3Q2016

SUMMARY OF ECONOMIC REVIEW AND MARKET COMMENTARY

➢ *Fed Policy and Economic Data Dominate Financial Markets*

- While the Federal Reserve did not raise interest rates, the discussion at their September meeting noted that "the Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives." While they were satisfied with the employment and household spending, they expressed concerns about the level of business investment and inflation running below their 2% target. Comments in the days following the latest Federal Reserve meeting suggested a rate hike would be coming before the end of the year.
- Economic data for the U.S. turned more positive in the latter part of the quarter; the September ISM Manufacturing Index moved back above 50 (51.5), and the Non-Manufacturing Index jumped to 57.1 on the strength of new orders. Jobless claims continue to decline, non-farm payrolls remained on-trend, and the labor force participation rate showed some improvement. Existing home sales rose 3.2% in September, retail sales increased 0.6% on the month, and Consumer Confidence beat expectations at a level of 104.1, implying Consumer Spending would improve over its flat reading for the previous month. In September, the CPI (ex-food and energy) rose at an annual rate of 2.2%, although the Fed's preferred PCE increased 1.2% year-over-year.
- Third quarter GDP beat all estimates at 2.9%, as the stable dollar and an improving global economy drove exports. The added surprise of the report was business investment, which increased 1.2% on the quarter. With indications that inventory has been worked off and a positive outlook for consumption, fourth quarter GDP could show additional signs of strength.
- Oil prices broke to the upside mid-quarter as oil producers struck an agreement to curb production. Based on past experience with agreements collapsing, some analysts think this price support could be temporary. Crude oil ended the quarter at around $48 per barrel.
- Global economic data also took a turn for the better. China's GDP growth held steady at 6.7% for the quarter, supported by industrial production, consumer spending, and retail sales. This came at the expense of government support in the real estate sector and tax breaks to encourage spending. Debt is up about 10% over the past year, raising concerns about the economy's sustainability over the long run.
- In Europe, stronger industrial production, especially in Germany and France, as well as improved manufacturing and retail sales indicate economic growth could see modest progress during the remainder of 2016. In the U.K. following the Brexit vote, GDP slowed from a quarterly rate of 0.7% to 0.5% in the third quarter. On an annualized basis, U.K. GDP (2.5%) does not appear to have been as immediately impacted by the vote as previously predicted. Although the OECD revised its 2016 U.K. GDP to a higher annualized rate of 1.8%, it cut the forecast to 1.0% for 2017, noting weaker business conditions as the uncertainty associated with Brexit impacts spending and business investment.
- Regarding Brexit, Prime Minister Theresa May announced that Article 50 of the Lisbon Treaty, which starts the two-year formal Brexit negotiations, will be invoked prior to March 2017. Some informal discussions with EU leaders have taken place, and the process is still being outlined.

➢ *Financial Markets React to Economic News and Fed Policy*

- Global equities continued their rebound from the Brexit sell-off at the end of June. On the back of the delay in the Fed's rate hike, financial markets saw a decided shift to riskier assets. Cyclical stocks, particularly the technology and financial sectors, were the beneficiaries. In the U.S., technology stocks dominated the large cap sector. Small cap stocks rebounded even more, as the Russell 2000 was the best performing market cap weighted index. Growth stocks outperformed the value style sector. The worst performing sectors were the defensive utilities and telecom sectors.

- Despite periods of volatility, oil prices ended the quarter marginally higher. Prospects of a production agreement and better than expected data from China helped stabilize prices. Analysts believe that the majority of the decline in oil prices has been absorbed on corporate and personal balance sheets, sparking concerns that increased prices will drive inflation higher if the global economy is on the rebound. During the quarter, inflation-indexed securities were the beneficiaries of that thinking.
- Brazil and Russia advanced due to stable oil prices, as the stable dollar also helped emerging markets post gains for the quarter. Ongoing monetary stimulus in Europe and Japan supported their stock markets.
- Interest rates rose along the curve. Credit-dominated indices ended the quarter with small gains as spreads compressed. High yield bonds were a top performing credit sector, as was emerging markets debt. The yield attractiveness amid a potentially stabilizing global economy attracted capital flows.

➢ *Looking Forward: A Transition in Monetary Policy*

- Most analysts and market participants believe that the Fed will raise the Fed Funds rate in December. Expectations are that the policy tightening will be slow and measured, with two additional rate hikes in 2017. Some economists are concerned inflation could accelerate more than expected due to rising wages and stable-to-rising commodity prices, which would put the Fed in catch-up mode.
- By the end of the quarter, the presidential election did not have a major impact on financial markets. As November 8th quickly approaches, market volatility is anticipated to pick up from current low levels.
- Emerging markets have experienced a prolonged downturn since 2013, due primarily to slower growth in China and weaker oil prices. As these conditions are showing signs of easing, analysts expect emerging markets to rebound. Relatively better valuations could also contribute to positive performance in the coming quarters.

