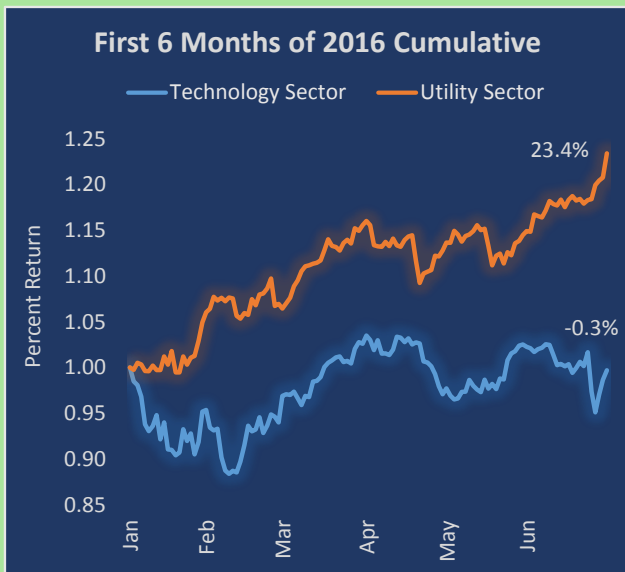
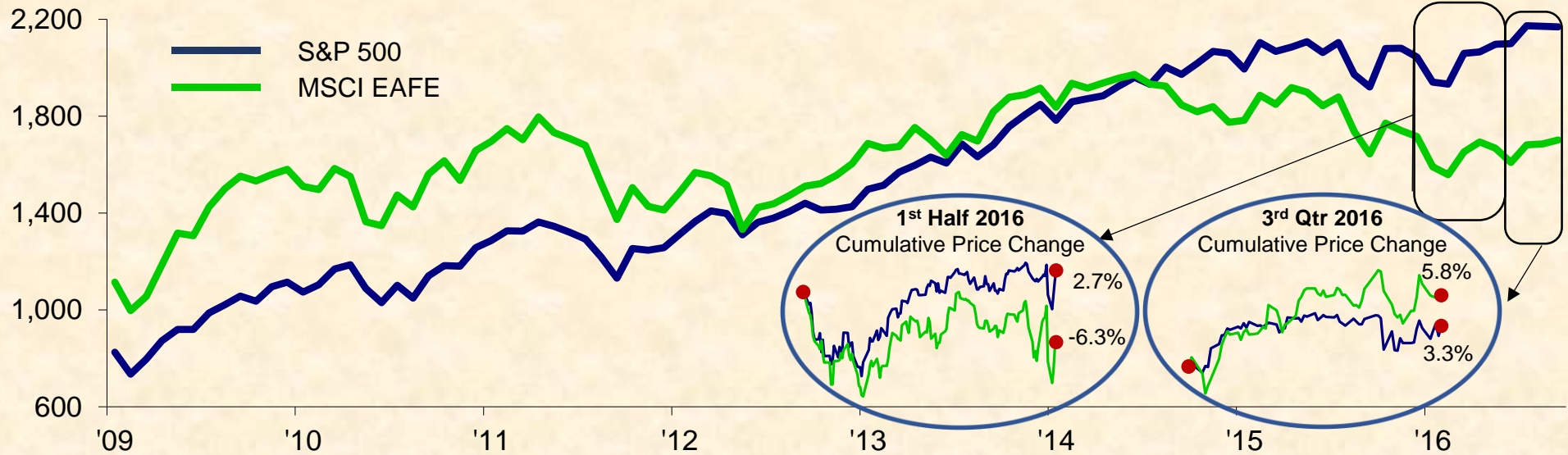


