LAURENTIDE
ADVISORY

Quarterly Letter

September 2017

Global equity markets were higher in the third quarter supported by a synchronized global expansion, low inflation and central banks clinging to an accommodative monetary policy. Stocks generated solid returns over the quarter, bringing broad market one-year returns to approximately 20% across the globe. Emerging Market and non-US Developed Markets led the way in the quarter, continuing to erase the relatively poor returns of the three and five-year periods. Bonds sectors were generally higher as High Yield and Investment Grade bonds benefited from stable to lower interest rates and inflows by investors buying the extra yield offered "spread products".

Investors 'Picked' International Stocks and 'Panned' US Treasuries in 3Q 2017:

Benchmark	3Q17	Year-to-Date	1 Year	3 Years	5 Years
Emerging Markets Stocks	7.9	27.8	22.5	4.9	4.0
Non-US Stocks	5.4	20.0	19.1	5.0	8.4
Global Stocks	4.8	16.0	18.2	7.7	11.0
US Stocks	4.5	14.2	18.6	10.8	14.2
High Yield Bonds	2.0	7.1	9.1	5.9	6.4
Investment Grade Bonds	0.9	3.1	0.1	2.7	2.1
US Treasuries	0.4	2.3	-1.7	2.0	1.2

Source: Morningstar. Returns expressed in USD %. 3Q17 and Year-to-Date are actual returns for the period. 1 Year, 3 Years and 5 Years are annualized returns as of 9/30/2017. See Disclosure section for reference to specific benchmark used in the table.

GDP growth globally continues to be stable and broad-based. With momentum for future growth helped by proposed tax incentives. Eurozone GDP grew at an annualized rate of 2.3% in the second quarter and manufacturing continues to improve. Europe still has slack in its output providing room for continued growth. Euro-zone corporate earnings should improve to 10-15%. US GDP recovered to 3.1% in the second quarter and the outlook for the third quarter looks equally promising.

Economies are growing but let's not take our eye off the imminent change in monetary policy for the US, Europe and eventually Japan. Market bond yields have defied a Federal Reserve policy bias for higher rates because inflation expectations have remained low. The U.S. Fed has raised short-term interest rates four times since December 2015, including two hikes this year. We should expect additional upward adjustments through 2018. Longer term maturity yields have proven resilient in an environment of low inflation and muted (only 2%) economic growth.

Current inflation is at or below 2% and a trend toward higher inflation in the medium term could develop from higher wages and service costs. If future Federal Reserve policy rate increases are linked to inflation expectations or excessive economic growth, long maturity rates will finally move higher as inflation risk premiums are built in.

Our investment themes express a view that equity markets will continue to favor the stable, low fundamental growth picture. While equity market valuations do look expensive, renewed talk of tax reform alongside robust economic data could well extend gains. The stable equity environment supports our fixed income approach that uses core-plus bond funds. In fixed income, with market risk leaning toward higher rates, we maintain portfolio duration weights at short to the benchmark. For both equity and fixed income investing we favor active management to optimize economic value and produce excess returns beyond passive index strategies.

Summary of our three main Market Themes and the corresponding Investment Views:

Market Theme	Investment View
Treasury bond price (duration) risk is high.	Underweight duration. Capture yield advantage of spread markets.
We are living in a low-return world.	Use active management for enhancing economic value and achieving excess returns.
A new consumer class in developing economies is on the rise.	Moderate exposure to emerging markets and Europe. Ensure active funds have a bias to consumer and cyclical sectors.

Global Stocks is the MSCI World Index. A market capitalization weighted index that is designed to measure the equity market performance of developed markets. US Stocks is the S&P 500 index. A market capitalization weighted index consisting of a basket of 500 stocks that are widely held. Non-US Stocks is the MSCI EAFE Index. Representing the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. Emerging Market Stocks is the MSCI Emerging Markets Index. Representing 23 countries and 10% of world market capitalization. Investment Grade Bonds is the Bloomberg Barclays US Aggregate Bond Index. Measuring the total return of the investment grade, US dollar, fixed-rate taxable bond market. U.S. Treasuries is the Bloomberg Barclays US Treasury Intermediate Index. Measures the total return of USD denominated, fixed rate 1-10-year nominal debt. High Yield Bonds is the Banc of America/Merrill US Master HY Index total return of high yield US corporate bonds