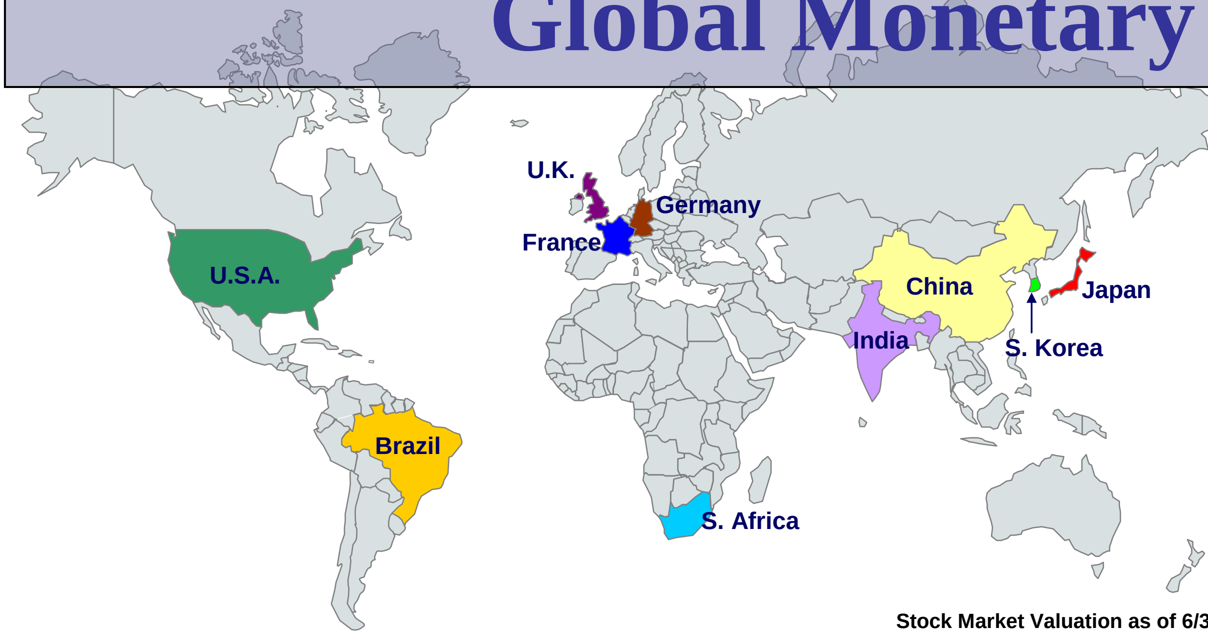
Capital Market Review

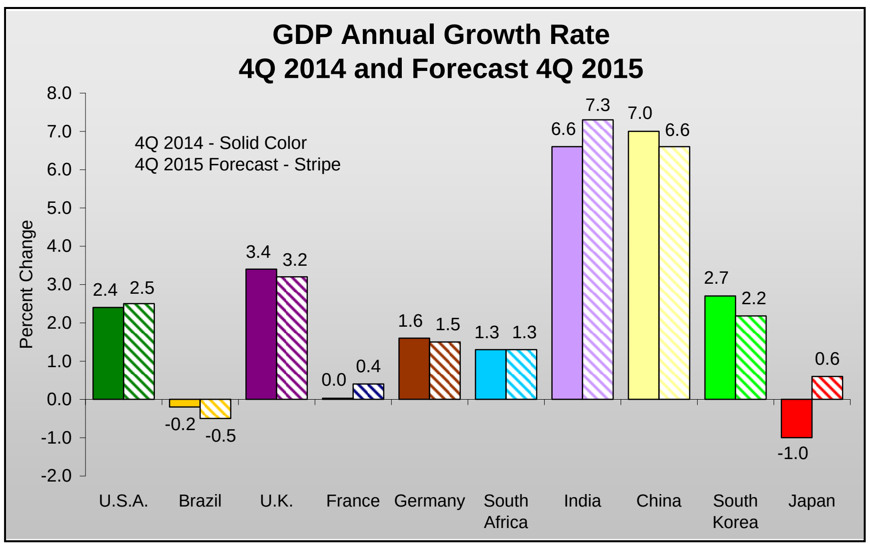
June 30, 2015

Global Monetary Policy



Monetary policies around the globe are diverging in the face of different rates of growth among different countries. The bar chart shows that in the U.S. and the U.K., stronger economic growth has given room for Central Banks to consider raising rates. In other countries, such as China, Japan, and the Eurozone, negative or slowing GDP growth has prompted Central Bankers to ease policy (as in China) or reaffirm aggressive quantitative easing programs (as in Japan and the Eurozone).

