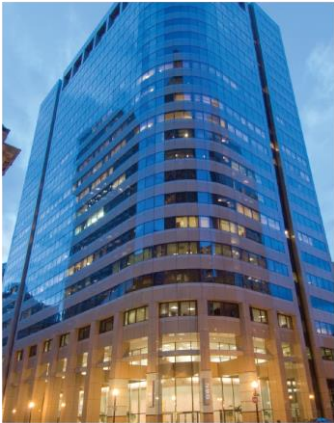




# OUR VIEW



## First Quarter Review

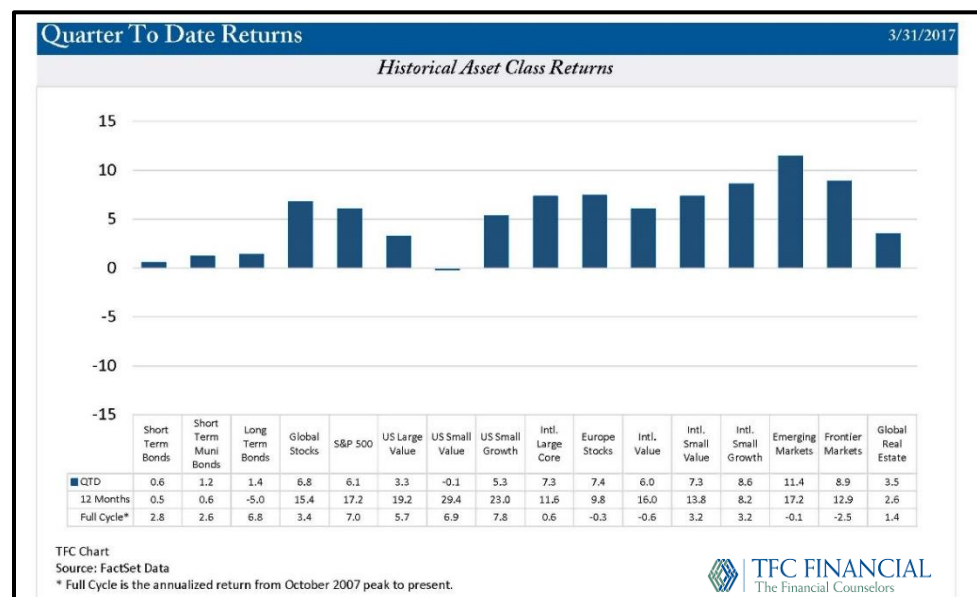
Equity markets extended post-election gains during Q1, helped by positive economic indicators and expectations for rising earnings growth. The earnings recession is over; recovery of 8-10% is underway. Enthusiasm about the synchronized global economic recovery helped investors overcome disappointment that tax reform and infrastructure spending plans didn't materialize in the initial 70 days of the Trump presidency.

The S&P 500 Index continued to provide strong returns, but lagged behind non-U.S. stocks. Developed country international market equities outpaced U.S. stocks in dollar terms, and emerging markets equities rebounded strongly after a post-U.S. election slump. Economic momentum drove market returns, as political considerations were temporarily pushed to the side by investors.

Last year's leaders in the U.S. stock market, small cap and value, fell out of favor in the first quarter. In the U.S., large company stocks outpaced small company stocks. Small cap U.S. stocks provided positive returns, but lost momentum after their torrid post-election rally to end 2016. U.S. small cap value stocks, which gained more than 30% in 2016, lost ground to start 2017.

Rapid swings in bond market sentiment continued into 2017. During the quarter, 10-year Treasury yields reached a high of 2.61%, but trended downward after the Federal Reserve raised rates in mid-March. The 10-year Treasury yielded 2.40% at the end of the first quarter, close to the yield at the end of 2016. Beyond the Treasury market, emerging markets debt and U.S. high yield bonds had a strong quarter, while municipal bonds rebounded from a poor fourth quarter.

