GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

We recently completed our economic forecast seminars in Kalamazoo and Birmingham, during which we had the opportunity to hear from clients and friends of Greenleaf Trust about their questions and concerns regarding our economy. A common question from many attendees was "Will our economy ever return to a GDP growth rate above 3%?" The answer is "Yes, but not soon, and when we do it won't be much above 3%." Let's explore why.

In the near term we are likely to see very anemic growth, because we are not an island unto ourselves. What happens in the globe matters. Currently, growth in Europe, Japan, Australia and Canada is nonexistent, and growth in India and China has slowed. When demand slows for products and services, exports suffer. Added to our challenges of exporting goods and services into weakening demand is a strong US dollar versus almost all other foreign currency. Weak demand, and higher costs due to currency valuations, leave the export portion of our economic engine struggling.

An examination of the recent Q4 GDP estimate of +0.07% reveals that all sectors that are related to energy and export-centered manufacturing continued to be very weak. Caterpillar Corporation's most recent conference call is a great proxy for the industrial/export driven side of our economy. The numbers by themselves are worrisome, and are a real picture of the challenge. Heavy industrial equipment that is used to construct big things is important because when big things are being built many people are being employed, and when more people are employed globally, they spend their earnings and create more demand.

When demand cycles reach extreme levels such as 10%+ GDP growth rates for China, they challenge capacity. We witnessed the acceleration in demand for almost all commodities over the last decade as China and India made tremendous investments in infrastructure. Demand for heavy equipment also rose dramatically during this last demand cycle. What is also true of strong demand cycles is that they create increased capacity that is required to meet the current demand. When the demand slows more rapidly than incrementally, the capacity quickly becomes

Commentary, continued

excess. It was clear during the conference call that the executive leadership of Caterpillar was continuing to see large amounts of excess capacity in equipment globally which is not good news for the industrial/export sectors of our economy.

Excess capacity in oil, due in part to demand but also in technology and efficiency gains, has created negative demand and, therefore, excess supply of crude oil. It is easy to assume that lower costs and, therefore, lower fuel prices will benefit the economy. People see record profits for airlines as a clear example of the benefits of prolonged and sustained declines in fuel costs.

What are not seen in those record profits are the costs of the lack of demand through other major sectors of our economy.

Layoffs in the energy sector are not just at the wellhead. The logistical line of equipment that is required to explore, drill, extract, refine, transport and sell energy products — be they oil or natural gas — is a very long line composed of thousands of companies and millions of employees.

In general, people don't wake up thinking of themselves as a multiplier. Economists and those involved in economic development know the importance of the multiplier impact of those employed. Economists have studied the multiplication impact of all sectors of the economy. A simple way to think of it is the following question. How many jobs are created as a result of one job in a particular industry? There are many components that are studied to arrive at a conclusion but here is the important data point. In the energy industry the multiplier impact for each job gained or lost is 3.42! There a few industries with higher multiplier rates, which is why the total job loss in the US due to lower demand and lower per-barrel oil prices is at 500,000, and the estimated cost to our economy due to those job losses is thirty five billion dollars annually.

"Can our GDP, currently running in the 1.7 - 2.1% range, continue to be led by the consumer with little contribution from the capital investment/production/industrial sectors of our economy?"

Can our GDP, currently running in the 1.7 - 2.1% range, continue to be led by the consumer with little contribution from the capital investment/production/industrial sectors of our economy? Yes, and that is what we have seen for the last few years, but it won't get us to 3% in either the near- or longer-term. Recall, we are a very mature economy with very little population growth. Absent of immigration, we actually have a negative growth rate. Low inflation, low population growth and minimal aggregate wage growth don't create a formula for higher rates of consumer spending and, therefore, greater GDP growth rates.

The fourth quarter results showed evidence of a recalcitrant consumer. The assumption that lower at-the-pump prices would result in a more aggressive consumer hasn't materialized, as both personal income and savings rose yet consumer spending remained flat. For clarification, personal income growth and wage growth are not the same measurement. Wage growth is a part of personal income but not the only component.

