Economic and Market Overview

Second Quarter 2016

ENVESTNET® PMC™

Economic and Market Overview

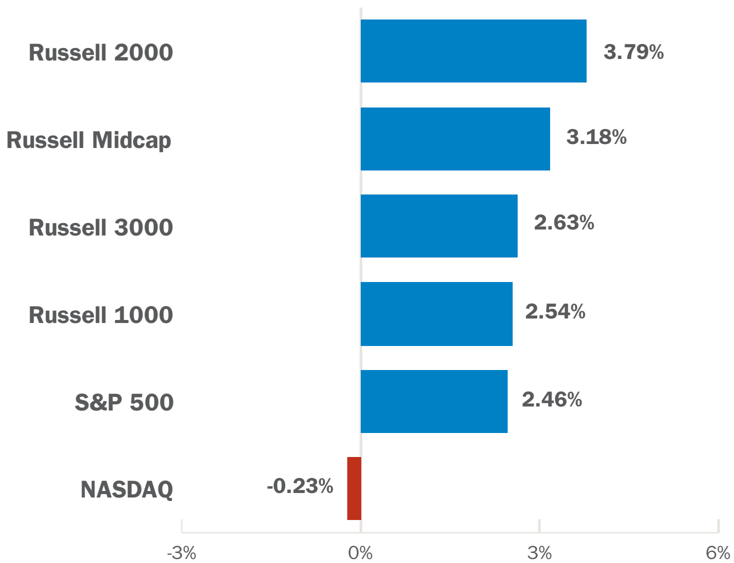
Second Quarter 2016

*The following commentary summarizes prior financial market activity and uses data obtained from public sources. This commentary is intended for **one-on-one use with a client's financial advisor only**, as a resource for the management of assets and evaluation of investment portfolio performance.*

The Economy

Domestically, the economic environment was affected by several factors, including very weak job growth and the so-called "Brexit" – the UK's decision via referendum to exit the European Union. While many segments of the U.S. economy have remained resilient, the downturn in recent employment data was surprising. Analysts believe that various temporary factors hampered job growth, and that a rebound should be expected throughout the remainder of the year. The Brexit outcome was also somewhat unexpected, and although the longer term effects on the domestic economy are uncertain, it is not likely to have a materially adverse impact. The Bureau of Economic Analysis reported its third estimate of first quarter 2016 gross domestic product (GDP) of +1.1%, higher than the prior estimate, but lower than the +1.4% reading of the fourth quarter of 2015. The employment situation took a turn for the worse, with an average of about 116,000 jobs added each month. The unemployment rate declined to 4.7%.

Broad Market Index Returns
Second Quarter 2Q16



Source: Morningstar, Inc.

Globally, the ultimate impact of Brexit on foreign economies remains to be seen, but economic growth has shown signs of improvement in recent months. The consensus among economists is that global growth will end up below trend in 2016, but that the outlook going forward looks more promising. Notwithstanding Brexit, the financial services sector is stabilizing, and improving worldwide demand and weaker currencies should aid certain regions. In Europe, the European Central Bank's (ECB) extremely aggressive asset purchase program is expected to boost growth gradually over the next couple of years. Economists expect China's growth will continue to slow in an orderly fashion, as the country's policymakers attempt to transition the economy from an export-driven to a consumption-driven model, which will generate more sustainable growth.

Economic and Market Overview

Second Quarter 2016

At its most recent meeting in June, the Federal Open Market Committee (FOMC) stood pat, deciding not to increase the target fed funds rate from the current range of 0.25% to 0.50%. The FOMC reduced its growth outlook, as well as the expected fed funds rate for 2017 and 2018.

