4Q2016

SUMMARY OF ECONOMIC REVIEW AND MARKET COMMENTARY

➢ *Two Days Make All the Difference*

- The Federal Reserve Bank policy shift to higher interest rates (December 14, 2016) and Donald Trump's election as the 45th President (November 8, 2016) drove the S&P 500 to a record high and the U.S. Treasury 10-year yield higher by about 80 basis points. It is still too early to tell if the new administration's pro-growth agenda will dominate over a protectionist policy. Nevertheless, the combination of Republican control of both congressional houses and Trump's conciliatory victory speech set the tone for positive expectations about the U.S. economic outlook, driving the price of risk assets higher.
- Economic data also contributed to financial market performance. Statistics for the second half of the year showed marked progress from the first half of 2016. Fourth quarter employment, production, and sentiment continued to improve and contributed to positive equity and commodity market performance across sectors.
- Non-farm payrolls gained 165,000 on average each month in the last quarter and wage increases were running at +2.9% for the year. The December University of Michigan's Consumer Sentiment Index was reported at 98.0, which was its highest level in two years, although home sales were off a bit, possibly resulting from rising mortgage rates. Manufacturing data held steady, while there were signs of increases in business investment. Analysts generally agree that the data points to good prospects for an improving economy in 2017.
- The first estimate of fourth quarter Real GDP was reported at +1.9%, which was below the third quarter's level of +3.5%. Trade, in particular the negative impact from a jump in imports and inventory building, was a primary factor, although consumer spending provided support to economic growth.
- The Federal Reserve Bank could not ignore improving economic conditions and, while not stating Trump's victory directly, acknowledged the altered future economic landscape. Not only did the Fed increase the federal funds rate by 0.25%, but their published path to future rate increases accelerated their time table. The dot chart suggested that while monetary policy will tighten in a controlled fashion, FOMC members anticipate hiking interest rates between 2 and 3 times in 2017. Inflation, while below their 2% target, will be monitored closely in light of the new administration's fiscal policies.
- The combination of higher rates and the prospects of a surge in inflation resulted in a sharply higher and steeper yield curve. U.S. Treasury 10-year yields peaked at 2.6% during the quarter, as the 2-10 year spread widened by 50 basis points. Broad fixed income indices were down around 3% over the fourth quarter, although gains were maintained for the year. Higher interest rates also weighed on real estate, while rising oil and commodity prices benefited high yield securities.
- Oil prices rose about 11% following an agreement between OPEC nations and, to the market's surprise, other nations such as Russia to curb oil production. WTI oil prices were up from a low of $30/barrel earlier in the year to end the year at $53.72/barrel. This was the first pricing agreement in almost a decade, and if history is any indicator of the future, the agreement may not hold up for long. Normally, shale oil production is also more economical at levels over $50/BBL, which will keep a cap on prices.
- The S&P was up 3.8% on the fourth quarter, and almost 12% on the year. Domestically-focused small cap stocks benefited relative to other equity asset classes because of the prospects of tax cuts, a generally stronger U.S. economy and less impact from the stronger dollar. Equity sectors tied to commodity prices, in particular energy and non-precious metals, profited from a view of a future environment with less regulation and higher infrastructure spending. Financial and bank stocks were higher on prospects of improved margins resulting from rate increases and predictions of less regulation.

➢ *International Market Performance was Less Favorable*

- Although somewhat ignored by financial markets, global business activity showed renewed strength in the fourth quarter. The JPMorgan Global PMI moved higher at the end of the year for both developed and emerging markets, suggesting global economic activity will continue to improve in 2017. Global manufacturing conditions were at their highest levels in the last two years. GDP data for the EU, U.K. and Japan continued to improve, getting additional support from the stronger U.S. dollar. The U.K. economy after the Brexit vote confounded analysts, as the fourth quarter GDP came in at a 2.2% annual growth rate. In addition, China's economic growth also continued to stabilize, at the expense of growing government debt levels; fourth quarter GDP rose to an annual rate of 6.8%. Central bankers maintained their easy monetary policy, but comments reveal that there is a growing consensus that low interest rates have reached the limit of usefulness.

- Global financial markets focused instead on views of anti-globalization and populism that appear to be spreading. The MSCI All-World Index was up only 1.2% on the quarter, although it was up about 7.9% on the year. MSCI Emerging market performance for the year was up over 11%, although fourth quarter returns (-4.16%) were severely impacted by concerns over protectionist policies and the strong dollar.
- Regarding Brexit, Prime Minister Theresa May stated the U.K. would trigger Article 50 and begin the two year Brexit process by March 31, 2017. A recent U.K. Supreme Court ruling will require Parliament's vote to authorize the process, which is expected prior to the March deadline.

