Sit Investment Associates

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January 11, 2017

swilliamsen@leia.net

Ms. Susan Williamsen
Vice President & Chief Compliance Officer
Leading Edge Investment Advisors, LLC
50 California Street, Suite 2320
San Francisco, CA 94111

Dear Susan:

Enclosed please find the December quarter-end reports for the Maryland State Retirement (MSR) portfolio we manage for you.

International equity markets posted another solid month in December following the Trump election victory on November 8th, with a total return of +3.42 percent for the MSCI EAFE Index. Despite a less-than-auspicious start to the year, as well as volatility ahead of both Britain's EU referendum and the U.S. presidential election, equity markets performed relatively well in 2016. Bond-proxies and defensive stocks outperformed in the first half of the year as the economic outlook dimmed modestly. However, the prospect of lower taxes, deregulation, increased fiscal spending, and wider interest rate spreads drove strong gains in pro-cyclical and financial stocks in the second half of 2016.

Your portfolio underperformed the MSCI EAFE Index for the below time periods. The growth equity investment style, as shown by the MSCI EAFE Growth Index compared to the MSCI EAFE Value Index, depreciated meaningfully in the fourth quarter and year-to-date periods, as did your portfolio. The surprise election of President-elect Trump resulted in cyclical companies that could also benefit from lower taxes, deregulation, increased fiscal spending and wider interest rate spreads to significantly appreciate. The underweight exposure to financial, energy, and material stocks, along with the overweight exposure to health care and consumer staple stocks were the key reasons for the underperformance. Summary results are provided in the table below.

	Total Returns		
	December 2016	4th Qtr. 2016	Year-to-date 2016
MSR Portfolio (663)	**1.94%**	**-5.81%**	**-5.25%**
Equity Only	**1.99**	**-5.97**	**-5.40**
MSCI EAFE Index	3.42	-0.71	1.00
MSCI EAFE Growth Index	2.21	-5.53	-3.05
MSCI EAFE Value Index	4.58	4.17	5.02

The MSCI Europe Index generated a total return of +0.2 percent in 2016 as the U.S. dollar strengthened against key European currencies. On a local currency basis, broad market indices throughout Western Europe generally appreciated in the mid-to-high single digit range in 2016, with the United Kingdom doing particularly well as investors quickly shrugged off the unanticipated outcome of the European Union referendum. Large caps generally outperformed small caps and stocks with emerging market exposure did particularly well after poor performance in 2015. Valuation is generally in-line-to-slightly-above long-term averages, but earnings still remain depressed for a number of sectors. The MSCI Europe Index is currently trading at a forward price-to-earnings multiple of about 14.5 times, which is slightly above its 30-year median of 13 times. Equity fund flows and investor surveys have both been indicative of a fair amount of pessimism, suggesting European stocks may be poised for a meaningful reversal in sentiment as policy uncertainty eases and as corporate earnings improve against easy comparisons.

Looking forward, we believe the performance of European equities will remain choppy in response to both political and global macroeconomic events. However, investors will likely begin to anticipate diminished political risk heading into 2018 and the potential for improved fiscal/corporate spending, implying a solid underlying bid for European stocks as we move through the year. We do not expect a "rising tide lifts all boats" scenario by any means and remain selective with regard to our sector, end market, and company-specific exposures. Given the negative impact of a strong U.S. dollar and a myriad of other concerns, we are underweighting stocks with significant emerging market exposure and prefer companies that are either plays on domestic secular/cyclical/niche growth, address markets where there is pent-up demand, benefit from modest inflation/rising global yields, and/or have meaningful exposure to the United States. As such, we have recently increased weightings in financial stocks that will benefit from the potential for lower regulation and a steeper interest rate curve in the U.S. as well as a modestly improving banking environment in Europe. We have also been selectively pursuing other beneficiaries of President-elect Trump's policies in terms of lower taxes, infrastructure spending, and deregulation, while also being cognizant of the various risks associated with tax, currency, and trade issues.

Japanese equities performed well to finish 2016, as the yen depreciated and global growth prospects improved. Outflows from Japan equities have also abated and valuations remain cheap relative to other global equity markets. However, we continue to remain meaningfully underweight Japan across global and international portfolios given our cautious view on the economy's long-term growth prospects. The key concern remains the ability of Abenomics to overcome the substantial structural challenges of a declining population, rigid labor market, and elevated debt levels. Within our Japanese holdings, we increasingly prefer beneficiaries from a weaker yen such as exporters and multinationals that benefit from favorable currency translation as well as those leveraged to regions where growth prospects are improving, such as the US. We round out Japanese holdings with defensive domestic consumption names that stand to best weather a subdued domestic growth environment.

The MSCI China Index declined -7 percent in the fourth quarter, underperforming both the MSCI Emerging Market and World indices on renewed macro concerns. While we only expect a mild economic slowdown in 2017, capital outflow concerns are likely to linger. Concerns on potential rising trade tensions with the incoming U.S. administration may also limit near-term upside. However, we are maintaining our China Internet exposure despite its recent underperformance, as growth remains solid and the outlook is positive.

Sit Investments Associates 35th Annual Client Workshop, being held at the Park Hyatt Aviara in Carlsbad, California over the period February 16th to 19th, is in the final stages of planning, and we expect it to be another outstanding forum for exploring ideas and current trends. We look forward to welcoming clients and we hope that you will be able to attend.

We send our best wishes for the New Year. We are available at all times to discuss your portfolio and answer any questions you may have.

Sincerely,

Roger

Roger J. Sit
CEO & Global Chief Investment Officer

Tasha

Tasha M. Murdoff
Vice President

Dave

David A. Brown, CFA
Vice President

cc: Dani J. McLeod, mgr-reporting@leia.net

MARYLAND STATE RETIREMENT

ACCOUNT NUMBER: MSR663
DECEMBER 31, 2016

The statements you receive directly from the account custodian are the official record of your account. Sit Investment encourages you to compare and verify the information on this statement with the information on the statements you receive from the account custodian. Also, please notify us promptly if you do not receive statements on this account from the account custodian on at least a quarterly basis.

SIT INVESTMENT ASSOCIATES, INC.
MSR663
MARYLAND STATE RETIREMENT

Date: December 31, 2016

SUMMARY OF SECURITY HOLDINGS REPORT

	TOTAL COST	TOTAL MARKET VALUE	% OF HOLDINGS	INDICATED INCOME	% YIELD
CASH & CASH EQUIVALENTS	$363,753	$363,753	2.2%	$1,928	0.5%
COMMON STOCK	15,115,763	15,860,533	97.8	290,275	1.8
TOTAL	$15,479,516	$16,224,286	100.0%	$292,203	1.8%

SUMMARY OF INVESTMENT RESULTS

		MONTH OF DECEMBER	LAST 3 MONTHS	YEAR TO DATE	SINCE INCEPTION (FROM 12/22/09)
YOUR ACCOUNT	-TOTAL	1.94%	-5.81%	-5.25%	34.40%
	-EQUITY	1.99	-5.97	-5.40	39.18
HYBRID BENCHMARK*		3.42	-0.71	1.00	42.88
GROWTH HYBRID BENCHMARK**		2.21	-5.53	-3.05	45.61

*Hybrid Construction: MSCI Emerging Markets (Net Div Reinv.) through 6/30/11; MSCI EAFE (Net Div. Reinv.) therafter

**Growth Hybrid Construction: MSCI Emerging Markets Growth (Net Div Reinv.) through 6/30/11; MSCI EAFE Growth(Net Div. Reinv.) therafter

The above performance statistics are before investment management fees.

PORTFOLIO PERFORMANCE MONITOR
December 22, 2009 - December 31, 2016

SIT INVESTMENT ASSOCIATES - A/C MSR663

	CLOSING MARKET VALUE		FUND PERFORMANCE MONTHLY RATE OF RETURN INCLUDING ACCRUALS		MONTHLY RATE OF RETURN OF EQUIVALENT INVESTMENT IN INDEX FUND	
	TOTAL FUND	EQUITY PORTION	TOTAL FUND	EQUITY PORTION	HYBRID BENCHMARK*	GROWTH HYBRID BENCHMARK**
DEC 15	17,222,715	16,963,348	-0.98	-1.02	-1.35	-0.78
JAN 16	15,978,600	15,615,133	-7.19	-7.32	-7.23	-6.36
FEB 16	15,715,326	15,335,999	-1.47	-1.51	-1.83	-1.74
MAR 16	16,604,781	16,215,290	5.81	5.96	6.51	6.42
APR 16	16,781,451	16,308,964	1.24	1.27	2.90	1.91
MAY 16	17,056,396	16,517,229	1.44	1.48	-0.91	-0.25
JUN 16	16,433,546	15,849,718	-3.77	-3.92	-3.36	-1.77
JUL 16	17,137,487	16,565,972	4.36	4.50	5.07	4.89
AUG 16	17,220,509	16,808,449	0.62	0.63	0.07	-1.41
SEP 16	17,241,195	16,859,049	0.17	0.17	1.23	1.49
OCT 16	16,515,311	16,119,808	-4.16	-4.28	-2.05	-4.30
NOV 16	15,913,637	15,434,776	-3.59	-3.69	-1.99	-3.41
DEC 16	16,224,286	15,860,533	1.94	1.99	3.42	2.21
ACCUMULATIVE TIME-WEIGHTED RATE OF RETURN			34.40%	39.18%	42.88%	45.61%

*Hybrid Construction: MSCI Emerging Markets (Net Div Reinv.) through 6/30/11; MSCI EAFE (Net Div. Reinv.) therafter

**Growth Hybrid Construction: MSCI Emerging Markets Growth (Net Div Reinv.) through 6/30/11; MSCI EAFE Growth(Net Div. Reinv.) therafter

The above performance statistics are before investment management fees.

INTERNATIONAL INVESTMENT SUMMARY BY ASSET CLASS

663 - MARYLAND STATE RETIREMENT

December 31, 2016

Description	Cost (Base)	Market Value (Base)	Unrealized G/L Assets	Unrealized G/L Currency	% PF
CASH					
UNITED STATES	363,752.72	363,752.72	0.00	0.00	2.24%
EQUITY AND RELATED					
AUSTRALIA	160,855.87	159,664.00	(1,191.87)	0.00	0.98%
BELGIUM	263,436.30	245,148.00	(18,288.30)	0.00	1.51%
CANADA	841,893.47	867,484.00	25,590.53	0.00	5.35%
CHINA	316,964.85	418,374.79	101,350.10	59.84	2.58%
FRANCE	1,442,073.39	1,544,175.51	223,824.66	(121,722.54)	9.52%
GERMANY	898,787.83	911,220.40	98,313.62	(85,881.05)	5.62%
HONG KONG	670,678.26	613,010.21	(57,706.19)	38.14	3.78%
INDIA	210,371.79	190,351.00	(20,020.79)	0.00	1.17%
IRELAND	409,914.51	395,924.00	(13,990.51)	0.00	2.44%
JAPAN	1,855,412.64	1,979,834.21	243,246.04	(118,824.47)	12.20%
KOREA, REPUBLIC OF	348,948.37	324,425.36	(18,756.46)	(5,766.55)	2.00%
NETHERLANDS	1,381,369.80	1,544,456.18	230,291.46	(67,205.08)	9.52%
SINGAPORE	218,873.53	398,154.21	179,476.25	(195.57)	2.45%
SPAIN	586,432.00	672,071.51	143,652.14	(58,012.63)	4.14%
SWITZERLAND	1,238,097.22	1,305,997.26	196,223.66	(128,323.62)	8.05%
UNITED KINGDOM	3,819,724.26	3,756,446.21	300,469.03	(363,747.08)	23.15%
UNITED STATES	451,929.24	533,796.75	81,867.51	0.00	3.29%
Total EQUITY AND RELATED	**15,115,763.33**	**15,860,533.60**	**1,694,350.87**	**(949,580.60)**	**97.76%**
Total Portfolio:	**15,479,516.05**	**16,224,286.32**	**1,694,350.87**	**(949,580.60)**	**100.00%**