So what will drive GDP growth for 2016 and beyond? Plain and simple, it will be greater global demand, a weaker dollar vs. foreign currency, and moderately higher oil prices. We previously wrote that slack in the labor force has been mostly wrung out and we are seeing wage growth in five major sectors of our country where unemployment is now below 4%. While global demand doesn't seem on the offering for 2016, Europe is stable, Japan has lowered its interest rate and China is forecasting 6.9% growth for the year, making the likelihood of a low 2% GDP growth rate seem more probable than not.

"Europe is stable, Japan has lowered its interest rate and China is forecasting 6.9% growth for the year… a low 2% GDP growth rate seem[s] more probable than not."

Michael F. Odar, CFA
President

Welcome George Bearup!

One of Michigan's most prominent trust and estate attorneys joins us.

Continuous improvement is one of Greenleaf Trust's core values – it is a pillar of our culture and has become part of our DNA. It is in this spirit that we chose the theme of Sophistication as one of our four major strategic initiatives in 2016. Sophistication means serving clients more deeply and at a higher level. It requires enhanced capabilities, thought leadership and subject matter expertise. Accordingly, I am pleased to announce that George F. Bearup, one of Michigan's most prominent trust and estate attorneys, is bringing his considerable expertise to the team at Greenleaf Trust.

George F. Bearup

As our Senior Trust Advisor, George's experience in trusts and estate planning will be enormously beneficial to our clients by serving as a resource to them and their other trusted tax and legal advisors. George will be responsible for mentoring and training our Client Centric Team on advanced trust and estate topics; writing articles on behalf of Greenleaf Trust; speaking at industry events; and serving as an in-house trust and estate expert. We're excited to have such great talent join our team!

"... George F. Bearup, one of Michigan's most prominent trust and estate attorneys, is bringing his considerable expertise to the team at Greenleaf Trust."

George comes to Greenleaf Trust after almost 42 years practicing law, during which time he's risen to prominence in the field of trust and estate planning. A graduate of the University of Michigan and Northwestern University School of Law, he is a Fellow of the American College of Trust and Estate Counsel, which is a national organization of trust and estate counselors who demonstrate the highest level of integrity, commitment to the profession, competence and expertise.

George has also been listed in "The Best Lawyers in America" for over 20 years and has been named a "Michigan Super Lawyer" since 2006. He is a frequent lecturer on behalf of the Michigan Bar Association's Institute of Continuing Legal Education and is now in his second three-year term on the Michigan Bar Association's Probate and Estate Planning Council. Additionally, George has written numerous articles on divorce, probate trusts, and estate planning, and is a chapter author and former co-editor of the "Michigan Revocable Grantor Trusts."

A resident of Traverse City, George has been extremely active in his local community over the last four decades. He has served on numerous boards including the Women's Resource Center, Downtown Development Authority, Chairman of Rotary Charities of Traverse City, and Chairman of Munson Healthcare Regional Foundation to name a few. While George obviously has the heart of a teacher and the posture of a servant, it is his thought leadership and subject matter expertise that will allow our team to serve clients more deeply and at a higher level. We are delighted to add George to the team, and in doing so, further strengthen the sophistication of our client focused culture.

Nonprofit Boards –How to Serve with Certainty

Wendy Z. Cox, J.D., CTFA
Vice President
Assistant Director of Personal Trust

In recent years, there have been a host of scandals involving nonprofit entities. The most significant case involved William Aramony, CEO of the United Way. Mr. Aramony was indicted for theft of $1.2 million and was convicted on 23 counts and sentenced to seven years in prison. The President of United Mid-Coast Charities served for 24 years, but ultimately pled guilty to theft of in excess of $4.6 million. In addition to outright theft, there are a variety of cases involving excessive compensation to executives, conflicts of interest and mismanagement of investments. There are also an increasing number of cases involving the failure to ensure donor intent. Inquiries and lawsuits have been made to the American Red Cross, the Metropolitan Opera and the Woodrow Wilson School of Public and International affairs alleging that the charity violated the terms of the gift agreements. In all cases, the question arose, where was the board?

