

Investment Market Review First Quarter 2016

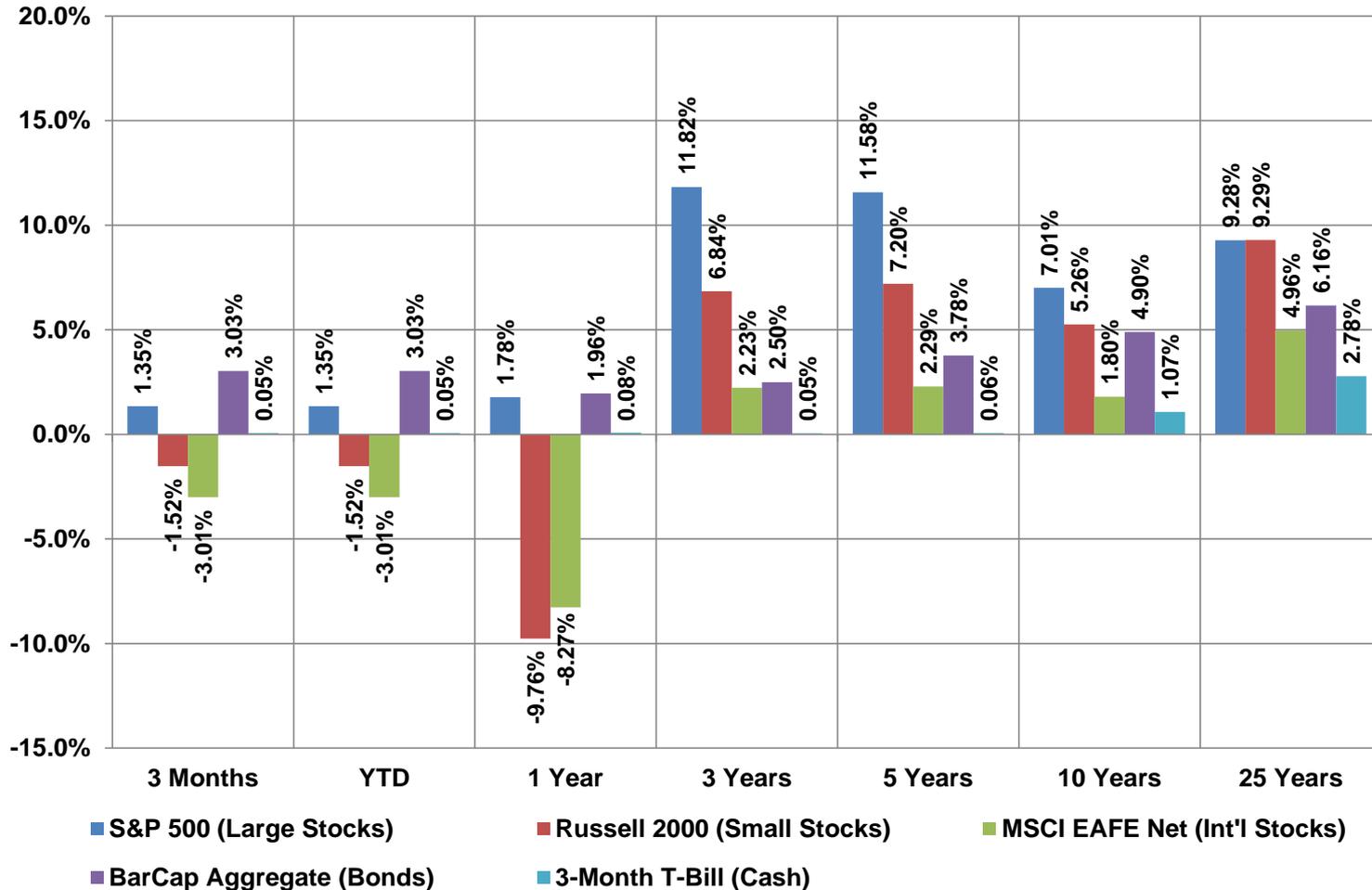
State of Montana

Capital Market Highlights

- U.S. stocks produced positive returns during the first quarter with the S&P 500 index returning +1.4%. Bonds also had a strong first quarter and produced positive returns with the Barclay's Capital US Aggregate index up +3.0%.
- International developed market stocks returned -3.0% for the quarter after remaining nearly flat during 2015. Returns on emerging markets stocks turned positive during the first quarter with the MSCI Emerging Markets index returning +5.7% after ending 2015 down -14.9%. Emerging markets debt posted strong positive returns during the first quarter with the JP Morgan Emerging Markets Bond index returning +5.2%.
- The Federal Reserve raised rates at the December meeting with many forecasts pointing to four more rate hikes throughout 2016. However, with middling economic data coming out over the first quarter, including the Dow getting off to its worst start ever, the forecasted number of rate hikes has been lowered to one to two by the end of the year.
- The unemployment rate dropped to 4.9% in January and February before increasing back to the December level of 5.0%. The Fed monitors this number closely and although it has reached the natural rate, it may be a headwind for rate increases if more workers enter the workforce.
- The labor force participation rate reached its lowest levels in nearly 40 years in September 2015, and has been trending sharply higher over the past six months. The LFPR reached 63% in March, a level last seen two years ago, and it may continue to trend upwards as workers gain a higher level of optimism in the economic recovery as evident in personal consumption being a leading contributor to GDP.
- Inflation finally moved off 0% in the fourth quarter after bouncing between -0.1% and +0.1% for the first three quarters of 2015. Although the fourth quarter number of 0.7% is below the Fed's target of 2% the increase in consumer spending and the ongoing housing recovery may put the 2016 average closer to the Fed's target, spurring incremental rate increases.
- West Texas Intermediate (WTI) oil futures continue their volatility and generally within a range of \$30-\$40 per barrel over the first quarter. After a sharp drop in the first part of January followed by a rally in early March, oil ended slightly lower for the quarter. Oil was trading around \$60 per barrel one year ago and around \$90 per barrel two years ago.

