ICR® 3rd Quarter Newsletter – October 2016

Considering the late-June chaos caused by the Brexit vote, markets were surprisingly calm in the third quarter. The S&P 500 drifted upward for most of the summer months, posting a quarterly gain of 3.3%. July and August were particularly calm, with U.S. economic data coming in strong enough not to be worrisome, but weak enough to deter the Federal Reserve from raising interest rates in September. Volatility returned at quarter's end as concerns about Deutsche Bank's financial health sparked fear of the possibility of the European version of a Lehman moment.

In spite of banking concerns in Europe, foreign markets rallied in the third quarter after starting the year poorly. The MSCI EAFE saw a 5.8% quarterly return, though that still left it down slightly for the year. Emerging markets posted an 8.3% gain for the quarter, bringing the year-to-date return up to 13.8% for an asset class that has lagged in recent years.

Interest rates drifted up a bit in the third quarter with the ten-year U.S. treasury yield going from 1.49% to 1.61%. The Federal Reserve continues to give stronger indications that it plans to raise rates sooner rather than later. Based on Fed Fund futures prices, investors are currently pricing in a greater-than-50% chance of a rate hike at the Fed's December 14th meeting, though economic data will surely affect expectations.

The fourth quarter promises to be interesting with investors keeping an eye on Deutsche Bank's troubles and parsing economic data for what it might mean to the self-described "data-dependent" Federal Reserve. And let's not forget that we have an election coming up on November 8th. Currently, the markets seem to be pricing in a Hillary Clinton victory, but it's safe to expect some volatility as the 24/7 news coverage and constant stream of polls provide more insight into the likely outcome.

"Stumpf" happens! And when it does, culture and values matter.

In September, Americans were stunned to learn that employees at Wells Fargo had opened as many as two million fake accounts and that 5,300 people were fired as a result of the scam. This prompted two Congressional hearings and a Justice Department investigation. Since then, the embattled CEO, John Stumpf, has agreed to forfeit $41 million and resigned as both CEO and chairman. Even so, Stumpf walks away with millions, but the fraud has been much costlier for the bank's once-stellar reputation and for those who lost their jobs or hold Wells Fargo stock. Thus far, investors have lost well over $20 billion in market value. And everyone is asking, "What in the world went wrong at Wells Fargo?"

Following the financial crisis, John G. Taft, who is the great-grandson of President and Chief Justice William Howard Taft and the grandson of Senator Robert Taft, wrote a book titled, *Stewardship: Lessons Learned from the Lost Culture of Wall Street.* In it, he argues that many financial institutions have abandoned a culture that values service and stewardship in favor of a market culture focused on growth, profitability, and performance goals and which sanctions winning at any cost.

We agree with John Taft. Corporate culture matters. It is the learned and shared model for employee behavior. It pervades and regulates all aspects of employees' social interactions, both with each other and with customers. Culture is what translates a firm's values, beliefs, norms, and vision into action and ultimately determines how work gets done. However, culture also serves as an adaptive mechanism. It is dynamic and must evolve over time.

We live in a time of tremendous change and disruption, and organizations must adjust to survive. Financial institutions are navigating a challenging environment that includes intense competition, global uncertainty, historically low interest rates, an underlying sense of distrust, and increased regulations stemming from their contributions to the great recession. It's no wonder that efforts to adapt and compete in such an environment include pursuing every opportunity to sustain revenue; but at what cost? It seems that many organizations are compromising their core values and identities in their effort to adapt to a rapidly changing environment.

The challenge for Wells Fargo and for all financial institutions is not to throw the baby out with the bath water. We must figure out how to successfully adapt to new challenges while staying true to our core values and core purpose. Companies that enjoy enduring success have core values and a core purpose that remain fixed for a long time while their business strategies continually adapt to the changing world. As Starbucks' founder Howard Schultz puts it: "Winners see trials as opportunities to reinforce values, not abandon them."

At ICR, we appreciate the opportunity to serve others by doing good and meaningful work that benefits our clients and is conducted in an ethical manner. We consider it a privilege to be the stewards of our clients' confidence and hard-earned wealth, and the pressure to do the right thing is enormous. As fiduciaries, we explicitly prioritize our stakeholders. The clients must come first, all the time. These are our core values and our common purpose. They are the principles that drive our business decisions and all innovation. We discuss them regularly and constantly ask ourselves, "How can we better serve our clients as we meet the challenges of a rapidly changing world?" When everyone is focused on the same thing, it's easier to do good work.

"There can be no happiness if the things we believe in are different from the things we do." - Freya Stark

Thank you for your loyal support. We look forward to discussing any questions or concerns you may have.

Sincerely,

James A. Heine

James L. Cobb

Market Report (as of 9/30/16)

Index	**2016 YTD (%)**	**3-Year Annualized (%)**	**5-Year Annualized (%)**
S&P 500	6.08	8.84	13.89
Dow Jones Industrial Average	5.07	6.56	10.90
U.S. Aggregate Bond Index	5.80	4.03	3.08
MSCI EAFE (Foreign Index)	-0.85	-2.18	4.38