GREENLEAF TRUST

Perspectives

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Chairman, Greenleaf Trust

Economic Commentary

As I write this commentary we stand exactly seven days from the 58th quadrennial United States Presidential election. Current polls show the race on a national basis to be within the margin of error +-3.5%. The path to victory for either candidate must yield at least 270 Electoral College votes (538 represent the total votes to be cast by the Electoral College). This path is not attainable unless a candidate does well in the states of Florida, Georgia, North Carolina and Arizona. Current polling composites suggest that Donald Trump would need to win the entire Republican-leaning states as well as all of the so-labeled "battleground" states which are yet in play and also yield significant Electoral College votes to achieve the magical number of 270. Hillary Clinton, while not in need of winning those states to total 270 Electoral College votes, if she wins the current slate of Democrat leaning states, could certainly block her opponent's path by winning just one of the "battleground" states. Current polling within those states suggest that Arizona is a lock for Donald Trump while all others are within the margin of error.

By the time this commentary is delivered to you, we will know which candidate prevailed and won the 270 Electoral College ballots necessary to be sworn in as our 58th President of the United States.

Additionally, we will know the "down ballot" results which will determine the balance of power in the legislative branches. Within the final week of the election, polls don't forecast any swings in seat count. Republicans are likely to retain the house and Democrats have a high probability of retaking the Senate, though that probability is not a lock. In either case we are likely to wake up on November 9th with a President who is elected but without significant political capital and without a clear mandate from the electorate who can most accurately be described as a house divided.

I have observed, and in a few cases endured, twelve Presidential elections as a voter — and have memories of three elections prior to becoming 21 years old. All elections have a degree of theatre of the absurd about them, and a high level of partisan vitriol as the campaign seeks to inspire the respective party's loyal and likely voting base. My memory of all previous

Commentary, continued

Presidential elections leads me to feel that this one was uniquely more bizarre than the others.

Our respite from political ads begins November 9th. We as Americans have endured fourteen months of political ads and candidates that have talked at us. Their motivation, as we have talked previously about, is to engage and enrage their particular party faithful, not to convince the general population that their platform of positions, world view and style of leadership is right for the country.

"Our respite from political ads begins November 9th. We as Americans have endured fourteen months of political ads and candidates that have talked at us."

There has been much written and said about a "rigged" election. It became a marketing catch phrase of Donald Trump's campaign as well as that of Senator Sanders. The phrase caught because it registered with a significant number of potential voters. If the phrase hadn't been connecting it would have been dropped and forgotten. The real, and I think most important, question is what did the phrase mean to so many and why did it connect?

My sense is that "rigged" isn't really the best word of how many people feel but it was closest to how they felt about what the two major political parties were trying to orchestrate.

Our current political parties have evolved to a place where dissent has no home. At a prior place in time, individual voters and elected representatives could find a place within the Democratic and Republican parties where their views and voices could be heard and where they could represent those who elected them with similar views. We have lost that place in time. Each party now requires absolute adherence to the party line.

The 2016 election is replete with too many to mention examples of where the party came first and foremost and dissent was squashed with political manipulation and penalty. While the electorate was searching for candidates that were hearing their petition, the traditional parties were ram rodding business as usual and many felt disenfranchised as a result. If a sizeable portion of the electorate feel that the process is "rigged" then how does the new President govern?

Congressional Representatives and Senators elected for the first time learn quickly as a part of their orientation process that the Speaker of the House, and Senate majority leader (of the party in power), or the opposition leader of both houses will inform you of the party's positions and how to vote as well as provide you talking points for distribution. The message is clear, your role as an elected Representative or Senator is to support the party's position and it will take you years of doing so before you can earn committee assignments and engage in policy formation.

The redundant message is once again, political party above all and while there are 535 members of Congress, 435 in the House and 100 in the Senate, there are very few that control the legislative process and policy formation.

We have gotten familiar with political gridlock. It is perpetrated and utilized by both sides of the aisle so neither party can claim a moral high ground. The question becomes, "does gridlock serve the nation?" Regardless of who surfaces as our President on November 9th, if the makeup of the House and Senate replicates the past how will she or he govern? If the answer to policy proposals is determined by the very few in legislative power and their respective party position then "dead on arrival" becomes not only the starting point of discussion but also the digging in point of political survival. Support the party's position or be sacrificed.

Because I know reasonable people on both sides of the aisle, I'm prone to feeling that there is more middle ground than there may in fact be. Perhaps the nation is as divided and dug in as the media would have us believe. This condition serves the respective parties well, but does it serve the nation well?

