THOUGHTS FROM THE INVESTMENT COMMITTEE

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CAPITAL MANAGEMENT

OUR CORE PURPOSE:
To bring clarity and confidence to our clients about all aspects of their financial lives, and to help them achieve and maintain a secure financial future.

2017 Market Review

At the beginning of 2017, a common view among money managers and analysts was that the financial markets would not repeat their strong returns from 2016. Many cited the uncertain global economy, political turmoil in the US, implementation of Brexit, conflicts in the Middle East, North Korea's weapons buildup, and other factors. The global equity markets defied their predictions, with major equity indices in the U.S., developed ex-U.S., and emerging markets posting strong returns for the year.

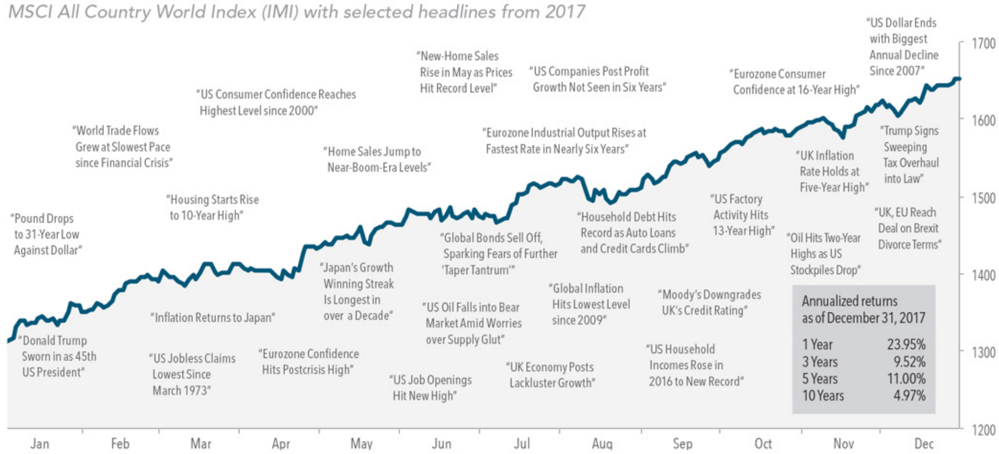
The broad global advance underscores the importance of following an investment approach based on diversification and discipline rather than prediction and timing. Attempting to predict markets requires investors to not only accurately forecast future events, but also predict how markets will react to those events. The 2017 markets were a good reminder that there is little evidence suggesting either of these objectives can be accomplished on a consistent basis.

Instead of attempting to make predictions about future events, investors should appreciate that today's price reflects the expectations of market participants and information about future expected returns. The following quote by the late Merton Miller, Nobel Laureate, describes this view:

"Everybody has some information. The function of the markets is to aggregate that information, evaluate it, and get it incorporated into prices." - Merton Miller

World Stock Market Performance

MSCI All Country World Index (IMI) with selected headlines from 2017



Source: MSCI.
Past performance is not a guarantee of future results. In US dollars, net dividends. Index is not available for direct investment. Performance does not reflect the expenses associated with management of an actual portfolio.

The chart above highlights some of the year's prominent headlines in the context of global stock market performance as measured by the MSCI All Country World Index-Investable Market Index (MSCI ACWI

IMI). These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

WORLD ECONOMY

In 2017, the global economy showed signs of stronger growth, with 45 countries tracked by the Organization for Economic Cooperation and Development (OECD) all on pace to expand. Economic outlook and the expected impact on future cash flows are among the many variables markets consider when setting prices. Therefore, investors should remember that growth in the economy is not always linked to stock market performance.

Real GDP Growth by Region (%)

(annual rate)

	2016	2017		
	Q4	Q1	Q2	Q3
United States	1.8	1.2	3.1	3.2
Canada	2.2	3.7	4.3	1.7
Euro Area	2.6	2.5	2.8	2.4
Japan	1.4	1.5	2.9	2.5
China	7.0	5.7	7.4	7.0
Australia	3.5	1.7	3.8	2.4
United Kingdom	3.0	1.2	1.2	1.6

Sources: BEA, Statistics Canada, Cabinet Office (Japan), National Bureau of Statistics (China), Eurostat, Australian Bureau of Statistics, Office for National Statistics (UK)

2017 MARKET PERSPECTIVE

Global Equity Market Highlights

Global equity markets posted another positive year of returns in 2017. The S&P 500 Index recorded a 21.83% total return and small cap stocks, as measured by the Russell 2000 Index, returned 14.65%, both above their long-term average return of 11.96% and 11.73%, respectively, since 1979.