➢ *The Economic Outlook for the Trump Presidency*

- Donald Trump's message of lower taxes, less regulation, increased investment on infrastructure, and increased security and defense spending resonated with voters. With support from both houses of Congress, his agenda is expected to be moved forward fairly quickly. The economic impact could be felt within the next two years.
- Tax reform is seen as the centerpiece of the new administration's policies, and along with deregulation, would provide the kick start to business investment that has held back growth. However, demographic trends such as an aging population and declining productivity are expected to limit the upside potential.
- The risk to the pro-growth initiatives is that U.S. growth accelerates at a faster pace, and inflationary forces emerge. This result would compress the path of the Fed's interest rate policy and rates could rise faster and higher than currently projected.
- It is also unclear if the protectionist policies discussed during the campaign will be ultimately implemented, potentially impacting trade and export growth.
- Finally, global populism is growing and citizens are voting to take back power from their governments. The Italian vote against Prime Minister Renzi's proposal for changes to parliamentary procedures kept the concentration of power distributed in the Senate, and cost him his position. Elections in France and Germany later this year could result in policies that impact the structure of the Eurozone. While the final results are far from certain, financial market volatility is expected over 2017.

➢ *The Global Outlook in 2017; Better, but Not Great*

- On the following pages, PEI has compiled the 2017 economic outlook from a number of investment managers, in addition to the U.S. forecasts below:

Forecast for U.S. Economic Outlook

	First Quarter, 2017	Second Quarter, 2017	Year End, 2017
U.S. GDP	2.2%	2.4%	2.4%
Unemployment	-	4.6%	4.5%
CPI	-	2.4%	2.3%
Fed Funds	-	0.75-1.00%	1.25-1.50%

Source: The Wall Street Journal, January 1, 2017; survey average of 76 economists

- The main themes for 2017 that resonate from analysts:
  - Economic growth in the U.S. should accelerate due to the Trump administration’s pro-growth policies.
  - Growth will improve globally, especially in emerging markets.
  - Increased uncertainty is due to the spread of global populism and the resulting changes in political and economic structures.
  - High growth in the U.S., which is at a late point in the economic cycle, could lead to a faster pace of inflation growth, and interest rate increases from the Fed.

Market Expectations for 2017

- We surveyed information provided by a number of banks and investment firms, and summarized their forecasts below:

2017 Forecasts

	Global GDP (%)	US GDP (%)	US CPI Inflation (%)	US Unemploy ment (%)	Targeted Fed Funds Rate (%)	Highlights of Forecast
Citibank	2.7	1.8	1.8	-	-	• Global growth will be driven by expansionary fiscal policies in the developed markets and better growth from emerging markets. • Inflation will accompany growth, causing central banks to slow monetary easing. Global political uncertainty also clouds outlook. • Uncertainty about Trump's policies, but if pro-growth proposals such as deregulation, tax cuts, infrastructure spending come to fruition, U.S. GDP could rise an additional 1% in 2018.
Deutsche Bank	3.4	2.3	1.9	4.2	1.125 by year-end	• New administration policies will drive improvement in U.S. economic growth and the end of recessions in Russia and Brazil will facilitate global growth. • Rising commodity prices will help emerging markets. • European economic growth will be held back in 2017 due to political uncertainty (elections, Brexit, refugee crisis), slower easing of credit (as ECB begins to taper QE), and rising inflation, but will benefit from transmission of U.S. growth in 2018. • U.S. growth will be driven by rising wages/consumption, fiscal stimulus, tax reform, and increased infrastructure/defense spending.
Goldman Sachs	3.2	2.3	2.7	4.5	1.25-1.50% by year-end	• The outlook is based on corporate tax reform and easy financial conditions that are supportive of economic growth. • Wage inflation will continue to rise, as does the inflationary impact of the higher dollar and energy prices. As a result, Goldman expects 3 interest rate hikes from the Fed in 2017. • Tax reform in 2017 is likely, and will drive business investment. • Despite higher mortgage rates, the housing recovery continues. • Global growth will be driven by a rebound in emerging markets.
JP Morgan Chase	-	2.5	>2.0	4.0	Expect 4 or more rate hikes in 2017	• A rising U.S. budget deficit/debt levels will curb the new administration's ability to institute tax reforms, which will keep a lid on U.S. GDP. • Global deflation coming to an end and global policy shifts to interest rate normalization. • Main risks: overheating economy leads to faster Fed rate hikes, and rising populism in the European Union.

