Portfolio Update

With holiday celebrations behind us and the U.S. presidential inauguration approaching, investors are assessing the way forward in 2017. As we have discussed in earlier commentaries and our 2017 Outlook, there are a number of factors contributing to uncertainty across global markets. These include the initiation of the Trump presidency, Federal Reserve interest rate policy, key elections across Europe, and the rise of political populism. As we monitor these considerations, we continue to evaluate our portfolio positioning. With the turn of the calendar, there has been increasing skepticism regarding the so-called Trump trades and some reversal of the market trends set in motion by the election results. Despite what could be perceived as a reality check, we continue to believe that investors should access risk through equities with a strong preference for the U.S. Based on our conviction, we have added to our U.S. equity exposure via small cap and funded the positions from cash.

Our decision to increase our small cap exposure is driven by a number of considerations. As a baseline, small cap companies continue to be the growth engine for the U.S. economy. As he prepares to take the oath of office, Mr. Trump has maintained a consistent message about job creation and fiscal stimulus and we believe this bodes well for small companies. Mr. Trump has also espoused protectionist trade policy, which could alienate trade partners and impact exports. If that story does play out, it should have a limited impact on small companies due to their predominantly domestic revenues.

We do recognize that small cap equities have appreciated significantly since Mr. Trump's election win. Valuations are above historical averages but we still think there is room for appreciation based on the factors discussed above. At this point, we have a neutral opinion on style, so we added equally to existing growth and value positions. In addition to adding to U.S. small cap equity exposure, we also made additions to select U.S. positions in some portfolios in order to maintain desired exposures.

In terms of overall positioning, we maintain a strong preference for the U.S. with lower exposure to international assets than our underlying benchmarks. We prefer the relative safety of the U.S. and U.S. dollar-denominated assets but do have a more favorable view of Asia and the emerging markets as compared to European asset classes. We continue to hold meaningful cash positions in portfolios, mainly at the expense of European equities and non-U.S. bonds. Our bond allocations also favor the U.S. over the rest of the world with a preference for short duration corporate credit. We continue to be positioned with lower duration than the benchmark. We hold broad exposure to non-U.S. bonds in a currency hedged vehicle at weights below our benchmark. We have no emerging market debt at this time.

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It is important to remember that there are risks inherent in any investment and that there is no assurance that any money manager, fund, asset class, style, index or strategy will provide positive performance over time.

Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

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An investment in small/mid-capitalization companies involves greater risk and price volatility than an investment in securities of larger capitalization, more established companies. Such securities may have limited marketability and the firms may have more limited product lines, markets and financial resources than larger, more established companies.

Portfolios that invest in real estate investment trusts (REITs) are subject to many of the risks associated with direct real estate ownership and, as such, may be adversely affected by declines in real estate values and general and local economic conditions.

Portfolios that invest a significant portion of assets in one sector, issuer, geographical area or industry, or in related industries, may involve greater risks, including greater potential for volatility, than more diversified portfolios.

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ETFs included in portfolios may charge additional fees and expenses in addition to the advisory fee charged for the Selected Portfolio. These additional fees and expenses are disclosed in the respective fund/note prospectus. For complete details, please refer to the prospectus.

For additional information regarding advisory fees, please refer to the Fee Summary and/or Fee Detail pages (if included with this report) and the program sponsor's/each co-sponsor's Form ADV Part 2, Wrap Fee Brochure or other disclosure documents, which may be obtained through your advisor.

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