DMS Economic Outlook for next 12 months

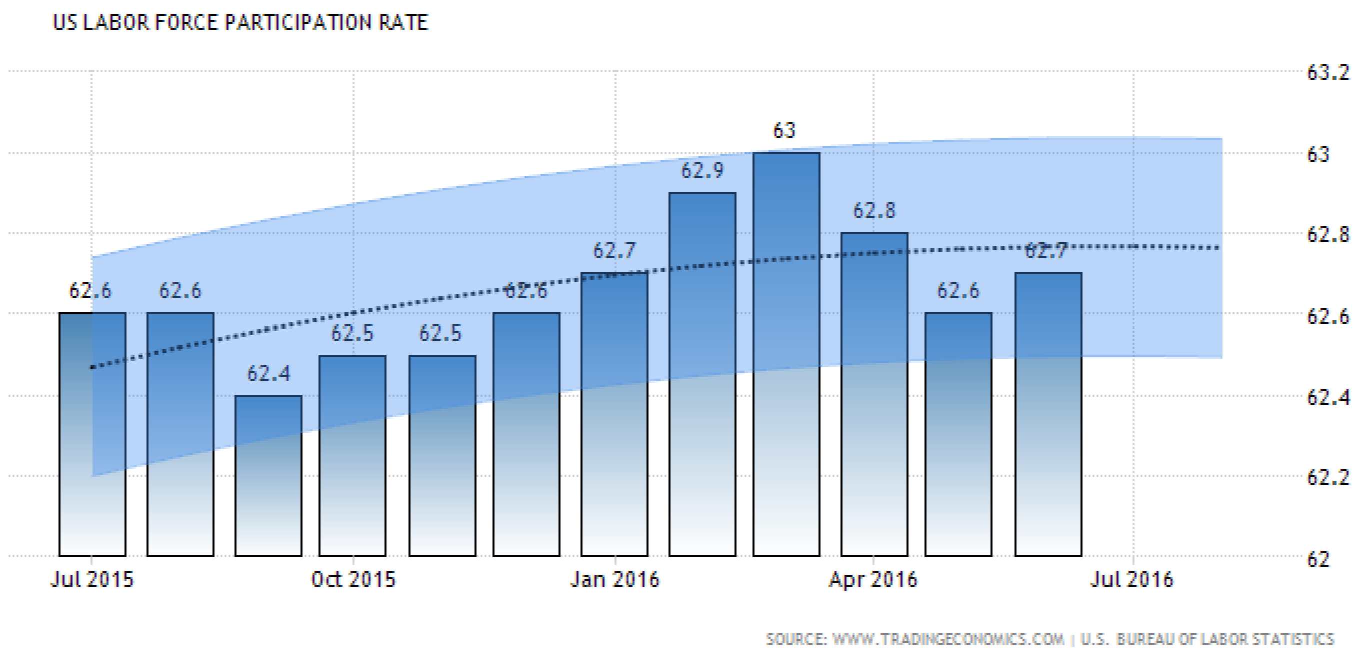
- After two quarters of below 2% growth, GDP will grow modestly over the next 12 months at approximately 2.0% as global uncertainty concerning “Brexit” and other events, such as concerns about slowing growth in China, fades. The Federal Reserve will put interest rate hikes on hold until 2017.

- 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.

