November 2016

SOL CAPITAL MANAGEMENT COMPANY

Client Investment Letter

Inside this issue:

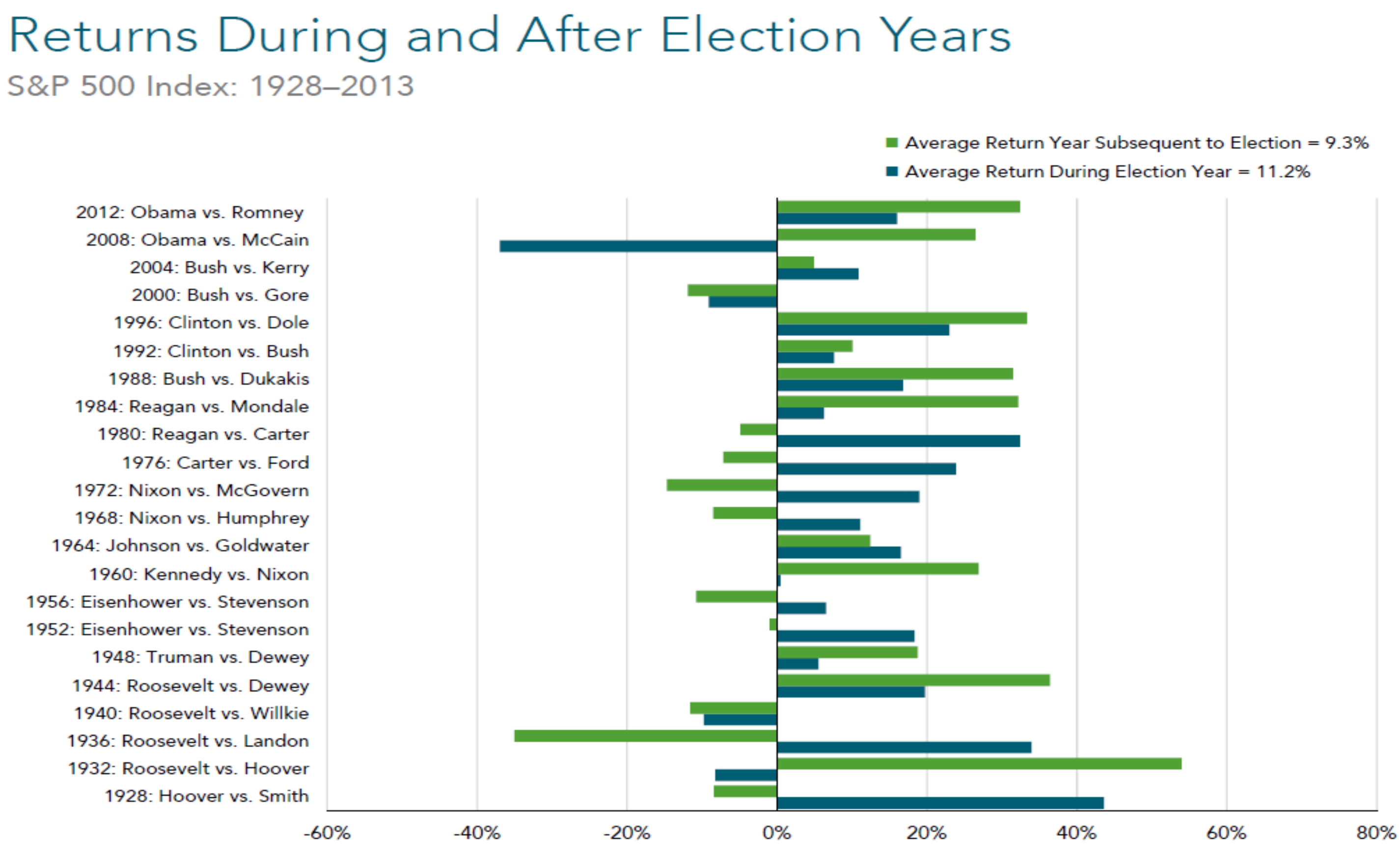
The rally in global financial markets that began in February continued into the third quarter. Returns were positive across all major asset classes and particularly strong for riskier assets, such as equities and lower quality fixed income. Stocks in the U.S. and emerging markets posted quarterly gains that exceeded the healthy increases they had produced in the first half of the year, while developed international equities turned a first-half loss into a year-to-date gain. The strong third quarter performance of high yield and emerging market debt left both asset classes with double-digit increases for the first nine months of 2016.

