Discretionary Management

Economic Outlook

DMS Economic Outlook for next 12 months

- We expect steady GDP growth in 2018, continuing between 2.5% and 3%. Tax cuts and tight labor markets have provided a tailwind to consumer confidence. Inflation trends still remain modest. We believe that the equity markets could be adversely impacted by unexpected inflation, particularly wage inflation.

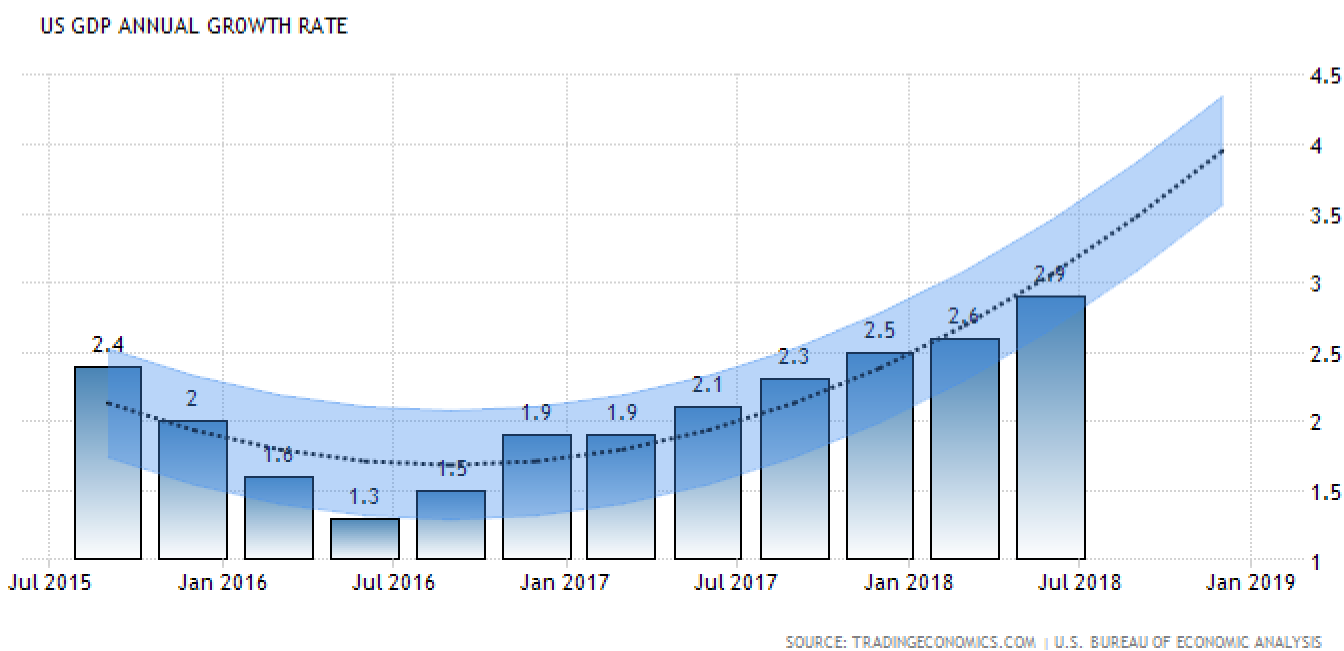
- The Federal Reserve raised the target range for the federal funds rate by 25 bps to between 2% - 2.25% during its September 2018 meeting, in line with market expectations. Policymakers see one more rate hike this year, three increases in 2019 and one in 2020, conforming with previous projections.

- Core inflation has peaked above 2.0%, which is the Federal Reserve's target for removing monetary stimulus. Headline inflation (including energy prices) has shown a more noticeable jump to 2.9% due to stronger oil prices in the quarter. A growing economy will continue to put upward pressure on prices.

- The U.S. dollar was stable versus other currencies during the third quarter of 2018. We expect the dollar to continue to consolidate into a longer term trading range into 2019.

