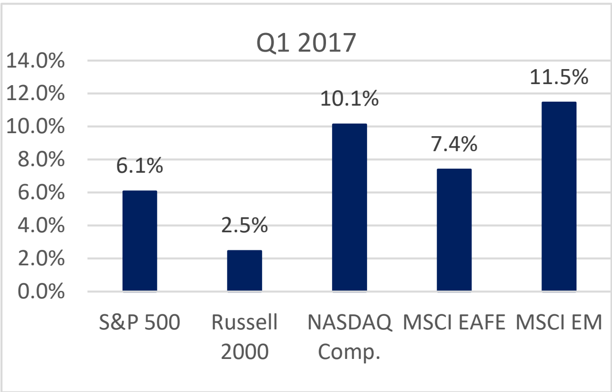
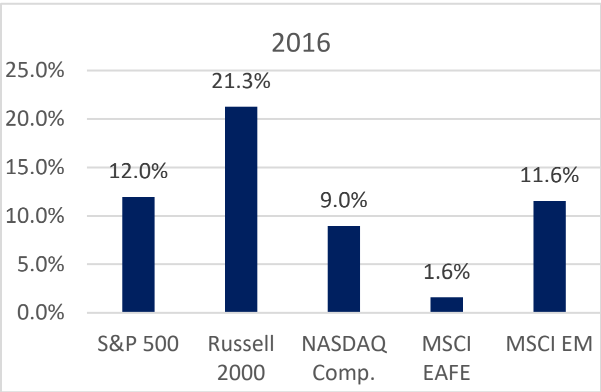
Global Financial Private Capital

EXECUTIVE SUMMARY

Equity Markets

U.S. equity markets followed up stellar returns from 2016 with more gains in the first quarter of 2017. The S&P 500 Index, Russell 2000 Index, and Nasdaq Composite all recorded new all-time highs during the first quarter of the year. There was some shift in leadership among the major indices with the Nasdaq Composite standing out in the first quarter after it lagged in 2016. Small-cap stocks, as measured by the Russell 2000, had market-leading results in 2016, but only modest gains to begin the new year. Developed market equities turned in solid results in the first quarter easily surpassing 2016 returns. Meanwhile, emerging market stocks enjoyed some of the best results of any asset class in first quarter of 2017. International returns were aided by a U.S. dollar that weakened in the first quarter after rallying sharply in the fourth quarter of 2016. (For more details on the equity markets, please turn to page 9.)

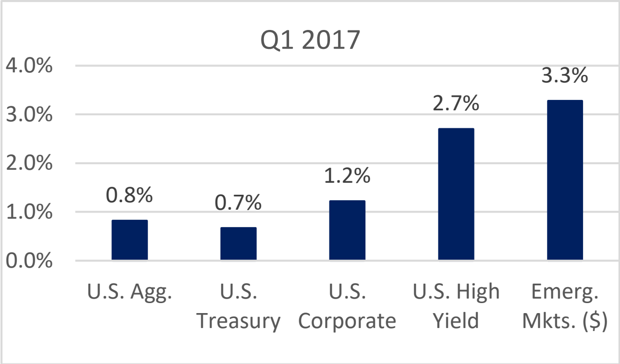


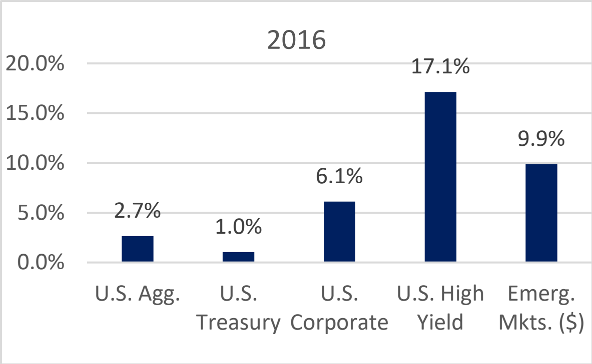


Source: Bloomberg as of 3/31/17.

Fixed Income

After struggling in the fourth quarter of 2016, bonds enjoyed better results in the first quarter of 2017. Yields rose sharply following the presidential election, which put pressure on bond prices to close out the year. Despite that late-year headwind, most fixed income sectors were able to produce positive full-year results in 2016. The yield on the 10-year U.S. Treasury stayed rather range bound in the first quarter of 2017, declining only modestly over the three-month stretch. However, this environment allowed most fixed income sectors to enjoy positive gains to begin the new year. Similar to 2016, high-yield bonds and emerging market debt led bond market returns, but gains were widely enjoyed across a variety of fixed income sectors in the first quarter of 2017. (For more details on the fixed income markets, please turn to page 12.)

