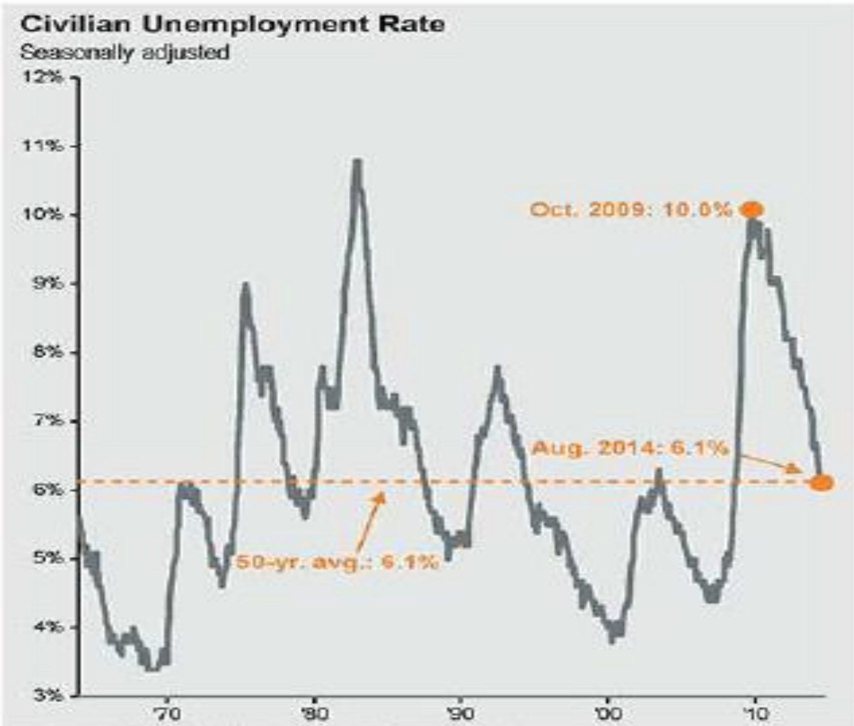
DMS Economic Outlook for next 12 months

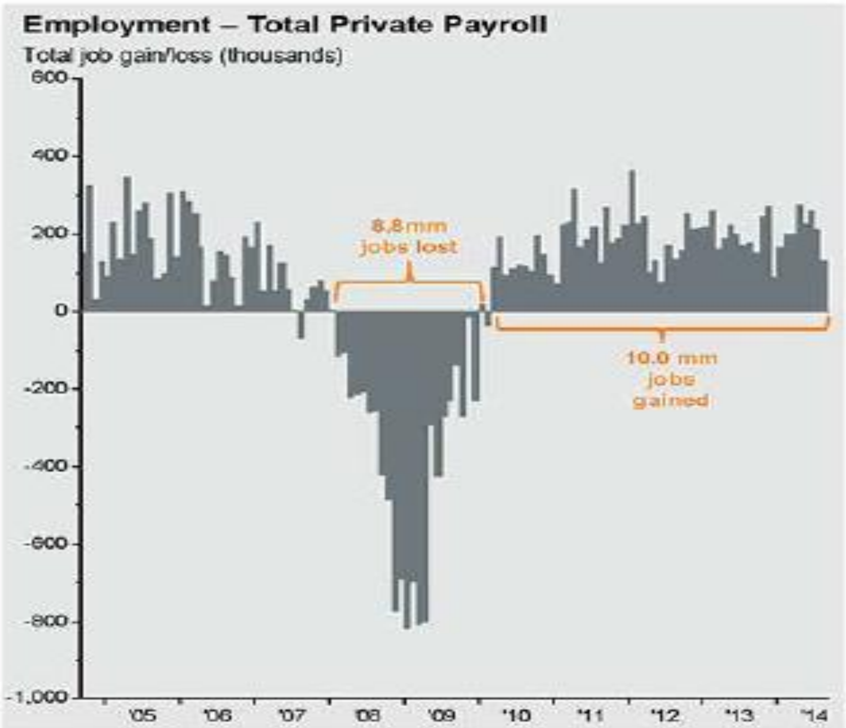
- GDP growth has rebounded from a dismal first quarter and GDP is growing modestly at 2.6%. Personal income growth has improved in recent months and that is positive for the pace of GDP growth. Personal consumption has settled at a 2.5% pace and will remain constrained. Despite the improvement in personal income growth, it remains below longer term averages.
- The yield on the ten year Treasury opened the quarter at 2.56% and ended at 2.51%. The short term “flight to quality” due to an increase in stock market volatility in October will give way to a trend upward in interest rates as economic growth remains near 2.5%.
- International economies will struggle throughout 2015. Both the European Central Bank and the Bank of Japan will continue with quantitative easing in attempts to spur GDP growth. The trend of the stronger U.S. dollar will continue due to the removal of Fed stimulus and modest, but firm, economic data.
- Growth in emerging markets will be higher than developed markets, even with slowing GDP growth in China. Consumers in emerging market countries continue to increase their percentage of global consumption.

