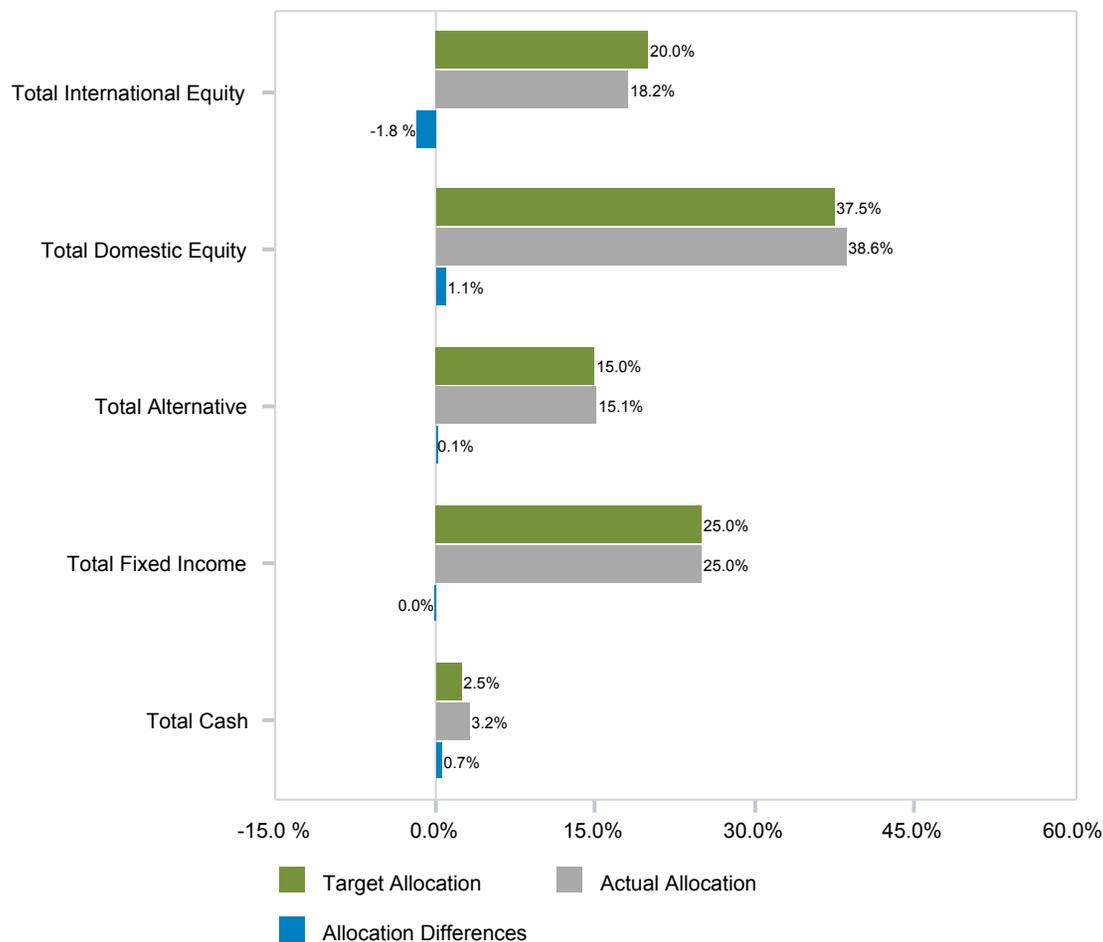


Target Vs. Actual Asset Allocation



Commentary

Broad asset class returns were mixed for the 4th quarter. Domestic equity indices posted positive performance for the quarter, while broad international equity and fixed income benchmarks were negative for the period. The quarter's investment cycle was dominated first by the U.S. presidential election, and then by the largely anticipated Federal Reserve (Fed) interest rate hike in December. The uncertainty that drove equity returns lower during the first half of the quarter gave way to a string of positive macroeconomic data and a Trump victory that drove equity benchmarks, particularly in the U.S., higher through the remainder of the quarter. Trump's platform of strengthening infrastructure, deregulation, and lower personal and corporate taxes drove expectations higher for both domestic growth and inflation. The broad market Russell 3000 Index returned 4.2% for the quarter. The small cap Russell 2000 Index more than doubled performance of other capitalization indices with a return of 8.8% for the quarter and a strong 21.3% for the trailing one-year period.

The quarter's strong economic backdrop led the Federal Open Market Committee (FOMC) to follow through on investors' expectations and raise short-term interest rates for the first time in 2016. The same events that drove domestic equity markets higher were a headwind for fixed income markets. As a result, the U.S. Treasury yield curve rose dramatically during the quarter with modestly elevated rates at shorter maturities and larger increases in mid-to-long-term maturities. All investment grade benchmarks were negative for the quarter, but the mortgage-backed securities sector was down less than other investment grade sectors due to its shorter duration. Although the 4th quarter took back some of 2016's earlier gains, investment grade benchmarks finished in positive territory for the year. The Bloomberg Barclays Investment Grade Corporate Bond Index was the best performer over the one-year period, advancing a solid 6.1%. Corporate issues benefited from increased demand for yield which led to credit spread compression, especially in lower quality issues.

Comparative Performance

	QTR	YTD	FYTD	1 YR	3 YR	5 YR
Total Fund	0.18	6.21	4.11	6.21	2.60	7.15

Fiscal YTD is June 30.

