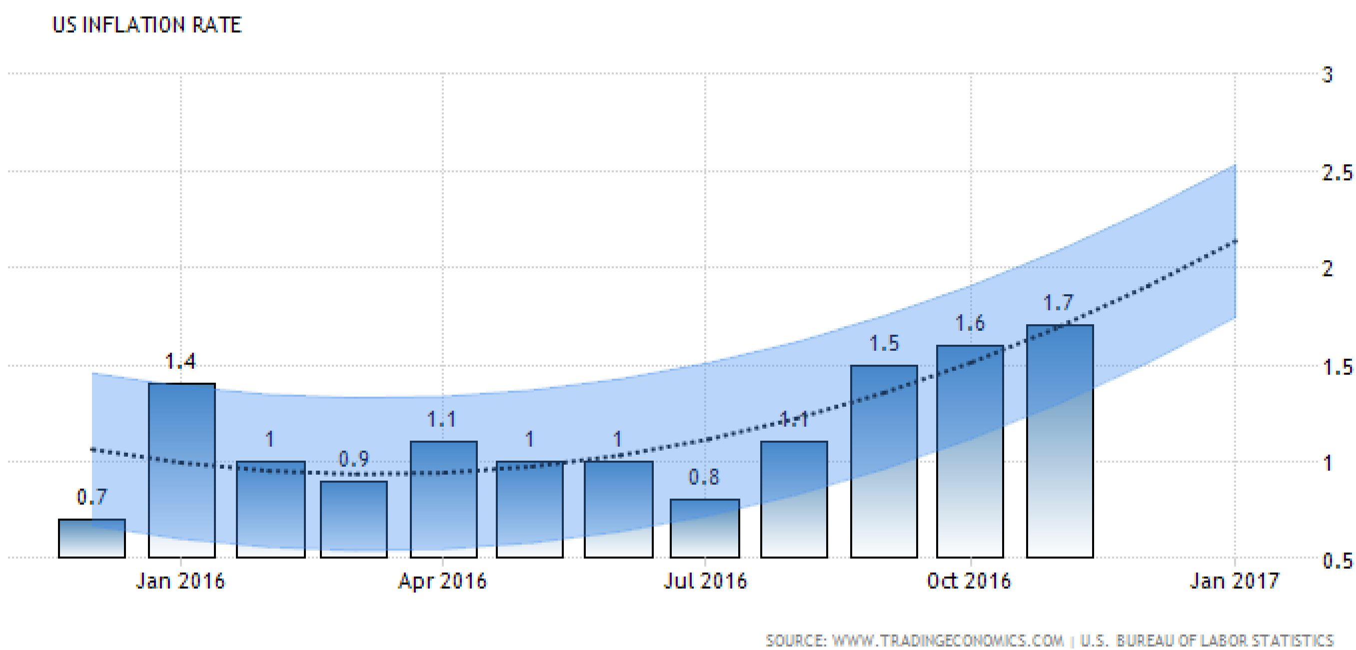
GDP growth has picked up a little bit of steam in the 4th quarter. As a result, year over year growth for 2016 was 1.7%.