Returns among non-U.S. equity markets were even higher. The MSCI World ex USA Index, which reflects non-U.S. developed markets, logged a 24.21% return and the MSCI Emerging Markets Index a 37.28% return, making this the fifth highest return in the index history.

Developed ex U.S. markets and emerging markets generally outperformed U.S. equities. As a result, a market cap-weighted global equity portfolio would have outperformed a U.S. equity portfolio.

The S&P 500 Index's 21.83% return marked its best calendar year since 2013 and placed 2017 in the top third of best performing calendar years in the index's history. Despite these returns, the U.S. ranked in the bottom half of countries for the year, placing 35th out of the 47 countries in the MSCI All Country World Index (IMI).

Delving into individual countries, country level returns were mostly positive. Using the MSCI All Country World Index (IMI) as a proxy, 45 out of the 47 countries posted positive returns. Country level returns were dispersed even among those with positive returns. In developed markets, returns ranged from +10.36% in Israel to +51.39% in Austria. In emerging markets, returns ranged from –24.75% in Pakistan to +53.56% in Poland—a spread of almost 80%. Without a reliable way to predict which country will deliver the highest returns, this large dispersion in returns between the best and worst performing countries again emphasizes the importance of maintaining a diversified approach when investing globally.

China provides an example highlighting the noise in year-to-year single country returns. After a flat-to-negative return (USD) in 2016, Chinese equities returned more than 50% (USD) in 2017, making China one of the best performing countries for the year.

Currencies

Most major currencies including the euro (+13.98%), the British pound (+9.55%), the Japanese yen (+3.73%) and the Australian dollar (+8.12%), appreciated against the U.S. dollar. The strengthening of non-U.S. currencies had a positive impact on returns for U.S. investors with holdings in unhedged non-U.S. assets. This may surprise some investors given that the US dollar has generally strengthened against many currencies over the past five- and 10-year periods. However, just as with individual country returns, there is no reliable way to predict currency movements. Investors should be cautious about trying to time currencies based on the recent good or bad performance of the U.S. dollar or any other currency.

Real Estate and Commodities

Investable real asset indexes covering global real estate and commodities also delivered positive returns in 2017. Non-U.S. real estate investment trusts (REITs) posted the strongest returns with the S&P Global ex-U.S. REIT Index returning 15.64% for the year, noticeably outpacing U.S. REITs (+3.76%), as measured by the Dow Jones U.S. Select REIT Index. The Bloomberg Commodity Total Return Index finished the year marginally in the black, returning 1.70%, thanks in large part to a relatively strong close to the year as commodity prices rebounded.

Major World Indices
As of December 31, 2017

Index	One Year	Three Years	Ten Years
US Equity Returns (%)			
Russell 3000	21.13	11.12	8.60
Russell 2500	16.81	10.07	9.22
Russell 2000	14.65	9.96	8.71
Russell 2000 Value	7.84	9.55	8.17
Russell 2000 Growth	22.17	10.28	9.19
Russell 1000	21.69	11.23	8.59
Russell 1000 Value	13.66	8.65	7.10
Russell 1000 Growth	30.21	13.79	10.00
S&P 500	21.83	11.41	8.50
Non–US Equity Returns (net div.) (%)			
MSCI World ex USA	24.21	7.36	1.87
MSCI World ex USA Small Cap	31.04	12.96	5.16
MSCI World ex USA Value	21.04	6.26	1.32
MSCI World ex USA Growth	27.61	8.38	2.36
MSCI Emerging Markets	37.28	9.10	1.68
MSCI Emerging Markets Small Cap	33.84	8.44	2.78
MSCI Emerging Markets Value	28.07	6.21	0.91
MSCI Emerging Markets Growth	46.80	11.88	2.35
Fixed Income Returns (%)			
Bloomberg Barclays Global Aggregate Bond (hedged to USD)	3.04	2.66	4.16
Bloomberg Barclays US Aggregate Bond	3.54	2.24	4.01
Bloomberg Barclays US Credit	6.18	3.63	5.42
Bloomberg Barclays US Government Bond	2.30	1.40	3.23
Bloomberg Barclays Municipal Bond	5.45	2.98	4.46
ICE BofAML Three-Month US Treasury Bill	0.86	0.41	0.39
REIT and Commodity Returns (%)			
Dow Jones US Select REIT	3.76	4.97	7.07
S&P Global ex US REIT (net div.)	15.64	4.78	2.05
Bloomberg Commodity Total Return	1.70	−5.03	−6.83

