Period Ending June 30, 2016

Market Review

John P. Ulrich

President
Ulrich Consulting Group

1805 Rio Grande Blvd. NW
Suite 1
Albuquerque, NM 87104

Tel: (505) 224-9100
Cell: (505) 263-1865
Fax: (505) 224-9107

www.ulrichcg.com

Capital Markets Review

- Despite the turmoil imposed by Britain's vote to leave the EU late in the quarter, US equities posted gains across capitalization and style in the second quarter. The S&P 500 was positive each month and, after staging a strong recovery in the wake of the sharp Brexit related decline in late June, closed up 2.5% for the quarter. At quarter end, the index stood just 1.5% below its all-time high (May 21, 2015). Style-wise, value outperformed growth with the largest advantage being in large caps. From a capitalization perspective, small cap performed best and outpaced large cap by more than 1%.
- Foreign equities fared less well than their US counterparts as returns were negative across developed market indices. The MSCI EAFE declined 1.5%, a result impacted by both weak local equity returns and currency headwinds. In reverse of US results, foreign small caps underperformed large caps and value trailed growth. Emerging markets was the lone area of positive results among foreign equities as the MSCI EM index managed a fractional gain for the quarter on the heels of a strong late-June rally.
- Falling interest rates around the globe pushed bond indices higher across the board. The 10-year US Treasury yield fell below 1.5% and 10-year yields are negative in Japan (-0.25%), Germany (-0.12%), Switzerland (-0.59%) and Eurozone (-0.40%). Credit spreads also narrowed as investors re-embraced risk. The Barclays Aggregate index rose more than 2% in the quarter to bring year-to-date performance to a gain of more than 5%. High yield, long duration, and emerging debt indices all rose more than 5% in the quarter and are showing "equity-like" double digit gains year-to-date.
- Commodities rallied more than 12% and turned in their best quarterly results since the 4Q'10. The gains were broad based with energy, agriculture, and precious metals all advancing more than 10%. Gold continued its strong run rising nearly 7% and pushing year-to-date gains to nearly 25%, the best performance anywhere in the capital markets. Yield oriented equities also exhibited considerable strength as REITs gained 7% and MLPs rallied nearly 20% after a very weak start to 2016.

Annual returns for key indices (2005 – 2015)

