

**Quarterly
Investment Briefing
August 4, 2016**

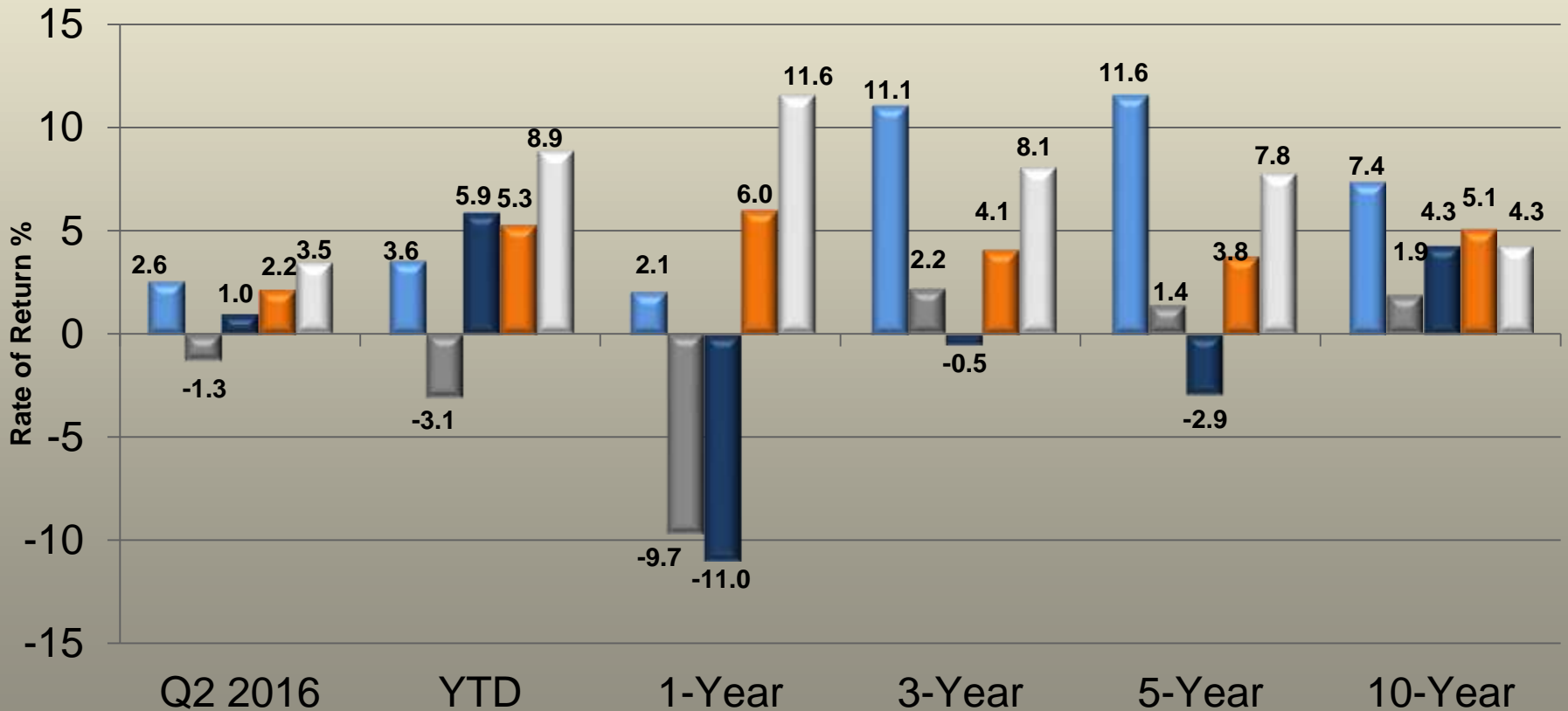


Clayton T. Bill, CFA

John S. Seidl, CFA

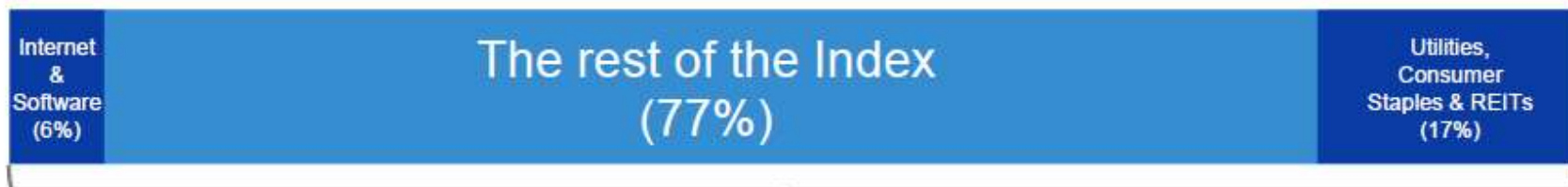
Capital Market Returns Current & Annualized Period Ending June 30, 2016