	Global GDP (%)	US GDP (%)	US CPI Inflation (%)	US Unemployment (%)	Targeted Fed Funds Rate (%)	Highlights of Forecast
Morgan Stanley	3.4	2.0	-	4.6	About 1.0 - 1.25% by year-end	• U.S. and Japan will experience faster growth while Europe will lag other developed markets. • Commodity exporting countries will rebound while China's growth will slow. Emerging markets will also be influenced by protectionism. • Risks are numerous: global political uncertainty, European elections and Brexit talks happen in 2017, along with clarification of Trump administration policies resulting in an increased deficit. • Expect to see increases in the earnings growth rate and inflation (from stronger dollar/possible protectionism) becoming normalized, but in latter part of year, China's growth could take a turn lower. • Expect ECB to maintain QE in first half of year, while the Fed may be forced to raise rates faster than anticipated.
PIMCO	2.5-3.0	2.0-2.5	2.0-2.5	-	-	• The global transition from monetary policy to fiscal policy will continue, as will the transition to "de-globalization." • Confidence in any economic outcome is low due to political uncertainty in U.S. and Europe, but global "trade war" is avoided. • Risks include a faster pace to Fed rate hikes due to accelerating wage inflation concurrent with fiscal stimulation. • Recommendation to investors: "aim for capital preservation until the veil of uncertainty over future policies starts to lift."
Federal Reserve Bank Median Projections	-	2.1	1.9 (PCE inflation)	4.5	1.4	• The Fed raised the Fed Funds rate in December, 2016 based on improving labor and economic growth data although inflation remained below the 2% targeted level. • The FOMC expressed concern about "soft" business investment and suggested that monetary tightening will happen gradually. Their data projections implied 2-3 rate increases in 2017. • The Committee also noted that new fiscal policies and inflation will be closely monitored when setting monetary policy.
Broader Consensus	-	2.4	2.2-2.4	4.5-4.6	About 1.5% by year-end	• Based on a Wall Street Journal survey of 76 economists, January 1, 2017.

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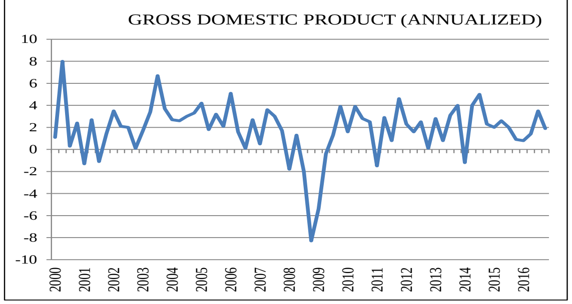
ECONOMIC REVIEW

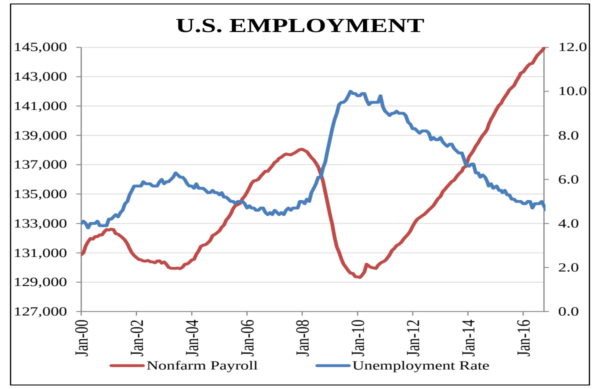
ECONOMIC REVIEW AND MARKET COMMENTARY

Seasonally Adjusted Rate: Percent Changed from Preceding Period	Annual			Trailing Four Quarters			
	2014	2015	2016	1Q16	2Q16	3Q16	4Q16
GDP	2.4	2.6	1.6	0.8	1.4	3.5	1.9



Source: Bureau of Economic Affairs

Source: United States Department of Labor



Source: United States Department of Labor

Economic Growth

U.S. economic growth continued to accelerate in the second half of the year as employment statistics exhibited consistent strength. Non-farm payrolls were exceptionally strong in November, and initial unemployment claims remained low ahead of the Federal Reserve Bank meeting in December. Both consumer and business spending increased during the quarter. Average hourly earnings continued to rise (+2.9% over the year), while PCE inflation remained below the Fed's 2% target. Consumer confidence and consumer sentiment posted high levels for the year. After the election, business sentiment improved. The ISM manufacturing index rose to 54.7, its highest level since 2014. Housing data was more mixed, where single family existing homes and total housing starts fell in November (possibly reflecting an increase in mortgage rates). The first estimate of fourth quarter GDP was reported at 1.9%, which was off the previous quarter's pace of a 3.5% growth rate. As expected, significant inventory building contributed positively to the report, and will be an offsetting factor in future quarters. An increase in imports relative to exports was the primary drag on the growth rate.

