

Q3 2016 LOOK AHEAD

Disclaimer

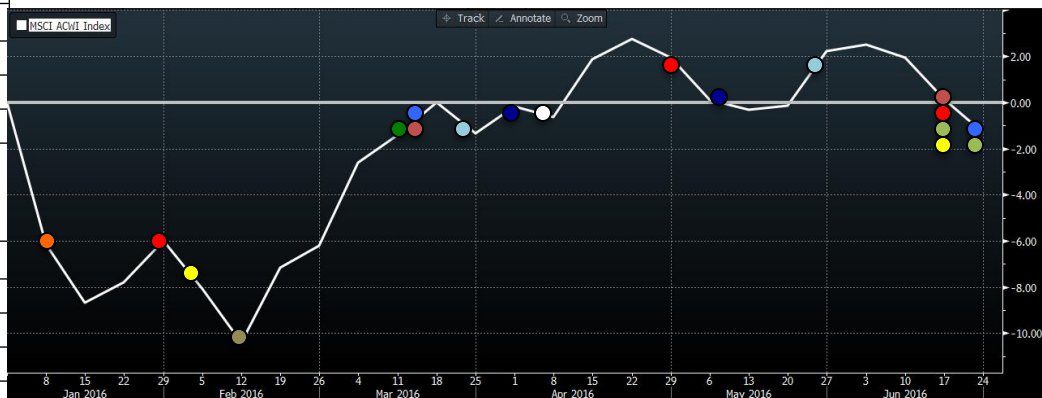
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Policy Driven World Continues

YTD Central Bank Actions

Date	Bank	Action
1/7/16	Denmark	Raises deposit rate 10 bps to -0.65%
1/28/16	Japan	Sets deposit rate at -0.10%
2/4/16	England	Revises down forecasts of growth, inflation
2/11/16	Sweden	Cuts rate 15 bps to -0.50%
3/10/16	ECB	Cuts refinancing rate to 0%, cuts deposit rate to -0.40% . Increased monthly asset purchases from €20B to €80B
3/15/16	China	Renews currency swap with Singapore
3/22/16	Hungary	Cuts rate 15 bps to 1.20%
3/31/16	Czech Rep.	Extend FX commitment to 2017
4/5/16	India	Cuts rate 25 bps to 6.50%
4/28/16	Japan	Lowest forecasts of growth
5/5/16	Czech Rep.	Commits to exchange rate as monetary easing tool
5/12/16	Fed Reserve	Fed is not ruling out Negative Rates
5/24/16	Hungary	Cuts rate 15 bps to 1.05%
6/15/16	Fed Reserve	Revises down forecasts of funds rate and economic growth
6/15/15	Japan	Lowest forecasts, continues purchase of government bonds (¥80T annual)
6/16/16	Switzerland	Revised inflation forecast upward
6/16/16	England	Revises GDP forecasts downward
6/24/16	China	Injects \$25.68B into money markets through reverse bond repurchase
6/24/16	Switzerland	Intervened in FX market to stabilize upward pressure on franc

YTD MSCI ACWI & Central Bank Actions



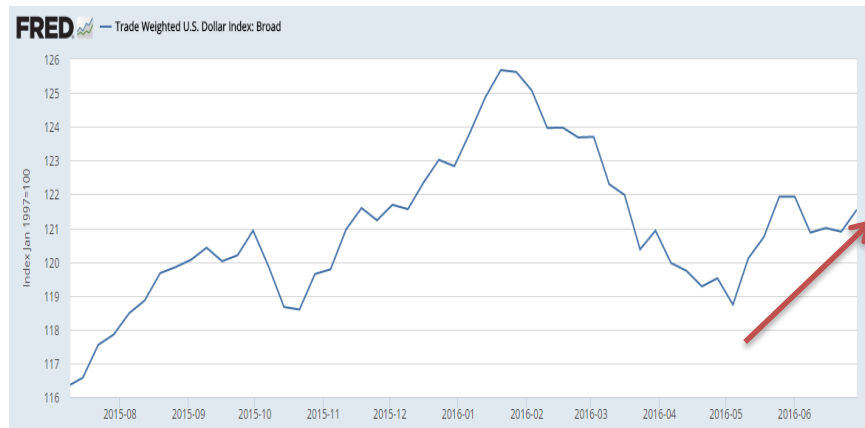
- China
- Denmark
- ECB
- England
- Federal Reserve
- Hungary
- India
- Japan
- Sweden
- Switzerland

