Financial Insights:

Q1 2017 Market Review & Outlook

MCF ADVISORS

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Capital Markets Review & Outlook

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OVERVIEW

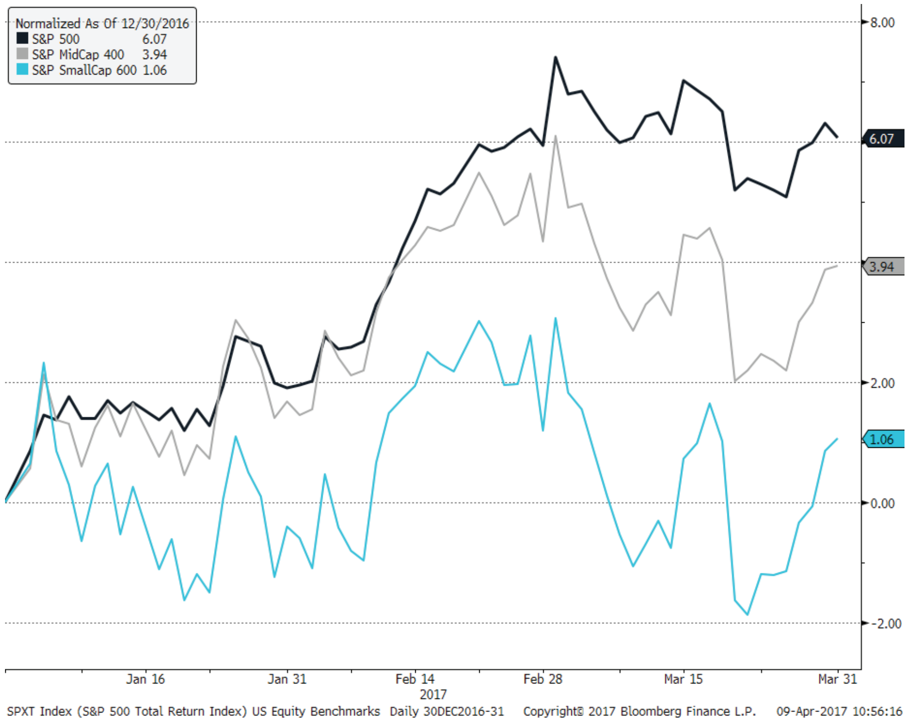
Carrying the momentum from the post-election rally, equity markets provided positive but widely varying returns for the first quarter of 2017. International equities outperformed, led by Emerging Markets. As investors speculated on the Fed's interest rate decisions for March and the rest of th year, interest rates bounced around during the quarter and bonds finished flat to slightly positive. The U.S. Treasury 10-year bond began the quarter with a yield of 2.44% but fell as low as 2.31% and jumped as high as 2.63% before settling at 2.39% to end the quarter. The Fed raised short-term rates by 0.25% in March and projected two more rate increases in 2017. The Fed also plans to start winding down the its large balance sheet by year-end. Consumer confidence is high, corporate earnings growth estimates are strong, and economic data signals a low probability of a near-term recession for the U.S. economy. These results are encouraging, but not everything points to a continued smooth run higher for equities.

U.S. EQUITIES

Domestic large-cap stocks, as measured by the S&P 500 Index, finished the quarter up 6.1%. Mid-cap stocks (S&P 400 Index) also had a strong quarter, finishing up 3.9%. Small-cap stocks (S&P 600 Index) had the weakest U.S. performance of 1.1% for the quarter. Growth-oriented stocks outperformed value for the quarter by a wide margin for each market cap. S&P 500 year-over-year earnings for Q1 are estimated to grow 9.1% according to FactSet, which would be the highest year-over-year growth since Q4 2011 (11.6%).

