



If you prefer to receive this letter via e-mail, please let us know: carolyn@weatherlyassetmgt.com

Second Quarter 2018 Weather(ly) Report July 2018

U.S. tax reform continued to fuel growth, hiring and stronger markets albeit trade tariffs, higher interest rates and tight labor markets caused additional volatility. For the second quarter, stock indices were positive with NASDAQ up 6.3%, S&P 500 up 2.9% and DJIA up 0.7%, excluding dividends, with FANG stocks and large cap equities posting a strong quarter. Per Barron's, historically the average postwar bull market gained 161% over 1821 days, however the current bull market at 3400 calendar days is already the 2nd longest on record. The S&P 500 has gained 302% excluding dividends, nearly 400% including dividends, since its bottom in March 2009 causing investors to evaluate the end of the cycle. Trade talks loom and hit select industrial and material stocks depending on updates and negotiations. Growth stocks outperformed value during the quarter and small cap outperformed mid cap. Sector performance varied with energy ETFs up 14.5%, DJ REITs up 8.5%, health care up 3.8%, biotech up 3% and MSCI emerging market down 7.9%.

While inflation remained subdued, the Federal Reserve continued to raise rates with its second rate rise this year from 1.75% to 2% at the June meeting. The yield curve (the difference between short and long-term treasury yields) continues to flatten. The current two-year yield is at 2.52% and 10-year yield at 2.86%. The Fed's dot plot shows expectations of one to two more rate hikes before year end catalyzing further flattening or potential yield curve inversion. Labor markets remain tight in the U.S. with unemployment at 4%, as qualified workers are harder to find, and Department of Labor numbers showing US workers leaving their jobs at the fastest rate in 17 years. The Fed's balancing act continues between growth and inflation with the Fed's current target at 2%.

Weatherly continued to move clients toward a neutral asset allocation and remove risk from portfolios with sales of emerging market equity holdings in mid-May and domestic real estate ETF and mutual fund sales in late June. With the increase in interest rates we have continued to invest in high-quality taxable and municipal bonds as appropriate for client portfolios, utilizing both fixed and floating rate notes. Oil and energy positions were retained contributing significantly to client portfolio returns as oil prices climbed. Weatherly's largest holdings are highlighted below elaborating on sector and company focus:

"Top Ten" Holdings *

- | | |
|-----------------------------|---------------------|
| 1. Netflix | 6. Adobe |
| 2. Apple Inc. | 7. Home Depot Inc. |
| 3. Amazon | 8. Microsoft Corp. |
| 4. Invesco Global Water ETF | 9. AT&T Inc. |
| 5. SPDR Biotech ETF | 10. Starbucks Corp. |

Our team was pleased to be selected by the Financial Times for their list of Top Registered Investment Advisers 2018 on June 28th, 2018. To view the full article, list, and related disclosures, please visit www.weatherlyassetmgt.com/newsroom.

Global politics continued to pose a challenge throughout the second quarter with Peru's and Mexico's presidential election outcomes and Germany's Merkel driving tough negotiations regarding immigration with her EU colleagues. The Bank of Russia cut key interest rates by 50 basis points to assist weak growth and currency stability. Meanwhile, interest rates in Brazil and China remained unchanged. The World Cup, hosted in Russia, had multiple upsets leaving Uruguay v. France, Brazil v. Belgium, Russia v. Croatia and Sweden v. England to duke it out in the quarter finals. With Justice Kennedy's upcoming retirement, President Trump's potential Supreme Court nominees narrowed with an announcement expected on June 9th, 2018.

Although the Department of Labor rule was struck down in court in March 2018, we continue our role as fiduciary, putting clients' interests first as we have since inception in 1994. Clients of Weatherly received their quarterly reports via portal or mail at quarter end. We continue to focus clients on long term planning, tax minimization, neutral asset allocation and diversification in holdings through charitable giving funds (i.e. DAF) or Qualified Charitable Distribution (QCD) with part or all their retirement RMD (required minimum distribution). Our team welcomes the opportunity to discuss strategy and planning in further detail at your convenience. Please do not hesitate to reach out to schedule a dialogue to help structure your planning and investments to achieve your goals for maximum impact.

