Capital Market Review

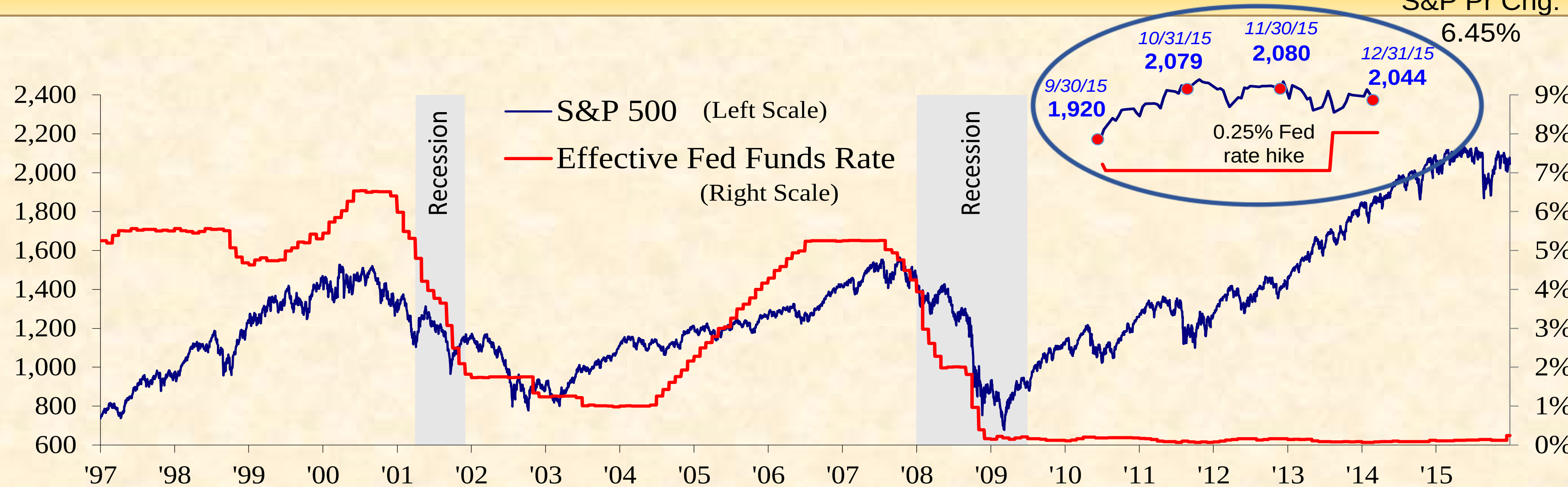
December 31, 2015

MARKET/ECONOMIC OVERVIEW

DeMarche ASSOCIATES, INC. — Putting Research To Work

The End of An Era

4th Qtr 2015
S&P Pr Chg:
6.45%



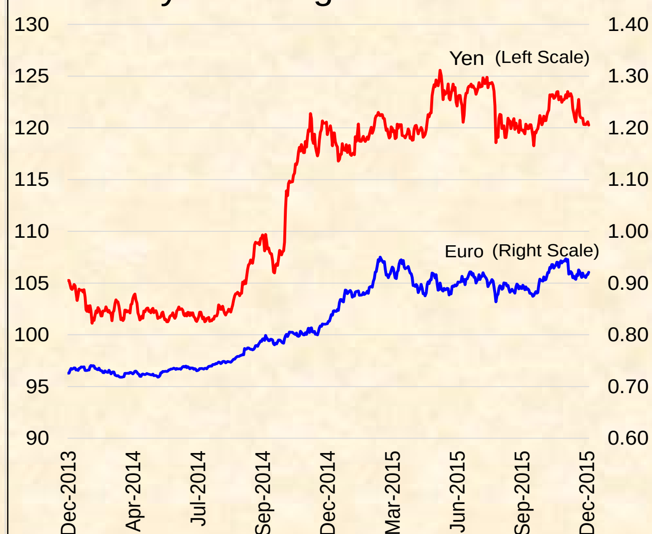
Market Reaction In Previous Rate Hiking Cycles

