

**Quarterly
Investment Briefing
August 9, 2017**

INDIANA TRUST

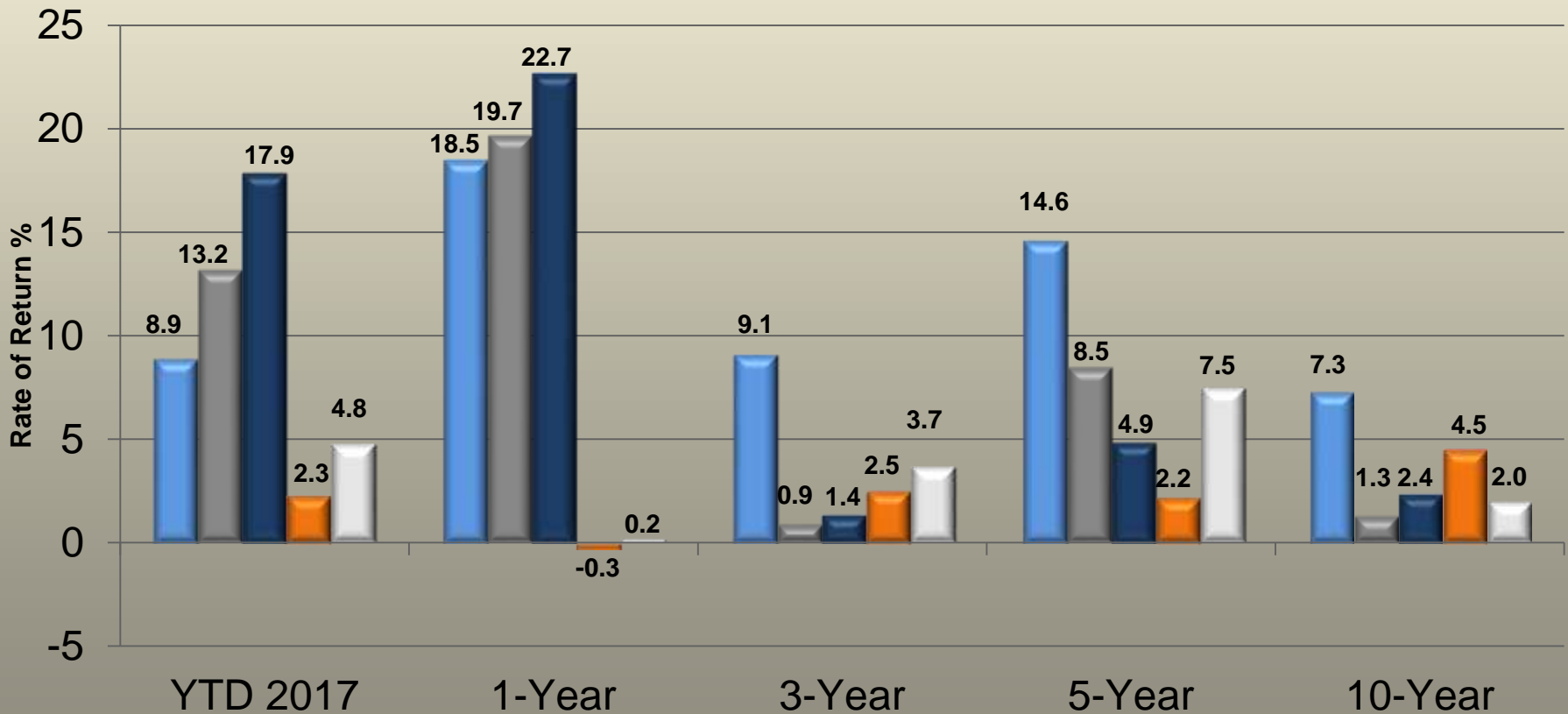
& Investment Management
COMPANY

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Capital Market Returns Current & Annualized Period Ending June 2017