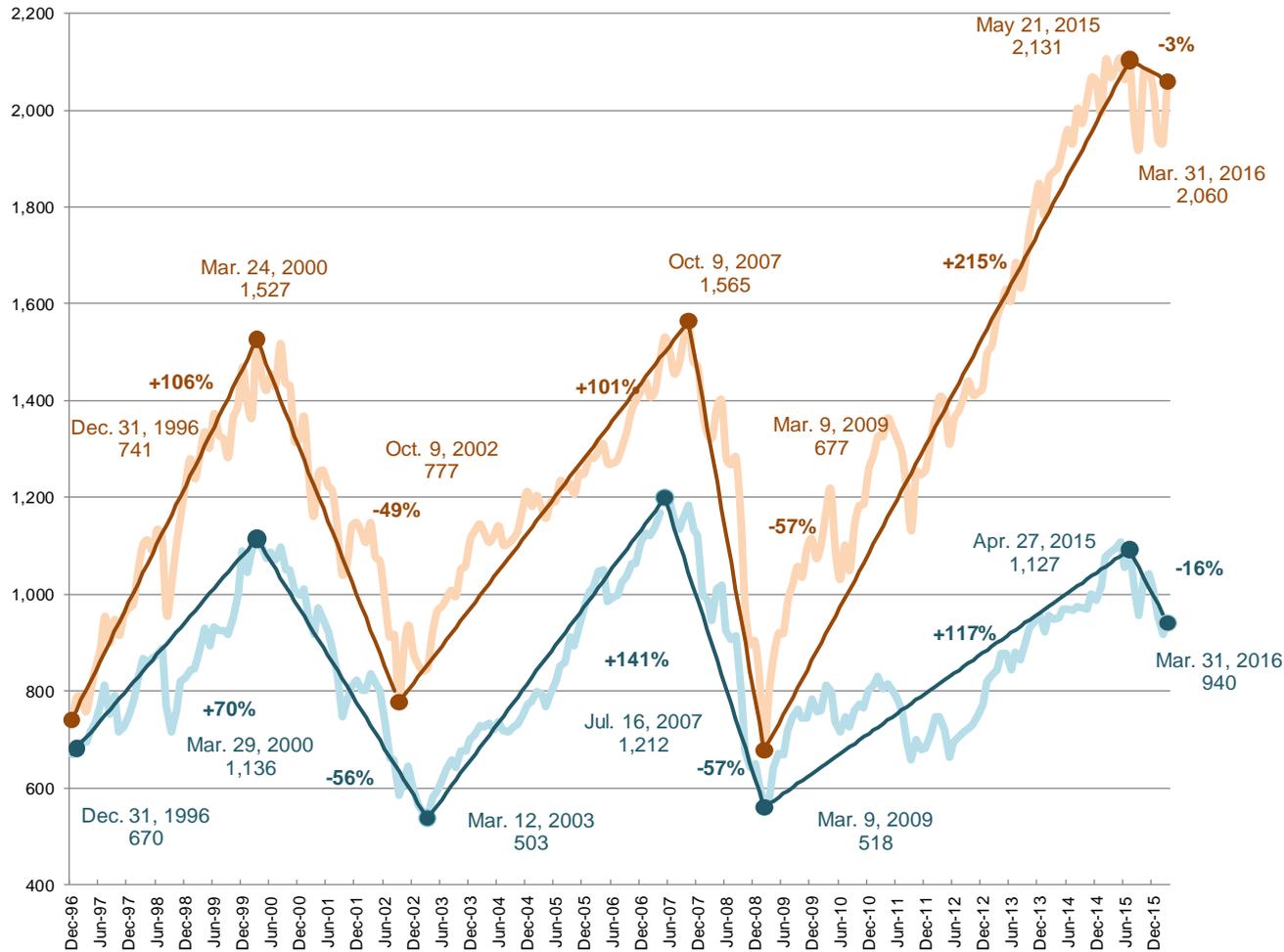
Capital Market Highlights

Capital Market Performance as of March 31, 2016



Capital Market Highlights

S&P 500 and MSCI EAFE at Inflection Points



S&P 500	P/E (fwd)
Dec. 31, 1996	16.0
Mar. 24, 2000	25.6
Oct. 9, 2002	14.1
Oct. 9, 2007	15.2
Mar. 9, 2009	10.3
May 21, 2015	19.4
Mar. 31, 2016	16.6

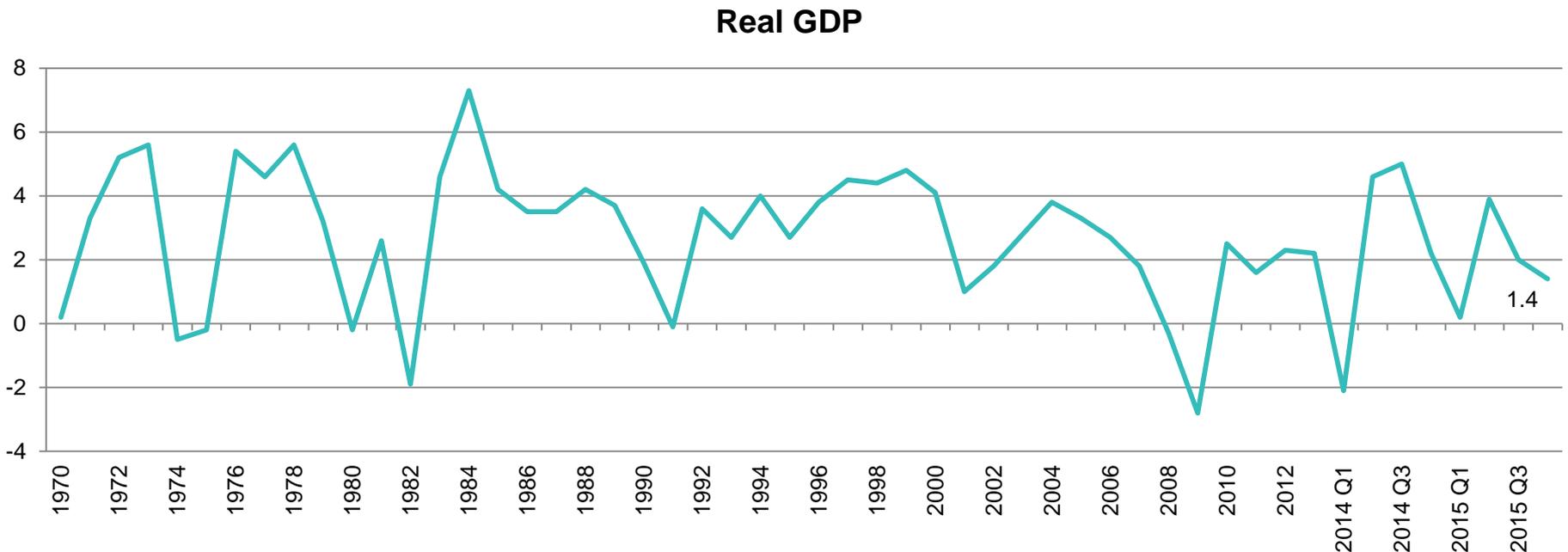
MSCI EAFE	P/E (fwd)
Dec. 31, 1996	19.5
Mar. 29, 2000	28.7
Mar. 12, 2003	13.2
Jul. 16, 2007	14.5
Mar. 9, 2009	10.2
Apr. 27, 2015	18.1
Mar. 31, 2016	14.5

Source: Standard & Poor's,
Morgan Stanley Capital International,
J.P. Morgan Asset Management

Returns based on S&P 500 Index Price Movement and
MSCI EAFE Local Currency Index Price Movement