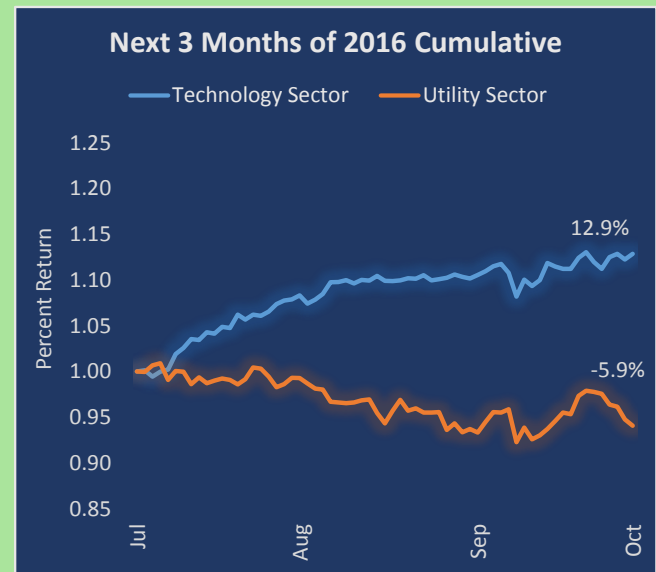
Capital Market Review

September 30, 2016

The Great Market Switcheroo



To produce good returns in the third quarter, investors needed to switch out of what performed well in the first half of the year and into what did badly. The “switcheroo” was evident across almost all asset classes and sectors. For example, after lagging due to the Brexit disruption, international stocks outperformed domestic stocks. Even within stock market sectors, the same phenomenon occurs. Utility stocks rallied in the first half, a result of the search for yield. But in the third quarter, technology stocks gained 12.9% and utilities fell 5.9%. Investors must be vigilant as leadership can turn on a dime, with laggards becoming leaders. Having broad diversification, with exposure to many asset classes in portfolios, is a way to capture these opportunities.



