Financial Insights:

Q3 2016 Capital Market Review & Outlook

MCF ADVISORS

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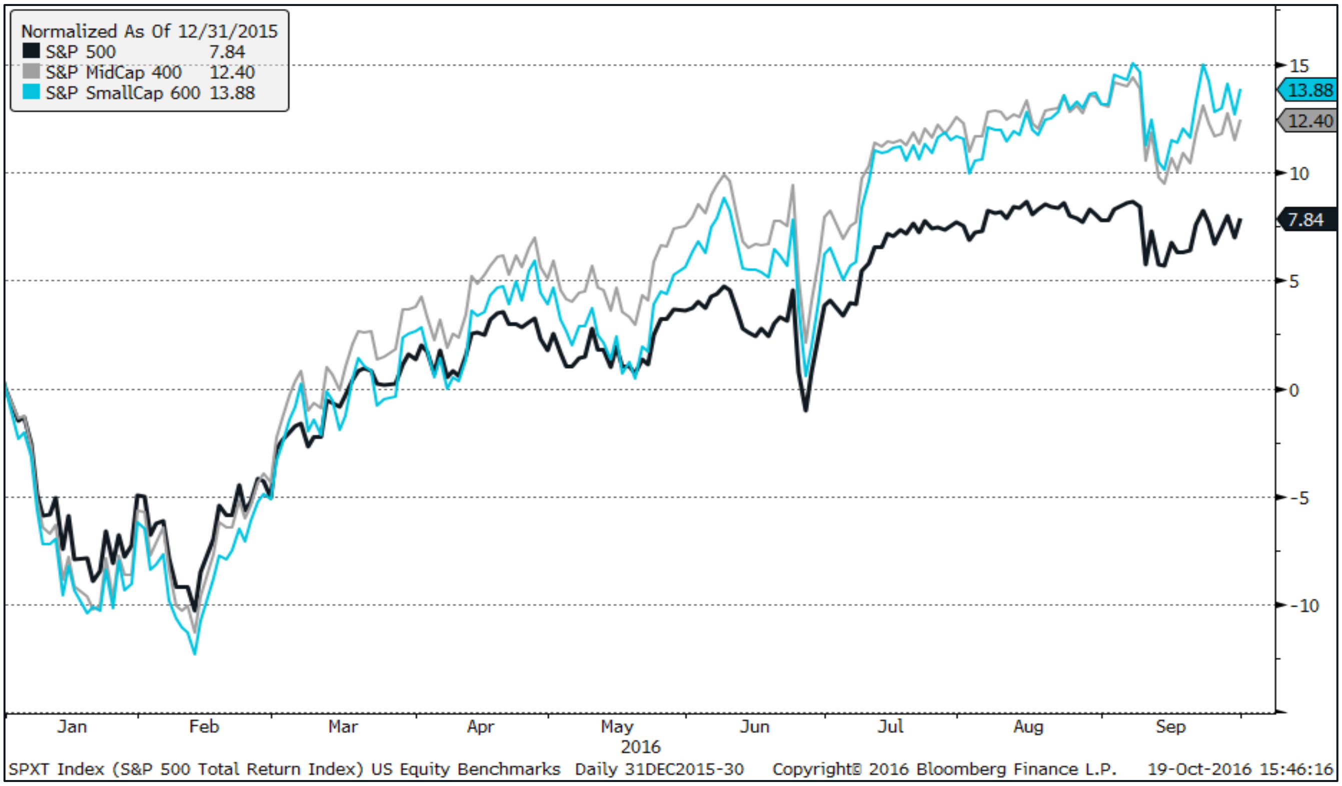
OVERVIEW

As the third quarter began, equity markets continued to rally from the lows that followed the Brexit vote. By mid-July, volatility softened and the S&P 500 Index went 43 consecutive days without moving by more than 1.0% in either direction (for reference, the longest stretch reported in recent history was over 60 days in 2014). Markets experienced increasing choppiness throughout the remainder of the quarter, however, starting on Friday Sept. 9th with a -2.5% drop in the S&P 500. This result came as oil prices pared recent gain and traders reduced risk ahead of multiple speeches from the Fed the following week. Bonds were not immune to volatility – the U.S. Treasury 10-year bond began the quarter yielding 1.47%, dropped as low as 1.35% and rose as high as 1.70% before finishing the quarter at 1.59%. International equities, after a more pronounced drawdown in July, generally performed well during the quarter, especially emerging markets. Economic data continued to

YTD Returns for U.S. Equities by Market Cap



provide a foundation for the Fed to raise rates at least one time (likely in December) in 2016, although the data has not been consistently or overwhelmingly strong.

