SIGNATURE RESOURCES
CAPITAL MANAGEMENT

Second Quarter 2017

QUARTER IN REVIEW

The second quarter of 2017 proved fruitful as political trends in Europe were more favorable than some had feared, while aspirations for global macroeconomic growth remained positive atop seemingly more auspicious public policies. Risks both obvious and unknowable abound, but so do reasons for optimism with regard to the supports for potential further investment gains. Even so, such progress leads us to remind readers that returns do not come with guarantees and that now is as good a time as ever for an examination of portfolio allocations in the context of risk tolerances and investment time horizons.

Solid Round of Gains

Equity market gains continued apace in the second quarter. This despite heightened tensions with North Korea as that nation furthered its nuclear arms program and the Syrian conflict intensified amidst increasingly strained relations between Russia and the West. Relatively more cautious views in fixed income seemed to balance the potential for continued growth against the potential for havoc—economic, financial and/or political—to reduce the need for global central banks to ease off still highly accommodative policy stances.

Growth Hopes Balanced Against Strife

As we left Q1 behind, the U.S. to Russian protest had just retaliated against a chemical weapons attack allegedly inflicted by the Syrian government on its own people. And North Korea had just finished a series of missile tests that left U.S. and European governments scrambling to devise some manner of response. During the second quarter, the Syrian conflict intensified with the multi-lateral conflict increasingly reflective of growing tensions between Iran and Russia on one side and Europe and the United States on the other. Though North Korea's missile tests were few, they culminated with the launch of its first truly long-range missile. The potential for both situations to deteriorate remains top of mind for the Investment Team.

Second Half Beckons

Despite the intense geopolitical scene, equity market returns were quite favorable. After a strong first-half start, one wonders what will happen in global markets through the remainder of the year. Arguably, as valuations face even more pressure to find support from corporate fundamentals (revenue and profit), investors may become more sensitive to quarterly earnings seasons. Of course, each quarter of the past few years has raised similar questions. As for fixed income, we expect investors to continue to focus on enhancing portfolio income by taking advantage of pockets of relatively more attractive yields that arise. This buying may keep a lid on long-term yields, particularly in the more credit-sensitive sectors. Barring a surprising shift in course by any of the primary global central banks, we believe fixed income investments should remain a source of relative stability through the current quarter.

Figure 1: Quarter Summary Scorecard

Overall Take		
		Non-U.S. stocks furthered gains relative to U.S. equity, though returns for the latter were far from shabby. Value continued to underperform. A trend struck in Q1, U.S. small-cap returns fell below that of large caps, while non-U.S. small-cap stocks outperformed. Emerging markets were again a highlight
		As domestic long-term yields fell a bit in the quarter, fixed income saw measurable positive performance. Global bonds outperformed domestic bonds again this quarter

Equity			
	Domestic Another quarter of solid gains. Small caps trailed Large, but not by as much as Value did, versus Growth		International Emerging market stock performance maintained momentum as non-U.S. equities generally outperformed. Small caps had a better go of it than U.S. peers

Fixed Income			
	Domestic Rates fell for longer-dated bonds even as rates rose for shorter maturity issues. Gains overall were healthy		International Another good quarter boosted principally by falling long-term rates and further strengthening in local currencies, versus the U.S. dollar

