DMS Economic Outlook for next 12 months

- GDP growth will be modest at approximately 2.5%, but the economy will experience periods of unstable growth. Consumer confidence will improve as the job market will continue to slowly add jobs. Wage growth will increase slightly with a tighter labor market.

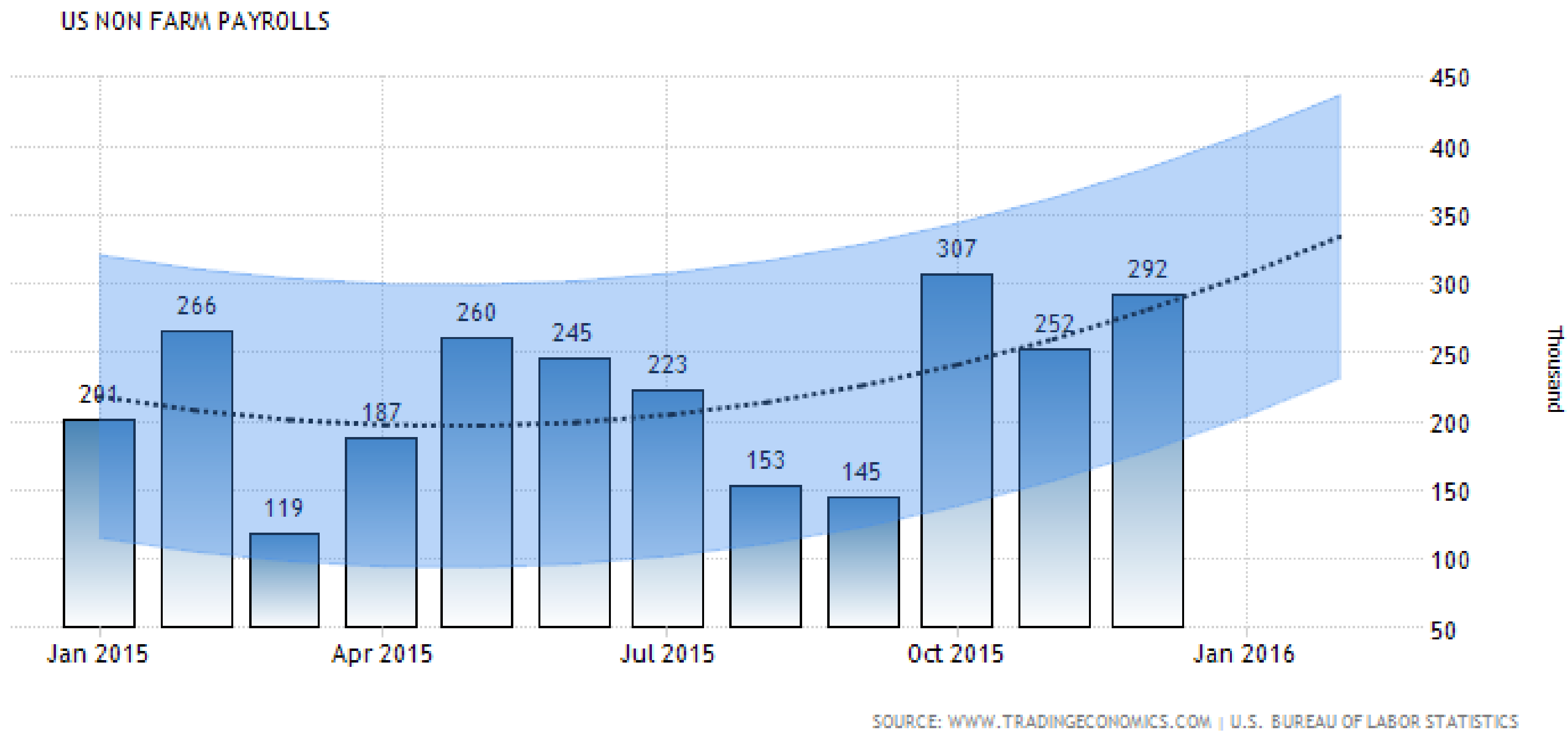
- Job creation will be stable with the unemployment rate remaining in the 5.0% range. Eventually, the labor market will tighten enough to provide a boost to wages which will bring some people back into the labor force, leading to increased labor force participation.