The quarter began with a decline in volatility as the immediate shock of the U.K.'s June 23rd "Brexit" referendum faded. Volatility hovered near multi-year lows throughout the remainder of the period, with the exception of a modest, mid-September spike caused by worries the Federal Reserve was poised to raise interest rates. However, the Fed held rates steady at its September policy meeting, and markets quickly stabilized.

Although markets remained calm in October, we cannot rule out a short-term increase in volatility related to the U.S. presidential election on November 8th. If volatility does rise, it is important to remember that the election results will not have an immediate impact on economic fundamentals. Any selloff in the markets will be driven by investor sentiment rather than a change in the growth trajectory of the economy or corporate profits.

Furthermore, with all of the opinions and predictions being offered about the election, it is useful to look back at how stocks performed during previous election cycles. Since 1928, the S&P 500 Index has returned 11.2%, on average, in election years and 9.3% in the year after (see Exhibit 1). While short-term volatility may rise during this election season, history suggests that the stock market has performed well regardless of whether a Democrat or a Republican wins the White House. However, it is always important to remember that past performance is no indication of future returns.

Exhibit 1



Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. Source: The S&P data is provided by Standard & Poor's Index Services Group.

Source: Dimensional Fund Advisors LP

"The S&P 500 Index gained 3.9% for the quarter, resulting in a 7.8% year-to-date return through September 30th (see Exhibit 2)."

Financial Markets Performance

Equities

Global stock markets advanced in the third quarter, with emerging markets producing the strongest returns. Investors bid equity prices higher in response to the accommodative policies of central banks and stability in the U.S. dollar. While the global economy remained sluggish, signs the U.S. economy was on track for slightly stronger growth in the second half of 2016 contributed to the positive sentiment on equities.

The S&P 500 Index gained 3.9% for the quarter, resulting in a 7.8% year-to-date return through September 30th (see Exhibit 2). In addition to the macroeconomic factors cited above, the Index benefited from an improving outlook for corporate earnings, which are recovering as the profit drag from energy-related companies fades (see Appendix A). Also, the stabilization of the U.S.

Financial Markets Performance Cont.

dollar has eased pressure for businesses that export their products and services (see Appendix B).

After an extended period of large-cap leadership, small-cap stocks outperformed their large-cap counterparts in the third quarter and on a year-to-date basis. Small-cap stocks, as measured by the Russell 2000 Index, rose 9.1% for the quarter, bringing their year-to-date return to 11.5% through September 30th.

Across the market capitalization spectrum, U.S. growth stocks modestly outperformed U.S. value stocks in the third quarter. Weakness in utilities and other income-oriented value sectors, weighed down by a slight increase in U.S. Treasury yields, coupled with strength in the technology sector, which benefited from strong

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"After an extended period of large-cap leadership, small-cap stocks outperformed their large-cap counterparts in the third quarter and on a year-to-date basis."

Exhibit 2

Total Return* for Selected Equity, Fixed Income, and Hedge Fund Indices

	3rd Quarter	Year-to-Date
	06/30/16 to 09/30/16	***12/31/15 to 09/30/16***
Major Equity Indices	%	%
S&P 500 Index	3.9	7.8
Russell 3000 Index (Total U.S. market)	4.4	8.2
Russell 2000 Index (Small Companies)	9.1	11.5
MSCI ACWI Index Ex-U.S. (Net)	6.9	5.8
MSCI EAFE (International) Index (Net)	6.4	1.7
MSCI Emerging Markets Index (Net)	9.0	16.0
MSCI ACWI Commodity Producers Index (Net)	3.0	23.8
Source: Bloomberg, MSCI		
Major Fixed Income and Hedge Fund Indices	%	%
Bloomberg Barclays U.S. Aggregate Bond Index	0.5	5.8
Blomberg Barclays U.S. Government/Credit Index	0.4	6.7
Merrill Lynch 1-3 Year U.S. Broad Market Index	0.1	1.7
Merrill Lynch US High Yield BB-B Bond Index	5.0	13.3
JPMorgan Non-US Global Bond Index (GBI) Hedged	0.1	7.8
JP Morgan EMBI Global Index in USD (Emerging Markets)	3.7	15.0
HFRX Equal Weighted Strategies Index (Hedge Funds)	2.3	1.7
Source: Bloomberg, MSCI, PIMCO		

* *Includes price appreciation plus dividends and/or interest.*

Financial Markets Performance Cont.

(Continued from page 3)

corporate earnings reports, all contributed to the relative outperformance. Nonetheless, value stocks continued to lead growth stocks during the first nine months of the year, mainly due to the strong performance of income-oriented shares and a recovery in the energy sector.