Macro Focus

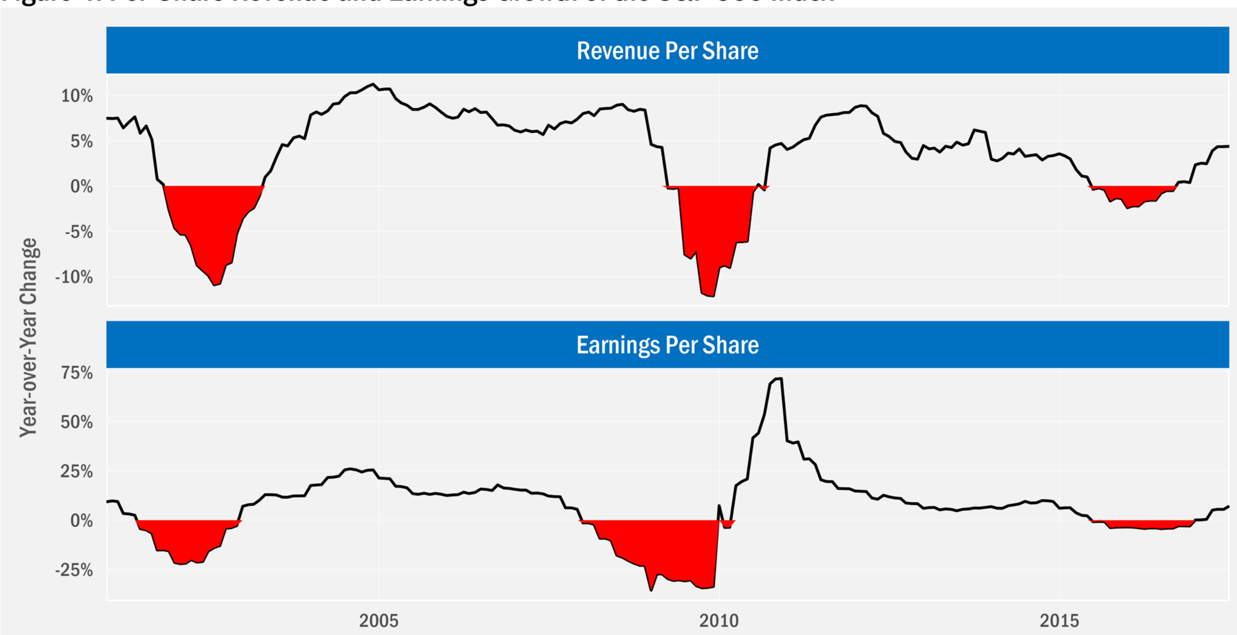
Broadly speaking, there were few grand surprises among macroeconomic reports during the quarter and we continue to find global trends supportive of further optimism regarding ongoing macroeconomic activity. Through the quarter, we did see a growing mismatch between analyst forecasts and actual data as results for the most part came in weaker than expected. Even so, the Federal Reserve chose to raise its range for the federal funds interest rate target[1] again in June by a quarter percentage point. The move conformed to the Fed's indication in March that it would raise rates at least twice more this year. While employment and inflation trends had waned somewhat in the interim, the Fed believed the weakness would prove temporary. The Fed also noted that "relatively soon" it would need to begin to reduce its balance sheet, which had become bloated since the Financial Crisis by the purchase of fixed income securities as it sought to stimulate growth in the broader economy. The European Central Bank also hinted that it may be shifting to a less accommodative stance. These more hawkish voices spurred a spike in long-term rates near the end of June leading to short-term losses in some bond portfolios (bond prices move in opposite direction to changes in yields). The break in relative calm with regard to central bank announcements was a reminder of the power of their words to influence investor activity.

On the corporate fundamentals front, we have been pleased with the positive turn in growth. Both earnings and revenue for members of the S&P 500 Index have increased over the past 12 months, following a growth-drought that began in the middle of 2015 and lasted through the end of 2016. More attractive fundamental trends soothed some of the valuation pressures created as gains in U.S. stock prices have outpaced growth in

[1] The fed funds rate is the rate at which banks loan each other funds overnight. The Federal Reserve establishes a target for this rate, seeking to modulate macroeconomic activity. A very helpful primer on the workings of the Federal Reserve can be found here: https://www.stlouisfed.org/in-plain-english

revenue and earnings. The resulting valuation metrics[2] are rich in comparison with history. We do not in any way use valuation metrics to time our equity investments, but such shifts in relative attractiveness from a valuation perspective serve as part of the reason we continue to welcome global equity exposures into our portfolios. Reiterating a perspective we shared in our May commentary, we generally include international stocks in our portfolios, seeking to enhance the diversification-driven potential for an overall reduction in risk while potentially enhancing long-term returns through an investment opportunity set that reaches beyond the U.S.