US Economy

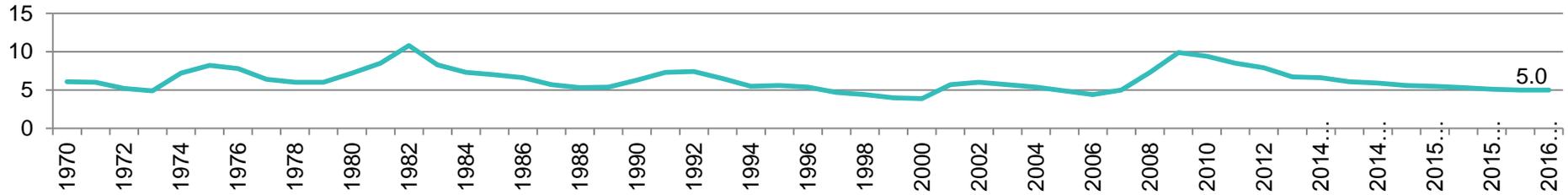
- The U.S. economy continues to progress, although annualized GDP slowed from 2.0% in the third quarter to 1.4% in the fourth quarter. Personal consumption expenditures continued to lead with federal government spending and residential fixed investment also being among the largest contributors to fourth quarter GDP. Private inventory investment, exports, nonresidential fixed investment, and state and local government spending were detractors during the quarter.
- GDP estimates put end of year 2016 annual growth around 2.5%, ratcheting up by about 10bps each quarter from first quarter estimates of 2.1%. Fourth quarter GDP numbers have not been released.