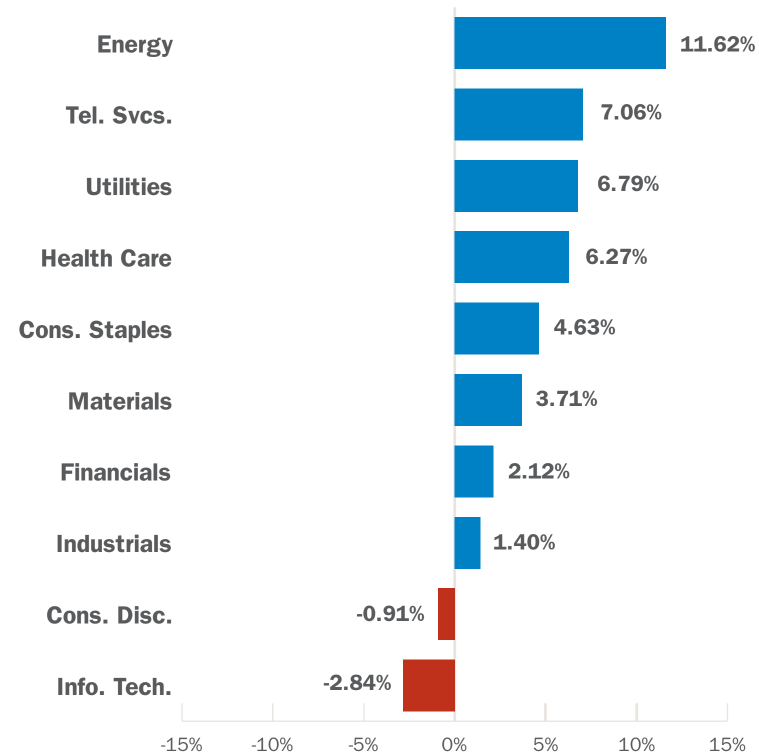
Highlights and Perspectives

GROSS DOMESTIC PRODUCT (GDP)

The Bureau of Economic Analysis released the third estimate of the first quarter 2016 real GDP, a seasonally adjusted annualized rate of +1.07%. This figure is down from the +1.39% annualized growth of the prior quarter, but is an improvement over the prior estimate of +0.8% growth. Despite it being the worst six-month performance in more than three years, analysts were not overly disappointed with the report, as second quarter growth seems to be accelerating. As with the prior quarter, the two primary obstacles to growth were inventory and trade. Although reduced inventory accumulation will eventually be resolved, the adverse impact on exports as a result of the strong dollar may last awhile longer. The dollar has remained a safe haven asset of choice amid concerns about the impact of Brexit on the world economy. Exports also may continue to suffer as emerging markets economies struggle with lower oil and other commodity prices. Economists have been somewhat more upbeat recently, noting that economic growth is likely to accelerate as job growth rebounds. Corporate profits rose by +1.8% (not annualized) after declining -7.8% in the prior quarter. Continuing a trend from recent quarters, falling energy prices kept inflation in check, with the personal consumption expenditures (PCE) index of prices rising +0.2%, following a +0.3% advance in the prior quarter.

U.S. Equity Market Returns by Major Sector

(GICS Sectors in S&P 500, Second Quarter 2Q16)



Source: Morningstar, Inc.

Economic and Market Overview

Second Quarter 2016

HOUSING

The housing segment remained on a steady course. Existing home sales for May (the latest monthly data available) advanced at an annualized rate of 5.53 million units, up about +2% from the 5.43 million unit rate reached in April, and up +4.5% from May 2015. The inventory of existing homes was about 4.7 months of supply, down slightly from year-ago levels. Existing home prices in May were up moderately from February, and about +4.5% higher from May 2015. In the new home segment, the NAHB Housing Market Index, a measure of homebuilding activity, ended the quarter at a level of 60, modestly higher than the reading of the prior quarter. Homebuilders and analysts remain optimistic about the outlook for housing, as solid fundamentals and a favorable employment picture are expected to be supportive for the remainder of the year.

EMPLOYMENT

The employment situation took a surprising downward turn in the most recent monthly report. Employers added only 38,000 jobs during May, falling far short of consensus expectations of 160,000 new jobs. In addition, the gains for each of the prior two months were revised lower by a total of 44,000. The three-month moving average fell to 116,000, well below the average for the period ending in February, and also the lowest level in at least eight months. At the same time, the unemployment rate in May was 4.7%, below the 4.9% level in February, and significantly lower than the 5.0% rate of the prior month. Average hourly earnings increased 2.5% in the past 12 months, consistent with an improving labor market. Although May's report was both surprising and disappointing, economists anticipate upward revisions to the data in subsequent months. Analysts expect the employment gains to remain in the range of 180,000 to 200,000 through 2016 and into 2017, and that the unemployment rate should remain below 5%.

