GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

Recent economic data releases reveal a mixed bag. The dismal part is manufacturing, so it makes sense to start there. The headlines are accurate. Manufacturing growth registered a two year low and the Institute of Supply Management survey, often referred to as the ISM index, came in slightly above 50% at 50.1%, which is down from last month's 50.2% and significantly below the 56% level registered just six months ago. As a reminder, ISM readings below 50% are generally indicative of recessionary economies, although there are important differences to make, given a host of other indicators that are contrary to the current ISM measures.

Manufacturing continues to be slammed by the triple whammy of weak European demand, strong dollar vis-à-vis the euro, and sizable inventories. Exports shrank again for the fifth month in a row, and manufacturing employment declined after previous five months of expansion. To be certain, there are some domestic industry sectors that are benefiting from strong consumer demand in the US; however, those reliant on the oil, energy sector or export market continue to feel pressure. Earnings of very large capital equipment manufacturers were surprisingly good for the third quarter, though each cautioned about forward guidance, stating the same continuing concerns of weakening European demand and strong dollar headwinds.

Autos continue to be a bright spot. October's sales data came in at a run rate of 18.2 million units on an annual basis, compared with 16.6 million for the same period last year. Low financing rates, strong consumer confidence, lower unemployment and slight wage growth kept the tailwinds going for auto sales.

Much has been said about the reduction in workforce participation, but the numbers are actually beginning to tell a different story. The labor force grew by 0.56% to 156,715,000 from the 155,845,000 recorded a year ago. Employment grew by 1.5% to 148,800,000 which was an increase of 2,200,000 more workers year over year. Total unemployment remained at 5.1%; however, U-6 employment fell to 10.7%, which is only one percent above its 2007 recorded level. As we know, the U-6 reading is the data collected on the most vulnerable who are normally first to be laid off and last to be hired. The consistent improvement in this segment of the labor force may be forecasting signs of

Commentary, continued

decreasing slack and therefore future wage growth opportunities. From a historical perspective, 7.5 – 8% U-6 unemployment is as good as it gets and is usually correlated to a 4 – 4.5% unemployment rate. Given the fact that this measure peaked at 17.8% in 2009, tremendous progress has been made. Adding to more positive prospects is the increase in help wanted postings to 5.3 million from 5.0 million previously offered. Not surprisingly, the small business optimism index climbed to 96.1% from 95.3% one year ago. Most small businesses (less than 50 employees) are not in the export business, and are delivering either products or services directly into the domestic market and currently have not faced the headwinds of weaker European demand and a stronger dollar. In fact, most in this category have reported lower throughput costs due to lower energy prices, which have resulted in greater margins, increased demand and the opportunity for investing in both equipment and human capital.

"From a historical perspective, 7.5 – 8% U-6 unemployment is as good as it gets... tremendous progress has been made."

Construction also reported solid results for the period, with new housing permits and starts up 17.6% and 16.3% respectively year over year. The Case Shiller home price index advanced another 4.5%, and nonresidential construction spending increased 13.4% — all in all a very impressive construction and housing landscape once again fueled almost entirely by consumer appetite. Not surprisingly, consumer confidence held strong at 103%, up dramatically from last year's same reporting period which registered at 89%.

Third quarter GDP estimates (to be revised next month) registered 1.5% growth, which combines a weak export market, devastated energy component and a stronger underlying domestic economy in the consumer led automobile and housing sectors. Economists and analysts working within the largest and most capital intensive export industries cannot say for certain when European and southeast Asian demand will pick up, or when the dollar will weaken as a result of higher demand. It seems reasonable that quantitative easing in South East Asia, Europe and China will have to be in place for a few quarters to produce the tangible results necessary to create increased economic activity, and therefore greater demand. For 2016, it is difficult to see a landscape that significantly changes from the current one. Commodity prices and demand for energy won't increase without fundamental demand created by global economic activity. Countries are not incentivized to strengthen their currencies in the face of weak economic activity and, therefore, our dollar will remain strong going forward.

From a domestic economy standpoint, the Fed is observing stronger consumer and employment data yet zero inflation, which, at its simplest level, is perplexing to some Fed rate watchers. Decreasing slack in the labor force should signal future wage growth and, therefore, inflation pressure.

The complexity, however, is driven by very low interest rates and huge reductions in energy costs, which seem to have now passed from the pump and consumer savings to increased consumer spending. It will be a difficult call for Fed Chair Yellen to raise rates into decreasing margins for large US exporters and a global economy still trying to work its way out of the recession that they have fallen back into. The Fed's December meeting is less than six weeks away — it doesn't seem reasonable that economic data released between now and then globally will warrant a rate hike yet in 2015.