The divergence in global monetary policy has the potential to perpetuate volatility across markets. The stock market valuation table shows that different stock markets around the globe have experienced a wide range of returns and exhibit a wide range of valuations. China shows a low relative valuation and has posted strong returns. Brazil's economy is in recession, and its market is down over 29%. Higher rates in the U.S. may encourage investors to reallocate dollars from stocks, which appear fully valued, to higher yielding bonds and potentially higher returns in global equities. Easier money in Europe and Japan should encourage higher return seeking investors to continue allocating euros and yen into equity markets. **Investors should remain vigilant and be prepared to take advantage of opportunities to rebalance investments to enhance return and reduce risk.**



Stock Market Valuation as of 6/30/15

	Trailing P/E (x)	1 Yr Stock Return (%)
U.S.A.	19.3	7.4
Brazil	20.9	-29.3
U.K.	17.9	-8.7
France	20.6	-9.6
Germany	17.2	-9.7
South Africa	25.7	-2.1
India	29.2	2.9
China	10.0	11.3
South Korea	20.1	-14.0
Japan	17.0	7.9

Monetary Policy	Country
Aggressively Easing	Eurozone, Japan
Easing	Hong Kong, China, India, South Korea
Likely to start tightening in 2015	United States, United Kingdom
Tightening	South Africa, Brazil

Source: Trading Economics, BlackRock ishares, Ned Davis Research

BROAD MARKET OVERVIEW

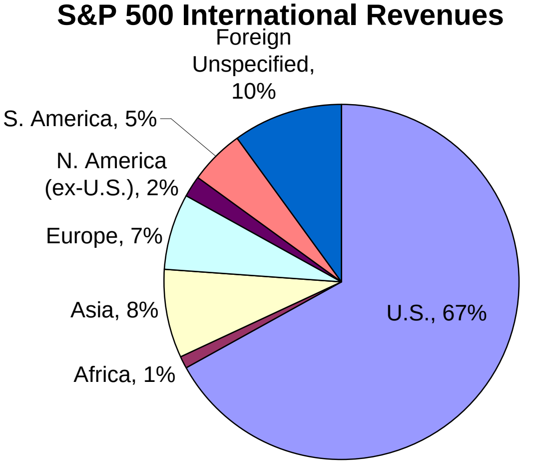
DEMARCHE ASSOCIATES, INC. Putting Research To Work

INDEX	2nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	0.3	1.4	14.3	13.1	6.4
DeMarche World*	0.3	1.4	14.3	13.1	6.4
DeMarche 3000	0.3	3.0	14.9	14.1	7.5
Russell 3000	0.1	7.3	17.7	17.5	8.2
S&P 500	0.3	7.4	17.3	17.3	7.9
DeMarche International	1.2	-1.4	12.3	9.2	6.1
MSCI EAFE	0.6	-4.2	12.0	9.5	5.1
DeMarche Bond	-1.7	2.3	1.5	3.3	4.1
Barclays Aggregate	-1.7	1.9	1.8	3.3	4.4
Citigroup Non-U.S. Gov't Bond	-1.5	-13.5	-3.9	0.3	2.6
NCREIF (Private RE)	3.1	13.0	11.6	12.7	8.2
Bloomberg Commodity	4.7	-23.7	-8.8	-3.9	-2.6

Notes: All 3, 5 and 10-year returns are annualized. *Does not include Canada or Brazil.

