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Asset Consulting Group | 2015 Review

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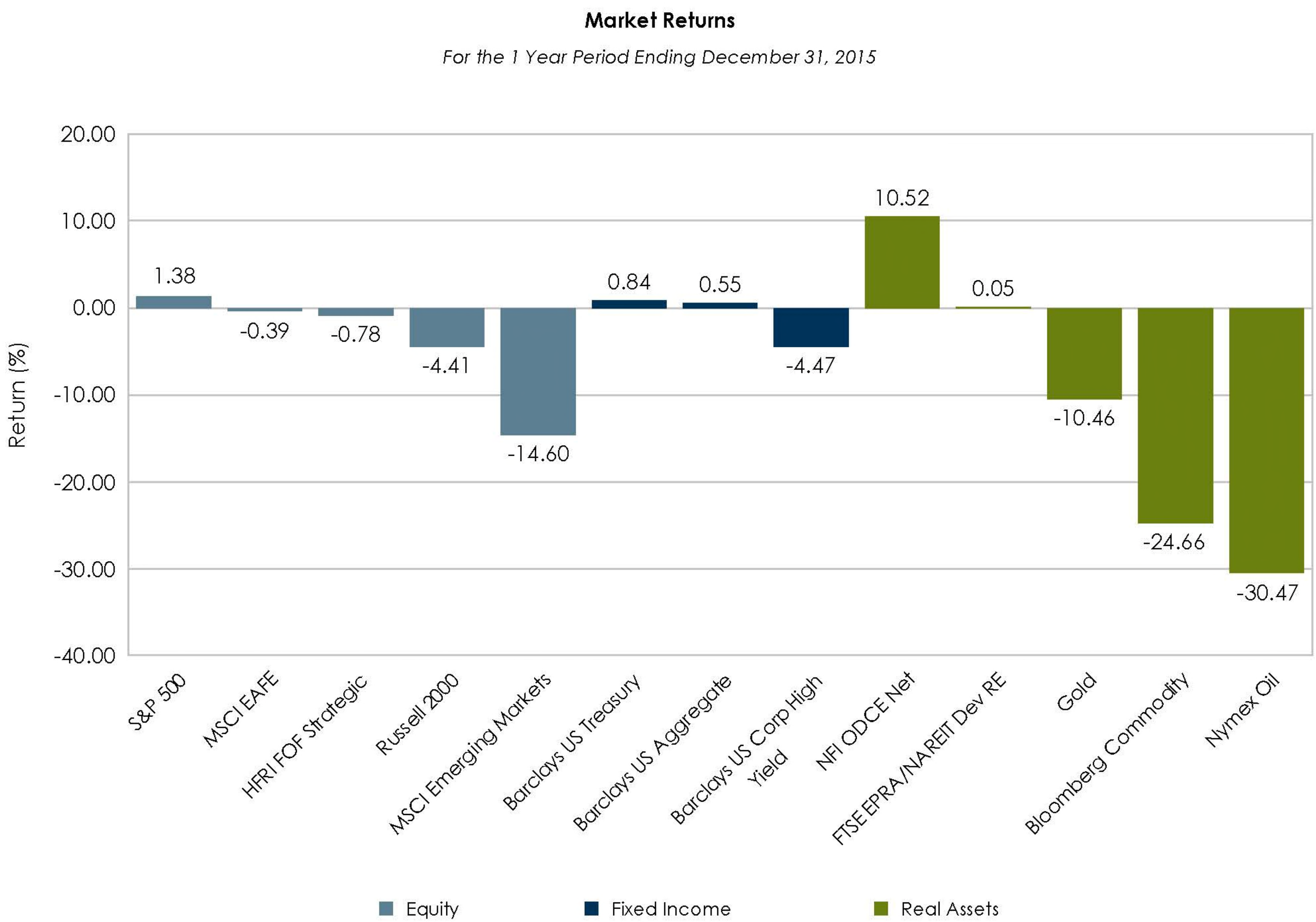