Little progress has been made in the geopolitical world. The world remains as dangerous and destabilized as ever. The flight of Syrian and now Turkish immigrants is heart wrenching, and yet another example of man's inhumanity to man. Eurozone countries are facing an enormous immigration and settlement challenge, and the United Nations is failing miserably at their mission of global stability. The results of the migration stream will be felt for generations, and one is left to wonder what, if anything ,will become of Syria. Who will remain, and what will be left of their infrastructure, human and intellectual capital?

"Little progress has been made in the geopolitical world. The world remains as dangerous and destabilized as ever."

On the domestic side, we got to observe a rare example of bipartisan cooperation with a two year budget deal. Before we jump to the conclusion that it was a sign of more things to come, let's realize that both parties wanted the deck cleared of government shutdowns during the election cycle. Americans vote differently at the Presidential and Congressional level. Shared governance hasn't worked well in the last 30 years in our country, and gerrymandered congressional districts mean that substantial shifts in control don't happen often. Government shutdowns don't play well with the largest segment of voters. Neither party wanted to touch that third rail this time around and cause a shift of voting sentiment that would result in any loss of control that already exists. Bipartisanship is valued by Americans in polls that test it, but in this case it wasn't an egalitarian effort to govern that allowed for it, but rather a protection of the status quo that needed it.

Michael F. Odar, CFA
President

2015 Advance & 2016 Strategic Initiatives

How are we going to get this done? Every September, that's the question I ask each division leader to answer regarding our corporate strategic initiatives for the upcoming year. The forum we use to engage Socratic discussion around everyone's ideas is our annual Executive Leadership Team (ELT) Advance.

Notice I did not call this our Executive Leadership Team *Retreat*. That's because we are not trying to go backwards, we are moving forward. Our Advance is held off-site each year at a location that removes the team from distractions and focuses everyone's attention on candor and the best way forward. This year, we spent three days breaking down and collaboratively challenging each division's plan to address our corporate strategic initiatives for 2016. Those initiatives were provided to division leaders using themes derived from our company-wide strategic survey and thought leadership from our Executive Council (EC). Our corporate strategic initiatives for 2016 are as follows.

Culture

In our annual corporate Strategic Planning Questionnaire, our culture and clients are consistently what our employees rank as most important to them. We consider our culture to be the behaviors and beliefs that are alive within our workplace environment. We work hard to develop and strengthen our culture every day, for good reason. With a vibrant culture whose pillars include Client's Side of the Desk Always, No Conflicts of Interest, Team Delivered Service, Continuous Improvement, Fiduciary Excellence, and Honest and Honorable, we have a work environment that engages and inspires our team to do great work for our clients.

> "We work hard to develop and strengthen our culture every day, for good reason."

Stewardship

Stewardship involves the responsible overseeing and protection of something considered worth caring for and preserving. Beyond the responsibility we have for managing our clients' wealth, we are all obviously stewards of our culture at Greenleaf. Protecting what we have built ensures we will be around from generation to generation.

Sophistication

Our core value of continuous improvement will play a big role in our sophistication efforts. Additional investments in technology, systems, and people will enhance capabilities and help us do more for clients at a higher level. Thought leadership and subject matter expertise will continue to grow internally and be sourced externally for the benefit of clients.

Purposeful Growth

Finally, our end goal is not growth for the sake of growth. New geographic markets present opportunities to expand our presence in addition to the breadth and depth of services for our clients. In 2016, we are excited to start doing this in Grand Rapids!

Greenleaf Trust — a Great Place to Work®

GREAT PLACE TO WORK® Best Small & Medium Workplaces 2015

Greenleaf Trust was named by Great Place to Work® as one of the best small and medium workplaces in the United States on their annual 2015 Best Small & Medium Workplaces list, published recently in Fortune magazine. Ranked 23, this is the first time Greenleaf Trust has received this honor. Divided into two categories, Small (25-250 employees) and Medium (251-999 employees), the list has recognized companies with exceptional workplace cultures for the past eleven years.

Competing against hundreds of companies across the country, Greenleaf Trust participated in a rigorous selection process, which included an employee survey and an in-depth questionnaire about benefits programs and company practices. Great Place to Work® evaluates each application using its unique methodology based on five dimensions of a great workplace: credibility, respect, fairness, pride and camaraderie.

In compiling the list, Great Place to Work® has found that employees believe they work for great organizations when they consistently trust the people they work for, have pride in what they do and enjoy the people they work with.

"We survey our teammates every year to gauge their engagement and get their input on how we can improve as a company for our clients. When we ask them about what they are most pleased with as a member of the Greenleaf team, their unequivocal answer year after year is culture. That's why we listen and work purposely every day to nurture our culture," said Greenleaf Trust President, Michael F. Odar.

