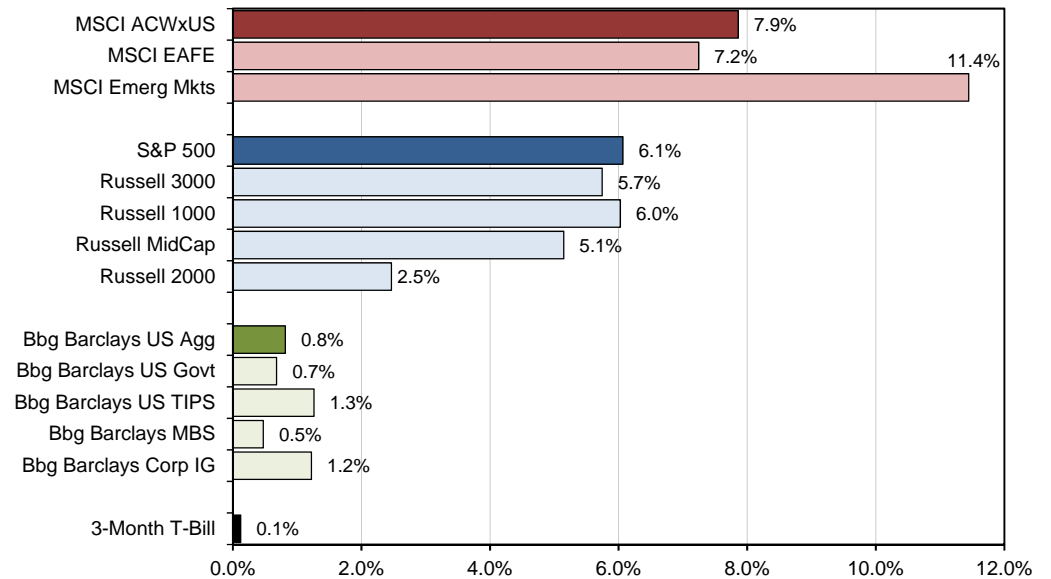


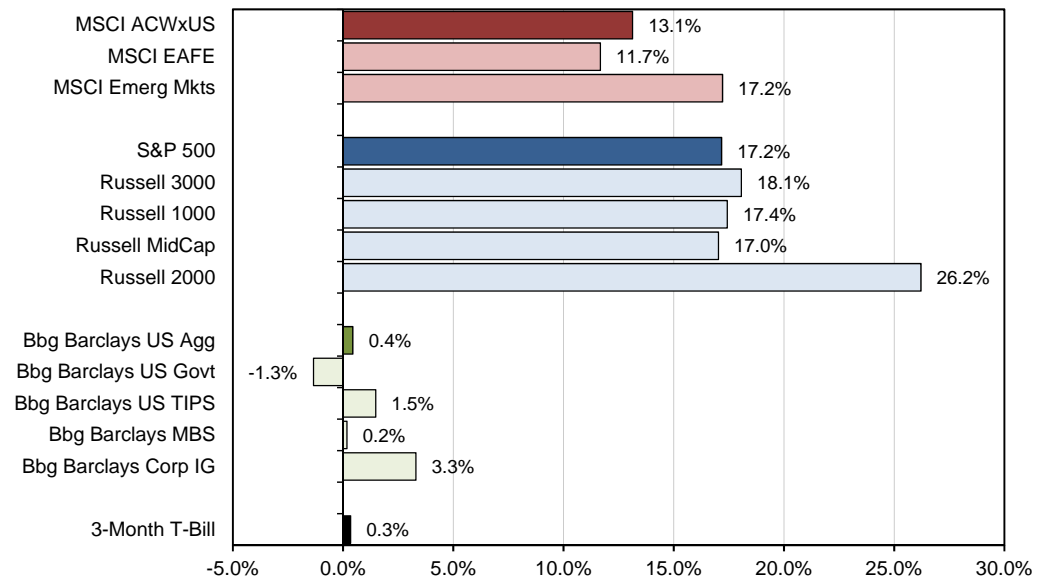
## **1st Quarter 2017 Market Environment**

- Returns for the 1<sup>st</sup> quarter of 2017 were positive across equity and fixed income indices. Broad domestic and international equity market performance was fueled by largely improving global economic data. While domestic equity indices trailed international equity indices due to U.S. Dollar (USD) weakness, performance was solid on the back of Trump administration campaign promises for pro-business policy initiatives, government regulation rollbacks, tax reform, and domestic infrastructure investment. Despite concerns over the duration of the equity market's current run, this policy optimism caused many major domestic indices to reach all-time highs at various points during the quarter. Large cap stocks reversed a recent trend of small cap equity outperformance during the quarter with the S&P 500 Index returning 6.1% versus a weaker 2.5% return for the Russell 2000 Index. Despite their relatively muted quarterly performance, small cap stocks still handily outperformed large cap issues over the 1-year period with the Russell 2000 returning 26.2% versus a 17.2% return for the S&P 500.
- International equity market benchmarks had an excellent start to calendar 2017, outpacing U.S. markets and posting substantial returns for the 1<sup>st</sup> quarter. Both developed and emerging market international equities experienced tailwinds from increasingly positive global macroeconomic data, a weakening USD and ongoing accommodative global central bank policies. Emerging market stocks were the greatest beneficiaries of these positive trends, outperforming their developed market counterparts by more than 5% for the quarter. The MSCI Emerging Market Index returned a solid 11.4% for the quarter and 17.2% for 1-year period. While weaker by comparison, the developed market MSCI EAFE Index also posted robust performance returning 7.2% for the quarter and 11.7% over the 1-year period.
- In March, the continued pickup in inflation measures coupled with other positive economic data pushed the Federal Open Market Committee (FOMC) to maintain its commitment to remove policy accommodation from the financial system. During the quarter, the FOMC increased the Fed Funds rate by 0.25% for the second time in six months. Since the increase was largely telegraphed by Fed Chair Janet Yellen, financial markets had already priced in a high likelihood of a rate hike, and thus, market's reaction to the news was subdued. Outside of an unforeseen pickup in economic growth or downside shock, markets are currently pricing in two additional rate increase for 2017. All investment grade bond benchmarks were modestly positive for the quarter. Corporate and Treasury Inflation Protected Securities (TIPS) benefitted the most from the current economic backdrop and outperformed other major bond sectors. The broad market Bloomberg Barclays U.S. Aggregate Index returned 0.8% for the quarter and 0.4% over the 1-year period.