Market Returns
For the 1 Year Period Ending December 31, 2015
Return (%)
20.00
10.00
0.00
-10.00
-20.00
-30.00
-40.00
1.38
-0.39
-0.78
-4.41
-14.60
0.84
0.55
-4.47
10.52
0.05
-10.46
-24.66
-30.47
S&P 500
MSCI EAFE
HFRI FOF Strategic
Russell 2000
MSCI Emerging Markets
Barclays US Treasury
Barclays US Aggregate
Barclays US Corp High Yield
NFI ODCE Net
FTSE EPRA/NAREIT Dev RE
Gold
Bloomberg Commodity
Nymex Oil
Equity
Fixed Income
Real Assets

U.S.

- Further improvement in the US labor markets coupled with accelerating domestic demand helped boost the US economy in 2015.
- Business activity continued to diverge between the manufacturing and services sectors. The manufacturing sector contracted due to appreciation in the US dollar that weakened the competiveness of goods overseas. However, service industries expanded supported by strong household demand, which kept business activity at a healthy level.
- Forward looking economic indicators showed the US economy remained on track for continued expansion in 2016 due to a healthy job market and higher household wealth.
- After seven years of zero interest rate policy in the US, the Federal Reserve (Fed) increased the target range for the Fed funds rate by 25 basis points (bps), to 25-50 bps and pledged a gradual tightening cycle.

Global/Non-U.S.

- Third quarter economic growth in the euro region advanced, bolstered by consumer and government spending. Investors expect the European Central Bank (ECB) to expand stimulus measures further to boost the slow recovery in growth and inflation.
- Japan's economy expanded at an annualized rate of 1.0% in the third quarter as both business and consumer spending was revised higher than reported in previous estimates.
- The slump in emerging market (EM) currencies worsened on weak Chinese economic activity and anticipation of higher US interest rates. The JPMorgan Emerging Market Currency index declined to its lowest level since 2010, with a loss of 14% for the year.

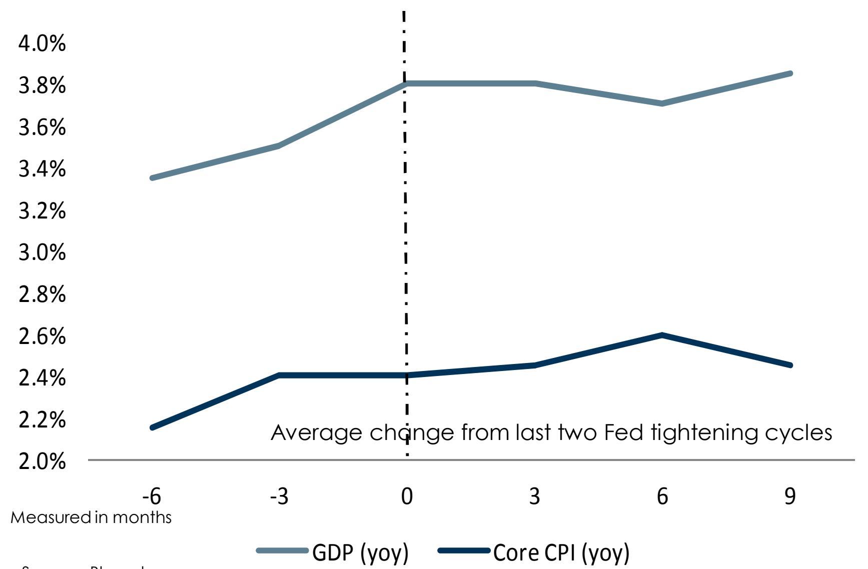
What ACG is Talking About

- What we said/ What happened – 2015 Events/2016 Outlook
- Federal Reserve Monetary Tightening – Economic/Market Implications
- US Credit Cycle – High Yield
- Commodities – A Balanced View

