

BARRETT CAPITAL

MANAGEMENT, LLC

Quarterly Investment Letter

Second Quarter 2017

Vol. XVI Issue 2

Key Takeaways

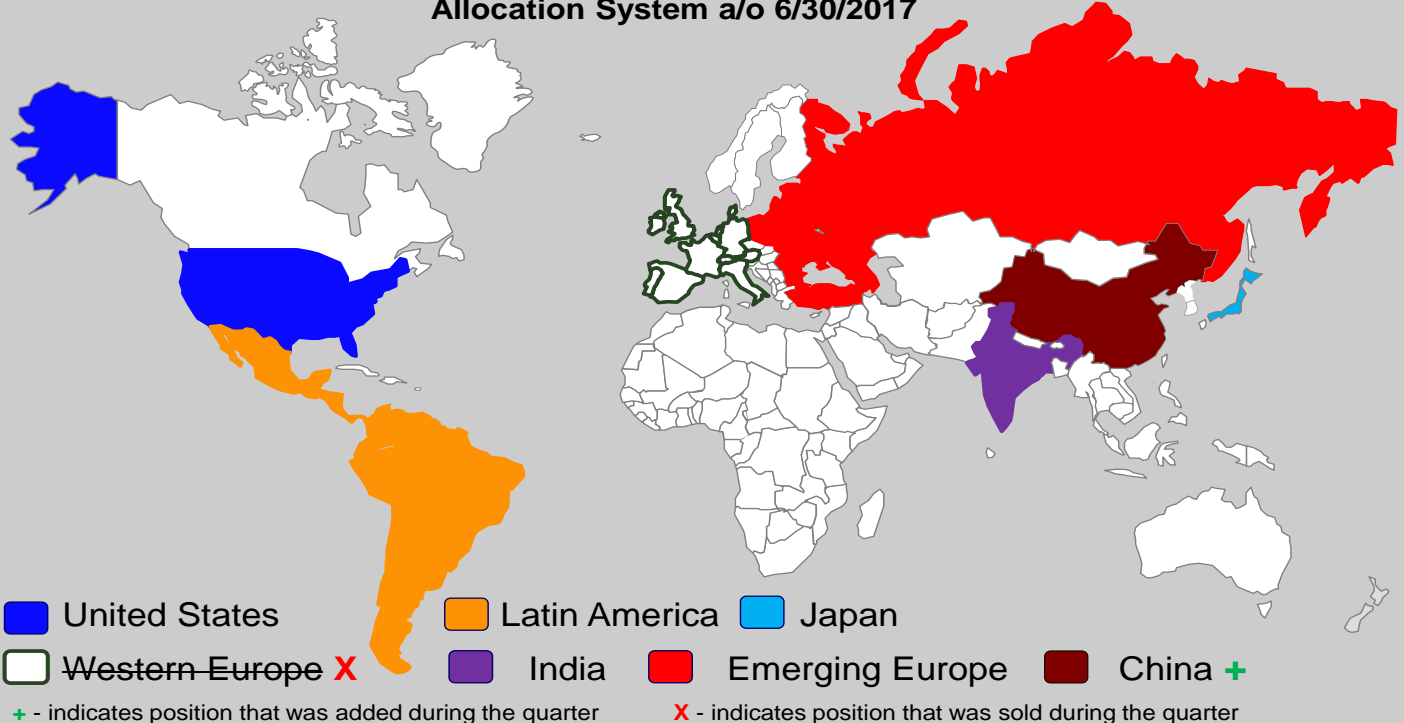
Foreign equity markets continue their outperformance vs. U.S. equities. Developed international stocks led the way in the second quarter with a return of +6.4%, followed by emerging-market stocks up +3.4%, and U.S. stocks rose +3.1%.