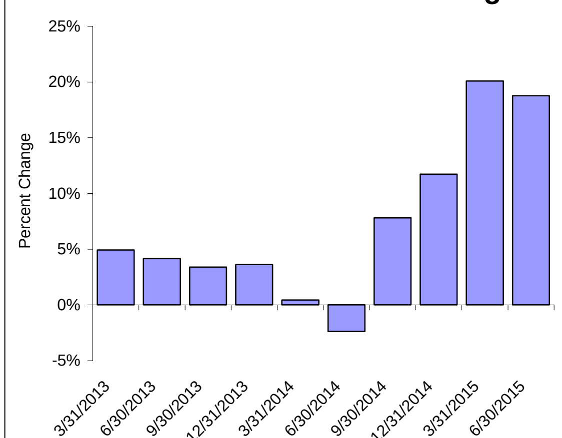
Indicator Year Ending 6/30	2015	2014	2013	2012	Long Term Average
GDP Annual Growth Rate	2.3	2.6	1.8	2.3	3.1
Unemployment	5.3	6.1	7.6	8.2	6.0
Inflation (CPI)	0.1	2.1	1.8	1.7	3.8
10-Year Interest Rates	2.4	2.6	2.3	1.6	6.0

S&P 500 International Revenues



Source: Goldman Sachs Global Investment Research

U.S. Dollar Index: Major Currencies Year over Year Percent Change



Source: Federal Reserve

- The impact of global macro events continues to be the primary driver of returns. International returns beat domestic returns two quarters in a row for the first time since 2012. A modestly weakening dollar helped to increase international returns that were led by Japan and the U.K.

- Commodity returns were positive after three negative quarters. The rebound in energy prices, specifically crude oil, from their fall in the first quarter drove returns higher. Oil prices are still lower than where they were a year ago and are the primary component of the double digit drop in commodity prices in the past year.

- Increasing interest rates in the U.S. and in Europe contributed to negative returns for bonds in the second quarter. While the strengthening dollar of the past 12 months has had a significantly negative impact on the one year return of international bonds, currency had a much smaller effect on returns this quarter, as the dollar weakened slightly against other currencies.

- A large portion of the earnings of large cap stocks, as represented by the S&P 500, comes from overseas. The pie chart at the left points out that a third of the earnings of the S&P 500 are immediately impacted by currency exchange rates. The bar chart shows the strengthening of the dollar in recent quarters, which has slowed the growth of earnings for large cap stocks.

DeFact

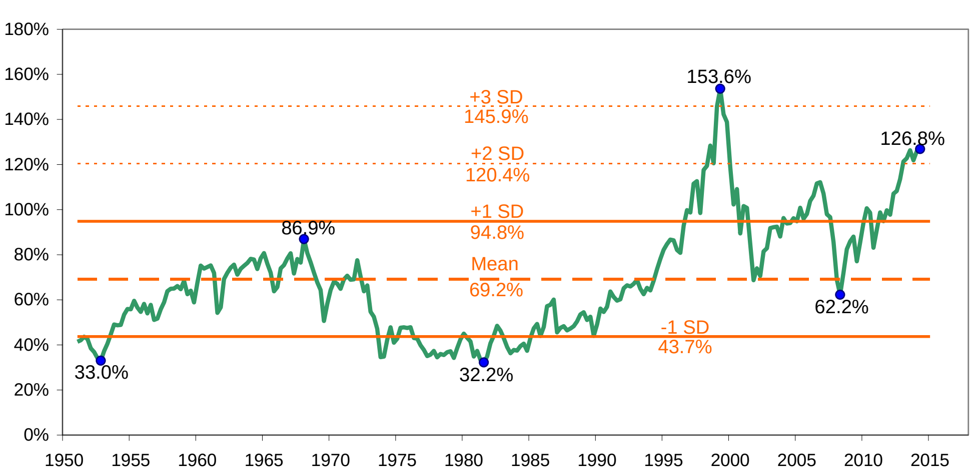
CalPERS announced that it plans to reduce the number of outside money managers it uses to approximately 100 from 212. CalPERS explained that the action is part of an ongoing process to simplify the portfolio by consolidating with managers that better fit the overall mandate. CalPERS has stated that reducing managers will actually improve diversification and reduce fees, in addition to increasing competition.
~WSJ