Many of us view service on nonprofit boards as integral to who we are and our community involvement. Understanding a board member's role and how to avoid pitfalls is critical to being an engaged board member. The most effective boards have three important roles – fiduciary, strategic and generative.[1] All are important if a non-profit it to reach its potential.

> "Understanding a board member's role and how to avoid pitfalls is critical to being an engaged board member."

The fiduciary role is the responsibility to act with trust and confidence and to use a high standard of care when dealing with money of others. The strategic role is the long-term vision of the board, and the strategies and priorities necessary to meet the long-term vision. The generative role is an idea promulgated by William Chait and his co-authors. This role, which precedes the other two, is for the charity to identify and discuss the real issues that confront the charity and problem solve around those issues.[2]

Prior to agreeing to serve, prospective board members should ask questions and review critical pieces of information. Prior to joining a board, you should ask to see the current financials, the Form 990 and have a clear picture of how the financials and investments are handled. You should also review the strategic plan, the bylaws, and the current board members and their affiliations. You should know why you are being asked to serve and what the expectations are of your service, and you should be prepared to be fully engaged in the work of the board. You should also understand any insurance covering the charity and its volunteers.

Once serving, each board member also has a responsibility to make certain that the ongoing duties of the board are met. In its publication

Non-Profit Boards, continued

"For each year you serve on a board, you should make certain that you have attended a majority of the board meetings and reviewed the minutes for those meetings and the meetings that you did not attend."

The Ten Responsibilities of Nonprofit Board[3] BoardSource sets forth the following minimum responsibilities:

1. Establish mission and purpose.
2. Select the chief executive.
3. Support and evaluate the chief executive.
4. Ensure effective planning.
5. Monitor and strengthen programs and services.
6. Ensure adequate financial resources.
7. Manage and protect the nonprofit assets and provide financial oversight.
8. Build and perpetuate a competent board.
9. Ensure legal and ethical integrity.
10. Represent the nonprofit to the public and enhance the organization's public standing.

The best way for a board to make certain that a nonprofit adopts and maintains best practices is to have policies and procedures in key areas. These areas include: gift acceptance, donor/data management, investment management, financial management, and conflicts of interest.

For each year you serve on a board, you should make certain that you have attended a majority of the board meetings and reviewed the minutes for those meetings and the meetings that you did not attend. Did you have an opportunity to review the charity's financials and the audited financial statements? Does it appear that the charity's policies and procedures are being followed? Is the chief executive forthcoming and willing to answer questions and concerns from the board members? As a board member you should feel free to ask questions and follow your instincts. If there are red flags or something seems out of place, it probably is. Engaged and active board members create vibrant, successful nonprofits and help avoid news headlines.

In order to protect the charity's reputation and your own, we recommend that you consult with your counsel, your accountant, and your team at Greenleaf Trust.

[1]Chait William, William Ryan, Barbara Taylor, Governance as Leadership: Reframing the Work of Nonprofit Boards, (John Wiley & Sons: October 2004).

[2]Chait, Id.

[3]Ingram, Richard T., Ten Basic Responsibilities of Nonprofit Boards, Section Edition, (Board Source: 2009).

Retirement Saving Tips for Millennials

Gabrielle D. Contesti
Participant Services Coordinator

I like to say that retirement planning starts with a daydream. What do you want to do in retirement? Do you want to invest your time in hobbies and volunteering? Perhaps buy a home in Florida to escape Michigan winters? Maybe you want to travel the world? Or… all of the above! Whatever your dream is, it's unique to you, but all retirement plans have one thing in common: they're going to cost money. You need a strategy to achieve your retirement dream.

