GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

The much anticipated rate hike by the Federal Reserve at their September FOMC (Federal Open Market Committee) meeting did not occur. The new custom is to hold a press conference to reveal the thoughts expressed during the meeting by the Fed Governors. Previously, we were simply left with the decision made and opportunity to pore through details of meeting notes released forty-eight hours after the meeting. In her post-meeting "presser," as they are now called, Fed Chair Janet Yellen shared that the Governors were split as to forward Fed policy but that she weighed in on the side of caution, citing uncertainty and the sustainability of job and wage growth while simultaneously observing very low inflation. She acknowledged wage growth evidence but stated consistent wage growth would be the standard necessary to move more Governors to vote to tighten. There remain two more chances for the Fed to increase rates in the current Fed calendar and the signal was that they are watching what ARE known as the "Phillips Curve" indicators to determine if the increase in employment and sustained wage growth month over month will translate into price growth.

Ahead of the meeting and subsequent announcement, equity markets sold off by about 2% and then post-announcement quickly added 3% gains in the two market days following the decision. Should we assume that a quarter point rate hike is only worth a 2 – 3 percent equity sell off? No, not at all. As stated previously, the degree of market contraction will be determined by the pace of rate hike and post-meeting tone of the Fed. It isn't about the first hike, but rather expectations for future hikes, that matter to the repricing of assets.

I have been a bit surprised by the lack of campaign focus on income growth during this election cycle. The primary campaigns had considerable attention devoted to the erosion of the middle class and stagnant wage growth over the past decade, yet few specifics from either side have addressed the underlying issues or the resulting implications of the problem. Perhaps all of the oxygen in the room is being sucked out by immigration and ISIS.

The first Presidential debate occurred this week and drew nearly as many viewers as the Super Bowl, suggesting to some that perhaps not as

Commentary, continued

many minds are made up and thus a portion of the 85 million viewers were looking for some tangibles to help them decide who their candidate is. The viewership might also have been influenced by those hoping to witness the big crash or train wreck that some suggested would happen. People whose minds were made up prior to the debate saw their candidate as the victor. What happened during the debate, the questions asked and details of the candidates' answers mattered little to the majority of the viewers, their minds have been made up and their opinions have been structured around their personal beliefs and political party preference. This year's Presidential election is different in that the Libertarian and Green Party have a combined preference among likely voters of nearly 15%. Deeper dives into those voter preference polls reveal that they detract from each party equally, as do the numbers of voters who identify as undecided. The reality for both Hillary Clinton and Donald Trump is that the combined undecided, as well as Libertarian and Green Party voters, total 35% of the electorate. It is not unlikely that the portion of televised debate viewers who have not made up their minds yet was around the 35% described above. Post-debate polls detailed on Real Politics, an online compiler of numerous polling services, revealed that Hillary Clinton earned some of that undecided territory as a result of the debate. How much of that swing will stick over the next debate and final four weeks of the campaign is unclear, but the Trump campaign knows clearly that the "calculus" has to change pretty dramatically within that time period, particularly in the "battleground" states, if their candidate is to prevail.

"The reality for both Hillary Clinton and Donald Trump is that the combined undecided, as well as Libertarian and Green Party voters, total 35% of the electorate."

What can the electorate expect of these candidates with respect to some fundamental issues that voters have identified as important to them? The issues, as defined by the Pew Research Center in the order of importance by registered voters, are as follows: The Economy, Terrorism, Foreign Policy, Health Care, Gun Policy and Immigration. To the extent candidates are forming specific policy and talking points around these issues, they are potentially registering with voters' largest concerns.

The Economy

Job growth and wage growth are critical to voters. Both candidates have suggested their intent to focus on infrastructure to create job and wage growth. It is clear to most citizens that our collective national investment in infrastructure — as defined by highways, bridges, ports and airports — has fallen behind our collective needs and can connect the dots that this type of national priority would result in more projects requiring labor and resources to execute the policy. From an economist's view, if there is a shortage of labor and resources with the entire bandwidth of infrastructure needs, then the economic multiplier implicit in the output of the plan would be large. How do they differ in their approach? Candidate Clinton would execute the plan through federal highway and infrastructure programs and pay for it with increasing taxes on the wealthy. Candidate Trump would execute the plan through block grants to states and does not offer a specific plan to pay for the cost other than to offer that his administration would create more GDP growth and therefore more tax revenue. The details of the GDP expansion have been vague.