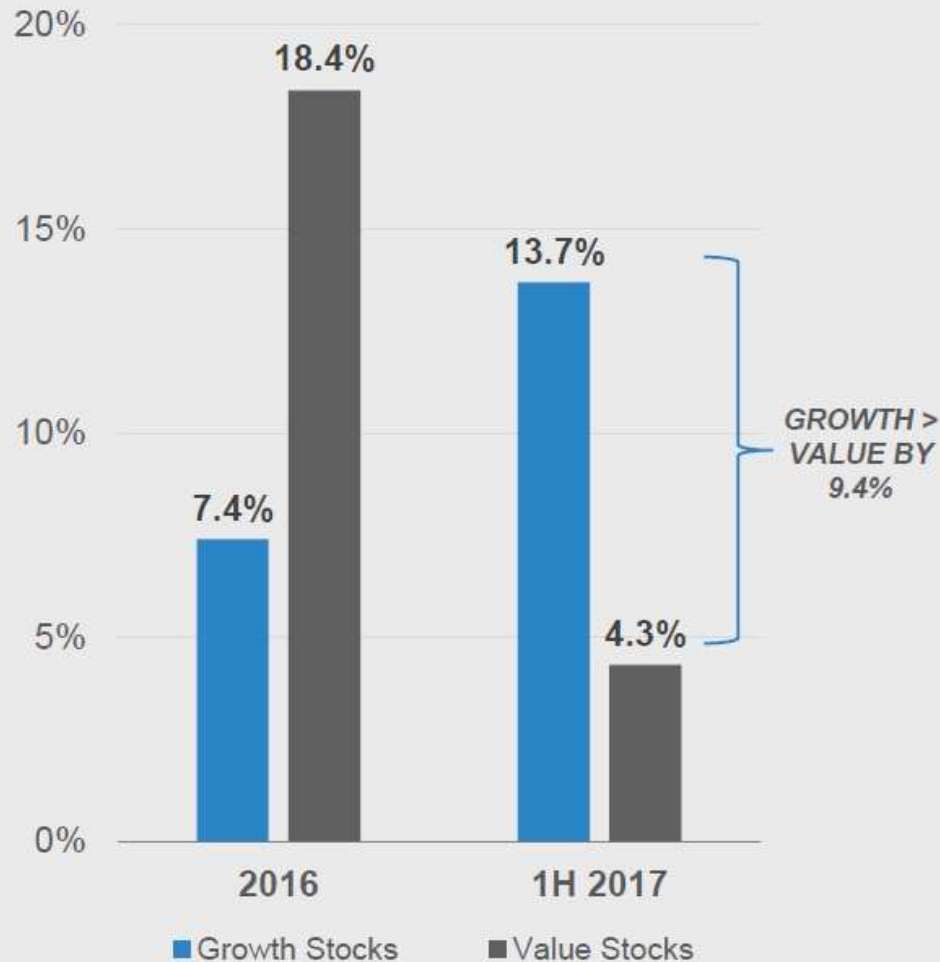
- U.S. Equities
- Non-U.S. Equities
- Emerging Market Equities
- Fixed Income
- Real Estate



Source: Russell, Barclays, Bloomberg and FTSE NAREIT

U.S. stock leadership reversal

Growth stocks on a run in 2017



2016

- › **VALUE:** Energy (+25.9%) & Utilities (+20.4%)
- › **GROWTH:** Health Care (-2.9%)