*The S&P 500 Index continued to provide strong returns, but lagged behind non-U.S. stocks for one of the few times in recent years.*





*U.S. headline economic growth may disappoint in the first quarter, but temporary effects related to inventories and delayed tax refunds are factors that will mask an otherwise strong period for private demand.*

## TFC Portfolio Performance

TFC portfolios rose in the first quarter, benefiting from the strength of equity markets. TFC's emerging markets equities contributed positively in absolute and relative terms, with core emerging markets and Asia small company holdings both delivering double-digit returns. International small company stock holdings were also strong performers after strong returns in 2016. Value lagged in relative terms globally, with U.S. small cap value stock holdings finishing in negative territory for the quarter.

Fixed income provided a moderate amount of income (yield) in the first quarter, with municipal bonds and mortgage-backed securities rebounding from a tough fourth quarter. Bonds may not offer a compelling value today, but may become more attractive in the latter part of 2017, as rates continue on a path toward normalization.

TFC continues to emphasize factor-based approaches that "tilt" toward small cap and value segments within globally diversified portfolios, confident that both segments offer long-term return premiums relative to the market. Although increased investor awareness may reduce the return premium, the rationale behind our tilts to small cap and value remains intact. We also continue to favor a strategy incorporating traditional index funds, factor-based funds and actively-managed funds, rather than focusing exclusively on active or passive strategies. Interestingly, the rise in assets invested in passive funds and "smart beta" approaches may create more opportunities for skilled active managers to find opportunities to add value and control risk.

## Trump's Transition

Donald Trump's transition from candidate to President was (and continues to be) turbulent, which in fairness isn't unusual for a first-term president. Hopes that Trump would implement market-friendly policies early in his administration were dimmed by the failed attempt to repeal and reform the Affordable Care Act (Obamacare), continuing scrutiny over Russian connections to Trump advisors, and controversy over the proposed immigration "ban." Investors remain hopeful that the Trump Administration will move forward with pro-market initiatives, and that Trump's protectionist leanings will be manifested through "tweets" rather than broad-based tariffs or import restrictions. Small business CEOs are particularly bullish, expecting tax cuts favorable to small companies and a less burdensome regulatory approach.

## Economic and Market Outlook

U.S. headline economic growth may disappoint in the first quarter, but temporary effects related to inventories and delayed tax refunds are factors that will mask an otherwise strong period for private demand. Employment is rising, unemployment rates are close to what the Fed considers to be "full employment," and wages are rising. The one discordant note in the labor picture is that labor force participation has not recovered to pre-crisis levels, which in part is explained by an aging population, but is also explained by a high level of discouraged workers who have left the workforce. Overall, stimulative monetary policy continues, financial conditions are reasonably easy, and forward-looking indicators are positive. Inflation measures are moving up toward central bank targets, but remain mild.



*The Brexit vote and election of Donald Trump are fresh in the minds of investors who expected vastly different results, leading to heightened fears about the survival of the euro. Despite a deluge of negative headlines, elections may not upset the status quo in 2017. Populist candidates face longer odds of taking control this year.*

The Fed dot plot, which shows the projections of the 16 members of the Federal Open Market Committee, signals plans for two more rate increases in 2017, though more hawkish members of the Fed are calling for three more rate hikes. The not-too-hot, not-too-cold nature of the economic recovery may allow the Fed to move incrementally rather than aggressively in 2017 to normalize interest rates. Longer-term, the three "D's"--debt, demographics and the dollar--may put a cap on economic momentum and limit the rise in interest rates. A fourth "D" may also limit the risk of an upward surge in rates--perpetual demand for bonds from retirees seeking income as well as demand from insurance companies and pensions seeking to offset their liabilities.

Bonds, though perhaps not that appealing on the surface today, do offer a hedge against downside economic and equity market risks. In a rising interest rate environment, some segments of the bond market are more attractive than others. Interest rates may not need to rise much to slow the economy and ease inflationary concerns, so the market may be overly pessimistic about the pace at which rates will rise. Given uncertainty about the pace of interest rate increases and the possibility that rates could reverse during periods of geopolitical stress, a diversified approach continues to be desirable.