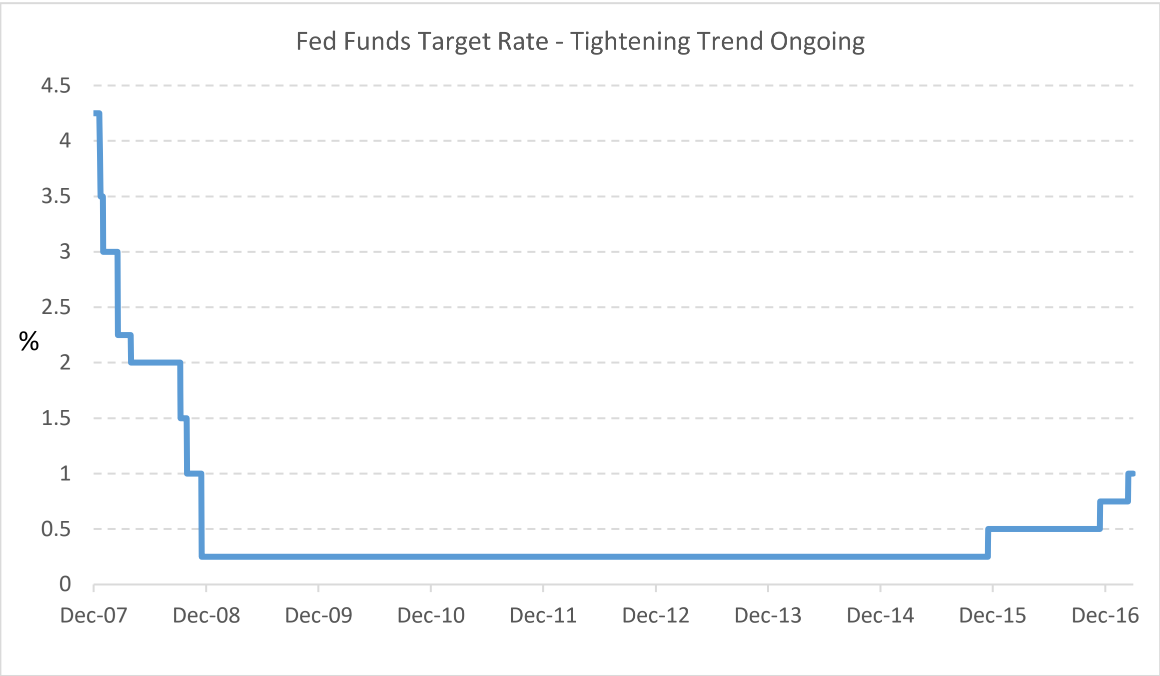




Source: Bloomberg Barclays Indices via Bloomberg as of 3/31/17.

Key Public Policy/Economic Item

Following the credit crisis, the Federal Reserve (Fed) implemented significant stimulus measures to try to spur economic activity. Clearly, the U.S. economy has improved following that very challenging time period and the Fed has been removing policy accommodation and moving down the path of higher policy rates of late. The Fed operates monetary policy under a dual mandate of full employment and price stability with an inflation objective of 2%. We have talked repeatedly about improvements that have taken place in the job market following the credit crisis and the full employment side of the mandate has clearly come closer to being achieved. Price level changes have also started to approach the 2% inflation policy goal. The Fed raised policy rates in two of its last three meetings and we believe the Fed will raise policy rates at a faster pace in 2017 than it did in 2015 or 2016. However, we think this should be interpreted as a positive development with policymakers believing the U.S. economy is strong enough to handle higher policy rates moving forward. (For more details on public policy and the economy, please turn to page 4.)



Source: Bloomberg as of 3/31/17. Federal Funds Target Rate - Upper Bound.

Introduction

Following the surprise election victory by President Trump in November, U.S. equity markets accelerated to new all-time highs in the fourth quarter, so a letdown in the first quarter of 2017 would have been understandable. However, the opposite occurred during most of the first quarter. U.S. equity markets rallied once again following the inauguration and most major U.S. equity indices posted multiple new all-time highs during the quarter. An expected more business-friendly administration, driven by the themes of less regulation, lower taxes and increased infrastructure spending, seemed to be the overriding tailwind driving markets to new highs at the outset of the year.

Most major U.S. equity indices posted multiple new all-time highs during the quarter.

However, the latter part of March saw some equity market weakness and capital market volatility coinciding with the failure to repeal and replace Obamacare (the more commonly used term for the Affordable Care Act). The inability to pass healthcare reform seemed to be a sort of “reality check” that implementing President Trump’s ambitious public policy initiatives might encounter some roadblocks along the way. U.S. equities had rallied strongly since the election due in large part to expected policy reforms, so this weakness to close out the quarter was not unexpected after one of these key agenda items, healthcare reform, failed to be resolved.

Meanwhile, economic readings in the U.S. supported equity market strength to begin 2017. Job market, consumer confidence, personal spending, manufacturing and service sector readings were among several indicators that reflected economic strength in the first quarter – some of which achieved levels not seen in years. While the U.S. equity market rally seemed to be largely driven by the anticipation of upcoming public policy initiatives, data showed a strong economic backdrop as well to begin the new year. We believe U.S. economic fundamentals are solid and the probability of a recession in 2017 is low.

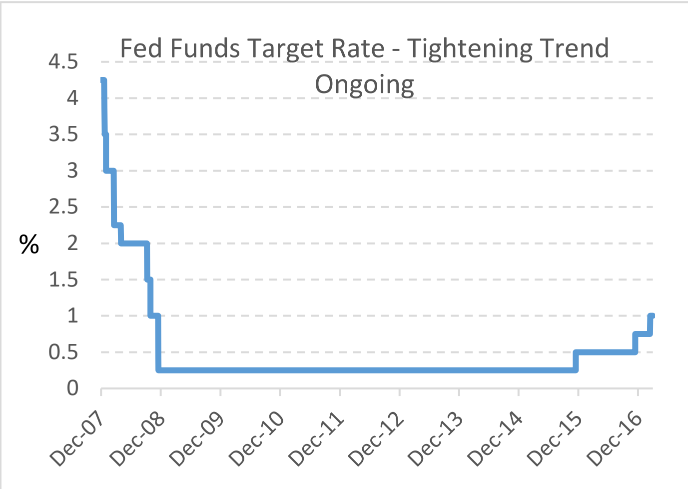
This improved economic environment allowed the Federal Reserve (Fed) to follow up its rate increase in December 2016 with another increase in March 2017. The Fed has started down the tightening path, but the very measured pace of hikes in 2015 and 2016 (one single increase in each year) is now giving way to what appears to be a more rapid move higher in policy rates in 2017. There are two scheduled meetings for the Federal Open Market Committee (FOMC) in the second quarter of 2017, in early May and mid-June, and markets will watch closely for any indications by policymakers of the timing and amount of Fed rate hikes that might occur throughout the year.

Clearly, we are still in the very early stages of President Trump’s administration and it will take some time for policy goals and initiatives to be implemented. The path will likely be a choppy one, as evidenced by the first major policy initiative attempting to repeal and replace Obamacare. Europe could supply additional uncertainty moving through 2017 with France holding elections in the second quarter and Germany doing the same later this year. Divergent central bank policies with the U.S. tightening rates and most of the world still in easing mode could lead to some differentiation of asset class returns and additional capital market volatility as well. Although it was largely absent in the first quarter, we maintain our expectation that capital market volatility will likely pick up as we move throughout the year.