- U.S. Equities
- Emerging Market Equities
- Real Estate
- Non-U.S. Equities
- Fixed Income



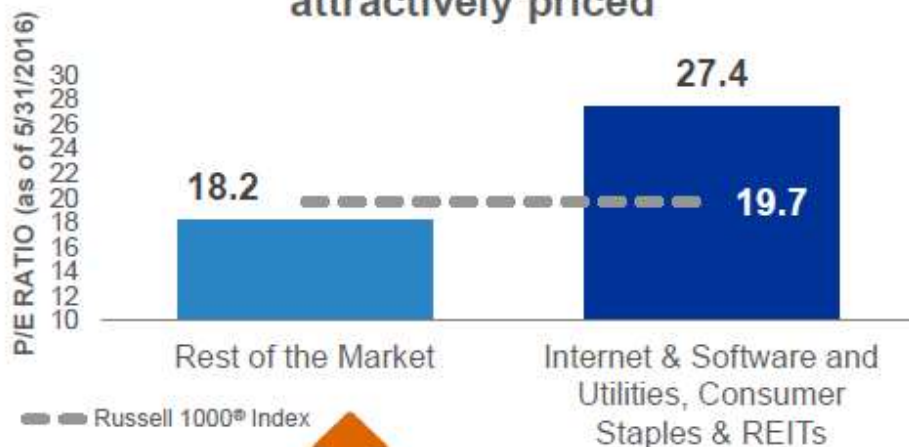
Narrow Market Leadership

Masked Pockets of Potential Opportunity in U.S. Equity Space



Russell 1000® Index

The rest of the market is more attractively priced



More attractive valuation

Last 12 months performance favored extreme ends of the market spectrum

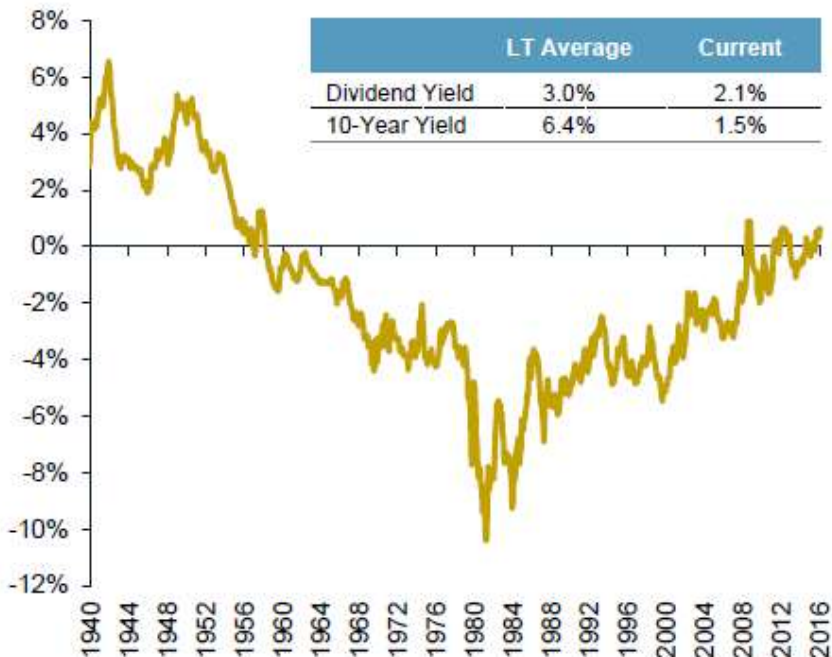
- › Russell 1000® Index: +4.4%
- › Internet & Software*: +37.5%
- › Utilities, Consumer Staples and REITs*: +12.5%
- › **Everything Else: +0.2%**