DOMESTIC EQUITIES

DeMarche Associates, Inc. Putting Research To Work

INDEX	2nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	0.2	7.9	16.6	15.7	8.4
DeMarche Value	0.6	-3.1	13.0	11.9	6.2
DeMarche Aggressive	-0.8	-1.1	19.9	14.2	6.9
DeMarche Defensive	0.5	3.4	14.2	14.0	7.4
DeMarche Large Cap	0.6	3.1	14.0	13.3	6.8
Large Cap Growth	0.2	8.2	16.2	15.1	7.9
Large Cap Value	1.0	-2.9	11.8	11.1	5.4
DeMarche Small Cap	1.9	1.6	17.8	16.2	8.0
Small Cap Growth	2.6	5.1	16.9	16.5	6.9
Small Cap Value	1.3	-0.9	18.3	15.8	8.8
S&P 500	0.3	7.4	17.3	17.3	7.9
S&P Mid-Cap 400	-1.1	6.4	18.6	17.8	9.7
S&P Small-Cap 600	0.2	6.7	18.8	18.4	9.3
Russell 1000	0.1	7.4	17.7	17.6	8.1
Russell 1000 Growth	0.1	10.6	18.0	18.6	9.1
Russell 1000 Value	0.1	4.1	17.3	16.5	7.0
Russell 2000	0.4	6.5	17.8	17.1	8.4
Russell 2000 Growth	2.0	12.3	20.1	19.3	9.9
Russell 2000 Value	-1.2	0.8	15.5	14.8	6.9

The Buffet Indicator: Total Market Cap to GDP



Source: Federal Reserve, BEA

- The small cap growth group continued to be led by biotech stocks as they surged again in the quarter by over 14%. Over the past 12 months, biotech securities have returned over 60%, contributing to the large outperformance of small cap growth stocks over small cap value stocks.

- Even within the large cap group, the biotech phenomenon has impacted growth stock returns. The one year return for large cap growth stocks is more than double that of large cap value. In 2004, only one biotech stock (Amgen) was a significant weight in pharmaceutical stocks; now there are seven, whose aggregate market cap almost equals that of the traditional big pharmaceutical names.

- Defensive stocks have rebounded and have now outperformed aggressive stocks in both the last quarter and year. With a rebound in energy prices, aggressive stocks, such as airlines, fell in response.

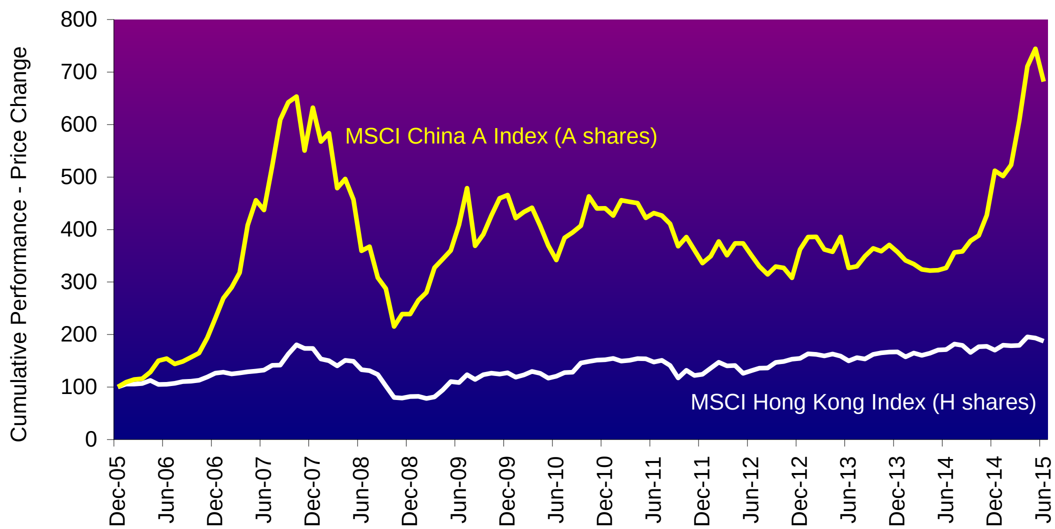
- The premise of the "Buffet Indicator", shown on the chart at left, is that stock prices are dependent upon a growing economy, but at times, stock prices become overvalued or undervalued and revert to the mean. Warren Buffet has called this measure "the single best indicator of where valuations are at a given moment." By this indicator, stocks are presently overvalued. The Buffet Indicator is at best a long term sign of future returns, with current readings suggesting below average returns for the coming years.