"Greenleaf Trust has an entire team dedicated to maintaining our culture. This team is made up of members representing all divisions and generations working together to keep employees informed, connected and provide them with things that help make working easier and more fun. Some of the exciting opportunities provided involve donating time, money and resources to local non-profit organizations in our community while at work," said Sarah A. Johansson, Vice President and Director of Marketing.

Organizations named on the

"Competing against hundreds of companies... Greenleaf Trust was named by Great Place to Work® as one of the best small and medium workplaces in the United States."

Great Place to Work, continued

list see many benefits that include better financial performance, less employee turnover, higher levels of customer satisfaction and loyalty, more innovative and creative thinking, higher productivity and enhanced public perception.

"This team is made up of members representing all divisions and generations working together…"

About Great Place to Work®

Great Place to Work® is the global authority on high-trust, high-performance workplace cultures. Through proprietary assessment tools, advisory services, and employer branding programs, including Best Companies lists and workplace reviews, Great Place to Work® provides the benchmarks, framework, and expertise needed to create, sustain, and recognize outstanding workplace cultures.

In the United States, Great Place to Work® produces the annual Fortune 100 Best Companies to Work For® list and the Great Place to Work® Best Small & Medium Workplaces list.

To see the 2015 Best Small & Medium Workplaces list and to learn more about how to build a high-trust workplace culture, visit www.greatplacetowork.com.

Save the Date

Year in Review Seminar
on Financial Markets
and our Outlook for 2016

Presentations by

William D. Johnston
Chairman

and

James W. Gray, CFA
Chief Investment Officer

JANUARY 2016

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

TUESDAY, JANUARY 12TH

6:00 pm hors d' oeuvres
6:30 pm presentation
7:30 pm Q&A with the Research Team

Arcadia Ballroom
Radisson Plaza Hotel
Kalamazoo, Michigan

Women Need to Know the Financial Basics

Lauree K. VanderVeen, CTFA
Trust Relationship Officer

Many times, couples approach Greenleaf Trust because the husband is concerned about his wife's ability to successfully manage their finances in the event something happens to him. As we know with married couples, many times the husband manages the finances and the wife has limited knowledge or input on the budget and investment decisions. This is not the case in all families but more often than not, the women have limited understanding of the family finances. Often we hear women say, "That is my husband's area...he takes care of those decisions." But not having any financial understanding can be risky, especially if you consider the following statistics:

1. The average life expectancy for women is 81 years compared to 73 years for men. (Social Security Administration)
2. Women are more likely than men to be single parents. (US Census Bureau)
3. The average age of widowhood is 55 years old. (US Census Bureau)
4. 80–90% of women will be solely responsible for their finances at some point in their lives, mainly due to divorce or death of a spouse. (National Center for Women and Retirement Research)

There are many more reports that continue with the theme that at some point in life, a majority of us females will be required to make our own financial decisions. Yet, according to an article by Prudential, fewer than two in 10 women feel "very prepared" to make wise financial choices. They lack the confidence of taking control of their money and fear making mistakes with financial decisions.

In many cases, women are forced to take control as the result of a major life changing event, such as divorce, incapacity or death of a spouse. As with anything in life, experience is the best teacher. But in the midst of a difficult time, we don't want to learn from the school of hard knocks. It is much better to plan your financial growth intentionally. Knowledge and basic understanding of your finances will go a long way to help you avoid mistakes. It will also increase your financial confidence, give you great peace of mind, and help you prepare for the unknown future.

Learning about your money does not have to be complex or something to fear. There are two simple reports anyone can create regardless of their financial knowledge. No fancy software packages or technical finance

"80–90% of women will be solely responsible for their finances at some point in their lives, mainly due to divorce or death of a spouse."

Financial Basics, continued

"Learning about your money does not have to be complex or something to fear. There are two simple reports anyone can create regardless of their financial knowledge."

classes are needed. Paper and pencil will get you started. Keep in mind; this is not an "all inclusive" list. There are many variables to consider. However, by creating these two reports and working closely with your trusted advisors, you will learn a great deal about your household finances.

At Greenleaf Trust, one of the ways we begin building our understanding of your financial situation is by completing a statement of financial standing (also known as a personal financial statement) and a cash flow statement (also known as a budget).

The statement of financial standing is one of the easiest and most important reports you can create for your family. It is simply a list of all your assets and liabilities. We recommend taking the additional step of identifying how each asset is owned. Understanding the titling of assets is often overlooked. If an asset is incorrectly titled, it could result in your estate being subject to unnecessary taxes. It could also cause an asset that could have passed outside of probate to become subject to this costly and slow process. Take time to understand the titling of your assets to ensure they will transfer to your heirs as you wish and in the most tax efficient way.