Terrorism

The differences are clear and easily seen by the electorate. Candidate Clinton would execute the current policy by focusing on the defeat of ISIS through US military assets collaborating with middle east allies and supporting the collaborative anti-terrorism network of international, federal and domestic police and intelligence agencies. She has been supportive of this policy for the past eight years and would continue it in her administration. Candidate Trump emphasizes that he would be ISIS's worst nightmare and rails against the policy of the Obama administration, suggesting that his policy would be different. How and in what order is unclear. His refusal to identify the plan is based upon the belief that you should not reveal to your enemy how you are going to defeat them.

Foreign Policy

Candidate Clinton would favor the current policy of what foreign policy professionals refer to as "Post American Exceptionalism," meaning that all global issues should be framed by what is in the best interests of the United States, but that the global community and our allies must also engage in the solution to issues that develop and with that engagement comes responsibility to invest in tangible solutions. Clinton supports NATO and the current direction of NATO. Candidate Trump offers a return to "American Exceptionalism" and suggests a Foreign policy framed through the lens of America first and tough negotiations with not only our enemies but also our NATO allies, even to the extent of requiring NATO nations to pay for US military support.

Health Care

Cost and access are the essential concerns of voters. Candidate Clinton supports the Affordable Care Act and states that changes and alterations are required to reduce costs and improve access as well as coverage. She has offered strong support for the Affordable Care Act during her campaign and voters could therefore count on her continued advocacy for it as President. Candidate Trump would abolish the Affordable Care Act, provided that he could do so legislatively, and offers the Republican plan as an alternative, which provides access through tax credits and subsidies for low income individuals and the ability to sell policies across state lines, which Republicans believe will create more competition and therefore lower premium cost. Clinton offers federal and state administered plans

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Commentary, continued

while Trump is focusing on the private market for plans. Clinton would focus cost containment on providers and suppliers while Trump would support less regulation and more competition within healthcare. Two very different approaches.

Guns

The emotion generated around this issue helps to define some of the current polarization of the electorate. Candidate Clinton wants greater access control to weapon purchases, background checks that include comprehensive coordination of police and federal agency watch lists, and the banning of the public's ability to purchase "assault rifles." Candidate Trump sees all of the above as an attack on the second amendment and has adopted as his policy the platform policy supported by the NRA (National Rifle Association) which is essentially the current policy.

Immigration Reform

This is the sixth issue of importance by registered voters and the candidates offer two very different approaches that will be easy for voters to distinguish. Candidate Clinton focuses on elements of the current US Policy of immigration which is secure borders, a pathway to citizenship for illegal immigrants, no deportation of families where children have been born within the United States and immersion opportunities for refugees.

Candidate Trump promises to "build a wall" and have Mexico pay for it. Close immigration paths to countries with known terrorist activities and increase the vetting of immigrants to "extreme vetting" while deporting all illegal immigrants including children who were born within the United States. The candidates could not be more different with respect to immigration policy.

If the Pew Research Center got it right with respect to registered voters' top six issues of this Presidential election, then the candidates offer clear and distinct differences on all six issues. The survey does not focus on voter preferences with respect to personal characteristics which could also be huge differentiators in this election cycle. In the end, voter psychology studies suggest that it is the style and character relator identifiers that impact voters more than do the cerebral policy issues. We can't determine where individual voters fall on those relator identifiers but have a sense that the election will be determined by the political party affiliation of the voter and the greatest number of undecided voters who identify most with the relator characteristic of the candidate that appeals to them, followed lastly by the policy differences of the candidates themselves. We live in very interesting times and this election certainly is interesting.

"We… have a sense that the election will be determined by the political party affiliation of the voter and the greatest number of undecided voters who identify most with the relator characteristic of the candidate that appeals to them, followed lastly by the policy differences of the candidates themselves."

Separate Development and Accountability

Michael F. Odar, CFA
President

Receiving feedback to learn from is a critical component of personal growth and development. Feedback is essentially information about how we are doing in our efforts to reach a goal. Feedback has to be meaningful to be effective. Timeliness contributes directly to the meaningfulness of the feedback. The annual employee performance review is not an effective feedback forum, and therefore not an effective development tool.

