LOCUST CAPITAL

2nd Quarter 2016 Review

Dear Friends: July 5, 2016

Portfolio returns for the second quarter of 2016, while modest, were positive and generally a continuation of the first quarter despite the "Brexit"-induced market shock.

Commodities were the best performing asset class led by energy and gold. U.S. Bonds and Stocks also produced positive returns. In addition, REITs had a solid second quarter as investors sought out income-producing assets. European equity markets posted small negative returns dragged down by a stronger dollar and "Brexit" -related volatility.

Index	**Index Close**	**Quarter Price Change (%)**
S&P 500	2,098.86	2.46%
DJIA	17,929.99	2.07%
NASDAQ	4,842.67	-0.22%
Barclays Aggregate Bond	112.62	2.20%
MSCI Europe-Australasia-Far East	55.82	-0.33%
MSCI Emerging Markets	33.98	1.10%

During April markets digested economic data after the volatility of the first quarter. By late May confidence had solidified about the global economy avoiding a recession due to a slowdown in the Chinese economy. Markets continued to stabilize and began to embrace the idea that the economy might be strong enough for the Federal Reserve to implement a summer rate hike. However, by mid-June we saw the U.S. Federal Reserve announce that, due to the upcoming "Brexit" vote and mixed economic data, a rate rise was perhaps premature.

Thankfully, the Federal Reserve made the correct decision not to take any action at its June meeting because the U.K. surprised the world with a vote to exit the European Union. The June 23rd "Brexit" vote caught markets unprepared and resulted in an immediate spike in volatility as equities were repriced lower and investors scrambled to understand the economic implications. The implications of "Brexit" are still not fully understood by the market and we expect it might take years to understand the full impact. Surprisingly, and in a relative short time period, equity markets stabilized as traders discounted "Brexit" and markets rebounded from the kneejerk selloff to end the month close to record highs. Bond markets, however, held to their post-"Brexit" levels as global central bankers spoke encouragingly and all forecasts of the U.S. Federal Reserve raising rates in 2016 vanished.

As we cautiously enter the third quarter of 2016, we foresee global markets continue to digest upcoming economic data (both Domestic and Global) and speculation continue about the long-term impacts of "Brexit". In addition, we expect to see public focus begin to shift towards the U.S. Presidential race and would not be surprised if headline catching political rhetoric is an additional source of market volatility. Consistent with sound portfolio management, we favor high quality markets when faced with expected and persistent volatility. Specifically, we are maintaining our overweight to U.S. value stocks relative to other equity markets and continue to prefer corporate bonds relative to sovereign debt. In summary, we believe that in these periods of increased volatility our clients are best served by maintaining a balanced and well diversified portfolio positioned to achieve long term financial goals.

Enjoy your summer,

Locust Capital Management, LLC