4Q2017

ECONOMIC REVIEW

ECONOMIC REVIEW AND MARKET COMMENTARY

➢ *2017 Events Set the Stage for 2018*

- Fourth quarter real GDP was 2.6% (annualized). Although lower than previous quarters, a rise in imports and lower inventory investment only partially offset robust consumer spending and residential/non-residential investment. For 2017, real GDP increased 2.3%, which is up from 1.5% in 2016. Growth during this year has been due to higher exports and business investment. Government spending was a detractor that is expected to be reversed in 2018.
- U.S economic growth has come from many sectors. Manufacturing activity rose over the quarter. Industrial production and factory orders, especially for aircraft and vehicles, showed strength. A firming global economy and weaker dollar influenced this activity, although some data reflected a rebound following the hurricanes in the third quarter. Service sector activity also remained elevated over the quarter, and holiday-related consumer spending and retail sales were strong. Quarterly housing activity was at the best level of the year. The rise in oil prices to around $60/barrel drove shale production and domestic rig counts higher over the quarter.
- Although consumer spending rose about 4% during the fourth quarter, wages increased 2.5% in 2017. Earlier in the quarter, consumer confidence hit its highest levels since 2000, but slipped in December. Meanwhile, savings levels declined to their lowest point since 2008.
- Tax law legislation signed in December contributed to the quarterly increase in business spending. The changes are expected to provide additional economic stimulus in 2018, as businesses shift cash to R&D and capital investment. Tax reductions for overseas earnings repatriation should also support economic growth. For example, Apple recently announced earnings repatriation that will generate $38 billion in U.S. tax revenue and potentially contribute $75 billion directly to the U.S. economy over the next five years.
- Inflation was stable, yet surprisingly below expectations given the strength in employment (December unemployment, 4.1%). Core PCE, the Federal Reserve Bank's preferred inflation metric, did rise to 1.9% in December. The Fed raised rates for the third time in 2017 (Fed Funds target range of 1.25-1.50%) and is projecting three rate increases in 2018. Jerome Powell, the incoming Fed Chairman, is expected to continue the path of raising interest rates (Powell has been a member of the Board of Governors since 2012). However, some analysts concerned about growth and inflation (following tax changes) are considering that the Fed may have to increase rates more than anticipated.
- Global growth also improved over the quarter, while inflation remained low in many areas. Global manufacturing data rose to its highest levels since 2010, with the largest increase coming from the EU. Eurozone GDP steadily improved across all regions, although U.K. growth in the second half of the year mirrored uncertainty associated with Brexit. EU manufacturing activity, stronger retail sales, and lower unemployment suggested further economic improvement in 2018. The ECB announced a reduction in asset purchases, but interest rates were not increased given inflation is below their target.
- Japan's economy expanded as export activity improved in the fourth quarter. Increasing global demand also drove economic activity in India and other emerging markets, which is expected to continue into 2018. China's economic growth was stable for most of 2017, although analysts are concerned that various controls in the real estate and financial sectors could put some downward pressure on economic growth in the coming year.
- Geopolitical events were present in the fourth quarter; Brexit negotiations stalled as Prime Minister May's tenure became more fragile. A last-minute agreement regarding the Northern Ireland/Irish Republic border and customs, and protective rights for EU and UK citizens, helped restart negotiations. Following the German election in September, Chancellor Angela Merkel's attempts to form a collation government did not progress by the end of the quarter. However, international tensions eased somewhat as North and South Korea agreed to march under a unified flag during the winter Olympics.
- Given the improved domestic and global economic outlook, most analysts see continued economic growth in 2018 and a positive outlook for equities. For additional details, please see the survey and risk sections of this report.

➢ *Economic Conditions, Tax Plan, and Earnings Prospects Support Asset Prices*

- Domestic and global equity market indices were higher on the quarter and the year. The MSCI Emerging Markets index was the best performing equity asset class overall, while the MSCI EAFE index (developed international equities) came in second for the year. U.S. equity indices, especially representing the large cap growth sector, also completed an outstanding year of performance with low price volatility. The S&P 500 returned 21.8% during 2017.
- Interest rates at the short end of the yield curve rose following the Fed rate hike in December, but stabilized at the long end of the curve. The ten-year Treasury rate rose only 8 basis points at the end of the quarter compared to the end of the third quarter. U.S. credit indices, especially for long duration bonds, outperformed government bond indices.
- Oil prices rose to recent highs, as OPEC and non-OPEC countries agreed to extend production limits into 2018. Rising demand for industrial metals drove prices higher over the quarter, contributing to this quarter's top performing index, the S&P GSCI commodity index (+9.0%).