In developed international markets, economic fundamentals remained weak, thereby negatively affecting corporate earnings in Europe and Japan. Additionally, the Brexit vote remained a source of uncertainty, and the sharp appreciation in the yen weighed on Japanese exporters. Despite these obstacles, developed market equities, as measured by the MSCI EAFE (International) Index, returned 6.4% in the third quarter in U.S. dollar terms, outperforming the 4.4% return of the broad U.S. stock market, as measured by the Russell 3000 Index. Year-to-date, the MSCI EAFE Index rose 1.7%.

Emerging market equities continued to rebound from their February lows, returning 9.0% in the third quarter and 16.0% year-to-date amid stability in the U.S. dollar relative to a basket of emerging market currencies. Stabilization in and re-characterization of economic fundamentals in many emerging economies have also enhanced the appeal of the asset class. For years, investors viewed emerging markets as a proxy for commodities, and with good reason: as recently as 2009, commodity-oriented stocks represented nearly one-third of the MSCI Emerging Markets Index. Today, commodity-oriented companies now represent less than 15% of the Index, and technology is the most heavily weighted sector. In terms of markets, China, South Korea, and Taiwan — all net commodity importers — are the largest.

Fixed Income

Limited market volatility over the summer, combined with relatively upbeat U.S. economic data, created a supportive backdrop for fixed income markets. U.S. Treasury rates along the yield curve finished the quarter close to where they had started, as the Fed held short-term rates steady, trimmed its 2016 and long-run economic forecasts, and slowed the expected pace of future rate hikes. At the end of the quarter, markets were pricing in a 0.25% increase in the federal funds rate in December and no more than two increases per year thereafter.

"Limited market volatility over the summer, combined with relatively upbeat U.S. economic data, created a supportive backdrop for fixed income markets."

After a very strong first half of 2016, the Bloomberg Barclays U.S. Aggregate Bond Index rose a modest 0.5% in the third quarter, bringing its year-to-date return to 5.8% through September 30th. High yield securities outperformed investment-grade bonds, with the Merrill Lynch U.S. High Yield BB-B Bond Index advancing 5.0% for the quarter and 13.3% year-

Financial Markets Performance Cont.

to-date. Commodity-related high yield bonds led the gains as the recovery in the energy sector continued. Despite robust returns, at quarter-end, the yield differential between high yield securities and Treasuries was still 150 basis points above its 2014 low.

Similar to U.S. Treasury prices, government bond prices in developed international markets remained mostly unchanged in the third quarter. Meanwhile, European high yield issues benefited from demand for income opportunities at a time when the universe of negative-yielding European and Japanese bonds continued to grow.

In emerging markets, U.S. dollar-denominated sovereign and corporate debt, as well as local currency sovereign debt, continued to rally. Strong quarterly returns sent one-year returns for major emerging market bond indices into the low and mid teens.

Global Economic Outlook

The global economy is on track for modest growth in 2016, and the expansion will likely continue since there are no signs the economy is overheating. Global GDP is projected to increase 3.0 - 3.5% in 2017, followed by slightly higher growth in subsequent years. Emerging markets remain the world's growth engine, compensating for more muted growth in the developed world (see Exhibit 3). On an overall basis, emerging economies are expected to grow approximately three times faster than developed economies from 2017—2019.

United States

U.S. GDP rose at an annual rate of 2.9% in the third quarter, driven by growing inventories and increased exports. The third quarter number, which came in above market expectations, was a marked improvement over first and second quarter growth of 0.8% and 1.4%, respectively. Looking forward, the continued potential for businesses to replenish depleted inventories and increase capital spending bodes well for the economy. There is also the possibility that fiscal policy will play a larger role in driving growth. Congress has become less restrictive with respect to

