On October 5th, the Paris Climate agreement reached in December 2015 officially came into force. In Paris, 195 countries committed to a long term goal of limiting the increase in global average temperatures to less than 2 degrees Centigrade above pre-industrial levels. These countries also agreed to create greater transparency, build resilience, and work to reduce carbon emissions to minimize prospective damage globally. The U.S. pledged a 28% reduction from 2005 greenhouse gas emission levels, which will require substantial redirection of investment, both from fossil-fuel based energy to renewable energy and toward improving climate resilience and adaptation. Longer-term, we expect the new growth opportunities related to a low-carbon economy to outweigh short-term disruptions in economic growth. However, we are seeing gathering storm clouds that will make it increasingly difficult for the U.S. to sustain moderate economic growth in the near term future.

GATHERING ECONOMIC HEADWINDS

After the June 23 Brexit vote, when the United Kingdom voted to exit the European Union, investors immediately opted for safety, buying short term U.S. Treasuries, Japanese yen, the U.S. dollar, and gold, and sold the British pound and stocks worldwide. In July and August, investors decided to take a holiday from these immediate fears. The reported economic data for the U.S., the U.K., and the Eurozone was slightly better than expected in July and early August, and investors reacted by moving back into slightly riskier assets. Stock markets worldwide saw positive returns, interest rates moved back to pre-Brexit levels, and currency markets stabilized, however, the British pound depreciated by 18% against the Euro and by 15% against the dollar since year-end.

While investor's fears of immediate negative economic consequences from the Brexit vote did not materialize, we do see some softening in economic growth, and we expect that economic growth will continue to decelerate as we approach full employment levels. Economic growth in the U.S., the United Kingdom, and the Eurozone continues at a moderate pace, and leading economic indicators are still forecasting positive economic growth for all three regions for the next year. In the U.S., economic growth has been very slow throughout the recovery, and is projected at just 1.5% for 2016.

We are not forecasting a recession, but we do believe that U.S. economic growth will continue to slow. In rough terms, potential economic growth is limited by the rate of growth of the labor force plus the rate of productivity growth. After six years of a slow and extended recovery in the U.S., we have reached a 5.0% unemployment rate, and while the economy is still adding jobs each month, the six-month average of new job creation has slowed from 260,000 jobs per month at the beginning of 2015 to 169,000 per month now. Over the same period job vacancies have risen and the pool of available workers has been reduced by the aging of the baby boomer generation. Productivity growth has also been very slow: the decline in the second quarter of 2016 marked the first time since 1979 that labor productivity in the U.S. has declined for three consecutive quarters. Productivity growth is enhanced by business investment in new equipment, but this type of investment has been anemic throughout the recovery. In addition, the Federal Reserve ended its quantitative easing program over a year ago and is, however slowly, increasing short-term interest rates, while there is no expansionary fiscal policy on the horizon.

In Europe, the longer range issues raised by Brexit are still out there — and are not limited to Britain. Theresa May, the Prime Minister of the United Kingdom, is clearly moving to implement British voters mandate. In recent speeches, she has indicated that Britain will not compromise on resuming national control over immigration, on lawmaking, and on freedom from the jurisdiction of European judges. She has also stated that Britain will not pay contributions to the European Union budget to allow British companies access to the single market. If negotiations result in Britain taking a "hard Brexit," completely exiting from the European Union and cutting off access to the single market, we will see considerable disruption in international trade and likely cross-country relocations of offices and employees.

The British unease with immigration and distrust of government echo Donald Trump's campaign in the U.S. Trump's success in getting the Republican nomination highlighted the widespread anger and dissatisfaction, generated by decades of stagnant real family income growth, of a large portion of the population. These nativist and protectionist political currents will complicate policy initiatives on immigration, international trade, and fiscal policy for the next administration. We also believe that they have a negative effect on consumer confidence, and increase uncertainty for

businesses. We expect this to contribute to the softening trend in U.S. economic growth.