DeFact

Robert Schiller's CAPE (cyclically adjusted P/E) ratio, which is a closely followed valuation measure, now stands at 27 times. The CAPE is now back to the levels seen preceding the Great Recession in 2007. According to Schiller's research, low single digit 10-year returns are the most likely outcome when the CAPE is at such high levels.
~ DeMarche Associates

INDEX	2nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Intl	1.2	-1.4	12.3	9.2	6.1
Growth	1.0	3.3	11.1	9.9	6.7
Value	1.4	-4.5	13.4	8.6	5.8
DeMarche Intl Small Cap	0.3	0.8	14.9	9.5	6.3
DeMarche EM	2.7	11.3	8.6	7.0	8.2
MSCI EAFE Local	-1.8	11.8	18.1	11.3	5.4
MSCI EAFE USD	0.6	-4.2	12.0	9.5	5.1
Growth	1.0	-1.3	12.1	10.1	5.8
Value	0.2	-7.1	11.8	8.9	4.4
MSCI Japan	3.1	8.3	13.3	8.8	4.2
MSCI AC Asia-ex Japan	0.6	3.8	9.6	7.4	9.4
MSCI Germany	-5.6	-9.5	14.2	10.5	7.2
MSCI France	0.3	-9.6	12.4	8.2	3.7
MSCI UK	3.0	-8.2	9.1	10.7	4.7
MSCI EAFE Small Cap	4.3	-0.8	15.7	12.4	6.6
MSCI EM	0.7	-5.1	3.7	3.7	8.1
MSCI All Country-ex US	0.5	-5.3	9.4	7.8	5.5

Hong Kong vs. Mainland China Cumulative Returns



Source: Morningstar, DeMarche Associates, Inc.

- The dollar weakened slightly against other currencies in the quarter, which had a positive impact on international returns when stated in U.S. dollars. Over the longer term, dollar strength has produced lower returns for domestic investors of international stocks.

- Developed international stocks were led by Japan in the one-year and three-year time periods, due to continued quantitative easing from the Bank of Japan. Emerging Asia stocks, led by China, outpaced other emerging market stocks for the last year and for longer time periods. Asian stocks continue to be a leader in market returns over longer time periods.

- Emerging market returns went on a wild ride in the quarter. At one point at the end of April, emerging market stocks were up 8.5%, taking their lead from Chinese stocks which returned over 16%. During the last two months of the quarter, emerging market stocks tumbled again, led by a correction in the Chinese market.

- Let's take a closer look at "A" shares and "H" shares. Chinese companies can list in Shanghai ("A" shares) and Hong Kong ("H" Shares). In the chart to the left, "A" Shares, open to primarily Chinese investors, has been volatile due to large supply/demand imbalances. In contrast, "H" shares are open to international investors, which means that access to China equities for U.S. investors is primarily through "H" shares. However, since China has pledged to reform the domestic market to improve liquidity, eventually U.S. investors will have greater access to the Chinese market and potentially more volatility to portfolio returns.