Once you have completed this report, make sure to provide the statement to your investment, tax and estate advisors. Review it regularly. Ask them to identify opportunities that may help you save on taxes and facilitate the eventual transfer of your wealth in the desired manner.

The second report is a cash flow statement. This is a list of the sources of income you receive and a list of the expenses you pay out. The goal of the cash flow statement is to give you an understanding of where your money is coming from and where it is going. Once you understand the flow of funds, you can work on controlling it. When identifying your sources of income, make sure to consider not only earned income, but social security, pension, annuity and investment income. On the expense side, list all your monthly expenses and be sure to add the annual charges such as insurance payments, property taxes, federal and state quarterly tax payments. Other seasonal expenses such as lawn care, snow removal, boat storage, etc., may also need to be included. Make sure to consider your credit card expenses in your monthly cash flow. This is a good time to review who has established the credit. Often times, only the husband has open credit. Remember creditors do not consolidate your scores. If all the credit has been provided to only one spouse, the other may not have credit history. This could result in a low credit score and may hinder your ability to access credit in the event of an emergency. Having a general understanding of your flow of funds can help you to identify ways in which you might save more money. As the statistic showed, women tend to live longer than men and therefore need much greater savings.

There are many more financial strategies to consider but these two reports will go a long way to get you started understanding your household finances. By preparing these documents and sharing them with your trusted advisors regularly, you will be much better prepared to make educated financial decisions in the likely event you find yourself included in one of the statistics above.

If you would like to receive a template of these reports or would like help in completing the documents, please contact your Greenleaf Trust Client Centric Team for assistance.

"By preparing these documents and sharing them with your trusted advisors regularly, you will be much better prepared..."

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.

Dan J. Rinzema, CFA, CFP®
Chief Client Officer

500 Million Reasons to Understand Your Plan

A Cautionary Tale of Planning Gone Wrong and How You Can Avoid Similar Traps

Proper planning has the potential to preserve more wealth than some investments can create. However, even financial planning techniques with the best intentions can run afoul when not fully understood, unreasonably aggressive or misapplied. This is an expensive lesson that former Detroit Pistons owner Bill Davidson's estate recently learned after settling an IRS claim for almost $500 million.

The Davidson Saga

Last month, Bloomberg News reported that the Davidson estate was hit with a surprise $2.7 billion IRS bill for additional tax, interest and penalties following a tax plan recommended by a well-known tax consultant to the ultra-wealthy. While the Davidson estate negotiated the unwelcome surprise from Uncle Sam down to around $500 million, they allege that the consultant failed to disclose the numerous material risks associated with the plan that it advocated. In fact, the Davidson estate claims that the consultant went as far as promising Mr. Davidson a tax plan under which the family would "win if he lived, or win if he died." As it turns out, Uncle Sam may be the winner in this particular case.

The above plan involved a technique known as a "SCIN in GRAT", which is basically an installment sale to a grantor trust in exchange for a note that will be cancelled (self-cancelling installment note or SCIN) if the person to whom the note is issued (Mr. Davidson here) dies before the note is due, and the note is contributed to a grantor retained annuity trust (GRAT). If successful, a SCIN in GRAT can shelter a great deal of family wealth from tax. Some would say that where this particular scheme went awry, however, was the aggressive and unproven assumptions that went into the fabrication of the note — inherent risks, which the Davidson estate claims were never discussed.

Lessons Learned

When drawing lessons from the Davidson saga, it is important to remember that as with any investment, risk also plays a role in planning. Most tax planning techniques have a strong track record, are fully supported, and should be considered extremely low risk. However, as the tax code changes and new gray areas emerge, their interpretation and application can be considered risky when unproven, minimally supported, or result from merely administrative positions.

Risk Defined

To be clear, when I refer to risk in this context, I am not talking about illegal activities such as tax evasion. That is not risky, it's just plain idiotic. Instead, I am referring to an aggressive interpretation of the tax code or utilization of thinly supported assumptions with the honest intent of paying what is due, but not a cent more. The risk in this context is that the IRS will disagree with an interpretation or assumption, which could result in additional taxes, penalties and interest. It is this downside risk that must be fully understood when contemplating interpretation sensitive or assumption laden planning techniques.

Know Your Plan – Know Your Risk

While the Davidson's story may be a cautionary tale of aggressive tax planning for the ultra-affluent run afoul, imagine if you were hit with taxes, penalties and interest that was a meaningful part of your net worth. No one wants to find themselves in that position or even surprised by aggressive or unproven techniques applied on their behalf. So, how can you protect yourself? The following steps are designed to help keep you from falling into traps similar to those that snared the Davidsons.