Citizens' perspectives on issues may be polarized but does that mean we don't as a collective nation want effective public policy that meets all of our needs? Because we disagree on the how of what we do, does that mean we don't want improved national security, education, infrastructure, healthcare, immigration policy, etc.?

If the solutions to the above must always be aligned with party dogma, then what gets done ever? And does the answer to that mean that what we have just endured for the last fourteen months really doesn't matter?

The election has occurred, the results are probably in and the new President and Congress are known. Now what?

"We have gotten familiar with political gridlock. It is perpetrated and utilized by both sides of the aisle so neither party can claim a moral high ground."

Michael F. Odar, CFA
President

“For the second year, we are proud to announce that we have earned a place among the country’s Best Small and Medium Workplaces…”

And the Winner is….

The validation you get from receiving an award can be meaningful. It’s especially meaningful when the award recognizes and validates all of your hard work in a specific area. Our culture is unique and differentiates us from our competition. It is something that we work purposely on every day and is what our entire team is most proud of when we survey them. So it’s especially meaningful to us when others recognize our culture as being positively unique. Most recently, we received two awards that did just that.

For the second year, we are proud to announce that we have earned a place among the country’s Best Small and Medium Workplaces by consulting firm Great Place to Work® and Fortune magazine. We won this accolade based on our team members’ anonymous responses to an extensive survey about their levels of trust, pride and camaraderie at work. Great Place to Work® reviewed the survey results of more than 52,000 employees from hundreds of companies in the ranking process. Among the findings from the study: trust fuels business performance. It’s not about the perks. Sure, it’s nice to have a gym in your offices or, say, free ice cream. But what makes a job meaningful depends on a few key qualities: a sense of mission; trust (from leaders) and autonomy (for team mates); and a culture of teamwork and communication. That’s what emerges from 52,000 surveys of employees at small and medium-size companies. The revenue growth at the companies on the list averaged three times that of those that were surveyed but didn’t make the cut. Greenleaf Trust came in 24th on the list of 50 small companies. There are 100 on the list of medium size companies (100-1000 employees) which is what we will participate in during 2017.

We also recently learned that you can wear a suit and tie to work every day and still be considered cool. Greenleaf Trust was recently named one of the coolest places to work in Michigan. The Southeast Michigan media company Crain’s hired Best Companies Group to gather data on employers and survey employees to produce the list. We provided detailed information on our benefits and perks and our teammates answered questions about our work environment and company leadership in a confidential, 80-question survey that accounted for 75 percent of the final ranking. Flexibility, wellness and collaboration are some of the key drivers of employee attraction, retention and engagement, according to the 75 companies that were named to the 2016 Cool Places to Work in Michigan list. Greenleaf Trust ranked #6 on the list!

We are proud of our culture and honored to receive these awards. The recognition helps us to attract new talent and make sure that our current talented team is engaged and inspired. If they are, then our clients are the beneficiaries.

Finally, I have been a Cubs fan since I was 8 years old. It’s the morning after they won the World Series and besides being extremely tired I can't keep the smile off my face. It's been 108 years since the last time this happened. For perspective, since the last time the Cubs won the World Series the Titanic was built, sailed, sunk, and was found. In the immortal words of Harry Caray, the impossible is possible. They did it. Go Cubs Go!

The New DOL Fiduciary Rule

A Qualified Retirement Plan Perspective

Kathleen J. Waldron, QKA
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Retirement Plan Division

The Labor Department, after years of battling Wall Street and the insurance industry, issued new regulations; the highly anticipated final fiduciary rule setting off one of the biggest upheavals in the financial services industry in decades. The regulations expand the definition of investment advice and the definition of a fiduciary investment advisor. The rules will require financial advisors (including registered investment advisors, broker-dealers and insurance agents) handling individual retirement and 401(k) accounts to act in the best interest of their clients. The rule, which may be challenged in court, is expected to take effect April 2017.

Financial advisors are key players in the retirement industry and will continue to be so. Whether or not they were deemed to be a "fiduciary" is the ultimate question. Let's look at a typical example of a broker-dealer transaction through the lens of the "Old Rules" and the "New Rules":

I have an account in the XYX 401(k) Plan and am eligible for a distribution. I go to my broker, Pamela, and she "suggests" that I roll my account out of the plan and into an Individual Retirement Account (IRA) where there are more investments available to me. I roll over my account and she helps me decide on how to invest my IRA by providing information on hot stocks and funds. Pamela does not charge me for her help; she is a stock broker and is paid by commissions.