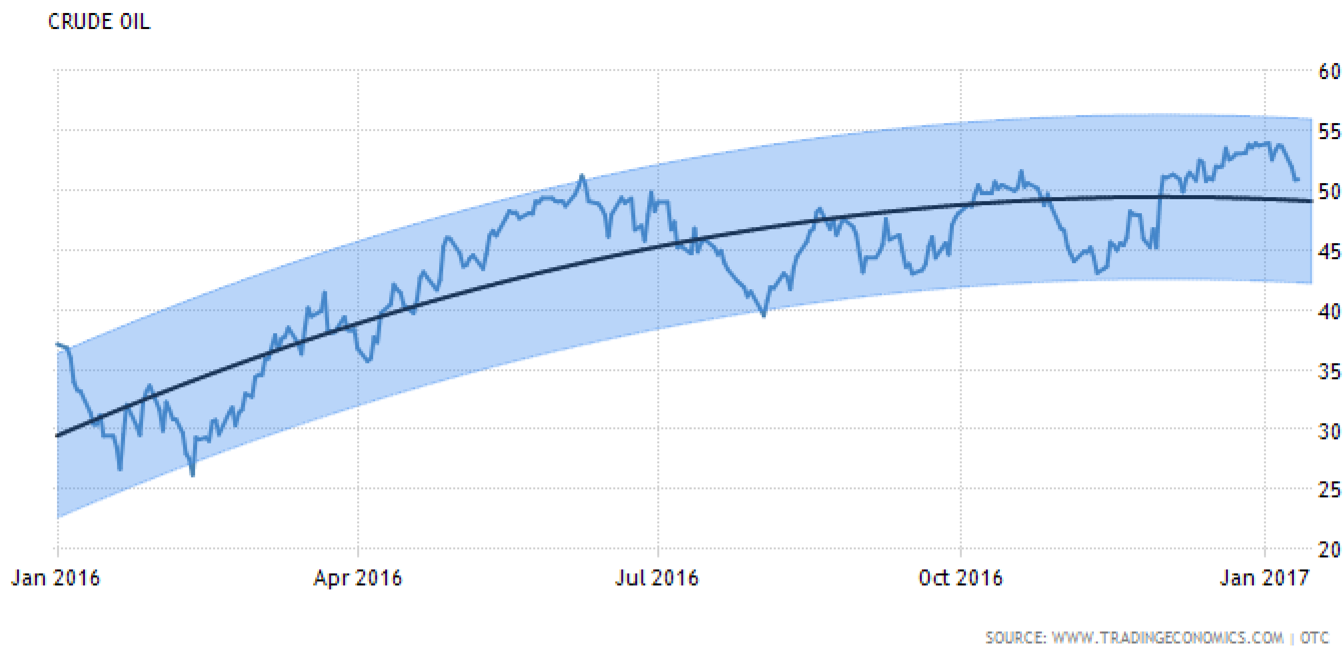
Economic Outlook

Discretionary Management Services, LLC

Inflation has been on a slightly increasing trend in recent months. Downward pressure on commodity prices had kept a lid on prices. However, recent upward moves in oil and metals prices could show up in the headline CPI number, more than what the market expects.



Oil prices have rebounded nicely from the February lows. The overall trend line increase has slowed throughout the year. An improving economy will provide support for energy prices into 2017.



The dollar has been on a slightly increasing trend in recent months. The recent surge corresponds to the Fed rate hike and the culmination of the U.S. election. Without this uncertainty weighing on the markets, we expect the dollar to remain bound within a new range for the near term.

DMS Strategic Outlook and Tactical Positions

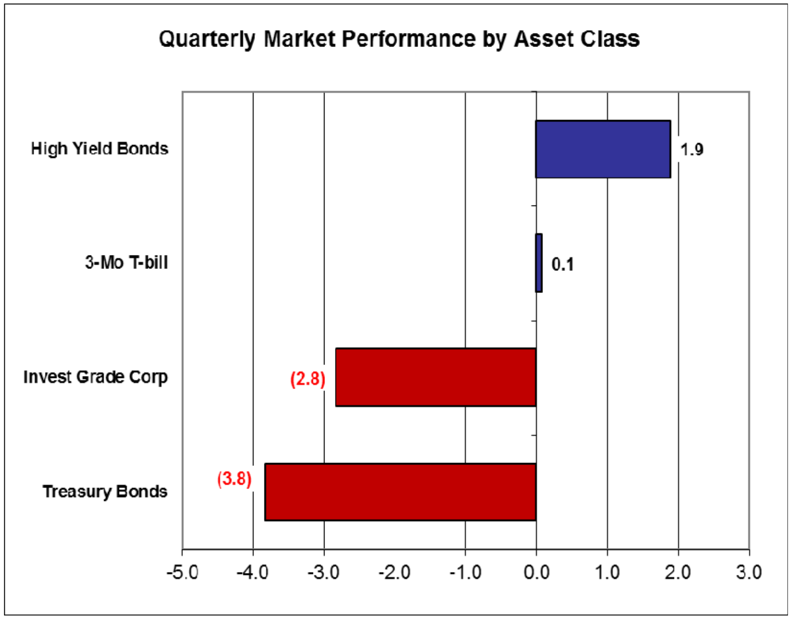
Strategic Outlook – Fixed Income: The Federal Reserve will remain vigilant. The outlook is for increasing rates in 2017 as the global uncertainty of the U.S. election and Brexit wanes.