1. Assemble The Full Team — There is wisdom in the counsel of many. In addition to your Client Centric Team, we recommend assembling a team of professionals to provide sound counsel to complement the wealth management services provided by Greenleaf Trust. This includes a competent tax advisor or CPA, estate planning attorney, and potentially other specialized advisors depending on your specific circumstances. Your team should work in collaboration on your behalf to ensure you receive coordinated and fully informed recommendations that address your holistic financial picture.
2. Seek Understanding — Great advisors have the heart of a teacher. If you don't understand the general framework of a proposed technique or the inherent risks involved, stop and seek understanding. Complex techniques can still be described in simple terms with risks clearly identified and the downside quantified. Ask each of the members on your team if a technique is considered aggressive, lacks concrete support, or increases your chances of an audit. Again, if after multiple conversations, you are not comfortable or you do not understand the general idea and risks involved, do not agree to move forward until you are better informed.
3. Assess Support And Dissenting Views — When there is no certainty on the aggressiveness of a particular planning technique, as we

"The risk in this context is that the IRS will disagree with an interpretation or assumption, which could result in additional taxes, penalties and interest."

500 Million Reasons, continued

"… it can be extremely expensive not to understand the risks involved with any planning strategy…"

have seen with the above SCIN in GRAT, it becomes questionable in which situations the technique should be applied. This is when reviewing the support and dissenting views is critical. Are the circumstances of your particular situation similar to those in the rulings and cases used as the basis for the recommendation? Why do some professionals not agree with the application of the technique and what is the basis for their dissenting view? After comparing the facts of your situation to those in the support and dissenting views, determine if you are willing to take the risks or if more conservative assumptions are prudent.

4. Obtain An Opinion Letter — While it is always appropriate to discuss the potential downsides of any strategy, it could be even more appropriate to have it put it in writing. When assumptions are aggressive, support is limited, and questions remain, asking your tax counsel to stand behind an opinion letter may provide additional comfort to proceed.

As year-end approaches, many of you will undoubtedly meet with your team of advisors to look for legitimate ways to minimize the bite of taxes. There are countless techniques that may or may not be right for your particular situation and carry differing levels of risk. It may even be that an aggressive planning strategy, despite significant downside risk, will result in a compromise that still produces benefit compared with doing nothing. As the Davidson cautionary tale illustrates, it can be extremely expensive not to understand the risks involved with any planning strategy whether simple or complex, conservative or aggressive. Know your plan — know your risk.

COLA 2016

Kathleen J. Waldron, QKA
Vice President, Assistant Director of Retirement Plan Division

An annual event in the retirement plan world is the announcement by the Social Security Administration (SSA) and Internal Revenue Service (IRS) regarding annual cost-of-living adjustments for the upcoming tax year. Heading into 2016, many key numbers will stay the same including the $18,000 limit on annual 401(k), 403(b) and most 457 plans. The catch-up contribution limit of $6,000 also remains the same. In general, the limitations will not change for 2016 because the increase in the cost-of-living index did not meet the statutory thresholds that trigger their adjustment.

While these limits have not changed, some retirement related tax breaks and other items have been adjusted as the increase in the index in these areas did meet the statutory thresholds. The only adjustments affecting retirement deal with individuals directly, and not with employers or employer plans themselves:

- For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $184,000 and $194,000, up $1,000 from 2015.
- The same $1,000 increase applies to the AGI phase-out range for taxpayers making contributions to a Roth IRA. In 2016, the phase-out range is $184,000 to $194,000 for married couples filing jointly. For singles and heads of household, the income phase-out range is $117,000 to $132,000.
- The AGI limit for the saver's credit is $61,500 for married couples filing jointly; $46,125 for heads of household; and $30,750 for married individuals filing separately and for singles. Each of these increases is $500 or less.

Following are some common retirement plan limitations:

RETIREMENT PLAN LIMITATIONS	2016	2015
Annual 401(k), 403(b), 457(b) deferral limit	$18,000	$18,000
401(k), 403(b), 457(b) catch-up limit	$6,000	$6,000
Annual compensation limit	$265,000	$265,000
Defined Contribution Plan "415 limit"	$53,000	$53,000
Defined Benefit Plan "415 limit"	$210,000	$210,000
Highly Compensated Employee definition	$120,000	$120,000
Social Security Taxable Wage Base	$118,500	$118,500
IRA limit	$5,500	$5,500
IRA catch-up contribution limit	$1,000	$1,000

While the limits have not increased for the upcoming year, the Retirement Plan Services Division team is committed to providing sound information and education to all plan participants to help them along their journey to retirement. We are available to answer any questions you may have regarding the various limitations that apply to retirement plans, including some that are not included in the above table.

