F.L.PUTNAM
INVESTMENT MANAGEMENT COMPANY

March 31, 2019

Quarterly Review

Page

Asset Allocation

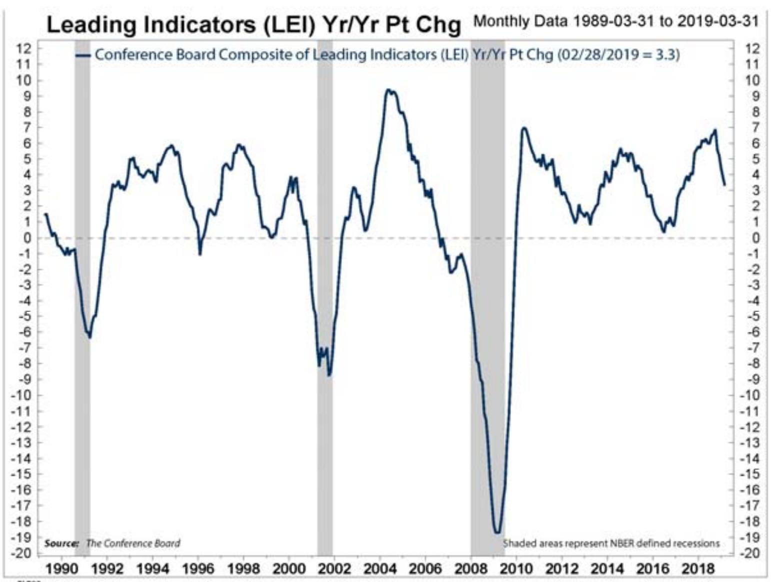
We began 2019 with our asset allocation in a slightly defensive position, although we remained fully invested in stocks overall. While trade disputes, monetary policy decisions and slowing earnings growth presented meaningful risks, at the beginning of the year stocks finally seemed to trade at attractive valuations that compensated for these risks for the first time in a few years. This positioning served us well in the first quarter as the sudden decline in global equity markets in December abruptly reversed course and losses were quickly recouped in the first few months of 2019 across most asset classes. Large US stocks led the way in the quarter as the S&P 500 posted its best quarter since 2009 and returned 13.65%, while riskier areas of the stock market (internationals, small caps, etc.) posted attractive absolute returns that trailed the S&P 500 somewhat. For a detailed list of broad asset class returns, please refer to the "global market returns" chart on page 4.

Staying the course in the face of increasing uncertainty and market volatility has proven to be the right strategy over the past year; however, evidence continues to mount that we are in the later stages of the economic cycle. While some of the exogenous factors that have negatively impacted financial markets in recent quarters (trade disputes, geopolitics, government shutdowns, monetary policy, etc.) were addressed to some extent in the quarter, economic growth decelerated, and long-term interest rates slumped. In fact, parts of the yield curve "inverted" towards the end of the quarter, which means that long-term interest rates fell below short-term interest rates. This is unusual and is typically a harbinger of recession as it indicates market participants view short-term interest rates as unsustainably high. Specifically, when long-term interest rates drop below short-term interest rates in an "inversion," it reflects an expectation that interest rates are high enough to slow the economy to such an extent that the Federal Reserve (the "Fed") will be forced to reverse course and reduce short-term interest rates. This yield curve inversion has specific implications for stock and bond investors that are discussed in more detail in pages 2 and 3.

While interest rates declined and bonds added to their gains from the fourth quarter, this stands in stark contrast to riskier investments like stocks or high-yield bonds. Bonds seemed to benefit in the fourth quarter from a "flight to safety" as equity markets turned volatile, but this flight to safety did not reverse as higher risk investments rebounded in the following quarter. Instead, bond returns in the first quarter of 2019 were driven by an unexpected shift in monetary policy. The Fed first stressed that they would remain "patient" before raising interest rates again, and then ultimately fully paused monetary policy tightening in March by stating that they did not expect to raise interest rates this year.

While the drop in long-term interest rates following the Fed's guidance revision is unnerving, it is not consistent with other financial markets or economic indicators that currently reflect a reasonable probability of continued economic growth. For example, the Composite Index of Leading Indicators or Leading Economic Index (LEI) depicted below is a composite of economic data that is highly correlated with economic activity six months in the future. The LEI has a great track record of predicting recessions (highlighted in gray) when it drops below the dotted line at 0, and while it has declined precipitously over the past few quarters, it is still signaling that growth will be slower but remain positive over the next six months. The result is that while bonds just completed their best two consecutive quarters in seven years, we believe bond prices may have overreacted to the Fed guidance if economic growth stabilizes at a lower rate in 2019.