Forecast for U.S. Economic Outlook

	Third Quarter, 2016	Fourth Quarter, 2016	Year End 2016
U.S. GDP	2.6%	2.3%	2.3%
Unemployment	-	-	4.8%
CPI	-	1.7%	1.7%
Fed Funds	-	-	0.50-.75%

Source: The Wall Street Journal, October 1, 2016; survey average of 77 economists

3Q2016

ECONOMIC REVIEW

ECONOMIC REVIEW AND MARKET COMMENTARY

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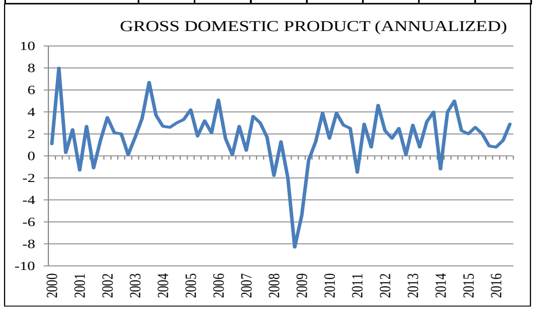
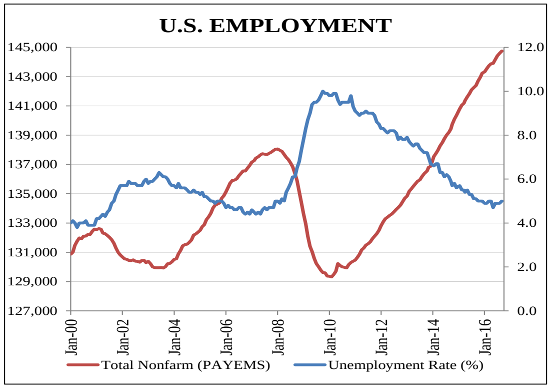
Seasonally Adjusted Rate: Percent Changed from Preceding Period	Annual			Trailing Four Quarters			
	2013	2014	2015	4Q15	1Q16	2Q16	3Q16
GDP	1.7	2.4	2.6	0.9	0.8	1.4	2.9



Source: Bureau of Economic Affairs

Source: United States Department of Labor



Source: United States Department of Labor

Economic Growth

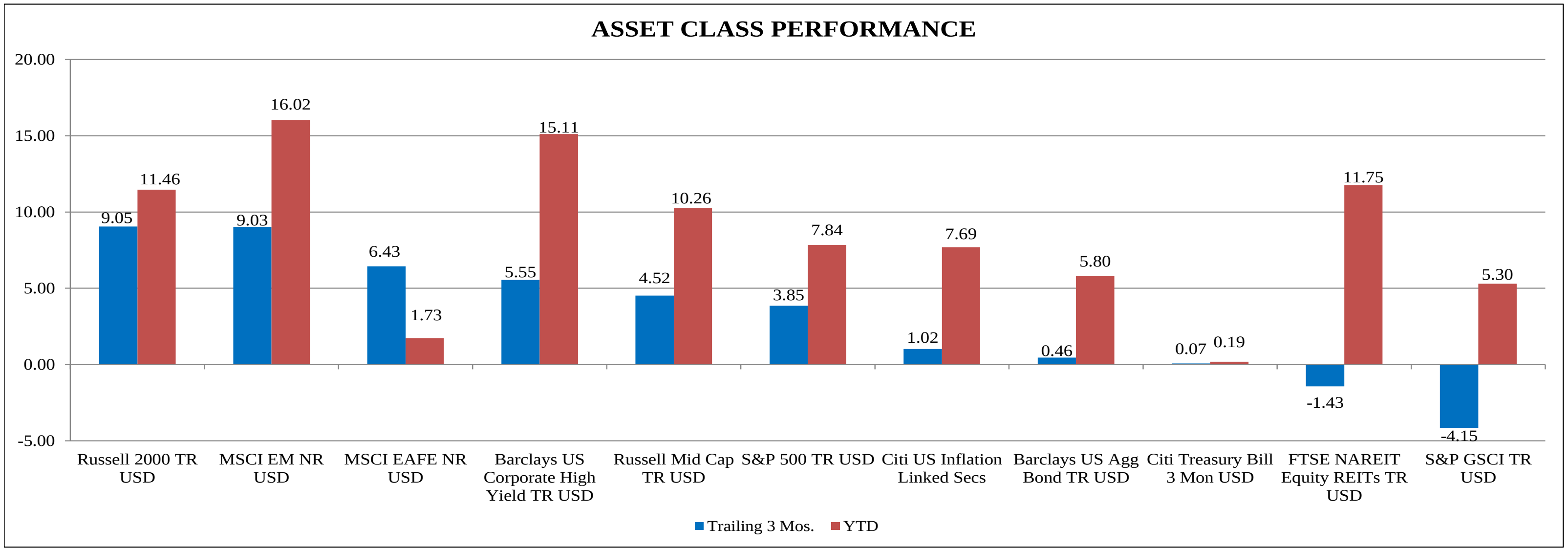
Third quarter data presented two different views of the U.S. economy. In August, consumer spending, business investment, manufacturing, and construction spending all declined. Retail sales were down 0.3% month-over-month, and industrial production and manufacturing indices each fell 0.4% compared to July. Single-family existing home sales were down 2.3%, and consumer spending remained flat. September data told a different story, beginning with the Consumer Confidence Index rising to a twenty-month high. Manufacturing saw some renewed life, as the ISM Manufacturing Index moved over the 50 level (51.5 to be exact). The Non-Manufacturing Index climbed to 57.1. New orders, exports, and employment increases contributed to the positive movements. Auto sales picked up from their August slump, contributing to a positive retail sales report. The unemployment rate rose to 5.0% in September, although non-farm payrolls continued on trend (+156,000). Jobless claims remain low with the four-week moving average on a downtrend. Overall, data suggested that third quarter economic growth would exceed second quarter's GDP (1.4%); estimates at the end of the quarter were running at 2.2-2.3%. In another sign that the Fed's inflation target could be hit, core CPI was up 2.2% in September. Finally, third quarter GDP was reported at 2.9%, which was the strongest growth in two years. The growth was due to export figures, a growth in private inventory investment, and federal government spending increasing.