This Global Quarterly Focus for the first quarter of 2017 will review key public policy and economic developments from the last three months and their impact on capital markets during the quarter. Furthermore, we will also review some items that we believe will be important to monitor as we move through 2017.

Public Policy – Monetary and Fiscal Policy Developments in Q1

The Federal Reserve (Fed) met twice in the first quarter, leaving rates unchanged at its February meeting, but raised rates by 25 basis points in March, with both decisions widely expected. The quarter ended with the Fed Funds Target Rate at its highest level, 1.0%, since 2008.

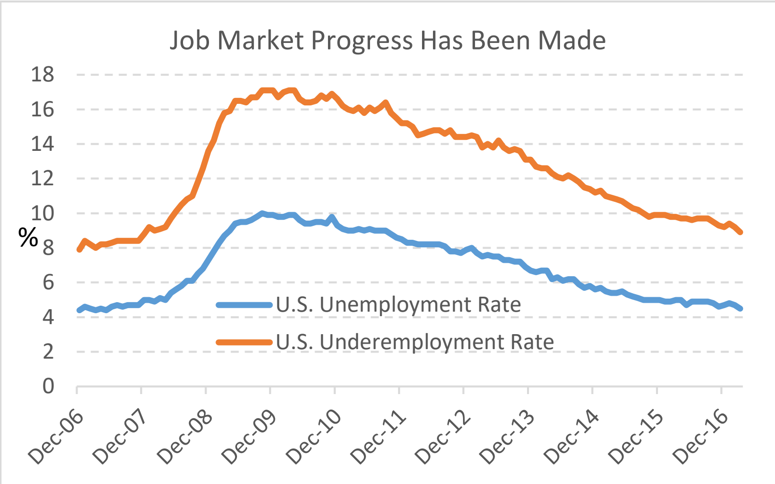


Source: Bloomberg as of 3/31/17. Federal Funds Target Rate - Upper Bound.

Clearly, recent improvements in the U.S. economy have led the Fed to feel emboldened to start moving policy rates higher. We believe the Fed raising rates in 2017 should be viewed as policymakers trying to get rates back to more normal long-term levels and away from the suppressed interest rates from the crisis era. Said another way, rising policy rates should be viewed as a good thing with Fed officials feeling more confident about the U.S. economy. We expect additional rate hikes will likely take place in 2017 if economic data continues to reflect an improving job market and inflation levels continue to move closer to the 2% policy objective.

The Fed operates monetary policy under a dual mandate of full employment and price stability. The job market has clearly improved in recent years and, while not specifically defined, it is fair to say the U.S. has moved closer to the full-employment objective. Several job market indicators show this improvement following the credit crisis, two of which are the unemployment and underemployment rates. The unemployment rate is one of the most widely used measures of the job market and while there might be some fair criticisms to this reading, the trend clearly shows improvements that have taken place in recent years. After peaking at 10% unemployment at the height of the credit crisis, the unemployment rate in the U.S. has been cut by more than half and stood at 4.5% in March 2017. This was the lowest level for the unemployment rate since May 2007.

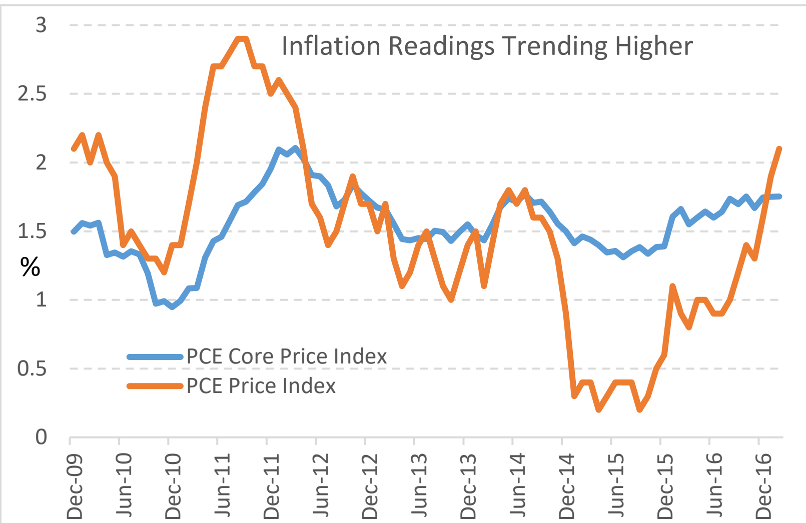
Additionally, the underemployment rate has significantly improved since the height of the credit crisis. This is a broader look at unemployment as it includes the unemployment rate, but also accounts for part-time workers that want full-time jobs and those marginally attached to the labor force. This peaked above 17% at the height of the credit crisis, but it slipped to 8.9% in March 2017. This was the best level for the underemployment rate since December 2007. Clearly, both of these indicators reflect significant improvements that have taken place in the job market since the credit crisis.



Source: Bloomberg as of 3/31/17. U-3 U.S. Unemployment Rate Total % in Labor Force & U.S. U-6 Unemployed & Part Time & Marginally Attached % Labor Force, both seasonally adjusted.

Public Policy – Monetary and Fiscal Policy Developments in Q1 *(continued)*

The other side of the Fed's mandate, price stability, has also been getting closer to the 2% inflation objective. The Fed's preferred measure of inflation is the personal consumption expenditures (PCE) price index and its core level, while below the 2% mark, has moved closer to that level over the last year and a half. As is evident on the graph, headline inflation readings are more volatile than core readings and it is understandable why policymakers focus on this aspect of price level changes when making policy decisions. On a headline basis, the PCE price index increased in February to 2.1% - the first time since 2012 the annual gain for this index has been above the 2% mark.



Source: Bloomberg as of 2/28/17. U.S. Personal Consumption Expenditures (PCE) Chain Type Price Index and U.S. PCE Core Price Index, both year-over-year % change and seasonally adjusted.