US Negative Interest Rates Remain a Possibility

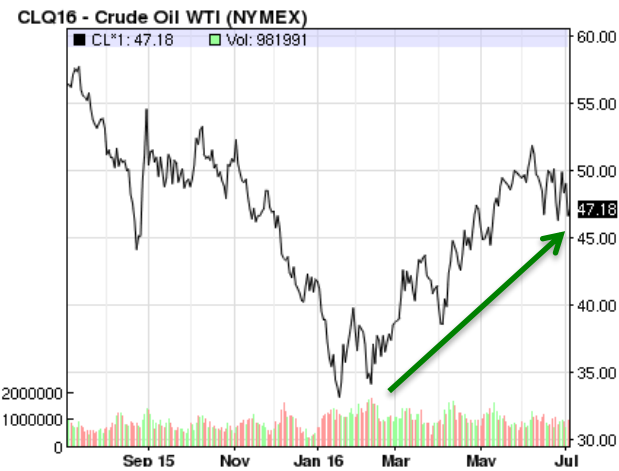
"[I] would not completely rule out the use of negative interest rates in some future very adverse scenario," Federal Reserve Chair Janet Yellen, May 12, 2016

Earnings Catalysts

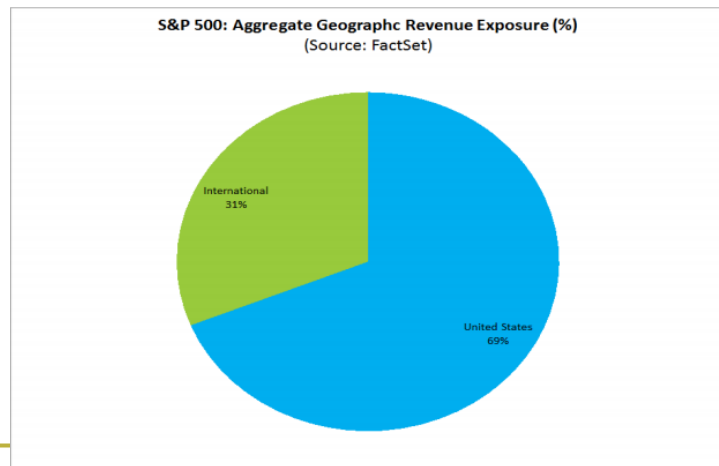
U.S. Dollar Strengthens



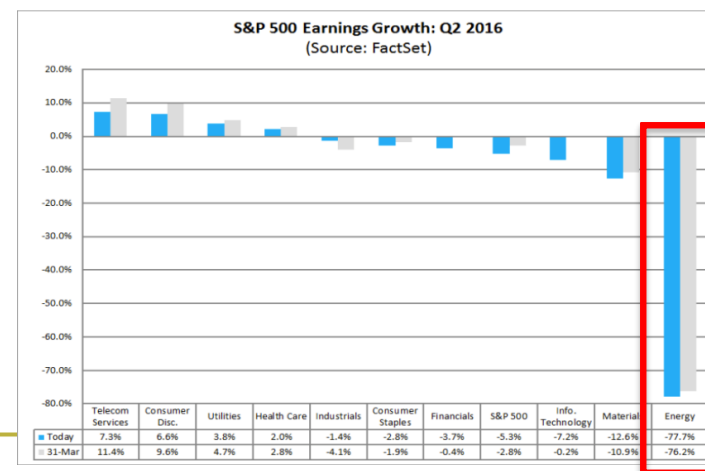
Oil Prices Recover



Strong Dollar Hurts Exports

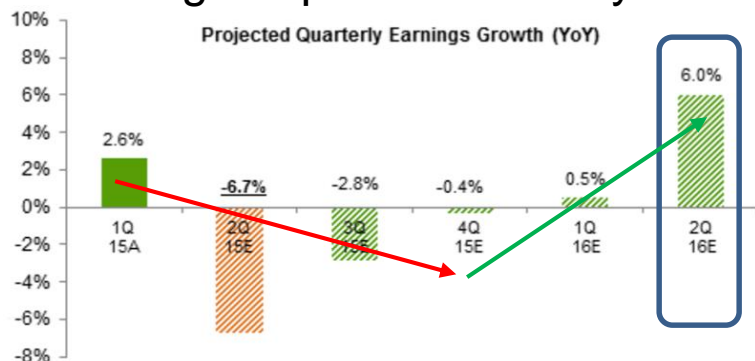