➢ *Risks that could impact the 2018 Outlook*

- Global economic growth is expected to continue, but what about inflation? While unemployment (4.1%) has reached its lowest level since December 2000, analysts have been waiting for the increased labor demand to filter through to wages. The Federal Reserve Bank has stated they will be vigilant about inflation, but what is the appropriate pace of tightening needed to control inflation while keeping the economy on track? Most countries are further down the inflation/unemployment curve and their central banks will look to the Fed's performance as a benchmark for the next couple of years.
- U.S. trade policies slipped into the background in 2017, although three weeks into 2018, new import tariffs have been imposed that target China and South Korea. Will this be the start of the long-awaited trade war many analysts predicted after the election? And what are the implications for U.S. exports that are driving the resurgence in the manufacturing sector? Successive rounds of NAFTA (North American Free Trade Agreement) talks have yet to produce a revised trade agreement, but a sizeable number of U.S. jobs are dependent upon trade with Mexico and Canada. Surrounding the uncertainty, the mid-term elections in the U.S. and Mexico's presidential election later this year may cause talks to be sidelined to 2019.
- With regards to global nationalism, elections and referenda in 2017 highlighted potential risks. As of January, the German government continues work to form a coalition government, while the U.K. leadership is looking more tenuous with each stalled round of Brexit negotiations. The Catalonian parliament declared independence from Spain, which prompted that country to take control of the regional government. In the U.S., acrimony on both sides of the aisle has already caused a government shutdown, delayed action on a budget and debt ceiling agreement, and resulted in the failure to pass proposals for healthcare/immigration solutions. As the World Economic Forum has noted in their 2018 Global Risks Report, "societal polarization" remains a politically destabilizing force." Financial markets have shrugged all of this off, but could that change?
- Other geopolitical risks are even more concerning; tensions in the Middle East and on the Korean peninsula continue to endanger long-term economic and political stability, while cyber-attacks threaten financial systems. These are risks that are difficult to fathom, let alone quantify.

➢ *Market Expectations for 2018*

- Most analysts reiterated these themes and concerns when developing their outlook for 2018. We surveyed information provided by several banks and investment advisors and summarized their forecasts in the following table.

SURVEY: Expectations from Global Investment Advisors

2018 Forecasts	Global GDP	US GDP	US CPI	Fed Rate Increases	2018 Themes/Expectations
Citibank	**3.1%**	**2.8%**	**< 2.0%**	**3**	• Tax cuts driving GDP, repatriation can encourage capital outlays • Successful NAFTA renegotiation, low tariffs/robust trade continues • Synchronized global growth/low inflation supports corporate earnings
Deutsche Bank	**3.8%**	**2.6%**	**1.8%**	**4-5**	• Consumer demand is key to global (especially EM) growth momentum • Low probability of global recession; tax cuts have impact beyond U.S. • Upside to volatility; geopolitical risks make markets vulnerable • Potential risks: faster inflation, rising oil demand, credit bubbles
Goldman Sachs	**3.4%**	**2.6%**	**~ 2.1%**	**4**	• Benign monetary policy: steady Fed and accommodative global policies • Tax cuts adding 0.3% to 2018 GDP • Broad range of global risks require vigilance
JP Morgan	**-**	**~ 2.5%**	**~ 2.0%**	**3**	• Lower personal/corporate taxes promote consumer/business spending • US unemployment could decline to 3.5%, although US economic growth could be 2.0% by the end of 2018 due to slowing employment growth • Globally, low inflation/gradual monetary normalization backs growth
Morgan Stanley	**3.8%**	**2.5%**	**< 2.0%**	**3**	• Improved capex will support economic growth, as will global accommodative monetary policy • Risks: higher inflation, valuations, and geopolitics
PIMCO	**3.0-3.5%**	**2.25-2.75%**	**1.75-2.25%**	**3**	• Tax cut and higher federal (hurricane related) spending adds 0.5% to GDP • US economy at capacity, global growth may be at peak; controlled deceleration in China to 6.25% GDP • Risks include wage/price inflation overshoot, monetary policy withdrawal
Federal Reserve	**-**	**2.5%**	**1.9% (PCE)**	**2-3**	• Job growth and household spending continues to expand, while business investment is picking up • Inflation remains moderate but will meet targeted levels
Broader Consensus*	**-**	**2.7%**	**2.1%**	**2-3**	• *Based on a Wall Street Journal survey of 76 economists, January 1, 2018 • Unemployment excepted to bottom at 3.8%, < 15% probability of recession • Expect next rate hike to occur at March 2018 meeting