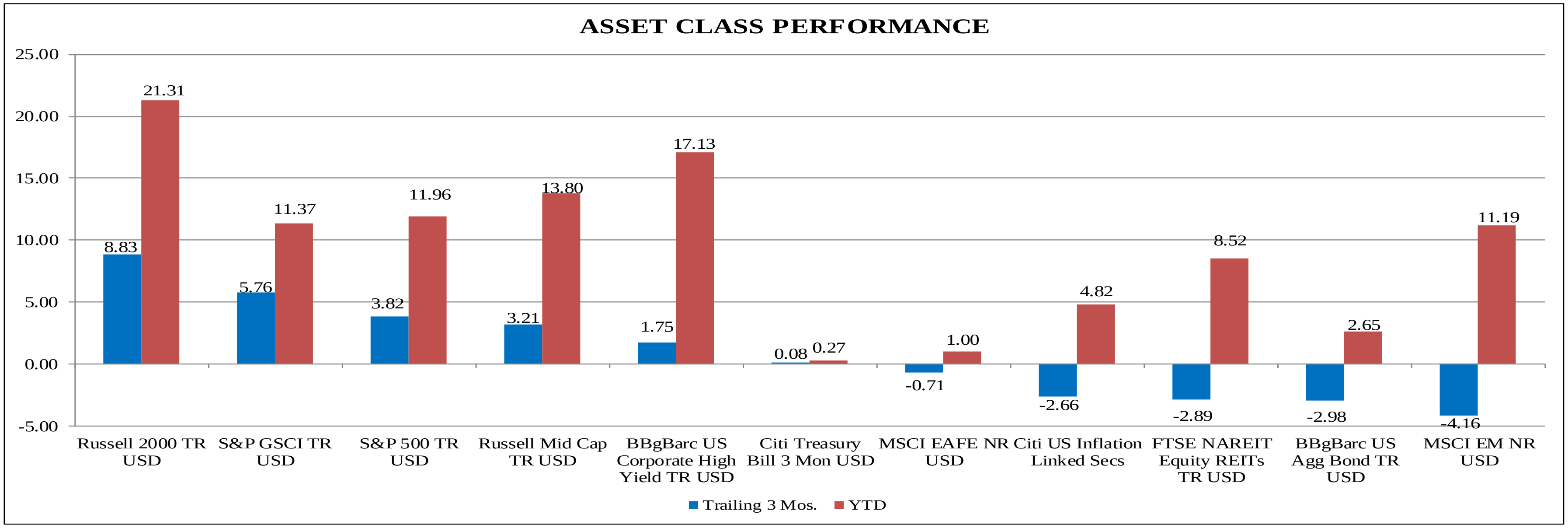
Economic data also signified an improvement in global economic conditions. China manufacturing PMI rose steadily over 50 level throughout the fourth quarter, while data continued to point to improved industrial and labor market conditions in Japan. In the U.K., industrial production rose at the end of the quarter, and business surveys indicated improved performance from manufacturing sectors. In the Eurozone, data for business activity, industrial production, and manufacturing also pointed to a gradual pickup in economic activity.

Policy

At their December meeting, the Federal Reserve Bank increased the fed funds target by 25 basis points, to a range of 0.50-0.75%. Factors contributing to the decision included a continued improvement in labor market conditions, stronger GDP growth over the second half of 2016, and a moderate increase in wages/average hourly earnings. As the meeting minutes noted, a number of members indicated "*that the upside risks to their forecasts for economic growth had increased as a result of prospects for more expansionary fiscal policies in coming years*", a reference to the presidential election. However, the Fed also reiterated their stance that future interest rate increases would occur in a gradual manner and would be based on regular assessments of economic conditions.

Markets

Donald Trump's election drove financial markets higher in the last two months of the year. Investors subscribed to his campaign promises of tax reform, infrastructure spending, and reduced regulations, which are supportive of economic growth and a renewed outlook for business investment and spending. The first interest rate increase by the Federal Reserve Bank in 2016, combined with concerns of higher inflation drove interest rates to their highest levels since 2008. The S&P 500 index increased 3.8% on the quarter, but was held back by U.S. dollar strength and its potential impact on exports. Small cap, especially value based stocks, appreciated more significantly as the prospects for lower taxes and regulatory reform would have the biggest impact on that sector.



Factors Impacting Market Performance:

- Prospects for increased infrastructure spending, tax cuts, and regulatory reform under the Trump administration
- Renewed optimism for economic growth, but concerns about a higher federal debt and inflationary spending
- The Fed's decision to raise rates, and expectations of 2-3 rate increases in 2017
- Oil production agreement to curb oil output

Domestic Risk Assets Outperformed:

- *Small Cap*; contributing factors were the more-favorable impact tax cuts would have on domestically-focused companies, and higher interest rates which are a positive factor on bank stocks in the Russell 2000.
- *Large/Mid Cap;* strong dollar's negative influence on sales and revenue conversion for large, growth and globally-oriented companies offset by beneficial impact of expectations for lower corporate taxes and higher spending in defense/infrastructure
- *Commodities*; oil prices up 11.4% on an agreement between oil producing nations. Non-precious metals and base materials also rose, anticipating increased government spending on bridges, roads and other projects
- *Real Estate*; higher interest rates and the effect of rising mortgage rates reduced relative attractiveness
- *Fixed Income*; forecast for 2-3 rate hikes in 2017 and a steeper yield curve worked against core fixed-income, but high yield outperformed due to the sensitivity to economic growth and the price appreciation in materials and energy sectors. Tips relative outperformance on concerns of inflation
- *International*: prospects for overall economic growth was more than offset by the impact of the rising U.S. dollar and ongoing concerns about European banks. Emerging markets were also plagued by the possibility of tighter trade regulations with the U.S.

