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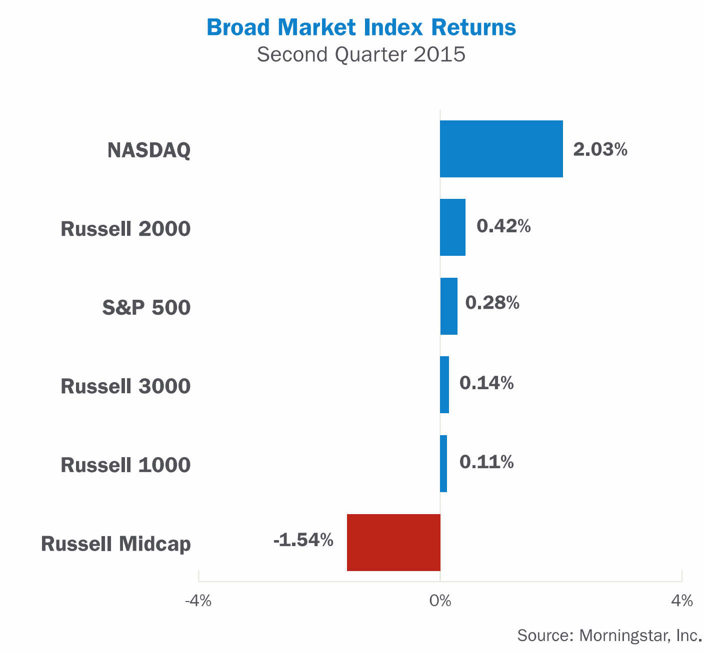
We saw a bit of a mixed bag this past quarter. Market gains seen earlier in the second quarter, evaporated somewhat at the end of the quarter as markets were rattled by a variety of economic news. Nonetheless, most areas of the stock market managed to end the quarter in positive territory. Bonds, however, struggled with the anticipation that the Fed is likely moving closer to raising interest rates.

The Economy

The domestic economic backdrop remained decidedly mixed in the second quarter of 2015, as analysts and investors were concerned over conflicting signals regarding economic growth. The Bureau of Labor Statistics raised its third estimate of first quarter 2015 gross domestic product (GDP) to -0.2%. Although substantially lower than the +2.2% growth generated in the fourth quarter of 2014, it was above the prior estimate of -0.7%. Despite the contraction, economists are quick to point out that the economy is not in a recession, and that temporary factors were at play, including fallout from the decline in oil prices. The employment situation was strong, with an average of about 207,000 jobs added each month. The unemployment rate held steady at 5.5%.



The pace of global economic growth remained constrained due to underinvestment and slack in demand, but similar to in the U.S., conditions are expected to improve. Economists anticipate that lower oil prices, waning austerity measures, and Federal Reserve-like liquidity support should be catalysts for accelerated growth. In Europe, the Greece bailout discussions dominated the economic news. By the June 30 deadline, the Greek government and creditors suffered a breakdown in debt negotiations, leaving the country on the precipice of default and a potential exit from the Eurozone. However, in aggregate, Europe, as well as Japan, delivered positive growth, partly because of aggressive monetary stimulus programs enacted by policymakers.

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China's economic growth continues to ease, and slowing demand from foreign countries is offsetting governmental stimulus measures. Emerging-market economies also posted lower growth during the first quarter (the latest period for which data is available), as the decline in commodity prices continues to present headwinds. Brazil and Russia were two of the economies generating negative growth and are among the most sensitive to commodity prices. India's economy remains in an uptrend, growing at about 7%.

The Federal Open Market Committee (FOMC) did not make any changes to its interest guidance at its most recent June meeting, and it has a slightly more positive outlook on the economy than after its previous meeting. Seven of the twelve committee members anticipate an interest rate hike before the end of the year, and many analysts expect the first one to occur in September, followed by another by the end of December. The rate hikes are just the first part of the normalization process, and the Fed likely will begin reducing its balance sheet several months after the first interest rate increase.

