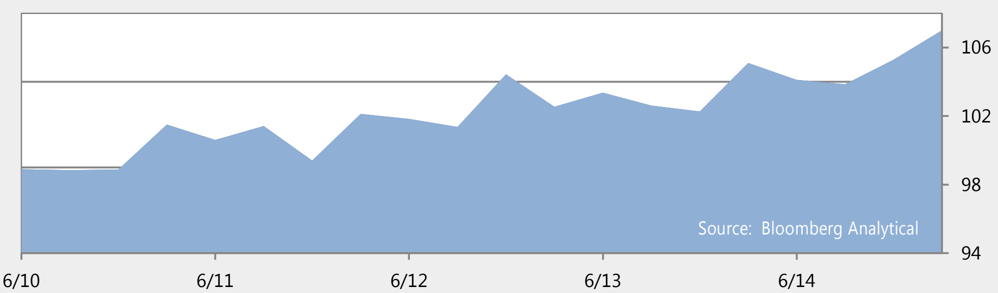
second quarter 2015

INVESTMENT *perspective*

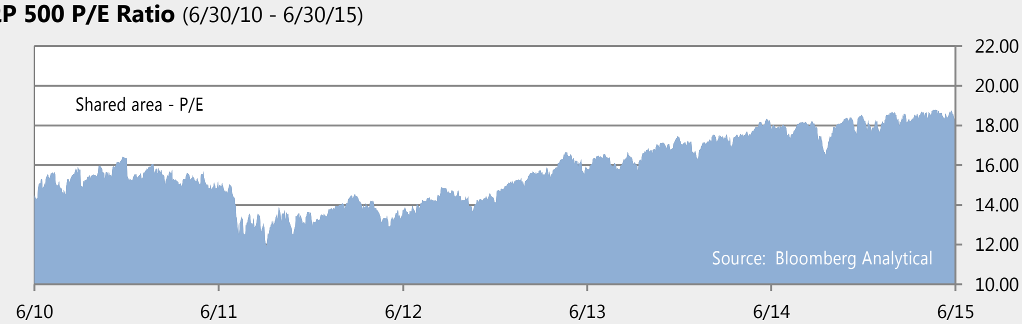
While the Greek drama is dominating the market headlines, it is our belief that the near term direction of U.S. equity markets will be dictated by the tug-of-war between an improving labor market that will pressure corporate margins and the corresponding potential for a reacceleration in top line growth as wages rise and the employment base continues to expand.

Unit Labor Costs (6/30/10 - 3/31/15)



We noted last quarter with valuations stretched, near term earnings estimates declining, and corporate borrowing rates likely beyond their cyclical lows, that we expected a broad equity market correction of approximately 10%. We also noted that equity market corrections can occur via a decline in price or a sideways move in price as earnings increase, thus improving overall valuation levels. The second quarter's performance was consistent with these expectations as broad equity market averages remained relatively unchanged for the quarter. We continue to expect up to a 10% improvement in valuations either via price decline or an improvement in earnings expectations.

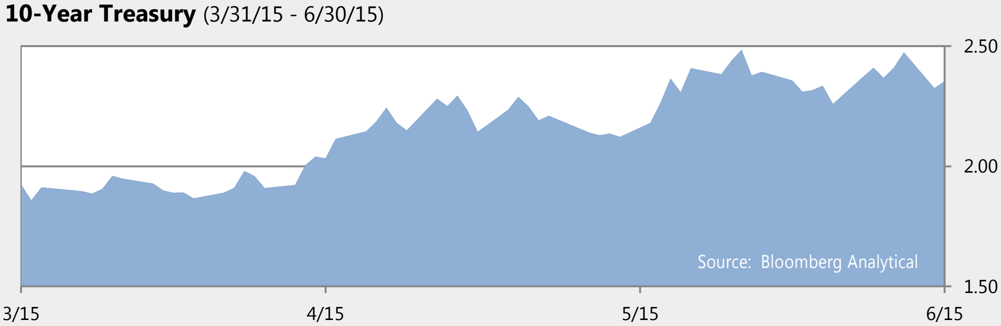
S&P 500 P/E Ratio (6/30/10 - 6/30/15)



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.

The bond market was also challenged in the second quarter as investors pondered improving economic data and the timing of the Fed's first rate increase. The potential Greek exit from the European Union added to the crosswinds. Rates for the bellwether 10-year Treasury rose 40 basis points during the quarter, leading the Barclay's Aggregate index to decline 1.7%.

U.S. 10-Year Treasury (3/31/15 - 6/30/15)



After the surprising January rally, interest rates have resumed a gradual rise, which was our base case scenario at the beginning of the year. We continue to expect the Fed to raise the Fed Funds during the second half of 2015. However, the date of the initial increase, and the pace of subsequent increases, will be dependent on continued improvement in key economic data and the absence of a major international event.

Consequently, our taxable fixed income portfolios remain positioned for a gradual rise in rates, with a shorter average duration. We also remain overweight corporate bonds, as the sector continues to benefit from economic improvement, offsetting the risk of widening premiums caused by higher Treasury yields. In tax-free portfolios, intermediate municipal bonds continue to perform well as the appetite for tax-exempt bonds remains strong and issuance has been low.

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