Policy

After much speculation about the course of action, the Federal Reserve Bank held interest rates in the current 0.25-0.50% range at their September FOMC meeting. Comments by Janet Yellen stated, "The labor market has continued to strengthen, and growth of economic activity has picked up from the modest pace seen in the first half of this year" implied that the next interest rate hike could occur prior to the end of the year. While inflation has been below their 2% target, the rise in oil prices in the latter half of 2016, the stabilization of the U.S. dollar, and rising wages are seen as contributing to a move towards (and as some are concerned, exceeding) the inflation target. In order to not fall behind the inflation curve, analysts expect the Fed's next rate hike will be at their December meeting.

Markets

Better global economic data, stabilizing oil prices, and comforted "Brexit" fears pushed most domestic equity market indices higher. In addition, better than expected year-over-year earnings at the end of the quarter suggested second half reports could see a turn in corporate profits. It should be noted that higher stock prices were achieved with very low price volatility, especially ahead of the U.S. election. Investors felt more comfortable taking risk, rotating into cyclical sectors such as financials and technology. Flows also continued into bond funds, in particular high yield and high quality credit, as investor sought yield. Globally, China's economy (sustained by stimulus programs, support by high levels of debt) showed signs of stabilization. In addition to higher oil prices, this drove emerging market indices to their highest levels of the year. The lack of additional monetary stimulus from the Bank of England (post "Brexit") as well as indications that both the BOJ and the ECB are considering a move away from negative rates and further monetary easing actually supported developed equity markets, as did better than expected earnings reports.



Source: Morningstar

- Easing fears from "Brexit" and another pass on a rate hike from the Fed supported investors reweighting towards riskier assets in the quarter. Stable to higher oil prices also improved future prospects for earnings in the energy sector, but could impact inflation. The uncertainty surrounding the U.S. election did not seem to influence investors during the quarter.
- Small cap stocks were the top performers for the quarter. Market participants view this rally as a "catch up" with the price action other market caps experienced at the end of the quarter, as investors found better valuation in this sector.
- Better than expected manufacturing data from China, coupled with slightly higher oil prices that supported exporters such as Brazil and Russia, drove emerging markets stocks to outperform developed markets. Improved valuation for this market also played a role in the performance.
- Developed international markets posted respectable gains during the quarter; continued monetary stimulus (especially from the UK) and some better news for exporters helped European equity market performance. In general, riskier cyclical sectors (technology, financials) outperformed and drove global market returns.
- Anticipation of a rate hike in September pushed up interest rates across the yield curve. Yields held up through the Fed's decision to hold the Fed Funds rate at the current level. Corporate high yield spreads narrowed, placing that sector as a top performer in fixed income indices for the quarter.
- Tech stocks, Apple, Facebook, Amazon, Microsoft, and Alphabet drove about 40% of the S&P 500 Index returns for the quarter. Risk-on portfolio shifts supported both large and mid-cap stocks. Due to the performance of technology stocks, the growth sector outpaced value.
- With the prospect of a rate hike, REITs no longer looked as attractive as in previous quarters (likewise with dividend payers and utilities) and finished with negative returns for the quarter.
- While oil prices were marginally higher during the quarter, other energy-related commodities were lower at the end of the quarter. Agriculture and livestock components were down considerably, dragging down commodity indices.

PEI Portfolio Evaluations, Inc.