The "Trump Trade" continued into 2017, but weakened significantly during the last month of the quarter. Policy changes have been slow moving for taxes, health care, financial industry regulations,and infrastructure spending, which were significant drivers of the U.S. equity rally in the fourth quarter of 2016. Energy (-6.7%) and Financials (2.5%) were two of the biggest laggards for the first quarter, indicating expectations for rising inflation and interest rates weakened from the previous

U.S. Equity Returns: Large (500), Mid (400), and Small (600)



quarter. Low-to-moderate levels of inflation and interest rates tend to be positives for equity returns, unless this environment is a result of weak economic growth. Although U.S. growth has been meager in recent years, it generally has been stronger than overall global growth. If domestic or global real growth exceeds expectations, we could see inflation and interest rates increase rapidly, although we do not believe this will be the case. The other threat to equities - negative GDP growth - likely will not be an issue this year (Bloomberg consensus estimates put a 15% probability of recession in the U.S. this year).

U.S. equity valuations are high relative to historical averages, but earnings growth looking forward is expected to be much stronger than the past three years.

Looking forward, equities provide better return potential than bonds, but we are not enamored with U.S. equities at current levels. U.S. equity valuations are high, but not outlandish given the current low-rate environment. We anticipate a pull back at some point during the year, but do not expect a large decline driven by fundamentals. We favor a slightly underweight allocation to U.S. equities, and will look for opportunities to trim if equities run higher and add if they dip to more attractive levels. With forecasts for U.S. equity real returns for the next 5-7 years between 2-3%, disciplined rebalancing of portfolios provides one of the few opportunities for improving returns.

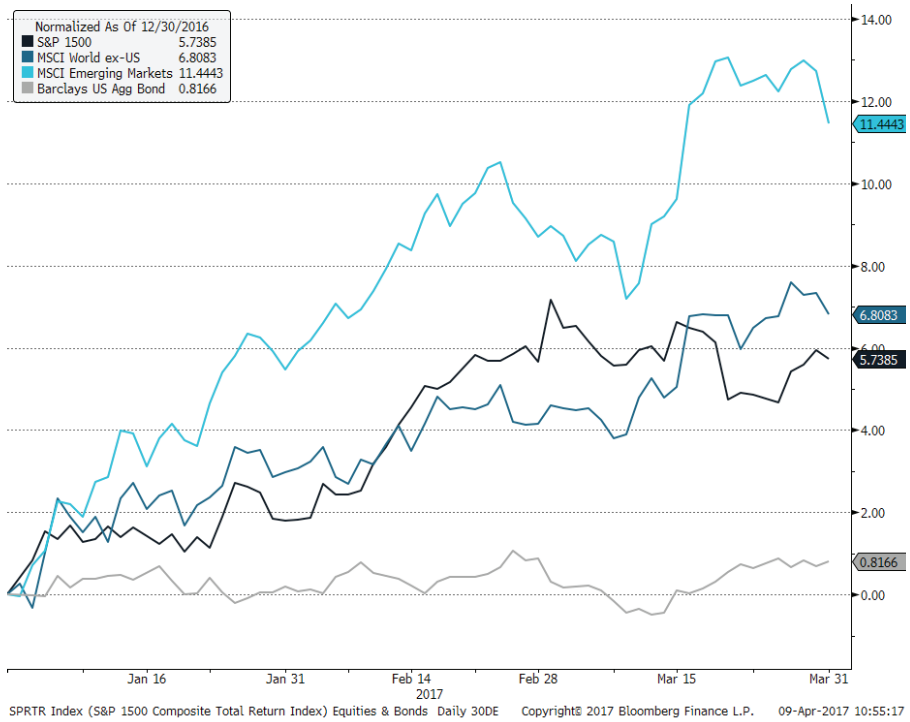
INTERNATIONAL EQUITIES

International developed markets, as measured by the MSCI World ex-USA Index, returned 6.8% for the quarter. Emerging markets (MSCI Emerging Markets Index) returned 11.4% for the quarter. Even though "Brexit" was officially initiated near the end of the quarter, strong economic outlooks and continued monetary support from central banks, along with a slightly weakening dollar, provided strong support for international equities.