- The U.S. dollar will remain relatively strong, but stable, versus other currencies. The impact of increasing U.S. interest rates has been priced into currencies. The strong U.S. dollar is impacting earnings growth and will limit the upside earnings potential of large cap domestic multinational companies.

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

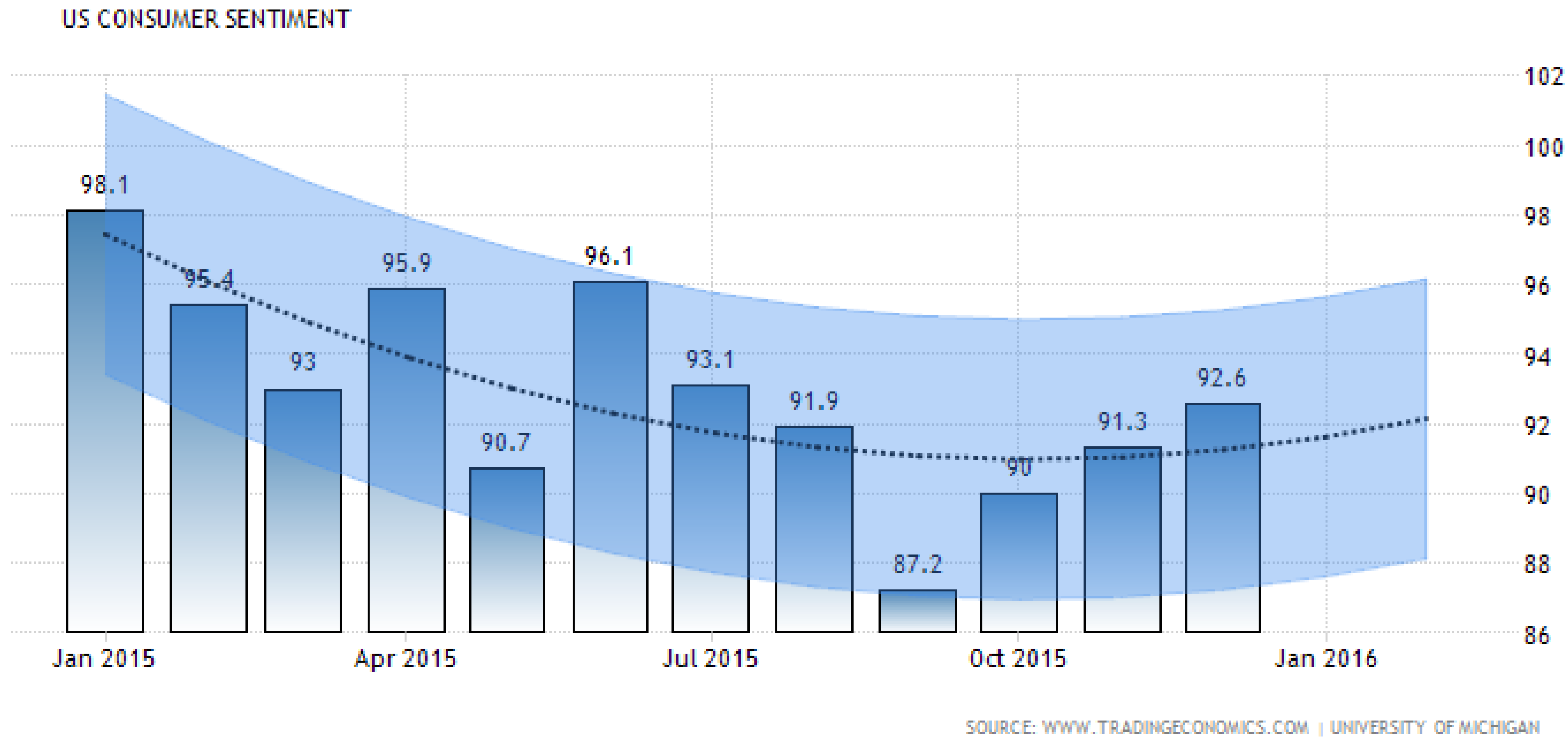
- Economic growth in China is slowing as the Chinese reorient their economy from one fueled by exports to one that is based on internal growth. Investors will fear that slowing Chinese economic growth will cause other economies to falter, contributing to market volatility.