"An annual event in the retirement plan world is the announcement… regarding annual cost-of-living adjustments for the upcoming tax year."

James W. Gray, CFA
Chief Investment Officer

Fishing in the Right Pond

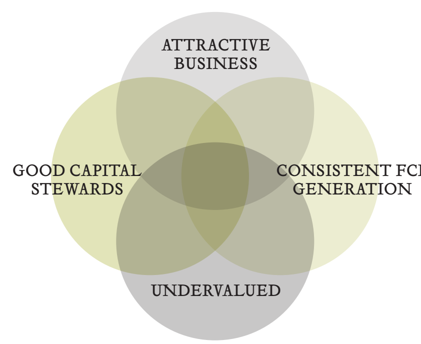
I am not an avid fisherman, but I know enough to know that a successful outing begins with finding the right spot. The right spot may be characterized by specific water depth, temperature, and clarity, in addition to other defining features, all of which create the right environment for the type of fish you are trying to catch. Said another way, fishing in the right pond matters and the same concept applies when considering our process for equity selection.

The pool, or more aptly, ocean of domestic equities from which we can choose includes more than 4,000 names, and focusing our efforts on the right part of that expansive universe is critical to the process. Clearly, we would prefer our analyst team spend their time selecting the best 50 names from a pool of 150, all of which are closely aligned to our selection criteria as opposed to selecting 50 names from an ocean of 4,000, most of which are not at all what we are looking for.

"The pool, or more aptly, ocean of domestic equities from which we can choose includes more than 4,000 names, and focusing our efforts on the right part of that expansive universe is critical to the process."

In the interest of making the process more effective and positioning our analysts to practice the art of their trade, we recently added two resources to the front end of our equity search process. First, we have added a deeper quantitative screening process to ensure that the equities that enter our search process fit key aspects of our quality parameters. Secondly, we have also engaged an independent, fundamental analysis shop to provide a deeper "entry" point for the initial review of an equity name. To be clear, we remain committed to our four-pillar selection criteria, but believe these added resources will facilitate more consistent execution of an underlying philosophy that is unchanged.

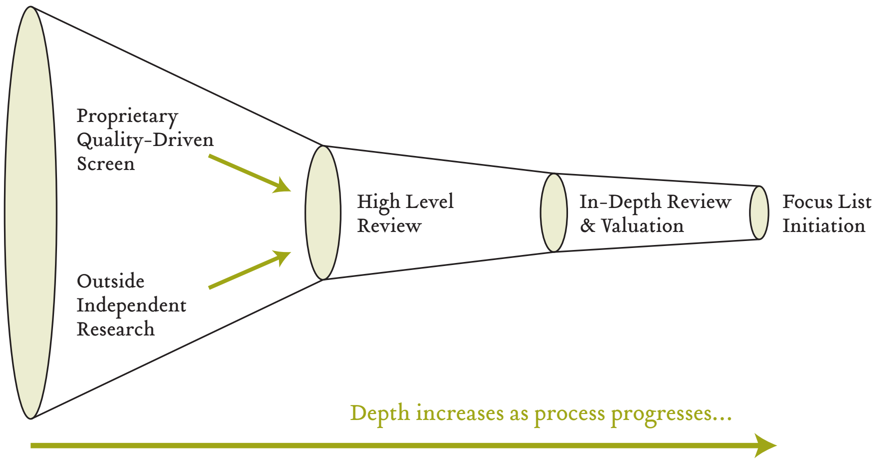
4 Pillar Test Criteria



In an effort to fish in the "right" pond, these two additional resources allow us to more quickly and accurately assess whether an equity is congruent with our desired parameters of quality. In effect, are we catching the desired species of fish? The objective is to catch more of the best fish in a more efficient manner. The more efficient the process, the more time we have to dig deeper to ensure that we have a deep understanding of the fundamentals of a company.

The use of a proprietary screen ensures that we begin with companies that meet a specific threshold of quality. We join the results of our screening process with research sourced from an independent third party with an investment philosophy that aligns closely with our own.

The ultimate analysis and decision are ours, however, we jump start our selection process with these resources on the front end of our process.



Proprietary Quality Driven Screen

As our Growth At a Reasonable Price (GARP) philosophy infers, our aim is to invest in companies best positioned to capitalize on long-term growth opportunities. Our screen assesses a company in four key areas:

1) Profitability — Profitability is profit per unit of book value – these measures favor less capital intensive, higher margin companies.
2) Growth — Profitability metrics are measured as the change over the trailing 5 year period to determine a growth score. Growth is measured relative to the company's own trailing 5 year history, and by the absolute level of sales growth.
3) Safety — Low beta, low leverage, low earnings volatility stocks are less likely to experience sudden losses.
4) Payout — This is the percentage of profits returned to shareholders, in the form of dividends and/or share repurchase and/or lack of share dilution, and addition of debt. Very high (imprudent) payout ratios could limit growth and safety, so payout is considered as a balanced portion of the entire equation.