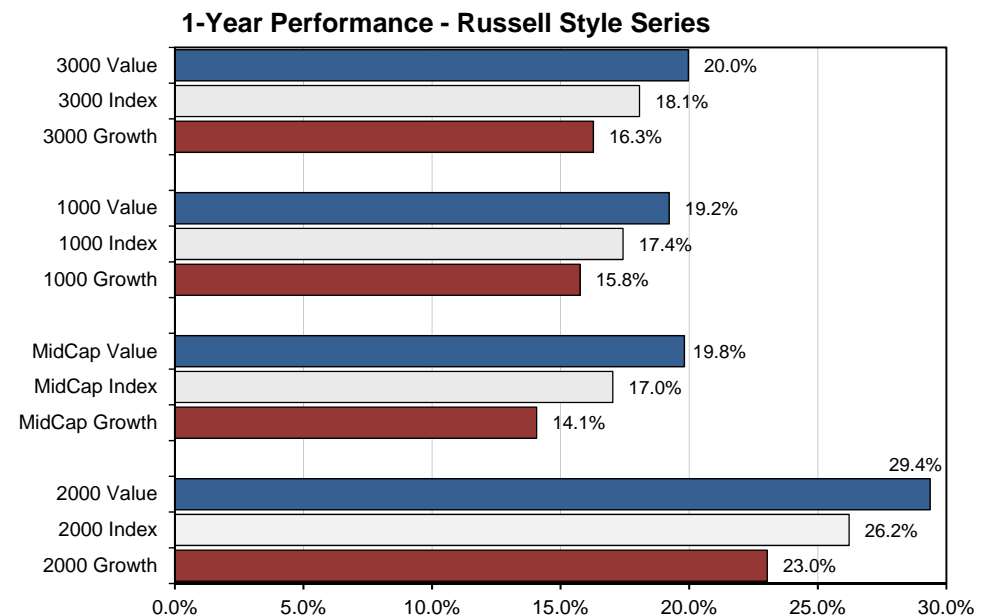
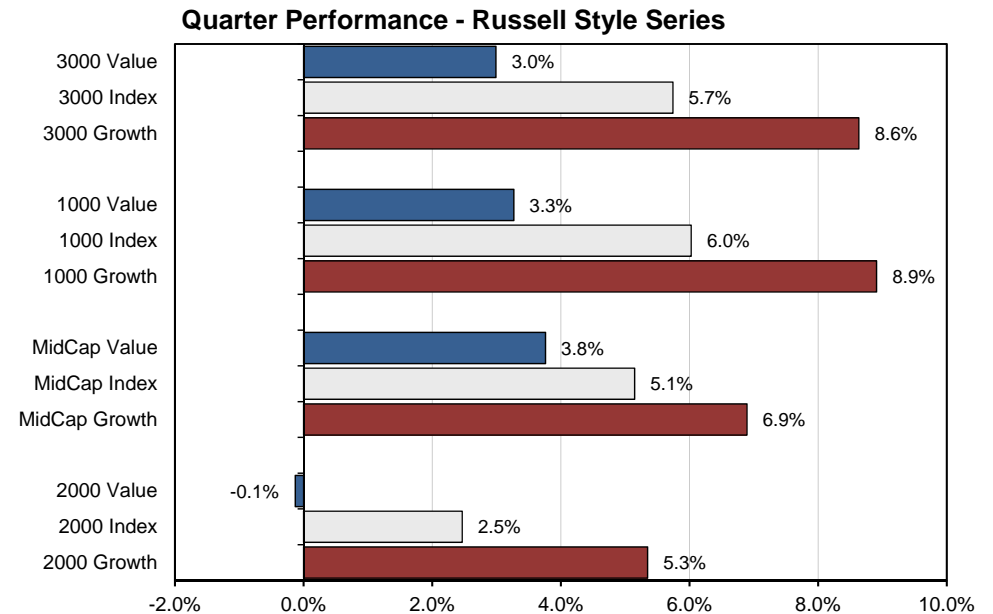
### Quarter Performance