> "The rules will require financial advisors (including registered investment advisors, broker-dealers and insurance agents) … to act in the best interest of their clients."

Old Rules (Current until April 2017)

- Pamela is subject to Securities and Exchange Commission (SEC) oversight and her suggestions on investing the IRA must be "suitable" for me. As long as they are "suitable" it does not matter if they pay the highest commissions
- Pamela did not give me advice as a fiduciary; she simply provided me with information on various investments

New Rules (Effective April 2017)

- Pamela is subject to the new DOL rules (as well as the SEC rules)
- Pamela is considered an investment "fiduciary" because:
  - ◊ She suggested that I roll over my 401(k) account to an IRA, and
  - ◊ I took her information into account when investing my IRA
- As a fiduciary, Pamela's advice must be in my "best interest" (not just suitable)
- As a fiduciary, Pamela's receipt of commissions is prohibited unless she meets

New Fiduciary Rule, continued

certain exemptions (the receipt of variable compensation can be a conflict of interest)

The above example addresses the broker-dealer world and ways that these types of financial advisors must comply under the new rules. However, what about the qualified plan environment?

"… to assure objectivity and avoid any conflicts of interest, Greenleaf does not accept any form of "soft dollar" remuneration or other revenue…"

There are a few things that a plan sponsor of a qualified plan must consider when thinking about their qualified retirement plan and these rules. First, a thorough review of the provider's service provider agreement and fee disclosure is in order. A determination needs to be made whether the services received are fiduciary or non-fiduciary services under the new rule. If there are any questions or the document is unclear, it is necessary to ask the provider follow-up questions. In the case of qualified retirement plans administered by Greenleaf Trust, we are a stated fiduciary of these plans and always have been. We comply with the new fiduciary rule in the manner which our fees are assessed. In addition, to assure objectivity and avoid any conflicts of interest, Greenleaf does not accept any form of "soft dollar" remuneration or other revenue, such as 12b-1 fees, sub-transfer agent fees, or commissions, from any third party organizations or from any mutual funds included in the plan. Second, it is a good idea to review all plan education materials to have an understanding of the guidance and recommendations contained therein.

This new regulation has many complexities and this article is intended to be a very brief overview. Please be assured that the Retirement Plan Team at Greenleaf stands ready to assist and answer any questions you may have on this important legislation.

Year End Financial Planning

Lauree K. VanderVeen, CTFA
Vice President
Trust Relationship Officer

As we near the end of the year, our "To Do" list seems to inevitably get longer. One item that should be on the top of your list is to schedule time with your Greenleaf Trust team to review your financial situation. These final months of the year offer us a great opportunity to review the year and take advantage of any financial strategies that will benefit your 2016 income tax return.

For the scope of this article, we will discuss a few basic planning ideas. If your finances are more complex or if your life has significantly changed (i.e., purchase or sale of a large asset, significant changes in income, death or divorce, etc.) we recommend a full review of your financial situation with your advisor team. At a minimum, consider the following:

1. Maximize Contributions to your Qualified Accounts: If you are still working and contributing to your retirement account, confirm you are on track to make the maximum contribution for the year. For 2016, the annual limits for common plans are as follows:

401(k), 403(b), 457 and SARSEP's	$18,000 plus an additional $6,000 if age 50 or older
Defined Contribution Plans	$53,000
Defined Benefit Plans	$210,000
SIMPLE Plans	$12,500 plus an additional $3,000 if age 50 or older
IRA or Roth IRA contributions	$5,500 plus an additional $1,000 if age 50 or older

Source: College for Financial Planning ®

Traditional IRA contributions are classified as either a "pre-tax" or "after-tax." The deductibility of the contribution on your income tax return is determined by your income. In order for your contribution to be deductible, your income cannot exceed certain ranges. For 2016, the phase out for a single filer is $61,000 - $71,000. For married couples filing jointly the range is $98,000 - $118,000 and for a non-working spouse married to a working spouse the range is $184,000 – $194,000. If you earn over these amounts, you are still able to contribute to an IRA, however your contributions will be classified as "after-tax" and will not be reported as a deduction on your 2016 tax return.