*Please see reverse side

-The Weatherly Crew

*** TOP TEN DISCLOSURE**

“Top Ten” holdings consist of Weatherly’s largest stock positions as of quarter end. A full list of holdings is available upon request. It should not be assumed that any of the securities, transactions, or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account’s portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account’s entire portfolio and in the aggregate may represent only a small percentage of an account’s portfolio holdings.

| | <u>WAM</u> <u>Equity**</u> <u>(gross fee)</u> | <u>WAM</u> <u>Equity</u> <u>(net fee)</u> | <u>S&P</u> <u>500t</u> | <u>MSCI ACWI</u> <u>(gross USD)</u> | <u>WAM</u> <u>Fixed**</u> <u>(gross fee)</u> | <u>WAM</u> <u>Fixed (net</u> <u>fee)</u> | <u>Merrill</u> <u>Lynch 1-3</u> <u>year</u> | <u>WAM</u> <u>Balanced**</u> <u>(gross fee)</u> | <u>WAM</u> <u>Balanced</u> <u>(net fee)</u> | <u>Blended</u> <u>Benchmark</u> |
|------------------------------|---|---|-------------------------------|--|--|--|---|---|---|------------------------------------|
| 2003 | 28.70% | 27.70% | 28.69% | 34.63% | 2.89% | 2.38% | 1.90% | | | |
| 2004 | 14.70% | 13.70% | 10.87% | 15.75% | 4.05% | 3.55% | 0.91% | | | |
| 2005 | 12.65% | 11.65% | 4.92% | 11.37% | 2.43% | 1.93% | 1.66% | | | |
| 2006 | 16.21% | 15.21% | 15.78% | 21.53% | 4.94% | 4.44% | 3.95% | | | |
| 2007 | 11.18% | 10.18% | 5.49% | 12.18% | 5.47% | 4.97% | 7.32% | | | |
| 2008 | -34.04% | -35.04% | -36.99% | -41.84% | -0.95% | -1.45% | 6.61% | | | |
| 2009 | 32.36% | 31.36% | 26.47% | 35.41% | 10.63% | 10.13% | 0.78% | | | |
| 2010 | 11.93% | 10.93% | 15.06% | 13.21% | 6.77% | 6.27% | 2.35% | | | |
| 2011 | -5.58% | -6.85% | 2.12% | -6.86% | 4.37% | 3.87% | 1.55% | | | |
| 2012 | 16.36% | 15.36% | 16.00% | 16.80% | 5.99% | 5.49% | 0.43% | 11.84% | 11.09% | 8.18% |
| 2013 | 28.20% | 27.20% | 32.41% | 23.44% | -1.62% | -2.12% | 0.36% | 15.41% | 14.66% | 15.61% |
| 2014 | 8.53% | 7.53% | 13.69% | 4.71% | 5.55% | 5.05% | 0.62% | 7.43% | 6.68% | 7.01% |
| 2015 | 4.86% | 3.86% | 1.38% | -1.84% | 1.31% | 0.81% | 0.54% | 3.55% | 2.80% | 1.09% |
| 2016 | 8.70% | 7.70% | 11.95% | 8.48% | 2.79% | 2.29% | 0.88% | 6.41% | 5.66% | 6.33% |
| 2017 | 24.52% | 23.52% | 21.82% | 24.62% | 4.49% | 3.99% | 0.42% | 17.01% | 16.26% | 10.75% |
| 2 nd Quarter 2018 | 4.98% | 4.73% | 3.43% | 0.72% | 0.26% | 0.13% | 0.23% | 3.44% | 3.25% | 1.83% |
| Year-to-Date 2018 | 7.77% | 7.27% | 2.65% | -0.13% | -0.46% | -0.71 | 0.10% | 5.12% | 4.74% | 1.38% |
| 3-Year Trailing (Ann.) | 13.21% | 12.21% | 11.92% | 8.78% | 2.59% | 2.09% | 0.42% | 9.39% | 8.64% | 6.13% |
| Since Inception (Ann.) | 10.04% | 9.04% | 9.94% | 7.56% | 4.79% | 4.29% | 3.57% | 10.19% | 9.44% | 7.66% |
| <i>Please see footnotes</i> | | | | | | | | | | |