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3Q2016

TOTAL RETURN OF ASSET CLASSES
ECONOMIC REVIEW AND MARKET COMMENTARY

As of September 30, 2016

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Trailing 3-Year	Trailing 5-Year	Trailing 10-Year
S&P GSCI Commodity 49.74%	NAREIT - Equity REIT 13.93%	S&P GSCI Commodity 32.07%	MSCI Emerging Markets 55.82%	NAREIT - Equity REIT 31.58%	MSCI Emerging Markets 34.00%	NAREIT - Equity REIT 35.06%	MSCI Emerging Markets 39.42%	BarCap Aggregate 5.24%	MSCI Emerging Markets 78.51%	NAREIT - Equity REIT 27.96%	Citi US Inflation-Linked 14.01%	MSCI Emerging Markets 18.22%	Russell 2000 38.82%	NAREIT - Equity REIT 30.14%	NAREIT - Equity REIT 3.20%	NAREIT - Equity REIT 14.22%	Russell Mid Cap 16.67%	Russell Mid Cap 8.32%
NAREIT - Equity REIT 26.37%	BarCap Aggregate 8.44%	Citi US Inflation-Linked 16.71%	Russell 2000 47.25%	MSCI Emerging Markets 25.55%	S&P GSCI Commodity 25.55%	MSCI Emerging Markets 32.14%	S&P GSCI Commodity 32.67%	Citi 3 Month T-Bill 1.80%	BarCap US High Yield 58.21%	Russell 2000 26.85%	NAREIT - Equity REIT 8.29%	NAREIT - Equity REIT 18.06%	Russell Mid Cap 34.76%	S&P 500 13.69%	S&P 500 1.38%	S&P 500 11.16%	S&P 500 16.37%	BarCap US High Yield 7.71%
Citi US Inflation-Linked 13.1%	Citi US Inflation-Linked 7.92%	BarCap Aggregate 10.26%	Russell Mid Cap 40.06%	MSCI EAFE 20.25%	MSCI EAFE 13.54%	MSCI EAFE 26.34%	Citi US Inflation-Linked 11.60%	Citi US Inflation-Linked -1.17%	Russell Mid Cap 40.48%	Russell Mid Cap 25.48%	BarCap Aggregate 7.84%	MSCI EAFE 17.32%	S&P 500 32.39%	Russell Mid Cap 13.22%	BarCap Aggregate 0.55%	Russell Mid Cap 9.70%	NAREIT - Equity REIT 15.91%	S&P 500 7.24%
BarCap Aggregate 11.63%	BarCap US High Yield 5.28%	NAREIT - Equity REIT 3.82%	MSCI EAFE 38.59%	Russell Mid Cap 20.22%	Russell Mid Cap 12.65%	Russell 2000 18.37%	MSCI EAFE 11.17%	BarCap US High Yield -26.16%	MSCI EAFE 31.78%	MSCI Emerging Markets 18.88%	BarCap US High Yield 4.98%	Russell Mid Cap 17.28%	MSCI EAFE 22.78%	BarCap Aggregate 5.97%	Citi 3 Month T-Bill 0.03%	Russell 2000 6.71%	Russell 2000 15.82%	Russell 2000 7.07%
Russell Mid Cap 8.25%	Citi 3 Month T-Bill 4.09%	Citi 3 Month T-Bill 1.70%	NAREIT - Equity REIT 37.13%	Russell 2000 18.33%	NAREIT - Equity REIT 12.16%	S&P 500 15.79%	BarCap Aggregate 6.97%	Russell 2000 -33.79%	NAREIT - Equity REIT 27.99%	BarCap US High Yield 15.12%	S&P 500 2.11%	Russell 2000 16.35%	BarCap US High Yield 7.44%	Russell 2000 4.89%	MSCI EAFE -0.81%	BarCap US High Yield 5.28%	BarCap US High Yield 8.34%	NAREIT - Equity REIT 6.35%
Citi 3 Month T-Bill 5.96%	Russell 2000 2.49%	BarCap US High Yield -1.41%	BarCap US High Yield 28.97%	S&P GSCI Commodity 17.28%	S&P 500 4.91%	Russell Mid Cap 15.26%	Russell Mid Cap 5.60%	S&P 500 -37.00%	Russell 2000 27.17%	S&P 500 15.06%	Citi 3 Month T-Bill 0.08%	S&P 500 16.00%	NAREIT - Equity REIT 2.47%	Citi US Inflation-Linked 4.55%	Citi US Inflation-Linked -1.73%	BarCap Aggregate 4.03%	MSCI EAFE 7.39%	BarCap Aggregate 4.79%
Russell 2000 -3.02%	MSCI Emerging Markets -2.62%	MSCI Emerging Markets -6.17%	S&P 500 28.68%	BarCap US High Yield 11.13%	Russell 2000 4.55%	BarCap US High Yield 11.85%	S&P 500 5.49%	NAREIT - Equity REIT -37.73%	S&P 500 26.46%	S&P GSCI Commodity 9.03%	S&P GSCI Commodity -1.18%	BarCap US High Yield 15.81%	Citi 3 Month T-Bill 0.05%	BarCap US High Yield 2.45%	Russell Mid Cap -2.44%	Citi US Inflation-Linked 2.67%	BarCap Aggregate 3.08%	Citi US Inflation-Linked 4.57%
BarCap US High Yield -5.86%	Russell Mid Cap -5.62%	MSCI EAFE -15.94%	S&P GSCI Commodity 20.72%	S&P 500 10.88%	Citi 3 Month T-Bill 3.00%	Citi 3 Month T-Bill 4.76%	Citi 3 Month T-Bill 4.74%	Russell Mid Cap -41.46%	S&P GSCI Commodity 13.48%	MSCI EAFE 7.75%	Russell Mid Cap -1.55%	Citi US Inflation-Linked 7.18%	S&P GSCI Commodity -1.22%	Citi 3 Month T-Bill 0.03%	Russell 2000 -4.41%	MSCI EAFE 0.48%	MSCI Emerging Markets 3.03%	MSCI Emerging Markets 3.95%
S&P 500 -9.10%	S&P 500 -11.89%	Russell Mid Cap -16.19%	Citi US Inflation-Linked 8.26%	Citi US Inflation-Linked 8.40%	Citi US Inflation-Linked 2.86%	BarCap Aggregate 4.33%	BarCap US High Yield 1.87%	MSCI EAFE -43.38%	Citi US Inflation-Linked 10.12%	BarCap Aggregate 6.54%	Russell 2000 -4.18%	BarCap Aggregate 4.21%	BarCap Aggregate -2.02%	MSCI Emerging Markets -2.19%	BarCap US High Yield -4.47%	Citi 3 Month T-Bill 0.09%	Citi US Inflation-Linked 2.00%	MSCI EAFE 1.82%
MSCI EAFE -14.17%	MSCI EAFE -21.44%	Russell 2000 -20.48%	BarCap Aggregate 4.10%	BarCap Aggregate 4.34%	BarCap US High Yield 2.74%	Citi US Inflation-Linked 0.40%	Russell 2000 -1.57%	S&P GSCI Commodity -46.49%	BarCap Aggregate 5.93%	Citi US Inflation-Linked 6.46%	MSCI EAFE -12.14%	S&P GSCI Commodity 0.08%	MSCI Emerging Markets -2.60%	MSCI EAFE -4.90%	MSCI Emerging Markets -14.92%	MSCI Emerging Markets -0.56%	Citi 3 Month T-Bill 0.08%	Citi 3 Month T-Bill 0.84%
MSCI Emerging Markets -30.83%	S&P GSCI Commodity -31.93%	S&P 500 -22.1%	Citi 3 Month T-Bill 1.07%	Citi 3 Month T-Bill 1.24%	BarCap Aggregate 2.43%	S&P GSCI Commodity -15.09%	NAREIT - Equity REIT -15.69%	MSCI Emerging Markets -53.33%	Citi 3 Month T-Bill 0.16%	Citi 3 Month T-Bill 0.13%	MSCI Emerging Markets -18.42%	Citi 3 Month T-Bill 0.07%	Citi US Inflation-Linked -9.37%	S&P GSCI Commodity -33.06%	S&P GSCI Commodity -32.86%	S&P GSCI Commodity -22.16%	S&P GSCI Commodity -12.61%	S&P GSCI Commodity -9.04%