ACG 2015 Outlook Revisited

What We Said	What Happened	2016 Outlook
Muted Return Expectations	▪ Global equities declined (MSCI ACWI -3.5%) ▪ Bonds flat (Barclays Aggregate +1.2%) ▪ Commodities declined (Bloomberg Index -25.0%)	▪ Global economic growth and monetary policy supportive of risk assets ▪ Equities supported by low returns from bonds; DM equities near fair value; EM undervalued ▪ Low yield/inflation environment ▪ Commodity demand/supply imbalance likely to improve in 2H16
Geopolitical & Policy Uncertainty	▪ The Federal Reserve (Fed) raised interest rates by 0.25% (0.25% - 0.50% target range) ▪ Bank of England (BOE) left their key interest rate at 0.50%, ▪ European Central Bank (ECB) and Bank of Japan (BOJ) kept rates near zero and maintained bond buying stimulus programs ▪ Nearly 85% of EM central banks cut or kept rates unchanged; China cut its main interest rate six times to a record low	▪ The Fed projects a "gradual" pace of interest rate hikes that will be data dependent ▪ Interest rates are likely on hold in the UK, until there is a firming in domestic cost pressures ▪ Both the ECB and BOJ are signaling willingness to expand/maintain monetary stimulus ▪ China expected to continue to support economic growth via stepped up policy efforts
Desynchronized Global Growth Expectations	▪ Within developed economies, prolonged monetary support has underpinned accelerating economic growth ▪ US/UK advanced (2.6%, 2.5%), Europe/Japan lagging (1.5%, 0.6%) ▪ Gap between EM & DM continued to shrink; weakness in oil exporters and a slowdown in China; projected 2.0% excess in 2015 vs. 2.8% in 2014	▪ Global growth is projected to improve in 2016 (3.6%) from 2015 (3.1%) ▪ The recovery is expected to continue in the US/UK, supported by lower energy prices and improving labor markets ▪ Monetary stimulus and depreciating currencies are expected to help sustain economic activity in Europe and Japan ▪ Growth in China forecasted at 6.3%; continued transition from investment to consumption economy
Fixed Income Market Headwinds	▪ 10-Year US Treasury ended at 2.27% (only 10 bps higher than beginning of year); ranged from 1.64% to 2.49% during the year ▪ Credit challenges resulted in negative returns for sectors outside the investment grade universe	▪ Continued divergence in global monetary policy ▪ US Fed to manage rate hikes at a gradual pace throughout the year; data dependent moves ▪ Investors to focus on credit cycle as harbinger of equity performance
Uncertain Global Inflationary Environment	▪ Inflationary pressures limited – despite continued employment gains in the US; inflation mitigated by lower commodity prices and productivity gains ▪ Only a few large EM countries (Brazil/Russia) experienced rising consumer prices primarily from currency depreciation	▪ In DM economies, inflation is projected to rise in 2016 due to favorable wage dynamics and stabilizing oil prices ▪ In EM economies, inflation is projected to decline in 2016, reflecting stronger currencies