Our portfolios are benefitting from the strong performance in international equities. With a lack of a home country bias (the tendency for investors to focus more on investments within their own country) in our equity exposure, our portfolios are strongly benefitting from the outperformance of foreign equity markets. With valuations in most foreign markets still cheap compared to U.S. stocks, this strong performance seems likely to persist. We are pleased to report that the Global AI™ Program, which forms the growth component of all of our client portfolios, is up over 11% for the first half of 2017.

Defensive assets performed well in the second quarter, adding to returns for the year. The core bond index rose 1.5% during the quarter, largely ignoring the FOMC rate hike at their June meeting. The Fed rate hike was widely expected by investors and much of the effect was already reflected in prices.



Regional Equity Exposure of Portfolios Using our Proprietary Global AI™ Allocation System a/o 6/30/2017



Second Quarter 2017 Investment Commentary

Portfolio Positioning and Outlook

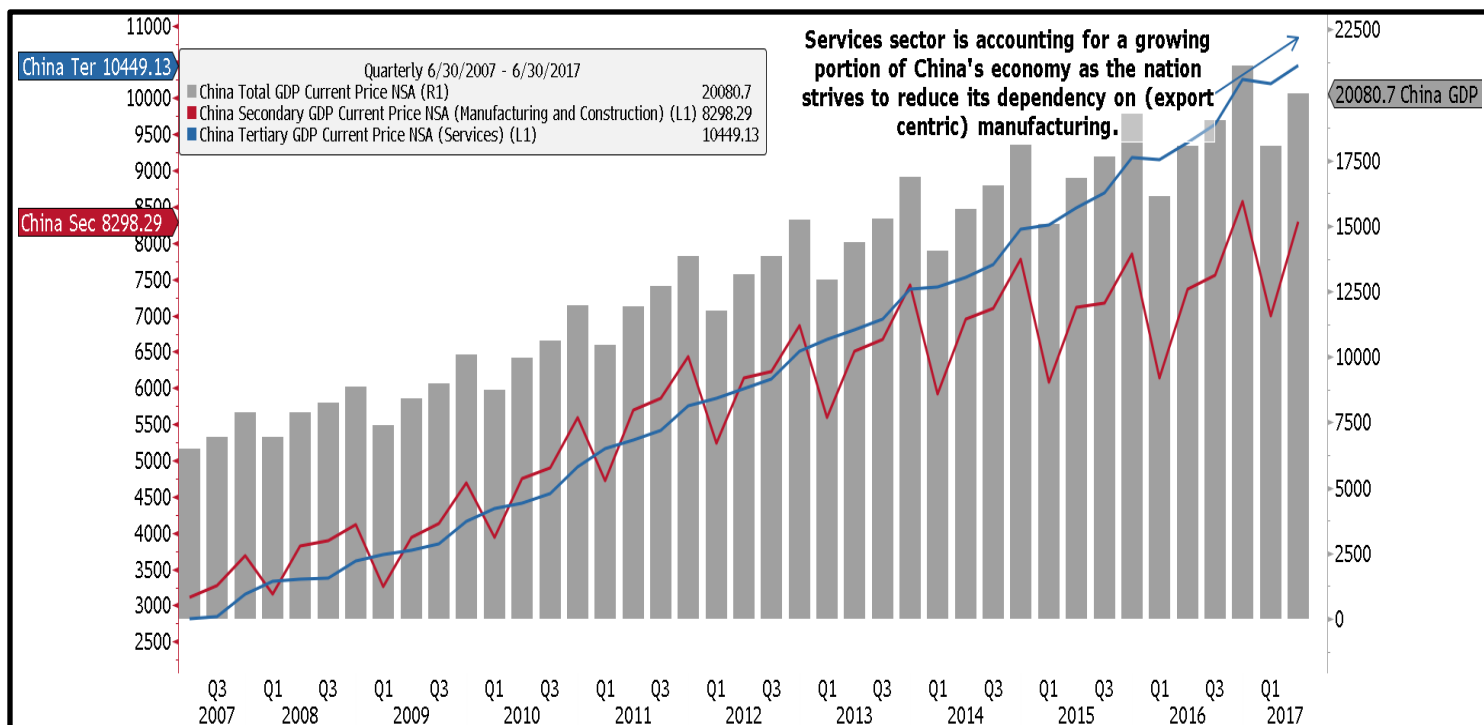
U.S. Stocks: In aggregate, our U.S. equity managers made a positive contribution to performance during the quarter. Continuing the trend started in the first quarter (and in sharp contrast to 2016), growth stocks outperformed value stocks by a wide margin. The U.S. economy and corporate fundamentals continue to exhibit signs of stability, plodding along at a steady, yet unexciting pace. While market momentum remains strong, high valuations suggest long-term return potential is muted.