Small Cap - Russell 2000 Index; REIT - NAREIT Equity REITs Index; Mid Cap - Russell Mid Cap Index; Large Cap - S&P 500 Index; Commodities - S&P GSCI Commodity Index; High Yield Bonds - BarCap US Corporate High Yield Index; Emerging Markets - MSCI Emerging Markets Index; International Equity - MSCI EAFE (net) Index; Inflation-Linked Securities - Citi US Inflation-Linked Securities; Bonds - Barclays US Aggregate Index; Money Market - Citigroup Treasury 3 Month T-Bill

Source: Morningstar

DOMESTIC EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market	DJ Industrial Average	2.78	7.21	15.46	9.23	13.77	7.39
	S&P 500	3.85	7.84	15.43	11.16	16.37	7.24
	NASDAQ Composite	10.02	7.09	16.42	13.45	18.54	10.08
	Wilshire 5000 Total Market	4.29	8.44	15.35	10.65	16.31	7.44
Large Cap	Russell 1000	4.03	7.92	14.93	10.78	16.41	7.40
	Russell 1000 Growth	4.58	6.00	13.76	11.83	16.60	8.85
	Russell 1000 Value	3.48	10.00	16.20	9.70	16.15	5.85
Mid Cap	Russell Mid Cap	4.52	10.26	14.25	9.70	16.67	8.32
	Russell Mid Cap Growth	4.59	6.84	11.24	8.90	15.85	8.51
	Russell Mid Cap Value	4.45	13.72	17.26	10.49	17.38	7.89
Small Cap	Russell 2000	9.05	11.46	15.47	6.71	15.82	7.07
	Russell 2000 Growth	9.22	7.48	12.12	6.58	16.15	8.29
	Russell 2000 Value	8.87	15.49	18.81	6.77	15.45	5.78

Source: Morningstar

INTERNATIONAL EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Developed	MSCI AC World	5.30	6.60	11.96	5.17	10.63	4.34
	MSCI AC World Ex US	6.91	5.82	9.26	0.18	6.04	2.16
	MSCI EAFE	6.43	1.73	6.52	0.48	7.39	1.82
	MSCI EAFE Growth	4.96	2.63	9.47	2.39	8.73	3.14
	MSCI EAFE Value	7.99	0.82	3.52	-1.49	5.99	0.44
	MSCI EAFE Small Cap	8.64	5.19	12.33	5.08	11.07	4.39
	MSCI Europe	5.40	0.00	2.49	-0.56	7.46	1.50
	MSCI Europe Ex UK	6.03	-0.36	2.90	0.01	8.17	1.53
	MSCI Pacific Free	8.46	5.26	14.74	2.31	7.31	2.50
	MSCI Pacific Free Ex Japan	8.18	10.86	20.05	0.42	7.07	5.85
	MSCI Japan	8.60	2.54	12.13	3.33	7.36	1.05
Emerging	MSCI Emerging Markets	9.03	16.02	16.78	-0.56	3.03	3.95
	MSCI BRIC	11.55	16.54	18.05	-0.13	2.47	3.52
	MSCI EM Latin America	5.37	32.21	28.65	-7.91	-3.93	2.37
	MSCI EM Europe	4.45	14.72	8.76	-12.32	-3.97	-4.08
	MSCI EM Asia	10.51	12.99	16.90	3.48	6.35	5.56

Source: Morningstar

FIXED INCOME

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
BarCap Aggregate	0.46	5.80	5.19	4.03	3.08	4.79
BarCap US Government	-0.25	4.96	4.00	3.32	2.16	4.34
BarCap US Credit	1.23	8.86	8.30	5.44	4.83	5.77
BarCap Intermediate Govt/Credit	0.16	4.24	3.52	2.80	2.45	4.17
BarCap Long Govt/Credit	1.24	15.74	14.66	10.08	6.32	7.84
Citi US Inflation-Linked	1.02	7.69	7.03	2.67	2.00	4.57
BarCap Emerging Markets Bond	3.13	12.82	13.93	6.60	7.27	7.41
BarCap ABS	0.20	2.74	2.16	2.06	1.89	3.21
BarCap MBS	0.60	3.72	3.61	3.61	2.65	4.65
Citigroup US 3-Month T-Bill	0.07	0.19	0.20	0.09	0.08	0.84
BofA ML 1-3 Year Treasury	-0.11	1.33	0.88	0.85	0.69	2.25
BarCap US Corp Aaa	0.53	8.71	9.27	6.22	3.70	4.83
BarCap US Corp A	0.90	8.01	7.89	5.53	4.95	5.39
BarCap US Corp Baa	2.06	10.79	9.47	5.88	5.66	6.67
BarCap US High Yield	5.55	15.11	12.73	5.28	8.34	7.71
BarCap US High Yield Caa	8.20	25.55	16.12	4.40	9.77	6.89