Economic Growth & Inflation Before and During Fed Tightening

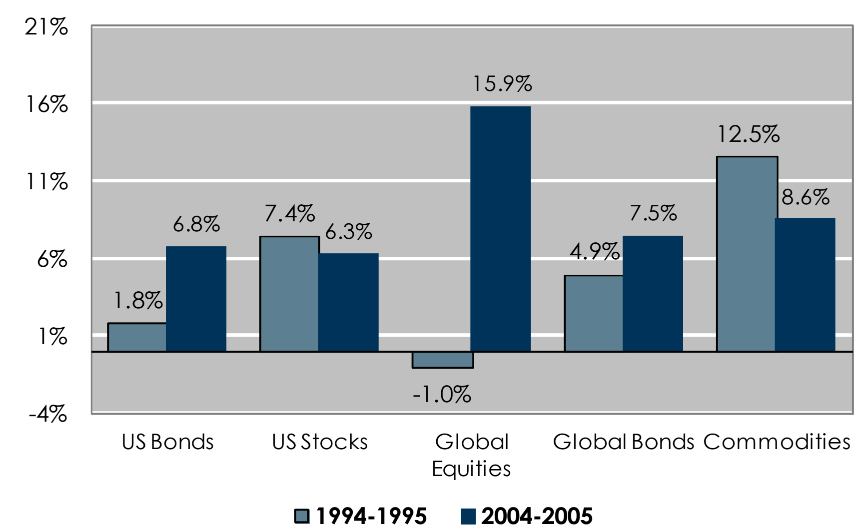


Source: Bloomberg

- After seven years of zero interest rate policy in the US, the Federal Reserve (Fed) raised policy rates by 25 basis points (bps).
- The Fed will be setting a range for the Federal funds rate between 0.25% to 0.50% and will maintain their $4.5 trillion balance sheet.
- Fed Chair Janet Yellen looked to limit fears of a rapid pace of hikes by stressing that further hikes will be gradual and data dependent.
- The Fed still foresees four 25 bps rate hikes in 2016, while the market is pricing in only two.
- Markets had largely expected a hike as the reaction following was subdued in the US Treasury sector, credit spreads modestly tightened and equities rallied.

- Fed policy is still considered "accommodative" as the Fed projects the median Fed funds rate at 1.4% by the close of 2016, still below historical norms.
- This compares with the 2004-2006 rate hiking cycle, when the Fed raised rates eight times (to 3.0%) in the first year of lift off.
- The start of tightening indicates the Fed believes that the US economy can sustain growth and price stability with less monetary support.
- Furthermore, increases in Fed policy rates imply a greater confidence that inflation will move toward its 2.0% target.
- As shown in chart above, during previous cycles economic growth generally advanced and inflation edged higher after the first rate increase.
- Finally, most asset classes recorded gains during prior policy rate tightening cycles, with equities and commodities leading the way.

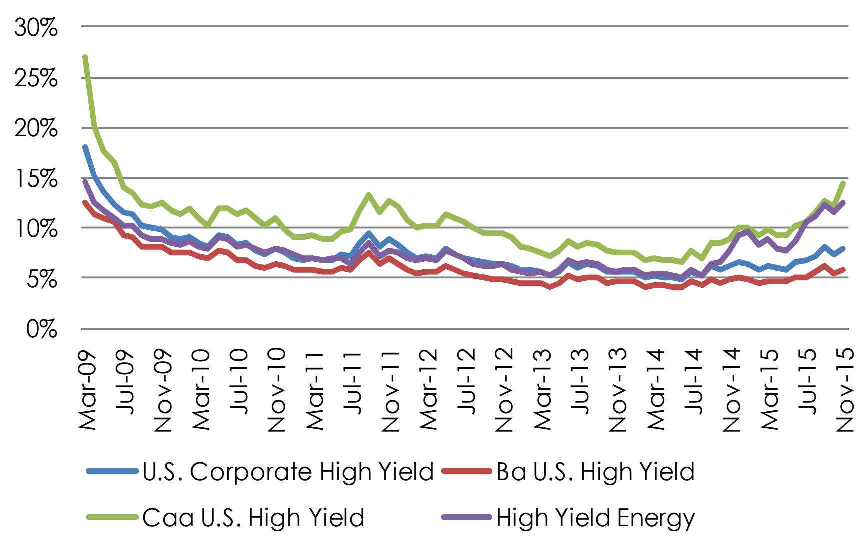
Asset Class Performance 12 Months Forward (USD)