Performance of GICS sectors – Source: Morningstar

BROAD MARKET OVERVIEW

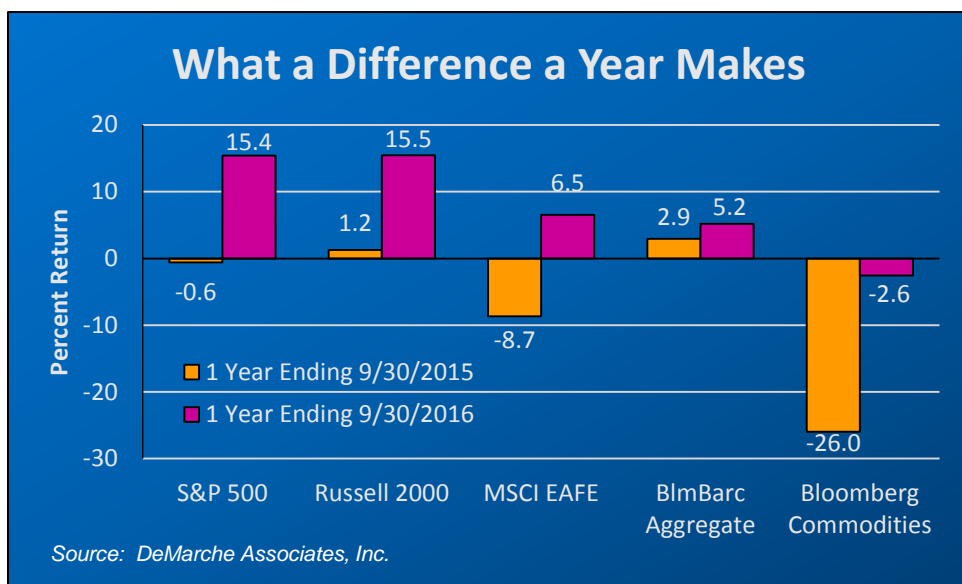


INDEX	3 rd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	4.9	11.4	5.8	11.6	4.5
DeMarche World*	5.3	11.7	5.0	10.7	4.6
DeMarche 3000	4.3	14.2	7.7	13.2	6.1
Russell 3000	4.4	15.0	10.4	16.4	7.4
S&P 500	3.9	15.4	11.2	16.4	7.2
DeMarche International	6.4	7.0	2.2	7.8	3.0
MSCI EAFE USD	6.4	6.5	0.5	7.4	1.8
DeMarche Bond	0.1	4.8	3.8	2.8	4.5
BlmBarc Aggregate	0.5	5.2	4.0	3.1	4.8
Citigroup Non-U.S. Gov't Bond	0.6	12.6	1.2	0.2	3.9
BlmBarc Global Aggregate	0.8	8.8	2.1	1.7	4.3
NCREIF (Private RE)	1.8	9.2	11.3	11.2	7.2
Bloomberg Commodity	-3.9	-2.6	-12.3	-9.4	-5.3

Notes: All 3, 5 and 10-year returns are annualized. *Does not include Canada or Brazil.

Indicator Year Ending 9/30	2016	2015	2014	2013	Long Term Average
GDP Annual Growth Rate	1.5	2.2	2.9	2.3	3.1
Unemployment	5.0	5.1	5.9	7.2	5.9
Inflation (CPI)	1.5	0.0	1.7	1.2	3.7
10-Year Interest Rates	1.6	2.1	2.5	2.8	5.9

- Domestic stocks had a topsy-turvy quarter, driven by Federal Reserve headlines coupled with good economic data. Once the Fed decided to remain on the sidelines at the September meeting, stocks rallied to finish the quarter strong.
- International stocks also posted a strong quarter rebounding from Brexit-induced volatility at the end of June. International stocks outperformed domestic stocks for the quarter, but still lag over longer-term periods.
- Bonds also had a decent quarter, and one-year returns are higher than longer-term averages. Yields slightly increased in the quarter on fears that the Central banks' easy policies will end. However, the Fed remained on the sidelines despite those concerns and bonds subsequently rallied in the last week of September.
- As the chart on the left shows, the past year has been a good year for markets as interest rates have generally fallen and stock markets responded to continued global easy money policies. The strengthening dollar, which negatively influenced international markets in 2014 and 2015, looks to be in the past. In addition, the 2015 fears of global slowdown have abated as growth kept chugging along.



DeFact

The World Trade Organization cut its trade growth forecast for 2016 by more than one-third to its lowest estimated rate since the 2008-2009 financial crisis. The estimate is now 1.7%.