Continued on Page 4



S&P500 Sector	Q4-2018 Total Return	Q1-2019 Total Return
Comm Services	-13.2%	14.0%
Consumer Staples	-5.2%	12.0%
Cons Discretionary	-16.4%	15.7%
Energy	-23.8%	16.4%
Financials	-13.1%	8.6%
Health Care	-8.7%	6.6%
Industrials	-17.3%	17.2%
Info Technology	-17.3%	19.9%
Materials	-12.3%	10.3%
Real Estate	-3.8%	17.5%
Utilities	1.4%	10.8%
S&P500 Growth	-14.7%	15.0%
S&P500 Value	-12.1%	12.2%
S&P500 - Large Cap	-13.5%	13.7%
S&P400 - Mid-Cap	-17.3%	14.5%
S&P600 - Small-Cap	-20.1%	11.6%

What a difference a quarter makes. As the table to the right clearly shows, most segments of the equity market have bounced back from losses in the fourth quarter of 2018. Interestingly, stable, higher-yielding sectors (staples, real estate, and utilities) did the best over the last two quarters, while financials, a cyclical, spread- driven sector, was a laggard. The difference in six-month performance across sectors hints at the primary factor driving the market.

As discussed in our market outlook earlier this year, the three major risks facing the equity market were a protracted trade conflict, weaker earnings, and rising interest rates from a hawkish Fed. Over the last three months we have seen the US and China work toward a trade deal in fits and starts, with the outcome still uncertain. Fourth quarter corporate earnings reported in February and March grew 12% over the prior year, about 4% above expectations. Some of this better-than-expected growth was offset by weaker-than-expected guidance for first quarter 2019 earnings. As the sector returns at right illustrate, the shift in Fed guidance away from hawkish rising interest rates was the real driver of equity returns. The pivot to a more accommodating or dovish stance by the Fed started in early January with speeches by Chair Jerome Powell and other governors indicating a more patient, data-driven approach. The shift in guidance was reinforced in late January with the removal of a reference to "further gradual increases" in the first formal statement of 2019, and culminated in a late March meeting where the Fed indicated they would be on hold for the entire year.

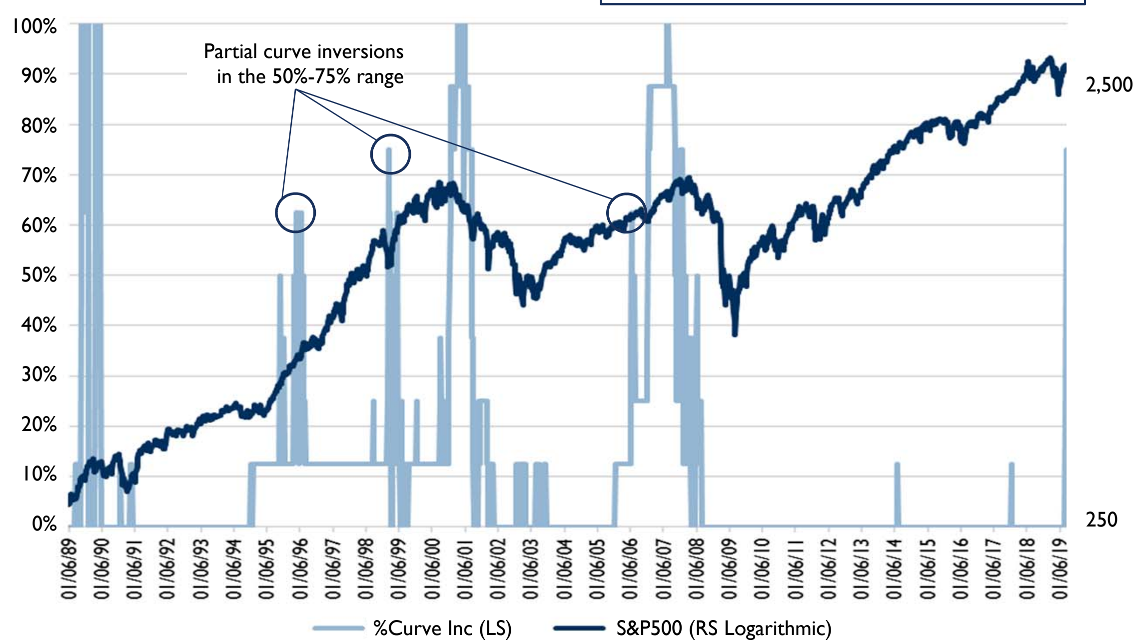
The bond market reacted violently to the shift in Fed guidance late in the first quarter with parts of the yield curve inverting, which is historically a sign of weaker growth ahead. The question everyone is asking now: Does the Fed see something others don't, or are they being overly cautious and thus creating a tailwind for risk assets? The debate here is just heating up, and rightly so as pointed out in our fixed income section on the following page. As it relates to equity markets, the percentage of the curve that inverts (i.e., how many forward points on the curve are below the short end) does seem to offer insight into the likelihood of significant weakness in the stock market.