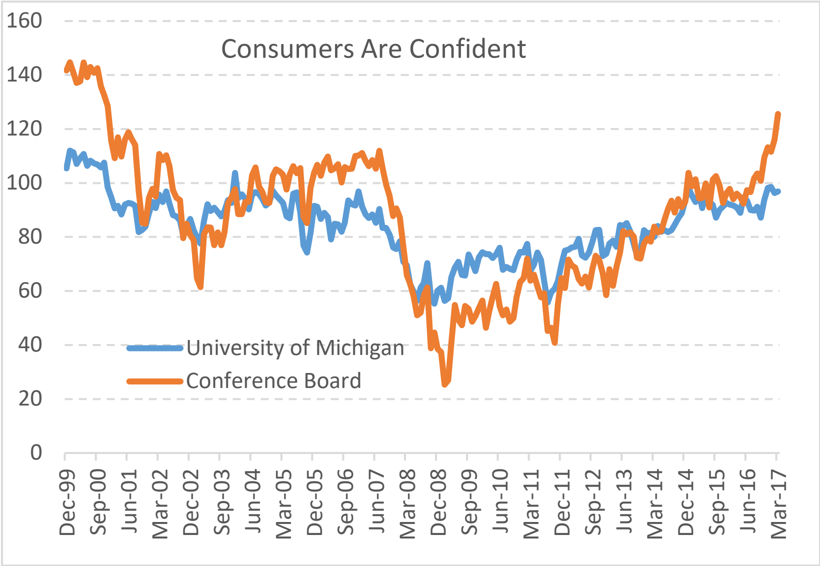
The Fed seems to be ceding the reins as the primary public policy driver of economic support to fiscal authorities after doing the heavy lifting following the credit crisis. Following the credit crisis, most global central banks were focused on spurring stronger economic growth through monetary policy endeavors, like low interest rates and quantitative easing, while fiscal policy took more of a back seat. The U.S. now seems to be shifting to fiscal policy initiatives as the Fed has been ratcheting up policy rates over the last year or so. Fiscal support to the U.S. economy could come from lower taxes and more infrastructure spending, both of which are policy priorities for the Trump administration. However, these policy initiatives have yet to be implemented, so it will be important to monitor how and when fiscal policy initiatives come into effect. Again, some of the equity market weakness in late March could be attributed to the failure to pass the first major policy endeavor of repealing and replacing Obamacare.

Monetary and fiscal policies are shifting in the U.S. and how well this policy support hand-off from monetary to fiscal authorities takes place could be an important determinant to ongoing economic growth and capital market progress. Capital market volatility might pick up as there will likely be bumps along the way to implementing fiscal stimulus initiatives.

A final note on the political front in the first quarter – as expected, the United Kingdom formally invoked Article 50 in late March, which begins the two-year process of pulling out of the European Union. This was widely expected to be triggered following the Brexit vote last summer. These will likely be contentious negotiations between the British and the EU, as they try to determine how they will work with one another following the split. Clearly, the British want the best outcome for their people, but the EU will be motivated to make sure the U.K. does not get a better deal outside of the EU construct than it had as a member. We will continue to watch the Brexit developments over the next two years.

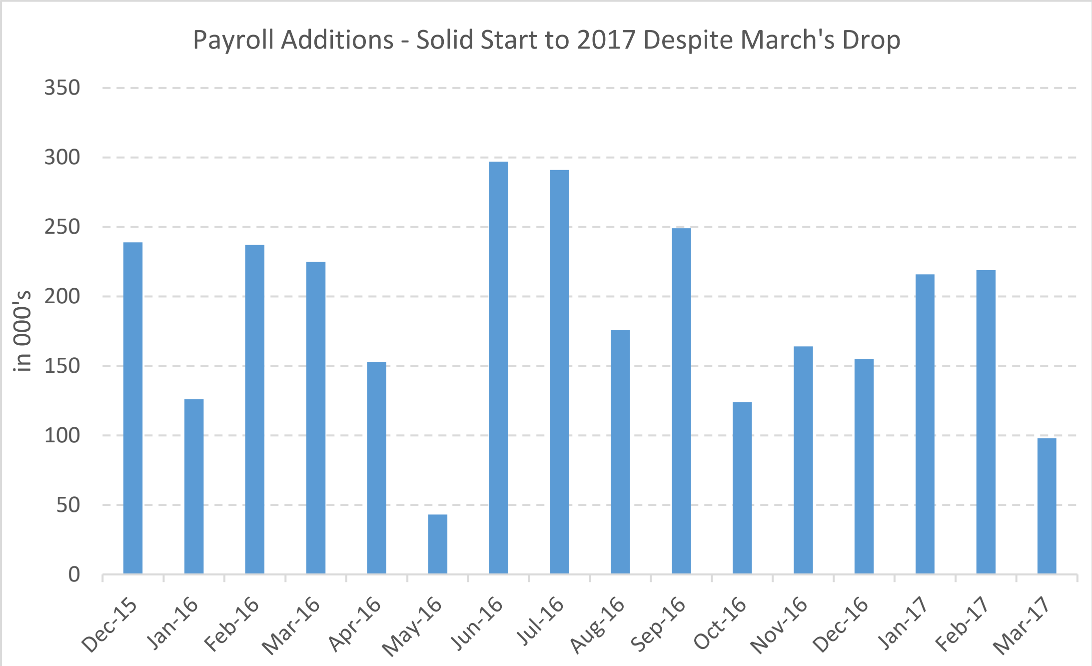
U.S. Economy – Positive Momentum Continues

Consumer confidence remained among the strongest economic indicators during the first quarter. The Conference Board's consumer confidence reading was well above expectations in March and accelerated to its highest level since the year 2000. The consumer sentiment reading from the University of Michigan remained elevated in March and ticked higher from the February mark. Although not at a multi-year high, this reading held near its best level in more than a decade. These two indicators are reinforcing the idea that consumers are as confident as they have been in many years.