Economic Outlook

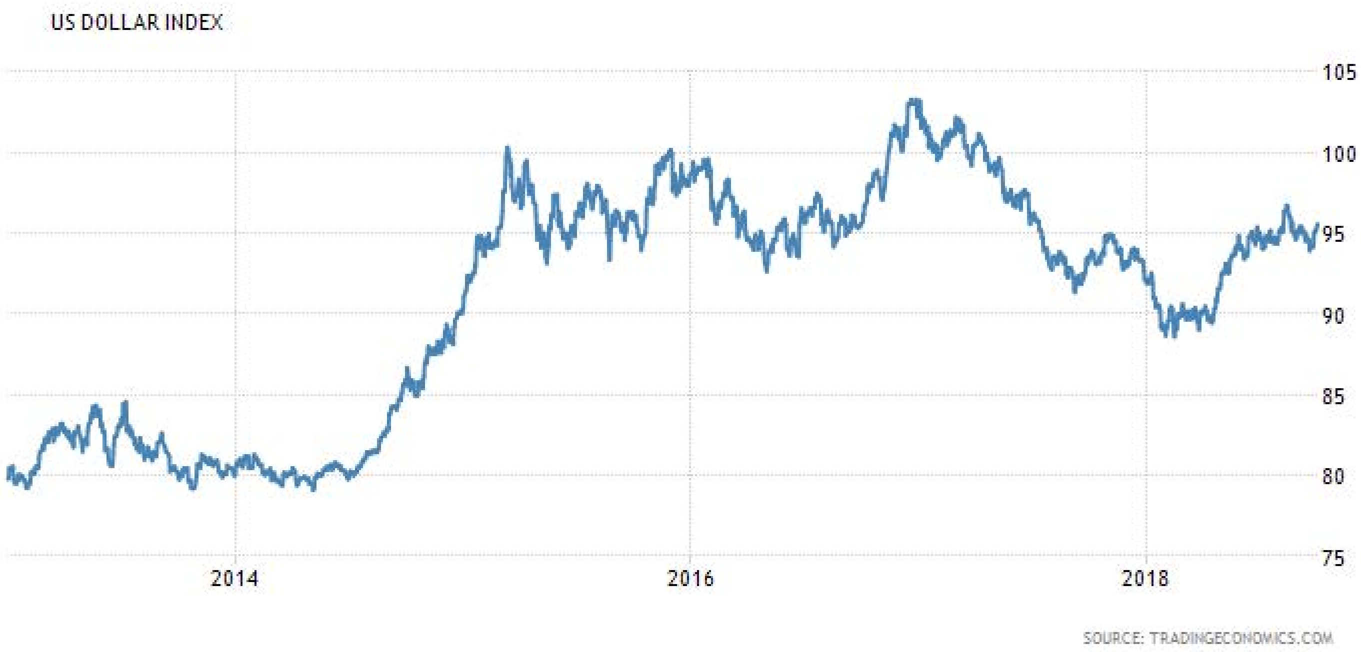
An improving **GDP growth rate will continue to keep the Fed vigilant. Higher interest rates** will continue to be the trend in response to strong economic activity. The dollar will remain strong compared to other currencies.



DeMarche

Economic Outlook

As mentioned, an improving GDP growth rate and higher interest rates will continue to **support the dollar in 2018 and 2019**. A stronger dollar in relation to other currencies will support domestic returns of investments and provide a headwind to international returns. We believe that the dollar will continue to trade within the longer term trading range that began in 2015.



Economic Outlook

The US annual core inflation rate, which excludes volatile items such as food and energy, fell to 2.2% in August of 2018 from a 10-year high of 2.4% reported in the previous month. The long downward trend from 2008 is reversing itself lightly as job growth improves.

Market Outlook

DMS Strategic Outlook and Tactical Positions

Strategic Outlook – Fixed Income: The Federal Reserve will continue to raise short term rates. Interest rates across the maturity curve will tend to creep upwards. For instance, the 10-year Treasury closed the 3rd quarter above 3%. Investment grade and government bonds struggled to post positive returns. Our expectation is for rates to increase throughout 2018 due to improved economic activity and inflation pressures and bond returns will face headwinds.

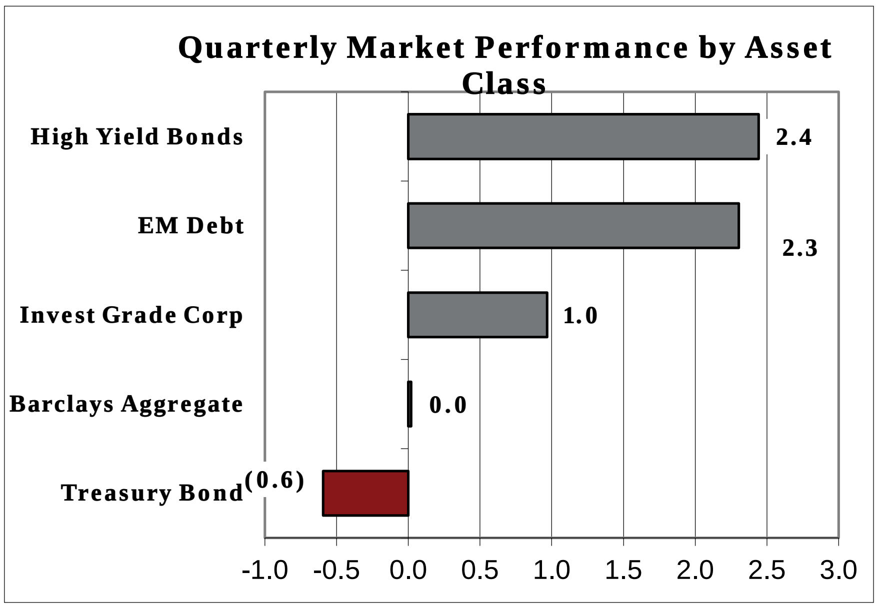
Tactical positions:

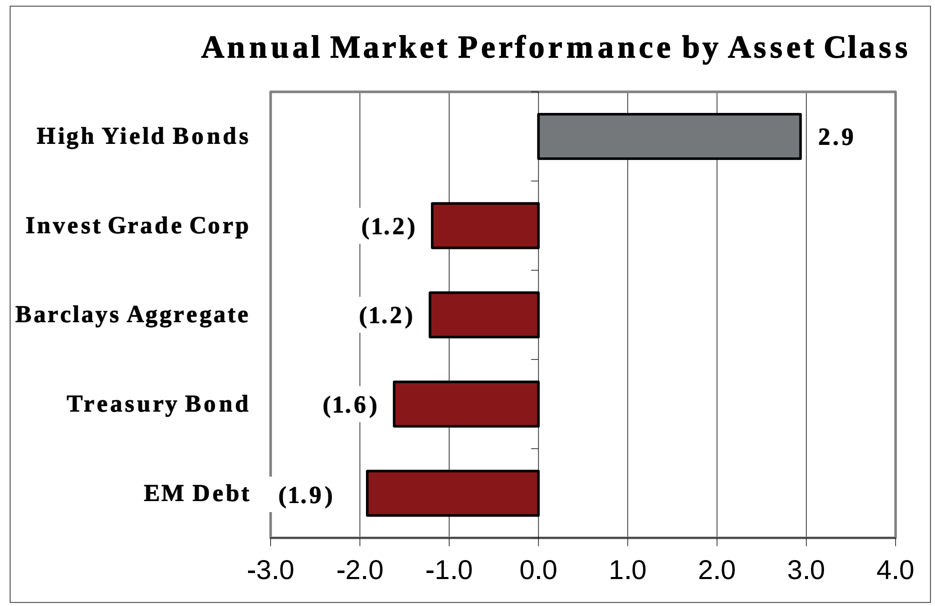
- High yield bond total return is lower than coupon rates due to downward price pressure from increasing interest rates. But we expect coupon-like returns for the rest of 2018 and into 2019. The risk to high yield is dramatically widening spreads, which we do not expect given the growing economy. We view high yield to be fully valued and will use it as a source of funds to bolster other positions when conditions warrant.
- We continue to modestly over weight credit versus Treasuries with duration tilted shorter than benchmarks. We view investment grade credit also as fully valued (as is high yield) due to the tight credit spreads.
- Emerging market debt denominated in U.S. dollars provides diversification and yield potential. The story of tighter credit spreads is also evident in this bond sector as it posted positive quarterly returns. However, over the past 12 months, emerging market debt (typically intermediate in duration) was negatively impacted by increasing rates and by the stronger dollar. We look to bolster positions on weakness.

Portfolio Review

Fixed Income Returns by Tactical Strategy

- High yield corporate bonds are still viewed favorably, but cautiously so, given the economic outlook. Concern about defaults is diminished due to strong corporate fundamentals. However, we see little upside appreciation because of tight credit spreads.
- Over weights in investment grade credit continue 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 short interest rates increased, longer term rates remained relatively stable, resulting in a flatter yield curve.





Market Outlook

DMS Strategic Outlook and Tactical Positions.

Strategic Outlook - Equities: Domestic large cap stocks outperformed other broad equity classes in the quarter and the year, outpacing international and small cap stocks. Large stocks rebounded in the quarter on positive trade news and pulled ahead of small cap stocks for the year. Positive economic momentum has benefited the largest stocks. Our expectation is that international stocks will pick up steam due to attractive valuations and overseas economic growth in 2018 and into 2019.

Tactical positions:

- Small cap stocks are over weighted versus targets in portfolios. While small cap stocks have now slightly underperformed large cap for 2018, they are the primary beneficiaries of the stronger U.S. economy and we expect a rebound.
- International stocks are slightly under weighted versus targets. We moderated international exposure in anticipation that stocks are becoming fairly valued and due to the expectation that the dollar will strengthen. We look for opportunities to bolster positions in 2018 and 2019.
- Emerging markets stocks are slightly over weighted to targets. They are comparatively attractive due to their low relative P/E multiples, but they have been adversely impacted by a strong dollar and negative trade headlines. Weakness in this area is a buying opportunity.

Portfolio Review

Equity Returns by Tactical Strategy

- Our small cap allocation was unfavorable for the quarter and for the year. We are above target weights in accounts and are looking to add to positions with pullbacks in prices.
- The international allocation underperformed domestic stocks. We have maintained an under weight position in developed international stocks versus emerging market stocks and to domestic stocks.
- We are maintaining an over weight in emerging markets equities to take advantage of relative undervaluation. Performance struggled in the quarter and for the year relative to domestic stocks.