Active managers may be able to selectively identify pockets of value

As Rates Fall, Dividend-Yielding Categories Bid Up

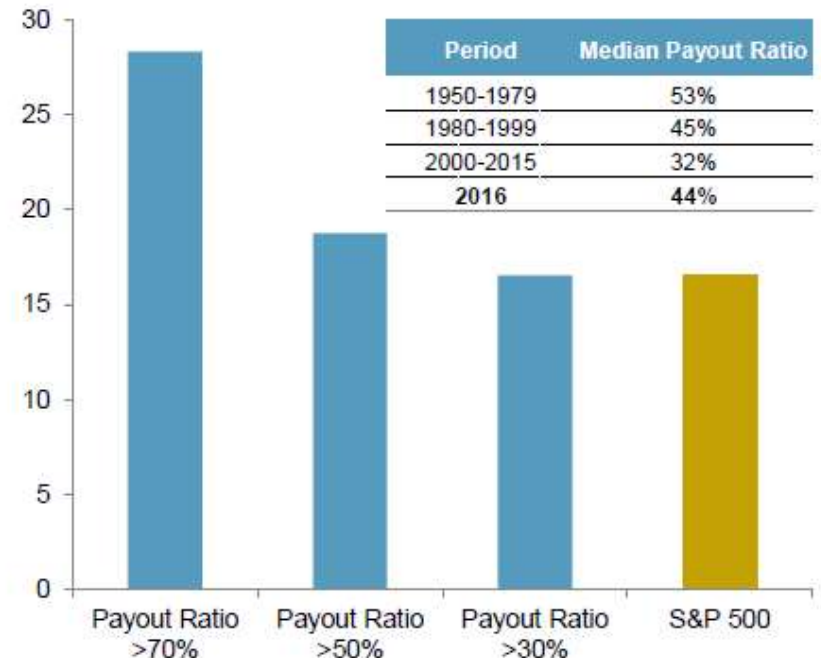
Amid record-low bond yields, investors have bid up the valuations of higher-dividend-paying equities, placing a healthy premium on companies with high payout ratios. Companies' payout ratios -- the portion of earnings paid out as dividends -- had been trending down for several decades, but have risen over the past year amid weak earnings and steady dividends.

S&P 500 Dividend Yield Minus 10-Year Treasury Yield



S&P 500 Valuations by Payout Ratio

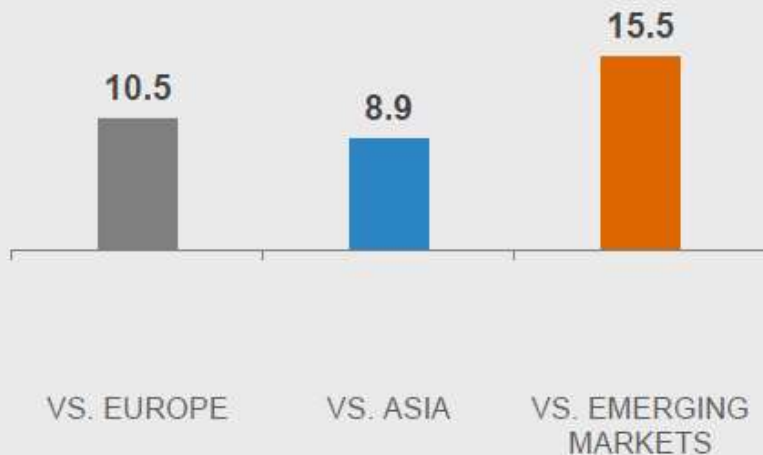
Price-to-Forward-Earnings Ratio



The U.S. Equity Roll Continues; But for How Long?

