

GLOBAL ECONOMIC REVIEW

- » The Fed has raised interest rates twice so far in 2017. Over the past year and half, the Fed has successfully raised rates from a financial crisis low of 0% to 1.25% as of the latest hike. With inflation back below the Fed's target of 2%, however, market expectations for another hike in 2017 have fallen below 40%. Barring a significant and sudden change in the trajectory of economic growth (or inflation) in the US, expectations are that the Fed will not raise rates again until 2018.
- » Despite the slowdown in inflation, the US economy continues to recover and annual GDP growth, while slower than many would like, has been positive since 2010. Nonetheless, the latest runs of "hard" economic data have not kept pace with consumer and business survey expectations. At some point, expectations must accept the data, and we may see business and consumer confidence deteriorate over the coming quarters.

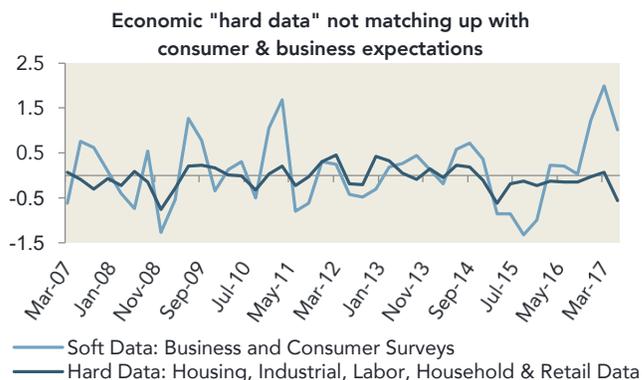
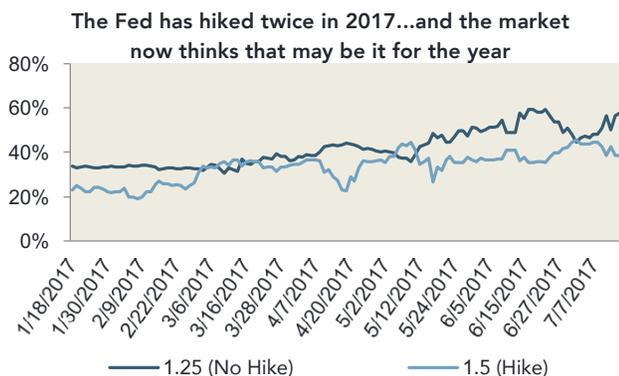


Chart Data Source: Brandywine Global, Bloomberg.

- » Euro-area GDP is giving the US a run for its money. The latest year-over-year GDP figure came in at 1.9%, the highest since 2015, and before that, since 2011. Economic activity across the European Union has improved enough that the European Central Bank (ECB) has begun to consider tapering its monetary easing program. Although ECB President Mario Draghi has committed to keeping the program in place until further improvement, it is clear that economic conditions in the EU are growing stronger.
- » After a protracted slowdown, Asian exports have been trending upward since late 2015 and may be headed for a sustained recovery as global growth continues to pick up. The Chinese economy grew 6.9% in the first half of 2017 (compared to 6.7% in 2016) and is on track for its first annual GDP growth acceleration since 2010. India has been a standout performer in terms of growth, although the government seems to be increasingly authoritarian. It still remains to be seen how India will develop its manufacturing sector and invest in its people.

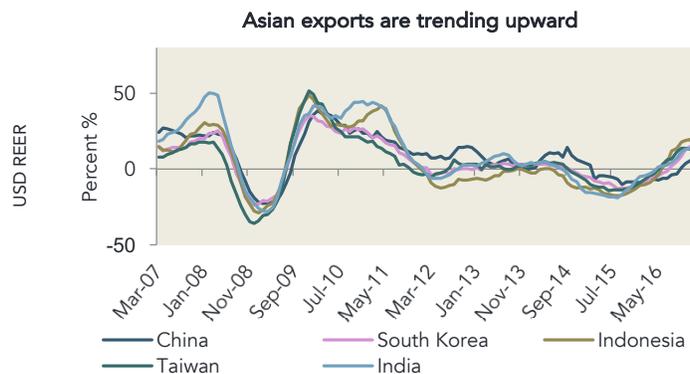


Chart Data Source: Bloomberg, Brandywine Global.