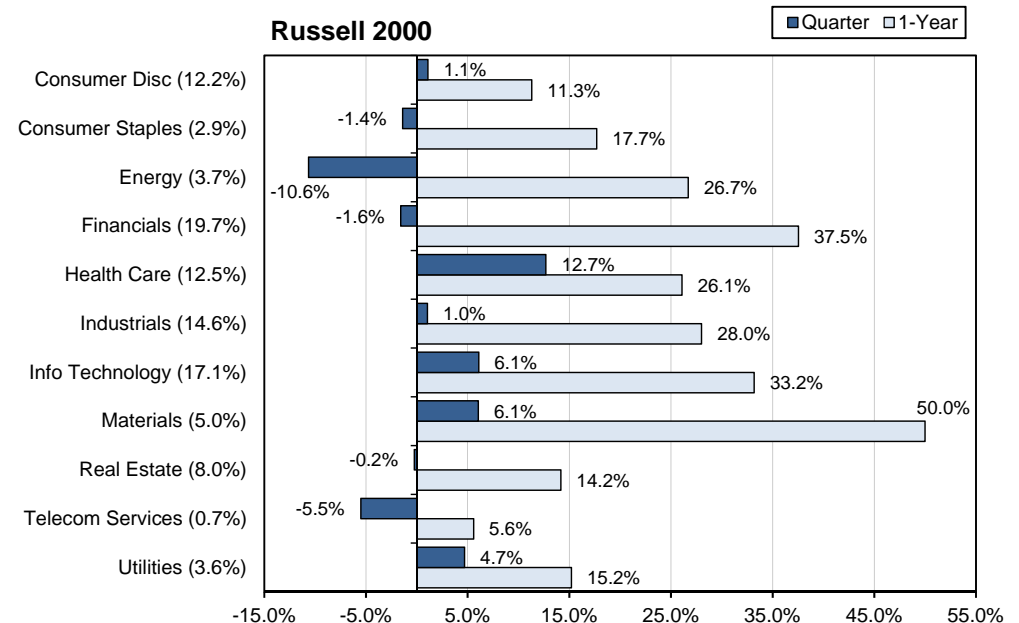
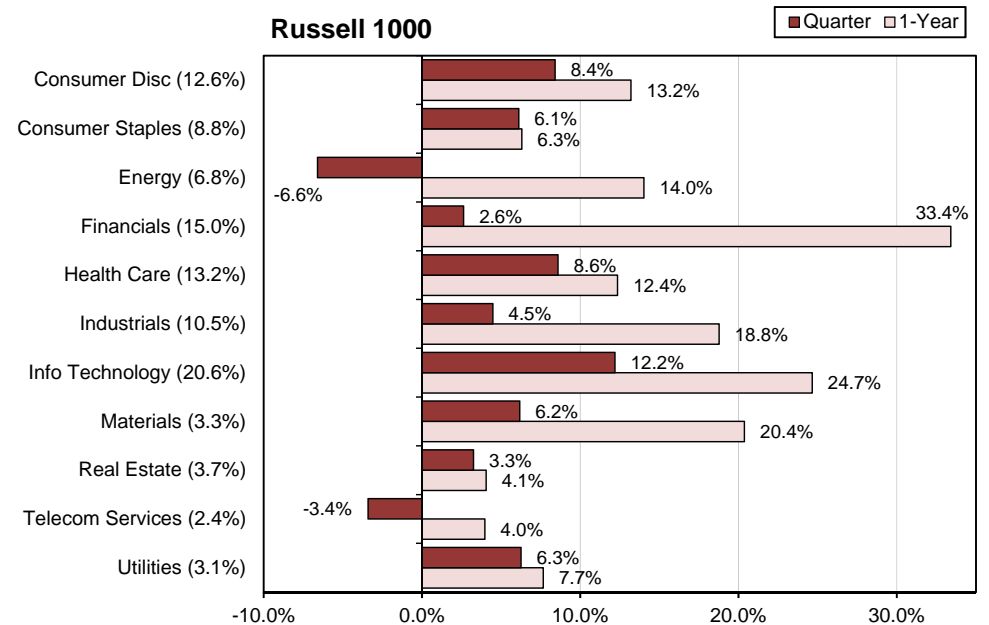
### 1-Year Performance



- U.S. equity index returns were largely positive across the style and capitalization spectrum for the 1<sup>st</sup> quarter and the trailing 1-year period. Domestic equity index returns were driven by optimism surrounding the Trump administration's previously referenced pro-growth agenda. Markets were also driven higher by positive trends in economic data reported throughout the period including improvements in consumer and business sentiment, corporate earnings, and employment. The only major setback to the 1<sup>st</sup> quarter's optimism was the GOP's failure to repeal the Affordable Care Act in late March. This event raised market concerns surrounding the expediency and impact of future promised policy changes.
- Large cap stocks were the best performing capitalization segment for the quarter for both core and growth issues while mid cap equities posted a slight premium relative to other capitalizations within the value spectrum. The large-cap Russell 1000 Index returned a solid 6.0% for the quarter while the small cap Russell 2000 Index returned a more modest 2.5%. This return spread was partially due to market speculation that potential foreign trade restrictions expected to disproportionately impact larger companies may not be fully realized. Conversely, over the 1-year period, small cap issues still maintain a considerable performance advantage, with the small cap Russell 2000 returning 26.2% versus a return of 17.4% for the large cap Russell 1000.
- Index sector allocations were a substantial contributor to growth index outperformance during the 1<sup>st</sup> quarter as growth indices benefitted from significant underweights to the energy and financials sectors, both of which lagged the broad index return. Growth benchmarks also benefitted from greater exposure to the information technology and health care sectors which posted strong sector returns. The Russell 2000 Value Index's return of -0.1% was the worst performing style index for the period as well as the only index to post a negative return. Like capitalization performance differentials, the 1<sup>st</sup> quarter's style performance trend reverses when viewed over the 1-year period with value indices outperforming growth benchmarks across all market capitalization levels.
- Domestic equity valuations appear stretched relative to historical levels based on Forward Price/Earnings ratios (P/E), with even the most reasonably valued indices trading above their historical P/E valuations. Index P/E valuations range from 112% and 127% of their respective 15-year P/E averages. The mid cap growth and small cap value indices appear the most inexpensive and the large cap value and small cap growth look the most overvalued.