The academic work on which our screening process is rooted illustrates that, over the long term, profitability and growth are the most important in driving longer term returns. As a result, these two factors are more heavily weighted within our screening process. However, quality is an overarching non-negotiable within our selection process.

Moat and Stewardship

We combine this screening process with our independent outside fundamental research partner. There are two key aspects of their process that informs our work; moat and stewardship.

The five potential sources of an economic moat:

"The academic work on which our screening process is rooted illustrates that, over the long term, profitability and growth are the most important in driving longer term returns."

Fishing in the Right Pond, continued

1. INTANGIBLE ASSETS — Includes brands, patents and licenses. A positive brand identity increases the customer's willingness to pay a premium.
2. SWITCHING COSTS — Time is important; the cost of switching may exceed the expected benefit. Razor and blade model business.
3. NETWORK EFFECT — The value of the product or service grows with more users. With each additional node, the number of potential connections grows.
4. COST ADVANTAGE — Hard to amass scale, sustainably lower costs, superior location, access to a unique asset.
5. EFFICIENT SCALE — Incumbents generate economic profits, newcomers are discouraged from entering a market due to the cost of capital.

"…we are strengthening our process… to bring even more depth and discipline to our existing approach."

In alignment with our four pillar test, we desire companies with strong stewardship. The stewardship rating assesses whether a company consistently aligns their interests with those of shareholders.

Stewardship ratings are based on the following four criteria:

1. TRANSPARENCY — accounting practices and financial disclosure.
2. BOARD INDEPENDENCE — related party transactions, chairman is CEO, etc.
3. INCENTIVES & OWNERSHIP — required levels of ownership, incentives aligned with shareholder's interests, etc.
4. SHAREHOLDER FRIENDLINESS — voting control, takeover defenses, etc.

Once we understand the core fundamentals of a company through both of these lenses we can then determine whether we desire to take a deeper look at a company. Our deep fundamental analysis is still intact with an equity analyst fully analyzing each name. This internal analysis includes full valuation modeling to ensure that we understand the economic drivers of the company's business model. Based on this deep understanding of a company and employing prudent assumptions, we can then determine an intrinsic value to each position in the portfolio.

In conclusion, we are strengthening our process through the acquisition of deeper quantitative and fundamental analysis on the front end of our process. Through this, we seek to bring even more depth and discipline to our existing approach. While we are drawing on independent outside resources, the final diligence remains with our in house equity process and team. Ultimately, we are leveraging these resources to ensure that we are "fishing in the right pond."

Capital Gains Distributions – The "Spice" in Year-End Tax Planning

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There are many traditions that people look forward to as they enter the holiday season. One widely shared "tradition" that is often overlooked when top-ten lists of holiday traditions are compiled, however, is year-end tax planning. And just as evolving family dynamics may offer some variety and intrigue to the celebration of familiar traditions, mutual fund capital gains distributions can add a bit of spice to the tax planning process. Mutual funds typically make capital gains distributions in late November to mid-December, which can create a tax liability for investors regardless of whether they have recently sold shares. To help our clients prepare for these distributions, it has become a holiday tradition of our own here at Greenleaf to republish an article written by our Assistant Director of Wealth Management, Nick Juhle. We hope our article helps you understand these portfolio distributions a bit better so this holiday season you can spend less time with your accountant and more time with your family.

Most investors are familiar with basic tax principles for individual shares of stock. Mr. Smith buys shares of ABC Company for $100 and sells them for $110 realizing a $10 profit, or gain, on which he is expected to pay taxes. If Mr. Smith holds the shares for more than one year, the gains are considered long-term and subject to a federal tax rate of up to 23.8% (in 2015). If Mr. Smith holds the shares less than a year, the gains are short-term and taxed as ordinary income. The key here though, is that Mr. Smith has to sell the shares to realize the gains. He controls the timing, and has the ability to delay realization of gains and the resulting tax liability for as long as he holds the shares. The same concept is only partially true when it comes to mutual funds.

A share in a mutual fund represents a share in a portfolio of stocks (or other investments), and the price of that share (the net asset value or NAV) fluctuates with the prices of the underlying securities. The mechanics here are really no different than in the individual stock example above. Mr. Smith buys shares of the ABC Fund for $100, the underlying securities in that fund collectively appreciate by 10%, and Mr. Smith sells them for $110, realizing a $10 gain and the associated tax liability. Pretty straight forward right? Here's where it gets a little more complicated...