Fixed-Income: For the second quarter our core fixed-income funds performed in line with the core benchmark, yet all but one are still exceeding the benchmark for the year. Our more flexible bond fund managers added value, exceeding returns of the core bond index by a wide margin, and extending the outperformance for the year. We continue to feel confident that our combination of flexible strategies in this area should serve us well in the face of a likely rising interest rate environment over the next several years.

International Stocks: Most foreign equity markets were positive for the second quarter, adding to already strong returns for the year. We had two changes to our portfolios during the second quarter; we initiated a position in China at the beginning of May, and we exited our position in Western Europe. These changes, in aggregate, had a positive contribution to returns during the quarter.

Country/Regional Updates

China: **OUTLOOK POSITIVE** We initiated a new position at the beginning of May. Our China focused fund was up over 9% for the period from May-June.



Source: Bloomberg LP. Data as of 6/30/17

- China's GDP growth came in at 6.9% for the second quarter bolstering investor confidence in China's ability to grow while shifting to more domestic based growth and away from export dependency.

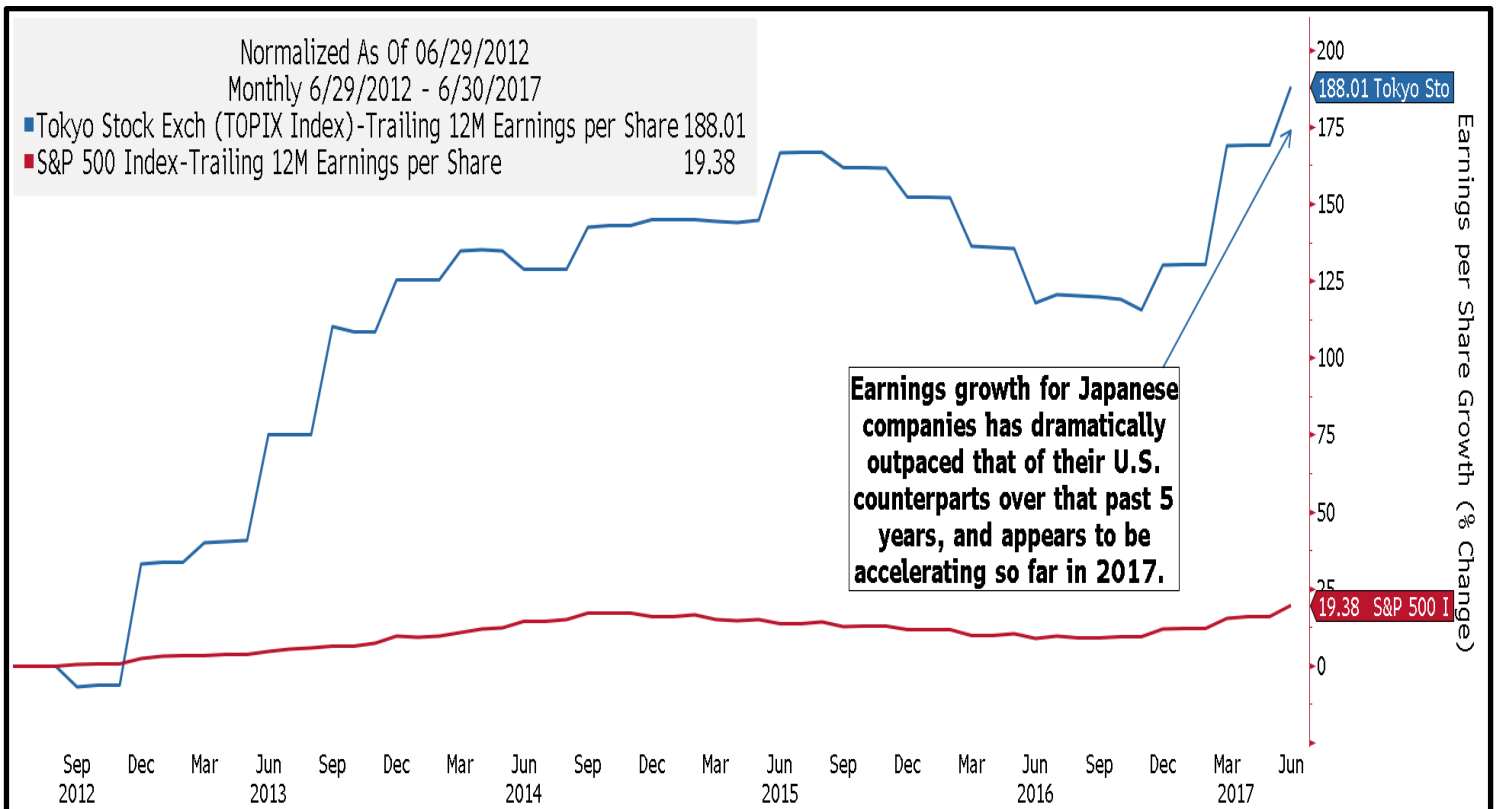
Western Europe: **OUTLOOK NEGATIVE** Our Western European focused funds were up between 4-11% for the second quarter.