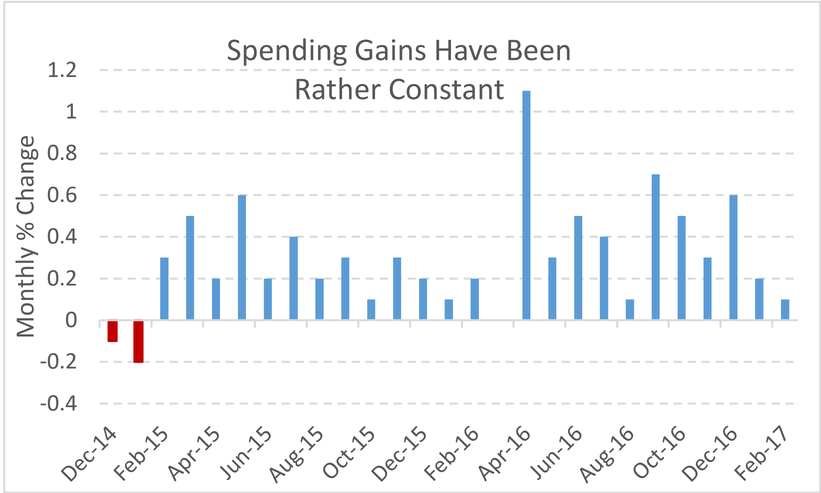
Source: Bloomberg as of 3/31/17. University of Michigan Consumer Sentiment Index, not seasonally adjusted & Conference Board Consumer Confidence, seasonally adjusted.

One clear driver of consumer confidence in recent years has been improvements in the job market. It stands to reason that an employed consumer is more confident and willing to spend and this dynamic has been an important driver of economic growth over the last few years. Further supporting the already discussed unemployment and underemployment rates (see corresponding graph on page 4), non-farm payroll additions started 2017 on a strong note. Payroll additions surpassed 215,000 in both January and February. March showed a gain of just 98,000, which was well below expectations. While still subject to revision, payroll gains averaged just over 177,000 per month during the first quarter and, in aggregate, showed a solid start to the year.



Source: Bloomberg as of 3/31/17. U.S. Employees on Nonfarm Payrolls Total, month over month net change, seasonally adjusted, in 000's.

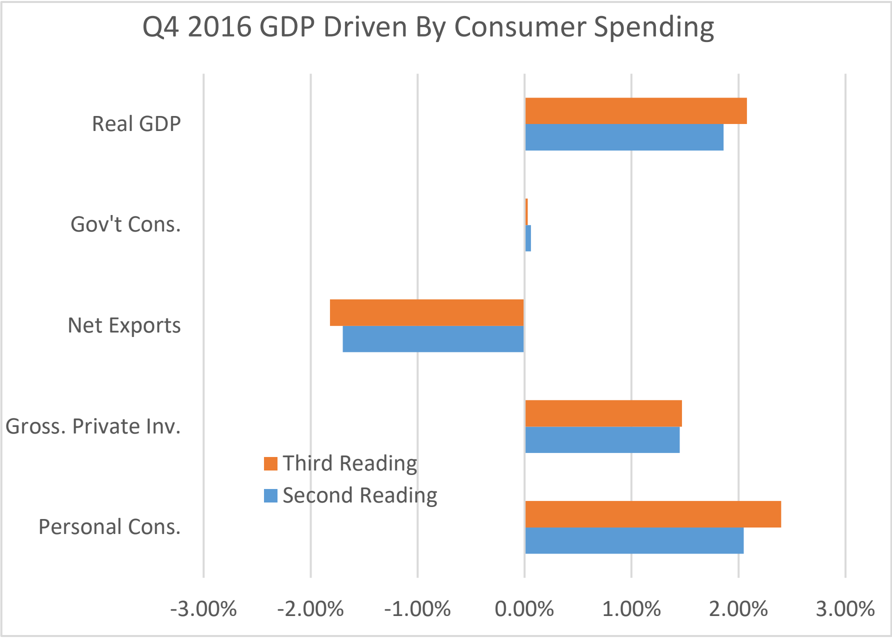
U.S. Economy – Positive Momentum Continues (*continued*)



Source: Bloomberg as of 2/28/17. U.S. Personal Consumption Expenditures Nominal Dollars, month-over-month % change, seasonally adjusted.

Consumer spending has continued to show monthly gains for almost a two-year stretch. Household consumption is a critical part of U.S. economic growth and the employed and confident consumer has been willing to spend in recent years. This reading, which tracks the monthly increase or decline in consumer spending, has shown a gain every month since February 2015 with the exception of March 2016, which showed no change. However, it is also worth acknowledging that the gains in January and February were modest. This reading is also not adjusted for inflation, so higher prices can look like more spending, but it does provide some insight on consumer expenditures. It will be important to see if spending continues to show monthly gains and whether these gains accelerate moving through the second quarter.

Fourth quarter 2016 gross domestic product (GDP) growth showed once again the key role that consumer spending has in U.S. economic progress. The third revision to Q4 GDP revealed more personal spending than estimated in the second reading and this helped boost the fourth quarter growth number higher than the prior estimate. This was another quarter when personal consumption grew itself more than the overall GDP growth rate, meaning the other three major categories that comprise GDP were collectively negative, hampered by negative net exports.

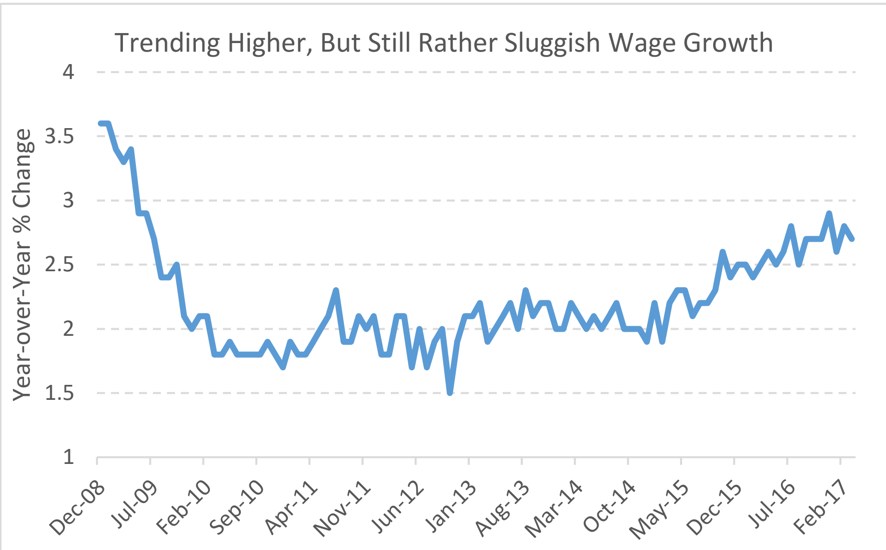


Source: Bloomberg. U.S. Fourth Quarter Third GDP: Statistical Summary (Table). Released 3/30/17. Contribution to Change in GDP. (The four lower components sum up to total the Real GDP number, which is a seasonally adjusted annual rate.)