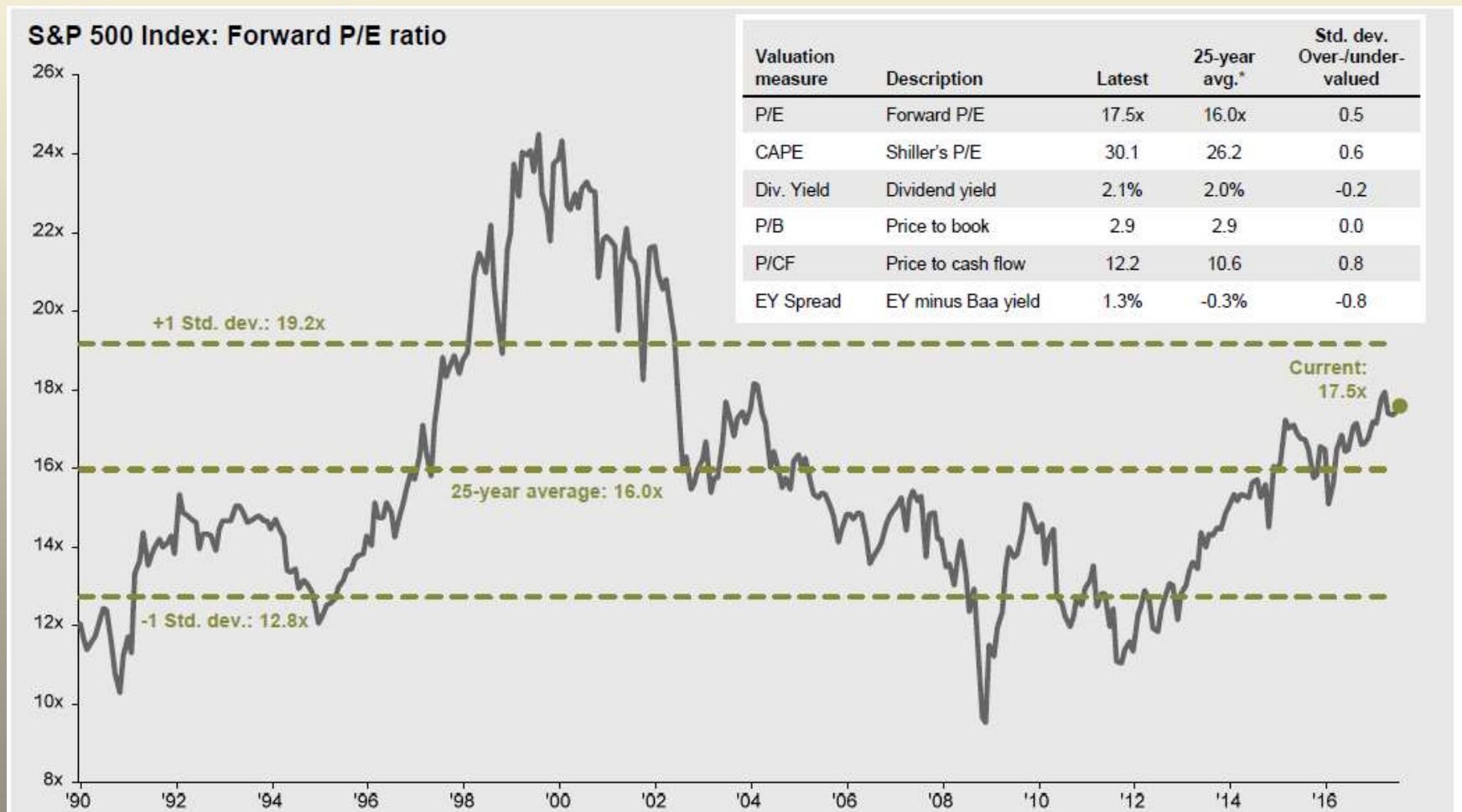
1H 2017

- › **GROWTH:** Technology (+16.9%) & Health Care (+16.8%)
- › **VALUE:** Energy (-13.6%) & Utilities (0.6%)
- › YTD dominated by limited tech names:
Apple, Google (Alphabet), Microsoft, Amazon, Facebook =
 - 10% of market capitalization but
 - 23% of market's return of 8.9%

Style is an important factor for stock returns and leadership is unpredictable from year-to-year

U.S. stock market valuations are elevated

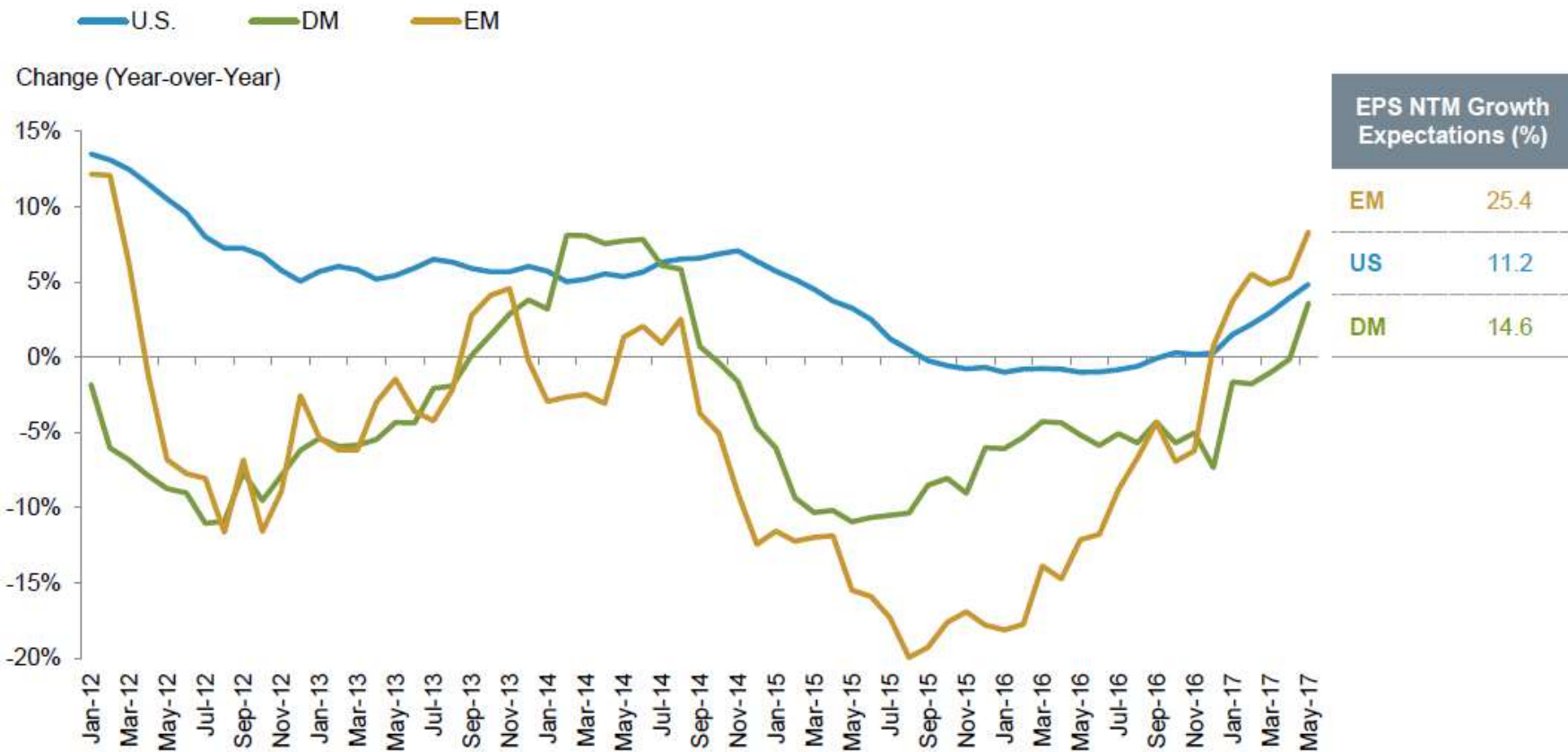
With valuations above long term averages, the likelihood increases for below-average long term returns – although that outcome is far from given.