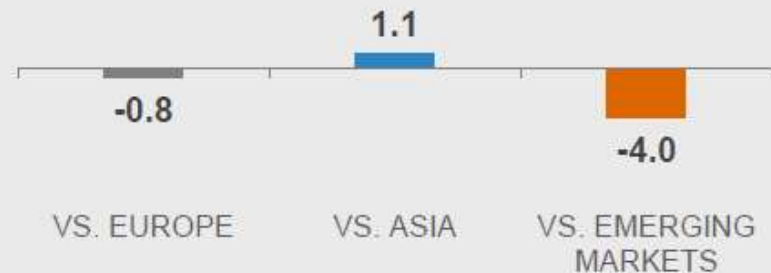
U.S. STOCKS ANNUALIZED EXCESS RETURN

Five years ending June 30, 2016



U.S. STOCKS LONG-TERM AVERAGE EXCESS

January 1970 – June 30, 2011*

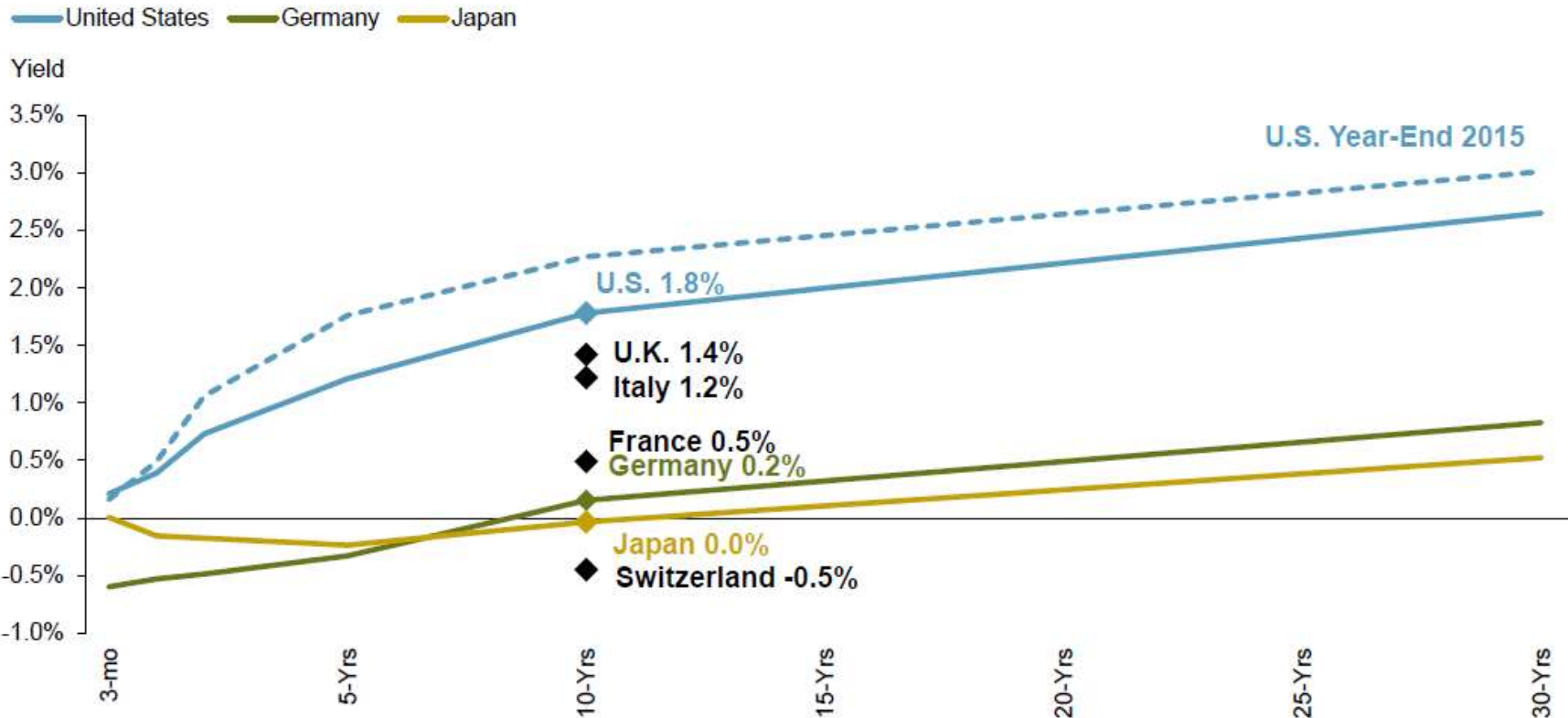


- › Recent results have differed dramatically from historical experience
 - › U.S. exceeding averages
 - › Non-U.S. markets falling behind averages
- › Equity markets tend to revert to long-term relationships
- › Strong U.S. equity results have increased relative valuations as compared to international developed and emerging markets

Global Bond Yields Plunge Amid Brexit Angst

The Brexit vote and subsequent expectation of even easier monetary postures by the world's central banks added fuel to the global sovereign-bond rally. U.S. yields remained higher than those of many other advanced economies, with trillions of dollars of government bonds trading at negative yields in Europe and Japan at the end of Q2.

Sovereign Bond Yield Curves



BREXIT: The Unexpected Outcome Questions Abound

THE FACTS

- › UK citizens voted to exit the European Union (EU)
- › The UK is the first EU member to exit
- › Exit terms must be negotiated within two years