Highlights

GDP

The Bureau of Economic Analysis released the third estimate of the first quarter 2015 real GDP, a seasonally adjusted annualized rate of -0.2%, down from the previous quarter's +2.2% annualized growth, but an increase from the prior estimate of -0.7% growth. Although the results were disappointing, many economists believe the effects to be temporary, and that the six-year economic expansion will continue to exhibit resiliency. One contributing cause to the contraction was the impact of winding down fiscal austerity. The disappointing first-quarter results have not dampened economists' outlook, however, as the economy remains on track to add an impressive 2.5 million jobs this year. As in recent prior quarters, consumer spending was a positive contributor to growth. However, other major segments detracted from performance. Net exports continued to be a drag on growth due to the strong dollar. Government spending slumped for the second consecutive quarter. Corporate profits fell by -5.2% (not annualized) after declining -1.4% in the prior quarter. Lower energy prices created deflation, and the personal consumption expenditures (PCE) index of prices dropped -2.0%, following a -0.4% decrease in the prior quarter.

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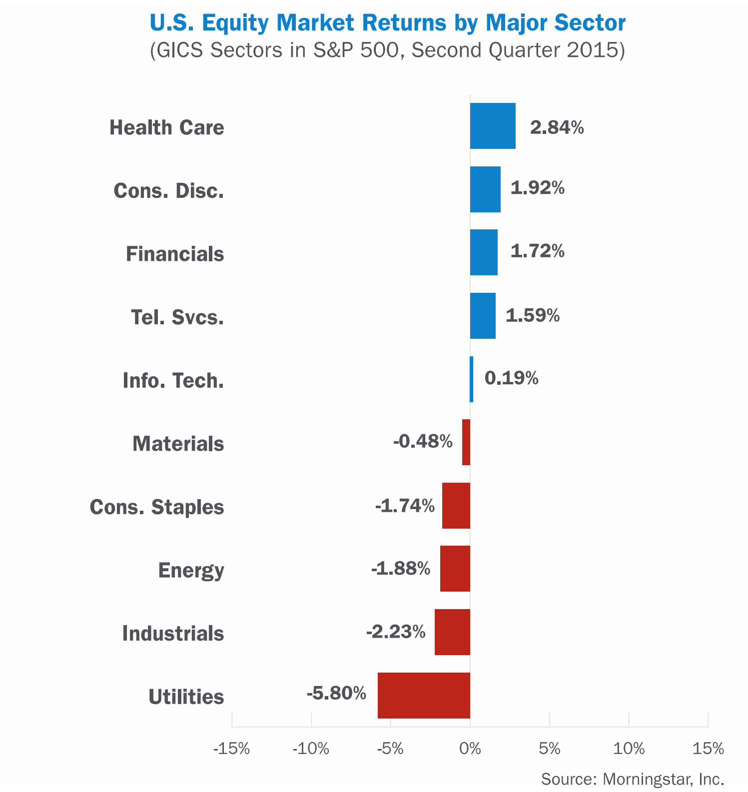
HOUSING

Portions of the housing segment advanced. Existing-home sales for May (the latest monthly data available) advanced at an annualized rate of 5.4 million units, about 5% higher than the 5.1-million-unit rate reached in April, and up more than +9% from May 2014. Existing-homes inventory loosened somewhat, and now there are about 5.1 months of supply. Existing-home prices in May continued their upward trajectory since February, and are nearly 8.6% higher from year-ago levels. New-home building is rising: the NAHB (National Association of Home Builders) Housing Market Index, a measure of homebuilding activity, rose to 59, up sharply from its previous reading of 52, and its highest level since last September. The increase was broad-based regionally, and homebuilder reports indicate that new-home buyers are committed and enthusiastic. Analysts expect that as the economy emerges from its first-quarter doldrums, housing activity will further accelerate through the second half of 2015. However, they caution that the specter of rising interest rates (making mortgages less affordable) is a risk to the housing market.



