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I N V E S T M E N T   C O U N S E L

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STATEMENT OF INVESTMENT POLICY

While global stock markets have experienced rough sledding this winter, we believe the declines adequately discount many well-known factors which we consider transitory rather than precursors to a serious downturn in the economy. With the passage of time, we expect these worries to moderate and equity markets will regain their footing to reflect the more favorable business conditions, including an end to the sharp rise in the dollar, gradually recovering oil prices, and improved credit market conditions.

Despite the inevitable quarterly fluctuations in real GDP growth, the US economy remains healthy, growing at about the 2% annual rate of the past five years. The unemployment rate has declined to 4.9%. Incomes are finally rising and consumer's balance sheets are in good shape, deleveraged substantially since the financial crisis. Consumption, which accounts for over 70% of GDP, is strong as wage and job growth, while low oil prices have kept spending power elevated.

Manufacturing has contracted for the past four months, largely due to weakness in the oil industry, the strong dollar and cooling overseas markets. However, growth in new orders and production resumed in January, indicating some stabilization in the industry. Auto production and residential construction continue to expand. Increased spending at all levels of government is expected to be mildly stimulative this year after having been a drag since the 2008-9 financial crisis and recession. And Fed monetary policy will remain highly accommodative despite the likelihood of at least one increase in its reference rate between now and year-end. Our firm's proprietary Economic Model continues to signal expansion. The Leading Economic Indicators' (LEI) latest readings remain consistent with a modest economic expansion through the next few quarters.

Elsewhere, the euro zone continues to recover from its slowdown. In Germany, the unemployment rate has fallen to 6.2%, lower than at any

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time since reunification. Retail sales and other measures of economic activity in the U.K. are rising. Sovereign bond yields in the so-called "PIIGS" countries (Portugal, Italy, Ireland, Greece, and Spain), have fallen sharply as their economies have stabilized and leaders there have pledged to maintain their stimulative monetary policies.

Recently surfaced fears over the health of the global banking systems are largely overblown. Thanks to central bank regulation, bank capital ratios are almost twice where they were prior to the financial crisis. Overall credit quality is improving despite some areas of concern such as energy lending.

And, while valid questions have been raised about how Chinese leaders have managed their economy, consumption there has been expanding near 10% per year and GDP has been growing at close to 7%, both enviable rates. Shifting from a manufacturing/exporting model to a consumer-focused one will be challenging but not insurmountable, requiring time. So despite China's recent stock market turmoil, consumption, supported by strong demographics and a high 30% savings rate, will increasingly drive long-term economic growth there.

Beyond the US stock market's preoccupations this winter, the on-going bull market in equities should resume as the economic expansion, moderate as it is expected to be, proceeds. From its peak last May to its February 11th trough, the S&P 500 stock index has declined about 15%, well within the bounds of a normal "correction." Sustained and significant market declines are rare outside of recessions. Given favorable US consumer fundamentals, the likelihood of a domestic recession over the next 1-2 years appears quite low.

Recall that business cycles do not end simply due to the turn of the calendar. Cycles typically peak following a sustained period of excess investment causing the economy to overheat. Policy makers are then required to tighten monetary conditions to prevent unacceptably high levels of inflation. The current expansion has produced few examples where investment in the US has been excessive. On the contrary, most major areas of the US economy such as housing and business capital expenditures have not even recovered to trend levels. The only area that did experience an overheating was investment in the energy sector. But in contrast to the bursting of the housing bubble, falling oil prices should have an intermediate term net positive economic impact with the longer-lasting benefits to the consumer outweighing the short-lived decline in energy exploration investments and related capital expenditure declines to energy infrastructure suppliers.

Even though the S&P 500 has tripled from its early 2009 trough, the current US bull market does not appear excessive in terms of its length, pace of price appreciation or valuation when compared to historical US bull markets. S&P 500 earnings per share growth stalled in 2015 but should rise by high-single digits in 2016 as the economy continues its expansion and headwinds from weak oil prices and the strong dollar fade. Slightly above-average market valuations are justified in a moderate growth, low interest rate environment.

So with the S&P 500 stock index currently selling at about 16 times expected 2016 earnings per share of $120, US equities are again reasonably priced. Other market valuation metrics we monitor support this. Investments in companies located in developed and emerging markets abroad are statistically cheaper than their US counterparts. They represent up to 15% of clients' equity portfolios, and are particularly attractive at current levels.

There has been no change in our fixed income strategy which is focused on principal protection. Bond portfolios are structured with an ultra-short ladder of high quality corporate bonds maturing, on average, in less than a year. Portfolio durations approach 1.

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We are very pleased to announce that Peter Wahlstrom has joined our firm as Director of Equity Research and a member of our Investment Committee. Pete has 17 years of securities analysis experience. Through the end of last year, Pete was a senior analyst and Sector Director at Morningstar.

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