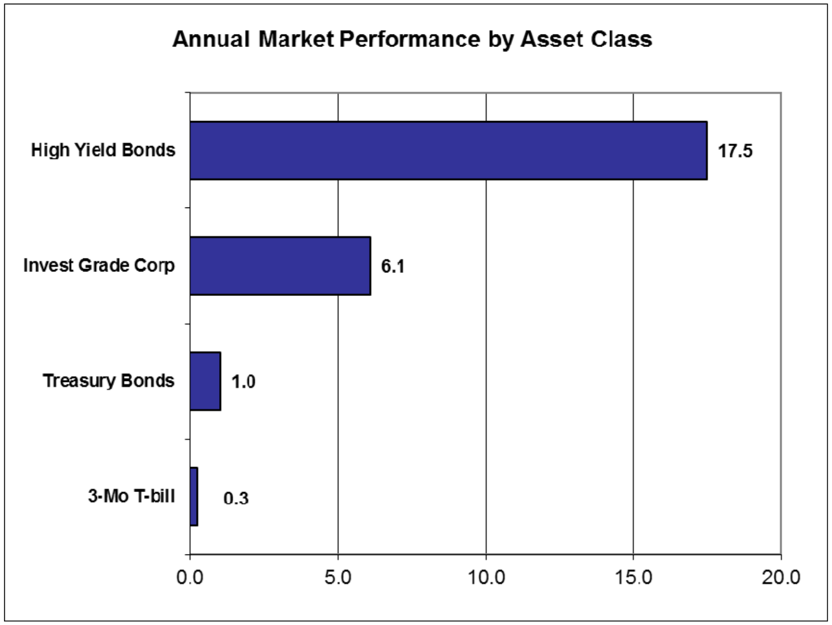
Tactical positions:

- High yield has outperformed in the fourth quarter and the year in response to a stabilizing energy sector. High coupon yields in this sector provide attractive income in a low rate environment. We view high yield to be fully valued and will use it as source of funds to bolster other positions.
- We continue to overweight credit versus Treasuries and duration is tilted shorter than benchmarks.
- Negative yields on international bonds do not appear attractive. However, emerging market debt denominated in U.S. dollars provides diversification and yield potential. Stability in global growth will further entice yield investors to add to these positions.
- Commercial real estate continues to provide positive returns. Queues can delay additions to positions and an increase in interest rates could dampen valuation improvements. Value added or opportunistic strategies can be a complement to a core real estate exposure.

Fixed Income Returns by Tactical Strategy

- High-yield corporate bonds are still viewed favorably given an improved economic outlook. Concern about defaults in the high yield energy sector have diminished, causing spreads to narrow, leading to full valuations.
- Overweight in investment grade credit continued as yields are attractive relative to U.S. Treasuries.
- Maintained a shorter duration in portfolios versus the benchmark in anticipation of increasing interest rates. When interest rates did increase, long duration treasuries posted negative returns.





DMS Strategic Outlook and Tactical Positions.

Strategic Outlook - Equities: The domestic large cap stock market appears to be fully valued and has priced in an anticipated earnings rebound. The negative impacts on earnings of a strong dollar and energy price rebound will fade in 2017 . The year-over-year comparisons will become easier.

Tactical positions:

- Small cap stocks are overweight to target in portfolios. Small cap stocks, while more inherently volatile, are impacted less by currency fluctuations than multinational large cap stocks.
- International stocks are equal-weighted to target. The quantitative easing programs in Europe and Japan should provide a tailwind to stocks as the weaker currencies will boost export earnings. However, political uncertainty will weigh on valuations.
- Within international equities, emerging markets stocks are overweight to target as they are comparatively attractive due to their low relative P/E multiples. Asian stocks are preferred as consumer demographic trends favor that part of the globe.
- The dollar has strengthened due to markets pricing in a Fed rate increase and the removal of uncertainty surrounding the U.S. election. The dollar will remain range-bound given an absence of positive global economic data. This should remove the currency headwind of the stronger dollar on future expected returns.

Equity Returns by Tactical Strategy

- Our small cap allocation was favorable for the quarter and the year. We are above target weights in accounts.
- Adding to international equity positions on weakness to take advantage of low relative P/E multiples and short term volatility. Positions are approximately equal-weighted to target.
- Maintaining an overweight in emerging markets equities during the quarter to take advantage of relative undervaluation. Performance was strong in the year.