Job creation picked up some steam in the fourth quarter of 2015. Wage growth has improved to 2.0% year over year and labor force participation, while still low, increased slightly to 62.6% from 62.5%.



Economic Outlook

Consumer sentiment is showing signs of improving from a low point in the third quarter of 2015. The stronger labor market and lower energy prices have boosted consumers' mind-sets about the economy.



DMS Strategic Outlook and Tactical Positions

Strategic Outlook – Fixed Income: A trend toward higher interest rates is expected as the Federal Reserve raises interest rates in 2016. The Fed increased the Fed Funds Rate for the first time in nine years in December. Longer term interest rates remained steady as inflation remains muted and as the market had priced in rate increases.

Tactical positions:

- High yield should outperform in a rising rate environment in 2016. Lower oil prices have impacted energy company debt and credit spreads have widened, presenting a buying opportunity. We continue to overweight credit versus 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 a complement to a core real estate exposure.
- International bond yields have been pushed lower due to quantitative easing in Europe; therefore, yields do not appear attractive. However, emerging market debt denominated in U.S. 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.

The **U.S. dollar** has priced in the expectation of higher interest rates and faster economic growth for the U.S. has boosted the dollar against other currencies. The stronger dollar has numerous impacts upon the markets.

Earnings of U.S. multinational companies slow as earnings in foreign currencies have to be translated back to dollars.

Returns of international stocks are impacted negatively as returns are re-stated in dollars from another currency.

DMS Strategic Outlook and Tactical Positions.

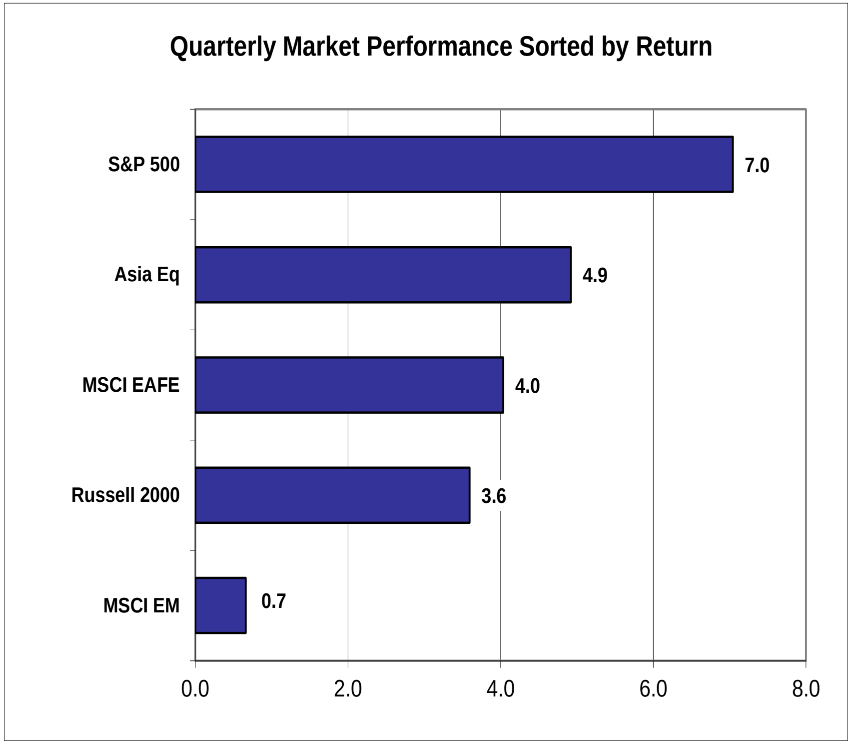
Strategic Outlook - Equities: The domestic stock market appears to be fully valued. Slower earnings due to a relatively strong dollar impacts domestic firms with global earnings. The European Central Bank's and Bank of Japan's quantitative easing programs have weakened their currencies and have boosted the earnings of companies that export.