	Fed Raises	End of Raises to Recession
Dates	June 30, 1999 - May 16, 2000	May 16, 2000 - April 2, 2001
Length	10.5 months	10.5 months
Change in Federal Funds Rate	**+1.75%** (4.75% - 6.50%)	**-1.50%** (6.50% - 5.00%)
S&P 500 Pr Chg	**6.80%**	**-21.84%**

Dates	June 30, 2004 - June 30, 2006	June 30, 2006 - Jan 2, 2008
Length	24 months	18 months
Change in Federal Funds Rate	**+4.25%** (1.25% - 5.25%)	**-1.00%** (5.25% - 4.25%)
S&P 500 Pr Chg	**11.34%**	**13.93%**

The Federal Reserve is poised to continue raising interest rates in response to good economic data. The U.S. dollar has strengthened nearly 25% in the past 18 months versus the euro and yen as investors anticipated the prospect of higher U.S. rates. Interestingly, the market has reacted favorably to rate hikes in the past as it shows confirmation of good economic fundamentals.

Currency Exchange Rates Per Dollar



Source: U.S. Federal Reserve

Broad Market Overview

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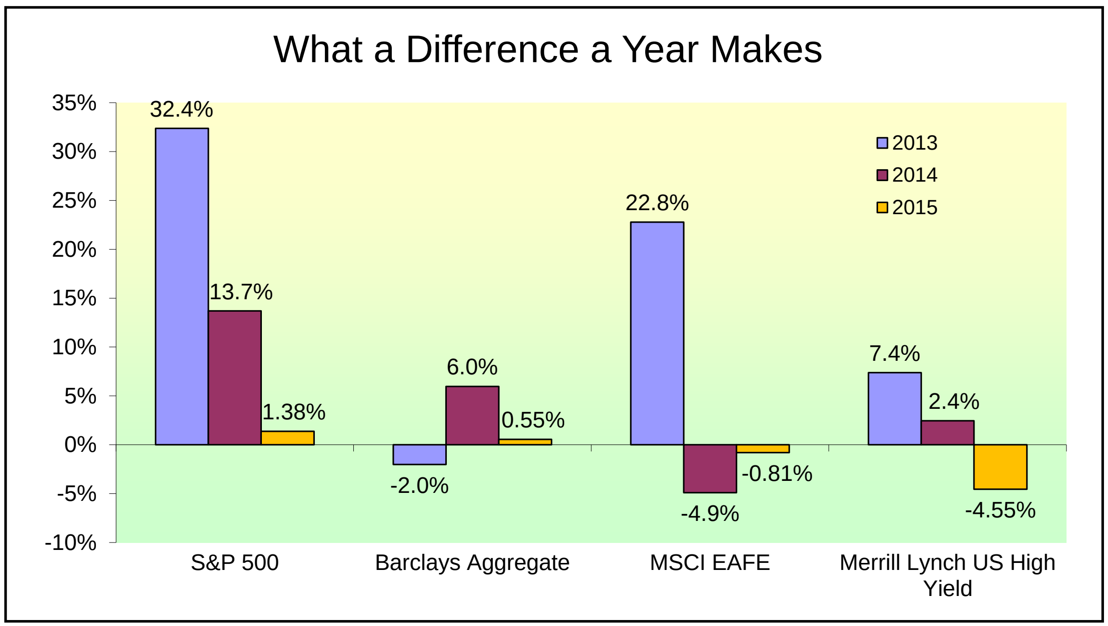
INDEX	4th QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	5.5	-0.9	9.6	7.6	5.0
DeMarche World*	5.5	-0.9	9.6	7.6	5.0
DeMarche 3000	4.8	-2.0	10.4	8.3	6.2
Russell 3000	6.3	0.5	14.7	12.2	7.4
S&P 500	7.0	1.4	15.1	12.6	7.3
DeMarche International	4.6	2.2	5.9	3.8	4.2
MSCI EAFE	4.7	-0.8	5.0	3.6	3.0
DeMarche Bond	-0.6	0.9	1.2	3.3	4.2
Barclays Aggregate	-0.6	0.5	1.4	3.2	4.5
Citigroup Non-U.S. Gov't Bond	-1.4	-5.5	-4.3	-1.3	3.0
NCREIF (Private RE)	2.9	13.3	12.0	12.2	7.8
Bloomberg Commodity	-10.5	-24.7	-17.3	-13.5	-6.4