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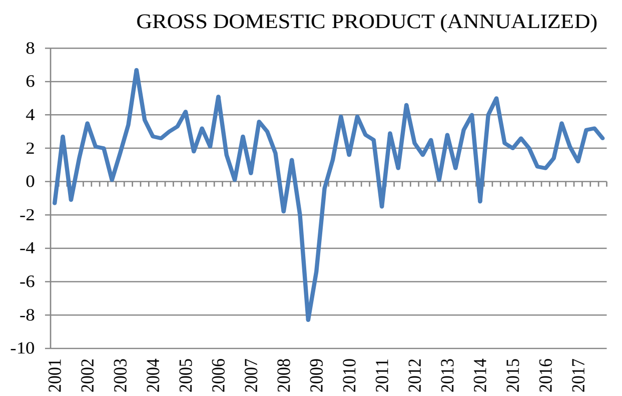
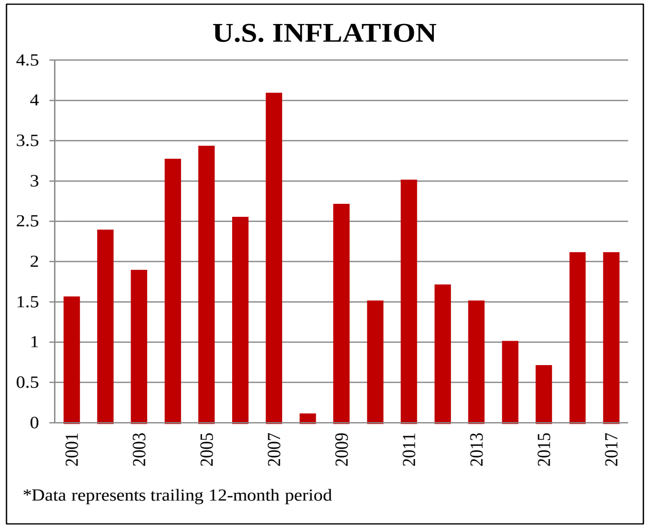
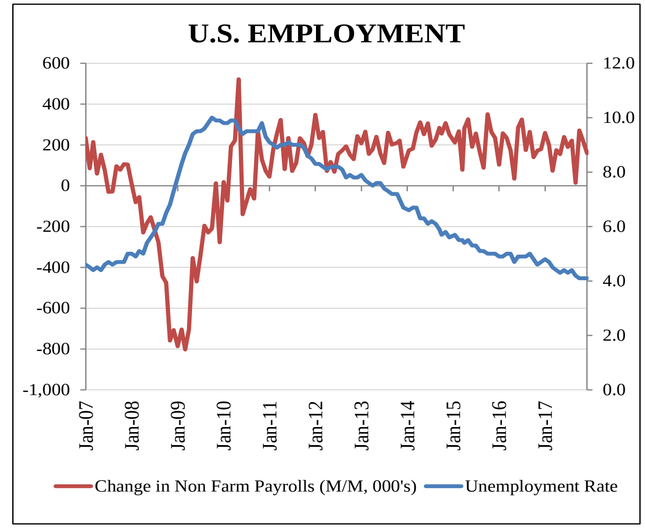
Seasonally Adjusted Rate: Percent Changed from Preceding Period	Annual			Trailing Four Quarters			
	2015	2016	2017	1Q17	2Q17	3Q17	4Q17
GDP	2.6	1.5	2.3	1.4	3.1	3.2	2.6



Source: Bureau of Economic Affairs



Source: United States Department of Labor



Source: United States Department of Labor

Economic Growth

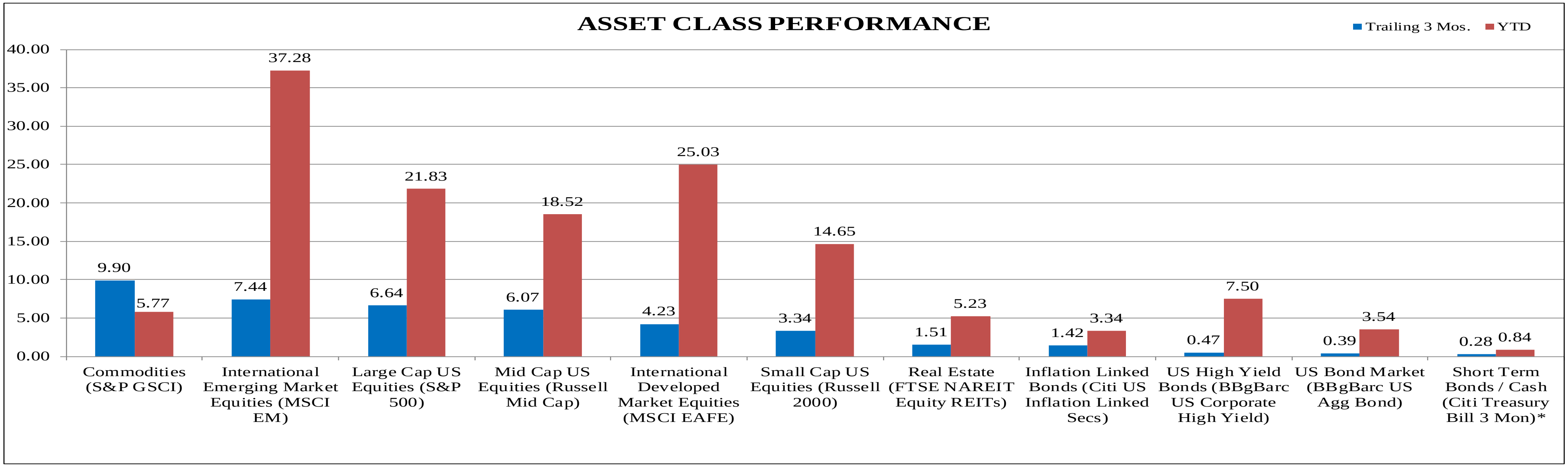
Economic growth for the 4th quarter remained strong. Monthly job growth continued to average over 200,000 new hires, although December ended on a low note. Unemployment ended the quarter at 4.1%, while wages rose a modest 2.5% annualized rate over the quarter. Core inflation moved higher, yet still below the Fed's 2% target. Manufacturing activity was strong based on an increase in new orders and order backlogs. Consumer spending and retail sales rose, indicative of an overall respectable holiday shopping season, especially for online sellers during November. Consumer sentiment peaked in October, although the rest of the quarter suggested the elevated levels of spending will carry though into 2018. Housing starts overall were higher and construction spending for single family homes ended the year up 8.9% year-over-year. Fourth quarter real GDP was reported at 2.6% (annualized); strong consumer and business spending was offset in part by import and inventory data.