- Sector performance within the Russell 1000 Index was largely positive for the 1<sup>st</sup> quarter. Six of eleven economic sectors outpaced the Russell 1000 Index return, and nine of eleven sectors posted gains during the period. Energy (-6.6%) was the worst performing sector as crude prices fell throughout the quarter on fears of oversupply as accelerating production in the U.S. undermined the effects of an agreement between OPEC and Russia to limit global supply. Telecommunication services was the only other large cap sector to post negative performance for the quarter with a return of -3.4%. Technology was the best performing sector in the large cap index as increasing business and consumer confidence drove demand and pushed technology stock prices 12.2% higher through the quarter. Health care also outperformed, rising 8.6% for the quarter as uncertainty surrounding health care reform dissipated after the GOP's failure to repeal the Affordable Care Act, which indefinitely postponed changes to current legislation. Over the trailing 1-year period, financials, technology and materials were the best performing sectors, each returning greater than 20%. All eleven economic sectors of the Russell 1000 index posted positive returns for the 1-year period.
- Small cap sector results lagged their large capitalization counterparts for the 4<sup>th</sup> quarter, with only four of eleven economic sectors outpacing the Russell 2000 Index return for the quarter, and only six of eleven sectors posting positive results for the period. Most of the sector trends observable in large cap index sector performance also impacted small cap sectors. Similar to large cap issues, energy was the biggest detractor, falling -10.6% for the quarter. Returns for health care (12.7%) and technology (6.1%) drove positive index performance. Over the last year the materials, financials, and technology sectors each posted returns in excess of 30% and all eleven sectors posted positive performance over the trailing 1-year period.
- Using S&P 500 sector valuations as a proxy for the market, Forward P/E ratios for eight of the GICS sectors were higher than their long-term averages at quarter-end. Using these historical P/E measures, the energy, materials and utilities sectors appear the most extended. In contrast the technology, health care and telecommunications sectors were trading at a discount to their long-term average P/E ratios.



**The Market Environment**  
**Top 10 Index Weights & Quarterly Performance for the Russell 1000 & 2000**  
As of March 31, 2017

Top 10 Weighted Stocks				
Russell 1000	Weight	1-Qtr Return	1-Year Return	Sector
Apple Inc	3.48%	24.6%	34.6%	Information Technology
Microsoft Corp	2.20%	6.6%	22.4%	Information Technology
Amazon.com Inc	1.52%	18.2%	49.3%	Consumer Discretionary
Johnson & Johnson	1.51%	8.8%	18.3%	Health Care
Exxon Mobil Corp	1.51%	-8.3%	1.6%	Energy
JPMorgan Chase & Co	1.41%	2.4%	52.5%	Financials
Facebook Inc A	1.41%	23.5%	24.5%	Information Technology
Berkshire Hathaway Inc B	1.39%	2.3%	17.5%	Financials
General Electric Co	1.21%	-4.9%	-3.3%	Industrials
AT&T Inc	1.13%	-1.1%	11.2%	Telecommunication Services

Top 10 Weighted Stocks				
Russell 2000	Weight	1-Qtr Return	1-Year Return	Sector
Advanced Micro Devices Inc	0.58%	28.3%	410.5%	Information Technology
The Chemours Co	0.37%	74.4%	454.3%	Materials
Microsemi Corp	0.31%	-4.5%	34.5%	Information Technology
Olin Corp	0.29%	29.2%	95.8%	Materials
LogMeIn Inc	0.27%	1.5%	96.4%	Information Technology
New Residential Investment Corp	0.27%	11.1%	65.4%	Financials
Coherent Inc	0.26%	49.7%	123.8%	Information Technology
Take-Two Interactive Software Inc	0.26%	20.2%	57.3%	Information Technology
Exelixis Inc	0.26%	45.3%	441.8%	Health Care
F N B Corp	0.25%	-6.5%	18.3%	Financials

Top 10 Performing Stocks (by Quarter)				
Russell 1000	Weight	1-Qtr Return	1-Year Return	Sector
Community Health Systems Inc	0.00%	58.7%	-41.9%	Health Care
NRG Energy Inc	0.03%	52.8%	45.0%	Utilities
Vertex Pharmaceuticals Inc	0.12%	48.4%	37.6%	Health Care
bluebird bio Inc	0.00%	47.3%	113.9%	Health Care
Arconic Inc	0.05%	42.4%	N/A	Industrials
DexCom Inc	0.03%	41.9%	24.8%	Health Care
Agios Pharmaceuticals Inc	0.01%	39.9%	43.8%	Health Care
Activision Blizzard Inc	0.12%	38.9%	48.2%	Information Technology
Lumentum Holdings Inc	0.00%	38.0%	97.8%	Information Technology
Alnylam Pharmaceuticals Inc	0.02%	36.9%	-18.4%	Health Care

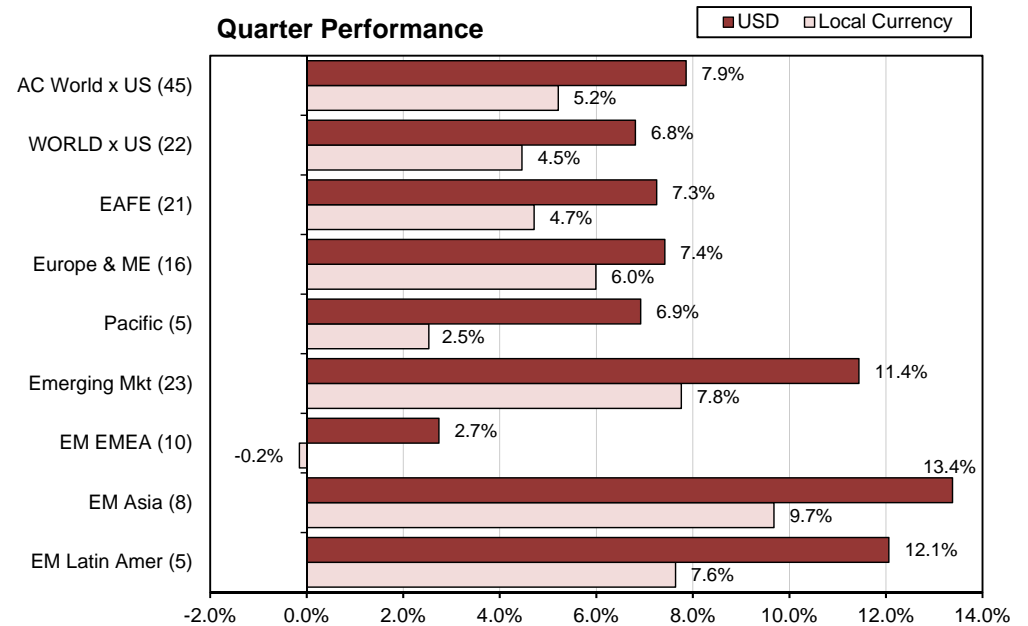
Top 10 Performing Stocks (by Quarter)				
Russell 2000	Weight	1-Qtr Return	1-Year Return	Sector
Calithera Biosciences Inc	0.00%	255.4%	103.3%	Health Care
Rocket Fuel Inc	0.00%	213.5%	70.2%	Information Technology
Esperion Therapeutics Inc	0.03%	182.0%	108.8%	Health Care
ViewRay Inc	0.00%	171.9%	97.9%	Health Care
Global Blood Therapeutics Inc	0.03%	155.0%	132.3%	Health Care
TG Therapeutics Inc	0.02%	150.6%	36.7%	Health Care
Internap Corp	0.00%	141.6%	36.3%	Information Technology
Applied Optoelectronics Inc	0.05%	139.5%	276.6%	Information Technology
Infinity Pharmaceuticals Inc	0.01%	139.3%	-38.7%	Health Care
NewLink Genetics Corp	0.03%	134.4%	32.4%	Health Care