Roth IRA contribution limits and eligibility are more complex. First, you must have "earned income" from wages, salary, tips, commissions or bonuses. If the earned income is less than the maximum allowable contribution amount, your maximum contribution amount equals your income (ex., your earned income is $3,000, your maximum contribution to the Roth IRA is $3,000). The ability to contribute to the Roth is also based on your modified adjusted gross income (MAGI) and your filing status. Depending on your MAGI, you may be able to contribute a partial or full contribution limit based on the income limitation. For 2016, the phase out for a single filer is $117,000-$132,000 and for a married couple filing jointly, the phase out is $184,000 - $194,000. If your MAGI is over the limit, direct contributions are not allowed, however you can make your annual "after-tax" contribution to your IRA and quickly convert that amount to a Roth IRA. Because the IRA contribution is "after-tax", there will be little or no tax due on the conversion. The key to this strategy is to confirm you have no "pre-tax" contributions in the IRA. If there are pre-tax contributions combined with after-tax contributions, the conversion to a Roth IRA will be pro-rata (a conversion with a combination of both pre-tax and after-tax contributions) which may result in an income tax payment.

Finally, confirm you are contributing as much as possible to your Health Savings Account (HSA's). The 2016 maximum contribution for this type of account is $3,350 for singles, $6,750 for family and additional $1,000 catch-up contributions for those age 55 years or older.

2. Required Minimum Distributions: Tax laws require you to withdraw a minimum amount from IRA's annually after age 70½, or if you have an

"Tax laws require you to withdrawal a minimum amount from IRA's annually after age 70½… before year-end…"

Year End Financial Planning, continued

inherited IRA. The minimum mandatory amount of the withdrawal is known as a required minimum distribution (RMD). These withdrawals must be made before year-end or the IRS can impose a 50% penalty tax on the amount you should have taken. The amount of the withdrawal depends on your age and is calculated using the December 31 market value from the prior year, and life expectancy tables published by the IRS. RMD's are taxed as ordinary income. It is important to determine what, if any, amount should be withheld for Federal and State taxes.

If you are charitably inclined, the PATH (Protecting Americans from Tax Hikes) Act passed in 2015, which made the ability for individuals to gift up to $100,000 of their RMD to charity a permanent tax code provision. The amount you gift will be excluded from your gross income; however, you will not receive a charitable deduction for your gift. If you are not relying on the RMD for living expenses, there are many other planning opportunities we can explore to determine what would best meet your goals for your family. If the RMD scenario applies to you, this "to do" item is critical and must be addressed soon.

"During these final months of the year, the Client Centric Teams work with our clients to identify opportunities to offset any gains or losses in taxable accounts."

3. Roth Conversions: As noted above, the IRS requires RMD's to be made annually from qualified accounts. Often, retirees have enough money from other sources and do not want the extra earned income. Your RMD can often push you into a higher tax bracket. For this reason, it may make sense to consider converting some or all of your qualified accounts into a Roth IRA. When considering the Roth conversion, compare your 2016 income with your expected 2017 income. If there is a significant difference in income in one year or another, the opportunity might exist to complete a partial or full conversion. It is important to understand the income tax consequences of the conversion. Any amount of the qualified account converted will be taxed as ordinary income in the year of the conversion. The bonus with Roth conversions is the ability to recharacterize the Roth back to the qualified account by October 15th of the following year if the market value of the Roth does not increase in value or lose money. If reversed by this deadline, it's as if the conversion did not occur. The benefits of a Roth IRA are tax-free growth and tax-free withdrawals. By reducing the value of your pre-tax accounts before you reach 70½, you will reduce the amount of your future RMD and therefore potentially reduce the amount of taxable income you'll pay at that time. Having different investment buckets from which you can pull is beneficial in retirement years.
4. Realized and Unrealized Gains and Losses: In last month's edition of *Perspectives*, Steve Phillips addressed this topic of what we refer to as "tax loss harvesting." During these final months of the year, the Client Centric Teams work with our clients to identify opportunities to offset any gains or

losses in taxable accounts. Realized capital gains are first offset by realized capital losses. If there are still excess losses, up to $3,000 can be used to offset ordinary income. Any excess losses are carried forward and can be applied in subsequent years. Your advisory team can identify opportunities within the taxable account they are managing but it's important to disclose any transactions outside of the portfolio that are made throughout the year. If you are in a lower income tax bracket (15% or lower) consider selling assets with significant capital gains. In most cases, you will pay 0% tax on the capital gains.

5. Gifting: There are numerous strategies for gifting, both to individuals and charities. There are far too many options to cover in this article but we will review the basics. First, review your list of assets to determine what type of asset to gift. It is more beneficial to gift highly appreciated securities rather than cash when you are donating to charities. You benefit by not having to pay the capital gains tax on the highly appreciated asset and will receive the gift deduction on the market value of the asset at the time it was donated. The charity will not pay capital gains tax because of its non-profit status.