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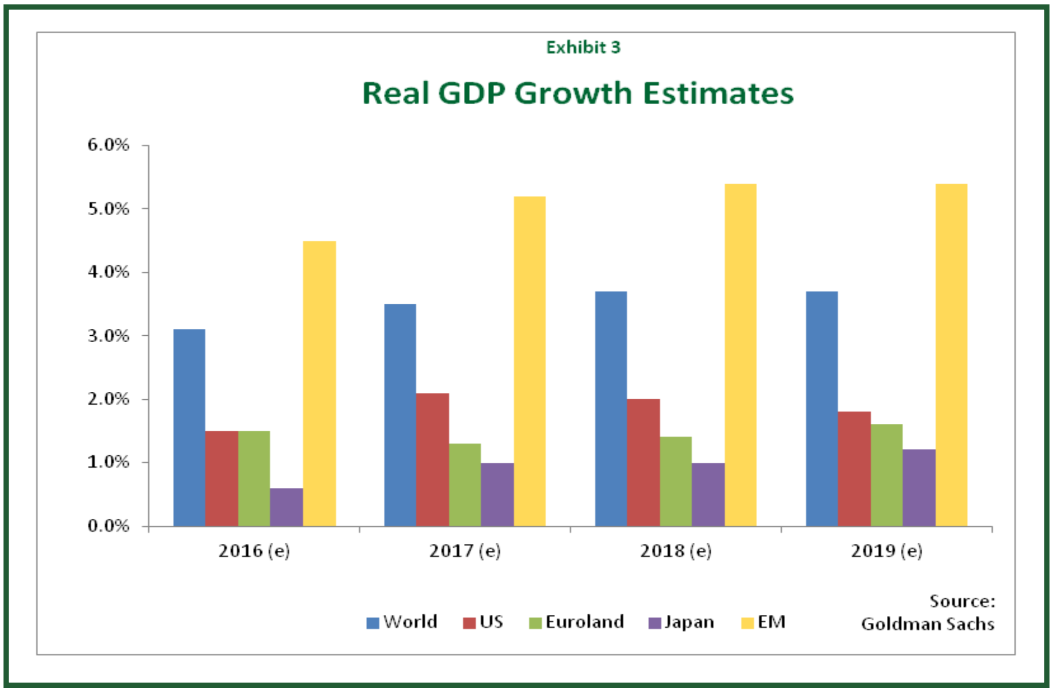
Global Economic Outlook Cont.



"Although the U.S. economy should continue to grow (albeit at a modest pace), consumer sentiment is lower than it should be given the length of the current expansion."

government spending, and both presidential candidates have laid out plans to increase federal spending on infrastructure.

Although the U.S. economy should continue to grow (albeit at a modest pace), consumer sentiment is lower than it should be given the length of the current expansion. We attribute this to the highly negative tone of the presidential campaigns, as well as the country's growing income and wealth divide, which has left many people feeling that the economy has left them behind. In addition, consumers and businesses alike still remain traumatized by the 2008 - 2009 recession.

In the current slow-growth economy, inflation has remained tame. However, the Fed expects the Personal Consumption Expenditures Price Index, its preferred inflation gauge, to approach its 2% target in 2017. Consequently, even though the Fed reduced its growth outlook and dialed back the pace of future rate hikes at its September meeting, the central bank may still raise rates in December.

At a press conference following the September meeting, Fed Chairwoman Janet Yellen noted that the reduction in the central bank's long-run economic projections reflects its belief that productivity growth will remain low for an extended period of time. Productivity growth (the increase in output per worker) is the main driver of higher living standards and higher real wages. The lackluster increase in productivity over the past decade in the U.S. – and the rest of the developed world (see Appendix C) – is one of the reasons the Fed has been so patient in raising interest rates.

Global Economic Outlook Cont.

Europe and Japan

Europe and the U.K. have been resilient in the aftermath of the Brexit vote, as illustrated by better-than-expected reports on manufacturing activity (see Appendix D). Many of the region's economies remain firmly in the mid-cycle phase of expansion, with forecasts indicating that both the U.K. and Eurozone will continue to grow (at subdued rates) over the next few years. While political uncertainty is weighing on sentiment indicators (see Appendix E), the potential for easier fiscal policy could help fuel further economic expansion, especially in Germany and France given their upcoming elections in 2017.

The Japanese economy expanded for a second straight quarter between April and June, although growth remained weak. In an effort to revive the nation's long-stagnant economy, Prime Minister Shinzo Abe announced plans for a ¥28 trillion ($265 billion) social welfare and infrastructure stimulus package in July.

Emerging Markets

The Chinese government reported that GDP in the world's second-largest economy increased 6.7% in the third quarter, putting China on track to achieve policymakers' 6.5% annual growth target. While most economists believe that the official data overstates growth, even conservative estimates have the Chinese economy growing at a solid pace. Growth is expected to moderate slightly in 2017 and beyond, consistent with the government's efforts to orchestrate a controlled slowdown. As part of its plan, China needs to weaken the yuan, which authorities have been undertaking in a measured, orderly fashion. Investors have welcomed the steady decline of the currency, since large, unanticipated devaluations in the yuan have disrupted markets in the past.

Leverage continues to be one of the main challenges for China, as both public and private debt have soared in recent years. One advantage China has is that most of the debt is held internally rather than by international creditors, making it easier for authorities to manage the situation. Rather than taking aggressive action, the government is choosing to address the problem through gradual reform. This careful approach promotes near-term economic stability but could create issues in the future, as it leaves China vulnerable to potential risks, including weaker-than-expected global growth or geopolitical shocks.