DeFact

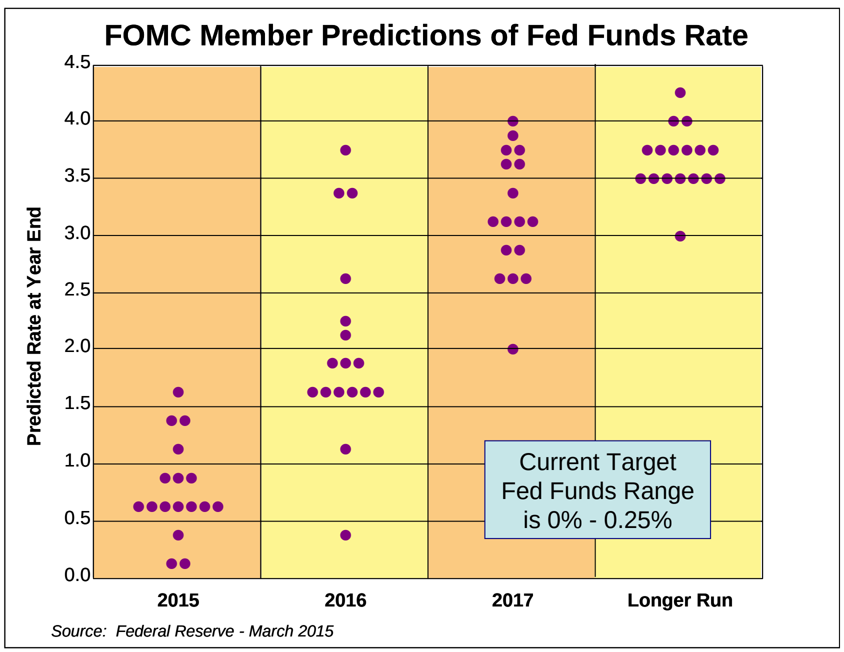
MSCI once again chose to exclude Chinese "A shares" equities from its emerging markets equity index. Chinese stocks are currently represented in the index primarily by "H shares," which trade in Hong Kong. MSCI stated that the Chinese stock market is on track for inclusion, but made it clear that the pace of reforms to open up China's financial system needs to be quicker.

~ The Economist

FIXED INCOME

DEMARCHE ASSOCIATES, INC. Putting Research To Work

INDEX	2nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Bond Index	-1.7	2.3	1.5	3.3	4.1
Quality					
AAA/Aaa	-1.8	2.2	0.8	2.6	3.8
BBB/Baa	-1.4	2.6	4.5	6.6	6.2
Duration					
1-5 Years	0.0	1.5	1.3	1.9	3.4
5-10 Years	-1.5	2.8	1.6	4.3	5.0
10-20 Years	-6.5	4.5	2.2	6.6	5.2
Sector					
U.S. Treasuries	-1.9	2.2	0.7	2.7	3.8
U.S. Agencies	-0.3	2.0	1.4	2.0	3.5
Corporates	-1.4	2.7	4.1	6.2	5.8
Barclays U.S. TIPS	-1.1	-1.7	-0.8	3.3	4.1
Barclays Aggregate	-1.7	1.9	1.8	3.3	4.4
Barclays Gov Credit Long	-7.6	1.9	2.5	6.7	6.1
Merrill Lynch High Yield	0.0	-0.5	6.7	8.4	7.7
CSFB Leveraged Loan	0.8	2.2	5.3	5.7	4.7
JPM Emerging Mkt Debt Global	-0.3	-1.6	3.4	6.5	7.3



- An increase in interest rates across the globe resulted in negative returns for bonds in the second quarter. Rates increased in the U.S. due to renewed confidence that the Federal Reserve will begin increasing interest rates. In Europe, rates snapped back after going negative in some countries in response to quantitative easing and receding worries of deflation.
- High yield bond returns were flat for the quarter as spread tightening offset higher interest rates. Spread tightening is positive for total return, while an increase in rates is negative. Spreads tightened relative to Treasuries due to a more favorable outlook for energy companies.
- Bank loan returns were the highest for the quarter. Similar to high yield bonds, bank loans benefited from spread tightening. Since bank loans have floating rate coupons, the increase of interest rates did not impact their returns negatively as it did for other bond sectors.
- The chart to the left shows FOMC member predictions for the Fed Funds rate. The information in the chart must be taken with a grain of salt, as the FOMC has consistently overestimated the rate of change for future rates. Even though Chairman Yellen has signaled that the Fed will begin raising rates this year, the increase may be more modest than the "dot plot" suggests.

DeFact

Thus far this year at least 10 companies issued more than $5.4 billion in high yield debt to finance dividends and buybacks. That's in addition to over 30 companies that issued more than $14.8 billion in high yield debt for those purposes in 2014. Familiar names include Sirius XM Holdings and Nathan's Famous (the hotdog maker).