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

Indicator Year Ending 12/31	2015	2014	2013	2012	Long Term Average
GDP Annual Growth Rate	1.8	2.5	3.1	1.6	3.1
Unemployment	5.0	5.6	6.7	7.8	5.9
Inflation (CPI)	0.7	0.8	1.5	1.7	3.7
10-Year Interest Rates	2.3	2.2	2.9	1.7	6.0



- The equity markets rebounded in the fourth quarter from a lackluster third quarter. However, one year returns for most indexes were flat to negative. Concerns about global growth sustainability drove uncertainty among investors for most of the year.

- Stocks posted their worst annual performance since 2008, closing out a volatile year. The S&P 500 rose 1.4%, which includes dividends. Without dividends, the index was negative for the year, down 0.7%.

- The Federal Reserve finally raised the federal funds rate for the first time in nine years, increasing it 25 basis points. Domestically, the Fed stated that U.S. growth is strong enough, with employment up and inflation muted, to withstand the removal of some monetary stimulus.

- Bond returns were negative for the quarter and flat for the year. Negative returns for the quarter were the result of slightly higher interest rates due to the anticipation of the Fed raising the fed funds rate.

- The chart at the bottom left shows the returns of four asset classes for the past three years. Returns were stellar in 2013 which happens to correspond to the full scale implementation of the Fed's quantitative easing program. In 2015, investors took a new look at risk and backed away from risky assets on concerns about global growth.

DeFact

The S&P 500 return of 1.4% for the year was dominated by a small group of consumer stocks: Facebook, Amazon, Netflix and Google, the so-called FANG stocks. If the stocks in the S&P 500 were equally-weighted, instead of cap-weighted, the index would have been down 2.6% for the year. ~CNBC, Guggenheim

Domestic Equities

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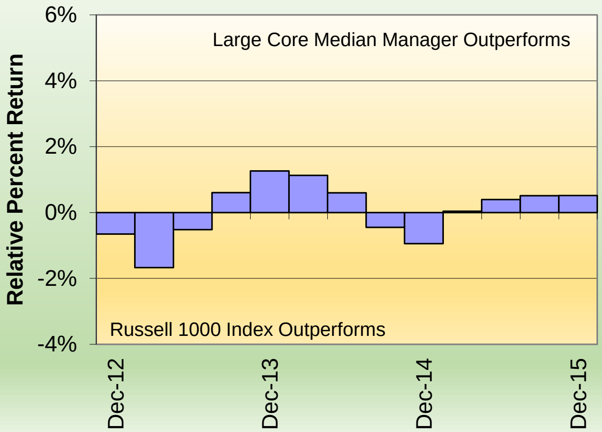
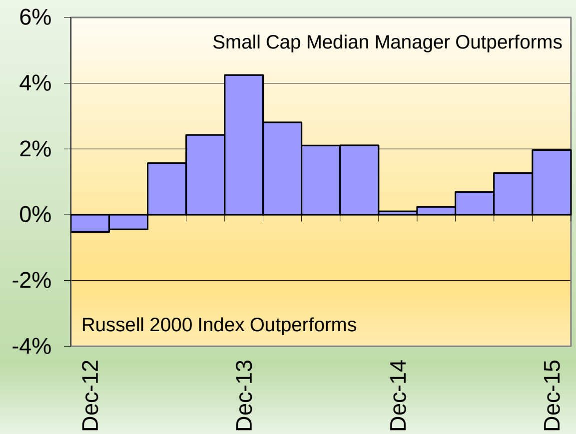
INDEX	4th QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	6.2	2.5	13.7	10.5	7.5
DeMarche Value	2.8	-8.0	6.1	5.3	4.5
DeMarche Aggressive	2.9	-13.1	7.8	4.4	3.9
DeMarche Defensive	4.9	-0.8	10.5	8.6	6.4
DeMarche Large Cap	5.4	-0.9	10.2	8.1	5.8
Large Cap Growth	7.0	3.9	14.1	10.6	7.3
Large Cap Value	3.3	-7.1	5.5	5.0	3.8
DeMarche Small Cap	3.5	-9.6	9.8	7.0	5.7
Small Cap Growth	4.2	-6.5	10.6	7.0	4.9
Small Cap Value	3.0	-11.9	9.1	6.9	6.3
S&P 500	7.0	1.4	15.1	12.6	7.3
S&P Mid-Cap 400	2.6	-2.2	12.8	10.7	8.2
S&P Small-Cap 600	3.7	-2.0	13.6	11.5	8.0
Russell 1000	6.5	0.9	15.0	12.4	7.4
Russell 1000 Growth	7.3	5.7	16.8	13.5	8.5
Russell 1000 Value	5.6	-3.8	13.1	11.3	6.2
Russell 2000	3.6	-4.4	11.7	9.2	6.8
Russell 2000 Growth	4.3	-1.4	14.3	10.7	8.0
Russell 2000 Value	2.9	-7.5	9.1	7.7	5.6