**** PERFORMANCE DISCLOSURE**

Please note, the Weatherly Asset Management (WAM) Equity performance is a mid- to large-cap value equity approach and the WAM Fixed Income performance is a high-quality intermediate-maturity investment approach. Performance numbers up to 12/31/05 are prepared in compliance with Association of Investment Management Research Performance Presentation Standards (AIMR PPS). Periods from 12/31/05 to 12/31/10 meet the requirements of the revised version of Global Investment Performance Standards (GIPS). Periods from 12/31/10 are calculated in a similar manner but GIPS standards no longer permit carve outs, therefore we no longer claim GIPS compliance. The gross of fee returns shown above are presented after deduction of all transaction costs, but prior to the deduction of advisory fees and such other possible expenses as custodial fees. The net of fee return is calculated by subtracting the advisory fees. Investment advisory fees are described in Part II of Weatherly’s Form ADV. For the 2nd Quarter 2018, the maximum quarterly management fee is 0.25% for Weatherly’s Equity Composite and 0.125% for the Fixed Income Composite.

Composite rates of return, since inception on an annualized basis after deduction of the maximum quarterly management fee is as follows for equity accounts for 1995, 32.41%, for 1995 and 1996 combined, 28.50%, for 1995-1997 combined, 30.24%, for 1995-1998 combined, 26.15%, for 1995-1999 combined, 25.06%, for 1995-2000 combined, 18.31%, for 1995-2001 combined, 12.70%, for 1995-2002 combined, 7.44%, for 1995-2003 combined, 9.53%, for 1995-2004 combined, 9.94%, for 1995-2005 combined, 10.05%, for 1995-2006 combined, 10.48%, for 1995-2007 combined, 10.46%, and for 1995-2008 combined, 6.36% for 1995-2009 combined 7.87%, for 1995-2010 combined, 8.06%, for 1995-2011 combined, 7.14%, for 1995-2012 combined, 7.58%, for 1995-2013 combined 8.57%, for 1995-2014 combined 8.54%, for 1995-2015 combined 8.31%, for 1995-2016 combined 8.29%, for 1995-2017 combined 8.91%. For fixed income accounts 1995, 11.49%, for 1995-1996 combined, 8.35%, for 1995-1997 combined, 7.63%, for 1995-1998 combined, 7.58%, for 1995-1999 combined, 6.18%, for 1995-2000 combined, 6.50%, for 1995-2001 combined, 6.37%, for 1995-2002 combined 6.37%, for 1995-2003 combined, 5.92%, for 1995-2004 combined 5.68%, for 1995-2005 combined, 5.33%, for 1995-2006 combined, 5.25%, for 1995-2007 combined, 5.23%, for 1995-2008 combined, 4.74%, for 1995-2009 combined, 5.09%, for 1995-2010 combined, 5.17%, for 1995-2011 combined, 5.09%, for 1995-2012 combined, 5.11%, for 1995-2013 combined 4.72%, for 1995-2014 combined 4.73%, for 1995-2015 combined 4.54%, for 1995-2016 combined 4.44%, for 1995-2017 combined 4.42%.

Composite returns consist of all 100% discretionary accounts under management utilizing individual stock and bond holdings selected by WAM. Balanced portfolio segments have been included in single asset composites. Effective 1/1/06 to 12/31/10, cash and cash returns have been allocated to the segment returns according to the procedures outlined by Association of Investment Management Research (AIMR). Effective 1/1/16, equity and fixed composite returns no longer include cash or a weighting to cash. Dividends and interest received is generally not reinvested in the same security but is included in total return calculations. Effective 2010, Equity Composite performance excludes two related family groups which hold a concentrated position that due to tax considerations cannot be managed in the same manner as the overall equity composite. The composite performance represents the performance of an aggregate of the firm’s managed accounts that align with a particular strategy. Individual account performance will vary and some clients may have experienced returns significantly different from the composite. Investing entails risk and past performance is no guarantee of future performance.

These performance numbers are provided under the flash reports provision of these said standards. “As prospective and current clients have received past results that were in compliance with the required disclosures within a 12-month period, firms may present interim data and returns (i.e. “Flash numbers”) without quarterly disclosures.” A full presentation, including all required disclosures, is available upon request. The WAM Balanced Composite represents actual portfolios utilizing strategic asset allocation with both equity and fixed income components. The fixed income component for individual portfolios underlying the balanced composite have allocations tailored specifically for that account and client, and varies between 5% and 80%, whereas the blended benchmark is 50% S&P 500 Total Return and 50% Merrill Lynch 1-3 Year representing an average of a 50% Equity and 50% Fixed Income benchmark allocation in the Composite.