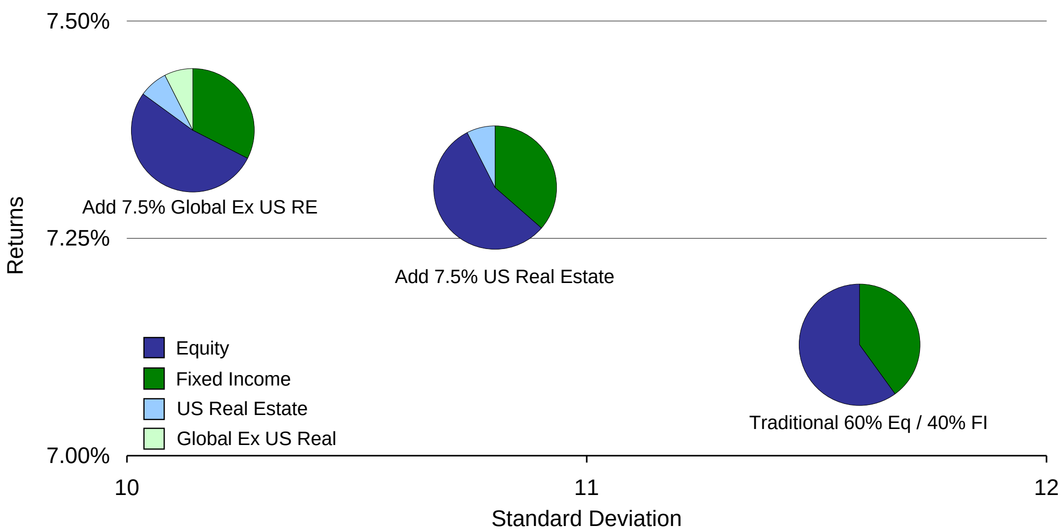
~ WSJ

LESS LIQUID STRATEGIES

INDEX	2nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	3.1	13.0	11.6	12.7	8.2
Apartment	3.0	11.6	10.7	13.3	7.8
Industrial	3.8	14.8	12.7	13.0	8.0
Office	3.1	12.9	10.9	11.7	8.0
Retail	3.0	13.5	13.3	13.7	9.1
NAREIT (Public RE)	-8.9	3.7	9.0	14.1	6.4
NCREIF Timberland	0.5	10.0	9.8	6.1	8.0
HFR FOF Composite	0.1	3.8	6.2	4.1	3.2
Conservative	0.2	2.6	5.5	3.6	2.6
Diversified	-0.2	3.8	6.2	4.1	3.3
Strategic	1.0	4.4	7.3	4.7	3.6
Bloomberg Commodities	4.7	-23.7	-8.8	-3.9	-2.6

Adding Global Real Estate Exposure

Historic risk and returns for portfolios with no real estate, U.S. only real estate, and global real estate.



Source: BlackRock, February 2015. Data is for the period 12/31/1994 to 12/31/2014. Equity performance is represented by MSCI World Index, fixed income by the Barclays Global Aggregate Index, US real estate by the NCREIF Property Index and the global ex US real estate by the IPD Global Annual Property Index as of 12/31/2013.

- Hedge fund returns for strategic (or equity focused) portfolios have now outperformed the S&P 500 for the past two quarters. This is the best performance of equity oriented hedge funds against stocks since 2009.

- REIT stocks dropped precipitously in the quarter. REITS, which had a strong 2014, fell in response to rising interest rates. As income oriented investments, REITS are sensitive to changes in interest rates.

- Commodity prices rebounded as energy prices increased during the quarter. On the other hand, as inflation still remains under control, industrial and precious metal prices continued to decline.

- Real estate has proven to be a good diversifier for traditional stocks and bond portfolios over many years. However, as global growth becomes more established, adding overseas real estate investments to the portfolio could provide more diversification power, as indicated on the chart to the left.

DeFact

Hedge fund managers are experiencing their best quarter in years, realizing gains from bets on global uncertainty about political tensions, concerns about the Federal Reserve, and stock mergers. Manager returns are outpacing indexes as stock prices are moving increasingly out of sync after years of moving in lock step. This environment is ripe for hedge fund managers to realize profits.

~ WSJ

Save the Date!

DeMarche Client Conference

October 7 – 9, 2015

Responsible Investing Implications

Manager Performance Attribution

Currency Impact

Macro Economic Outlook

Join us in
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