Energy Drag on Earnings



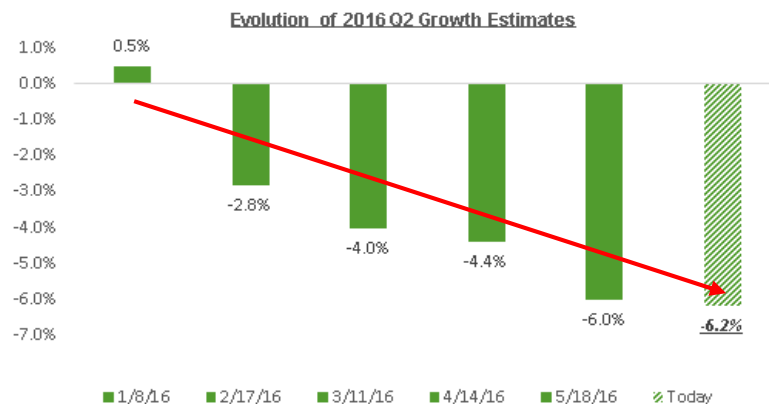
Recovery in Earnings Growth

Earnings Expectations- July 2015



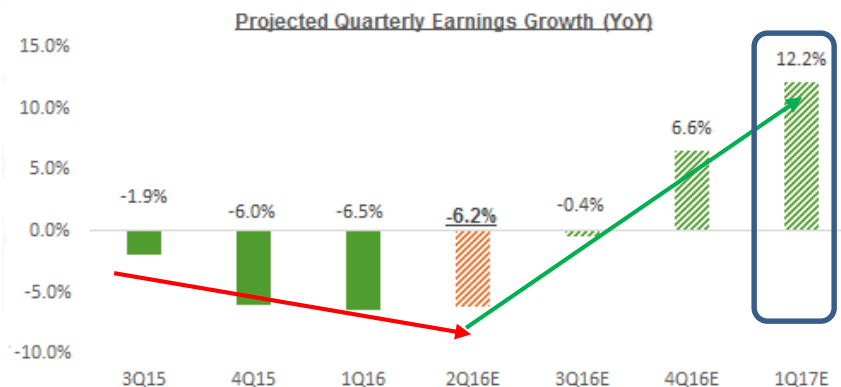
Source: Zacks Investment Research, Inc.

Q2 Expectations Revised Down



Source: Zacks Investment Research Inc.

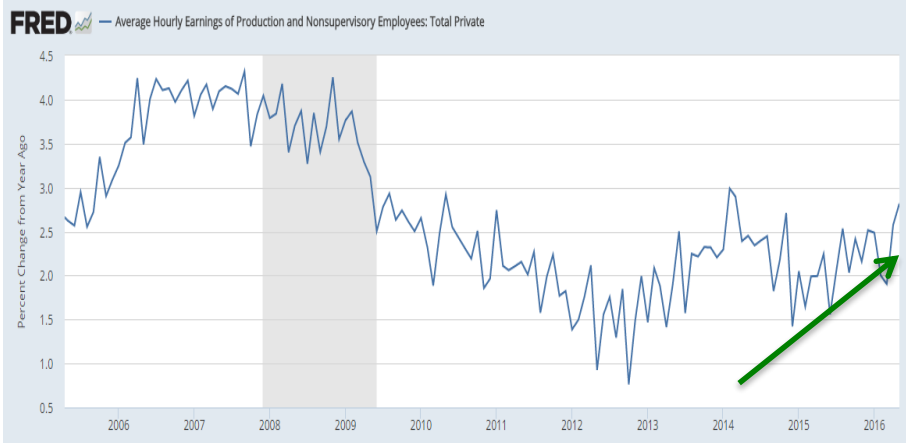
Current Earnings Expectations



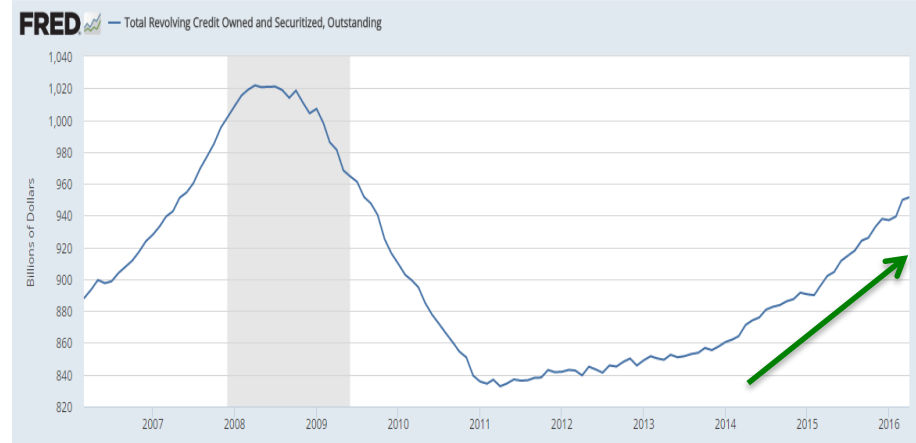
Source: Zacks Investment Research Inc.