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GLOBAL FIXED INCOME REVIEW

- » Major bond market sectors all generated positive returns in Q2. The Bloomberg Barclays Global Aggregate had a strong quarter, led by the corporate bond sector. US Investment Grade credit outperformed High Yield, and EM Hard Currency bonds outperformed Local Currency, suggesting that among fixed income risk assets, there was a preference for higher quality segments.
- » Municipal bonds had another strong quarter thanks to robust demand and a decreasing probability (at least in the near term) of tax reform that could reduce the tax-equivalent yield of muni bonds.
- » The Bloomberg Barclays US MBS index generated positive returns as well. Mortgage refinancings have ticked up slightly since the end of 2016 but remain at very low levels.

Fixed income sector performance: QTD (as of 6/30/17)

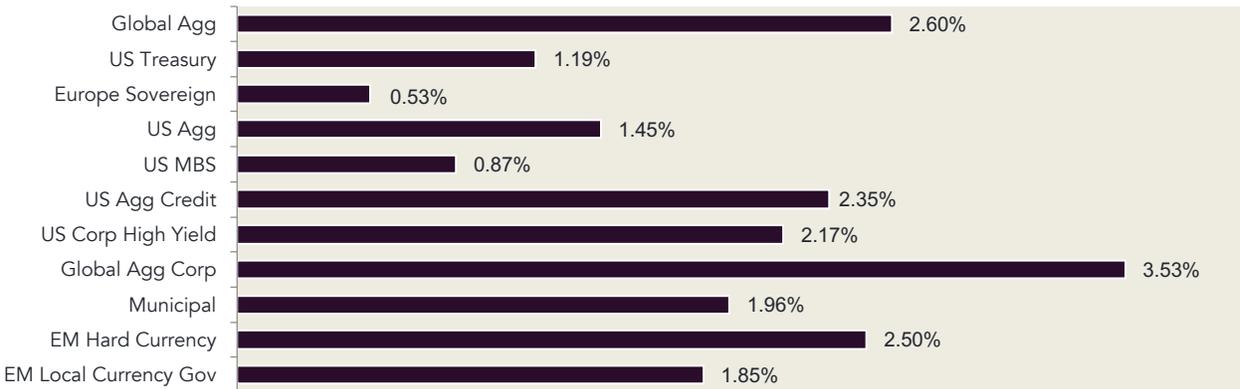


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- » Benchmark bond yields, including US and German 10 year bond yields, trended downward for much of the quarter as growth and inflation expectations remained muted. At the end of Q2, however, yields rose sharply as the ECB again indicated that it may tighten monetary policy more quickly than markets previously expected. The Central Bank later backtracked some of its rhetoric, but the market remains skeptical. Naturally, this has affected European sovereign bonds more than US Treasuries. German 10 year bond yields rose more than 20 basis points (bps) over a few days and have since risen close to 40 bps, while US 10 year Treasury yields have risen about 10 bps.
- » The British pound continues to languish just above post-Brexit lows, while the Euro has been showing strength in recent months.