Year Ending December 31, 2006	Year Ending December 31, 2007	Year Ending December 31, 2008	Year Ending December 31, 2009	Year Ending December 31, 2010	Year Ending December 31, 2011	Year Ending December 31, 2012	Year Ending December 31, 2013	Year Ending December 31, 2014	Year Ending December 31, 2015	Year to Date	
MSCI:EM Gross 32.6%	MSCI:EM Gross 39.8%	Barclay's Aggregate 5.2%	MSCI:EM Gross 79.0%	Russell:2000 Growth 29.1%	Barclay's Aggregate 7.8%	MSCI:EM Gross 18.6%	Russell:2000 Growth 43.3%	Russell:Midcap Value 14.7%	Russell:1000 Growth 5.7%	Russell:Midcap Value 8.9%	Best Performing
MSCI:EAFE 26.3%	Russell:1000 Growth 11.8%	Russell:2000 Value (28.9%)	Russell:Midcap Growth 46.3%	Russell:Midcap Growth 26.4%	Russell:1000 Growth 2.6%	Russell:Midcap Value 18.5%	Russell:Midcap Growth 35.7%	S&P:500 13.7%	S&P:500 1.4%	MSCI:EM Gross 6.6%	
Russell:2000 Value 23.5%	Russell:Midcap Growth 11.4%	Russell:1000 Value (36.8%)	Russell:1000 Growth 37.2%	Russell:Midcap Value 24.8%	S&P:500 2.1%	Russell:2000 Value 18.1%	Russell:2000 Value 34.5%	Russell:1000 Value 13.5%	Barclay's Aggregate 0.5%	Russell:1000 Value 6.3%	
Russell:1000 Value 22.2%	MSCI:EAFE 11.2%	S&P:500 (37.0%)	Russell:2000 Growth 34.5%	Russell:2000 Value 24.5%	Russell:1000 Value 0.4%	Russell:1000 Value 17.5%	Russell:1000 Growth 33.5%	Russell:1000 Growth 13.0%	Russell:Midcap Growth (0.2%)	Russell:2000 Value 6.1%	
Russell:Midcap Value 20.2%	Russell:2000 Growth 7.0%	Russell:1000 Growth (38.4%)	Russell:Midcap Value 34.2%	MSCI:EM Gross 19.2%	Russell:Midcap Value (1.4%)	MSCI:EAFE 17.3%	Russell:Midcap Value 33.5%	Russell:Midcap Growth 11.9%	MSCI:EAFE (0.8%)	Barclay's Aggregate 5.3%	
S&P:500 15.8%	Barclay's Aggregate 7.0%	Russell:Midcap Value (38.4%)	MSCI:EAFE 31.8%	Russell:1000 Growth 16.7%	Russell:Midcap Growth (1.7%)	S&P:500 16.0%	Russell:1000 Value 32.5%	Barclay's Aggregate 6.0%	Russell:2000 Growth (1.4%)	S&P:500 3.8%	
Russell:2000 Growth 13.3%	S&P:500 5.5%	Russell:2000 Growth (38.5%)	S&P:500 26.5%	Russell:1000 Value 15.5%	Russell:2000 Growth (2.9%)	Russell:Midcap Growth 15.8%	S&P:500 32.4%	Russell:2000 Growth 5.6%	Russell:1000 Value (3.8%)	Russell:Midcap Growth 2.2%	
Russell:Midcap Growth 10.7%	Russell:1000 Value (0.2%)	MSCI:EAFE (43.4%)	Russell:2000 Value 20.6%	S&P:500 15.1%	Russell:2000 Value (5.5%)	Russell:1000 Growth 15.3%	MSCI:EAFE 22.8%	Russell:2000 Value 4.2%	Russell:Midcap Value (4.8%)	Russell:1000 Growth 1.4%	
Russell:1000 Growth 9.1%	Russell:Midcap Value (1.4%)	Russell:Midcap Growth (44.3%)	Russell:1000 Value 19.7%	MSCI:EAFE 7.8%	MSCI:EAFE (12.1%)	Russell:2000 Growth 14.6%	Barclay's Aggregate (2.0%)	MSCI:EM Gross (1.8%)	Russell:2000 Value (7.5%)	Russell:2000 Growth (1.6%)	
Barclay's Aggregate 4.3%	Russell:2000 Value (9.8%)	MSCI:EM Gross (53.2%)	Barclay's Aggregate 5.9%	Barclay's Aggregate 6.5%	MSCI:EM Gross (18.2%)	Barclay's Aggregate 4.2%	MSCI:EM Gross (2.3%)	MSCI:EAFE (4.9%)	MSCI:EM Gross (14.6%)	MSCI:EAFE (4.4%)	Worst Performing

Market Environment 2Q16

Global Economy

*The 2nd quarter was reasonably uneventful and markets were relatively placid **until** June 23rd, when British voters narrowly approved the Brexit referendum. Investor complacency was replaced with shock, and markets reacted fiercely. Volatility spiked, global bond yields fell sharply, the pound hit a 31-year low with a record intra-day swing of more than 10%, stock markets plunged, and gold surged. Brexit overshadowed US economic data that continued to point to sluggish, yet positive, growth.*

- Real GDP growth in the US for 1Q16 was +1.1% revised upward from initial estimate of +0.5%
  - Weaker than rate in 2015 of 2.4%; business investment sank 5% while residential investment was the bright spot (+16%)
  - Atlanta Fed forecasts 2016 GDP to be 2.7%
- Inflation remained well below the Fed's 2% target for the Personal Consumption Index ("PCE")
  - PCE Index +0.9% y-o-y as of May
  - Core CPI +2.2% as of May but Headline only +1.0% despite higher energy prices
- Oil
  - Continued to rebound
  - Hit low of $26/barrel on Feb 11 but closed quarter at $48/barrel (WTI)
- Weak May labor report a surprise
  - 38,000 jobs vs expectations for 155,000
  - Unemployment at 4.7%
  - Labor force participation at 62.6%
  - Aberration?
- Manufacturing
  - June's Institute for Supply Management Index expanded to 53.2
  - 16-month high
- Continued Housing Strength
  - Existing home sales up 4.5% in May, the highest since 2007
- Weakness outside of US
  - Euro zone unemployment remains elevated at 10%
  - Euro zone GDP +0.6% in 1st quarter
  - Continued stimulus from ECB; began to purchase corporate bonds in June
  - Rate cuts and deterioration in UK economy expected in wake of Brexit
  - Japan still struggling to reflate economy; strengthening yen not helping

Market Environment 2Q16

Global Equity

In spite of the late quarter fireworks from the European Union, US equity benchmark performance was positive for the quarter. The S&P 500 staged a strong recovery in the wake of the sharp Brexit-related decline in late June, and closed up 2.5% for the quarter. At quarter end, the Index stood just 1.5% below its all-time high (May 21, 2015).