Source: Bloomberg

Last two Fed tightening cycles

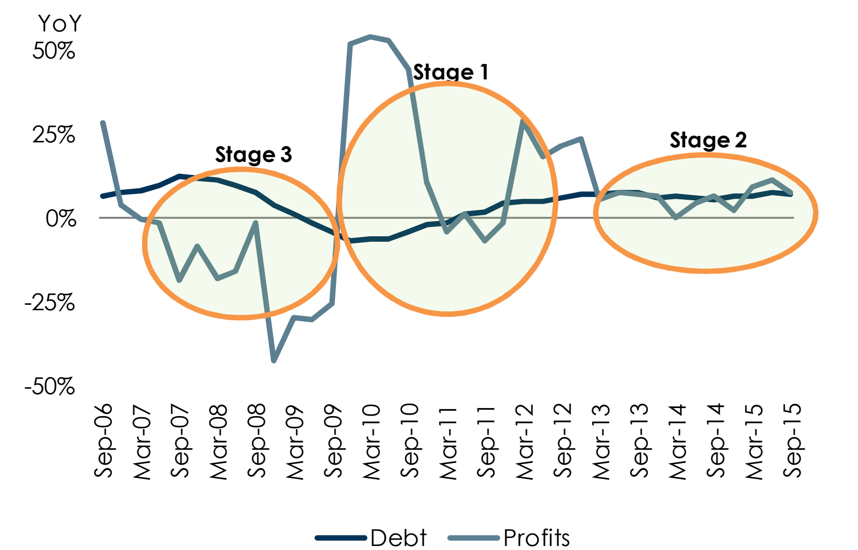
Barclays Capital US Corporate High Yield – Average Yields



Source: Barclays Capital

- US corporate high yield average yields have recently increased due to weak commodity prices and volatility caused by the unwinding of a credit mutual fund.
- Investors are demanding 8.0% on average to own junk bonds compared to 6.0% in 2014. The yields on debt of companies rated CCC, the riskiest high yield category, have soared to nearly 15%, which is 5% greater than at the start of 2015.
- A key force driving yields higher has been plummeting oil prices. Oil has declined to its lowest level since 2004. The impact has been especially damaging to energy issuers, causing stress on their ability to service the debt.
- The current energy trailing twelve month rate is nearly 7%, while defaults by exploration issuers closed at 12%.
- Still, the weakening conditions in the energy sector have yet to spill over into the overall high yield market as the current trailing twelve month rate is 3.3%, below the historical average of 4%.
- Additionally, expectations are for corporate profits to continue to grow in 2016, but generally in line with debt growth as companies race ahead of the Fed tightening cycle to lock in cheap rates.
- This suggests that the US credit cycle currently appears to be in stage 2, when corporate profits grow, but generally lag debt growth.
- Looking forward, commodity sensitive names are at risk of above market default rates. The 2016 high yield default rates are forecasted at 11% for energy, but the remainder of the high yield universe at 1.5%.
- Finally, a positive backdrop of an improving US economy in 2016, supporting corporate profits and above average yields could drive demand for alternative sources of yield.

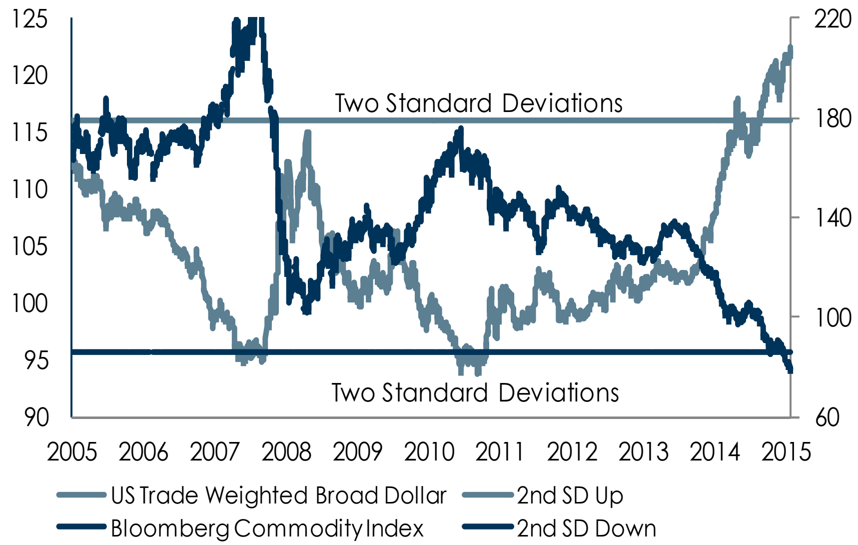
Three Stages of the Corporate Credit Quality Cycle