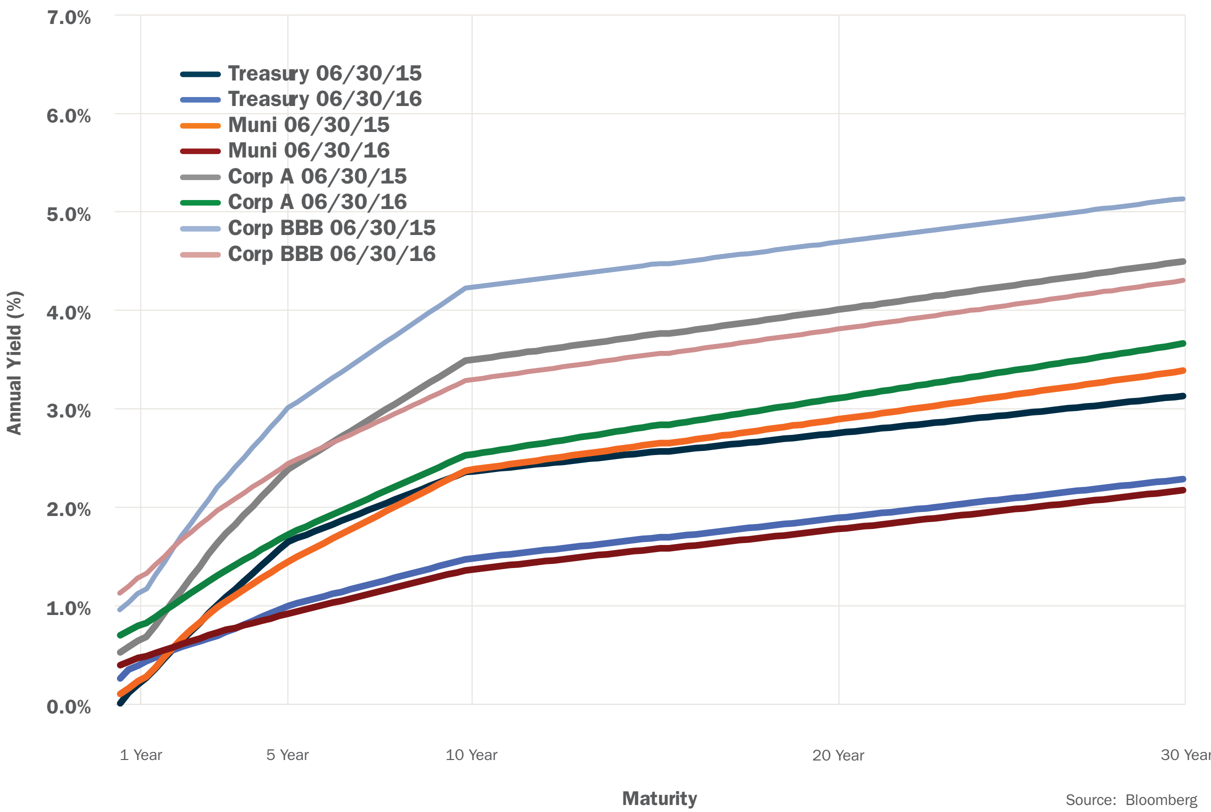
FED POLICY

The FOMC ended its recent June meeting standing pat on interest rate policy, maintaining a target range of 0.25% to 0.50% for the fed funds rate. The FOMC's decision was not surprising, given the recent poor employment data and the looming Brexit referendum in the UK. In weeks leading up to the FOMC meeting, committee members had been signaling to markets that an increase was possible. However, even though the committee's bias has been toward a quicker path to policy normalization, it ultimately decided to hold the line. The committee's statement continued to reflect an expectation of two rate hikes in 2016, but the futures market is assigning only about a 10% probability of even one rate hike occurring this year. The FOMC's median estimate for where the fed funds rate will end 2017 was lowered materially to 2.75%, and the year-end 2018 expectation was lowered by 63 basis points to 2.375%. Most analysts believe the FOMC will not make a change at its July meeting, with an outside possibility of an increase in September.