Economic Outlook

Discretionary Management Services, LLC

GDP growth rate during the expansion is below long term trends. GDP growth is primarily influenced by personal consumption. The improvement in employment is positive for personal consumption and, therefore, economic growth.



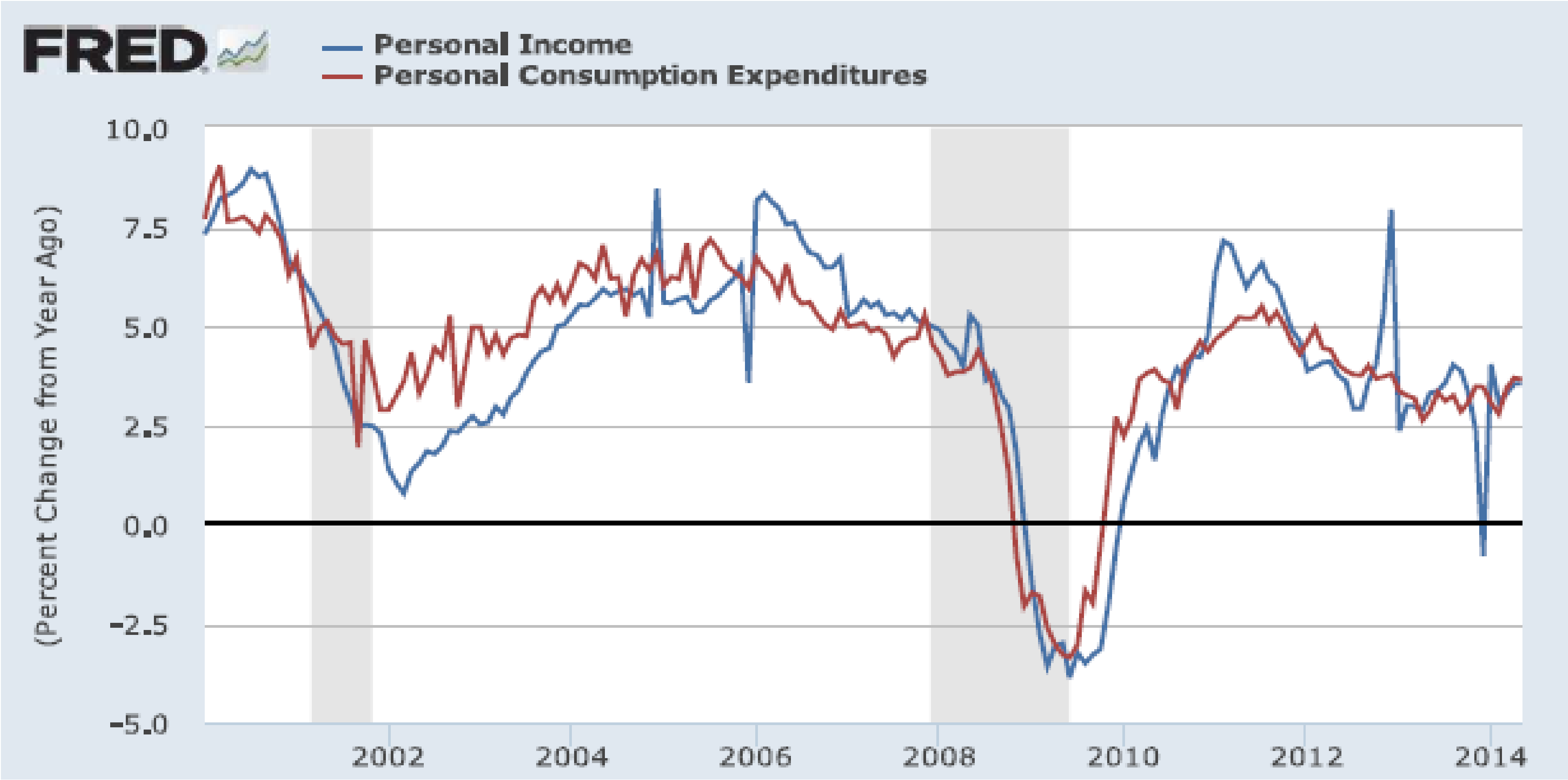


Source: BLS, FactSet, J.P. Morgan Asset Management.

Economic Outlook

Discretionary Management Services, LLC