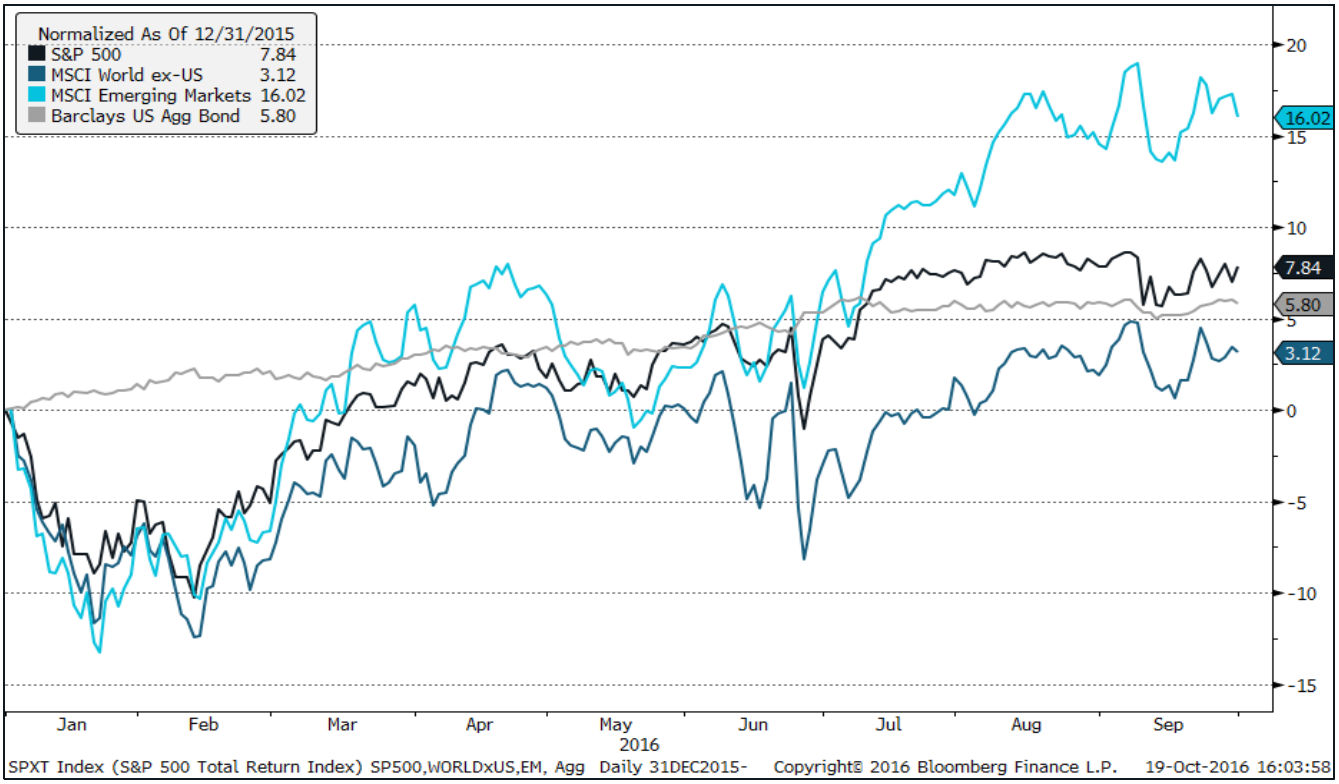
U.S. EQUITIES

Domestic large-cap stocks, as measured by the S&P 500 Index, finished the quarter up 3.9% (7.8% year-to-date). Mid-cap stocks (S&P 400 Index) also had a strong quarter, finishing up 4.1% (12.4% YTD). Small-cap stocks (S&P 600 Index) were the strongest U.S. performer for the quarter, finishing the quarter up 7.2% (13.9% YTD). Results were mixed in terms of outperformance for value- and growth-oriented stocks for the quarter, but value-oriented stocks still lead year-to-date through September 30.

