

Capital Market Update

4th Quarter 2016



RETIREMENT PLAN
ADVISORY GROUP

Market Review - 4th Quarter 2016

U.S. equity posted a strong 4.2 percent return for the quarter, making it one of the better performing global asset classes for the year, finishing up 12.7 percent (Russell 3000). International equity continued to lag U.S. equity counterparts, posting a negative 0.7 percent return for the quarter, finishing the year up 1.5 percent (MSCI EAFE). Rates rose in fixed income as the Fed increased their short-term funds rate another 25 basis points, their second rate hike from a year ago. Long-term rates rose as well, as the 10-Year Treasury increased 84 basis points, to 2.45 percent. This, however, was only 17 basis points higher from where it was a year earlier. The rise in rates put most fixed income asset classes negative for the quarter. The broad U.S. fixed income market posted a negative 3.0 percent return for the quarter, but still finished the year up 2.6 percent (Barclays Aggregate).

The two notable events over the quarter were the Fed's rate hike and the U.S. presidential election. The Fed's rate hike went off without a hitch, and as expected, they raised the federal funds rate another 25 basis points at their December 13-14 meeting. This was taken as good news, signaling a growing economy with healthy unemployment and inflation levels. The U.S. presidential election, however, in stark contrast to the rate hike, was more of a cliffhanger. Markets reacted negatively at first to the "unexpected" Trump victory, but recovered shortly afterwards as investors digested the news. Some of the president elect's proposals, including tax cuts, deregulation and infrastructure spending likely fueled the year-end rally. The same pro-growth proposals, however, also likely pressured rates higher as inflation fears followed.

Asset class correlations fell in the fourth quarter as equities and fixed income again followed divergent paths. Rebalancing has become a timely consideration from a risk management point of view as correlations continue to fall. With equities long into their recovery and bond yields off historically low levels, the new year is presenting itself as an opportune time to rebalance. In times like these, it is important to remember that rebalancing back to intended levels can enhance a portfolio's risk and return characteristics (see the chart of the quarter). With three more rate hikes projected by the Fed in 2017, higher yields may well be in store. While fixed income (returns) could go lower, higher yields will give investors a bigger "shock absorber" in the future for the next bout of market volatility. As we welcome in the new year, a rise in rates should be welcomed in as well.

U.S. Equity

U.S. equity posted a positive 4.2 percent return for the quarter (Russell 3000). All U.S. equity styles posted positive returns for the quarter as value outperformed growth. Small value was the best performing U.S. equity style, posting a positive 14.1 percent return (Russell 2000 Value) and large growth was the worst performing style, posting a positive 1.0 percent return (Russell 1000 Growth).

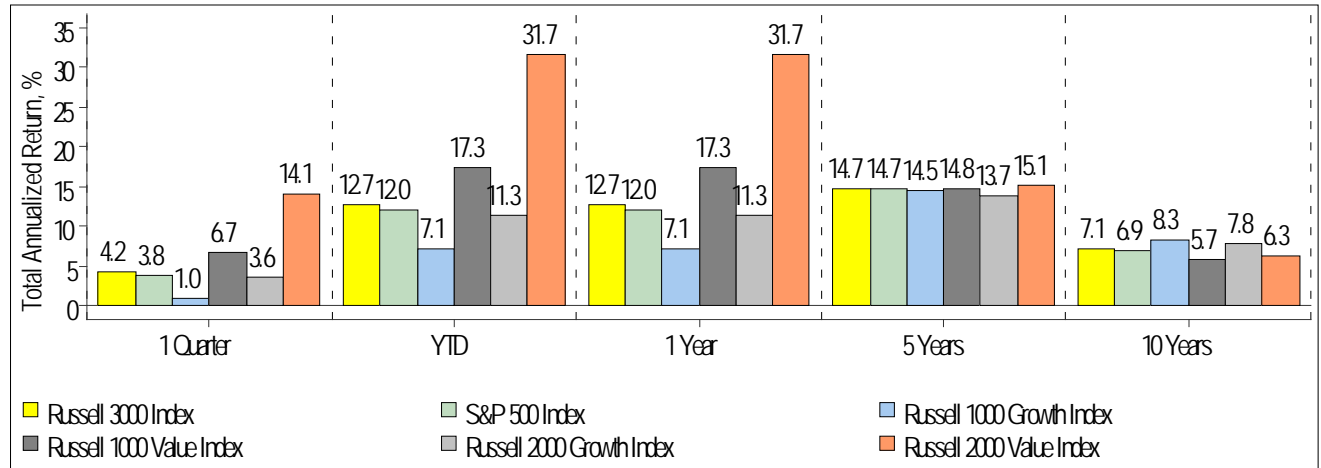
International Equity

Developed international equity underperformed U.S. equity, returning a negative 0.7 percent (MSCI EAFE) as value outperformed and growth stocks dragged the broad market lower. The best performing region for the quarter was Japan which returned a negative 0.1 percent (MSCI Japan). Emerging Markets was the worst performing region, returning a negative 4.1 percent (MSCI Emerging Markets) for the quarter.