In other emerging markets, positive dynamics are leading to brighter growth prospects for a number of countries. Structural reforms have eased political uncertainty in Brazil and Argentina, and local currency appreciation is benefiting economies with exposure to U.S. dollar-denominated debt, including Indonesia, South Korea, Brazil, and Russia. The rebound in commodity prices witnessed this year has been a further tailwind for Brazil and Russia, and may soon pull both countries out of recession.

"While most economists believe that the official data overstates growth, even conservative estimates have the Chinese economy growing at a solid pace."

Investment Strategy

> **"We maintain a modest tilt toward foreign stocks because the U.S. market appears fully valued and may experience short-term volatility related to the November election."**

Equities

Globally, we find equity markets to be more attractively valued than fixed income markets. Within equity allocations, we continue to thoughtfully and broadly diversify across market capitalization, style, sector, and geography. We maintain a modest tilt toward foreign stocks because the U.S. market appears fully valued and may experience short-term volatility related to the November election.

European stocks are more attractively valued than U.S. stocks, although they too may be prone to bouts of volatility. The complex Brexit negotiations, the elections in Germany and France, as well as the upcoming constitutional referendum in Italy, could all weigh on investor sentiment, at least in the short term. Equity valuations in many emerging markets remain at the lower end of their 20-year averages (see Appendix F), even after their strong year-to-date performance. Moreover, challenges confronting many emerging economies have faded, and long-term demographic trends remain supportive of growth.

While the broad U.S. stock market appears fully valued, there are still pockets and sectors within the market that are both over- and undervalued. For example, we believe value stocks continue to represent an attractive opportunity for investors, despite their superior performance relative to growth stocks this year.

Fixed Income

We continue to underweight fixed income, wherever appropriate. In most accounts with an allocation to fixed income, especially those with liquidity needs, we maintain significant exposure to high-quality, short-duration bond funds. Driven by strong demand from foreign investors, yields on longer-term U.S. Treasury securities have fallen to unreasonable levels for an economy that is at full employment and anticipating higher inflation. At current yields, longer-term bonds are not adequately compensating investors for their greater interest rate risk relative to shorter-maturity issues (see Appendix G). That said, an allocation to fixed income can reduce overall portfolio volatility and is thus still warranted for most investors.

In Closing

Despite two bouts of extreme volatility: one early in the year and another in late June after the Brexit vote, global equities and fixed income have performed very well during the first nine months of 2016. Volatility was subdued in the third quarter, but has risen as we approach the U.S. presidential election. Should volatility increase, we will use it as an opportunity to rebalance portfolios, tilting accounts toward asset classes with the most attractive risk-reward profiles.

The active managers we utilize are also positioned to capitalize on volatility, just as they did in the wake of the Brexit vote. With certain areas of the market fully valued, these managers have adopted a more cautious stance, but are ready to act when they see opportunities to buy securities of high-quality companies at more reasonable prices.

As we enter the final months of the year, we remain focused on meeting your long-term investment goals, within your risk profile, and funding your future liquidity needs. Please call us at 301.881.3727 if there have been any changes to your liquidity requirements or if you have questions about your portfolio.