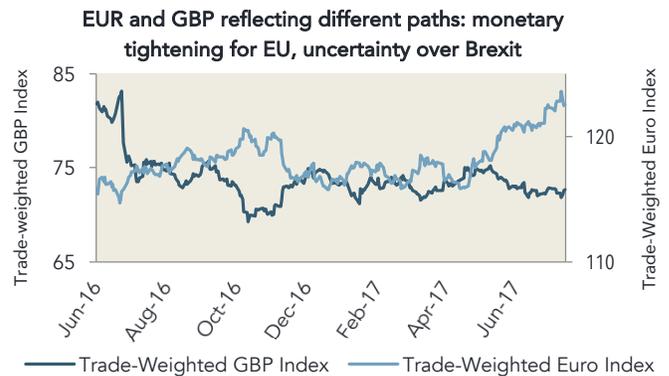


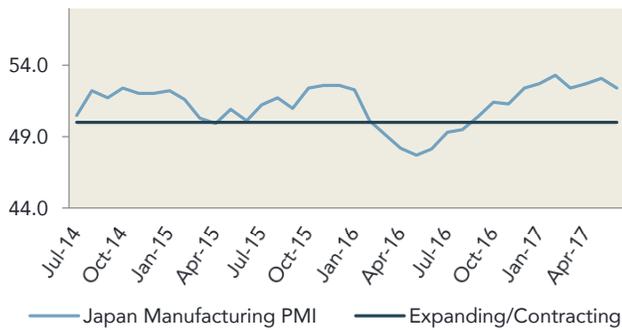
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GLOBAL FIXED INCOME REVIEW

- » Japan has shown positive, albeit slow, growth since mid-2015, the country's longest stretch of positive GDP growth for over a decade. The biggest drivers have been strengthening exports and a weaker Yen, both of which have offset weaker domestic demand from consumers and businesses. A generally improving global economy has also helped.
- » There is no longer much debate about whether extremely low credit spreads are sustainable. It seems that most investors believe they are not, yet borrowing costs have once again been driven to historically low levels as investors continue to search for yield. While it does not appear that there is imminent danger in the US High Yield sector, investors are not being compensated well for the risks they are taking when owning high yield bonds at such low yields.

Japanese manufacturing PMI continuing to expand



Credit spreads at dangerous levels again?

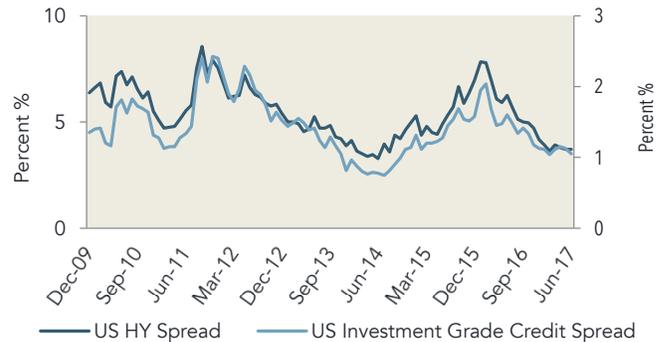
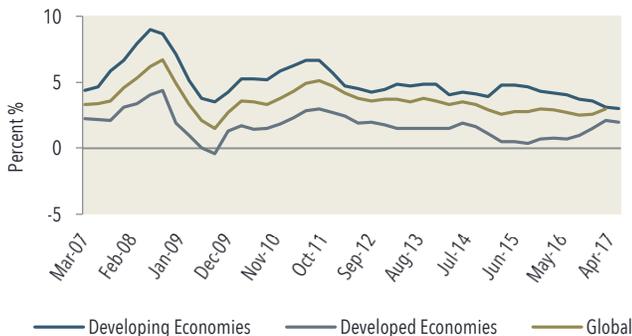


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- » Signs of inflation have begun to stir in developed economies, but not so much as to be alarming. Meanwhile, inflation has begun to fall in developing markets, as countries such as Brazil, Russia and Mexico recover from varying degrees of political and economic challenges.
- » Meanwhile, Emerging Market bonds also continue to perform well. In a break from the historical relationship between oil prices, EM bond and EM FX performance, we have seen strong performance recently from EM assets despite falling oil prices and renewed fears of a continuing oil supply glut.

Inflation moving up across DM, down across EM



Is the EM-Oil correlation breaking down?
EM resilient despite latest oil price fall