EMPLOYMENT

Employment, on average, was not as strong as the first quarter, but it has established a renewed uptrend. Employers added 280,000 jobs during May, outpacing consensus expectations. The three-month moving average of 207,000, although below the average for the period ending in February, nevertheless signals a robust environment. Service industries such as professional/business services, healthcare, and leisure/hospitality led the way, adding 63,000, 58,000 and 57,000 jobs, respectively. The unemployment rate in May was 5.5%, the same level as in February, but above the 5.4% reading in April. The tightening labor market seems to be leading to an uptick in average hourly earnings, which have increased 2.3% in the past 12

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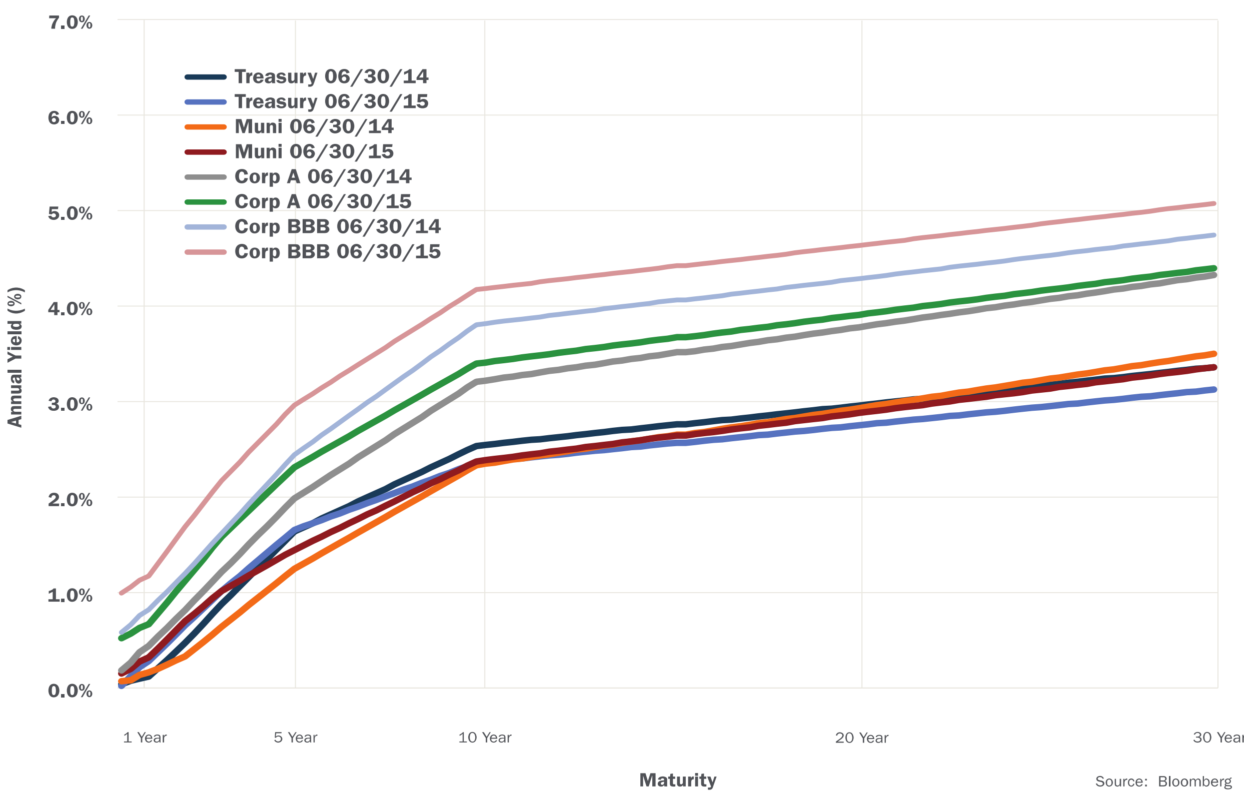
months. Analysts expect the recent employment gains to pick up in the coming quarters, and some projections show average monthly payroll additions of 300,000 later in 2015 and into 2016

FED POLICY

The FOMC, which altered the language in its statement following meetings in the first quarter, ended its June meeting with no changes to either its interest rate or balance-sheet policies. Neither did the committee modify its forward interest rate guidance. However, it modestly lowered its economic-growth projections, a

U.S. Treasury, Muni, and Corporate 30-Year Yield Curves



Source: Bloomberg

reflection of the first quarter's soft patch. The committee members' median estimate of the year-end Fed funds was 0.625%, implying that there may be two interest rate hikes by year-end. However, seven of the twelve members expect just one rate increase. The median estimates for 2016 and 2017 ending Fed funds rates were 1.625% and 2.875%, respectively. Most analysts expect the Fed funds rate "liftoff" to begin in September, and for the Fed to begin reducing its balance sheet several months thereafter.