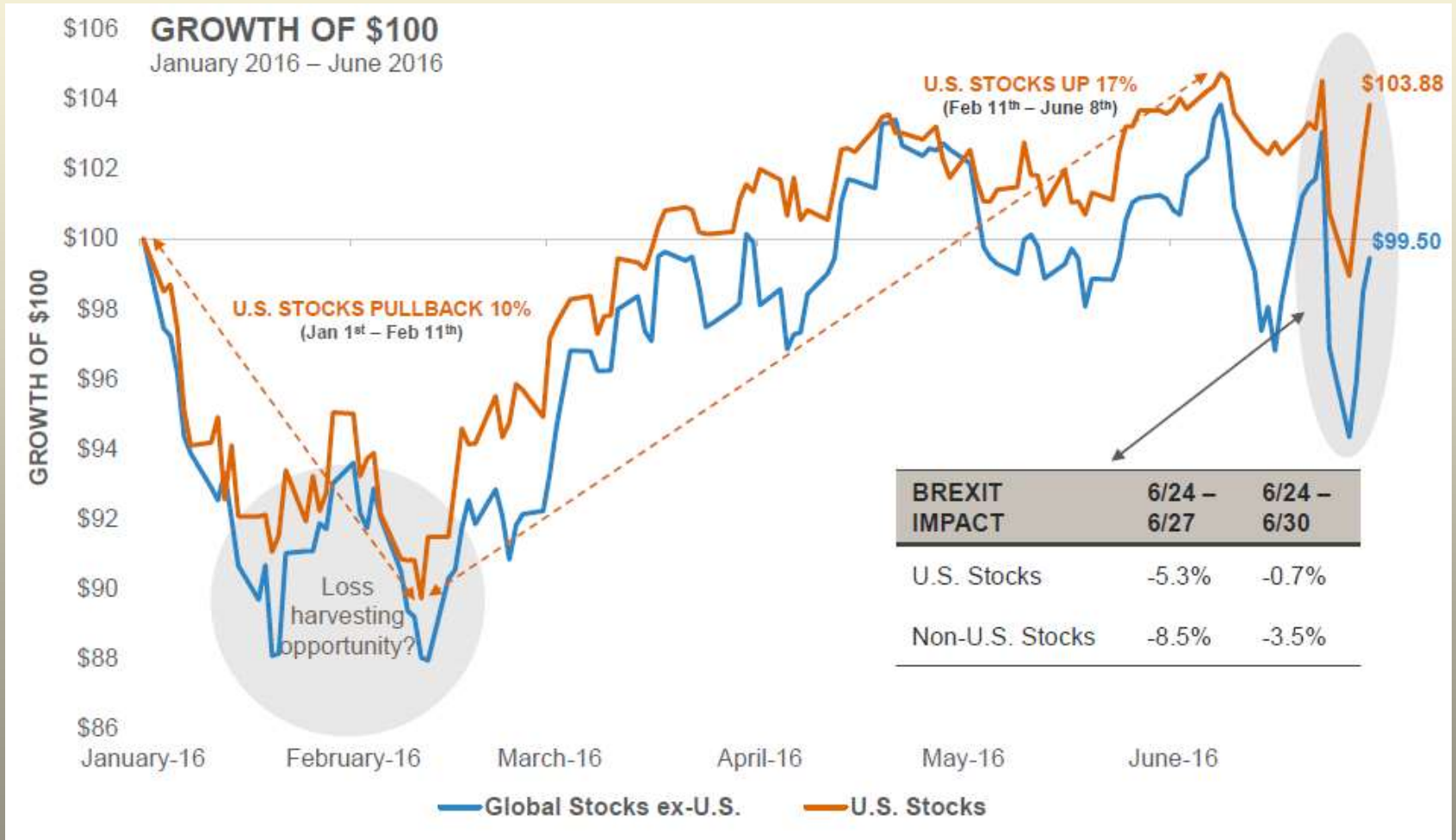


THE OPEN ITEMS

- › Economic relationships between the UK and EU are in question
 - › Impact on trade agreements
 - › Free movement of labor and capital
- › UK leadership succession plans are undetermined
- › Potential for other exits from the EU