   Regarding individuals, for 2016, your annual gift exclusion is $14,000. This means you can gift up to $14,000 to any individual or individuals as you'd like, without it being a taxable event. Payments can also be made directly to institutions for education or medical expenses of another individual without being a taxable gift. Consider gifting to a child or grandchild's 529 or college savings plan. There may be a state income tax deduction if you contribute to one of these plans. Consider gifting assets in excess of your annual gift exclusion. Currently, you have a lifetime gift exemption of $5.45 million. Depending on who wins the election, we may see a change in the near future. In the event your estate exceeds the lifetime exclusion amount, your estate currently will pay up to 40% estate and gift tax on the balance. Creating a plan to optimize this benefit is important.

6. Review your Financial Goals: This is a good time to review with your advisors other major changes that might have occurred throughout the year. Review your personal financial statement and confirm that assets and liabilities are titled correctly. Review your beneficiary designations on your retirement accounts and insurance policies and make changes if necessary. It is worth reviewing your Social Security statement and, if applicable, your Medicare, supplemental and prescription drug plans. If it has been more than a couple years since you've met with your legal advisor, it may be time to have your estate plan reviewed and updated.

Finally, review your financial goals with your advisor team to ensure you stay on track to meet those goals. Now is the time to schedule a meeting with your advisors so you can enjoy the holiday season and year-end events with one major and important item checked off your "To Do" list!

"This is a good time to review with your advisors other major changes that might have occurred throughout the year."

Robo-Advisors: When Are Self-Driving Portfolios Safe?

Jeff T. Pauza
Wealth Management Advisor

"Robo-advisors have grown out of the demand for unbiased investment advice. It comes as no surprise to us that investors have flocked to robo-advisors as they have grown tired of conflicting interests and hidden fees associated with brokers."

Would you trust your financial future to a machine? Automated Investment Advisors or robo-advisors are the latest innovation in the wealth management industry. A robo-advisor is similar to a self-driving car as they operate without human intervention. These online tools rely on algorithm-based portfolio management in an attempt to automate the asset management process. As a wealth management firm focused on personal service and customized solutions, you may find it odd that we would write about a robot that was designed to make our industry obsolete. However, when applied in the appropriate setting, robo-advisors can actually have several beneficial traits — they're low cost, relatively easy to use, provide efficient service and are tailored to inexperienced investors that may otherwise go without. As we witnessed with Arnold Schwarzenegger in the *Terminator* movies, however, can we really trust robots?

The two pioneers given credit for popularizing the industry are Wealthfront and Betterment. Both options are easy to sign up with - you provide some personal information, take an assessment quiz, and the robo-advisor will generate a proposed asset allocation for you and recommend a lineup of investments. It's quick, it's online, and it comes with a slick mobile phone app. Groups like Wealthfront and Betterment charge a fee of 0.25% on the assets they manage plus underlying investment fees.

Robo-advisors have grown out of the demand for unbiased investment advice. It comes as no surprise to us that investors have flocked to robo-advisors as they have grown tired of conflicting interests and hidden fees associated with brokers. A core tenet of Greenleaf Trust has always been unbiased advice and remaining accountable to the highest standard of fiduciary excellence. We will always act in the best interest of our clients and always place their interests above ours. We know firsthand how important these traits are to our clients. But are robo-advisors as unbiased and conflict-free as they claim?

While robo-advisors have demonstrated the demand for fiduciaries in the investment management industry, robo-advisors do not operate as fiduciaries. This means that robo-advisors do not have to put your interests above their own interests. A look through multiple user agreements that most don't bother to read demonstrates how robo-advisors truly feel about the "advice" they give you. Attorney Melanie Fein, senior counsel to the Board of Governors of the Federal Reserve and author of many research papers on robo-advisors states, "among the many excerpts from robo-advisor client agreements is one stating that the client is responsible for determining that investments are in the best interests of the client's financial needs." This can be interpreted as an attempt by robo-advisors to release their fiduciary duty by placing responsibility for an investment allocation back in the hands of the client. By removing themselves from determining what investments are appropriate for you, robo-advisors are putting a lot of weight on their 10 question quizzes to develop your investment strategy.