One Year Rolling Active Median Manager Large Cap vs. Russell 1000 Index



One Year Rolling Active Median Manager Small Cap vs. Russell 2000 Index



Source: DeMarche Associates, Inc.

- Large cap stocks outperformed small cap stocks for the quarter and year. Large cap stocks were led by consumer discretionary stocks such as Netflix and Amazon, which rose 134% and 118% respectively. More broadly speaking, the consumer discretionary sector led all sectors with an 8.4% gain.
- Small cap stocks posted negative returns for one year. Unlike the large cap indexes, the relative poor performance of small cap stocks occurred in consumer discretionary stocks, such as hotels, restaurants and specialty retail. Consumers seem to be spending discretionary dollars online instead of going out to eat or on vacation or with specialty retailers.
- The large divergence of annual performance of large cap growth and value indexes was impacted by energy stocks, which have a large weight in the value index. The diverging performance of small cap growth and value indexes was mostly impacted by health care. Small cap health care stocks, with the largest weight in the growth index, had strong performance for the year.
- The charts at the left show the varying success of active management over passive indexes. Active managers outperform at times of volatility and uncertainty. Active managers posted strong relative performance after the taper tantrum of 2012, and now seem poised to outperform again as the rolling one year returns are positive.

DeFact

In 2015, the S&P 500 experienced 72 sessions in which it moved 1% or more to either the upside or the downside. That is the largest number of 1% moves since 2011. And like 2011, it comes in a year in which the S&P 500 was almost flat.