Bottom 10 Performing Stocks (by Quarter)				
Russell 1000	Weight	1-Qtr Return	1-Year Return	Sector
Cobalt International Energy Inc	0.00%	-56.3%	-82.0%	Energy
Seadrill Ltd	0.00%	-54.6%	-51.5%	Energy
Rite Aid Corp	0.02%	-48.4%	-47.9%	Consumer Staples
Vista Outdoor Inc	0.01%	-44.2%	-60.3%	Consumer Discretionary
Babcock & Wilcox Enterprises Inc	0.00%	-43.7%	-56.4%	Industrials
Colony NorthStar Inc A	0.03%	-36.1%	-17.5%	Real Estate
Frontier Communications Corp Class B	0.01%	-34.1%	-57.0%	Telecommunication Services
GNC Holdings Inc	0.00%	-33.3%	-76.1%	Consumer Discretionary
Fossil Group Inc	0.00%	-32.5%	-60.7%	Consumer Discretionary
Endo International PLC	0.01%	-32.2%	-60.4%	Health Care

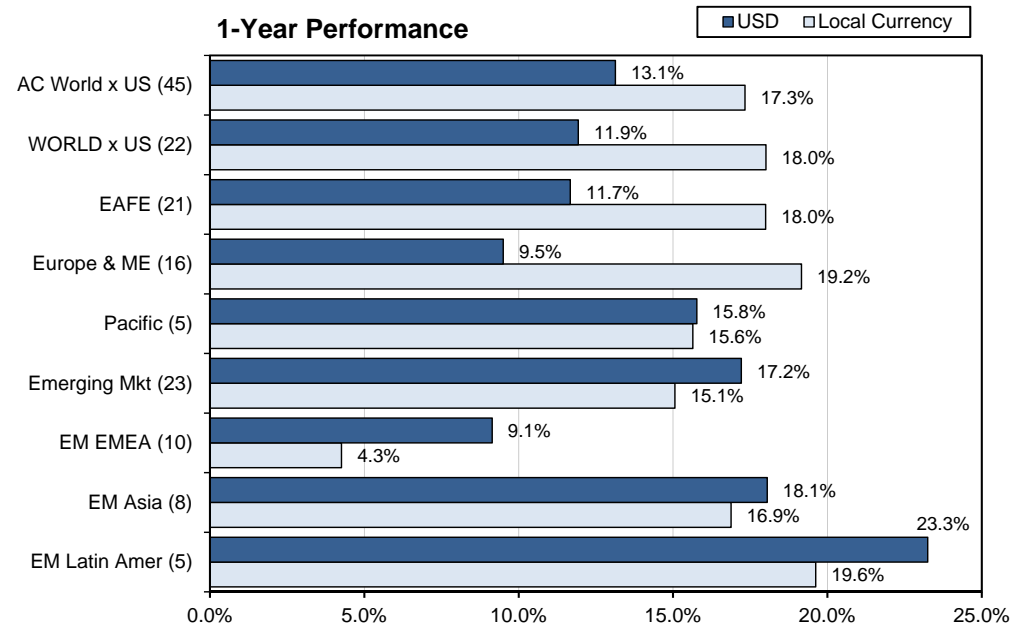
Bottom 10 Performing Stocks (by Quarter)				
Russell 2000	Weight	1-Qtr Return	1-Year Return	Sector
Argos Therapeutics Inc	0.00%	-90.8%	-92.9%	Health Care
Peabody Energy Corp	0.00%	-86.4%	-70.7%	Energy
Ultrapetrol Bahamas Ltd	0.00%	-83.2%	-93.8%	Industrials
GulfMark Offshore Inc	0.00%	-80.0%	-94.3%	Energy
Rentech Inc	0.00%	-79.8%	-77.5%	Materials
Walter Investment Management Corp	0.00%	-77.3%	-85.9%	Financials
Adeptus Health Inc Class A	0.00%	-76.4%	-96.8%	Health Care
Novan Inc	0.00%	-76.4%	N/A	Health Care
Galena Biopharma Inc	0.00%	-68.6%	-97.8%	Health Care
Cumulus Media Inc Class A	0.00%	-68.5%	-91.4%	Consumer Discretionary