Europe continues to recover, demonstrating improving economic growth, an export sector helped by weak currencies, and continuing progress at reducing unemployment. Inflation indicators are approaching European Central Bank targets, easing fears of deflation. A favorable outlook for earnings growth in Europe is coupled with undemanding valuations, as stock market valuations in Europe are lower than that of the U.S. The risk of a dollar "melt-up" in 2017, which would detract from European returns in U.S. dollar terms, may be overstated since measures such as purchasing power parity indicate that the euro may be somewhat undervalued relative to the dollar.

The Brexit vote and election of Donald Trump are still fresh in the minds of investors who expected vastly different results, leading to heightened fears about the survival of the euro. Despite a deluge of negative headlines, Euro area elections may not upset the status quo in 2017. Populist candidates face longer odds of taking control this year. Geert Wilders, the Dutch populist, anti-immigrant candidate lost in the Netherlands, with the winning candidate, Mark Rutte, working on assembling a coalition among a fractious group of Dutch political parties. The French election campaign is in full swing, with expectations that populist Marine Le Pen will make it into a run-off against market-friendly candidate Emmanuel Macron. Macron has a big lead in head-to-head polls against Le Pen, though a large pool of undecided voters make it too early to write off Le Pen's chances in the run-off. German elections later this year feature front-runners who are strongly in favor of European integration. Longer-term worries center around Italy, with voter sentiment nearly evenly divided between euro-friendly voters and those who want to exit. Italian elections are likely to be more of a market focus next year, given declining likelihood that the Italian election will be moved forward from its scheduled date in 2018.

Consumer demand, global reflation and improving profitability are boosting sentiment toward emerging markets. The rise of a consumer middle class is an important multi-year trend, though countries with high levels of U.S. dollar debt are vulnerable to a strong dollar or a move away from global trade. China remains an unbalanced economy that offers considerable potential rewards and risks, but appears to have the policy flexibility to avoid a near-term hard landing. Like much of the rest of the world, the long-term outlook for China will be jeopardized if the country's leaders wait too long to pursue necessary reforms.



*Although a market correction may be overdue, robust economic momentum supports a favorable outlook for equities. We see few signs of recession or economic bubble, and fiscal and monetary policy remains constructive.*

## Policy and Geopolitical Considerations

Trump learned some lessons about the limits of presidential power in the early months of his term, and investors tempered their hopes and fears based on some of the early-term lessons. However, policy considerations are still likely to have an unusual degree of influence in 2017. Trump's protectionist impulses appear intact, but his rhetoric has been more strident than his policy actions to date.

Contrary to expectations, Trump's administration has not formally labelled China a currency manipulator, nor have aggressive tariffs been levied against China or Mexico. We still expect Trump to impose tariffs or restrictions on Chinese steel, but Chinese steel represents a very small portion of China's exports to the U.S. Such a move would be symbolic and probably wouldn't signify the start of a destructive trade war between the two countries. Trade remains a high profile concern for the markets, and any major anti-trade steps by the administration is likely to interrupt the market rally.

Investors expected rising U.S. interest rates to boost the dollar, and feared that a rapid increase in the dollar would destabilize trade and create systemic risk for certain countries. Currencies were resilient relative to the dollar during the first quarter, as investors took factors other than interest rate differentials into consideration. A rapid move upward in the dollar would cause the Fed to revisit their plans to hike rates in 2017.

As expected, events beyond American borders influence the political agenda and direction of markets, with Syria and North Korea presenting particularly difficult challenges for a President with limited experience in foreign policy. Foreign policy challenges could interrupt the equity rally and renew the appeal of bonds as a safe haven in an uncertain world.

## Closing Thoughts

Although a market correction may be overdue, positive economic momentum supports a favorable outlook for equities. We see few signs of recession or economic bubble, and fiscal and monetary policy remains constructive. U.S. stock market valuations are elevated, though below extreme levels. European and Japanese stocks are inexpensive relative to the U.S., but the valuation discount is also far from extreme levels.

We continue to be aware of the potential for policy mistakes or geopolitical conflict that spills over into the markets. We monitor the risks outlined above and will incrementally adjust the portfolio based on new information.