The first quarter was one of only a few quarters since the Financial Crisis that both International Developed and Emerging Markets equities outperformed their U.S. counterparts. International valuation levels are more attractive relative to the U.S. and forecasts call for global growth of 3.3% for 2017 (Emerging Economies are projected to grow at 4.7%, according to Bloomberg consensus estimates). Foreign central banks are expected to continue accommodative monetary policy through 2017, unemployment rates are decreasing, and consumer confidence is increasing. International markets have lagged the U.S. for over five years. During that time, the U.S. Dollar Index increased nearly 35% (a stronger dollar decreases returns from foreign investments to U.S. investors), but appears to have lost momentum. International equities are attractive, and if the dollar levels out, or perhaps weakens, international equities could provide an even better return than expected.

We like a slightly overweight allocation to International Equities, including Emerging Markets. Volatility likely will be higher than U.S. equities, which could provide even more rebalancing opportunities. Over the next several years, however, International Equities provide the most promise for generating attractive returns and

U.S. Equity, International Equity, and Agg Bond Returns



should reward the patient, disciplined investor with better returns.

REAL ASSETS & DIVERSIFYING STRATEGIES

International Equities have more attractive valuation levels and could see a boost from higher global growth expectations, but several geopolitical risks could hinder performance.

Real Assets and Diversifying Strategies provided positive returns and outperformed bonds for the first quarter. Real Assets, including Real Estate and Infrastructure/MLPs, performed well based on expectations of increasing inflation and government spending on infrastructure. Diversifying Strategy returns were quite varied, but overall outperformed bonds. Insurance-linked investments provided another quarter of stable yet moderate returns.

MCF continues to search for attractive opportunities in Real Assets and Diversifying Strategies, but have yet to find additional investments in which we have high conviction. If inflation spikes above expectations, which are fairly moderate, Real Assets could be a great hedge. In the event that volatility in stocks returns to more average levels (historically around 16%, but has been running closer to 10-11% for the past five years) or increases for bonds given uncertainty for interest rates, Diversifying Strategies could provide stability for the portfolio. We like the theory of having more exposure to these asset classes given the relatively low return expectations of bonds and U.S. stocks going forward. However, we are not eager to jump into investments touting diversification benefits without fully vetting the strategy. Much of our research on strategies within Real Assets or Diversifying Strategies shows higher correlations to stocks and/or interest rates than we would like, high fees, or no real improvement to return expectations. For the time being, our search continues.

BONDS

U.S. intermediate bonds (Bloomberg Barclays Aggregate Bond Index) rose slightly during the quarter, returning 0.8%. The index yield is around 2.6%, and unless interest rates move dramatically during the year, bonds should finish 2017 with a return near this yield. Intermediate-term municipal bonds outperformed during the quarter, returning 1.3% based on the Morningstar category average. Short-term bonds nearly matched the Agg Bond Index with a return of 0.6%, but continue to provide some insulation against loss of principal should interest rates rise later this year. We expect two more rate increases this year by the Fed, with a low probability of a third late in the year. However, the Fed has proposed the potential to begin reducing its bond purchases (reduce its balance sheet), which could have similar effects as raising interest rates. If actual and/or expected inflation unexpectedly increases by a significant amount, the

Diversifying Strategies have trailed equity returns, and even bond returns, for several years, but the lower expected returns for bonds and U.S. equities makes non-traditional investments more attractive on a forward-looking basis.

Fed could switch to a much more hawkish tone, but most economic data does not indicate this as a high probability scenario in 2017.

Bonds are one of our main areas of concern for portfolios. Historically, bonds have provided great diversification from equity risk, and long-term government bonds still provide the best hedge against an equity bear market. However, bonds carry a greater probability of loss going forward given their low yields and the threat of rising interest rates. Even with those risks, a minimum allocation to bonds is still prudent, especially for portfolios supporting cash flow needs.