U.S. Economy – Positive Momentum Continues (*continued*)

Wage growth is another important element to consumer spending. Wage growth was sluggish following the credit crisis because unemployment was high and companies did not need to compete with wages with an abundant supply of labor available. However, as the job market has improved post-credit crisis, wage growth has started to improve as well. Beginning in 2015, wages began trending higher and the year-over-year gain stood at 2.7% in March 2017. This level was just below the 2.9% annual increase in December 2016, which was the highest annual increase since 2009. While wage growth has still been subdued, the trend has been heading in the right direction over the last couple of years.

Clearly, how the consumer goes is a key determinant to how the U.S. economy goes. Job market improvements, increasing wages and elevated confidence have led to a spending consumer that has driven economic growth in recent years.



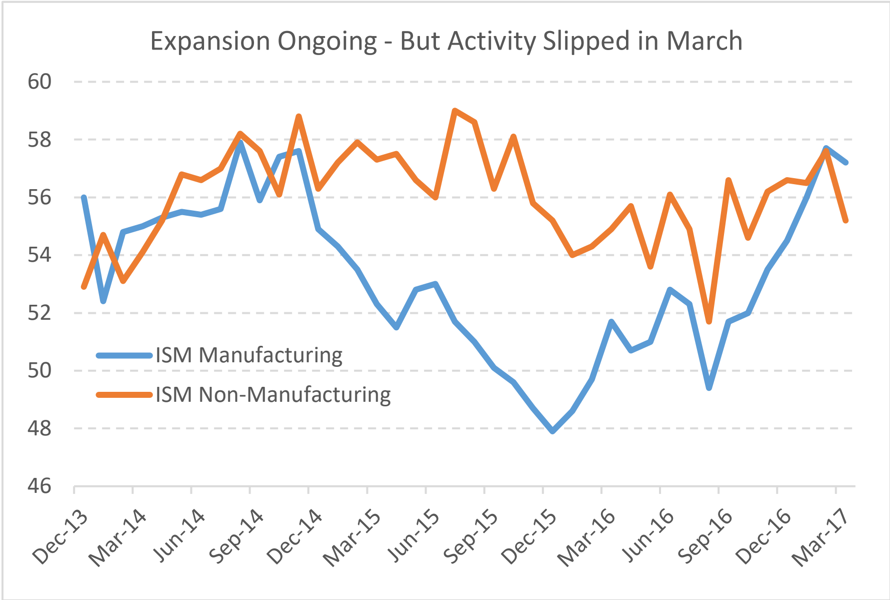
Source: Bloomberg as of 3/31/17. U.S. Average Hourly Earnings All Employees Total Private Yearly % Change, seasonally adjusted.

Manufacturing and Service Industry Growth Accelerated Through February

Manufacturing has been on an upward trajectory in recent months as well. The Institute for Supply Management (ISM) manufacturing index improved every month from September 2016 through February 2017 indicating progressively stronger rates of manufacturing expansion. Although this index dropped modestly in March, the February mark was the best level for this index since August 2014. The Trump administration has made improving the manufacturing sector a key focus but it is important to acknowledge that this sector has already been on an upswing over the last several months.

Manufacturing and Service Industry Growth Accelerated Through February (*continued*)

Service industries also improved in January and February. The ISM non-manufacturing index, which covers the much larger service industries in the U.S. economy, hit its best level in over a year in February. However, this reading dropped lower in March but remained comfortably in expansionary territory. Since this reading covers a much broader part of the U.S. economy, it will be important to monitor how it trends over the next few months. Recall for the ISM indices that readings above 50 indicate expansion and those below 50 signal contraction.



Source: Bloomberg as of 3/31/17. Institute for Supply Management (ISM) manufacturing index (seasonally adjusted) & ISM non-manufacturing index (non-seasonally adjusted.)

Capital Markets – Broad Gains Enjoyed in the First Quarter

U.S. equity markets continued to march higher in the first quarter of 2017 after solid gains in 2016. However, there was a shift among the major U.S. equity indices regarding what led in 2016 versus what led in the first quarter of 2017. Small-cap stocks, as measured by the Russell 2000 Index, were the clear standout last year with gains outpacing the other major indices. However, in the first quarter, small caps showed the most modest returns of U.S. equites. The NASDAQ Composite was a laggard in 2016 with returns for the year below 10%, but this index was able to surpass that number in the first quarter alone this year. From a style perspective, value stocks dominated in 2016. Based on the index in the table below, value stock returns were more than two times the results of growth stocks last year. Now the contrary holds true as growth stocks enjoyed better than two times the results of value stocks to begin 2017. Overall, the story with U.S. equities was the same in the first quarter as it was in 2016 with generally strong returns. However, leadership came from different parts of the equity markets when looking at these two various time periods.

U.S. Equity Index Returns	Q1 2017	2016
S&P 500	6.1%	12.0%
Russell 2000	2.5%	21.3%
NASDAQ Comp.	10.1%	9.0%
Dow Jones	5.2%	16.5%
Russell 3K Growth	8.6%	7.4%
Russell 3K Value	3.0%	18.4%

Source: Bloomberg as of 3/31/17. Total return.