Sincerely,

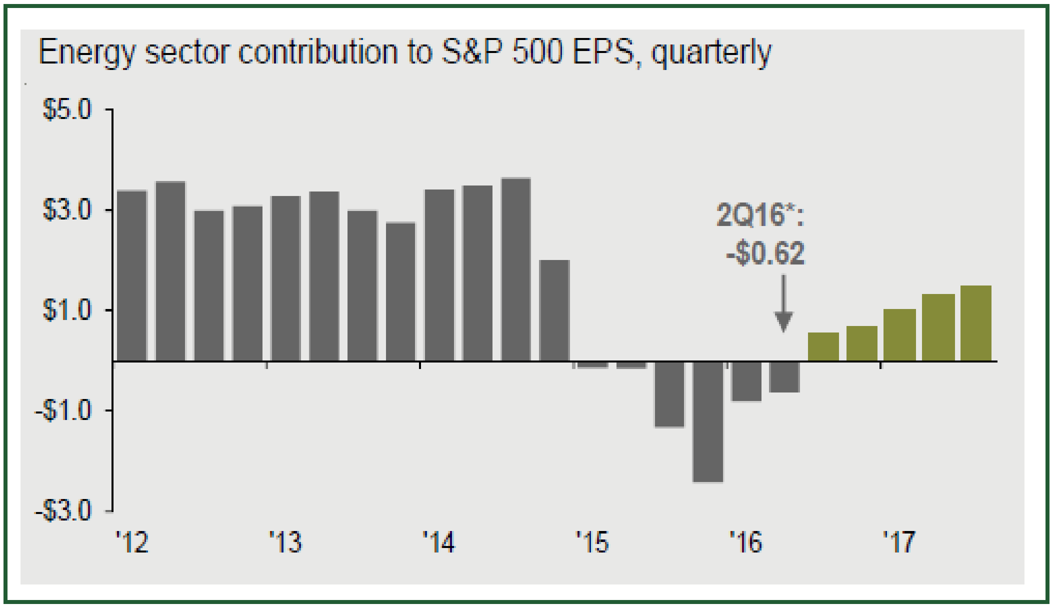
The SOL Capital Management Team

"Should volatility increase, we will use it as an opportunity to rebalance portfolios, tilting accounts toward asset classes with the most attractive risk-reward profiles."

Appendices

Appendix A

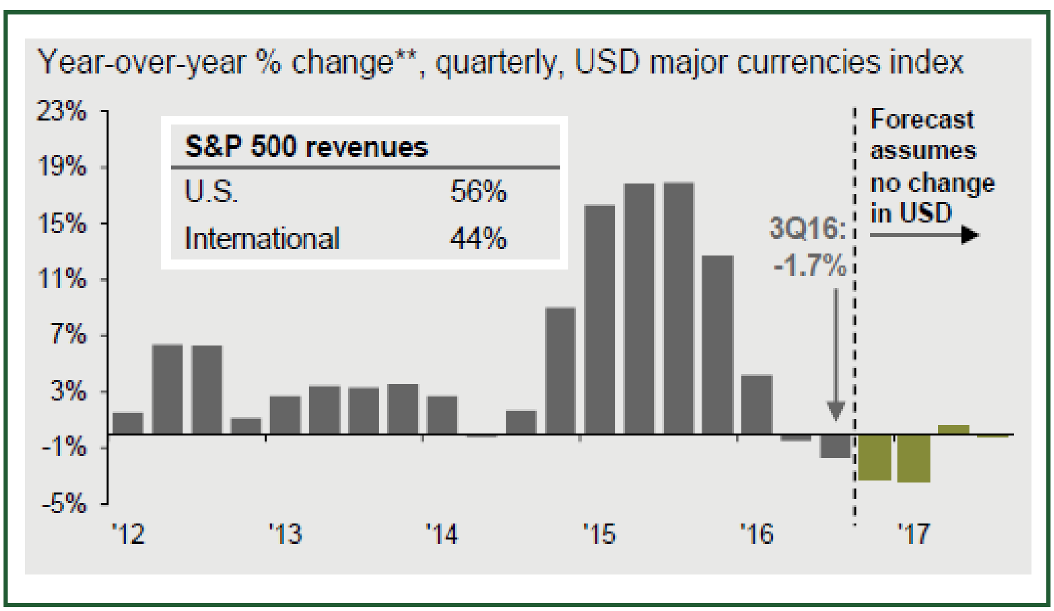
Energy Sector Earnings



*Source: Guide to the Markets 4Q 2016 – **J.P. Morgan Asset Management,** page 7*

Appendix B

U.S. Dollar

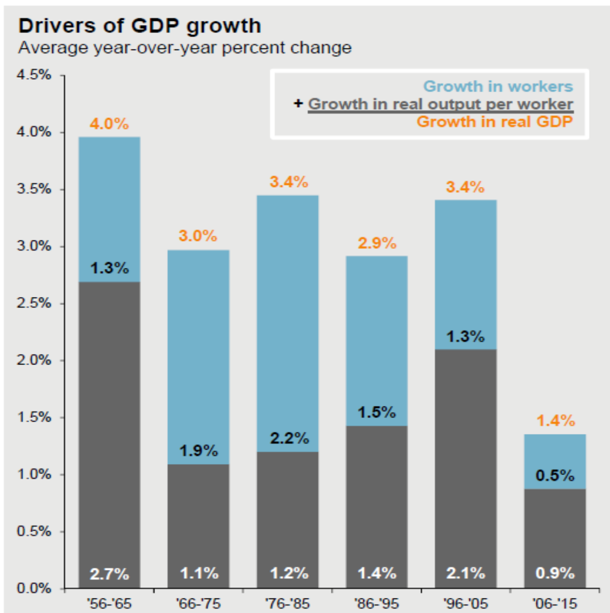


*Source: Guide to the Markets 4Q 2016 – **J.P. Morgan Asset Management,** page 7*

Appendices Cont.