INTEREST RATES

In the second quarter, a pause in the stock market's rebound, soft employment data in the U.S., and volatility surrounding the Brexit referendum were the key drivers of the prices of fixed-income securities. Although the FOMC had been signaling to the markets that there was a possibility of a fed funds rate increase at its June meeting, the prevailing circumstances warranted the committee adopting a posture of standing pat. The committee's preference is to begin normalization of interest rate policy as soon as practicable, but geopolitical and economic uncertainties will affect the timing. Within the context of these various influences, yields remained in a fairly confined trading range until the Brexit results late in June, at which time fixed income prices rallied and yields fell.

U.S. Treasury, Muni, and Corporate 30-Year Yield Curves



Source: Bloomberg

As has happened in prior quarters, the yield curve flattened, with yields on short-term maturities declining less than those in the intermediate- to long-term end of the spectrum. By the end of the quarter, the yield on the benchmark 10-year U.S. Treasury declined to 1.47%, from 1.77% on March 31.

Yield changes along the maturity spectrum were affected by several factors, including a bias toward raising short-term rates, and investor demand for intermediate- to long-term Treasury securities resulting from negative yields in other safe haven markets such as Germany and Japan. Yields on the shortest maturities rose as yields on intermediate- and longer-term maturities declined, resulting in a further flattening in the yield curve relative to March 31. The yield on the 3-month T-bill settled at 0.26% at the end of the quarter, up modestly from the end of the previous quarter. The yield on the five-year Treasury fell sharply, ending the quarter at 1.00%, compared to 1.21% on March 31, and as mentioned above, the yield on the 10-year Treasury fell to 1.47% from 1.77% over the same period. At the same time, the yield on the 30-year Treasury also declined, to 2.29% from 2.61% during the quarter. Inflation expectations declined substantially, with the Fed's gauge of five-year forward inflation expectations closing at 1.32% on June 30, down from 1.61% on March 31.

In terms of total returns, fixed-income securities generated positive returns across the spectrum, as they did in the prior quarter. The Barclays Treasury 5-7 Yr. Index rose +1.9%, and the Barclays U.S. Corporate 5-10 Yr. Index added +3.3% during the three months. High yield securities performed well, advancing +5.5%, as investors continue to seek yield. Municipals continued to perform well, as the Barclays Municipal Bond Index gained +2.6%. Prices of non-U.S. fixed income securities also rose, as the Barclays Global Aggregate ex-U.S. Index posted a +3.4% return. Emerging markets bonds again delivered strong gains, with the JPM EMBI Global Index adding +5.4%.

EQUITIES

With the exception of the period immediately following the Brexit outcome, the second quarter of 2016 was fairly uneventful for equity prices. Broad market indices were confined to a relatively narrow trading range during most of the quarter, with the Brexit result surprising the market and sparking a short-lived sell-off. Stocks regained their footing very quickly following the Brexit volatility, ending the quarter back within the trading range they roamed throughout the quarter. The S&P 500 Index finished the quarter with a gain of +2.5%.

The ten primary economic sectors once again demonstrated substantial dispersion in performance, placing a premium on sector allocation and security selection. Energy, utilities, and telecommunications services were the strongest performers, delivering gains of +11.6%, +6.8% and +7.1%, respectively. Many active managers have held underweight exposures to those sectors, making it difficult to outperform their benchmarks. The information technology and consumer discretionary sectors were the poorest relative performers, posting losses of -2.8% and -0.9%, respectively.