As of March 31, 2019, roughly half of the points on the yield curve are below the 3-month rate, though this ratio topped out at 75% the prior week. As the chart below shows, partial curve inversions in the 50%-75% range (1996, 1998, and 2006) have not been harbingers of significant near-term declines in the stock market over the last 30 years, though in some cases they did precede full inversions. Full inversions of the curve have historically preceded more significant downturns.

With continued slow growth in the economy, interest rates lower, and the Fed on hold, we are cautiously optimistic on US equities. The partial inversion is a yellow flag, so something we are paying close attention to, but given the many factors at play here a move to reduce equity exposure seems premature.

Given this view, we are fully invested, though tilted toward larger, higher-quality companies that tend to outperform later in the market cycle.

Percentage of Yield Curve Inverted



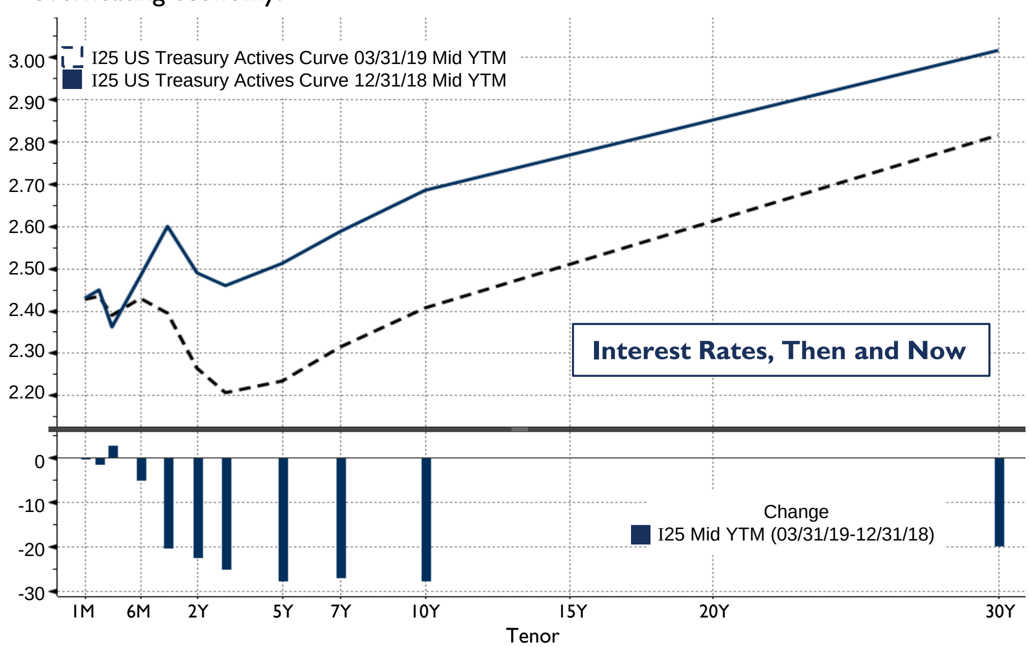
Last quarter, we noted that the tighter monetary policy engineered by the Fed, along with sluggish global growth exacerbated by trade conflicts would likely limit the rise of bond yields. Our call has been quite prescient so far, as yields in the US continued to weaken and decline in the first quarter of 2019. The Fed, for its part, threw fuel on the fire at its March meeting, where they orchestrated what was, in effect, a reversal of their prior position by lowering growth projections and their interest rate outlook. As late as last quarter, the Fed was signaling at least two rate hikes for 2019, and now it appears as if there will be none.