Fixed Income

The broad U.S. fixed income market posted a negative 3.0 percent return (Barclays U.S. Aggregate). High Yield was the best performing sector, returning a positive 1.8 percent (BC High Yield). Government was the worst performing sector, returning a negative 3.7 percent (BC Government). Global fixed income underperformed the broad U.S. fixed income market, returning a negative 6.8 percent (BofA ML Global Broad Market).

U.S. Equity Index Performance



□ All U.S. equity styles were positive for the quarter

□ Value outperformed Growth

- Small value was the best performing style, up 14.1%

- Large growth was the worst performing style, up 1.0%

□ Best performing sectors for the quarter:

- Financials, up 21.1%

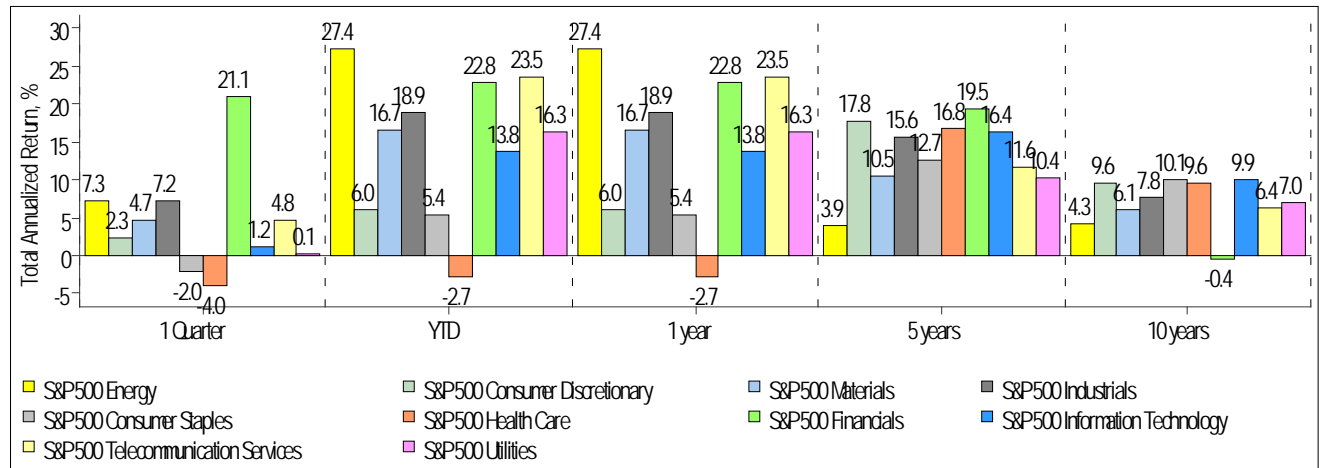
- Energy, up 7.3%

□ Worst performing sectors for the quarter:

- Health Care, down 4.0%

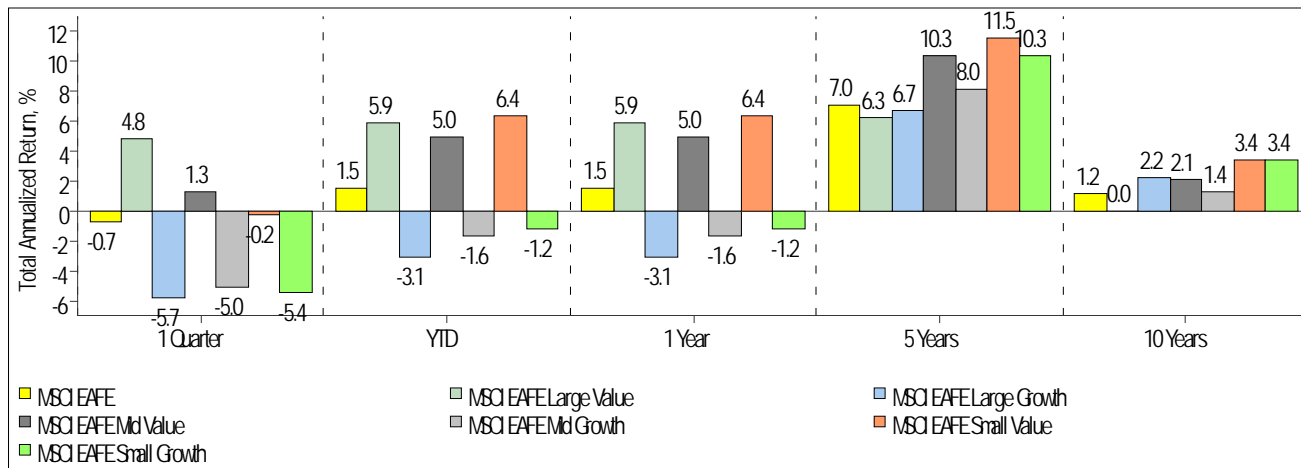
- Consumer Staples, down 2.0%

U.S. Equity Sector Performance



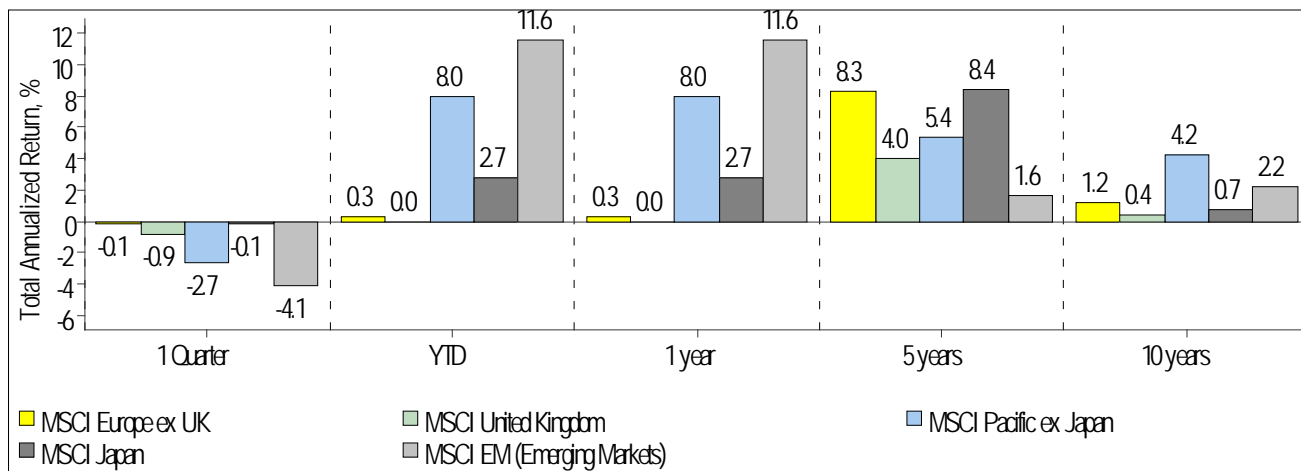
International Index Performance by Style and Capitalization

- International equity styles were mixed over the quarter
- The best performing international equity style for the quarter:
 - Large value, up 4.8%
- The worst performing style for the quarter:
 - Large growth, down 5.7%



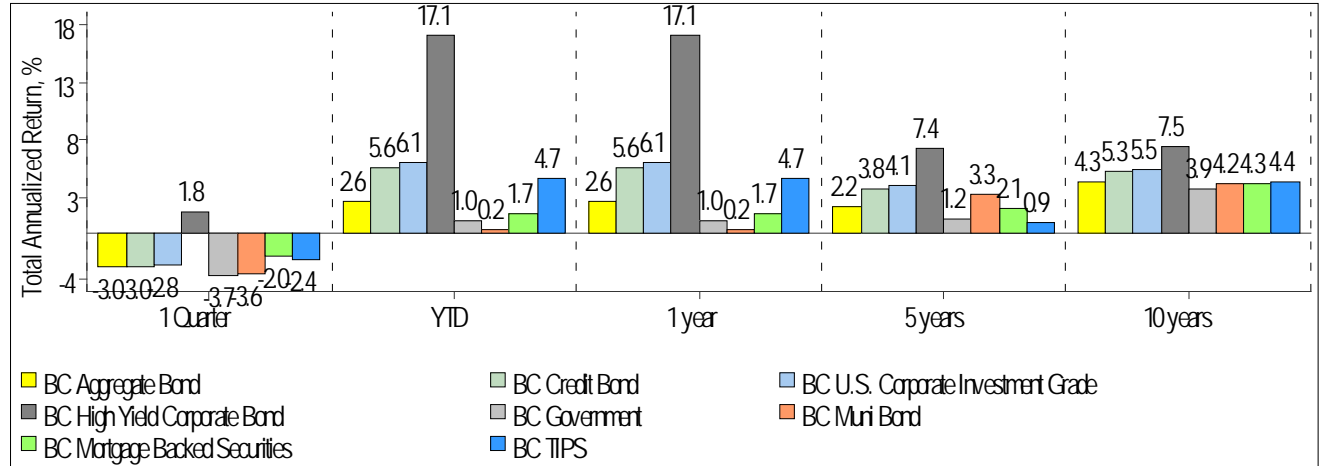
- Best performing region for the quarter:
 - Japan, down 0.1%
- Worst performing region for the quarter:
 - Emerging Markets, down 4.1%