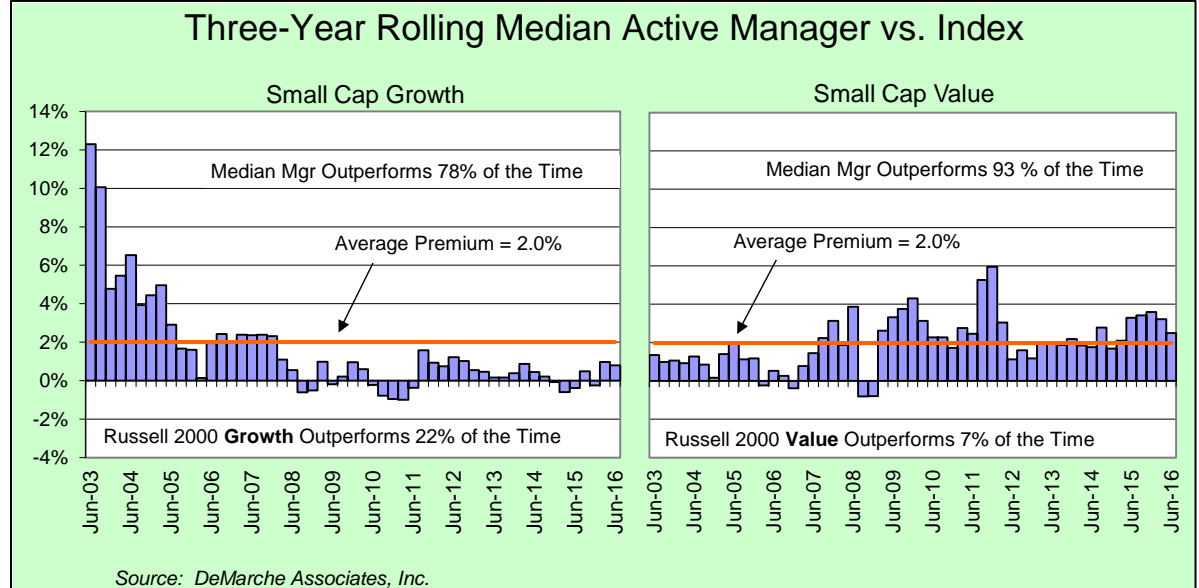
~WTO

DOMESTIC EQUITIES



INDEX	3 rd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	4.7	13.2	9.9	14.3	7.6
DeMarche Value	3.9	15.4	4.9	11.9	4.3
DeMarche Aggressive	9.7	11.8	2.1	13.3	4.1
DeMarche Defensive	3.8	14.3	8.2	13.0	6.2
DeMarche Large Cap	3.8	13.8	7.8	12.7	5.5
Large Cap Growth	4.5	13.6	10.6	14.3	7.3
Large Cap Value	3.0	14.0	4.5	10.9	3.3
DeMarche Small Cap	12.9	19.9	5.8	15.8	6.6
Small Cap Growth	13.0	13.8	5.2	13.3	5.5
Small Cap Value	12.7	24.6	6.2	17.4	7.3
S&P 500	3.9	15.4	11.2	16.4	7.2
S&P Mid-Cap 400	4.1	15.3	9.4	16.5	9.1
S&P Small-Cap 600	7.2	18.1	9.0	17.9	8.7
Russell 1000	4.0	14.9	10.8	16.4	7.4
Russell 1000 Growth	4.6	13.8	11.8	16.6	8.9
Russell 1000 Value	3.5	16.2	9.7	16.2	5.9
Russell 2000	9.0	15.5	6.7	15.8	7.1
Russell 2000 Growth	9.2	12.1	6.6	16.1	8.3
Russell 2000 Value	8.9	18.8	6.8	15.4	5.8

- The value trend that has been in play for the last year reversed in the third quarter as evidenced by the uptick in the technology sector (growth proxy) and decline in the utility sector (value proxy). Value stocks had been outperforming, led by investors searching for yield by purchasing dividend-paying securities.
- Small cap stocks continued their recent outperformance compared to large cap stocks and now lead over the past year. Small cap stocks had been underperforming large cap stocks for the past several years, but that trend reversed as investors looked to growth opportunities.
- Utility and REIT stocks, which make up about 18% of the Russell 2000 Value Index, have performed very well in the past year as investors searched for yield but fell back in the quarter. Financials, which make up the lion's share of stocks in the small cap value index, underperformed both the value and growth indexes.
- The charts at the left show the success of small cap active management over indexes. The mostly positive rolling three-year relative returns indicate that active managers can post strong relative performance in less efficient sectors of the market.



DeFact

Real estate investment trusts (REITS) gained their own sector in the S&P and MSCI indexes, breaking away from financials. There are roughly 204 REITS listed on the NYSE and NASDAQ. After the breakaway, the financial sectors weighting will go from 16% to 13% of the S&P 500. The REIT sector will make up 3%.