U.S. Consumer is Still Strong

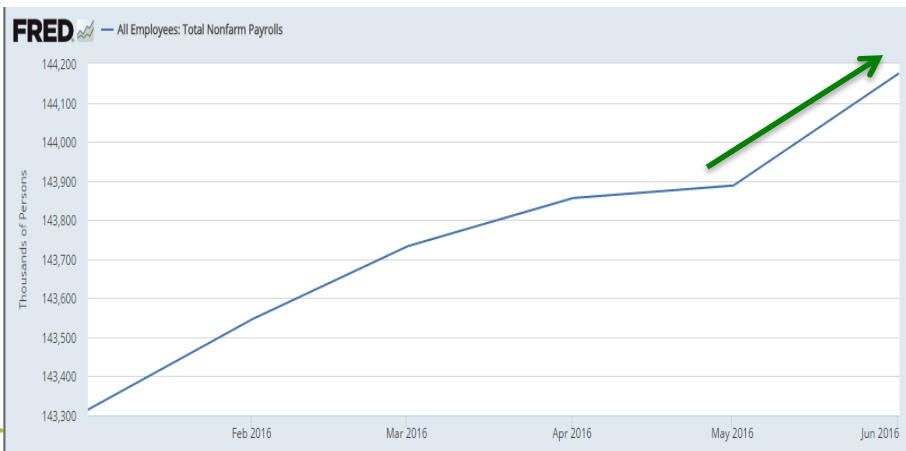
Wages



Credit



Employment



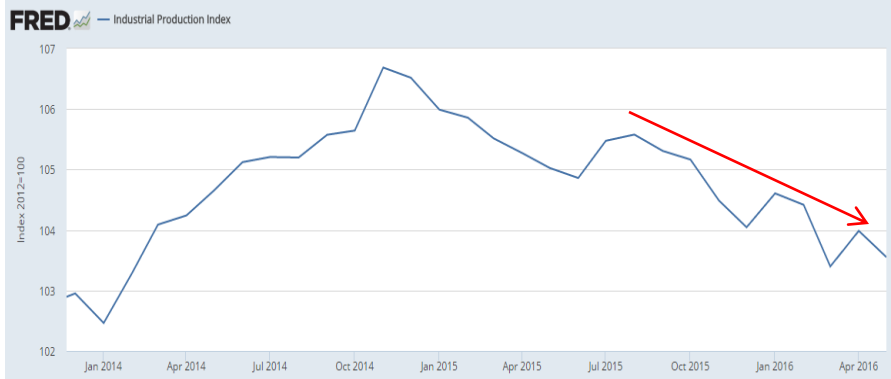
Personal Savings Rate



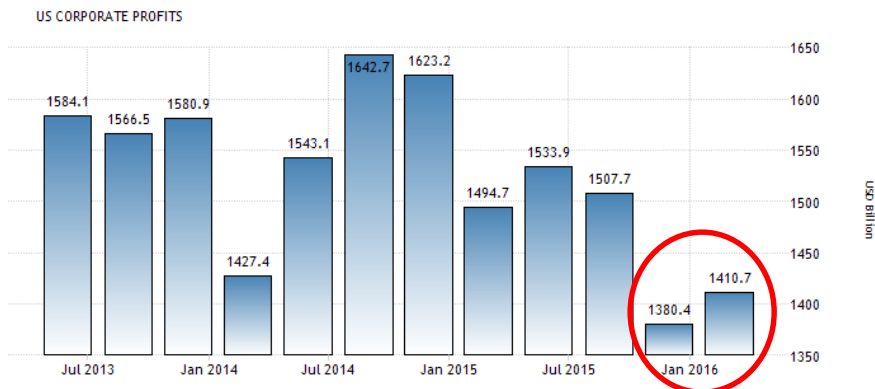
Sources:
St. Louis Fed

Businesses Still Not Investing

Inventories

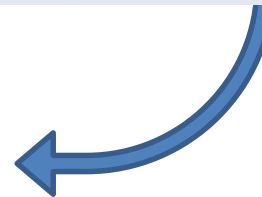
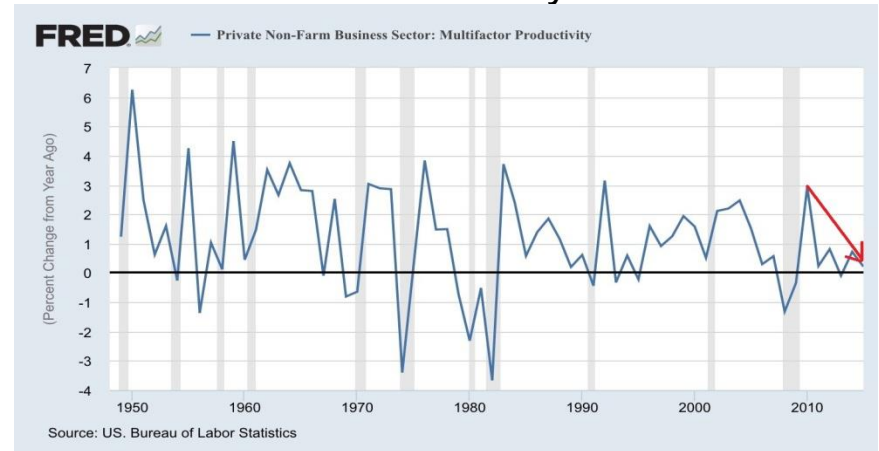