International Index Performance by Region



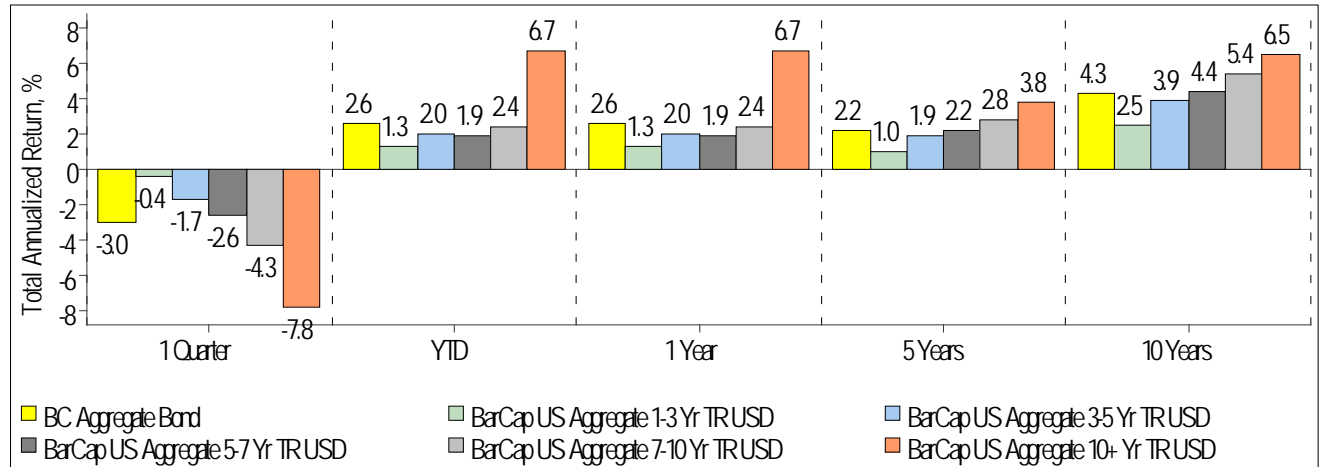
Fixed Income Sector Performance

- Fixed income was negative for the quarter with the exception of High Yield
- The best performing sector for the quarter:
 - High Yield, up 1.8%
- The worst performing sector for the quarter:
 - Government, down 3.7%



Fixed Income Performance by Maturity

- Performance was negative across all maturities as rates rose at both the short and long ends of the yield curve



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The following chart exhibits the volatility of asset class returns from year to year by ranking certain key indices in order of performance. Also included in the chart is a balanced index, which represents a mix of U.S. equity, international equity and fixed income indices. The chart graphically displays the volatility of asset class returns from year to year, highlighting the importance of diversification. Top-performing asset classes in a given year do not tend to repeat their stellar performance in subsequent years. Accordingly, the worst performing asset classes in a given year often tend to outperform in future years. Said differently, past performance is not a good indicator of future performance. Diversification, demonstrated by the balanced index, helps reduce volatility and the uncertainty that accompanies trying to pick the best asset class (or avoid the worst) in any given year.