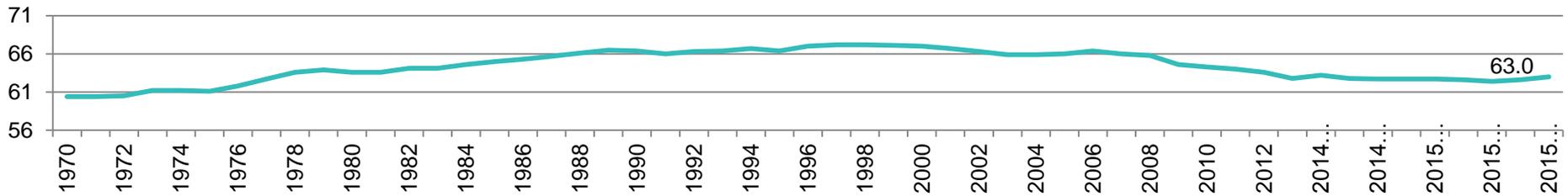
Source: BEA

US Economy

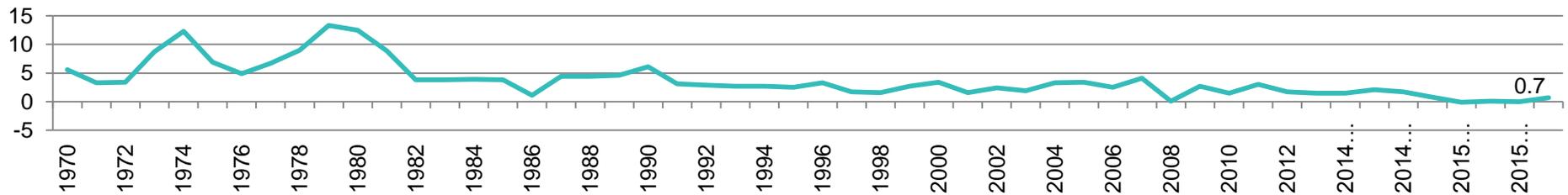
Unemployment



Labor Force Participation Rate



Headline CPI

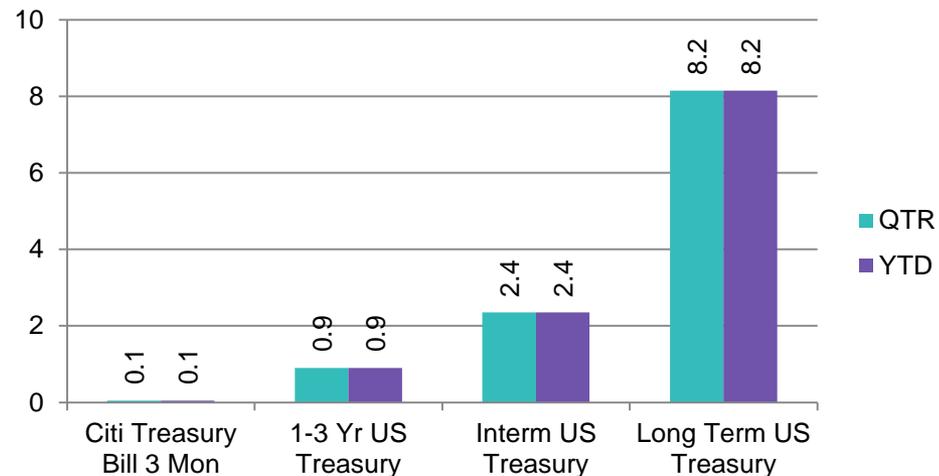


Source: BLS, St. Louis Federal Reserve

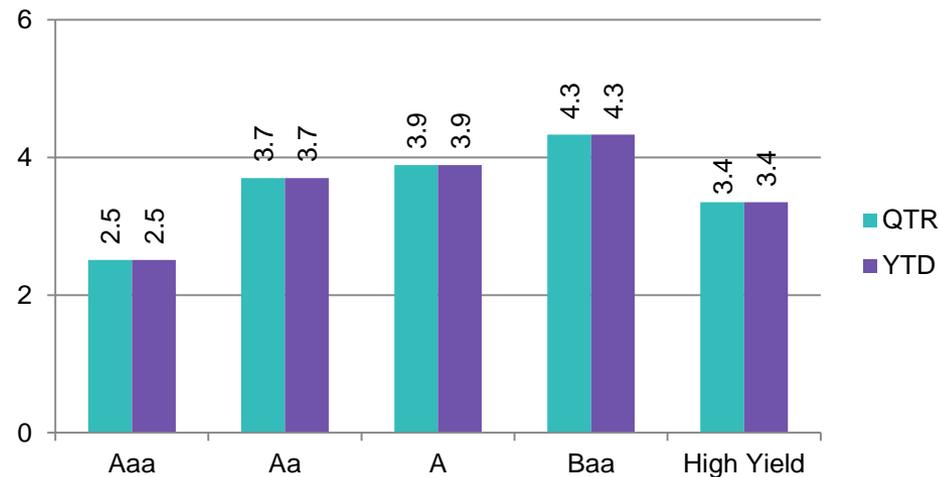
Fixed Income

- Coming off a difficult 2015, **High Yield** produced a positive return of +3.4%, underperforming the investment grade fixed income return of +4.0%.
- The yield on 10 Year Treasury Notes has trended lower over the first quarter and ended at 1.8% after peaking at 2.2% on the first trading day of the year.