Earnings



SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMICS ANALYSIS

Productivity



Emerging Markets Recovery

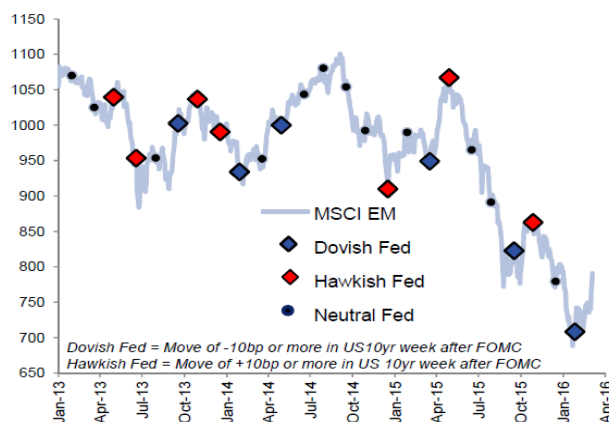
EM Recovery is Tied to Commodities



Country	Index	YTD Return
China	SHCOMP	-15.55%
India	SENSEX	3.69%
Brazil	IBOV	21.84%
Russia	MICEX	6.87%

EM Recovery is Benefited by Dovish Fed

Exhibit 3: Past EM inflection points often in sync with Fed announcements



EM response to FOMC statements					
Date		10-Year Rates (bp)		MSCI EM	
		1wk prior	1wk after	1mo prior	1mo after
30/04/2013	◆	-3	11	1%	-3%
18/06/2013	◆	-1	41	-9%	0%
17/09/2013	◆	-11	-20	5%	4%
29/10/2013	◆	-1	16	4%	-2%
17/12/2013	◆	5	14	-1%	-2%
28/01/2014	◆	-8	-12	-6%	3%
29/04/2014	◆	-3	-10	2%	3%
16/12/2014	◆	-15	19	-8%	5%
17/03/2015	◆	-7	-18	-4%	10%
28/04/2015	◆	6	20	11%	-6%
16/09/2015	◆	13	-16	-5%	5%
27/10/2015	◆	-4	19	9%	-4%
26/01/2016	◆	-4	-13	-12%	4%
Dovish Fed	◆	-3	-15	-3%	5%
Hawkish Fed	◆	-2	20	1%	-2%

Source: Goldman Sachs Global Investment Research

Developed Markets - Brexit

What Could Cause U.K. to Remain?

- Fear of a recession
 - Expected GDP 1% lower in 1 Year – Moody's
 - Expected GDP 3% lower in 5 Years – Moody's
- 3.5M Jobs linked to E.U. membership
- E.U. buys 50% of U.K. exports
- New Government doesn't file Article 50

Initial impact of Brexit?

oe	Sector	% exported to EU	Trade deficit/Surplus with EU (£bn)	Potential barriers to EU markets	Risk of disruption	Chances of similar EU access	Possible conditions attached
Goods	Cars	35.0	-13.95	10% tariff	High	High	Basic standards
	Chemicals	56.6	-7.82	4.6% tariff	High	Medium to high	Adhering to EU's regulatory standards
	Aerospace	44.6	2.56	Zero tariffs	High	High	Basic standards
	Machinery	30.7	-5.47	1.7% to 4.5% tariffs	Medium	High	Basic standards
	Food, Beverages & Tobacco	60.5	-16.56	Average tariffs over 20% and higher	High	Medium to high	Keep external tariff with rules on foreign content
Services	Financial services	41.4	16.06	Various EU market access regulations	High	Low	Equivalent regulation; possibly still with patchy access
	Insurance	18.4	3.85	Various EU market access regulations	Medium	Medium	Equivalent regulation; possibly still with patchy access
	Professional services	29.8	-1.92	Primarily national market access regulations	Medium	Medium	Mutual recognition, free movement of professionals

Who Benefits from Brexit?