In their latest article for *Harvard Business Review*, Peter Cappelli, professor of management at the Wharton School, and Anna Tavis, academic director of Columbia's program in human capital management, correctly identify the limitations of annual performance reviews in the development of people. According to the authors, annual performance reviews are more about holding people accountable for past behavior because of their emphasis on financial rewards and punishment and their end-of-year structure. This comes at the expense of improving current performance and grooming talent for the future, both critical to an organization's long-term survival. We agree with them and that's why we don't have annual performance reviews.

"We agree with them [about the limitations of annual performance reviews in the development of people] and that's why we don't them."

To more effectively promote our teammates' growth and development we asked them what they needed. Then we gave them what they needed. Accessibility, frequency, timeliness, and formality were all important aspects of feedback that they required for development. So, every teammate has a coach whose responsibility is to help that person develop and grow. We try to limit the amount of coaching relationships that leaders have in order to promote accessibility. Coaching relationships are typically less than seven per leader, which also helps increase the frequency and timeliness of feedback. Teammates don't have to wait until a scheduled meeting or whenever their coach has time in their busy schedule to learn how they can get better. Feedback should follow the natural flow of work. Proximity to coaches also helps the effectiveness of the process. We don't have an "executive floor." Doors are open and leaders predominantly sit near those they coach. Finally, more informal meetings were desired versus fewer pre-determined formal meetings. At a minimum, more formal calendar scheduled coaching sessions occur on a quarterly basis. The vast majority of coaching sessions occur informally though with much more frequency.

Accountability is still very important to our teammates and we do reward teammates with bonuses. However, we believe accountability is a separate discussion from growth and development. Our people are our greatest asset. If they are growing and developing, ultimately our clients benefit.

N. Dean MacVicar, CTFA
Executive Vice President
Director of Institutional Relations

"No matter what you call it — socially-responsible investing, socially-conscious investing, mission-driven investing, sustainable investing, impact investing — the practice... has existed for a very long time..."

Investing for Social Impact

Many financial advisors emphasize the importance of taking emotions out of investing. Easier said than done, for sure, but there is no lack of evidence that emotions can have a very real impact on an individual's ability to make the right financial and investment decisions. Although emotions can lead an investor astray, they can definitely have a "seat at the table" for investors that wish to apply socially-responsible investment principles in the management of a portfolio.

No matter what you call it — socially-responsible investing, socially-conscious investing, mission-driven investing, sustainable investing, impact investing — the practice of applying certain environmental, social, governance, and other societal criteria in the investment analysis and implementation has existed for a very long time (even dating back to the 1700s by some accounts). The history and evolution of socially-responsible investing is well beyond the scope of this article and, although I may only scratch the surface on the topic, we want to share some basic information because we not only receive inquiries, but also apply some of these principles to address specific client-driven mandates and goals.

I'll jump on the acronym bandwagon for a moment. Although SRI has been a fairly long-standing acronym for "socially-responsible investing," there is now increased use of the term "sustainable and responsible investing." Whichever you prefer, SRI is generally an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive returns and positive societal impact. SRI has experienced significant growth over the last three to four years. Institutional investing in the U.S. along ESG lines has seen the largest advance among endowments and foundations, often to fulfill a mission. Public pension plans have also experienced growth, and SRI investment options have been added to many 401(k)-type retirement plans.

On the retirement plan front, in 2015 the Department of Labor affirmed that incorporating ESG factors into investments is compatible with the fiduciary duty of plan sponsors for "ERISA plans." An earlier interpretive bulletin had "unduly discouraged plan fiduciaries" from considering ESG factors under appropriate circumstances. So, while stringent fiduciary standards continue to apply to ERISA plan investments, the recognition of ESG as a viable part of the process is testimony to the increased interest and use of SRI criteria.

There are various motivations for SRI investing, including personal values, institutional mission and client-directives. Although the methods and strategies used to incorporate ESG criteria in the investment process can be multi-faceted, a common approach that has been in place for an extended period of time is to apply so-called exclusionary screens, such as avoiding investments in "sin industries" (tobacco, alcohol, gambling, etc.), weapons, nuclear energy, and companies known to have a checkered history in areas of human rights, labor relations, and employment equality. Greenleaf Trust has tools and resources to apply exclusionary screens to potential investments, and also has identified and performed due diligence analysis on various mutual funds that employ SRI and ESG principles.