If you are a Millennial, retirement planning is probably at the bottom of your priority list. The success of your retirement rests heavily on when you start saving and how much you save. Most likely, you're busy finding steady employment, paying off student loans and saving to buy your first home. Like many in the Millennial generation, you may not know where to start, whom to contact and what to do. Here are a few tips to help you navigate the road to retirement:

Start early.

It's common to think "retirement saving can wait until later" or "I can't afford to save." Those excuses won't go away until you start saving… and start seeing your portfolio grow over the decades you're in the workforce. Thus, one of the most important elements of retirement savings is time. The earlier you begin saving, the more likely you are to achieve your savings goal. Even a small contribution invested over 35 years can make a huge impact in retirement.

The reason for this is compounding, which Albert Einstein called "the eighth wonder of the world." Compounding can be viewed as a snowball made of money on the top of a money hill. As that snowball rolls down the hill, it accumulates more money. It may be a slow accumulation at first, but as your savings picks up speed rolling down the hill, the quicker it grows.

Don't feel discouraged if you can only contribute $10 or 1% right now. Over time, those gains will multiply and you'll be happy you started saving early as you watch your account grow.

Establish a budget & pay yourself first.

Now that you have a steady income, it's time to establish a budget. This will allow you to properly manage your income so you have enough to save for retirement and emergencies. Remember, you are the most important bill you pay each month,

> "Whatever your [retirement] dream is, it's unique to you, but all retirement plans have one thing in common: they're going to cost money."

Saving Tips for Millennials, continued

“Use your company’s retirement plan to directly deposit money from your paycheck into your retirement plan account. It’s easier to save money when it’s immediately deposited before you get a chance to spend it.”

so pay yourself first. Experts suggest saving 10-15% of your annual salary in your retirement account for the majority of your career, but if you can’t start there, choose a deferral percentage that works with your budget and increase your contributions by 1% each year of your career. Small, incremental changes over time won’t be felt as much in your daily life, but will make a big difference in the end.

Establishing an emergency savings account is very important for the health of your retirement savings. When an emergency arises, many people turn to their retirement savings for funds. If you qualify for a distribution from your 401(k) or IRA, the IRS will penalize you 10% for withdrawing retirement savings before a retirement age. Most importantly, your money needs time to grow and compound in the market, so you need to leave it untouched until retirement. Make sure you have your own safety net in place that you can access without restrictions or penalties.

Make saving the default option.

Use your company’s retirement plan to directly deposit money from your paycheck into your retirement plan account. It’s easier to save money when it’s immediately deposited before you get a chance to spend it. After a few paychecks with your new budget plan, you won’t even realize you’re missing it (until you see that growing balance in your retirement fund!). As soon as you’re eligible to start saving in your company’s plan, sign up! If your company doesn’t offer a company sponsored plan, you can open an IRA at your bank or credit union and set up a direct deposit from your paycheck.

Reduce your tax bill or consider a Roth.

There are different advantages to saving in a traditional (pre-tax) retirement account and a Roth (post-tax) account. By saving in a traditional retirement account, you’ll lower your taxable income and benefit from tax savings. By saving in a Roth account, you’ll pay taxes now and avoid paying taxes in retirement. In addition, you will also be able to withdraw the earnings on your investments tax-free, assuming you are at least 59 and a half years old and have had the money invested for at least five years. This may be a good choice for you now when you’re in a lower tax bracket. Generally speaking, the longer you have before retirement, the more beneficial a Roth account is. If you aren’t sure whether to contribute Roth or pre-tax dollars, it’s always wise to speak with a tax advisor.

Take advantage of your company’s sponsored retirement plan.