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TOTAL RETURN OF ASSET CLASSES
ECONOMIC REVIEW AND MARKET COMMENTARY

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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%	Russell 2000 21.31%
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%	BarCap US High Yield 17.13%
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 13.80%
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%	S&P 500 11.96%
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%	S&P GSCI Commodity 11.37%
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%	MSCI Emerging Markets 11.19%
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%	NAREIT - Equity REIT 8.52%
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%	Citi US Inflation-Linked 4.82
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%	BarCap Aggregate 2.65%
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 EAFE 1.00%
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%	Citi 3 Month T-Bill 0.27%

As of December 31, 2016

Trailing 3-Year	Trailing 5-Year	Trailing 10-Year
NAREIT - Equity REIT 13.38%	Russell Mid Cap 14.72%	Russell Mid Cap 7.86%
S&P 500 8.87%	S&P 500 14.66%	BarCap US High Yield 7.45%
Russell Mid Cap 7.92%	Russell 2000 14.46%	Russell 2000 7.07%
Russell 2000 6.74%	NAREIT - Equity REIT 12.01%	S&P 500 6.95%
BarCap US High Yield 4.66%	BarCap US High Yield 7.36%	NAREIT - Equity REIT 5.08%
BarCap Aggregate 3.03%	MSCI EAFE 6.53%	Citi US Inflation-Linked 4.43%
Citi US Inflation-Linked 2.50%	BarCap Aggregate 2.23%	BarCap Aggregate 4.34%
Citi 3 Month T-Bill 0.11%	MSCI Emerging Markets 1.28%	MSCI Emerging Markets 1.84%
MSCI EAFE -1.60%	Citi US Inflation-Linked 0.91%	MSCI EAFE 0.75%
MSCI Emerging Markets -2.55%	Citi 3 Month T-Bill 0.09%	Citi 3 Month T-Bill 0.73%
S&P GSCI Commodity -20.60%	S&P GSCI Commodity -13.13%	S&P GSCI Commodity -8.10%

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

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MARKET DATA
ECONOMIC REVIEW AND MARKET COMMENTARY

DOMESTIC EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market	DJ Industrial Average	8.66	16.50	16.50	8.71	12.92	7.52
	S&P 500	3.82	11.96	11.96	8.87	14.66	6.95
	NASDAQ Composite	1.66	8.87	8.87	10.14	17.07	9.51
	Wilshire 5000 Total Market	4.54	13.37	13.37	8.76	14.71	7.17
Large Cap	Russell 1000	3.83	12.05	12.05	8.59	14.69	7.08
	Russell 1000 Growth	1.01	7.08	7.08	8.55	14.50	8.33
	Russell 1000 Value	6.68	17.34	17.34	8.59	14.80	5.72
Mid Cap	Russell Mid Cap	3.21	13.80	13.80	7.92	14.72	7.86
	Russell Mid Cap Growth	0.46	7.33	7.33	6.23	13.51	7.83
	Russell Mid Cap Value	5.52	20.00	20.00	9.45	15.70	7.59
Small Cap	Russell 2000	8.83	21.31	21.31	6.74	14.46	7.07
	Russell 2000 Growth	3.57	11.32	11.32	5.05	13.74	7.76
	Russell 2000 Value	14.07	31.74	31.74	8.31	15.07	6.26

Source: Morningstar

INTERNATIONAL EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Developed	MSCI AC World	1.19	7.86	7.86	3.13	9.36	3.56
	MSCI AC World Ex US	-1.25	4.50	4.50	-1.78	5.00	0.96
	MSCI EAFE	-0.71	1.00	1.00	-1.60	6.53	0.75
	MSCI EAFE Growth	-5.53	-3.04	-3.04	-1.20	6.67	1.64
	MSCI EAFE Value	4.17	5.02	5.02	-2.14	6.28	-0.22
	MSCI EAFE Small Cap	-2.86	2.18	2.18	2.10	10.56	2.95
	MSCI Europe	-0.40	-0.40	-0.40	-3.17	6.25	0.36
	MSCI Europe Ex UK	-0.20	-0.56	-0.56	-2.62	7.41	0.36
	MSCI Pacific Free	-1.03	4.18	4.18	1.43	7.15	1.62
	MSCI Pacific Free Ex Japan	-2.72	7.85	7.85	-0.59	5.24	3.94
	MSCI Japan	-0.16	2.38	2.38	2.49	8.17	0.54
Emerging	MSCI Emerging Markets	-4.16	11.19	11.19	-2.55	1.28	1.84
	MSCI BRIC	-3.79	12.12	12.12	-1.95	0.82	0.93
	MSCI EM Latin America	-0.88	31.04	31.04	-7.46	-5.69	0.27
	MSCI EM Europe	9.40	25.51	25.51	-9.18	-2.32	-4.83
	MSCI EM Asia	-6.06	6.14	6.14	0.14	4.35	3.43