International earnings growth closes gap with U.S.

Following several years of profit recession, international corporate earnings have accelerated into positive territory and caught up with U.S. corporate profit growth.

Global EPS Growth (Trailing 12 Months)



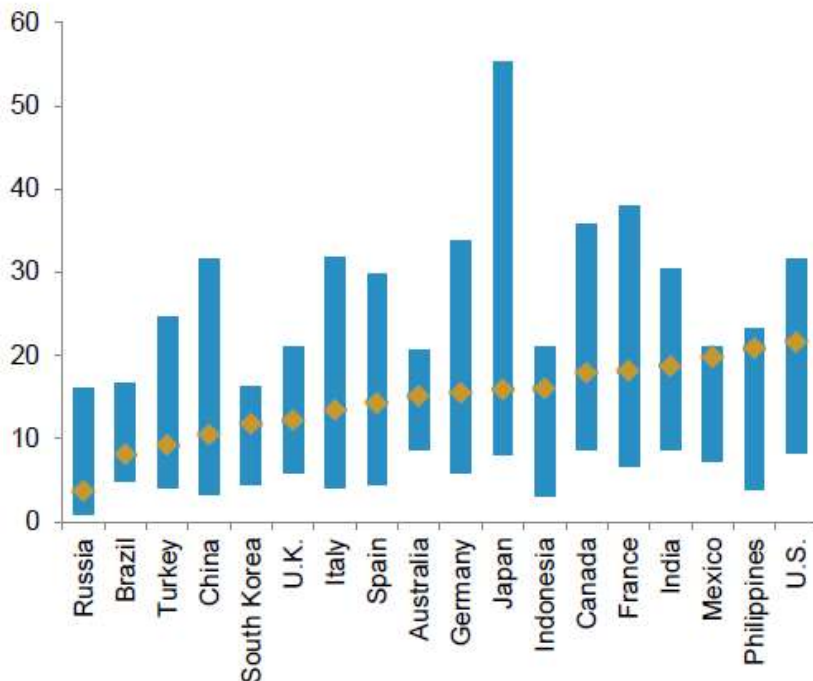
Equity and currency valuations attractive vs. U.S.

P/E ratios for most equity markets are lower than those in the U.S., with many countries' valuations in the bottom half of their 20-year range. Moreover, the value of the U.S. dollar remains at the upper end of ranges versus major currencies. Both factors provide a favorable long-term valuation backdrop for international equity returns.