Bond Performance by Maturity



Bond Performance by Quality

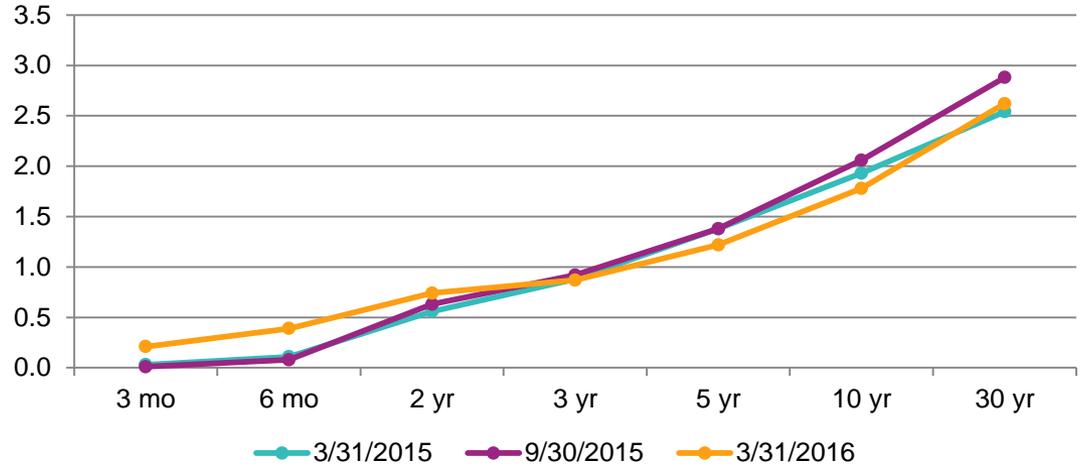


Source: Morningstar, Barclays Capital US Credit Indices

Fixed Income

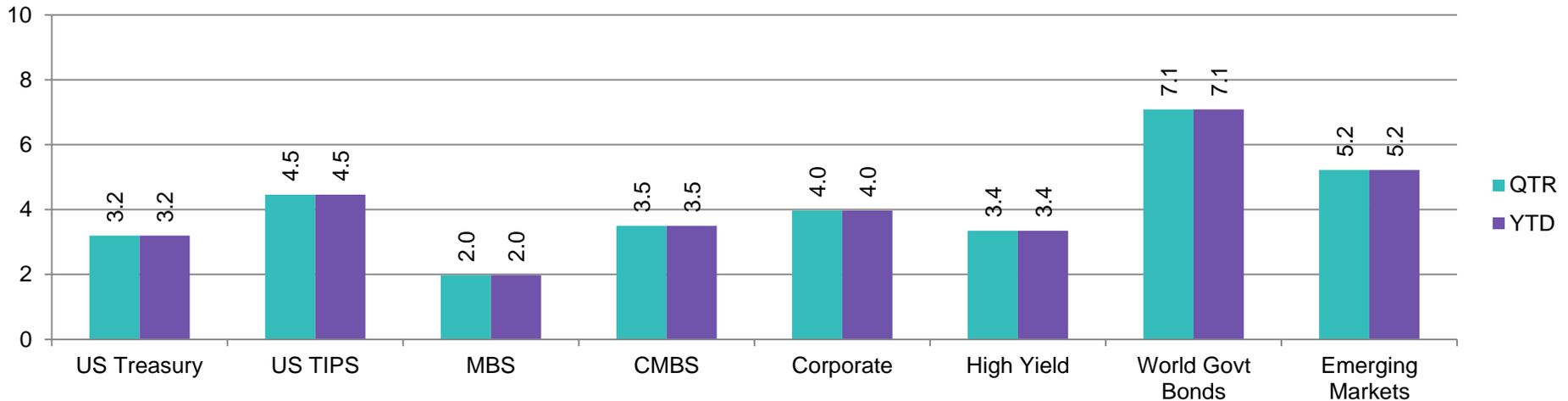
- The **Barclays Aggregate Index** returned +3.0% for the quarter.
- **Long Gov/Credit** and **Long Treasuries** returned +7.3% and +8.2% for the quarter, respectively.

US Treasury Yield Curve



Source: Barclays

Bond Performance by Sectors

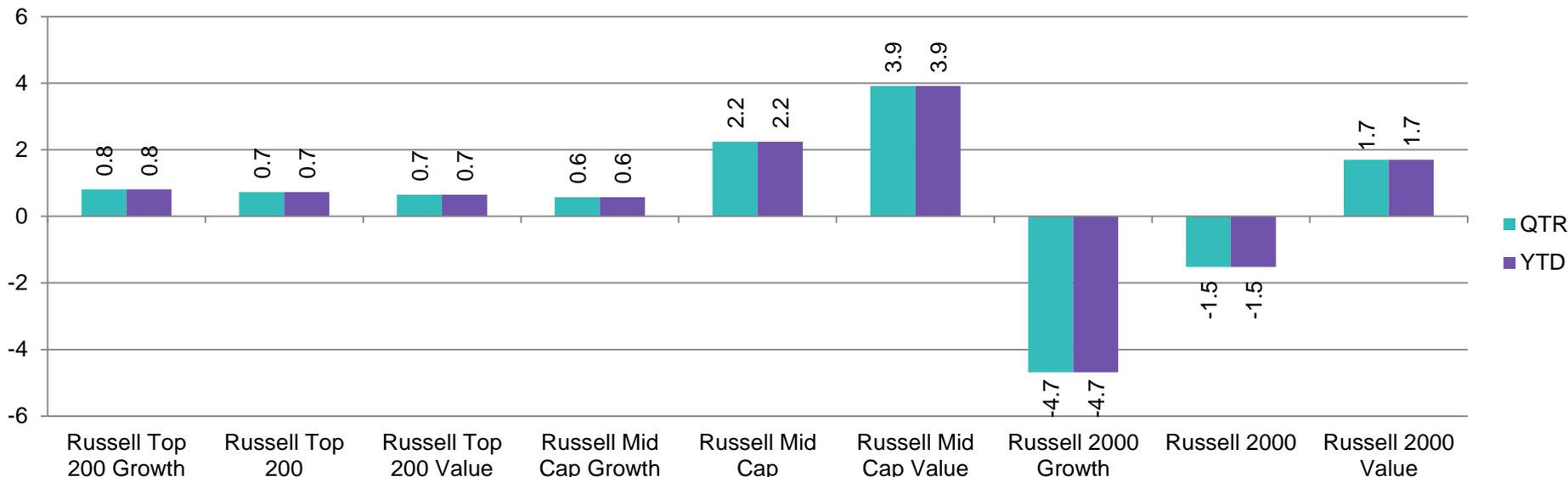


Source: Morningstar

Equities

- US Equities were up for the quarter, with the **S&P 500** returning +1.4%.
- In terms of market capitalization, mid-cap stocks (**Russell Mid Cap**) performed the best, returning +2.2% for the quarter. In comparison, large- and small-cap returned +0.7% and -1.5%, respectively, as measured by the **Russell Top 200** and the **Russell 2000**. Value stocks in the mid-cap and small-cap space significantly outperformed growth stocks.
- Positive fourth quarter returns continued into 2016, although with a high level of month-to-month volatility. The Dow in January delivered a return of -5.7% even after recovering 1,015 points in the final few days of trading. February was essentially flat and March provided a strong finish to the quarter with a return of +7.0%.