If your company offers a 401(k) or 403(b) retirement plan, take advantage! By participating in your company's plan, you'll have access to automatic deferrals from each paycheck, potentially lower fees than you'd pay in an IRA, and the ability to save more money annually than you would in an IRA. Company sponsored plans like 401(k)s allow you to save $18,000 per year, as opposed to $5,500 in an IRA. If you don't think you'll come close to either limit, that's OK. Participating in a company plan could save you a lot of money in fees. Be sure to investigate which plans and investment offerings have the lowest expenses.

Get to know the plan being offered to you. Ask the following questions:

- When are you eligible to save for yourself?
- Does your company automatically enroll, and if so, at what deferral percentage?
- Does your plan offer a Roth 401(k)?
- When will you be vested?

Take the free money!

If your company offers you a matching contribution, be sure you're deferring the maximum amount your company will match. For example, if your company offered at 50% match up to 6%, you would want to contribute at least 6% of your compensation and you'd benefit from an additional 3% in your account from your company. It's free money and it's up to you to get it!

Seek advice.

You got the job, you got the benefits, and now you have to make sense of it all. Your employer is using new terminology you've never heard before and asked you to make a decision on your contribution amount, account type, and investments. You're confused but you're not alone. There's a multitude of resources on the internet to help explain your options, and retirement planning calculators to help you understand how much you should be saving. A representative from your retirement plan provider would be happy to help you make sense of it all. At Greenleaf Trust, we have a dedicated Participant Call Center to assist our participants Monday through Friday that is operated by our team of professionals. Don't hesitate to call and ask questions.

Don't touch it!

At the start of your career, you don't know where your career path will take you or what benefits will be offered, but know there are options to keep your retirement savings intact and growing as your employment changes.

Each time you leave a job, you'll have the option to transfer your retirement plan account. Cashing it in may be tempting. Maybe you have some credit card or student loan debt, or maybe this is your chance to get the new car you've been pining for. But if you have a retirement dream, cashing in

"Each time you leave a job, you'll have the option to transfer your retirement plan account. Cashing it in may be tempting... But if you have a retirement dream, cashing in your retirement account is one of the worst financial mistakes you could make."

Saving Tips for Millennials, continued

your retirement account is one of the worst financial mistakes you could make. Remember, time is one of the most important elements of retirement savings. Cashing in your savings and their earnings early means you have to start over again with less time to save for retirement.

In addition, when you take a cash distribution from your retirement savings, you'll pay federal and state income tax on that money, as well as a 10% early withdrawal penalty from the IRS.

If your plan offers a loan option, make sure you have exhausted other financial avenues before borrowing from your retirement plan. The money invested in your plan needs to stay in the market to compound. Financial aid and grants are available for educational expenses, mortgages and loans for homes and vehicles, but no one will ever give you a loan for retirement.

Above all, remember that healthy financial habits start early. The best time to start budgeting and saving is now. Retirement may seem like a lifetime away, but taking a few small steps now will have a big impact later in life. You've worked so hard; make sure you have the security to enjoy the retirement of your dreams.

> "Above all, remember that healthy financial habits start early. The best time to start budgeting and saving is now."

If you'd like to join us in our efforts to conserve natural resources and create a greener environment, you may choose to save paper by receiving email notifications to view your statement online. Simply give us a call at 269.388.9800 and ask to speak with a member of your client centric team.

Opportunities in a Down Market

James R. Curry, CFP®, CPWA®
Vice President
Senior Wealth Management Advisor

Taking Advantage of Market Volatility

The stock market welcomed back volatility in 2015, and 2016 has begun with a similar theme. We expect that the volatility experienced within the markets will continue due to a number of factors including the sharp fall in oil prices, lingering concerns about the global growth outlook, and a continuing divergence in monetary policy throughout the world. With the return of volatility, opportunities are presented to potentially improve your portfolio's return and reduce your current and future tax liability.

My last article described the rationale for the consideration of paying taxes immediately using a few planning techniques in order to improve the after-tax return of your overall portfolio over the long term. The goal of this article is to discuss planning opportunities that may allow you to take advantage of market volatility depending on your situation. The techniques listed are not exhaustive, and your team will continue to work toward maximizing the after-tax returns for your portfolio using all available resources. As we have previously stated in other articles, all decisions that are made should be made in conjunction with your goals and your team of trusted advisors.