- While USD strength is on the high side of its 10-year range, the USD weakened through the quarter providing a tailwind to international index returns denominated in USD. However, the 1-year performance for the broad international indices still show a large negative currency impact from USD strength. The primary factors contributing to USD strength are an increasing divergence in U.S. monetary policy (tightening) relative to other developed countries (further accommodation) as well as the Trump administration's pro-growth policy agenda. However, improvement in growth prospects outside of the U.S. and the measured implementation of a more restrictive U.S. monetary policy has led to a pause in the USD's upward trajectory.
- International index performance for the 1<sup>st</sup> quarter was broadly positive for both developed and emerging markets in both USD and local currency terms. In USD terms, the developed market MSCI EAFE Index returned 7.3% as continued monetary stimulus and improving macroeconomic data in the U.K., Europe and Asia increased investor optimism, fueling demand for stocks. Returns in Europe and Japan were supplemented by perceived stabilization within their respective political systems. Also, noteworthy was the U.K. decision to invoke Article 50, signaling the start of their two-year separation process with the European Union. Returns for Eurozone stocks were up over 8% while stocks in Japan and the U.K. gained 4.5% and 5.0% in USD respectively. Developed market index performance is also robust when viewed over the 1-year period with the EAFE index returning 11.7% in USD terms.
- Emerging market equities had an impressive start to 2017 with the MSCI Emerging Market Index posting an 11.4% USD return for the 1<sup>st</sup> quarter. A weakening USD, continued improvement in global growth, and a lack of Trump administration attention toward protectionist trade policies provided an attractive backdrop for emerging market returns. India (17.1%), Poland (17.8%) and South Korea (16.9%) had the strongest returns in USD terms, while Russia (-4.6%) was the index's worst performing constituent. In USD terms, emerging markets have returned a substantial 17.2% over the past 12 months. Stocks in Latin America outperformed, led by Brazil's 42.8% return, pushing the MSCI Emerging Market Latin America Index 23.3% higher for the 1-year period.

**Quarter Performance**



**1-Year Performance**



**The Market Environment**  
**U.S. Dollar International Index Attribution & Country Detail**  
As of March 31, 2017

MSCI - EAFE	Sector Weight	Quarter Return	1-Year Return
Consumer Discretionary	12.2%	5.3%	8.7%
Consumer Staples	11.4%	9.1%	2.6%
Energy	5.0%	-1.8%	18.8%
Financials	21.3%	7.3%	19.9%
Health Care	10.7%	8.3%	2.1%
Industrials	14.3%	9.1%	14.5%
Information Technology	5.7%	11.7%	20.7%
Materials	7.9%	7.6%	30.4%
Real Estate	3.7%	6.0%	3.9%
Telecommunication Services	4.4%	5.1%	-2.8%
Utilities	3.4%	7.7%	1.5%
<b>Total</b>	<b>100.0%</b>	<b>7.3%</b>	<b>11.7%</b>

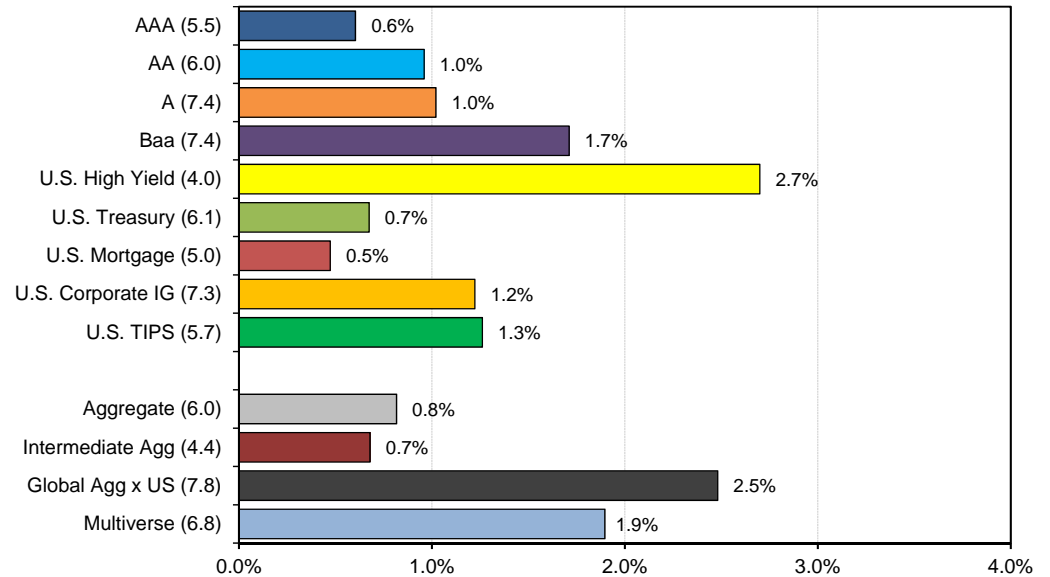
MSCI - ACWIXUS	Sector Weight	Quarter Return	1-Year Return
Consumer Discretionary	11.3%	6.9%	9.1%
Consumer Staples	9.9%	8.6%	2.3%
Energy	6.8%	-0.9%	18.4%
Financials	23.3%	7.5%	18.9%
Health Care	8.0%	8.0%	1.5%
Industrials	11.9%	9.5%	13.9%
Information Technology	9.9%	14.6%	25.9%
Materials	8.0%	8.4%	29.0%
Real Estate	3.2%	6.7%	4.0%
Telecommunication Services	4.5%	6.0%	-0.9%
Utilities	3.2%	8.2%	2.2%
<b>Total</b>	<b>100.0%</b>	<b>7.9%</b>	<b>13.1%</b>

MSCI - Emerging Mkt	Sector Weight	Quarter Return	1-Year Return
Consumer Discretionary	10.4%	12.9%	10.4%
Consumer Staples	6.9%	7.6%	1.6%
Energy	7.3%	4.4%	24.1%
Financials	24.1%	10.0%	22.1%
Health Care	2.4%	5.5%	-2.0%
Industrials	5.9%	13.6%	8.1%
Information Technology	24.5%	17.0%	30.4%
Materials	7.5%	12.1%	27.7%
Real Estate	2.6%	10.5%	7.5%
Telecommunication Services	5.6%	7.6%	3.0%
Utilities	2.8%	10.0%	4.0%
<b>Total</b>	<b>100.0%</b>	<b>11.4%</b>	<b>17.2%</b>