~ CNBC

INTERNATIONAL EQUITIES

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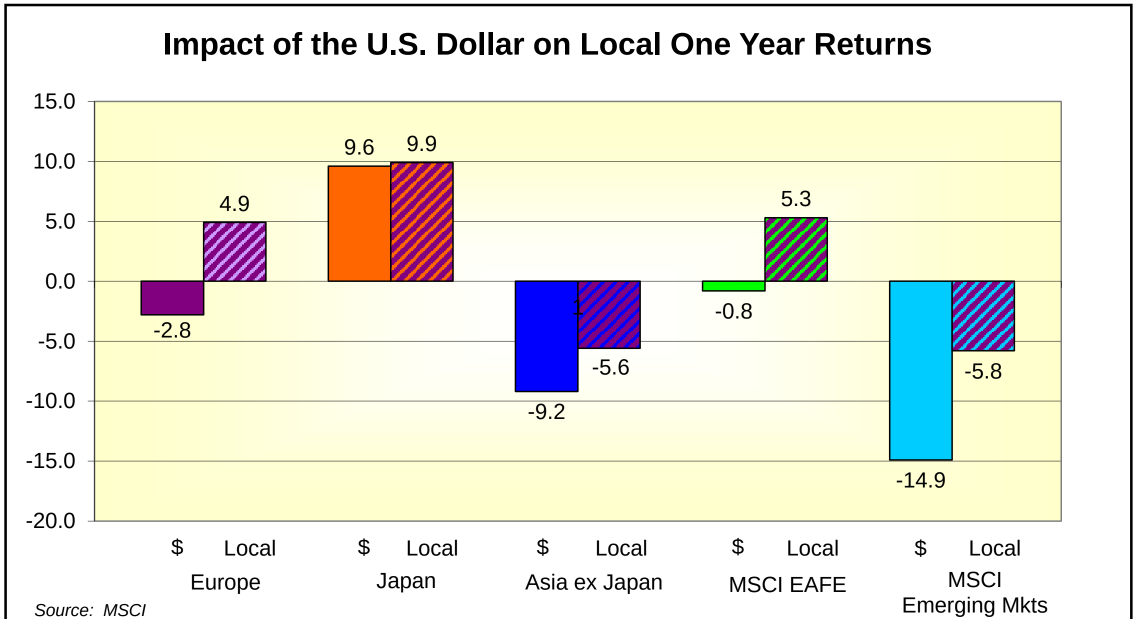
INDEX	4th QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Intl	4.6	2.2	5.9	3.8	4.2
Growth	6.5	3.6	5.5	4.1	4.8
Value	3.2	-4.1	4.4	2.3	3.1
DeMarche Intl Small Cap	5.0	4.8	6.5	3.9	4.0
DeMarche EM	3.0	-7.7	-0.5	-1.2	4.3
MSCI EAFE Local	6.3	5.3	12.3	7.9	3.2
MSCI EAFE USD	4.7	-0.8	5.0	3.6	3.0
Growth	6.7	4.1	6.8	4.6	4.0
Value	2.7	-5.7	3.1	2.5	2.0
MSCI Japan	9.3	9.6	10.2	4.4	0.9
MSCI AC Asia-ex Japan	3.8	-9.2	-0.6	-0.1	6.2
MSCI Germany	7.7	-1.9	4.9	4.4	5.3
MSCI France	1.7	-0.1	4.4	2.8	2.3
MSCI UK	0.7	-7.6	1.8	3.5	3.1
MSCI EAFE Small Cap	6.8	9.6	10.4	6.3	4.6
MSCI EM	0.7	-14.9	-6.8	-4.8	3.6
MSCI All Country-ex US	3.2	-5.7	1.5	1.1	2.9



Source: MSCI

- Energy prices continue to impact returns on emerging market stocks. Emerging market countries typically are influenced by the direction of commodity prices as many of them are commodity exporters. The strong dollar as compared to emerging market currencies also negatively impacted returns.

- The strong dollar impact has had noticeable impact on the returns of stock in local currency versus returns in dollar terms. The MSCI EAFE local currency index has outperformed dollar returns for the quarter, one-, three- and five-years. While the weak local currency has helped the earnings growth of foreign companies, the resulting performance was not enough to offset dollar strength.

- Japanese stocks jumped in the fourth quarter due to improved earnings because of the weak yen engineered by continued quantitative easing. For example, Toyota Motor continued to beat analyst earnings estimates by over 3% to earn record profits during 2015.

- The chart to the left shows the impact of the dollar strength on international returns. Emerging market stocks, in particular, have been negatively impacted by the dollar. Interestingly, Japanese stocks show strong returns in local and in dollar terms. The yen has not weakened versus the dollar in the past year as most of the devaluation had already occurred in prior years.

DeFact

China had one of the best performing stock markets in the world in 2015. The Shanghai Composite Index was up 9.4%. But the middle of the year was a mess. The Index was up 65% before declining 43% at one point during a summer market rout.