Source: Morningstar

FIXED INCOME

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
BarCap Aggregate	-2.98	2.65	2.65	3.03	2.23	4.34
BarCap US Government	-3.72	1.05	1.05	2.26	1.22	3.86
BarCap US Credit	-2.97	5.63	5.63	4.07	3.85	5.31
BarCap Intermediate Govt/Credit	-2.07	2.08	2.08	2.09	1.85	3.84
BarCap Long Govt/Credit	-7.84	6.67	6.67	7.16	4.07	6.85
Citi US Inflation-Linked	-2.66	4.82	4.82	2.50	0.91	4.43
BarCap Emerging Markets Bond	-2.61	9.88	9.88	5.25	5.69	6.71
BarCap ABS	-0.70	2.03	2.03	1.72	1.70	3.02
BarCap MBS	-1.97	1.67	1.67	3.07	2.06	4.28
Citigroup US 3-Month T-Bill	0.08	0.27	0.27	0.11	0.09	0.73
BofA ML 1-3 Year Treasury	-0.43	0.89	0.89	0.68	0.57	2.12
BarCap US Corp Aaa	-4.90	3.39	3.39	4.46	2.43	4.18
BarCap US Corp A	-3.11	4.65	4.65	4.12	3.95	4.92
BarCap US Corp Baa	-2.48	8.04	8.04	4.45	4.63	6.26
BarCap US High Yield	1.75	17.13	17.13	4.66	7.36	7.45
BarCap US High Yield Caa	4.70	31.46	31.46	4.54	9.00	6.74

Source: Morningstar

STABLE VALUE & MONEY MARKET

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Median Taxable Money Market Fund	0.08	0.22	0.22	0.14	0.14	0.94
Median Stable Value Fund	0.45	1.79	1.79	1.75	1.87	2.77
Consumer Price Index	0.05	2.13	2.13	1.20	1.37	1.82

Source: PEI

REAL ASSETS

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
NAREIT - Equity REIT	-2.89	8.52	8.52	13.38	12.01	5.08
Bloomberg Commodity	2.66	11.77	11.77	-11.26	-8.95	-5.58
S&P GSCI Commodity	5.76	11.37	11.37	-20.60	-13.13	-8.10

Source: Morningstar

Portfolio Evaluations, Inc.

THE BENCHMARK IN INVESTMENT CONSULTING

4Q2016

DOMESTIC EQUITY MARKET PERFORMANCE
ECONOMIC REVIEW AND MARKET COMMENTARY

Trailing performance as of: December 31, 2016
(As exhibited by the Russell 1000, MidCap, and 2000 stylized indices)

3 Month

	Value	Blend	Growth
Large	**6.68**	3.83	**1.01**
Mid	5.52	**3.21**	**0.46**
Small	**14.07**	**8.83**	3.57

1 Year

	Value	Blend	Growth
Large	17.34	12.05	**7.08**
Mid	**20.00**	13.80	**7.33**
Small	**31.74**	**21.31**	**11.32**

3 Year

	Value	Blend	Growth
Large	**8.59**	**8.59**	8.55
Mid	**9.45**	7.92	**6.23**
Small	8.31	**6.74**	**5.05**

5 Year

	Value	Blend	Growth
Large	**14.80**	14.69	14.50
Mid	**15.70**	14.72	**13.51**
Small	**15.07**	**14.46**	**13.74**

10 Year

	Value	Blend	Growth
Large	**5.72**	7.08	**8.33**
Mid	7.59	**7.86**	**7.83**
Small	**6.26**	**7.07**	7.76

15 Year

	Value	Blend	Growth
Large	**7.41**	**7.00**	**6.42**
Mid	**10.28**	**9.51**	7.96
Small	**9.22**	8.49	7.48

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**
2016	**17.34**	7.08

	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**
2016	**20.00**	7.33

	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**
2016	**31.74**	11.32

	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
2016	12.05	13.80	**21.31**

Source: Morningstar

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

3 Month	Value	Blend	Growth
Large	**6.68**	3.83	**1.01**
Mid	5.52	**3.21**	**0.46**
Small	**14.07**	**8.83**	3.57

YTD	Value	Blend	Growth
Large	17.34	12.05	**7.08**
Mid	**20.00**	13.80	**7.33**
Small	**31.74**	**21.31**	**11.32**

Top 3 Performers **Bottom 3 Performers**

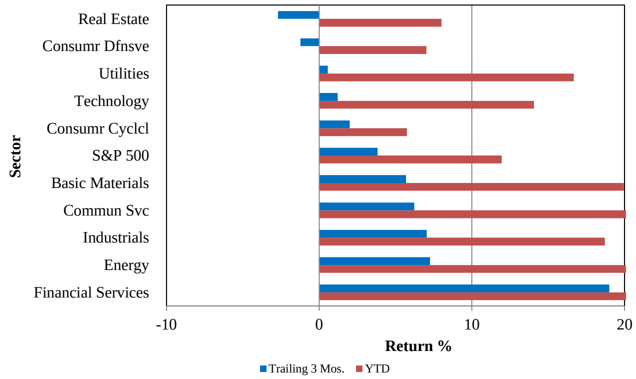
INTERNATIONAL EQUITY
Trailing performance as of September 30, 2016