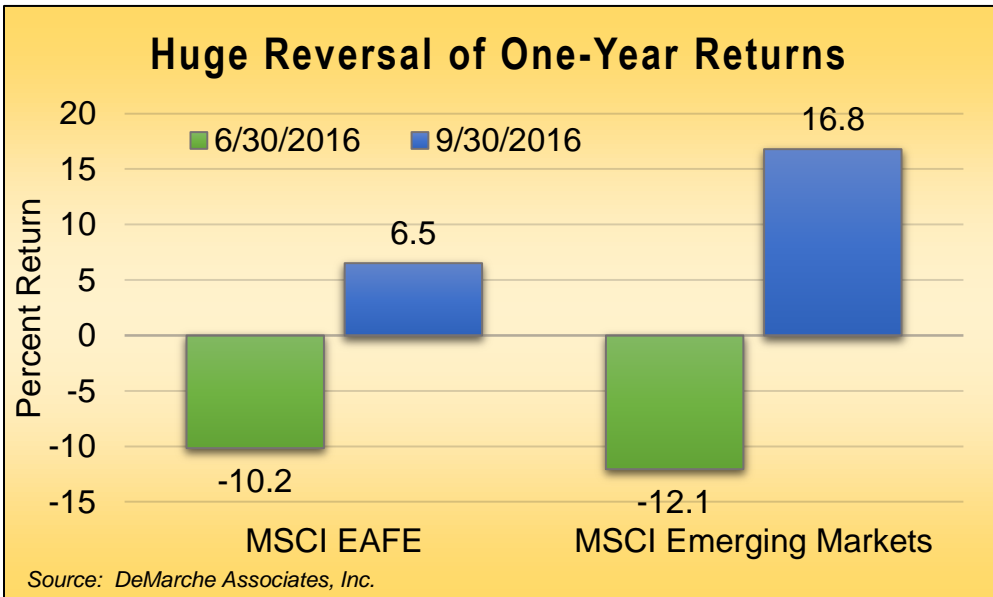
~WSJ

INTERNATIONAL EQUITIES



INDEX	3 rd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Int'l	6.4	7.0	2.2	7.8	3.0
Growth	5.2	7.4	2.5	7.6	3.6
Value	7.6	6.9	0.3	6.7	2.0
DeMarche Int'l Small Cap	7.9	9.5	3.2	8.7	3.5
DeMarche EM	5.9	6.5	1.6	3.6	3.5
MSCI EAFE Local	6.0	4.6	5.3	11.2	2.2
MSCI EAFE USD	6.4	6.5	0.5	7.4	1.8
Growth	5.0	9.5	2.4	8.7	3.1
Value	8.0	3.5	-1.5	6.0	0.4
MSCI Japan	8.6	12.1	3.3	7.4	1.0
MSCI AC Asia-ex Japan	10.1	16.8	3.5	6.9	5.9
MSCI Germany	10.0	9.1	0.3	9.7	3.6
MSCI France	6.4	3.6	-0.9	7.6	0.5
MSCI U.K.	4.0	1.5	-1.8	6.0	1.4
MSCI EAFE Small Cap	8.6	12.3	5.1	11.1	4.4
MSCI EM	9.0	16.8	-0.6	3.0	3.9
MSCI All Country-ex U.S.	6.9	9.3	0.2	6.0	2.2

- The larger theme of investors looking for growth in the quarter was evident in the performance of international stocks. Investors continued to bolster emerging market stocks, driving the downtrodden asset class to produce strong quarterly and one-year performance.
- The dollar weakened slightly in the quarter, pushing up dollar-denominated international returns just above local returns. The impact of dollar strength during 2014 and 2015 is still evident in longer-term three- and five-year returns, but that impact has receded in recent quarters.
- Stocks of Asian countries had a very strong quarter. Chinese stocks, which make up over 36% of the All Country Asia-ex Japan Index, led other Asian countries by over 3% in the quarter.
- The chart at the left shows the large rebound in international markets at the end of the third quarter. By moving forward in time just one quarter, we see dramatic change in the returns for developed and emerging markets. Such a reversal reinforces the need for comprehensive asset allocation so that opportunities like this are not missed.



DeFact
 Vanguard has completed the inclusion of China A shares to its Emerging Markets Stock Index Fund, which tracks the FTSE Emerging Markets All Cap China A Inclusion Index. This action will further enhance differences with the iShares Emerging Markets ETF that tracks the MSCI Emerging Markets Index, which does not include China A shares.
 ~Vanguard