Policy

The Federal Reserve Bank raised the Fed Funds target range to 1.25-1.50% in December. It was the third interest rate increase in 2017, and the fifth since 2015. The Fed's meeting minutes indicated they are on course for three additional rate hikes in 2018, as employment remained strong, consumer and business confidence continued to improve, and core inflation was seen moving to their 2% target. Given this assessment and factoring the impact of tax cuts, the Fed revised their estimate for GDP in 2018 to 2.5% from 2.1%, as well as increased their forecast for growth in 2019 and 2020. Jerome Powell becomes chairman in February and is expected to continue current policies.

Markets

Equity markets continued to perform well (S&P 500 +6.6%), as the Tax Cuts and Jobs Act (TCJA) was passed in December. Expectations of increased capital investment and benefits derived from repatriated earnings supported expectations for earnings growth. Emerging markets were the best performing equity asset classes during the quarter (MSCI EM +7.4%), due in part to stable China growth, improved relations between North and South Korea, and the weaker dollar. Developed international equities rose 4.2% (MSCI EAFE) during the quarter because of better reported consumer confidence and economic performance (especially manufacturing output across most regions), despite the lack of progress with Brexit negotiations. Commodity indices were also one of the better performing asset classes as oil prices rose about 17% due to growing demand derived from higher global growth (which also supported industrial metals) and the extension of OPEC/Russia production cuts through the end of 2018. Corporate bonds were the best performing fixed income sector, as higher short-term rates were offset by tighter credit spreads and a flattening yield curve.



Factors Impacting Market Performance in the Fourth Quarter, 2017:

- U.S. tax reform legislation was passed, lowering corporate and individual tax rates.
- Global growth synchronization and improved global trade continued, and were reflected in manufacturing indices and consumer sentiment.
- The Federal Reserve Bank raised the Federal Funds target range to 1.25-1.50%. The ECB announced plans to cut their asset purchases in 2018, reflecting economic optimism.
- OPEC and non-OPEC countries, such as Russia, agreed to extend oil production cuts through 2018.
- Most companies reporting earnings during the quarter beat expectations.
- Geopolitical issues continued to have minimal impact on financial market performance

Risk Assets Outperform on Higher Global Growth:

- The S&P/GSCI commodity index was the best performing asset class this quarter as oil prices rose 17%. Industrial metals were also higher on increased global demand.
- Emerging markets equity finished the quarter and the year as the best performing equity asset class; the lower dollar, higher oil prices, China’s stable GDP, and India’s support for their banking system contributed to gains.
- Domestic equities reached new record levels. This quarter, tax reform supported the outlook for earnings. Large cap growth stocks (especially tech companies) were also the beneficiaries of significantly lower repatriation taxes and the continued improvement in global economic growth. A strong holiday shopping seasons also provided support.
- Developed international equities were favorably impacted by continued economic improvements in the EU and Japan, while geopolitical factors (German elections, Catalonian referendum) had a minor impact. Strong currencies did have an unfavorable impact on export revenue.
- Real estate gains were held back by continued low inflation, although operating performance was favorable.
- Most bond indices held onto small gains for the quarter as corporate credit was the beneficiary of fiscal policy and a flattening yield curve.

Portfolio Evaluations, Inc.

THE BENCHMARK IN INVESTMENT CONSULTING

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TOTAL RETURN OF ASSET CLASSES
ECONOMIC REVIEW AND MARKET COMMENTARY

2001	2002	2003	2004	2005	2006	2007	2008	2009
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%
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%
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%
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%
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%
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%
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%
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%
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%
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%
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%

2010	2011	2012	2013	2014	2015	2016	2017
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%	MSCI Emerging Markets 37.28%
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%	MSCI EAFE 25.03%
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%	S&P 500 21.83%
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 18.52%
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%	Russell 2000 14.65%
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%	BarCap US High Yield 7.50%
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%	S&P GSCI Commodity 5.77%
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%	NAREIT - Equity REIT 5.23%
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%	BarCap Aggregate 3.54%
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%	Citi US Inflation-Linked 3.34%
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%	Citi 3 Month T-Bill 0.84%