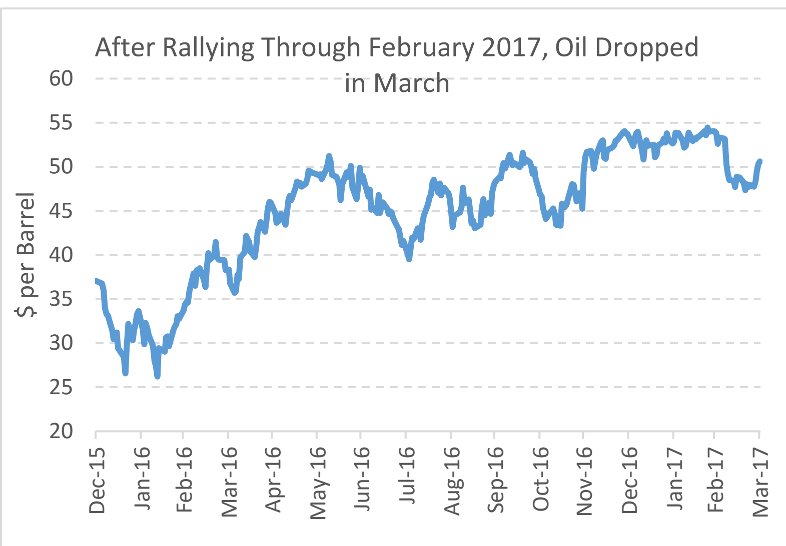
Capital Markets – Broad Gains Enjoyed in the First Quarter (*continued*)

Sector results showed dispersion as well when looking at first quarter results compared to returns from last year. First and foremost, the best three sectors from 2016, energy, telecom services and financials (all returning more than 22%), were the worst three sectors in the first quarter of 2017. Furthermore, energy and telecom services were the only two sectors to begin the new year with negative results for the quarter. Additionally, health care, which was the only negative sector in 2016, enjoyed the third best results in the first quarter of 2017 from a sector perspective. Clearly, there was some shifting among the sector returns from 2016 to the first quarter of 2017.

S&P 500 Sector Returns	Q1 2017	2016
Info. Technology	12.6%	13.9%
Cons. Discretionary	8.5%	6.0%
Health Care	8.4%	-2.7%
Utilities	6.4%	16.3%
Cons. Staples	6.4%	5.4%
Materials	5.9%	16.7%
Industrials	4.6%	18.9%
Real Estate	3.5%	1.1%
Financials	2.5%	22.8%
Telecom Services	-4.0%	23.5%
Energy	-6.7%	27.4%
S&P 500 Index	6.1%	12.0%

Source: Bloomberg as of 3/31/17. Total return.

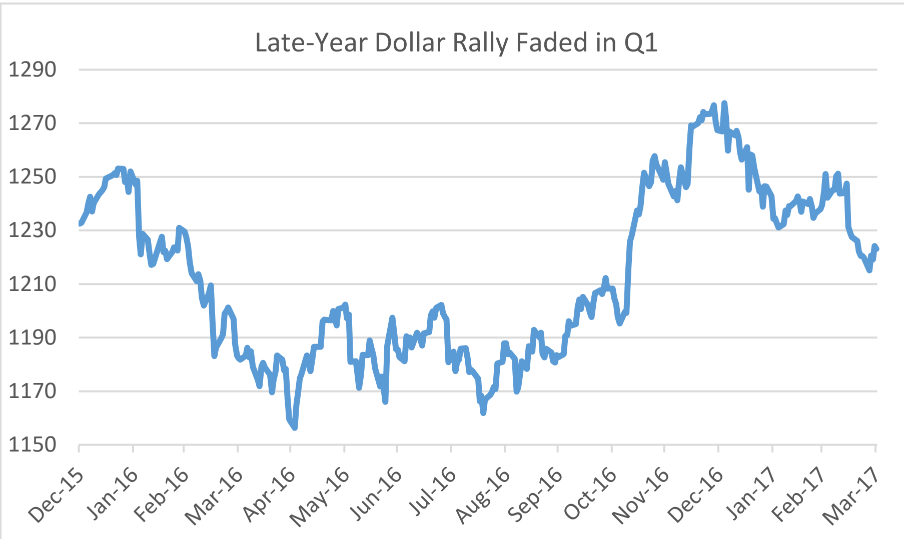
Although energy was the weakest of the S&P 500 sectors in the first quarter, it is noteworthy that oil prices continued their recent trend upward into the latter part of February. However, oil also sold off in March to its lowest level since November 2016, so there was some volatility in oil prices to close out the quarter. It is important to recall that oil prices more than doubled by the end of 2016 from a low point in February 2016 of just above $26 per barrel and this gain in oil prices was an important driver of energy sector returns in 2016.



Source: Bloomberg as of 3/31/17. Generic 1st "CL" Future; crude oil futures contract $ per barrel.

Capital Markets – Broad Gains Enjoyed in the First Quarter (*continued*)

International equities enjoyed a tailwind of U.S. dollar weakness to post strong results for the quarter. After rallying sharply following the presidential election in November, the U.S. dollar slid lower in the first quarter of 2017. The U.S. dollar remains strong from a longer-term perspective driven in part by a Fed that is in tightening mode, while most of the rest of the world is still expanding monetary accommodation. Dollar weakness aids the returns of non-dollar holdings for U.S.-based investors because the foreign currency can buy more of the weaker dollar when returns are translated back to a U.S.-dollar basis.