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
26.86 MSCI EAFE USD	11.81 Russell 1000 Growth	5.24 BarCap US Agg	37.21 Russell 1000 Growth	29.09 Russell 2000 Growth	7.84 BarCap US Agg	18.05 Russell 2000 Value	43.30 Russell 2000 Growth	13.45 Russell 1000 Value	5.67 Russell 1000 Growth	31.74 Russell 2000 Value
23.48 Russell 2000 Value	11.63 MSCI EAFE USD	-22.48 Balanced Index*	34.47 Russell 2000 Growth	24.50 Russell 2000 Value	3.04 Balanced Index*	17.90 MSCI EAFE USD	34.52 Russell 2000 Value	13.05 Russell 1000 Growth	0.59 Balanced Index*	17.34 Russell 1000 Value
22.25 Russell 1000 Value	7.05 Russell 2000 Growth	-28.92 Russell 2000 Value	32.46 MSCI EAFE USD	16.71 Russell 1000 Growth	2.64 Russell 1000 Growth	17.51 Russell 1000 Value	33.48 Russell 1000 Growth	8.15 Balanced Index*	0.55 BarCap US Agg	11.32 Russell 2000 Growth
13.35 Russell 2000 Growth	6.97 BarCap US Agg	-36.85 Russell 1000 Value	20.58 Russell 2000 Value	15.51 Russell 1000 Value	0.39 Russell 1000 Value	15.26 Russell 1000 Growth	32.53 Russell 1000 Value	5.97 BarCap US Agg	-0.39 MSCI EAFE USD	7.56 Balanced Index*
12.17 Balanced Index*	6.61 Balanced Index*	-38.44 Russell 1000 Growth	20.05 Balanced Index*	12.47 Balanced Index*	-2.91 Russell 2000 Growth	14.59 Russell 2000 Growth	23.29 MSCI EAFE USD	5.60 Russell 2000 Growth	-1.38 Russell 2000 Growth	7.08 Russell 1000 Growth
9.07 Russell 1000 Growth	-0.17 Russell 1000 Value	-38.54 Russell 2000 Growth	19.69 Russell 1000 Value	8.21 MSCI EAFE USD	-5.50 Russell 2000 Value	11.79 Balanced Index*	17.42 Balanced Index*	4.22 Russell 2000 Value	-3.83 Russell 1000 Value	2.65 BarCap US Agg
4.33 BarCap US Agg	-9.78 Russell 2000 Value	-43.06 MSCI EAFE USD	5.93 BarCap US Agg	6.54 BarCap US Agg	-11.73 MSCI EAFE USD	4.22 BarCap US Agg	-2.02 BarCap US Agg	-4.48 MSCI EAFE USD	-7.47 Russell 2000 Value	1.51 MSCI EAFE USD

**Balanced Index comprised of 50% Russell 3000, 10% MSCI EAFE and 40% Barclays Capital U.S. Aggregate, rebalanced quarterly.*

Risk Management & Rebalancing

The below chart represents a stock and bond portfolio (represented by the S&P 500 Index and Barclays U.S. Aggregate Index) over a 20-year time period. One portfolio was rebalanced on an annual basis while the other one was never rebalanced. The portfolio that rebalanced on an annual basis exhibited a higher total return and a lower standard deviation (risk). As a result, the rebalanced portfolio reflected a higher Sharpe ratio. This is a great example of how an annual rebalancing program can serve as an effective risk management tool.



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Performance of indexes reflects the unmanaged result for the market segment the selected stocks represent. Indexes are unmanaged and not available for direct investment.

Citigroup Corporate Bond is an index which serves as a benchmark for corporate bond performance. You cannot invest directly in an index.

Citigroup Mortgage Master is an index which serves as a benchmark for U.S. mortgage-backed securities performance.

Citigroup WGBI Index is an index which serves as a benchmark for global bond performance, including 22 different government bond markets.

Credit Suisse High Yield Index is an unmanaged, trader priced index constructed to mirror the characteristics of the high yield bond market.

BC (Barclays Capital) U.S. Aggregate Bond Index represents securities that are U. S., domestic, taxable, and dollar denominated. The index covers the U. S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

BC Credit Bond Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

BC U.S. Corporate Investment Grade represents investment grade corporate securities that are U. S., domestic, taxable, and dollar denominated.

BC High Yield Corporate Bond represents below investment grade corporate securities that are U. S., domestic, taxable, and dollar denominated.

BC TIPS Index includes publicly issued U.S. government treasury inflation protected securities that meet the specified maturity, liquidity and other requirements.

BC Mortgage Backed Securities covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARMs) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

BC Muni Bond covers the USD-denominated long term tax exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

BC Government Index includes publicly issued U.S. government securities that meet the specified maturity, liquidity and other requirements.

BarCap U.S. Aggregate 1-3 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 1 to 3 years.