With the continuing market volatility and a stock market that has declined, we highlight the following planning strategies that may improve your performance and reduce your tax burden: Rebalancing, tax loss harvesting, Roth IRA conversions and re-characterization, and grantor retained annuity trusts. Importantly, we should not let taxes control our decision making processes and potentially lead us down a less efficient, more costly long term path. Stated differently, "we should not let the tax tail wag the investment dog." The impact of taxes should always be considered, but in the context of the long term plan as opposed to the current year tax liability.

Rebalancing

Rebalancing your portfolio toward your asset allocation target is one of the easiest strategies to implement, yet one of the more difficult strategies to execute from an emotional standpoint. Rebalancing your portfolio when the markets are down typically involves selling fixed income and purchasing equities at a point in time that equities are declining. Developing an asset allocation that meets your goals, risk tolerance and time frame prior to experiencing a market downturn is one of the reasons institutional investors traditionally outperform individual investors over the long term. The asset allocation target removes the emotion from the rebalancing decision and is an opportunity to purchase equities at a more attractive level. The

"The stock market welcomed back volatility in 2015, and 2016 has begun with a similar theme."

> "While market volatility is often correlated with increased anxiety in the short term, it can also create opportunities to employ strategies and techniques that can enhance the efficiency of your portfolio over the long term."

quote associated with this strategy is typically "buy when others are fearful."

Tax Loss Harvesting

Tax loss harvesting is the strategy of selling a security within a taxable account at a loss and potentially repurchasing the same security at a later time while remaining cognizant of wash sale rules. The capital losses recognized from the sales can be used to offset capital gains that were realized from the sale of other assets. Capital losses can be carried forward indefinitely and used to offset future year capital gains. There are risks to this strategy, particularly that the stock you sold will increase in value over the time period that you have exited it. We do believe that tax loss selling is appropriate in certain situations and recommend its use; however, the strategy should not be done solely for the reason of reducing tax liability.

Roth IRA Conversion and Re-characterization

Numerous articles have been written regarding Roth IRA conversions and the potential for re-characterization. This article is not intended to describe the techniques, but to identify the opportunities that present themselves in a down market which are two-fold. You are transferring depreciated assets from an IRA to a Roth IRA and in turn this reduces your tax liability. Additionally, the opportunity to re-characterize all or a portion of the prior conversion and pay less taxes may exist, and will provide you with some flexibility in managing your tax liability.

Grantor Retained Annuity Trust (GRAT)

With the equity market downturn, there are currently two tailwinds that make the GRAT strategy attractive when using equities; lower market valuations and a continued low interest rate environment. These tailwinds may provide investors using this strategy an opportunity to transfer significant wealth with minimal estate tax consequences if the markets recover during the term of the GRAT. For those investors that implemented a GRAT in 2009 after the last downturn, their success in transferring wealth to their heirs with minimal estate tax liability has been significant in many cases.

While market volatility is often correlated with increased anxiety in the short term, it can also create opportunities to employ strategies and techniques that can enhance the efficiency of your portfolio over the long term. We stop short of allowing the tax tail to wag the investment dog, but your client centric team is working diligently to take advantage of the opportunities that volatile markets can provide all in the interest of helping you to achieve your long-term financial goals.

2016 Seminar Recap

James W. Gray, CFA
Chief Investment Officer

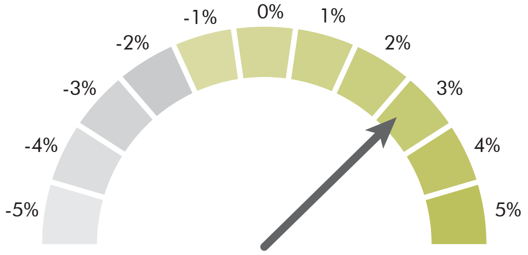
Recently, we held our Year in Review in Kalamazoo and Birmingham, where we reflected on 2015 and discussed our outlook for the new year. Some of the main topics were the improving US labor situation, diverging global economic policies, the volatile start to 2016 and our longer-term view of what market returns may be in the future. For those who weren't able to join us, we will give a deeper dive on those topics in this article.