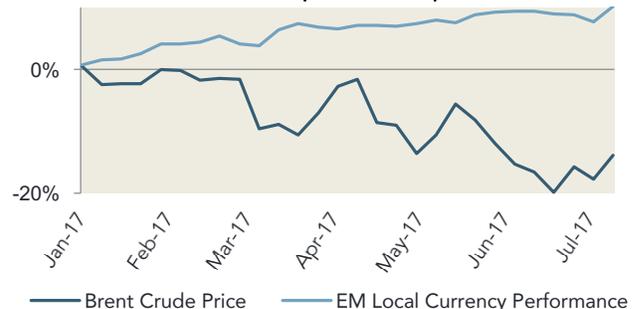


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GLOBAL EQUITY REVIEW

- » As measured by the MSCI ACWI IMI, global equities returned 4.3% in Q2. US stocks underperformed the global market, though the S&P 500 still generated a positive return of 3.1%.
- » European equities led global markets, returning 7.4%, as growth prospects across the European Union continued to improve.
- » Emerging markets continued to perform well, with the MSCI EM IMI returning 5.8%. The EM index has now returned 18.1% year-to-date through the end of Q2, and 55.9% since the lows of early 2016. Investors who bought in at those lows and continue to hold EM equities have earned a handsome return.

Global Equity: Valuation Measures (as of 6/30/17)

Period	Latest				10-yr average			
	P/E	Dividend Yield	P/B	P/CF	P/E	Dividend Yield	P/B	P/CF
MSCI ACWI	20.54	2.43	2.25	10.82	17.21	2.68	1.93	9.08
MSCI Europe	23.71	3.44	1.79	7.43	19.70	3.74	1.69	8.20
Nikkei 225	21.36	1.72	1.76	10.20	21.22	1.76	1.47	8.75
Shanghai Composite	17.06	1.76	1.73	5.94	18.09	1.89	2.32	20.65
MSCI Emerging Markets	15.34	2.45	1.64	7.36	13.55	2.68	1.71	7.92

Data Source: Bloomberg.