Appendix C

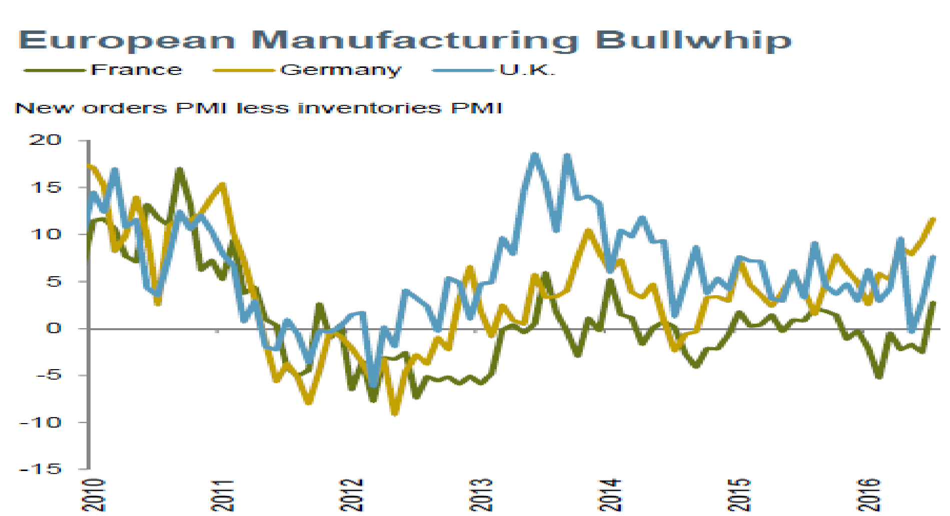
Long-Term Drivers of Economic Growth



*Source: Guide to the Markets 4Q 2016, **J.P. Morgan Asset Management**, page 24*

Appendix D

European Manufacturing Activity



*Source: Fourth Quarter 2016 Quarterly Market Update, **Fidelity Investments**, page 20*

Appendices Cont.

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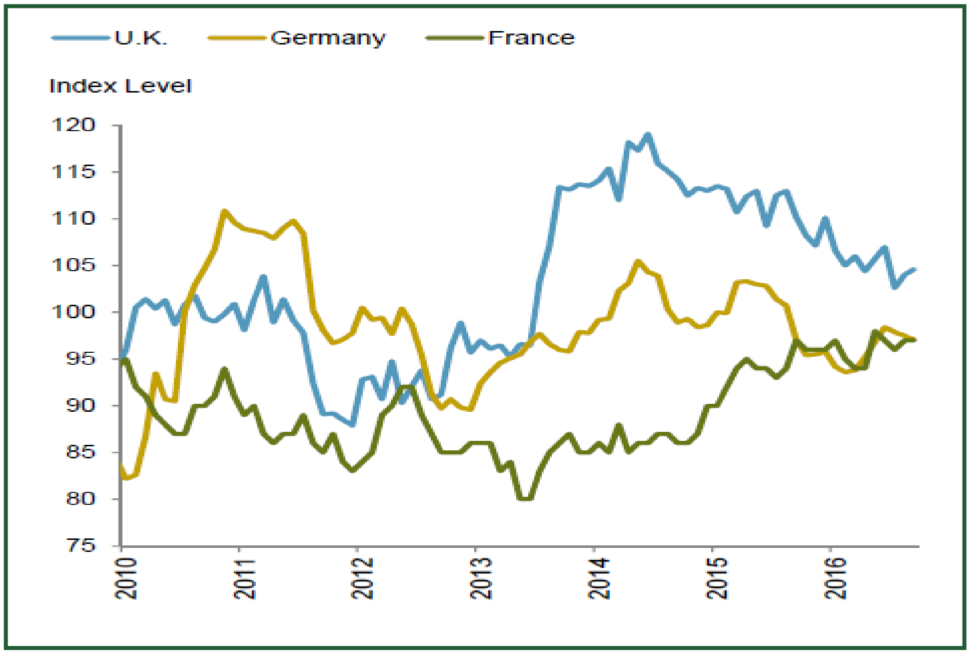
Appendix E

