

BARRETT CAPITAL

MANAGEMENT, LLC

Quarterly Investment Letter

Third Quarter 2017

Vol. XVI Issue 3

Key Takeaways

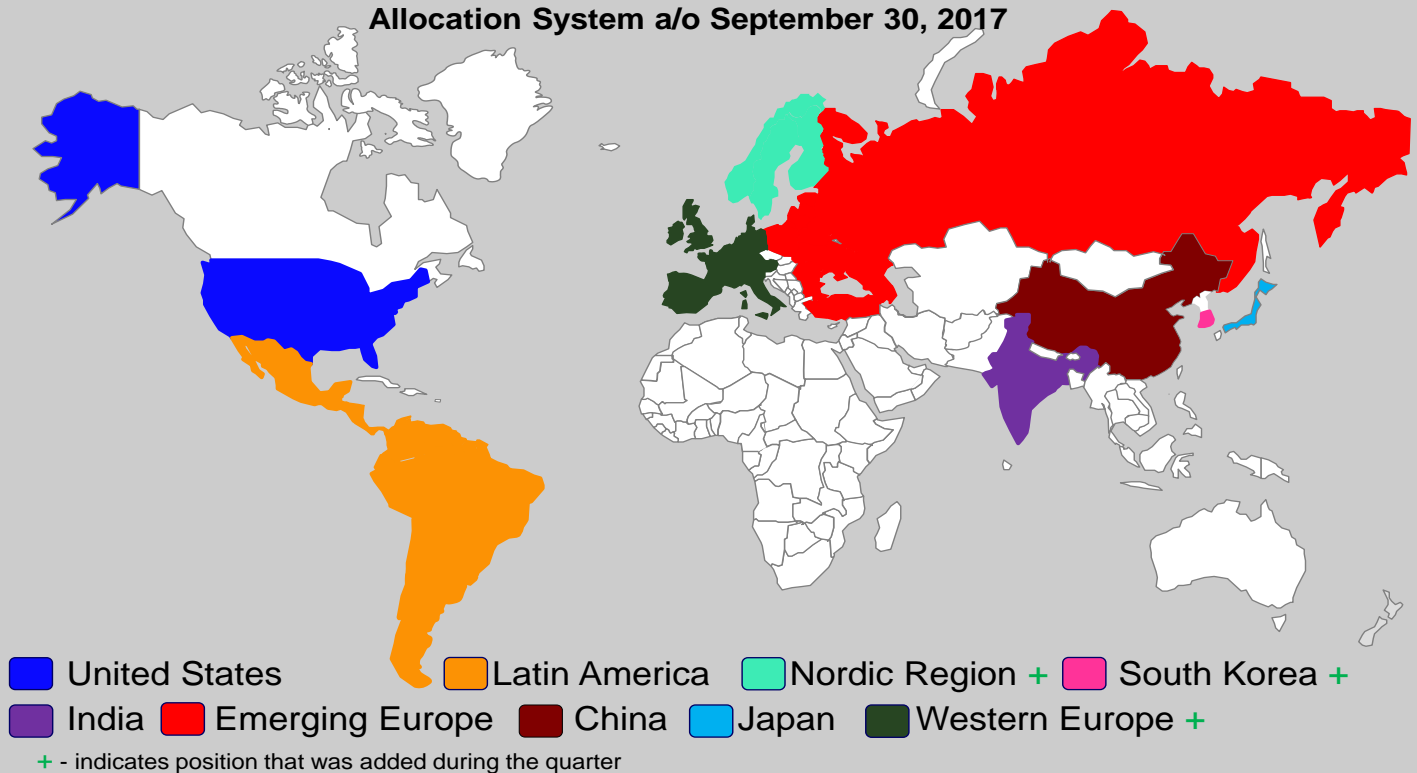
Foreign equity markets continue to lead in performance vs. U.S. equities. Emerging-market stocks surged higher during the third quarter posting a return of +8%*, followed by developed international stocks with a return of +5.5%*, and U.S. stocks rose +4.4%*.