As of December 31, 2017

Trailing 3-Year	Trailing 5-Year	Trailing 10-Year
S&P 500 11.41%	S&P 500 15.79%	Russell Mid Cap 9.11%
Russell 2000 9.96%	Russell Mid Cap 14.96%	Russell 2000 8.71%
Russell Mid Cap 9.58%	Russell 2000 14.12%	S&P 500 8.50%
MSCI Emerging Markets 9.10%	NAREIT Equity REIT 9.46%	BarCap US High Yield 8.03%
MSCI EAFE 7.80%	MSCI EAFE 7.90%	NAREIT Equity REIT 7.44%
BarCap US High Yield 6.35%	BarCap US High Yield 5.78%	BarCap Aggregate 4.01%
NAREIT Equity REIT 5.62%	MSCI Emerging Markets 4.35%	Citi US Inflation-Linked 3.63%
BarCap Aggregate 2.24%	BarCap Aggregate 2.10%	MSCI EAFE 1.94%
Citi US Inflation-Linked 2.10%	Citi 3 Month T-Bill 0.24%	MSCI Emerging Markets 1.68%
Citi 3 Month T-Bill 0.38%	Citi US Inflation-Linked 0.17%	Citi 3 Month T-Bill 0.34%
S&P GSCI Commodity -7.52%	S&P GSCI Commodity -12.16%	S&P GSCI Commodity -10.16%

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

4Q2017
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	10.96	28.11	28.11	14.36	16.37	9.28
	S&P 500	6.64	21.83	21.83	11.41	15.79	8.50
	NASDAQ Composite	6.55	29.64	29.64	14.72	19.40	11.26
	Wilshire 5000 Total Market	6.39	20.99	20.99	11.36	15.67	8.64
Large Cap	Russell 1000	6.59	21.69	21.69	11.23	15.71	8.59
	Russell 1000 Growth	7.86	30.21	30.21	13.79	17.33	10.00
	Russell 1000 Value	5.33	13.66	13.66	8.65	14.04	7.10
Mid Cap	Russell Mid Cap	6.07	18.52	18.52	9.58	14.96	9.11
	Russell Mid Cap Growth	6.81	25.27	25.27	10.30	15.30	9.10
	Russell Mid Cap Value	5.50	13.34	13.34	9.00	14.68	9.10
Small Cap	Russell 2000	3.34	14.65	14.65	9.96	14.12	8.71
	Russell 2000 Growth	4.59	22.17	22.17	10.28	15.21	9.19
	Russell 2000 Value	2.05	7.84	7.84	9.55	13.01	8.17

Source: Morningstar

INTERNATIONAL EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Developed	MSCI ACWI	5.73	23.97	23.97	9.30	10.80	4.65
	MSCI ACWI Ex USA	5.00	27.19	27.19	7.83	6.80	1.84
	MSCI EAFE	4.23	25.03	25.03	7.80	7.90	1.94
	MSCI EAFE Growth	5.24	28.86	28.86	9.15	8.78	2.67
	MSCI EAFE Value	3.24	21.44	21.44	6.35	6.95	1.15
	MSCI EAFE Small Cap	6.05	33.01	33.01	14.20	12.85	5.77
	MSCI Europe	2.21	25.51	25.51	6.69	7.37	1.34
	MSCI Europe Ex UK	0.90	26.82	26.82	7.81	8.37	1.20
	MSCI Pacific Free	7.99	24.64	24.64	10.16	9.00	3.35
	MSCI Pacific Free Ex Japan	7.01	25.88	25.88	7.51	5.46	3.55
	MSCI Japan	8.49	23.99	23.99	11.62	11.16	3.17
Emerging	MSCI EM	7.44	37.28	37.28	9.10	4.35	1.68
	MSCI BRIC	6.61	41.75	41.75	11.21	5.21	-0.22
	MSCI EM Latin America	-2.34	23.74	23.74	3.80	-3.20	-1.67
	MSCI EM Europe	5.20	20.54	20.54	8.85	-2.91	-5.54
	MSCI EM Asia	8.36	42.83	42.83	11.00	7.91	3.56

Source: Morningstar

FIXED INCOME

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
BBgBarc US Agg Bond	0.39	3.54	3.54	2.24	2.10	4.01
BBgBarc US Government	0.05	2.30	2.30	1.40	1.28	3.23
BBgBarc US Credit	1.05	6.18	6.18	3.63	3.24	5.42
BBgBarc US Govt/Credit Interm	-0.20	2.14	2.14	1.76	1.50	3.32
BBgBarc US Govt/Credit Long	2.84	10.71	10.71	4.52	4.43	7.26
Citi US Inflation Linked Secs	1.42	3.34	3.34	2.10	0.17	3.63
BBgBarc EM USD Aggregate	0.62	8.17	8.17	6.38	3.87	7.01
BBgBarc ABS	-0.01	1.55	1.55	1.61	1.28	2.96
BBgBarc US MBS	0.15	2.47	2.47	1.88	2.04	3.84
Citi Treasury Bill 3 Mon*	0.28	0.84	0.84	0.38	0.24	0.34
BofAML 1-3Y US Trsy	-0.25	0.42	0.42	0.62	0.56	1.44
BBgBarc US Corp Aaa	1.85	8.03	8.03	3.90	3.25	4.29
BBgBarc US Corp A	1.15	5.95	5.95	3.71	3.26	5.10
BBgBarc US Corp Baa	1.25	7.09	7.09	4.19	3.87	6.51
BBgBarc US Corporate High Yield	0.47	7.50	7.50	6.35	5.78	8.03
BBgBarc US HY Caa	1.02	10.38	10.38	8.44	7.50	7.82