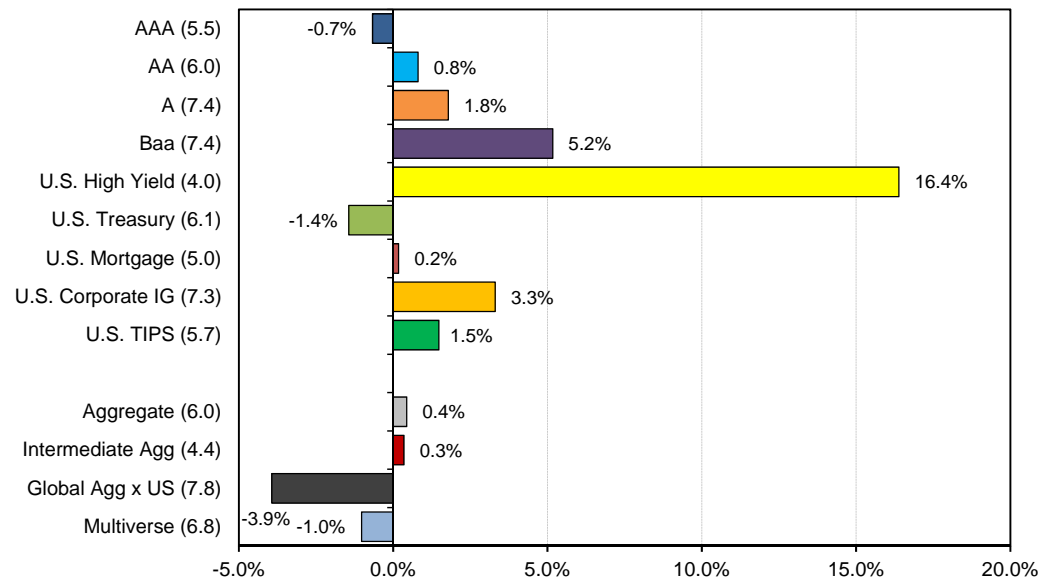
Country	MSCI-EAFE Weight	MSCI-ACWIXUS Weight	Quarter Return	1-Year Return
Japan	23.4%	16.3%	4.5%	14.4%
United Kingdom	17.9%	12.4%	5.0%	7.4%
France	10.2%	7.1%	7.3%	12.4%
Germany	9.5%	6.6%	8.4%	14.2%
Switzerland	8.7%	6.1%	8.3%	9.1%
Australia	7.6%	5.3%	11.0%	21.1%
Hong Kong	3.5%	2.4%	13.4%	16.6%
Netherlands	3.5%	2.4%	11.3%	12.9%
Spain	3.4%	2.3%	14.8%	18.4%
Sweden	2.9%	2.0%	9.5%	10.4%
Italy	2.2%	1.5%	6.2%	7.6%
Denmark	1.6%	1.1%	6.1%	-9.8%
Singapore	1.3%	0.9%	13.5%	9.5%
Belgium	1.2%	0.8%	5.1%	-0.4%
Finland	1.0%	0.7%	7.3%	7.9%
Israel	0.7%	0.5%	5.5%	-11.8%
Norway	0.6%	0.4%	1.4%	13.0%
Ireland	0.5%	0.3%	3.8%	0.6%
Austria	0.2%	0.1%	9.0%	21.9%
New Zealand	0.2%	0.1%	2.0%	8.1%
Portugal	0.2%	0.1%	8.3%	8.6%
<b>Total EAFE Countries</b>	<b>100.0%</b>	<b>69.7%</b>	<b>7.3%</b>	<b>11.7%</b>
Canada		6.9%	2.5%	14.8%
<b>Total Developed Countries</b>		<b>76.5%</b>	<b>6.8%</b>	<b>11.9%</b>
China		6.3%	12.9%	19.7%
Korea		3.5%	16.9%	20.9%
Taiwan		2.9%	11.8%	23.0%
India		2.1%	17.1%	18.4%
Brazil		1.8%	10.4%	42.8%
South Africa		1.6%	4.4%	8.1%
Russia		0.9%	-4.6%	27.6%
Mexico		0.9%	16.0%	-2.8%
Indonesia		0.6%	7.0%	12.5%
Malaysia		0.6%	8.3%	-8.1%
Thailand		0.5%	8.6%	17.6%
Chile		0.3%	15.9%	18.6%
Poland		0.3%	17.8%	3.5%
Philippines		0.3%	6.1%	-7.3%
Turkey		0.2%	10.8%	-16.6%
Qatar		0.2%	1.9%	4.3%
United Arab Emirates		0.2%	2.3%	7.0%
Colombia		0.1%	5.7%	9.2%
Peru		0.1%	5.5%	29.3%
Greece		0.1%	-3.5%	-3.4%
Hungary		0.1%	-0.1%	15.3%
Czech Republic		0.0%	5.7%	-4.5%
Egypt		0.0%	1.8%	-4.2%
<b>Total Emerging Countries</b>		<b>23.5%</b>	<b>11.4%</b>	<b>17.2%</b>
<b>Total ACWIXUS Countries</b>		<b>100.0%</b>	<b>7.9%</b>	<b>13.1%</b>