- Despite positive returns of 9-20% for the year in our Europe focused funds, signals from our Global AI™ models caused us to exit our positions at the end of May.

Emerging Europe: **OUTLOOK POSITIVE** Our Emerging Europe focused funds were up over 3% for the second quarter.

- Russian stocks declined as the continued glut of crude oil pushed prices lower for Russia’s largest commodity export.
- Reduced political uncertainty after a constitutional referendum on April 16th and better than expected GDP growth spurred Turkish stocks nearly 20% higher for the quarter.

Japan: **OUTLOOK POSITIVE** Our Japan focused fund was up nearly 8% for the second quarter.



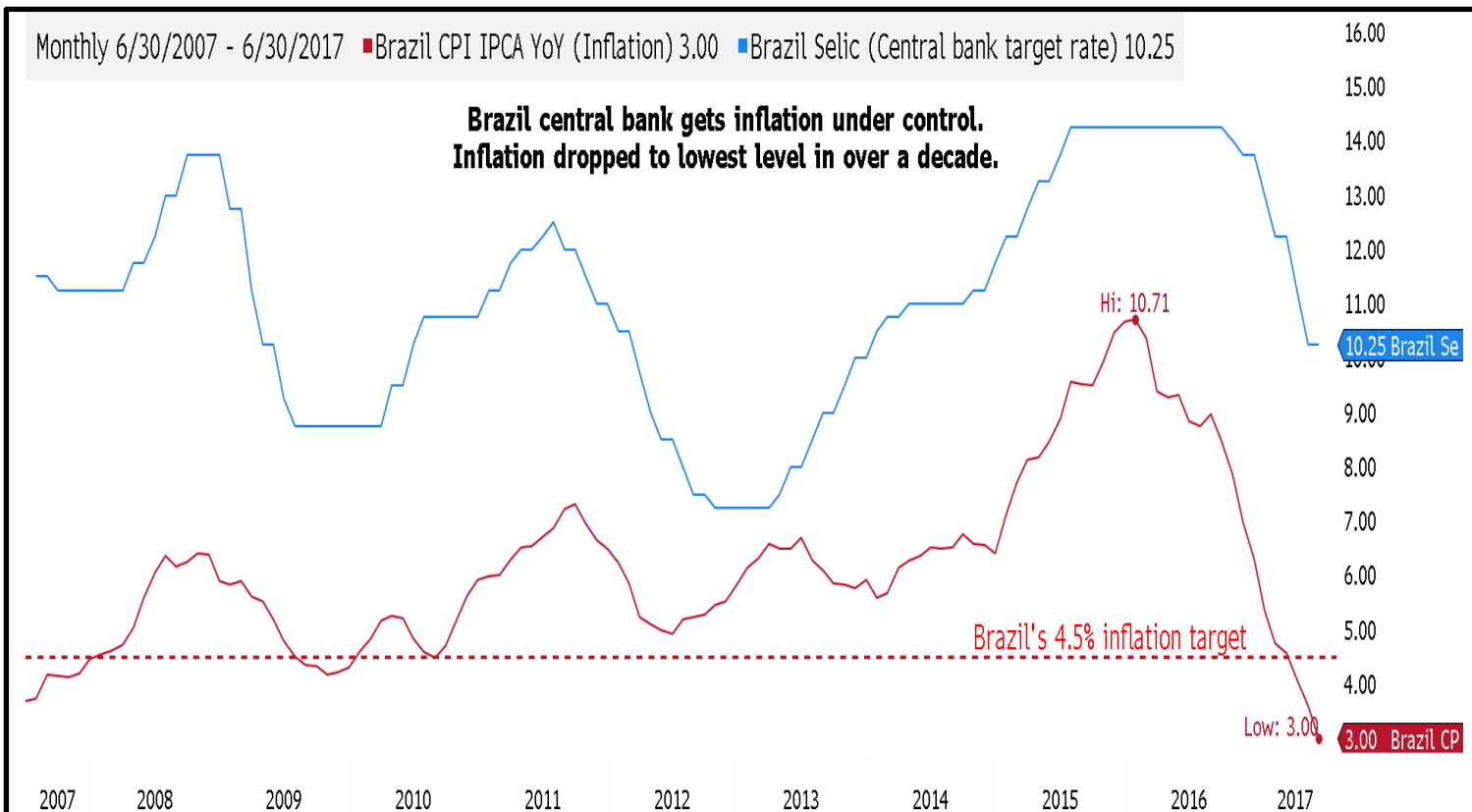
Source: Bloomberg LP Data as of 6/30/17

- Strengthening corporate fundamentals outweighed political and central bank uncertainty driving Japanese markets higher.
- Continued improvements in the labor markets bodes well for sustained growth as the job offer-to-applicant ratio reached 1.49x in May, the highest level in more than 40 years.

India: **OUTLOOK POSITIVE** Our India focused funds were up between 4-9% for the second quarter.

- First quarter GDP missed expectations, but was attributed to the transitory effects from last November’s demonetization initiative. Investors largely ignored those backward looking data, and focused on positive corporate earnings and future growth prospects, driving markets to record levels in the process.

Latin America: OUTLOOK POSITIVE Our Latin America focused funds were down between 0.7-2.9% for the second quarter.



- Brazil's central bank policy measures appear to have worked - perhaps too well. CPI in Brazil dropped to its lowest level in over a decade, opening the door to further monetary stimulus, which should bode well for economic growth.
- Despite improving fundamentals in Brazil, corruption charges against president Temer spooked markets.
- Upgraded growth prospects, and a strengthening Peso helped Mexico's stock market rally close to 7% for the quarter.

Putting It All Together

We are very pleased with the success we have witnessed this year for our portfolios (solid returns and 100% positive months so far). We also know that volatility will eventually return to the markets. When this happens, we are confident that our proprietary Global AI™ allocation system will give us the ability to navigate through whatever environment may arise.

Best Regards,

Russell E. Lundeberg Jr., CPA
Principal & Chief Investment Officer
Barrett Capital Management, LLC

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