FIXED INCOME

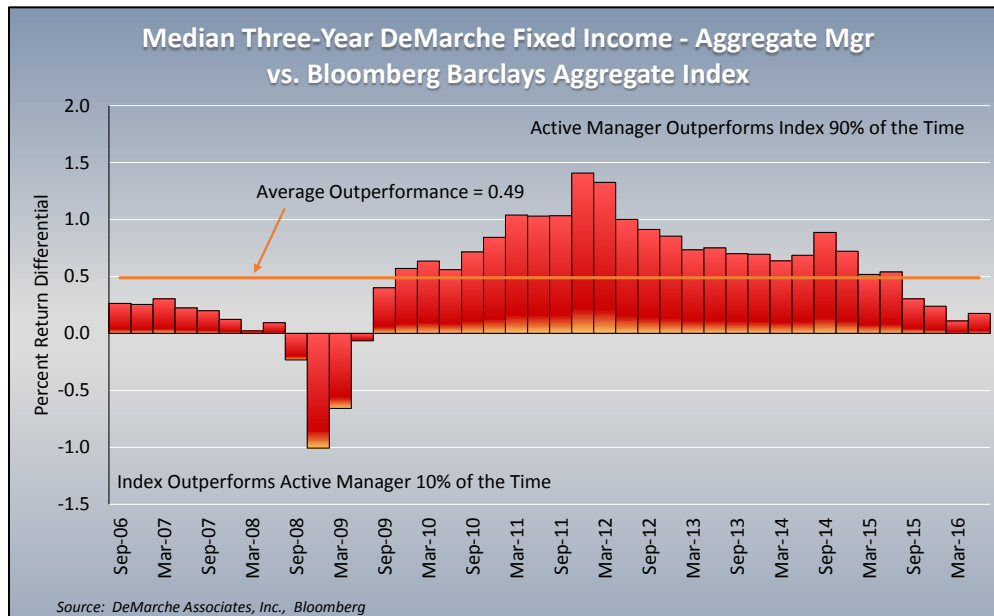
DeMarche
ASSOCIATES, INC.

Putting Research To Work

INDEX	3 rd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Bond Index	0.1	4.8	3.8	2.8	4.5
Quality					
AAA/Aaa	-0.2	4.3	3.4	2.2	4.2
BBB/Baa	2.0	7.2	5.7	5.7	6.7
Duration					
1-5 Years	0.0	1.9	1.7	1.6	3.3
5-10 Years	0.2	5.7	4.5	3.4	5.6
10-20 Years	0.4	12.6	9.8	5.9	6.9
Sector					
U.S. Treasuries	-0.3	4.5	3.5	2.2	4.3
U.S. Agencies	0.1	2.1	2.4	1.8	3.5
Corporates	1.7	7.0	5.4	5.4	6.3
BlmBarc U.S. TIPS	1.0	6.6	2.4	1.9	4.5
BlmBarc Aggregate	0.5	5.2	4.0	3.1	4.8
BlmBarc Gov Credit Long	1.2	14.7	10.1	6.3	7.8
Merrill Lynch High Yield	5.5	12.8	5.2	8.2	7.5
CSFB Leveraged Loan	3.1	5.3	3.6	5.4	4.3
JPM Emerging Mkt Debt Global	3.7	16.8	7.4	7.4	7.6

- The yield pickup in corporate bonds helped the corporate sector outperform the broader Aggregate index. Treasuries and Government Agency bonds, which dominate the Bloomberg Barclays Aggregate Index, did not perform as well as corporates in the quarter.
- The “risk on” trade that drove stocks also drove high yield bond returns in the quarter. High yield bonds continued their rebound from the first quarter correction, caused by the bottoming of energy prices. Energy companies make up 13.8% of the Bloomberg Barclays high yield index.
- Emerging market bonds, like stocks, also proved attractive to investors. With low yields dominating developed market debt, investors looked for yield in other parts of the globe. The market value of the ETF that tracks the JPM EMD Global index increased from \$7.1 to \$9.2 billion in the quarter.

- Active management in fixed income tends to outperform the broader market index. Active managers tend to hold more in higher-yielding corporate bonds as opposed to Treasuries. As the index incorporates more and more Government bonds due to deficit spending, the index becomes top heavy in lower yielding bonds.