~ WSJ

INDEX	4th QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Bond Index	-0.6	0.9	1.2	3.3	4.2
Quality					
AAA/Aaa	-0.8	0.7	0.7	2.7	3.9
BBB/Baa	0.4	1.5	3.1	5.9	6.3
Duration					
1-5 Years	-0.5	1.2	1.0	1.7	3.4
5-10 Years	-0.8	1.8	1.2	4.2	5.2
10-20 Years	-0.7	-0.6	2.4	7.2	5.7
Sector					
U.S. Treasuries	-0.9	0.6	0.7	2.8	4.0
U.S. Agencies	-0.4	1.4	1.2	2.0	3.6
Corporates	0.5	1.8	3.0	5.6	6.0
Barclays U.S. TIPS	-0.6	-1.4	-2.3	2.5	3.9
Barclays Aggregate	-0.6	0.5	1.4	3.2	4.5
Barclays Gov Credit Long	-0.9	-3.3	1.7	7.0	6.5
Merrill Lynch High Yield	-2.1	-4.6	1.6	4.8	6.7
CSFB Leveraged Loan	-2.0	-0.4	2.6	3.8	4.1
JPM Emerging Mkt Debt Global	1.5	1.2	-0.1	5.1	6.7

Projected 5-Year Bond Returns As of 12/31/15

Based on Various Changes in Yields

Bond Sector Indexes (Annualized Values in Tables)

	Treasury	Barclays Aggregate	Intermediate Gov/Credit	Barclays High Yield
Beginning Yield:	1.7	2.6	2.1	8.8
Duration*:	5.9	5.7	4.0	4.4

Net Basis Point Change in Yield	Treasury	Barclays Aggregate	Intermediate Gov/Credit	Barclays High Yield
+400	-3.6	-2.5	-1.4	5.0
+300	-2.1	-1.1	-0.5	6.0
+200	-0.8	0.2	0.4	7.0
+100	0.5	1.4	1.2	7.9
+0	1.7	2.6	2.1	8.8
-100	2.9	3.7	2.8	9.7

Source: Barclay's Capital

Assumes no change in "spreads" between credits and Treasuries, and "parallel" shifts in yield curve.

* Modified Adjusted Duration

- Interest rates increased slightly in the quarter and over the year. The returns on longer duration bonds were negative due to the rise in rates. Meduim duration bonds earned enough coupon to offset the price decline from higher rates. Still, the three and five year returns for investment grade bonds are low.
- High yield bonds posted negative returns during the quarter and year. Concern about the ability of energy companies to make timely payments caused spreads to widen on high yield bonds. Energy companies make up over 15% of the high yield index.
- Investment grade corporate bonds continue to perform the best of all bonds sectors in the quarter, one year and three year time periods. Corporate bonds provide a yield pickup over government bonds and are not as impacted by concerns over default in the energy sector, as are high yield bonds. But again, bond returns were in the low single digits for the past three years.
- Low fixed income returns will be the norm for the next few years. The increase in interest rates by the Fed will continue to impact returns. The chart to the bottom left shows expected returns of different bond sectors for the next 5 years given a rate change of up to 4%. High yield offers the best potential for return in an increasing rate environment.

DeFact

To minimize the potential impact of rising interest rates, many target date funds have reduced the durations of their bond portfolios and increased credit risk. For example, Fidelity has reduced the allocation of their 2015 TDF in investment grade bonds by 5% to 29% and increased bank loans, high yield, TIPS and emerging market debt over the past 18 months.