THIRD QUARTER 2016 RETURNS

Small and Mid-Cap stocks outpaced larger stocks for the quarter. The Russell 2000 Index total return was 9.05% for the quarter, while the S&P 500 returned 3.85% and the S&P 1500 returned 3.98%. European markets recovered, with the return for the MSCI Europe, Asia, and Far East (EAFE) index returning 6.50%. The MSCI All-Country World Index (MSCI ACWI) returns, for dollar-based investors, were 5.43% before foreign dividend taxes, and 5.30% net of these foreign taxes. The price of a barrel of West Texas Intermediate Oil finished the Third Quarter flat, at $48.24, although it dropped as low as $39.50 during the quarter. Bond returns were muted for the quarter, with the Barclays Intermediate Government/ Credit Bond index returning just 0.16% for the quarter and 4.24% for the year to date. Year-to-date total return through September 30, 2016 for the S&P 500 is 7.84%.

Our slightly pro-cyclical positioning added to relative investment performance for the quarter, as investors turned to more cyclical sectors and moved away from more defensive ones. The Information Technology, Financials, Industrials, and Materials sectors, with returns of 12.44%, 4.03%, 3.56%, and 3.18% for the quarter, were substantially better than returns for the prior quarter's defensive winners. The Utilities, Telecommunications, Consumers Staples, and the new Real Estate sectors lost 6.72%, 6.60%, 3.27%, and 2.87% during the quarter. While the Federal Reserve apparently judged financial conditions to be too uncertain in the immediate wake of the Brexit vote and did not increase short term interest rates in either July or September, the Fed's comments after the meetings seem to be signaling an increase in December. As a result, Financial Services stocks have started rising in anticipation of higher short-term rates which will particularly benefit regional banks.

VALUATION

Current valuations for U.S. stocks are neither excessive nor extremely attractive for the existing economic conditions, including the very low level of interest rates. As of September 30, 2016, the expected earnings yield on the S&P 500 is 5.9%, while the yield on the 10 year Treasury Inflation-Protected Securities, or TIPS, is -0.14%, indicating an approximately 6.0% greater expected return for large capitalization U.S. stocks than for bonds. The Price/Earnings ratio for the next twelve months expected earnings of the S&P 500 is at 16.9x, slightly above the 25 year average of 15.6x. Looking at the Cyclically Adjusted P/E ratio (CAPE) proposed by Yale Economics Professor Robert Shiller, valuation is at 26.6x the average of the past 10 years earnings, only slightly above the 25 year average of 25.9x. Interest rates saw a small bounce from all-time lows in early July, but have only reclaimed a fraction of the declines seen during the first half of 2016. In this very low interest rate and low-growth environment, and faced with increased risks of economic volatility, investors have bid up the valuations of defensive equities relative to cyclical stocks.

POSITIONING

We believe that softening economic growth will continue to support valuations of companies with strong cash flows that offer the potential for dividend increases relative to companies that need continuing economic growth to grow earnings. In September, in concert with our expectation that economic growth is decelerating, we slightly reduced our holdings of higher volatility and more cyclically-exposed stocks. These more cyclical holdings performed well in the third quarter as current readings on the economy such as employment, consumer and business sentiment indicators, and durable goods orders showed continuing economic growth. Given our concern about slowing economic growth and the recent rising uncertainty in the pace of economic growth, and a tightening of monetary policy, albeit from a very expansionary starting level, we expect that leading indicators will peak in the near future. As a result, we have moved portfolios to a neutral positioning.

We expect that investment in lower carbon production methods, in greater energy efficiency of buildings, and in renewable energy will counter the slowing economic trend, as the U.S. begins to implement the Paris Climate Agreement. We anticipate that our portfolio companies, which we select based on their strong balance sheets, strategic leadership in their products and markets, and strong environmental, social, and governance policies, will have the financial flexibility and leadership wisdom to navigate choppy and volatile economic conditions.