3 Month	Value	Blend	Growth
EAFE	**4.17**	**-0.71**	**-5.53**
EAFE Small	**-0.27**	-2.86	**-5.42**
EM	-1.10	-4.16	**-7.12**

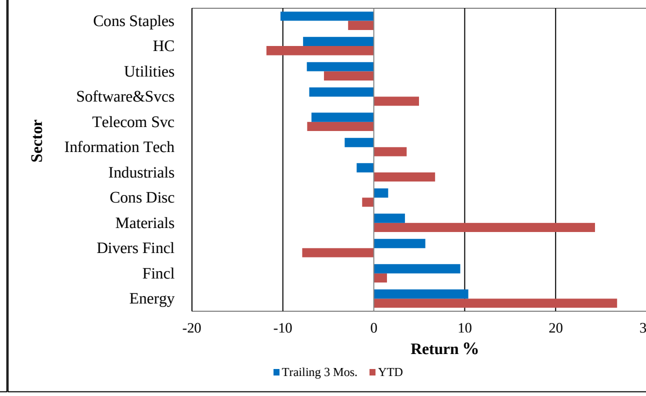
YTD	Value	Blend	Growth
EAFE	5.02	**1.00**	**-3.04**
EAFE Small	5.88	2.18	**-1.43**
EM	**14.90**	**11.19**	**7.59**

Top 3 Performers **Bottom 3 Performers**

S&P 500 INDEX SECTOR PERFORMANCE



MSCI EAFE SECTOR PERFORMANCE



Source: Morningstar

Domestic Equity

Building on the rising market of the third quarter, and rallying as part of a post-election boost, U.S. stocks continued their upward trend during the fourth quarter 2016, with the S&P 500 Index posting a 3.8% return. For the year-to-date through December 2016, the index was up 12%. Small-cap equities outperformed large-cap equities again during the fourth quarter, reflected by the 8.8% return of the Russell 2000 Index (small cap stocks were up 21.3% for the calendar year). In a reversal from the third quarter, value stocks strongly outperformed growth stocks, 6.7% versus 1.0%, boosted by a 21.1% return from the Financials sector. The Fed's decision to raise interest rates (for only the second time in the past decade) helped many banking stocks, but also negatively affected the "bond proxy" assets that had been rallying in recent years: REITS lost 4.4%, consumer staples were down 2.0%, and utilities posted a modest 0.1% return. From a factor standpoint within the Russell 1000 Index, size and volatility had minimum impacts for the quarter, while quality and momentum were detractors and value was the most additive. On a valuation basis, the forward price-to-earnings ratio of the S&P 500 Index continued to edge higher this quarter, and at 16.9 is above the 15.9 of the index's long-term average, indicating the market continues to be slightly overvalued.