~WSJ

LESS LIQUID STRATEGIES

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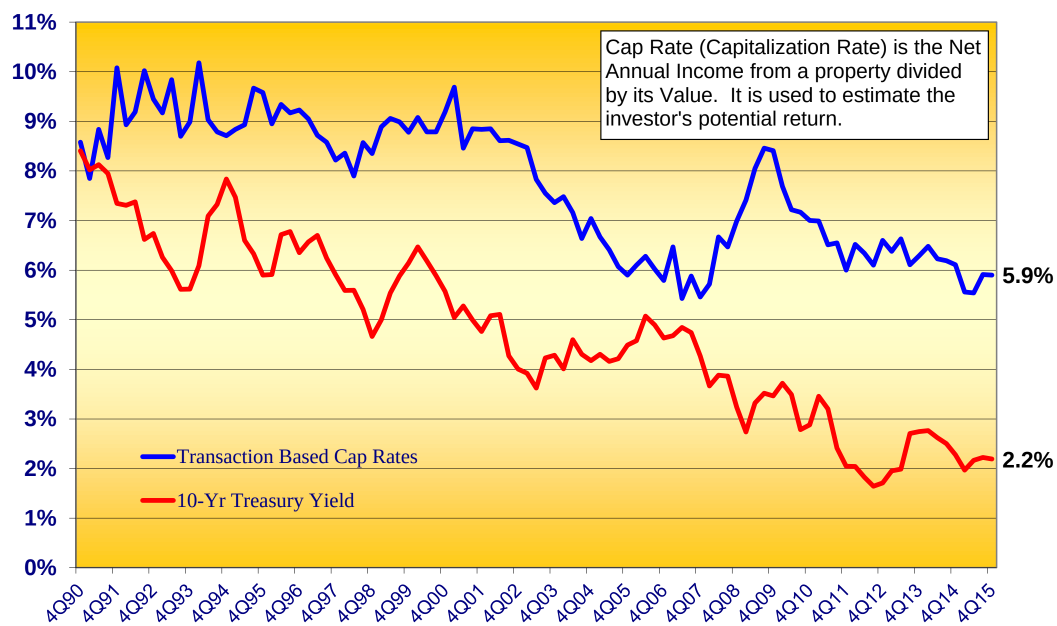
INDEX	4th QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	2.9	13.3	12.0	12.2	7.8
Apartment	2.7	12.0	10.9	11.9	7.3
Industrial	3.2	14.9	13.5	13.2	7.8
Office	2.6	12.5	11.3	11.4	7.5
Retail	3.5	15.3	13.8	13.3	8.7
NAREIT (Public RE)	7.1	2.3	10.3	11.6	6.9
NCREIF Timberland	1.9	5.0	8.4	6.8	6.9
HFR FOF Composite	0.6	-0.4	3.9	2.1	2.3
Conservative	0.1	0.4	3.7	2.3	2.0
Diversified	0.5	-0.1	4.1	2.3	2.4
Strategic	1.1	-0.9	4.1	2.1	2.3
Bloomberg Commodities	-10.5	-24.7	-17.3	-13.5	-6.4

Real Estate Cap Rates vs. 10-Yr Treasury Yield



Source: NCREIF, Federal Reserve, Prudential

- Oil prices continue to roil the commodity markets, falling over $10 a barrel during the quarter. While the energy price collapse led the repricing of commodities, other sectors also fell. Industrial metals were down almost 8%; precious metals were down over 5%; and agriculture (led by corn and soybeans) were down over 4% for the quarter.

- Real estate continues to be a strong performer. REITS bounced back after a sub-par third quarter and finished the year beating the major stock indexes. Private real estate shows double digit returns coming out of the 2009 debacle.

- Hedge funds posted positive returns in the quarter, but slightly negative returns for one year, except for conservative managers. Overall, strategic fund managers struggled to manage the volatility of energy prices and in currencies during the year.

- The chart at the left shows that while 10-year Treasury rates and real estate cap rates have decreased, the spread between them has widened to 3.7%, above the long term average of 3.0%. Investors look at this spread as a "risk premium". The current spread between cap rates and the 10-year Treasury yield suggests that commercial real estate still may be under fair value, relative to historical standards.

DeFact

A global supply glut caused by overproduction and slowing global growth has sent the price of a barrel of U.S. crude down more than 40% from 2015 highs, putting a big dent in share prices of energy stocks. U.S.-produced crude closed at nearly $37 a barrel at year end, a far cry from its peak of more than $145 a barrel in July 2008.

~ Tradingeconomics.com, CNBC

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