Source: Morningstar

STABLE VALUE & MONEY MARKET

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Median Taxable Money Market Fund	0.18	0.47	0.47	0.16	0.10	0.25
Median Stable Value Fund	0.52	1.96	1.96	1.84	1.81	2.48
Consumer Price Index	-0.06	2.17	2.17	1.66	1.45	1.62

Source: PEI

REAL ASSETS

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
FTSE NAREIT Equity REITs	1.51	5.23	5.23	5.62	9.46	7.44
Bloomberg Commodity	4.71	1.70	1.70	-5.03	-8.45	-6.83
S&P GSCI	9.90	5.77	5.77	-7.52	-12.16	-10.16

Source: Morningstar

4Q2017

DOMESTIC EQUITY MARKET PERFORMANCE
ECONOMIC REVIEW AND MARKET COMMENTARY

Trailing performance as of: December 31, 2017
(As exhibited by the Russell 1000, MidCap, and 2000 stylized indices)

3 Month

	Value	Blend	Growth
Large	5.33	**6.59**	**7.86**
Mid	5.50	6.07	**6.81**
Small	**2.05**	**3.34**	**4.59**

1 Year

	Value	Blend	Growth
Large	**13.66**	21.69	**30.21**
Mid	**13.34**	18.52	**25.27**
Small	**7.84**	14.65	**22.17**

3 Year

	Value	Blend	Growth
Large	**8.65**	**11.23**	**13.79**
Mid	**9.00**	9.58	**10.30**
Small	**9.55**	9.96	10.28

5 Year

	Value	Blend	Growth
Large	**14.04**	**15.71**	**17.33**
Mid	14.68	14.96	**15.30**
Small	**13.01**	**14.12**	15.21

10 Year

	Value	Blend	Growth
Large	**7.10**	**8.59**	**10.00**
Mid	9.10	**9.11**	9.10
Small	**8.17**	8.71	**9.19**

15 Year

	Value	Blend	Growth
Large	**9.55**	**10.18**	10.70
Mid	**11.96**	**12.07**	**11.96**
Small	**10.66**	11.17	11.57

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		MID CAP		SMALL CAP		LARGE	MID	SMALL
	Russell 1000 V	Russell 1000 G	Russell MCV	Russell MCG	Russell 2000 V	Russell 2000 G	Russell 1000	Russell MC	Russell 2000
2002	**-15.52**	-27.88	**-9.64**	-27.41	**-11.43**	-30.26	-21.65	**-16.19**	-20.48
2003	**30.03**	29.75	38.07	**42.71**	46.03	**48.54**	29.89	40.06	**47.25**
2004	**16.49**	6.30	**23.71**	15.48	**22.25**	14.31	11.40	**20.22**	18.33
2005	**7.05**	5.26	**12.65**	12.10	**4.71**	4.15	6.27	**12.65**	4.55
2006	**22.25**	9.07	**20.22**	10.66	**23.48**	13.35	15.46	15.26	**18.37**
2007	-0.17	**11.81**	-1.42	**11.43**	-9.78	**7.05**	**5.77**	5.60	-1.57
2008	**-36.85**	-38.44	**-38.44**	-44.32	**-28.92**	-38.54	-37.60	-41.46	**-33.79**
2009	19.69	**37.21**	34.21	**46.29**	20.58	**34.47**	28.43	**40.48**	27.17
2010	15.51	**16.71**	24.75	**26.38**	24.50	**29.09**	16.10	25.48	**26.85**
2011	0.39	**2.64**	**-1.38**	-1.65	-5.50	**-2.91**	**1.50**	-1.55	-4.18
2012	**17.51**	15.26	**18.51**	15.81	**18.05**	14.59	16.42	**17.28**	16.35
2013	32.53	**33.48**	33.46	**35.74**	34.52	**43.40**	33.11	34.76	**38.82**
2014	**13.45**	13.05	**14.75**	11.90	4.22	**5.60**	**13.24**	13.22	4.89
2015	-3.83	**5.67**	-4.78	**-0.20**	-7.47	**-1.38**	**0.92**	-2.44	-4.41
2016	**17.34**	7.08	**20.00**	7.33	**31.74**	11.32	12.05	13.80	**21.31**
2017	13.66	**30.21**	13.34	**25.27**	7.84	**22.17**	**21.69**	18.52	14.65

Source: Morningstar

Portfolio Evaluations, Inc.
THE BENCHMARK IN INVESTMENT CONSULTING

4Q2017

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 December 31, 2017

	3 Month				YTD		
	Value	Blend	Growth		Value	Blend	Growth
Large	5.33	**6.59**	**7.86**	Large	**13.66**	21.69	**30.21**
Mid	5.50	6.07	**6.81**	Mid	**13.34**	18.52	**25.27**
Small	**2.05**	**3.34**	**4.59**	Small	**7.84**	14.65	**22.17**