INTERNATIONAL REVIEW

663 - MARYLAND STATE RETIREMENT

December 31, 2016

Ref. Currency: USD

Security Description	Quantity	Market Price Base	Total Cost Base	Total Market Value Base	Indicated Annual Income Base	Market Price Local	Total Cost Local	Total Market Value Local	Indicated Annual Income Local	Current Yield
Equity And Related										
Australia										
WESTPAC BANKING CORP-ADR (USD / 1)	6,800.0000	23.480	160,855.87	159,664.00	9,309.20	23.480	160,855.87	159,664.00	9,309.20	5.83
Total Australia			**160,855.87**	**159,664.00**	**9,309.20**					**5.83**
Belgium										
ANHEUSER BUSCH INBEV SA/N ADR (USD / 1)	2,325.0000	105.440	263,436.30	245,148.00	7,430.70	105.440	263,436.30	245,148.00	7,430.70	3.03
Total Belgium			**263,436.30**	**245,148.00**	**7,430.70**					**3.03**
Canada										
BCE INC (USD / 1)	5,625.0000	43.240	250,255.89	243,225.00	15,356.25	43.240	250,255.89	243,225.00	15,356.25	6.31
GILDAN ACTIVEWEAR INC (USD / 1)	6,400.0000	25.370	187,349.91	162,368.00	1,996.80	25.370	187,349.91	162,368.00	1,996.80	1.23
SUNCOR ENERGY INC (USD / 1)	8,600.0000	32.690	233,205.30	281,134.00	9,976.00	32.690	233,205.30	281,134.00	9,976.00	3.55
WASTE CONNECTIONS INC (USD / 1)	2,300.0000	78.590	171,082.37	180,757.00	1,656.00	78.590	171,082.37	180,757.00	1,656.00	0.92
Total Canada			**841,893.47**	**867,484.00**	**28,985.05**					**3.34**
China										
ALIBABA GROUP HOLDING LTD ADR (USD / 1)	1,700.0000	87.810	164,266.88	149,277.00	0.00	87.810	164,266.88	149,277.00	0.00	0.00
TENCENT HOLDINGS LTD (HKD / 7.75443)	11,000.0000	24.463	152,697.97	269,097.79	226.97	189.700	1,184,549.78	2,086,700.00	1,760.00	0.08
Total China			**316,964.85**	**418,374.79**	**226.97**					**0.05**
France										
AXA SA (EUR / 0.9501)	6,700.0000	25.245	160,397.84	169,139.56	6,205.66	23.985	149,444.62	160,699.50	5,896.00	3.67
BNP PARIBAS SA (EUR / 0.9501)	3,985.0000	63.730	248,926.85	253,964.58	10,905.17	60.550	193,181.03	241,291.75	10,361.00	4.29
DASSAULT SYSTEMES SA (EUR / 0.9501)	2,625.0000	76.192	125,036.53	200,003.95	1,270.92	72.390	98,210.38	190,023.75	1,207.50	0.64
DBV TECHNOLOGIES SA (EUR / 0.9501)	1,850.0000	69.835	124,210.19	129,194.30	0.00	66.350	111,741.83	122,747.50	0.00	0.00
INGENICO GROUP (EUR / 0.9501)	2,060.0000	79.855	143,785.91	164,500.79	758.87	75.870	118,682.36	156,292.20	721.00	0.46
SAFRAN SA (EUR / 0.9501)	3,100.0000	72.013	222,541.01	223,241.76	0.00	68.420	199,864.31	212,102.00	0.00	0.00
SCHLUMBERGER LTD (USD / 1)	1,900.0000	83.950	153,842.06	159,505.00	3,800.00	83.950	153,842.06	159,505.00	3,800.00	2.38
UNIBAIL-RODAMCO SE (EUR / 0.9501)	1,025.0000	238.659	263,333.00	244,625.57	0.00	226.750	237,175.47	232,418.75	0.00	0.00
Total France			**1,442,073.39**	**1,544,175.51**	**22,940.62**					**1.49**
Germany										
ALLIANZ SE (EUR / 0.9501)	1,485.0000	165.246	239,680.92	245,389.96	3,125.99	157.000	224,354.85	233,145.00	2,970.00	1.27
AURELIUS EQUITY OPPORTUNITIES SE & CO KGAA (EUR / 0.9501)	2,575.0000	58.541	134,221.28	150,743.61	0.00	55.620	120,973.42	143,221.50	0.00	0.00
LINDE AG (EUR / 0.9501)	1,040.0000	164.298	200,021.91	170,870.43	0.00	156.100	153,545.36	162,344.00	0.00	0.00
SIEMENS AG (EUR / 0.9501)	2,800.0000	122.934	324,863.72	344,216.40	3,978.53	116.800	273,469.10	327,040.00	3,780.00	1.16
Total Germany			**898,787.83**	**911,220.40**	**7,104.52**					**0.78**
Hong Kong										
AIA GROUP LTD (HKD / 7.75443)	26,400.0000	5.642	162,020.01	148,947.12	0.00	43.750	1,256,717.23	1,155,000.00	0.00	0.00
HSBC HOLDINGS PLC ADR (USD / 1)	5,750.0000	40.180	264,779.49	231,035.00	14,662.50	40.180	264,779.49	231,035.00	14,662.50	6.35
TECHTRONIC INDUSTRIES CO (HKD / 7.75443)	65,000.0000	3.585	243,878.76	233,028.09	0.00	27.800	1,891,092.11	1,807,000.00	0.00	0.00
Total Hong Kong			**670,678.26**	**613,010.21**	**14,662.50**					**2.39**
India										
ISHARES MSCI INDIA ETF (USD / 1)	7,100.0000	26.810	210,371.79	190,351.00	1,718.20	26.810	210,371.79	190,351.00	1,718.20	0.90
Total India			**210,371.79**	**190,351.00**	**1,718.20**					**0.90**
Ireland										
CRH PLC (USD / 1)	2,400.0000	34.380	80,941.32	82,512.00	1,687.20	34.380	80,941.32	82,512.00	1,687.20	2.04
MEDTRONIC PLC (USD / 1)	4,400.0000	71.230	328,973.19	313,412.00	7,568.00	71.230	328,973.19	313,412.00	7,568.00	2.41
Total Ireland			**409,914.51**	**395,924.00**	**9,255.20**					**2.34**
Japan										
AJINOMOTO CO INC (JPY / 116.885)	11,800.0000	20.139	231,214.64	237,645.55	0.00	2,354.000	25,544,120.00	27,777,200.00	0.00	0.00
ASICS CORP (JPY / 116.885)	11,800.0000	19.977	254,115.23	235,727.42	0.00	2,335.000	26,184,291.00	27,553,000.00	0.00	0.00
ASTELLAS PHARMA INC (JPY / 116.885)	27,500.0000	13.890	408,376.89	381,967.32	0.00	1,623.500	45,177,825.00	44,646,250.00	0.00	0.00

INTERNATIONAL REVIEW

663 - MARYLAND STATE RETIREMENT

December 31, 2016

Ref. Currency: USD

Security Description	Quantity	Market Price Base	Total Cost Base	Total Market Value Base	Indicated Annual Income Base	Market Price Local	Total Cost Local	Total Market Value Local	Indicated Annual Income Local	Current Yield
DAICEL CORP (JPY / 116.885)	20,700.0000	11.036	152,616.44	228,455.32	1,416.78	1,290.000	13,908,880.00	26,703,000.00	165,600.00	0.62
KEYENCE CORP (JPY / 116.885)	200.0000	686.145	130,717.71	137,228.90	0.00	80,200.000	15,300,874.00	16,040,000.00	0.00	0.00
MAKITA CORP (JPY / 116.885)	1,700.0000	66.989	81,634.58	113,881.17	0.00	7,830.000	8,455,144.00	13,311,000.00	0.00	0.00
MITSUBISHI UFJ FINL GROUP ADR (USD / 1)	40,600.0000	6.160	245,324.30	250,096.00	5,927.60	6.160	245,324.30	250,096.00	5,927.60	2.37
SECOM CO LTD (JPY / 116.885)	2,800.0000	73.132	188,777.60	204,768.79	0.00	8,548.000	21,795,413.00	23,934,400.00	0.00	0.00
SUZUKI MOTOR CORP (JPY / 116.885)	5,400.0000	35.197	162,635.25	190,063.74	0.00	4,114.000	17,939,830.00	22,215,600.00	0.00	0.00
Total Japan			**1,855,412.64**	**1,979,834.21**	**7,344.38**					**0.37**
Korea, Republic Of										
KOREA ELECTRIC POWER CORP (KRW / 1206.88)	5,000.0000	36.499	220,391.07	182,495.36	0.00	44,050.000	259,026,036.00	220,250,000.00	0.00	0.00
SAMSUNG ELECTRONICS CO LTD GDR (USD / 1)	190.0000	747.000	128,557.30	141,930.00	0.00	747.000	128,557.30	141,930.00	0.00	0.00
Total Korea, Republic Of			**348,948.37**	**324,425.36**	**0.00**					**0.00**
Netherlands										
ASML HOLDING NV (USD / 1)	1,275.0000	112.200	84,787.21	143,055.00	1,309.43	112.200	84,787.21	143,055.00	1,309.43	0.92
GALAPAGOS NV (EUR / 0.9501)	2,600.0000	64.141	110,646.82	166,765.60	0.00	60.940	100,114.16	158,444.00	0.00	0.00
ING GROEP NV (EUR / 0.9501)	28,570.0000	14.072	303,540.83	402,042.84	35,483.21	13.370	246,276.86	381,980.90	33,712.60	8.83
LYONDELLBASELL INDUSTRIES (USD / 1)	3,625.0000	85.780	321,673.15	310,952.50	12,325.00	85.780	321,673.15	310,952.50	12,325.00	3.96
MOBILEYE N V AMSTELVEEN (USD / 1)	5,075.0000	38.120	239,787.15	193,459.00	0.00	38.120	239,787.15	193,459.00	0.00	0.00
RELX NV (EUR / 0.9501)	19,500.0000	16.830	320,934.64	328,181.24	0.00	15.990	288,197.13	311,805.00	0.00	0.00
Total Netherlands			**1,381,369.80**	**1,544,456.18**	**49,117.64**					**3.18**
Singapore										
BROADCOM LIMITED (USD / 1)	1,575.0000	176.770	96,821.07	278,412.75	6,426.00	176.770	96,821.07	278,412.75	6,426.00	2.31
DBS GROUP HOLDINGS LTD (SGD / 1.44812)	10,000.0000	11.974	122,052.46	119,741.46	4,350.47	17.340	176,463.40	173,400.00	6,300.00	3.63
Total Singapore			**218,873.53**	**398,154.21**	**10,776.47**					**2.71**
Spain										
IBERDROLA SA (EUR / 0.9501)	58,600.0000	6.561	396,434.14	384,498.89	0.00	6.234	357,018.93	365,312.40	0.00	0.00
INDITEX SA (EUR / 0.9501)	8,425.0000	34.133	189,997.86	287,572.62	7,634.91	32.430	145,032.32	273,222.75	7,253.93	2.65
Total Spain			**586,432.00**	**672,071.51**	**7,634.91**					**1.14**
Switzerland										
INTERROLL HOLDING AG-REG (CHF / 1.01834)	115.0000	1,090.009	94,752.32	125,351.06	0.00	1,110.000	94,707.32	127,650.00	0.00	0.00
NESTLE SA (CHF / 1.01834)	6,285.0000	71.734	420,970.98	450,850.65	55,546.28	73.050	373,100.22	459,119.25	56,565.00	12.32
NOVARTIS AG (CHF / 1.01834)	2,700.0000	72.765	177,080.94	196,466.80	3,049.08	74.100	154,482.00	200,070.00	3,105.00	1.55
ROCHE HOLDINGS AG (CHF / 1.01834)	1,250.0000	228.411	279,892.37	285,513.68	3,068.72	232.600	256,649.42	290,750.00	3,125.00	1.07
ZURICH INSURANCE GROUP AG (CHF / 1.01834)	900.0000	275.350	265,400.61	247,815.07	0.00	280.400	251,187.89	252,360.00	0.00	0.00
Total Switzerland			**1,238,097.22**	**1,305,997.26**	**61,664.08**					**4.72**
United Kingdom										
ASHTEAD GROUP PLC (GBP / 0.81148)	8,600.0000	19.471	135,194.00	167,447.13	0.00	15.800	90,192.64	135,880.00	0.00	0.00
ASOS PLC (GBP / 0.81148)	3,950.0000	61.172	214,961.85	241,630.11	0.00	49.640	140,713.41	196,078.00	0.00	0.00
BABCOCK INTL GROUP PLC (GBP / 0.81148)	20,400.0000	11.744	311,197.61	239,577.07	0.00	9.530	203,188.86	194,412.00	0.00	0.00
BRITISH AMERICAN TOBACCO PLC (GBP / 0.81148)	5,490.0000	56.951	268,342.38	312,663.71	4,715.50	46.215	171,106.25	253,720.35	3,826.53	1.51
CARDTRONICS INC (USD / 1)	4,500.0000	54.570	200,677.44	245,565.00	0.00	54.570	200,677.44	245,565.00	0.00	0.00
CINEWORLD GROUP PLC (GBP / 0.81148)	18,700.0000	6.963	128,611.07	130,200.37	0.00	5.650	104,911.21	105,655.00	0.00	0.00
COCA-COLA EUROPEAN PARTNERS PLC (USD / 1)	6,800.0000	31.400	259,420.17	213,520.00	4,821.20	31.400	259,420.17	213,520.00	4,821.20	2.26
DELPHI AUTOMOTIVE PLC (USD / 1)	2,450.0000	67.350	168,261.53	165,007.50	2,842.00	67.350	168,261.53	165,007.50	2,842.00	1.72
DIAGEO PLC ADR (USD / 1)	3,350.0000	103.940	326,106.12	348,199.00	10,438.60	103.940	326,106.12	348,199.00	10,438.60	3.00
DS SMITH PLC (GBP / 0.81148)	67,100.0000	5.029	317,134.60	337,451.45	0.00	4.081	203,011.95	273,835.10	0.00	0.00
GREENCORE GROUP PLC (GBP / 0.81148)	54,000.0000	3.038	265,148.62	164,033.62	0.00	2.465	186,898.38	133,110.00	0.00	0.00
JUST EAT PLC (GBP / 0.81148)	26,600.0000	7.191	156,109.62	191,269.04	0.00	5.835	103,280.63	155,211.00	0.00	0.00
NIELSEN HOLDINGS PLC (USD / 1)	4,725.0000	41.950	221,673.12	198,213.75	5,859.00	41.950	221,673.12	198,213.75	5,859.00	2.96
RECKITT BENCKISER GROUP PLC (GBP / 0.81148)	3,900.0000	84.857	277,430.05	330,943.46	1,874.35	68.860	184,638.04	268,554.00	1,521.00	0.57