### TFC's New Strategic Policy Benchmark

We implemented a new policy benchmark for equities as previewed in our last quarterly letter, which we think will help us to better explain portfolio performance. Our objective is to provide clarity about what is (and isn't) "working" when we report performance to you. We will provide a structure that makes it easier to distinguish the positive and negative contribution from asset allocation decisions (stock vs. bonds; U.S. vs. International vs. Emerging/Frontier), investment selection decisions (which funds we use to implement asset allocation decisions), and style tilts



(value, size and quality). The new benchmark tracks TFC's long-term strategic policy weights, based on our 7-year market outlook. Our strategic policy weights are 60% U.S., represented by the Russell 3000 Index; 30% Developed International, represented by the MSCI World ex-U.S. Index; and 10% Emerging Markets, represented by the MSCI Emerging Markets Index. We think the revised benchmark is easier for clients to follow than the MSCI ACWI IMI benchmark we previously used, and also facilitates rebalancing to a fixed set of policy targets. Performance reports will incorporate the prior benchmark through 12/31/16, linked to the new benchmark from 1/1/17 onward. Both benchmarks will be included in client reports during a transition period. Your Advisor will review the new benchmark during your next meeting with TFC.

### TFC Announces Next Generation of Leadership

As noted in the article below, TFC is pleased to announce its next generation of leadership. Renée Kwok, CFP®, who joined the firm in 1991 and became president in 2005, will also serve the firm as Chief Executive Officer. James L. Joslin, co-founder of TFC, from whom Kwok takes the CEO mantle will remain as the firm's Chairman. Daniel S. Kern, CFA, CFP®, who joined TFC in 2015 as Chief Investment Strategist, becomes the Chief Investment Officer and is also now a shareholder.

<http://finance.yahoo.com/news/tfc-financial-management-announces-next-001500889.html>

### Availability of Updated Form ADV Part 2A Brochure and Part 2B Brochure Supplement

Annually, at this time of year, Registered Investment Advisors (RIAs) like TFC are required to update our SEC disclosure reports. Please refer to page 7—"Notice of Availability of Updated Form ADV Part 2A Brochure and Form ADV Part 2B Brochure Supplement." The firm takes these compliance requirements and our fiduciary responsibilities seriously. If you have any questions about these reports, please don't hesitate to contact us directly.

As always, we welcome your comments and questions.

Sincerely,

**James L. Joslin, CFP®**  
Chairman

**Renée Kwok, CFP®**  
President and CEO

**Daniel S. Kern, CFA, CFP®**  
Chief Investment Officer



Disclaimers:

1. This commentary may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as “believe,” “estimate,” “anticipate,” “may,” “will,” “should,” and “expect”). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements.
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## **Notice of Availability of Updated Form ADV Part 2A Brochure and Form ADV Part 2B Brochure Supplement**

As an SEC-registered investment adviser, we are required to update annually in the first quarter of each calendar year our Form ADV, which includes our Form ADV Part 2A Brochure and Form ADV Part 2B Brochure Supplement. If, in connection with our annual update, we make material changes to our Brochure or Brochure Supplement since the date of our last annual update, we are required to provide (or offer to provide) our clients with copies of them.

In connection with the just completed annual update of our Form ADV, there were no material changes to our Brochure or Brochure Supplement.

By this notice, we are offering to provide you, without charge, a copy of our Brochure and Brochure Supplement, both dated March 3, 2017. You may obtain copies by sending an e-mail to Constance Wyllie, Chief Compliance Officer and Director of Client Service & Operations, at [cwyllie@tfcfinancial.com](mailto:cwyllie@tfcfinancial.com), or by calling Ms. Wyllie at 617-210-6700. Our updated Brochure and Brochure Supplement are also available on our website: [www.tfcfinancial.com](http://www.tfcfinancial.com).

You can also find our Brochure and Brochure Supplement, as well as other information about us, through the SEC's Investment Adviser Public Disclosure (IAPD) portal: [www.adv.adviserinfo.sec.gov](http://www.adv.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm CRD number is 105062.

Please do not hesitate to call us if you have any questions.

Notice dated April 12, 2017