Exploring these user agreements further will show that many robo-advisors are selectively affiliated with specific companies such as banks for cash services and brokers for trade execution. For example, some robo-advisors route trade orders through Apex Clearing from which they can receive monetary rebates – known as "soft dollar" commissions. Although there may be no cost effective alternatives to Apex, it should be every advisor's duty to remove all potential conflicts that can adversely affect their clients. At Greenleaf Trust, we do not accept any form of "soft dollar" commission in order to avoid these conflicts.

Even some of the biggest and most trusted online advisors fall victim to conflicts of interest. Charles Schwab suffers from these conflicts when you peel back their robo-advisor offering. Schwab touts their service as "no advisory fee, no commissions, and no account service fees. Period." While all this is true, Schwab recommends their proprietary funds in their offering. Schwab collects the underlying expense ratio on all of their proprietary funds. Calculating the weighted average expense ratio in Schwab's proprietary fund robo portfolios reveals they charge industry level fees on assets under management. Schwab also recommends large cash positions in their proposed portfolios. While Schwab claims cash can be used as a buffer, which is true, Schwab also makes money off your cash holding. Your cash is swept from your investment account and held for you in a Charles Schwab bank account. Schwab then lends this cash out and earns interest on it while paying you minimal interest in return. Schwab's services are not as "free" as they claim and are right in line with what Betterment and Wealthfront charge. By not utilizing proprietary funds and operating as a "trust-only" bank, Greenleaf completely avoids subjecting our clients to hidden fees.

"Even some of the biggest and most trusted online advisors fall victim to conflicts of interest."

Back on June 24th, as the results of Britain voting to leave the European Union took its toll on international markets (S&P 500 fell 3.2% that day), Betterment halted all trading from the opening bell until about noon Eastern Time. Betterment didn't inform its clients until after the halt ended, and according to their lengthy user agreement, they weren't required to. Robo-advisors are so new that they have no track record to demonstrate how they operate during periods of heavy volatility. Liquidity is vital in times of extreme volatility. It isn't fair to surprise clients with trading halts during these stressful time periods.

While there are many crucial services that robo-advisors are incapable of providing such as estate planning guidance and holistic wealth planning, they do offer a compelling service to the inexperienced investor. Robo-advisors have brought needed innovation to the wealth management industry. However, their most valuable contribution reinforces the necessity that your advisor is unbiased, conflict-free, and makes decisions that are in your best interest.

Evaluating the Candidates' Infrastructure Proposals

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Fixed Income Analyst

By the time you read this article the 2016 US elections may already be in the history books. While Greenleaf cannot predict the outcome of the elections, our Research team does look past November 8th to consider the economic policy positions of the major parties and their candidates. This article will focus on one area of agreement between the parties, infrastructure spending. This article will highlight the candidates' positions, some potential impacts to the economy and to markets of increased infrastructure spending, and how we are incorporating these views into our investment strategies.

"This article will focus on one area of agreement between the parties, infrastructure spending."

What is Infrastructure Spending?

Per the Congressional Budget Office (CBO), infrastructure consists of transportation systems (highways, roads, air, water, and rail), utilities (water, gas, electric, and telecommunications), and other types of public facilities (schools, postal facilities, prisons, etc.).[1] The money it takes to develop these projects, to operate them, and to maintain them fall under the category of infrastructure spending. Much of this spending is done by state and local governments, or by private entities in the areas of telecommunications and energy, but this article will focus primarily on spending at the Federal level.

What are the Candidates' Positions on Infrastructure Spending?

Last November, the Clinton campaign released a 5-year, $275bn federal infrastructure spending plan which emphasizes road and bridge repair, public transit expansion, port and cargo rail expansion, improving airports, and several other infrastructure categories.[2] To understand the scale of this proposal, note that in fiscal year 2014 the CBO estimated that Federal spending on Transportation and Water Infrastructure, two of the largest infrastructure categories, totaled $96bn.[3] From that baseline, Clinton's proposal of an additional $55bn per year would be a sizeable increase.

The Trump campaign website offers fewer specifics on infrastructure spending plans; rather, it highlights the candidate's plans for streamlining the permitting process for infrastructure projects. However, in an interview on the Fox Business Network in August, Trump noted a need to "at least double" the Clinton spending plan to address roads and bridges. This would represent an additional $100bn per year, roughly doubling current Federal spending levels.[4]

How Might These Plans Impact the Economy?