INTERNATIONAL REVIEW

663 - MARYLAND STATE RETIREMENT

December 31, 2016

Ref. Currency: USD

Security Description	Quantity	Market Price Base	Total Cost Base	Total Market Value Base	Indicated Annual Income Base	Market Price Local	Total Cost Local	Total Market Value Local	Indicated Annual Income Local	Current Yield
ROYAL DUTCH SHELL PLC ADR (USD / 1)	2,000.0000	57.970	150,047.99	115,940.00	7,520.00	57.970	150,047.99	115,940.00	7,520.00	6.49
ROYAL DUTCH SHELL PLC-ADR (USD / 1)	3,550.0000	54.380	260,793.23	193,049.00	11,345.80	54.380	260,793.23	193,049.00	11,345.80	5.88
STERIS PLC (USD / 1)	2,400.0000	67.390	158,614.86	161,736.00	2,688.00	67.390	158,614.86	161,736.00	2,688.00	1.66
Total United Kingdom			**3,819,724.26**	**3,756,446.21**	**52,104.45**					**1.39**
United States										
COGNIZANT TECH SOLUTIONS (USD / 1)	3,000.0000	56.030	150,973.53	168,090.00	0.00	56.030	150,973.53	168,090.00	0.00	0.00
EURONET WORLDWIDE INC (USD / 1)	3,025.0000	72.430	175,572.56	219,100.75	0.00	72.430	175,572.56	219,100.75	0.00	0.00
PRICELINE.COM INC (USD / 1)	100.0000	1,466.060	125,383.15	146,606.00	0.00	1,466.060	125,383.15	146,606.00	0.00	0.00
Total United States			**451,929.24**	**533,796.75**	**0.00**					**0.00**
Total Equity And Related			**15,115,763.33**	**15,860,533.60**	**290,274.89**					**1.83**
Cash										
United States										
CASH (USD / 1)	363,752.7200	1.000	363,752.72	363,752.72	1,927.89	1.000	363,752.72	363,752.72	1,927.89	0.53
Total United States			**363,752.72**	**363,752.72**	**1,927.89**					**0.53**
Total Cash			**363,752.72**	**363,752.72**	**1,927.89**					**0.53**
Total Account Base Currency:			***15,479,516.05***	***16,224,286.32***	***292,202.78***					***1.80***

PURCHASES AND SALES REPORT

663 - MARYLAND STATE RETIREMENT

From October 1, 2016 To December 31, 2016

Security Description	Shares/Par	Avg Cost	Amortized Cost	Avg Price	Total Proceeds	Realized Gain/Loss Book
Purchases						
EQUITY AND RELATED						
AIA GROUP LTD	26,400.0000	6.14	162,020.01	6.13		
ALIBABA GROUP HOLDING LTD ADR	750.0000	95.63	71,527.80	95.61		
ALLIANZ SE	1,485.0000	161.51	239,680.92	161.32		
ASTELLAS PHARMA INC	3,200.0000	14.95	46,658.33	14.92		
AXA SA	6,700.0000	23.95	160,397.84	23.87		
BNP PARIBAS SA	815.0000	60.45	49,440.28	60.24		
BROADCOM LIMITED	200.0000	170.76	34,152.14	170.75		
CINEWORLD GROUP PLC	18,700.0000	6.88	128,611.07	6.83		
COGNIZANT TECH SOLUTIONS	3,300.0000	50.32	166,070.89	50.30		
CRH PLC	2,400.0000	33.73	80,941.32	33.71		
DASSAULT SYSTEMES SA	525.0000	79.85	41,922.75	79.57		
DBS GROUP HOLDINGS LTD	10,000.0000	12.28	122,052.46	12.25		
DS SMITH PLC	3,600.0000	5.03	18,094.57	4.99		
GREENCORE GROUP RIGHTS	37,384.0000		0.00			
HSBC HOLDINGS PLC ADR	875.0000	39.16	34,265.00	39.12		
INDITEX SA	1,100.0000	33.37	36,705.43	33.36		
ING GROEP NV	1,220.0000	14.10	17,204.84	14.08		
ISHARES MSCI INDIA ETF	900.0000	29.23	26,302.50	29.19		
KEYENCE CORP	200.0000	653.59	130,717.71	652.28		
LYONDELLBASELL INDUSTRIES	300.0000	89.21	26,762.82	89.19		
MEDTRONIC PLC	550.0000	81.52	44,837.98	81.51		
MITSUBISHI UFJ FINL GROUP ADR	40,600.0000	6.03	245,324.30	6.01		
NIELSEN HOLDINGS PLC	600.0000	44.35	26,800.28	44.33		
RECKITT BENCKISER GROUP PLC	310.0000	82.65	25,621.09	82.20		
SCHLUMBERGER LTD	250.0000	83.96	20,990.00	83.92		
SIEMENS AG	600.0000	114.72	68,569.48	114.67		
UNIBAIL-RODAMCO SE	80.0000	243.86	19,508.98	243.28		
WESTPAC BANKING CORP-ADR	6,800.0000	23.63	160,855.87	23.61		
Total EQUITY AND RELATED			**2,206,036.66**			
Total Purchases			**2,206,036.66**			

PURCHASES AND SALES REPORT

663 - MARYLAND STATE RETIREMENT

From October 1, 2016 To December 31, 2016

Security Description	Shares/Par	Avg Cost	Amortized Cost	Avg Price	Total Proceeds	Realized Gain/Loss Book
Sales						
EQUITY AND RELATED						
AJINOMOTO CO INC	1,500.0000	19.59	29,391.71	20.15	30,161.64	769.93
ALLERGAN PLC	550.0000	211.00	116,050.38	194.11	106,644.65	(9,405.73)
ASOS PLC	400.0000	54.42	21,768.30	65.05	25,979.12	4,210.82
AURELIUS EQUITY OPPORTUNITIES SE & CO KGAA	250.0000	52.12	13,031.16	62.35	15,580.37	2,549.21
BCE INC	1,100.0000	44.49	48,938.94	42.73	46,959.40	(1,979.54)
BROADCOM LIMITED	125.0000	61.47	7,684.21	180.10	22,509.93	14,825.72
CARDTRONICS INC	600.0000	44.60	26,757.01	48.55	29,103.20	2,346.19
COGNIZANT TECH SOLUTIONS	300.0000	50.32	15,097.36	54.83	16,436.49	1,339.13
CSL LTD	950.0000	72.71	69,073.31	73.95	70,146.54	1,073.23
EASYJET PLC	13,000.0000	25.00	324,969.63	10.92	141,656.07	(183,313.56)
ESSENTRA PLC	25,400.0000	13.17	334,532.76	4.75	120,573.20	(213,959.56)
EURONET WORLDWIDE INC	725.0000	58.04	42,079.35	83.36	60,445.45	18,366.10
GEA GROUP AG	3,200.0000	44.18	141,380.33	35.32	113,124.87	(28,255.46)
GILDAN ACTIVEWEAR INC	2,500.0000	29.27	73,183.54	25.56	63,867.77	(9,315.77)
GRANDVISION NV	7,750.0000	27.53	213,362.70	21.48	165,014.42	(48,348.28)
GREENCORE GROUP RIGHTS	37,384.0000		0.00	1.07	39,966.73	39,966.73
INGENICO GROUP	765.0000	69.80	53,396.21	77.59	59,261.57	5,865.36
INTERROLL HOLDING AG-REG	15.0000	823.93	12,359.00	1,142.36	17,109.74	4,750.74
JUST EAT PLC	6,600.0000	5.87	38,733.95	7.02	46,537.37	7,803.42
MAKITA CORP	900.0000	48.02	43,218.31	70.78	63,405.81	20,187.50
MEDTRONIC PLC	675.0000	74.77	50,467.47	73.21	49,405.54	(1,061.93)
NESTLE SA	245.0000	66.98	16,410.16	70.60	17,291.01	880.85
NORMA GROUP SE	4,000.0000	51.78	207,110.04	38.09	152,150.01	(54,960.03)
NOVO NORDISK A/S	3,880.0000	33.98	131,858.71	35.24	136,528.44	4,669.73
ROCHE HOLDINGS AG	60.0000	223.91	13,434.85	225.46	13,522.33	87.48
STROEER SE & CO KGAA	3,175.0000	49.26	156,406.58	40.91	129,040.98	(27,365.60)
SUZUKI MOTOR CORP	1,200.0000	30.12	36,141.16	36.65	43,889.99	7,748.83
TECHTRONIC INDUSTRIES CO	3,500.0000	3.75	13,131.93	3.73	13,027.72	(104.21)
TEVA PHARMACEUTICAL-SP ADR	3,400.0000	61.44	208,894.64	40.38	135,277.17	(73,617.47)
VEOLIA ENVIRONNEMENT	12,300.0000	21.84	268,637.95	17.38	213,334.35	(55,303.60)
Total EQUITY AND RELATED			**2,727,501.65**		**2,157,951.88**	**(569,549.77)**

PURCHASES AND SALES REPORT

663 - MARYLAND STATE RETIREMENT

From October 1, 2016 To December 31, 2016

Security Description	Shares/Par	Avg Cost	Amortized Cost	Avg Price	Total Proceeds	Realized Gain/Loss Book
Total Sales			**2,727,501.65**		**2,157,951.88**	**(569,549.77)**

COMMISSION REASON SUMMARY

663 - MARYLAND STATE RETIREMENT

December 31, 2016

Broker			Total	DIRECTED	OTHER	PRINCIPAL	RESEARCH	SERVICE	TRADE
MYC	**BANK OF AMERICA MERRILL LYNCH**								
		Current Month	6.00				6.00		
		Year To Date	685.64				685.64		
BCI	**BARCLAYS CAPITAL INC**								
		Current Month	73.50				73.50		
		Year To Date	304.15				304.15		
BID	**BIDS TRADING/CITIGROUP**								
		Current Month	0.00						
		Year To Date	10.00						10.00
FLA	**CITIGROUP GLOBAL MARKETS**								
		Current Month	0.00						
		Year To Date	274.71				274.71		
SUD	**CITIGROUP GLOBAL MARKETS**								
		Current Month	18.00				18.00		
		Year To Date	255.00				255.00		
JZR	**DBS VICKERS SECURITIES**								
		Current Month	243.52				243.52		
		Year To Date	1,802.46				1,802.46		
DIR	**DIRECT**								
		Current Month	0.00						
		Year To Date	0.00						
UAI	**EVERCORE ISI**								
		Current Month	0.00						
		Year To Date	40.00				40.00		
GSC	**GOLDMAN SACHS-CHICAGO**								
		Current Month	0.00						
		Year To Date	6.00				6.00		
HEL	**HELVEA, INC/BAADER BANK GROUP**								
		Current Month	0.96				0.96		
		Year To Date	6,375.03				6,375.03		
ITT	**INSTINET/ALGOS**								
		Current Month	0.00						
		Year To Date	125.25					125.25	
JCV	**J.P. MORGAN SECURITES**								
		Current Month	41.00				41.00		
		Year To Date	1,693.64				1,693.64		
HAM	**JP MORGAN/ECS**								
		Current Month	12.01				12.01		
		Year To Date	462.80				462.80		
TRI	**MACQUARIE CAPITAL USA INC**								
		Current Month	0.00						
		Year To Date	79.00				79.00		

COMMISSION REASON SUMMARY

663 - MARYLAND STATE RETIREMENT

December 31, 2016

	Broker		Total	DIRECTED	OTHER	PRINCIPAL	RESEARCH	SERVICE	TRADE
MSX	**MIZUHO INTERNATIONAL**								
		Current Month	321.36				321.36		
		Year To Date	2,708.74				2,708.74		
MGS	**MORGAN STANLEY DEAN WITT**								
		Current Month	0.00						
		Year To Date	51.00				51.00		
PIP	**PIPER JAFFRAY**								
		Current Month	0.00						
		Year To Date	20.00				20.00		
RKZ	**RBC CAPITAL MARKETS**								
		Current Month	0.00						
		Year To Date	36.00				36.00		
SCB	**SANFORD C BERNSTEIN-BAT**								
		Current Month	0.00						
		Year To Date	255.13				255.13		
SNC	**STIFEL NICOLAUS**								
		Current Month	0.00						
		Year To Date	111.00				111.00		
WBC	**WILLIAM BLAIR**								
		Current Month	0.00						
		Year To Date	63.00				63.00		
	Totals								
		Current Month	***716.35***	***0.00***	***0.00***	***0.00***	***716.35***	***0.00***	***0.00***
		Year To Date	***15,358.55***	***0.00***	***0.00***	***0.00***	***15,223.30***	***125.25***	***10.00***

Sit Investment Associates

JANUARY 2017

GLOBAL INVESTMENT OUTLOOK AND STRATEGY

- **Trump Victory: What it Means for the Financial Markets**
- **U.S. GDP Has Upside-Bias, but Range of Outcomes Now Wider**
- **Rising European Populism – an Opportunity and a Threat**
- **Outflows and Tighter Policy in China Present Challenges**
- **Increased Volatility Expected as Policy Uncertainty Lingers**
- **Equity Portfolio Positioning: Emphasizing Policy Beneficiaries with a Quality Bias**

OVERWEIGHT – PRO-CYCLICAL/POLICY BENEFICIARIES

Characteristics

U.S. domestic exposure, high corporate taxes, pro-cyclical, high beta, strong balance sheets, limited impact from higher interest rates

▶ Banks/Investment Banks	▶ Parcel Carriers
▶ Life Insurance	▶ Home Improvement
▶ Railroads	▶ Trucking
▶ Airlines	▶ Media Companies
▶ Semiconductors	▶ Engineering & Construction
▶ Restaurants	▶ Commercial Construction

OVERWEIGHT - DEFENSIVE/DOMESTICALLY FOCUSED

Characteristics

Non-cyclical, attractive valuations, limited currency risk, government policy beneficiaries, low beta, U.S. exposure

▶ Defense	▶ HMO's
▶ Oil & Gas Pipelines	▶ Medical Distributors
▶ Oil Refiners	▶ Biotech
▶ Packaged Food	▶ P&C Insurance
▶ Waste Management	▶ "Growthier" REITs/Utilities
▶ Food Retail	▶ Telecom

UNDERWEIGHT - SLOWER GROWTH/LIMITED POLICY UPSIDE

Characteristics

Significant international exposure, Weak balance sheets, currency risk, reliance on imports, below average growth, low corporate tax rates

▶ Pharma	▶ Insurance Brokers
▶ IT Hardware	▶ Department Stores
▶ Integrated Oil	▶ Non-Energy Minerals
▶ Household Personal Care	▶ Hospital/Nursing Management
▶ Auto - Suppliers	▶ Auto - OEMs
▶ Beverage Companies	▶ "No Growth" REITs/Utilities

