DMS Economic Outlook for next 12 months

- GDP growth will be modest at approximately 2%, but the economy will experience periods of faster growth just as the second quarter 2015 rebounded from a weather-impacted first quarter. Personal consumption will remain below longer term trends at around a 2.5% annual pace.

- Job creation will be stable with the unemployment rate remaining in the 5.0% to 5.5% range. Eventually, the labor market will tighten enough to provide a boost to wages.

- The dollar will remain relatively strong versus other currencies. The dollar strength is due to the removal of domestic quantitative easing and continuing QE programs in Europe and Japan. The strong dollar is impacting earnings growth and will limit the upside earnings potential of large cap domestic companies.

- The Federal Reserve will be monitoring the pace of global growth, factoring it into the decision to raise interest rates. Inflation has been tame due to weak wage growth and falling commodity prices.

- Economic growth in China is slowing as the Chinese reorient their economy from one fueled by exports to one that is based on internal growth. Slowing global growth will be episodic and will contribute to global stock market volatility.

Economic Outlook

Economic growth in China has been slowing for years as the economy is transitioning from export-fueled growth to one that is built upon internal consumer growth.

Economic Outlook

Discretionary Management Services, LLC

The dollar has strengthened when compared to other currencies and looks to have entered a new range. A stronger dollar can slow down the rate of earnings growth for multinational companies when local currency has to be translated back into US dollars. Large cap domestic companies are vulnerable to slowing earnings growth.

DMS Strategic Outlook and Tactical Positions

Strategic Outlook – Fixed Income: A trend toward higher interest rates is expected as the Fed removes monetary stimulus. We saw a "flight to quality" event when the Fed did not raise interest rates in September causing yields to fall. Yields have since returned to levels before the Fed decision in September.

Tactical positions:

- High yield should outperform in a rising rate environment. Lower oil prices have impacted energy company debt and credit spreads have widened, presenting a buying opportunity. We continue to overweight credit to Treasuries and duration is tilted shorter than benchmarks.
- Commercial real estate continues to provide positive returns in a choppy market. Queues can delay additions to positions and an increase in interest rates could dampen valuation improvements. Value added or opportunistic strategies can be an accompaniment to core real estate exposure.
- International bonds yields have been pushed lower due to quantitative easing in Europe, therefore, yields do not appear attractive. However, emerging market debt denominated in US dollars provides diversification and yield potential.
- Hedge funds with a non-directional (or absolute return focus) are viewed as an attractive option uncorrelated to bonds.

Market Outlook

Discretionary Management Services, LLC

High yield bonds weathered the brief credit event caused by lower energy prices as spreads widened during the year but have since begun to reverse. High yield bonds, due to their higher coupon rates, are positioned to outperform Treasuries in a rising rate environment.

The last time spreads widened to this extent was in response to slowing economic growth in 2011. That event also presented a buying opportunity as spreads tightened for the following years.

DMS Strategic Outlook and Tactical Positions.

Strategic Outlook - Equities: The domestic stock market appears to be fully valued as earnings growth slows due to a relatively strong dollar and its impact on domestic firms with global earnings. We expect more volatility in domestic equity markets due to the slowing earnings momentum. The European Central Bank's 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:

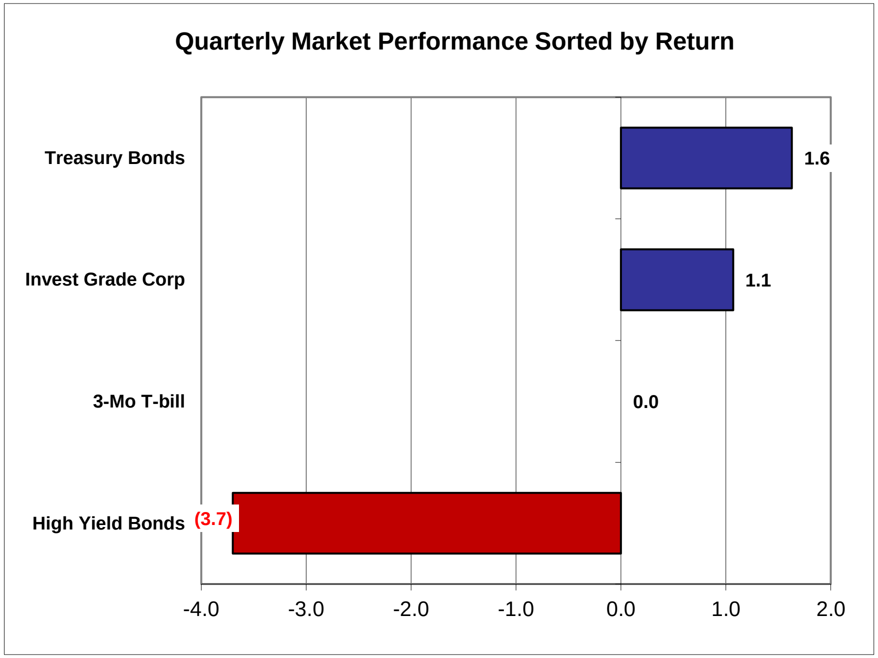
- Small cap stocks are equally weighted to target in portfolios. Small cap stocks, while more inherently volatile, are impacted less by currency fluctuations than multinational large cap stocks. Equity positions have a higher dividend component to generate income in a low interest rate environment. We will continue to "buy in" and bolster small cap positions during corrections.

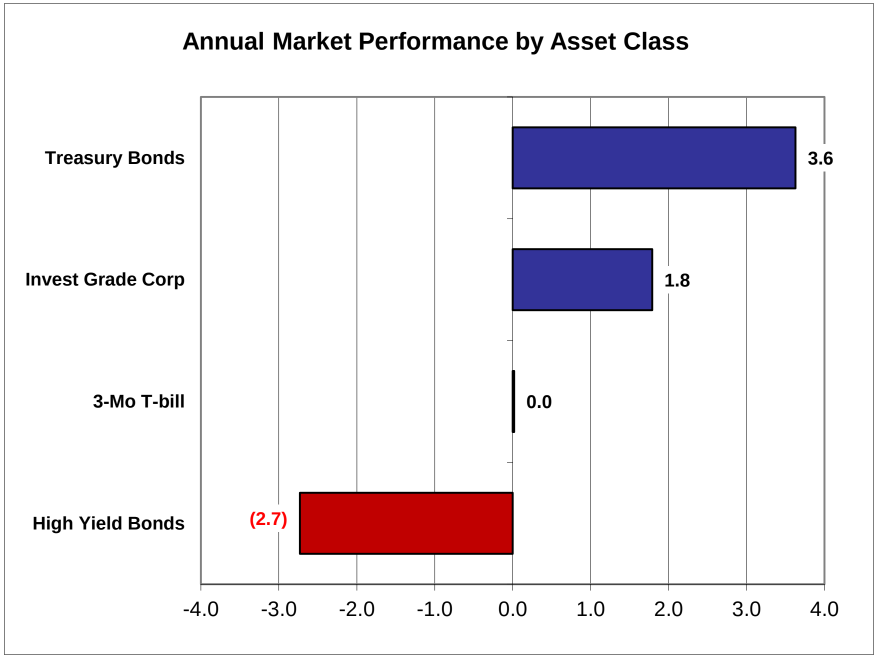
- International stocks are slightly over weighted versus the target. The quantitative easing programs in Europe and Japan should provide a tailwind to stocks at just the same time the Federal Reserve is poised to raise interest rates at home.

- Within international equities, emerging markets stocks, comparatively attractive due to their low relative P/E multiples, are over weighted to target. Unfavorable economic news has been priced into valuations.

Fixed Income Returns by Tactical Strategy

- High-yield corporate bonds are still viewed favorably given an improved economic outlook and continuing low default rates. High yield bonds present a buying opportunity due to spread widening brought about by energy price declines.
- Continued the overweight in investment grade credit as yields are attractive relative to US Treasuries.
- Maintained a shorter duration in portfolios versus the benchmark in anticipation of increasing interest rates. However, falling rates impacted returns in the quarter and Treasuries posted outperformance.





Equity Returns by Tactical Strategy

- Added to domestic small cap positions upon sell-off as the risk/reward tradeoff now looks more favorable. We are at target weights in accounts. Looking to bolster small cap positions upon market volatility.
- Added slightly to international equity positions, taking advantage of low relative P/E multiples. Positions are slightly over weighted versus the target.
- Maintained weighting in emerging markets equities during quarter to take advantage of relative undervaluation.