2016: Pullbacks and Reversals

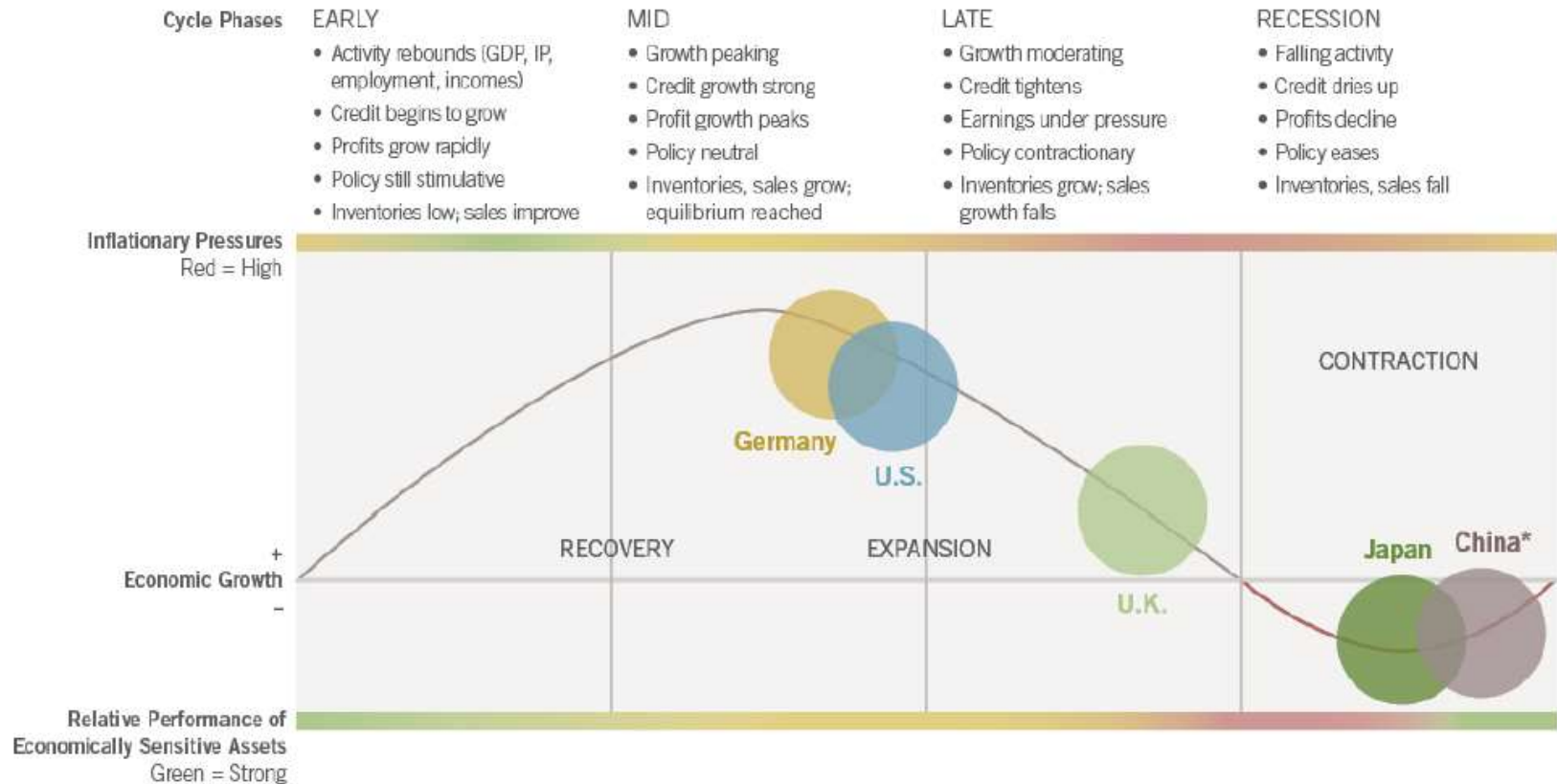
Best Response is Often to Stay the Course