BarCap U.S. Aggregate 3-5 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 3 to 5 years.

BarCap U.S. Aggregate 5-7 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 5-7 years.

BarCap U.S. Aggregate 7-10 Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over the next 7 to 10 years.

BarCap U.S. Aggregate 10+ Yr. TR USD Index represents securities in the BC U.S. Aggregate Index that have maturity dates over 10 years.

DJW 5000 (Full Cap) Index measures the performance of all U.S. common equity securities, and serves as an index of all stock trades in the United States.

MSCI FI Emerging Markets is a rules-based index which serves as a benchmark for emerging country fixed income performance.

MSCI FI EAFE International is a rules-based index which serves as a benchmark for developed international country fixed income performance.

MSCI EAFE Index is listed for foreign stock funds (EAFE refers to Europe, Australia, and Far East). Widely accepted as a benchmark for international stock performance, it is an aggregate of 21 individual country indexes.

MSCI EAFE Large Value represents the large cap value stocks within the MSCI EAFE Index.

MSCI EAFE Large Growth represents the large cap growth stocks within the MSCI EAFE Index.

MSCI EAFE Mid Value represents the mid cap value stocks within the MSCI EAFE Index.

MSCI EAFE Mid Growth represents the mid cap growth stocks within the MSCI EAFE Index.

MSCI EAFE Small Value represents the small cap value stocks within the MSCI EAFE Index.

MSCI EAFE Small Growth represents the small cap growth stocks within the MSCI EAFE Index.

MSCI EM (Emerging Markets) Index serves as a benchmark for each emerging country. The average size of these companies is (U.S.) \$400 million, as compared with \$300 billion for those companies in the World index.

MSCI World Index is a rules-based index that serves as a benchmark for the developed global equity markets.

MSCI Europe ex UK Index is a rules-based index that serves as a benchmark for the Europe's equity markets, excluding the United Kingdom.

MSCI Pacific ex Japan Index is a rules-based index that serves as a benchmark for Asia Pacific's equity markets, excluding Japan.

MSCI United Kingdom Index is a rules-based index that serves as a benchmark for the United Kingdom's equity markets.

MSCI Japan is a rules-based index that serves as a benchmark for Japan's equity markets.

Nareit All Reit Index includes all tax-qualified REITs with common shares that trade on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market List.

3-Month T-bills (90 Day T-Bill Index) are government-backed short-term investments considered to be risk-free and as good as cash because the maturity is only three months.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Russell Top 200 Growth Index is a market-capitalization weighted index of those firms in the Russell Top 200 with higher price-to-book ratios and higher forecasted growth values.

Russell Top 200 Value Index is a market-capitalization weighted index of those firms in the Russell Top 200 with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratio and higher forecasted growth values.

Russell 2000 Index consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization.

Russell 2000 Value Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Russell MidCap Growth Index is a market-weighted total return index that measures the performance of companies within the Russell MidCap Index having higher price-to-book ratios and higher forecasted growth values.

Russell Mid-Cap Index includes firms 201 through 1000, based on market capitalization, from the Russell 3000 Index.

Russell MidCap Value Index is a market-weighted total return index that measures the performance of companies within the Russell MidCap index having lower price-to-book ratios and lower forecasted growth values.

Russell Top 200 Index consists of the 200 largest securities in the Russell 3000 Index.

Russell 3000 Index is a market-capitalization weighted index, consisting of 3,000 U.S. common equity securities, reflective of the broad U.S. equity market.

Salomo n 1-10 Yr. Governments is an index which serves as a benchmark for U.S. Government bonds with maturities ranging from 1 to 10 years.

S&P 500 Index measures the performance of the largest 500 U.S. common equity securities, and serves as an index of large cap stocks traded in the United States.

S&P 500 Energy Index measures the performance of the energy sector in the S&P 500 Index.

S&P 500 Industrials measures the performance of the industrial sector in the S&P 500 Index.

S&P 500 Financials measures the performance of the financials sector in the S&P 500 Index.

S&P 500 Utilities measures the performance of the utilities sector in the S&P 500 Index.

S&P 500 Consumer Discretionary Index measures the performance of the consumer discretionary sector in the S&P 500 Index.

S&P 500 Consumer Staples Index measures the performance of the consumer staples sector in the S&P 500 Index.

S&P 500 Information Technology measures the performance of the information technology sector in the S&P 500 Index.

S&P 500 Materials measures the performance of the materials sector in the S&P 500 Index.

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