Global Equity Indices - 36 Month Rolling Annualized Return, %

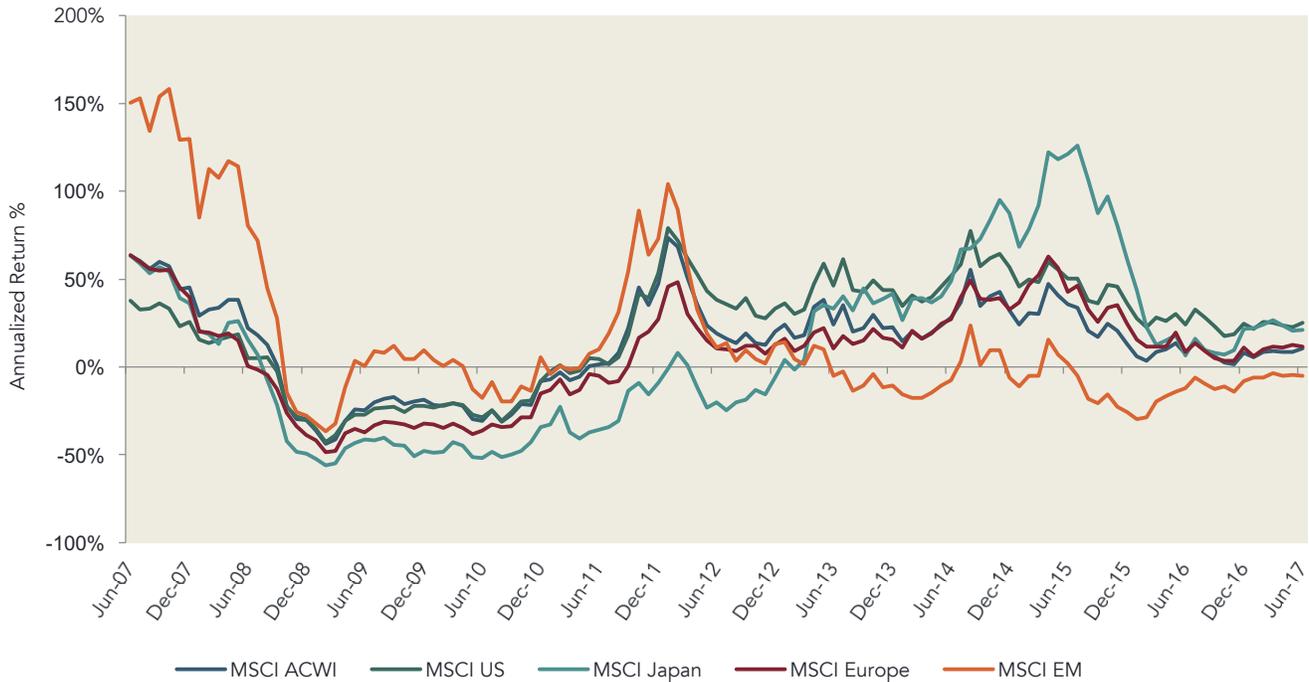


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GLOBAL EQUITY REVIEW

- » Small cap stocks tend to be more domestically-oriented than their large cap counterparts (larger companies often do business in several or many countries). A strengthening US economy and a stronger dollar, therefore, are often considered to be good for US small caps. Recently, however, the USD has been on a downward trajectory and according to some investors, could have significantly further to fall. Still, small caps have been on the rise, buoyed by an improving economy and solid domestic demand.
- » In contrast, European stocks have performed well since the end of 2016 even though the Euro has been on an upward trajectory. Part of the explanation is that the European economy has been strengthening, and some of the Euro strength is due to the monetary policy divergence between the US and Europe (US raising rates, Europe holding steady for now).

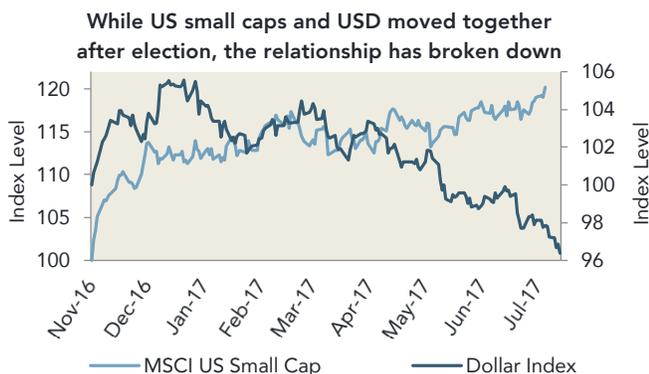


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- » US stock markets continue to march higher despite decreasingly attractive fundamentals. A large part of this story has to do with the strength of the US relative to other developed economies, but a significant portion has been the FAANG (Facebook, Amazon, Apple, Netflix, Google/Alphabet) stocks. The FAANGs' market cap increased \$120B in Q2, or about 22% of the S&P 500 increase.
- » Notably, the NASDAQ Composite (a benchmark of technology companies listed in the US) has far surpassed its Dot Com Bubble peak of 5,048 (March 10, 2000). The index closed at 6,140 at the end of Q2 and has since climbed even higher. While it is difficult to say with certainty that we are in a new tech bubble, some technology company prices do seem to be hitting extreme levels.

US Equity: Valuation Measures (as of 6/30/17)			Historical Averages			
Valuation Measure	Description	Latest	1 yr ago	5-yr avg.	10-yr avg.	25-yr avg.
P/E	Price to Earnings	21.44	19.91	17.90	17.17	19.60
CAPE	Shiller P/E	30.06	28.70	26.90	26.40	23.17
Div. Yield	Dividend Yield	1.97	2.18	2.07	2.15	1.99
P/B	Price to Book	2.80	2.58	2.49	2.41	2.88
P/CF	Price to Cash Flow	12.14	9.91	9.59	10.16	11.03
EY Spread	EY-Baa Yield	1.32	1.88	2.33	1.09	-0.96

Index: S&P 500

Data Source: Bloomberg, Robert Shiller's website.

THEMATIC IMPACT REVIEW

- » Sonen spends a great deal of time analyzing a wide variety of impact investment sectors, including a number of different loan sectors. Student loans have become a hot topic in recent years as the total amount of student debt reached and surpassed \$1 trillion. Now at close to \$1.4 trillion, the sector represents a significant proportion of total US debt outstanding. The challenge facing the US is that many of these loans are likely to go unpaid. The chart below shows that delinquency rates have climbed roughly in line with outstanding student loan debt. While this concerning trend may not continue at the same rate, delinquency rates have already reached a level that could put close to \$150 billion in student loan debt at risk of default. We will be watching this sector for opportunities to address this growing challenge.
- » Another disturbing trend is the unaffordability of housing in major US urban (and even suburban) areas. While overall affordability in the US (black line) is good, affordability in desirable areas is poor. The most extreme example currently is the San Francisco Bay Area (gray line). Affordability here has always been poor and remains so today, but this trend has expanded to other US cities as well.