US Stocks by Capitalization/Style

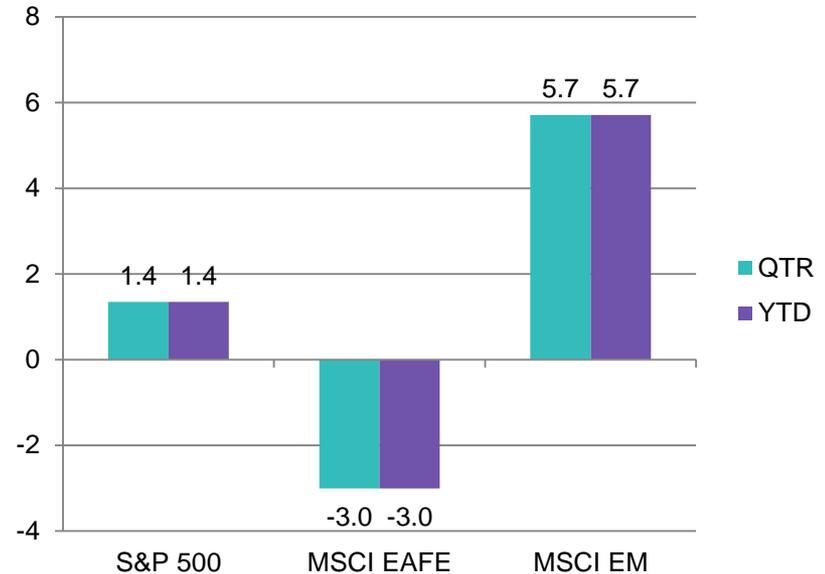


Source: Morningstar

Equities

- Returns in **International Equities** were negative over the quarter with developed market equities returning -3.0%.
- **Emerging Market Equities** were in positive territory with a return of +5.7% in the first quarter.
- In the first quarter, European equities were mixed. German equities lost -2.5%, Portugal equities gained +3.2%, and French equities gained +0.1%. Japan was one of the worst performing developed markets with a -6.5% return for the quarter.

Global Stocks by Region



Source: Morningstar

Market Indices

For Periods Ended March 31, 2016

Index	3 Months Return	6 Months Return	9 Months Return	1 Year Return	2 Years Return	3 Years Return	4 Years Return	5 Years Return	10 Years Return
S&P 500 Index	1.35	8.49	1.50	1.78	7.12	11.82	12.35	11.58	7.01
Russell 1000 Index	1.17	7.75	0.39	0.50	6.44	11.52	12.24	11.35	7.06
Russell Midcap Index	2.24	5.94	-2.54	-4.04	4.44	10.45	12.12	10.30	7.45
Russell 2000 Index	-1.52	2.02	-10.14	-9.76	-1.18	6.84	9.13	7.20	5.26
Russell 3000 Index	0.97	7.30	-0.48	-0.34	5.82	11.15	11.99	11.01	6.90
Russell 1000 Growth Index	0.74	8.11	2.39	2.52	9.09	13.61	12.72	12.38	8.28
Russell 1000 Value Index	1.64	7.37	-1.65	-1.54	3.75	9.38	11.65	10.25	5.72
Russell Midcap Growth Index	0.58	4.72	-3.65	-4.75	4.92	10.99	11.43	9.99	7.43
Russell Midcap Value Index	3.92	7.16	-1.45	-3.39	3.88	9.88	12.68	10.52	7.23
Russell 2000 Growth Index	-4.68	-0.57	-13.55	-11.84	-0.61	7.91	9.53	7.70	6.00
Russell 2000 Value Index	1.70	4.63	-6.60	-7.72	-1.84	5.73	8.69	6.67	4.42
MSCI EAFE Index	-3.01	1.56	-8.83	-8.27	-4.67	2.23	4.42	2.29	1.80
MSCI Emerging Markets Index	5.71	6.41	-12.63	-12.03	-6.00	-4.50	-2.92	-4.13	3.02
MSCI All Country World ex USA	-0.38	2.86	-9.66	-9.19	-5.19	0.32	2.27	0.31	1.94
NAREIT Equity REITs	6.00	13.69	15.97	4.43	13.77	10.47	11.66	11.89	6.56
Barclays Capital Aggregate Bond Index	3.03	2.44	3.71	1.96	3.82	2.50	2.82	3.78	4.90
Barclays Capital Intermediate G/C Bond Index	2.45	1.74	2.70	2.06	2.82	1.83	2.25	3.01	4.34
Barclays Capital Long Term G/C Bond Index	7.30	6.29	8.61	0.39	7.78	4.81	5.83	8.51	7.57
Barclays Capital U.S. TIPS	4.46	3.79	2.60	1.51	2.31	-0.71	0.85	3.02	4.62
Barclays Capital U.S. Government	3.12	2.18	3.92	2.37	3.78	2.11	2.33	3.42	4.52
Barclays Capital U.S. Corporate Inv Grade	3.97	3.37	4.22	0.92	3.83	3.03	4.12	5.17	5.82
Barclays Capital U.S. Corporate High Yield	3.35	1.22	-3.70	-3.69	-0.89	1.84	4.55	4.93	7.01
Citigroup Non-US WGBI USD	9.10	7.59	9.43	7.74	-1.43	-0.16	-0.66	0.24	3.97
JP Morgan EMBI Global Diversified USD	5.04	6.36	4.54	4.19	4.91	3.44	5.07	6.22	7.20
JP Morgan GBI EM Global Diversified USD	11.02	11.00	-0.70	-1.65	-6.51	-6.72	-3.31	-2.00	4.95
Citigroup 90-Day Treasury Bills	0.05	0.07	0.07	0.08	0.05	0.05	0.06	0.06	1.07