- Homeowner = Rates at 0.5%
- Emerging Markets (MSCI Emerging Markets Index hit a two month high after Brexit)
- International travelers and students as the value of the pound decreases
- Investors in a Dislocated Market
- British Manufactures*

*Short term, increased U.K. exports on weaker pound

Sources:

<http://openeurope.org.uk/intelligence/britain-and-the-eu/securing-free-trade-eu-brexite-likely-goods-sectors-far-harder-services/>

<http://www.bdlive.co.za/opinion/columnists/2016/07/07/emerging-markets-brexite-benefit>

Economics.com

<http://www.proeuropa.org.uk/twelevereasons>

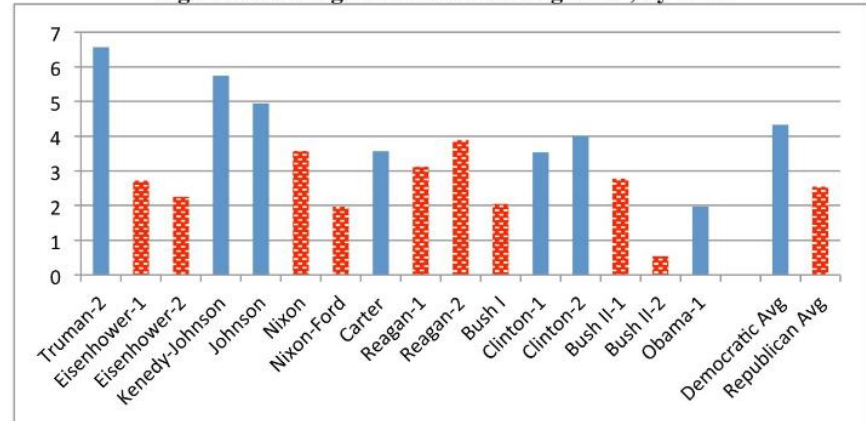
<http://www.bankofengland.co.uk/Pages/home.aspx>

Presidential Election

Party Impact on GDP Growth

64 Years / 16 Presidential Terms			
	R	D	Overall
Average Growth Rate	2.54%	4.33%	3.33%
4 -Year Term Growth Rate	10.60%	18.50%	-

Figure 1: Average annualized GDP growth, by term



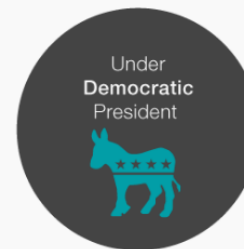
Bucking the Year 4, Second Term Trend

S&P 500 Price Changes During the Presidential Cycle					
Year	Term	S&P 500 1900-2015		S&P 500 1944-2015	
		% Change	Up?	% Change	Up?
Year 1	All Years	5.2%	59%	7.6%	59%
	>First Term	8.2%	61%	6.2%	61%
	>Second Term	2.0%	60%	9.8%	60%
Year 2	All Years	4.4%	61%	5.3%	61%
	>First Term	-1.2%	44%	0.5%	44%
	>Second Term	14.3%	90%	13.8%	90%
Year 3	All Years	10.9%	75%	16.1%	75%
	>First Term	12.6%	72%	17.5%	72%
	>Second Term	5.6%	70%	11.5%	70%
Year 4	All Years	7.5%	71%	6.1%	71%
	>First Term	11.5%	83%	10.2%	83%
	>Second Term	-1.2%	44%	-1.4%	44%
Averages	All Years	7.0%	66%	8.7%	66%
	>First Term	7.8%	65%	8.6%	65%
	>Second Term	5.3%	67%	8.8%	67%

Source: S&P Capital IQ. Past performance is no guarantee of future results.