Economic Update

To set the stage for 2016, let's take a look back at the biggest economic stories of the prior year. During 2015, we witnessed a continued divergence of slow, but solid, US economic growth and constrained global economic growth. Domestically, employment continued to slowly strengthen throughout the year with unemployment reaching 5% by year-end. This level was achieved despite falling employment in the energy sector as oil prices remained under pressure. Buoyed in part by the improving labor market, the housing and automobile sectors gained traction throughout the year. Exports, however, were hampered by the stronger US dollar, which makes selling products abroad less competitive for domestic corporations. The strengthening domestic economy led the US Federal Reserve to begin their long-awaited tightening in December. Detractors pointed to signs of weakness in the US manufacturing sector when questioning this policy stance. Looking abroad, growth in the emerging and developed international economies slowed and finished below investor forecasts for the year.

> "To set the stage for 2016, let's take a look back at the biggest economic stories of the prior year."

US Economic Barometer



Drags on the Economy
- Lay Offs in Energy Sector
- End of Quantitative Easing
- Stagnant Government Spending
- Strong US Dollar Currency
- Euro Area Softness
- Slow Growth in BRICs
- Geo-Political Instability
- Higher Consumer Savings
- PMI Weakness

Boosts to the Economy
- Employment
- Consumer Confidence/Spending
- Business Spending
- Energy Prices
- Housing and Construction

Source: Greenleaf Trust

Market Update

2015 was a difficult year for financial markets. US large cap equities and core fixed income were up slightly, while some of the more volatile asset classes declined. The biggest losers were emerging market equities, commodities and high yield bonds, as all have significant ties to oil prices. The concerns weighing on global markets so far in 2016 have been tied to continued US dollar strength, oil softness and China growth normalization. As investors grapple with these themes, global equity markets have sold off sharply in January and volatility has increased.

We began the year anticipating mid-single digit returns from the US equity markets in 2016. There are downside risks to this expectation centered on earnings and valuation. On the earnings front, slowing sales growth and little additional room for margin expansion may lead to low-single-digit earnings growth in 2016. If that is the case, valuation multiples would need to expand to reach our mid-single digit forecast. However, valuation multiples began 2016 above long-term averages, which suggests little room for expansion. In the area of fixed income, the outlook is also challenging. Investors expect higher interest rates as the Federal Reserve is expected to hike rates one to two times in 2016. With interest rates at low levels, total returns are expected to be lower-than-average this year.

“Greenleaf Trust invests for its clients with a long-term investment horizon.”

In summary, 2016 could be another challenging year for investors. As we have seen during the opening weeks of 2016, there are many areas causing concern among global investors. US equity markets have experienced significant gains over the last seven years, leading to valuation levels that are no longer inexpensive. In addition, fixed income investors have enjoyed falling interest rates over many years and 2016 may be the year where central bank policy leads to greater headwinds for bondholders.