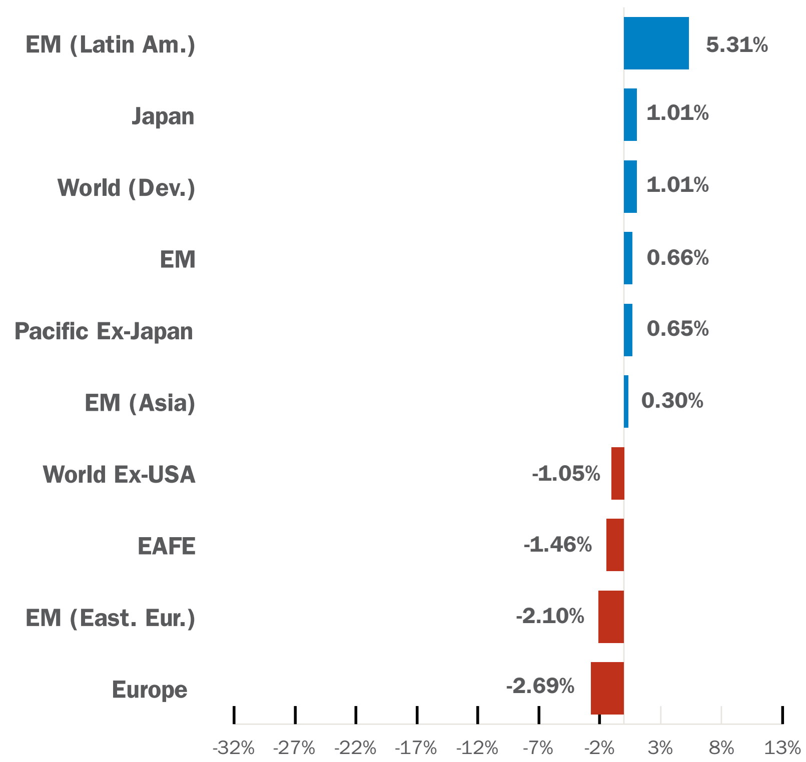
Economic and Market Overview

Second Quarter 2016

The Russell 1000 Index of large capitalization stocks generated a +2.5% total return. Within the large cap segment, value stocks materially outperformed growth stocks. Small cap stocks, as represented by the Russell 2000 Index, slightly outperformed large caps, ending with a total return of +3.8%. Small cap value performed slightly better than small cap growth. The Nasdaq Composite, dominated by information technology stocks, ended down -0.2%. The Dow Jones Industrial Average of 30 large industrial companies gained +2.1%.

Real Estate Investment Trusts (REITs) delivered solid gains for the second consecutive quarter, largely a result of continued low interest rates. The DJ US Select REIT Index posted a gain of +5.4%. Commodities also performed very well with the rebound in oil prices, with the Bloomberg Commodity Index surging +12.8%.

Non-U.S. Equity Market Returns
By Region (U.S. Dollars)
Second Quarter 2Q16



Source: Morningstar, Inc.

International stocks generally underperformed U.S. equities, as slowing growth in China and Brexit concerns in Europe had an adverse impact on results. Sluggish economic data overhangs many regions of the world, despite the aggressive efforts of central bankers. Europe faces serious questions about the future of the European Union now that the U.K. has voted to exit. In China, policymakers continue to attempt to engineer a soft landing from an export-driven to a more sustainable consumption-driven model. Against this backdrop, international stock indices were mostly lower. The MSCI ACWI ex-USA Index, which measures performance of world markets outside the U.S., declined -0.6%. The MSCI EAFE Index of developed markets stocks fell by -1.5%. Regional performance was mostly negative, and many regions felt the impact of slowing growth. Latin America and China were the strongest performers on a relative basis, with the MSCI Latin America and MSCI China indices posting returns of +5.3% and +0.1%, respectively. Europe broadly and Eastern Europe more specifically were the poorest relative performers, suffering losses of -2.7% and -2.1%, respectively. Emerging markets performance was modestly positive, as the MSCI Emerging Markets Index gained +0.7%.

