GPM | GRIFFIN PORTFOLIO MANAGEMENT CORP.

30500 Northwestern Hwy., Suite 313
Farmington Hills, MI 48334
(248) 865-0518
Fax (248) 865-0662
grifport.com

First Quarter 2017 Review *4/3/2017*

- **Stocks: broadly higher**; S&P 500: +5.5% in the first quarter (Q1).
- **Treasuries: modest rebound in Q1**; 10 Year Yield: 2.40% from 2.45% @ Dec-31.
- **Corporate Bonds: bounced back from Q4 decline**; outperformed Treasuries.
- **High-Yield Bonds: solid follow-through gains**; outperformed most fixed income.
- **U.S. Real GDP: +2.1% in Q4** (annualized) from +3.5%, +1.4% and +0.8% in the prior three Q's, respectively.

	% Below	% Return for the Period		Average Annual % Returns				Income
Benchmark Index Fund	1 yr High	Quarter	1 Year	3 Yrs	5 Yrs	10 Yrs	15 Yrs	**Yield %**
Short-Term Treasury Bond	1.5	0.4	0.1	0.8	0.6	2.2	2.7	1.1
Intermediate-Term Treasury Bond	5.6	0.8	-1.4	2.2	1.6	4.3	4.7	1.9
Intermediate-Term Investment Grade Bond	4.4	1.4	1.7	3.5	3.6	5.4	5.6	2.9
High-Yield Bond	1.0	2.3	11.2	4.5	6.1	6.3	6.8	5.1
S&P 500 Stock	1.7	6.0	17.0	10.2	13.1	7.4	7.0	1.9
Small-Cap Stock	2.1	3.7	21.4	7.3	12.7	8.1	9.2	1.3
Total International Stock	0.7	8.4	13.7	1.0	4.8	1.3	6.2	2.7

Data is for Vanguard funds and returns include reinvested income. Income/dividend yield shown is SEC format.

First Quarter (Q1) Financial Markets Review

- ✓ Broad-based strengthening in underlying global economic data.
- ✓ Acceleration in U.S. corporate earnings growth that resumed in Q3.
- ✓ Upturn in investor confidence, optimism and sentiment.
- ✓ Improving risk appetite – animal spirits at work.

Stocks continued higher in the first quarter (Q1), led by economic cyclicals, financials, and technology. ***High-yield bonds extended gains*** to lead most fixed-income categories. ***U.S. Treasuries and high quality corporate bonds were positive*** in the quarter, following a post-election selloff in the final weeks of 2016. Corporates outperformed Treasuries as the bond-market continues to adjust to the higher probability of further Fed rate hikes in 2017.

S&P 500 Stock Index

High-Yield Bonds

10 Year Treasury Price (Yield: 2.40%)

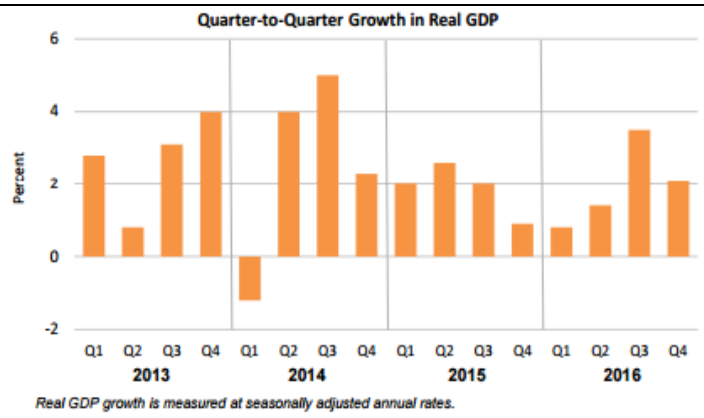
The U.S. economy has been gaining momentum since before the U.S. presidential election, with steady growth in new jobs and improving trends in the manufacturing sector. Most data strengthened in Q1 and the baseline outlook for global growth trended up. Additional fuel could come later in the year if the Trump administration makes headway on tax reform and other pro-growth fiscal policies. All-in, we think that sets up greater interest rate risk and raises the probability that the U.S. Fed will hike rates more aggressively than is currently priced-in. If strengthening global data is sustained, other central bankers could follow the Fed and pullback on stimulative monetary policies.