SRI strategies have evolved beyond the exclusionary methodology to incorporate more proactive strategies that promote values, transparency and sustainability.

SRI's move into the mainstream also gained global support in 2006, when the United Nations, in partnership with some of the world's largest investors, put six principles for responsible investment into practice. The principles include:

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be active owners and incorporate ESG issues into ownership policies and practices;
- Seek appropriate disclosure on ESG issues;
- Promote acceptance and implementation of the principles within the investment industry;
- Work together to enhance effectiveness in implementing the principles; and
- Report on activities and progress towards implementing the principles.

A study in 2015 estimated that the member firms adopting the principles accounted for nearly $60 trillion under management.

Investors interested in pursuing SRI and ESG principles typically strive to create value with their investments, both financial value and social and ethical value. Some ask: "Will I sacrifice investment performance by employing an SRI strategy?" Whereas this topic, and discussion of various studies that have been done around the issue, deserves its own article, suffice it to say that there is evidence that employing the principles of SRI/ESG investing need not result in sacrificing long-term performance.

It is obvious that there are many aspects of investing for social impact, including private investments that fall outside the scope of this article. But in the realm of investing in a socially-responsible (or sustainable and responsible, if you prefer) fashion, the passion and progress continue to march forward.

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Steven P. Phillips
Wealth Management Advisor

Tax-Efficient Investing

Former U.S. President Richard Milhous Nixon once made a statement regarding taxes that, while lacking astute analysis, is nevertheless true. "Make sure you pay your taxes; otherwise you can get in a lot of trouble." Now that we have cleared that up, we can probably safely assume that while most Americans want to pay their tax bill to avoid getting in trouble, those same individuals probably would like to limit the size of their tax bill as much as legally possible. At Greenleaf Trust, we are extremely mindful of taxes when we manage client portfolios. Listed below are a few of the strategies we employ to mitigate taxes.

Avoidance of Short-Term Gains

Many investors are aware that there is a difference in taxation on ordinary income versus capital gains. Ordinary income is subject to a progressive tax rate ranging from 10%-39.6%, depending on the individual's income. Income that is received due to capital gains is generally taxed at more favorable rates, ranging from 0%-20%, again depending on income. These more favorable capital gains rates only apply to securities that have been held for longer than one year, however. Any securities that are purchased and subsequently sold within less than a year are subject to short-term capital gains, which are subject to the higher ordinary income rates mentioned above. While there may be times we have to recognize short-term capital gains, we make every effort to ensure that our clients' capital gains are taxed at long-term rates whenever possible.

"Make sure you pay your taxes; otherwise you can get in a lot of trouble."
–Richard M. Nixon

Low Portfolio Turnover

Another area that has a big impact on the realization of gains within client portfolios is portfolio turnover. A manager who is constantly buying and selling assets contributes to a higher portfolio turnover rate. These constant transactions not only increase trading costs, but they also tend to create much larger tax bills for clients. There are three direct ways Greenleaf Trust attempts to limit unnecessarily high portfolio turnover within our client portfolios.

First, any time we purchase an individual stock, we do so with a long-term holding period in mind. While the need to sell an equity position may arise at any time for a number of reasons, when making initial purchases we do so with the intention of holding that position for 3-5 years. Second, when selecting actively managed mutual funds for our client portfolios, we specifically focus on portfolio turnover within each fund. While it is by no means the only metric we evaluate, a consistently high portfolio turnover rate is a red flag that we will always attempt to avoid. Lastly, our utilization of passive instruments (i.e. ETF's that track broad indexes such as the S&P 500) contributes to extremely low portfolio turnover and thus creates minimal gains for our clients.

Tax Loss Harvesting

Tax loss harvesting is another area where we consistently add value for our clients. When a position is held at a loss, we may actively sell that position to realize the loss, directly reducing the gains incurred for the year. We then have a few options, depending on the client scenario, for reinvesting the proceeds. One option is to immediately invest the proceeds in other assets to avoid losing out on any potential market returns. The second option requires a brief explanation of a rule the IRS established that is intended to discourage transactions known as "wash sales."