Cyclical P/Es

◆ 5/31/2017 ■ 20-Year Range

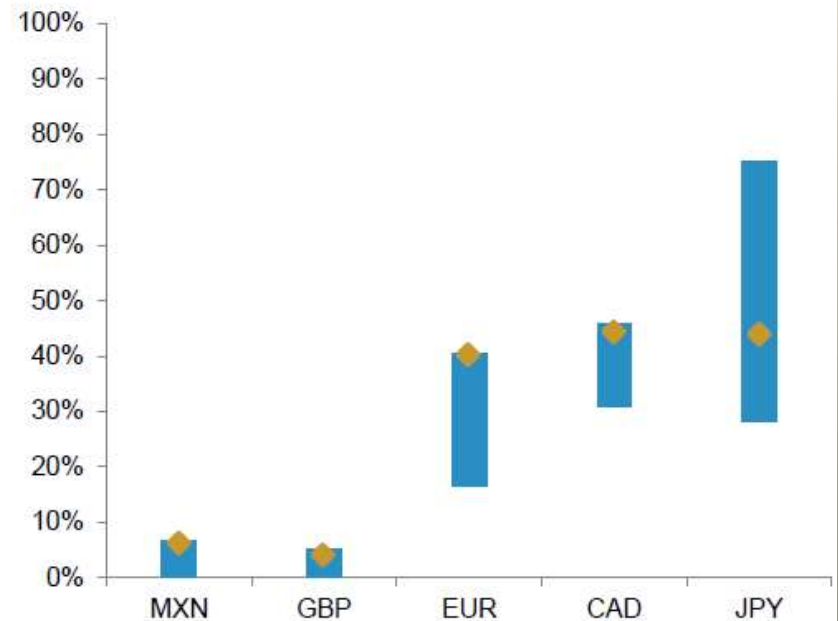
Price/5-Year Peak Real Earnings



Valuation of Major Currencies vs. USD

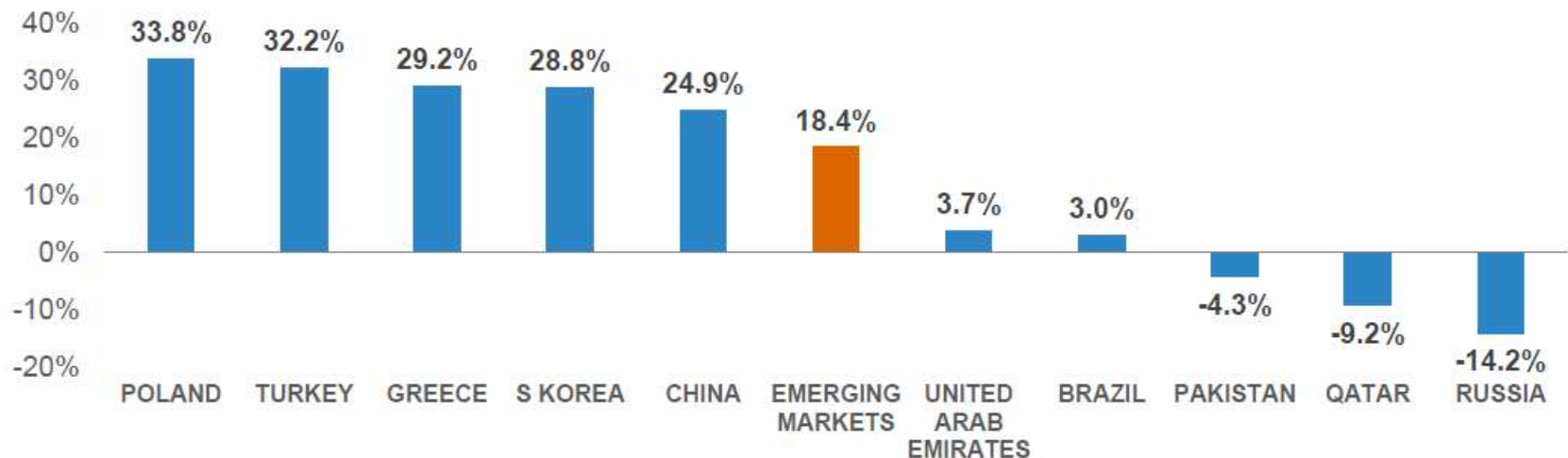
■ Last 12-Month Range ◆ 6/30/2017

Percentile Since 2000



Emerging markets are not monolithic

TOP / BOTTOM 5 EMERGING MARKETS COUNTRY RETURNS JANUARY – JUNE 2017



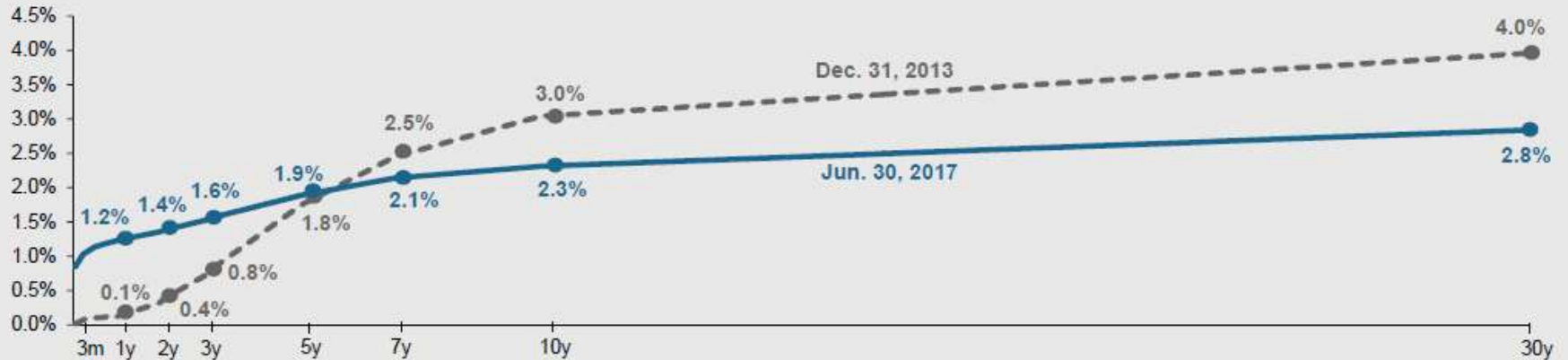
- › Why consider Emerging Markets?
 - › 12% of global market capitalization / 85% of global population / 39% of global GDP
- › Investing opportunities are wide ranging
- › Active management can help navigate disparate markets