Source: Bloomberg

Stage 1: profits outrun debt; Stage 2: profits grow but lag debt growth; Stage 3: profits contract, lag debt

US Dollar vs. Bloomberg Commodity Index

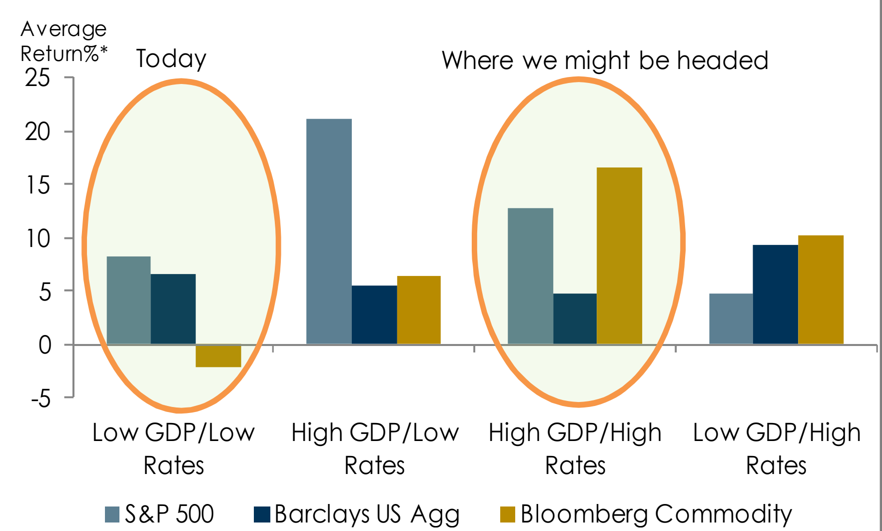


Source: Bloomberg,

- Commodity prices have seen one of the biggest declines in history, which has been intensified by a slowing China, oversupply, and negative currency effects from the strengthening USD.
- Further, market sentiment has turned decisively bearish, as speculators increased bets on falling US oil prices. The magnitude of the falloff suggests that prices may have reached a turning point with most commodities trading below their marginal cost of production.
- Still, crude oil is searching for an equilibrium that balances supply and demand:
    - Demand has received a boost thanks to lower prices.
    - Overall, the market remains oversupplied and the oil glut is expected to continue as OPEC maximizes output to defend market share.
    - As a result, oil prices are projected to be range bound in 2016 between $42 and $62 per barrel according to Bloomberg forecasts.

- Oil markets could see better supply/demand dynamics in the second half of 2016. Non-OPEC producers continue to cut capital spending and adjust production to compensate for the lower prices. In fact, US crude oil production has already declined an estimated 4% in Q415, from Q315.
- Expectations of 'lower for longer' oil prices may bode well for demand as industrial users (e.g. airlines) and consumers step up usage as the US domestic economy improves.
- For the broader commodity complex, the stress on producers from a further slowdown in Chinese demand and potentially higher US interest rates may lead to production cuts and more balance across markets.
- The US has been in a low growth, low inflationary environment since 2009, which historically has generated weak commodity performance. However, current expectations indicate US growth could reach 3.0% next year, while inflation rebounds toward 2%, potentially beneficial for demand and prices.

Performance Under Different Growth & Inflation Scenarios



Source: Bloomberg, ACG Research

*Rolling 1-Yr Returns since 1991

Summary

U.S.

- The start of Fed tightening indicates the Fed believes that the US economy can sustain growth and price stability, but policy will remain accommodative.
- The recent volatility in US high yield has resulted in divergence between the fundamentals within the energy sector and the overall high yield sector.
- The magnitude of the falloff in commodities suggests that prices may have washed out and the worst of the pull back may be behind us.

Global/Non-U.S.

- Monetary policy will continue to diverge between the US and Europe/Japan.
- A slow inflation recovery and below potential growth in 2016 should mean the ECB and Bank of Japan could remain accommodative well into 2016.
- EM currencies lost 20% of value in 2015 versus the USD, indicating the economic slowdown in China and commodity producing regions, coupled with anticipation of US higher interest rates may have been fully discounted.