Post-Brexit Risks Up, but Global Cycle Gradually Stabilizing

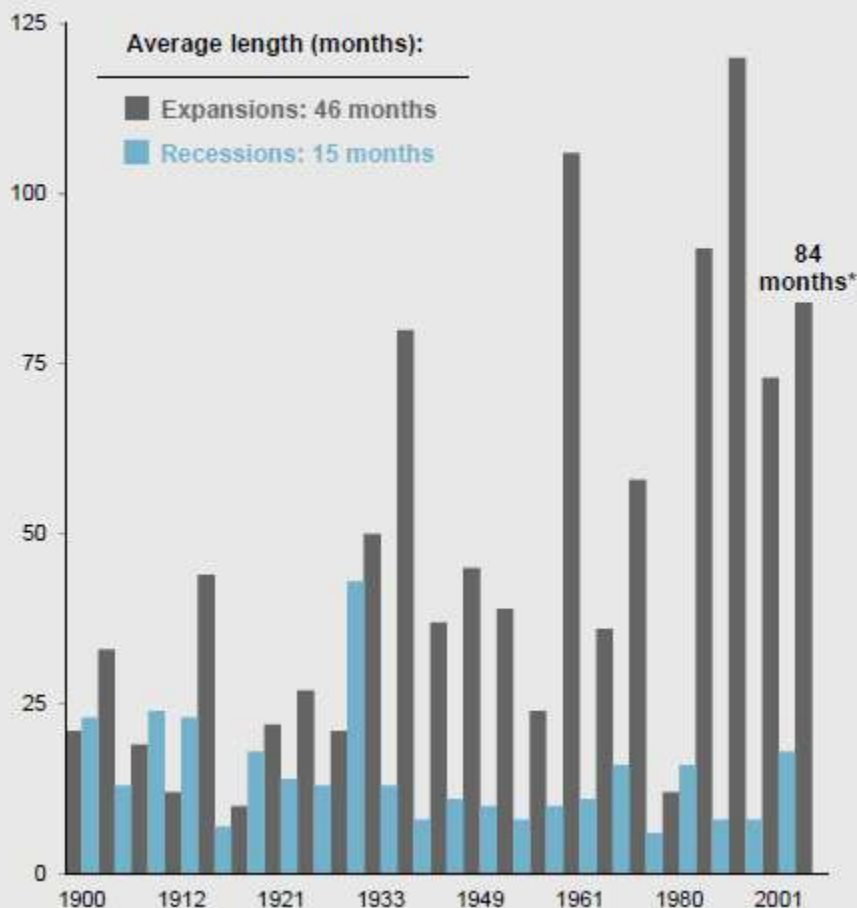
The U.K. may be headed toward recession in the aftermath of Brexit, and Japan slipped into a mild contraction as a stronger yen pressured exports. Nevertheless, continued expansion in the U.S. and steadying trends in China still make global stabilization the most likely underlying trend, albeit a more prolonged process with greater downside risks.

Business Cycle Framework

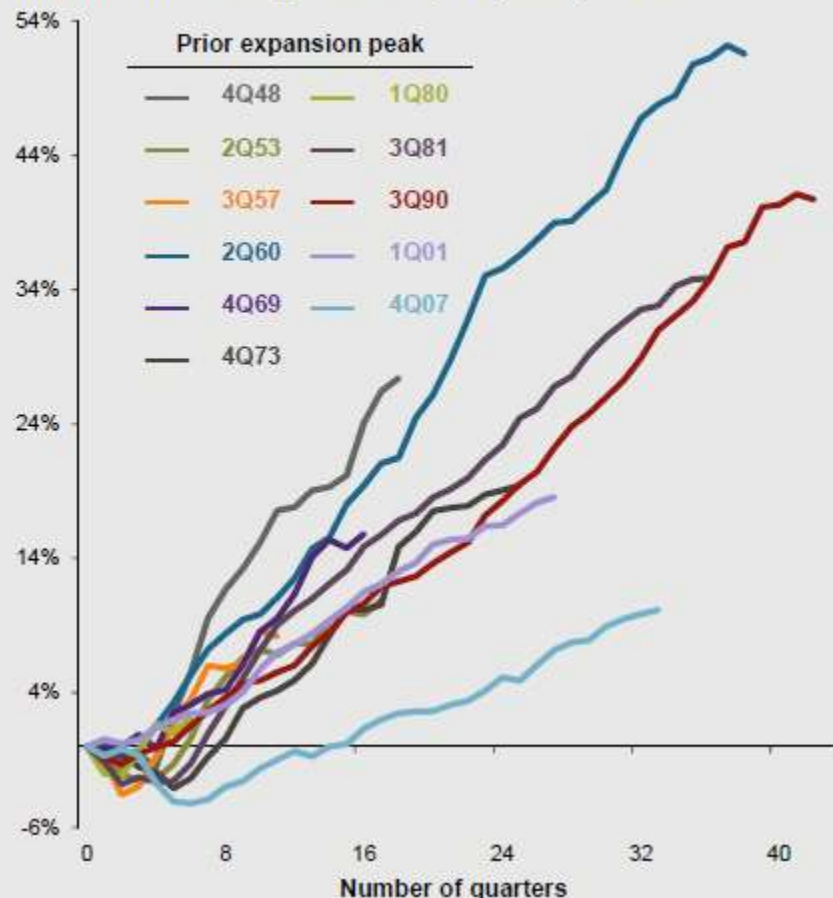


The Length and Strength of Expansions

Length of economic expansions and recessions



Strength of economic expansions
 Cumulative real GDP growth since prior peak, percent



The New Mediocre

Russell 2016 Global Market Outlook – Q3 Update

UNITED STATES

Lackluster earnings,
expensive valuations

EUROZONE

Bumpy ride

ASIA-PACIFIC

Slow and steady

KEY POINTS

- › Forecast 2% GDP growth for 2016
- › Fed Funds rate to reach 0.50%-0.75% in 2016
- › U.S. Dollar likely range-bound
- › Underweight U.S. equities due to valuations, downside risks to earnings, and fading momentum