Long-Term Return Expectations

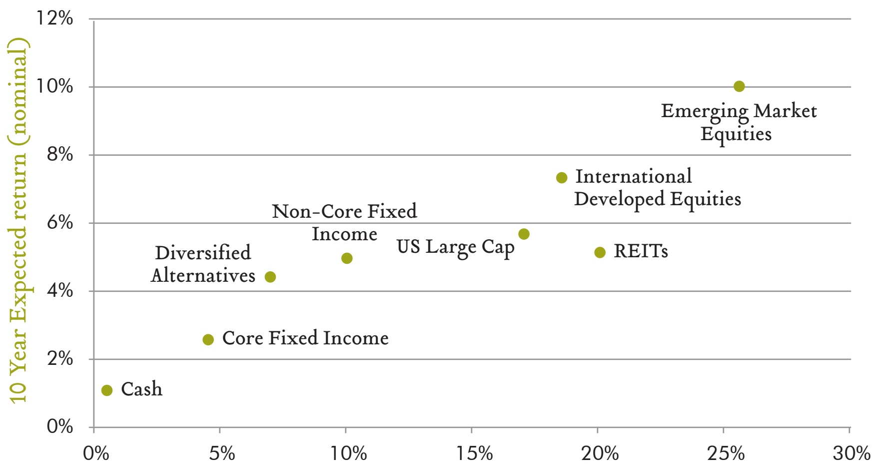
Greenleaf Trust invests for its clients with a long-term investment horizon. To guide this investing, we generate long-term return expectations for different asset classes. These expectations guide our work assisting clients with their long-term financial plans. For equities, expected returns depend critically on three factors: dividend yield, earnings growth, and valuation levels. Examining each of these three drivers individually and in combination leads us to expect lower-than-average returns from equity markets over the next 10 years. Specifically, after seven years of positive equity returns, valuations have risen above their long-term averages while dividend yields are lower than they have averaged historically. Markets rarely behave as expected in the short-run; however, in the longer-term we believe that the equity markets will deliver returns that are lower than what we have experienced in the past.

For fixed income markets, expected returns depend on current interest rates and the expected path of interest rates in the future. However, history has shown that current yield levels are a strong indicator of what returns will be over the next 10 years. With the yield on the Barclays Aggregate bond index currently at 2.4%, fixed income returns are expected to be lower-than-average as well.

Navigating a constrained return environment requires the consideration of additional alternative instruments in constructing portfolios. Additionally, the current volatility of international equity markets may present investors with attractive investment opportunities relative to domestic equities. We will continue to monitor these markets for opportunities to place investments for our clients.

In summary, these expectations are not precise in terms of a specific year; but represent our outlook over a 10 year period. So what is an investor to do?

Risk/Return Assumptions



Expected Risk (standard deviation)

“Navigating a constrained return environment requires the consideration of additional alternative instruments in constructing portfolios.”

1. Consider slight allocation shifts into alternatives or international equities as opportunities become available. The objective is to achieve additional return while adding non-correlated assets.

2. Diversification, which is always a critical component of prudent investing, is particularly important now due to elevated volatility in financial markets. Maintaining fixed income allocations can be an important way to dampen this volatility.

3. Focus on your long-term strategy; resist the urge to act as headlines drive “noise” in the global markets.

We continue to monitor not only current market developments but also the factors impacting what happens tomorrow as we position client portfolio to perform through different market environments. We stand ready to discuss recent market activity, if you have questions please reach out to your Client Centric Team.

Stock Market Pulse

Index	1/31/2016	Total Return Since 12/31/2015
S&P 1500	446.61	-5.05%
DJIAK	16,466.30	-5.39%
NASDAQ	4,613.95	-7.82%
S&P 500	1,940.24	-4.96%
S&P 400	1,317.74	-5.69%
S&P 600	629.95	-6.17%
NYSE Composite	9,632.70	-5.04%
Dow Jones Utilities	611.35	5.82%
Barclays Aggregate Bond	109.35	1.24%

P/E Multiples	1/31/2016
S&P 1500	16.7x
DJIAK	13.5x
NASDAQ	19.6x
S&P 500	16.6x
S&P 400	17.6x
S&P 600	17.5x

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.31%
T Bond 30 Yr	2.76%
Prime Rate	3.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	446.61	16.7x	2.23%
S&P 500	1,940.24	16.6x	2.28%
DJIAK	16,466.30	13.5x	2.69%
Dow Jones Utilities	611.35	NA	3.44%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.53%

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