The "wash sale" rule states that if a asset is sold at a loss and there was a corresponding purchase of that asset either 30 days prior to or 30 days after the sale, the loss will be disallowed. To illustrate why this rule exists, let's say investor Tom Jones has a $100,000 position in XYZ Corporation. His original basis in the stock was $150,000, so the position is now at a $50,000 loss. Without the wash sale rule, Tom could simply sell his position in XYZ Corporation, realize the $50,000 loss for tax purposes, and then invest right back into XYX Corporation the very next day. Obviously, this is an abuse of the IRS's intentions in allowing investors to realize losses on their investments. As a result, when we reinvest proceeds into securities where we have harvested losses for our clients, we do so while complying with the 30 day time period established under the wash sale rule.

We should remind our readers of a wise saying in the investment community: "Don't let the tax tail wag the investment dog." After all, investment gains are what most investors are pursuing. They are a sign that your wealth is increasing and aiding you in realizing your long-term financial goals. The key is to realize gains while doing so in a tax-efficient manner, and that is what we strive to do for each of our clients year in and year out.

"The key is to realize gains while doing so in a tax-efficient manner, and that is what we strive to do..."

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Michelle M. Gray
Participant Services Specialist

A Historical Perspective on the Stock Market in Presidential Election Years

When meeting with retirement plan participants, lately one of the questions I'm asked most is, "How do you think this year's election will affect the stock market? Should I be doing anything differently with my retirement plan right now?" Without a crystal ball, I can only look to history to attempt to provide an answer to that question. In the end, though, if you've established an appropriate investment strategy to start with, the answer is usually no.

Although I, like most Americans, think this election year is quite unprecedented due to our candidate choices, historically, the stock market has typically acted predictably with the 4-year election cycle. We tend to see bear markets and recessions in the first two years of a president's term and bull markets and an improved economy in the second two years. Since 1833, the Dow Jones Industrial Average has gained an average of 10.4% in the year before a presidential election and an average of nearly 6% in an election year. This year, through September 28th, the Dow Jones Industrial Average has returned 7.39%. The exception to the "nearly 6% gain in an election year rule" was, of course, the election year of 2008 when the market was down 37%. I'm sure I speak for the majority when I say I'm hoping we don't see anything remotely resembling 2008 in 2016!

"...historically, the stock market has typically acted predictably with the 4-year election cycle."

The following chart shows election year market results dating back to the Roosevelt vs. Willkie election of 1940.

Year	Candidates	Market Result
1940	Roosevelt vs. Willkie	-9.8%
1944	Roosevelt vs. Dewey	19.7%
1948	Truman vs. Dewey	5.5%
1952	Eisenhower vs. Stevenson	18.4%
1956	Eisenhower vs. Stevenson	6.6%
1960	Kennedy vs. Nixon	.50%
1964	Johnson vs. Goldwater	16.5%
1968	Nixon vs. Humphrey	11.1%
1972	Nixon vs. McGovern	19.0%
1976	Carter vs. Ford	23.8%
1980	Reagan vs. Carter	32.4%
1984	Reagan vs. Mondale	6.3%
1988	Bush vs. Dukakis	16.8%
1992	Clinton vs. Bush	7.6%
1996	Clinton vs. Dole	23%
2000	Bush vs. Gore	-9.1%
2004	Bush vs. Kerry	10.9%
2008	Obama vs. McCain	-37%
2012	Obama vs. Romney	16%

Market returns during election years tend to be lower than years immediately preceding and following an election year because we tend to be guided by our emotions. The time during an election is when emotions are going to be most tied to election results. What we have seen historically, though, is that after an election year the market returns to normalcy as our emotions settle down. Although conventional wisdom might suggest that Republicans, who are supposedly more business-friendly than the Democrats, would be more beneficial for your investments, looking back to 1900, Democrats have been slightly better for stocks. The Dow Jones Industrial Average is up an average of about 9% annually when the Democrats are in control, as compared to an average of only about 6% per year during Republican administrations. The moral of the story: If you have an appropriate investment strategy (based on your personal time horizon and risk tolerance), neither presidential candidate is likely to have a dramatic effect on your investments.

It's true that elections tend to bring out the more emotional side of our personalities. A presidential election year, especially, can cause excitement or despair, depending on our political party of choice. You may have strong political opinions when it comes to this year's elections, but when it comes to the stock market, history has proven it doesn't really matter which party wins the White House. The long and short of it is to have faith in the system and, when it comes to your retirement plan, keep focusing on your long-term financial goals!