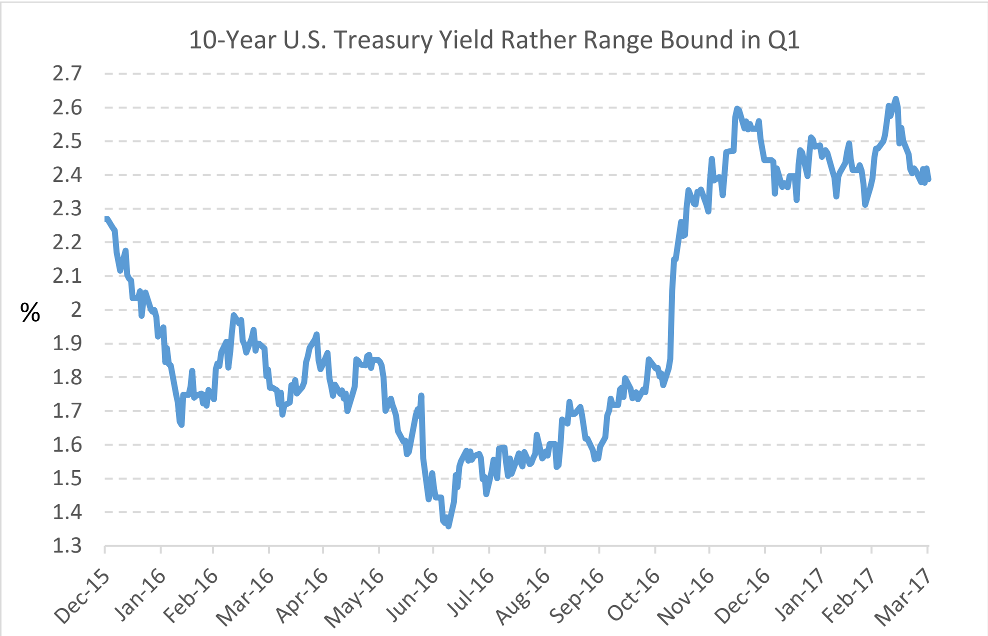
Source: Bloomberg as of 3/31/17. Bloomberg Dollar Spot Index. A basket of 10 currencies versus the U.S. dollar that includes both emerging and developed market currencies.

Overall, international equities enjoyed a strong start to the year. International developed market equities easily surpassed their 2016 returns after only the first three months of 2017. Emerging market equities had some of the best gains of any asset class in the first quarter posting returns that were just shy of their entire 2016 results.

International Equity Returns	Q1 2017	2016
MSCI EAFE	7.4%	1.6%
MSCI Emerg. Mkts.	11.5%	11.6%
Source: Bloomberg as of 3/31/17.		

Bonds Turn in Q1 Gains after Weak Q4 Results

The yield on the 10-year U.S. Treasury rose sharply as bond prices slumped following the presidential election through the end of 2016. The fourth quarter of 2016 saw yields increase and most bond sectors (outside of high-yield) turned in negative results in the fourth quarter. Contributing to bond weakness in the fourth quarter was the expectation that the newly elected Trump administration's policies could lead to stronger growth and that the potential infrastructure spending program could also be inflationary. On top of that, the U.S. was already shifting to a Fed that was in a rate-tightening mode.



Source: Bloomberg as of 3/31/17. U.S. Generic Gov't 10-Year Yield.

In the first quarter of 2017, the yield on the 10-year U.S. Treasury stayed rather range bound, but it ultimately declined during the quarter as bond prices moved higher. The yield did peak above 2.6% briefly in March and there was some question whether rates would continue their rise. However, following the failure of health care reform and equity market weakness in mid-March, U.S. Treasuries rallied and yields fell from that point to close out the quarter.

Ultimately, the yield on the 10-year U.S. Treasury slipped about six basis points for the quarter, and positive returns were enjoyed in most fixed income sectors to begin the new year. High-yield bonds and emerging market debt followed up strong returns in 2016 with solid gains in the first quarter of 2017 and led the bond market higher at the outset of 2017.

Fixed Income Returns	Q1 2017	2016
Bloomberg Barclays U.S. Agg.	0.8%	2.7%
Bloomberg Barclays U.S. Treasury	0.7%	1.0%
Bloomberg Barclays U.S. Corporate	1.2%	6.1%
Bloomberg Barclays U.S. High Yield	2.7%	17.1%
Bloomberg Barclays EM USD Agg.	3.3%	9.9%
Source: Bloomberg as of 3/31/17. Total return.		

SUMMARY

The first quarter of 2017 turned out to be a solid one for the capital markets. The middle part of the quarter – roughly from the presidential inauguration until before the failed Obamacare reform – was when most of the equity market progress was made. More all-time highs were achieved in the first quarter for the major U.S. equity market indices. The ambitious and business-friendly policy expectations from the Trump administration led in large part to the post-election and post-inauguration rally in U.S. stocks. However, the inability to pass health care reform in March contributed to late-quarter equity market weakness. When it was all said and done, the quarter was a strong one for global equity markets, which followed on the heels of strong gains in 2016.

We continue to believe that the Fed raising rates should be viewed as a positive sign that policymakers are feeling more confident about the U.S. economy.

The U.S. economy continued to show strength as well to begin the new year. Several economic data points hit multi-year highs during the quarter. Manufacturing continued to accelerate, unemployment fell lower, and consumer confidence soared. Although the quarter was largely positive from an economic perspective, many releases slipped lower in March. One month does not necessarily indicate a trend and some moderation in economic data after such a strong recent period is understandable. However, it will be important to continue to monitor incoming economic data.

The U.S. economy could also get a boost if some of the policy goals of the Trump administration begin to be solidified and implemented. The anticipation of lower taxes, less regulation and more infrastructure spending helped markets rally to new highs, but it takes time for policy ideas to be implemented. The inability to repeal and replace Obamacare was a reminder that passing legislation for policy initiatives could be rather bumpy in the current political climate in Washington D.C.

As the economy has marched forward, it has emboldened the Fed to raise policy rates. We continue to believe that the Fed raising rates should be viewed as a positive sign that policymakers are feeling more confident about the U.S. economy. Additional rate hikes are expected in 2017 with the economy improved and inflation levels moving closer to policy objectives. More economic support could come from the fiscal side of the equation (i.e. lower taxes and more infrastructure spending), but that has yet to materialize in 2017. How this hand-off between monetary policy and fiscal policy takes place could be an important factor in ongoing economic progress.

Overall, the first quarter was a strong one for the U.S. economy and capital markets. Asset classes across the board turned in positive gains for the quarter. The U.S. economy is providing a solid backdrop for equity market progress, but some of the anticipated policy endeavors have yet to be implemented. Policy missteps could be treated with more capital market volatility, as was the experience with the failure to pass healthcare reform. (It is interesting to note that equity market volatility, as measured by the VIX Index, rose to its highest level since November 2016 in the first part of April per Bloomberg.) With equity markets near all-time highs and valuations extended, more capital market volatility might be the experience with public policy and international uncertainties persisting in 2017.

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