The Outcomes For Investors Is Not Too Surprising

Average annual stock market gain



9.7%



6.7%

SOURCE: S&P CAPITAL IQ

Returns Move Down - Risk Moves Up

Historic Returns

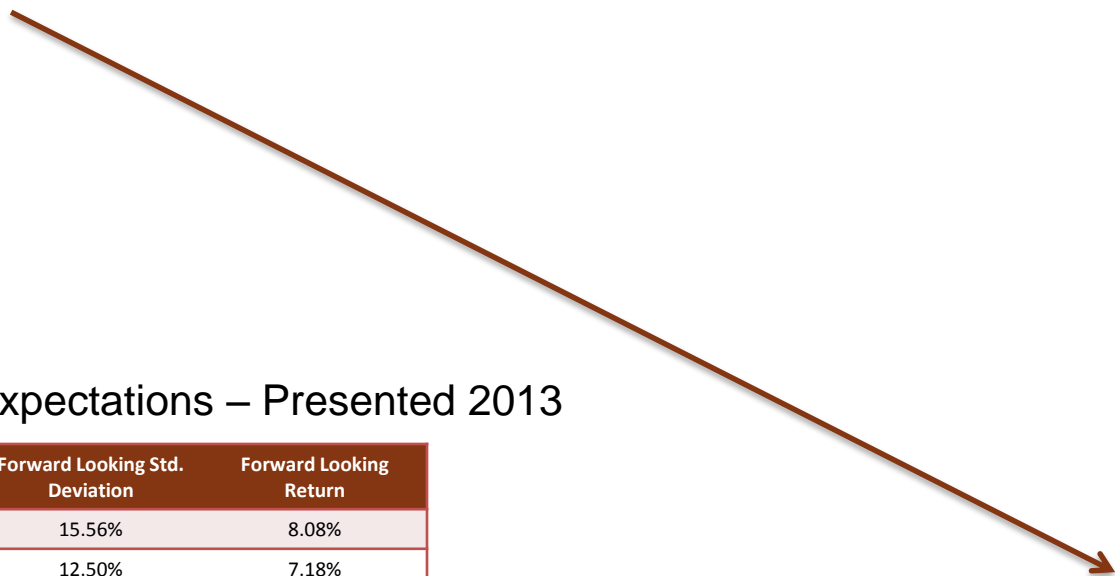
Macro Allocation Equity/Fixed Income	20 Year Historic Std. Deviation	20 Year Historic Annualized Return
100% / 0%	15.22%	9.22%
80% / 20%	12.21%	8.87%
70% / 30%	10.74%	8.63%
60% / 40%	9.29%	8.34%
40% / 60%	6.54%	7.65%
20% / 80%	4.32%	6.78%
0% / 100%	3.69%	5.74%

Capital Market Expectations – Presented 2013

Macro Allocation Equity/Fixed Income	Forward Looking Std. Deviation	Forward Looking Return
100% / 0%	15.56%	8.08%
80% / 20%	12.50%	7.18%
70% / 30%	11.00%	6.73%
60% / 40%	9.52%	6.28%
40% / 60%	6.72%	5.38%
20% / 80%	4.46%	4.48%
0% / 100%	3.83%	3.58%

Capital Market Expectations - Revised

Macro Allocation Equity/Fixed Income	Forward Looking Std. Deviation	Forward Looking Return
100% / 0%	15.0%	6.70%
80% / 20%	13.32%	5.95%
70% / 30%	12.31%	5.57%
60% / 40%	11.29%	5.20%
40% / 60%	9.27%	4.45%
20% / 80%	7.24%	3.70%
0% / 100%	5.21%	2.95%



Mean Reversion Dashboard

Regional Current P/E as a % of 10yr Avg. P/E

ACWI	EAFE Index	EM Index	United States	Germany	U.K.	China	Brazil	India	Russia
100.8%	107.8%	109.0%	116.1%	117.8%	235.4%	83.9%	212.5%	108.6%	92.8%