Markets are left wondering if there could even be a rate cut in store, as buyers drove the 10-year treasury yield down sharply on the heels of the meeting, even pushing the 10-year interest rate below the 3-month interest rate for the first time in over a decade, as illustrated in the chart at right.

This development is not insignificant, as the 3 month - 10 year treasury yield inversion has accurately predicted recession over the past 50 years, with recession commencing one year after the initial signal, on average. In fact, the entire US yield curve complex, except for the short end that is controlled by the Fed, has moved sharply lower over the past three months, as shown in chart below.

World bond yields also tumbled sharply after the Fed meeting, with many interest rates in Germany, Switzerland, Japan, and other countries falling into negative territory. The Fed's impact could also be felt in credit markets as the incremental yield or "spread" earned on corporate bonds relative to treasuries reversed course along with other risk assets over the quarter.

In summary, GDP growth has clearly decelerated, and rising competition for every dollar of sales should place expectations for rising inflation in the dustbin as well, despite the potential for rising wages and other input costs in a tight labor market. On the other hand, falling yields should keep corporate borrowing costs low for the foreseeable future. This combination of low rates, increased competition and margin pressure could spur another wave of big mergers and acquisitions for companies that have not already partaken in the low rate frenzy as they scramble to adapt to the new reality. The Fed will need to remain nimble and data-dependent. They could be forced to adjust monetary policy trajectory yet again if this pause leads to speculative activity or an overheating economy.



In recognition that we appear to be late in the economic cycle and in a weakening macroeconomic environment, we continue to advise a prudent course of overall risk reduction for fixed income investing. We plan to continue to upgrade the overall quality of fixed income assets held in portfolios as opportunity allows by reducing our focus on shorter-term bonds and corporate bonds as we move through the later stages of this market cycle.

Of course, we continue to remain vigilant and will be watching incoming data carefully so we can adapt our outlook and approach if warranted.

ASSET ALLOCATION, CONTINUED

Continued from Page 1

We worry about the risk of recession since short-term declines of 10% or even 20% in the stock market as we experienced in the fourth quarter of 2018 are quite common, but the more severe and protracted downturns tend to occur in economic recessions. For the moment, economic evidence is mixed and we're inclined to believe that the economy is more stable than the Fed guidance, which has been shifting rapidly in recent months. While it appears that we are late in this market cycle, it is not clear that we are actually at the end of the market cycle and the Fed's actions this quarter may have reduced the probability of recession in the near term. We took action in 2018 by biasing our asset allocation toward the higher quality and more stable components of stock and bond markets (shorter maturity investment grade bonds and larger US stocks) and have stayed the course with this mix throughout the recent market gyrations.

We remain cautiously optimistic that the Fed's steady interest rate increases last year and appropriate pause in further increases have set the stage for continued economic growth. Given the risk and return opportunities presented by the market today, we still believe that remaining fully invested with a bias towards higher quality securities remains the best strategy for the time being, but we are prepared to take action and adjust our asset allocation if additional data reinforces the ominous message from the yield curve inversion.

GLOBAL MARKET RETURNS

		Last 3 Months	Last 12 Months*	30-Year Annual Return**
US Equities	S&P 500 *(Large US Companies)*	13.65%	9.50%	10.18%
	Dow Jones Industrials *(Selected Large US Companies)*	11.81%	10.09%	11.12%
	Russell 2000 *(Small US Companies)*	14.58%	2.05%	9.43%
	Russell 3000 *(All US Companies)*	14.04%	8.77%	10.19%
International Equities	MSCI World Index ex-US *(Developed Markets)*	10.45%	-3.14%	4.64%
	MSCI Emerging Markets *(Emerging Markets)*	9.91%	-7.41	n/a
Fixed Income	Bloomberg Barclays Int. US Gov't/Credit *(Intermediate Investment Grade Maturities)*	2.32%	4.24%	5.63%
	Bloomberg Barclays US Corporate High Yield *(Non-investment grade "junk")****	7.26%	5.93%	8.07%
Inflation	US CPI Urban Consumers Less Food and Energy NSA	0.78%	2.10%	2.40%
Treasury Bill	US 3-Month Treasury Bill Index	0.59%	2.12%	3.09%

Source: Bloomberg Capital Markets

* Includes dividends for equity indices
** Annualized
*** CPI data for time periods is date ended 2/28/2019

Support for charitable organizations is often included as an element of financial plans, both through annual donations and as a component of estate plans. The changes implemented by the tax cut and jobs act of 2017 affects the tax advantages of many gifting strategies. These gifting strategies can be separated into two broad categories: current gifts and future gifts.