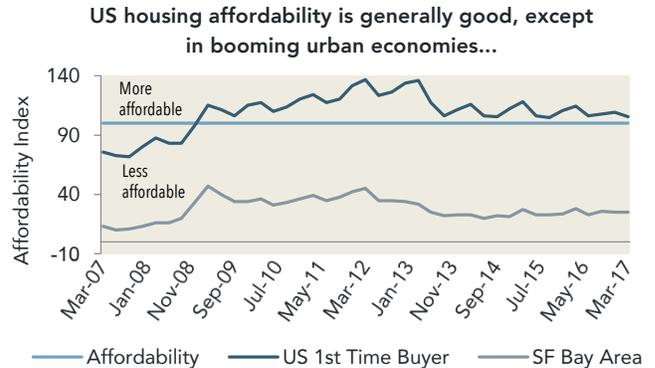
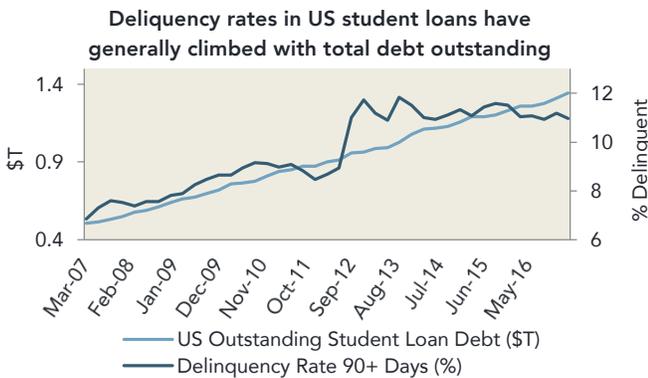


Chart Data Source: Bloomberg.

- » Sales of electric vehicles have grown globally, but like many new technologies, have started off relatively slowly. Projections, however, suggest that we may see as many as 48 million electric vehicle sales per year by 2035, which could easily surpass (possibly by a very large margin) sales of internal combustion engine vehicles. Annual EV sales in China will likely exceed those in the US by early in the next decade.
- » Just as the fuels used to power cars are changing, so is the mix of fuels that provide electricity. By 2040, some estimates assert that solar PV (utility-scale and residential) will exceed both coal and gas generation combined.

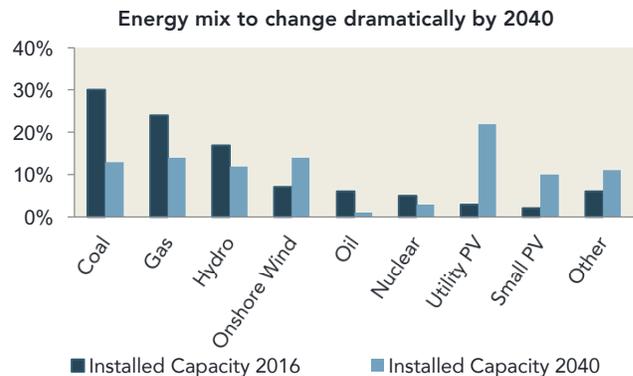
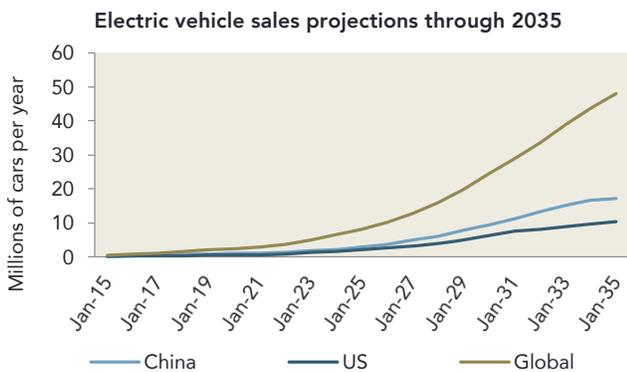