Economies around the world continue to grow in relative harmony. Growth continued in most economies around the world, with more robust growth coming from countries outside of the U.S. Our portfolios continued to benefit from the outperformance of foreign equity markets. With standout performance coming from Latin America, China, and Emerging Europe, each of which returned over 10% during the quarter. The Global AI™ Program, which forms the growth component of all of our client portfolios, is up 18% for the year as of September 30, 2017.

The Federal Reserve's plan to reduce its balance sheet fails to spook markets. At its September meeting, the Fed announced plans to slowly reduce the amount of bonds it owns. Despite this, the core bond index rose 0.7% during the quarter.

GLOBAL AI™
ALLOCATION INTELLIGENCE

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



* - Emerging markets stocks represented by Vanguard FTSE Emerging markets ETF, Developed International stocks represented by Vanguard FTSE Developed Markets ETF, U.S. Stocks represented by SPDR S&P 500 ETF. Source Bloomberg L.P.

Third Quarter 2017 Investment Commentary

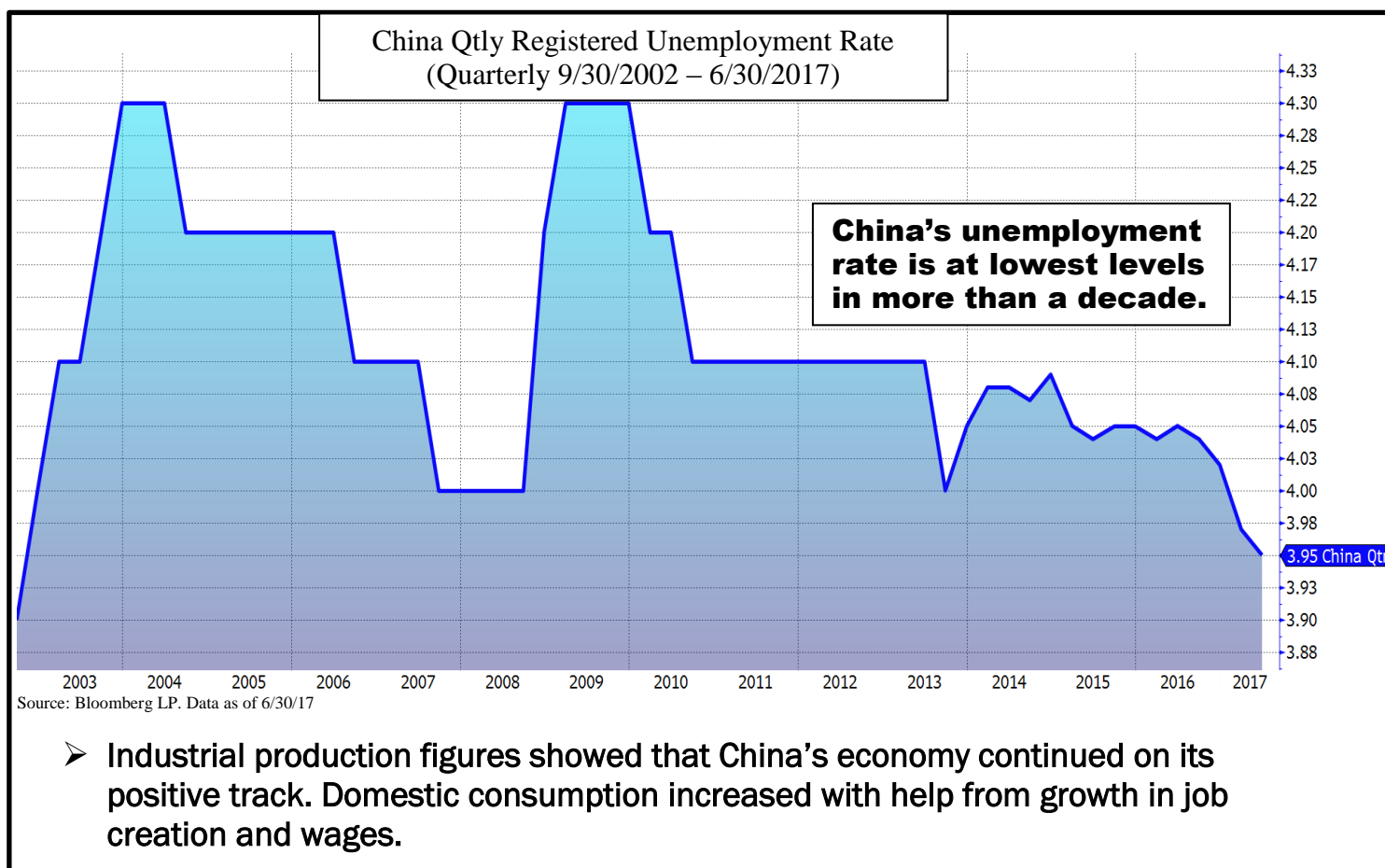
Portfolio Positioning and Outlook

U.S. Stocks: Our U.S. equity managers all made a positive contribution to performance during the quarter. As has been the case all year, growth stocks outperformed value stocks. The U.S. stock market got off to a positive start for the quarter on the back of better than expected corporate earnings, but then stumbled in August as tensions increased between the U.S. and North Korea. Stocks made additional gains to finish the quarter as news of potential tax reform made investors cheer. While these results were encouraging, we still believe that the high valuations in U.S. stocks will restrict long-term upside from current levels.

International Stocks: Foreign equity markets extended their gains for the year with strong positive returns during the third quarter. We added three new positions to our portfolios during the quarter; we initiated positions in the Nordic Region and South Korea at the beginning of July, and we initiated a position in Western Europe at the beginning of September. With the addition of these three positions, we now have positive signals on all nine of the country/ regional components in the Global AI™ program. Our research suggests that potential returns increase in step with the number of positive signals.

Country/ Regional Updates

China: **OUTLOOK POSITIVE** Chinese stocks continued to surge higher during the third quarter. Our China focused fund was up nearly 12% for the third quarter.