"Market returns during election years tend to be lower than years immediately preceding and following an election year because we tend to be guided by our emotions."

Getting it Done!

Karen A. Bouche, CTFA
Executive Vice President
Family Office Advisor

If you've ever been part of a great team, you likely remember how the experience made you feel. You felt valued, impactful and heard. Your teammates felt the same way too. When that happens, it's a true "wow" experience and goals are met. Each role on the team is unique, but important and each contributor, whether small or large, needs to know clearly how they fit into the big picture.

In the financial world, a great deal of planning takes place: financial planning, wealth transfer planning, estate planning, charitable planning, succession planning, etc. The problem with planning is that it does nothing on its own. It takes intentional implementation of that plan to be sure it all happens according to plan. It's like having an architect design your dream home and never contacting the builder.

Do you have a plan? Who helped you with the creation of that plan? Has that plan been shared with all that will assist you in implementing that plan? It is not only important to share it with those that are involved, but

Getting it Done, continued

"The problem with planning is that it does nothing on its own. It takes intentional implementation of that plan to be sure it all happens..."

to bring them in early as they may have ideas about the strategy that you or others hadn't thought of.

For example, when building a home on vacant land your team could quickly become compossed of a real estate professional, title company representative, insurance agent, land surveyors, inspectors, repair and maintenance providers, family members, architects, builders, sub-contractors, local government entities, utility companies, security firms, and interior designer, attorney and tax advisor...and several more! So where do you start?

1) Articulate your goals – focus on the end, not on how you're going to get there.
2) Identify your implementation team – recognize that the plan cannot be completely laid out step by step at the beginning. Rather, appoint an implementer, or team, who is responsible for making progress and has the resources to call upon individual experts when needed. Ask yourself, whose opinion or expertise do you need and value – that's your implementer.
3) Embrace open dialogue – assemble your team, share your end goals and listen to their ideas

The often missing link between planning and successful execution is the important step of preparation. Preparing the individual experts to perform their role on the team at their peak requires effective communication. Effective communication requires providing them with clear expectations, having open and honest dialogue throughout the project, and giving prompt attention to their needs. By naming an implementer, you place the distinctly measurable responsibility of completion on one person (or team). They are not on the team to do the work of designing, building, or surveying, for example. Rather, they are charged with identifying the required roles to meet the end goal, bringing in the best expert for the situation, and continuing throughout the project to ensure that all team members are fully prepared and supported.

When done well, at the end of the project, not only are you happy with the result of a beautiful home, but you will have enjoyed the ride along the way because your team felt valued, impactful and heard throughout the entire process.

Trade Execution at Greenleaf Trust

Earlier this year, we integrated our securities trading function with the investment research team. Our traders now report to the Director of Research and sit among the research team. The new format fosters enhanced communication and collaboration between our traders, research analysts, and wealth management advisors. Here we will describe how the trading desk's participation in the investment process contributes to better outcomes for our clients.

We'll begin by providing some detail on equities, and how we navigate the constant flow of news, economic data, and technical factors that affect the markets each session. Equity markets are a constantly changing landscape of competing buyers and sellers and can experience significant intra-day price movements. Below are a few examples of our processes and the tools that we employ to ensure best execution on behalf of our clients:

- News & economic data analysis: Before bringing a trade to market during a trading session, we discuss and analyze significant news events, economic data releases and other indicators and their potential effects on the markets. Will Federal Reserve Chair Janet Yellen's speech increase perceived odds of an interest rate increase? Will the morning's jobs report miss estimates and lead to underperformance within the Consumer Discretionary sector? In the context of such daily indicators, our analysis allows us to plan a trading strategy that balances risk with the desire to execute at a given price or within a given timeframe.
- Broker selection: Our relationships with an array of skilled stock brokers improve our ability to optimize trade execution. Certain brokers may possess better intelligence in a given market segment or more experience trading particular equities. Proper pre-trade vetting of our stable of brokers ensures best execution, while maintaining utmost transparency and flexibility. Placing our brokers in competition also helps to keep commissions low.
- Sophisticated technology: Our Bloomberg terminals combine powerful analytical tools with market-leading data aggregation and delivery capabilities including live global pricing and news, allowing our trading desk to make informed and responsible trading decisions. Instant broker contact and the ability to see shares trading in real time ensure that transactions are managed with transparency and attention to detail.
- Volume analysis: Light trading volume can mean fewer trading counterparties and a less efficient market. In order to avoid price disruption in a low volume market, we may slowly work a trade across one or more sessions using a volume weighted algorithm. On the

Samuel J. Riethman
Trading Specialist

Michael A. Henke, AFIM®
Trading Specialist

"Earlier this year, we integrated our securities trading function with the investment research team."