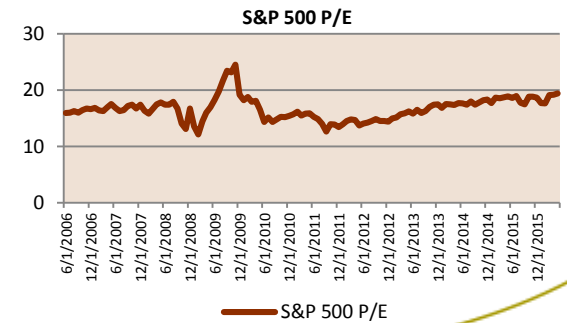
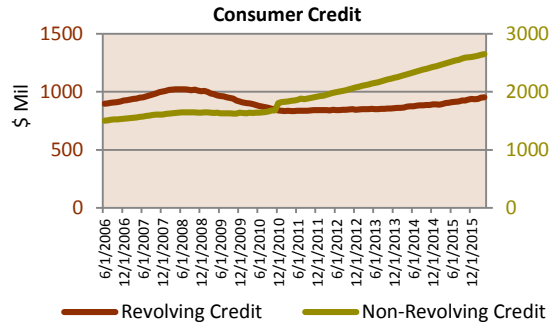
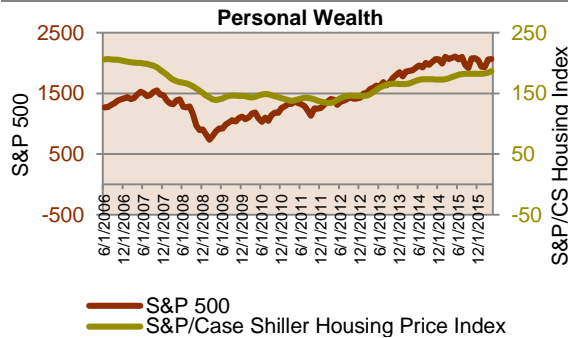
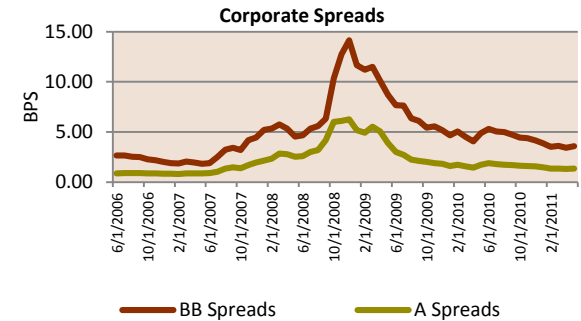
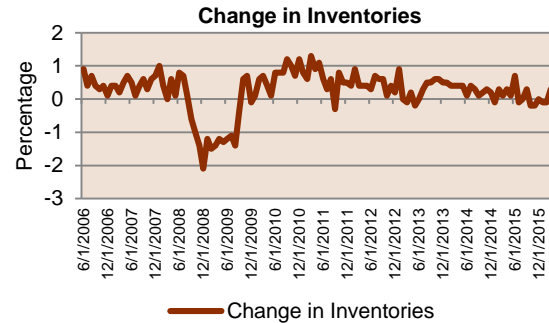
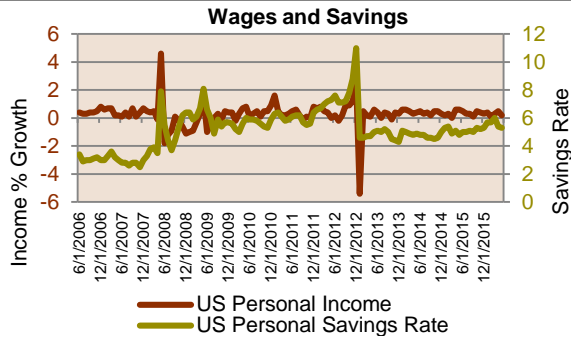
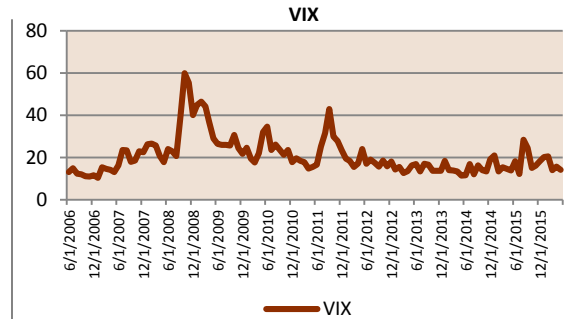
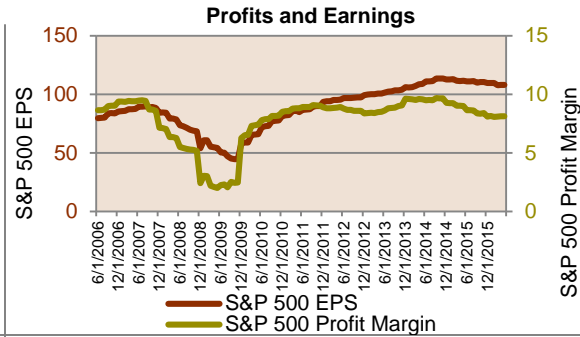
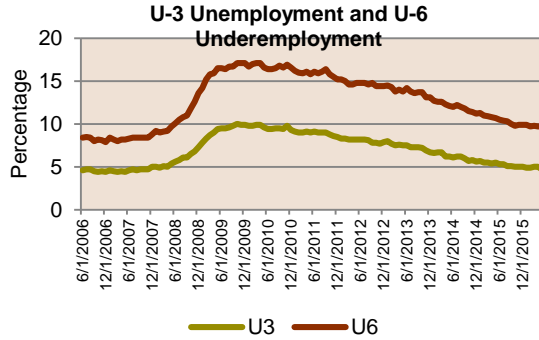
Style Current P/E as a % of 15yr Avg. P/E

	Value	Blend	Growth
Large	113.8%	107.4%	101.5%
Mid	113.3%	109.7%	101.7%
Small	99.1%	105.7%	110.4%

Sector Trailing P/E as a % of 20yr Avg. P/E

Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Materials
81.4%	77.3%	93.8%	92.2%	187.9%	106.2%	111.8%	72.3%	142.6%	104.7%

Economic Dashboard



Source: Bloomberg LP and Federal Reserve. Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented. Data retrieved on 3/31/2016.

Recommendations

Summary:

- Earnings must emerge, and if so, we could find new highs
- Stronger Dollar and a weakening in oil price could create drag on earnings
 - 10-20% correction possible
- Increased volatility as we approach November election

Recommendations:

- Lower Expectation on returns going forward
- Focus on cash flows – dividend payers
- Recovery to continue in EM

THANK YOU