Source: Morningstar

STABLE VALUE & MONEY MARKET

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Median Taxable Money Market Fund	0.10	0.26	0.31	0.26	0.28	1.25
Median Stable Value Fund	0.45	1.33	1.78	1.74	1.90	2.85
Consumer Price Index	-0.12	1.79	1.18	0.93	1.19	1.73

Source: PEI

REAL ASSETS

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
NAREIT - Equity REIT	-1.43	11.75	19.86	14.22	15.91	6.35
Bloomberg Commodity	-3.86	8.87	-2.58	-12.34	-9.37	-5.33
S&P GSCI Commodity	-4.15	5.30	-12.21	-22.16	-12.61	-9.04

Source: Morningstar

Portfolio Evaluations, Inc.

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3Q2016

DOMESTIC EQUITY MARKET PERFORMANCE
ECONOMIC REVIEW AND MARKET COMMENTARY

Trailing performance as of: September 30, 2016
(As exhibited by the Russell 1000, MidCap, and 2000 stylized indices)

3 Month

	Value	Blend	Growth
Large	**3.48**	**4.03**	4.58
Mid	**4.45**	4.52	4.59
Small	**8.87**	**9.05**	**9.22**

1 Year

	Value	Blend	Growth
Large	**16.20**	14.93	**13.76**
Mid	**17.26**	14.25	**11.24**
Small	**18.81**	15.47	**12.12**

3 Year

	Value	Blend	Growth
Large	9.70	**10.78**	**11.83**
Mid	**10.49**	9.70	8.90
Small	**6.77**	**6.71**	**6.58**

5 Year

	Value	Blend	Growth
Large	16.15	16.41	**16.60**
Mid	**17.38**	**16.67**	**15.85**
Small	**15.45**	**15.82**	16.15

10 Year

	Value	Blend	Growth
Large	**5.85**	7.40	**8.85**
Mid	7.89	**8.32**	**8.51**
Small	**5.78**	**7.07**	8.29

15 Year

	Value	Blend	Growth
Large	**7.46**	**7.48**	**7.35**
Mid	**10.72**	**10.44**	**9.66**
Small	9.38	9.26	8.90

Top 3 Performers **Bottom 3 Performers**

Calendar Year Performance By Style Within Capitalization Category
(As exhibited by the Russell 1000, MidCap, and 2000 stylized indices)

	LARGE CAP	
	Russell 1000 V	Russell 1000 G
2000	**7.01**	-22.42
2001	**-5.59**	-20.42
2002	**-15.52**	-27.88
2003	**30.03**	29.75
2004	**16.49**	6.30
2005	**7.05**	5.26
2006	**22.25**	9.07
2007	-0.17	**11.81**
2008	**-36.85**	-38.44
2009	19.69	**37.21**
2010	15.51	**16.71**
2011	0.39	**2.64**
2012	**17.51**	15.26
2013	32.53	**33.48**
2014	**13.45**	13.05
2015	-3.83	**5.67**

	MID CAP	
	Russell MCV	Russell MCG
2000	**19.18**	-11.75
2001	**2.33**	-20.15
2002	**-9.64**	-27.41
2003	38.07	**42.71**
2004	**23.71**	15.48
2005	**12.65**	12.10
2006	**20.22**	10.66
2007	-1.42	**11.43**
2008	**-38.44**	-44.32
2009	34.21	**46.29**
2010	24.75	**26.38**
2011	**-1.38**	-1.65
2012	**18.51**	15.81
2013	33.46	**35.74**
2014	**14.75**	11.90
2015	-4.78	**-0.20**

	SMALL CAP	
	Russell 2000 V	Russell 2000 G
2000	**22.83**	-22.43
2001	**14.02**	-9.23
2002	**-11.43**	-30.26
2003	46.03	**48.54**
2004	**22.25**	14.31
2005	**4.71**	4.15
2006	**23.48**	13.35
2007	-9.78	**7.05**
2008	**-28.92**	-38.54
2009	20.58	**34.47**
2010	24.50	**29.09**
2011	-5.50	**-2.91**
2012	**18.05**	14.59
2013	34.52	**43.40**
2014	4.22	**5.60**
2015	-7.47	**-1.38**

	LARGE	MID	SMALL
	Russell 1000	Russell MC	Russell 2000
2000	-7.79	**8.25**	-3.02
2001	-12.45	-5.62	**2.49**
2002	-21.65	**-16.19**	-20.48
2003	29.89	40.06	**47.25**
2004	11.40	**20.22**	18.33
2005	6.27	**12.65**	4.55
2006	15.46	15.26	**18.37**
2007	**5.77**	5.60	-1.57
2008	-37.60	-41.46	**-33.79**
2009	28.43	**40.48**	27.17
2010	16.10	25.48	**26.85**
2011	**1.50**	-1.55	-4.18
2012	16.42	**17.28**	16.35
2013	33.11	34.76	**38.82**
2014	**13.24**	13.22	4.89
2015	**0.92**	-2.44	-4.41

Source: Morningstar

3Q2016

DOMESTIC AND INTERNATIONAL EQUITY
ECONOMIC REVIEW AND MARKET COMMENTARY

DOMESTIC EQUITY
(As exhibited by the Russell 1000, MidCap, and 2000 stylized indices)
Trailing performance as of September 30, 2016