Similar to the story for the second quarter, the S&P 500 year-over-year earnings for Q3 according to FactSet are expected to decline -2.0%, which (if it happens) would mark the first time the index recorded six consecutive quarters of year-over-year declines in earnings since FactSet began tracking the data in 2008. However, analysts expect positive earnings growth inQ4, and are much more optimistic for 2017 – albeit from currently depressed levels. Current estimates of 2017 S&P 500 earnings are close to $130, and with a Sept. 30 price of 2,168.27, the forward P/E Ratio of the S&P 500 is close to 16.7, noticeably higher than the 10-year average of 14.3. A P/E ratio of 16.7 is not extravagant, especially in today's interest rate environment, but it does not provide an exciting background for U.S. equities over the next 12 months. If the S&P continues higher, the P/E ratio would rise and indicate stocks are relatively pricy, not even accounting for threats from rising

U.S. stocks are not extremely overvalued based on P/E ratios, but that may change as rates rise if earnings growth expectations are not met.

YTD Returns for Equities and Bonds



interest rates and missing the 12.8% earnings growth expectations in 2017.

We continue to favor equities and other asset classes over bonds. Among our preferred asset classes, we tilt more towards international equities, real assets, and diversifying strategies over broad U.S. equities. Within our U.S. equity allocation, we are overweight mid-cap equities. Mid-cap stocks provide exposure to the U.S. economy with less volatility than small-cap stocks. Over the coming quarters, we will look for opportunities to add more targeted exposure within the U.S. equity allocation as certain sectors are becoming relatively more attractive. As we make these allocation changes, we will look to lock in gains made in other positions that have performed quite well over the past several years.

INTERNATIONAL EQUITIES

After a rocky start to the quarter, international stocks snapped back and generally outperformed U.S. equities. International developed markets, as measured by the MSCI World ex-USA Index, returned 6.3% for the quarter, bringing the year-to-date return (3.1%) back into positive territory. Emerging markets, as measured by the MSCI Emerging Markets Index, had another strong quarter with a return of 9.0% (16.0% YTD). The fallout from the Brexit vote has subsided for now, with economic reports from the UK not looking as negative as initially feared (although the data is not convincingly strong, either). Emerging markets continue to provide attractive return potential and remained surprisingly steady through the Brexit-led market volatility.

While markets recovered from the initial uncertainty of the Brexit vote, there are still real risks over the coming years. It will likely be a long, drawn out process for the UK to leave the EU, and that gives investors time to digest new information and adjust portfolios accordingly. Brexit, however, is only one component that could affect international investments. In the October 2016 World Economic Outlook, the International Monetary Fund provides a tale of two economies: advanced economies are projected to grow 1.6% in 2016 and 1.8% in 2017 and 2018, whereas emerging economies are projected to grow 4.2% in 2016, 4.6% in 2017, and 4.8% in 2018.

Combining these growth expectations with current valuation levels, accommodative monetary policy, and stabilizing commodity prices provides a relatively positive outlook for international equities, especially emerging markets.

We maintain an overweight to international equities for their favorable long-term return potential, but are cognizant of the various risks present in international markets. Our emerging markets exposure has aided portfolio performance for 2016, and while we expect this to continue, we are keeping a careful watch on volatility, corporate revenues, Brexit updates, and other geopolitical risks. We do not expect a significant change in this allocation in the near term (although we may add or subtract at the margins), but the international environment can change rapidly and our Investment Committee is prepared to take action when warranted.

REAL ASSETS & DIVERSIFYING STRATEGIES

Allocations to Real Assets (Real Estate, Infrastructure, and MLPs) and Diversifying Strategies performed well during the quarter, trailing the very strong equity returns but outperforming bonds. Real Assets were up over 3.5% for the quarter (over 15.0% YTD). PIMCO All Asset returned 3.9% for the quarter (13.7% YTD). Allocations to insurance-linked bonds rose steadily during the quarter but may see more price fluctuation in the fourth quarter depending on the severity of hurricane season.

These allocations have intentional purpose in our portfolio: inflation hedging and risk reduction. While bonds have historically been a great diversifier from equity risk and likely will continue to provide some risk reduction going forward, we do not believe they will provide the same level of protection given our negative outlook for bonds. Over the past several years we have been underweight bonds in favor of Real Assets and Diversifying Strategies, which boosted performance for our portfolios in 2016. Although we do not utilize these positions for high return expectations, we do expect Real Assets and Diversifying Strategies to outperform bonds over the next several years while still providing reasonable diversification benefits with equities. We continue to research other investments that can lower portfolio risk in our portfolio construction modeling and may add to these allocations if we find attractive opportunities with reasonable fees. We expect Real Assets and Diversifying Strategies combined to comprise 15-20% or less of our portfolios.