Figure 4: Per-Share Revenue and Earnings Growth of the S&P 500 Index



From 12.29.00 to 06.30.17. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Equity Market Review

After powering through the first quarter to relatively robust gains, international equity markets once again outperformed U.S. stocks in Q2, with relative performance for U.S. investors boosted by a weakening U.S. dollar. The MSCI All Country World ex. USA Index jumped 5.8% in Q2, bringing the year-to-date gain to 14.1%. The broader U.S. equity market trailed over both periods, though it still posted generous advances,

[2] As we discussed in our March commentary, valuation metrics present a "bang-for-buck" context for comparing stock prices. Price-to-earnings ratios, for example, compare a dollar spent to buy a particular stock or a collection of stocks (e.g. all the members of the S&P 500 Index) to the aggregate earnings produced by that company or group of companies. Lower valuation ratios generally reflect a less expensive investment. Relatively inexpensive valuation metrics define the pool of potential investments toward which we tilt portfolios in expectation of higher prospective relative returns that in theory are supported by that relatively less expensive upfront cost to purchase the shares.

turning in 3.0% and 8.9% gains, in that same order. Both developed and emerging markets topped those in the U.S., with the latter extending a board-leading tally to a 18.4% rise for the year so far.

Also trends we saw in Q1, small-cap stocks in the U.S. underperformed their larger peers. However, smaller stocks outside the U.S. fared much better on a relative basis in comparison to international large caps and their U.S. small-cap peers. As in Q1, Value stocks underperformed against Growth stocks.

Figure 3, below, details broader-market equity performance. Performance for the value components of the broad-market indexes can be found the middle section of the figure. The table's final section shows the relative performance of Value stocks versus their respective broader markets.

Figure 3: Trailing Broad Equity-Market Performance

Broad Equity-Market Indexes

	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Global	4.27	11.48	18.78	4.82	10.54	3.71	3.71
World ex. U.S.	5.78	14.10	20.45	0.80	7.22	1.13	1.13
World ex. U.S. Small-Cap	6.24	15.56	20.32	3.31	10.02	2.91	2.91
U.S.	3.02	8.93	18.51	9.10	14.58	7.26	7.26
U.S. Large-Cap	3.09	9.34	17.90	9.61	14.63	7.18	7.18
U.S. Small-Cap	2.46	4.99	24.60	7.36	13.70	6.92	6.92
Developed Markets	6.12	13.81	20.27	1.15	8.69	1.03	1.03
Emerging Markets	6.27	18.43	23.75	1.07	3.96	1.91	1.91

Value Component of Equity Indexes

	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Global	2.85	7.85	18.99	3.05	9.62	2.44	2.44
World ex. U.S.	4.08	11.03	23.62	-1.00	6.35	0.31	0.31
World ex. U.S. Small-Cap	5.57	14.60	23.55	2.80	10.23	3.22	3.22
U.S.	1.29	4.32	16.21	7.32	13.89	5.59	5.59
U.S. Large-Cap	1.51	4.85	15.86	7.79	13.82	5.25	5.25
U.S. Small-Cap	0.67	0.54	24.86	7.02	13.39	5.92	5.92
Developed Markets	4.78	11.12	25.01	-0.59	8.12	-0.08	-0.08
Emerging Markets	3.17	13.65	21.57	-1.33	1.67	1.53	1.53

Value Component Vs. Aggregate Equity Indexes

	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Global	-1.42	-3.63	0.20	-1.77	-0.92	-1.27	-1.27
World ex. U.S.	-1.70	-3.07	3.17	-1.80	-0.87	-0.82	-0.82
World ex. U.S. Small-Cap	-0.67	-0.96	3.24	-0.51	0.22	0.31	0.31
U.S.	-1.73	-4.61	-2.30	-1.78	-0.70	-1.66	-1.66
U.S. Large-Cap	-1.58	-4.49	-2.04	-1.82	-0.81	-1.94	-1.94
U.S. Small-Cap	-1.79	-4.45	0.26	-0.34	-0.32	-1.00	-1.00
Developed Markets	-1.34	-2.69	4.74	-1.74	-0.57	-1.11	-1.11
Emerging Markets	-3.10	-4.79	-2.17	-2.40	-2.29	-0.39	-0.39