DeFact

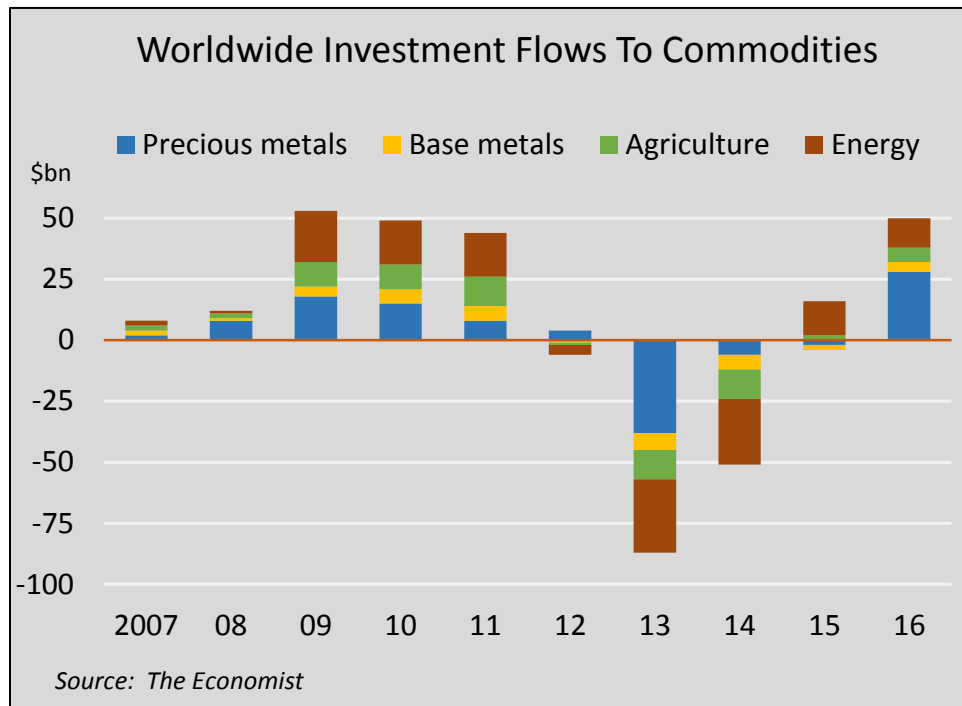
UK pension funds are finding it hard to invest in super long-dated bonds since the Bank of England's decision to restart its quantitative easing program has caused a surge in demand. The 50-year UK bond coupon has dropped over 1% in a year, reflecting the increase in demand.

~WSJ

LESS LIQUID STRATEGIES

INDEX	3 rd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	1.8	9.2	11.3	11.2	7.2
Apartment	1.7	8.5	10.1	10.6	6.8
Industrial	2.9	12.5	13.5	12.6	7.4
Office	1.3	7.5	10.4	10.1	6.7
Retail	2.0	11.0	12.8	12.7	8.5
NAREIT (Public RE)	-1.0	20.6	13.7	15.7	6.0
NCREIF Timberland	0.7	3.3	7.6	6.9	6.4
HFR FOF Composite	2.4	0.5	2.1	3.2	1.8
Conservative	1.9	0.3	2.2	3.1	1.5
Diversified	2.0	-0.1	2.2	3.1	1.8
Strategic	3.4	1.2	2.0	3.6	1.9
Bloomberg Commodities	-3.9	-2.6	-12.3	-9.4	-5.3

- Commodities reversed course with prices correcting after a strong second quarter increase led by energy. Agricultural products led the third quarter drop in prices, but energy prices also fell.
- REITs posted negative returns for the quarter as investors moved away from yield-bearing stocks. However, the one-year return was strongly influenced by the rush to yield as a substitute for low bond returns. This rotation is another example of what worked in the first half of the year lagging in the third quarter.
- Hedge fund returns posted their best quarter since the first quarter of 2015, driven by gains in energy and technology sectors
- The chart at the left shows the roller coaster ride for investments in commodities. The last time investments flowed into commodities was at the end of the 2009-2012 China-led commodity boom. Then came the commodity bust as money flowed out. Now money is flowing back in with the most active investors being hedge funds, attracted by the heightened volatility.