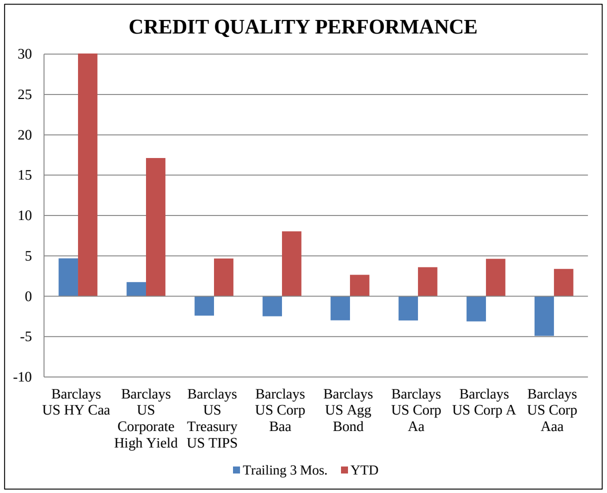
International Equity

After a roller-coaster start to 2016, global equity markets navigated through an action-packed fourth quarter with key events including: Donald Trump's presidential win, the U.S. Federal Reserve's December interest rate hike, and OPEC's decision to trim oil output for the first time in eight years. Against this backdrop, developed markets outperformed emerging markets with the MSCI EAFE Index declining 0.7% for the period and the MSCI Emerging Markets Index losing just over 4%. Some headwinds abated within emerging markets as commodity prices rebounded, noise about a Chinese "hard-landing" quieted, and some improvement was seen out of beleaguered Brazil and Russia. However, concerns about the continued strength of the U.S. dollar, future interest rate hikes, and threats to trade pressured fourth quarter performance. Eurozone equities were supported by broadly positive economic data, including a rise in consumer confidence and positive news on the unemployment front. The European Central Bank announced a continuation of their quantitative easing program, albeit with reduced monthly bond purchases. The resulting rising bond yields eased profitability concerns, bolstering European financials. Within the U.K., equities rose during the quarter, as the country continued to fight off a post-Brexit recession. U.K. financials gained ground, as did resources stocks on the heels of the OPEC production cut. Japanese equities were supported by a weakening yen, as well as improvements in the growth rate from an uptick in both export trade and domestic demand. Though China has continued to stave off a "hard-landing," Chinese equities retreated during the quarter amidst continued capital outflows and mediocre investor sentiment. From an international perspective, value stocks outperformed their growth counterparts with large-cap stocks leading the way. From a sector perspective, the financials and energy sectors fared best.

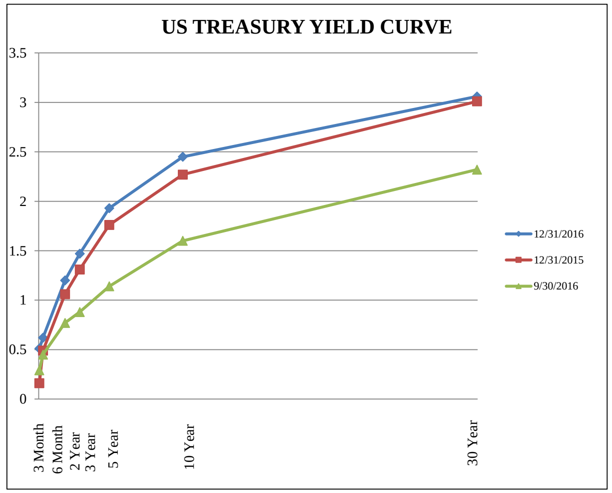
PEI Portfolio Evaluations, Inc.
THE BENCHMARK IN INVESTMENT CONSULTING

4Q2016

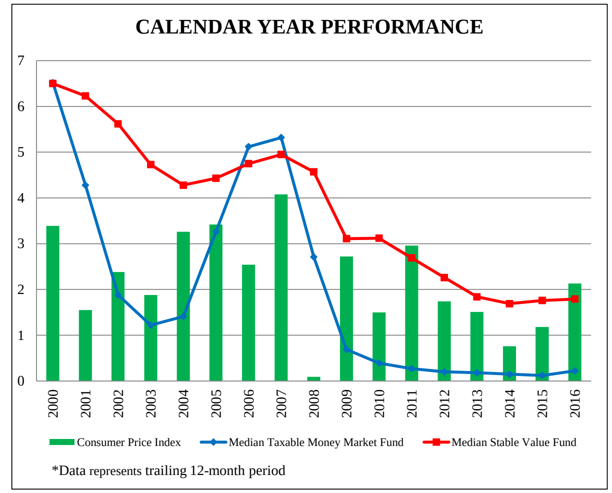
FIXED INCOME, MONEY MARKET, AND STABLE VALUE
ECONOMIC REVIEW AND MARKET COMMENTARY



Source: Morningstar



Source: The Federal Reserve



Source: PEI

Fixed Income

Yields rose across the curve following the November election, as most markets focused on the pro-growth and inflationary potential of expansionary fiscal policy, tax cuts and deregulation. A steep increase in inflation expectations also drove some of the increase in rates. The yield curve steepened during the quarter as yields further out the curve rose more than those on the front end of the curve. The difference between 30-year and 2-year yields increased 30 bps from 1.56% to 1.86%. Rising treasury yields hurt most fixed income investors in the fourth quarter. The Bloomberg Barclays US Aggregate Bond Index lost 3.0% in Q4. In this environment, lower quality, shorter dated maturities generally performed better than higher quality and longer maturities. Treasuries and tax exempt municipal bonds were particularly hard hit due to the post- election rise in yields and the prospect of lower marginal tax rates in 2017. US TIPS declined, but higher inflation helped keep the sector ahead of nominal Treasuries and the broad bond market. Risk assets rallied on the election news in the latter half of the quarter and most risk sectors outperformed Treasuries. In corporate bonds, this was primarily led by financial institutions which were helped by rising rates. High yield spreads continued to tighten in the quarter, which contributed to a positive 1.8% return for the Bloomberg Barclays US Corporate HY Index. Securitized debt also outperformed, led by the ABS subsector. Notwithstanding the overall risk on sentiment, emerging markets weakened as the possibility of protectionism with the new administration put pressure on the asset class.

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 Money Market Reform implementation date behind us, the industry has seen about a $1.1 trillion dollar outflow of funds from prime into government. Libor remains elevated as it has been since the middle of 2016. Waiting for a highly likely Fed rate rise that occurred in December and any possible last minute outflows following the reforms implementation date, prime managers continued to keep their weighted average maturities short. Going forward, they may be able to invest farther and reach for additional yield.

Stable value funds on average 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%.