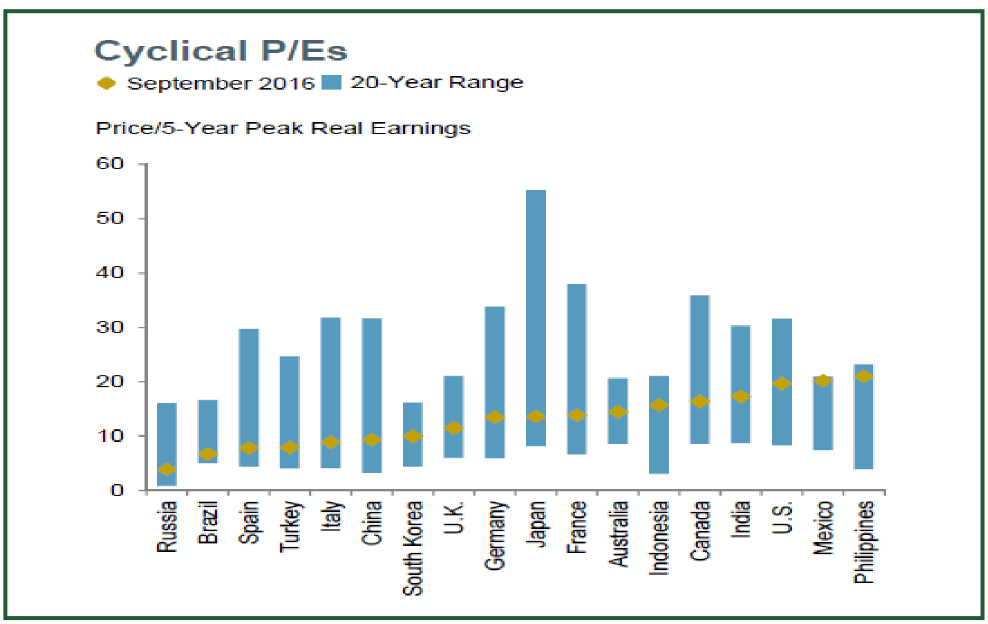
European Consumer Confidence



*Source: Fourth Quarter 2016 Quarterly Market Update, **Fidelity Investments**, page 20*

Appendix F

Equity Market Valuations

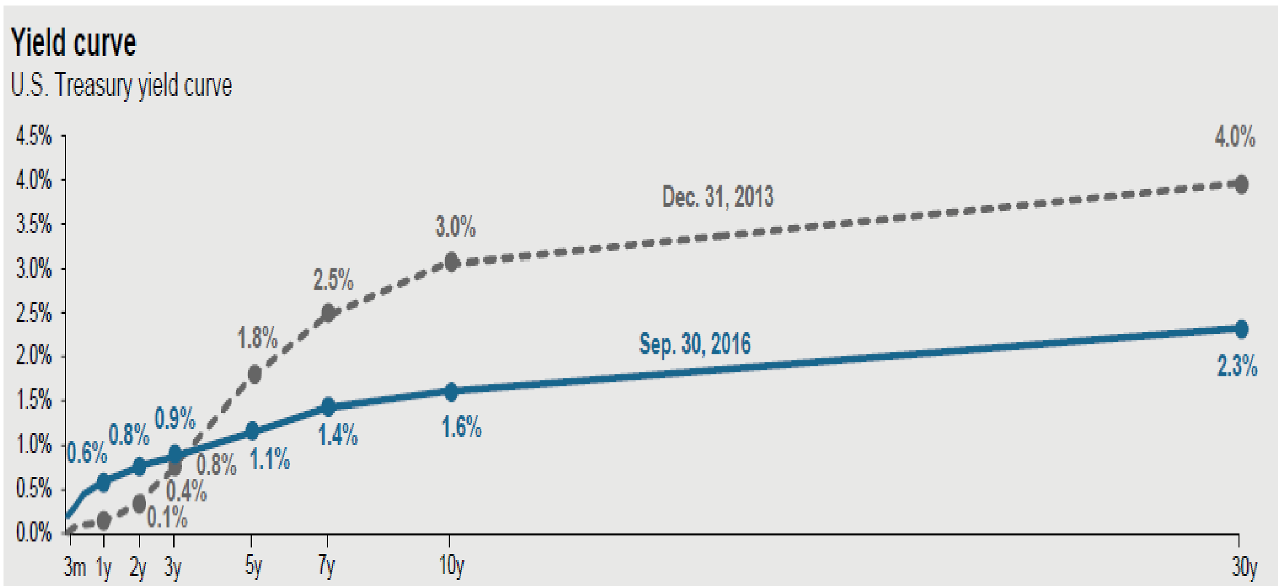


*Source: Third Quarter 2016 Market Update, **Fidelity Investments,** page 37*

Appendices Cont.

Appendix G

Changes in the Shape of the Yield Curve (2013-2016)



*Source: Guide to the Markets 4Q 2016, **J.P. Morgan Asset Management**, page 36*

*Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by SOL Capital Management Company), made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from SOL Capital Management Company. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. SOL Capital Management Company is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the SOL Capital Management Company's current written disclosure statement discussing our advisory services and fees is available upon request. If you are a SOL Capital Management Company client, please remember to contact SOL Capital Management Company, **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.*

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