Bond market dynamics

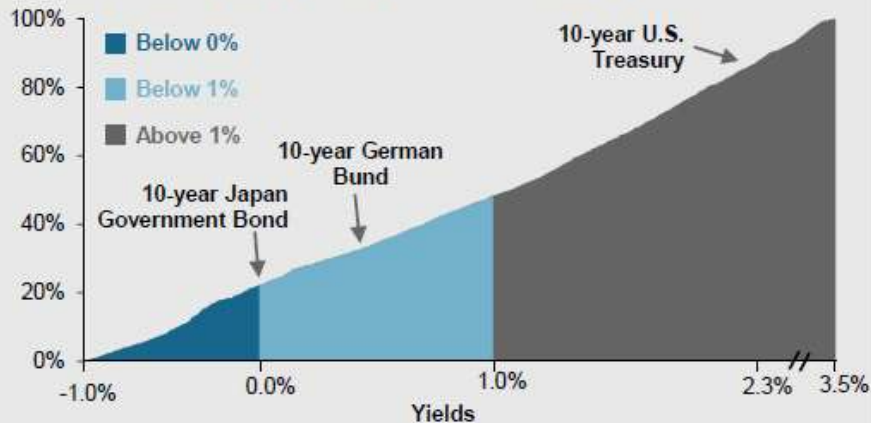
The yield curve has flattened as a result of the Fed's interest rate hikes. However, intermediate and long term rates have declined in recent years and the overall U.S. investment grade market has become longer in duration.

