KCM'S KOMMENTS—KURRENT NEWSLETTER

KELLY CAPITAL MANAGEMENT, LLC

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2nd QUARTER 2017 KOMMENTS

MARKETS AND ECONOMY:

The second quarter exhibited less volatility than the prior quarter. Nevertheless, bond values bumped up in the first two months then fell in the third in reaction to interest rate increases. Emerging market equities continued their rise and eclipsed domestic equity market return for the quarter. Real estate tended to move up regardless of retail center failures, store closures and interest rate increases. Selective stock picking helped our domestic equity, large cap value strategy to match the emerging market's return and beat other broadly diversified domestic equity strategies. On balance, the quarter was again a positive one. We stayed invested and our clients made money in our domestic stocks, foreign stocks, fixed income and real estate strategies. For clients needing income, we again reliably generated the needed cash when expected through our yield oriented strategy without deleterious impact on their portfolios' value.

RESULTS:

For the quarter, all our strategies mirrored the general markets' direction. Our real estate, fixed income, domestic equity and emerging markets equity strategies were all up for the quarter. Real estate and fixed income continued their prior quarter's trends and ended the current quarter with a positive return.

Our Emerging Markets Strategy {"EMI"} quarter's return was in line with its Emerging Market Index benchmark. Our domestic Large Cap Value {"LCV"} stock picking strategy tied the EMI strategy return and also handsomely beat its own benchmark index. Our domestic All Cap Multi Style Strategy {"ACMS"} came in at second place. Its return was essentially equal to its benchmark index and we added regional bank and technology sector exposure to enhance the strategy's diversification.

Our Real Estate Strategy {"REAL"} was less affected by fear of interest rate increases than in prior quarters. Retail shopping center exposure hurt in May but helped in June. The opposite was true for infrastructure exposure, such as cell tower ownership, as that bet went up in May and down in June. Nevertheless, our diversified approach to institutional real estate investing allowed us to generate a positive return for our clients and beat the relevant benchmark index.

Although we are concerned about potential direct conflict with North Korea, we shall remain fully invested going forward unless something material arises to change our outlook. We believe the USA equity market will continue to rise. We shall keep our average maturity in our fixed income strategy around its current 4.5 year level to continue protecting portfolio values in an increasing rate environment.