Personal Income and Consumption growth rates have been lower since 2011's recovery highpoint from the recession. However, the recent readings show an uptick.



DMS Strategic Outlook and Tactical Positions

Strategic Outlook – Fixed Income: The trend toward higher interest rates should continue but expect "flight to quality" events as the markets readjust to more volatility in the equity markets.

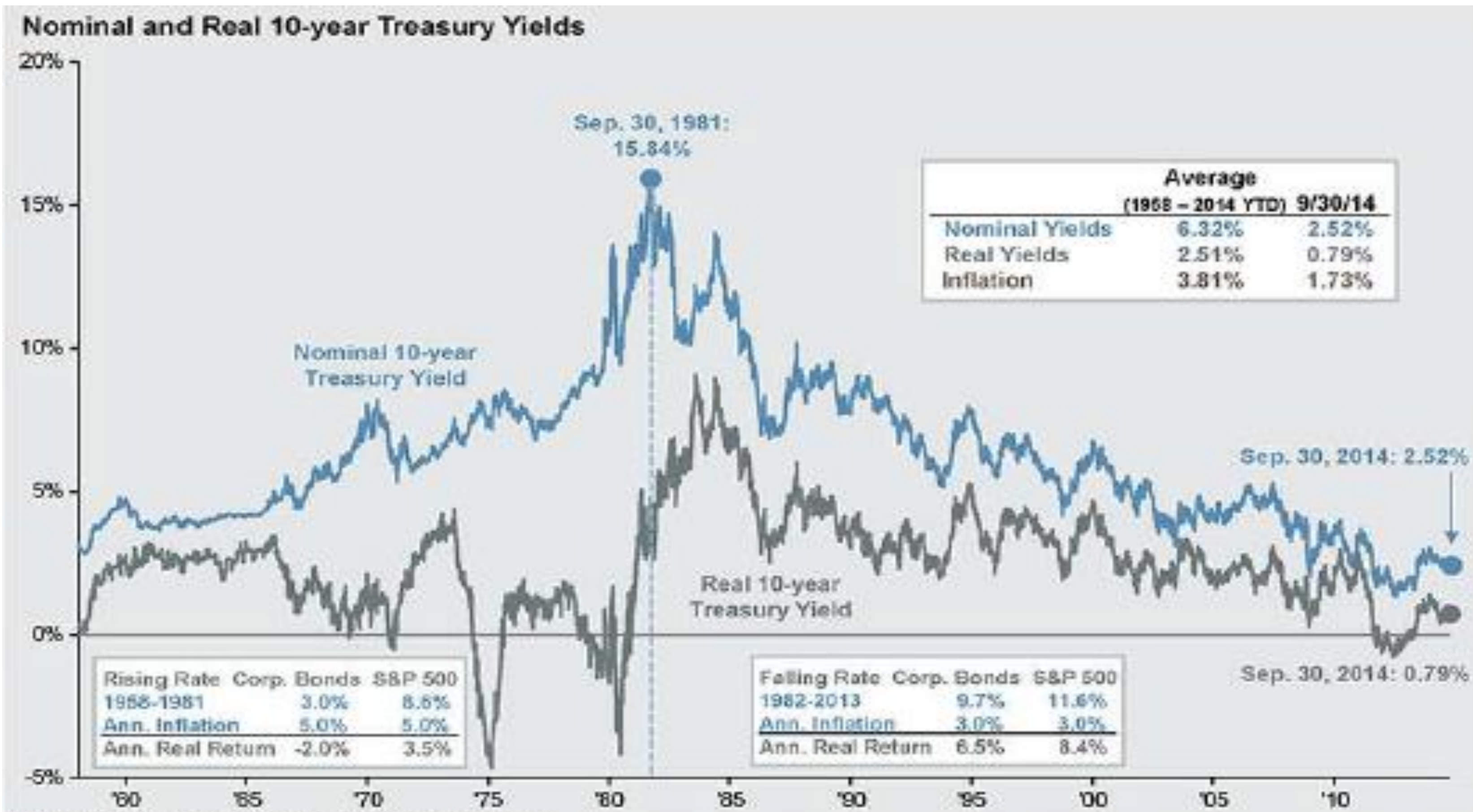
Tactical positions:

- High yield should outperform in a rising rate environment despite current tight credit spreads. Credit is weighted more heavily than Treasuries and duration is tilted shorter than benchmarks.
- Commercial real estate is viewed as an attractive yield alternative to bonds, however, queues can delay additions to positions and an increase in interest rates could damper valuation improvements.
- International bonds are viewed as an attractive complement to domestic bonds due to a mismatch in interest rate cycles.
- Emerging market debt provides diversification and yield potential. Central banks in countries such as Brazil, India and Turkey have increased interest rates and currencies have stabilized as a result.
- Hedge funds with a non-directional (or absolute return focus) are viewed as an attractive uncorrelated option.

Market Outlook

Discretionary Management Services, LLC

Interest rates remain near long term lows. As the economic fundamentals show modest growth, interest rates should trend upward to normalized levels.



Source: Federal Reserve, BLS, J.P. Morgan Asset Management.

DMS Strategic Outlook and Tactical Positions.

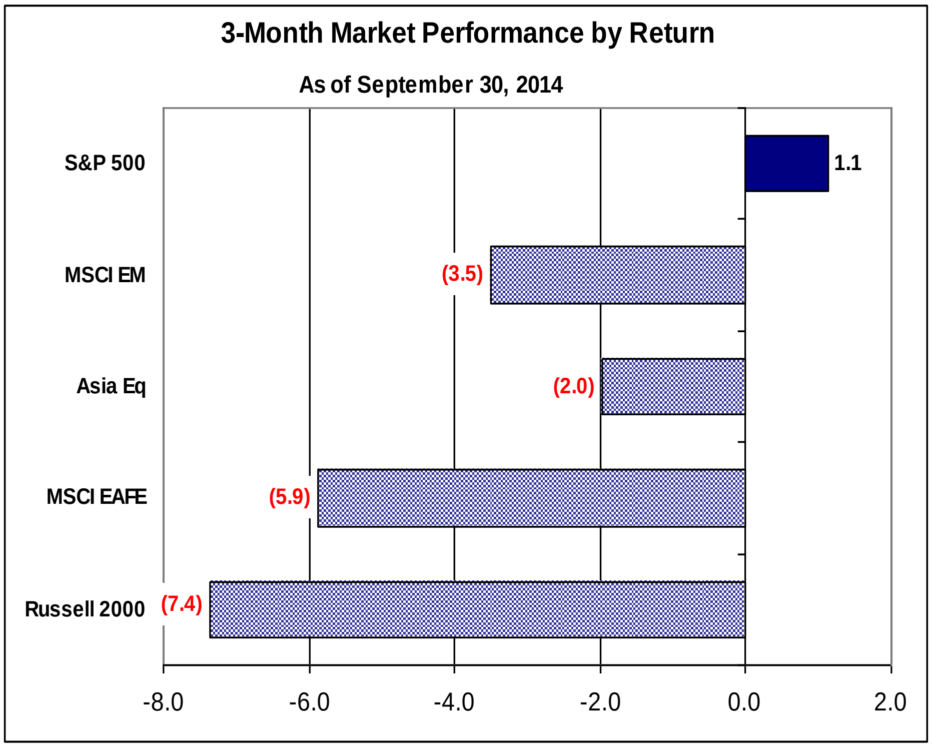
Strategic Outlook - Equities: The domestic stock market looks to be fully valued as earnings growth slows. We expect more volatility in domestic equity markets due to the slowing earnings momentum. The European Central Bank's (ECB) quantitative easing project should bolster equity returns despite slow economic growth. Emerging market stocks are viewed favorably due to stronger economic growth and attractive valuations relative to developed nations.