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ASSET CLASS RETURNS

2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	2Q17
BC Agg 5.24	MSCI EME 79.02	MSCI EME 19.20	BC US Corp IG 8.15	MSCI EME 18.63	S&P Gbl Clean Energy 48.42	MSCI USA 11.87	S&P Gbl Clean Energy 1.85	MSCI USA 11.95	MSCI EME 18.60	MSCI EME 6.38
BC Global Agg 4.79	MSCI EAFE 32.46	Bilbg Cmnty 16.83	BC EAFE 7.84	MSCI ACWI ex Fsl Fuels 18.00	MSCI USA 32.60	BC US Corp IG 7.46	BC Agg 0.55	Bilbg Cmnty 11.77	MSCI EAFE 14.22	MSCI EAFE 6.37
BC US Corp IG -4.94	MSCI USA 27.86	MSCI USA 16.52	BC Global Agg 5.64	MSCI EAFE 17.90	MSCI ACWI ex Fsl Fuels 24.36	MSCI ACWI ex Fsl Fuels 6.05	MSCI USA 0.03	MSCI EME 11.60	MSCI ACWI ex Fsl Fuels 12.78	MSCI ACWI ex Fsl Fuels 4.80
EM Debt -5.22	EM Debt 21.98	EM Debt 15.68	MSCI USA 0.63	EM Debt 16.76	MSCI EAFE 23.29	BC Agg 5.97	MSCI EAFE -0.39	EM Debt 9.94	EM Debt 10.36	EM Debt 3.62
Bilbg Cmnty -35.65	Bilbg Cmnty 18.91	BC US Corp IG 9.00	EM Debt -1.75	MSCI USA 15.63	BC US Corp IG -1.53	BC Global Agg 0.59	MSCI ACWI ex Fsl Fuels -0.49	MSCI ACWI ex Fsl Fuels 6.57	S&P Gbl Clean Energy 9.67	MSCI USA 2.83
MSCI USA -37.39	BC US Corp IG 18.68	MSCI EAFE 8.21	MSCI ACWI ex Fsl Fuels -7.50	BC US Corp IG 9.82	BC Agg -2.02	MSCI EME -1.82	BC US Corp IG -0.68	BC US Corp IG 6.11	MSCI USA 8.74	BC Global Agg 2.60
MSCI EAFE -43.06	S&P Gbl Clean Energy 7.35	BC Agg 6.54	MSCI EAFE -11.73	BC Global Agg 4.32	MSCI EME -2.27	MSCI EAFE -4.48	BC Global Agg -3.15	BC Agg 2.65	BC Global Agg 4.41	BC US Corp IG 2.54
MSCI EME -53.18	BC Global Agg 6.93	BC Global Agg 5.54	Bilbg Cmnty -13.32	BC Agg 4.22	BC Global Agg -2.60	S&P Gbl Clean Energy -4.63	MSCI EME -14.60	BC Global Agg 2.09	BC US Corp IG 3.80	S&P Gbl Clean Energy 1.68
S&P Gbl Clean Energy -65.28	BC Agg 5.93	S&P Gbl Clean Energy -27.63	MSCI EME -18.17	Bilbg Cmnty -1.06	EM Debt -8.98	EM Debt -5.72	EM Debt -14.92	MSCI EAFE 1.51	BC Agg 2.27	BC Agg 1.45
MSCI ACWI ex Fsl Fuels NA	MSCI ACWI ex Fsl Fuels NA	MSCI ACWI ex Fsl Fuels NA	S&P Gbl Clean Energy -44.47	S&P Gbl Clean Energy -16.15	Bilbg Cmnty -9.52	Bilbg Cmnty -17.01	Bilbg Cmnty -24.66	S&P Gbl Clean Energy -16.99	Bilbg Cmnty -5.26	Bilbg Cmnty -3.00