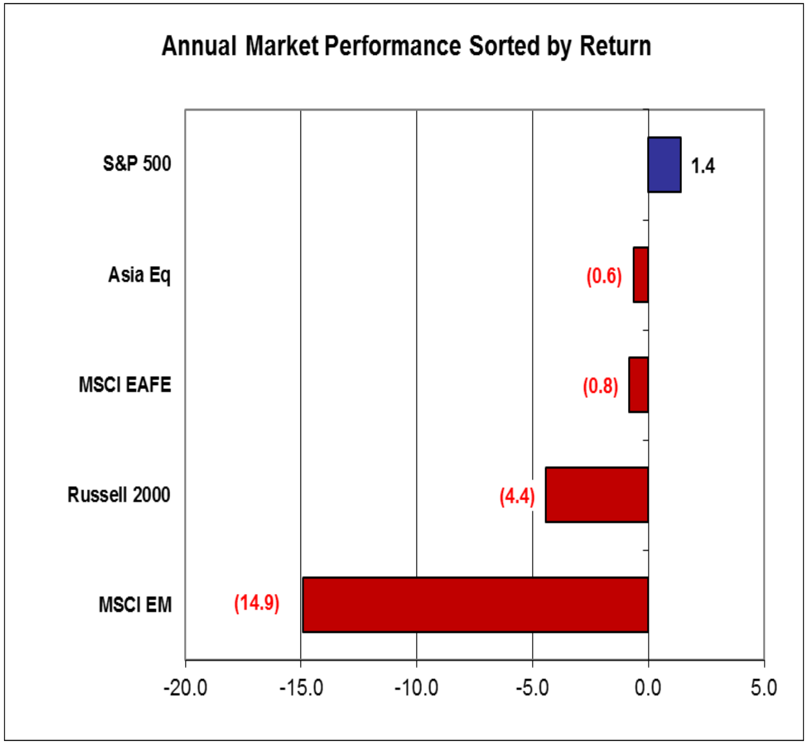
Tactical positions:

- Small cap stocks are over weighted versus targets in portfolios. Small cap stocks, while more inherently volatile, are impacted less by currency fluctuations than multinational large cap stocks. We will continue to "buy in" and bolster small cap positions during corrections.
- International stocks are over weighted versus the target. The quantitative easing programs in Europe and Japan should provide a tailwind to stocks as the weaker currencies will boost export earnings.
- Within international equities, emerging markets stocks, comparatively attractive due to their low relative P/E multiples, are also over weighted versus targets. Unfavorable economic news has been priced into valuations.
- The dollar has strengthened due to the markets pricing in a Fed rate increase and due to monetary stimulus by foreign central banks. The dollar will remain range-bound given an absence of positive global economic data. This should remove the currency headwind of the stronger dollar on future expected returns.

Equity Returns by Tactical Strategy

- Adding to domestic small cap positions upon sell-offs as the risk/reward tradeoff now looks more favorable. We are above target weights in accounts.
- Added to international equity positions, taking advantage of low relative P/E multiples. Positions are slightly over weighted versus the target.
- Maintaining an over weight in emerging markets equities during the quarter to take advantage of relative undervaluation.





Fixed Income Returns by Tactical Strategy

- High-yield corporate bonds are still viewed favorably given an improved economic outlook. Concern about defaults in the energy sector of high yield has caused spreads to widen and presents a buying opportunity.
- Continued the overweight in investment grade credit as yields are attractive relative to U.S. 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 outperformed.