	3 Month Value	3 Month Blend	3 Month Growth		YTD Value	YTD Blend	YTD Growth
Large	**3.48**	**4.03**	4.58	Large	10.00	7.92	**6.00**
Mid	**4.45**	4.52	4.59	Mid	**13.72**	10.26	**6.84**
Small	**8.87**	**9.05**	**9.22**	Small	**15.49**	**11.46**	**7.48**

Top 3 Performers **Bottom 3 Performers**

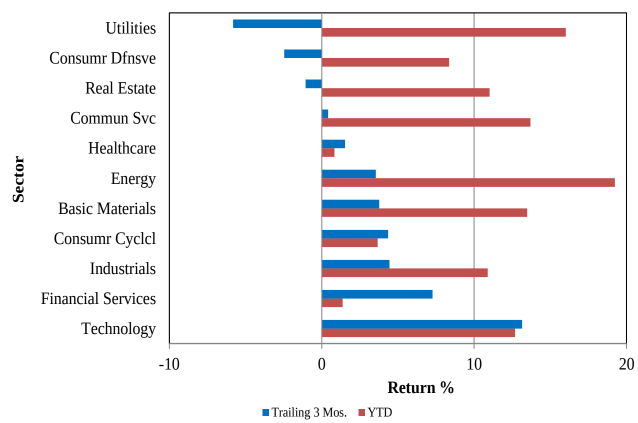
INTERNATIONAL EQUITY
Trailing performance as of September 30, 2016

	3 Month Value	3 Month Blend	3 Month Growth		YTD Value	YTD Blend	YTD Growth
EAFE	7.99	**6.43**	**4.96**	EAFE	**0.82**	**1.73**	**2.63**
EAFE Small	**9.69**	8.64	**7.61**	EAFE Small	6.17	5.19	4.23
EM	8.16	**9.03**	**9.88**	EM	**16.18**	**16.02**	**15.84**

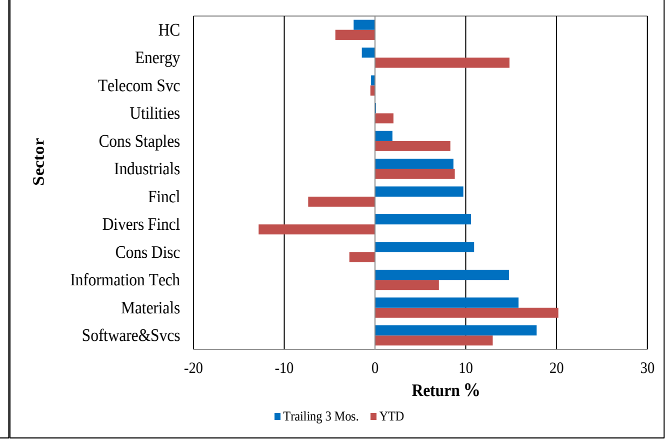
Top 3 Performers **Bottom 3 Performers**

Source: Morningstar

S&P 500 INDEX SECTOR PERFORMANCE



MSCI EAFE SECTOR PERFORMANCE



Domestic Equity

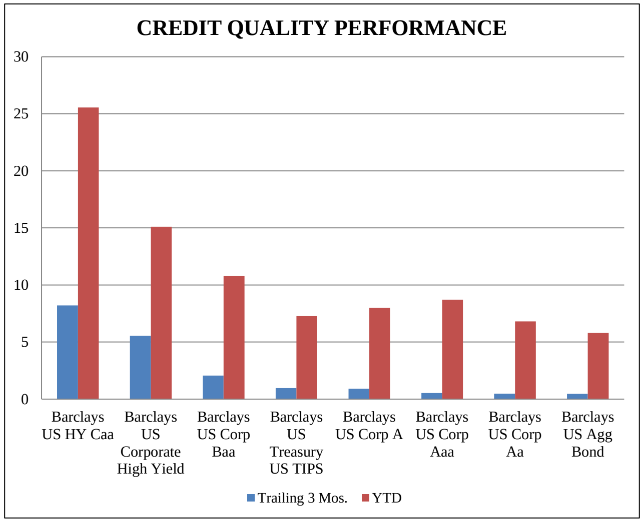
U.S. stocks continued their upward trend during the quarter, with the S&P 500 Index posting a 3.9% return. For the year-to-date through September 2016, the index is up 7.8%. Small-cap equities resoundingly outperformed large-cap equities during the quarter, reflected by the 9.0% return of the Russell 2000 Index. Growth stocks regained their stronghold from last year and outperformed value stocks during the past three months. The technology sector reversed course from its lagging performance during the second quarter and posted double-digit gains. In contrast, the best-performing sector from last quarter, the yield-heavy utilities sector, was the worst performer this quarter, losing 5.8%. The other bond-proxy sectors, consumer defensive and real estate, also posted losses during the quarter as bond yields rose. From a factor standpoint, dividend yield was a detractor while momentum, volatility, and quality were positive contributors. On a valuation basis, the forward price-to-earnings ratio of the S&P 500 Index continued to edge higher this quarter. At 16.8, it is above the index's long-term average of 15.9, indicating the market continues to be slightly overvalued.