Investment Themes

Theme (3-5 Year Outlook)	Rationale	Implementation Strategy
Geopolitical & Policy Uncertainty	▪ Disparate global monetary policies ▪ Fiscal policy initiatives limited; high government debt; political challenges ▪ Terrorism, elections, refugee crises, nuclear issues, territorial disputes, climate change ▪ Oil price pressures on less stable countries	▪ Maintain **global diversification** ▪ Focus on **risk-reduction** ▪ Maintain disciplined **rebalancing** ▪ Consider strategies including "bottom up" and "top down" analysis
Desynchronized Global Growth Expectations	▪ Ongoing divergence within developed markets (DM) and emerging markets (EM) ▪ China/EM structural challenges present ▪ Commodity-sensitive EM growth pressured ▪ U.S./UK leading, Europe/Japan lagging ▪ Demographic differences ▪ Increased currency volatility	▪ Maintain **US dollar bias** in portfolios ▪ Include **currency diversification** ▪ Implement **dedicated**, differentiated managers in **EM** ▪ Focus on actively managed, **opportunistic** strategies across asset classes
Fixed Income Market Headwinds	▪ Stretched valuations at low yields ▪ Fed lift-off ▪ Extended credit cycle ▪ Liquidity challenges may increase volatility ▪ Continued search for yield	▪ Broaden fixed income opportunity set to **diversify return drivers** ▪ **Balance** the income, currency and interest rate **risks** ▪ Incorporate **absolute return** oriented strategies
Uncertain Global Inflationary Environment	▪ Deflationary pressures remain ▪ Recent uptick in wage growth offset by lower commodity prices, productivity gains ▪ Further improvement in US labor markets could increase wage/inflation pressure	▪ Retain core **real estate (**RE) exposures ▪ Complement core with value-add and/or opportunistic RE ▪ Maintain **diversified commodity** exposure ▪ Consider **hedged** approaches to limit further downside
Muted Return Expectations	▪ Relatively high valuations across asset classes ▪ Global economic growth remains tepid ▪ Challenging demographics and high debt levels ▪ Low yields, low inflation, limited growth, increased volatility	▪ **Revisit investment objectives**, constraints and strategic allocation ▪ Consider active strategies **with enhanced flexibility** ▪ Implement **global mandates** ▪ Employ **risk management** solutions

Potential Global Economic/Market Scenarios (3-5 Year Outlook)

	Scenario A (Left Tail)	Scenario B (Base Case)	Scenario C (Right Tail)
	▪ U.S. slows more than expected ▪ Euro zone/Japan stall ▪ China slows more than expected	▪ U.S. steadily improves ▪ Euro zone/Japan steadily improve ▪ China growth ~ 6-7%	▪ U.S. accelerates, inflation ▪ Euro zone/Japan accelerate ▪ China growth greater than 7%
	IMPACT ON PORTFOLIO	**IMPACT ON PORTFOLIO**	**IMPACT ON PORTFOLIO**
Global Equities	▪ Equities decline ▪ Long/short protects ▪ U.S. & "high quality" do better than Non-U.S.	▪ Volatility reduced ▪ Equities positive ▪ EM better than Developed	▪ Equities positive ▪ Non-U.S. > U.S. ▪ EM > Developed
Global Fixed	▪ Yields decline ▪ Core - does better ▪ Multi-sector mixed	▪ Yields trend upward gradually ▪ Core - low real returns ▪ Multi-sector better	▪ Yields rise sharply ▪ Core - underperform ▪ Multi-sector defensive
Global Real	▪ Global REITS decline ▪ Global Private RE defensive in short term ▪ Commodities weak; Gold up	▪ Global REITS neutral ▪ Global Private RE neutral ▪ Commodities provide diversification	▪ Global REITS positive ▪ Private RE positive ▪ Commodities positive; gold down