- Each of the fixed income benchmarks we track posted gains for the 1<sup>st</sup> quarter with the broad market Bloomberg Barclays Aggregate Index returning 0.8% for the period. Short-term market yields rose through the quarter as investors prepared for a widely anticipated 25 basis point (bps) interest rate increase by the Fed. The Fed's second rate hike in six-months was supported by growing inflation and continued improvement in U.S. macroeconomic data. The effect of the interest rate increase was largely "priced in" by the market as participants viewed the move as a sign of continued Fed confidence in the U.S. economic recovery. Fixed income index performance was mixed over the 1-year period with the Bloomberg Barclays Aggregate index returning a muted 0.4% for the period.
- Lower quality bonds outperformed higher quality issues for both the quarter and 1-year period as contracting credit spreads from improvements in economic fundamentals acted as a tailwind to these issues. During the 1<sup>st</sup> quarter credit spreads for high yield debt decreased by 26 bps versus only 5 bps for investment grade corporate issues. AAA issues returned a muted 0.6% over the quarter compared to a solid 1.7% return for Baa issues. High yield debt was the largest beneficiary of these economic trends, returning 2.7% for the quarter and a significant 16.4% for the 1-year period.
- A review of sector performance shows credit and U.S. TIPS outpaced U.S. Treasury and mortgage backed security (MBS) indices. Credit issues benefited from tightening spreads and TIPS strength coincided with higher future inflation expectations. MBS was the worst performing sector for the quarter as the Fed signaled an eventual end to their ongoing reinvestment in agency MBS (shrinking their balance sheet), which caused spreads on MBS to rise 12 bps. Led by a weakening USD, global bond indices posted solid results for the quarter. Fixed income returns over the 1-year period are mixed with the corporate and TIPS segments outpacing Treasury and MBS issues. Despite a strong quarter, global bond returns trail domestic indices over the 1-year period with the Bloomberg Barclays Aggregate ex U.S. returning -3.9% for the period.
- The Fed indicated future rate increases will be implemented at a measured pace based on an ongoing assessment of current economic data. However, future policy action by the Trump administration and global economic developments will also likely impact the pace of future interest rate increases. Current market expectations are for two additional interest rate increases in 2017.

**Quarter Performance**



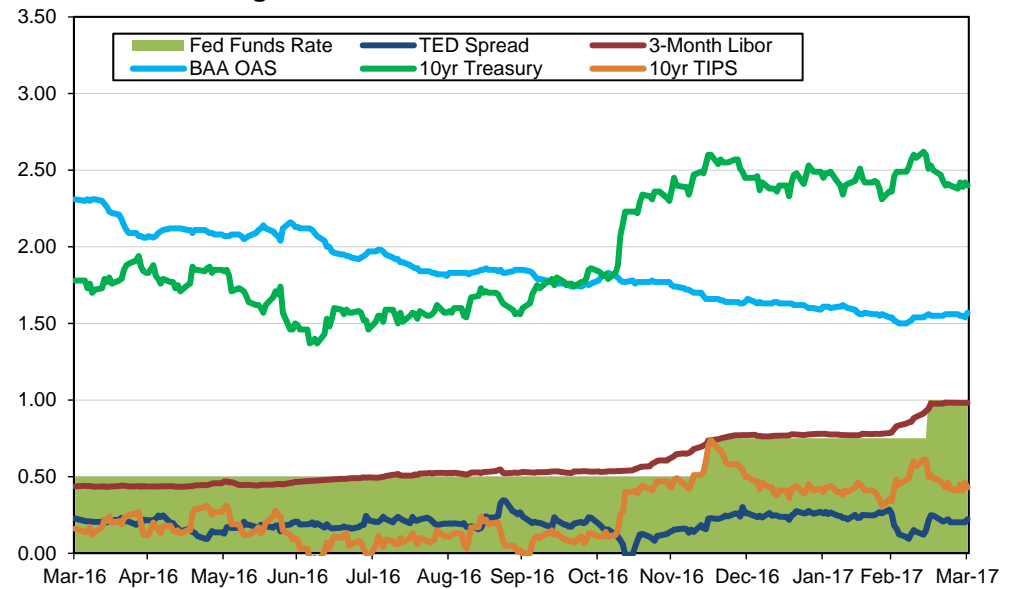
**1-Year Performance**





- Much of the index performance detailed in the bar graphs on the previous page is visible on a time series basis by reviewing the line graphs to the right. The '1-Year Trailing Market Rates' chart illustrates that after trading in a tight range for most of 2016, the 10-year Treasury yield (green line) rose dramatically in the 4<sup>th</sup> quarter of 2016 but held largely steady during the 1<sup>st</sup> quarter of 2017. After closing 2016 with a 2.45% yield, the 10-year Treasury finished the 1<sup>st</sup> quarter at a slightly lower 2.40%. The blue line illustrates changes in the BAA OAS (Option Adjusted Spread). This measure quantifies the additional yield premium that investors require to purchase and hold non-Treasury issues. This line illustrates a steady decline in credit spreads throughout 2016 and into 2017. This decline is equivalent to an interest rate decrease on corporate bonds, which produces a tailwind for corporate bond index returns. These credit spreads have tightened by about 75 bps over the last 12-months. The green shading at the bottom of the graph illustrates the continued increase in the Federal Funds Rate due to a less accommodative Fed monetary policy.
- The lower graph provides a snapshot of the U.S. Treasury yield curve at each of the last four calendar quarters. The yield curve flattened throughout the 1<sup>st</sup> quarter as yields on shorter-term maturities rose during the period, while interest rates on the long end of the curve (beyond 5-years) exhibited marginal declines. While interest rate movement during the during 1<sup>st</sup> quarter were relative small, the significant upward shift in interest rates since June of 2016 is clearly visible. Yields on the 3-month Treasury Bill have increased by 50 bps since June 30, 2016 and yields on the 30-year Treasury Bond have jumped by more than 70 bps over the same period.
- Despite the rise in short-term interest rates, most fixed income indices finished the 1<sup>st</sup> quarter in positive territory. In a rising rate environment, it is generally expected that longer-duration market indices will fall more than equivalent lower-duration benchmarks. However, the magnitude of interest rate shifts across the term structure and spread movements can lead to atypical short-term results. Finally, while global benchmarks are impacted by the same local yield and duration factors as domestic benchmarks, the returns of these indices are also significantly influenced by fluctuations in their currency denomination relative to the USD. This currency effect can either be an offsetting benefit to negative yield and duration factors in a rising rate environment as it was during the 1<sup>st</sup> quarter, or it can further exacerbate negative performance as it did in 2016.

1-Year Trailing Market Rates



Treasury Yield Curve