Trade Execution, continued

other hand, it may make sense to quickly take advantage of trading opportunities resulting from volume spikes due to a positive news event or other driver. Additionally, combining small "odd lot" trades (denominations less than 100 shares) into larger blocks often results in better pricing.

- Spread analysis and use of limits: Maintaining tight price limits ensures that we are always trading on the favorable side of the spread (the difference between the bid/ask price). This ensures that we capture optimal pricing achieved by close monitoring of price movements.

"It is the duty of [our] trading desk to put [bond] dealers in competition with each other to minimize the implicit markup on each trade."

Fixed income trading has a few key differences from equity trading. Unlike equities, which typically trade on an exchange, fixed income securities are traded in a constant negotiated market between one buyer and one seller (usually known as "Over-The-Counter" or OTC). There is no explicit trade commission as with equities and most bonds are purchased from dealers who add a markup to the price of the bonds they sell. It is the duty of the trading desk to put these dealers in competition with each other to minimize the implicit markup on each trade. In addition, the trading desk adds value to the fixed income investment process through the following:

- Developing institutional trading relationships: Greenleaf Trust has developed relationships with a large number of institutional dealers that we leverage to improve execution and optimize client outcomes. These relationships not only result in our receiving better pricing over normal retail trading, but provide us with access to bond inventory and flow that may not be available to investors who lack these relationships.
- Fixed income analytical guidance: The Research team works closely with your Wealth Management Advisor to determine an optimal client specific portfolio based on individual client needs. The trading desk combines tools and technology with trading experience and analysis of market events to propose optimal trading scenarios and implementation strategies.
- Determining relative value opportunities: Technology investments help our team to identify the most attractively valued securities before executing a trade. For example, Bloomberg terminals help traders evaluate optimal parts of the yield curve and then execute these trading scenarios in the most efficient manner.
- Informed negotiation: Prior to completing a transaction, we request quotes from known dealers and compare incoming offers to visible inventory and prices available across various electronic platforms. We use this information to protect clients from unreasonable markups

when trading on their behalf.

- Risk management: Our tools allow us to identify, measure, and manage risk at every stage of the investment process. We review a pre-trade compliance checklist prior to executing every fixed income transaction, actively monitor transactions to ensure proper settlement, and complete sophisticated post-trade analysis to evaluate our effectiveness.

In the spirit of constant improvement, combining the trading function with our in-house research team has created synergies, making each more effective and resulting in better outcomes for our clients. Sharing information on ever-changing market conditions adds perspective for research analysts to consider as they develop investment strategies and select securities, while comprehensive tools and trading systems enable efficient implementation of research recommendations. In concert with our research team and the client centric team members who serve clients directly, our trading desk is integral to ensuring the tailored solutions developed for our clients are implemented accurately and efficiently. We look forward to continuing to serve on your behalf.

"...combining the trading function with our in-house research team has created synergies, making each more effective and resulting in better outcomes for our clients."

Stock Market Pulse

Index	9/30/16	Total Return Since 12/31/15
S&P 1500	502.16	8.35%
DJIA	18,308.15	7.21%
NASDAQ	5,312.00	7.09%
S&P 500	2,168.27	7.84%
S&P 400	1,552.26	12.40%
S&P 600	756.90	13.88%
NYSE Composite	10,721.74	5.70%
Dow Jones Utilities	668.13	18.63%
Barclays Aggregate Bond	112.42	5.71%

P/E Multiples	9/30/16
S&P 1500	18.5x
DJIA	17.5x
NASDAQ	22.1x
S&P 500	18.4x
S&P 400	20.2x
S&P 600	20.2x

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.27%
T Bond 30 Yr	2.33%
Prime Rate	3.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	502.16	18.5x	2.06%
S&P 500	2,168.27	18.4x	2.12%
DJIA`	18,308.15	17.5x	2.53%
Dow Jones Utilities	668.13	NA	3.38%

Spread Between 30 Yr Government Yields and Market Dividend Yields: 0.27%

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