Growth Boosting Policies By Trump

Infrastructure	Massive stimulus-'at least double' Clinton's 5-year $275 billion infrastructure plan Create jobs in construction & other sectors with special focus on transportation, water, telecom & energy
Trade	Protectionist stance: introduce tariffs Tough on China: 45% tariffs, label as FX manipulator, bring trade cases against China Renegotiate NAFTA, reject TPP, unlikely to support T-TIP
Tax	Corp.: slash tax rate from 35% to 15%, one-off offer to repatriate foreign profits at 10%, move from worldwide to territorial tax Personal: collapse current seven tax brackets to three tax cut top rate repeal estate
Regulation	Reduce regulatory burden, repeal parts of Dodd-Frank Eliminate most intrusive regulations, like the Waters of The U.S. Rule, scrap the EPA's Clean Power Plan
Immigration	Tough stance on immigration: build Mexico wall end birthright citizenship Protect economic well-being of lawful immigrants by curbing uncontrolled foreign worker admissions
Healthcare	Repeal and replace Obamacare with Health Savings Accounts (HSAs) Establish high-risk pools to ensure access to coverage for individuals unable to maintain continuous coverage Allow people to purchase insurance across state lines, in all 50 states Maximize flexibility for states via block grants to design innovative Medicaid programs for low-income citizens
Economy	Create a dynamic booming economy that will create 25 million new jobs over the next decade Accelerate growth to average 3.5 % per year with potential to reach 4 % growth
Energy	Make the U.S energy independent. Unleash $50 trillion in untapped shale, oil, and natural gas reserves Eliminate barriers to energy production, creating at least a half million jobs a year
Other	An additional federal investment of $20 billion towards school choice, provide low-income households an Expanded Earned. Income Tax Credit in the form a Childcare rebate and a matching $500 contribution for their savings accounts. Minimum wage determined at state / local level

Source: Deutsche Bank, 1/4/2017

The Trump Victory: What It Means for the Financial Markets

Despite many "expert" predictions to the contrary, equity markets rallied and bond prices fell sharply in response to the Trump/Republican victory in November. For the first time since 2006, Republicans control all branches of government and thus have considerable power in making sweeping changes to push their agenda, particularly for improving economic growth from the sluggish pace experienced over the past several years. While investors could well be frustrated in the months ahead by challenges and delays to policy implementation, our view is that, for the first time in this economic cycle, growth prospects are now more skewed to the upside rather than the downside over the intermediate term.

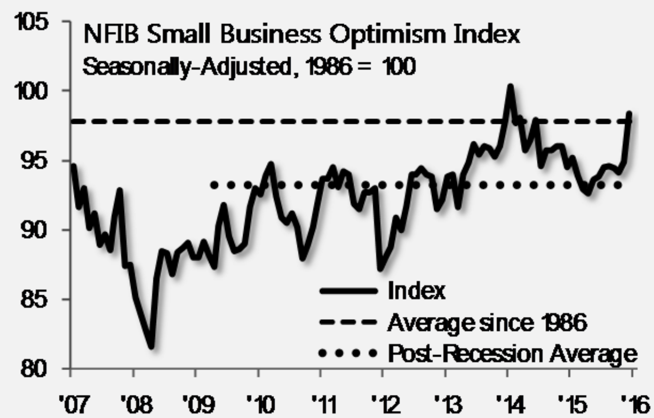
Key elements of the Trump administration's agenda include corporate tax reform, personal income tax reductions, repatriation of cash from abroad, regulatory reform, and increased spending on infrastructure and defense. While economists and analysts have studiously attempted to gauge the economic benefits of each of these initiatives, there is little historical precedent to model these potential once-in-a-generation changes. How does one measure the "multiplier" effects if these pro-growth proposals are enacted simultaneously? How do we gauge the impact of improved consumer confidence and "animal spirits" lifting business spending, which has been notably absent over the years? How do we evaluate a much needed uptick in bank lending and business formation amid an improved backdrop for small businesses, which are truly the lifeblood of our entrepreneurial economy?

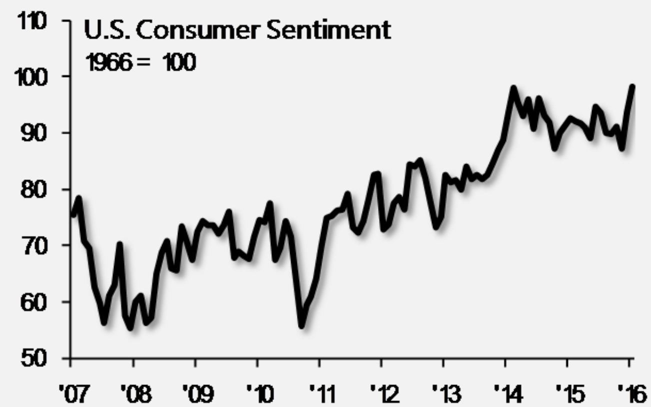
However, as experienced investors are aware, there is rarely a "free lunch" in investing. Higher inflation and interest rates are likely byproducts of faster economic growth. As the economy inches closer to full employment, faster growth may spark a strong uptick in wages, along with other inflationary pressures. In addition, the U.S. dollar could continue to appreciate as U.S. economic growth prospects diverge from the rest of the world. This has negative implications for U.S. multinational earnings, U.S. manufacturers, and many emerging economies struggling with elevated levels of U.S. dollar denominated debt.

Finally, President-elect Trump has clearly articulated his dissatisfaction with U.S. trade policy; punitive trade actions against China and/or Mexico could spark a broader trade war that could serve to offset pro-growth initiatives.

Our investment teams remain focused on identifying beneficiaries and risks associated with potentially significant policy changes. **We strongly believe in the merits of an equity "barbell" strategy, with an emphasis on cyclical groups (i.e., finance, transports) benefitting from policy changes and improved growth. Downside risks can be mitigated through an ongoing quality bias and positioning in attractively valued stable growth stocks (i..e, health care, defense).** The year ahead may well be marked by greater volatility across financial markets after years of relative stability, resulting in significant opportunities to improve risk/reward potential across Sit Investment Associates' equity and fixed income portfolios.

Optimism Has Spiked Upward Post the Election





Source: National Federation of Independent Business, U. of Michigan

The United States

We believe the stage is set for improving economic growth in the U.S. after a prolonged period of choppy, subpar growth. The strong uptick witnessed in consumer and business confidence will be supportive in the short-term, with policy initiatives taking hold later in the year and into 2018. Fiscal constraints and higher interest rates are among the key headwinds that may impede from pro-growth policies.

Corporate Tax Reform a Potential Boon to Earnings; Border-Adjustment a Key Risk.

With a top corporate tax rate of 35 percent versus the OECD average of 25 percent, the U.S. is ranked 32 in the Tax Foundation's International Tax Competitiveness Index. Trump and House Republicans have each proposed tax reform plans that reduce the federal tax rate to 15 or 20 percent (see Exhibit 1). The tax rate cut in the House plan is offset by repeal of net interest deductibility and implementation of a controversial, and potentially onerous, destination-based (or border-adjusted) tax. This feature would place a heavy penalty on import-oriented sectors, such as retailing, and likely lead to considerable inflationary pressures in the intermediate term. Therefore, we believe a border-adjusted tax may either be implemented over an extended period of time or scrapped altogether. The key beneficiaries of current tax reform proposals include domestic-centric companies that have a high tax burden and low debt levels as well as multinationals with considerable amounts of undistributed foreign earnings. While tax reform specifics will emerge over the coming months, tax code changes are not expected to become effective until 2018.

Exhibit 1: Corporate Tax Reform Proposal Comparison

	Current Law	House Republicans	Donald Trump
Domestic Corporate Tax Rate	35%	20%	15%
Business Expensing	Accelerated depreciation with 50% bonus through 2017, 40% 2018, 30% 2019	100% expensed at the time of investment	Allow option of 100% expensing
Net Interest Deductibility	Unlimited	Repeal deductibility	Repeal deductibility for those that expense
Foreign Income	35% (minus foreign tax credits)	0% (full territorial system)	15% (repeal deferral but allow foreign tax credits)
Repatriation	35% (minus foreign tax credits)	8.75% on cash; 3.5% otherwise	10% on previously untaxed earnings
Destination-Basis	n/a	Deny deduction of import costs, exclude export-related income	n/a
Other	n/a	Repeal tax expenditures	Repeal tax expenditures

Source: Goldman Sachs, 12/16/16

A Resurgence in U.S. Manufacturing and Capital Investment?

The Joint Committee on Taxation estimates that U.S. multinationals hold roughly $2.6 trillion in undistributed foreign earnings. Thus, Trump has proposed a one-time tax rate of 10 percent on repatriated profits held offshore with the hope that U.S. multinationals would use a portion of those cash holdings to retool (enhance productivity) and expand domestic operations. Pre-election, there was increasing expectation that a manufacturing renaissance in the United States was afoot given the rise in offshore manufacturing costs, growing U.S. energy independence, and advances in technology (mixed implications for labor) – tax reform, protectionism, and deregulation would almost certainly accelerate this process.

Deregulation Will Re-Energize Business Confidence and New Venture Formation.

President-elect Trump has pledged to reduce burdensome business regulation and lift restrictions on activities such as the extraction of domestic fossil fuels (see Exhibit 2). In addition to repealing the Affordable Care Act and handicapping financial regulation such as Dodd-Frank, Trump stated he will seek to overturn a number of the executive actions of his predecessor as well as require that two existing federal regulations be eliminated for every new one adopted. A 2014 study commissioned by the National Association of Manufacturers estimated the total cost of federal regulations on the economy at over $2 trillion in 2012, with annual compliance expenditures exceeding $138 billion for the manufacturing sector alone. The study further highlighted that the regulatory cost per employee of $11,724 for small businesses is about 30 percent higher than that of large firms, which has undoubtedly contributed to the decline over the last two decades in the number of jobs created by new business establishments.

Exhibit 2: Deregulation – Outlook for Top Ten Obama Laws, Rules, or Executive Actions

Source: Cornerstone Marco, 12/7/16

Policy	How It Took Effect	Where It Stands	How It Might Change
Dodd-Frank	Signed into law	Mostly implemented	Very little of Dodd-Frank will be substantively changed without new legislation, which will need 60 votes in the Senate, so most of the key provisions are not going to change.
ACA	Signed into law	Mostly implemented.	GOP will likely repeal much of it through reconciliation bill. Executive actions and new regulations are likely, too.
Iran Sanctions Lifted	Executive order	Took effect Jan 16, 2016.	Obama used the authority in statute to waive the sanctions. All Trump has to do is decline to continue to the waive sanctions.
Paris Climate Agreement	Executive order	Came into force on Nov 4, 2016 after enough countries ratified it.	Trump can back out or not enforce accord. Congress never voted on it, so Trump can drop it as easily as Obama embraced it.
Clean Power Plan	EPA rule	Before federal appeals court. Supreme Court put it on hold until litigation is over.	Republicans may try to make legislative changes and if those don't succeed the administration may change the rules or enforce them more leniently.
Overtime Pay	DOL rule	Temporarily suspended by judge before it took effect Dec 1, 2016	It's possible but not likely Congress could overturn using Congressional Review Act.
Fiduciary Duty	DOL rule	Effective Apr 2017.	New DOL will probably delay the rule, and Congress could pass legislation to overturn.
Fracking	Interior Dept. rule	Court ruled BLM doesn't have authority to regulate. Obama Administration appealed.	Trump could drop appeal, leaving lower court decision in place.

Infrastructure and Defense Are Key Beneficiaries of Spending Initiatives.

As the U.S. Federal Reserve gradually unwinds highly accommodative monetary policy, Trump has proposed increases in both infrastructure and defense spending to further stimulate GDP and jolt the economy out of its low-growth malaise. President-elect Trump has proposed a $1 trillion, 10-year program of his own. To maintain federal budget neutrality, the plan will rely on public-private partnerships and tax incentives to drive infrastructure investment, which will likely result in far less certainty with regard to timing, scale, and scope and could limit spending to high ROI projects. Although specific spending targets have not been highlighted, Trump has also cited the need to expand U.S. military investment and upgrade the nuclear arsenal, which should be a major boost for defense contractors, as growth has stagnated in recent years.

Consumer Spending Supportive with Potential boost from tax cuts.

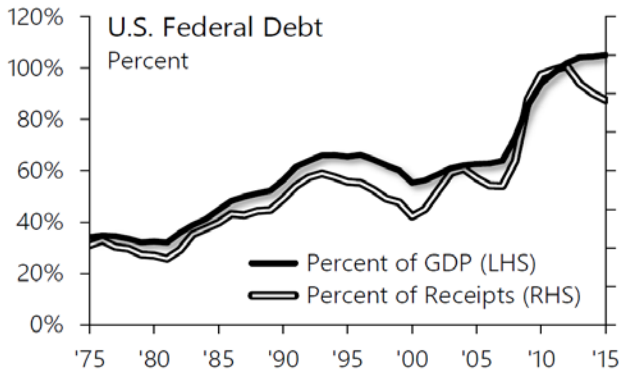
We expect consumer spending to remain the linchpin of GDP growth due to upward momentum in wages, favorable credit conditions, and buoyant confidence. Discretionary income will also get a boost from proposed individual income tax cuts, but to whom these benefits accrue is not yet clear. The multiplier effect, or increase in output per dollar of fiscal spend/transfer/tax cut, can vary considerably depending not only on the initiative (i.e., tax cuts generally provide a lower boost to output than does spending), but also the stage of the business cycle.