Outlook

Despite May's poor employment report and the uncertainty surrounding Brexit, the consensus among economists is that concerns about an imminent recession are overblown. Although job growth is a key indicator of the economy's health, analysts point out that the recent softness in the data is likely due to transient factors that could be reversed in coming months. Employers are expected to add 180,000-200,000 jobs per month through the latter half of the year and into 2017, and analysts are expecting the economy to be at full employment either later this year or sometime early next year. Even though many FOMC members would prefer to normalize interest rate policy soon, the committee is likely to remain accommodative by refraining from raising short-term rates until employment growth is back on track and the global outlook improves. The international economy outside the U.S. remains muddled, but there are signs of improvement. Eurozone policymakers will need to tackle several issues to reinvigorate growth, including understanding the effect of the UK's exit on the region's overall economy; ongoing difficulties experienced by financial institutions; the continued influx of refugees; and the threat of terrorist activity within European borders.

Brandon Thomas, *Chief Investment Officer,* Envestnet | PMC

DISCLAIMER

The information, analysis, and opinions expressed herein are for general and educational purposes only. Nothing contained in this quarterly review is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. All investments carry a certain risk, and there is no assurance that an investment will provide positive performance over any period of time. An investor may experience loss of principal. Investment decisions should always be made based on the investor's specific financial needs and objectives, goals, time horizon, and risk tolerance. The asset classes and/or investment strategies described may not be suitable for all investors, and investors should consult with an investment advisor to determine the appropriate investment strategy. Past performance is not indicative of future results.

Information obtained from third party sources is believed to be reliable but not guaranteed. Envestnet | PMC™ makes no representation regarding the accuracy or completeness of information provided herein. All opinions and views constitute our judgments as of the date of writing, and are subject to change at any time without notice.

Investments in smaller companies carry greater risk than is customarily associated with larger companies for various reasons, such as volatility of earnings and prospects, higher failure rates, and limited markets, product lines, or financial resources. Investing overseas involves special risks, including the volatility of currency exchange rates and, in some cases, limited geographic focus, political and economic instability, and relatively illiquid markets. Income (bond) securities are subject to interest rate risk, which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates. Exchange Traded Funds (ETFs) are subject to risks similar to those of stocks, such as market risk. Investing in ETFs may bear indirect fees and expenses charged by ETFs in addition to its direct fees and expenses, as well as indirectly bearing the principal risks of those ETFs. ETFs may trade at a discount to their net asset value, and are subject to the market fluctuations of their underlying investments. Investing in commodities can be volatile, and can suffer from periods of prolonged decline in value, and may not be suitable for all investors. Index Performance is presented for illustrative purposes only, and does not represent the performance of any specific investment product or portfolio. An investment cannot be made directly into an index.

Alternative Investments may have complex terms and features that are not easily understood and are not suitable for all investors. You should conduct your own due diligence to ensure you understand the features of the product before investing. Alternative investment strategies may employ a variety of hedging techniques and non-traditional instruments such as inverse and leveraged products. Certain hedging techniques include matched combinations that neutralize or offset individual risks such as merger arbitrage, long/short equity, convertible bond arbitrage, and fixed-income arbitrage. Leveraged products are those that employ financial derivatives and debt to try to achieve a multiple (for example two or three times) of the return or inverse return of a stated index or benchmark over the course of a single day. Inverse products utilize short selling, derivatives trading, and other leveraged investment techniques, such as futures trading to achieve their objectives, mainly to track the inverse of their benchmarks. As with all investments, there is no assurance that any investment strategies will achieve their objectives or protect against losses.

Neither Envestnet, Envestnet | PMC™ nor its representatives render tax, accounting, or legal advice. Any tax statements contained herein are not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. Taxpayers should always seek advice based on their own particular circumstances from an independent tax advisor.

