DMS Economic Outlook for next 12 months

- GDP will grow modestly over the next 12 months at approximately 2.5%, but the economy will experience periods of unstable growth.
- Headline inflation will remain volatile due to commodity price uncertainty, but the recent readings for the Core inflation rate (without energy) have been steadily above 2.0%. 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 5.0%. Labor force participation will increase.
- The U.S. dollar will remain relatively strong, but stable, versus other currencies. The impact of increasing U.S. interest rates has been priced into currencies. The strong U.S. dollar is impacting earnings growth and will limit the upside earnings potential of large cap domestic multinational companies.
- Economic growth in other developed countries will be challenged to grow above 1.0%. Geopolitical events in Europe will put pressure on consumer spending and confidence.

Economic Outlook

Discretionary Management Services, LLC

Job creation picked up some steam in the fourth quarter of 2015. **Wage growth** has improved to 2.0% year-over-year and labor force participation, while still low, increased slightly to 62.9% from 62.7%.

Economic Outlook

Core Inflation has increased above 2.0% in recent months. Upward pressure on prices could force the Federal Reserve to increase the Fed Funds rate at a quicker pace than what the market expects. Conversely, low energy prices will impact the headline rate, somewhat masking the impact on the consumer of increasing core prices.

DMS Strategic Outlook and Tactical Positions

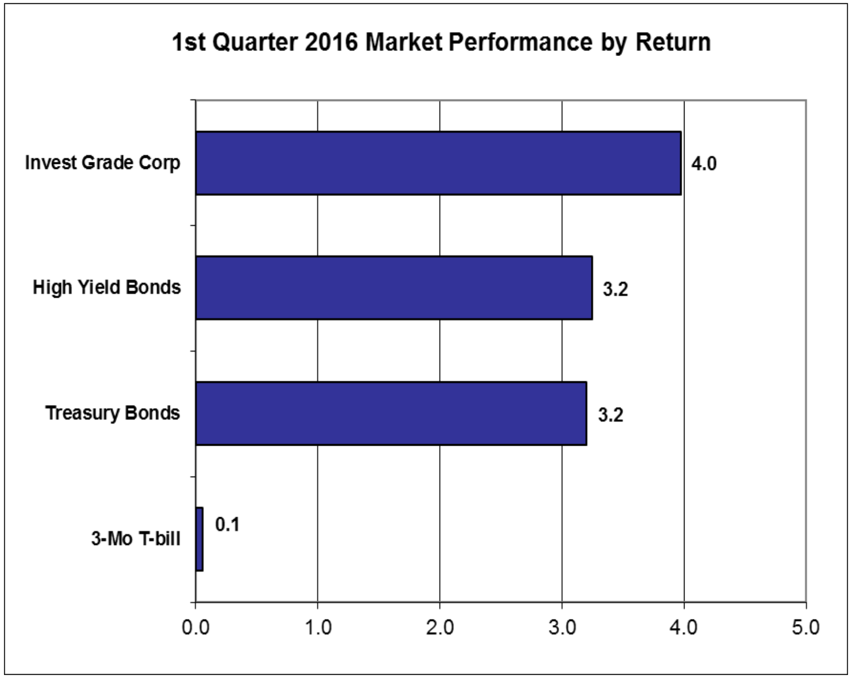
Strategic Outlook – Fixed Income: A trend toward higher interest rates is expected as the Federal Reserve raises interest rates in 2016.

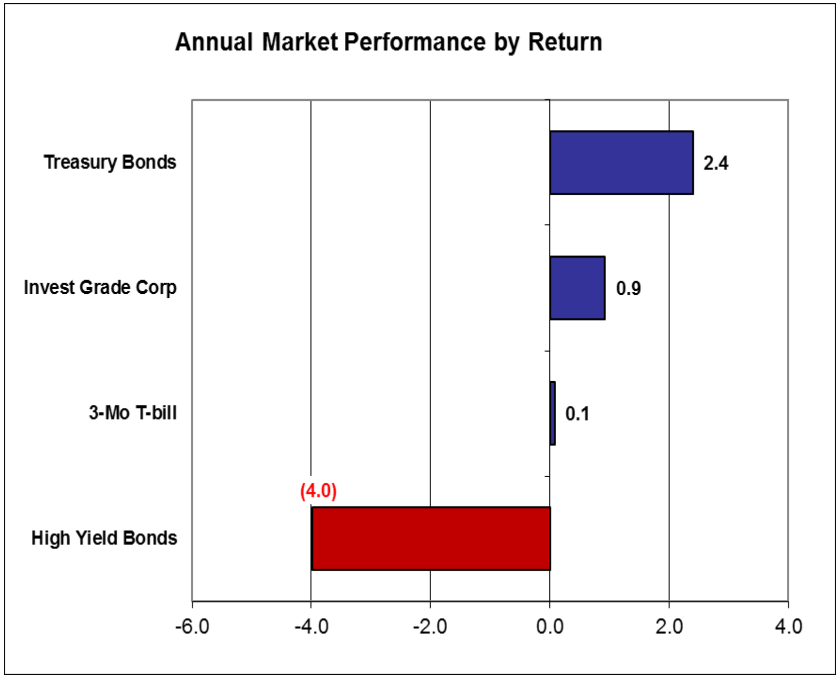
Tactical positions:

- High yield should outperform in a rising rate environment as the incremental coupon will protect against the price pressure from increasing interest rates. Lower oil prices have impacted energy company debt and credit spreads have widened, presenting a buying opportunity.
- We continue to overweight credit versus Treasuries and duration is tilted shorter than benchmarks.
- International bond yields have been pushed lower due to quantitative easing in Europe; therefore, yields do not appear attractive. However, emerging market debt denominated in U.S. dollars provides diversification and yield potential.
- Commercial real estate continues to provide positive returns in a choppy market. 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 has caused spreads to widen and presents a buying opportunity.
- Continued the overweight in investment grade credit as yields are attractive relative to U.S. Treasuries.
- Maintained a shorter duration in portfolios versus the benchmark in anticipation of increasing interest rates. However, falling rates impacted returns in the year and Treasuries outperformed.





DMS Strategic Outlook and Tactical Positions.

Strategic Outlook - Equities: The domestic stock market appears to be fully valued. Earnings have decelerated due to slower economic growth and a relatively strong dollar. Earnings growth should improve in the second half of the year as year-over-year comparisons become easier.

Tactical positions:

- Small cap stocks are overweighted versus targets in portfolios. Small cap stocks, while more inherently volatile, are impacted less by currency fluctuations than multinational large cap stocks. We will continue to “buy in” and bolster small cap positions during corrections.
- International stocks are overweighted versus the target. The quantitative easing programs in Europe and Japan should provide a tailwind to stocks as the weaker currencies will boost export earnings.
- Within international equities, emerging markets stocks are comparatively attractive due to their low relative P/E multiples and are also overweighted versus targets. Unfavorable economic news has been priced into valuations.
- The dollar has strengthened due to markets pricing in a Fed rate increase and monetary stimulus by foreign central banks. 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

- Adding to domestic small cap positions upon sell-offs as the risk/reward tradeoff now looks more favorable. We are above target weights in accounts.
- Adding to international equity positions, taking advantage of low relative P/E multiples. Positions are slightly overweighted versus the target.
- Maintaining an overweight in emerging markets equities during the quarter to take advantage of relative undervaluation. Performance was strong in the quarter.