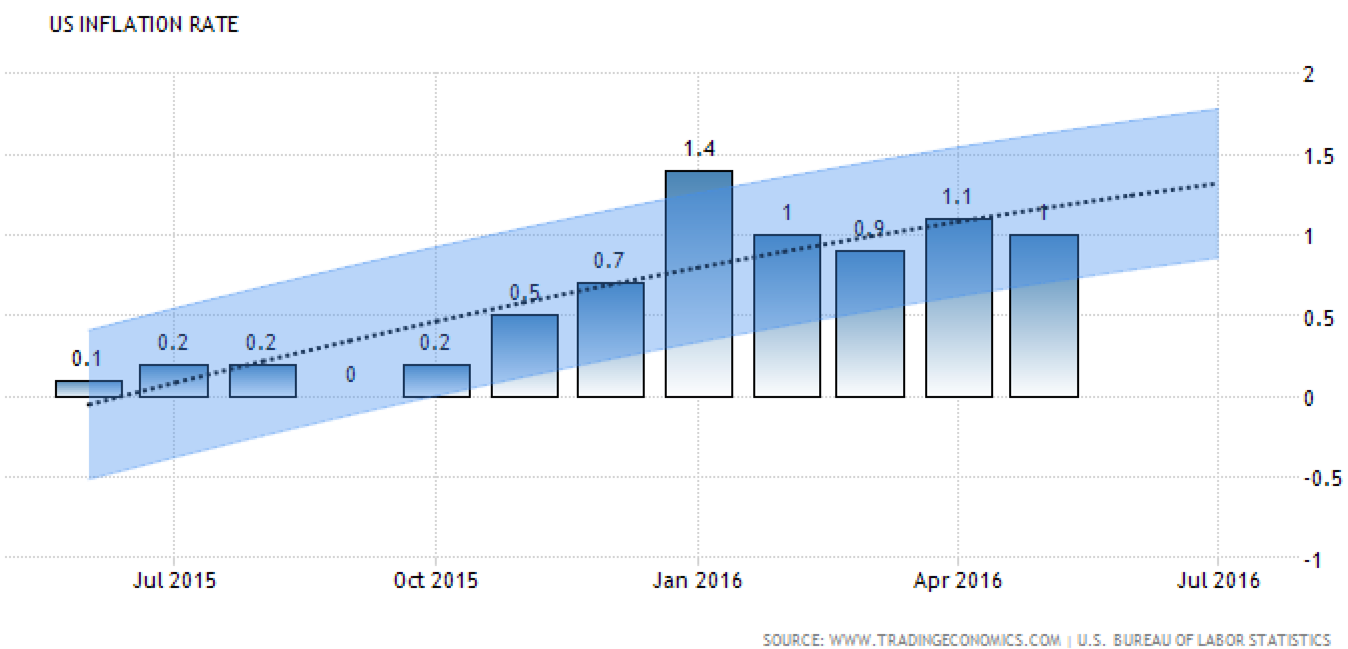
- The U.S. dollar will remain relatively strong, but stable, versus other currencies. The impact of “Brexit” will be isolated to the British Pound and Euro. The weaker pound may help British exports compete on the global stage. This could impact earnings growth potential of large cap domestic multinational companies.

Job creation picked up some steam in the second quarter of 2016. **Wage growth** has improved to 2.0% year-over-year and **labor force participation**, while still below average, increased slightly to 62.7% from 62.6%. Long term average for participation is 63%.



Economic Outlook

Inflation has been on a slightly increasing trend in recent months. Downward pressure on commodity prices has 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.