Note: Returns greater than one year are annualized.

Market Indices

Annual Returns

Index	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
S&P 500 Index	1.38	13.69	32.39	16.00	2.11	15.06	26.46	-37.00	5.49	15.79
Russell 1000 Index	0.92	13.24	33.11	16.42	1.50	16.10	28.43	-37.60	5.77	15.46
Russell Midcap Index	-2.44	13.22	34.76	17.28	-1.55	25.48	40.48	-41.46	5.60	15.26
Russell 2000 Index	-4.41	4.89	38.82	16.35	-4.18	26.85	27.17	-33.79	-1.57	18.37
Russell 3000 Index	0.48	12.56	33.55	16.42	1.03	16.93	28.34	-37.31	5.14	15.72
Russell 1000 Growth Index	5.67	13.05	33.48	15.26	2.64	16.71	37.21	-38.44	11.81	9.07
Russell 1000 Value Index	-3.83	13.45	32.53	17.51	0.39	15.51	19.69	-36.85	-0.17	22.25
Russell Midcap Growth Index	-0.20	11.90	35.74	15.81	-1.65	26.38	46.29	-44.32	11.43	10.66
Russell Midcap Value Index	-4.78	14.75	33.46	18.51	-1.38	24.75	34.21	-38.44	-1.42	20.22
Russell 2000 Growth Index	-1.38	5.60	43.30	14.59	-2.91	29.09	34.47	-38.54	7.05	13.35
Russell 2000 Value Index	-7.47	4.22	34.52	18.05	-5.50	24.50	20.58	-28.92	-9.78	23.48
MSCI EAFE Index	-0.81	-4.90	22.78	17.32	-12.14	7.75	31.78	-43.38	11.17	26.34
MSCI Emerging Markets Index	-14.92	-2.19	-2.60	18.22	-18.42	18.88	78.51	-53.33	39.42	32.14
MSCI All Country World ex USA	-5.66	-3.87	15.29	16.83	-13.71	11.15	41.45	-45.53	16.65	26.65
NAREIT Equity REITs	3.20	30.14	2.47	18.06	8.29	27.96	27.99	-37.73	-15.69	35.06
Barclays Capital Aggregate Bond Index	0.55	5.97	-2.02	4.21	7.84	6.54	5.93	5.24	6.97	4.33
Barclays Capital Intermediate G/C Bond Index	1.07	3.13	-0.86	3.89	5.80	5.89	5.24	5.08	7.39	4.08
Barclays Capital Long Term G/C Bond Index	-3.30	19.31	-8.83	8.78	22.49	10.16	1.92	8.44	6.60	2.71
Barclays Capital U.S. TIPS	-1.44	3.64	-8.61	6.98	13.56	6.31	11.41	-2.35	11.64	0.41
Barclays Capital U.S. Government	0.86	4.92	-2.60	2.02	9.02	5.52	-2.20	12.39	8.66	3.48
Barclays Capital U.S. Corporate Inv Grade	-0.68	7.46	-1.53	9.82	8.15	9.00	18.68	-4.94	4.56	4.30
Barclays Capital U.S. Corporate High Yield	-4.47	2.45	7.44	15.81	4.98	15.12	58.21	-26.16	1.87	11.85
Citigroup Non-US WGBI USD	-5.54	-2.68	-4.56	1.51	5.17	5.21	4.39	10.11	11.45	6.94
JP Morgan EMBI Global Diversified USD	1.18	7.43	-5.25	17.44	7.35	12.24	29.82	-12.03	6.16	9.86
JP Morgan GBI EM Global Diversified USD	-14.92	-5.72	-8.98	16.76	-1.75	15.68	21.98	-5.22	18.11	15.22
Citigroup 90-Day Treasury Bills	0.03	0.03	0.05	0.07	0.08	0.13	0.16	1.80	4.74	4.76