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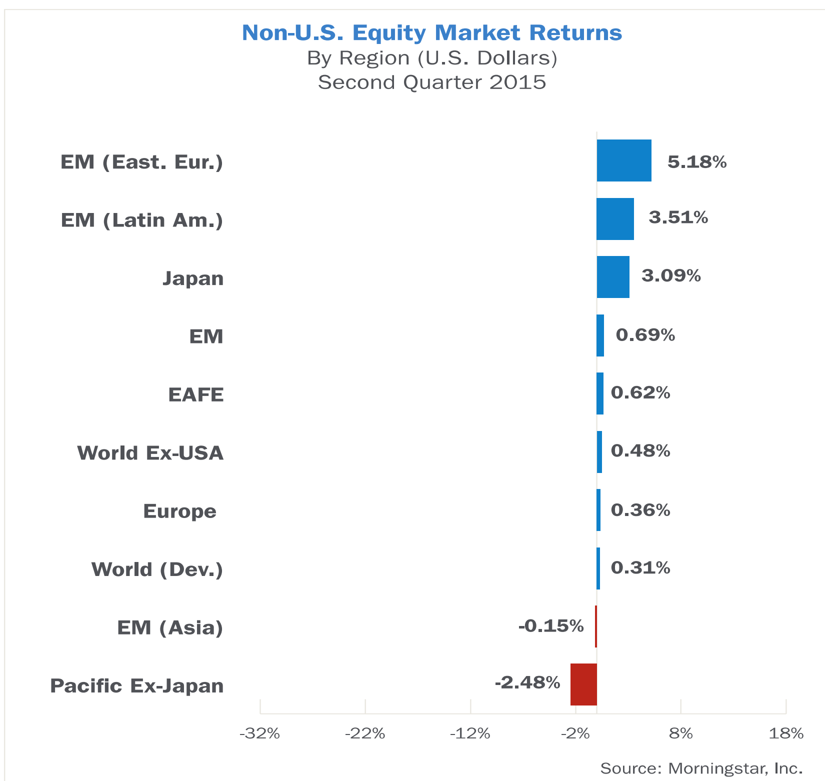
Interest Rates

Fixed-income securities had a difficult time, as investors anticipated the FOMC will soon raise interest rates. The quarter represented somewhat of an inflection point for fixed-income markets. U.S. monetary policy became more restrictive, but many foreign central banks are still in the midst of stimulus programs. Investors wrestled with several dimensions, including: signals of mixed economic growth domestically and abroad; determining when and by how much the FOMC will choose to raise interest rates; the continuing Greece bailout negotiations; and the negative impact of declining commodity prices on emerging economies.

Fixed-income securities generally had a difficult time posting total return gains, and almost every segment generated negative returns. The Barclays Treasury 5–7 Yr. Index declined -1.1%, and the Barclays U.S. Corporate 5–10 Yr. Index fell -2.2%. High yield securities were unchanged, with a return of 0.0%. The Barclays U.S. Aggregate Bond Index eased -1.7%. The Barclays Municipal Bond Index was not immune to the fixed-income asset class's overall troubles: it fell -0.9%. Non-U.S. fixed-income also suffered: the Barclays Global Aggregate ex-U.S. Index declined -0.83%. Emerging-market debt posted mixed results, with the JPM EMBI Global Index inching lower by -0.3%.

Equity Markets

The equity market seemed to climb a "wall of worry," as broad-based indices continued to post gains in the face of perceived headwinds. Investors had a fair amount to digest: lackluster economic data, looming interest rate hikes, unsettled negotiations over Greece's status in the European Union, and the psychological hurdle of beginning the seventh consecutive year of positive performance. But after January's initial drop, equities have been resilient in posting steady, albeit unremarkable, gains. The S&P 500 Index finished the quarter with a gain of +0.28%, and is now up +1.23% on a year-to-date basis. The index has advanced for



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10 consecutive quarters, the longest streak since 1994–1998, and has gained more than 250% since the bull market began in March 2009.