Market participants are squarely focused on the Trump administration's ability to deliver their promised pro-growth agenda. Some success is critical, as high expectations set up the possibility of disappointment with actual political progress.

After declining since mid-2014, S&P 500 corporate earnings turned up in Q3-16 and accelerated in Q4, as reported profits increased 7.4% from a year ago on revenue growth of 4.7%. Earnings growth is expected to accelerate further in 2017.

Eurozone growth also continued to gain momentum in the first quarter with a March PMI® survey nearing a six-year high on the best employment gains in almost a decade, while both manufacturing and service sector firms reported strong orders and business optimism hit a new peak. The Chinese economy shows signs of stabilization, while data in broader Asia points to a modest pickup in growth. Global stock markets reflect a sense of optimism that had been mostly missing until late in 2016 – post U.S. elections.

U.S. Fourth Quarter Real GDP and Corporate Profits Growth



Review of Portfolios

GPM long-term growth portfolios performed well in Q1, adding to solid second-half 2016 gains. We invest primarily in high quality, high ROE, U.S. based companies that we believe will deliver rewarding long-term growth in sales, earnings, cash flow, dividends and ultimately, stock prices. Quarter-end market-cap weighting was large-cap (73%) mid (20%) and small (~7%). Most of our companies delivered solid sales and earnings in Q4 and we expect more of the same in Q1 and 2017.

Approximate @ Quarter-End	
Sector	**Allocation**
Technology	25%
Industrials	22%
Consumer Cyclical	16%
Healthcare	16%
Financial Services	8%
Other/Diverse ETF	13%
	100%

During the quarter, we liquidated three long-held stocks and booked substantial gains. We also reduced the size of several positions. We bought six new stocks and opportunistically added to or boosted the size of several core holdings. Three of our companies announced increases in their quarterly dividend rate. We owned 28 stocks at quarter-end. We are very confident in the ability of our companies to execute their business plans, adapt to change, and generate long-term growth in value.

Our GPM Grade Focus List is comprised of about sixty additional companies we follow closely and would like to own at the right price.

GPM balanced portfolios turned in highly satisfactory results in Q1, led by broad-based gains in stocks as discussed above. High yield bonds also delivered solid gains, while the investment grade bond component produced a modest rebound contribution. During the quarter, GPM adjusted the target stock component up and the bond component down across all balanced models as shown below.

At year-end, GPM believed that bond yields had adequately/upwardly reset to substantially "price-in" near-term prospects of an uptick in U.S. growth and/or inflation that might result from Trump administration fiscal policies. We are more cautious on yields now and have positioned GPM bond portfolios more defensively by shortening duration and adding floating rate investment grade bonds.

GPM's balanced portfolio modeling targets are approximately as follows *- subject to change at GPM discretion*:

Balanced - Primarily Income (BPI): 45% stocks and 55% bonds (GPM's lowest overall risk balanced model).
Balanced - Growth and Income (BGI): 55% stocks and 45% bonds.
Balanced - Primarily Growth (BPG): 65% stocks and 35% bonds.

GPM's balanced strategies are more conservative than an "all stock" approach. We combine a solid foundation of GPM Grade Companies with a well-diversified bond component to produce higher portfolio income and reduce stock driven volatility. Balanced portfolios are flexibly managed and can be tailored to individual client risk preferences.

We encourage you to contact us to discuss your investment goals and objectives or for any other reason.

As always, thank you for allowing GPM to serve as your investment manager.

Sincerely, the *GPM Team*

This document contains general information intended exclusively for clients of Griffin Portfolio Management Corp. (GPM), an Investment Advisor, registered with the Securities & Exchange Commission. It reflects views and opinions of GPM at the time of writing. This information should not to be construed as an offer by GPM to provide investment advisory services. Portfolio actions and positions discussed in this document have been executed broadly per GPM's published strategies in accounts that meet GPM's minimum size of $500,000 and NOT in accounts that invest exclusively in ETF's or mutual funds. *It should not be implied or assumed however, that every portfolio action and position discussed was executed or established respectively, in every client account*. Other factors that affect inclusion are inception date, size, objective and other variables specific to a particular client and/or account..