If a mutual fund sells a holding in which it has a gain, it has to distribute that gain to the fund's

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Capital Gains Distributions, continued

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shareholders in the year it was realized. If the mutual fund buys shares of ABC Company for $100 and sells them for $110, it has to distribute the $10 gain (short or long-term) to shareholders who are responsible for the tax liability. Instead of distributing gains after every transaction, funds typically make a single distribution at year-end which incorporates all gains netted against any offsetting losses or applicable loss carry forwards.

So there are two ways a fund investor can realize gains: 1) by receiving a capital gain distribution from the fund; and 2) by selling a fund share for more than the purchase price. Mechanically, capital gains distributions are processed similarly to dividends. There is a record date (holders of record on this date will receive the distribution), and an ex-date (the first day you can buy the fund without receiving the distribution). This means that a fund could set a record date of December 15 and if our friend Mr. Smith bought shares on December 14, he would receive the distribution and a tax bill. Likewise Mr. Smith could have bought shares earlier in the year and sold them on December 14th and he would avoid the distribution altogether.

Perhaps this seems unfair. The fund accumulates gains all year and then distributes them to whoever happens to be holding the shares on the record date. Fortunately, there is a mechanism in place that prevents fund investors from being taxed twice – specifically, the distribution results in a corresponding reduction to the NAV or price of the fund share, which effectively reduces any gain in the shares themselves.

To illustrate, let's say Mr. Smith buys one share of ABC fund for $100 on December 14 and the fund distributes $10 in capital gains on December 15. Mr. Smith receives the $10 and will pay taxes on that amount (clearly unpleasant), and his share immediately re-prices to $90. Sounds like a lose-lose, but it means Mr. Smith's share could appreciate as much as $10 (from $90 back to $100) before he would realize gains on a sale.

In 2013, the average distribution across our fund focus list was about 4% of NAV with a maximum single fund distribution of 16%. Last year, the average distribution was about 4% with a maximum distribution of 22% and this year, early indications are that the average distribution will be about 5% with a maximum of 27%. Why the increases? Funds previously had tax losses on their books carried over from the bear market which they could use to offset incremental portfolio gains, but seven years into the post-2008 recovery, much of these tax-losses have been exhausted as the market has continued to move higher.

Fortunately, our hands are not completely tied. In fact, several steps in our process are inherently geared toward managing tax liabilities generally and specifically as they apply to mutual funds. First of all, this discussion does not apply to 401(k)s, IRAs, or other qualified accounts and we ensure clients are maximizing these vehicles in the context of a broader wealth management plan. For non-qualified accounts, our fund selection process carefully considers turnover rates - typically, higher turnover (more trading) means more realized gains while lower turnover means the opposite. We also monitor funds closely for manager or prospectus changes which may drive higher turnover if the portfolio is repositioned. Additionally, we analyze capital gains estimates to inform decision-making around year end — under unique circumstances, there may be benefits to strategic repositioning during the distribution season based on a host of account-specific factors. You can rest assured that we are thoroughly examining every account for opportunities.

Lastly, perhaps a little perspective is in order. Nobody looks forward to paying taxes and rational investors will make every effort to avoid, minimize, or delay them. Greenleaf Trust is in your corner working diligently to ensure that we're sheltering, minimizing, and delaying every chance we get. But at the end of the day, taxable gains are, well… gains. So don't lose sight of the fact that while taxes are a certainty, they're also a certain indicator of a growing portfolio.

"… several steps in our process are inherently geared toward managing tax liabilities generally and specifically as they apply to mutual funds."

Stock Market Pulse

Index	10/31/2015	Total Return Since 12/31/2014
S&P 1500	479.75	2.48%
DJIA	17,663.54	1.20%
NASDAQ	5,053.75	7.68%
S&P 500	2,079.36	2.70%
S&P 400	1,444.77	0.72%
S&P 600	689.36	0.27%
NYSE Composite	10,460.96	-3.49%
Dow Jones Utilities	580.50	-3.50%
Barclays Aggregate Bond	109.45	1.07%

P/E Multiples	10/31/2015
S&P 1500	17.8x
DJIA	14.8x
NASDAQ	20.9x
S&P 500	17.7x
S&P 400	18.6x
S&P 600	19.9x

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.08%
T Bond 30 Yr	2.94%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	479.75	17.8x	2.04%
S&P 500	2,079.36	17.7x	2.09%
DJIA	17,663.54	14.8x	2.41%
Dow Jones Utilities	580.50	NA	3.55%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.90%

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