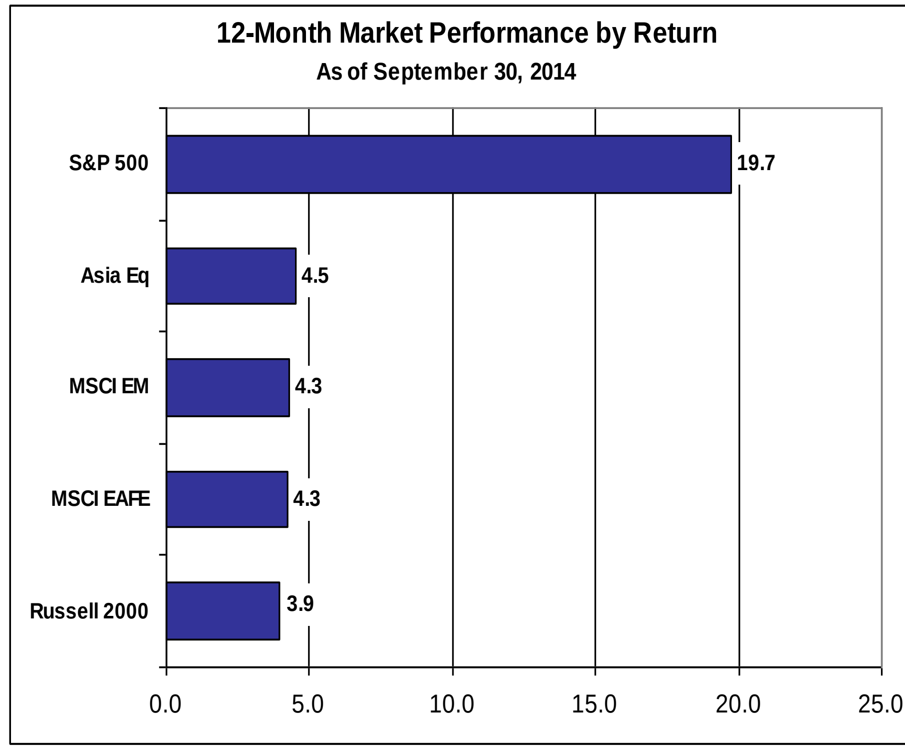
Tactical positions:

- Small cap stocks are weighted less than large cap stocks due to above average P/E multiples. Equities are tilted toward lower beta, higher dividend stocks to reduce volatility and to generate income. We are looking for corrections in the market as points to "buy in" and bolster small cap positions.
- Stock allocations in developed markets lean toward high quality stocks as they appear to offer relative safety. The relative attractiveness of multinational stocks takes into account the lackluster economic growth in Europe and Japan. The ECB and the Bank of Japan will continue their quantitative easing programs.
- Within international equities, emerging markets stocks, comparatively attractive due to their low relative P/E multiples, are equally weighted to target. Unfavorable economic news has been priced into valuations.

Equity Returns by Tactical Strategy

- Added to US Small Cap positions upon sell off as risk/reward tradeoff now looks more favorable. Still below target weights in accounts.
- Added slightly to International Equity positions to move to target weights, taking advantage of low relative P/E multiples. Positions are slightly underweight to target.
- Added to Emerging Markets equities during quarter to take advantage of relative undervaluation.





Fixed Income Returns by Tactical Strategy

- High-yield corporate bonds are still viewed favorably given a mildly improving economic outlook and continuing low default rates.
- Continued the overweight in investment grade credit as yield is attractive relative to US Treasuries.
- Maintained a shorter duration of portfolios versus the benchmark in anticipation of increasing interest rates.