CURRENT GIFTS are available for immediate use by the charity. These include donations of cash, appreciated shares of stock, or distributions from an IRA. The tax implications vary for each gift type.

- Directly reduces taxable income by using pre-tax dollars from IRA
- No deduction allowed
- Counts toward RMD!
- Can reduce median costs

Donations from IRAs

After age 70½, when you are subject to required minimum distributions (RMDs), a tax benefit can be gained by satisfying all or part of your RMD by making a Qualified Charitable Distribution (QCD) to a charity. The distribution goes directly to the charity. It counts toward your RMD amount, and is excluded from your adjusted gross income for tax purposes. The QCD amount may not be taken as a charitable deduction because it has already been excluded from your income.

- Tax deductible as itemized

Cash Gifts

These gifts are recognized as charitable donations and can be taken as itemized deductions on your tax return. The tax benefits of cash donations have become limited, since a benefit is only realized once your total deductions exceed the new higher standard deduction thresholds.

- Avoids capital gains if appreciated shares sold
- No capital gains realized as income
- Current value is deductible if itemized

Appreciated Shares of Stock

A donation can be made by transferring ownership of stock to the charity's brokerage account, rather than selling the stock and donating the proceeds. The donor avoids taxation on the gains and the charity can sell the stock without a tax liability. The market value of the donated shares is tax deductible. This technique is only beneficial once your taxable income exceeds the threshold of $77,400 married filing jointly ($38,700 for single filers), since below this level capital gains are not taxed.

Due to 2018 tax changes on charitable gifting, tax returns with itemized deductions are projected to drop from 37 million to 16 million returns

FLP FINANCIAL PLANNING

FUTURE GIFTS are when charities are named in wills, trusts, and contracts today to receive their gift at some time in the future. In some instances, a current year charitable deduction can be taken for these future gifts.

- Gift is not taxed as income or as part of estate

Testamentary Gifts

Charities can be named in wills and trusts to receive a portion of your estate when you pass away. These gifts will not have an effect on your income taxes but may help reduce estate tax liability.

- Charitable deduction allowed in year money is placed in fund if itemized
- Disbursements can be directed to charitable causes at a future date

Donor-Advised Funds

A donor-advised fund allows charitable donations to be made into the fund with tax deductions taken in the year of contribution. Investments grow tax free and the fund distributes donations to charities in future years. This strategy allows bundling a few years of donations into a single year for tax purposes, thereby exceeding the standard deduction threshold to gain a tax benefit. A further tax advantage can be gained by funding these trusts with the current gift of appreciated shares.

- Current deduction based on future gift of income or principal

Charitable Trusts

Trusts can be established to generate an income stream to the donor with the remainder going to the charity upon the death of the donor. A charitable deduction is generated at the time that the trust is funded based on the expected amount the charity will receive in the future. A further tax advantage can be gained by funding these trusts with the current gift of appreciated shares.

Questions? Let us know, and talk with your tax preparer. As with any area of financial planning, this topic is one of many interwoven threads in the fabric of your financial life. Your team of financial professionals are well positioned to integrate the various aspects at hand.

FIRM NEWS:

On April 3rd, 2019, F.L.Putnam acquired Financial Focus, Inc., a comprehensive financial planning firm in Wolfeboro, NH. Over the past few years we have made it a priority to build out our financial advisory capabilities, as it has become essential for our private clients. We have created a more comprehensive set of reporting tools that allow clients to view their financial lives more holistically, launched a NexGen financial planning offering, and expanded our footprint to deliver more services to clients locally. We are extremely fortunate to be able to offer our clients an expanded team of high caliber financial advisors, led by Susan MacMichael John, a thought leader in the financial planning industry and Chair of the Board of Directors at the Certified Financial Planner Board of Standards.

F.L.Putnam now has four offices across New England, 47 employees and $2.2 billion in assets under management.