DJ UBS Cmnty = Dow Jones-UBS Commodity Index

MSCI EAFE = MSCI EAFE Index

MSCI EME = MSCI EM Equity Index

MSCI USA = MSCI US Equity Index

S&P Gbl Clean Energy = S&P Global Clean Energy Index

EM Debt = JP Morgan GBI EM Global Diversified Unhgd

BC Agg = Barclays Capital US Aggregate Bond Index

MSCI ACWI ex Fsl Fuels = MSCI ACWI ex Fossil Fuels Index

BC Global Agg = Barclays Capital Global Aggregate Bond Index

BC US Corp IG = Barclays Capital US Corporate Bond Index

Chart Data Source: Morningstar, MPI.

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APPENDIX

All reported data are sourced from Bloomberg unless otherwise stated.

Affordability: 100 = affordable based on median home prices, median income and mortgage rates

Brent Crude Oil: Sullom Voe ICE Brent Futures 1st Month Contract

CAPE: Shiller P/E (Cyclically Adjusted PE) from Robert Shiller's website <http://www.multpl.com/shiller-pe/>

CPI: Consumer Price Index

Credit: Bloomberg Barclays Global Agg Corporate

Currency: Bloomberg Barclays Global Agg-Government USD Hedged Index

Developed Economies (inflation): Developed Economies (OECD) Consumer Price Index (Annual YoY %)

Developing Economies (inflation): Emerging Economies Consumer Price Index (Annual YoY %)

Div. Yield: Dividend Yield

Dollar Index: US Dollar Index Spot Rate

EM Hard Currency: Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index

EM Local Currency Gov: Bloomberg Barclays Emerging Markets Local Currency Diversified Total Return Index

EM Local Currency Performance: Bloomberg Barclays Emerging Markets Local Currency Diversified Total Return Index

Europe Sovereign: Bloomberg Barclays Europe Sovereign Index

EY Spread: EY-Baa Yield derived by subtracting the Barclays Capital Baa US Credit YTW from the S&P 500 (SPX) Earnings Yield (the inverse of the P/E ratio)

GDP: Gross Domestic Product

Global (inflation): IMF World CPI % Change

Global Agg: Bloomberg Barclays Global Aggregate Bond Index

Global Agg Corp: Bloomberg Barclays Global Aggregate Corporate Bond Index

Hard Data: Equal-weighted blend of Bloomberg ECO US Housing and Real Estate Market, Industrial Sector, Labor Market, Personal/Household Sector, Retail & Wholesale Sector Surprise Indices

MSCI ACWI: MSCI All Country World Index

MSCI Emerging Markets (EM): MSCI Emerging Markets Index

MSCI Europe: MSCI All Country Europe Index

APPENDIX CONTINUED

MSCI Japan: MSCI Japan Index
 MSCI US Small Cap: MSCI USA Small Cap Index
 Municipal: Bloomberg Barclays US Municipal Bond Index
 Nikkei 225: Nikkei 225 Stock Average
 P/B: Trailing 12 months price to book ratio
 P/CF: Trailing 12 months price to cash flow ratio
 P/E: Trailing 12 months price to earning ratio
 S&P Global Clean Energy: S&P Global Clean Energy Index
 SF Bay Area: California Association of Realtors California Housing Affordability Index San Francisco Bay Area
 Shanghai Composite: Shanghai Stock Exchange Composite Index
 Soft Data: Bloomberg ECO US Surveys & Business Cycle Indicators Surprise Index
 US 1st Time Buyer: National Association of Realtors Housing Affordability for first time homebuyers
 US Agg: Bloomberg Barclays US Aggregate Bond Index
 US Agg Credit: Bloomberg Barclays United States Aggregate Credit Total Return Index
 US Corporate High Yield: Bloomberg Barclays United States Corporate High Yield Total Return Index
 US HY: Bloomberg Barclays US High Yield Bond index
 US Treasury: Bloomberg Barclays United States Treasury Total Return Index

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