International Equity

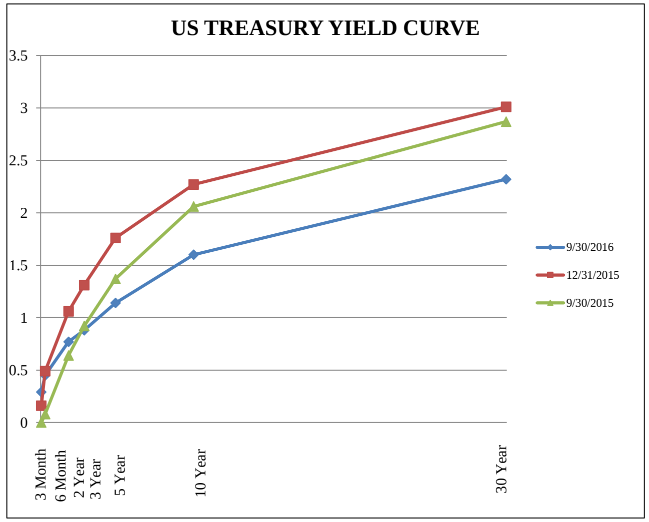
Global equity markets experienced a solid quarter as Brexit fears eased, signs of an improving global economy emerged, and volatility diminished. Two key factors supporting quarterly returns were the continued stabilization of oil prices and the ongoing accommodative monetary policies within certain countries. Against this backdrop, international markets performed strongly with emerging markets outperforming developed markets. The MSCI Emerging Markets Index posted a gain of 9.0% for the quarter while the MSCI EAFE Index gained 6.4%. Japanese equities performed well as attractive valuations, improved corporate governance, and a continued accommodative monetary policy pushed stocks higher. In Europe, volatility eased as Brexit after-shocks remained subdued and the European Central Bank left its supportive monetary policy unchanged. While it appears the European recovery remains intact, macroeconomic data showed mediocre growth and low inflation. UK equities posted gains for the quarter, supported by stabilization in the political arena and the Bank of England's monetary easing initiatives. Led by China and Brazil, emerging market equities continued their rebound. Improved economic data and attractive equity valuations proved supportive in China, while Brazilian equities soared higher on hopes of an improved economy under the new political regime. Overall, value stocks outperformed their growth counterparts with small caps leading the way. From a sector perspective, the information technology, materials, and consumer discretionary sectors fared the best.

3Q2016

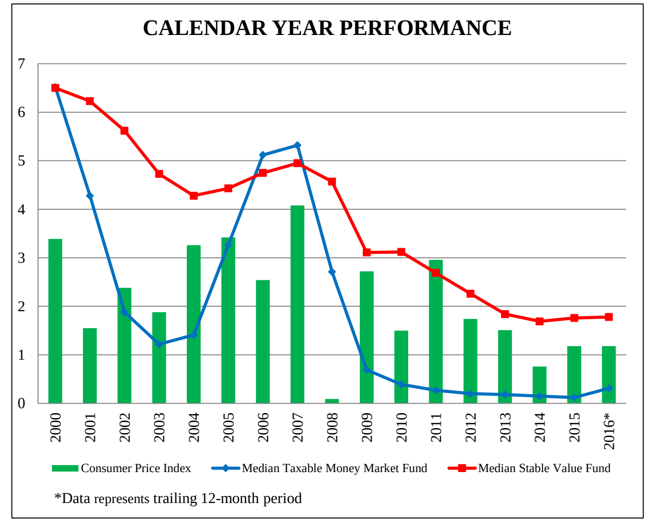
FIXED INCOME, MONEY MARKET, AND STABLE VALUE ECONOMIC REVIEW AND MARKET COMMENTARY



Source: Morningstar



Source: The Federal Reserve



Source: PEI

Fixed Income

Market sentiment in the quarter was dominated by meetings of leading global central banks. Although the Federal Reserve did not increase rates during the quarter, global central bank action was hawkish on balance and helped to drive global yields higher. U.S. yields, which started the quarter at depressed levels due to the surprise Brexit vote, rose across the curve in the quarter. This was particularly noteworthy at the front end. Additionally, the yield curve continued to flatten, which has been the prevailing trend for several quarters. The Fed hinted they could raise rates before the end of the year. As such, shorter term maturity bonds underperformed longer term bonds. Fixed income securities on balance generated muted positive returns across the spectrum. The Bloomberg Barclays US Aggregate Bond Index returned 0.5% in the quarter. Treasury bonds were impacted by higher yields with negative results. Economically sensitive, lower credit quality sectors continued to rally, supported by accommodative central banks, low volatility, and yield hungry investors. A meaningful pick-up in inflation expectations, on the back of higher core prices and recovering risk assets post-Brexit, was a tailwind for TIPS, which returned 1.0% during the quarter. High yield corporates were the leading domestic asset class during the quarter, returning 5.6%, while emerging market debt returned 3.1%. Investment grade credit gains were more modest, although corporates continued to perform well and returned 1.4% as measured by the Bloomberg Barclays Credit Bond Index. US securitized benchmarks (MBS, ABS and CMBS) also posted positive returns during the quarter, driven in large part by continued demand from investors for yield.

Money Market and Stable Value

Money managers may start putting an end to waiving fees, as yields are rising high enough to cover expenses while providing a positive return to investors. With the reform deadline on our doorstep, most fund managers are taking a “wait and see” approach going into October and November. Almost all prime money market managers have been shortening their weighted average maturities to bolster liquidity in anticipation of large outflows from prime funds to government funds. Stable value funds have experienced inflows during the quarter. Managers feel that stable value should continue to do well in this interest rate environment as rates rise slowly and steadily. Wrap capacity is at an all-time high with seventeen issuers in the market. These wrap providers are slowly giving more investment flexibility to managers. On average, wrap fees have been ranging between 0.20%-0.25%.