BONDS

U.S. intermediate bonds (Barclays Aggregate Bond Index) returned 0.5% for the second quarter (5.8% YTD). The index finished the quarter with a yield around 2.0%, down from 2.5% at the beginning of the year. Intermediate-term municipal bonds trailed during the quarter with a return of -0.2% (+3.4% YTD) based on the Morningstar category average. Short-term bonds also were mostly positive, but generally had lower returns. Depending on the strength and consistency of economic reports between now and December, look for one interest rate increase by the Fed before year end, which likely would result in a decrease to bond returns in the short term.

The U.S. economy continues to be one of the strongest, but international economies, especially select emerging market countries, are poised to gain strength in the coming years.

Around this time last year, investors were worried about the Fed's interest rate increases. Investors again are concerned regarding the Fed's actions. Last year, the Fed used strong language regarding the pace of interest rate increases (four rate increases per year) and investors had a strongly negative reaction to the 0.25% increase in December of 2015. This year, the Fed softened their language and slowed their expected pace (two rate increases per year). While this should help limit large losses to investment grade bonds in the coming years, it still puts significant downward pressure on bonds (and mathematically limits the upside potential).

Our return expectations for investment grade (core) bonds in the coming years is close to 0%. While this may seem like a wasted allocation, bonds are still an extremely important allocation for investors with a lower risk tolerance and/or cash needs over the next several years. If risk assets – stocks, high yield bonds, and even real assets – go through a period of turmoil, bonds will provide the stability needed to cover withdrawals without selling investments at depressed levels. We are currently keeping our core bond allocation near the lower end of portfolio limits, and we will add to this allocation over the years as interest rates get to more attractive levels.

ECONOMY

The U.S. economy has been growing for the past 87 months (no recession) – the fourth longest "expansion" since 1900. This period has been characterized as a "plow horse" economy in which GDP is not growing rapidly but continues to trudge along at a fairly slow and steady pace, much lower than the historical average recovery rate in excess of 3.0% growth. In terms of children's fables, this economy is akin to the "tortoise", which may not be the fastest growing economy but should be able to last longer than the average "hare" recovery which tends to overheat earlier in the cycle. We are getting close to reaching the Fed's target inflation rate of 2.0% (based on core Personal Consumption Expenditures, or PCE) and arguably at or near full employment. Wage growth is gradually improving, even as the demographics of the work force transition from higher-paid, more experienced employees who are retiring to lower-paid, younger (less experienced) employees. Auto sales, home prices, and home sales remain relatively strong. There are a few spots of weakness, such as industrial production and manufacturing, but according to Bloomberg consensus forecasts, real GDP growth in Q3 is expected to be around 2.7% (annualized), 1.5% for the full year 2016, and 2.1% in 2017. Given the unexceptional outlook for the economy, we expect the Fed to increase rates at a moderate pace to avoid knocking the tortoise off course.

The bright spot internationally are emerging markets, but these higher numbers are somewhat skewed after several years of declining growth. This growth is also heavily dependent on stable or improving commodity prices and global trade, as emerging economies are generally net exporters. The UK is expected to see GDP drop below 1.0% in 2017 (potential implications of Brexit) before returning to levels around 1.5% in 2018 (although that likely will be revised throughout the Brexit process). The Eurozone as a whole is forecasted to grow just under 2.0% for 2016 before dipping closer to 1.5% growth for 2017 and 2018. These forecasts should provide ample room for central banks to continue very accommodative policies to incentivize consumers and corporations to spend and invest, creating an environment for risk assets such as equities to perform well in the later stages of the international economic recovery.

SUMMARY

We are headed for an interesting period in financial markets. Many uncertainties lie ahead – investors are feeling a bit uneasy regarding equity valuations, rising rates, and global concerns, yet overall economic reports are fairly positive. However, markets and economies move in cycles – and at some point we will experience another bear market and another recession. Although we do not expect that in the coming months, our Investment Committee is working diligently to prepare for a variety of scenarios so that we can be prepared to take advantage of short-term dislocations in the market to reach the long-term goals of our portfolios and clients.

Summary of Outlook & Positioning

Asset Class	Long-Term Outlook	Current Positioning
U.S. Equities	Slightly Unfavorable	Underweight
International Equities	Relatively Positive	Overweight
Real Assets	Positive	Overweight
Diversifying Strategies	Positive	Overweight
Bonds	Unfavorable	Underweight
Cash	Unfavorable	Underweight

INTEGRITY

We believe that you are served best when we share our expertise passionately and with transparency.

KNOWLEDGE

We must continually learn, building upon our intellectual capital and our technical ability in order to guide effectively.

SERVICE

When we continually strive to attain the highest standards, you experience superior service.

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