**Annualized*

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In US dollars. Indices are not available for direct investment. Performance does not reflect the expenses associated with management of an actual portfolio.

Fixed Income

Both U.S. and non-U.S. fixed income markets posted positive returns in 2017. The Bloomberg Barclays U.S. Aggregate Bond Index gained 3.54%. The Bloomberg Barclays Global Aggregate Bond Index (hedged to USD) gained 3.04%.

Yield curves were upwardly sloped in many developed markets for the year, indicating positive expected term premiums. Realized term premiums were indeed positive both globally and in the US as long-term maturities outperformed their shorter-term counterparts.

Credit spreads, which are the difference between yields on lower quality and higher quality fixed income securities, were relatively narrow during the year, indicating smaller expected credit premiums. Realized credit premiums were positive both globally and in the U.S., as lower-quality bonds outperformed higher-quality ones. In the U.S., investment-grade credit bonds, as measured by the Barclays U.S. Credit Index (+6.18%) noticeably outperformed U.S. government bonds, as measured by the Barclays U.S. Government Index (+2.30%).

In the U.S., according to data from the U.S. Treasury, the yield curve flattened as interest rates increased on the short end and decreased on the long end of the curve during the year. The yield on the 3-month U.S. Treasury bill increased 0.88% to end the year at 1.39%. The yield on the 2-year U.S. Treasury note increased 0.69% to 1.89%. Meantime, the yield on the 10-year U.S. Treasury note decreased 0.05% for the year to end at 2.40% while the yield on the 30-year U.S. Treasury bond decreased 0.32% to end the year at 2.74%.

In other major markets, interest rates increased in Germany while they were relatively unchanged in the United Kingdom and Japan. Yields on Japanese and German government bonds with maturities as long as eight years finished the year in negative territory.

We hope you found this market review valuable. Please reach out to us with any questions you have or if you'd like to discuss working together,

Kathmere Capital Management

Note: All data except when explicitly noted otherwise is sourced from Dimensional Fund Advisors Returns Web.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.
Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.
All performance referenced is historical and is no guarantee of future results.
No strategy assures success or protects against loss.
The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.
There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification and asset allocation do not protect against market risk.
Stock investing involves risk including loss of principal.
International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks.
Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors.
Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.
Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors.

The MSCI ACWI Investable Market Index (IMI) captures large, mid and small cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The index is comprehensive, covering approximately 99% of the global equity investment opportunity set.
S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.
MSCI World ex USA Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 22 of the 23 developed markets included the MSCI World Index (excluding the US).
MSCI Emerging Markets Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of emerging markets. The MSCI Emerging Markets Index consists of 23 emerging markets country indexes.

Dow Jones U.S. Select REIT Index tracks the performance of publicly traded REITs and REIT-like securities and is designed to serve as a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.
S&P Global ex-U.S. REIT Index is designed to measure the performance of publicly traded REITs and REIT-like securities, excluding those in the U.S.
Bloomberg Commodity Index is calculated on an excess return basis and composed of futures contracts on 22 physical commodities. It reflects the return of underlying commodity futures price movements.
Bloomberg Barclays US Aggregate Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).
Bloomberg Barclays Global Aggregate Index (USD-hedged) measures the performance of global investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns are hedged to the U.S. dollar.