There is broad agreement among experts and advocacy groups about the need for increased infrastructure investment in the United States. Every four years, the American Society of Civil Engineers (ASCE) generates an 'Infrastructure Report Card' on the basis of various measures of the quality of America's infrastructure. In its latest national report from 2013, America received a D+, and the ASCE estimated that an additional $1.4trn is needed from 2016-2025 (or roughly $140bn per year) to bring the grade up to a B.[5] Note that not all of this spending will be done at a Federal level, but the preponderance of this need ($1.1trn) is in the surface transportation sector, which was 25% funded by the Federal government in 2014 and 75% funded by state and local governments.

This underfunding has been noted by various groups as a cause worth addressing. It was cited as a detriment to the US business ecosystem in Harvard Business School's "State of US Competitiveness 2016" report[7], has been featured by the Business Roundtable in their "Road to Growth" report[8], and highlighted by the Center on Budget and Policy Priorities as a way to boost economic growth.[9] It is important to note the agreement on this topic among these very different organizations. The Business Roundtable identifies itself as an association of chief executive officers of leading US companies, while the Center on Budget and Policy Priorities identifies itself as a nonpartisan research and policy institute focusing on policies designed to help low-income people. Their policy initiatives are often very different, but align in this instance.

> "We believe increases in Federal infrastructure spending could have a slightly positive impact on economic growth."

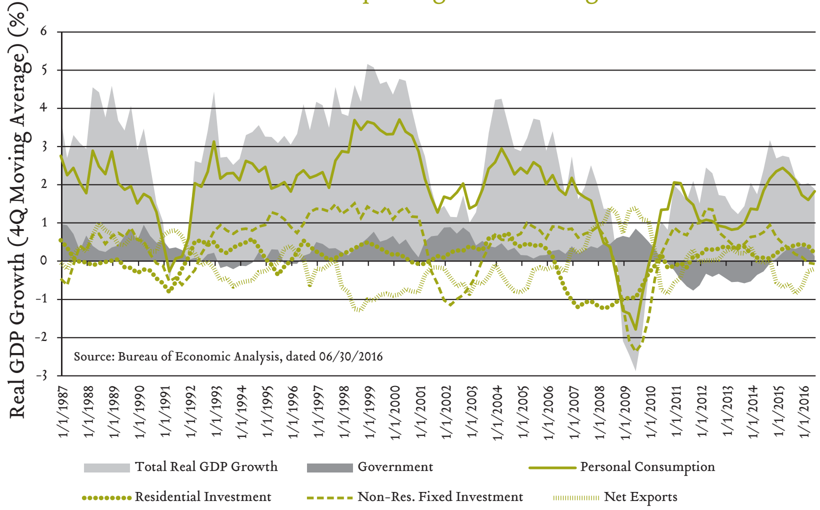
The likely reason for this agreement is due to evidence of the economic benefits of infrastructure spending. The CBO estimates the fiscal multiplier, the change in a nation's economic output generated by each dollar spent, for infrastructure spending to be $1.30, meaning they estimate median output increases of $1.30 for every $1.00 spent. This return is generated by direct effects on aggregate demand in the economy (due to the government spending an incremental dollar), as well as indirect effects on demand (which take into account factors such as government spending "crowding out" private investment).

We believe increases in Federal infrastructure spending could have a slightly positive impact on economic growth. Broader infrastructure spending plans that include increases at the state and local level could be more impactful. It is important to note that, since the Great Recession, government spending has mostly been a net drag on GDP growth. A change to more expansionary fiscal policy could reverse that trend and provide a boost to GDP growth. Its impact, however, is likely to pale in

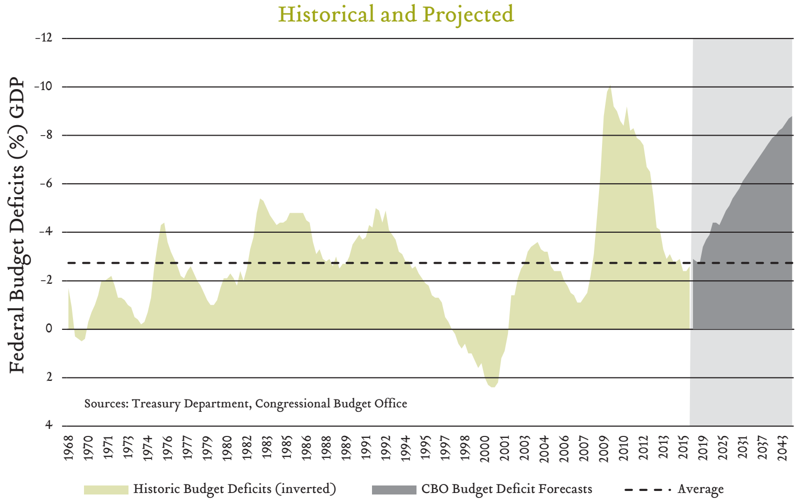
Infrastructure Proposals, continued

comparison to developments in personal consumption, which accounts for a much larger share of economic activity.

