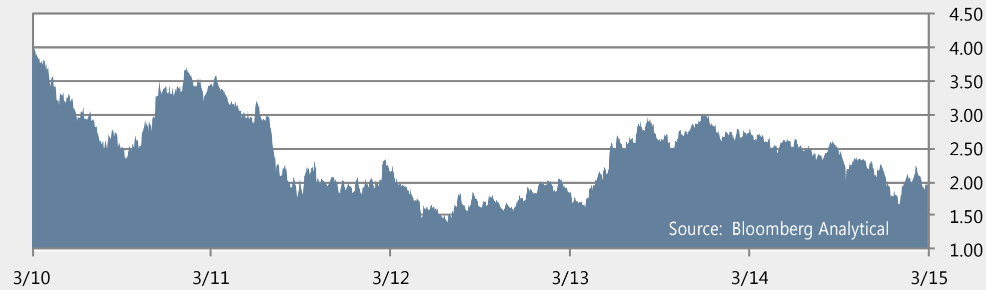
first quarter 2015

INVESTMENT *perspective*

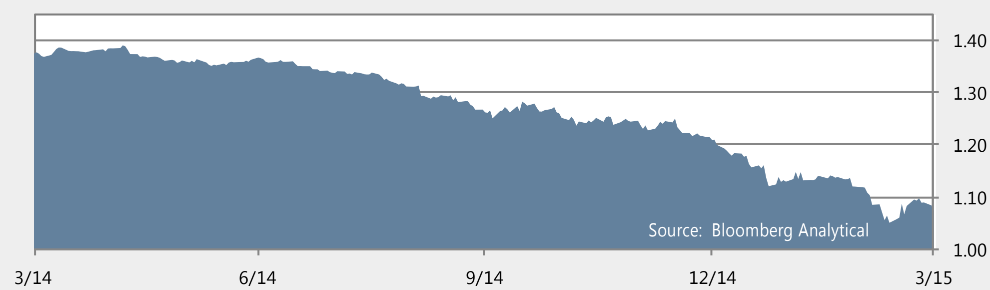
The first quarter played out much like 2014 ended, with volatility persistent and a constant focus on the Federal Reserve and the corresponding impact on the U.S. Dollar. While volatility spiked, the broad market averages were nearly stagnant with the S&P 500 ending the quarter with a meager 1.0% return. Smaller company stocks faired markedly better as the Russell 2000 advanced 4.3%. Fixed income markets generally responded favorably to the likelihood that the Fed will delay raising rates. In response, the Barclays Capital U.S. Aggregate Bond Index advanced 1.6% and the yield on the 10-year Treasury declined to 1.9%.

U.S. 10-Year Treasury (3/31/10 - 3/31/15)



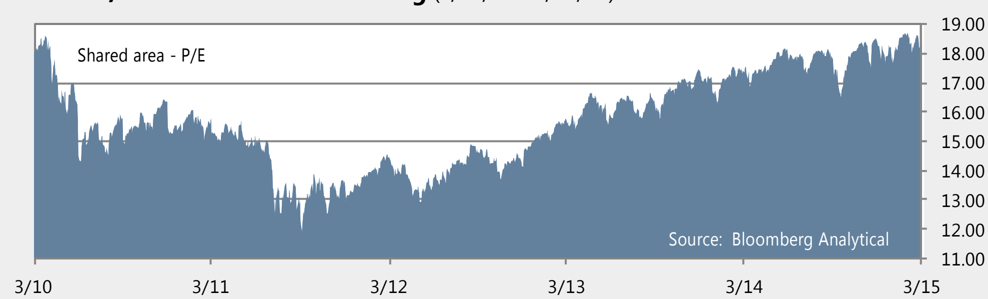
With valuations stretched, near term earnings estimates declining, and corporate borrowing rates likely beyond their cyclical lows, the likelihood of a near term market correction has materially increased. Markets are now adjusting to the large, rapid, upward move in the U.S. Dollar, increased stimulus in Europe, a dramatic decline in U.S. energy activity, and an anticipated Federal Funds Rate increase in 2015.

U.S. Dollar versus Euro (3/31/14 - 3/31/15)



Valuation multiples are likely too high to provide support should earnings estimates continue to decline, therefore any further negative earnings revisions would likely lead to a modest equity market correction. Should economic growth improve providing support to existing earnings estimates then the market would need to discount higher corporate borrowing rates, which would pressure valuation multiples, potentially triggering a modest decline in the equity market.

S&P 500 P/E Ratio - 12-month Trailing (3/31/10 - 3/31/15)



continuation on back....

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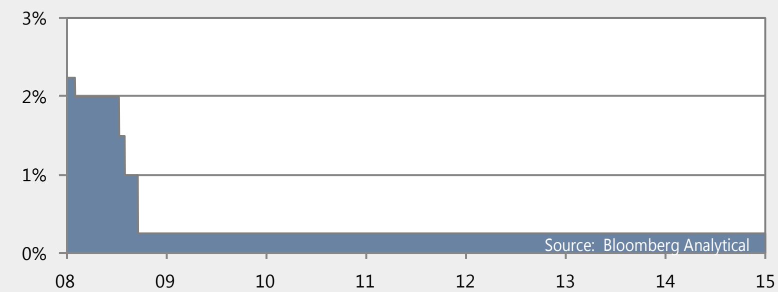
Our initial estimate would be for a broad equity market correction of approximately 10%. It is worth noting that a market correction can occur via a decline in price or a sideways move in price as earnings increase, thus improving overall valuation levels. Market corrections are to be expected in any market and, unless other factors change, we would not view a market correction as a secular shift in the direction of U.S. equity markets.

While the nature of the bull market is changing there are still individual stocks that will perform well over the medium term despite the increasing market headwinds. This positive outlook continues to be stock-specific and not reflective of opportunities in specific industries, regions of the world, or broader market indices.

Within client equity allocations, we continue to position portfolios into companies that have better pricing power, lower earnings variability, higher profitability and stronger balance sheets than the broader investment universe, and where we are able to get these characteristics at similar valuation levels to the benchmark index.

The fixed income markets were impacted by several crosscurrents during the quarter, leading to increased volatility in Treasury yields and credit spreads. Investor sentiment shifted from concerns over global economic weakness and the rapidly strengthening U.S. currency to concerns about the Fed's pending rate hikes. We expect this volatility to continue over the next several months as the easy money/near-zero (negative in Europe) interest rate environment engineered by the Fed, European Central Bank, and Bank of Japan slowly reverses course.

Federal Fund Rate (3/31/08 - 3/31/15)



Fixed income returns in the first quarter were mainly driven by a rally in Treasury bonds, with the 10-year Treasury declining 24 basis points. Credit spreads faced strong headwinds, led by a record for gross issuance, but still managed to produce excess returns over similar maturity Treasury securities. The municipal bond market was also impacted by a surge of new bond deals in the quarter and the Intermediate Bank of America/Merrill Lynch index returning 0.6%.

In fixed income portfolios, we remain positioned for a gradually rising interest rate environment; although we may remain near today's sub 2.0% level on the 10-year Treasury well into the second half of 2015. Our outlook on the investment grade credit sector continues to be constructive, although issuer selection and structure have increased the need to be more selective than was the case in the recent past.