Yield curve

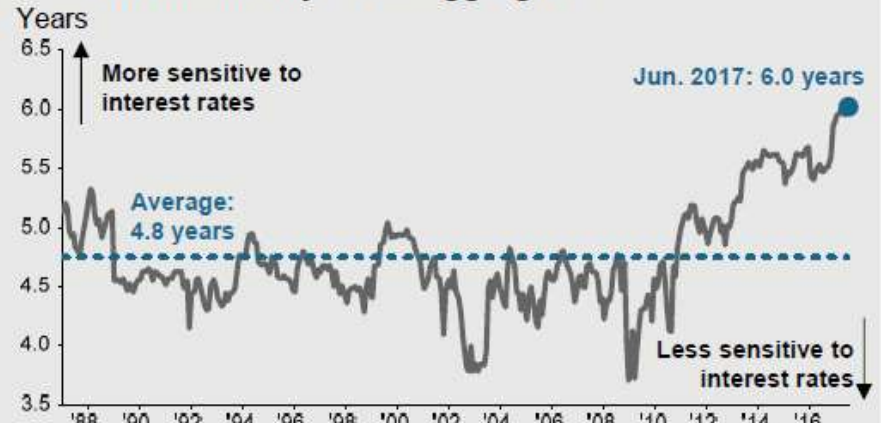
U.S. Treasury yield curve



Breakdown of DM government bonds by yield

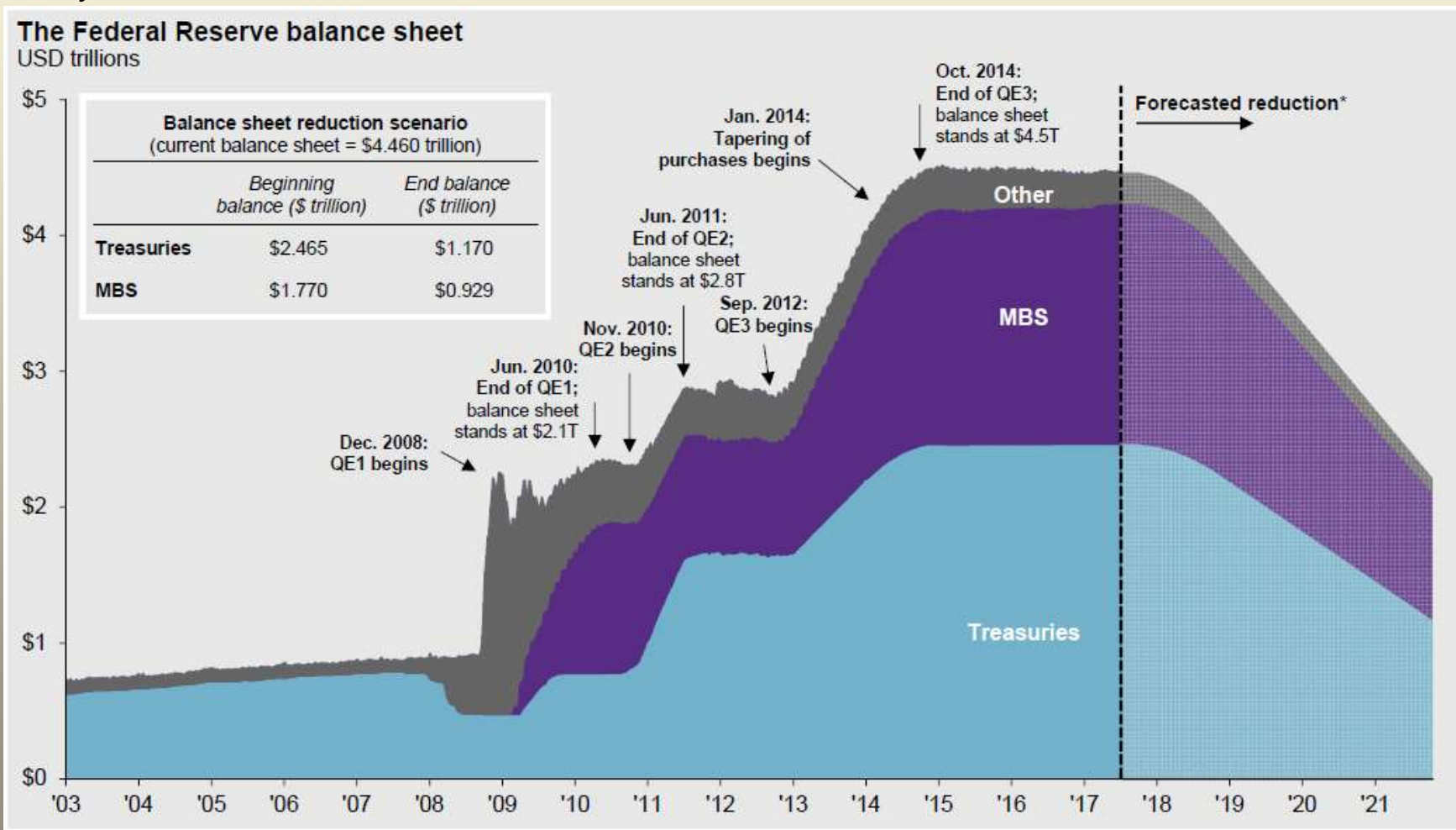


Duration of Barclays U.S. Aggregate



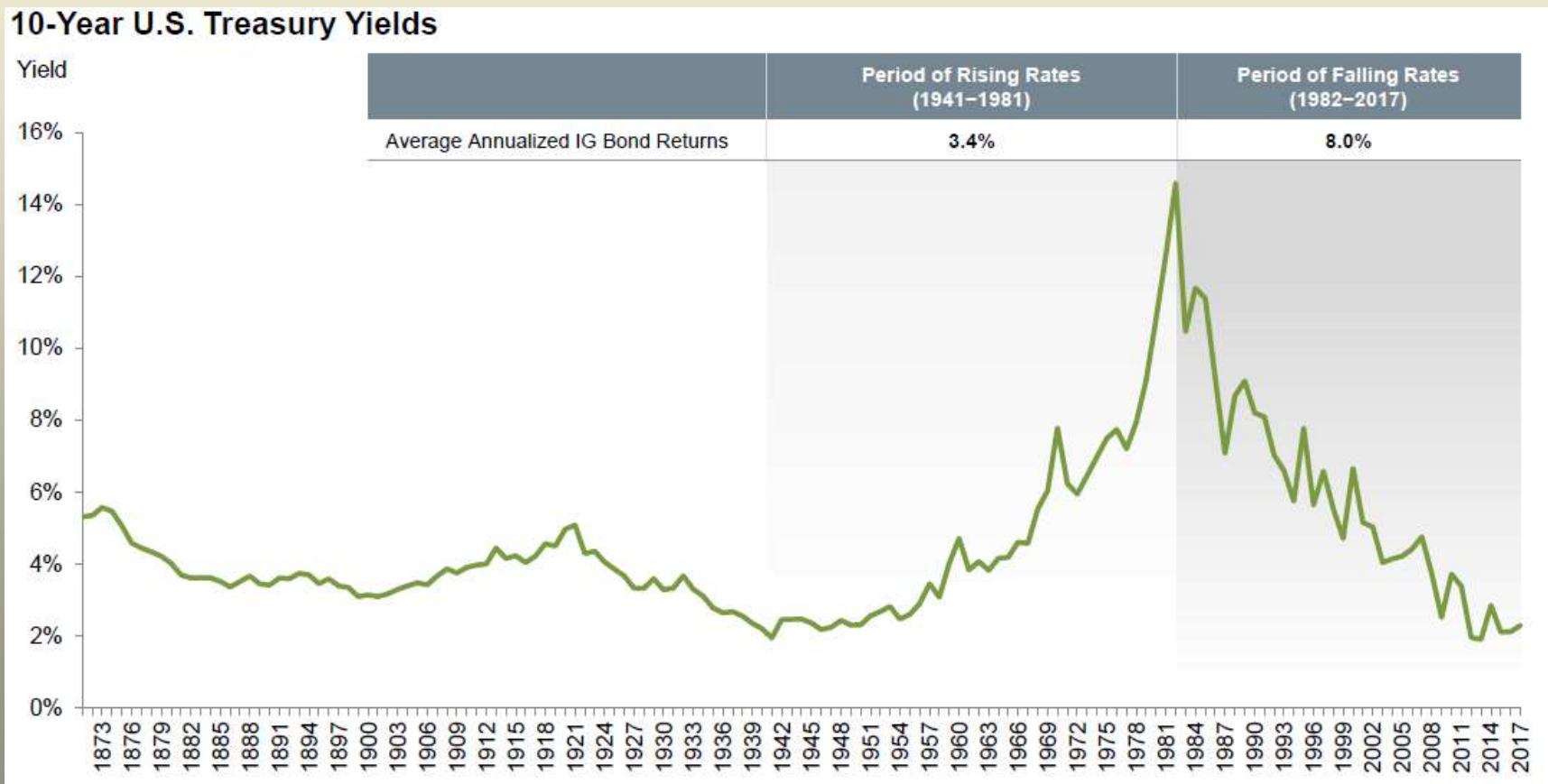
The Fed begins its wind-down, very deliberately