DMS Strategic Outlook and Tactical Positions

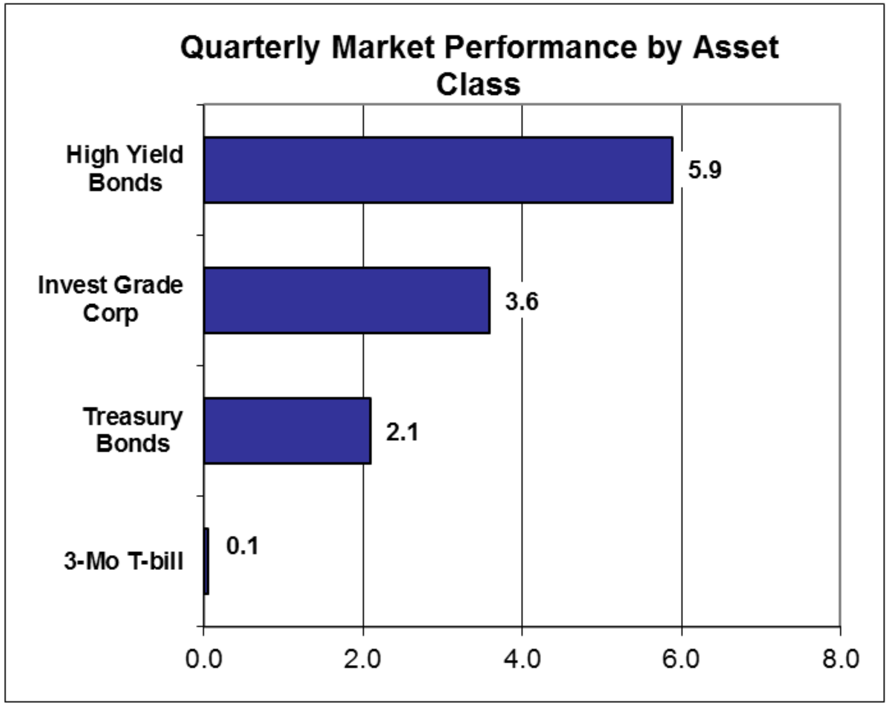
Strategic Outlook – Fixed Income: The Federal Reserve will remain on hold for the remainder of 2016. The outlook is for stable rates in the near term until global uncertainty wanes. Expect increasing rates to resume in the later months of the year.

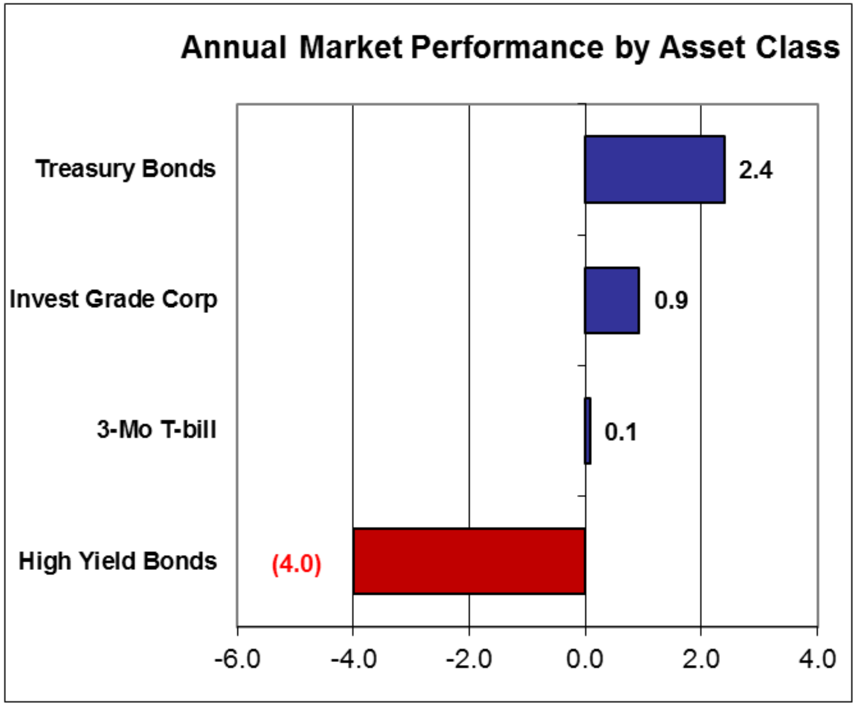
Tactical positions:

- High yield has outperformed in the second quarter in response to stability in the energy sector Higher coupon yields provides attractive yield in low rate environment.
- We continue to overweight credit versus Treasuries and duration is tilted shorter than benchmarks.
- Negative yield 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 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 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 large cap 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. “Brexit” volatility will present opportunities for active investors.
- Within international equities, emerging markets stocks are comparatively attractive due to their low relative P/E multiples and are also overweighted versus targets. Asian stocks are preferred as demographic consumer trends favor that part of the globe.
- 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 and short term volatility. 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.