FOR ONE-ON-ONE USE WITH A CLIENT'S FINANCIAL ADVISOR ONLY

INDEX OVERVIEW

The **Dow or DJIA** (Dow Jones Industrial Average) is an unmanaged index of 30 common stocks comprised of 30 actively traded blue chip stocks, primarily industrials and assumes reinvestment of dividends. The **Nasdaq Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. The **S&P 500 Index** is an unmanaged index comprised of 500 widely held securities considered to be representative of the stock market in general. The **DJ U.S. Select REIT Index** is a subset of the Dow Jones Americas Select RESI and includes only REITs and REIT-like securities (The Dow Jones U.S. Select Real Estate Securities Index (RESI) represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S.). The **Bloomberg Commodity Index** is a broadly diversified commodity price index that tracks prices of futures contracts on physical commodities on the commodity market and is designed to minimize concentration in any one commodity or sector. The **MSCI EAFE Index** is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East. The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The **MSCI ACWI Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The **MSCI Emerging Markets (EM) Eastern Europe Index** captures large- and mid-cap representation across 4 Emerging Markets (the Czech Republic, Hungary, Poland and Russia) countries in Eastern Europe. With 52 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The **MSCI EM (Emerging Markets) Latin America Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of emerging markets in Latin America. The **MSCI ACWI Ex-U.S. Index** is a market-capitalization-weighted index maintained and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The **MSCI China Index** captures large and mid-cap representation across China H shares, B shares, Red chips and P chips covering about 85% of this China equity universe. The **Barclays Municipal Bond Index** is an unmanaged index comprised of investment-grade, fixed-rate municipal securities representative of the tax-exempt bond market in general. The **Barclays Global Aggregate ex-U.S. Index** is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds, and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S. The **Barclays U.S. 5-10 Year Corporate Bond Index** measures the investment return of U.S. dollar denominated, investment-grade, fixed rate, taxable securities issued by industrial, utility, and financial companies with maturities between 5 and 10 years. Treasury securities, mortgage-backed securities (MBS) foreign bonds, government agency bonds and corporate bonds are some of the categories included in the index. The **Barclays Capital US 5-7 Year Treasury Bond Index** is a market capitalization weighted index and includes treasury bonds issued by the US with a time to maturity of at least 5 years, but no more than 7 years. The **Russell 1000 Index** is a market capitalization-weighted benchmark index made up of the 1000 largest U.S. companies in the Russell 3000 Index (which comprises the 3000 largest U.S. companies). The **Russell 2000 Index** is an unmanaged index considered representative of small-cap stocks. The **Russell 3000 Index** is an unmanaged index considered representative of the US stock market and measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The **Russell Midcap Index** is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The **Housing Market Index** (HMI) is based on a monthly survey of **NAHB** members designed to take the pulse of the single-family housing market. The survey asks respondents to rate market conditions for the sale of new homes at the present time and in the next six months as well as the traffic of prospective buyers of new homes. The **JPMorgan Emerging Market Bond Index** (EMBI Global) tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes U.S. dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million.

DEFINITIONS

The **Federal Open Market Committee** (FOMC) is the monetary policymaking body of the Federal Reserve System. **Fed Funds Rate**, the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The **European Central Bank** (ECB) is the central bank for Europe's single currency, the euro. The ECB’s main task is to maintain the euro's purchasing power and thus price stability in the euro area. The euro area comprises the 19 European Union countries that have introduced the euro since 1999. The **Gross Domestic Product** (GDP) rate is a measurement of the output of goods and services produced by labor and property located in the United States. The **Bureau of Labor Statistics** (BLS) is a unit of the United States Department of Labor. It is the principal fact-finding agency for the U.S. government in the broad field of labor economics and statistics and serves as a principal agency of the U.S. Federal Statistical System. The **Bureau of Economic Analysis** (BEA) is an agency in the US Department of Commerce that provides important economic statistics including the gross domestic product of the US; a governmental statistical agency that collects, processes, analyzes, and disseminates essential statistical data to the American public, the U.S. Congress, other Federal agencies, State and local governments, business, and labor representatives. The **PCE (Personal Consumption Expenditure) Index of Prices** is a US-wide indicator of the average increase in prices for all domestic personal consumption. Using a variety of data including U.S. Consumer Price Index and Producer Price Index prices, it is derived from personal consumption expenditures; essentially a measure of goods and services targeted towards individuals and consumed by individuals.