- › Forecast 1.5% GDP growth
- › Ultra-supportive monetary policy
- › Expect 0%-4% corporate earnings growth
- › Headwinds from event risk will likely dissipate
- › Favor global equity market due to cheaper valuations

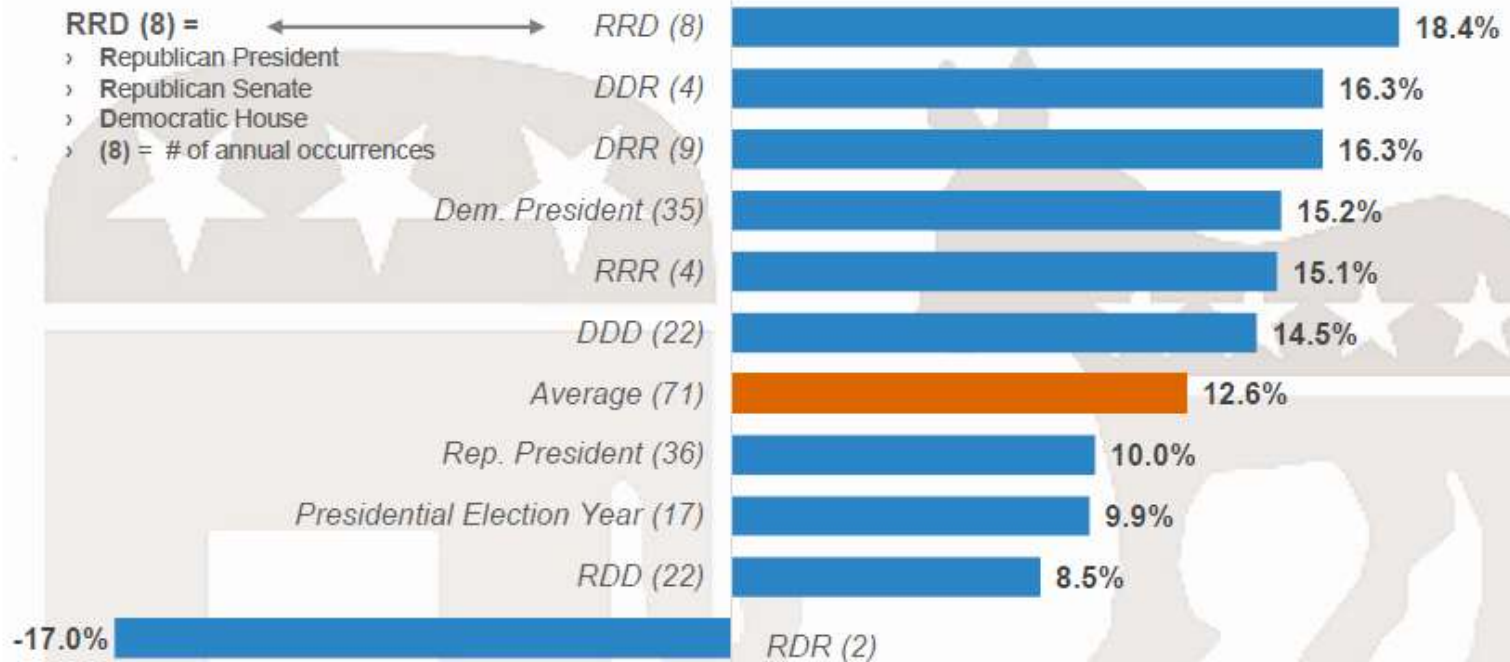
- › Expect 3.5%-4.0% growth
- › Rising risks from housing, debt, and economic imbalances
- › Japan, Australia, and New Zealand face strong currency headwinds
- › Low returns and high volatility, with pockets of value

The bottom line: We expect global markets to remain volatile and bond yields to eventually rise. Diversification matters.

Challenging to Predict Politics

Don't Let Election News Impact Long-term Investment Objectives

U.S. EQUITY AVERAGE CALENDAR YEAR RETURN 1945 – 2015



- › Markets dislike uncertainty more than any specific party
- › Often best to focus on longer term averages
- › Difficult or impossible to time shorter-term impacts

Concerned About Market Volatility

Long-term Discipline Can Reward Investors

- › Current investor concerns may include
 - › Energy prices
 - › Slowing economy
 - › Brexit
 - › U.S. elections
- › Temptation may be to avoid the risks
- › Historically stocks have rewarded long-term ownership
 - › Don't let short-term speculation derail results