DeFact

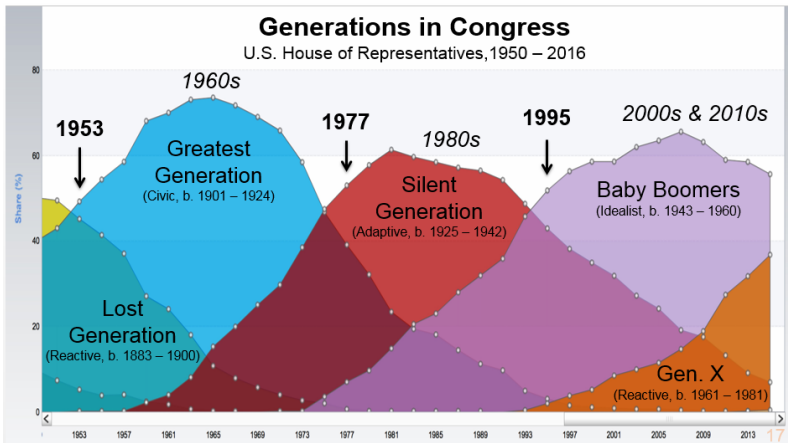
The price of a New York City taxicab medallion seems to have hit a new modern-day low. Early this month a medallion, the right to operate a yellow cab in NYC, was \$250,000. That is a stark contrast from 2014, when the value of a medallion was \$1.3 million. In the past year, Uber and Lyft have doubled their share of the NYC market, growing from 15% to over 30%.

~ Yahoo Finance

See what you might have missed!

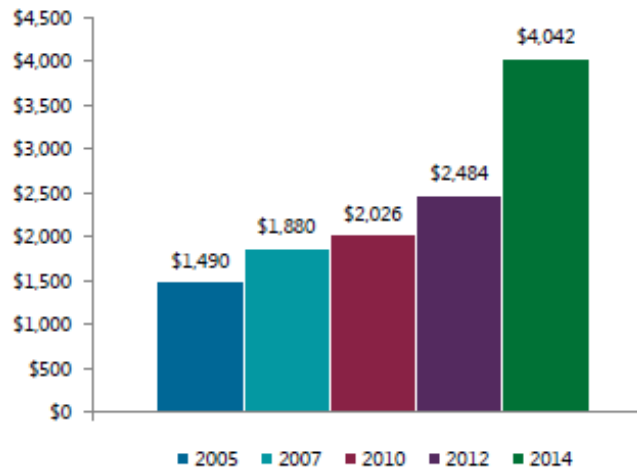
Opportunities to Catch Up!

Client Conference 2016 Highlights



*Source: David L. Rosen

Institutional ESG Assets (in billions)



*Source: U.S. SIF, US Sustainable, Responsible and Impact Investing Trends 2014.

Upcoming Workshops: 2017



The 2017 Programs in Finance and Investments Workshop Series is presented by DeMarche Associates. These are half-day forums to learn more about current investment topics that are impacting your organization. Register online at www.demarche.com to confirm your attendance. Please contact Ryan Pickert or Ryan Chiverini with any questions at (913) 384-4994.

Defined Contribution – Shifting Sands

January 24, 2016
Houston, TX | The Westin Galleria
7:30 a.m. – Noon

Discretionary Consulting Today: Delegating Institutional Investment Management

February 9, 2017
Washington, D.C. | The Westin City Center
7:30 a.m. – Noon

Managing Pension Risk Today

April 26, 2017
Dallas, TX | The Hotel Crescent Court
7:30 a.m. – Noon

The Evolution of Alternative Strategies

May 24, 2017
Philadelphia, PA | The Downtown Marriott
7:30 am - Noon