U.S. Equity

- Mid and small capitalization stocks outperformed
  - Russell Mid Cap gained 3.2%
  - Russell 2000 rose 3.8%
  - Value exceeded Growth across market capitalizations, helped by Energy and less exposure to Tech and Consumer Discretionary
- Sector performance divergent
  - Technology (-2.8%) and Consumer Discretionary (-0.9%) only sectors with negative returns
  - Energy strongest at +12%
  - Defensive Telecom and Utilities sectors also did well (+7%)
  - REITs (+7.4%) benefited from the decline in interest rates

International Equity

- Developed markets trailed US
  - MSCI EAFE: -1.5%
  - Best performer was Canada (+3.4%)
  - Worst was Italy (-10.4%)
- Emerging markets fared a bit better
  - MSCI EM: +0.7%
  - Brazil continued to rebound on stronger oil prices and returned +13.9% for the quarter; +46.3% y-t-d
  - Russia was also strong; +4.0% for the quarter and +20.4% y-t-d
  - Poland among the worst at -17.5%
  - India: +3.7%
  - China: +0.1%

Market Environment 2Q16

Global Fixed Income

Interest rates were range-bound for much of the quarter, but fell sharply after the surprise outcome from the referendum in the UK. The 10-year US Treasury yield approached record lows, closing the quarter at 1.49%, nearly 30 bps lower than 3/31 and nearly 80 bps below the year-end level.

- Barclays U.S. Aggregate Index returned 2.2% for the quarter; +5.3% y-t-d
  - Investment grade corporate bonds outperformed, helped by a rebound in energy
  - Long duration up sharply; Barclays Long Gov/Credit +6.6% and +14.3% y-t-d
- High yield top performer
  - Barclays High Yield Index was up 5.5% for the quarter and 9.1% y-t-d
  - Lower quality performed best
- Municipal bonds posted solid results
  - Barclays Municipal Bond Index returned 2.6% for the quarter with the Barclays 1-10 Year Blend up 1.4%
  - Longer maturity and lower quality performed the best
- Interest rates in developed markets fell to record lows, in many cases
  - 10-year yields negative in several countries; -0.13% for the German bund
  - Entire Swiss yield curve is negative
  - Negative yielding government debt now $12 trillion
  - Barclays Global Aggregate returned 3.4% (+2.7% hedged)
  - Yen gained 8% versus the dollar, bringing y-t-d gains to nearly 20%
  - Euro sank 2% and pound sank 7% versus dollar
- Emerging markets produced solid returns
  - Dollar-denominated JPM EMBI Global Diversified Index up 5%
  - Local currency-denominated JPM GBI-EM Global Diversified Index up 3%

Market Environment 2Q16

Liquid Real Assets & Hedge Funds

Liquid real assets produced positive returns. Gains in commodities were broad-based but TIPS underperformed nominal Treasuries as inflation expectations dwindled.

- Oil prices continued to gain
  - WTI closed the quarter at $48/barrel; up over 25%
- Gold up 7%
  - Up nearly 25% year-to-date
- Bloomberg Commodity Index up 12.8%
  - Broad-based gains across components
- MLPs benefited from rising oil prices
  - Alerian MLP: +19.7%; +14.7% year-to-date
- REITs also strong
  - NAREIT Equity: +7.0
- Inflation remained benign
  - Core CPI +2.2% (y-o-y) as of May
  - Headline a more muted +1.1% in spite of higher energy prices
- TIPS underperformed nominal Treasuries
  - Barclays US Treasury Index +2.1%; Barclays US TIPS Index +1.7%
  - TIPS breakeven spread narrowed to 1.40% bps from 1.62% over the quarter
  - 10-year TIPS yield declined to 0.09%

Disclosures

Ulrich Consulting Group, LLC is an investment adviser registered with the SEC.

The views expressed represent the opinion of Ulrich Consulting Group, LLC. The views are subject to change and are not intended as a forecast or guarantee of future results. This material contains information about general market conditions and is for informational purposes only. It does not constitute investment advice and is not intended as an endorsement of any specific investment. Stated information is derived from sources that have not been independently verified for accuracy or completeness. While Ulrich Consulting Group believes the information to be accurate and reliable, we do not claim or have responsibility for its completeness, accuracy, or reliability. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and Ulrich Consulting Group's view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such statements

For more information about Ulrich Consulting Group, LLC please contact us for a copy of our disclosure brochure. Please do not send money for investing until you have read it. For more information pertaining to the registration status of Ulrich Consulting Group, LLC, please visit www.adviserinfo.sec.gov.