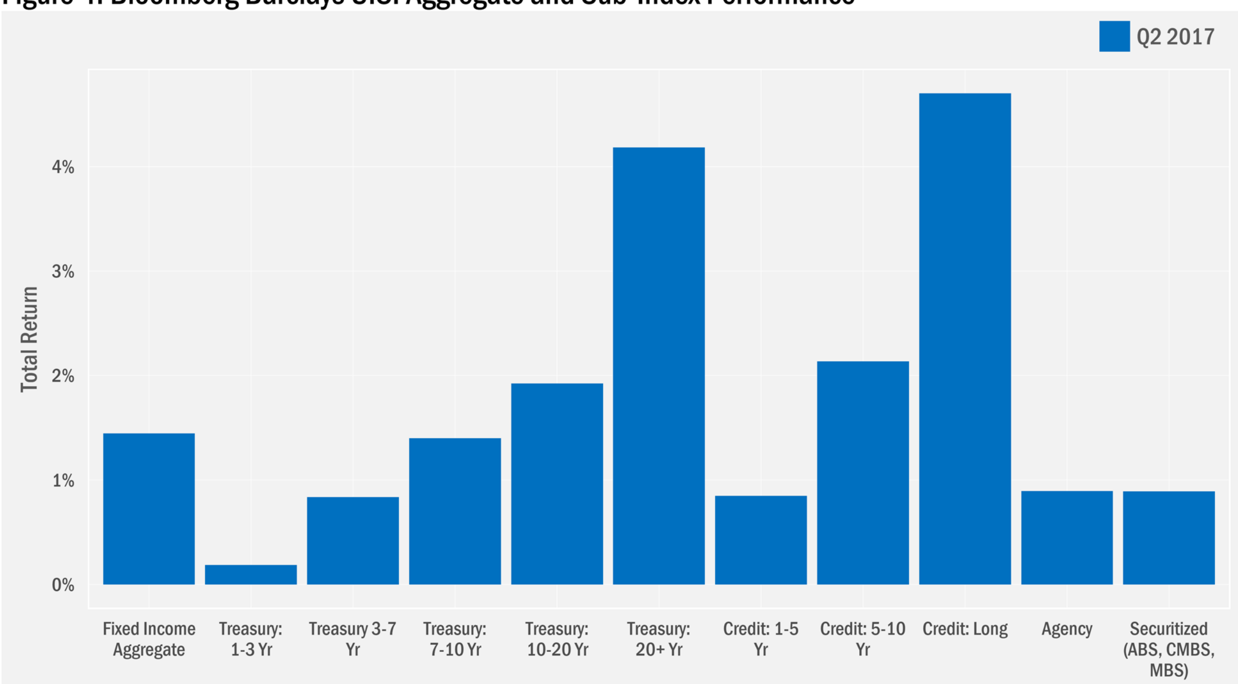
From 06.30.07 to 06.30.17. Total return data for broad market categories are annualized for periods greater than 1 year. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Fixed Income Market Review

Through the second quarter, the Bloomberg Barclays U.S. Aggregate Bond Index rose 1.45%. Longer-duration bonds outperformed shorter-duration bonds as generally did credit bonds versus Treasuries of the same maturity. We show these relative performance tallies in Figure 4. As noted earlier, the Federal Reserve chose to boost its fed funds target by a quarter percentage point in June, placing the target range for the overnight lending rate at between 1.00% and 1.25%. The move marked the fourth such rate hike since the Financial Crisis.