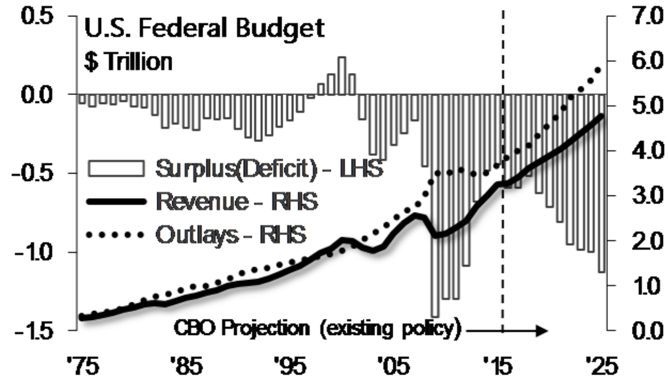
Growth upside, but not without constraints.

Federal debt-to-GDP ratio currently exceeds 100 percent (or nearly six times receipts) and an aging population represent an ever-increasing drag on the economy. Fortunately, low debt servicing costs (6 percent of federal outlays currently) and an estimated 2016 budget deficit at 3.3 percent of GDP versus a 2009 peak of 9.8 percent may provide some leeway with regard to deficit spending (see Exhibit 3). Interest rates are low by historical levels, but higher inflation could compel the Federal Reserve to raise interest rates at a faster-than-expected pace, which could dampen spending on housing and autos, in particular. Finally, despite the marked improvement in business confidence post November 8th, the other derivative impacts of the election (i.e., stronger U.S. dollar, higher interest rates, and increased policy uncertainty) could weigh on GDP growth nearer-term, as a substantial portion of policy benefits may not be realized until 2018 or after.

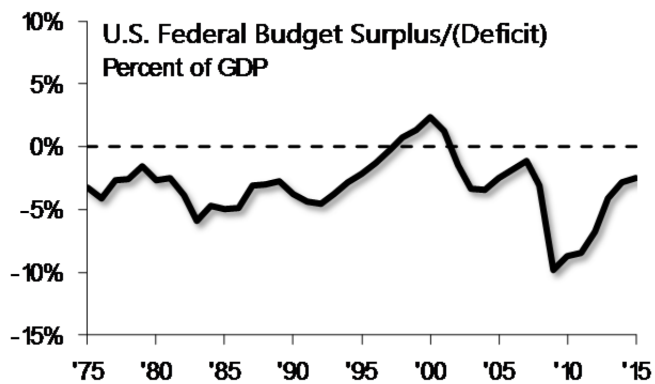
Exhibit 3: U.S. Federal Government and Consumer Leverage

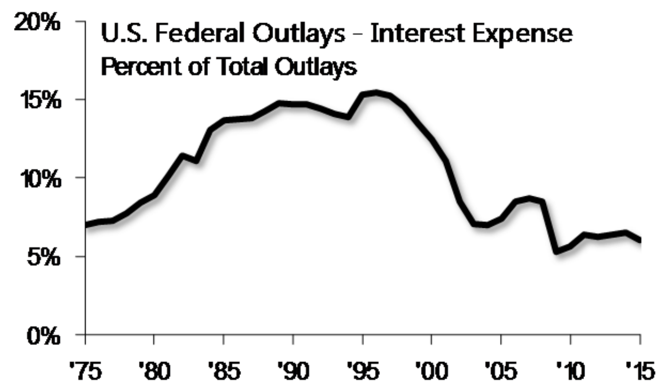
Federal Balance Sheet Highly Leveraged and Budget Deficit Expected to Widen Under Existing Policy. . .



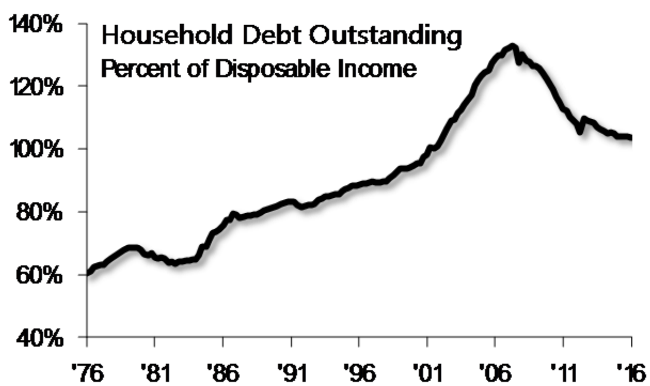


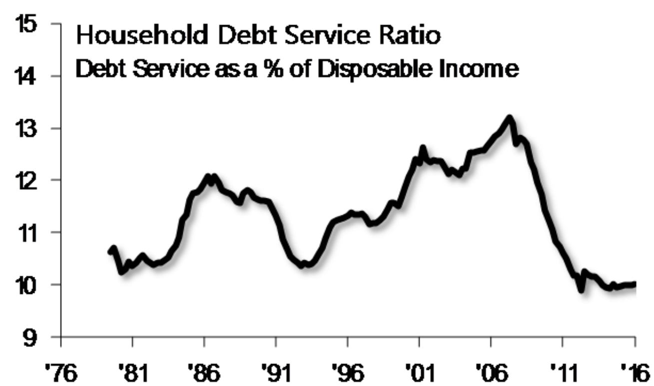
. . . but May Be Capacity for Increased Fiscal Spending Given Low Debt Service Obligation





Households Have Deleveraged and Debt Service Costs Remain Low – Poised to Re-lever?





Source: CBO, BEA, U.S. Treasury, Federal Reserve, Sit Investment Associates, 12/31/16

Europe

Growth in the European region will remain at subdued levels, with a challenged banking system and politics posing risks to a fragile backdrop. However, a weaker euro, a diminishing fiscal drag, and continued easy monetary policy should provide adequate support for modest growth.

Major Elections Will Keep Political Risks Elevated in 2017

Political risk will remain elevated in 2017, with key elections in the Netherlands, France, and Germany as well as constitutional referendum in Turkey that seeks to replace the current parliamentary system with an executive presidency (see Exhibit 4). In addition, the United Kingdom will likely initiate the complex and economically-risky process of extracting itself from the European Union.

Rising Populism Reshaping the Political and Economic Landscape

Growing frustration with the political "establishment" as well as concerns tied to such issues as government austerity, high unemployment, immigration, and terrorism have given rise to populist movements on both sides of the political spectrum throughout Europe (see Exhibit 5). Given this phenomenon, the French presidential election will be watched particularly closely in light of growing support for far-right candidate, Marine Le Pen, whose policies are decidedly anti-European Union, anti-immigration, anti-Islam, and above all, nationalistic. Le Pen proposed that, if elected president, she also would hold a referendum on whether France should remain in the European Union, potentially jeopardizing the future of the Union itself. Encouragingly, the business-friendly and pro-EU candidate of the center-right Républicains party, François Fillon, is currently leading in a number of opinion polls.

Exhibit 4: Key European Events in 2017

Elections and Referendums

Jan 22/29	French Socialist Party presidential nominee elections
Mar 17	Dutch elections
Apr or later	Turkish constitutional referendum
Apr 23	First round French presidential election
May 7	Second round French presidential election
Sep	Catalan independence referendum
by Oct 22	German Federal elections

Central Bank Monetary Policy Meetings

European Central Bank	Bank of England
January 19, 2017	February 2, 2017
March 9, 2017	March 16, 2017
April 27, 2017	May 11, 2017
June 8, 2017	June 15, 2017
July 20, 2017	August 3, 2017
September 7, 2017	September 14, 2017
October 26, 2017	November 2, 2017
December 14, 2017	December 14, 2017

Source: ECB, BOE, Sit Investment Associates, 12/31/16

Exhibit 5: European Populist Movements

	Anti-austerity	Anti-globalization	Anti-Eurozone	Anti-establishment	Anti-European Union	Anti-immigration	Anti-Islam
Podemos Spain	✓	✓		✓			
Syriza Greece	✓	✓		✓			
Five Star Movement Italy	✓		✓	✓			
UK Independence Party Britain		✓	✓	✓	✓	✓	
National Front France		✓	✓	✓	✓	✓	✓
Party for Freedom The Netherlands			✓	✓		✓	✓
Alternative for Germany Germany			✓	✓		✓	✓
Freedom Party Austria		✓	✓	✓	✓	✓	✓

Source: The New York Times, 12/6/16

Economic Growth Stuck in Low Gear, Adding Fuel to Populist Groundswell

The surge in populism, much like Europe experienced during other periods of sustained economic stress, can be directly linked to the region's current anemic GDP growth. Euro Area real GDP has increased at an annualized pace of +0.7 percent over the last five years and is projected to accelerate to only about +1.5 percent through 2018. The expansion remains asymmetric and even economic stalwarts such as Germany have found it difficult to break out of the low growth rut. With that said, the uptick in manufacturing activity remains indicative of modest growth for the Euro Area in the intermediate term and the strengthening U.S. dollar relative to the euro should provide a much-needed tailwind. The economic outlook for the United Kingdom is much less certain given the wide range of potential outcomes associated with Brexit.

Easy Monetary Policy and Prospects for Better Fiscal and Corporate Spending

The European Central Bank (ECB) recently announced that it would maintain its highly accommodative stance, but reduce purchases under its asset purchase program from €80 billion per month to €60 billion per month. While monetary policy has been doing much of the heavy lifting in recent years, fiscal policy has not been as austere as proclaimed by some. Nonetheless, there have been increasing calls for higher fiscal spending to appease a disenfranchised electorate. This would certainly be a positive development, but we sense elevated government debt and existing budget deficits may limit the potential upside. There is likely to be a catch up in gross capital formation if economic policy uncertainty eases in the second half of 2017 as expected.

Japan

Japan's structural challenges—a rapidly aging population, towering public debt load, and rigid labor market—continue to overwhelm policymakers' concerted efforts to stimulate growth. We remain cautious on the country's prospects and prefer holdings with overseas exposure or a defensive earnings profile.

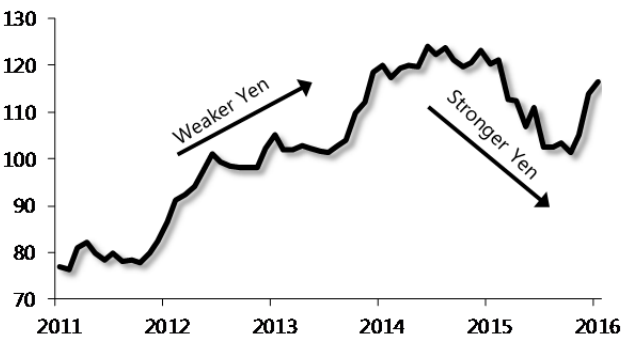
Fiscal and Monetary Policy Are Proving Ineffective

Abenomics was declared to have all but failed earlier in 2016, but the reversal in yen strength and modest improvement in external demand looks to have bought time for the economy. Time is much needed as Prime Minister Abe's pro-growth reform agenda has, outside of a few select areas such as corporate governance reform, made limited progress in creating conditions for sustained growth. Tackling the rigid labor market and addressing immigration remain the key issues. Reviving structural reforms will be even more important as the Bank of Japan appears, in some ways, to have reached the limits of monetary easing, given the adverse impact on the financial sector of negative interest rates in its most recent iteration of easing measures. We continue to take a cautious view on Japan's economic growth prospects, expecting GDP growth of +0.5 percent in both 2016 and 2017.

A Weak Yen – Not the Economic Tailwind It Once Was?

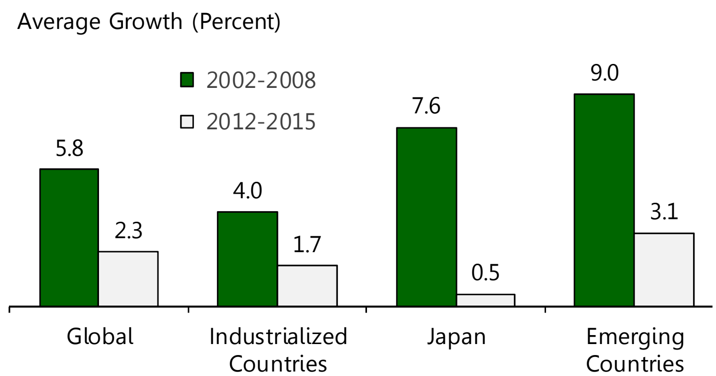
The soaring U.S. dollar is welcome relief for an economy that has struggled with a strengthening currency for the better part of 2016. Japan, which emerged as an export powerhouse in the 1980s, has typically benefited greatly from a weak currency; however, a weakened yen may not be the economic salve it once was given shifts in corporate structure and behavior. First, companies continue to move production capacity overseas nearer to sources of demand. Second, production remaining in Japan increasingly focuses on specialized products where price sensitivity is more limited. Therefore, corporations are content to hold prices when the yen falls and enjoy greater margins rather than cut prices for a limited increase in volumes. The limited growth in exports from 2013 to 2015, a period during which the yen marched to its weakest point since the early 2000s, suggests these factors may already be dampening the benefits of a weaker yen (see Exhibits 6 and 7). Looking forward, spurring domestic demand is all the more important for Japan's longer-run prospects.

Exhibit 6: Japanese Yen per U.S. Dollar



Source: FactSet, Sit Investment Associates, 12/31/16

Exhibit 7: Changes in Export Volume Growth



Source: Nomura Research, 12/16/16

China

The Chinese economy performed relatively well in 2016, but policymakers will be challenged to maintain the status quo. Although by "official" measures growth will be sustained at similar levels in 2017, risks are to the downside due to capital outflows and signs that debt-fueled growth is reaching limitations.