We like an underweight allocation to bonds, including a relatively shorter duration (interest rate risk) than the Barclays Agg Bond Index. Just as we diversify the overall portfolio, we like holding several sectors and varying maturities within bonds as well. Although we favor shorter duration, holding too much short-term bonds could increase portfolio risk should the yield curve flatten (short-term rates rise while intermediate and long-term bonds stay level or even fall). We like a mix of different maturities with a tilt towards short-term bonds, and also a mix of core (U.S. investment grade) and non-core (such as high yield or international) bonds. This provides the portfolio with stability when equity markets fall and the potential for better returns than U.S. government bonds. It also provides a secondary method for hedging risks from rising interest rates. We like bonds for relative stability to cover cash flows, but do not expect much upside over the next several years.

ECONOMY

Overall global growth is positive and trending higher. For the past several years, the U.S. led most developed economies, and continues to be one of the most stable economies in the world. U.S. Real GDP growth was 1.6% in 2016, dragged lower by negative growth in private investment. Forecasts for the next three calendar years each are around 2.2% - not fantastic growth, but comfortable projections considering it has been eight years since the last recession. Inflation forecasts for 2017 are near 2.5%, but head slightly lower in 2018 and 2019.

Bond return expectations are very low or even negative given forecasts of rising interest rates. Even without rising interest rates, bonds are positioned to have returns that are only 1/3 of the annual performance over the past 40 years.

Recent data releases indicate that economic activity is at a healthy level but slowing, matching forecasts that consumer spending will trend slightly lower over the next three years. Consumer confidence and auto sales hit a peak in 2016, but have softened a bit in recent months. Average hourly earnings (wages) grew 2.9% in 2016, the highest year-over-year wage growth since 2009. Unemployment as of March 31 dropped to 4.5% and the labor participation rate crept back up to 63%. We do not expect a recession in 2017, but would not be surprised by a quarter or two of negative GDP growth in the next 12-24 months.

International economies are a mixed bag, but generally pulled higher by forecasts of stronger growth in Emerging Economies, which have experienced declining growth rates for several years. Unemployment rates are still elevated in International Developed economies, but the downward trend is expected to continue for the next three years. Monetary policy is still generally accommodative, but we could begin seeing a few central banks reign in policy later this year as conditions continue to improve.