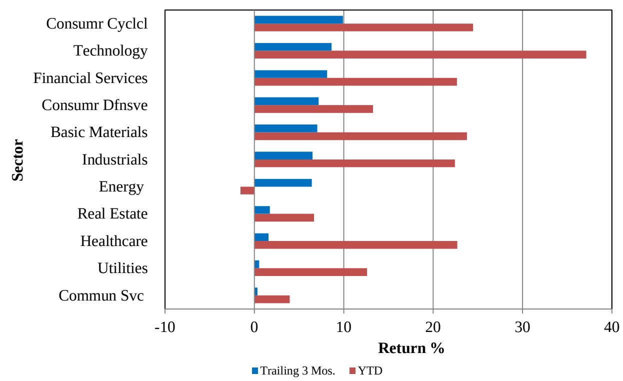
Top 3 Performers **Bottom 3 Performers**

INTERNATIONAL EQUITY
Trailing performance as of December 31, 2017

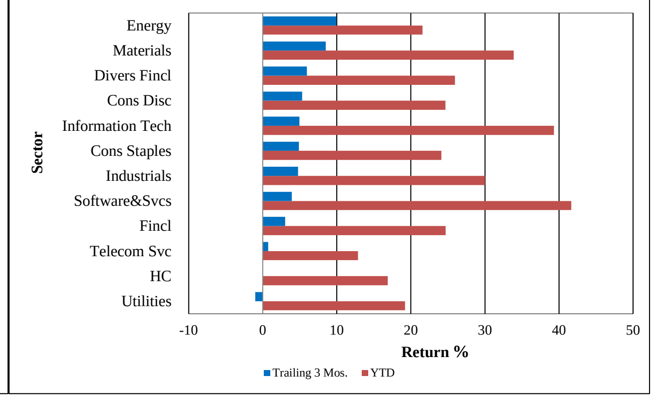
	3 Month				YTD		
	Value	Blend	Growth		Value	Blend	Growth
EAFE	**3.24**	**4.23**	**5.24**	EAFE	**21.44**	**25.03**	28.86
EAFE Small	5.58	6.05	6.50	EAFE Small	30.28	33.01	**35.85**
EM	**6.84**	**7.44**	**7.92**	EM	**28.07**	**37.28**	**46.80**

Top 3 Performers **Bottom 3 Performers**

S&P 500 INDEX SECTOR PERFORMANCE



MSCI EAFE SECTOR PERFORMANCE



Source: Morningstar

Domestic Equity

Domestic equity markets finished the year off strong, advancing at the highest rate in two years. The S&P 500 Index returned 6.6% for the quarter, ending up 21.8% for the year. The technology heavy NASDAQ Composite Index was up 6.6% for the quarter, completing a year which saw the index up 29.6%. Small cap stocks' strong finish to the third quarter did not carry over into the fourth quarter as they trailed their large counterparts returning only 3.3%, ending the year at +14.7%. Optimism that a tax reform bill would be passed by the end of the year coupled with improved corporate earnings drove markets higher during the quarter. Momentum continued to drive the markets, benefiting growthier type stocks, which can be seen in the Russell 1000 Growth returning 7.86% for the quarter compared to the Russell 1000 Value's return of 5.33%. For calendar year 2017, the Russell 1000 Growth's return of 30.2% is more than double the Russell 1000 Value return of 13.7%.

International Equity

International equities once again experienced gains for the fourth quarter of 2017, driven by supportive fundamental growth and solid corporate earnings amidst an environment of extreme low volatility. Improving economic activity worldwide along with beneficial resolutions to a spate of political events during the quarter also proved supportive. During the fourth quarter, gains were seen across developed international markets and emerging markets with the MSCI EAFE Index up 4.2% and the MSCI Emerging Markets Index up 7.4%. Within emerging markets, stocks were buoyed by solid political outcomes throughout the quarter as well as strength from the technology sector as many tech companies reported robust profits. Chinese stocks rose on signs of more consistent economic activity with recent GDP figures indicating stability. While across the globe, Latin American markets lagged as Brazilian equities moved lower on concerns over the future of reforms and Mexican stocks slumped on new political corruption allegations. Indian equities posted strong gains for the quarter, largely driven by an announcement of a government bail-out plan for state-run banks. In developed markets, European stocks showed slight gains for the period as better economic growth lifted cyclical stocks; however, profit-taking was evident during the quarter. Equity returns in the U.K. were solid amid signs of a strengthening domestic economy while Japanese stocks gained ground for the quarter buoyed by strong GDP growth rates and declining unemployment. Overall, from an international perspective, small-caps outperformed large-caps in both developed international and emerging markets while the value effect was negative across international markets for the quarter.