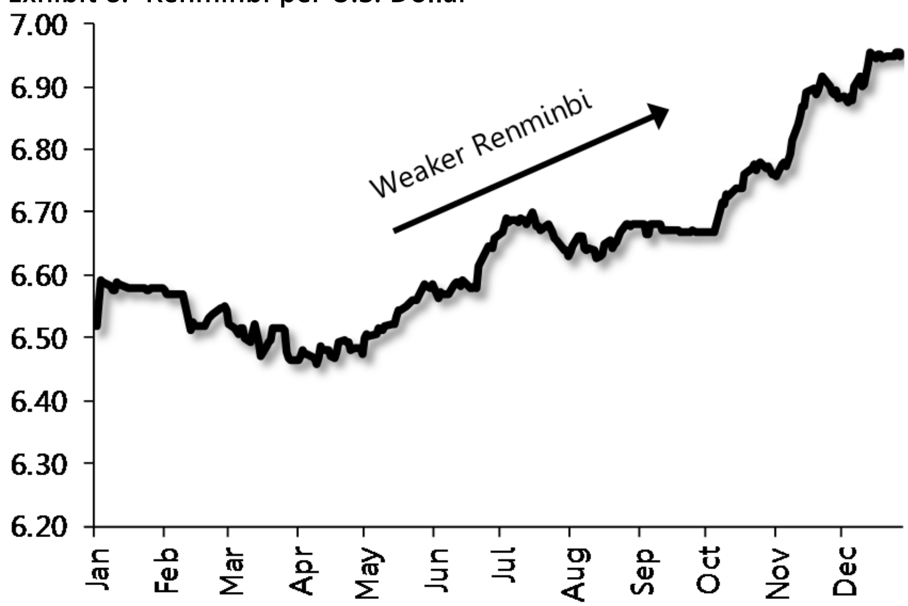
Capital Outflow Concerns Rising Yet Manageable

While China's economy stabilized in 2016 and was slightly better than expected, the powerful U.S. dollar rally following Donald Trump's presidential election victory and the U.S. Federal Reserve's December rate hike are bringing new challenges for China. In 2016, the Renminbi depreciated a larger-than-expected -7 percent against the U.S. dollar (Exhibit 8). Despite positive factors including a largely stable economy, continued current account surplus, and limited foreign debt exposure, the potential for further rate hikes in the U.S. could add more downward pressure on the Renminbi. With rising depreciation expectations, capital outflow pressure has kept building in China. As China is still a largely capital controlled country with a managed currency, which is definitely a concern, we don't expect capital outflows to get out of control leading to a collapse of the economy.

Monetary Policy with a Tightening Bias

Easy money has helped fuel growth, but has also led to higher leverage and rising financial risks. In the bond market, the PBoC has been lightening up short-term credit since October to push borrowers to longer-term maturities as a means of deleveraging. This tight liquidity has had an impact on onshore bond yields, as both 5-year and 10-year China domestic government bond yields have risen by around 50 basis points since late October. However, how long the tightening and deleveraging will last remains to be seen given the policymakers' intention to keeping China's economy steady ahead of its leadership transition in late 2017.

Exhibit 8: Renminbi per U.S. Dollar



Source: FactSet, Sit Invest Associates, 12/31/16

Latin America

We are cautious on the outlook for most Latin American countries, which continue to be weighed down by a combination of political dysfunction, elevated debt levels, high inflation, and an overreliance on commodities. Trade challenges may now come into focus given changes in the U.S. policy outlook.

NAFTA Issue Creates Uncertainty for Mexico

U.S. President-elect Trump's plan to renegotiate or withdraw from the 1994 North American Free Trade Agreement (NAFTA) creates uncertainty for the Mexican economy. The U.S. may withdraw from the agreement six months after it provides written notice. NAFTA has helped increase trade to Canada and Mexico, as American exports to Canada and Mexico hit $500 billion in 2015 and imports rose to nearly $600 billion. Mexico has the highest external trade (imports and exports) of 73 percent of GDP. Mr. Trump's other potential negatives are taxation of workers' remittances, the building of a wall along the U.S.-Mexico border, massive deportations of Mexicans in the U.S., and fiscal stimulus in the U.S. to discourage U.S. firms from investing abroad. We expect NAFTA uncertainty to hurt business sentiment in Mexico, result in lower trade with Mexico, and to negatively affect Mexico's economic growth. Our forecast for Mexico 2017 GDP growth is +1.8 percent, a slowdown from 2016's +2.2 percent.

Tepid Improvement in Brazil Economic Growth

The economic outlook for Brazil remains tepid. President Michel Temer is trying to grow the economy out of recession. GDP growth declined -3.5 percent in 2016 and is forecast to increase +1.0 percent in 2017. Brazilian Finance Minister Henrique Meirelles announced measures to stimulate the economic recovery by reducing credit risks and modifying payment terms to merchants. On October 19th, the central bank of Brazil cut its benchmark interest rate -25 basis points to 14 percent, its first cut in four years. Moreover, Brazil's first half December inflation fell to +6.6 percent, giving the central bank room to continue cutting interest rates which should help stimulate the economy.

Taxable Bonds

Fourth Quarter sees Paradigm Shift

Renewed economic optimism in the post-election environment and an increase in the fed funds rate by the Federal Reserve drove spreads tighter and interest rates dramatically higher in the fourth quarter of 2016. Primarily driven by increased inflation expectations, the yield curve steepened as yields rose more in longer maturities (10-30 years) than in shorter maturities (2-3 years). The paradigm shift in the final quarter of 2016 offset much of the lower rate movements experienced before the presidential election. For the year, interest rates ended only modestly higher, up 15 basis points for Treasury maturities shorter than 30 years. Despite the increase in interest rates, all taxable sectors posted positive returns for the year. Corporate bonds were the best performing sector driven by increased demand from both foreign and domestic investors, with lower quality bonds outperforming. Government Agency Mortgage backed securities underperformed as duration extension, from a rise in mortgage rates and increased volatility detracted from returns. Treasuries were the worst performing sector primarily due to longer duration, with only a 1 percent return for the year.

Economic Optimism for 2017

We expect domestic economic growth to improve as strong employment, high consumer confidence and the likelihood of a pro-business environment result in increased economic activity. Although the incoming administration presents some uncertainty, there are ample opportunities such as lowering taxes and reducing regulatory burdens that should benefit the economy. As the legislative issues make their way through the system, we expect markets to react accordingly. With improving growth and optimism, we anticipate inflation expectations will increase, albeit slowly. Potential challenges persist as Britain will continue to navigate its exit from the European Union, fiscal issues remain for remaining members and some European bank loan portfolios remain precarious. We continue to strategically position portfolios defensively within the current interest rate environment while maintaining an emphasis on quality and sectors we believe to have attractive valuations and the greatest potential to benefit from upcoming legislative activity.

Municipal Bonds

Significant Yield Increases in November Drove Negative Price Performance

The tax-exempt municipal bond yield curve rose during the fourth quarter. The largest yield increases along the curve reached 84 basis points, occurring through the belly of the curve in the seven-year to ten-year maturity range. A majority of the yield curve movement transpired in the month of November, although it should be noted that the November increases were followed by a modest reversal in December as yields declined for intermediate and longer dated maturities. For the quarter, AAA general obligation maturities of one-year saw yields go up 19 basis points, while the 30-year yield increased 74 basis points. Highlighting the outsized increases during November were movements of 21 and 70 basis points for the one-year and 30-year, respectively. The Bond Buyer 40-Bond Index was also volatile for the quarter, opening at a yield of 3.83 percent and moving to 4.46 percent in early December before settling at 4.25 percent to end the year.

Shorter Duration and Higher Credit Quality Performed Better on a Relative Basis

During the quarter, all investment grade municipal bond index returns were negative; however, the AAA-rated index fared better than those with lower credit ratings (see Exhibit 9). The Municipal High Yield index had a -5.84 percent total return for the quarter, underperforming all investment grade bond indices. Each duration index also experienced negative returns, although shorter duration performed better than longer duration across the entire curve. Both the state and local general obligation bond indices and all of the various revenue sector index returns were also negative. Duration had a more meaningful impact on performance during the quarter than did a given investment grade credit rating or sector allocation. Of note, housing bonds performed better than most other sectors, while healthcare was among the worst performing sectors. Due to the higher credit quality of agency backed housing bonds and the ongoing prepayments, we continue to believe that housing bonds offer strong relative and defensive value in what is currently viewed as a rising interest rate environment for the near- to intermediate-term. As such, we plan to remain active investors in housing bonds in 2017.

Fund Flows Turn Negative, but 2016 Saw Record Breaking Municipal Debt Issuance

For the first time in over a year, weekly tax-exempt fund flows posted a small outflow in mid-October. All told, more than $50 billion had come into tax-exempt bond funds through the first ten months of 2016. That changed abruptly when a sharp turnaround in November started a trend of outflows that have since totaled just over $19 billion to finish the year. Of note, however, even as outflows held steady through December at about $2 billion a week, municipal bond yields actually declined modestly during the month. All together, the nearly $33 billion of net inflows for the entire year helped absorb a record level of issuance in 2016. Tax-exempt municipal bond issuance was up roughly 12 percent over 2015 and totaled nearly $445 billion. This included over $220 billion of refunding debt. Looking forward to 2017, a lesser number of refundings will continue to be economically feasible and they will likely occur in the first half of the year as issuers try to get ahead of forecasted rate increases. Although supply for the year is not likely to top 2016 levels, we expect that the municipal market will be active and provide a variety of investable opportunities in 2017. Given the near universal outlook for rising interest rates and the recent strong performance of equities, we expect negative funds flows to linger on into 2017.

Tax-Exempt Fixed Income Strategy and Near Term Outlook

With the Fed Funds rate likely to increase in 2017, we expect that upward pressure on yields will endure through the first quarter, and likely beyond. A sustained level of political uncertainty is also assumed to persist as policy proposals concerning ACA repeal, infrastructure spending, and tax reform take shape. How the legislative process will ultimately play out and what impact any new laws will have is currently anybody's guess. These realities will probably result in ongoing trading volatility in 2017. By and large we do not anticipate fundamental credit quality concerns to be broad or abrupt in nature. Finally, our tax-exempt investment strategy will continue to place a heavy emphasis on investing in bonds that provide strong current income, which we believe is the primary driver of return over the full market cycle. We expect to maintain durations near their current levels investing in bonds with higher credit quality ratings and short call features. As always, diversification remains a key tenet in managing credit risk.

Exhibit 9: U.S. Fixed Income Index Total Returns (Percent, as of 12/31/16)

Bloomberg Barclays Indices		1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Aggregate	LHMN0001	0.14 %	-2.98 %	-2.53 %	2.65 %	9.37 %	11.67 %	53.0 %
Treasury	LHMN0054	-0.11	-3.84	-4.11	1.04	7.04	6.17	47.6
Agency	LHMN0008	-0.13	-1.96	-1.83	1.39	6.09	6.89	40.0
Corporate	LHMN3460	0.67	-2.80	-1.43	6.12	13.18	22.49	69.9
CMBS	LHMN0009	-0.41	-3.03	-2.46	3.32	8.36	19.11	63.9
Asset-Backed	LHMN0013	-0.15	-0.70	-0.50	2.03	5.24	8.79	34.7
Mortgage Pass-Through	LHMN3470	0.00	-1.98	-1.39	1.67	9.56	10.77	52.5
5 - Year Treasury	LHMN0092	-0.20	-3.34	-3.71	0.48	4.74	4.49	51.6

Bloomberg Barclays Indices		1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Municipal	LHMN0730	1.17 %	-3.62 %	-3.91 %	0.25 %	12.93 %	17.51 %	51.6 %
5-Year Municipal	LHMN0733	0.50	-2.63	-2.65	-0.39	5.28	9.29	44.4
Long (22+ years)	LHMN0738	1.58	-4.95	-5.59	0.88	21.65	27.22	56.4
Revenue	LHMN0749	1.32	-3.90	-4.18	0.43	14.54	19.83	n/a
Electric	LHMN0750	1.24	-3.75	-4.01	0.44	12.75	15.34	n/a
Hospital	LHMN0751	1.33	-4.04	-4.30	0.45	17.86	26.95	n/a
Housing	LHMN0752	1.22	-3.26	-3.81	0.67	13.40	20.47	52.7
IDR/PCR	LHMN0753	1.09	-3.49	-3.93	0.93	16.91	28.17	n/a
Transportation	LHMN0754	1.38	-3.86	-4.14	0.60	15.83	21.45	n/a
Education	LHMN0755	1.38	-4.26	-4.62	0.00	13.25	18.39	n/a
Water/Sewer	LHMN0756	1.40	-3.85	-4.13	0.34	14.15	18.31	n/a
Resource Recovery	LHMN0757	1.13	-2.70	-2.84	0.36	12.90	18.89	n/a
Leasing	LHMN3197	0.98	-4.30	-4.24	0.40	12.86	18.69	n/a
Special Tax	LHMN3198	1.44	-3.67	-4.07	0.38	12.74	15.04	n/a
General Obligation	LHMN0739	1.11	-3.70	-4.03	-0.23	10.91	14.39	51.0
Prerefunded	LHMN0758	0.26	-0.96	-1.27	-0.01	2.85	4.95	n/a
Insured	LHMN0764	0.80	-2.38	-2.48	0.69	14.29	20.12	53.7

Bloomberg Barclays Indices		1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Muni Aaa	LHMN13969	1.16 %	-3.32 %	-3.77 %	-0.17 %	9.06 %	12.16 %	43.2 %
Muni Aa	LHMN13970	1.16	-3.44	-3.80	0.05	11.70	16.15	50.0
Muni A	LHMN13971	1.21	-3.96	-4.06	0.85	15.60	21.83	56.8
Muni Baa	LHMN13972	1.16	-4.45	-4.70	0.35	19.75	22.06	36.7

Source: FactSet, 12/31/16

Global Equities: Environment & Strategy

The S&P 500 Index generated a total return of +3.8 percent in the fourth quarter of 2016 and +12.0 percent for the full year as investors alternated preference between pro-cyclical and defensive strategies. Bond-proxies dominated in the first half of the year, whereas smaller-cap, pro-cyclical stocks outperformed for much of the second half. In terms of S&P 500 sectors, financials, energy, and industrials were the larger outperformers during the fourth quarter on the heels of the "Trump trade." The S&P 500 Index is currently trading at a forward price-to-earnings multiple of roughly 17 times (in line with its long-term historical average) and 2017 consensus earnings growth expectation of +12 percent appears much more achievable in light of the Trump victory. However, earnings projections for the winners and losers of policy initiatives will continue to be adjusted as more policy details become available and estimates do not yet take into consideration the benefit of tax reform, which alone could boost S&P 500 earnings by +10 to +15 percent.