The ten primary economic sectors generated varied performance, and created a more favorable environment for active managers. The healthcare sector was the best performer, as it was in the first quarter, posting a gain of +2.84%. Financials and telecommunications services also fared well, gaining +1.72% and +1.59%, respectively. The utilities and industrials sectors were the poorest performers, declining -5.80% and -2.23%, respectively.

The Russell 1000 Index of large capitalization stocks generated a +0.11% total return. Within the large-cap segment, growth and value stocks performed in line with one another. Small-cap stocks, as represented by the Russell 2000 Index, performed well relative to large caps, ending with a total return of +0.42%. Until the fourth quarter of 2014, small caps had an extended period of underperformance, but have staged a nice recovery relative to large caps over the past three quarters. Growth also significantly outperformed value within the small-cap universe. The Nasdaq Composite, dominated by information technology stocks, again delivered solid gains, advancing +2.03%, and the Dow Jones Industrial Average of 30 large industrial companies eased slightly, by -0.29%.

A streak of strong gains in Real Estate Investment Trusts (REITs) came to an abrupt end as interest rates rose sharply. The DJ US Select REIT Index slumped -10.00%, and the index is now down -5.75% on a year-to-date basis. Commodities finally stabilized, as energy prices recovered somewhat, and the Bloomberg Commodity Index tacked on +4.66%, but is still down -23.71% over the past 12 months.

International stocks outpaced U.S. equities, and investors began adding to positions after years of underperformance. The economic environment in the eurozone has improved steadily in recent months as the European Central Bank’s asset purchase program of €60 billion (about $69 billion) per month seems to be having its intended effects. As a result, European stock indices again produced strong gains. On balance, as with the first quarter, equity market performance outside the U.S. was positive. The MSCI ACWI ex-USA Index, which measures performance of world markets outside the U.S., advanced +0.72%, fueled by both developed and emerging markets. The MSCI EAFE Index of developed markets stocks rose by +0.62% during the same period. Regional performance remained strong, and almost every region advanced. Eastern Europe and China were the strongest relative performers, and the MSCI EM Eastern Europe and MSCI China indices posted returns of +5.18% and +4.18%, respectively. Emerging markets performance was

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moderate, as these economies continue to struggle with lower commodity prices. The MSCI Emerging Markets Index posted a gain of +0.69% for the three months.

Looking Forward

Despite the slight contraction in U.S. economic growth, economists generally are upbeat about the economy's prospects heading into the second half of this year and into 2016. The lackluster economic data may have been a result of various temporary effects, and recent reports suggest more robust growth lies ahead, with some economists estimating underlying real GDP growth closer to 3%. Continued improvement in employment will help, and employers are on pace to add approximately 2.5 million jobs to their payrolls this year, putting the economy on track to reach full employment sometime in 2016. Although inflation will become more of a concern going forward as the tightening labor market results in wage gains, it should not be an issue for several quarters. Consumers have been a key growth driver in the past, and although they have contributed to recent gains, future growth depends on their accelerated spending. Lower oil prices have not yet translated to increased consumer spending, but economists are looking for it in the second half of the year. Global economies are beginning to firm up and produce meaningful recoveries, and Europe appears to lead the way. Weaker currencies and lower energy prices are important potential catalysts for further gains. From a market perspective, fixed-income securities now may be encountering the long-awaited end of the secular bull market, but only time will tell. Even though equities are in the midst of a seventh consecutive year of gains, valuations do not appear excessive.

The markets have rebounded a bit since the end of the quarter, particularly on the recently announced Greece bailout deal. This was nice to see given the retreat in the markets we saw in June. However, there is much going on globally and we anticipate that the volatility we have seen in the market recently will continue. Because of this we continue to feel a diversified portfolio is important. Please be sure to let us know if you feel your asset allocation is no longer appropriate for your situation or if you have any concerns regarding your portfolio.