Western Europe: **OUTLOOK POSITIVE** We initiated a new position in Western Europe at the beginning of September. Our Western European focused funds were up between nearly 2 to over 4% for the month of September.

- European economies saw a corporate earnings season that largely beat expectations.
- European policy makers increased their estimates for future economic growth as German and French economies expanded at the fastest rate in six years.

Nordic Region: **OUTLOOK POSITIVE** We initiated a new position at the beginning of July. Our Nordic Region focused fund was up over 1% for the third quarter.

- Nordic economies showed solid growth in the third quarter as spending by optimistic consumers helped drive strong retail sales throughout Finland, Norway and Sweden.

South Korea: **OUTLOOK POSITIVE** We initiated a new position at the beginning of July. Our South Korea focused fund was up 0.3% for the third quarter.

- Despite solid economic fundamentals, South Korean stocks see-sawed through the quarter. Early gains quickly reversed as provocations from North Korea accelerated in August. Stocks moved higher to end the quarter as tensions eased and investors turned their focus to fundamentals.

Emerging Europe: **OUTLOOK POSITIVE** Our Emerging Europe focused funds were up over 10% for the third quarter.



Source: Bloomberg LP Data as of 9/30/17

- Russian stocks rocketed higher aided by surging crude oil prices which bolstered the outlook for Russia's energy centric economy.
- Russia's Central bank added further stimulus to the economy with a cut of 0.5% to their key interest rate.

Japan: **OUTLOOK POSITIVE** Our Japan focused fund was up nearly 4% for the third quarter.

- 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 1-1.5% for the third quarter.

- While second quarter growth missed expectations, Indian stocks advanced based on optimism that pro-growth government initiatives would enhance future economic growth.

Latin America: **OUTLOOK POSITIVE** Our Latin America focused funds were up between 17-19.5% for the third quarter.

- Brazil's stock market surged 23% as economic growth continued to exceed expectations and concerns over potential corruption charges against president Temer were laid to rest.
- Mexican stocks moved higher along with optimism over economic growth.

Putting It All Together

Stability and consistency seem to be the hallmarks of the year so far. We are thrilled with the success that we have been able to achieve for our clients. And while it is fun to see that we have been able to achieve positive returns in every month this year, that in and of itself is not a necessary ingredient to investment success. The inevitable end to such a streak is nothing to bemoan; it will simply signal a return to a more normal market environment. 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