We believe 2017 has the potential to be another reasonable year for the U.S. stock market driven by improvements in corporate earnings and various policy initiatives. However, the market will likely be subject to a number of fits and starts in response to both progress (and delays) in Washington and global macroeconomic conditions. The combination of increased market volatility, lower stock correlations, and other late-cycle dynamics bodes well for the relative outperformance of both growth and active strategies going forward. As we highlighted earlier, we have implemented a barbell strategy with recent portfolio changes emphasizing companies/industries with upside potential based on a combination of policy changes and the resultant, eventual uptick in economic growth (Exhibit 10). For example, we have significant positions in financials and transportation sectors, two groups that have the most to gain from improved growth and policy initiatives, including tax reform and deregulation.

As discussed, however, we are cognizant of the risks and challenges as policy changes are undertaken. There are many moving parts on the policy front and only one thing is clear: the investment landscape is now more positive but the range of outcomes, or "tail risks," have increased as well. Therefore, we believe it is prudent to maintain exposure to attractively valued non-cyclical, largely domestically-focused industries that have growth potential, including defense, HMOs, and telecom. Conversely, underweights largely consist of low growth groups that may be negatively impacted by policy side effects, including higher interest rates and a stronger US dollar. Regardless of sector, we strongly believe a quality focus is appropriate in the environment ahead as the era of extremely accommodative monetary policy shifts down. Ultra-low interest rates and easy access to credit can often provide cover for fundamental weakness in a business. In general, our quality bias has not been rewarded in the QE-driven backdrop prevailing in recent years. We think a different, and potentially more volatile, environment lies ahead.

The MSCI Europe Index generated a total return of +0.2 percent in 2016 as the U.S. dollar strengthened against key European currencies. On a local currency basis, broad market indices throughout Western Europe generally appreciated in the mid-to-high single digit range in 2016, with the FTSE 100 Index (United Kingdom) doing particularly well as investors quickly shrugged off the unanticipated outcome of the European Union referendum (see Exhibit X). Large caps generally outperformed small caps and stocks with emerging market exposure did particularly well after poor performance in 2015. Valuation is generally in-line-to-slightly-above long-term averages, but earnings still remain depressed for a number of sectors. The MSCI Europe Index is currently trading at a forward price-to-earnings multiple of about 14.5 times, which is slightly above its 30-year median of 13 times and a 15 percent discount to the S&P 500 Index. Equity fund flows and investor surveys have both been indicative of a fair amount of pessimism, suggesting European stocks may be poised for a meaningful reversal in sentiment as policy uncertainty eases and as corporate earnings improve against easy comparisons.

Looking forward, we believe the performance of European equities will remain choppy in response to both political and global macroeconomic events. However, investors will likely begin to anticipate diminished political risk heading into 2018 and the potential for improved fiscal/corporate spending, implying a solid underlying bid for European stocks as we move through the year. We do not expect a "rising tide lifts all boats" scenario by any means and remain selective with regard to our sector, end market, and company-specific exposures. <u>Given the negative impact of a strong U.S. dollar and a myriad of other concerns, we are underweighting stocks with significant emerging market exposure and prefer companies that are either plays on domestic secular/cyclical/niche growth, address markets where there is pent-up demand, benefit from modest inflation/rising global yields, and/or have meaningful exposure to the United States.</u> As such, we have recently increased weightings in financial stocks (insurance and banks) that will benefit from the potential for lower regulation and a steeper interest rate curve in the United States as well as a modestly improving banking environment in Europe. We have also been selectively pursuing other beneficiaries of President-elect Trump's policies in terms of lower taxes, infrastructure spending, and deregulation, while also being cognizant of the various risks associated with tax, currency, and trade issues.

Japanese equities performed well to finish 2016, as the yen depreciated and global growth prospects improved. Outflows from Japan equities have also abated and valuations remain cheap relative to other global equity markets. However, we continue to remain meaningfully underweight Japan across global and international portfolios given our cautious view on the economy's long-term growth prospects. The key concern remains the ability of Abenomics to overcome the substantial structural challenges of a declining population, rigid labor market, and elevated debt levels. <u>Within our Japanese holdings, we increasingly prefer beneficiaries from a weaker yen such as exporters and multinationals that benefit from favorable currency translation as well as those leveraged to regions where growth prospects are improving, such as the US.</u> We round out Japanese holdings with defensive domestic consumption names that stand to best weather a subdued domestic growth environment. Across all holdings, we focus on names with proprietary technologies and/or well-entrenched leading market positions, quality earnings, and strong balance sheets.

The MSCI China Index declined -7 percent in the fourth quarter of 2016, underperforming both the MSCI Emerging Market and World indices on renewed macro concerns. While we only expect a mild slowdown in the economy in 2017, capital outflow concerns are likely to linger. Concerns on potential rising trade tensions with the incoming U.S. administration may also limit near-term upside. However, looking beyond near-term cautiousness, we are maintaining our China Internet exposure despite its recent underperformance, as growth remains solid and the outlook is positive. We expect these stocks to outperform the market once macro concerns fade, as we have seen in the past.

We are underweight Latin America, especially Mexico and Brazil. U.S. President-elect Donald Trump's plan to renegotiate or withdraw from the North America Free Trade Agreement will negatively affect Mexico's economic growth. The industry most impacted by NAFTA by value of two-way trade with Canada and Mexico is the transportation equipment industry in the U.S. Other affected industries (as a percentage of industry output) include leather products, electrical equipment, and marine products. In terms of transportation, the automotive sector is the most at risk, as cars account for nearly 40 percent of the manufactured goods that Mexico exports to the U.S and U.S.-made components account for two-fifths of Mexican manufacturing exports. In addition, there may be less U.S. auto sales demand in 2017, as U.S. auto sales appear to have peaked at 17.5 million units in 2016. We like the consumer sector, as Mexican private consumption remains robust, supported by workers' remittances (2.8 percent of GDP).

In Brazil, we have turned slightly more positive on the market, but remain underweight as we are uncertain of the country's economic rebound this year from a recession. We are maintaining a defensive strategy, with a focus on consumer staples, exporters, and financials. Banks are well-positioned to benefit if there is a recovery in the Brazilian economy. We are also reviewing investments in commodity companies, as China's +6.5 percent economic growth and infrastructure spending will be positive for Brazil's commodity companies' earnings.

EXHIBIT 10: COMPONENTS OF SIT INVESTMENT ASSOCIATES "BARBELL" STRATEGY

OVERWEIGHT – PRO-CYCLICAL/POLICY BENEFICIARIES

Characteristics

U.S. domestic exposure, high corporate taxes, pro-cyclical, high beta, strong balance sheets, limited impact from higher interest rates

- Banks/Investment Banks
- Parcel Carriers
- Life Insurance
- Home Improvement
- Railroads
- Trucking
- Airlines
- Media Companies
- Semiconductors
- Engineering & Construction
- Restaurants
- Commercial Construction

OVERWEIGHT - DEFENSIVE/DOMESTICALLY FOCUSED

Characteristics

Non-cyclical, attractive valuations, limited currency risk, government policy beneficiaries, low beta, U.S. exposure

- Defense
- HMO's
- Oil & Gas Pipelines
- Medical Distributors
- Oil Refiners
- Biotech
- Packaged Food
- P&C Insurance
- Waste Management
- "Growthier" REITs/Utilities
- Food Retail
- Telecom

UNDERWEIGHT - SLOWER GROWTH/LIMITED POLICY UPSIDE

Characteristics

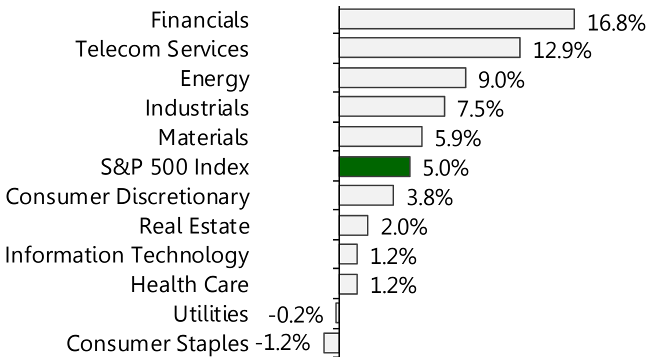
Significant international exposure, Weak balance sheets, currency risk, reliance on imports, below average growth, low corporate tax rates

- Pharma
- Insurance Brokers
- IT Hardware
- Department Stores
- Integrated Oil
- Non-Energy Minerals
- Household Personal Care
- Hospital/Nursing Management
- Auto - Suppliers
- Auto - OEMs
- Beverage Companies
- "No Growth" REITs/Utilities

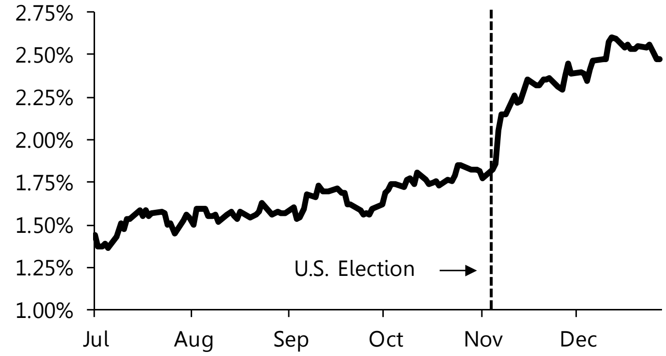
APPENDIX

U.S. FINANCIAL MARKETS HAVE SHIFTED DRAMATICALLY SINCE THE ELECTION

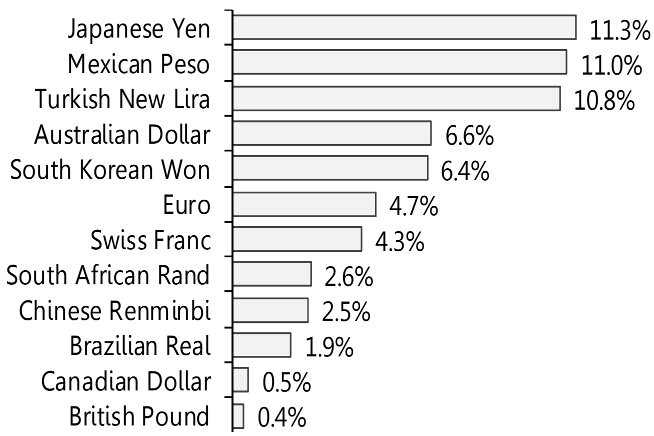
S&P 500® Sector Returns (11/8 – 12/31)



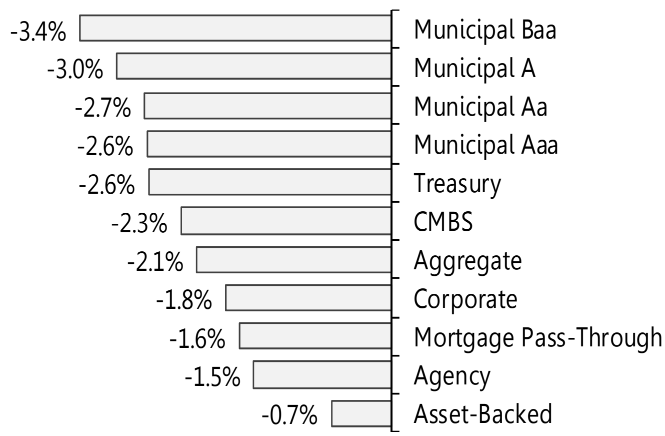
U.S. 10-Year Treasury Yield



U.S. Dollar Versus Other Currencies (11/8 – 12/31)



Barclays Bond Index Returns (11/8 – 12/31)



Source: FactSet, Sit Investment Associates, 12/31/16

APPENDIX

Global Equity Strategy at a Glance

Regional Weightings

Region/Country	Sit Investment Sentiment	Themes Within Region/Sector
North America	+	US growth supported by consumer/wage growth and less drag from capex & govt. spending
Euroland	+/=	Asymmetric recovery supported by accommodative monetary policy, but some policy risks
United Kingdom	=	Brexit-related weakness offset by weaker fx, monetary easing, and (potential) fiscal stimulus
Greater China	=	Economy stabilizing, launch of SZ-HK Stock Connect, money inflow from mainland
Japan	−	Faces headwinds from yen, a cautious corporate sector, and tepid consumer spending
Rest of Asia	+/=	Australia GDP growth slower; Asia xJapan economies performing well
Latin America	−	Brazil/Argentina/Venezuela in recession; modest growth in Mexico (closely tied to U.S)

Sector Weightings

Commodities/ Energy		
Non-Energy Minerals	−	Slowing China economic growth slows demand for metals
Energy Minerals/ Industrial Services	−/=	Supply/demand now coming into balance, but higher oil prices largely reflected in valuations
Process Industries	=	Secular growth in agricultural technology, beneficiaries of cheap U.S. natural gas
Total	−/=	
Capital Spending/ Tech		
Producer Manufacturing	=	Underweight cap goods as many cyclicals appear near peak; overweight defense/aerospace
Electronic Technology	=	Ongoing productivity enhancement, wireless communications, widespread growth in semis
Technology Services	+	Outsourcing; delivery of software and services via the internet; information requirements
Total	=	
Early Cyclicals/ Consumer		
Transportation	+	Pricing power amid capacity discipline throughout sector, particularly rails and parcel
Consumer Durables	=	Traditional "early cycle" sector; bottoming, autos appear near peak, upside in housing
Retail Trade	−	Structural margin pressure from online penetration/ competition.'
Consumer Services	=	Slow growth in most segments; favor media companies
Commercial Services	−	Limited secular growth in most areas
Total	=	
Staples/ Non-Cyclicals		
Health Technology	+	Favor companies with new products for unmet medical needs (biotech, pharma, medtech)
Health Services	=	Favor HMOs (less political risk, stable utilization trends) over PBMs/ Distributors
Consumer Non-Durables	−	Valuation unattractive, intense competition in mature biz, higher costs near-term
Communications	=	Dominant wireless and wireline service companies provide attractive dividend yields
Total	+	
Interest Rate Sensitive		
Utilities	=	Attractive yields and rate base growth, but vulnerable to higher interest rates
Finance	+	Emphasize on strong balance sheets & capital return; insurers attractively valued, defensive
Total	=	