While these benchmark rate changes have seen the yield on 1-month Treasury bills rise from 0.42% at the end of 2016 to 0.84% as of the end of Q2, the 10-year Treasury bond yield has fallen since the beginning of the year from 2.45% to 2.30%. With short-term rates rising as long-term rates fell, the yield curve "flattened." This contrast may indicate that, even as the Fed has continued its relatively more optimistic march toward a more normal rate environment, the broader investing public may have turned from the growth-enthusiastic stance set right after the U.S. election to one waiting for greater clarity regarding pro-growth policy initiatives. Nonetheless, a few hawkish words were all it took to push longer-term rates higher near the end of the quarter. The upshot is that we are likely to see more volatility in fixed income as the path forward become clearer.

Figure 4: Bloomberg Barclays U.S. Aggregate and Sub-Index Performance



From 03.31.17 to 06.30.17. SOURCE: SRCM using data from Bloomberg

Eyes on the Horizon

We shift in our chairs with each recognition of the U.S. equity market's fresh all-time high, but not because we're super concerned about the implications of the new peak. Rather, we wonder how clients will view the potential implications of the new record for their investments. That an equity market might often breach past peaks seems more than a bit natural to us, but we understand it can be hard to avoid the thought that a downturn is looming.

Of course, downturns are as much a part of investing as are new highs. What matters is how the potential for market drawdowns fits into the context of our longer-term financial plans. Generally speaking, our investment time horizon will inform our exposures to investment risks, as will our individual tolerance for the market swings we may experience along the way. We invite interested readers to reach out to our Advisors to learn more about we shape portfolios to fit a range of levels of comfort with market risk.

Important Information

Investing involves risks. Past performance is not indicative of future results.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Asset classes and their respective indexes mentioned in this report include the following:

International (global non-U.S. dollar-denominated) fixed income: The Bloomberg Barclays Global Aggregate Index is a multi-currency benchmark that measures global investment grade debt and includes fixed-rate treasury, government-related, corporate and securitized bonds from developed and emerging markets issuers while excluding U.S. dollar-denominated debt.

Domestic (U.S.) fixed income (Fixed Income Aggregate): The Bloomberg Barclays U.S Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Components of the index include Treasury, Corporate, Agency and Securitized bonds.

Global equity: The MSCI All Country World Index (ACWI) captures large- and mid-cap representation across 23 Developed Markets and 23 Emerging Markets countries. The index covers approximately 85% of the global investable equity opportunity set.

International equity: The MSCI ACWI ex. USA Index captures large- and mid-cap representation across 22 Developed Markets countries and 23 Emerging Markets countries. The index covers approximately 85% of the global equity opportunity set outside the U.S.

International small-cap equity: The MSCI ACWI ex. USA Small Cap Index captures small-cap representation across 22 Developed Markets countries (excluding the U.S.) and 23 Emerging Markets countries. The index covers approximately 14% of the global equity opportunity set outside the U.S.

International small-cap value equity: The MSCI ACWI ex. USA Small Cap Value Index captures small-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 23 Emerging Markets countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The index targets 14% coverage of the free float-adjusted market capitalization in each country.

Developed markets equity: The MSCI EAFE Index captures large- and mid-cap representation across Developed Markets countries around the world, excluding the United States and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Emerging markets (EM) equity: The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 Emerging Markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The value investment style characteristics for MSCI index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

Domestic (U.S.) equity: The Russell 3000 Index represents approximately 98% of the investable U.S. equity market. The Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.

Domestic (U.S.) large-cap equity: The S&P 500 Index represents 500 U.S. companies and captures approximately 80% coverage of available market capitalization. The S&P 500 Value Index is composed of those stocks exhibiting relatively stronger Value characteristics among the constituents of the S&P 500 Index.

Domestic (U.S.) small-cap equity: The Russell 2000 Index tracks the performance of U.S. small-capitalization stocks and is comprised of the smallest 2000 companies in the Russell 3000 Index. The Russell 2000 Value Index measures the performance of those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

Opinions expressed herein are subject to change without notice. SRCM has exercised reasonable professional care in preparing this information. The information has been obtained from sources we believe to be reliable. However, SRCM has not independently verified or attested to the accuracy or authenticity of the information.