Contribution to Real GDP Growth
Government Spending & Other Categories



U.S. Federal Budget Deficits (% GDP)
Historical and Projected

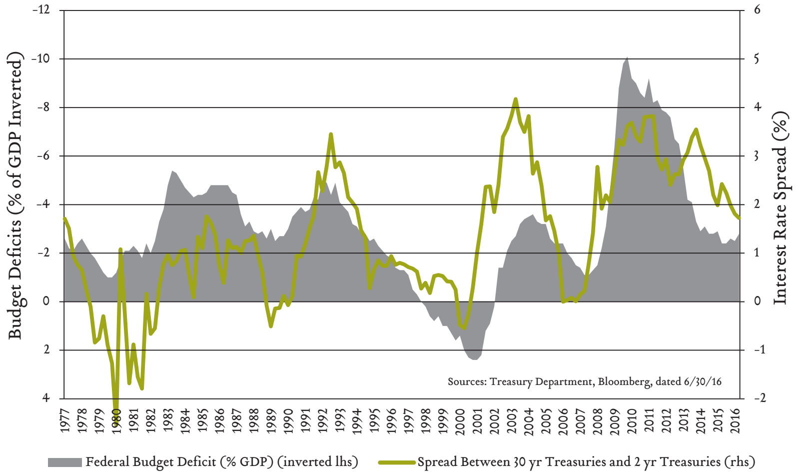


"Even without considering incremental infrastructure spending, the CBO projects substantial increases in US budget deficits in the future, primarily due to increased entitlement spending."

Even without considering incremental infrastructure spending, the CBO projects substantial increases in US budget deficits in the future, primarily due to increased entitlement spending.[10] In the past, growing budget deficits have been associated with steeper yield curves. We believe there is the potential for yield curve steepening, and relatively poor returns to holding longer duration bonds, with a large Federal infrastructure program.

In equity markets, our view is that the impact is less predictable. The sectors that are the most exposed to infrastructure spending are telecommunications and utilities. However, these sectors are also the most sensitive to interest rates because the companies tend to carry higher levels of indebtedness. If interest rates rise, this impact may overshadow any boost from additional government spending.

Yield Curve Spread and Budget Deficits



How Are These Proposals Impacting our Investment Strategies?

There is still significant uncertainty about the outcome of the elections and the probability that any campaign trail promises come to fruition. As a result, the impact of the candidates' proposals on our investment strategies is very minor at this point. That said, if significant infrastructure spending plans come closer to reality, we would evaluate the possibility of boosts to GDP growth and the possibility of yield curve steepening. This might lead us to favor pro-growth asset classes like equities and credit and to underweight longer duration fixed income to protect investors from a steepening yield curve. At this point, however, we are not making any incremental portfolio changes.

We look forward to working with you before and after the election (no, the world will not be coming to an end if either candidate wins). We will continue to monitor economic and tax policy proposals on your behalf and work to take advantage of investing and planning opportunities that can help you achieve your long-term financial objectives. If you have any questions or would like to discuss this topic further, please contact your Client Centric Team.

"...the impact of the candidates' proposals on our investment strategies is very minor at this point."

References:

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Stock Market Pulse

Index	10/31/16	Total Return Since 12/31/15
S&P 1500	491.70	6.21%
DJIA	18,142.42	6.36%
NASDAQ	5,189.14	4.66%
S&P 500	2,126.15	5.87%
S&P 400	1,509.46	9.40%
S&P 600	722.59	8.78%
NYSE Composite	10,481.89	3.34%
Dow Jones Utilities	675.23	19.93%
Barclays Aggregate Bond	111.30	4.84%

P/E Multiples	10/31/16
S&P 1500	18.0x
DJIA	17.3x
NASDAQ	21.5x
S&P 500	17.9x
S&P 400	19.6x
S&P 600	19.3x

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.31%
T Bond 30 Yr	2.59%
Prime Rate	3.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	491.70	18.0x	2.11%
S&P 500	2,126.15	17.9x	2.17%
DJIA	18,142.42	17.3x	2.59%
Dow Jones Utilities	675.23	NA	3.30%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.48%

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