+ Overweight/Positive = Neutral − Underweight/Negative

Source: Sit Investment Associates, 12/31/16

APPENDIX

GLOBAL ECONOMIC ASSUMPTIONS

	GDP Growth				Inflation			
	2015A	2016E	2017E	2015-2019 (5 Yr CAGR)	2015A	2016E	2017E	2015-2019 (5 Yr AVG)
Global Economy	**2.7 %**	**2.4 %**	**2.7 %**	**2.6 %**	**1.9 %**	**3.0 %**	**3.1 %**	**2.8 %**
United States	2.6	1.6	2.5	2.3	0.1	1.4	2.8	2.1
Euro Area	1.9	1.6	1.5	1.5	0.0	0.7	1.2	1.0
United Kingdom	2.2	2.0	1.1	1.5	0.0	0.7	1.5	1.5
Japan	0.5	0.5	0.5	0.5	0.8	0.0	0.5	0.5
Asia Ex Japan	6.0	5.8	5.8	5.8	2.1	2.0	2.5	2.3
Latin America	-0.7	-1.1	1.6	0.6	14.0	23.0	17.0	17.6

	10-Year Bond Yields			
	2014 12/31A	2015 12/31A	2016 12/31A	2017 12/31E
United States	2.2%	2.3%	2.5%	2.7%
Euro (Germany)	0.5	0.6	0.2	0.6
Japan	0.3	0.3	0.1	0.0
United Kingdom	1.8	2.0	1.2	1.6

	Exchange Rates			
	2014 12/31A	2015 12/31A	2016 12/31A	2017 12/31E
Euro ($/€)	1.21	1.09	1.05	1.05
Japan (¥/$)	120	120	117	115
UK ($/£)	1.56	1.47	1.23	1.25

Source: FactSet, Sit Investment Associates, 12/31/16

EXPECTED RANGE OF FUTURE U.S. FIXED INCOME RETURNS

		Time Horizon					
		6 Months		1 Year		3 Years (Ann. Return)	
Risk Level/Representative Issue	Interest Rate Forecast	Terminal Yield	Total Return	Terminal Yield	Total Return	Terminal Yield	Total Return
Low Risk							
2 yr. Constant Maturity Treasury	Pessimistic	1.75 %	-0.7 %	2.50 %	-1.6 %	4.00 %	-0.7 %
Present YTM 1.12%	Most Likely	1.00	0.3	1.75	-0.1	3.00	-0.1
	Optimistic	0.50	1.8	0.50	2.3	2.00	0.6
Intermediate Risk							
5 yr. Constant Maturity Treasury	Pessimistic	2.75 %	-2.9 %	3.50 %	-5.2 %	5.00 %	-2.6 %
Present YTM 1.93%	Most Likely	2.00	0.6	2.50	-0.7	4.00	-1.1
	Optimistic	1.00	5.5	1.00	6.4	3.00	0.3
Medium Risk							
10 yr. Constant Maturity Treasury	Pessimistic	3.75 %	-9.6 %	4.00 %	-10.3 %	5.50 %	-5.5 %
Present YTM 2.44%	Most Likely	2.50	0.7	3.00	-2.3	4.50	-3.0
	Optimistic	2.00	5.2	2.00	6.5	3.50	-0.4
High Risk							
30 yr. Constant Maturity Treasury	Pessimistic	4.50 %	-22.0 %	4.75 %	-23.7 %	6.00 %	-11.7 %
Present YTM 3.07%	Most Likely	3.25	-2.0	3.75	-9.2	5.00	-7.3
	Optimistic	2.25	19.2	2.25	20.8	4.00	-2.3

Source: Sit Investment Associates, 12/31/16

APPENDIX

U.S. EQUITY INDEX TOTAL RETURNS (PERCENT, AS OF 12/31/16)

□ = Top Quartile Performance within Group

S&P Indices		1 Month		3 Months	YTD '16	3 Years	5 Years	10 Years
S&P 500®	SP50-USA	2.0	5.0	3.8	12.0	29.0	98.2	95.7
S&P 500® - Equal Weighted	SPXEKW	1.1	5.7	3.8	14.8	28.5	105.9 □	124.5
S&P 500® Growth	SGX	1.4	2.1	0.5	6.9	29.6	97.2	121.8
S&P 500® Value	SVXK	2.5 □	7.9	7.3	17.4	27.8	98.5	70.8
S&P 1500® Composite	SPSUP	2.0	5.7	4.3	13.0	29.1	99.2	100.3
S&P Mid Cap 400®	MID-USA	2.2	10.1 □	7.4 □	20.7 □	29.6 □	104.0	140.2 □
S&P Small Cap 600®	SML-SPX	3.4 □	15.7 □	11.1 □	26.6 □	31.2 □	115.7 □	137.5 □

S&P 500® Sector Indices		1 Month		3 Months	YTD '16	3 Years	5 Years	10 Years
Consumer Discretionary	SP285-SPX	0.1	3.8	2.3	6.0	28.1	127.0 □	150.9 □
Consumer Staples	SP477-SPX	3.2	-1.2	-2.0	5.4	30.3	82.0	162.6 □
Energy	SPN01-SPX	1.9	9.0 □	7.3 □	27.4 □	-7.4	21.2	52.3
Health Care	SP565-SPX	0.7	1.2	-4.0	-2.7	30.4	117.4 □	149.7
Financials	SP621-SPX	3.9	16.8 □	21.1 □	22.8 □	39.3	143.4 □	-3.5
Industrials	SP125-SPX	0.5	7.5	7.2 □	18.9	27.2	106.5	111.7
Information Technology	SP701-SPX	1.6	1.2	1.2	13.8	44.9 □	113.6	157.8 □
Materials	SPN37-SPX	0.1	5.9	4.7	16.7	14.3	65.0	80.1
Real Estate	86099Y65	4.4 □	2.0	-4.4	3.4	40.9 □	71.4	52.2
Telecom Services	SP793-SPX	8.1 □	12.9 □	4.8	23.5 □	31.5	73.4	85.8
Utilities	SP821-SPX	4.9 □	-0.2	0.1	16.3	42.7 □	63.7	96.4

Russell Indices		1 Month		3 Months	YTD '16	3 Years	5 Years	10 Years
Russell 1000®	RUI-RUX	1.9	5.2	3.8	12.1	28.1 □	98.4	98.2
Russell 1000® Growth	RLG-USA	1.2	2.8	1.0	7.1	27.9	96.8	122.7 □
Russell 1000® Value	RLV-USA	2.5	7.6	6.7	17.3	28.0 □	99.4	74.5
Russell MidCap®	R.MID	1.1	6.1	3.2	13.8	25.7	98.7	113.1 □
Russell MidCap® Growth	R.MIDG	0.3	4.0	0.5	7.3	19.9	88.4	112.6
Russell MidCap® Value	R.MIDV	1.8	7.9	5.5	20.0 □	31.1 □	107.4 □	107.8
Russell 2500®	R.2500	1.9	10.4 □	6.1	17.6	22.2	97.1	109.7
Russell 2500® Growth	R.2500G	0.9	7.7	2.6	9.7	17.2	91.5	120.8 □
Russell 2500® Value	R.2500V	2.9 □	12.7 □	9.3 □	25.2 □	26.7	101.4 □	95.7
Russell 2000®	RUT-RUX	2.8 □	13.9 □	8.8 □	21.3 □	21.6	96.5	97.9
Russell 2000® Growth	RUO-USA	1.4	10.2	3.6	11.3	15.9	90.4	111.1
Russell 2000® Value	RUJ-USA	4.1 □	17.4 □	14.1 □	31.7 □	27.0	101.7 □	83.5
Russell 3000®	R.3000	2.0	5.8	4.2	12.7	27.5	98.2	98.1
Russell 3000® Growth	R.3000G	1.2	3.3	1.2	7.4	26.9	96.2	121.6 □
Russell 3000® Value	R.3000V	2.6 □	8.3	7.2 □	18.4	27.9 □	99.5 □	75.1

Source: FactSet, 12/31/16

APPENDIX

GLOBAL EQUITY INDEX PRICE RETURNS (PERCENT, AS OF 12/31/16)

□ = Top Quartile Performance

Country Benchmarks (U.S. Dollar)	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Russia (MICEX)	**9.5 □**	**13.7 □**	**20.5 □**	**47.9 □**	**-22.1**	**-18.3**	**-44.5**
Italy (FTSE MIB)	13.0 □	**10.1 □**	12.7 □	-12.8	-22.4	3.6	-62.9
Hungary (BUX)	**7.5 □**	**8.6 □**	**18.0 □**	**32.9 □**	**26.9 □**	**56.1 □**	**-16.1**
Greece (ATHEX Composite)	1.8	**6.8 □**	12.7 □	-1.0	-57.6	-23.1	-88.3
United States (S&P 500®)	**1.8**	**3.3 □**	**6.7**	**9.5 □**	**21.1 □**	**78.0 □**	**57.9 □**
Brazil (Bovespa)	1.1	**3.0 □**	15.1 □	68.9 □	-15.2	-39.2	-11.2
Euro Area (Euro STOXX 50)	**7.2 □**	**2.9 □**	**9.1**	**-2.2**	**-19.0**	**15.4**	**-36.1**
France (CAC 40)	5.6 □	**2.6 □**	8.9	1.8	-13.4	25.0	-29.8
Germany (DAX)	**7.3 □**	**2.5 □**	**12.6 □**	**3.8**	**-8.0**	**58.2 □**	**39.2 □**
Austria (ATX)	3.3	**2.2 □**	18.6 □	6.1	-21.3	12.5	-53.1
Norway (OSE Benchmark)	**3.0**	**2.0**	**10.3 □**	**15.2 □**	**-12.2**	**23.2**	**12.3**
Canada (S&P/TSX Composite)	1.6	**1.7**	5.3	21.7 □	-11.1	-2.9	2.8
Ireland (ISEQ Overall)	**4.3**	**1.4**	**9.7 □**	**-6.8**	**9.9 □**	**82.5 □**	**-44.6**
Japan (Nikkei 225)	2.0	**0.9**	7.9	3.6	5.7 □	49.1 □	13.4
Poland (WIG)	**6.9 □**	**0.8**	**9.8 □**	**5.4**	**-27.1**	**13.2**	**-28.6**
Thailand (SET)	1.8	**0.7**	4.8	20.4 □	9.0 □	32.6	129.1 □
Netherlands (AEX)	**5.1 □**	**0.3**	**5.2**	**6.2**	**-8.0**	**25.6**	**-22.0**
Czech Republic (PX-50)	4.1	**0.2**	7.4	-6.4	-27.7	-22.4	-52.7
Spain (IBEX 35)	**7.0 □**	**0.0**	**8.8**	**-4.9**	**-27.8**	**-11.3**	**-47.1**
Sweden (OMX Stockholm 30)	4.1	**-0.6**	6.9	-2.7	-19.5	15.9	-0.4
China (SSE Composite)	**-5.4**	**-0.9**	**1.3**	**-18.1**	**27.8 □**	**27.8**	**30.3 □**
Israel (TA-100)	1.1	**-0.9**	5.9	-1.4	-4.2	30.2	51.8 □
Finland (OMX Helsinki 25)	**4.8**	**-1.0**	**9.2**	**6.4**	**-0.6**	**54.5 □**	**1.1**
United Kingdom (FTSE 100)	4.1	**-1.5**	1.5	-4.1	-21.0	1.9	-27.5
Taiwan (TAIEX)	**-1.0**	**-1.8**	**6.9**	**13.1 □**	**-0.6**	**22.9**	**19.6 □**
Australia (ASX All Ordinaries)	1.9	**-2.1**	4.7	6.5 □	-13.5	-1.7	-6.9
Switzerland (SMI)	**4.6**	**-3.7**	**-1.8**	**-8.2**	**-12.3**	**27.4**	**12.4**
Portugal (PSI 20)	4.4	**-4.5**	-0.3	-14.5	-45.4	-30.8	-66.6
Belgium (BEL-20)	**3.1**	**-4.8**	**2.3**	**-5.4**	**-5.6**	**40.6 □**	**-34.3**
Singapore (FTSE Strait Times)	-1.6	**-5.3**	-5.5	-1.9	-20.5	-2.3	4.8
Hong Kong (Heng Seng)	**-3.4**	**-5.5**	**5.9**	**0.4**	**-5.6**	**19.6**	**10.5**
India (SENSEX)	0.8	**-6.3**	-1.9	-0.6	14.6 □	34.8	25.9 □
Denmark (OMXC 20)	**5.2 □**	**-7.4**	**-12.3**	**-15.1**	**10.3 □**	**84.1 □**	**60.6 □**
Mexico (IPC)	0.1	**-9.2**	-11.1	-11.0	-32.1	-16.6	-9.3
South Korea (KOSPI Composite)	**-1.1**	**-9.6**	**-1.9**	**0.3**	**-12.0**	**5.9**	**8.8**
New Zealand (NZX 50)	-1.8	**-10.4**	-2.3	10.8 □	23.1 □	87.8 □	67.8 □
Philippines (PSEi)	**0.9**	**-12.5**	**-17.0**	**-6.9**	**3.7 □**	**38.0 □**	**126.1 □**
Turkey (BIST 100)	2.9	**-12.9**	-16.8	-9.6	-29.6	-18.2	-19.6

Source: FactSet, 12/31/16