4Q2017

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

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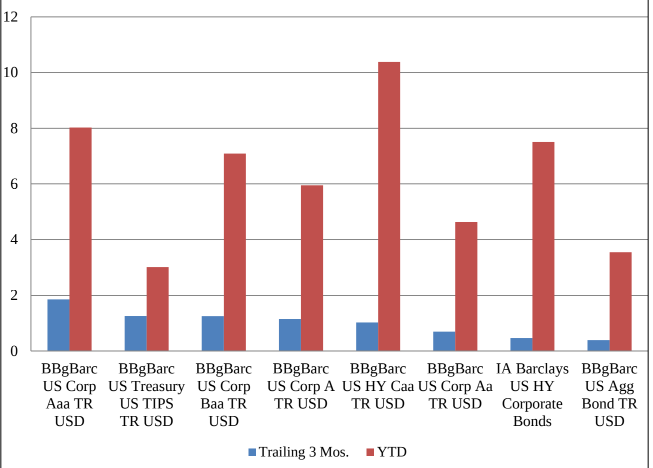
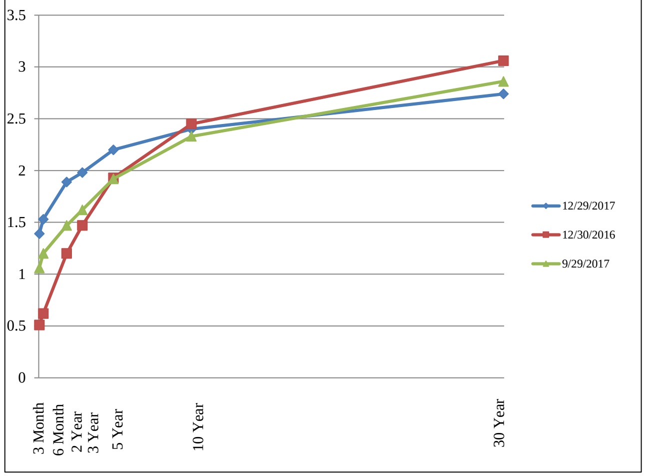
CREDIT QUALITY PERFORMANCE



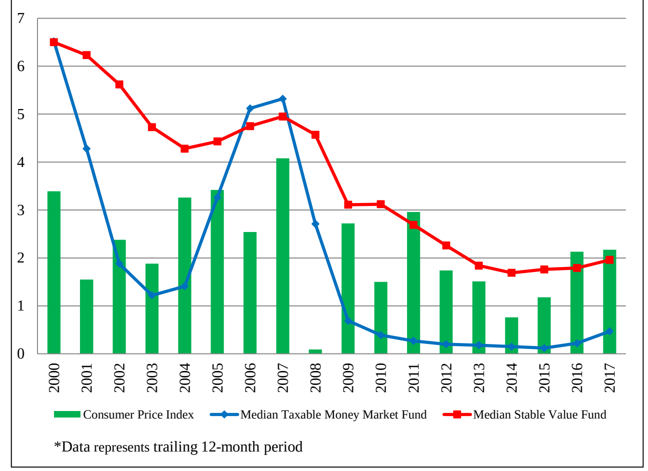
Source: Morningstar

US TREASURY YIELD CURVE



Source: The Federal Reserve

CALENDAR YEAR PERFORMANCE



Source: PEI

Fixed Income

Returns were positive across major US bond sectors in the fourth quarter of 2017. The broad US bond market, as measured by the Bloomberg Barclays US Aggregate Bond Index, returned 0.4%. Expectations for, and the passage of, fiscal stimulus in the US along with solid growth momentum generally helped support risk sentiment. Within the benchmark, corporate bond returns bested all other categories. Within credit quality categories, lower quality BBB rated debt outperformed higher quality debt. As the Fed raised rates for the third time in 2017, short term yields rose, while longer term yields of Treasury bonds with maturities greater than 15 years declined (amid little sign of inflation and investor demand) leading to the outperformance of longer term bonds. The yield curve significantly flattened during the quarter. The difference between the 2-year Treasury and the 10-year Treasury compressed to 53-basis points at year end, its narrowest level since before the global credit crisis. Investment grade corporate bonds (1.2%) outperformed Treasuries by 89 basis points, benefitting from robust global demand for yield and generally positive earnings announcements as well as the prospect of lower corporate tax rates. High yield bond returns (.5%) were less robust in Q4, but still managed to produce 72 basis points of excess return for the period and 610 basis points for the full year. Agency MBS returned 0.2% and outperformed Treasuries by 24 basis points as housing fundamentals remained strong, although looming concerns of a less active Fed, given balance sheet normalization, limited full year excess returns to 52 basis points. Non-agency mortgage backed securities continued to perform well in the fourth quarter, with returns for the year exceeding 10%. The sector has benefitted from faster prepayment rates as more borrowers become eligible to refinance lower cost mortgages. Emerging markets debt generated excess returns of 85 basis points, capping out a strong 2017, amid a supportive backdrop as economic data was healthy and the asset class continued to attract inflows.

Money Market and Stable Value

Federal Reserve officials followed through on an expected interest-rate hike increase and raised their forecast for an economic growth in 2018. The Fed's third rate move this year raised the benchmark rate by 25 basis points to a target range of 125 – 150 basis points. Money managers continue to invest in floaters, due to the Fed's increasing rates. Cash flows into prime funds increased and money managers are expecting to see continued cash inflow throughout the year as spreads widen between government funds and prime funds. In stable value, Bank of Tokyo left the wrap market. Their exit will not affect the wrap environment due to excess wrap capacity (18 wrap providers, 3 banks and 15 insurance companies). Stable value managers continue to see cash reallocation from stable value funds back into the equity market.