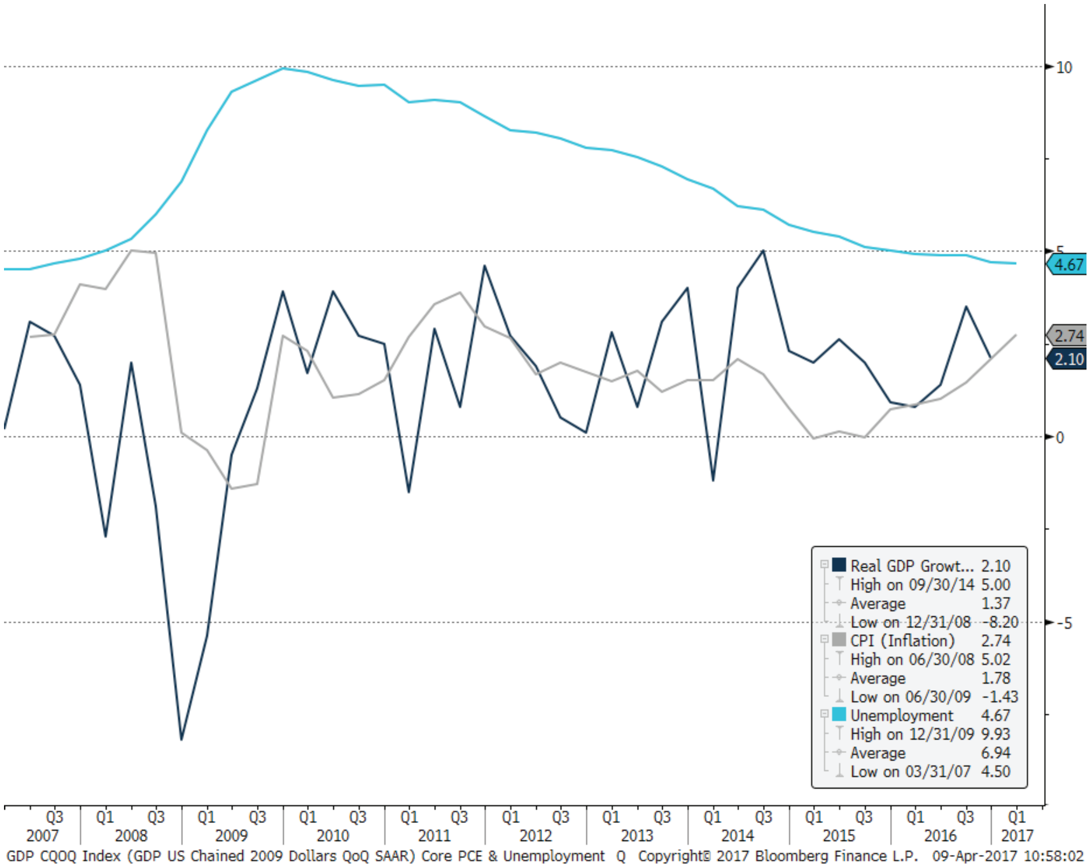
The U.S. economy continues to advance at a moderate pace, with economic data more mixed than a year ago. Globally, growth expectations are improving, and foreign economies have a lot more room to run before catching up to the U.S.

International growth forecasts are improving, but the International Monetary Fund (IMF) notes that there is a wide dispersion of possible outcomes around the projections. President Trump's policies and their potential global effects, along with the possibility of leadership changes in France, Germany, and China this year, could influence changes to growth projections for the next several years. Overall, international conditions are improving and we expect this moderate pace of growth to continue.

SUMMARY

Investors started 2017 with a much smoother start to the year than 2016. However, U.S. equities finished the first quarter of 2016 with positive momentum, but ended the first quarter of 2017 with weakness. We would not be surprised to see equities pull back from

U.S. Economic Snapshot: Real GDP, Inflation, and Unemployment



recent highs, or even give back the gains of the first quarter, but are not expecting a significant draw-down based on fundamental factors. We certainly do not expect the same results from the first quarter repeated for the remaining three quarter of the year, nor do we anticipate U.S. equity returns to match those of 2016.

We do believe volatility will increase throughout the year. Volatility has been significantly lower in recent years than historical averages, softened in part by extraordinary monetary support. Return expectations for the next five years are low, and absent volatility, investors do not have much opportunity to improve returns. Although volatility (higher volatility relates to higher uncertainty regarding potential outcomes) is a measure of risk, with risk comes opportunity. Through our investment process and disciplined approach, we are prepared to take advantage of the rebalancing opportunities when volatility spikes, improving the potential for portfolios to generate more attractive returns over the next several years.

MCF Asset Class Views

Asset Class	Long-Term Outlook	Current Positioning	Focus for Next 12 Months
U.S. Equities	Slightly Unfavorable	Slightly Underweight	Add during periods of market downturns, with focus on reducing risk as markets rise
International Equities	Relatively Positive	Overweight	Mix of developed and emerging markets, balancing risks with U.S. Equities
Real Assets	Positive	Overweight	Increasing portfolio yield and hedging inflation
Diversifying Strategies	Positive	Overweight	Researching opportunities to decrease portfolio risk
Bonds	Unfavorable	Underweight	Maintain minimum allocation to core bonds and lower duration
Cash	Unfavorable	Underweight	Minimize; used only for liquidity needs

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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