The planned reduction in the Fed's bond holdings – the legacy of its multiple quantitative easing programs – begins in October with a minute fraction of Treasury bond market trading activity.



Even when rates rise, bond returns can be resilient

The 35-year bull market for U.S. Treasury bonds generated outsized returns and brought interest rates to their lowest levels in recent decades, but bond yields are only modestly lower when compared to long-term history. During the four decades of rising rates from 1941 to 1981, investment-grade bonds provided positive returns as increasing coupons helped offset the negative impact of price declines.



Indiana Trust capital market expectations and asset allocation update

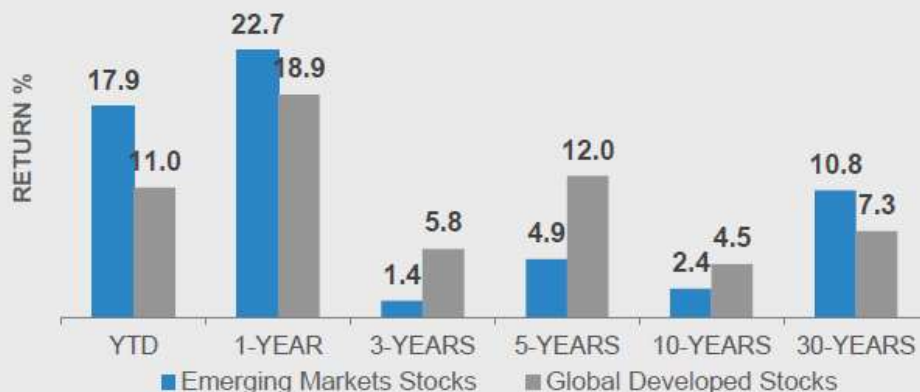
Long-term risk and return expectations (7 to 10 years) form the basis of the portfolio management and financial planning process. Based on these inputs, ITC will modestly increase allocations to international equities and will introduce an allocation to Emerging Markets Debt.

<u>Asset Class</u>	<u>Long-Term Expected Avg. Annual Return</u>	
U.S. Equity	6.5%	
International Developed Markets Equity	7.5%	> ITC to modestly increase allocations to international equities by 2% of portfolios.
Emerging Markets Equity	9.4%	
Real Estate	6.5%	
Alternatives	4.1%	
Fixed Income	3.0%	> ITC will add Emerging Markets Debt to fixed income allocations – EMD comprises 20% of the global bond market.

Two ways to participate in emerging markets

Stocks and Bonds

EMERGING MARKETS VS. DEVELOPED MARKETS
ANNUALIZED RETURNS ENDING JUNE 2017



- › Long term emerging markets equities have outperformed developed markets
- › Near term results show potential for mean reversion

EMERGING MARKETS VS. CORE BONDS
ANNUALIZED RETURNS ENDING JUNE 2017



- › Emerging Market Debt (EMD) has outperformed core bonds
- › Can provide additional diversification

Growth assets may need to work smarter

Lower interest rates are reducing bond contributions

- › Low interest rates have created lower bond returns
- › Growth assets may need to generate more to reach comparable outcomes
- › Diversified growth exposures and strategies can help manage risks and volatility
 - › Non-U.S. stocks
 - › Non-U.S. bonds
 - › Alternative strategies

